Macro and Growth Policies in the Wake of the Crisis
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I will talk about two topics:

- China’s capital account policies
- Global Financial Safety Nets (GFSN)

Why topic 1? Why China? Why capital account policies?
• Common theme: self-insurance against volatile capital flows → reserve accumulation → global imbalances

• But how important are “GFSN users” for global imbalances? Find the answer by:

  ➢ looking at all surplus countries in 2003-05 (excluding oil exporters)
  ➢ define GFSN users as emerging market economies that had a sudden stop in 1995-2000 and/or received a swap in 2008 (Argentina, Brazil, Chile, Hong Kong, Singapore, Korea, Malaysia, Indonesia)
Current account surpluses ($bn)

Source: WEO 2010
1. **China’s capital account policies** (based on Jeanne, 2011):

- Then the government controls
  - the current account balance = $\Delta$NFA
  - the trade balance
  - the real exchange rate

- Real (not monetary) mechanism; capital controls are key
Implications

• “Forced saving” through capital account policies

• Internationalizing the RMB: the Chinese dilemma

• How can the G20 help?

• “Rules of the road” for capital flows
2. **Global financial safety nets (GFSN)**

• Why did the swaps make a difference?

<table>
<thead>
<tr>
<th>Country</th>
<th>Korea</th>
<th>Brazil</th>
<th>Singapore</th>
<th>Mexico</th>
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</thead>
<tbody>
<tr>
<td>Reserves Sept.08</td>
<td>$ 240bn</td>
<td>$ 206bn</td>
<td>$ 169bn</td>
<td>$ 99bn</td>
</tr>
<tr>
<td>Fed swap</td>
<td>$ 30bn</td>
<td>$ 30bn</td>
<td>$ 30bn</td>
<td>$ 30bn</td>
</tr>
</tbody>
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• Hypotheses:
  1. Psychological threshold in reserves
  2. “Seal of approval” (signal about recipient country)
  3. True lending-in-last-resort (signal about Fed’s commitment)
  4. Minor part of policy package that restored confidence at the center

• Is it possible to institutionalize the swaps?