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# GLOBAL IMBALANCES AND GEOPOLITICAL CHANGES

## Global economic (dis)order and Europe's role

### VILLA MONDRAGONE INTERNATIONAL ECONOMIC SEMINAR

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## The G7 view: “imbalances reflect unbalanced growth dynamics”

The policy target is balanced growth and reciprocal trade — not merely smaller bilateral deficits.

### Orderly unwinding requires each large economy to correct the domestic sources of persistent imbalances

#### CHINA

##### Under-consumption

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High precautionary savings and state-led capacity expansion keep demand too low relative to output. Rebalance toward household consumption; improve the social safety net (healthcare, pensions); scale down local government incentives and distortionary industrial support.

#### EUROPEAN UNION

##### Under-investment

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Persistent saving over investment reflects low scale, fragmented markets and shallow risk capital. Raise potential growth through single-market, energy and capital-market integration.

#### UNITED STATES

##### Over-borrowing

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Large fiscal deficits sustain excess domestic absorption. A credible deficit-reduction path and financial stability are key to reducing the external deficit gradually.

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**Simultaneous domestic action would lower adjustment costs and yield a positive impact on world GDP. Disorderly unwinding may portend a financial crisis. Protectionism alone shifts pressure across partners.**

## Macro and micro drivers reinforce each other, according to the G7 Economists Memo

The macro view captures only part of the story: industrial policies, subsidies, nonmarket practices, capital controls.

### MACRO DRIVERS

#### 1 Saving–investment gaps

Fiscal deficits, household precautionary saving and weak private investment shape national external positions.

#### 2 Exchange-rate and capital-flow channels

Reserve-currency demand, capital controls and other forms of financial repression can amplify domestic imbalances.

#### 3 Policy uncertainty and fiscal paths

Credibility of debt and fiscal plans affects risk premia, market access and speed of adjustment.

### MICRO / SECTORAL DRIVERS

#### A Industrial policy and overcapacity

Subsidies and state-directed finance can spill over to trading partners through price competition, dumping and sectoral dislocation.

#### B Supply-chain chokepoints

Critical inputs, export controls and concentrated processing convert trade imbalances into security risks.

#### C Financial leverage and mismatches

Large capital flows, currency mismatches and shadow leverage can transmit shocks across borders.

**Policy prescription: correct domestic distortions, monitor sectoral stress, preserve openness where reciprocity can be verified.**

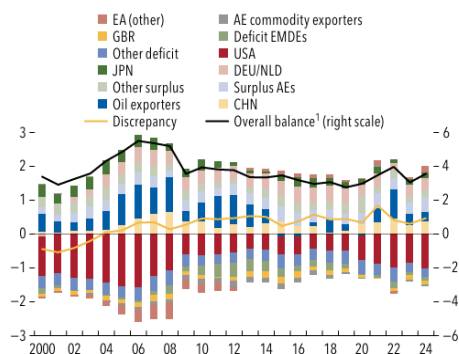
Sources: IMF External Sector Report 2025; G7 Economists Memo on Global Imbalances, 2026.

# Global imbalances have widened since 2020; NIIP of USA at a new low.

IMF assessments point to a post-pandemic worsening of imbalances, concentrated in the largest economies.

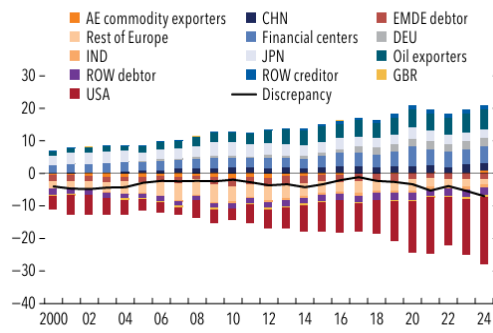
- Global imbalances as a share of world GDP in 2024 registered at 3.6% of GDP, up from 3.0% in 2023, and remained around that level in 2025.
- The 0.6 percentage-point widening was largely driven by domestic macro imbalances, according to the IMF.
- Two-thirds of the widening was assessed as excessive imbalances, the largest increase in a decade.
- The US net international investment position has reached a new low, due also to valuation effects.

**Global Current Account Surpluses and Deficits**  
(Percent of world GDP)



Sources: IMF, World Economic Outlook database; and IMF staff calculations.

**Net International Investment Positions, 2000-24**  
(Percent of world GDP)



Sources: External Wealth of Nations database; IMF, April 2024 *World Economic Outlook*; and IMF staff calculations.

Sources: IMF External Sector Report 2025; IMF Blog, “Global Current Account Balances Widen,” July 2025 (for 2024). Author’s computations on official statistics and European Commission’s Spring 2026 Forecast.

Note: The global imbalance is the sum of absolute levels of current account surpluses and deficits.

## US trade and C/A deficit shrinking, while China's surplus keeps growing.

Following a sharp increase in 2025 Q1 (front-loading of US imports ahead of tariff increases) the US current account deficit has improved in the following quarters of 2025.

In the first four months of 2026, the US trade deficit in goods has fallen by 38.4% yoy, while the services surplus has increased by 4.6% yoy.

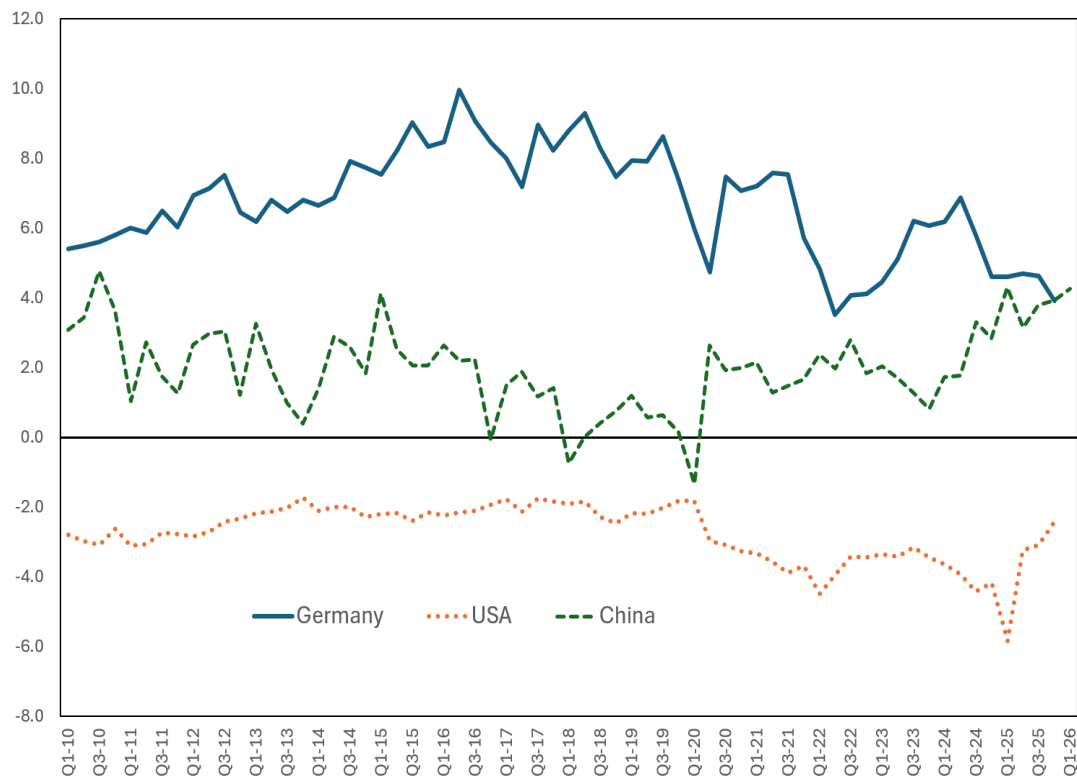
As of May, the US (Oct-May) federal budget deficit declined by 8.7% yoy in dollar terms. The deficit/GDP ratio looks set to decline from 5.8% of GDP in FY 2025 to 5.1% in FY 2026.

Germany announced major fiscal expansion plans in 2025 (defense and infrastructure).

Germany's C/A surplus, though still the highest as a share of GDP, has shrunk from 7.6% of GDP in 2012-2021 to 4.7% in 2025.

However, China's trade and current account surplus keeps rising, while the IMF projects the fiscal deficit at 8.7% of GDP in both 2025 and 2026.

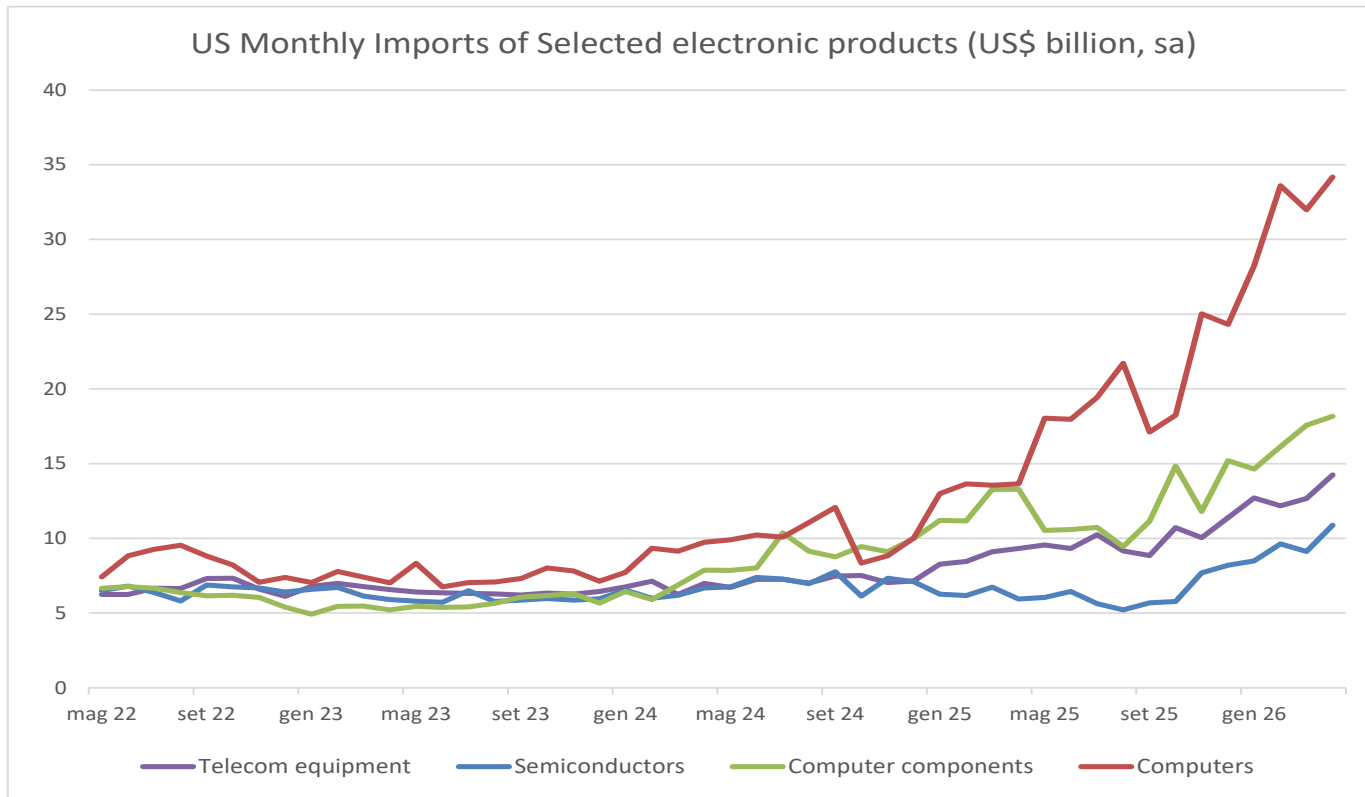
US, China and Germany current account balances (as % GDP, quarterly, sa)



Source: OECD, Main Economic Indicators, Haver Analytics.

Note: Q1 2026 data for China are from the State Administration of Foreign Exchange (SAFE) and seasonally adjusted by Haver Analytics.

## US imports are also driven by a surge in investment in AI and data centers



Source: Bureau of Economic Analysis, U.S. Department of Commerce

## The US response: security-first tools, with a macro adjustment gap.

Washington is prioritising leverage and resilience; the external-deficit diagnosis still points to fiscal consolidation.

### SECURITY AND INDUSTRIAL POLICY TOOLS

#### 1 Tariffs and other trade measures

Trade tariffs are used to pressure partners and reduce perceived unfair competition.

#### 2 Vertical industrial policies, financing and subsidies.

Federal government invests in companies in key industries such as semiconductors (e.g. Intel) while leaving in place Biden-era policies such as the Chips Act.

#### 3 Moral suasion

Companies and countries that pledge new investment and capacity increases are promised favorable treatment.

#### 4 Critical minerals as national security

A 2025 Section 232 process targets processed critical minerals and derivative products, alongside domestic-mining support. Administration launches CRM initiative (including Buyers' club proposal).

### REBALANCING TEST

Tariffs can redistribute bilateral balances; but they raise production costs and prices of affected products and may end up having a small impact on the C/A deficit.

#### The G7/IMF prescription is more demanding:

Credible fiscal consolidation, stronger regulation and oversight (including NBFIs) and partner-based supply-chain diversification.

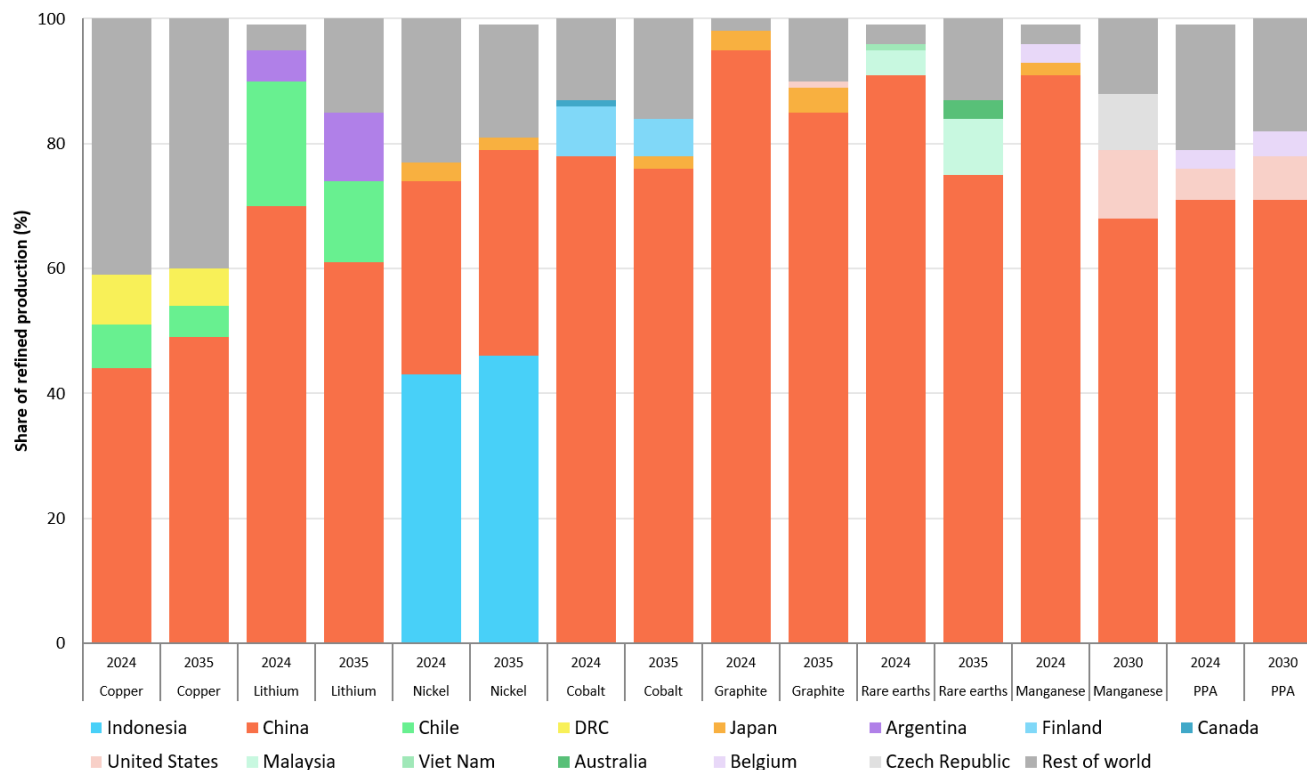
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Policy risk: if adjustment is mostly via external pressure, partners respond defensively and the imbalance ultimately evolves into trade fragmentation.

## Critical raw materials: small markets, systemic chokepoints

Dependencies in refining and magnets can turn trade frictions into economic and security risks.

**Geographical distribution of refined material production for key minerals, base case**



### Relevance for the imbalances debate

Critical minerals are inputs into the green transition, digital infrastructure and defense.

High concentration gives suppliers (notably China) strategic leverage and can depress investment in alternative supply.

### Policy frontier

Standards-based markets, traceability, recycling, strategic stockpiles and G7-aligned project finance can diversify supply without abandoning open trade.

The G7 also support initiatives aimed at increasing capacity and enhancing beneficiation in LICs and EMEs in collaboration with MDBs, for instance the RISE program coordinated by the World Bank.

## How to redesign multilateralism for an imbalanced world

A workable system needs common surveillance plus flexible coalitions for strategic sectors.

### 1 Common metrics

Use IMF-style excess-balance assessments plus sectoral stress indicators.

The OECD has developed a database that track subsidies received by firms and documents China's huge recourse to NMP.

### 2 Macroeconomic policy coordination

US fiscal path, China consumption, EU investment - simultaneous commitments.

### 3 Strategic supply-chain clubs

Standards-based minerals, traceability and trusted procurement within WTO guardrails.

### 4 Finance for diversification

MDBs, export credit and private capital for producers outside concentrated chokepoints.



**Reciprocity  
without fragmentation**

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**Multilateral where possible; plurilateral where necessary; transparent whenever security exceptions are used.**

Sources: IMF ESR 2025; G7 Critical Minerals Action Plan, 2025; G7 Finance Ministers Communiqué, 2026. G7 Finance Ministers 2024 Statements.

## Europe's response: rebalance internally, de-risk externally.

According to the G7/IMF analysis, the EU starts from a large external surplus with weak investment and high strategic dependencies.

- Europe cannot solve global imbalances with defensive measures. But de-industrialization is a growing risk.
- The key goal is to raise potential growth while reducing dependencies in strategic inputs.
- Trade negotiations with the US have limited the damage in terms of US tariff increases, but there are still open issues.
- Recent trade agreements with Mercosur, India and Australia marked a step forward for the EU.
- Trade and investment relations with China remain a key issue.

### Policy posture

Open markets are an asset for Europe, but openness must be paired with reciprocity, resilience and social sustainability.

Internal policies (ETS, competition policy) should not put EU Member States at a significant disadvantage.

### 1 Raise potential growth

Complete the single market in services, energy and digital infrastructure.

### 2 Mobilise risk capital

Capital markets union and long-term finance for productive investment.

### 3 Build supply resilience

CRMA projects, recycling, joint purchasing, stockpiles and partnerships.

### 4 Defend openness

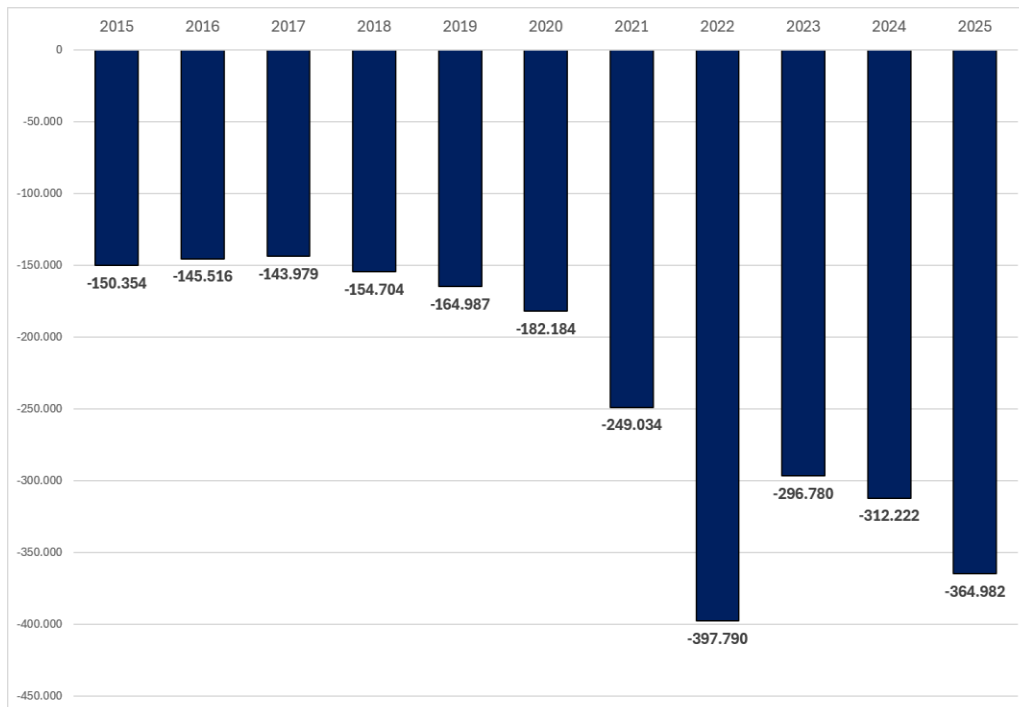
Trade defence and anti-coercion tools anchored in WTO-compatible rules.

Sources: G7 Economists Memo on Global Imbalances, 2026; European Commission Critical Raw Materials Act and strategic projects, 2025.

## EU–China trade: growing integration, but imbalance is unsustainable

*The Economist* magazine prediction (11 June 2026): “A trade war between the EU and China seems inevitable”.

EU-27 goods trade balance with China, 2015-2025 (€ billion)



Source: Eurostat.

### POLICY READING

The EU frames China as a partner, competitor and systemic rival. The imbalance is less about trade volume than China’s domination of key industries and asymmetries in market access, subsidies and strategic dependencies.

### Facts to watch

The EU’s bilateral deficit in goods is structurally large and keeps widening.

Manufactured goods dominate Europe’s import mix; machinery and vehicles are the largest components.

EU priorities: reciprocity, a level playing field, WTO rules where viable, and targeted de-risking.

**The goal is a more reciprocal, resilient trading relation rooted in shared rules. The question is how to achieve this goal.**

Source: European Commission, “EU trade relations with China,” 2025 data; EU strategic outlook framing.

## Conclusions – the way forward

- Keep up the G7 dialogue on macroeconomic policy coordination to reduce imbalances, broadening it to the G20.
- Address issues concerning the WTO and its appellate body
- Further develop databases to assess subsidies, industrial policies and nonmarket practices.
- Address gaps in critical minerals with a WTO-compliant approach and focusing on Africa and Latin America.
- Task the IMF with charting a path to capital account liberalisation in all jurisdictions
- Task experts to develop a blueprint for a new rules-based multilateral trade, investment and security regime.
- For the EU, develop an integrated framework for relations with China without resorting to outright protectionism.
- Building on recent trade agreements, Europe should continue to champion openness and multilateralism.