Breaking free of the triple coincidence in international finance[1]

Hyun Song Shin, BIS

BANK FOR INTERNATIONAL SETTLEMENTS

Breaking free of the triple coincidence in international finance

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Bank for International Settlements

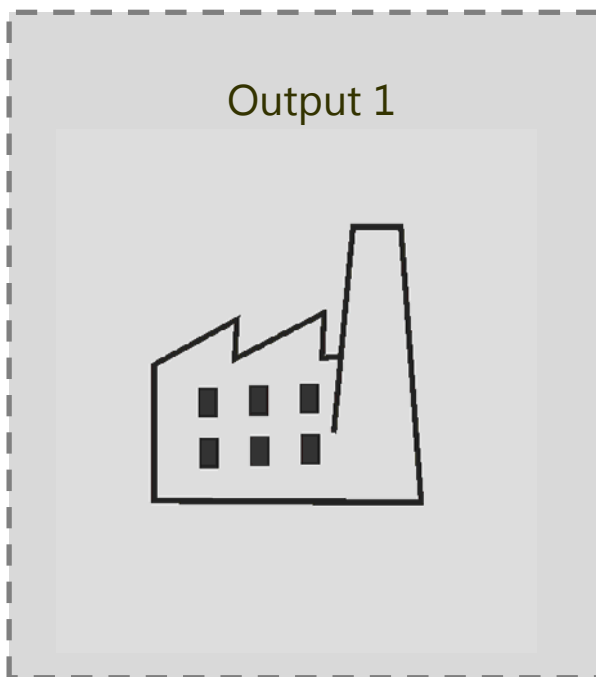Panel remarks at the 8th IFC Conference

Basel, 9 September 2016

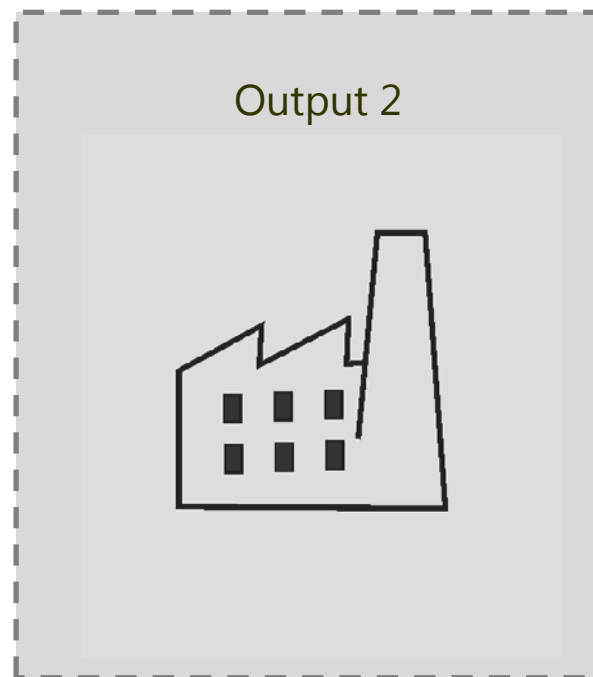# Textbook framework for international finance
Unit of analysis is national income (GDP) area
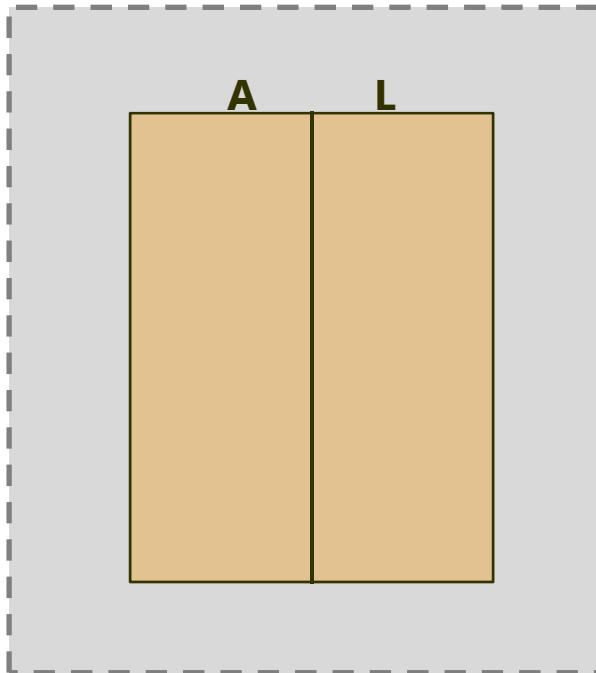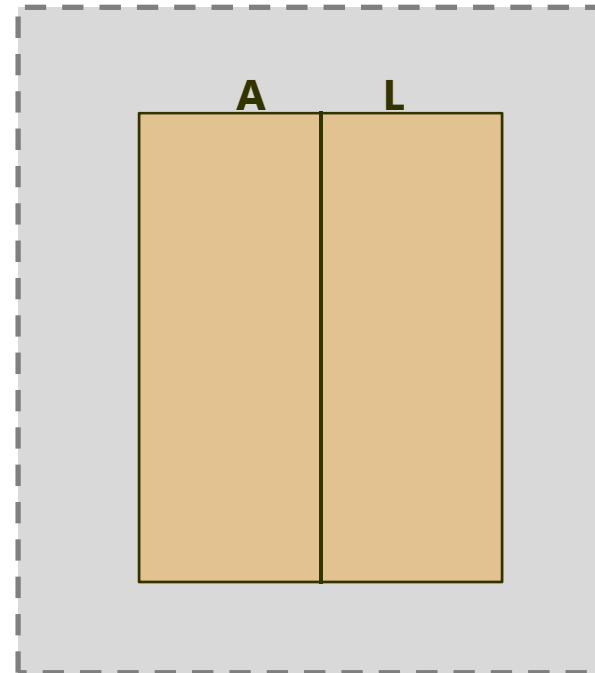
Economic territory 1

Economic territory 2

Output 1

Output 2

Traditional approach:
GDP boundary defines decision making unit

Economic territory 1

Economic territory 2

Triple coincidence

Triple coincidence can lead one stray

- **Global savings glut**
  - Losses from subprime were borne by European banks, not investors from current account surplus countries

- **Wile E. Coyote moment for the dollar**
  - Dollar appreciated with the onset of the 2008 crisis

- **Korea in 2008**
  - Current account surpluses and positive net external asset position
  - Yet, Korea was one of those countries hardest hit in crisis

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US dollar-denominated cross-border bank claims
In billions of USD

2002

US dollar-denominated cross-border bank claims
In billions of USD
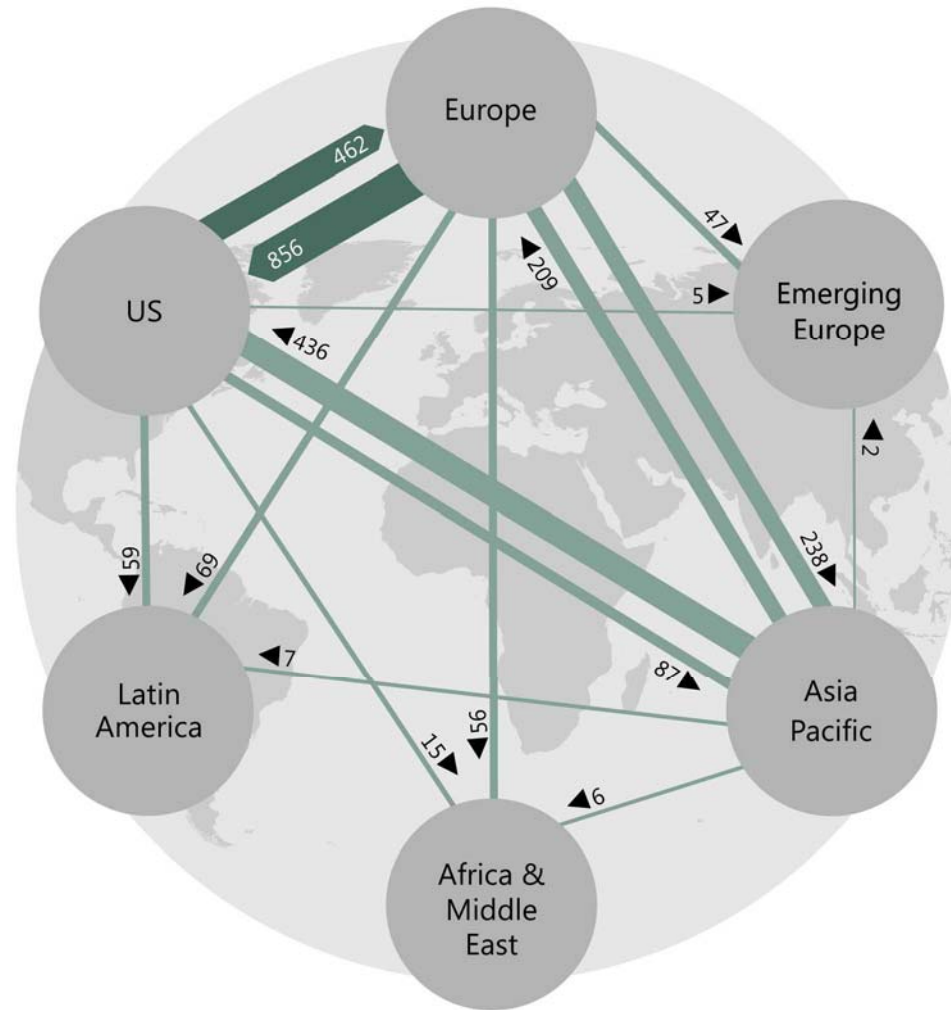
2003

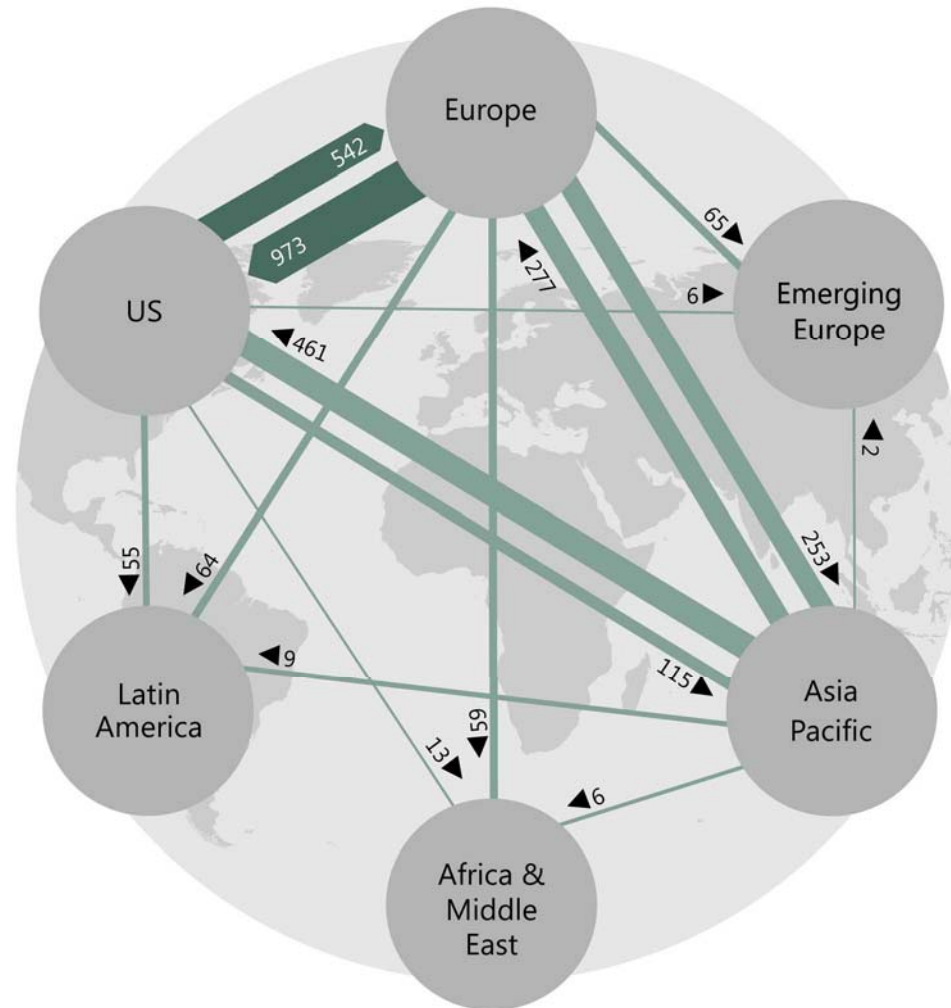Source: BIS locational banking statistics by residence.

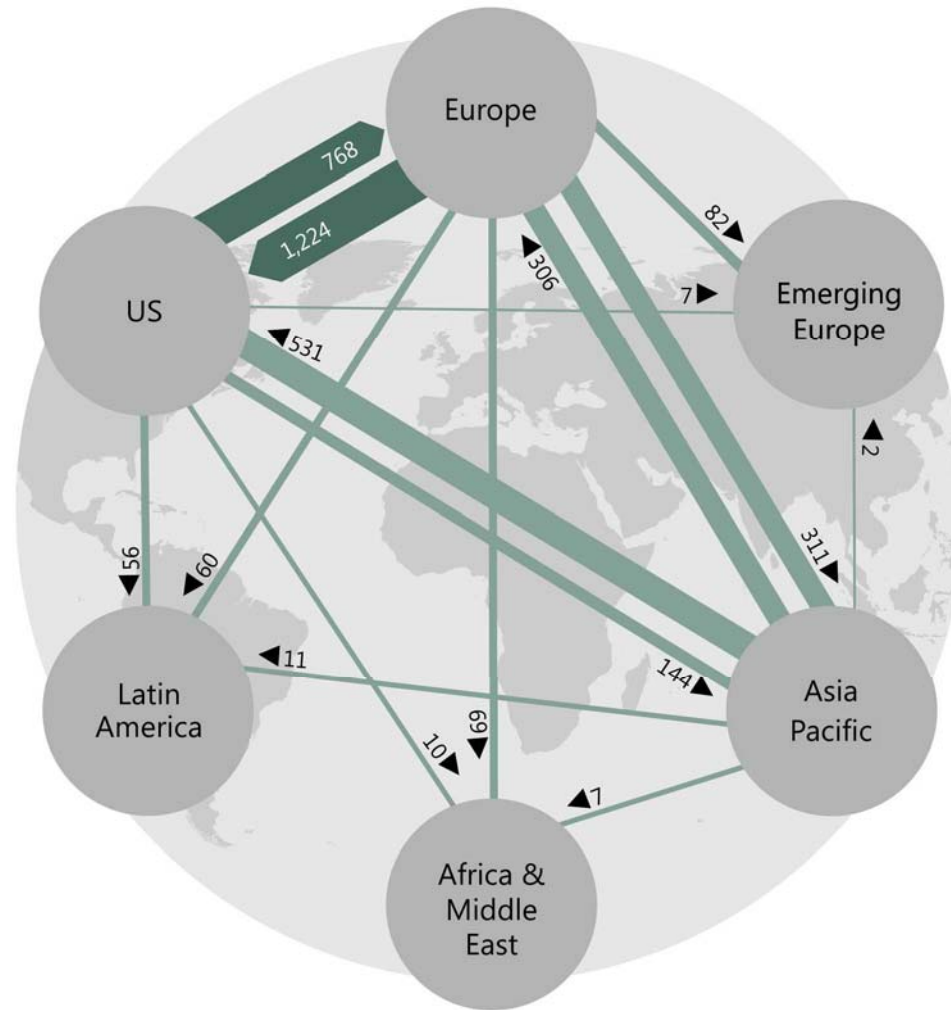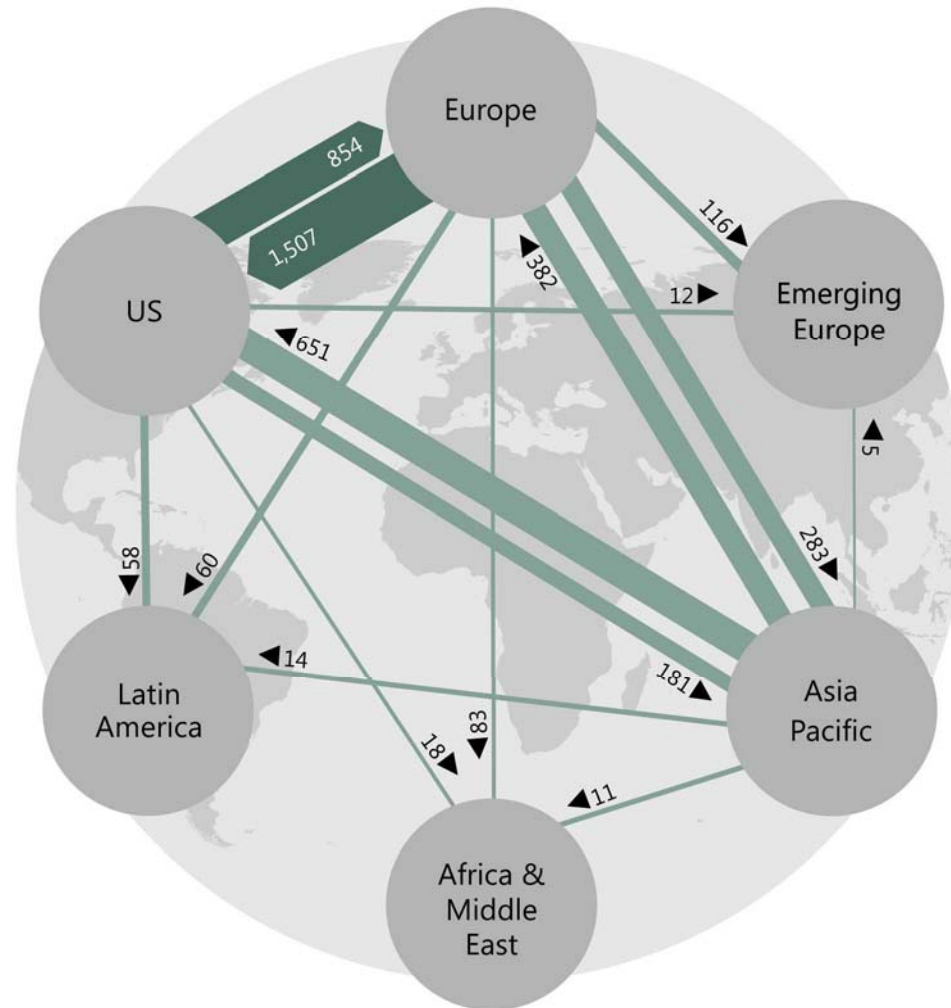# US dollar-denominated cross-border bank claims
In billions of USD

2004

US dollar-denominated cross-border bank claims
In billions of USD

2005

US dollar-denominated cross-border bank claims
In billions of USD

2006

US dollar-denominated cross-border bank claims
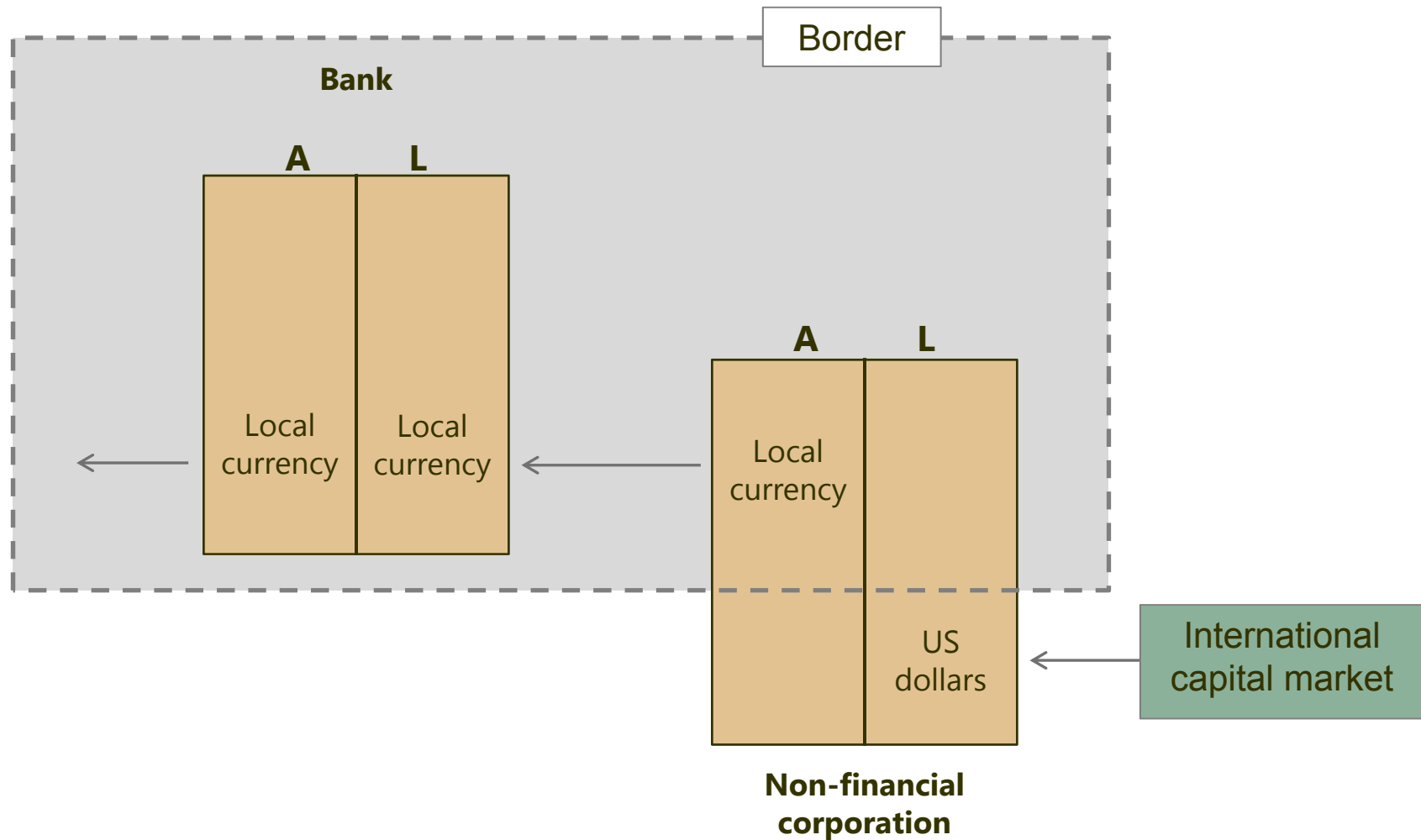## In billions of USD

2007
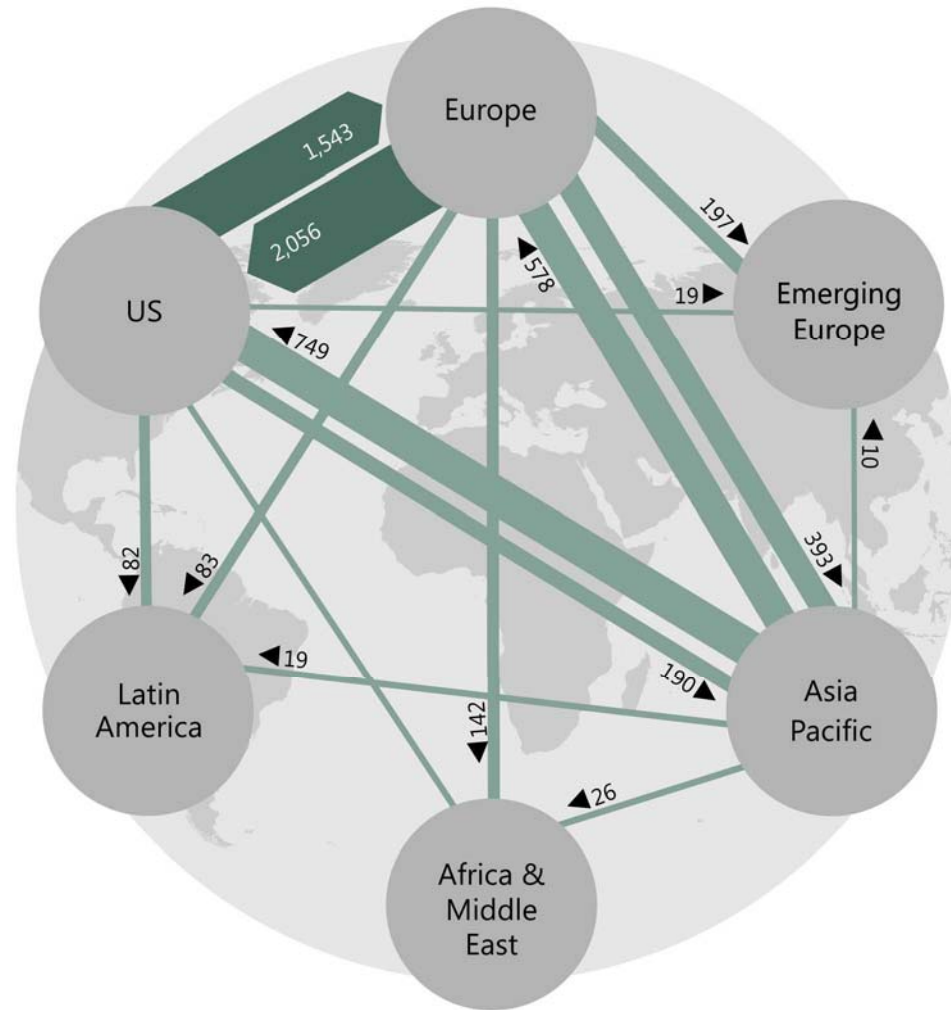
Source: BIS locational banking statistics by residence.

Currency denomination does not follow the national income boundary: case of non-banks
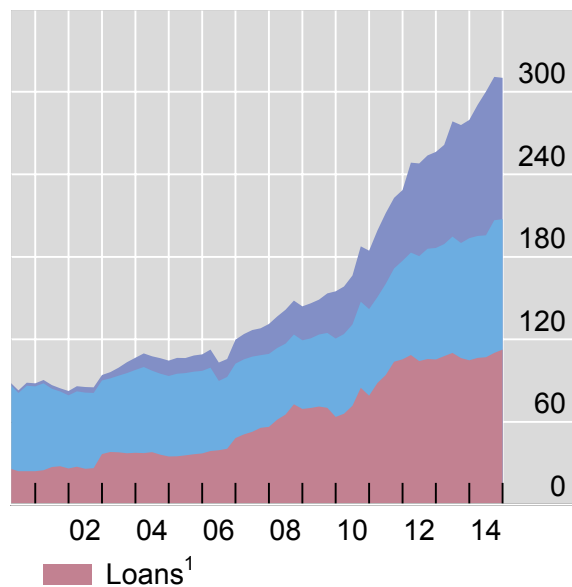
Traditional balance of payments boundary may understate "external" dollar credit
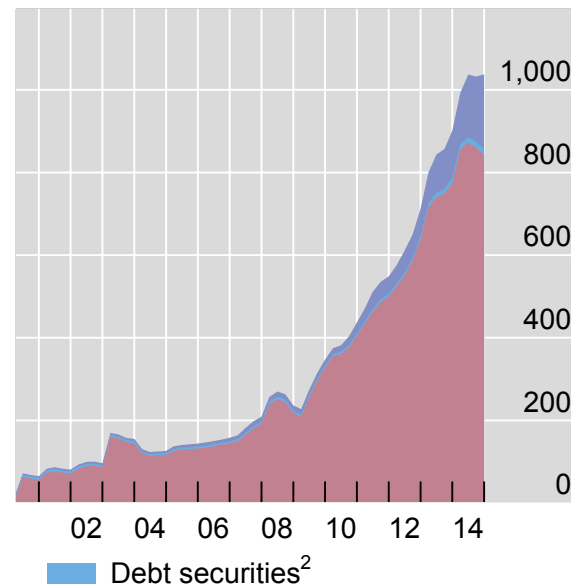
US dollar credit to non-bank borrowers including offshore issuance
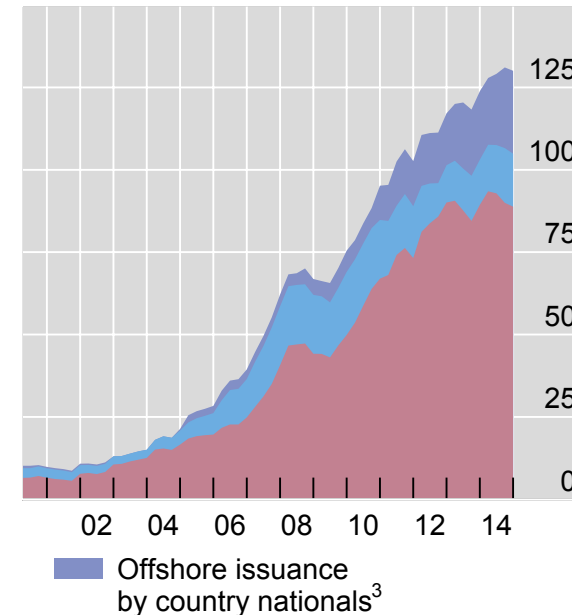
In billions of US dollars

Brazil

China

India

Loans[1]   Debt securities[2]   Offshore issuance by country nationals[3]

[1] US dollar-denominated loans to non-bank residents of the country listed in the panel titles. For China, locally extended US dollar loans are estimated from national data on total foreign currency loans, assuming 80% are dollar-denominated. [2] Outstanding US dollar debt securities issued by non-financial residents of the country listed in the panel title. [3] Outstanding US dollar-denominated bonds issued offshore (ie outside the country listed in the panel title) by non-financials with the nationality listed in the panel title.

Sources: BIS locational banking statistics by residency; BIS International Debt Securities Statistics; national sources; authors' calculations.

Challenges for models of international finance

- General equilibrium models are about GDP components
  - Consumption, investment, ...
- But balance sheets do not always follow the GDP boundary
  - Can be messy to have two overlapping partitions of all decision makers in the world

- Some progress can be made if concern is with *global variables*
  - Global factors determining economic conditions
  - "Global liquidity"
  - Risk-taking channel

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