Net Exports/GDP

Source: BEA
Net Exports and Dollar Value

![Graph showing trends in Net Exports (X/GDP) and Dollar Value (DOLLARVALUE_FEDMAJORREAL) over time from 1975 to 2005. The graph includes two scales: X/GDP on the left scale and Fed broad twxr (CPI) on the right scale. The data points indicate fluctuations in both metrics over the specified period.](image-url)
The current acct. & budget deficit

Source: BEA
Interest Rates

- UK T-bill rate
- German T-bill rate
- US 3 mo T-bill

Legend:
- IUS
- IGY
- IUK
Policy options

• Dollar depreciation
• Hoping for foreign growth
• Banking on the Chinese
• Monetary policy
• Fiscal restraint
Dollar depreciation as panacea?

US nominal trade balance to GDP ratio (left axis)

Log real dollar exchange rate (Fed, broad), lagged two years (right axis)

Sources: BEA and Fed
The import of fiscal policy

- No other viable options (can’t bet on future revaluation shocks)
- Stabilization of the CA is not the same as sustainability
- Given US growth and investor preferences, govt debt accumulation pins down the CA over time
Fiscal policy & CA sustainability

Source: CBO (Aug. 2005)

Debt to GDP Ratio (Actual and Projected)

Discretionary Spending

Tax Fixes

Iraq Phase-down

Source: CBO (Aug. 2005)
Foreign Holdings of Treasuries

Treasuries normalized by
govt. debt held by public

Source: BEA
Implications of fiscal restraint

Table A4. Tax Cut, United States
(Drop in wage and salary tax rate of 1 percent of GDP)
Deviations from baseline, in percent

<table>
<thead>
<tr>
<th>United States</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Level</td>
<td>0.4</td>
<td>0.8</td>
<td>0.8</td>
<td>0.6</td>
<td>0.4</td>
</tr>
<tr>
<td>Inflation (Consumer Prices)</td>
<td>0.1</td>
<td>0.3</td>
<td>0.7</td>
<td>1.0</td>
<td>1.2</td>
</tr>
<tr>
<td>Current account (% GDP)</td>
<td>-0.2</td>
<td>-0.3</td>
<td>-0.3</td>
<td>-0.4</td>
<td>-0.5</td>
</tr>
<tr>
<td>Govt net lending (% GDP)</td>
<td>-0.9</td>
<td>-0.8</td>
<td>-0.8</td>
<td>-0.9</td>
<td>-1.1</td>
</tr>
</tbody>
</table>

Source: Dalsgaard, André and Richardson (OECD WP #306, 2001)
Global Rebalancing
Global Rebalancing

Figure 3. Current account balances for selected economies, 2004-2005


Notes: Figures for 2005 and 2006 are IMF projections.

Where does China fit in?

The great crawl of China

The yuan:
January 1st 2005 = 100

against euro
Trade-weighted
against $

Real trade-weighted exchange rate, 2000 = 100

Sources: Thomson Datastream; JPMorgan Chase
Implications for Emerging Markets

- As US interest rates rise, US growth falls
- As US interest rates rise, asset prices in emerging markets fall
- This could lead to financial crises
Capital Flows to Emerging Markets


US_TB3MSREAL(-1)

EME_KA95
KAFIT
What Have Real Interest Rates Done Recently?

![Graph showing real interest rates for Mexico and Thailand from 1990 to 2004. The graph plots 3-month T-bill minus lagged 3-month Core inflation.](image-url)