

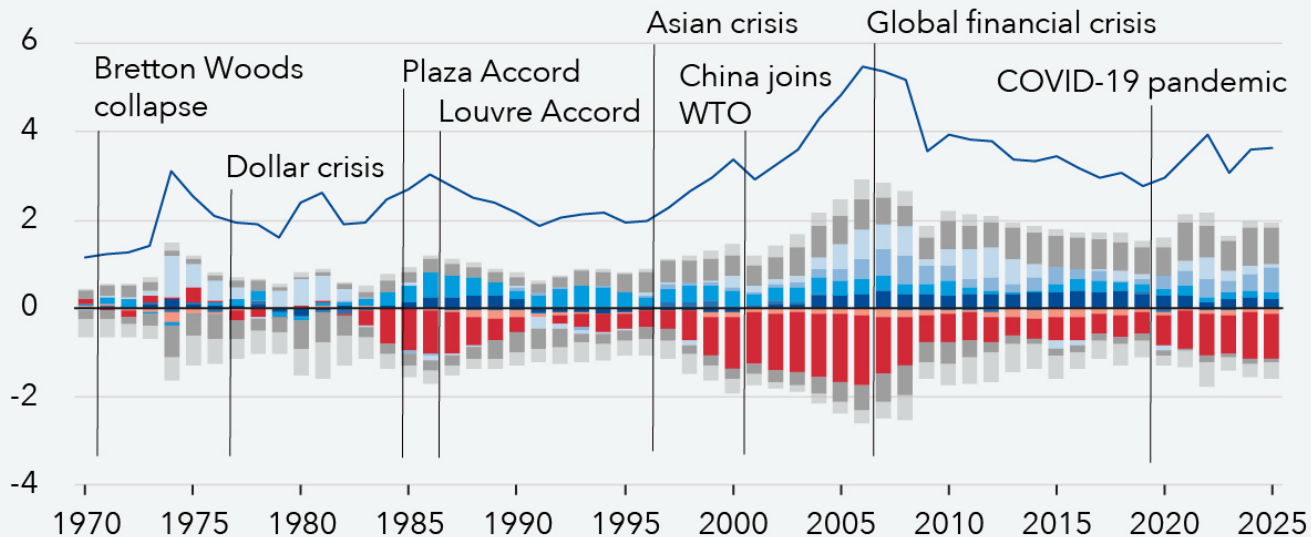
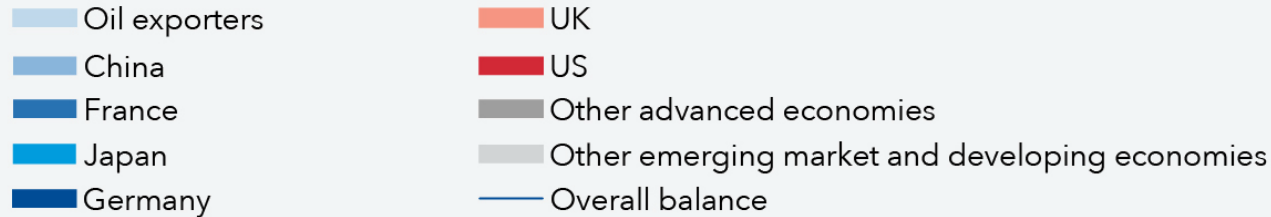
Global Imbalances and the GFSN

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Global imbalances are widening after years of narrowing

Percent of world GDP



Sources: IMF, World Economic Outlook; IMF, Balance of Payments; and IMF staff calculations. Notes: Overall balance is sum of absolute values of current account surpluses and deficits. Figures for 2025 partly based on projections.

IMF

- **Problem:**
 - US deficits → low saving from fiscal expansion
 - China surplus → high saving after property shock
- **Solution, domestic policy adjustment:**
 - Fiscal consolidation (deficit countries)
 - demand expansion (surplus countries)

G7

- **Problem:**
 - US → fiscal deficits
 - China → suppressed consumption, industrial bias
 - EU → weak investment/productivity
- **Solution, collective-action failure :**
 - IMF surveillance
 - G20/G7 coordination
 - cross-institutional alignment (IMF, WTO, BIS)

Key Points



Global imbalances are (also) accentuated by growing levels of reserve accumulation to ‘self-insure’ against an **inadequate global financial safety net (GFSN)** in surplus and deficit countries alike.



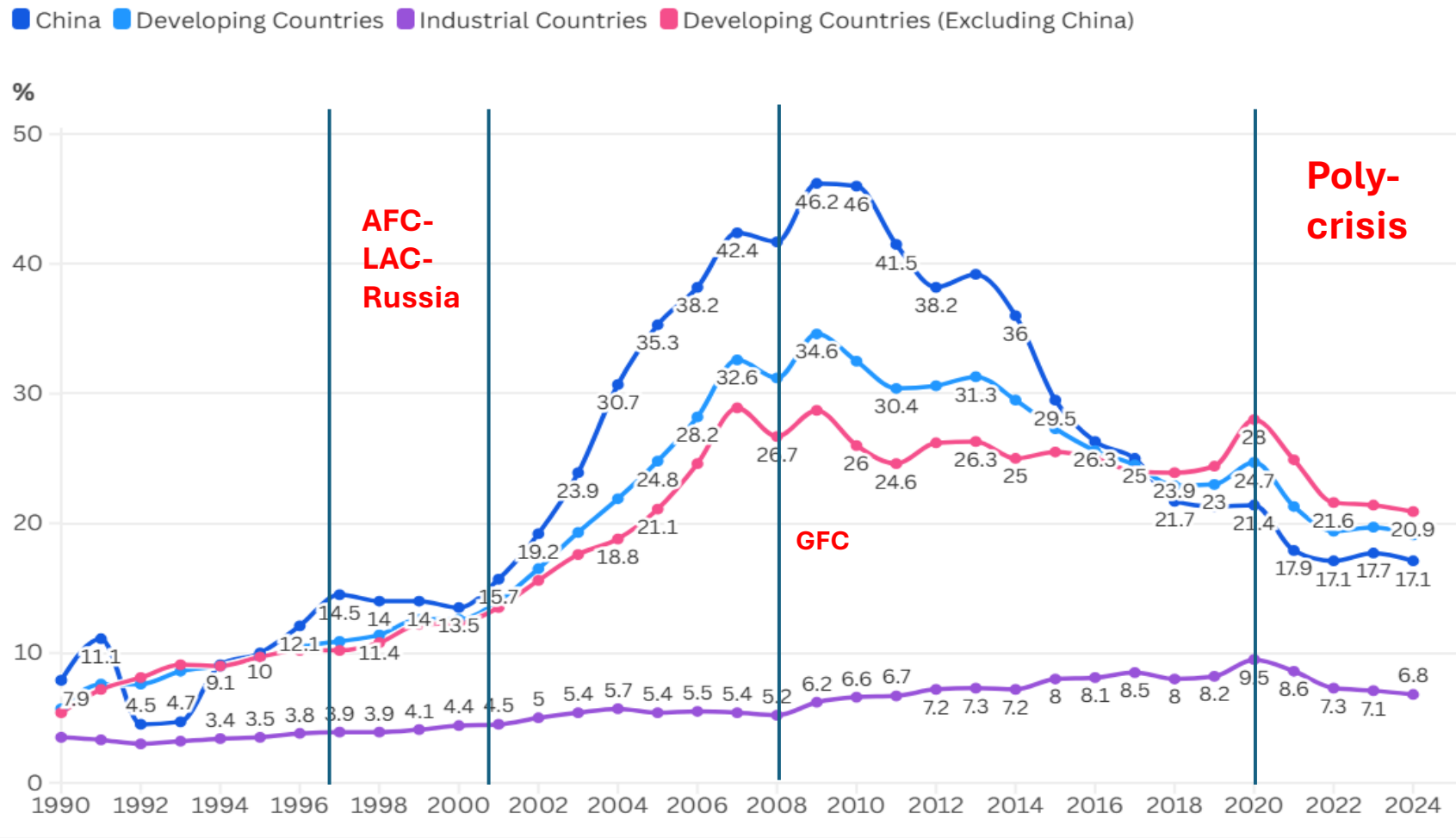
Developing countries are holding 1.5x more reserves above conservative thresholds--\$1.6 trillion in total, at a ‘social cost’ of \$53 billion annually.



Policy action to reduce imbalances will not be effective without **IMF reform, the expansion of RFAs, and the concerted use of capital flow management measures.**

Reserve Accumulation and Global Imbalances

Foreign Reserve as a share of GDP

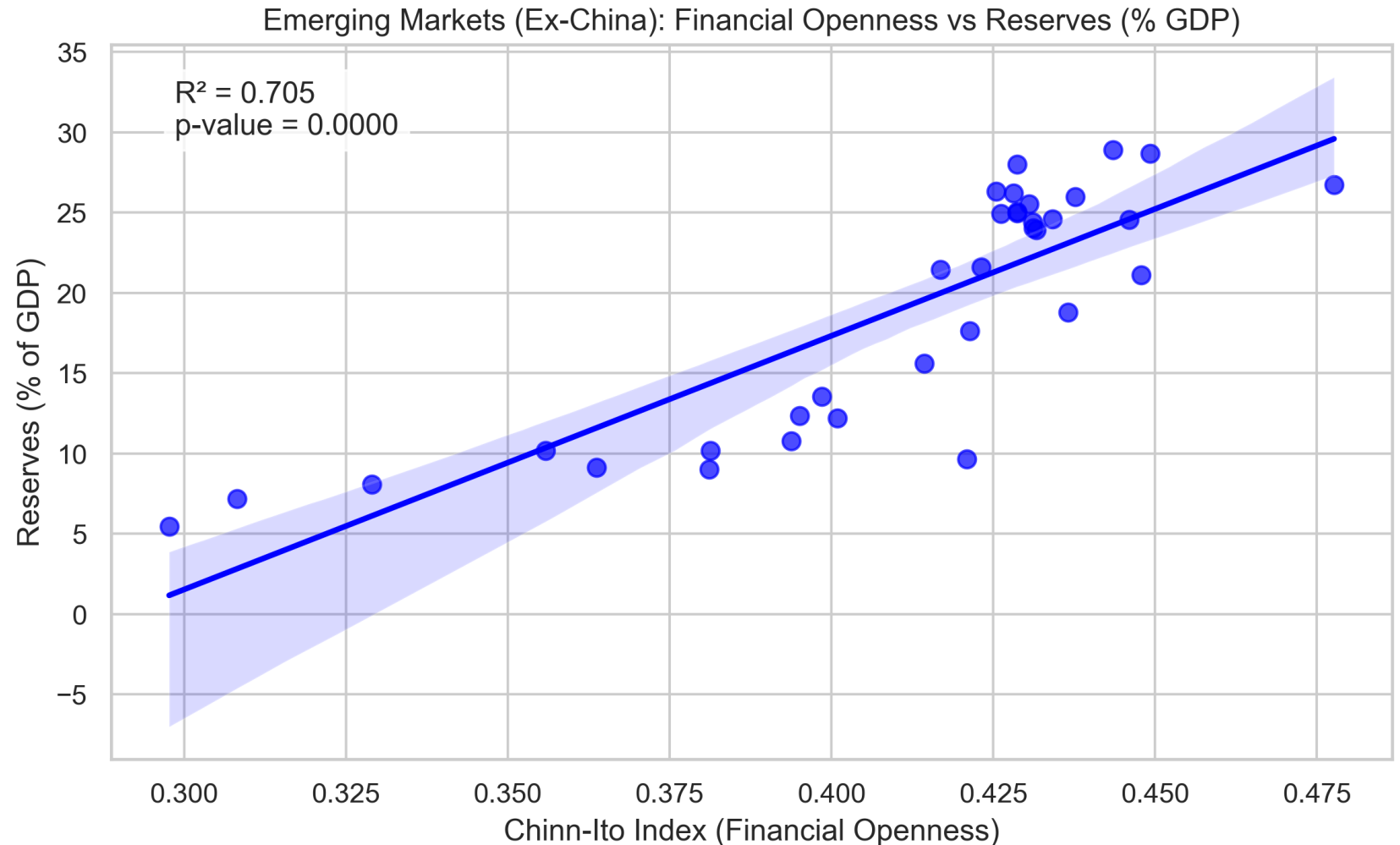


- US monetary policy and uncertainty **triggers ‘surges’ and ‘sudden stops’** that undermines financial stability.
- Countries **‘self insure’** due to volatile capital flows and nature of IMF program design and performance– and IMF contribution to premature capital account liberalization
- Global south reserve accumulation accentuates US **twin deficits**

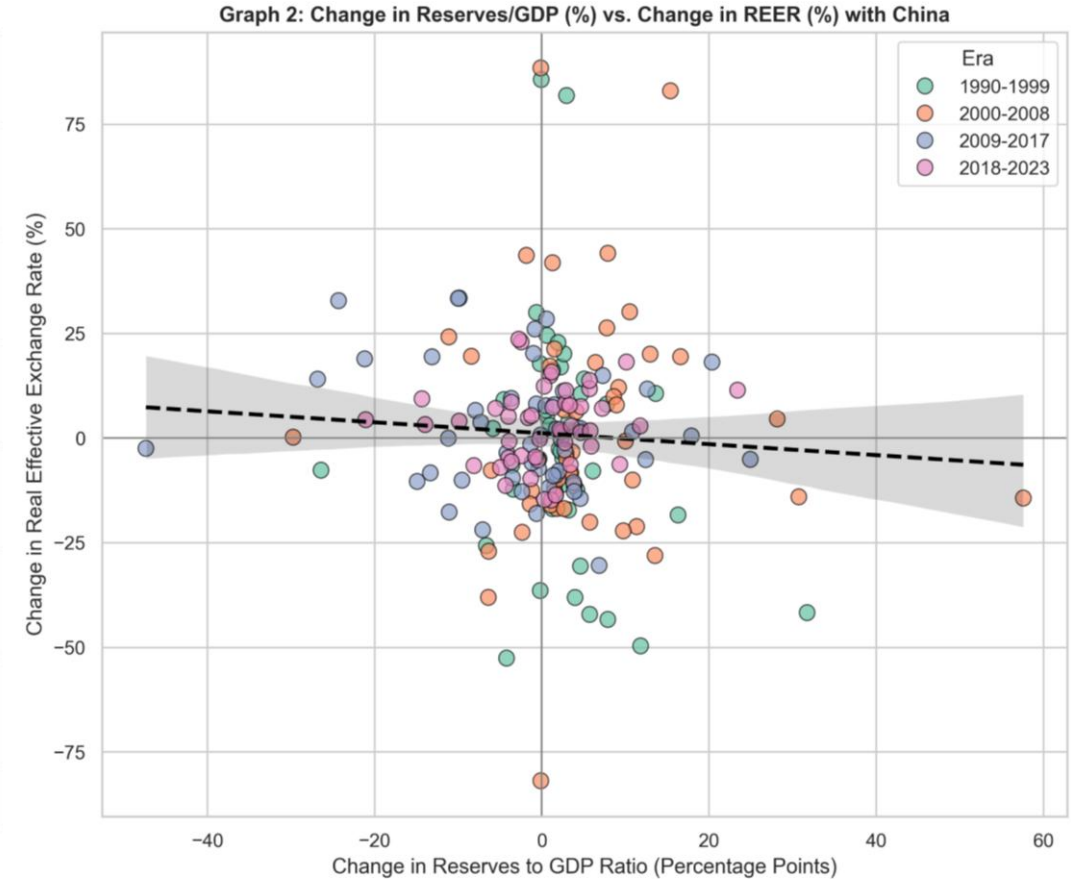
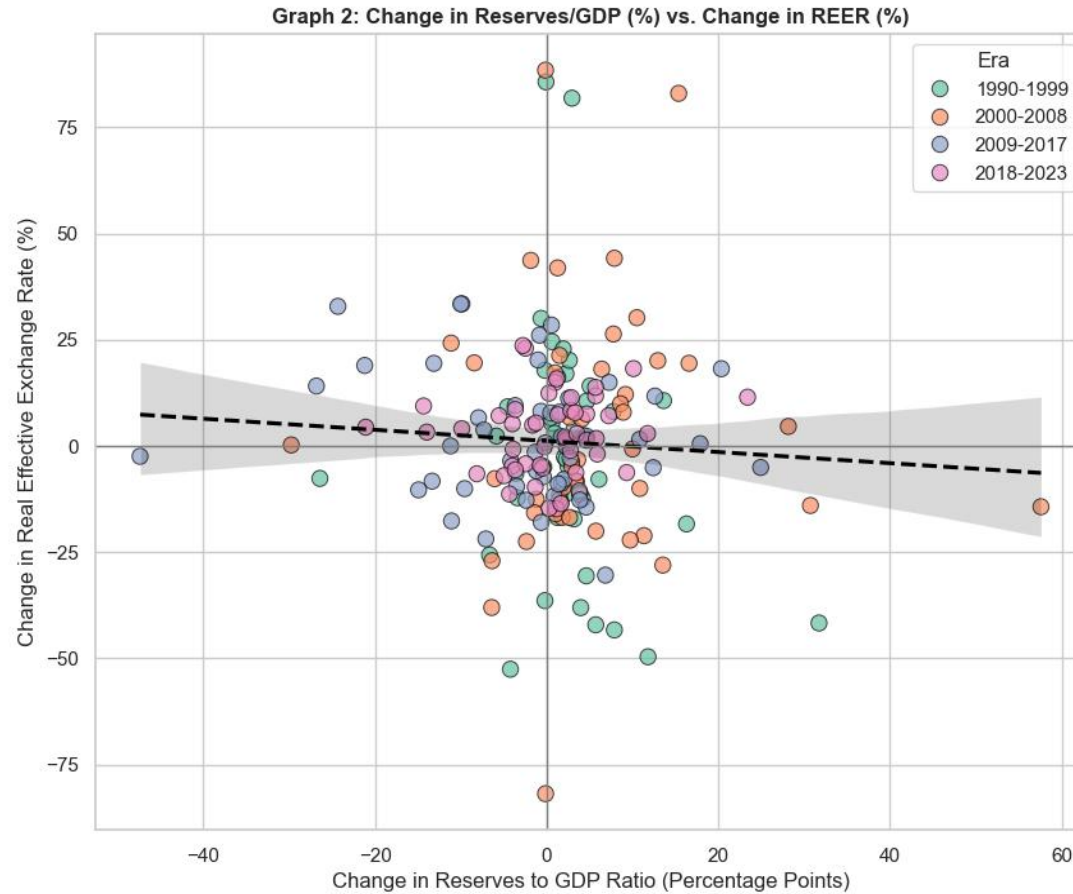
Premature Capital Account Liberalization Associated with Reserve Accumulation

IMF surveillance encourages capital account liberalization.

IMF programs require Capital account liberalization.



Exchange Rate Policy Has No Impact on Reserve Accumulation

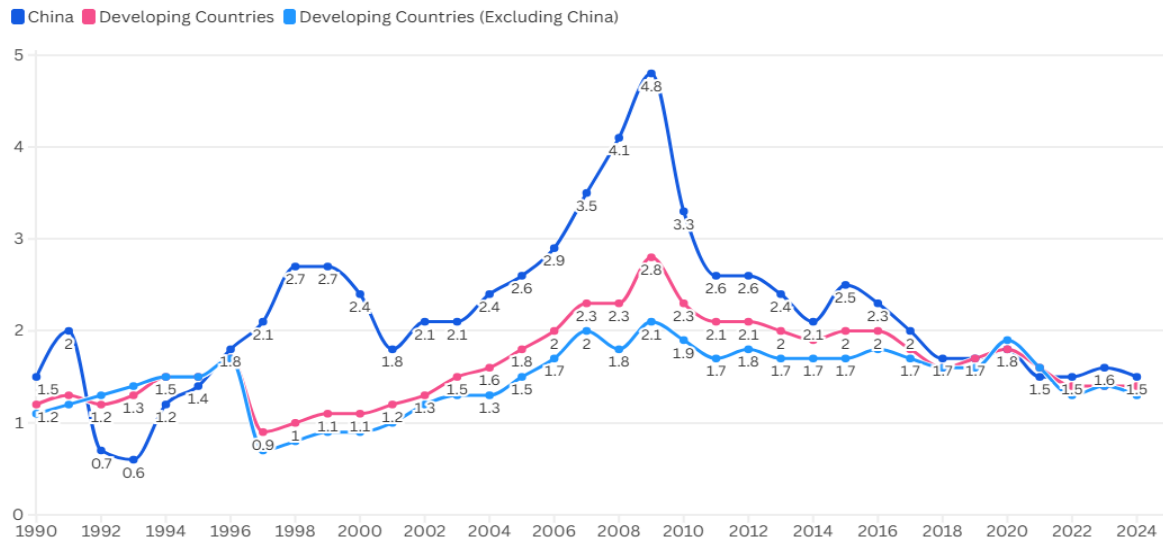


Dataset	R2 (Goodness of Fit)	Slope (β_1)	p-value	Statistical Significance
Developing World (Ex-China)	0.0085	-0.1580	0.1149	Not Significant
All EMDEs (With China)	0.0091	-0.1611	0.1005	Not Significant

Model: $\Delta \text{ REER } (\%) = \beta_0 + \beta_1 \Delta (\text{Reserves/GDP}) + \epsilon.$

Global South holding \$1.6 trillion in reserves above threshold at 'social cost' of \$53 billion annually

The Double Buffer: Reserve Adequacy against Trade & Debt Shocks



Region	Total Countries Analyzed	#Countries Above threshold	Share of Region (%)
East Asia & Pacific	24	18	75%
Latin America & Caribbean	33	24	73%
Sub-Saharan Africa	47	26	55%
Europe & Central Asia	23	15	65%
Middle East & North Africa	21	14	67%
South Asia	6	3	50%
TOTAL (All EMDEs)	154	100	65%

Social Cost = (Total Reserves - Adequate Threshold) × Yield Spread
3% (Conservative), 5% (Baseline), and 7% (High-Cost)

GFSN Reform to Address Imbalances

IMF Reforms

- Expand IMF firepower: 16th quota review; SDRs
- Expand access limits and precautionary lines
- Reform adjustment policy through Review of Program Design and Conditionality
- Improve surveillance of spillovers --CSR review

Southern-Led Reforms

- Expand and create new RFAs
- Reinvigorate capital flow management measures
- Build macroprudential policy toolkits

Thank you