BANK OF ENGLAND

Thing Global, Act Local

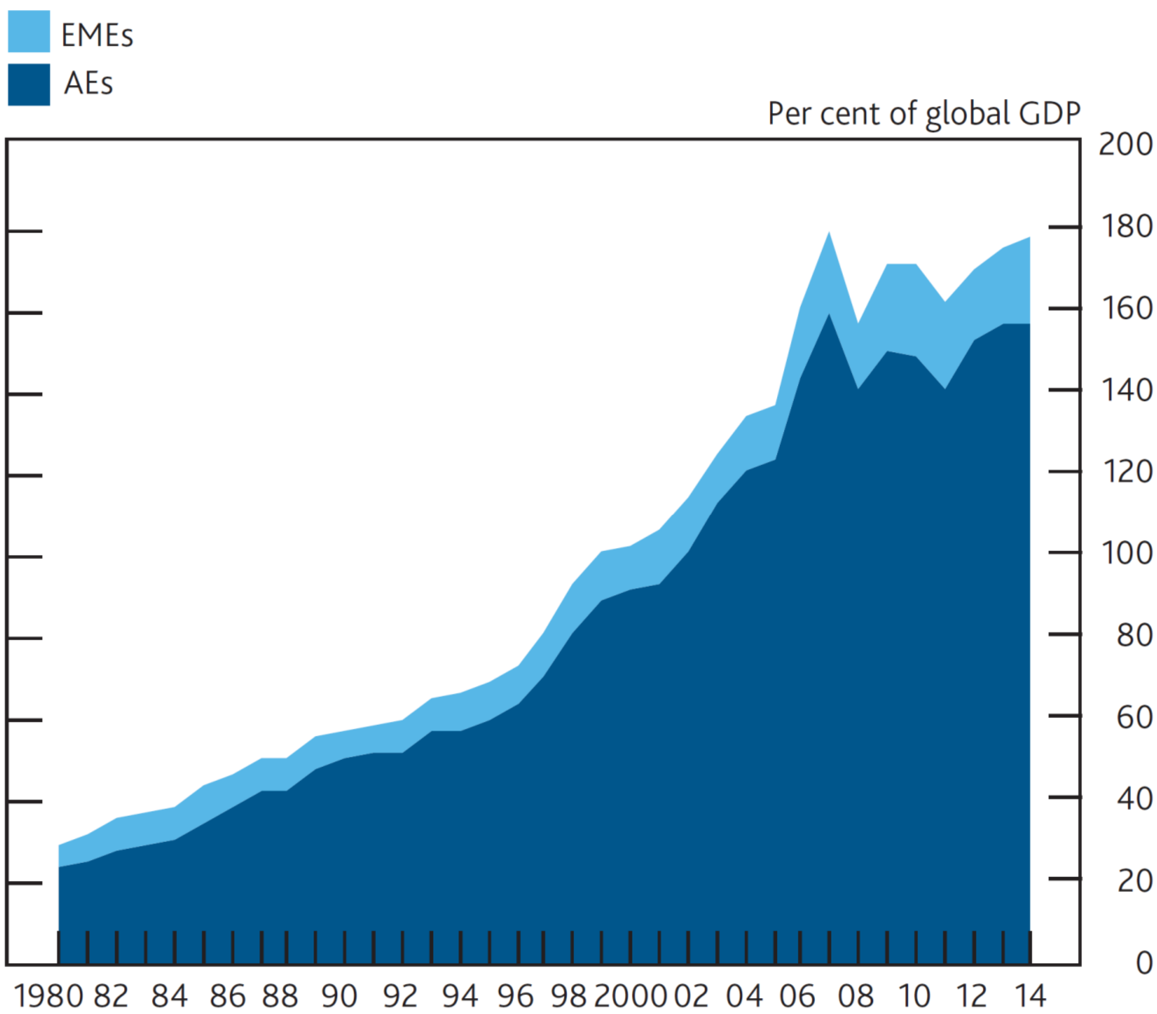
Speech given by

Minouche Shafik, Deputy Governor for Markets and Banking

On the 24th October 2016

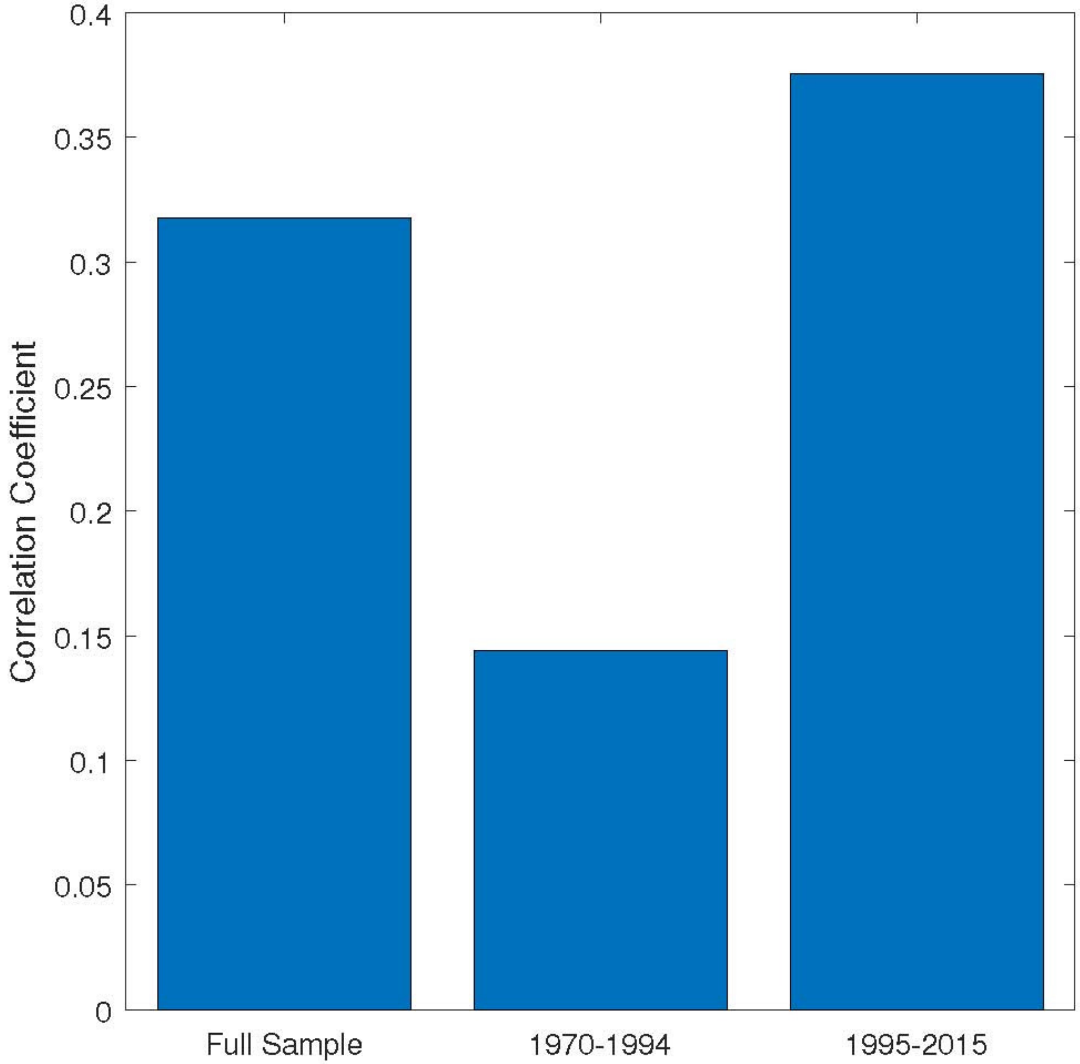
At the joint Bank of England, IMF & Hong Kong Monetary Authority conference on Monetary, Financial and Prudential Policy Interactions in the Post-Crisis World, Hong Kong

Chart 1 Greater capital openness has facilitated an increase in gross external liabilities of advanced and emerging economies



Source: Hoggarth et al (forthcoming), IMF International Financial Statistics, IMF World *Economic Outlook* and Bank of England calculations.

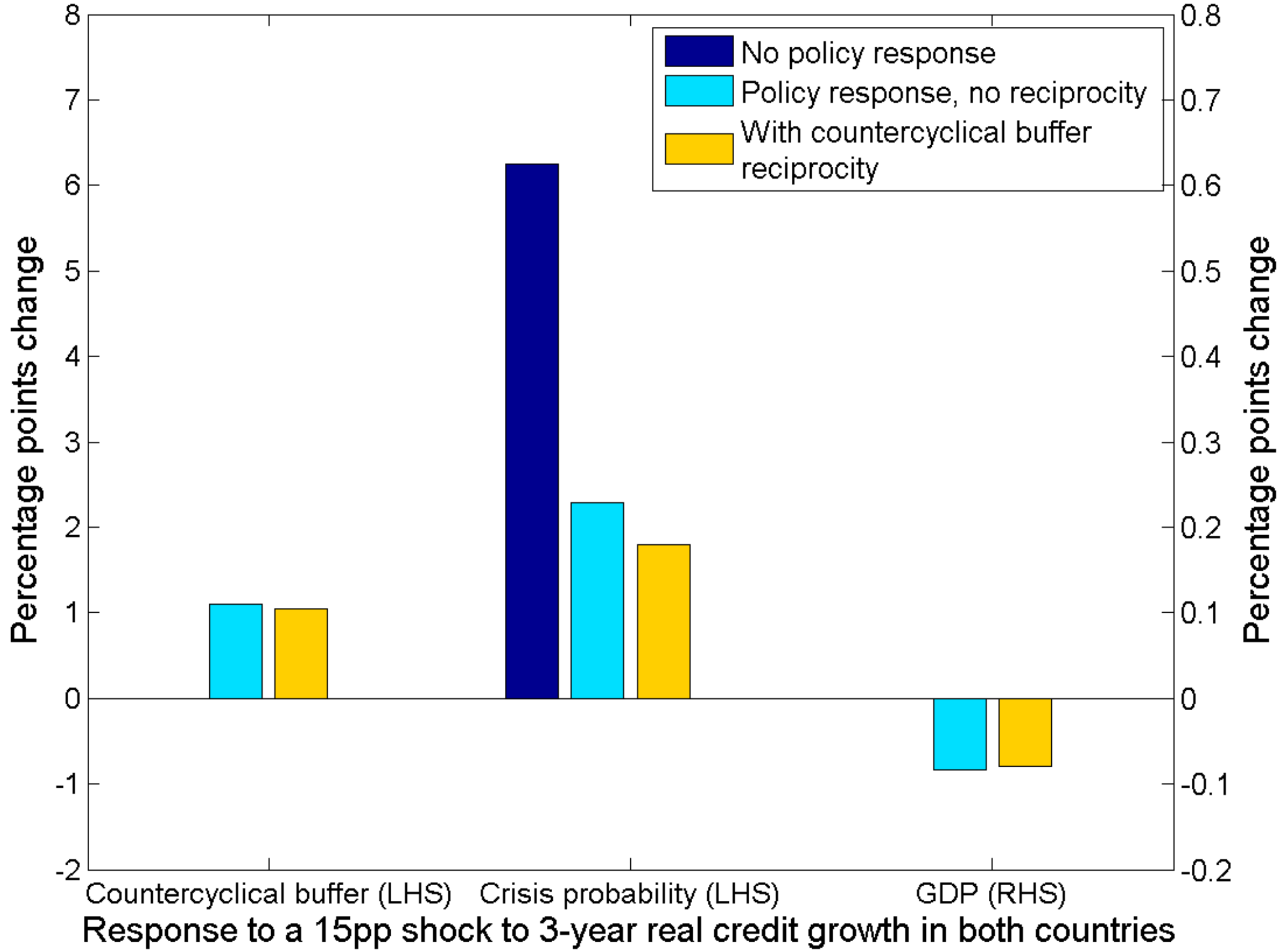
Chart 2 Correlation of credit growth across countries has increased in recent decades



Source: Cesa-Bianchi et al. (forthcoming).

Note: Bars show average correlation of each country's domestic credit growth with the average of domestic credit growth in the rest of the world.

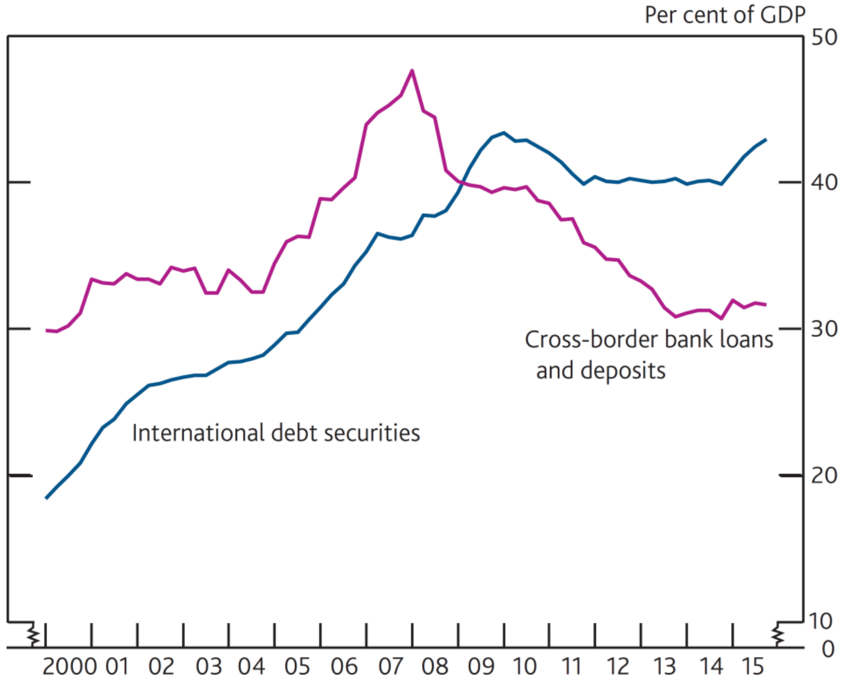
Chart 3 Reciprocity allows countries to reduce the probability of a crisis by more than if they were acting alone



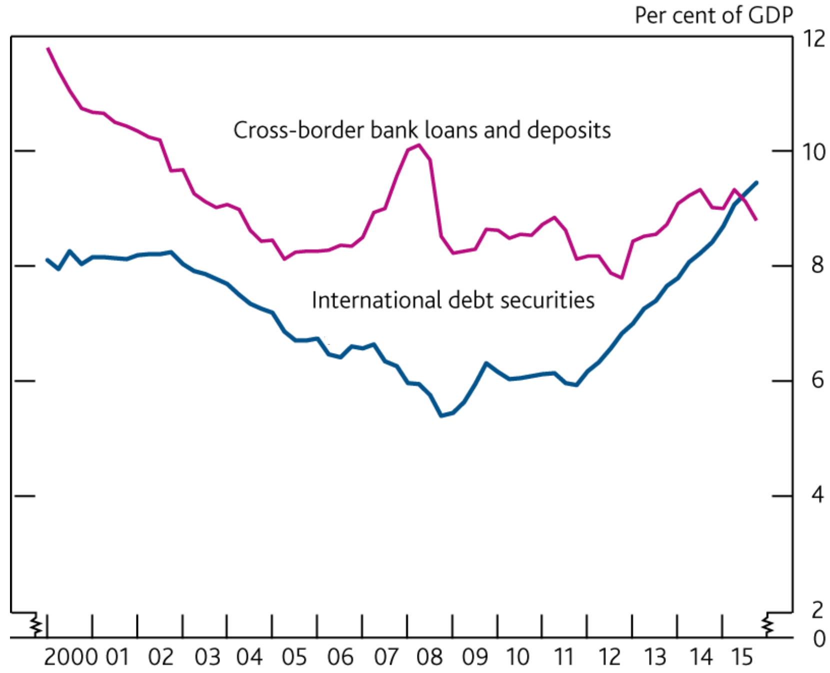
Source: Aikman et al (forthcoming) and Bank of England calculations. Policy changes are assumed to be for a period of 3 years and the effect on GDP is the average fall over that period. Without reciprocity, the CCyB does not increase resilience for 11% of domestic credit assumed to be provided by foreign banks. In addition, one-third of any policy-induced fall in domestic credit is offset by higher credit growth from foreign banks.

Charts 4 and 5: International marketable debt flows have increased more quickly than cross-border bank flows

Advanced Economies



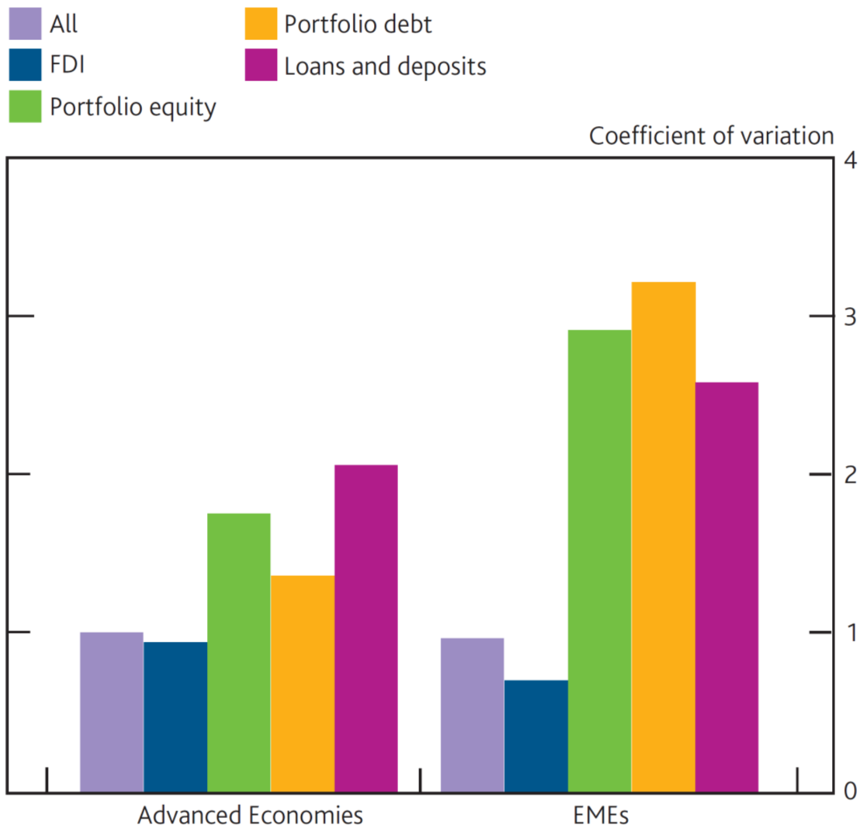
Emerging Economies



<u>Notes</u>: Pink lines show cross-border loans and deposits from all BIS-reporting banking systems to residents in AEs or EMEs. The blue lines show amounts outstanding of international debt securities. For advanced economies, the blue line counts issuance outside the market where the borrower resides, and in the case of emerging economies the blue line counts issuance outside the market where the parent company resides.

<u>Sources</u>: Hoggarth et al (forthcoming), IMF *World Economic Outlook*, BIS International Banking and Debt Securities and authors' calculations.

Chart 6: Portfolios flows to emerging markets have been as volatile than bank flows



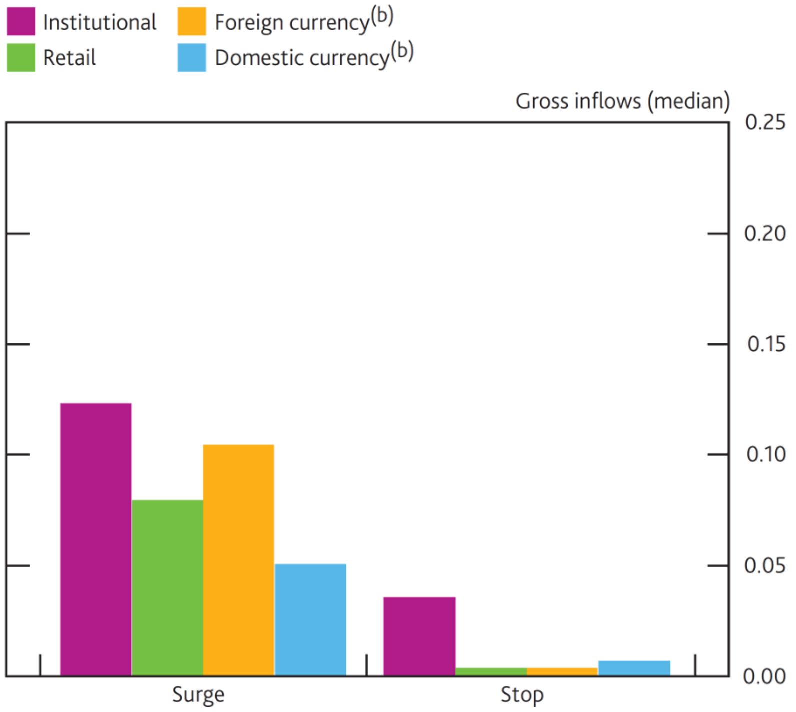
Note: The charts show the cross-country median of the standard deviation of gross capital inflows (as a % of GDP) divided by the average size of capital flows.

Sources: Hoggarth et al (forthcoming), IMF International Financial Statistics and IMF *World Economic Outlook* (for GDP data).

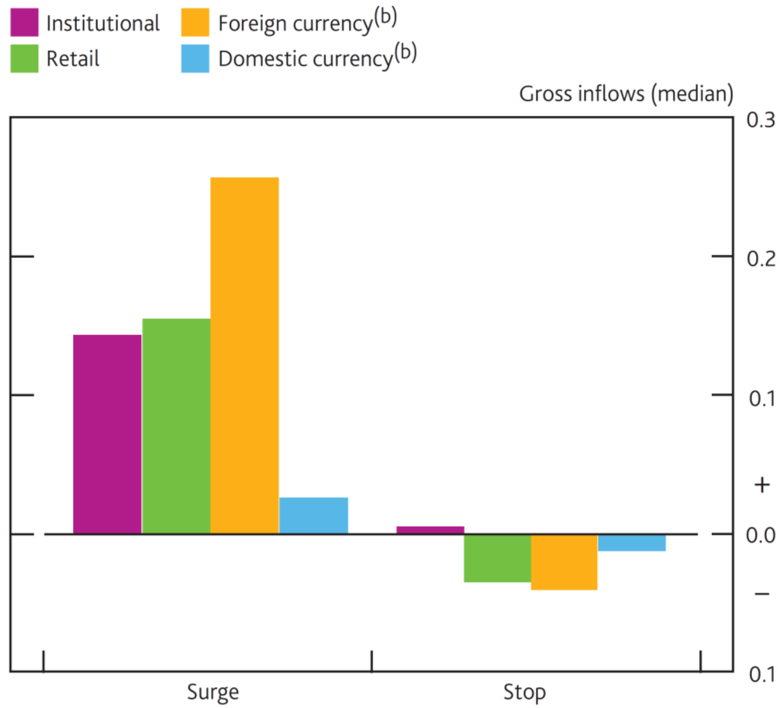
Chart 7: Mutual fund flows to emerging economies seem particularly prone to abrupt stops

Gross mutual fund flows (per cent of GDP) during surges and stops in capital flows

Advanced Economies



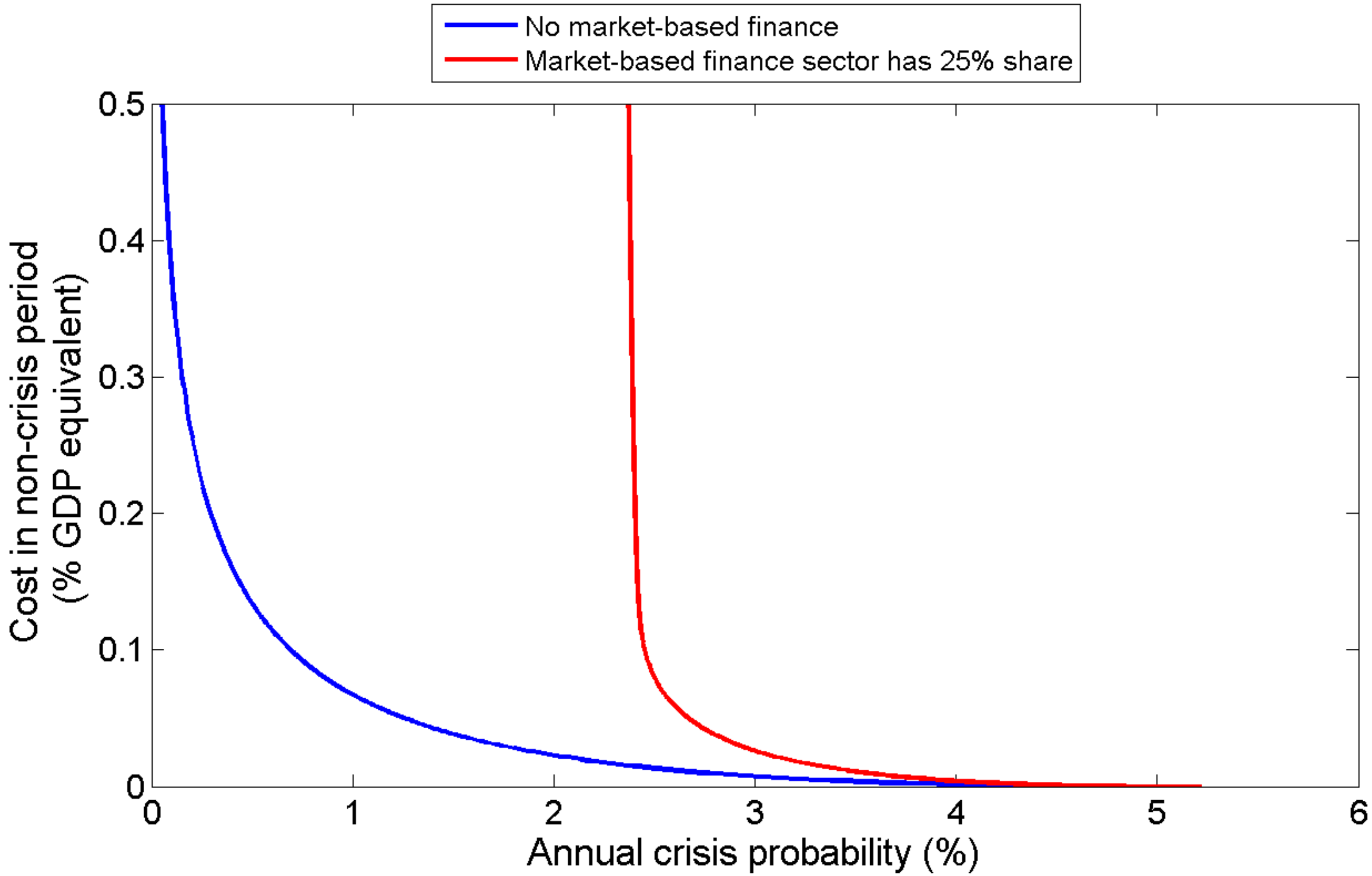
Emerging Economies



Sources: Hoggarth et al (forthcoming), EPFR, IMF *World Economic Outlook* and Bank of England calculations.

Notes: EPFR Global defines institutional investor funds as funds targeting institutional investors only or those with the minimum amount of $100,000 per account. All other funds are labelled 'retail'.

Chart 8 Market-based finance can worsen the trade-off between higher output growth and lower probability of a crisis



Source: Aikman et al (forthcoming). Chart shows the menu of choices available to the policymaker in the market-based finance model described in the appendix in response to a 15pp increase in 3-year real credit growth. The y-axis shows the period 1 welfare cost in the model from higher inflation and lower GDP, converted into the equivalent average loss in 3-year GDP that would leave the policymaker indifferent, were inflation to remain unchanged.

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