

Global Liquidity

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IMF Conference

Macro and Growth Policies in the Wake of the Crisis

Washington DC, March 7-8, 2011

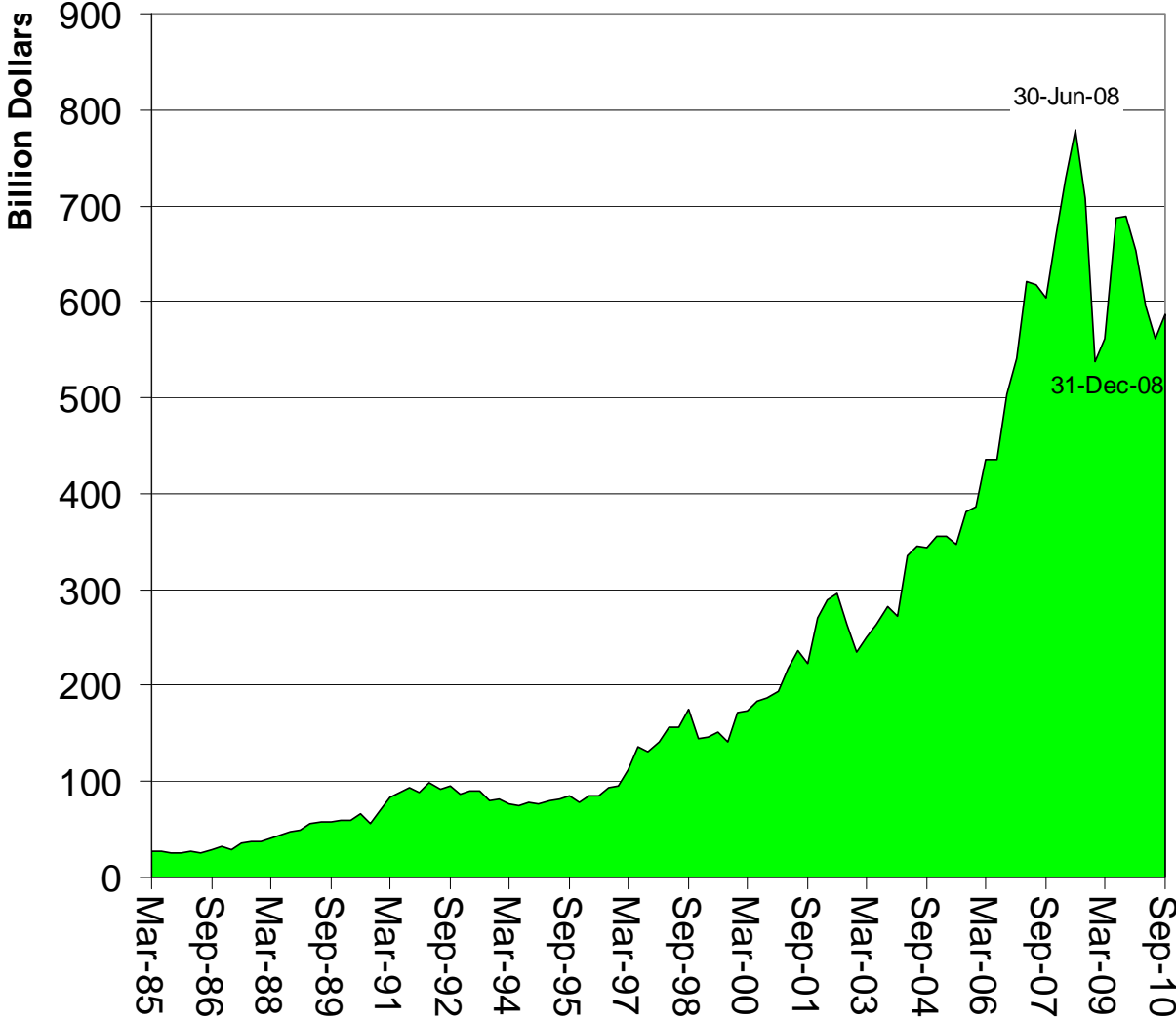
Crisis Aftermath

- Expansive monetary policy in advanced economies
- Capital inflows to emerging economies
 - Carry trades
 - Overheating
 - Constraints on monetary policy
- “Global liquidity”

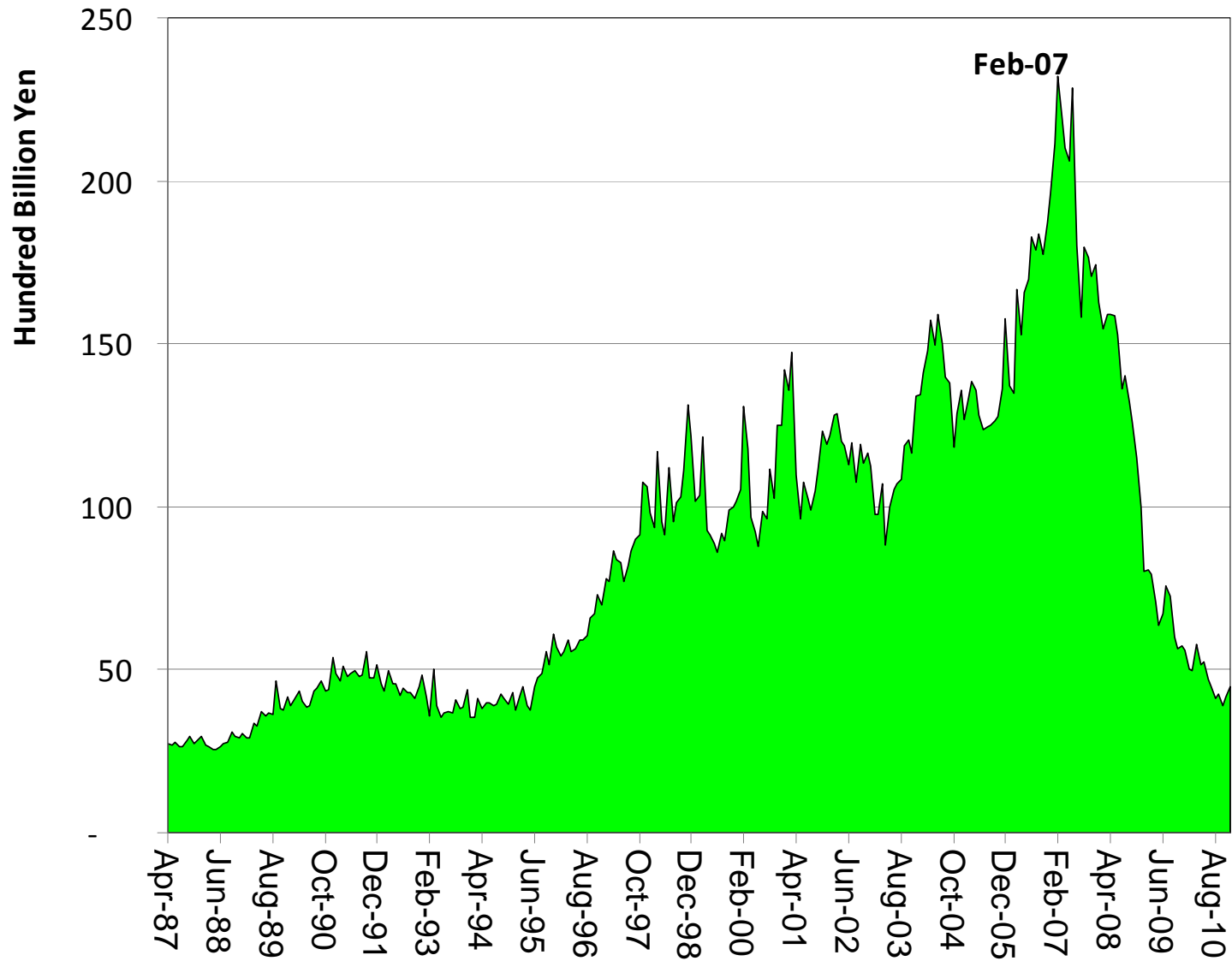
Three Roles of the Dollar

- Settlement of real transactions
- Reserve currency
- Currency underpinning global banking

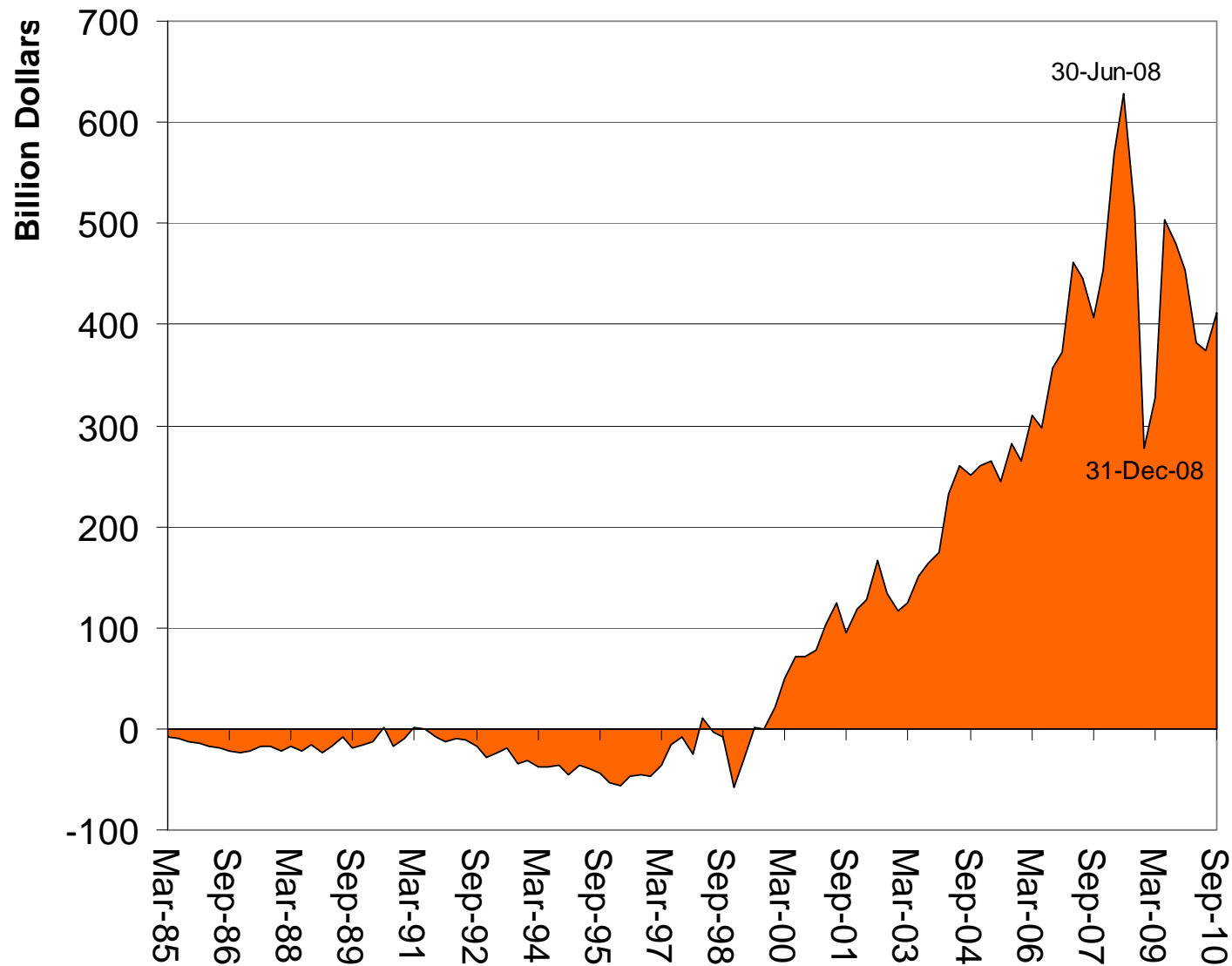
Interoffice Assets of Foreign Banks in the United States



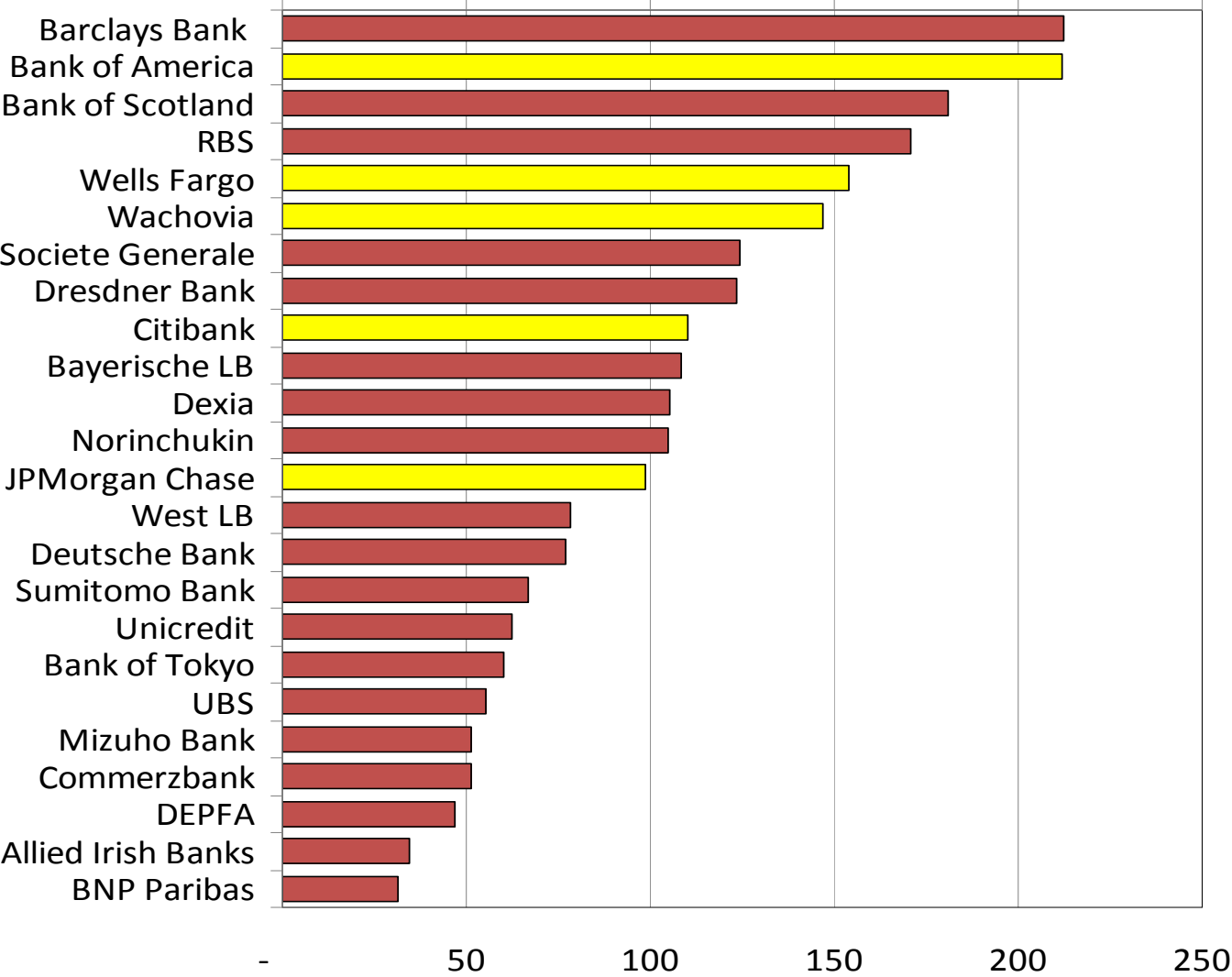
Interoffice Assets of Foreign Banks in Japan



Net Interoffice Assets of Foreign Banks in the United States



Cumulative Borrowing from Federal Reserve's Term Auction Facility (Billion Dollars)



Central Bank to the World?

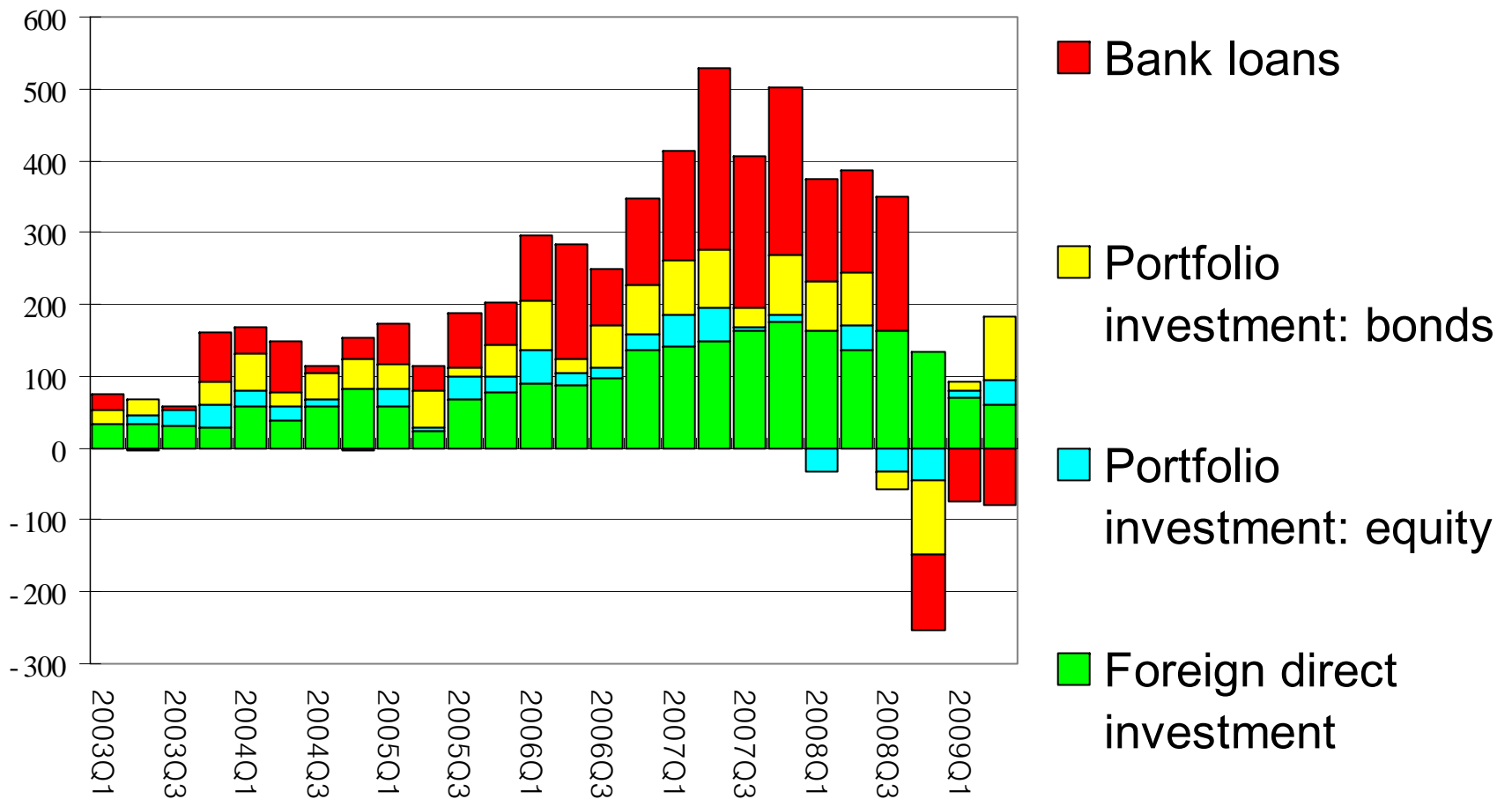
“We’re talking about huge sums of money going to bail out large foreign banks ... Has the Federal Reserve become the central bank of the world?”

Senator Bernie Sanders, Dec 2010

Paradox

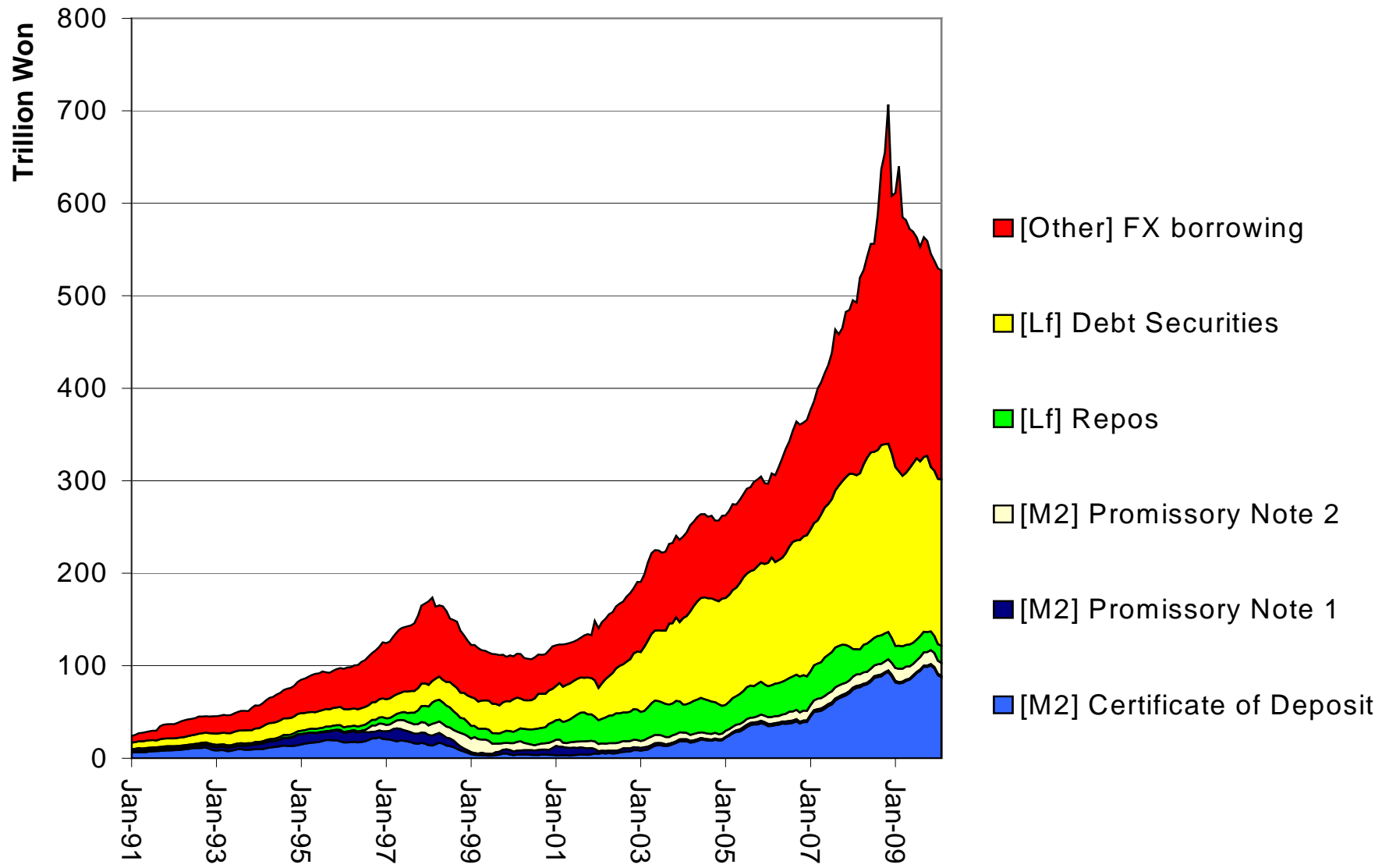
- US is world's largest debtor country...
- Yet it is largest net creditor in the global banking system
- Transmission of liquidity conditions via global banks' portfolio decisions
 - US monetary policy is *global* monetary policy

Capital Flows to Emerging Economies



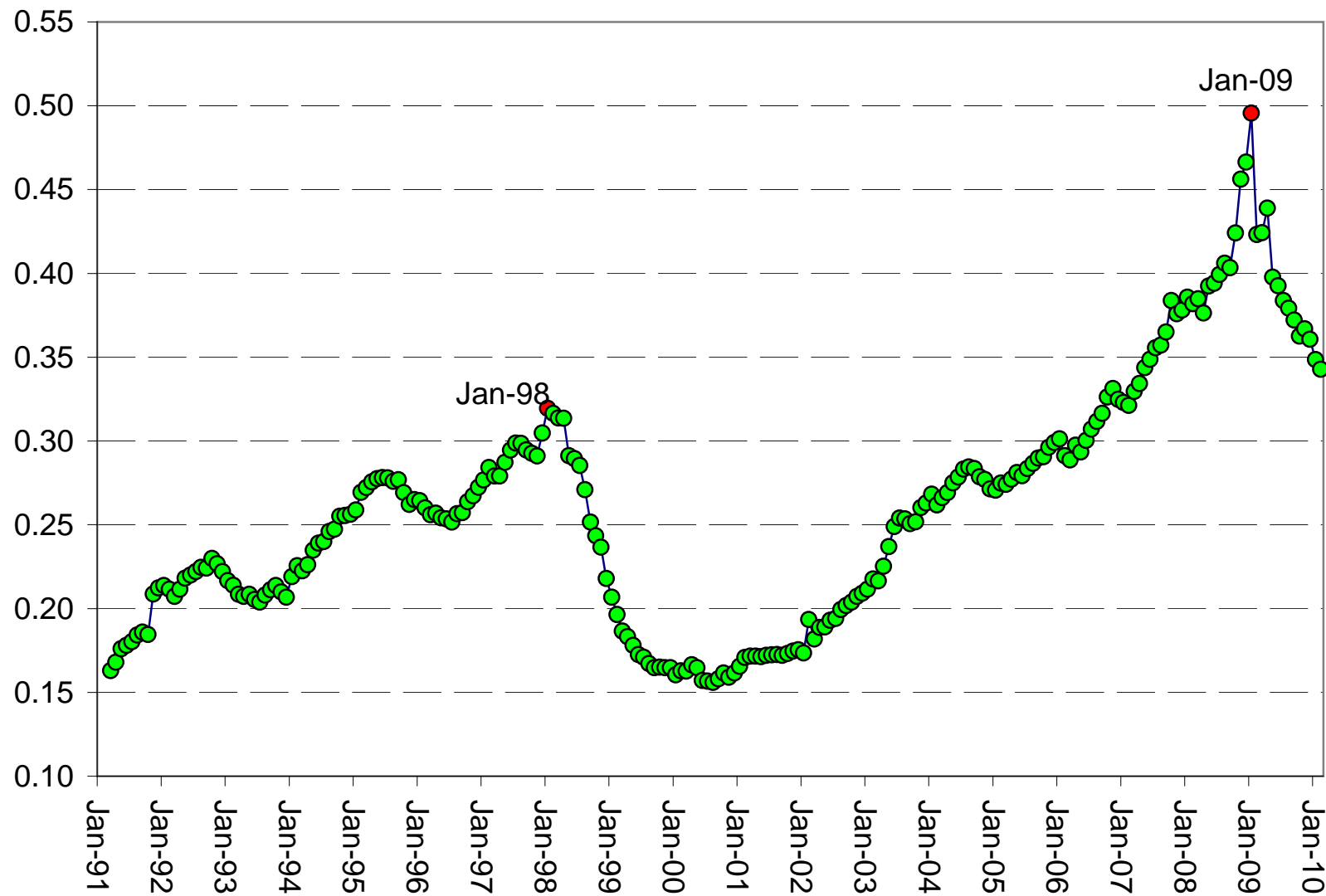
IMF, Global Financial Stability Report, April 2010

Non-Core Bank Liabilities for Korea



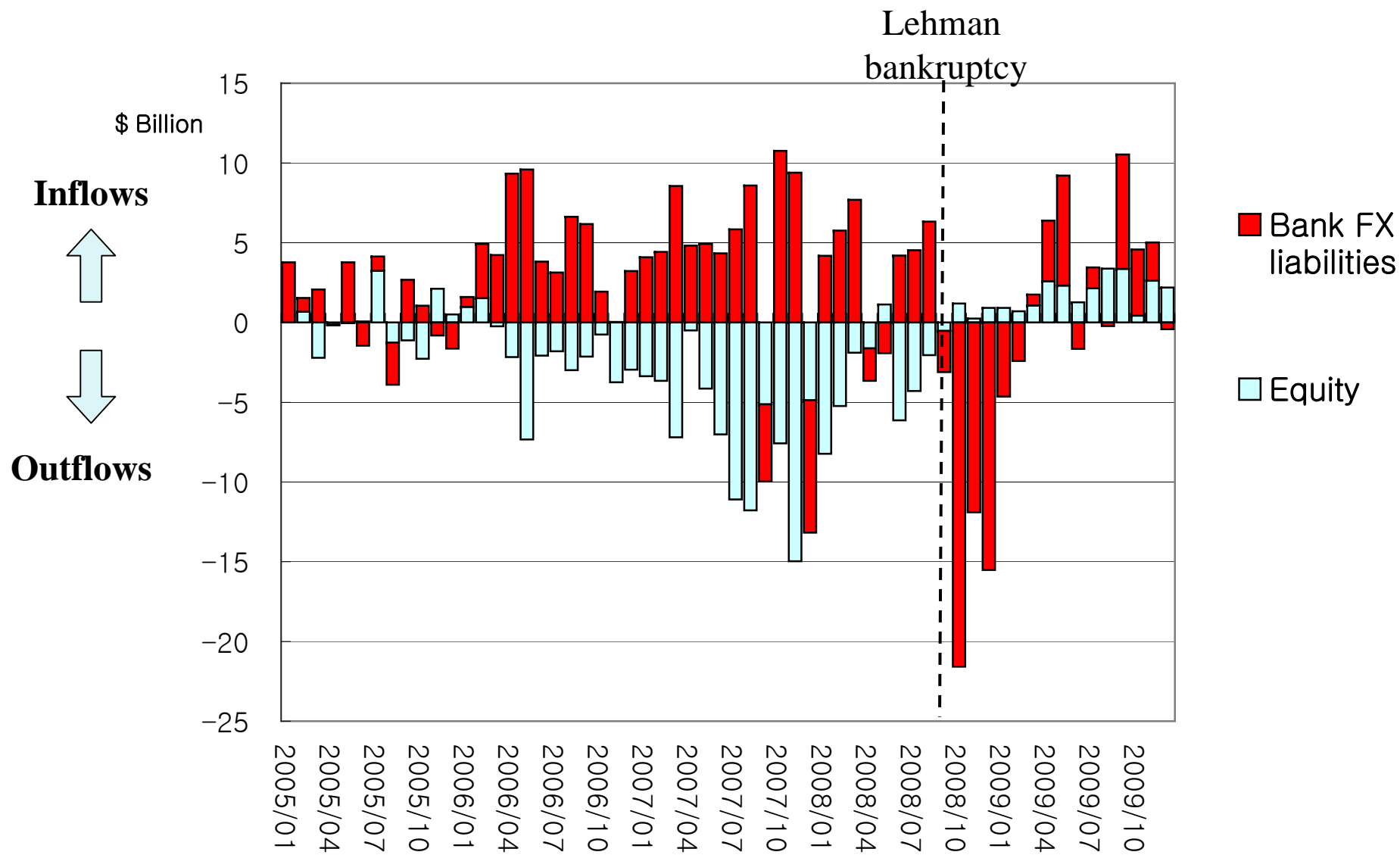
Source: Shin and Shin (2010)

Ratio of Non-Core Liabilities to M2 in Korea



Source: Shin and Shin (2010)

Equity and FX Bank Liability Flows (Korea)



Macroprudential Policy

- Regaining some (little) autonomy in monetary policy
- Leaning against bubbles
- Altering the *composition* of capital flows, not total amount

Not about holding down exchange rate

Macroprudential Policy Frameworks

- Macroprudential Indicators
 - Credit/GDP (rule of thumb)
 - Non-Core liabilities and specialized monetary aggregates
 - Measures of cross exposure
- Macroprudential tools
 - LTV and DTI
 - Leverage caps
 - Korea's June 2010 FX leverage cap
 - Levy on (subset of) Non-Core Liabilities

Korea's *Macprudential Levy*

- Levy on short FX bank liabilities
- Automatic stabilizer
 - Base of levy varies over cycle
 - Levy bites hardest during booms
- Minimize impact on *core* intermediation
- Leans against carry trade inflows and build-up of vulnerability
 - Focus on financial stability
 - Will affect exchange rate dynamics, but not primary concern