



Stocktaking on the External Sector

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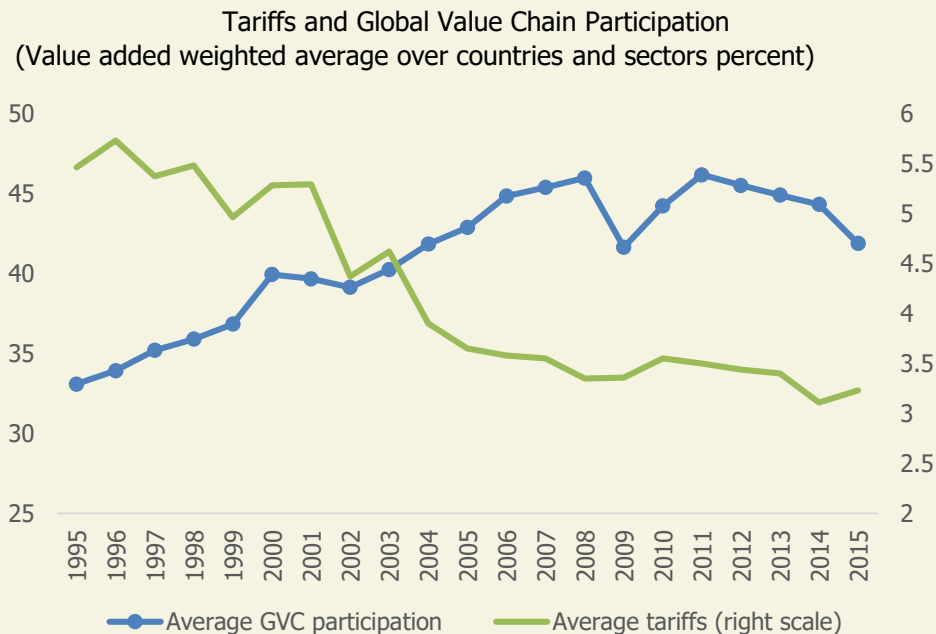
Outline of the Presentation

- ❑ The importance of the discussion on global external imbalances, in times of **increased uncertainty**
- ❑ Brief stocktaking on the **global external imbalances** through the lenses of the current account balance, financial flows and NIIPs
- ❑ **Spotlight on external** stock and flows imbalances **in selected countries from the CESEE region**
- ❑ **Detecting current vulnerabilities and potential risks for the external sector**



Global External Imbalances – at the Forefront

- ❑ **Global external imbalances** – a common focus in the macro discussions and risk assessments
- ❑ **Detecting** whether the **imbalances are “healthy”** or a sign of potential macroeconomic or financial **stress** – challenging task
- ❑ **Given the rollback of globalisation and rising trade tensions**, the importance of the debate gaining strength
- ❑ **Rising tariffs** can affect the imbalances directly or indirectly, through their impact on macroeconomic fundamentals
- ❑ The impact might be stronger, given the expansion of Global Value Chains

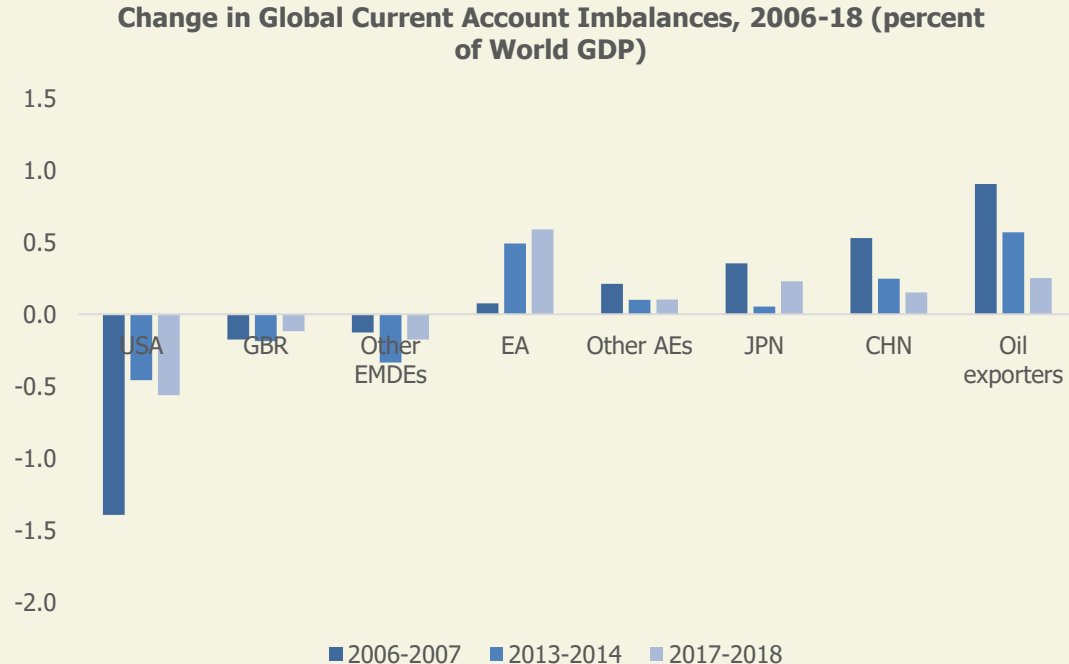


Source: IMF, WEO April 2019

Snapshot of the Global External Imbalances

❑ Current account perspective

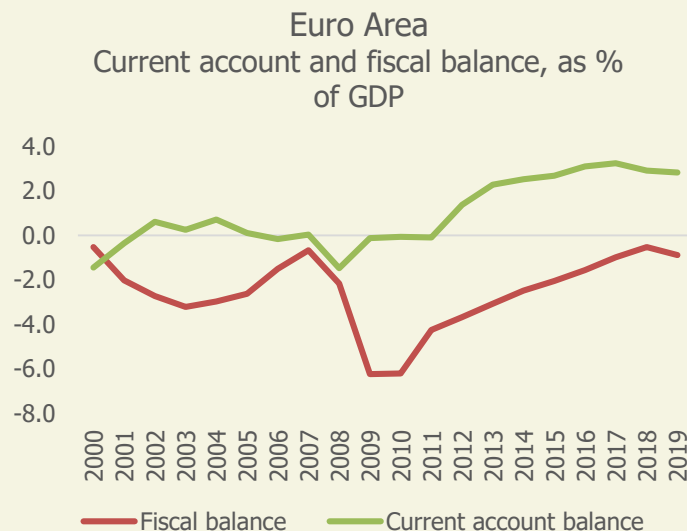
- ❑ After the global crisis – **marked compression** of current account imbalances from around 6% of GDP to 3.5% of GDP
- ❑ Major adjustments and rebalancing across the board in developed and emerging economies, until 2013 when the process stalled
- ❑ Afterwards, current account imbalances **concentrated in advanced economies** – with deficit in the USA, and sharp increase in the surplus of the euro area



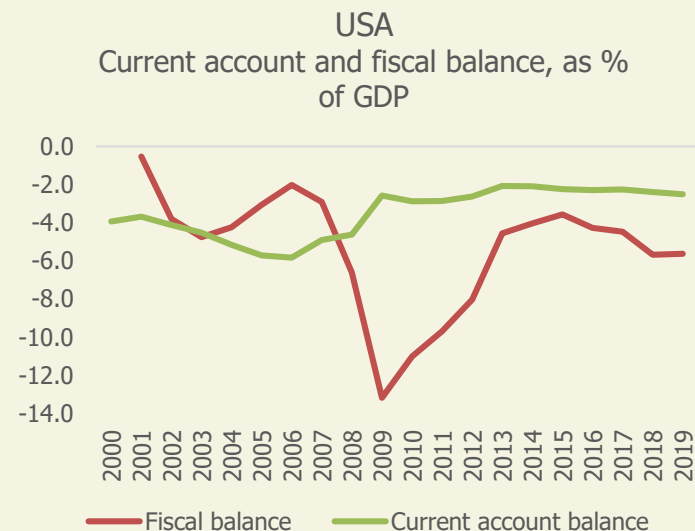
Source: IMF, External Sector Report, 2019

Snapshot of the Global External Imbalances

- ❑ Current account adjustment reflects a mixture of policies, with fiscal policy and credit dynamics usually being the most important explanatory variables
- ❑ After the global crisis – **countercyclical fiscal policies not consistent with the current account improvement** – dominant role of domestic demand and private sector deleveraging in the EA in particular
- ❑ Compared with the balances, suggested by the fundamentals and desirable policies, **35%-40% seems to be excessive (IMF, External Sector Report, 2019)**
- ❑ Current account balances in the two “poles” - the euro area and the USA assessed as stronger/weaker compared to what fundamentals would suggest



Source: IMF, WEO October 2019, database

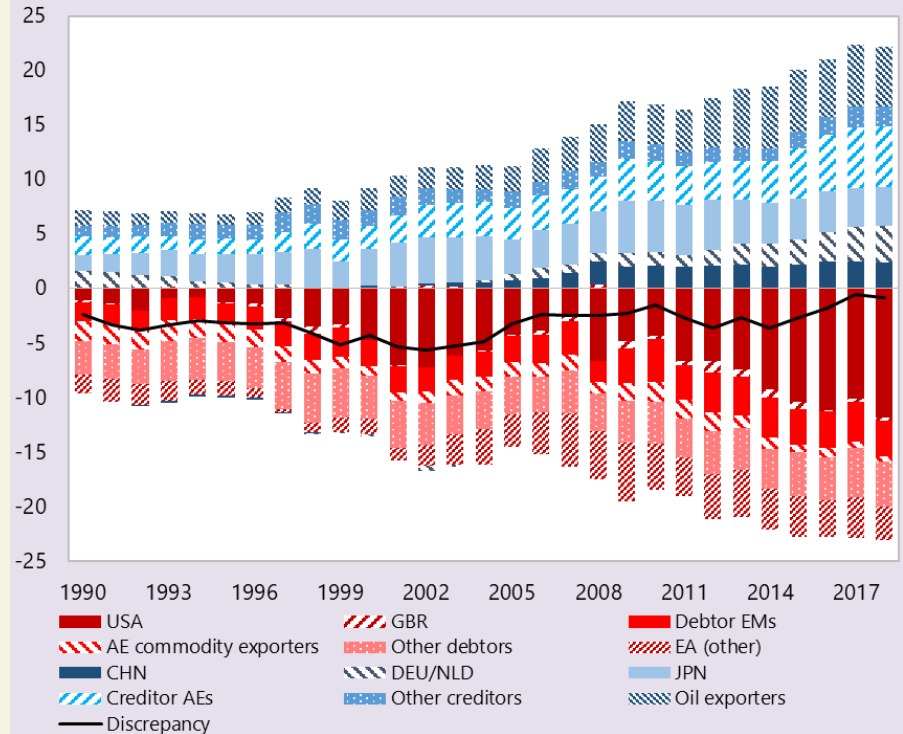


Source: IMF, WEO October 2019, database

Snapshot of the Global External Imbalances

- ❑ **Financial flows as mirror image of the current account**
- ❑ After the crisis – the global map of financial flows changed, amidst shifts in the global financial conditions and changes in growth differentials
- ❑ The accommodative monetary policy in the EA and the USA gave ground for stronger financial flows to emerging markets, while reversal occurred in 2013 with the “taper tantrum”
- ❑ Reversal in portfolio and other flows, while direct investment remained stable
- ❑ Overall, **more moderate** global financial flows
- ❑ **Despite the moderation in flow imbalances, the stock imbalances measured through NIIPs reached a peak, surpassing significantly the 1990s level**

1. Net International Investment Position (NIIP), 1990-2018 1/
(Percent of world GDP)

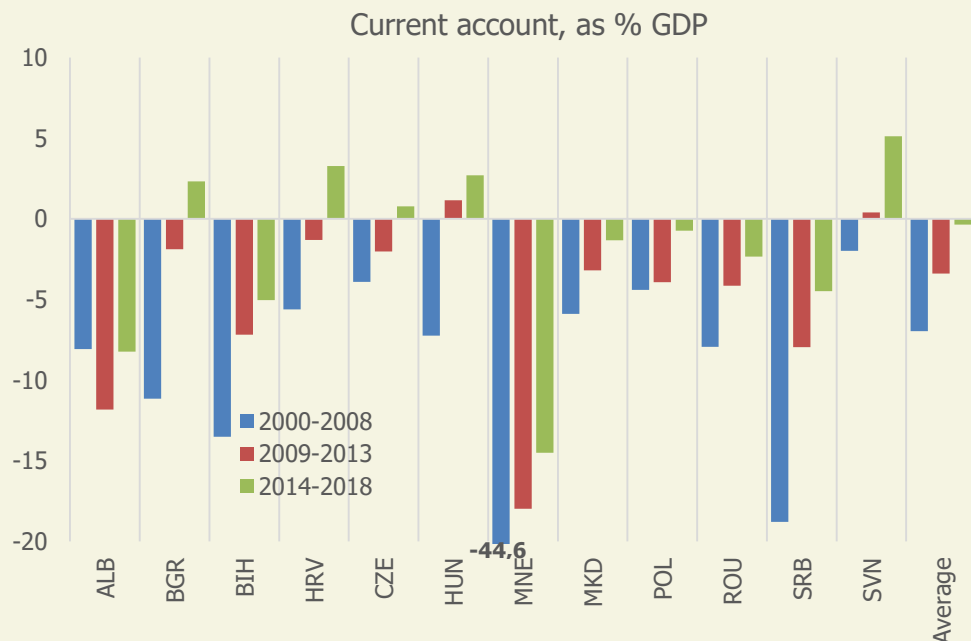


Source: IMF, External Sector Report, 2019

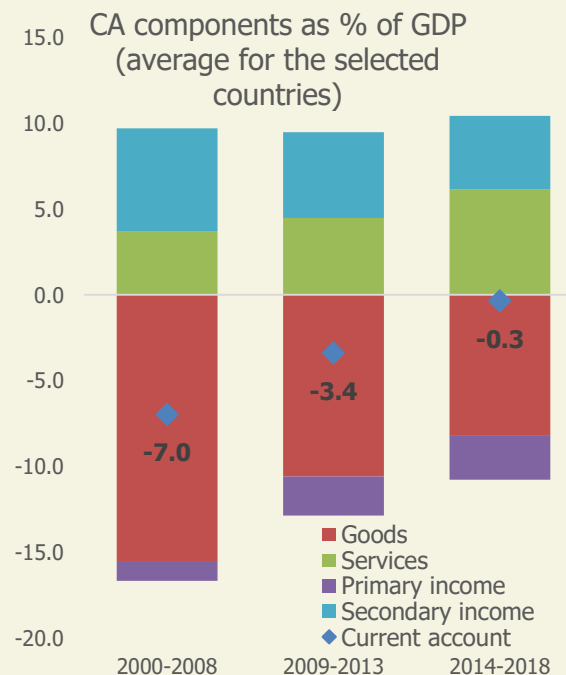


External Sector Profile in Selected CESEE Economies

- ❑ **Pre crisis** – low aversion to risk, strong confidence and global liquidity glut, conducive for rising cross – border capital flows, underpinning demand and leading to significant deterioration of current account balances
- ❑ **Post crisis** - reversal of capital flows, loss of confidence and risk appetite, demand contraction and sharp correction of external imbalances
- ❑ A decade after the crisis, **current account balances remain muted**, with even surpluses observed in some countries in the last couple of years



Source: IMF, BOP database

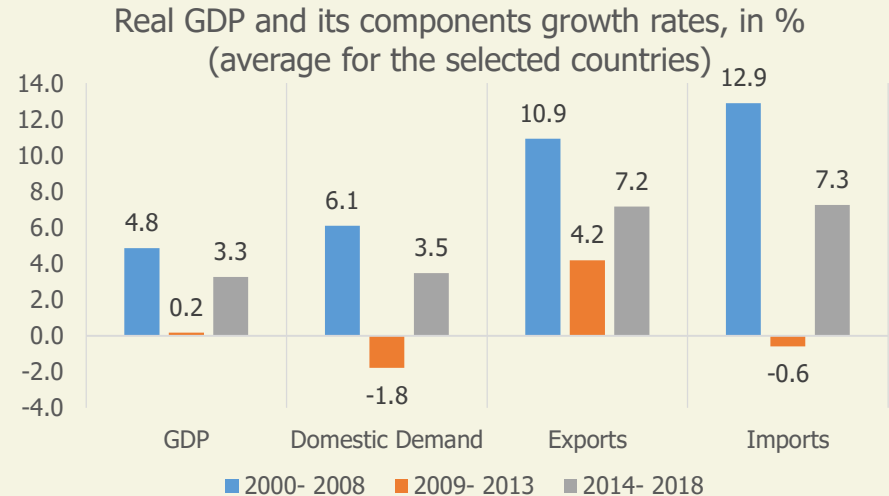


Source: IMF, BOP database

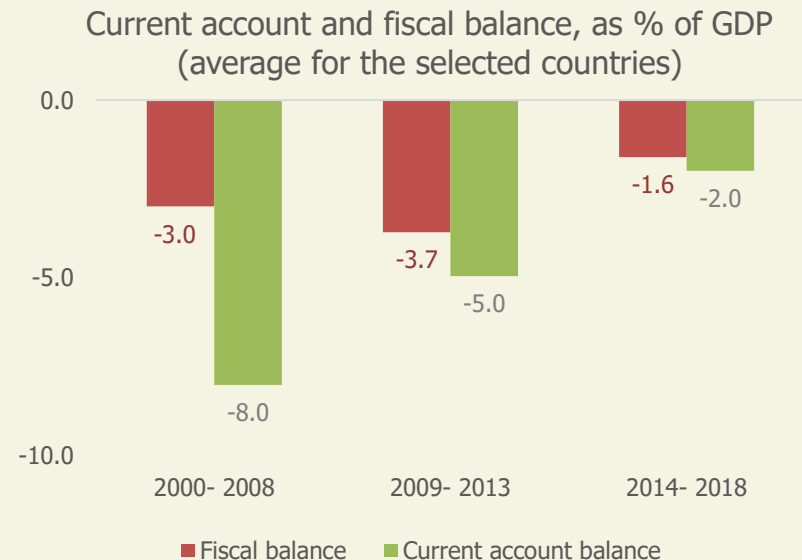


External Sector Profile in Selected CESEE Economies

- ❑ **Structural lenses** - the adjustments in the current account were predominantly driven by the balance of goods and services
- ❑ The **fiscal response** countercyclical, with fiscal position strengthening afterwards, but yet its impact on the current account gap does not seem consistent and visible across the time, suggesting dominant role of private demand
- ❑ **The initial stage** - import contraction on the backdrop of slowing domestic demand; **At a later stage** – domestic demand growth remains subdued, **but export growth robust**
- ❑ **The relative share of imports reverted to the pre crisis level, while the export share surpasses it markedly, suggesting remarkable structural shifts, larger trade openness, but increased susceptibility to current global trade setbacks, as well**



Source: Eurostat



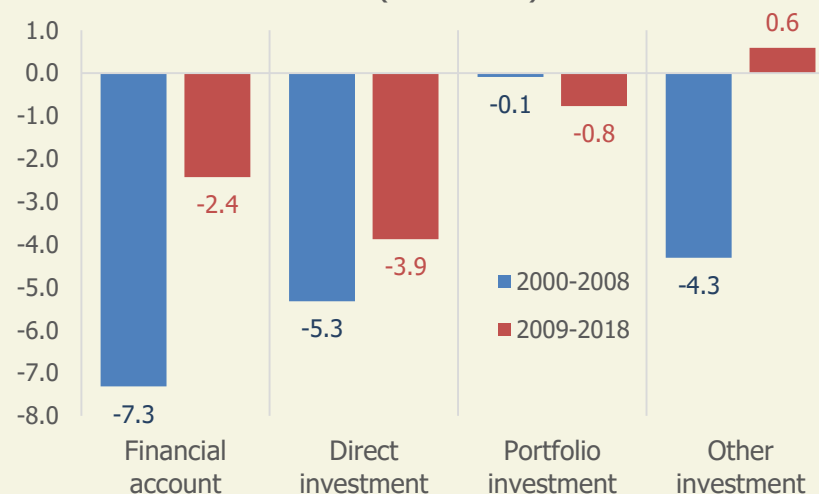
Source: IMF, WEO October 2019, database



External Sector Profile in Selected CESEE Economies

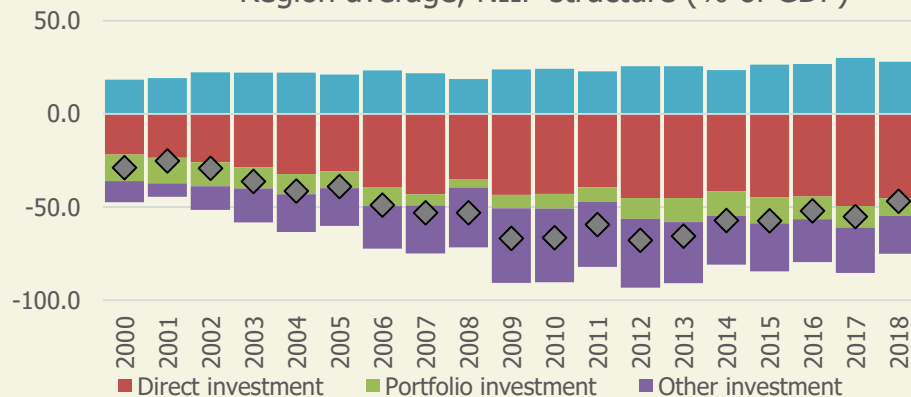
- ❑ **Financial flows - weaker** since the global financial crisis.
- ❑ **Other investment inflows** have fallen sharply due to the process of deleveraging.
- ❑ **Foreign direct investment (FDI)** – slowed somewhat, however the role of the direct investments in some countries remains strong
- ❑ **Portfolio debt flows** have increased, reflecting mostly borrowing abroad by issuing government bonds, amidst easy financing conditions
- ❑ Similar to the global context – **stock imbalances declining**, with a relatively resilient structure, **but still above accepted benchmarks**

Region average, financial flows, by components (% of GDP)



Source: IMF, BOP database

Region average, NIIP structure (% of GDP)



Source: IMF, BOP database



External Sector Assessment – Are We Aligned with Fundamentals?

- Most of the selected countries, with **external position broadly in line with fundamentals**, with few exceptions visible

	Current account position	REER position	NIIP position	Financial flows
Albania	Red	Red	Red	Red
Bulgaria	Light Blue	Green	Green	Red
Bosnia and Herzegovina	Green	Green	White	Green
Croatia	Green	Green	Green	White
Czech Republic	Light Blue	Green	Green	White
Hungary	Green	Green	Green	Green
Montenegro	Red	Green	White	White
North Macedonia	Green	Green	Red	Green
Poland	Light Blue	Green	Red	Red
Romania	Red	Red	Green	Red
Serbia	Green	Red	Red	White
Slovenia	Blue	Green	Red	Red
	Moderately		Substantially	
Stronger	Light Blue	Blue	Dark Blue	White
Broadly in line	Green	Green	Green	White
Weaker	Red	Red	Dark Red	White

Source: IMF, latest Article IV reports.



Conclusion

- ❑ Global external imbalances compressed markedly since the crisis, but progress is limited in the recent years, with imbalances being concentrated among advanced countries, euro area and the USA in particular
- ❑ Despite the lowering of **flows imbalances, stocks imbalances remain elevated** and close to half of the current account balances assessed not to be aligned with fundamentals
- ❑ **Spotlight on external** stock and flows imbalances **in selected countries from the CESEE region** reveals moderate external flows and moderate misalignment
- ❑ **Global trade slowdown and rising trade tensions – important source of risk, that could potentially further distort external imbalances**
- ❑ Open economies, highly **dependent on foreign trade and vulnerable to the current lift in trade barriers**
- ❑ Carefully designed policies, where policy space allows, needed to rebalance external positions – **focus on structural policies** to enhance competitiveness in deficit countries and investment policies to discourage savings and strengthen fundamentals in surpluses countries



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