Prospective Changes in Monetary Policies in Advanced Economies, and Policy Challenges to Asia

Choongsoo Kim
Governor
The Bank of Korea

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Issues to Cover

- Current State of the Asian Economy
- Risks Stemming from Changes in Monetary Policies in Advanced Economies
- Policy Challenges and Implications
Asian EMEs: Susceptible to External Factors

High export to and large capital inflows from AEs

Export Destinations

Capital Inflow Sources

Notes: 1) Asian EMEs: China (Mainland, HK SAR, Macau), India, Indonesia, Malaysia, the Philippines, Thailand, Korea, and Vietnam. 2) Taiwan is included in the right panel.

Source: Direction of Trade Statistics and Coordinated Portfolio Investment Survey, IMF
Effects of QEs on Asian EMEs

Interest rates fell, and the credit-to-GDP increased

Long-term Interest Rates

Credit to GDP Ratio

Note: Long-term interest rates (10yr TBs) cover China, Hong Kong SAR, India (IN), Indonesia (ID), Korea, Malaysia (MY), Taiwan, and Thailand (TH).
Source: Bloomberg, IMF
Characterizing the Changes of MP in AEs

Gradual and asynchronous
TB(10yr) Rate on Rate Hike Cycle

Asynchronous MP Changes

Source: FRB, Blue Chip Forecast

Source: BOE, BOJ, ECB, FRB
* Median of FOMC members’ forecasts
** Governor Carney (2013.8.28)
Risks to Asian EMEs

Capital outflow, high interest rates, etc.

Global Funds and AXJ Share

One-day Interest Rate Reactions to News

Notes: 1) Total represents the sum of equities and bonds. 2) The AXJ (Asia ex Japan) share is calculated using the accumulated amount since Jan. 2010.

Source: EPFR, Bloomberg
Differentiated Effects on Asian EMEs

Dependence on country-specific pull factors

Inter-quartile Volatility Differences among Asian EMEs

Notes: 1) Data based on China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand.
2) Inter-quartile difference = 75% quartile – 25% quartile.
Source: Bloomberg
Policy Challenges

- Policy Rate Dilemma
- Market Liquidity Dilemma
- Fear of Losing International Reserves
- Asymmetric Usefulness of Macro-prudential Measures
Achieving a superior global equilibrium by shutting down two-way negative spillovers

Spillover Effects of MP Changes in AEs

Feedback of the Impact
Thank You