



CHATHAM HOUSE

Macroeconomic performance and global capital flows: is there a role for Europe to play?

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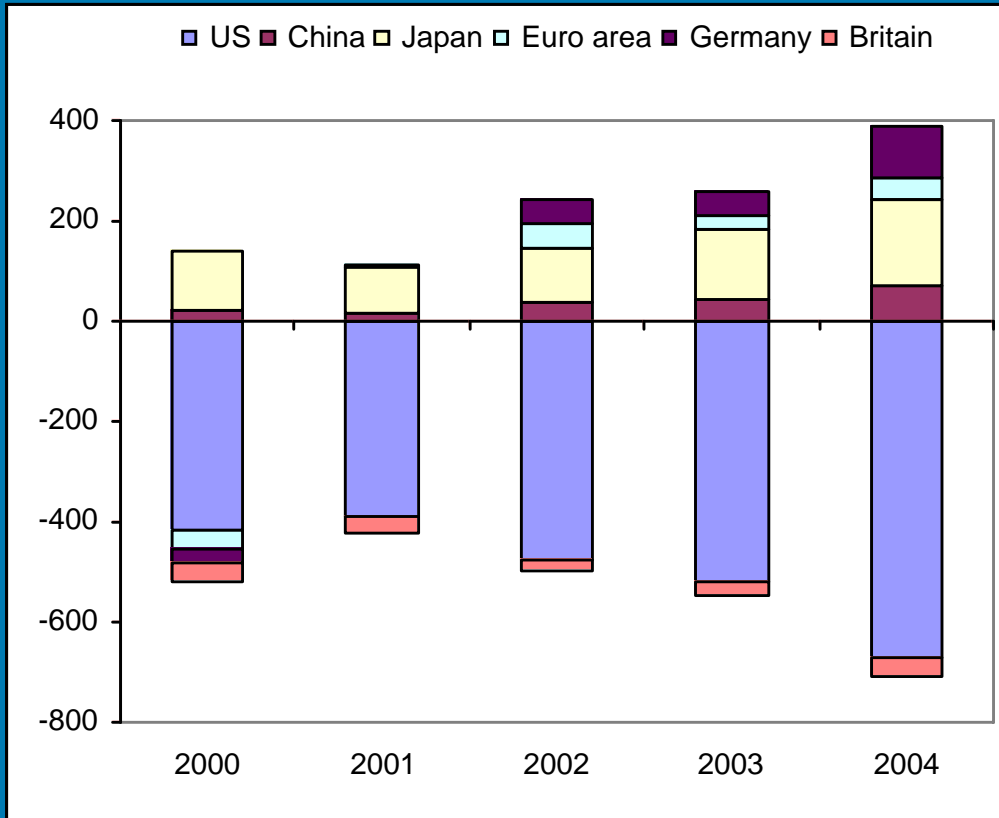
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Outline

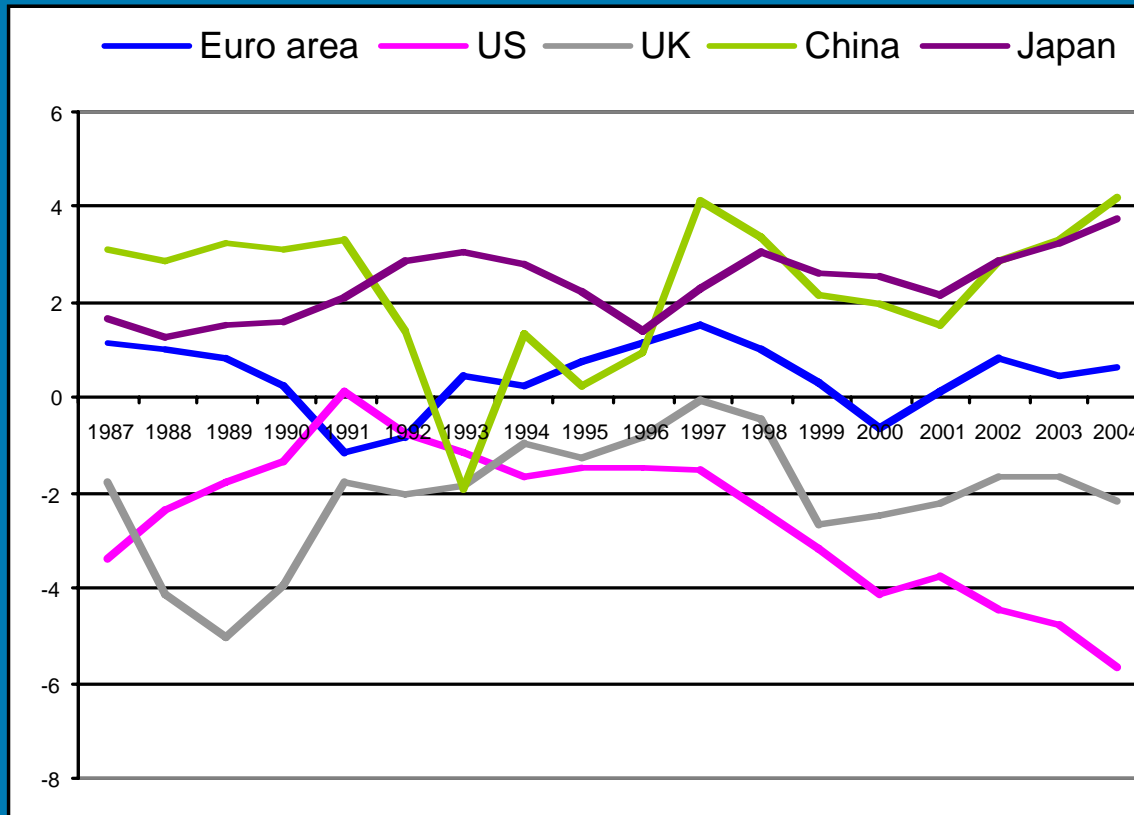
- Global imbalances: are they transpacific?
- Transatlantic components
- Global adjustment: Europe has, and can, have a role to play
- Profligacy may be a virtue: saving, domestic demand and financial innovation



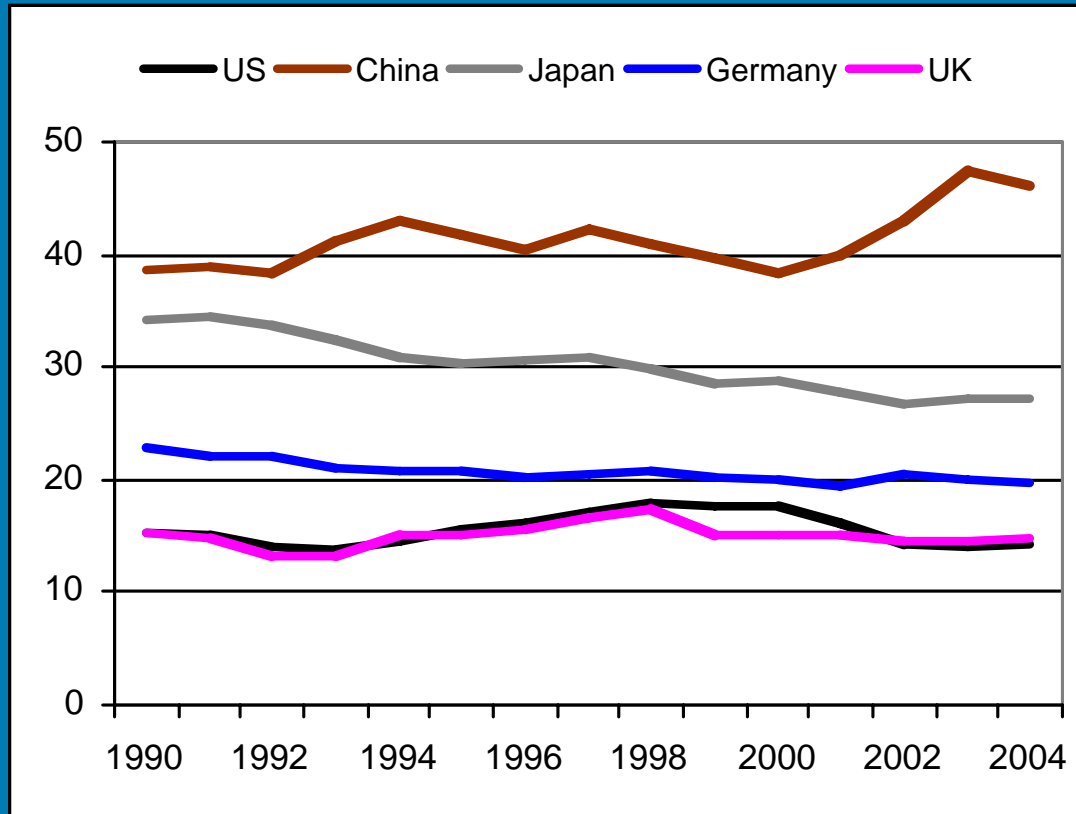
Current account balances, \$bn



Current account balances as % of GDP



Gross national saving as % of GDP



Financial indicators, US

	2002	2003	2004	2005	2006
Household saving ratio	2.0	1.4	1.2	0.6	1.2
General government financial balance	-3.8	-4.6	-4.3	-4.1	-3.9
Current account balance	-4.5	-4.8	-5.7	-6.4	-6.7
Short-term interest rates	1.8	1.2	1.6	3.4	4.7
Long-term interest rates	4.6	4.0	4.3	4.5	5.3

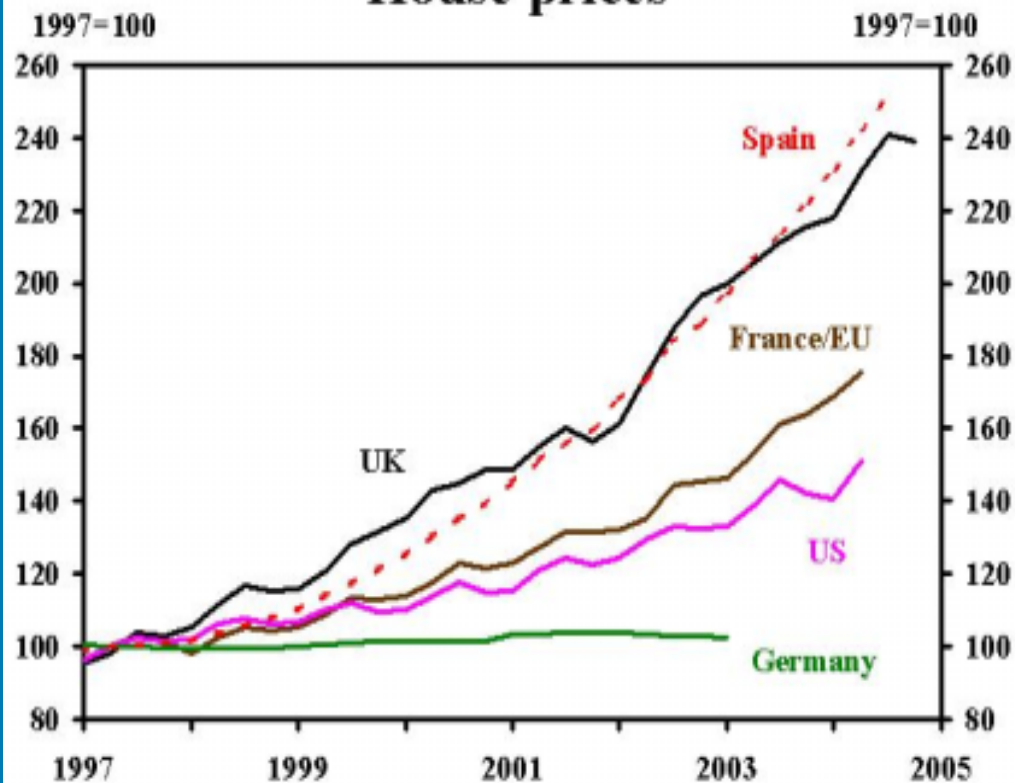


Financial indicators, euro area

	2002	2003	2004	2005	2006
Household saving ratio	11.1	11.0	11.1	10.8	10.7
General government financial balance	-2.5	-2.8	-2.7	-2.8	-2.7
Current account balance	0.8	0.4	0.6	0.1	0.3
Short-term interest rates	3.3	2.3	2.1	1.8	1.9
Long-term interest rates	4.9	4.1	4.1	3.5	3.6



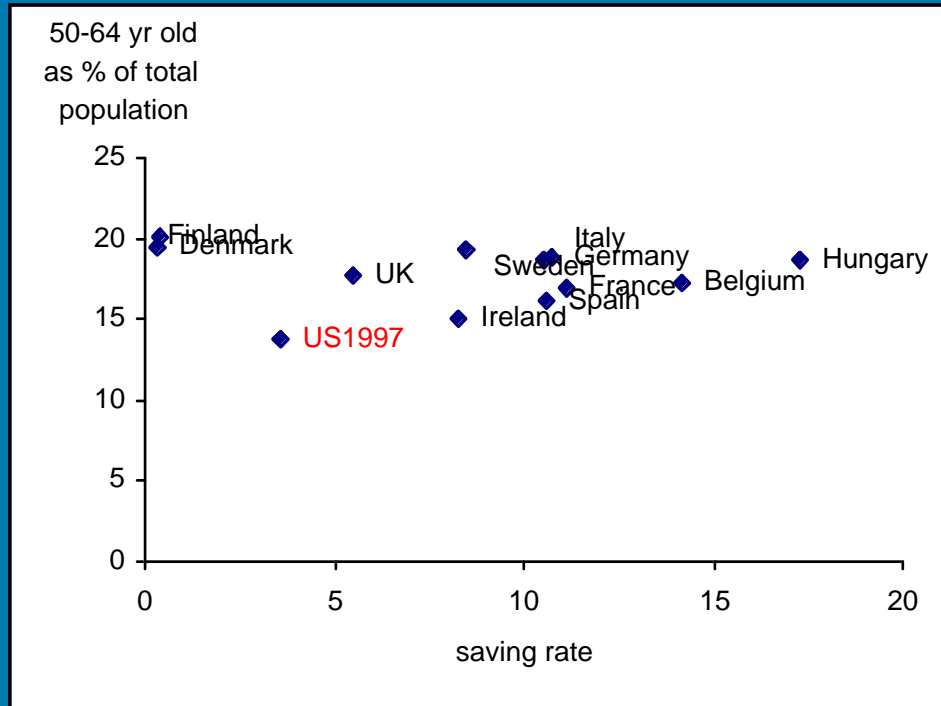
House prices



Source: Datastream



Saving ratios for 50-64 age group



External indicators, Germany, \$bn

	2002	2003	2004	2005	2006
Goods and services exports	723.0	872.4	1029.5	1136.0	1220.0
Goods and services imports	632.4	767.3	890.4	985.0	1053.0
Foreign balance	90.6	105.1	139.2	150.0	167.0
Invisibles, net	-44.3	-53.8	-34.2	-30.0	-26.0
Current account balance	46.2	51.3	105.0	121.0	141.0



External indicators, France, \$bn

	2002	2003	2004	2005	2006
Goods and services exports	390.6	455.9	522.3	568.0	607.0
Goods and services imports	363.3	435.3	511.0	576.0	608.0
Foreign balance	27.3	20.6	11.3	-8.0	-1.0
Invisibles, net	-14.0	-12.8	-17.3	-14.0	-12.0
Current account balance	13.3	7.8	-6.1	-22.0	-12.0



C/A performance as a % of GDP, 1987-2004

	Low	Average	High
Euro area	-1.2	0.4	1.5
Germany	-1.8	0.8	4.6
France	-0.8	0.7	2.9
Italy	-2.3	0.0	3.2
Netherlands	1.8	3.5	6.4
Finland	-5.4	2.6	7.5
UK	-5.1	-2.1	0.1
US	-5.7	-2.5	0.1

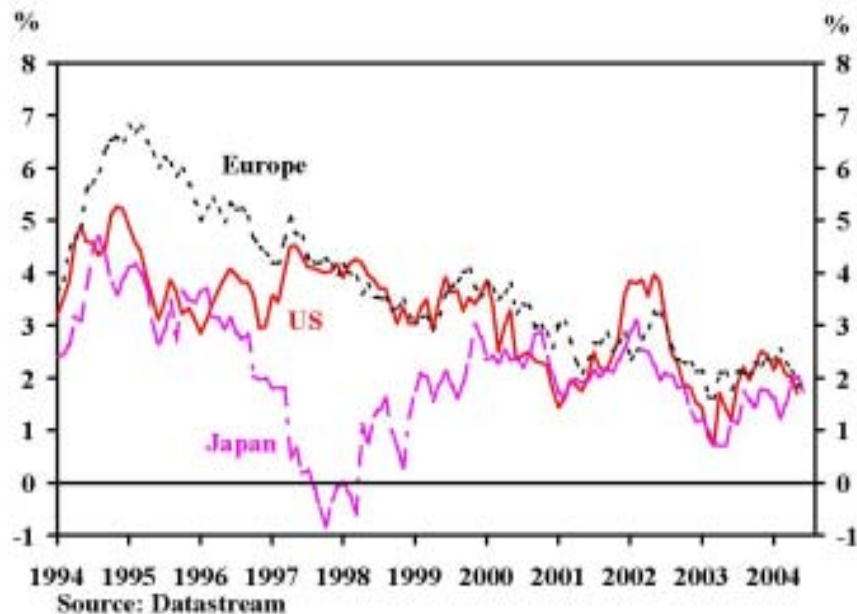


What does Europe need?

- Short term
 - stronger domestic demand
 - recovery in private consumption
 - more job creation
 - Income growth
- Longer term
 - stronger productivity
 - improved competitiveness
 - structural adjustments in budgetary positions
 - self-sustaining growth



World: Real long-term interest rates



Conclusion

- Reforms are necessary, but not sufficient
- Realignment of saving and investment
 - Use the current window to borrow cheaply ...
 - ... and channel it in government-backed investment
- Credibility problem and risk of over spending
- But can Europe - and the world - afford to be passive?



Thank you



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