

The Return of Global Imbalances? The U.S. Case

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Abstract

The U.S. current account deficit has widened sharply since the onset of the COVID pandemic. We study the drivers of this episode, comparing it with the “global imbalances” period prior to the global financial crisis. We see the interaction of a very rapid recovery in U.S. domestic demand, a tepid recovery in the main U.S. export markets, and higher global interest rates as the main factors explaining the U.S. current account deficit. The strength of U.S. demand reflects the massive policy stimulus during COVID, very expansionary fiscal policy thereafter, and rapidly rising investment and asset prices fueled by the boom in artificial intelligence. We highlight three major differences with the period preceding the global financial crisis of 2008-09. The first relates to the global environment: in contrast to the earlier period, the U.S. current account deficit in 2023-24 was not accompanied by substantial net borrowing in other parts of the world. The second concerns the size of current account imbalances, which are smaller as a share of GDP compared to the 2000s. The third concerns the external debtor position of the United States and its federal debt, which are both much larger.

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Introduction

Global imbalances—large current account deficits and surpluses in different countries and regions—were a main topic of discussion in academic and policy circles during the period preceding the global financial crisis (GFC) of 2008-2009. A disorderly unwinding of such imbalances was at the time considered the major risk for the world economy. Indeed, the IMF conducted a “multilateral consultation” with China, the euro area, Japan, Saudi Arabia, and the United States to discuss the implementation of policies designed to reduce such imbalances (IMF, 2007). The global financial crisis was triggered by a different factor—the bursting of a U.S. housing market bubble—and brought to light the extent of financial excesses that had themselves contributed to the buildup in current account imbalances. As risk aversion mounted and cross-border financial flows shrank, global current account imbalances contracted sharply.

For the United States in particular, the current account deficit peaked in 2006 at over 6% of GDP but declined sharply during the GFC and in subsequent years, as U.S. domestic demand remained subdued. In the period between 2013 and the onset of the COVID pandemic in early 2020 it hovered around 2% of GDP, less than a third of its pre-crisis level. The contraction in U.S. net borrowing was mirrored by a generalized contraction in global current account deficits and surpluses, with deficits declining from a peak of 2.6% of global GDP in 2006 to less than half of that level in 2019, as documented in the chapter of the Paris Report 4 by Balakrishnan (2026).¹

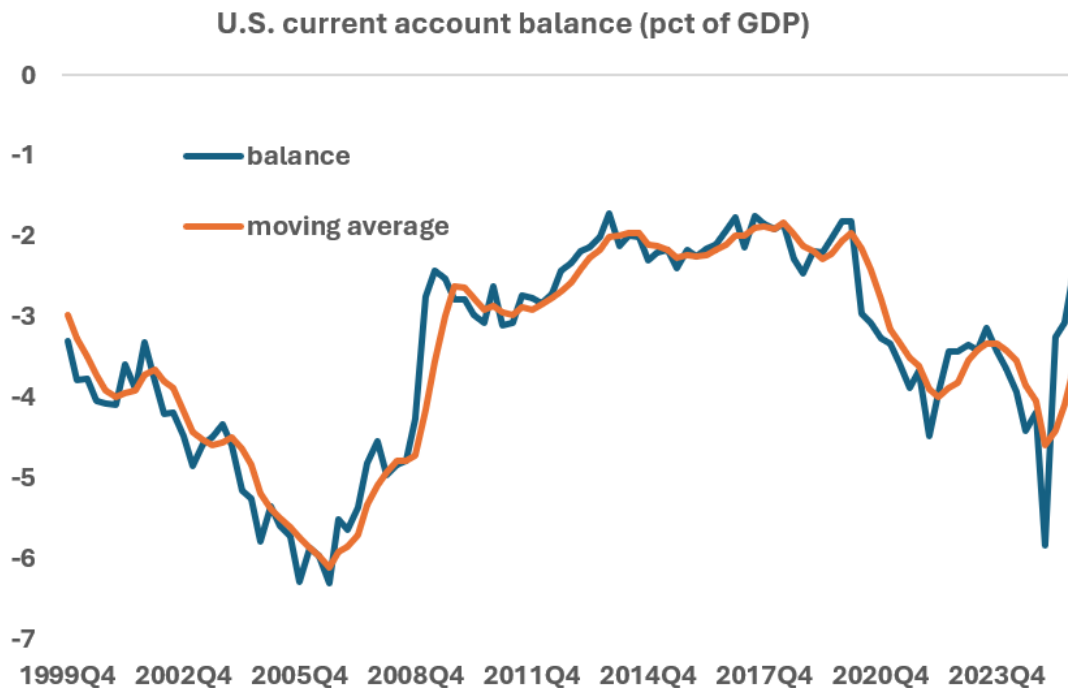
However, the U.S. current account deficit has widened sharply since then (Figure 1). This chapter studies the factors explaining this development. It focuses both on drivers of the U.S. current account balance and the evolution of the U.S. net international investment position (NIIP)—the difference between financial claims and liabilities of U.S. residents vis-à-vis the rest of the world. Analyzing the key factors explaining the U.S. trade and current account deficits is particularly salient given how such deficits—including at the bilateral level—have become central in the political narrative of the U.S. administration, triggering the imposition of unprecedented tariffs on trading partners in April 2025.

The literature on imbalances in recent years has focused primarily on the evolution of creditor and debtor positions—especially the sharp deterioration in the U.S. external position (Atkeson, Heathcote, and Perri, 2025; Bayoumi and Gagnon, 2025; Milesi-Ferretti, 2024a). Obstfeld (2025) provides a masterful analysis of the factors explaining the evolution of the U.S. current account balance during the past few decades, highlighting the role of U.S.-specific factors as well as developments in U.S. trading partners. This chapter complements his analysis by focusing on the most recent period.

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1. Global current account deficits and surpluses, which in principle ought to be equal, have persistent differences in practice, with global surpluses exceeding global deficits from 2005 onwards. The so-called “global discrepancy” (the difference between global surpluses and global deficits) has averaged 0.5% of global GDP since 2010.

Figure 1. U.S. current account balance, 1999Q4-2025Q4 (percent of GDP)



Source: U.S. Bureau of Economic Analysis.

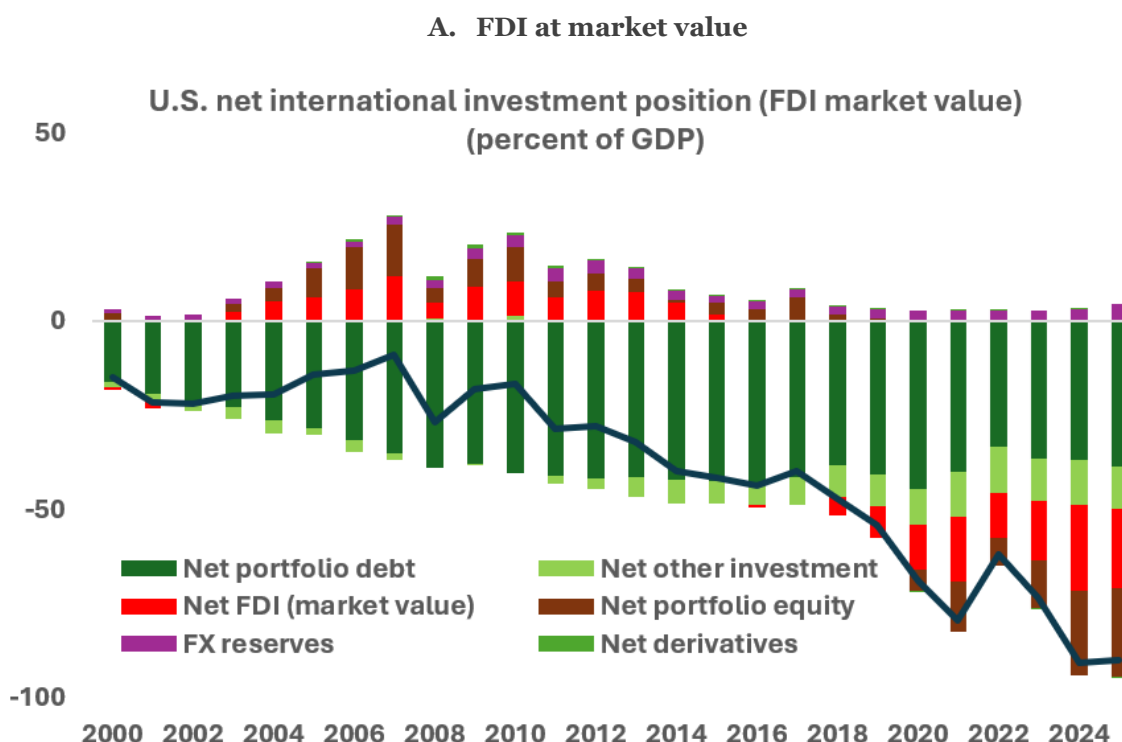
The remainder of the chapter is organized as follows. Section 2 discusses the evolution of the U.S. NIIP in more detail and relates it to current account dynamics. Section 3 focuses on the macroeconomic factors explaining the worsening in the U.S. current account balance since the onset of COVID. Section 4 discusses the counterparts to the U.S. deficit, and Section 5 concludes.

The U.S. external position

Understanding the evolution of the U.S. external position to study global imbalances is important for at least two reasons. The first concerns the mechanical link between the external position and investment income flows, which are an important part of the current account. *Ceteris paribus*, a more negative external position and higher yields will imply a worsening investment income balance and hence a wider current account deficit. The second concerns more generally the macroeconomic and financial implications of the external position: for instance, larger foreign holdings of domestic assets can imply a heightened sensitivity of domestic long-term interest rates and asset prices to shocks to foreign asset demand. These concerns are more salient in a global environment characterized by higher policy uncertainty and rising tensions with major trading partners.

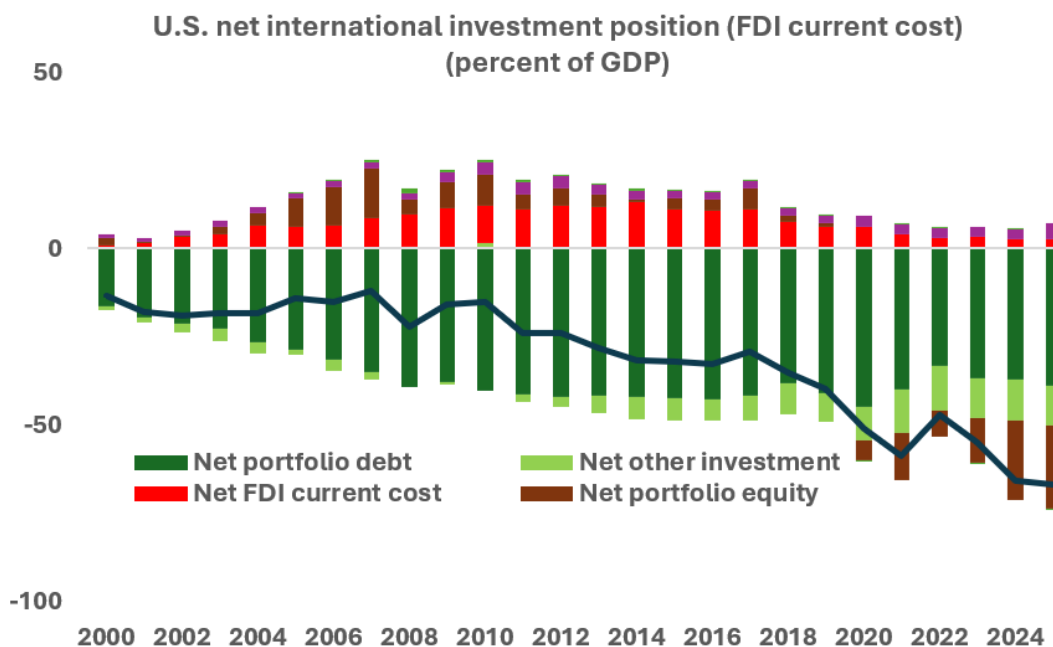
The U.S. has had a negative net international investment position since 1989. As discussed more extensively in Milesi-Ferretti (2024a), Atkeson, Heathcote, and Perri (2025), and Bayoumi and Gagnon (2025) the U.S. external position has deteriorated sharply since the global financial crisis, driven by persistent current account deficits (albeit smaller than during the GFC) as well as valuation changes. Specifically, the spectacular rise in U.S. stock prices (over 400% since the end of 2010, according to the MSCI stock market index for the U.S.) has boosted the value of U.S. shares held by nonresident investors, and an appreciating dollar has reduced the dollar value of U.S. assets abroad denominated in foreign currency. As a result of these developments, the U.S. NIIP stood at around -90% of U.S. GDP at the end of September 2025, with foreign direct investment (FDI) valued at market prices (Figure 2, panel A). Alternative—and arguably more realistic—valuations for FDI yield a net position of -66% of GDP (Figure 2, panel B).²

Figure 2. U.S. net international investment position (percent of GDP)



2. The more negative figures in the market value estimate are driven by the assumption adopted by the BEA that the market value of affiliates of multinational corporations evolves in line with the stock market prices of the country where such affiliates are located. The sharp rise of U.S. equity prices during the past 15 years has therefore boosted the estimated value of inward FDI. However, this estimate is questionable for at least two reasons. The first is that inward FDI is concentrated in industries where U.S. stock prices have increased much less sharply than the aggregate stock market index (think of cars and finance as compared to tech companies). The second is that U.S. multinationals generate a hefty fraction of their profits abroad, and their stock market valuation reflects the value of their global franchise, which may be under-estimated using the local stock prices of the country where affiliates are located. See Milesi-Ferretti (2024a) for a fuller discussion.

B. FDI at current cost, 2000-2025



Source: Author's calculation based on data from the Bureau of Economic Analysis.

The figures highlight the deterioration in most components of the U.S. external position, which is particularly notable for portfolio equity, where higher U.S. stock prices have boosted the value of U.S. equity held by foreign investors. But there is also a steady deterioration in net FDI (red bars) and other investment (light green bars). The only component that has shown a modest improvement is the net position in bonds (portfolio debt): this is explained by the increase in U.S. long-term interest rates from 2021 onwards, which has reduced the market value of U.S. bonds held by foreign investors. Overall, the U.S. net position in non-FDI debt instruments (bonds and other investment) was around 50% of U.S. GDP at the end of 2024, with the remainder of the net liability position explained by equity instruments.

As discussed more extensively in Chari and Milesi-Ferretti (2025), risks posed by the equity component of U.S. external liabilities are arguably less salient than those posed by its debt component. While gross portfolio equity liabilities at the end of 2024 were higher than portfolio debt liabilities, over 80% of U.S. stocks are held by domestic residents according to the U.S. Financial Accounts, and hence the deterioration of the net external position due to rising stock prices has been accompanied by a much larger increase in U.S. domestic wealth. Given current equity valuations, the consequences of a sizable stock market correction pose risks to the U.S. outlook, including through wealth effects, but the fact that some 20% of U.S. stocks are held by nonresident investors reduces the impact of the shock. On the other hand, a stock market correction could be triggered by selling pressure from foreign investors, driven for instance by concerns about the dollar or about their tax treatment in the U.S.

Foreign holdings of U.S. Treasury securities are the most relevant external exposure for the United States. According to U.S. international investment position statistics and financial accounts, these holdings accounted for about 30% of GDP and around 1/3 of all outstanding Treasury securities. However, a recent paper by Barth et al. (2025) highlights a substantial undercount of U.S. Treasury securities held by Cayman-domiciled hedge funds (\$1.4 trillion in 2024). These holdings are currently attributed to U.S. households, which are the residual category for Treasury holdings in U.S. financial accounts. Attributing these data to foreign holdings raises their share by some 5 percentage points of GDP.

Foreign holdings of U.S. Treasury securities used to be dominated by foreign central banks. Foreign official holdings accounted for about 40% of Treasury securities outstanding, and the total share of Treasury securities held by nonresidents exceeded 50% (Chari and Milesi-Ferretti, 2025). The share held by foreign official agencies has declined substantially since then. As discussed in Chari and Milesi-Ferretti, 2025 many factors explain this decline: the pace of reserve accumulation has been much slower than the increase in U.S. public debt, the appreciation of the dollar against other reserve currencies have led foreign central banks to shed Treasuries to stabilize currency shares, the dollar share of foreign reserves has declined, and holdings by the Federal Reserve increased. At the same time, the share held by private foreign investors has risen. It is harder to pinpoint the key drivers of foreign private demand for U.S. Treasuries: a substantial fraction of their holdings is intermediated by financial centers, such as Ireland, Luxembourg, and the Cayman Islands on behalf of international investors. But factors such as the increased holdings by hedge funds—many of which are based in the Cayman Islands—suggests that this investor base is much more sensitive to risk sentiment shocks and inherently more volatile than official holdings, as the March 2020 turmoil clearly illustrates.³ While a fuller discussion of external risks for U.S. Treasuries is beyond the scope of this chapter (see Chari and Milesi-Ferretti, 2025), rising geopolitical tensions and stresses between the United States and its allies, which are the largest holders of U.S. securities, make this topic particularly salient.

As we will discuss in more detail in the next section, the worsening in the U.S. net IIP in recent years has been one important factor driving a deterioration in the U.S. investment income balance, which had been positive for the entire post-war period but turned marginally negative in 2024. The effect of a larger net debtor position has been compounded by higher long-term interest rates, in light of the large net debt position of the United States.

Growing external imbalances: 2020-onwards

We start by briefly highlighting the factors explaining the evolution of the U.S. current account balance through the lens of the main macroeconomic variables in the United States as well as its export markets, before turning to the financial balance as well as income flows. The data are presented in Table 1. We divide the last 25 years into four periods: the widening of global imbalances (2001-2006), the adjustment with the global financial crisis (2007-2012), further current account compression (2013-2019), and the most recent

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3. See, for instance, Kashyap et al., 2025. The cross-border dimension of the shock was related primarily to sales of Treasury securities by foreign central banks experiencing pressure on their foreign exchange reserves, since Cayman funds are mostly from the U.S. and cater primarily to U.S. investors. During the market turmoil in March 2020, the Federal Reserve Board activated a number of [facilities](#) designed to alleviate market stress, including for nonbank financial institutions. Liang and Zhu (2025) discuss progress on reforms designed to increase the resilience of Treasury market liquidity.

period (2020-2024). We highlight the growth rate of GDP and domestic demand in the United States and its export markets, U.S. saving and investment, U.S. trade variables, and the terms of trade and the real effective exchange rate.

During 2001-2006, U.S. domestic demand was strong and imports grew rapidly, while U.S. exports grew more slowly than external demand, and the terms of trade deteriorated as the U.S. lost global export market share. The dollar weakened throughout the period in real effective terms. During 2007-2012 domestic demand growth was very weak, with domestic investment dropping by 2.7 percentage points of GDP, and the dollar exchange rate continued to weaken in real effective terms. As a result, import growth declined sharply, leading to a sizable current account adjustment. The following period was characterized by a recovery in domestic demand, real appreciation, and stronger import growth. Interest rates declined, raising U.S. net investment income, and the current account deficit shrank further, as import values were compressed by improving terms of trade.

Table 1. The macroeconomic context, 2001-2024

		2001- 2006	2007- 2012	2013- 2019	2020- 2024
Percentage change per annum					
Aggregate demand	United States	2.9	0.4	2.6	2.7
	All trading partners	3.7	2.2	2.6	2.0
GDP growth	United States	2.6	0.7	2.5	2.4
	All trading partners	3.6	2.0	2.7	2.0
Exports of G & S	United States	3.3	3.3	2.2	1.3
Imports of G & S	United States	5.0	0.6	3.3	3.5
Real effective exchange rate	United States	-1.3	-1.8	2.8	1.8
Terms of trade	United States	-0.6	-0.2	1.3	1.3
Percent of GDP, period average					
Current account balance	United States	-4.9	-3.4	-2.1	-3.5
National saving	United States	18.3	16.0	19.1	17.4
Government	United States	-0.6	-5.1	-2.2	-5.6
Private	United States	19.0	21.1	21.2	23.0
Domestic investment	United States	22.5	19.8	21.1	21.6

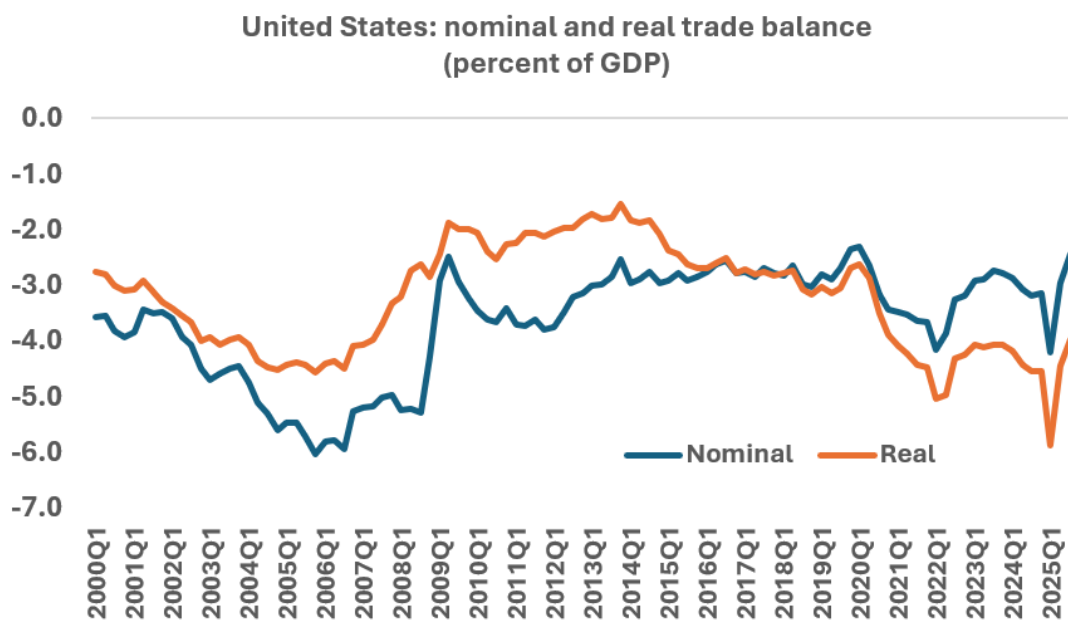
Source: Author's calculations based on U.S. Bureau of Economic Analysis, Federal Reserve Board, and IMF, World Economic Outlook (October 2025).

During the period 2020-2024, U.S. demand growth was much higher than demand growth in trading partners, despite the importance in that group of faster-growing economies, such as China, and the dollar

continued to appreciate in real effective terms. Expansionary fiscal policy to support the economy during the COVID pandemic and its aftermath, only partly offset by higher private saving, was a key driver of demand strength. Optimism on the productivity prospects arising from artificial intelligence has pushed stock market valuations further up, especially for tech firms, and triggered higher investment, particularly in data centers, as well as higher private consumption through wealth effects. As a result, the growth rate in U.S. imports exceeded the growth rate in exports by 2.2 percentage points, but a sizable improvement in the terms of trade has limited the deterioration in the current account balance.

Figure 3 highlights more clearly the importance of changes in the terms of trade (see also Figure 7 in the chapter by Obstfeld). It shows how the current account imbalances during the period preceding the GFC were accompanied by a deterioration in the terms of trade, reflecting at least in part a decline in demand for U.S. goods as China’s exports rapidly gained market share (Obstfeld, 2025). In the period since 2014 there has been a trend improvement in the terms of trade as the real exchange rate has appreciated substantially, partially offsetting the higher growth rate of real imports compared to real exports.⁴

Figure 3. U.S. balance on goods and services, nominal and real, 2000-2025 (percent of GDP)



Source: Author’s calculations based on U.S. Bureau of Economic Analysis.

Figure 4 plots the evolution of the U.S. investment income balance. The fact that the U.S. maintained a positive income balance for so long despite being a net debtor has triggered a vast literature on return differentials and “exorbitant privilege,” with authors emphasizing factors such as the different instrument

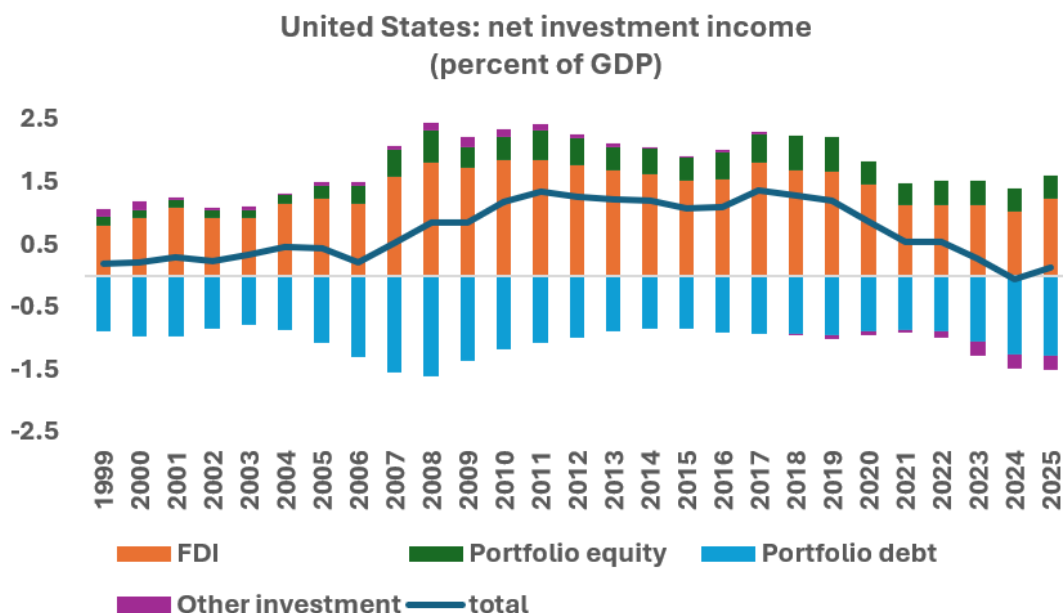
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4. Movements in the terms of trade are correlated with the U.S. exchange rate and also affected by the shift in the sensitivity to global energy prices as the U.S. has become a net energy exporter in the past decade. The chapter by Balakrishnan discusses in more detail the shift in the U.S. energy balance.

composition of assets and liabilities, as well as return differentials within the same category (see, for instance, Gourinchas and Rey, 2007a and Curcuru, Dvorak, and Warnock, 2008, 2013 for pre-GFC evidence, and Bertaut et al., 2024 and Tabova and Warnock, 2025 for recent evidence). As figure 4 shows clearly, the most important factor driving the U.S. income balance are returns on FDI.⁵

We focus here on the factors explaining the sharp worsening in the investment income balance, which has turned negative for the first time in 2024. In an accounting sense, the deterioration since 2019 (1.3 percentage points of GDP) is the main factor contributing to the worsening current account balance during this period. It reflects the worsening in the (still highly positive) balance on FDI income, as the net FDI position of the U.S. has been declining, as well as the higher interest burden associated with the large negative net debt position as short-term and long-term interest rates have risen from their historic lows in the late 2010s. Investment income outlays on the U.S. bond portfolio may increase further: the average yield on U.S. long-term debt liabilities held by nonresidents was 3.7% in 2024, well below the rate for newly issued long-term bonds. As older debt issued at pre-2022 rates matures, the interest burden is likely to rise. In general, higher real interest rates imply a gradually larger transfer of resources abroad for a country with a large negative position in debt instruments such as the United States. On the other hand, during 2025 the depreciation in the U.S. dollar has increased the value of returns generated in foreign currency, with income earned by U.S. multinationals on their FDI abroad rising sharply. As a result, the balance on investment income was modestly positive again in 2025.

Figure 4. U.S. investment income balance (percent of GDP)

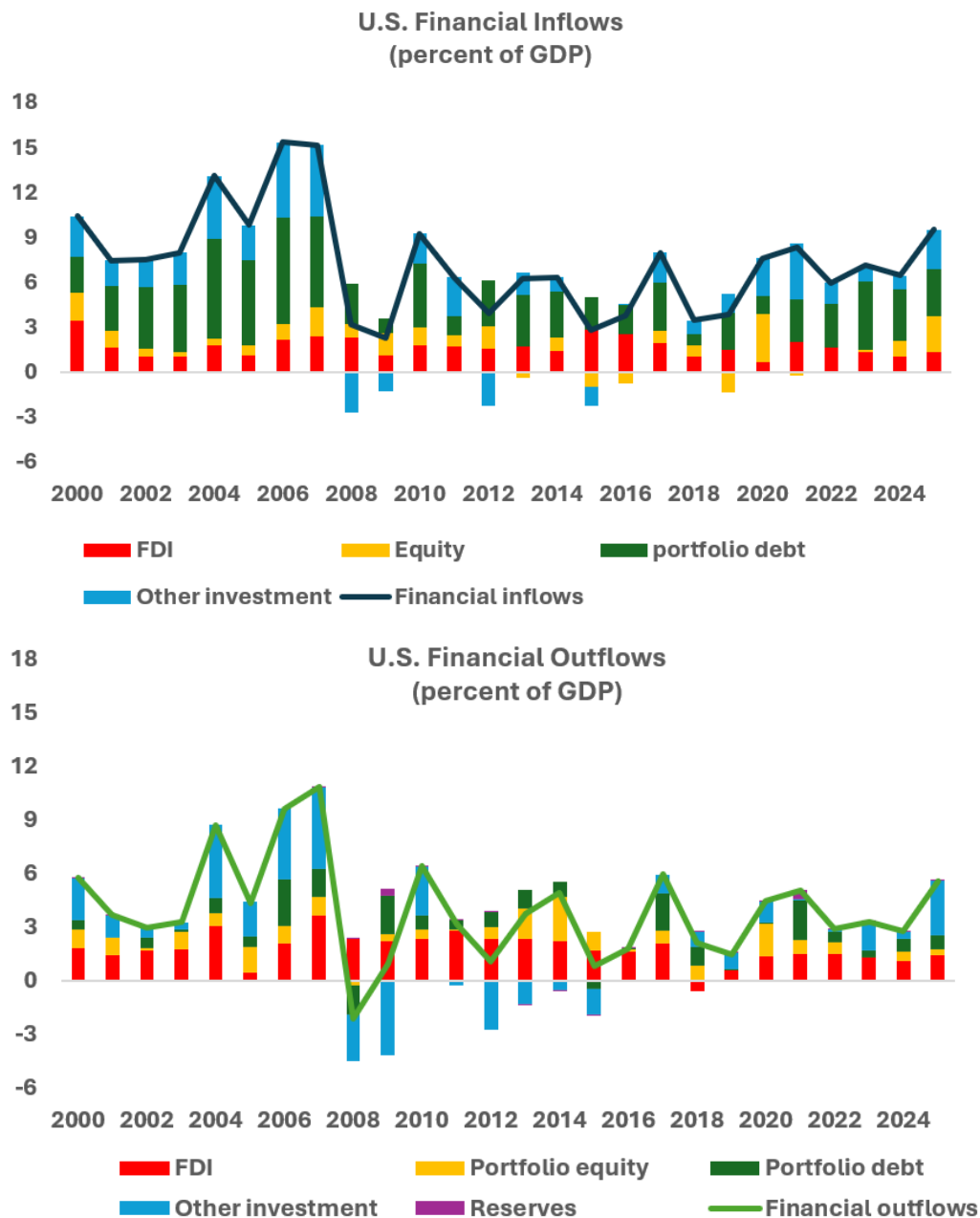


Source: Author' calculations based on data from the U.S. Bureau of Economic Analysis.

5. U.S. multinationals have a tax incentive to book profits abroad. As shown, for instance, in Guvenen et al (2022), this creates incentives to use transfer pricing to reduce net exports to foreign affiliates so as to book profits in those affiliates. This generates artificially higher yields for U.S. FDI abroad at the expense of the U.S. trade balance. See also the discussion in Bayoumi and Gagnon (2025).

We turn now to the financing of the U.S. current account deficit. Figure 5 shows two panels depicting financial flows to and from the United States during the past 25 years. It shows how foreign purchases of U.S. debt instruments, especially bonds, have been the main source of financial inflows, and overall current account financing (compare the green bars in the inflows and outflows panels, which have the same scale). This dependence on net portfolio debt and other investment inflows has also been true within sub-periods, including the period prior to the global financial crisis as well as the last few years.

Figure 5. United States: Financial inflows and outflows, 2000-25 (percent of GDP)



Source: Author's calculations based on data from the U.S. Bureau of Economic Analysis.

The figure also documents how portfolio equity inflows have been relatively modest since 2010, even though they grew in 2025—the increase in foreign holdings of U.S. equities has been driven by higher equity prices. Indeed, during the past 15 years U.S. portfolio investment in foreign equities has exceeded foreign purchases of U.S. equities, while net FDI flows have been roughly balanced. Overall, the financial flows data thus confirms that net flows to the U.S. are primarily in “safe” financial instruments (bond flows reflect purchases of U.S. Treasury and agency debt securities, as well as highly rated corporate bonds) and that net U.S. investment abroad in equity instruments has been positive (see Gourinchas and Rey, 2007b, 2022). However, the latter has been quite modest and more than offset by the valuation effects discussed earlier, as highlighted in Section 2.

The Global Environment: Counterparts to U.S. Imbalances

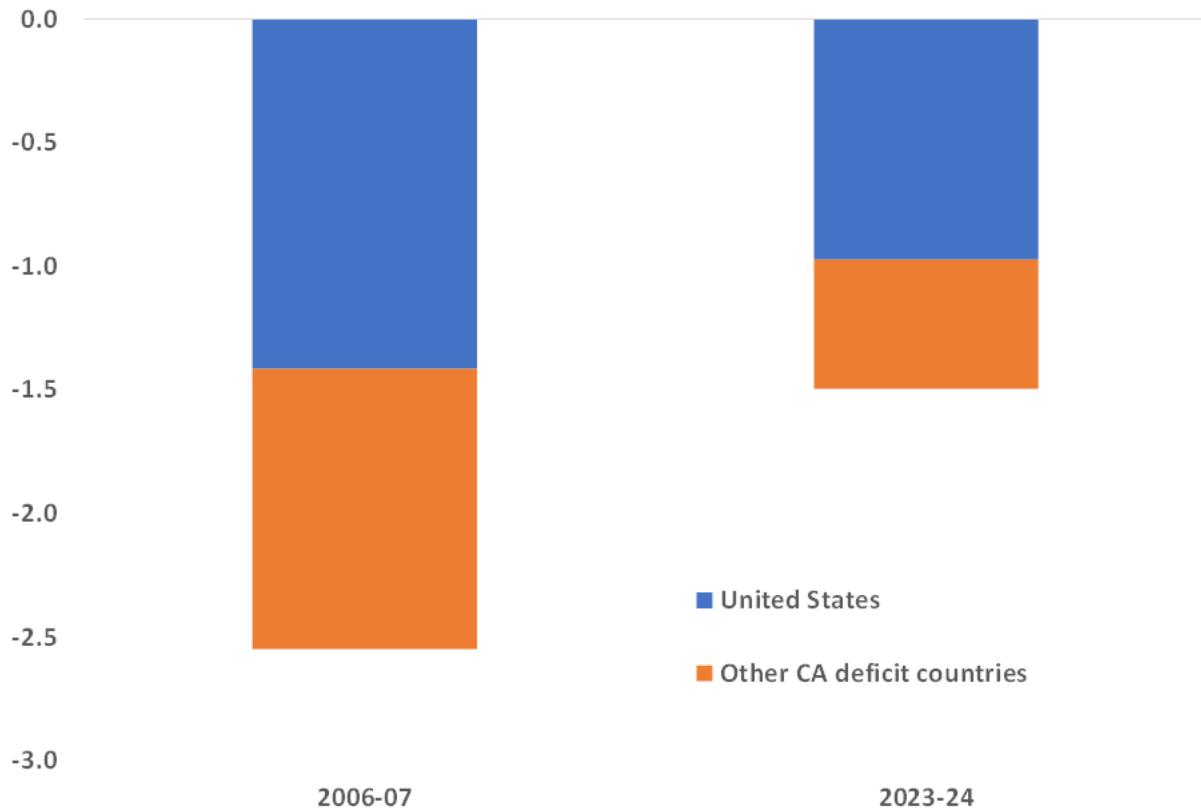
So far, we have focused on the U.S. current account and external position. But how do the U.S. deficit and debtor position fit in the global pattern of imbalances, and which countries and regions are the U.S. main trade and financial counterparts? One useful statistic concerns the extent to which the U.S. current account deficit is part of a global pattern of current account imbalances (Balakrishnan provides a fuller discussion in Chapter 1). In Figure 6, we compare the data on global current account deficits with the one prevailing during 2006-2007. For the current episode we focus on 2023 and 2024, because in 2022 imbalances were temporarily widened by the spike in global energy prices triggered by Russia’s invasion of Ukraine. Results are analogous if we extend the period to 2023-2025 (using the IMF WEO forecast for 2025) and compare it to 2006-2008.

The figure shows that global imbalances are much smaller now, and more concentrated in the United States compared to the pre-GFC period. This is also evident when one considers the size of current account deficits in other countries during the two periods when scaled by domestic GDP—the incidence of large deficits in countries of medium-large size in the most recent period (and even more so in the 2010-2019 decade) is much smaller. Furthermore, the widening in the U.S. current account deficit has been accompanied by rising global real interest rates, rather than a renewed “global savings glut.”⁶ This evidence, albeit purely suggestive, supports the notion that U.S.-specific factors are playing a particularly large role in explaining the widening U.S. deficit during the current episode.

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6. I am grateful to Maury Obstfeld for this point.

**Figure 6. Global current account deficits: 2006-2007 vs. 2023-2024
(percent of global GDP)**

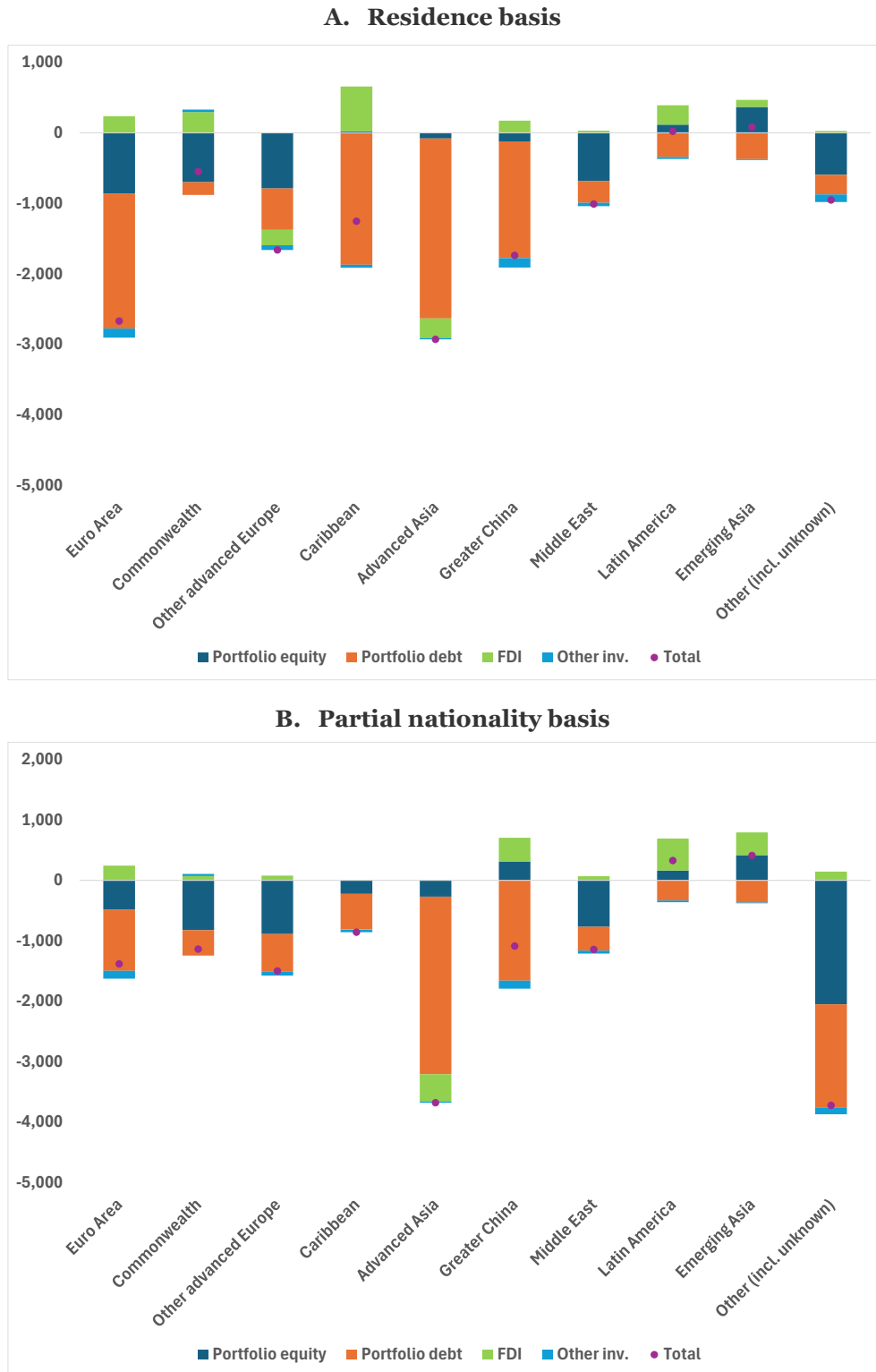


Source: Author's calculations based on IMF, World Economic Outlook database.

The chapter by Balakrishnan shows which countries and regions have been running large current account surpluses since 2000. If we compare current account balances in 2019 with those prevailing in 2023-2024, the most notable change has been the rising Chinese surplus (discussed also in the Paris Report chapter by Ma and Wei, 2026). With all the necessary caveats related to measurement issues, as discussed also in Chapter 1, such rise is less than half of the rise of the U.S. deficit.

In light of the rise in geopolitical tensions in recent years and the emphasis of the current U.S. administration on the U.S. trade deficit in general, and bilateral balances in particular, it is useful to briefly characterize the geographical pattern of external balances (see Chari et al, 2025 and Chari and Milesi-Ferretti, 2025 for a fuller discussion). On a bilateral basis, the United States has run large trade deficits vis-à-vis China during the past decade, even though these deficits have declined as a share of U.S. GDP in recent years alongside U.S. imports from China. However, the pattern of net financial flows has differed sharply from trade patterns: Net financing of the U.S. current account deficit has come primarily from advanced economies, especially during the past decade (Milesi-Ferretti, 2025), as China has diversified its asset composition towards rising claims on other emerging and developing economies (Chari et al., 2025). Figure 7 summarizes the U.S. net external position by region for 2023, showing that advanced economies are the dominant net creditors of the United States.

Figure 7. U.S. net international investment position by region, 2023 (billions of US\$)



Source: Chari et al, 2025.

Specifically, panel A shows the data on a residence basis, in line with balance of payments statistics and most available bilateral data. It shows differences in the size and composition of net claims on the U.S. To interpret the evidence, it is important to keep in mind that U.S. investors hold large portfolio equity claims on nonresidents, but relatively low portfolio debt claims. As a result, the net liability position for 2023 by instrument is largest for portfolio debt, even though gross portfolio equity liabilities exceeded gross portfolio debt liabilities.

Advanced economies are the largest net creditors and hold sizable net portfolio equity claims, in addition to large net bond holdings. The net claims of Asian advanced economies and those of China are instead concentrated in bonds, reflecting their large foreign exchange reserves. In the immediate aftermath of the global financial crisis, foreign exchange reserve holdings by emerging markets in U.S. financial instruments, especially Treasury securities, accounted for an important part of U.S. external liabilities, and the U.S. had a net creditor position in portfolio equity instruments (as shown earlier in Figure 2). During the past 15 years net purchases of U.S. Treasuries by foreign central banks have declined sharply, as reserve accumulation has slowed, especially when compared to U.S. Treasury issuance; dollar appreciation has increased the dollar share of reserves and hence encouraged sales of U.S. bonds for rebalancing currency shares; and the share of the dollar in global reserves has declined (see Figure 12 in the Paris Report chapter by Obstfeld, 2026). In contrast, purchases of Treasuries by private investors (primarily from advanced economies) have risen sharply (Chari and Milesi-Ferretti, 2025). And on the asset holding side, advanced economies were the main holders of U.S. equities and hence have benefited substantially from the rise in U.S. stock prices.

The bilateral statistics presented in panel A do not always reflect the relevant financial exposures, because of the large intermediation role played by financial centers such as Ireland, Luxembourg, the United Kingdom, or the Cayman Islands on behalf of investors from other countries. The data presented in panel B reflect several corrections designed to attribute claims on the U.S. to the ultimate investing country and U.S. claims to the ultimate destination country (see the Appendix). As discussed more extensively in Chari et al, 2025 and Chari and Milesi-Ferretti, 2025, the correction is only partial, given data limitations, and covers portfolio and FDI positions. The impact of the corrections is to reduce the role of financial centers that host intermediaries between the U.S. and the ultimate source or destination of investment. Examples include the Netherlands and Caribbean economies hosting holding companies for U.S. FDI abroad to other ultimate destinations, Ireland and Luxembourg funds which channel portfolio investment in the U.S. on behalf of international investors, and the Cayman Islands which host hedge funds and private equity funds and hence are both an intermediate destination of U.S. portfolio investment and a source of portfolio investment in the U.S.

Instead, we see larger U.S. FDI and portfolio investment in emerging market economies (whose entities issue bonds and equity from offshore financial centers), a much reduced but still sizable creditor position of euro area countries, and a very large increase in U.S. portfolio liabilities vis-à-vis investors whose residence cannot be ascertained (compare the last bar in panel A and panel B). This increase primarily reflects sizable portfolio investment in the U.S. by non-euro area investors through Irish and Luxembourg investment funds—often managed in London. As discussed in Beck et al. (2024) and Milesi-Ferretti (2024b), we lack information on the residence of such investors, and hence portfolio claims on the U.S. attributed to euro area entities on a residence basis become are assigned to “unknown” investors

on a nationality basis.⁷ Positions vis-à-vis the Cayman Islands become much smaller on a nationality basis, since U.S. claims on Cayman entities are matched by these entities' claims on the U.S. (think of a Cayman-based hedge fund or private equity fund catering to U.S. investors and investing in U.S. assets).

A final issue concerns the extent to which crypto flows, and in particular, the growth of stablecoins are reflected in external accounts. The very nature of these flows makes them particularly difficult to measure, with studies on the subject relying on indirect measures of the potential residence of (anonymous) account holders (see for instance Cerutti et al, 2025). As for stablecoins, financial statistics should capture the holding of financial instruments (such as U.S. Treasury bills) held as reserves to backstop outstanding stablecoins, but will not capture the holdings of such stablecoins by investors.⁸

The bilateral evidence presented in this section has three important implications. First, tight financial interconnections across advanced economies highlight the potential financial stability challenges resulting from rising geopolitical tensions within the advanced economies bloc. Second, there is an increase in uncertainty on the nature and residence of ultimate holders of U.S. securities, especially when compared to the period before and immediately after the global financial crisis. And third, the shift in the composition of investors in U.S. financial instruments, particularly in the U.S. Treasury market, suggests that investors' response to shocks may well differ from we saw during the global financial crisis and its aftermath.

How will these imbalances evolve over the next few years? And what scenarios may unfold under different assumptions about policy choices in the United States and elsewhere? The baseline projections in the IMF's October 2025 World Economic Outlook (IMF, 2025a) envisage a modest contraction of current account imbalances in relation to world GDP and a broad stabilization of net external positions (see the Paris Report chapter by Balakrishnan, 2026). As discussed more extensively in the chapter by Obstfeld, factors that ease an adjustment of imbalances without taking a heavy toll in terms of growth can originate in trading partners or be domestic in nature. Among the former are policy shifts in key trading partners that boost external demand for U.S. goods and services. These could include:

- More rapid growth in domestic demand in the euro area, spurred by expansionary fiscal policy in Germany, a reduction in precautionary saving associated with declining geopolitical uncertainty, and progress on a capital market union, which could alleviate financial constraints on investment.⁹
- A policy rebalancing in China towards a consumption-led growth model, featuring expansionary macroeconomic policies, reforms to encourage private consumption and reduced industrial policy support (IMF, 2025b).¹⁰

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7. Reducing this uncertainty would require progress on the disclosure of third-party holdings by custodians of foreign securities held on behalf of nonresidents, a topic already discussed over 20 years ago in a report at the IMF Balance of Payments Committee (IMF, 2003), but becoming even more salient in recent years.
8. A good example are Treasury holdings by Tether, a major issuer of stablecoins. Following Tether's shift of its domicile from the British Virgin Islands to El Salvador in early 2025, U.S. statistics on cross-border holdings of short-term Treasury securities show an \$80 billion decline in such holdings in the British Virgin Islands and a similar increase in U.S. short-term bank liabilities vis-à-vis El Salvador (the broader category in which short-term Treasury securities are included, since holdings of such securities are not reported separately for El Salvador).
9. The Paris Report chapter by Deras et al (2026) discusses in more detail the factors underpinning the euro area current account surplus and its likely evolution.
10. See the Paris Report chapter by Ma and Wei, 2026.

Turning to domestic factors consistent with more benign forms of current account rebalancing, a gradual reduction in the U.S. fiscal deficit would reduce demand pressures and could be accompanied by monetary policy easing and a weaker dollar, raising external demand for U.S. goods and services. The materialization of a productivity boom triggered by technological advances such as AI could also boost U.S. exports of services. However, the likelihood of U.S. fiscal adjustment in the United States appears now quite remote, as discussed in the chapter by Furman, and so does a policy correction in China.

A recent paper by Bayoumi and Gagnon (2026) challenges the view that global imbalances will decline, arguing that the forces underpinning the widening Chinese current account surplus will continue to operate, primarily at the expense of surpluses in other regions (such as the euro area). They view prospects for the U.S. current account balance to depend on the fate of the AI boom. Should the boom continue, the U.S. current account deficit will remain sizable, fueling further trade tensions. An AI bust scenario, featuring a large reduction in investment and sharp correction in equity valuations, would instead push the U.S. economy in recession, with negative global growth spillovers. While imbalances would narrow, this would come at a severe macroeconomic cost and with further policy challenges and cross-border tensions.

More generally, forecasting the evolution of imbalances is particularly difficult at this juncture. Uncertainty about economic prospects (including factors such as productivity developments, the evolution of real exchange rates, and market sentiment) is compounded by geopolitical tensions and policy uncertainty, including on the level and duration of U.S. tariffs, China's policy stance, and the extent of global cooperation on cross-border challenges.

Conclusions

We have discussed the evolution of U.S. current account and IIP imbalances in recent years and their main drivers. From a normative perspective, the logical questions are whether these imbalances are excessive and what the appropriate policy prescriptions would be.

We view the widening of U.S. current account imbalances in recent years as resulting primarily from strong U.S. demand. The fact that the widening in the U.S. current account deficit has been accompanied by rising global real interest rates is consistent with this hypothesis. The strength of U.S. aggregate demand has an important “fundamental” component, related to expectations of strong productivity growth arising from AI, reflected in rapid asset price appreciation and investment spending. This bodes well for U.S. growth prospects as well as for exports, as do other factors: the scaling up of military expenditures in other advanced economies, given the prominence of the U.S. arms industry, and the increase in energy exports, especially to Europe, as European countries curtail their energy purchases from Russia.

However, the widening of the U.S. current account deficit comes at a delicate juncture. On the external front, the U.S. NIIP is much more negative than during the period preceding the global financial crisis of 2008-2009, and gross external debt liabilities, particularly in the form of U.S. Treasury bonds, are elevated. U.S. fiscal policy remains very expansionary and domestic debt on a rising trajectory in relation to GDP. While debt dynamics remain worrisome in many other advanced economies as well, U.S. Treasury securities play a pivotal role in the global financial system, and nonresident private investors, including hedge funds and other investors arguably very sensitive to overall market conditions, have sizable holdings of Treasury securities. These factors, together with geopolitical uncertainty and policies and pronouncements of the U.S. administration, including vis-à-vis its main trading partners and

geopolitical allies, make the global financial stability concerns of the current policy trajectory more salient. The April 2025 episode, featuring an increase in U.S. long-term interest rates and dollar depreciation alongside global volatility, is an illustration of such risks.

In addition, high asset prices, especially stocks of the leading tech companies, have contributed to strong U.S. consumption growth, especially at the top of the income distribution, as well as rising investment. With many metrics suggesting stretched valuations, scenarios featuring sharp asset price corrections need to be considered. A large decline in U.S. stock prices would take a sizable toll on U.S. demand—even though some of the burden would be borne by foreign investors holding U.S. equities, most U.S. stocks are held domestically. In turn, this would trigger a painful U.S. current account adjustment, whose magnitude would also depend on the global repercussions of the asset price decline. And of course, a combination of declining asset prices and rising concerns about U.S. fiscal dynamics would be even more worrisome.

The global financial crisis triggered a large current account adjustment in the United States, accelerating a process already under way. But worries about a disorderly unwinding of current account imbalances, featuring a sharp depreciation of the dollar and rising long-term risk premia (see, for instance, Faruquee et al., 2007 and IMF, 2007) did not materialize. Financial stresses were elevated but with rapid monetary policy easing by the Federal Reserve, and flight to safety interest rates on U.S. Treasuries declined sharply. Should financial stresses re-emerge, a repeat of this scenario is possible, but the risk of a different response of U.S. long-term interest rates needs to be taken seriously. U.S. federal debt is much higher and on a rising trajectory, with no apparent political willingness to tackle this challenge; U.S. net external liabilities much larger; and geopolitical tensions much more elevated.

APPENDIX

Construction of bilateral data on a partial nationality basis

We implement data corrections for portfolio assets and liabilities and FDI assets and liabilities, as discussed in Chari et al. (2025).

Portfolio assets (equity and bonds)

We make use of nationality-based statistics constructed by Bertaut et al. (2019) using information from the security-level survey of U.S. portfolio assets. Holdings by U.S. residents of foreign securities are reassigned to the country of origin of the entity issuing the security (for instance, the parent company of an offshore affiliate issuing a bond). U.S. holdings of investment fund shares are reassigned based on estimates of the countries of destination of the investment undertaken by such funds.

Portfolio liabilities (equity and bonds)

We undertake nationality-based corrections for U.S. portfolio liabilities for three of the largest sources of investment fund holdings of U.S. securities: Ireland, Luxembourg, and the Cayman Islands. For Irish and Luxembourg funds, we use data constructed by Beck et al. (2024) identifying whether holdings of such funds of U.S. portfolio securities are associated with funds held by euro area investors or investors from the rest of the world. Holdings by funds held by euro area investors remain euro area holdings also on a nationality basis. Holdings by funds held by investors from outside the euro area (whose residence or nationality cannot be identified) are re-assigned to the unidentified investors' group, thus reducing euro area claims relative to the residence-based concept.

For U.S. portfolio securities held by Cayman Islands-based funds, we make use of available information on the investors holding Cayman fund shares (the IMF's Coordinated Portfolio Investment Survey, a survey by the Cayman Islands Monetary Authority, data on private funds with a U.S. manager published by the U.S. Securities and Exchange Commission, and estimates from Coppola et al. (2021) to construct estimates of equity positions in Cayman-based funds (see Chari et al., 2025 for details). We then re-attribute Cayman fund holdings of U.S. securities to the countries holding their fund shares in proportion to their estimated size.

U.S. FDI liabilities

We use bilateral data published by the Bureau of Economic Analysis on the source of direct investment in the United States from an ultimate beneficial owner (UBO) basis, which identify the country of origin of the parent company controlling the entity investing in the United States.

U.S. FDI abroad

We make use of partner-country data on inward FDI from the U.S. on a UBO basis (analogous to what we use for U.S. liabilities) for a few countries reporting such data, including France, Germany, Ireland, Italy, Japan, Spain, and Switzerland. For the remaining countries, we use data published by the Bureau of Economic Analysis on the operations of majority-owned foreign affiliates of US multinational corporations by foreign countries of operation, in particular net property, plant, and equipment; compensation of employees; and total sales.

We use the data to construct annual weights for partner countries. These weights have a correlation between 0.7 and 0.8 with weights constructed from the location of FDI by immediate host economy and are strongly correlated across the three measures of actual economic footprint in the host country.

We use these weights to redistribute total U.S. FDI abroad net of the holdings by the countries reporting ultimate beneficial owner statistics mentioned above. With these weights, the role of Caribbean economies virtually disappears, and the role of European financial centers such as Luxembourg and the Netherlands is also sharply curtailed. In contrast, the weight of US investment in economies such as China and India rises substantially.

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