Macro and Growth Policies in the Wake of the Crisis

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Olivier Jeanne

Johns Hopkins University

Peterson Institute for International Economics

I will talk about two topics:

- **China's capital account policies**

- **Global Financial Safety Nets (GFSN)**

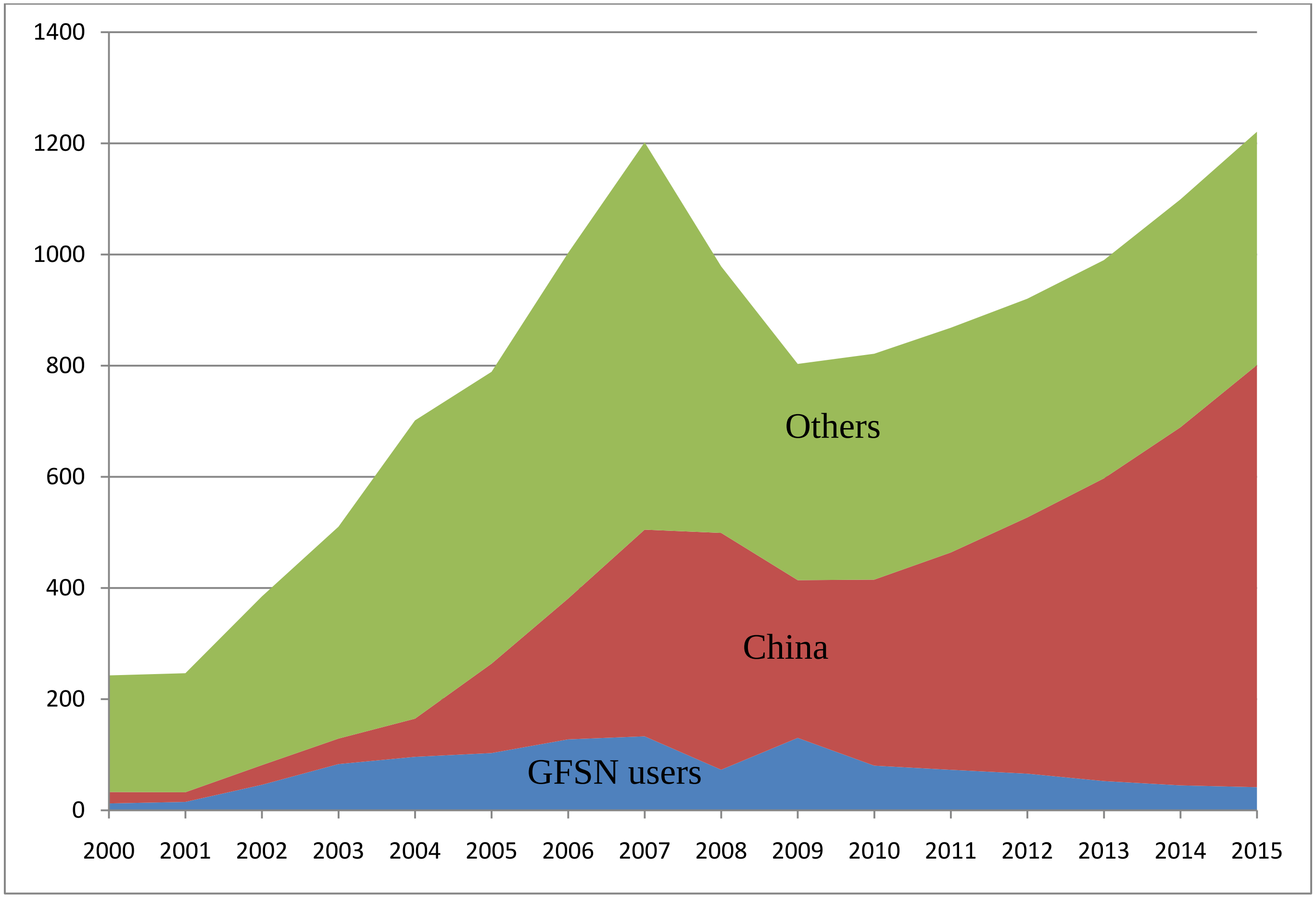
Why topic 1? Why China? Why capital account policies?

- **Common theme: self-insurance against volatile capital flows → reserve accumulation → global imbalances**

- **But how important are "GFSN users" for global imbalances? Find the answer by:**

  - ➢ looking at all surplus countries in 2003-05 (excluding oil exporters)
  - ➢ define GFSN users as emerging market economies that had a sudden stop in 1995-2000 and/or received a swap in 2008 (Argentina, Brazil, Chile, Hong Kong, Singapore, Korea, Malaysia, Indonesia)

Current account surpluses ($bn)



Source: WEO 2010

1. <u>China’ s capital account policies</u>

(based on Jeanne, 2011):

Controls on inflows →
Purchase of foreign assets →
Government control of net foreign assets (NFA)

- Then the government controls
  - the current account balance = ΔNFA
  - the trade balance
  - the real exchange rate
- Real (not monetary) mechanism; capital controls are key

Implications

- “Forced saving” through capital account policies
- Internationalizing the RMB: the Chinese dilemma
- How can the G20 help?
- “Rules of the road” for capital flows

2. <u>Global financial safety nets (GFSN)</u>

- Why did the swaps make a difference?

Country	Korea	Brazil	Singapore	Mexico
Reserves Sept.08	$ 240bn	$ 206bn	$ 169bn	$ 99bn
Fed swap	$ 30bn	$ 30bn	$ 30bn	$ 30bn

- Hypotheses:
  1. Psychological threshold in reserves
  2. “Seal of approval” (signal about recipient country)
  3. True lending-in-last-resort (signal about Fed’s commitment)
  4. Minor part of policy package that restored confidence at the center
- Is it possible to institutionalize the swaps?