



BANK FOR INTERNATIONAL SETTLEMENTS

12th

BIS Annual Conference

Navigating the Great Recession:
what role for monetary policy?

20–21 June 2013, Lucerne, Switzerland





Five years in the tower

Stephen G Cecchetti*

Economic Adviser and Head

Monetary and Economic Department

Bank for International Settlements

20 June 2013

*Views expressed here are those of the author and do not necessarily reflect those of the BIS.



Lessons learned

- Research:
 - Quantities matter more than you think.
 - Moral hazard is worse than you think.
- Policy:
 - Short-term interest rates are not enough.
 - High debt is a drag on growth.
 - Market discipline is not enough.
- BIS:
 - Cross-border activity is more important than we thought.
 - Global problems require global solutions.



Quantities matter more than we thought.

- Pre-1980s:
mechanical focus on monetary aggregates
- Post-1980s:
shifted focus to interest rates
- Post-crisis:
quantities reflect vulnerabilities



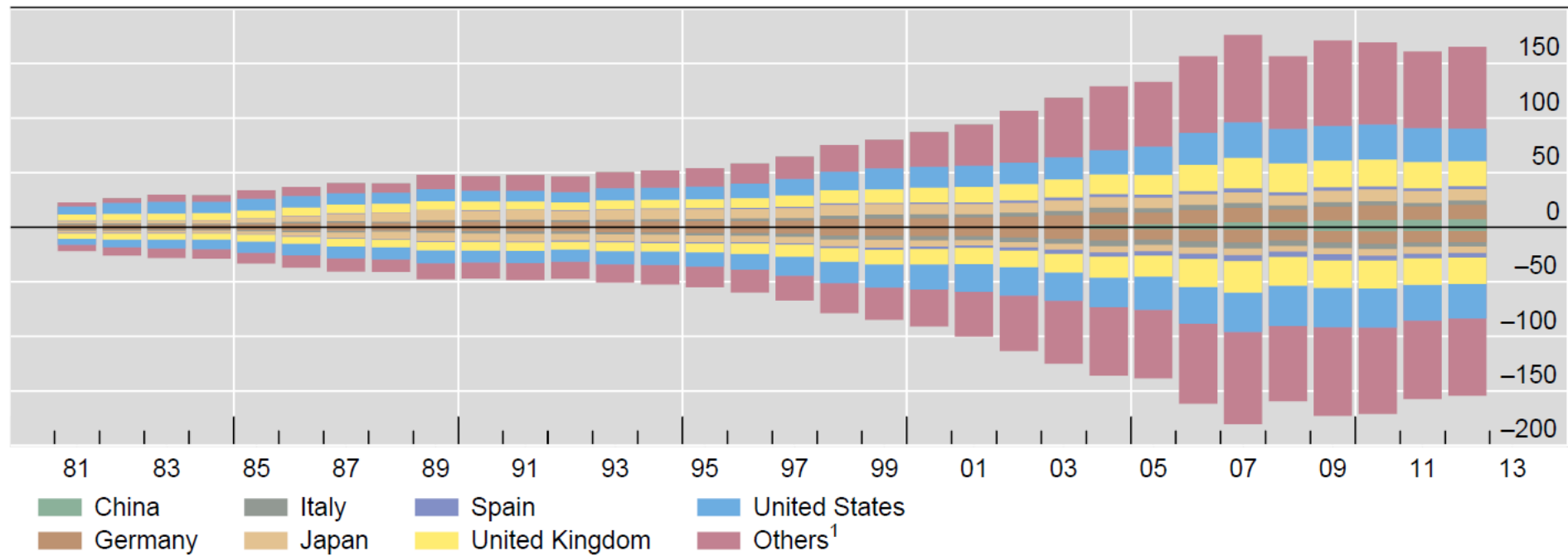
Quantities matter more than we thought.

- Pre-1980s:
 - mechanical focus on monetary aggregates
- Post-1980s:
 - shifted focus to interest rates
- Post-crisis:
 - quantities reflect vulnerabilities
- Example:
 - International investment positions



International investment positions of all countries

As a percentage of world GDP



¹ Sum of 120 economies.

Sources: IMF, *International Financial Statistics* and *World Economic Outlook*; BIS calculations.



Moral hazard is worse than we thought

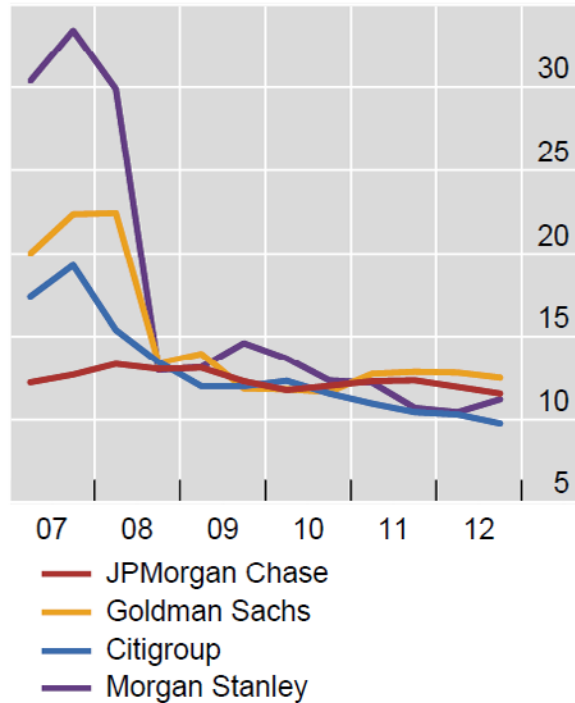
- Limited liability creates incentive to take risk
- Financial innovation creates the opportunity to concentrate risk
- Leverage is one way to increase risk



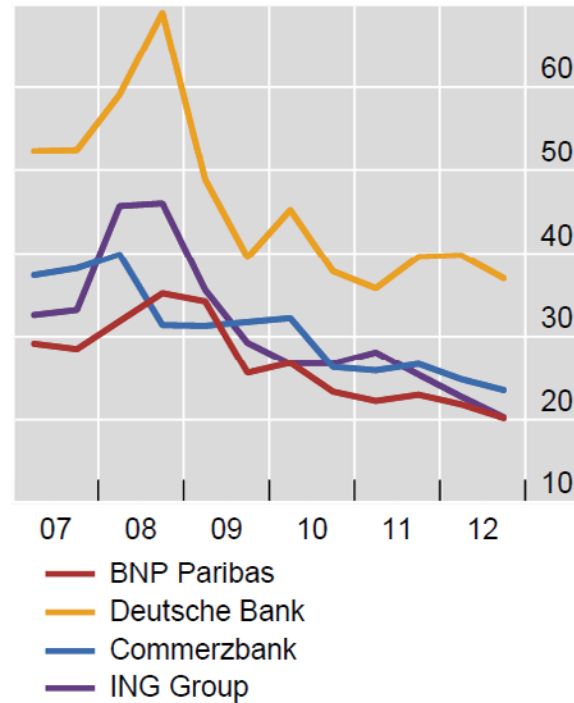
Leverage ratios

Ratio of total assets to total equity

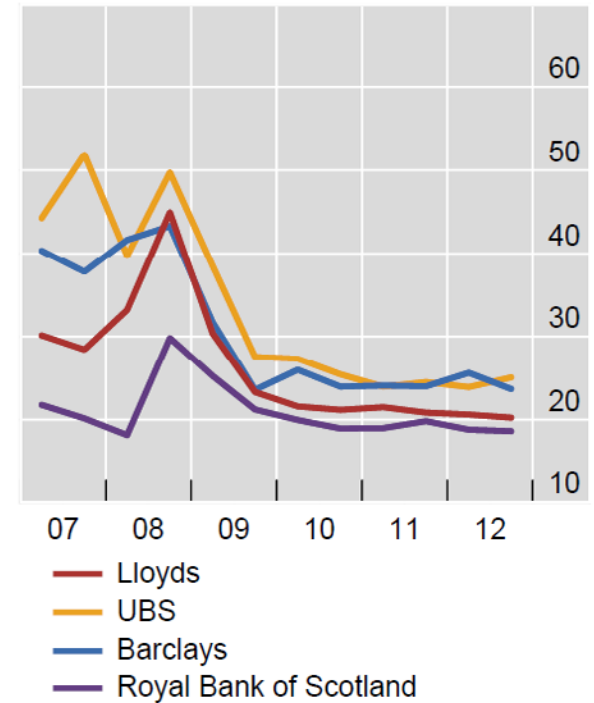
United States



Euro area



Other European



Note: financial accounts reported under IFRS except for US banks (US GAAP).

Source: Bloomberg.



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High debt is a drag on growth

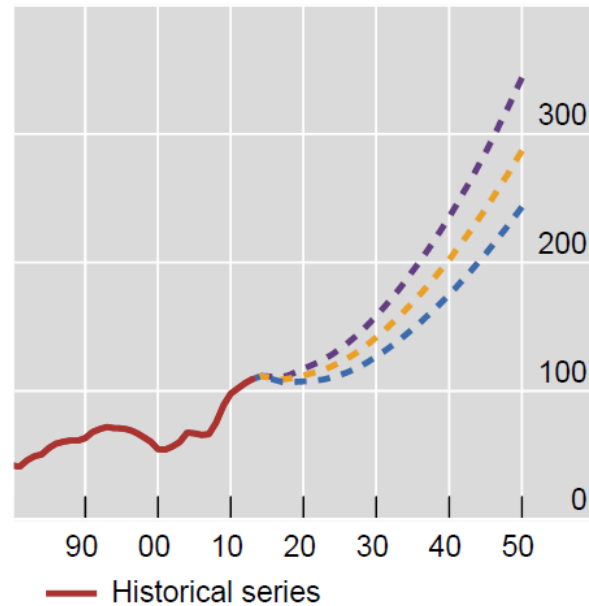
- Link between debt and growth
- For (Public Debt/GDP) > 80%:
 $\Delta(\text{Public Debt/GDP}) = +10 \text{ p.p.} \Rightarrow \Delta \text{Growth} = -0.13 \text{ to } -0.17\%$
- Many advanced economy fiscal trajectories remain unsustainable



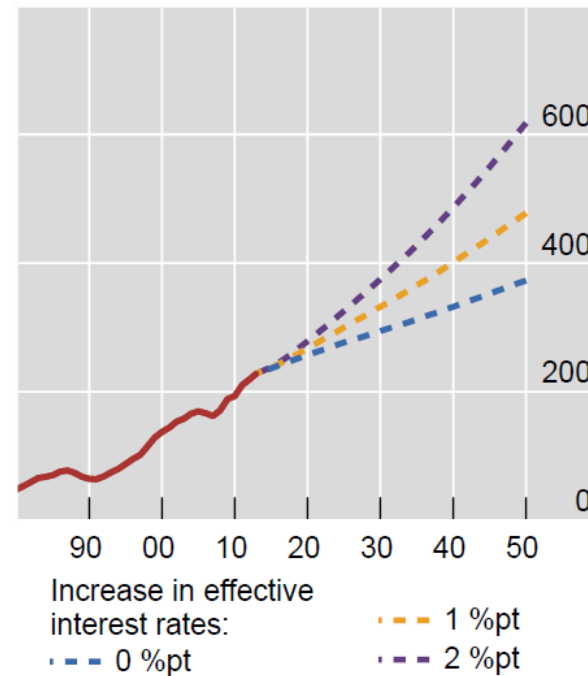
General government debt projections, 1990 – 2050

As a percentage of GDP (incorporating projected increases in age-related spending)

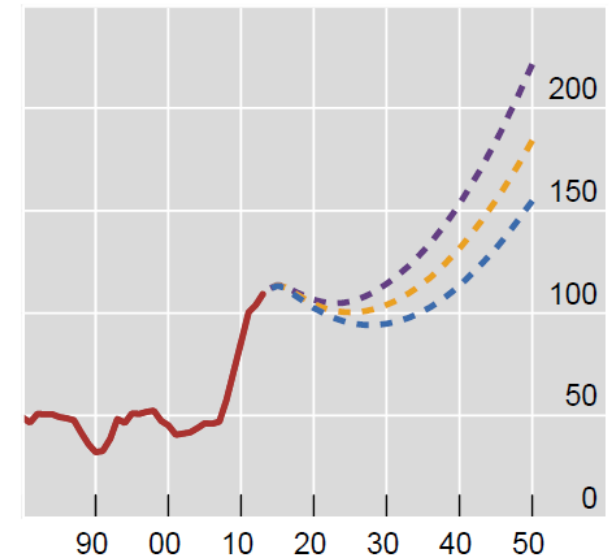
United States



Japan



United Kingdom



Sources: IMF; OECD; Japanese Cabinet Office; UK Office for Budget Responsibility; US Congressional Budget Office; BIS calculations.



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Thank you for coming.