

Andrew Bailey: Global imbalances in a more fragmented world

Remarks by Mr Andrew Bailey, Governor of the Bank of England, at a meeting of the Bellagio Group, London, 16 January 2026.

* * *

Can I start by extending my welcome to all participants in the Bellagio Group, and congratulate the organisers on a timely and highly relevant choice of subject. My role today is some scene setting. I am going to cover three points. First, a reminder of the benefits of open economies and why they need to be supported by an international rules-based system which gives important roles to multilateral institutions. Second, I will set out some of the conditions that help to make this system work. And, finally I will highlight a number of the specific big challenges we face today and must take on.

The benefits of trade and openness in terms of specialisation and larger markets are very well known. So, too, is the need to have rules of the game and some form of commitment and co-ordination device to put these rules into effect and protect legitimate national interests. This may sound reasonable enough, but defining exactly such national interests has been hard, not least because their precise nature and force can change over time. Bretton Woods was a defining moment in terms of institution creation, but it was, of course, context specific – in the context of beggar my neighbour policies in the inter-war period when the institutional fabric of the gold standard broke down, and then a global war.

The effectiveness of the international rules-based system has a number of key general dependencies.

First, it depends on domestic national support and license – it cannot operate in isolation. The goals of international co-operation must sit alongside domestic national policy objectives, but there also must be scope for the international goals to shape those domestic objectives. It cannot be a one-way street and this principle must apply to all participants.

It follows that there is a natural tension between economic globalisation and domestic objectives and economic welfare. We cannot assume this away. Take the case of global imbalances. Our shared objective should be to tackle persistent and excessive imbalances. Effective cooperation should focus on policies that are demonstrably welfare-improving at home and that, in turn, help to rebalance the global economy. We may not reach the first-best global outcome (the rarely attainable 'global planner's optimum'), but this approach should bring us materially closer to a mutually beneficial result.

Second, the system must be robust to all states of the world. I will come back to this later in some thoughts on the current context. This requires a considerable degree of flexibility in the design and operation of the institutions and thus the system. In fact, the IFIs I would argue have been pretty good at inventing and re-inventing themselves.

This flexibility of re-invention depends critically on the collective leadership of member countries – which takes us back to the inbuilt national versus international tension. And, today, we face the challenge of re-invention in a multi-polar world, and one where the nature of the poles is shifting with the revealed tensions. One of the lessons of economic history, going back at least to the nineteenth century and probably further, is that such shifts in polarity invariably strain the operation of the system.

My third point here is that the focus of attention, and tensions, has shifted over time. The outcome of Bretton Woods was more designed around international monetary relations, and that was the focus of the initial decades¹. I don't want to trivialise the importance of monetary relations today, but the focus of disagreement is now much more on trade. Trade I would argue is more susceptible to domestic pressures than international monetary relations. Why? It raises issues of fairness and equality in domestic political economy much more directly, and thus there is likewise a much more direct link to domestic well-being and domestic interest groups. Trade is more directly blameable – for instance for changes in relative wages between groups in national economies.

So, I take three points from this opening description of the international system: it depends on domestic license; it must be robust to changing states of the world, and we are seeing change happening; and it is for the moment more about trade, though as a central bank governor I can't wash my hands and say "trade doesn't affect my world", it does.

I will now turn to the second theme, namely a number of important conditions which shape the operation of the international system, and how they look in the current setting. I will focus on four such conditions.

The first is that – put simply – it is easier to operate the international system during conditions of strong growth in a critical number of the member countries, and more so strong productivity growth which feeds directly living standards. It is easier to liberalise trade and resist protectionism in conditions of more rapid growth, and where that growth acts to alleviate redistributive tensions – in other words, the growth is inclusive. Broadly speaking, this assisted the relative success of the GATT system of trade agreements post-war.

Today, slower growth, and headwinds to that growth, complicate achieving domestic consensus to support international co-operation and free trade. While it is true that openness supports growth and has reduced global poverty, it can have, and has had, distributional consequences in economies, and there has been an undermining of social capital so-called and domestic cohesion. And, in turn, this creates opposition to openness.

I mentioned headwinds which operate to restrict growth. Today, I see four such headwinds, which is a high number and thus a strong counter-current to growth. The first is that in terms of productivity cycles – and to borrow Schumpeter's phraseology – industrial development involves changes that "occurs in discrete rushes" separated

from each other by spans of comparative quiet². Today, in terms of technology, we have been between such discrete rushes for around the last 15 years. My assumption is that AI and robotics will be the next "rush".

The second headwind is that most countries are facing populations that are on average ageing, and this contributes to lower growth and increased demands on fiscal resources.

The third headwind is that for many countries the demands for defence expenditure are increasing. This can contribute to growth, but also adds to fiscal pressures.

And, the fourth headwind comes from Climate-related economic shocks and the consequences of the policies chosen to tackle these shocks.

Taken together, these headwinds to growth are a powerful force to complicate the operation of the international system.

The second contextual issue for the operation of the international system concerns domestic industrial policies. Industrial policy went out of favour in the 1980s, or at least so did the form that was tagged as picking winners and thus anti-competitive. That was then as it were.

Industrial policy is now back with us as an issue – it has grown in use. But it has – at least in some of its more modern forms – also changed in nature. As an example, it can be a response to the headwinds I discussed earlier.

Industrial policy has become a focus of dispute as a potential driver of persistent global imbalances. Preliminary Bank of England Staff work suggests that macro factors remain the dominant drivers, but that industrial policy applied at scale over an extended period – particularly alongside a relatively closed capital account – can have material short-to-medium-term effects. Staff are also developing a theoretical framework to clarify the channels through which these effects can arise: industrial policy expands what a country produces, but if domestic absorption is simultaneously suppressed, the excess flows abroad as a current account surplus. Meanwhile, absorbing countries see employment drawn away from tradables into lower-productivity sectors.

In sum, we have to accept that in our assessment of imbalances and their causes, we need to embed both macro and microeconomic perspectives. Surveillance has to keep pace with these changes. The Bank Staff work which we plan to publish this spring, represents an important, if modest, first step in this direction, and we hope it will serve as a call for more empirical analysis on this issue.

This brings me to the third contextual issue. The tension around the assessment and surveillance of imbalances is running high – that's a statement of the obvious, but has to be said nonetheless. The assessment has to be without fear or favour, and thus has to be objective, and seen to be so. Seeking truth from facts sounds easier than it is in practice. Theory alone will not get us there. Practice is necessary for achievement, and that practice has to be backed up by our support. Part of the purpose of international agencies is that from time to time they have to tell us what we don't want to hear, let alone act upon. Of course, they have to be accountable for the accuracy and quality of the assessment. But, accepting that, we have to call out messenger shooting.

This brings me to the fourth and final contextual issue. The rise of so-called populism makes the whole task harder. Three features of populism stand out in this respect. First, a tendency to emphasise domestic production and wealth distribution as in opposition to international openness rather than as complementary. Second, a tendency to attribute unfavourable conditions to outside forces, rather than to point to shared challenges. And, third, encouraging a decline in trust such that institutions – domestic and international – are viewed as distant, unresponsive and acting for the benefit of powerful and uncontrollable interests.

For those of us who are institutionalised, the answer is that we have to challenge back, in deeds more than just words. But, we have to ensure our houses are in order too.

This brings me to the end – all that is left is to point to four things that we have to assert and demonstrate continually.

First, to emphasise the benefits of robust economic openness for growth and well-being. Now is not the time to close the world to the benefits of trade. But to do this, we have to be realistic and assertive in defining and achieving robust openness.

Second, recognise the importance of, and invest in the broadest sense, in the multilateral institutions. We should not pretend that all has been perfect, and we must be prepared to make changes where they are called for, as was done in the past. But we must be clear and agreed that a world without effective institutions is unlikely to be stable.

Third, we should seek to enable the next major contribution to global productivity growth – the next discrete rush – likely to be AI and robotics – but to do so in a way that is sensitive to managing the consequences, and particularly invest in developing skills.

Fourth, I am going to take a free shot because I also chair an international organisation, the Financial Stability Board. Financial Stability is a condition of growth. Acceptance of this, and interpretation of and agreement on what it means, is not as well grounded as it needs to be. But that would be another speech, or alternatively I can recommend the 88 page assessment of bank capital requirements that the Bank of England published in December.

Thank you.

I would like to thank Sarah Breeden, Ambrogio Cesa-Bianchi, Dan Christen, Peter Denton, Mark Joy, Karen Jude, Clare Lombardelli, Martin Seneca, James Talbot and Matt Trott for their comments and help in the preparation of these remarks.

¹ That was not so much the original intention, but there was no agreement at Bretton Woods to create the intended international trade organisation.

² Joseph. A. Schumpeter, 'Capitalism, Socialism and Democracy'. 3rd Edition, Harper Perennial, 2008, P83.