

TOO MUCH OF THE WRONG SORT OF CAPITAL FLOW

CAFRAL/RBI Conference on Capital Account Management and Macro-Prudential Regulation for Financial Stability and Growth

New Delhi, 13 January, 2014

PRESENTED BY

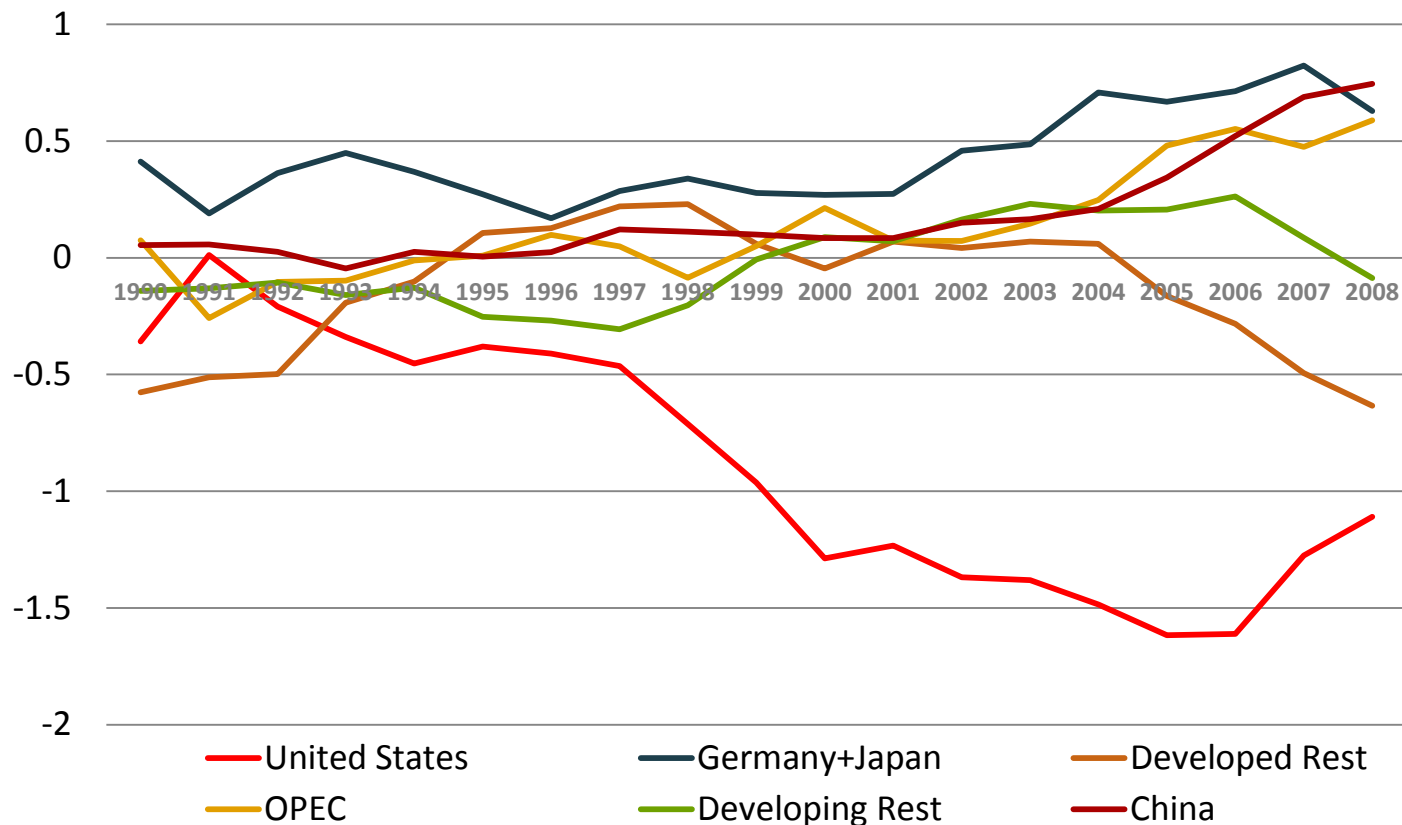
Adair Turner

Senior Fellow, Institute of New Economic Thinking

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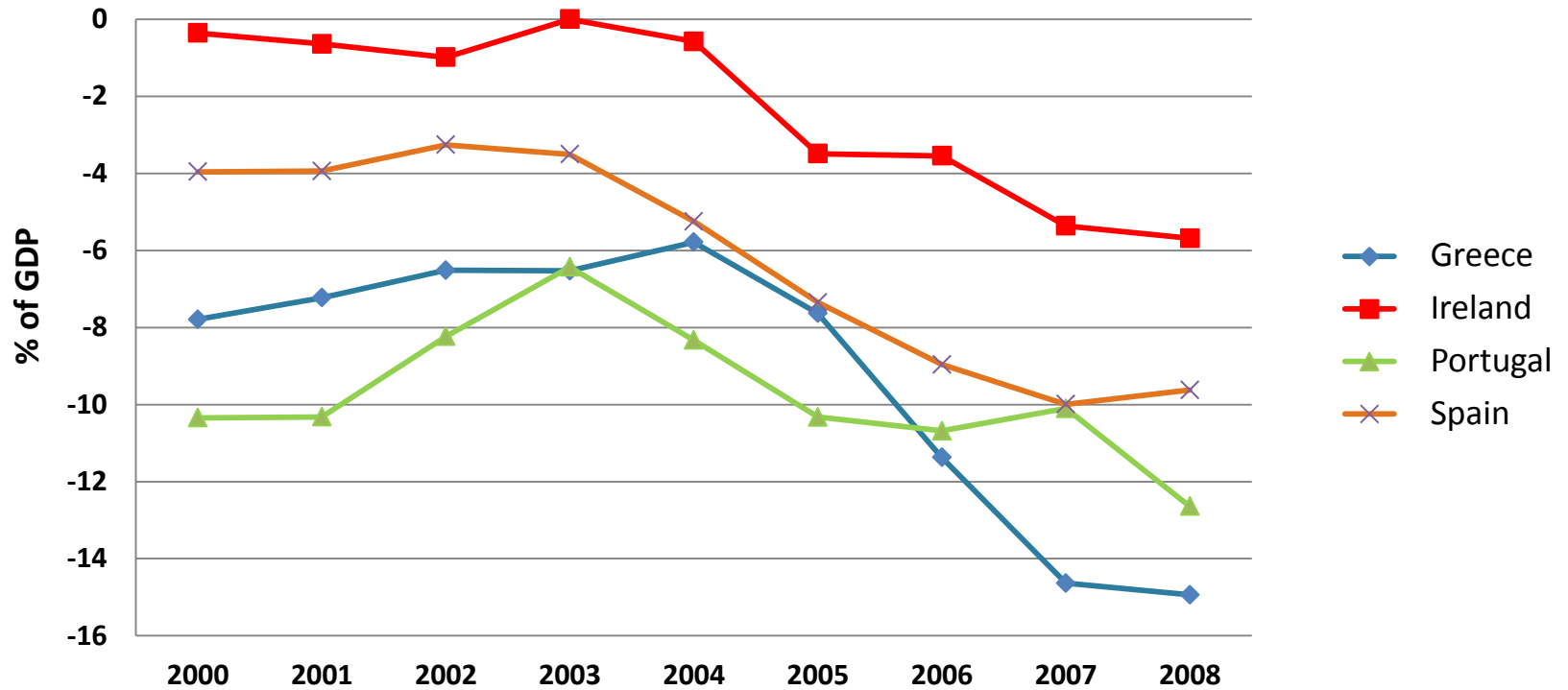
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Global current account balances as a % of world GDP



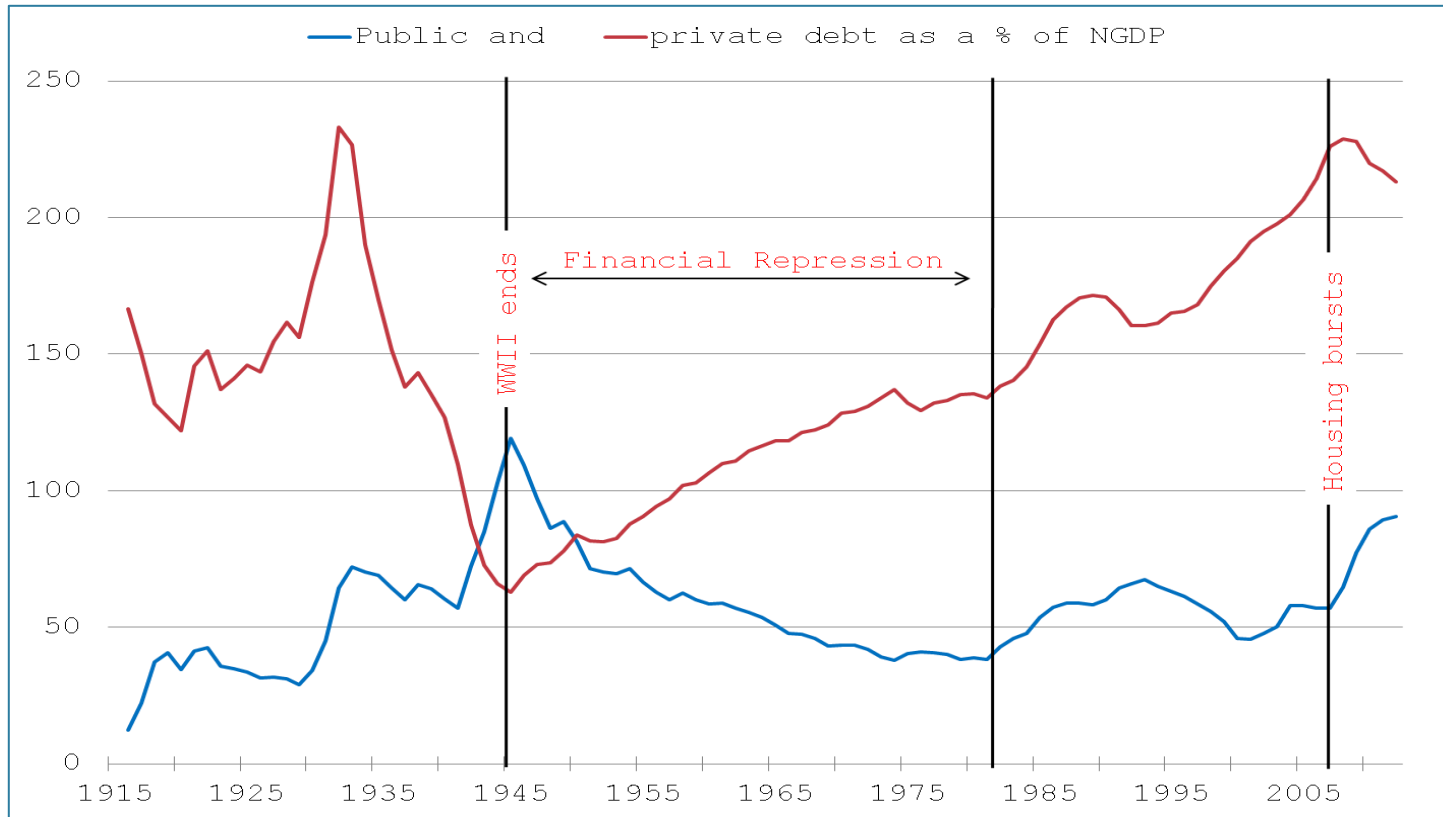
Source: IMF BOPS

Eurozone current account deficits: 2000 – 2008



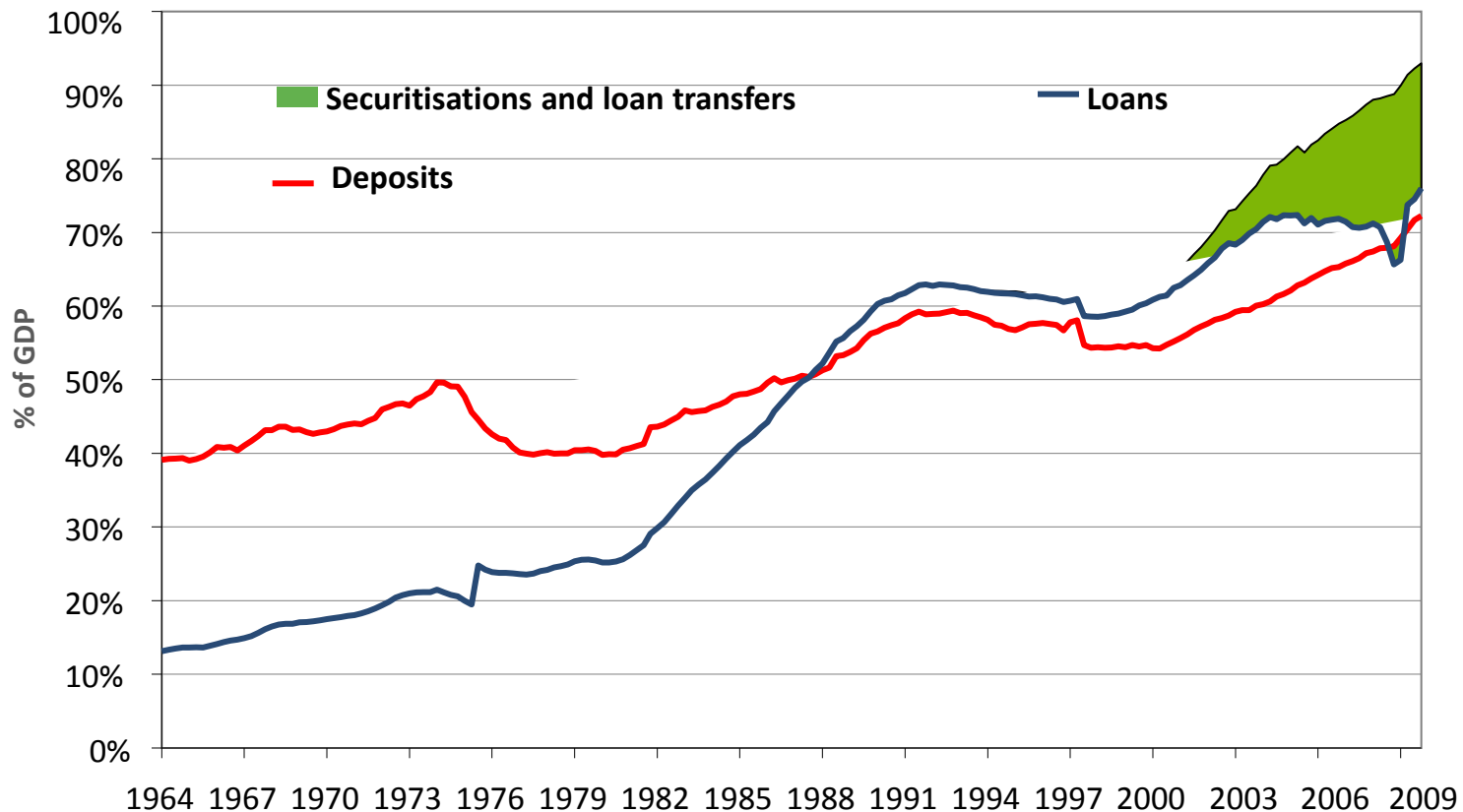
Source: International Monetary Fund, World Economic Outlook Database, October 2012

US private and public leverage cycles



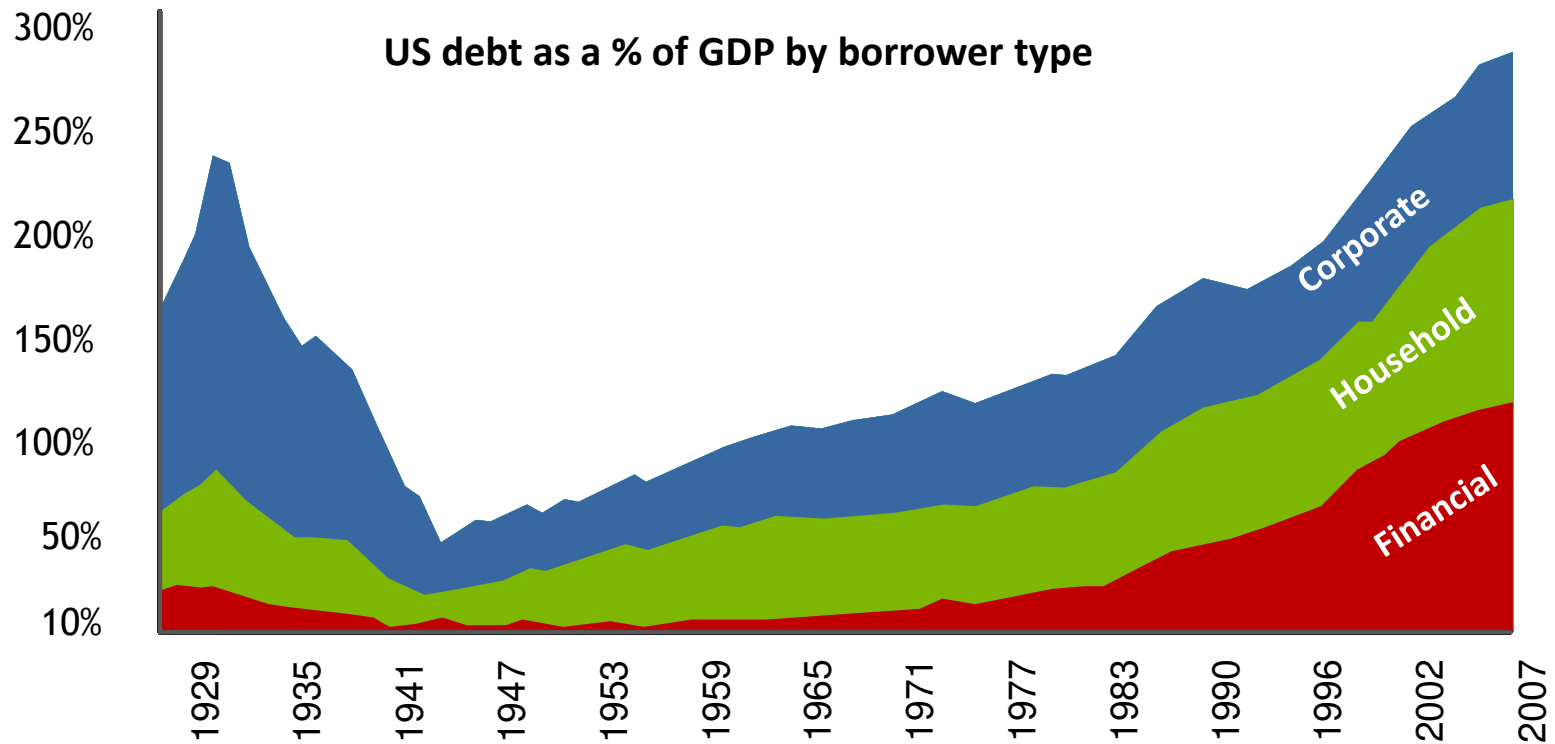
Source: McCulley and Pozsar

UK household deposits and loans: 1964 – 2009

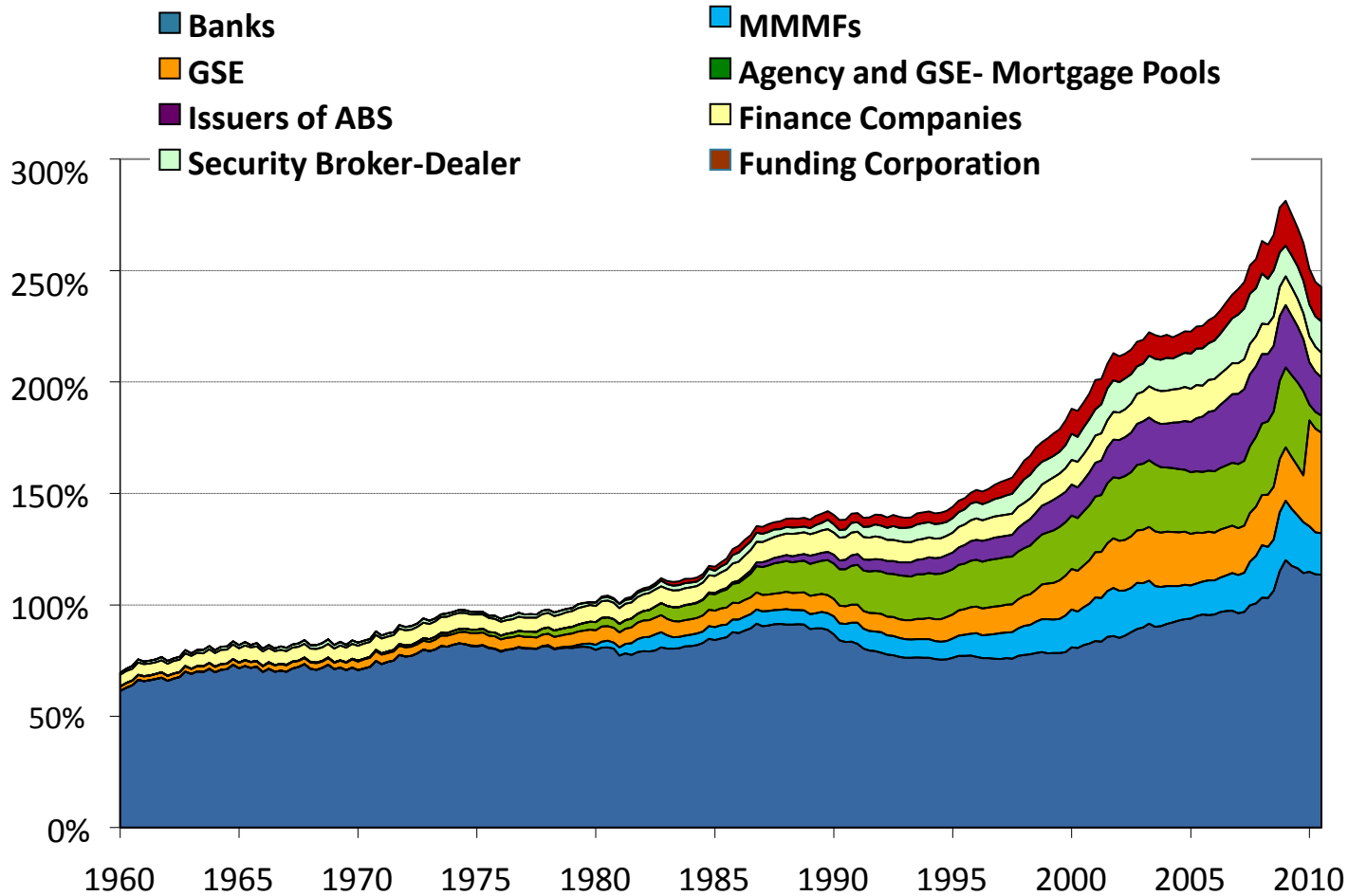


Source: Bank of England, Tables A4.3, A4.1

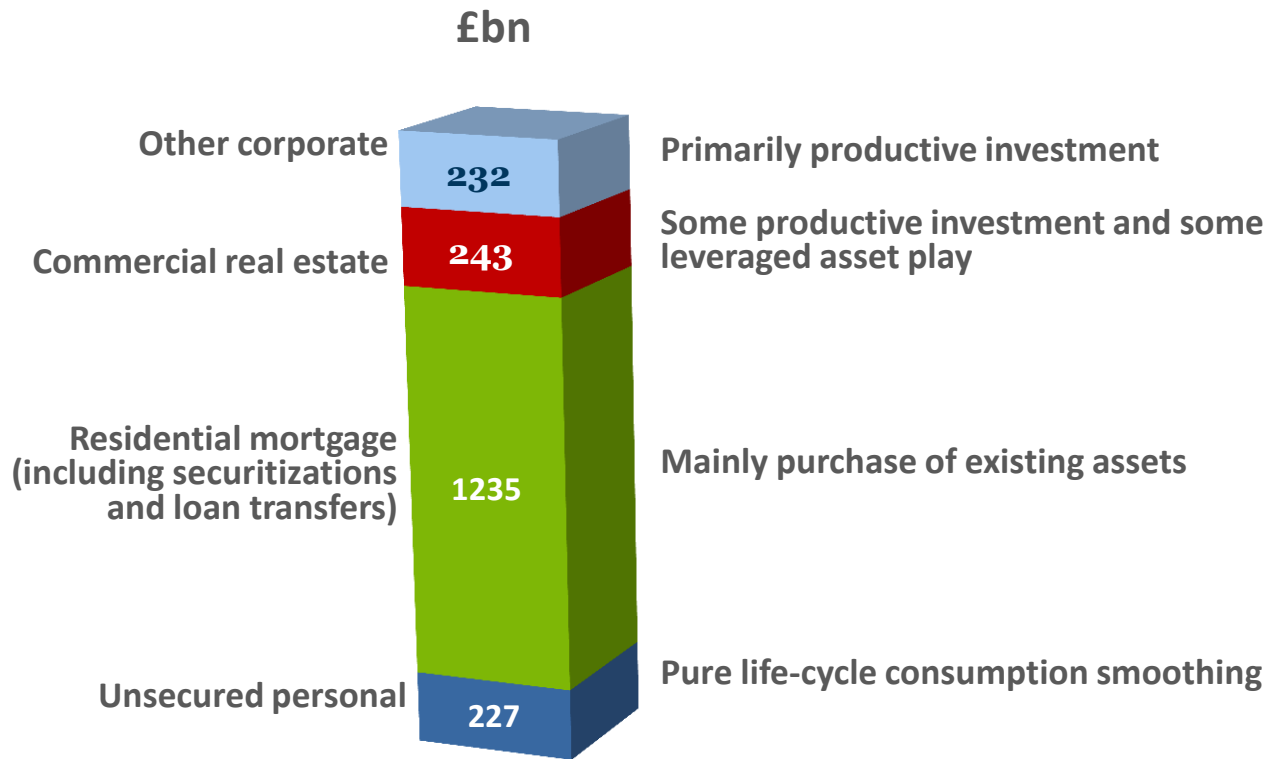
Measures of increasing financial intensity



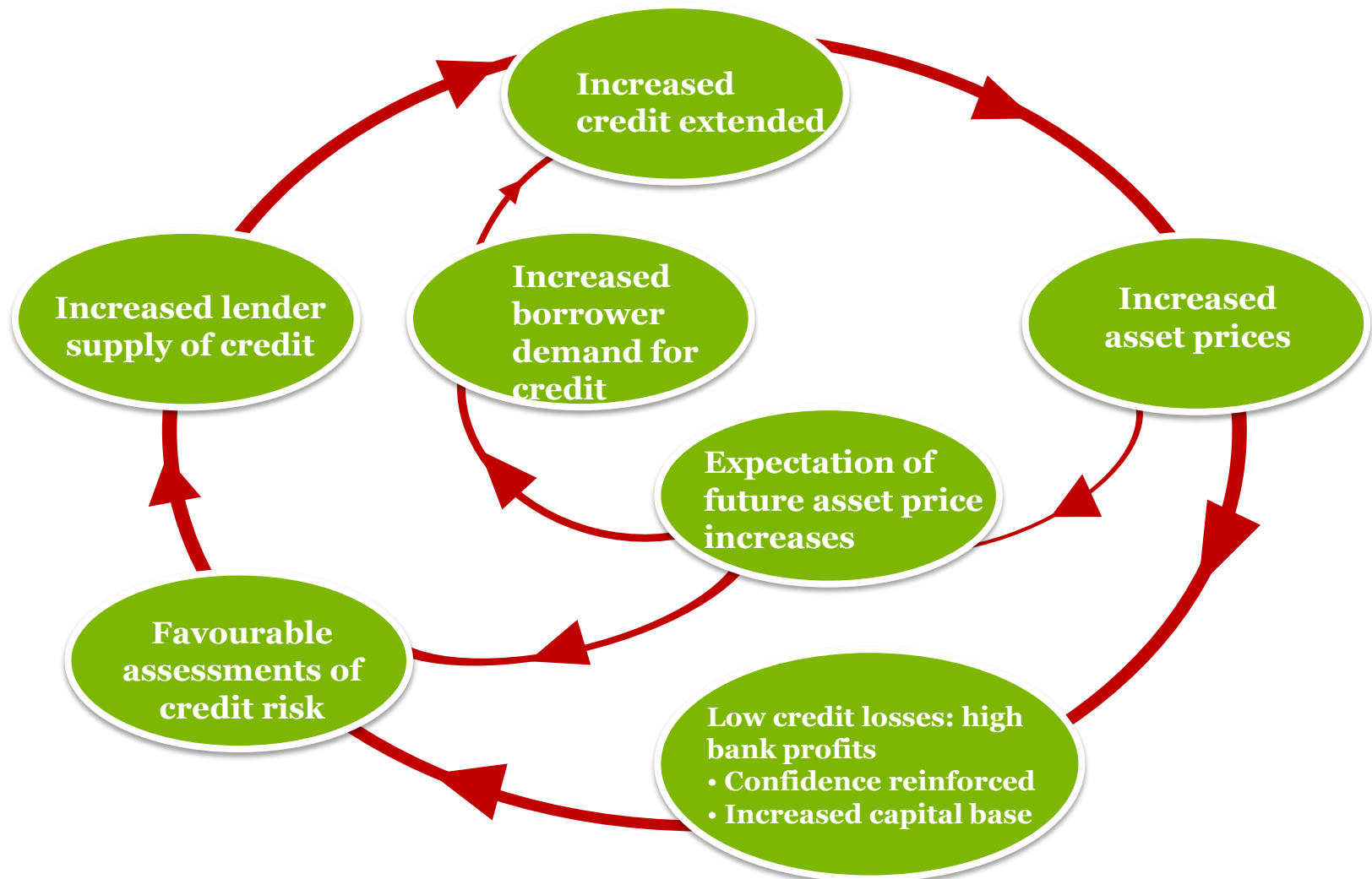
US financial sector assets



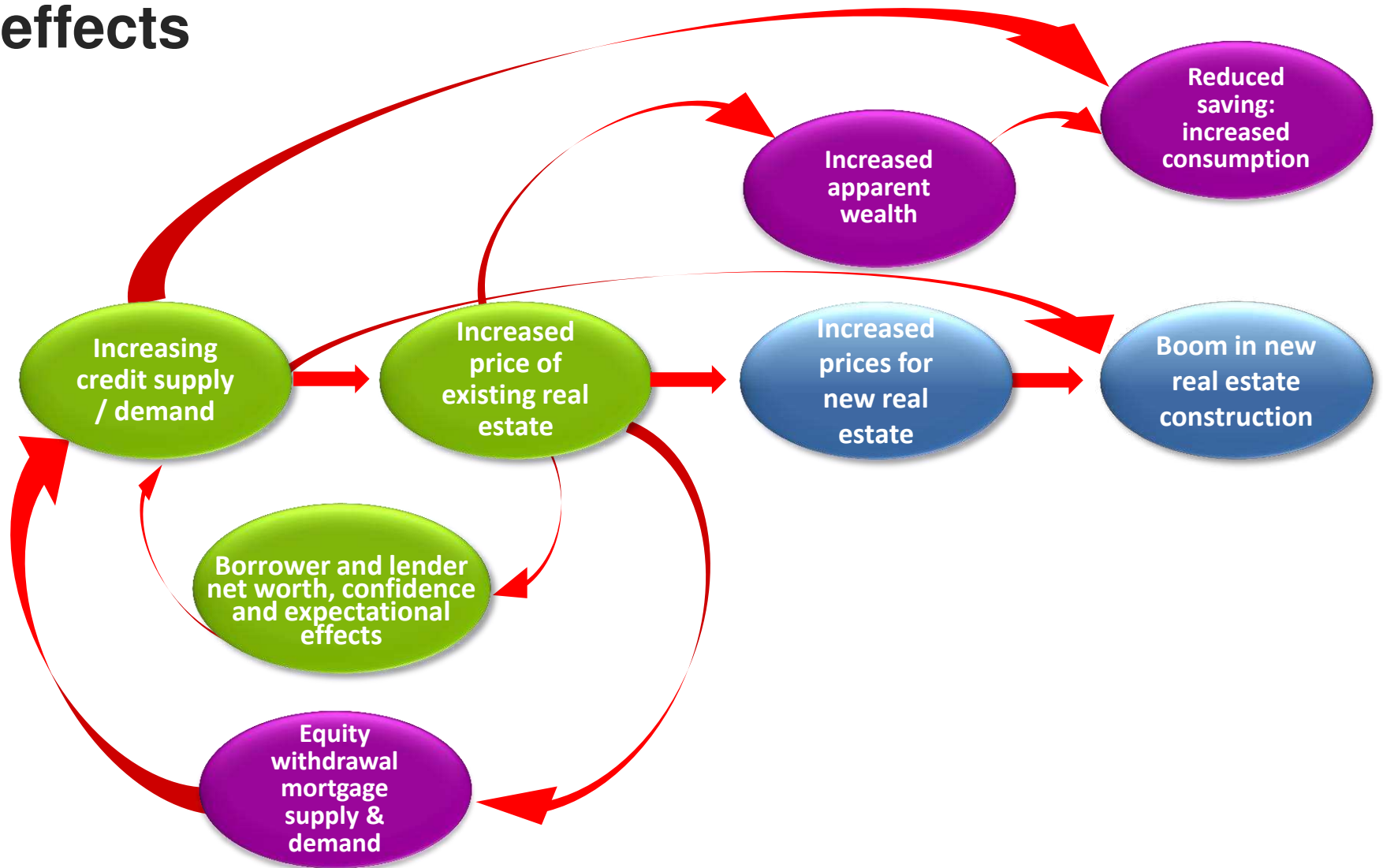
Categories of debt: UK 2009



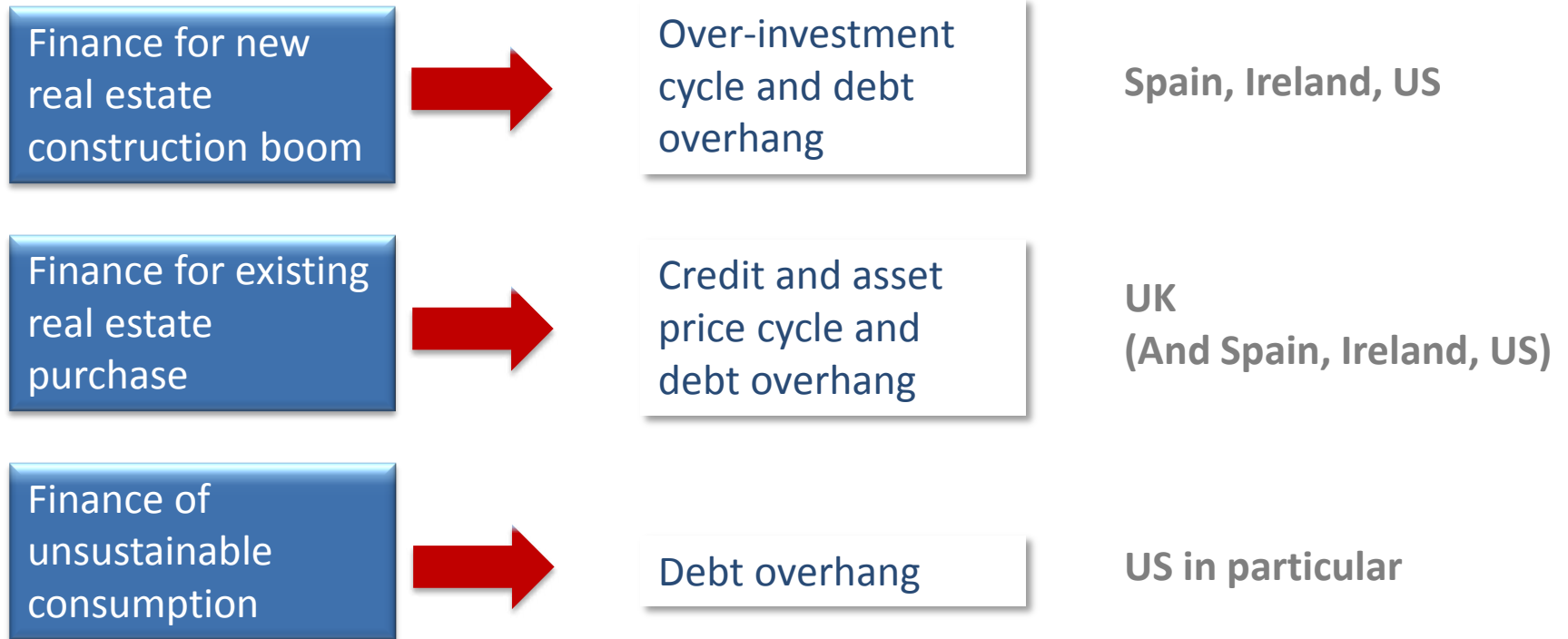
Credit and asset price cycles



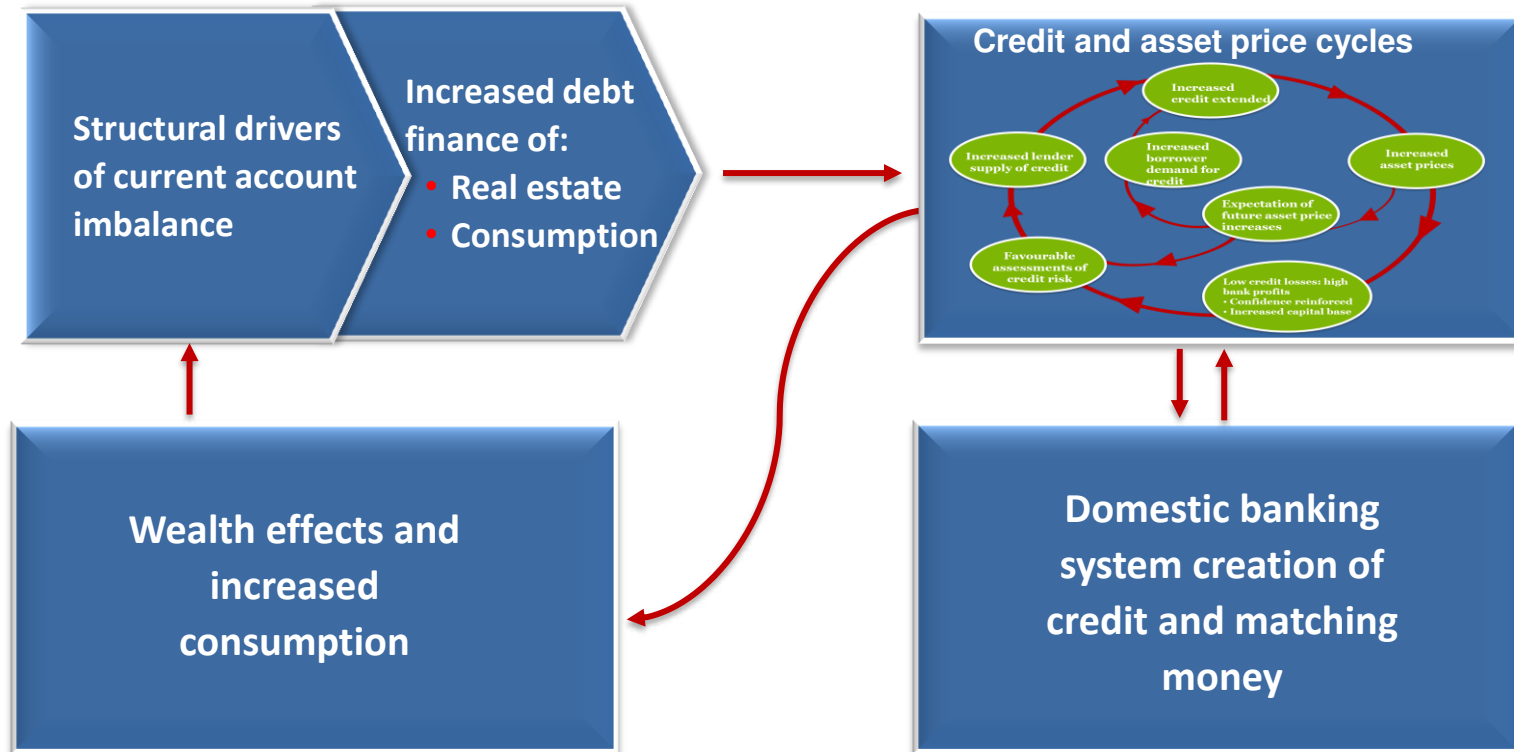
Interactions between credit categories and effects



Categories of net capital flow effects

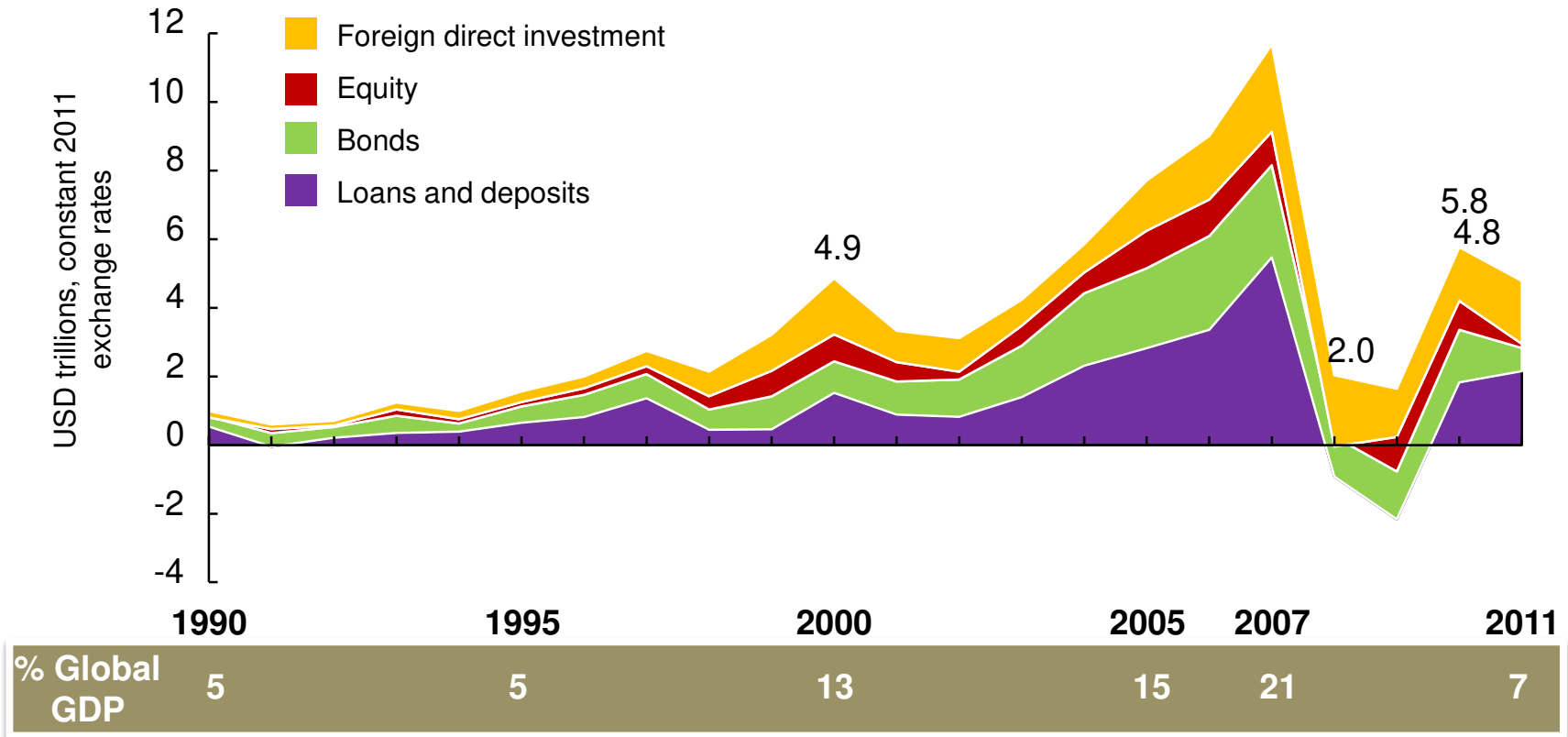


Net capital flows and domestic credit cycles



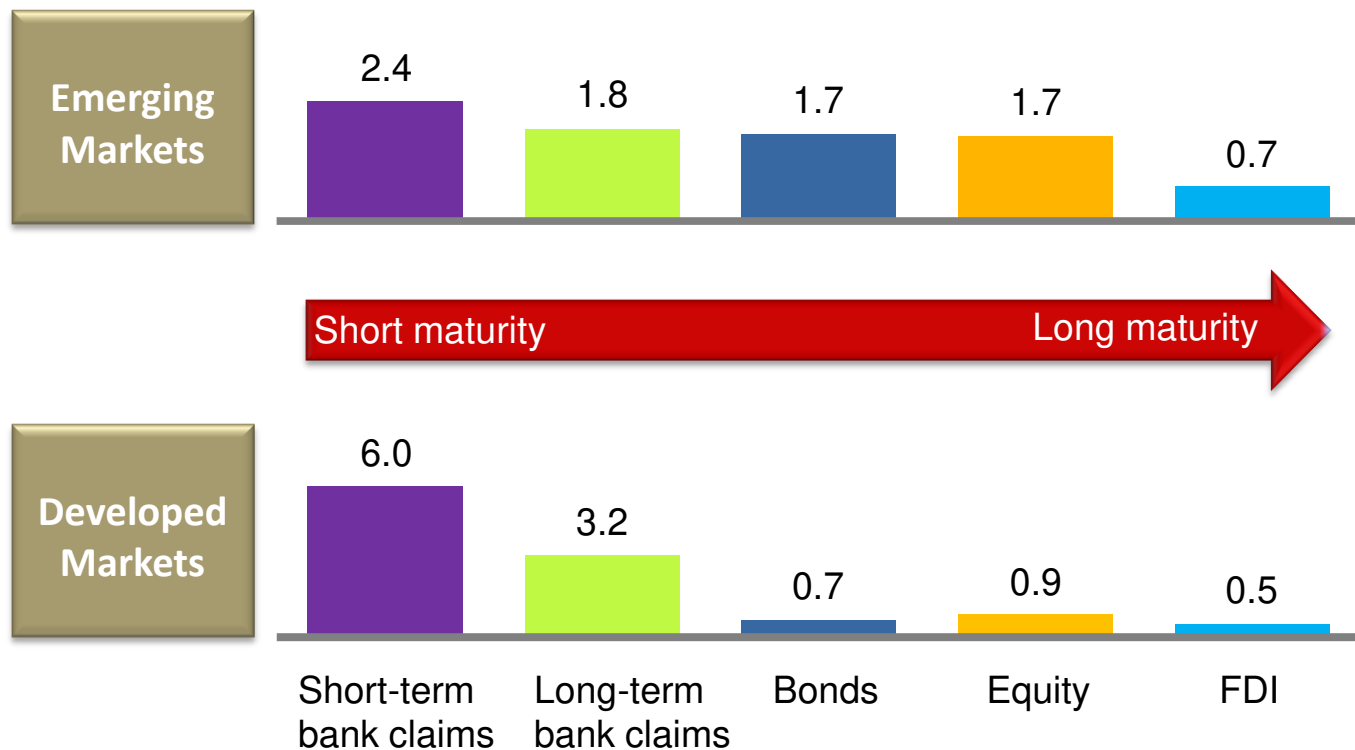
Total increase in credit and subsequent debt overhang a large multiple of the net international capital flows

Total cross-border capital inflows: 1980 – 2011



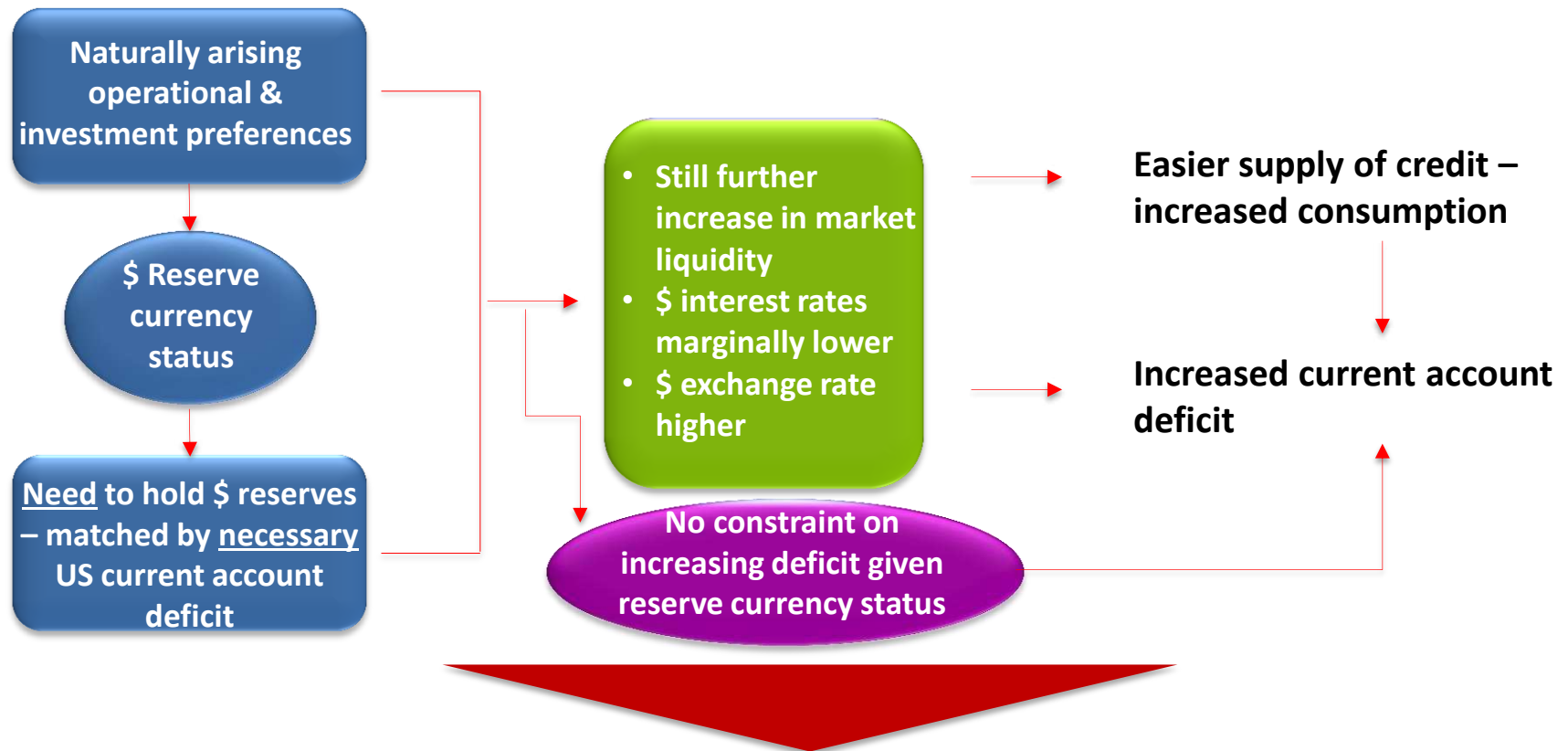
Source: *Future of Long-term Finance*, Group of Thirty Report, MGI, December 2012

Coefficient of variation of inward cross-border runs by type



Source: *Future of Long-term Finance*, Group of Thirty Report, MGI, December 2012

Dynamics of increasing deficits in reserve currency economy



Consequent current account deficit and overseas holding of \$ can be far higher than reserve currency status makes necessary