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Long-Term Investors Club
Venice Forum

Towards a Sustainable Future: The Role of Long-Term Investment

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Venice, Island of San Clemente

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“Fixing Global Imbalances”



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GLOBAL REBALANCING

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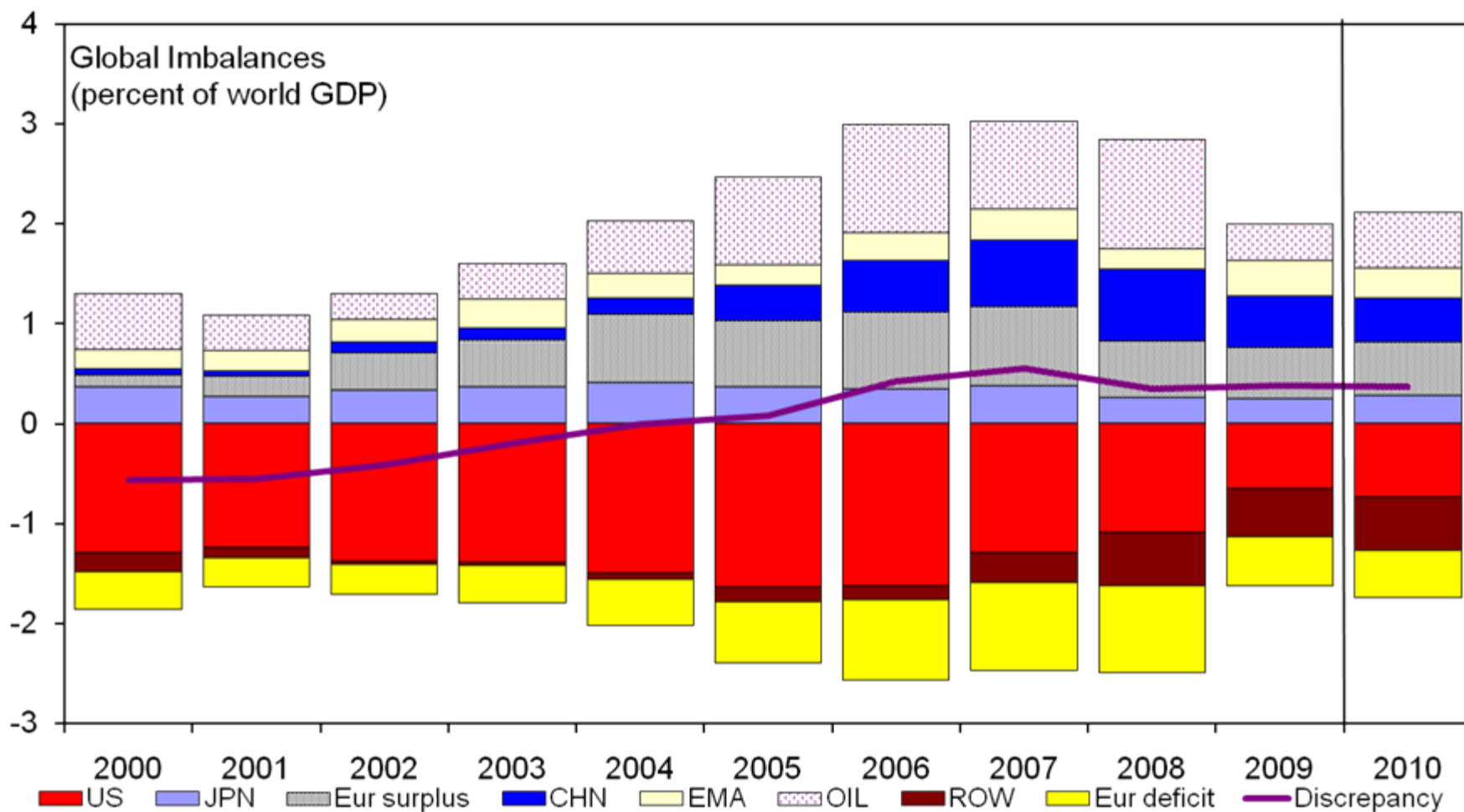
11/8/2010

Views expressed are mine and do not necessarily represent those of the IMF or IMF policy

Global Imbalances: a look ahead

- Much debate about role of imbalances in crisis...
- ...but theme of this presentation is forward-looking
- Should we still worry about imbalances?
- If yes, what should we do about it?

Where do we stand on current account imbalances?



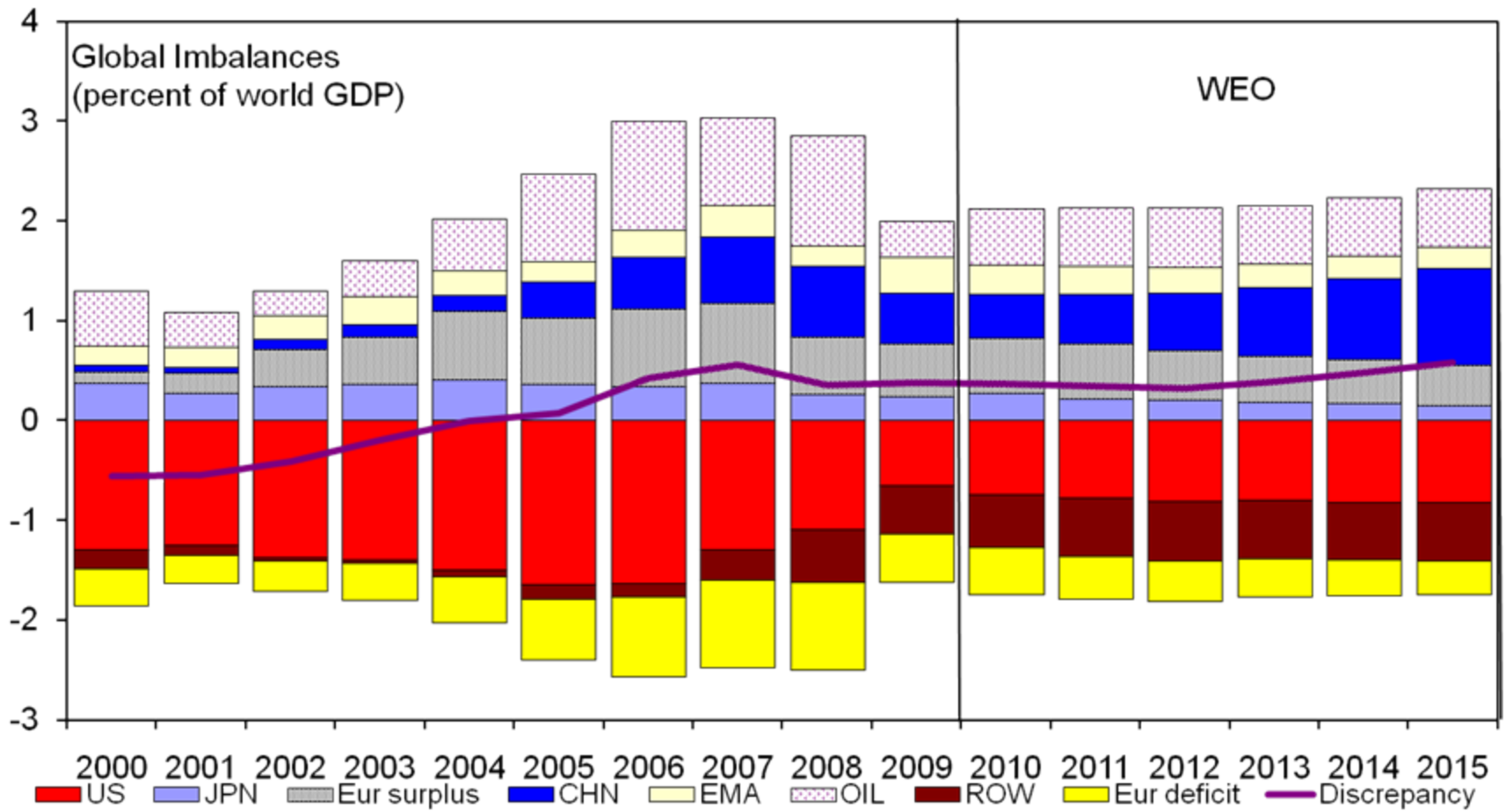
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Why should we worry about imbalances?

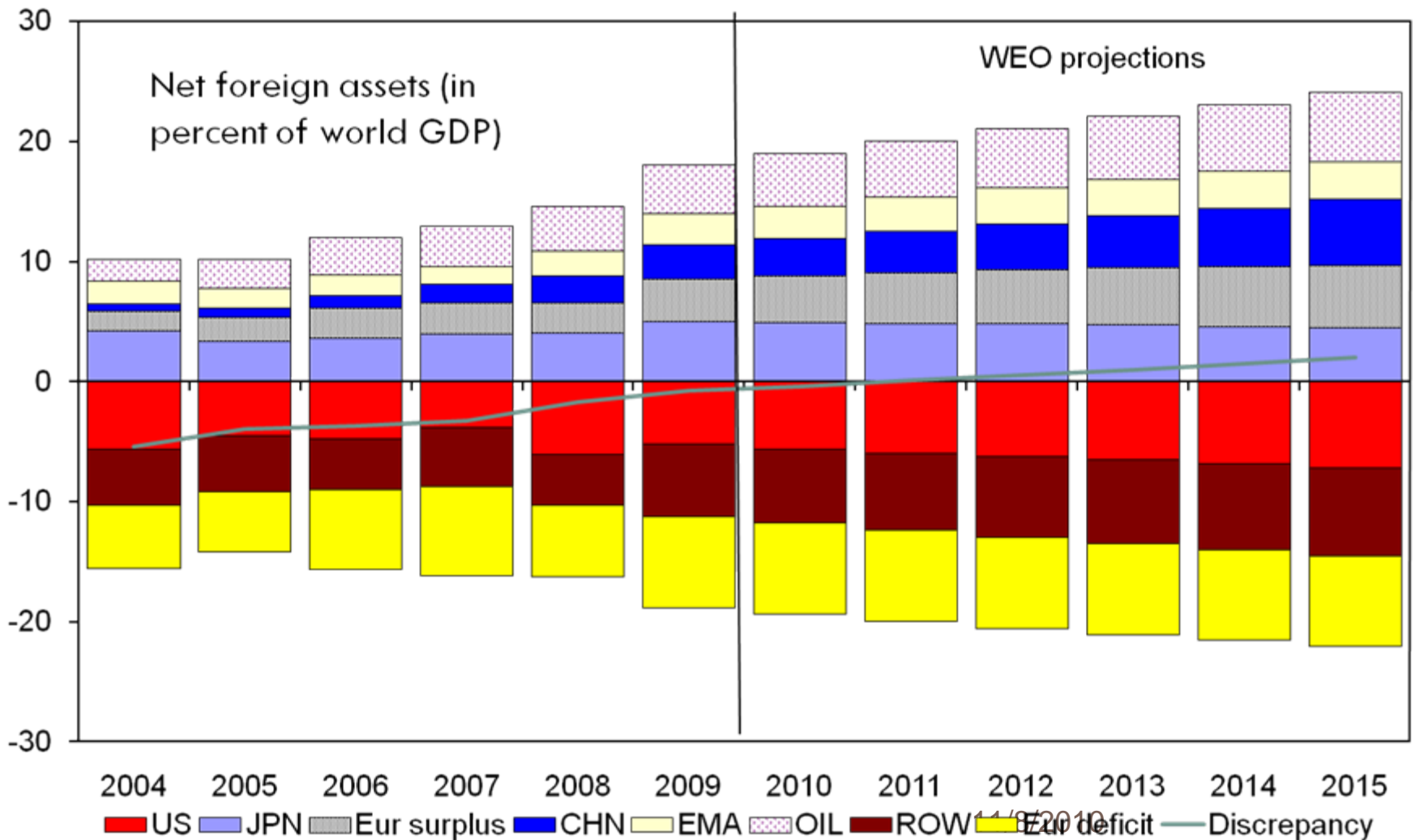


- They are unsustainable
- They are a threat to the world recovery

At current exchange rates and current policies, current account imbalances would widen again...



.. And net creditor and debtor positions would continue to diverge



Imbalances and the world recovery

- Two rebalancing acts needed for sustained world recovery:
 - ▣ From public sector to private sector demand in advanced economies (AE) as stimulus spending fades and fiscal adjustment starts
 - ▣ From external demand to domestic demand in several emerging markets (EMs) and from domestic to external demand in (mostly) AE with large CA deficits

If this does not happen....

- Increased risk of stalled recovery in the US and some other advanced economies
 - ▣ *Consumption weak because of households balance sheet repair*
 - ▣ *Investment weak because of construction, prospects of weak demand, and incomplete process of financial system repair*
- Stronger protectionist pressures amidst lack of international coordination of policies

Policy actions needed

- Expenditure-switching: adjustment in exchange rates
 - ▣ *Appreciation in China and some other EMs, esp. in Asia*
 - ▣ *Some further weakening of the USD, possibly euro*

- Policies to sustain domestic demand in surplus countries. For example, address distortions that keep private consumption low (China) or stifle investment (other countries in emerging Asia)

- In deficit countries,
 - ▣ Policies to address M-T fiscal challenges
 - ▣ Financial sector reform
 - ▣ Other structural reforms to sustain L-R growth

Thank you!

More details:

- Blanchard and Milesi-Ferretti, 2010: Global Imbalances: in Midstream?
- Notes for the G-20 Mutual Assessment Process
- World Economic Outlook, October 2010
- Global Financial Stability Report, October 2010