



Enhancing International Coordination of Monetary Policies

Li Rui

Shanghai International Studies University

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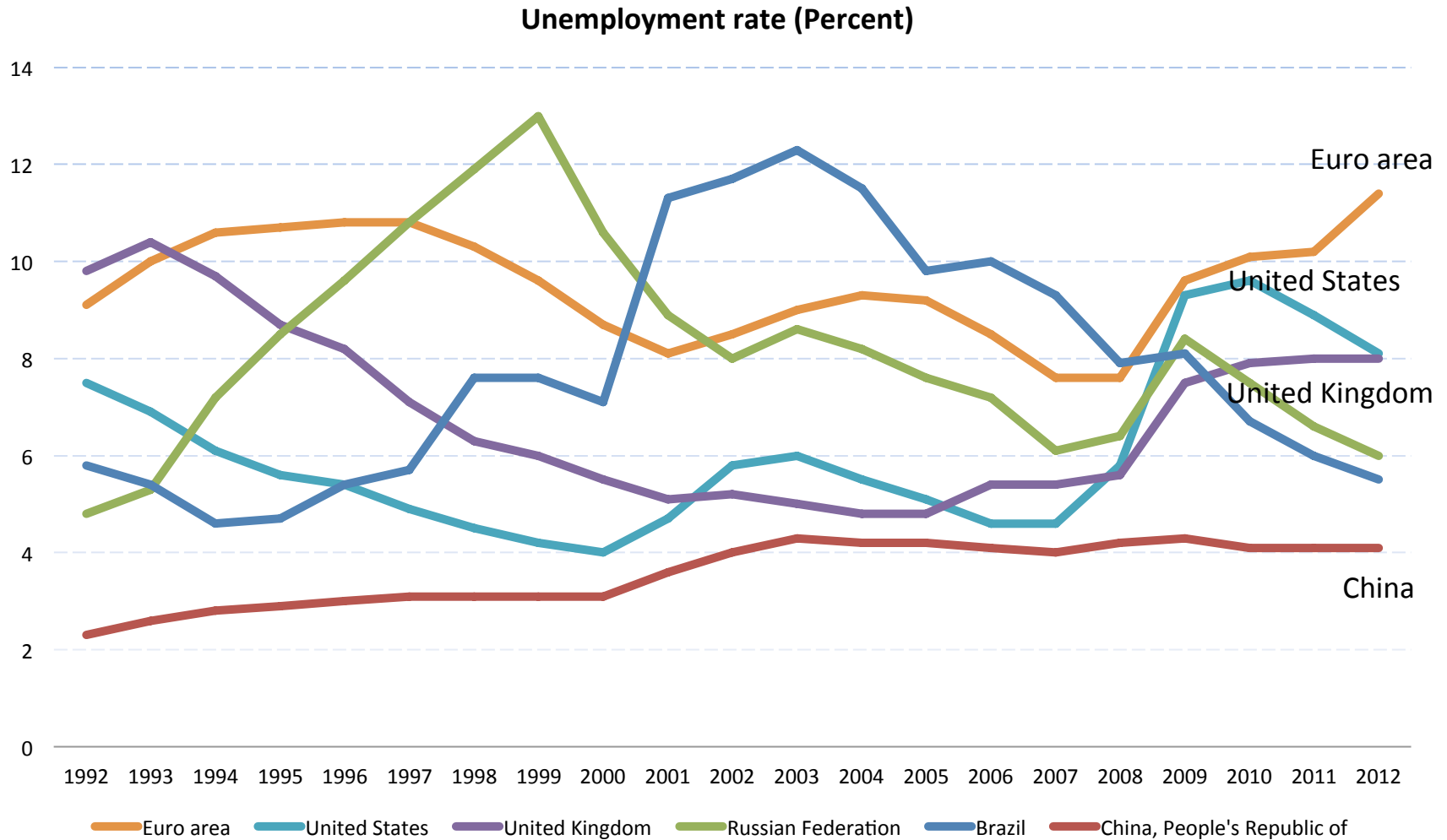
Outline

- I. Unconventional Monetary Policies to Address Global Financial Crisis
- II. Positive Spillovers: Unconventional Monetary Policy's Contributions
- III. Negative Spillovers: Unconventional Monetary Policy's Challenges
- IV. International Coordination to Maximize Positive Spillovers and Minimize Negative Spillovers



Unconventional Monetary Policies to Address Global Financial Crisis

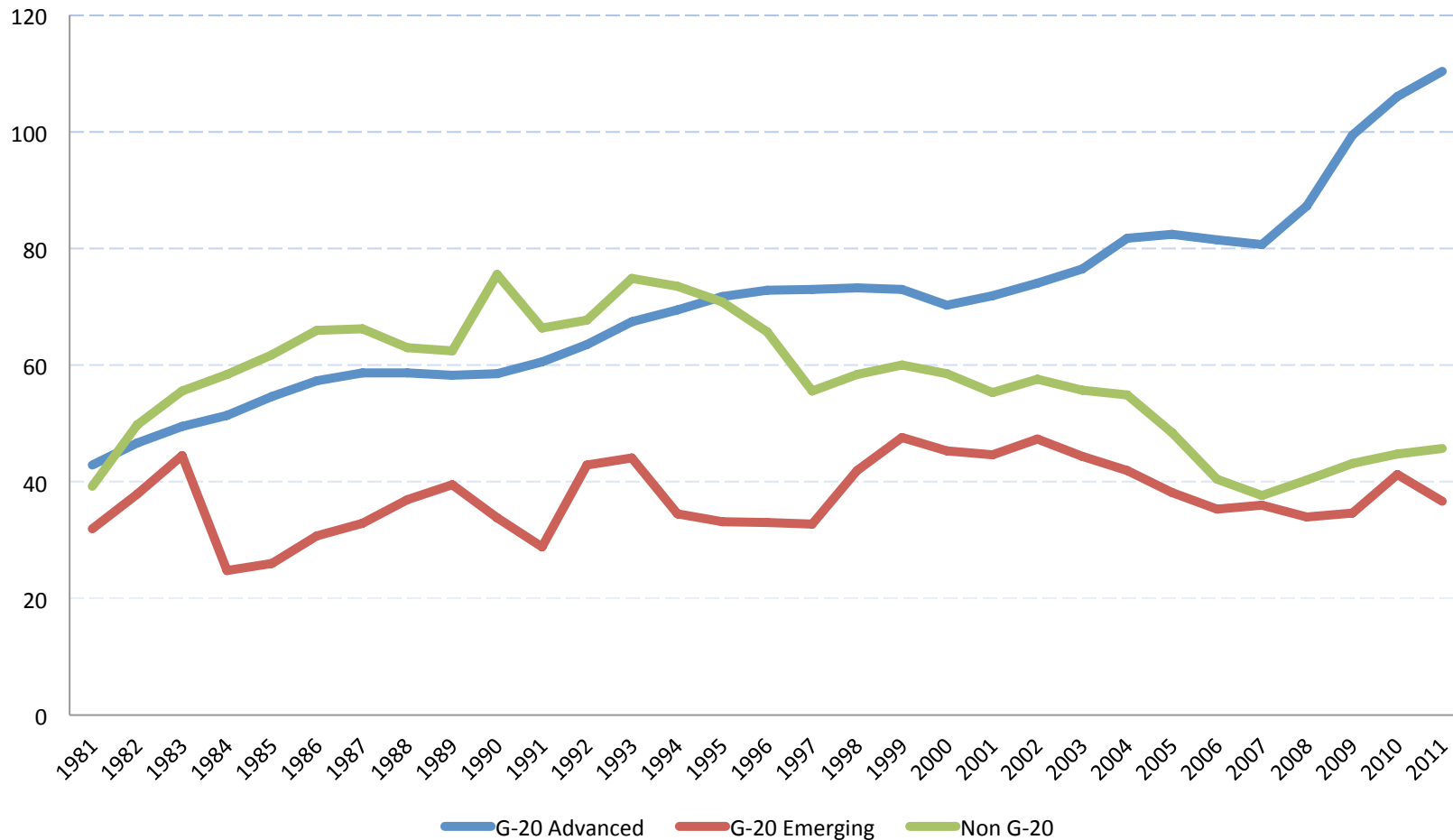
Unemployment rate is high in AE, especially in Euro Area



Source: IMF, WEO (April 2013)

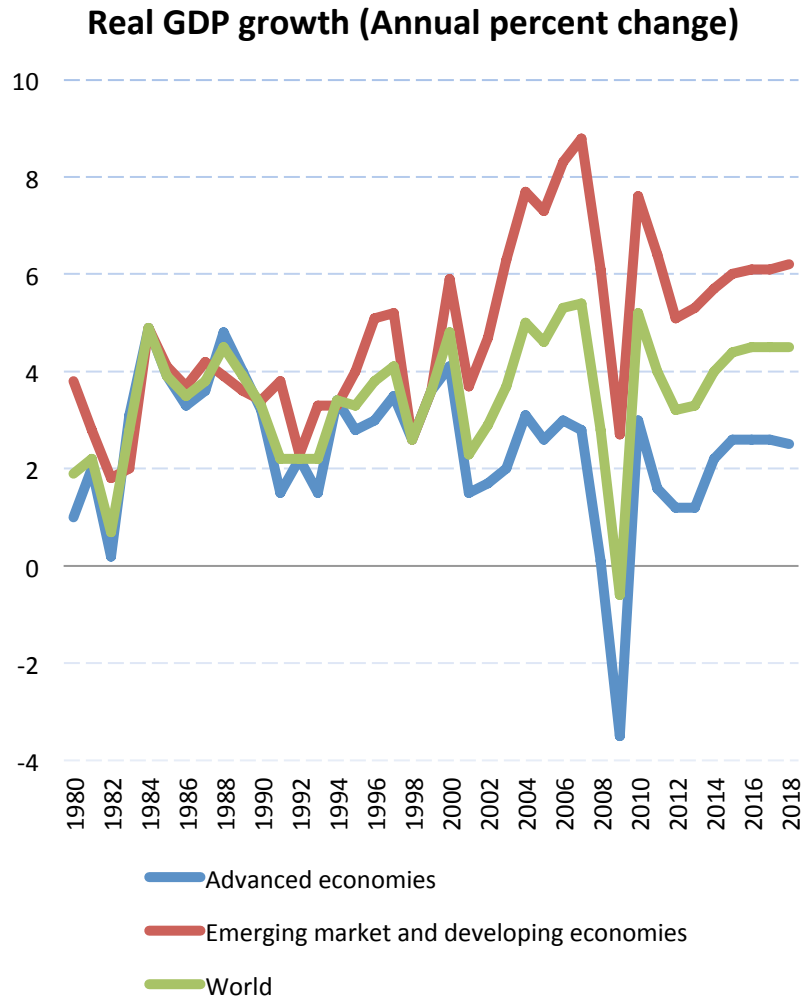
Risk of fiscal crisis is rising in AE, while most EME keep fiscal sustainability

DEBT (PPPGDP-weighted averages) (% of GDP)

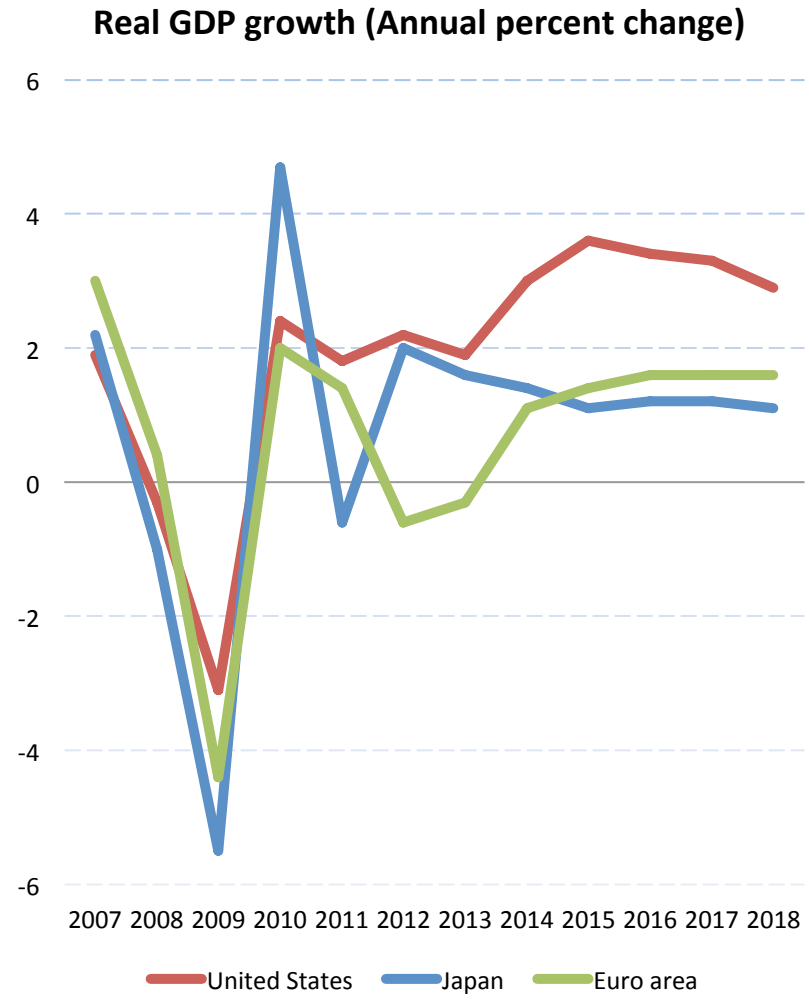


Source: Fiscal Affairs Departmental Data

Three-speed Globally Recovery



Source: IMF, WEO (April 2013)



Source: IMF, WEO (April 2013)

Unconventional Monetary Policies to Address the Crisis and Imbalance

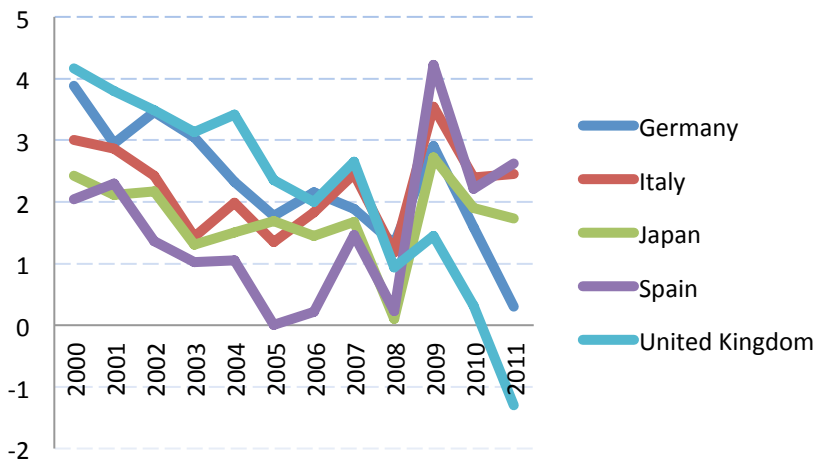
- ✓ Central banks in advanced economies have deployed a variety of unconventional monetary policies to address the crises
 - Fed: QE1, QE2, QE3, QE4
 - ECB: LTRO, OMT
 - BoE: QE
 - BoJ: QQME



Positive Spillovers: Unconventional Monetary Policy's Contributions

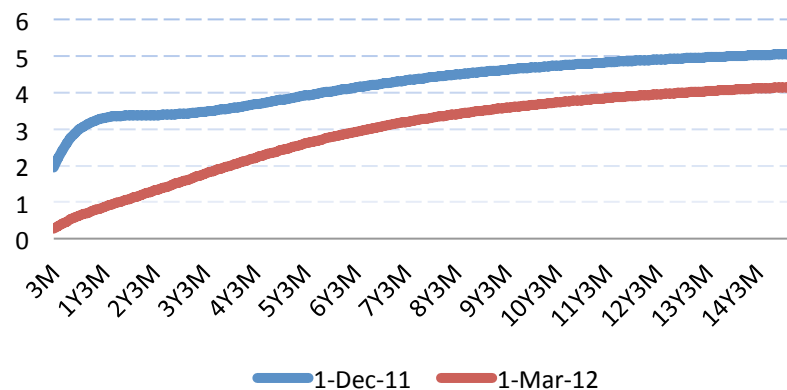
Lower Policy Uncertainty and Boost Global Confidence in Short Term

Real long term government bond yield (percent)

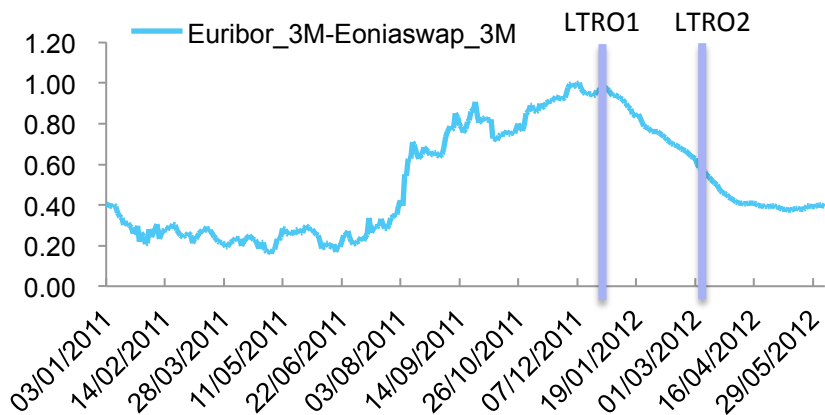


Source: Fiscal Affairs Departmental Data

Change in Yield Curve of AAA-rated euro area central government bonds after LTRO

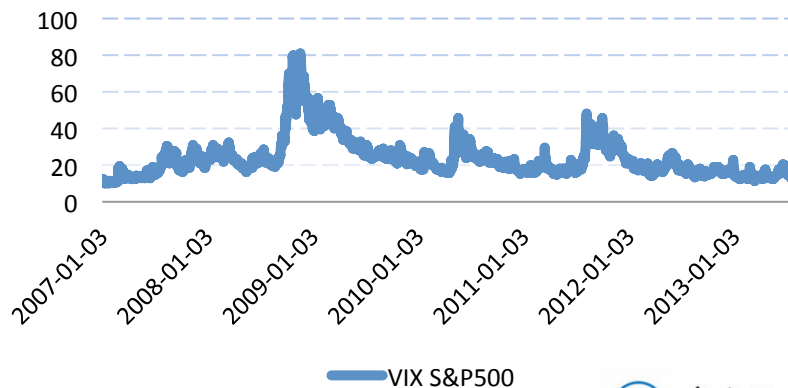


Source: ECB and author calculation



Source: Euribor-EBF and author calculation

Volatility S&P500



Source: Wind

Stabilize Domestic Economies and the World Economy at Large

- ✓ All these measures contributed to a significant reduction in the level of stress in global financial markets
- ✓ Global GDP at end 2013 is estimated to be about 1.5-3 percent higher than without ECB's stimulating policies in 2012 (IMF, 2013)



Negative Spillovers: Unconventional Monetary Policy's Challenges

Triggering Competitive Loose Monetary Policies

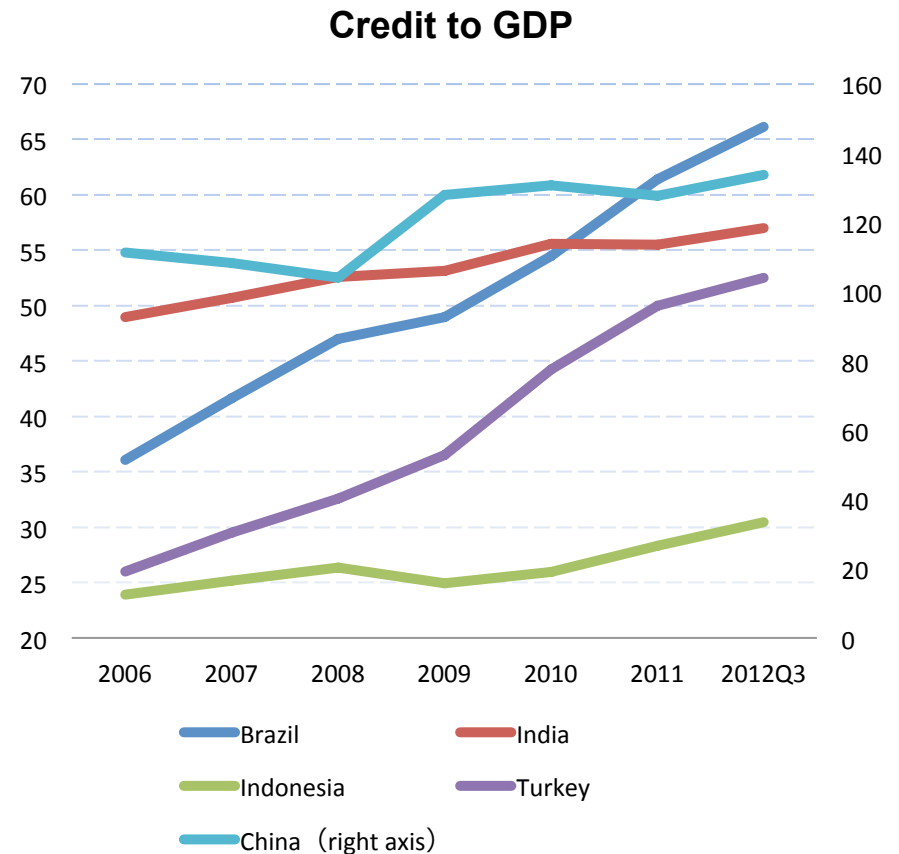
- ✓ Prior to the crisis, Federal Reserve's asset-to-GDP ratio surged from around 6% to 20%, that of ECB surged from 10% to 28%
- ✓ Fed, ECB, BoE and BoJ have accumulated new assets around \$5 trillion, making the total assets as much as \$9.5trillion
- ✓ G8 lead by US permitted and even indulged Japan for QQME
- ✓ Some countries resorted to tit for tat policies
- ✓ In other words the global competitive easy monetary policy cannot be averted

EME Encountering Dual Risks of Capital Inflow and Outflow

- ✓ Due to capital flows and exchange rates, monetary policies of developed countries impact emerging economies including China, Brazil and India
- ✓ Now these countries again have to deal with the butterfly effect of Fed's withdraw of QE
- ✓ In March 2013, international capital outflows hit a yearly high, with some countries experiencing larger outflows than in the second round of European debt crisis in the 2011Q4

Raising Vulnerabilities of Global Financial System

- ✓ Given keeping interest rate low for too long, bubbles may form
- ✓ Credit growth has been rapid in many EMEs, the speed of credit growth is a risk
- ✓ Faced with large capital inflow and outflow, most economies will increase vulnerability if there is lack of macro-prudential measures





International Coordination to Maximize Positive Spillovers and Minimize Negative Spillovers

Self Reform

✓ AEs:

- Avoiding over reliance on QE to stimulate growth
- fiscal consolidation are necessary to further improve the productivity

✓ EMEs:

- Structural reforms to absorb inflowing capital productively
- Improve domestic financial system to address volatile capital flow

Assessment Process

- ✓ Quantifying the spillovers of domestic monetary policies and publish the spillover report regularly
- ✓ Promoting Mutual Assessment Process action plan more efficiently

A Robust Framework for International Coordination

- ✓ Transforming G20 from a crisis-steering mechanism to a forum that drives a framework for coordination
- ✓ Exchanging information, dates, scenarios and views of monetary policies under G20 and normalize such communication
- ✓ Publish national statements or schedules for delivering on G20 commitments



Thanks for your time!

