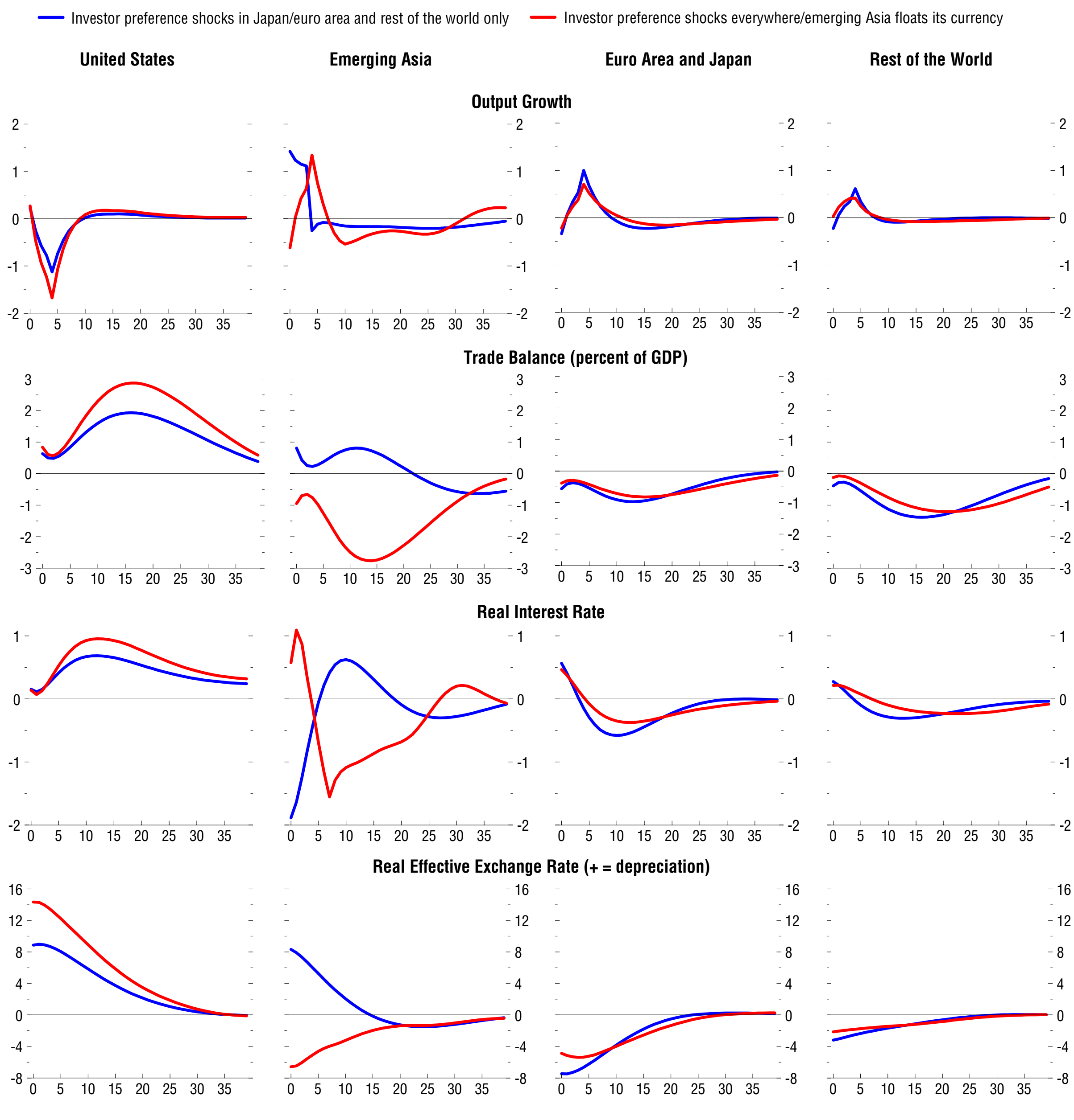
Figure 3.13. Global Rebalancing Under Adverse Financial Market Conditions

(Shock minus control, where "shock" is adverse scenario and "control" is 2000 baseline under benign scenario; percentage points; x-axis in calendar quarter, 0 represents 2005Q1)

The effects of globalization when financial market conditions are adverse are more mixed. As capital flows to the United States dry up, the United States can only rebalance its external position through a sharper contraction and a bigger U.S. dollar depreciation. Other blocs largely benefit, as their saving need not rise to pay for additional purchases of U.S. assets.



Source: IMF staff calculations.