



BANK FOR INTERNATIONAL SETTLEMENTS

11th

BIS Annual Conference

The future of financial globalisation

21–22 June 2012, Lucerne, Switzerland





Is globalisation great?

How much finance is good?

How much financial globalisation is good?



Is globalisation great?

How much finance is good?

Financial deepening is great, up to a point.

How much financial globalisation is good?

Globalisation of finance is great, up to a point.



Globalisation

- Goods & services trade improves welfare
- Real trade is facilitated by financial flows



Financial development

- **Contributes to growth**
 - Reduces transactions costs
 - Improves distribution of capital and risk



Financial development

- **Contributes to growth**
 - Reduces transactions costs
 - Improves distribution of capital and risk
- **Detracts from growth**
 - Competes for resources
 - Creates vulnerability
 - Can misallocate resources



How much finance is good?

- Credit/GDP



How much finance is good?

- Credit/GDP
- Real growth vs share of finance
 - Employment share
 - Value added share

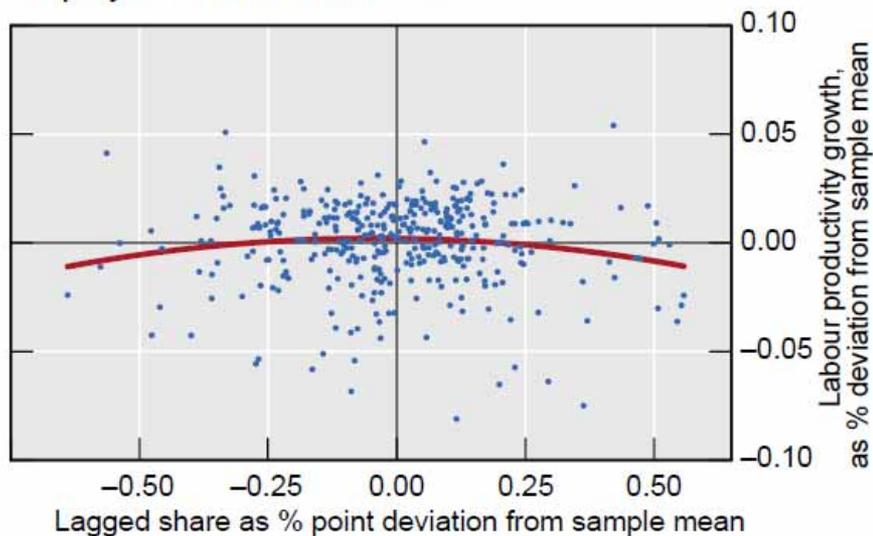


Graph 1

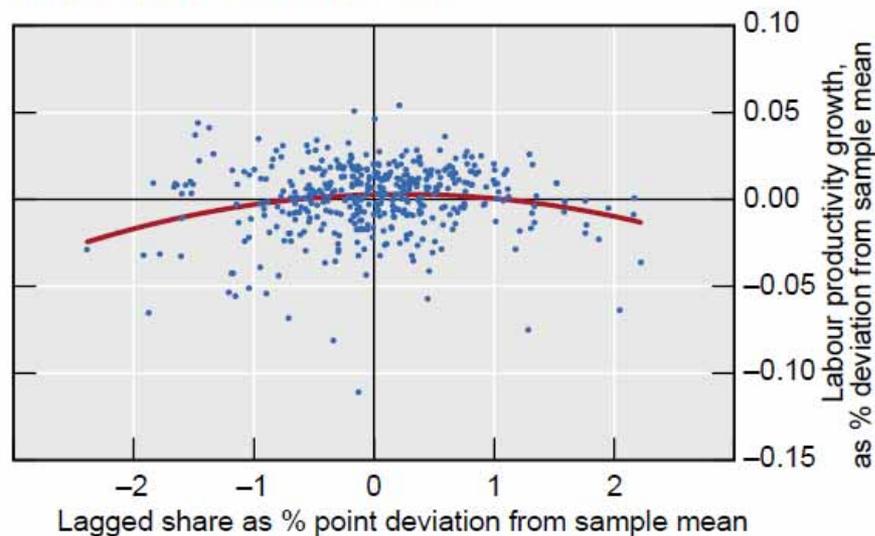
Productivity growth and financial sector share

(16 OECD countries, 1980–2009)

Employment share of finance



Value added share of finance



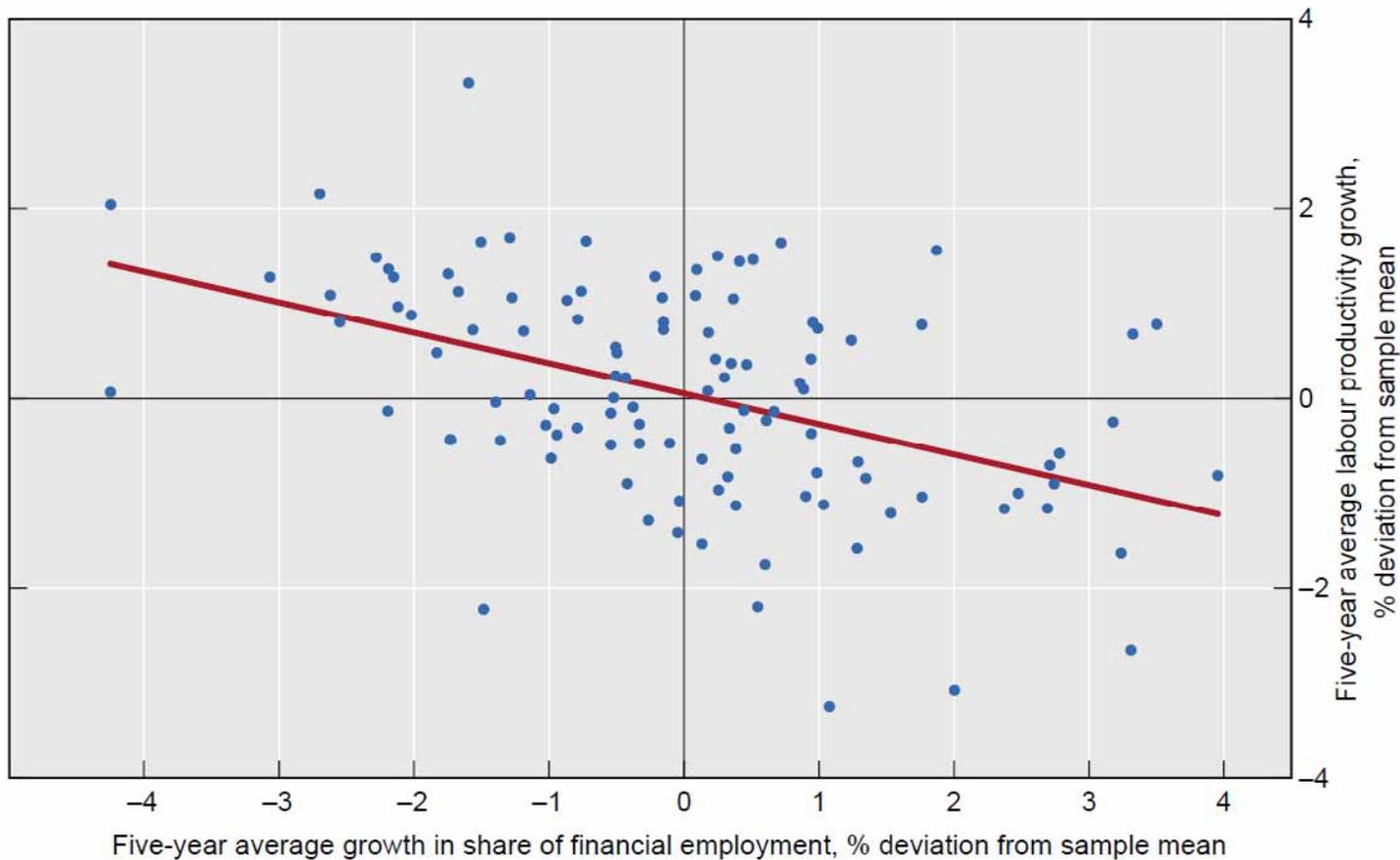


How much finance is good?

- Credit/GDP
- Real growth vs share of finance
 - Employment share
 - Value added share
- Real growth vs growth in share of finance



Graph 2
Productivity growth and growth in the financial sector
(16 OECD countries, 1980–2009)





How much finance is good?

Financial deepening is good, up to a point.



How much financial globalisation is good?

- Does the source of funds matter?
- What about cross-border flows?
- What about financial specialisation?



How much financial globalisation is good?

- Are credit booms fueled from abroad?
- Is the marginal unit of debt cross-border?

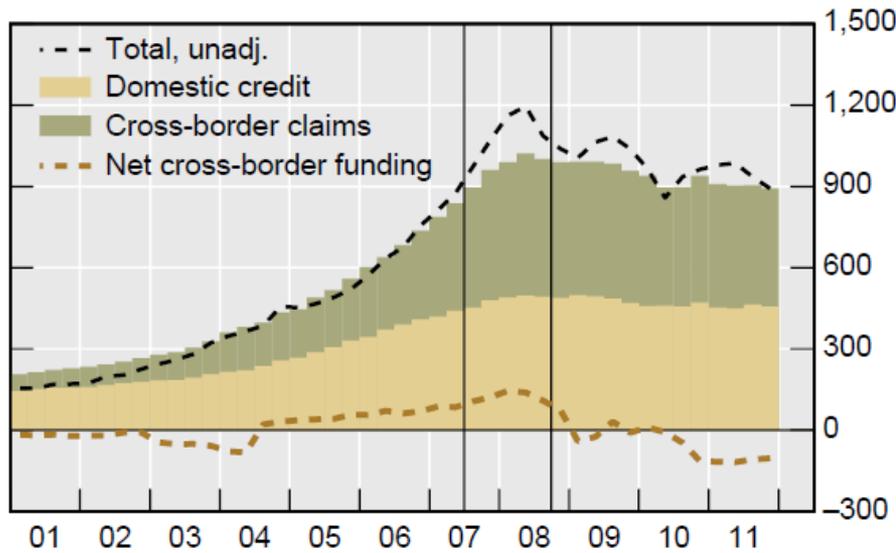


Graph 3

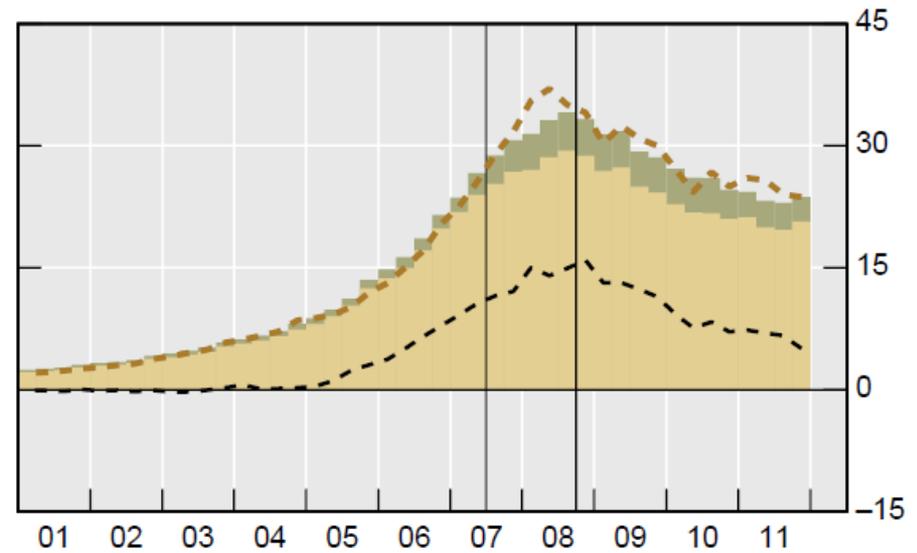
Bank credit to non-banks

(at constant end-Q4 2011 exchange rates)

Ireland



Latvia



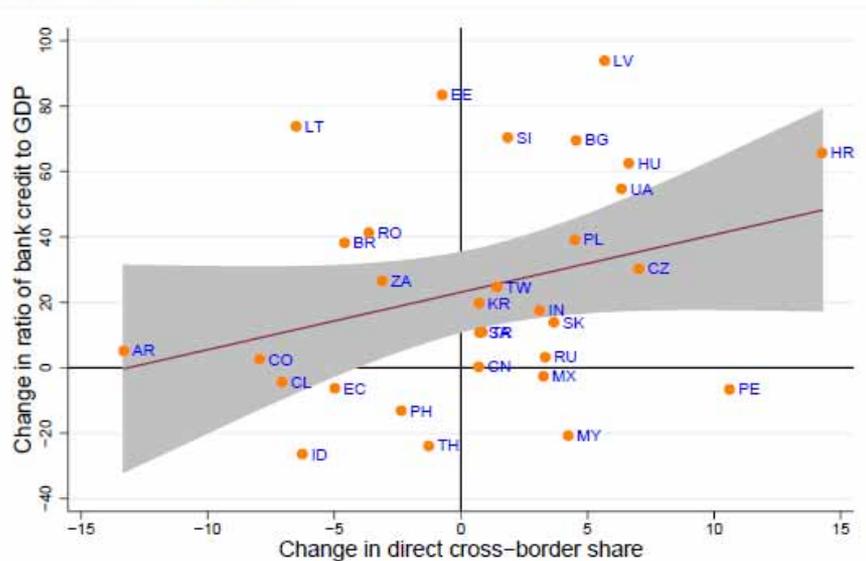


Graph 4

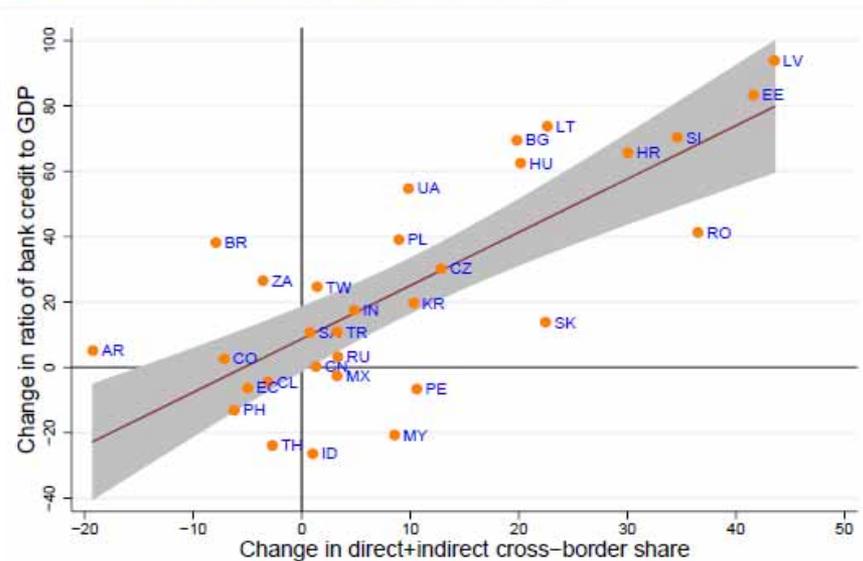
International credit and credit expansion in emerging markets (Q1 2002–Q2 2008)

In per cent

Direct cross-border credit



Direct + indirect cross-border credit





How much financial globalisation is good?

- Faster cross-border credit grew \Rightarrow faster domestic credit grew.
- Direct of indirect cross-border + 1pp \Rightarrow +1.6 pp in Credit/GDP!
- Cross-border finance implicated in financial over-development.



Is globalisation great?

Financial deepening is great, up to a point.

Financial globalisation is great, up to a point.



The future of financial globalisation

Philip Lane:

“Financial Globalisation and the Crisis”

Alan Taylor:

“The Great Leveraging”

Pierre Olivier Gourinchas & Olivier Jeanne:

“Global Safe Assets”

Valentina Bruno & Hyun Song Shin:

“Capital Flows & the Risk-Taking Channel
of monetary policy”



BANK FOR INTERNATIONAL SETTLEMENTS



11th

BIS Annual Conference

Thank you for coming.