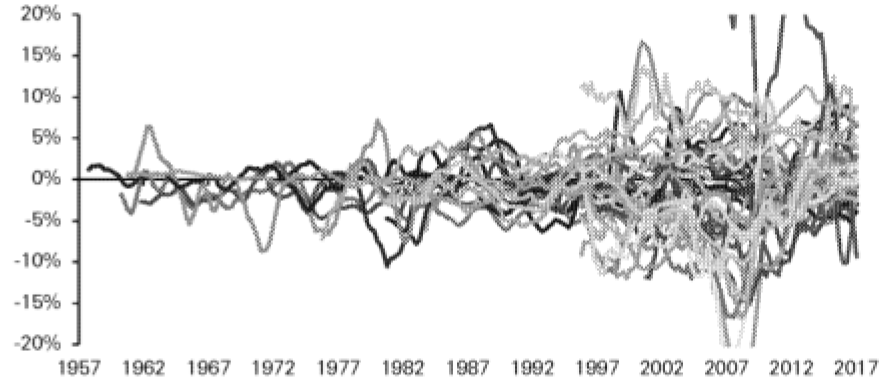
Global imbalances still elevated

In this globalised world where capital is free to roam across borders, regional and domestic imbalances are inherently more likely as opportunities are global. If an investor in one country believes that country A is a good place to invest, it's likely that other investors in other countries will also share that view. As such flows are very often travelling in the same direction. The reciprocal to this is also true.

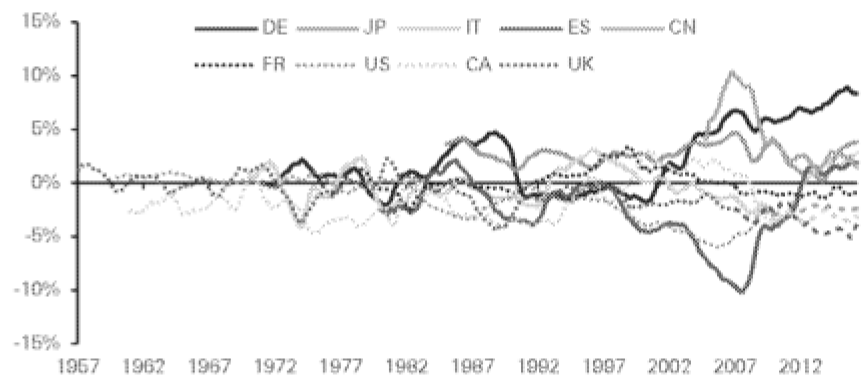
Figure 52 below shows the current account position through time of 43 (G20 including EU27) of the largest economies that we have data for. Although many of the countries only have data stretching back 20-30 years the trend of the last 50 years is clear for those with a longer data history. During the Bretton Woods system large current account positions in either direction were difficult to maintain without seeing large inflows/outflows of Gold which would have been inflationary/deflationary and thus destructive to the domestic economy. We also show the same data for the G7 (Figure 53) where the graph is less messy but with the same trends.

Figure 52: G20 (including EU) Current Account Balances (Net, % of GDP)



Source: Deutsche Bank, Haver, Global Financial Data

Figure 53: G7 and China, Spain - Current Account Balances (Net, % of GDP)



Source: Deutsche Bank, Haver, Global Financial Data

However once the shackles were broken in the early 1970s, and the long march of global financial liberalisation began, suddenly the consequences of current account imbalances were cushioned by flexible exchange rates and fiat money. Larger current account imbalances across the globe were therefore