

Global Spillovers and Domestic Monetary Policy: EME Perspective

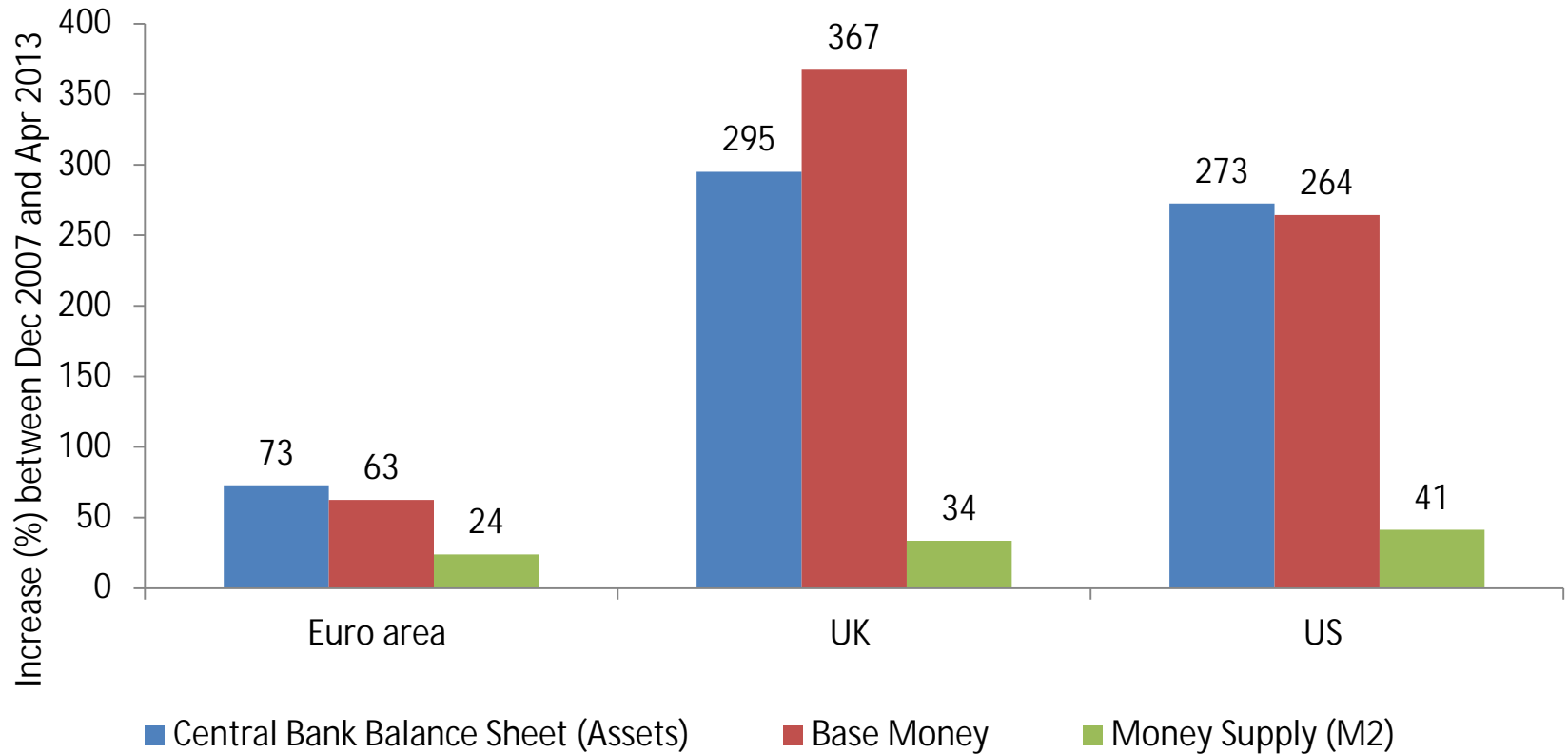
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Paper's Hypothesis

- If the economies facing considerable economic slack (mostly the advanced economies) were to undertake monetary easing as a group, while the emerging market economies were to allow currency appreciation, this might actually yield a positive outcome (p.16)....
- ... reflationary measures in AEs are a welcome development (p.17)

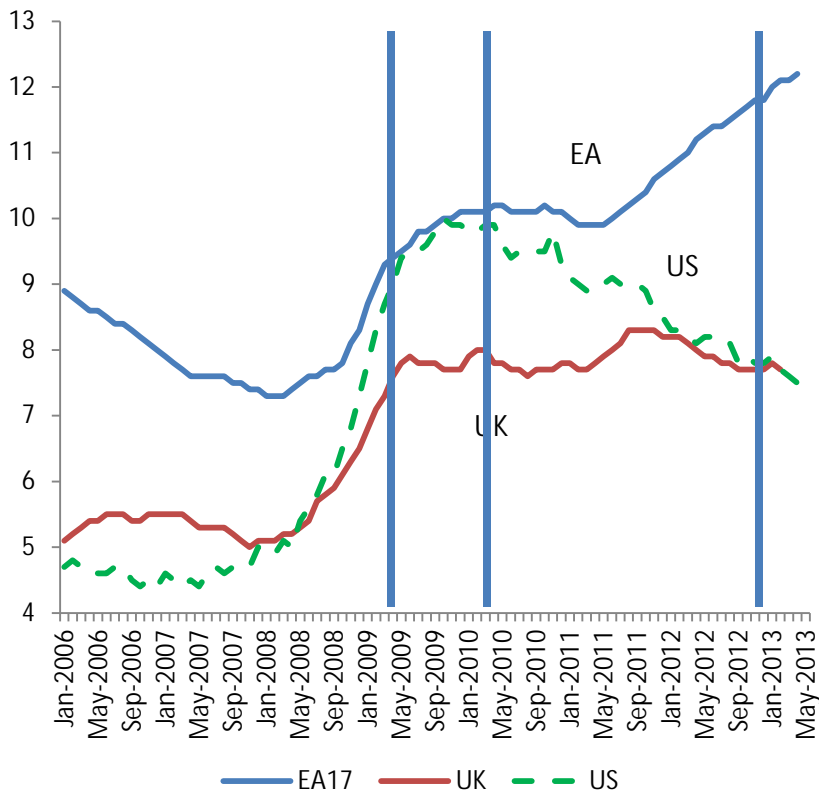
Monetary Policy in AEs



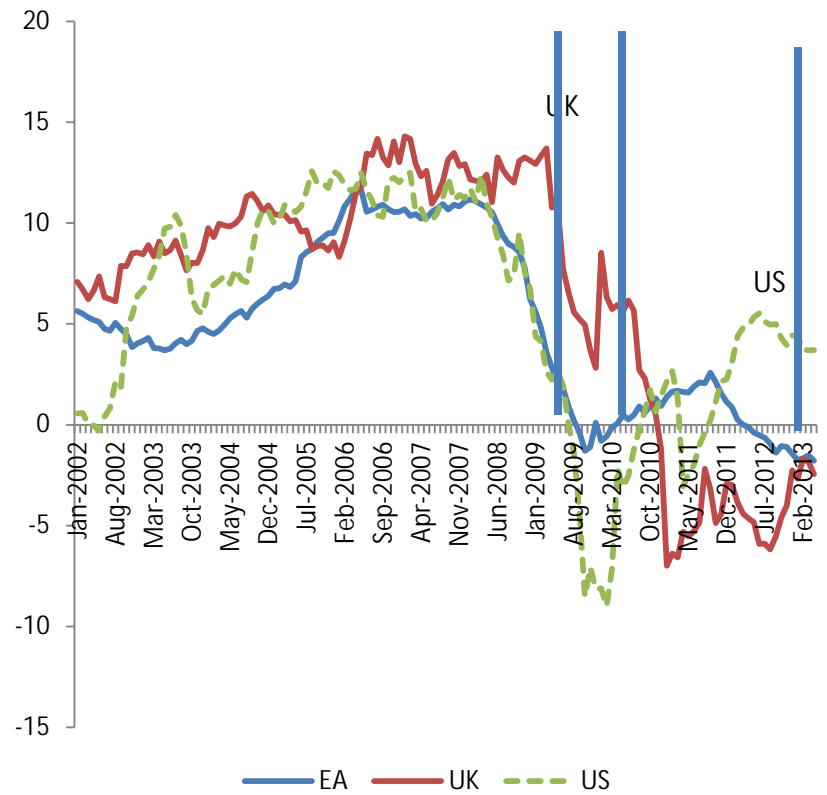
Source: Haver Analytics.

Real Economy: Sluggish

Unemployment Rate (%)

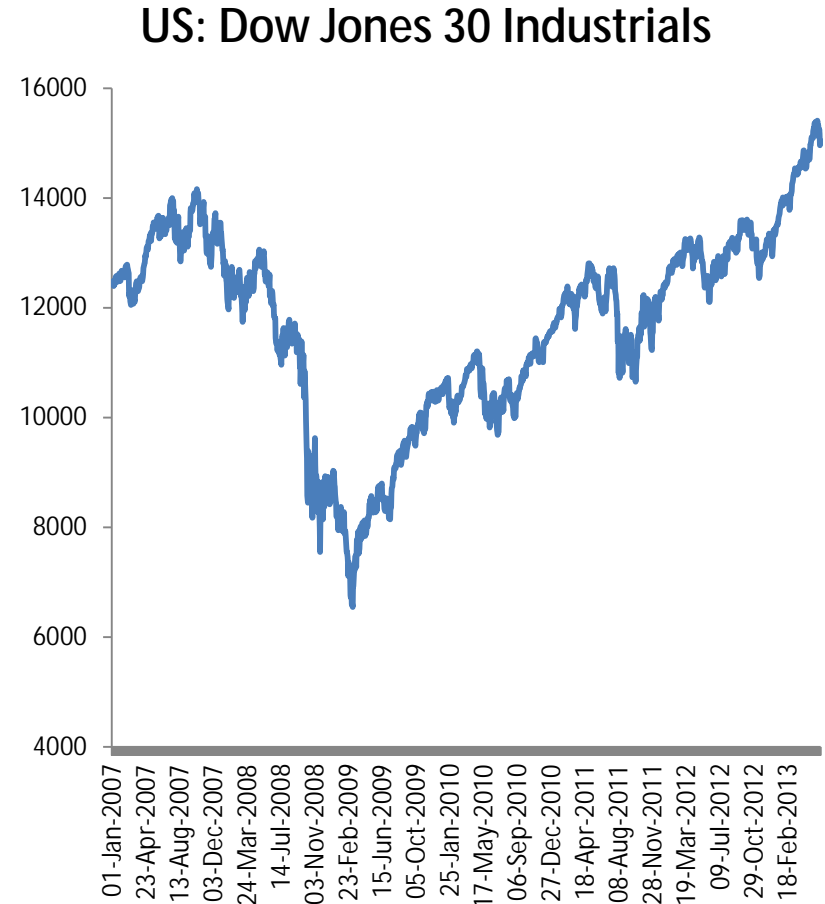
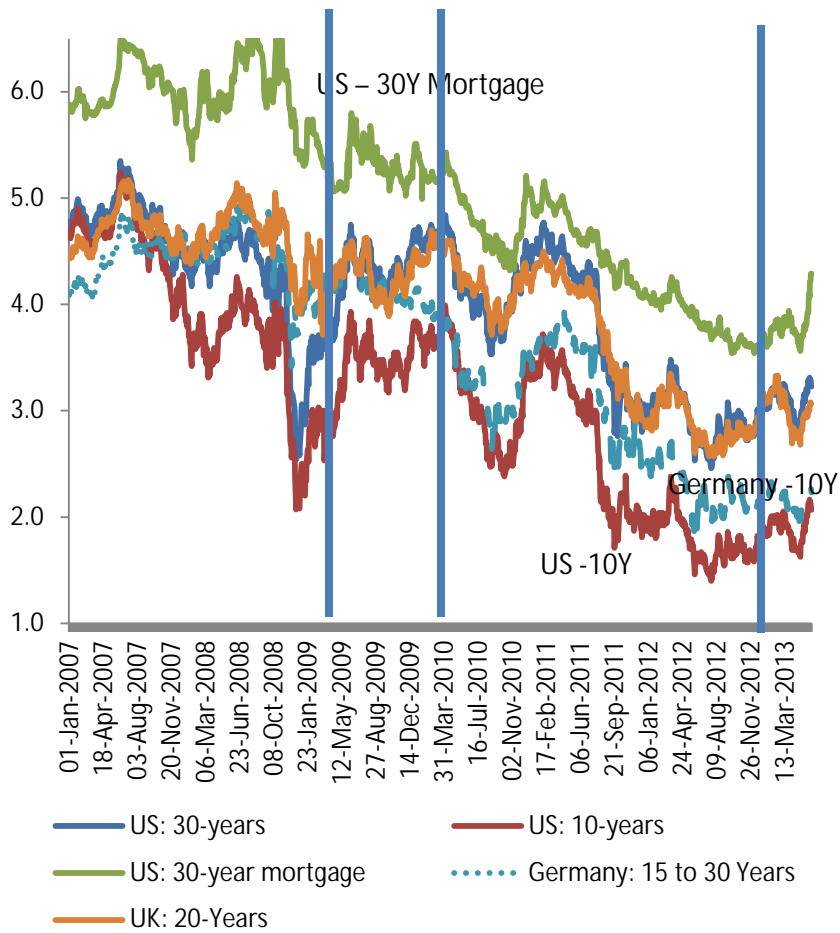


Bank Credit (Growth, y-o-y, %)



Source: Haver Analytics.

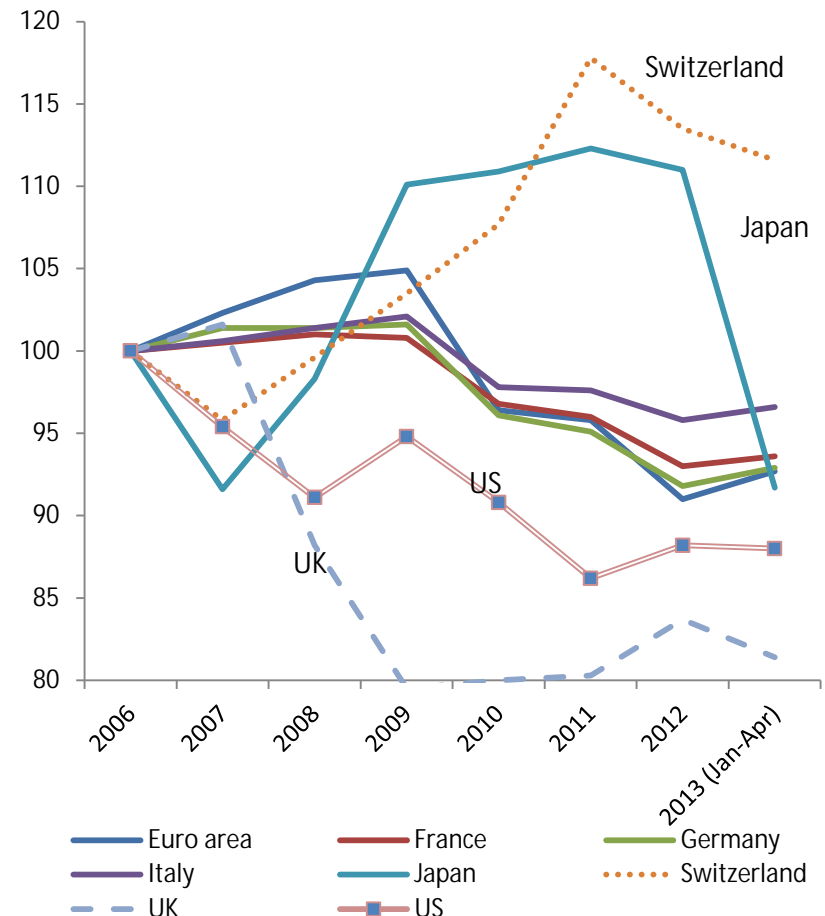
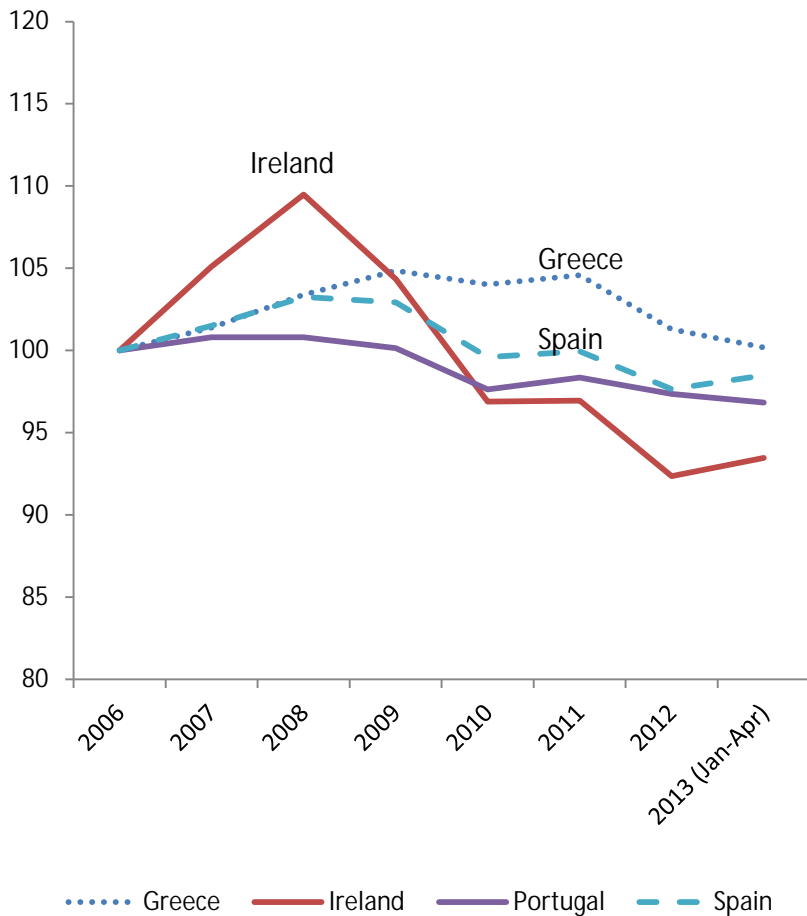
Financial Markets: Benign



Source: Haver Analytics.

REER Movements: AEs

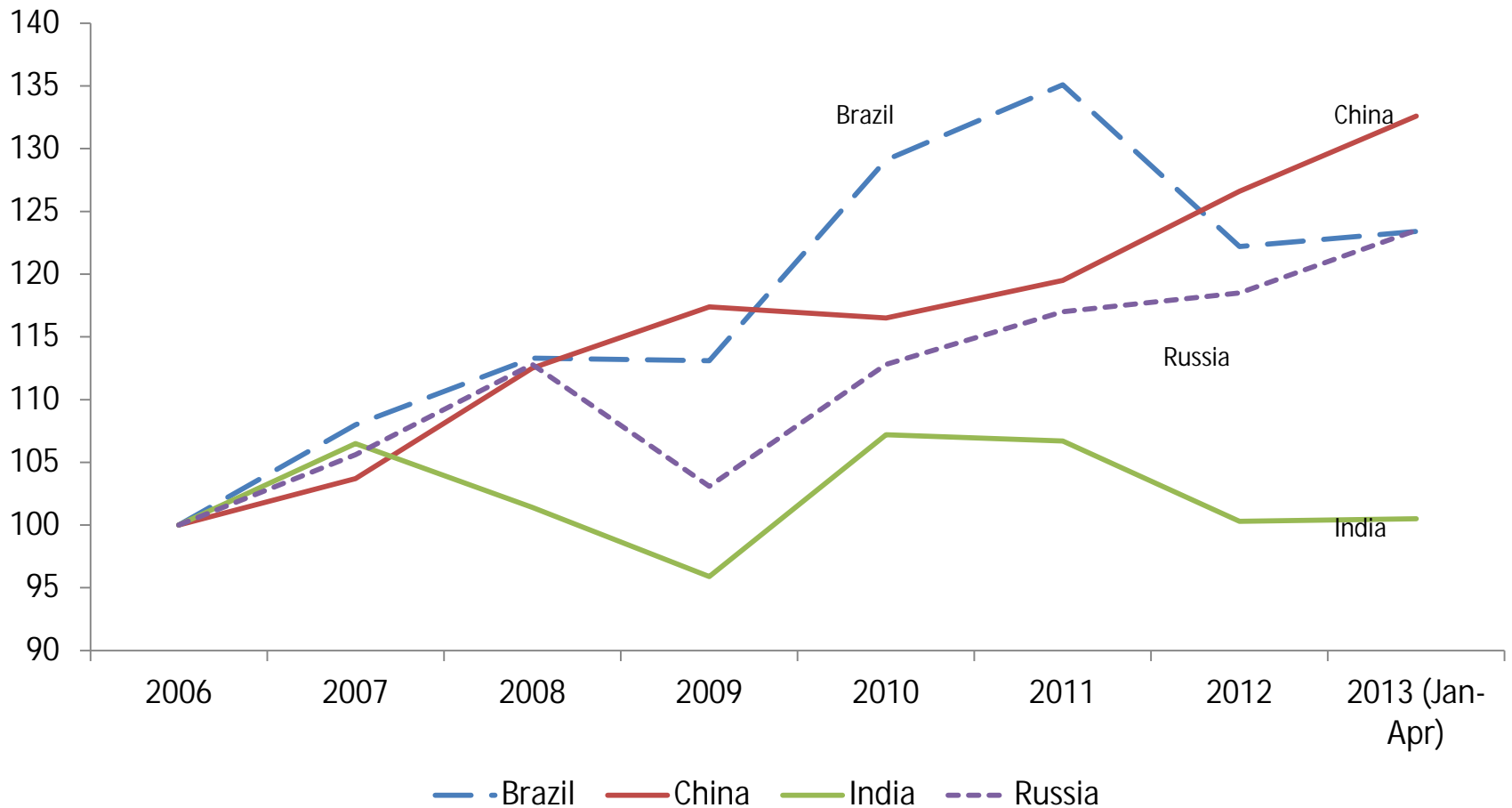
Index: 2006=100



(Source: BIS)

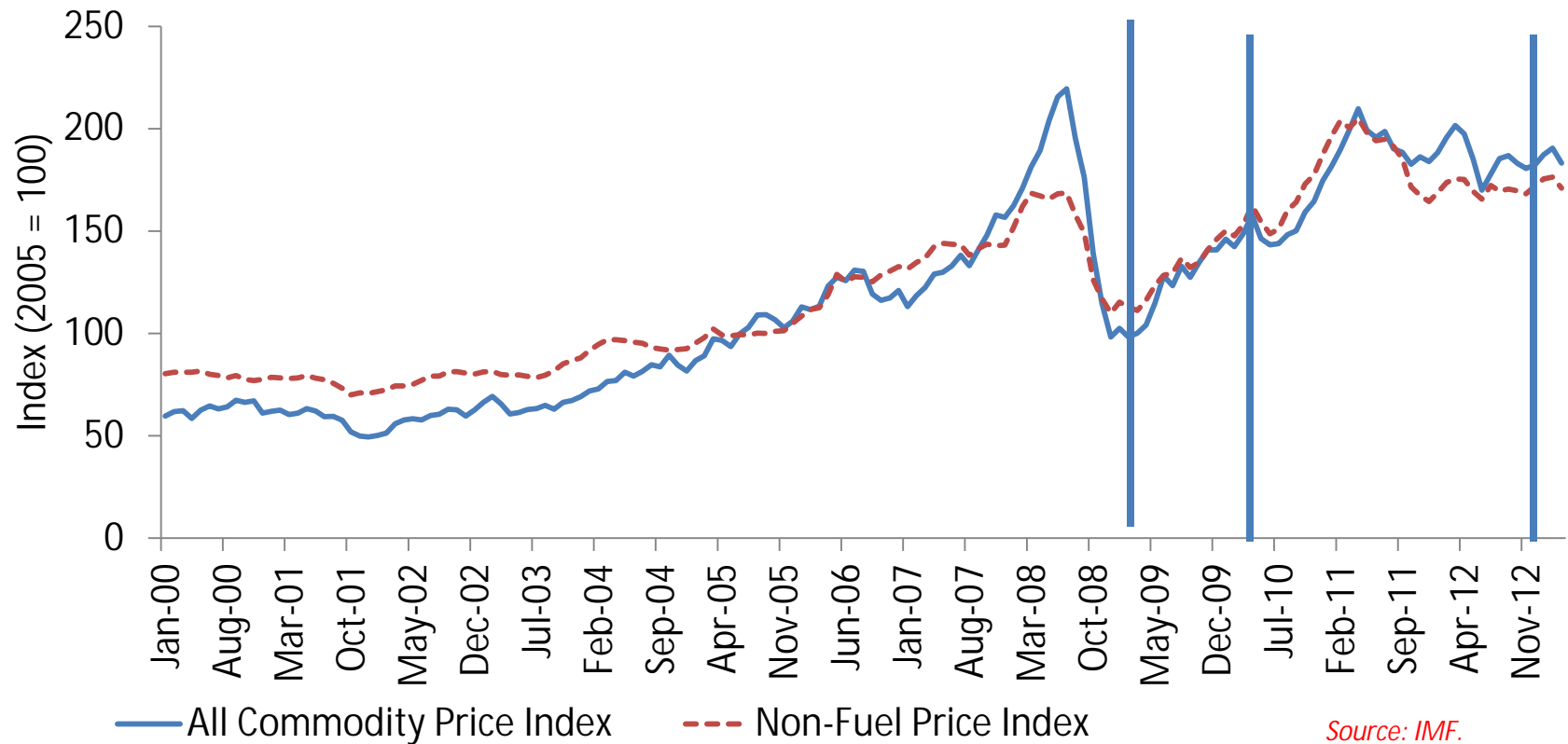
REER Movements: EMEs

(Index: 2006=100)



Significant appreciation in EDEs and depreciation in Advanced Economies. (Source: BIS)

Commodity Prices



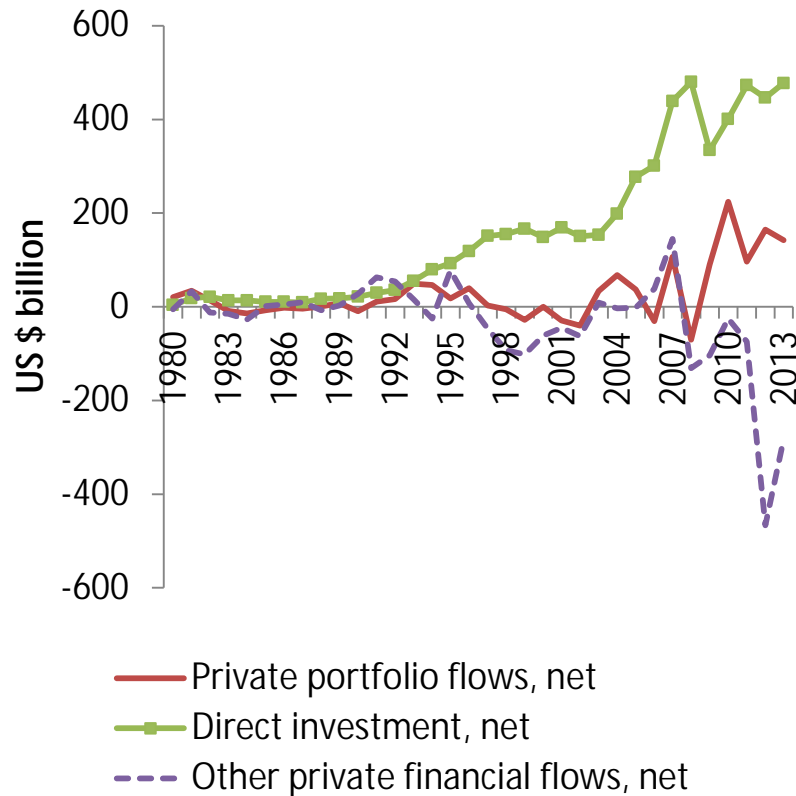
Impact of QE policies on commodity prices – adverse implications for EDEs

- Domestic inflation: monetary tightening, growth slowdown
- Fiscal subsidies – limit fiscal space in an environment of weak growth in AEs.

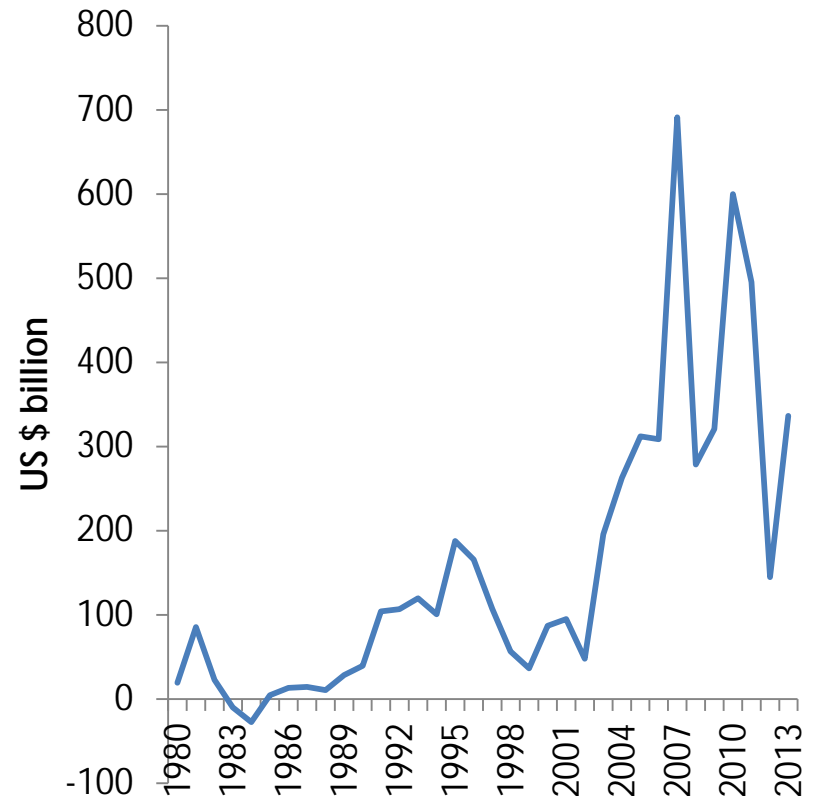
Capital Flows to EDEs:

Large Volatility

Component-wise, net



Total capital flows, net



Source: WEO, IMF.

Current Account Balances (1)

(Percent of GDP)

	2006	2007	2008	2009	2010	2011	2012		2012/2006
Advanced Economies	-1.2	-0.8	-1.1	-0.1	0.0	-0.2	-0.1		1.0
Euro area	0.5	0.4	-0.7	0.2	0.5	0.6	1.8		1.3
G7	-1.9	-1.2	-1.3	-0.6	-0.8	-1.0	-1.2		0.7
US	-6.0	-5.1	-4.7	-2.7	-3.0	-3.1	-3.0		3.0
EDEs	4.9	3.9	3.5	1.5	1.5	1.9	1.4		-3.5
Developing Asia	5.8	6.8	5.8	3.7	2.5	1.6	1.1		-4.7
Latin America	1.5	0.2	-0.9	-0.7	-1.2	-1.3	-1.7		-3.3

Significant heterogeneity in CAB positions across regions.

Source: WEO, IMF.

Current Account Balances (2)

(Percent of GDP)

	2006	2007	2008	2009	2010	2011	2012		2012/2006
Brazil	1.3	0.1	-1.7	-1.5	-2.2	-2.1	-2.3		-3.5
China	8.5	10.1	9.3	4.9	4.0	2.8	2.6		-5.9
India	-1.0	-0.7	-2.4	-2.1	-3.2	-3.4	-5.1		-4.1
Russia	9.5	5.9	6.2	4.1	4.6	5.2	4.0		-5.5
Euro area	0.5	0.4	-0.7	0.2	0.5	0.6	1.8		1.3
France	-0.6	-1.0	-1.7	-1.3	-1.6	-2.0	-2.4		-1.8
Germany	6.3	7.5	6.2	6.0	6.2	6.2	7.0		0.8
Japan	3.9	4.9	3.3	2.9	3.7	2.0	1.0		-2.9
Switzerland	14.4	8.6	2.1	10.5	14.3	8.4	13.4		-1.0
UK	-2.9	-2.3	-1.0	-1.3	-2.5	-1.3	-3.5		-0.6
US	-6.0	-5.1	-4.7	-2.7	-3.0	-3.1	-3.0		3.0

Not all AEs have CADs and not all EDEs have surpluses. Germany : persistent surplus; Switzerland : peg, despite large surplus. Currency revaluation appropriate? *Source: WEO, IMF.*

GDP Growth in EDEs (%)

	2003-07 (Avg.)	2008-12 (Avg.)	Change
Brazil	4.0	3.2	-0.8
China	11.7	9.3	-2.4
India	8.6	6.8	-1.8
Indonesia	5.5	5.9	0.4
Korea	4.3	2.9	-1.4
Malaysia	5.9	4.2	-1.7
Mexico	3.4	1.7	-1.7
Russia	7.5	1.9	-5.6
South Africa	4.8	2.2	-2.5
Thailand	5.6	2.9	-2.7
All EDEs	7.7	5.6	-2.1
<i>Memo:</i>			
World	4.8	2.9	-1.9
Advanced economies	2.7	0.5	-2.2

Rebalancing: no signs of excess demand in EDEs! And, far away from 'near full employment.

Source: WEO, IMF.

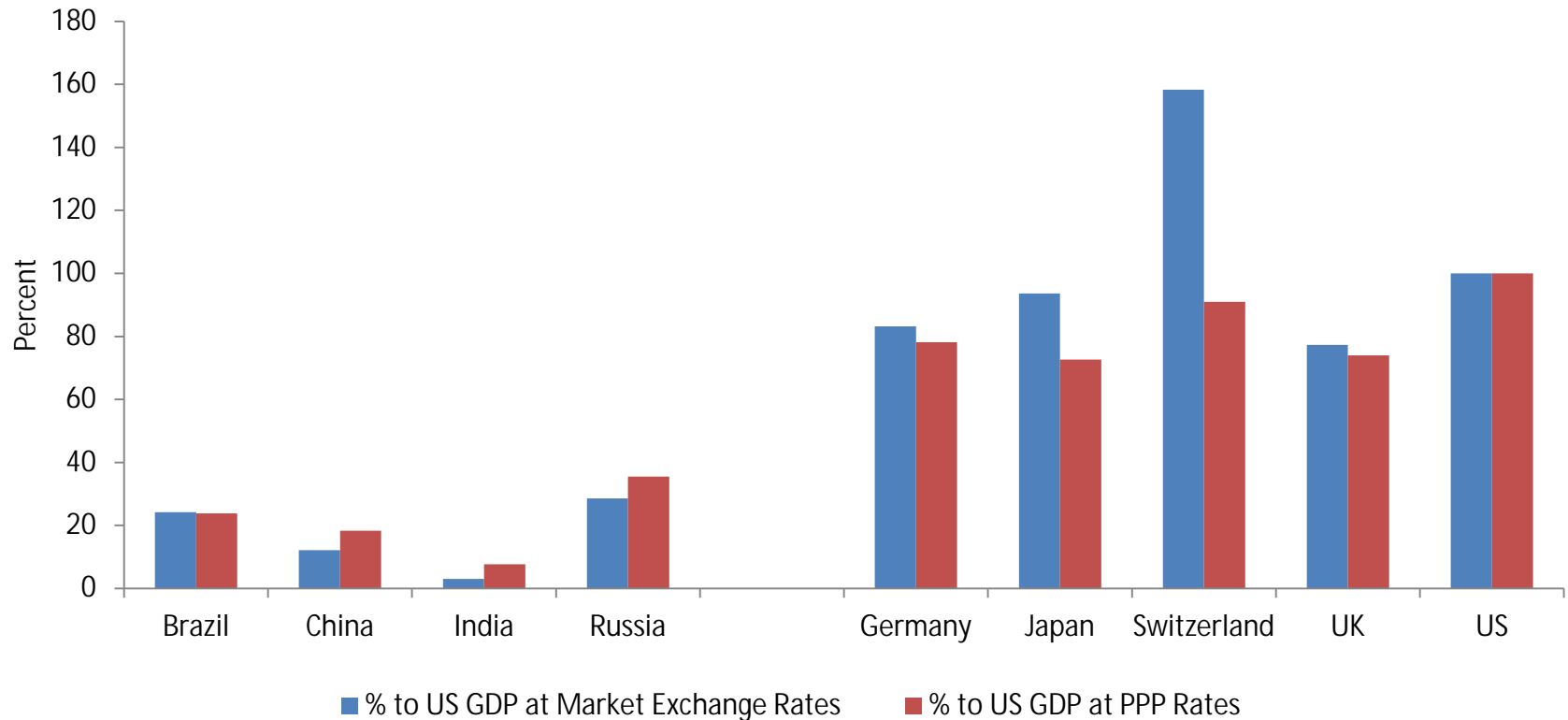
Inflation in EDEs (%)

	2003-07 (Avg.)	2008-12 (Avg.)	Change
Brazil	7.2	5.5	-1.7
China	2.6	3.3	0.7
India	4.9	9.9	5.0
Indonesia	8.6	5.9	-2.7
Korea	2.9	3.3	0.4
Malaysia	2.2	2.5	0.3
Mexico	4.2	4.4	0.3
Russia	11.2	9.2	-2.0
South Africa	4.5	6.7	2.2
Thailand	3.2	2.9	-0.3
All EDEs	6.1	6.7	0.6
<i>Memo:</i>			
World	3.8	4.2	0.4
Advanced economies	2.1	1.9	-0.2

Rebalancing: no general signs of overheating in EDEs.

Source: WEO, IMF.

Per capita GDP in EDEs

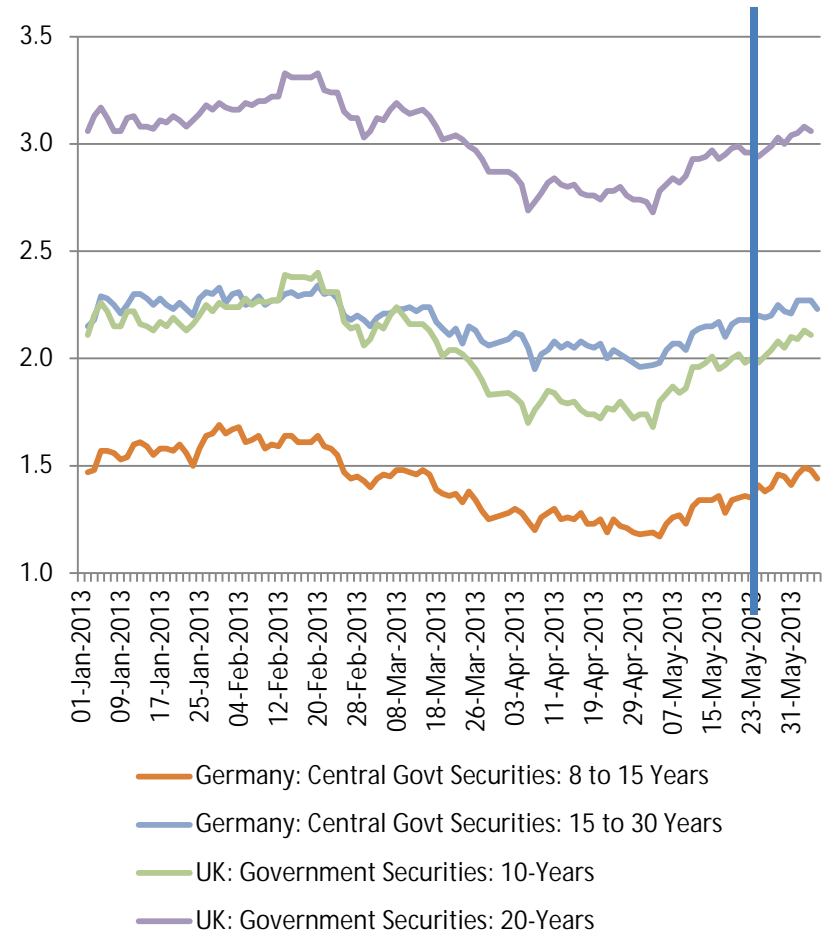
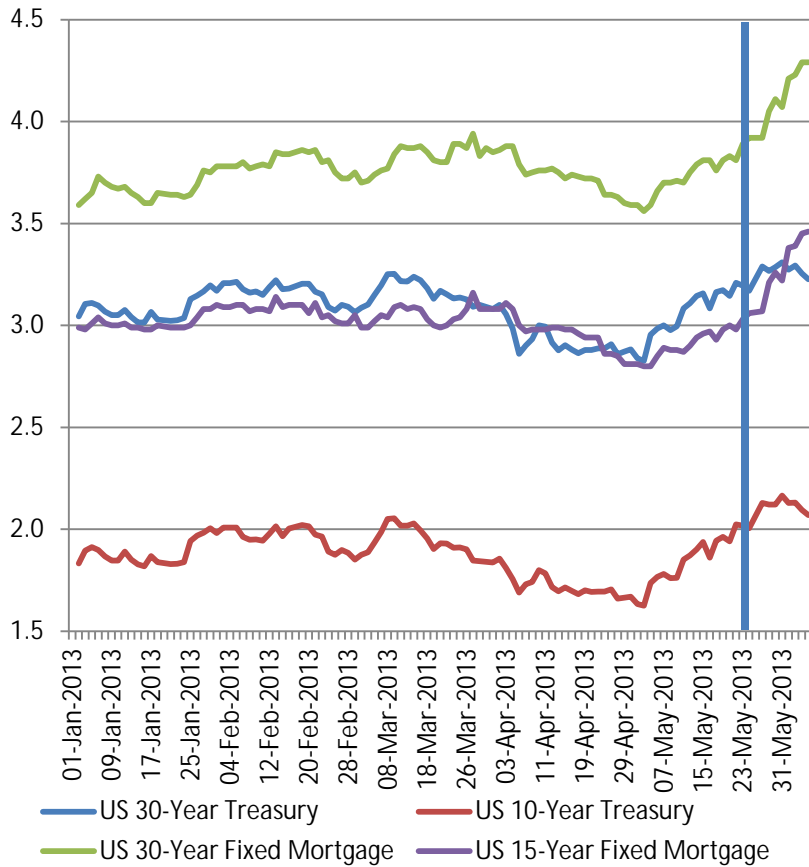


Note: Data pertain to 2012.

Rebalancing in AEs: at the cost of still very poor EDEs?
Rebalancing in rich AEs – Germany, Switzerland?

Source: WEO, IMF.

Exit Jitters: Financial Markets (1)

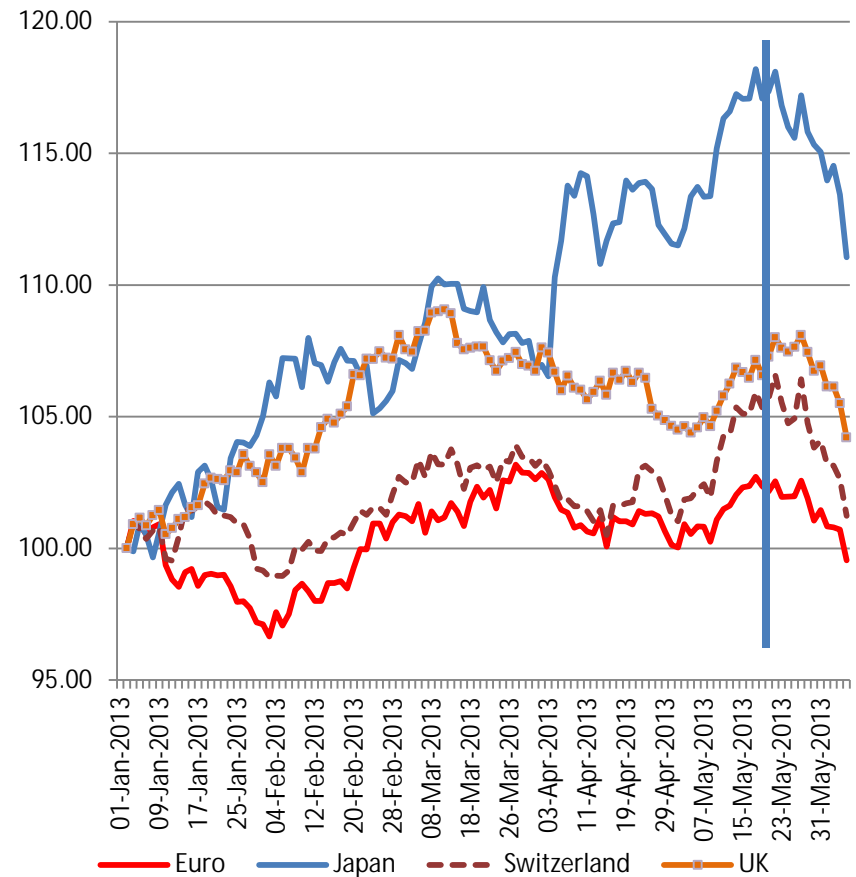
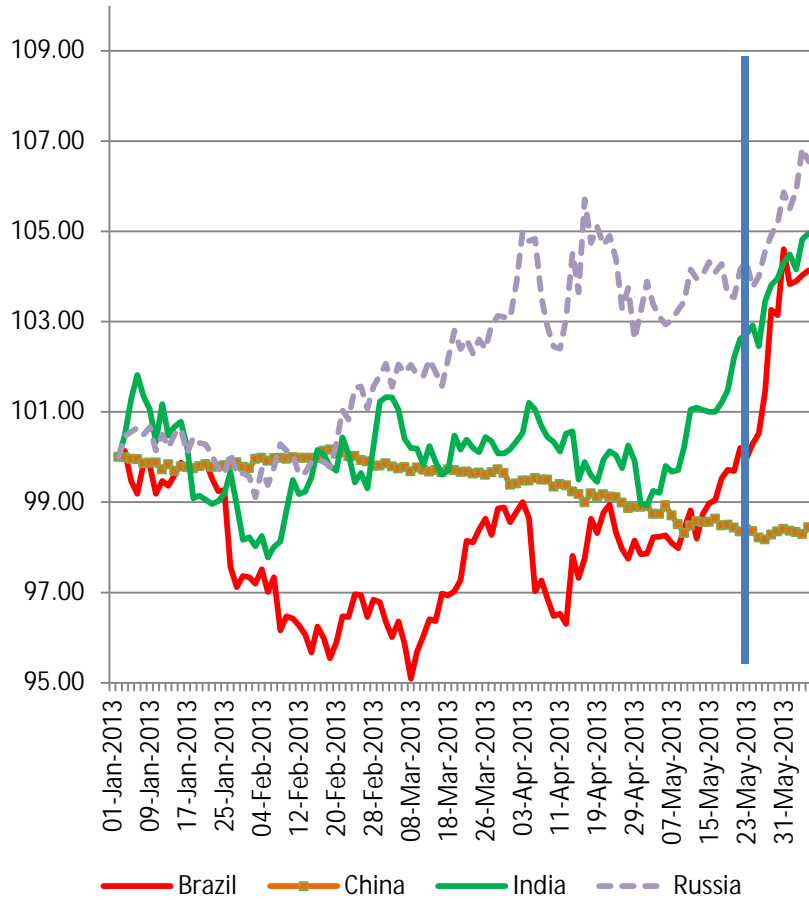


(Source: Haver Anal.)

High volatility in past month in financial markets over QE Exit concerns.

Exit Jitters: Financial Markets (2)

Exchange Rates v/s US dollar (Jan 1, 2013 = 100)



(Source: Haver Anal.)

Conclusions

- QE policies
 - Buoyant financial markets,
 - But, very weak transmission – credit, growth, unemployment
- Rebalancing hypothesis:
 - Major AEs with C/A surpluses and major EMs with deficits -
 - Excess demand in EMs? EMs still poor. Rebalancing among unequals?
 - Volatility in capital flows, exchange rates
 - Financial Stability and External Stability Implications
 - Commodity prices
 - Adverse impact on inflation/growth
- Net impact on EDEs?
- Exit Issues
 - More Volatility for EDEs in the Medium-term.
 - EDEs need to continue with prudential policies, including capital account management

THANKS