

Global imbalances and international reserve system

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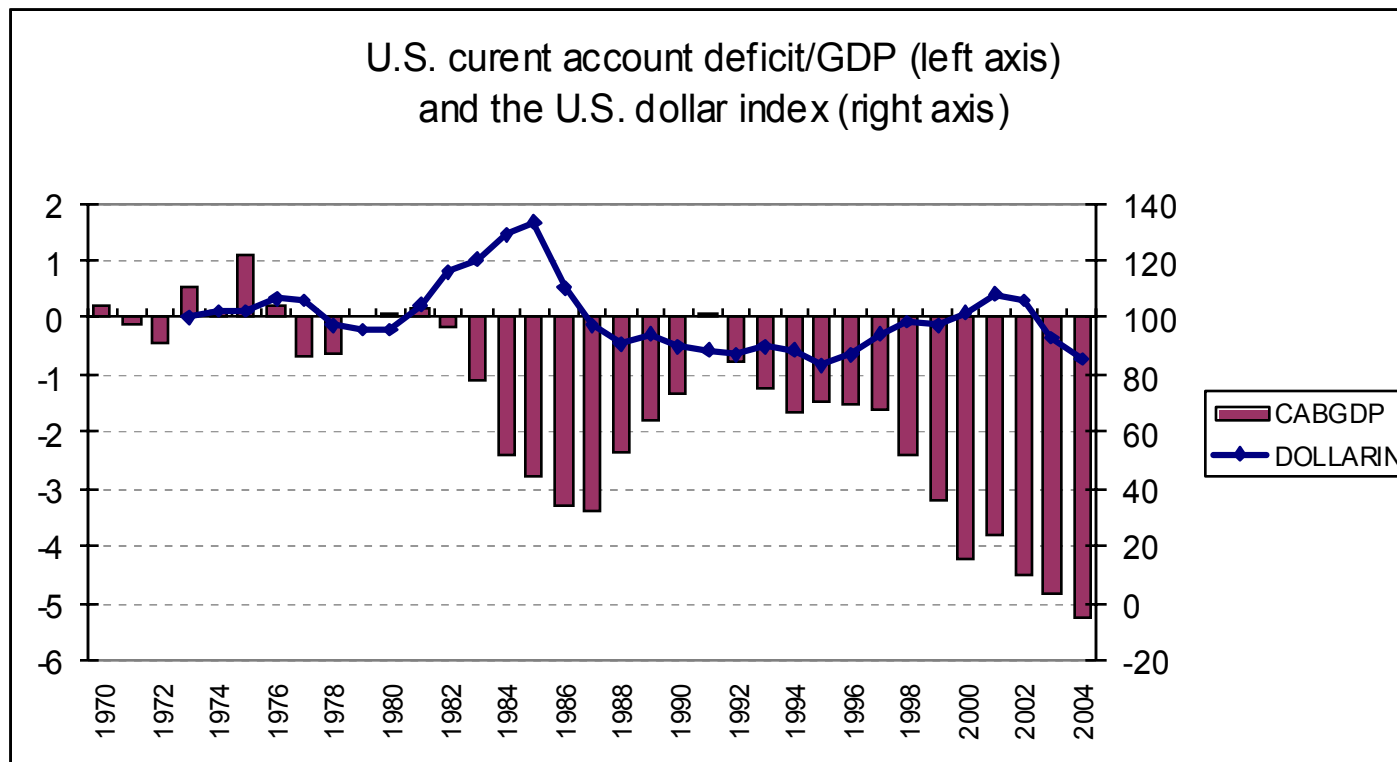
United Nations

Implications of the imbalances

- Sustainability
- Stability
- Efficiency
- Equity

Multi-dimensional issue

- Trade
- International finance
- Exchange rate
- Macroeconomic policy
- Demand and supply
- Saving and investment
- Financial and real
- Cyclical and structural
- Static and dynamic
- Systemic issue



Pro-imbalance international reserve system

- US dollar as the reserve currency
- Triffin's dilemma for the Bretton Woods system
- It remains valid for today's system

Capital account deficit versus current account deficit

Gold standard versus floating

Revived Bretton Woods?

- Developing Asia versus U.S.
- Export-led growth versus current account surplus
- Current account surplus as collateral
- Global imbalances rooted in the international reserve system

Privilege for the issuer

- Paying international transaction by the dollar
- World's banker: seigniorage
- Less external constraints and more policy flexibility

Adjustment of imbalances and reform of international reserve system

- Rebalancing of US deficit in 1985-1991
 - 40% drop in the dollar
 - Equity market collapsed
 - Lower global GDP growth
 - Yen appreciation and Japan's persist surplus

1985-1991 versus today

- Twin deficit of the U.S.
- \$ depreciation, equity market, GDP
- Wider and deeper “J” curve?
- Deepening financial global integration
- International network of production, trade and services

Systemic risks

- No alternative currency?
- No “system” to collapse?
- Foreign exchange market versus capital markets

Reform of the international reserve system

Short run

Euro versus \$

SDR?

Diversify and reduce reserves

Long run

A true form of world money