

Discussion of:

# Global imbalances from a stock perspective

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# Global imbalances

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- Large and growing current account balances were hotly debated before the crisis.
  - Concerns about the sustainability of US deficits, role of policy choices in Asian surplus countries.
- Current accounts narrowed in the crisis, and the issue went on the backburner.
  - The current US recovery could bring it back to attention, with a different set of creditors (Euro area instead of Asia).
- However, solvency concerns relate to stock of assets and liabilities, not flows.
  - Net positions have steadied since 2009.

# A closer look at net positions

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- Nice paper with a thorough examination of the issue.
- Contrasts drivers: capital flows, valuation effects, growth effects.
  - Flows drive the pattern, some role of valuation for advanced economies debtors.
- Composition of current account. Trade matters most, net earnings play a role for debtors.
- Econometric assessment of how the net position affects the current account.
  - Stabilizing for debtors: more debt shrinks the CA deficit.
  - But not for creditors: higher assets raise the CA surplus.
  - A positive output gap raises the CA deficit of debtors. Little effect of the a negative gap, or for creditors.
  - The effects work through the trade balance.

# Comment 1: stylized facts

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- Section 2 could be shortened.
- Covering known ground: CA matters in the long run, valuation effects are more volatile.
  - Evans (2017) for a detailed theoretical analysis.
- Valuation effects to be handled with a lot of care, as they reflect statistical aspects (Curcuru, Warnock et al.).
  - NFA has a similar impact regardless of whether it comes from CA or valuation effects.
  - Some figures («all countries») are hard to interpret.
- The theory section could also be tightened.
- Focus on the asymmetry analysis which is the core of the paper.

## Comment 2: econometric analysis

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- Results are obtained through panel regressions.
  - Not clear what comes from «within» and «across» dimensions.
  - This can matter a lot (Tille and vanWincoop 2010 on the «new rule»).
- Heterogeneous impact of the output gap is striking.
  - But the output gap does not seem to enter the regressions on its own (neither does the creditor dummy).
- The output gap itself should play a significant role for the movements in the current account.
  - Results of interactions could be quite sensitive to the omission of an important variable.
- Do results differ for large countries?

## Comment 3: interpretation (1)

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- The asymmetry points to the presence of constraints.
- Model with two endowments countries (H and F) over two periods.
- Different discount factors with H being impatient:  $\beta^H < \beta^F$ .
- Without any borrowing constraint, the Home country is a debtor.
  - Higher Home endowment in the first period leads to a lower initial debt. Higher Foreign endowment leads to higher Home debt. Both shocks lower the interest rate.
- With a borrowing constraint Home debt is limited. Assume that this constraint is affected by Home endowment.
  - Higher Home endowment in the first period relaxes the constraint and leads to a higher initial debt. Higher interest rate to induce Foreign to lend.
  - Higher Foreign endowment only reduces the interest rate.

## Comment 3: interpretation (2)

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- With a constraint, the Home output gap should matter for the current account, but not the Foreign one.
  - Simple model does not generate an asymmetric effect of Home output gap.
- Implications for interest rates differ.
  - Higher endowments lower it in the absence of constraint.
  - With a constraint, higher Home endowment raises it, and nothing happens with Foreign endowment.
  - Do we also see an asymmetric impact on interest rates, premia, exchange rates?

## Comment 4: exchange rate

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- The asymmetry is also observed in the impact of NFA on the real exchange rate.
  - Stabilizing impact for creditors only.
  - But not for creditors in the euro area.
- What is the impact of the euro area dummy on the results for the current account and the trade balance?
  - Is this evidence that re-balancing channels are weaker with a common currency?
  - How does this link to evidence of little difference in real exchange rate adjustments in and out of the euro area (Berka, Devereux and Engel 2012)?



# Conclusion

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- Nice paper with striking evidence of asymmetric role of the net investment position.
  - Stabilization only for debtors.
- Asymmetric patterns should be pushed further.
  - Interest rates, exchange rates.
  - Policy implications for re-balancing in the euro area.