HOW MANAGE GLOBAL LIQUIDITY

Yide Qiao

Vice Chairman & Secretary General

RTI-RBWC_"A NEW GLOBAL LIQUIDITY CRUNCH?"

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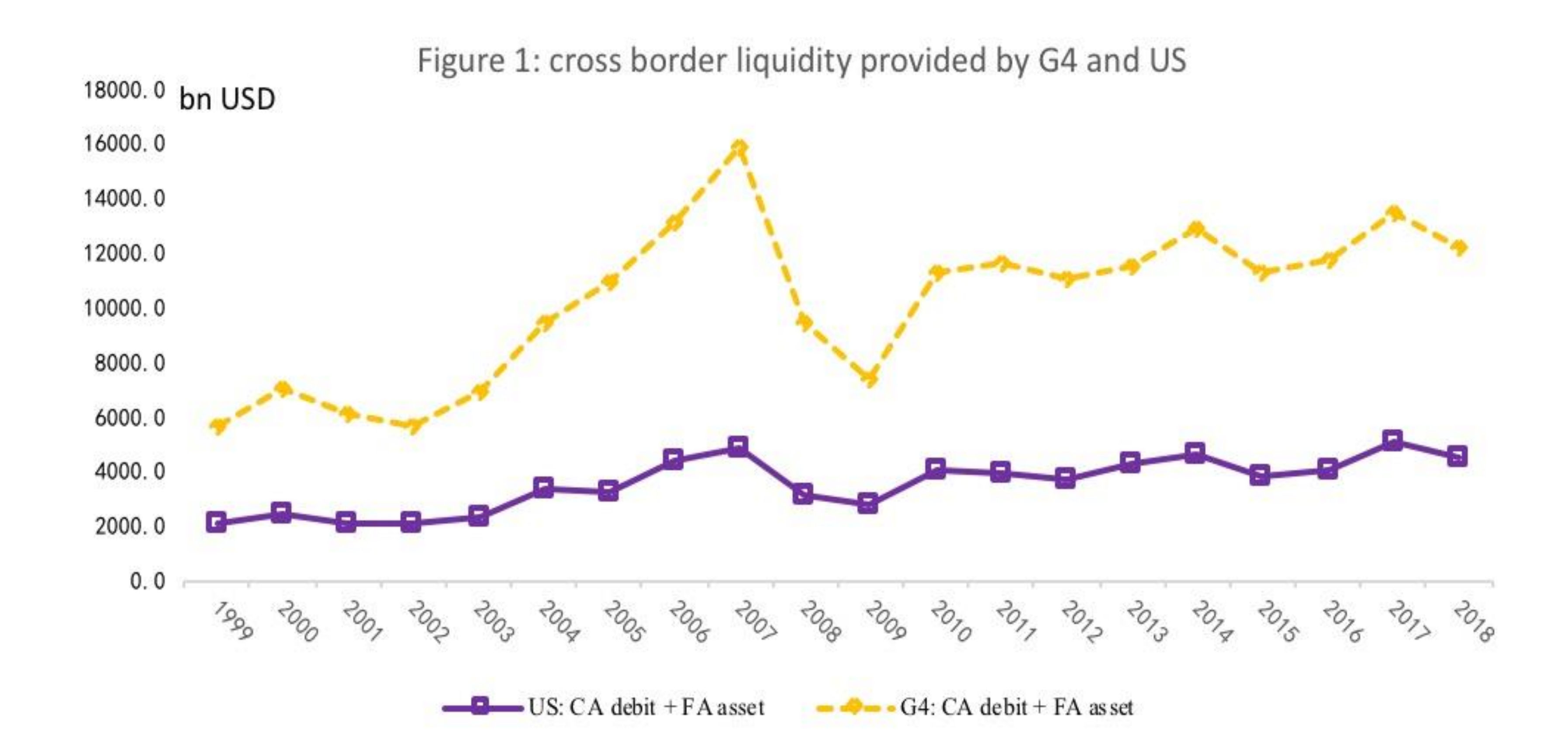
I. The reserve currencies issuing countries (RCIC) take more responsibility

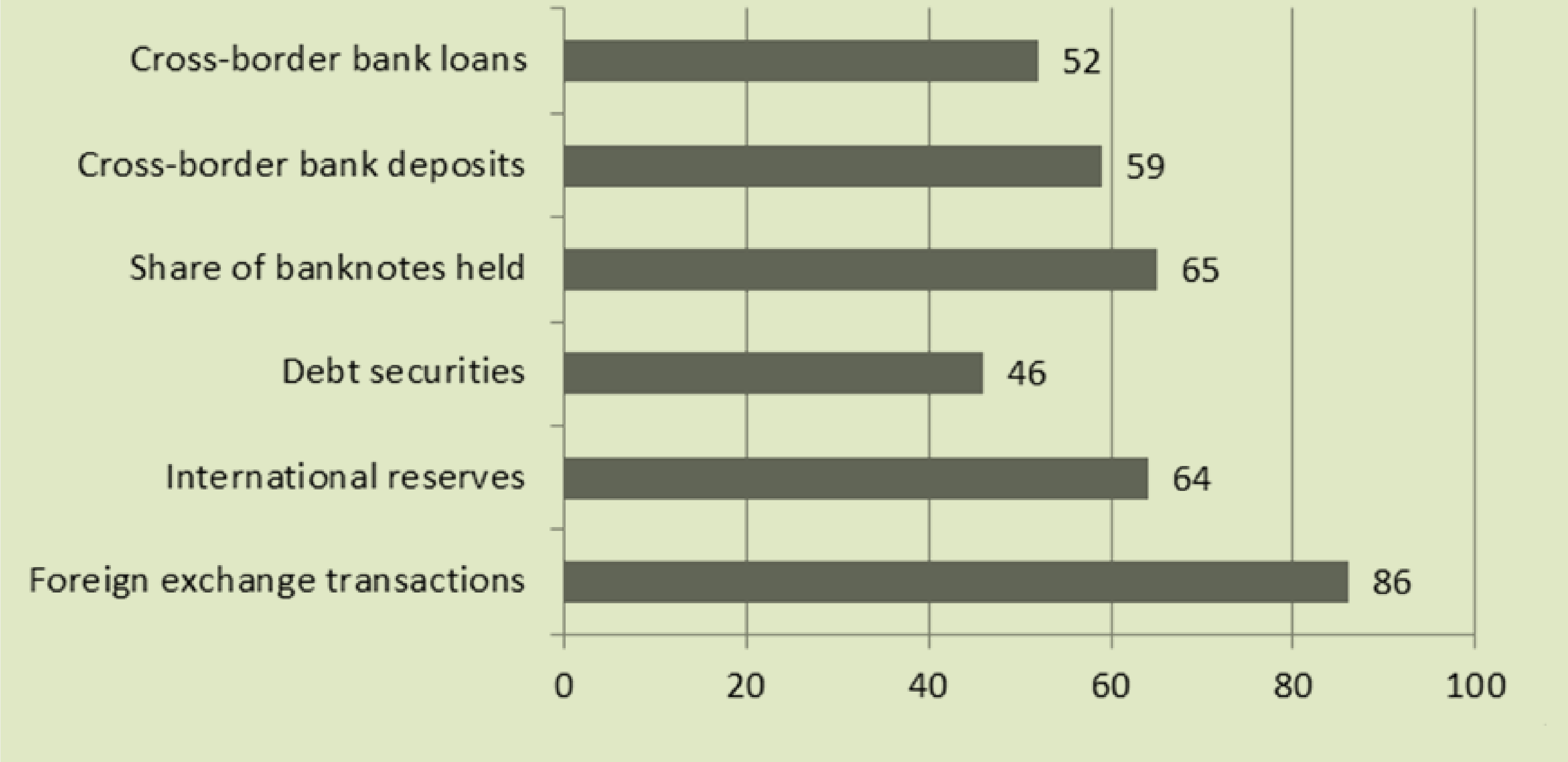
- Main channels of global liquidity provided by persistent deficits of BOP of RCIC.



Source : CEIC Database

- U.S: net provider of global liquidity

Figure 2: U.S. Dollar in International Finance



Source: CEIC Database

- Domestic mandate v.s. global responsibility

II. The coordination between RCIC and ROW needed.

- Non-RCIC: are major receipcents of global liquidity, but also
- They creat partial global liquidity provided they conduct cross border economic transaction or need cross border financing.
- Coordination between RCICs and non RCICs are necessary to manage global liquidity.
- In the future, a gradually shaping multi-reserve system will provide more balanced global liquidity.

III. Better measurements of global liquidity.

- Difficulty to measure global liquidity due to its vague definition.
  - "An elusive concept used in a variety of ways, and rigorous analysis of it is challenging" (Jaime Caruana, June 2013)
  - Liquidity can be described as the amount of funding readily available to finance domestic and cross-border asset purchases. Liquidity reflects both the ability and willingness of parties to engage in financial transactions. (IMF 2012)
- Illustration：now China measure its domestic liquidity/funding

➢ Illustration： now China measure its domestic liquidity/funding

- Analogue: total social financing used in China:

Total social financing=RMB loans + foreign currency loans + entrusted loans + trust loans + bank acceptances + corporate bonds + stock of non-financial corporate + compensation of insurance company + real estate investment of insurance company + others

- soft indicator： TSF

  hard indicator： M2/GDP

  capture domestic liquidity/financing

- In global area:

  soft indicator: ?

  hard indicator: total capital flow/GDP

IV. Preliminary thinking on a new indicator of cross border capital.

- Introduction

- In G20 Hangzhou Summit, it proposed“continue to improve the analysis and monitoring of capital flows and management of risks stemming from excessive capital flow volatility”.
- Can the current indicators meet the requirements？

- ✓ Common classification of cross-board capital：FDI、Portfolio investment、other investment
- ✓ FDI is less sensitive to interest rates
- ✓ Some economic entities are also insensitive to interest rates
- ✓ Is it possible to establish a new indicator based on the degree of sensitivity to changes in interest rates?

New indicator to better characterize the violatility of cross-board capital——Quickly Moveable Capital(QMC)

- Capitial
  - FDI
  - Portfolio investment
    - Deposit-receiving corporations
    - Other sectors
    - Central bank、monetary authorities
  - Other investment (long-term ,short-term)
    - Deposit-receiving corporations
    - Other sectors
    - Central bank、monetary authorities

- QMC
  - Portfolio investment
    - Deposit-receiving corporations
    - Other sectors
  - Other investment (short-term)
    - Deposit-receiving corporations
    - Other sectors

QMC : excluding FDI, long-term other investments, portfolio investment and short-term other investment by central bank and monetary authorities

Figure 3: The Share of QMC in Total Capital Flow in 2015

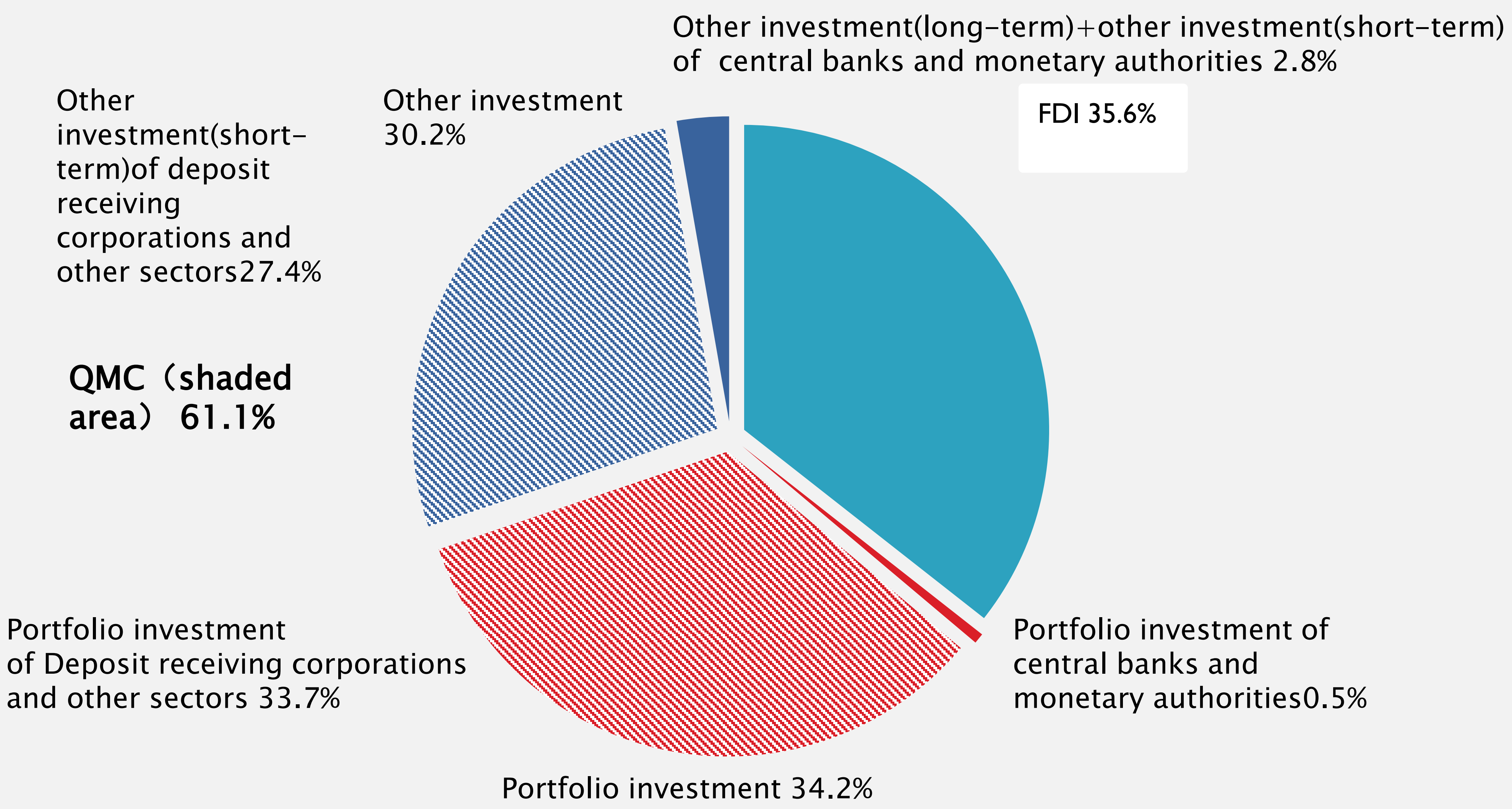


Figure 4: The QMC composition in 2015

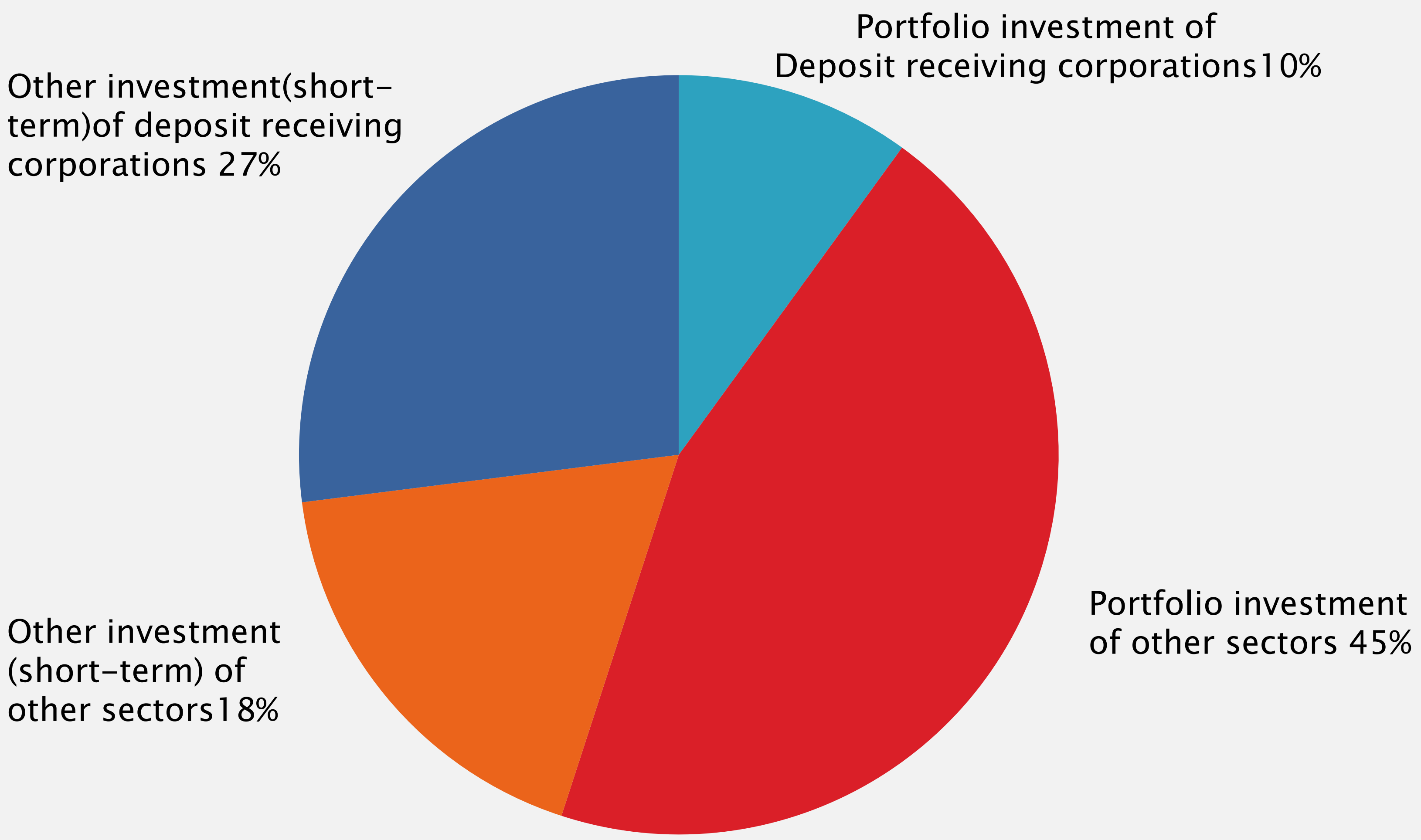
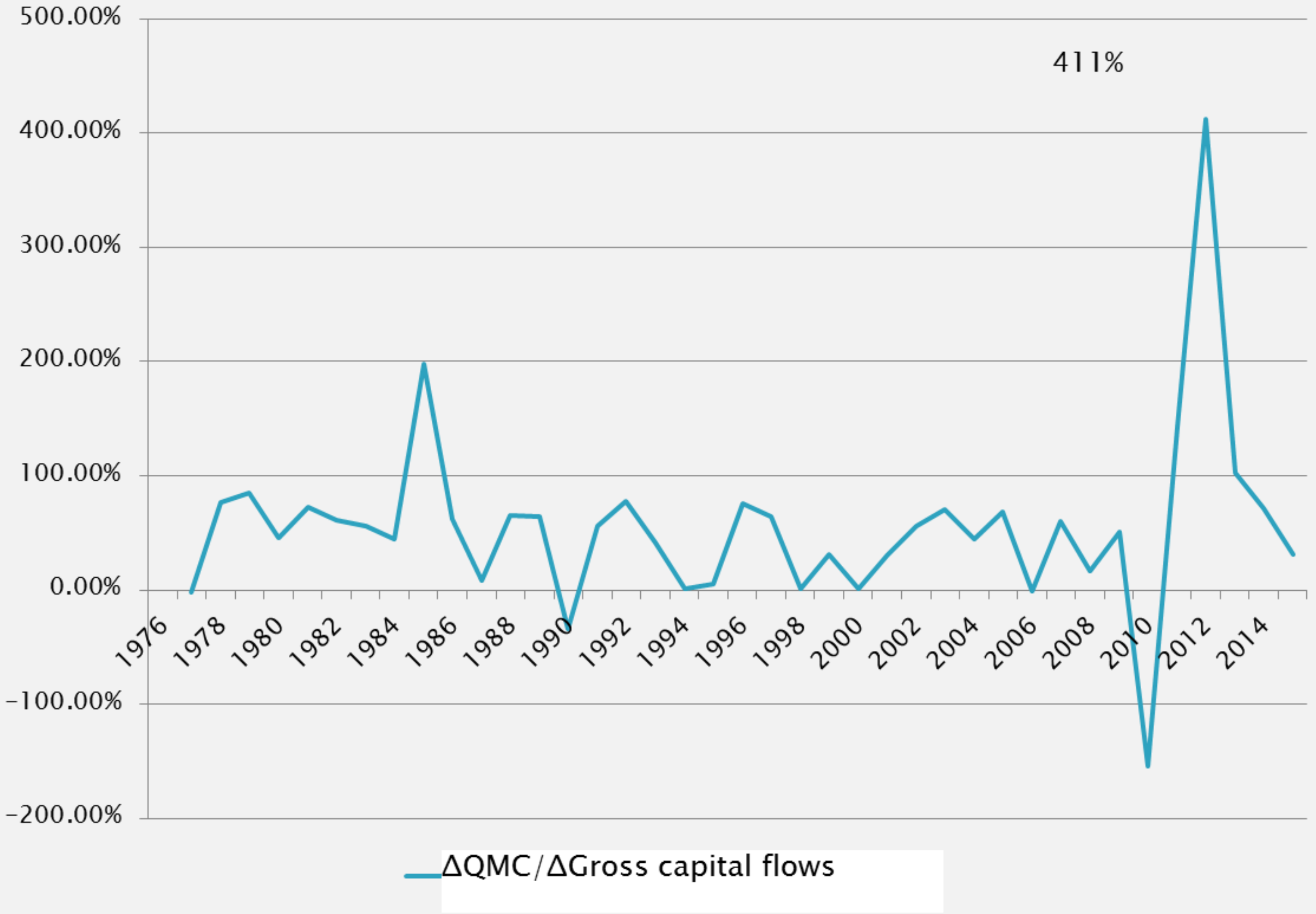


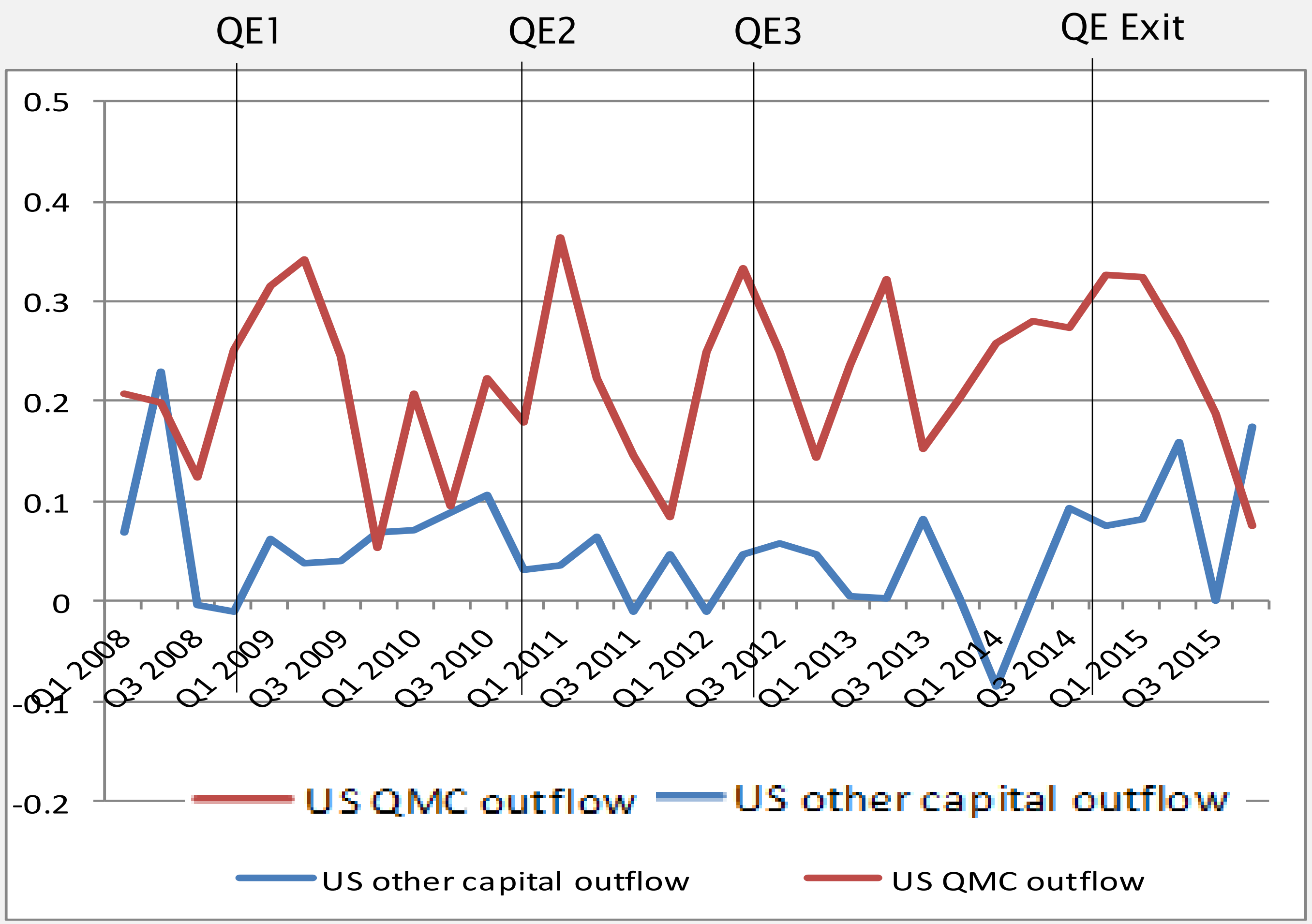
Figure 5: The contribution of QMC changes to changes in cross border capital flows



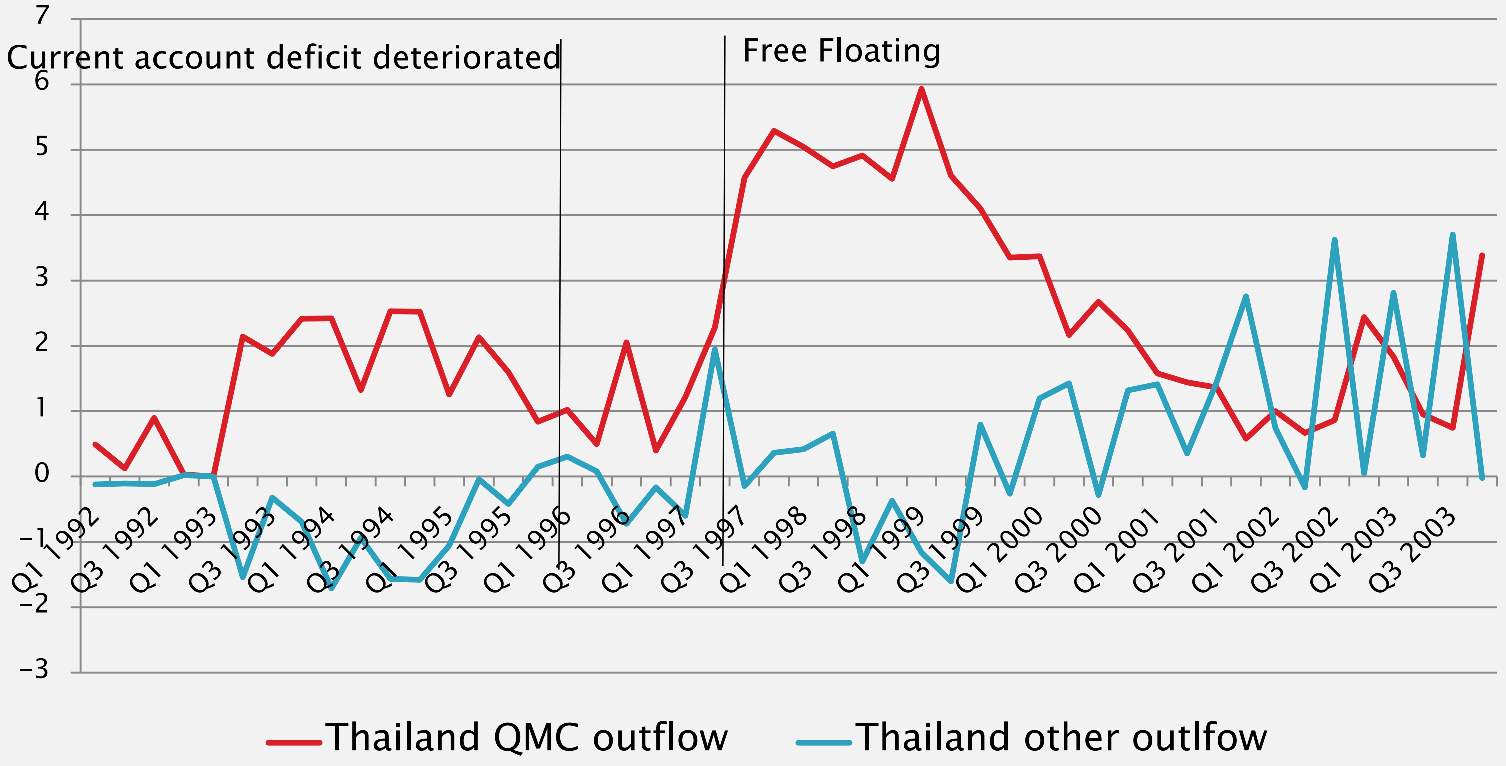
The average contribution of QMC changes to changes in cross-border capital flows is 55%

Some Cases：

US：the Relationship between QE and Capital Outflows
（$trn）

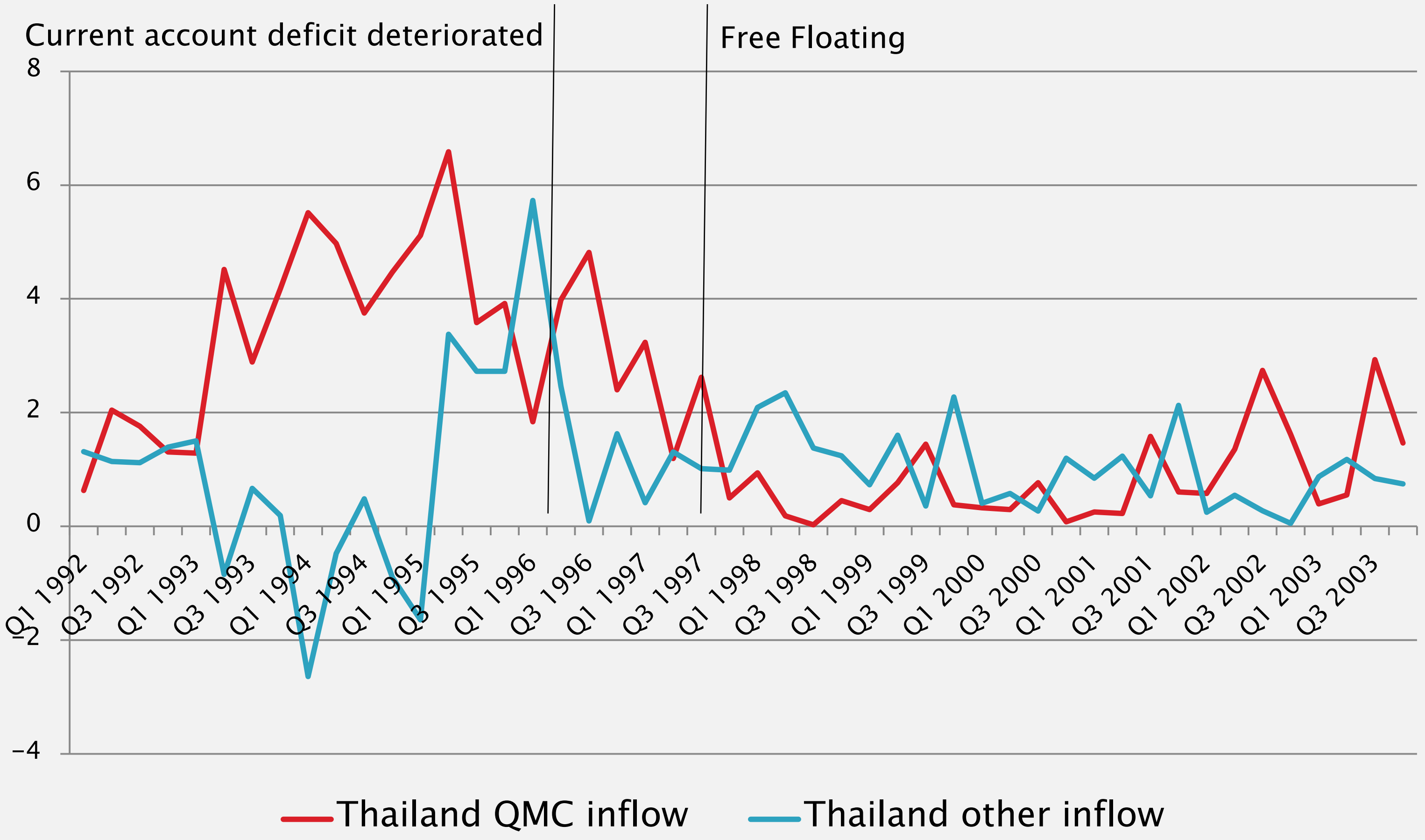


Thailand： the Relationship between CA deficit deteriorated and Capital Outflows ($bn）



Note: Thailand's current account has maintained its deficit since 1960s, and the deficit has been further expanded since 1980s. From 1995, Thailand's current account deficit exceeded 8% of GDP.

Thailand： the Relationship between CA deficit deteriorated and Capital Inflows （$bn）



Conclusions：

- **Volatility of QMC：** the QMC is more volatile than other capital.
- **Monetary policies and QMC:** monetary policies of advanced countries have a closer relationship with QMC.
- **Early warning effect of QMC：** before and after the financial crisis, the obvious difference reflects an early warning effect of QMC to the financial crisis.

➢ Further Efforts

- Continue to do more empirical analysis
  - ✓ More case studies
  - ✓ Modeling: openness, degree of financialization, monetary Policy of advanced countries, etc.
- Statistic data is a big problem
  - ✓ Availability
  - ✓ Net v.s gross
  - ✓ Data Gap Initiative (DGI) of G20
- Need to reach some consensus in international financial community.

Thanks for watching！