

The Third Wave: Consequences of Global Imbalances

18 May 2026

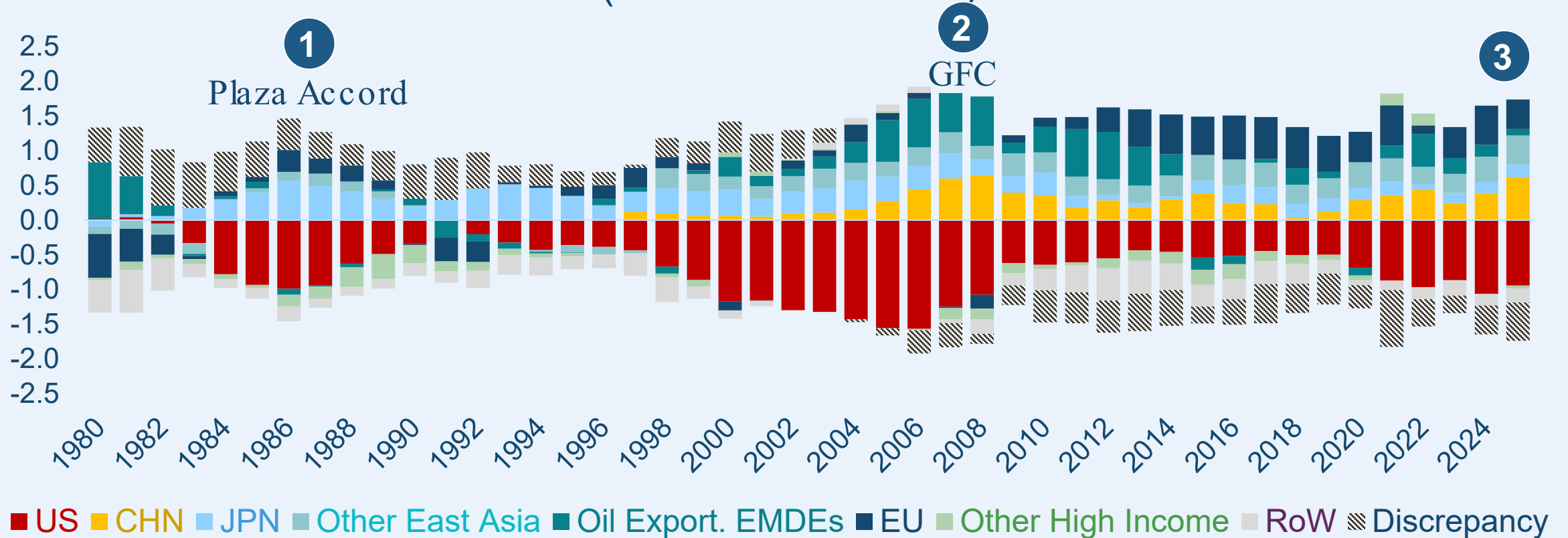
Gita Gopinath

Gregory and Ania Coffey Professor of Economics
Harvard University

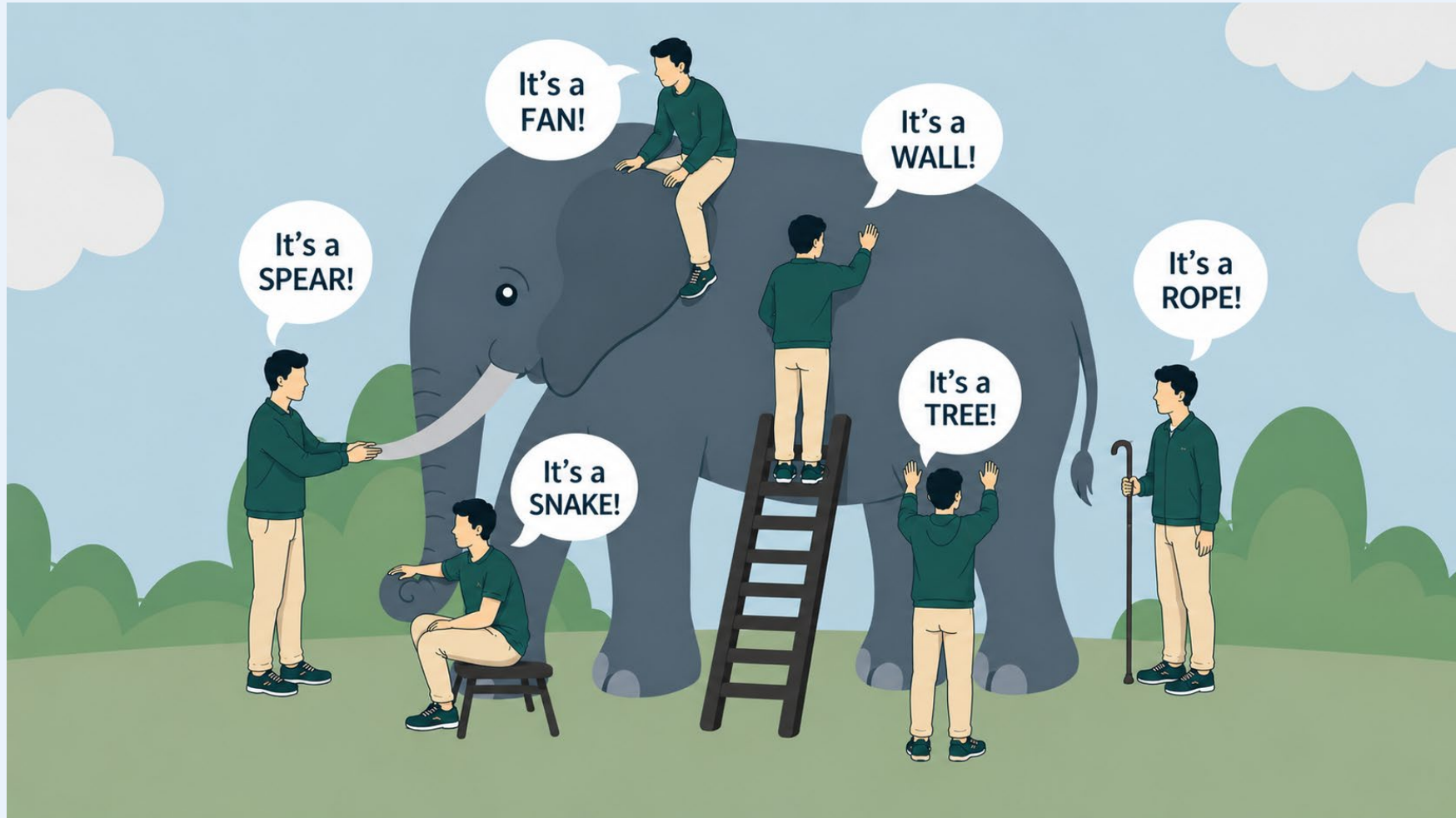
Prepared for the Atlanta Fed's Financial Markets Conference

The third wave of global imbalances

Global current account balances (in % of world GDP)



The blind men and the elephant



A primer on global imbalances



Current account balance (CA)

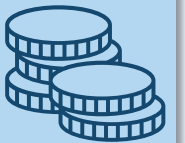
= National savings (S) – national investment (I)

= Trade balance (TB) + Net factor income from abroad ($NFIA$)

Net International Investment Position (NIIP)

= External assets – external liabilities

= cumulative CA + cumulative KA + valuation effects

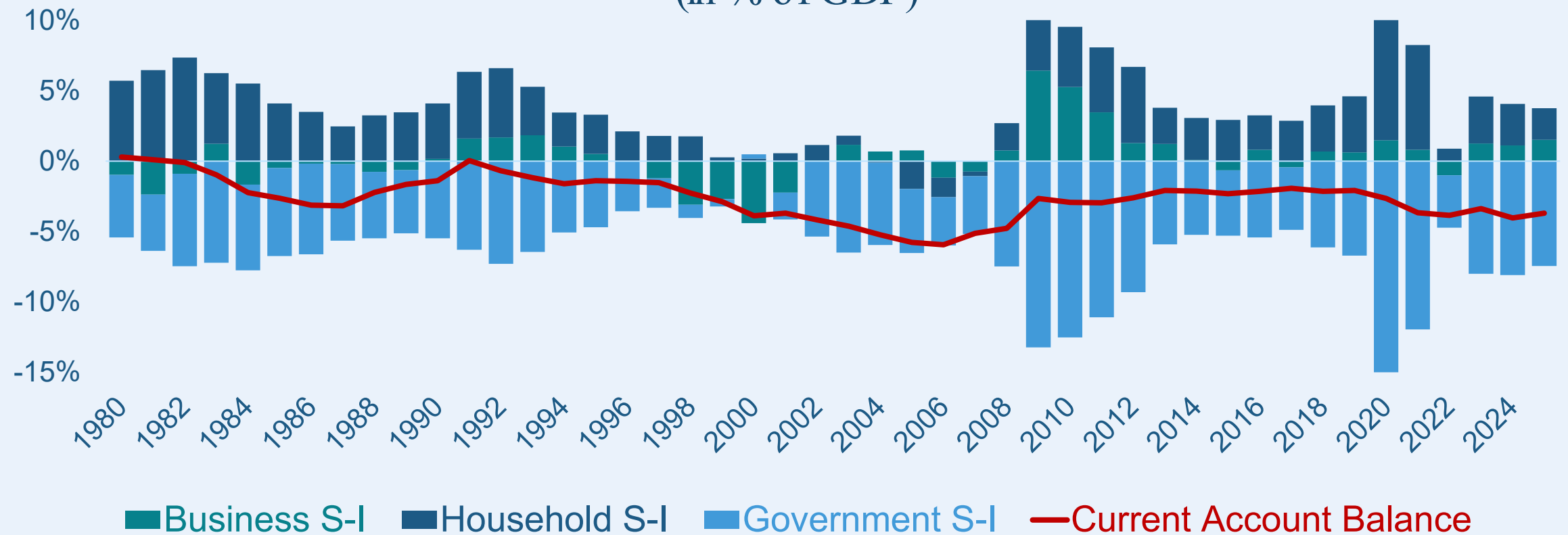


Past cycles of global imbalances led to protectionism and/or financial crises.

How will this cycle play out?

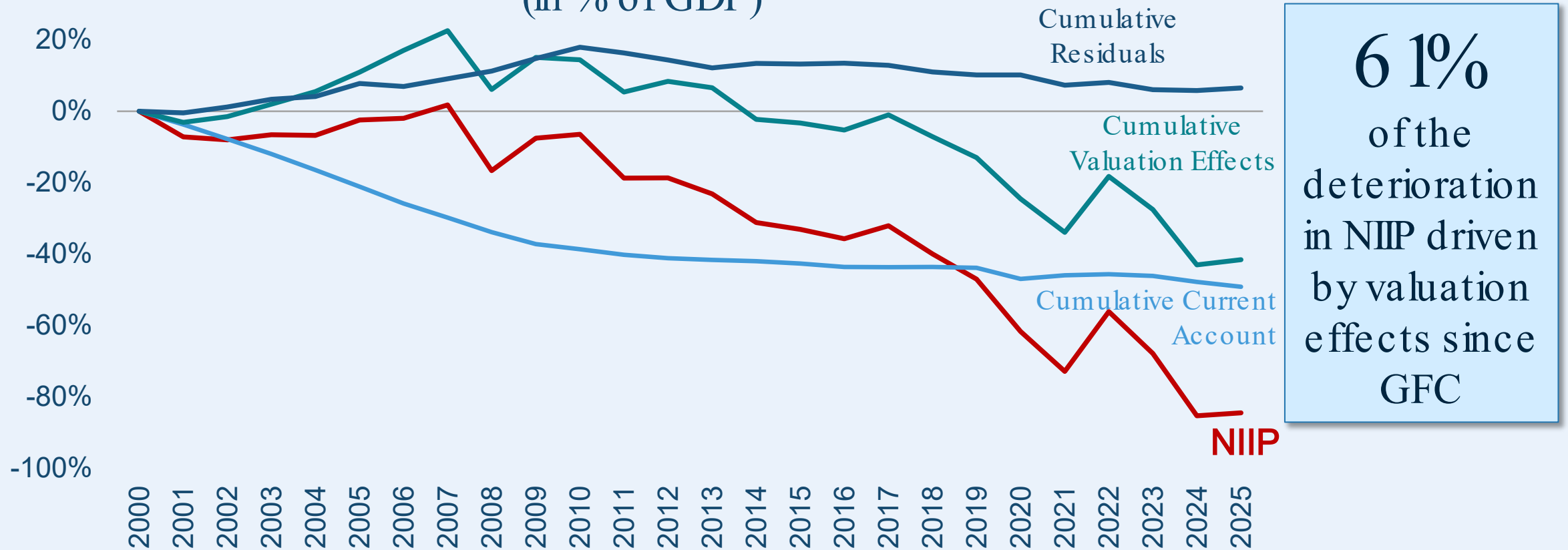
The return of twin deficits in the US

US sectoral S-I balances and current account balance
(in % of GDP)



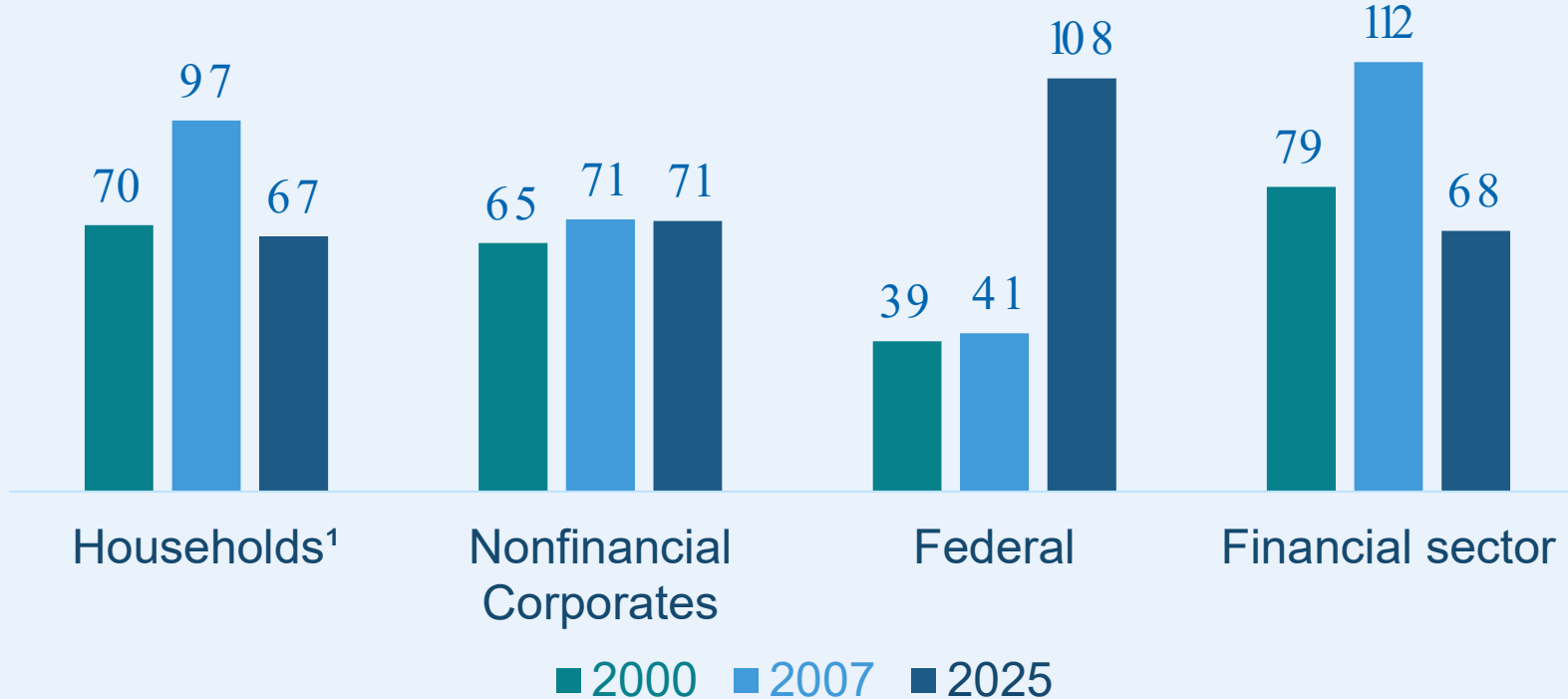
The recent deterioration in US NIIP has little to do with trade deficits

Decomposition of US NIIP variation (in % of GDP)



Sources of financial fragility: rising US government indebtedness

US debt, by sector
(in % of GDP)



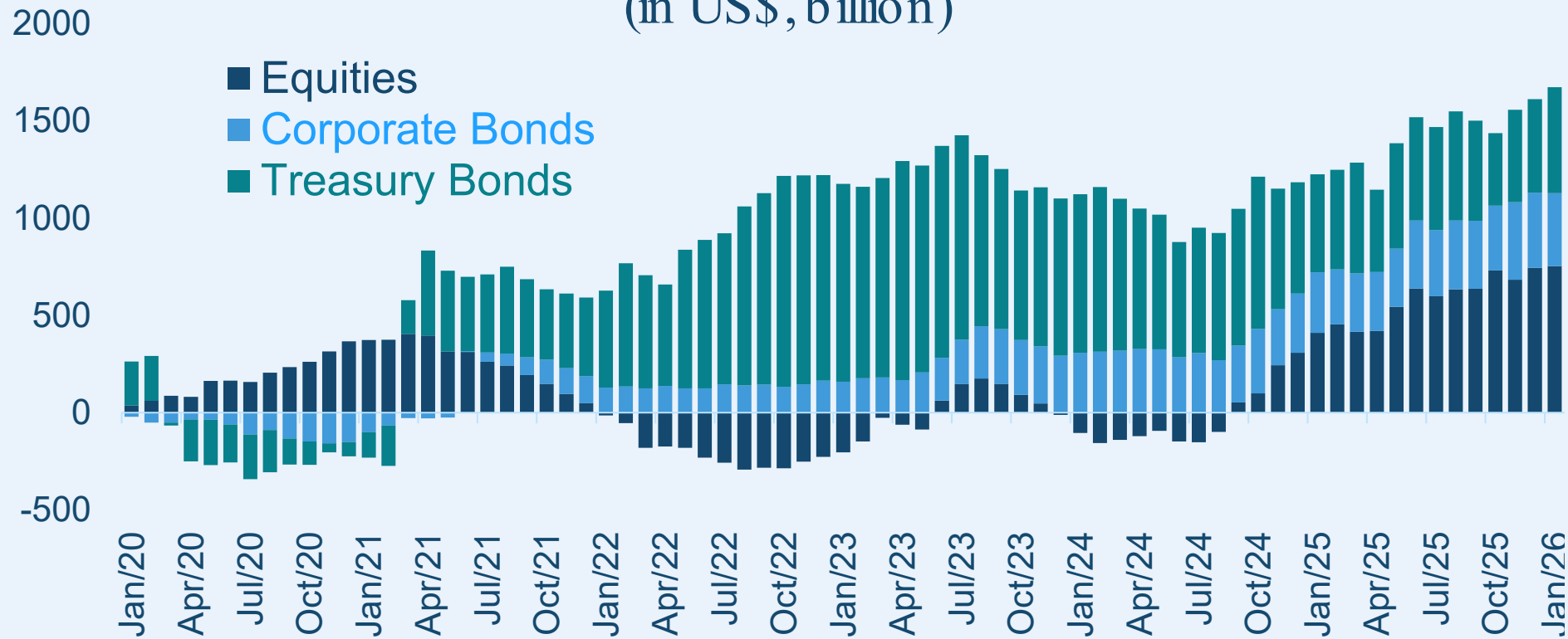
54 %

Share of gross foreign inflows into gov't debt since 2007

Levered  intermediation migrated to NBFIs

Sources of financial fragility: concentrated equity holdings

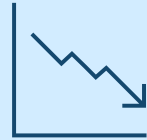
Net inflows into U.S. assets
(in US\$, billion)



\$ 40.7tn
(44% of world GDP excl. US)
Gross foreign holdings of US equities

Fragility has rotated

	Pre-GFC (2007)	Today
Where leverage built	Households, banks	Government, NBFIs
Asset bubble	Housing	Tech/AI equities, some private credit
Triggers	Subprime MBS, inflation	AI bust, inflation
Outcomes	Banking crisis	Stock market wealth destruction or credit crunch (safe asset shock)



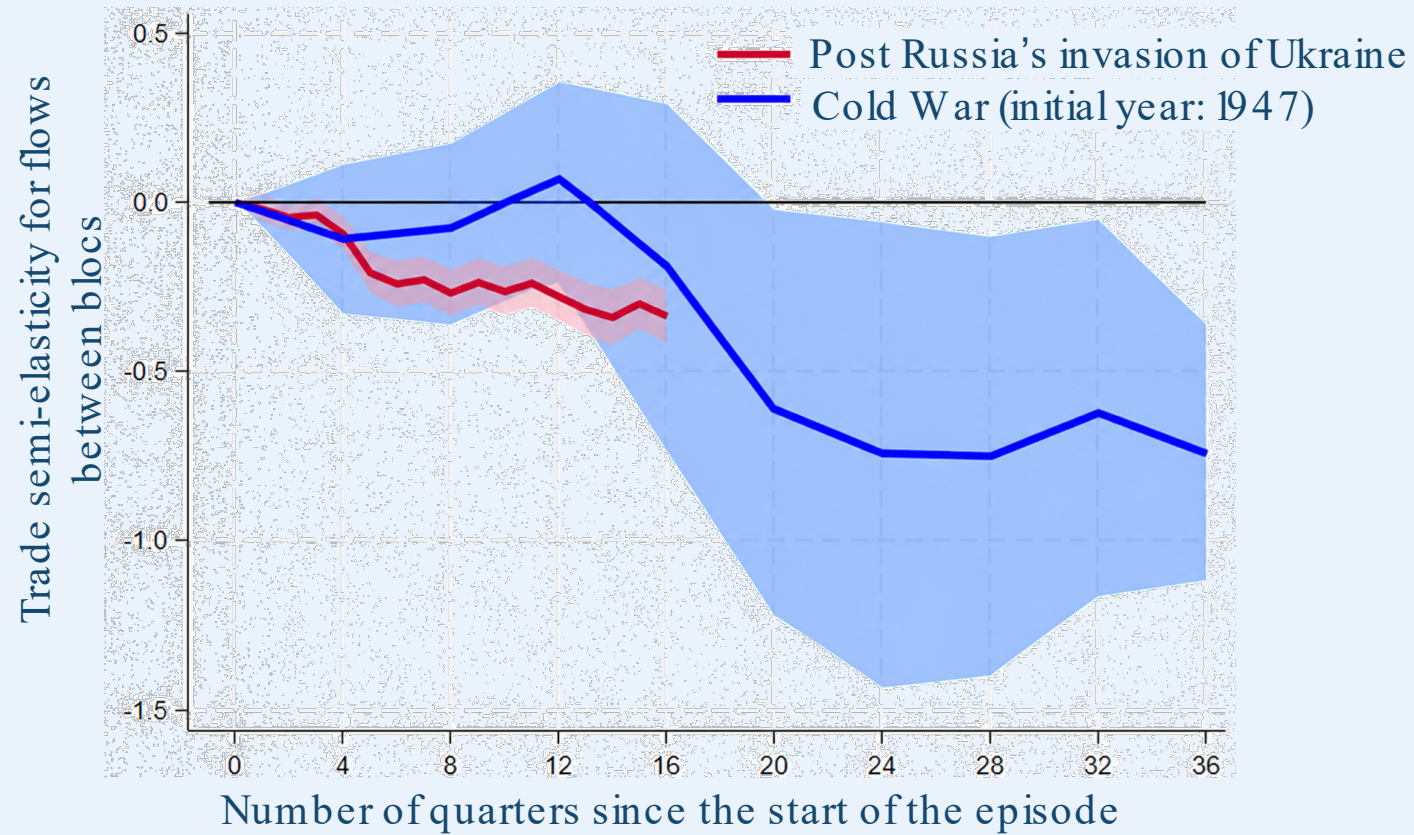
2.5 p.p.
Hit to U.S. GDP
growth in a
dot-com-style
market shock

Implications going forward

- 1** How might a stock market correction impact the economy? Linkages between NBFIs and banks?
- 2** Maintain adequate financial regulation and supervision.
- 3** Mitigate risks in the Treasury market.
- 4** Preserve central bank independence.
- 5** Reduce U.S. fiscal deficit.

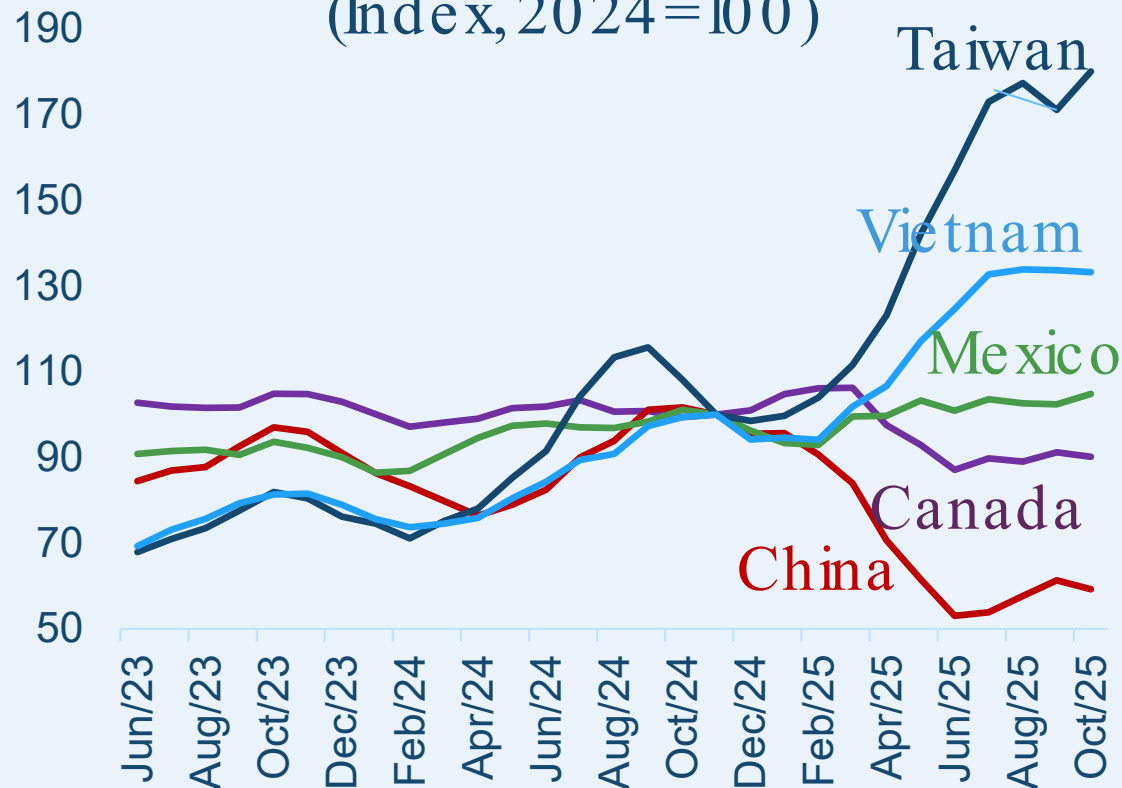
The rise of protectionism and geoeconomic fragmentation

Trade fragmentation: the Cold War and now

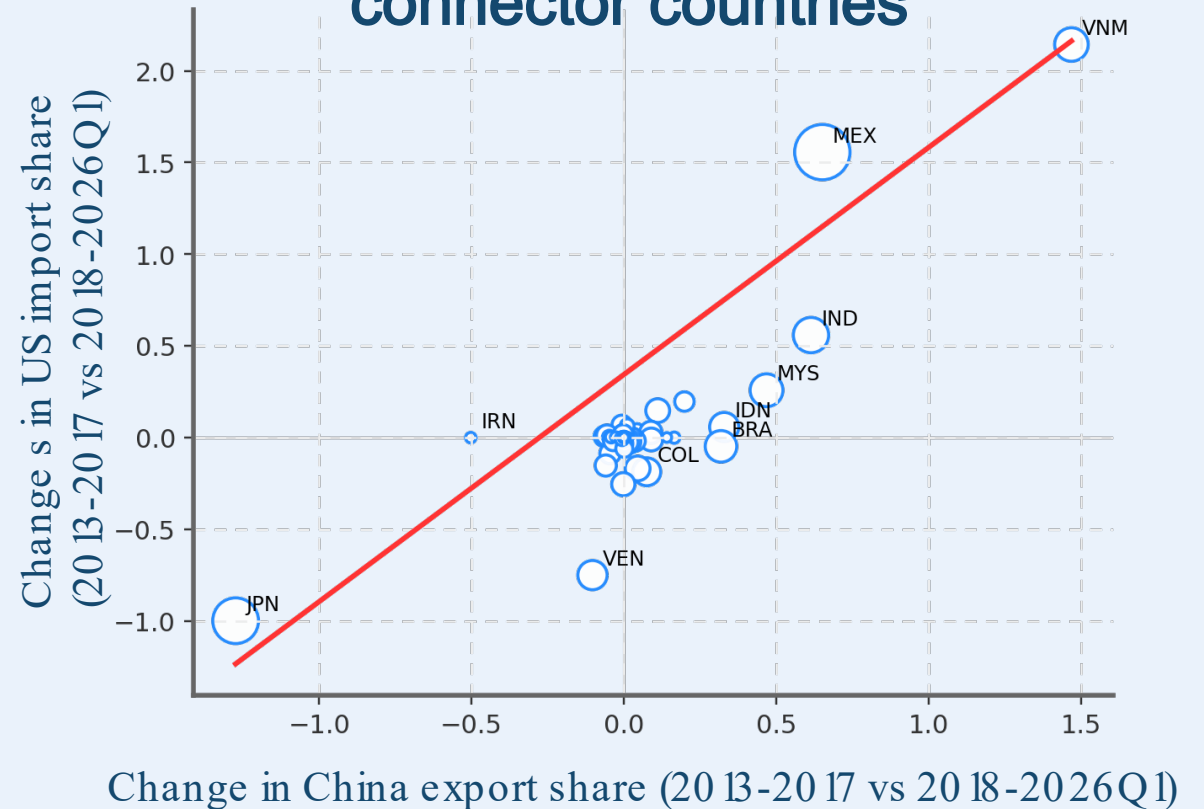


Major shifts underway as trade is reoriented

United States' imports (Index, 2024=100)



The emergence of connector countries

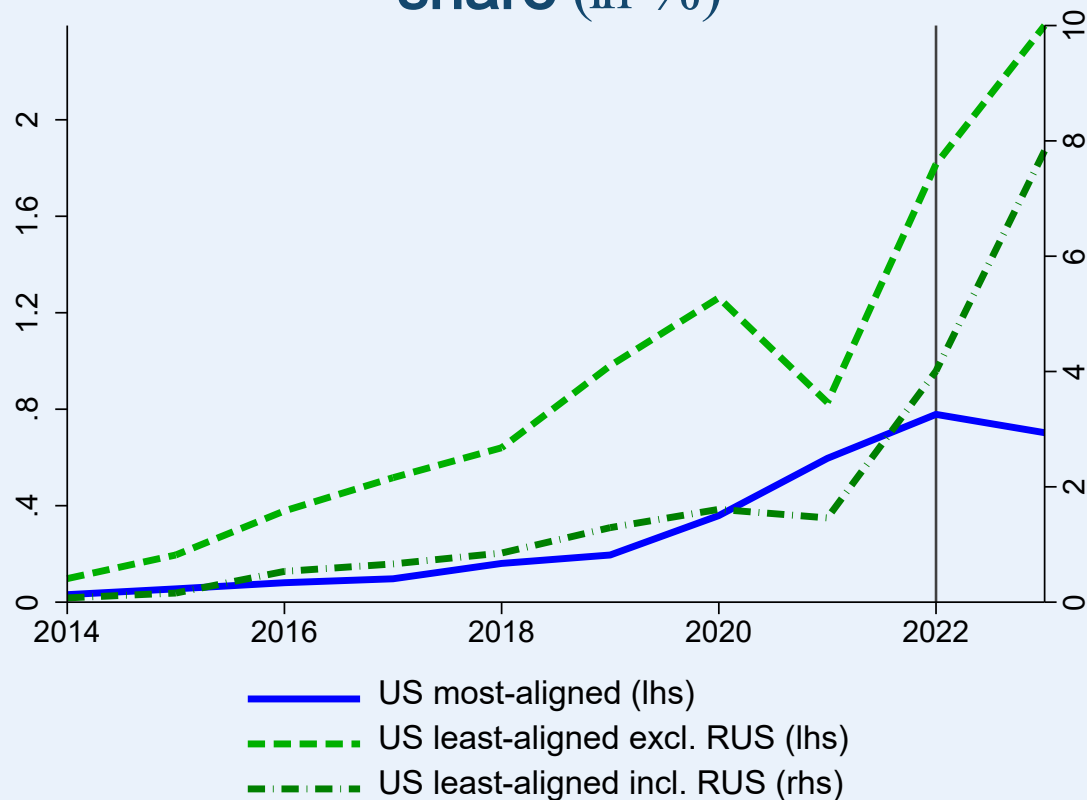


Source (lhs): Trade Data Monitor,

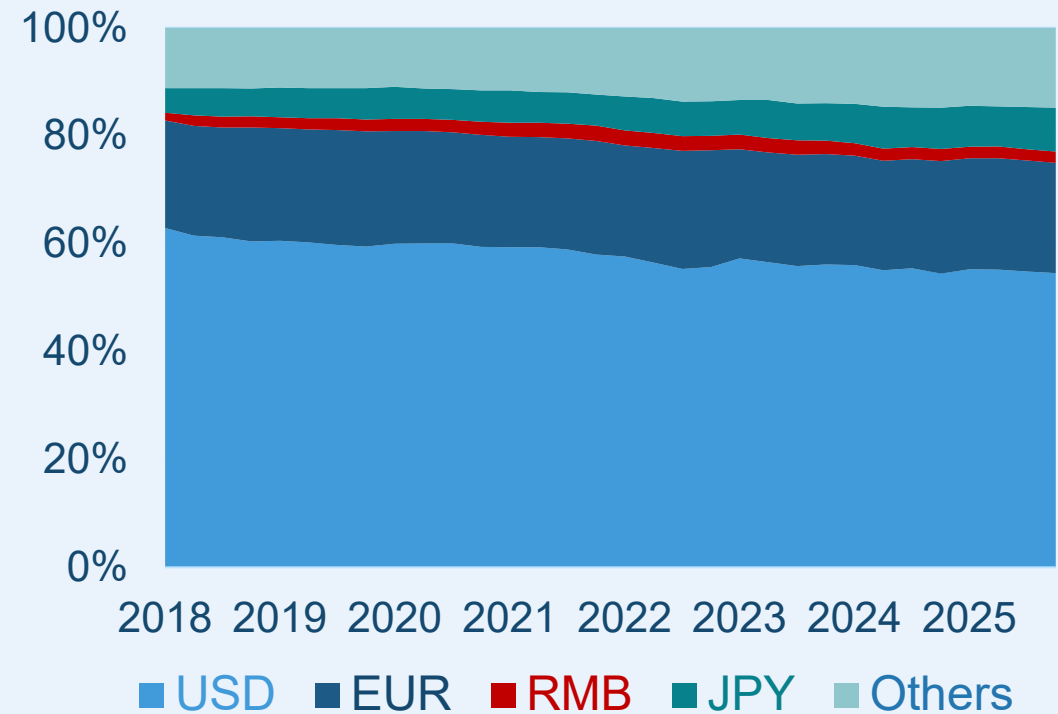
Source (rhs): Gopinath, Gita & Gourinchas, Pierre-Olivier & Presbitero, Andrea F. & Topalova, Petia, 2025. "Changing global linkages: A new Cold War?," Journal of International Economics, Elsevier, vol. 153(C).

The dollar remains dominant, with changes on the margin

Renminbi invoicing share (in %)



Global FXreserves (in %)



Source (lhs); Emine Boz & Anja Brüggem & Camila Casas & Georgios Georgiadis & Gita Gopinath & Arnaud Meh1, 2025. "Patterns of Invoicing Currency in Global Trade in a Fragmenting World Economy," IMF Working Papers 2025/178, International Monetary Fund.
Source (rhs); COFER database

Balanced growth and reciprocal trade are fundamental to a well-functioning global economy

Addressing global imbalances

What is needed: simultaneous macroeconomic policy actions in major economies

- ✓ **US:** reduce public deficit and reinforce financial stability
- ✓ **China:** increase public support for healthcare, safety nets and scale down unwarranted industrial policies
- ✓ **EU:** deepen integration of goods and services markets and further capital market integration (Draghi Report)

Managing sectoral imbalances

(goods and services trade + financial sector)

What is needed:

- ✓ Pragmatic trade governance
- ✓ Strengthened financial oversight, and enhanced information sharing

Report by Bai,
Gopinath, Rey,
and Weber
(March 2026)



The path forward

