



Global Liquidity and Financial Contagion

Deepak Mohanty
Executive Director
Reserve Bank of India

January 14, 2014



An Outline

- * **Context**
- * **Concept and Trend**
- * **Impact on EMEs**
- * **Indian Experience**
- * **Conclusion**



Context

- * **Great moderation: Endogeneity**
- * **Role: Pre/Post-Crisis**
- * **Liquidity: Centrestage**
- * **Fed Taper**



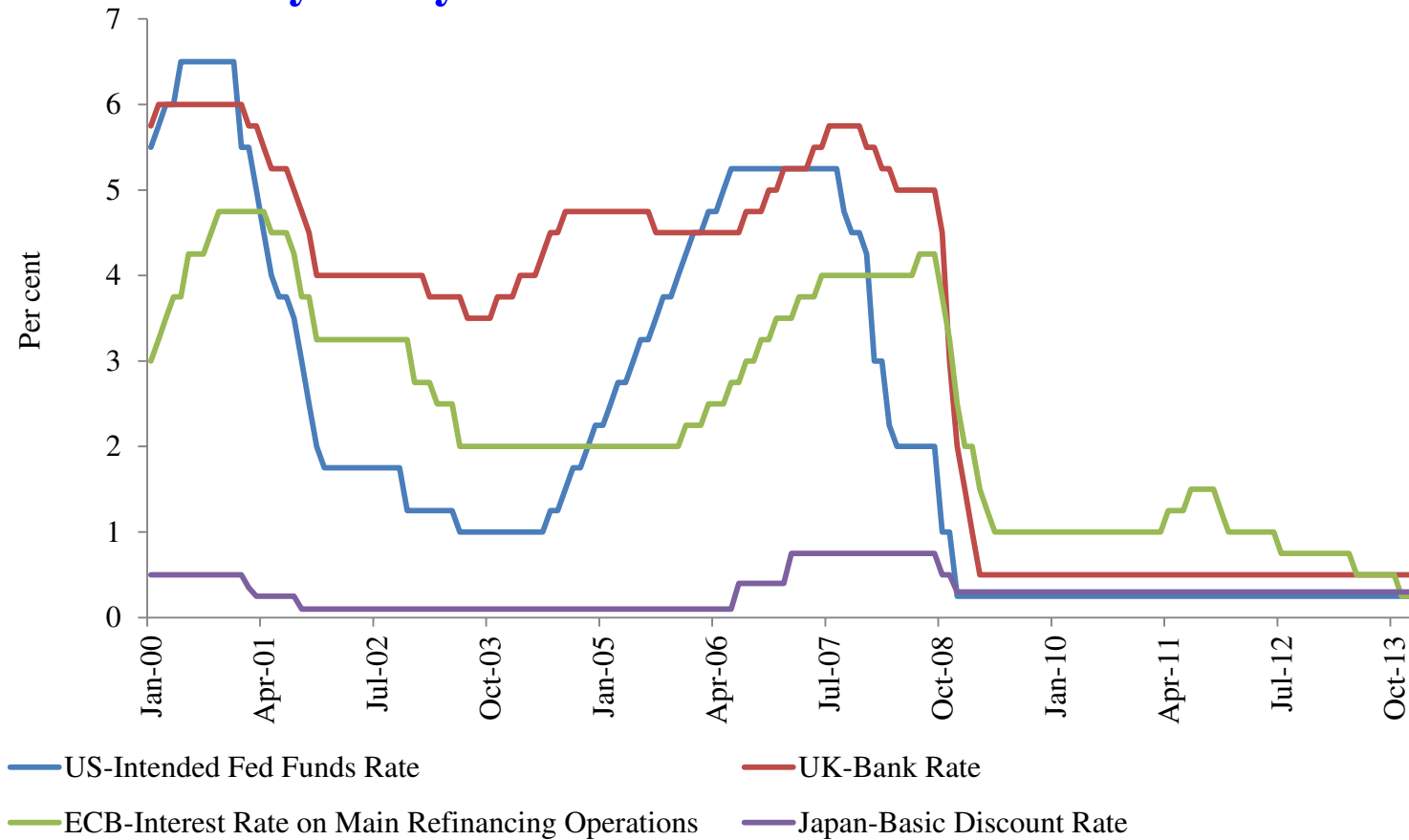
Concept & Trend

- * **Work: IMF & BIS**
- * **Traditional: Monetary Sector**
- * **Key attribute: Ease of financing**
- * **Rate based**
 - **Interest Rates, spreads**
- * **Quantity based**
 - **Cross border credit**



Concept & Trend

Key Policy Rates: Select Advanced Economies

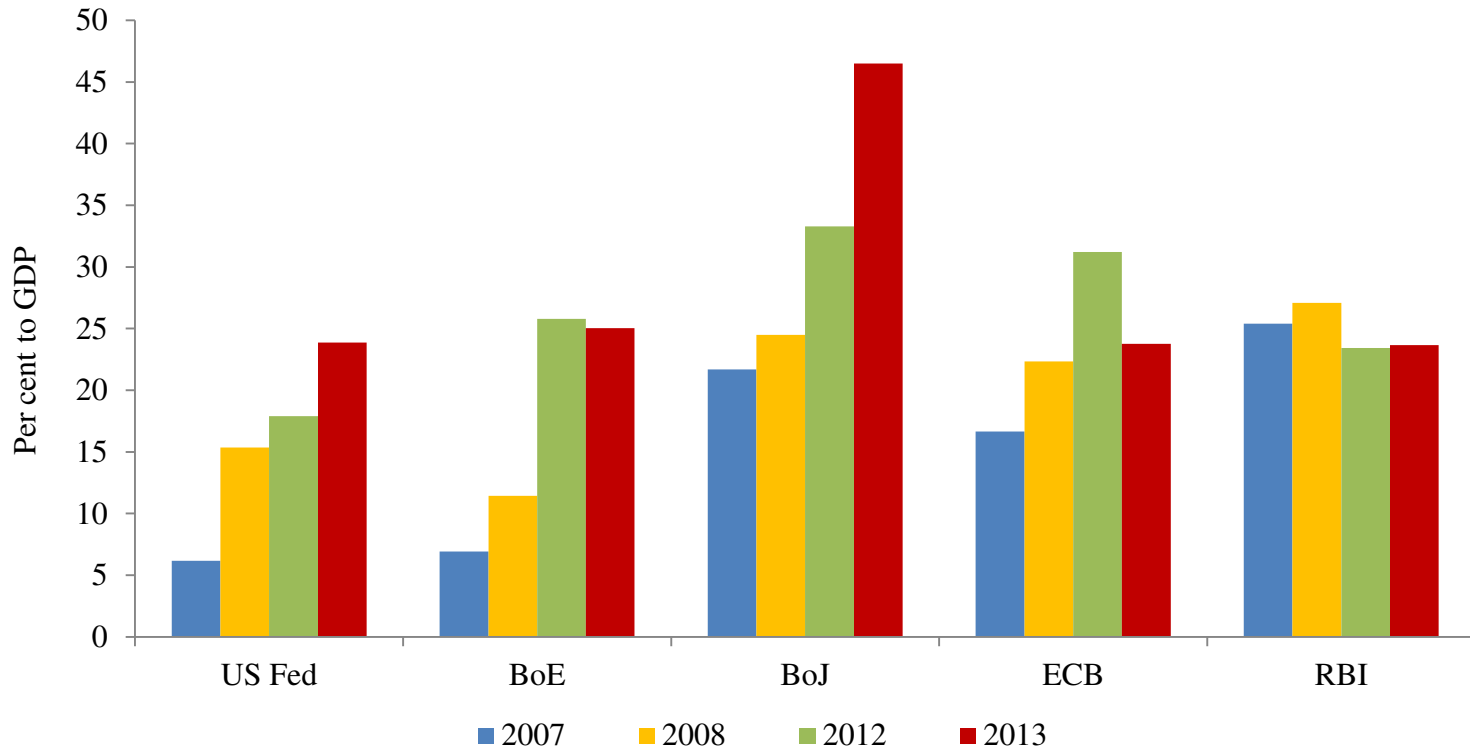


Source: Respective Central Bank Websites.



Concept & Trend

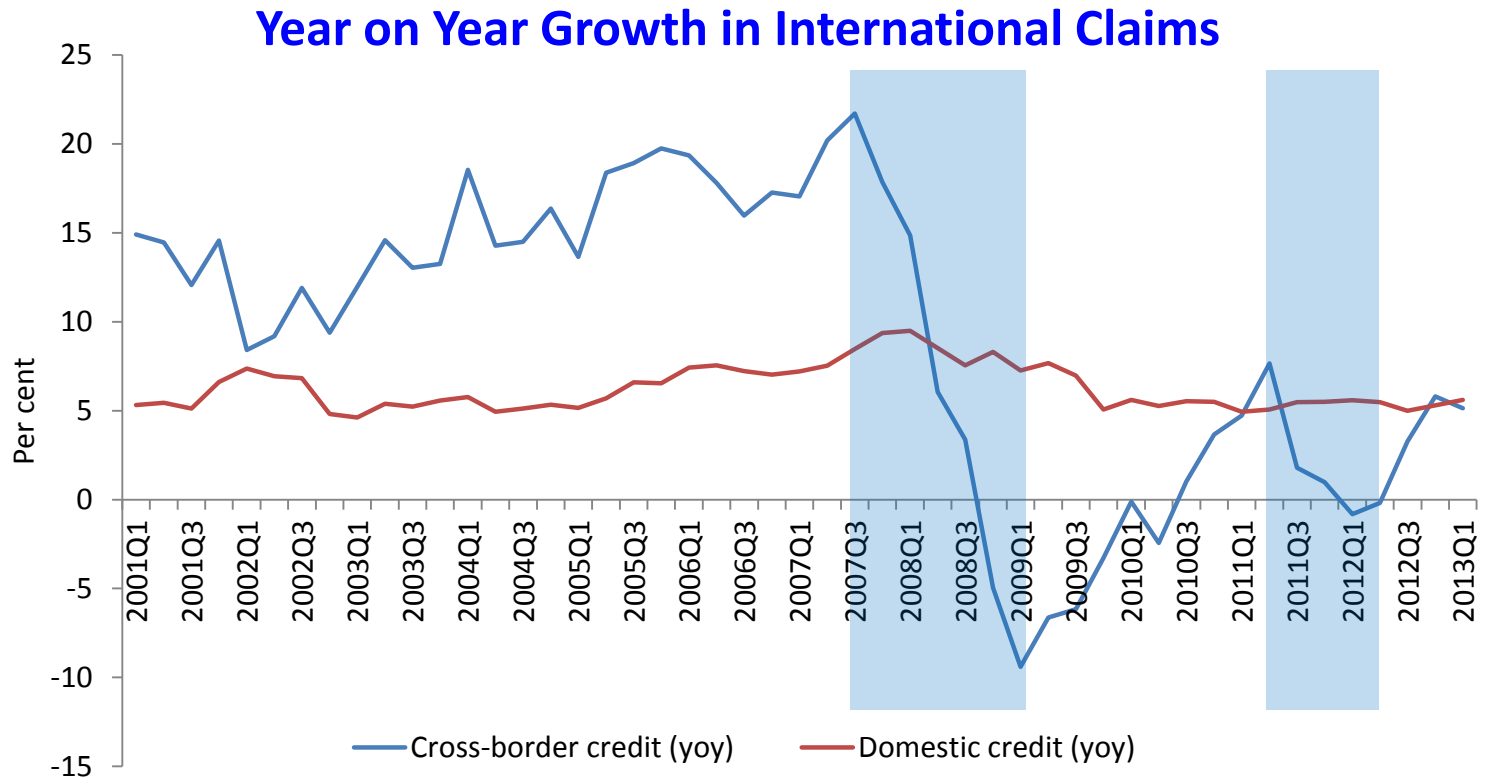
Central Bank Balance Sheets



Note: Data are sourced from respective central bank websites. For BoE and RBI, they relate to financial year and for others calendar year. For other countries, GDP as projected by the IMF is used for calculating the ratios.



Concept & Trend

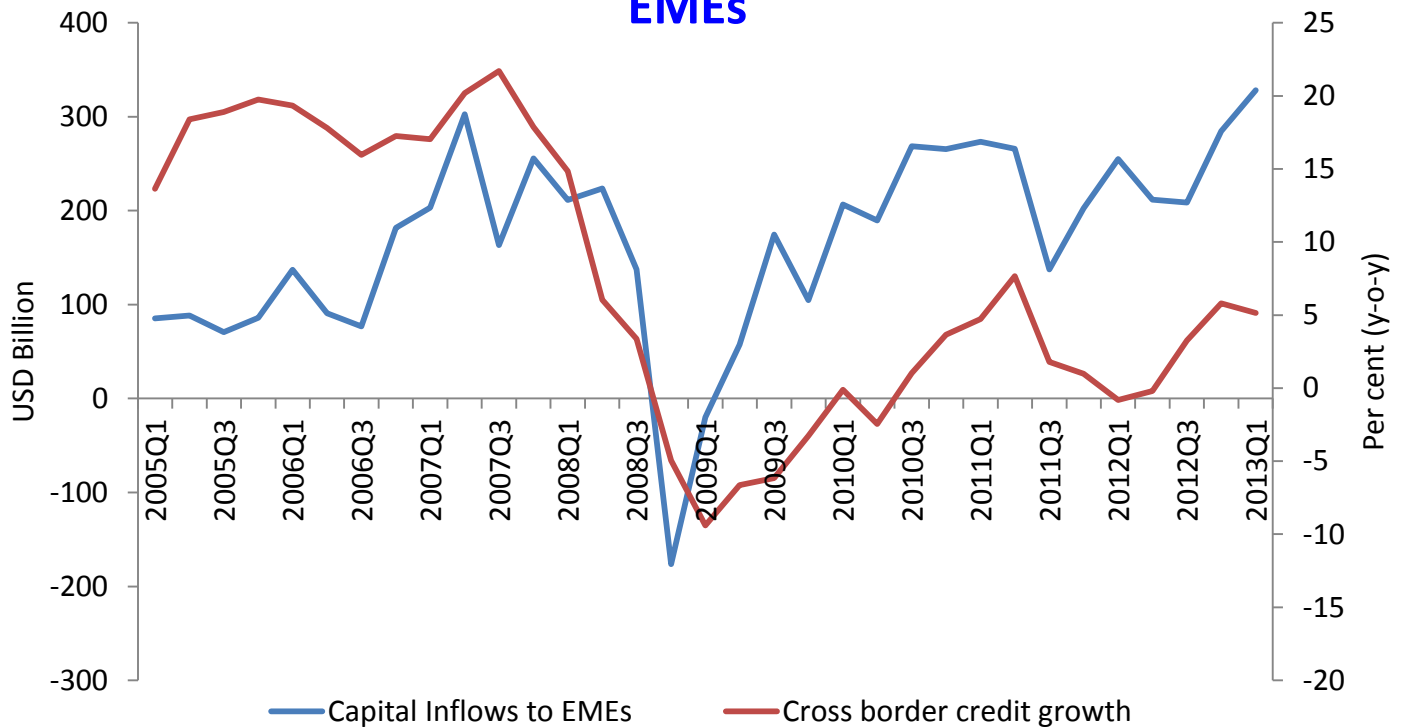


Source: IMF, International Financial Statistics; BIS international banking statistics; BIS calculations



Impact on EMEs

Cross Border Credit growth and Capital Inflows to EMEs

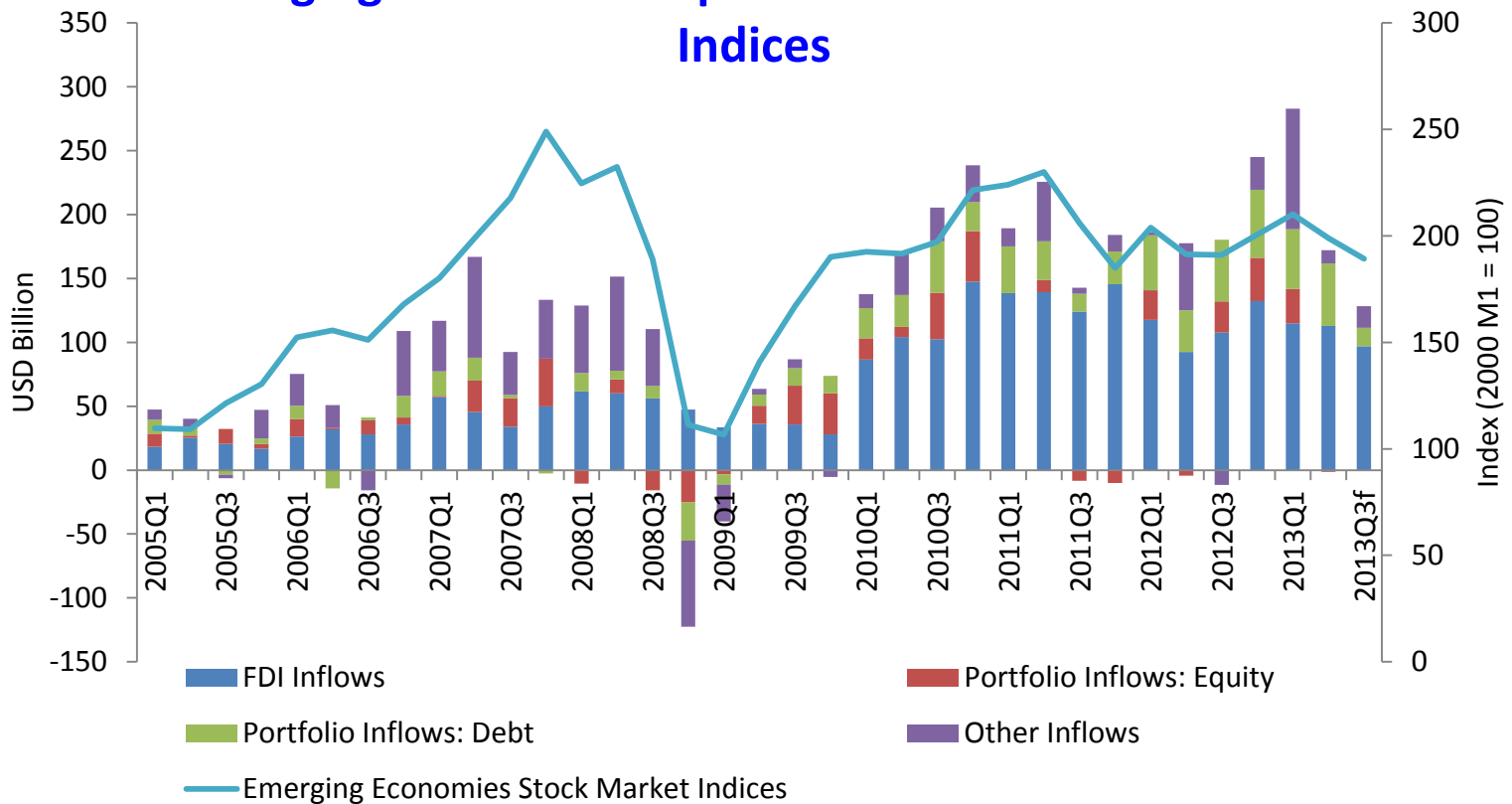


Source: IIF and BIS



Impact on EMEs

Emerging Economies Capital Flows and Stock Market Indices

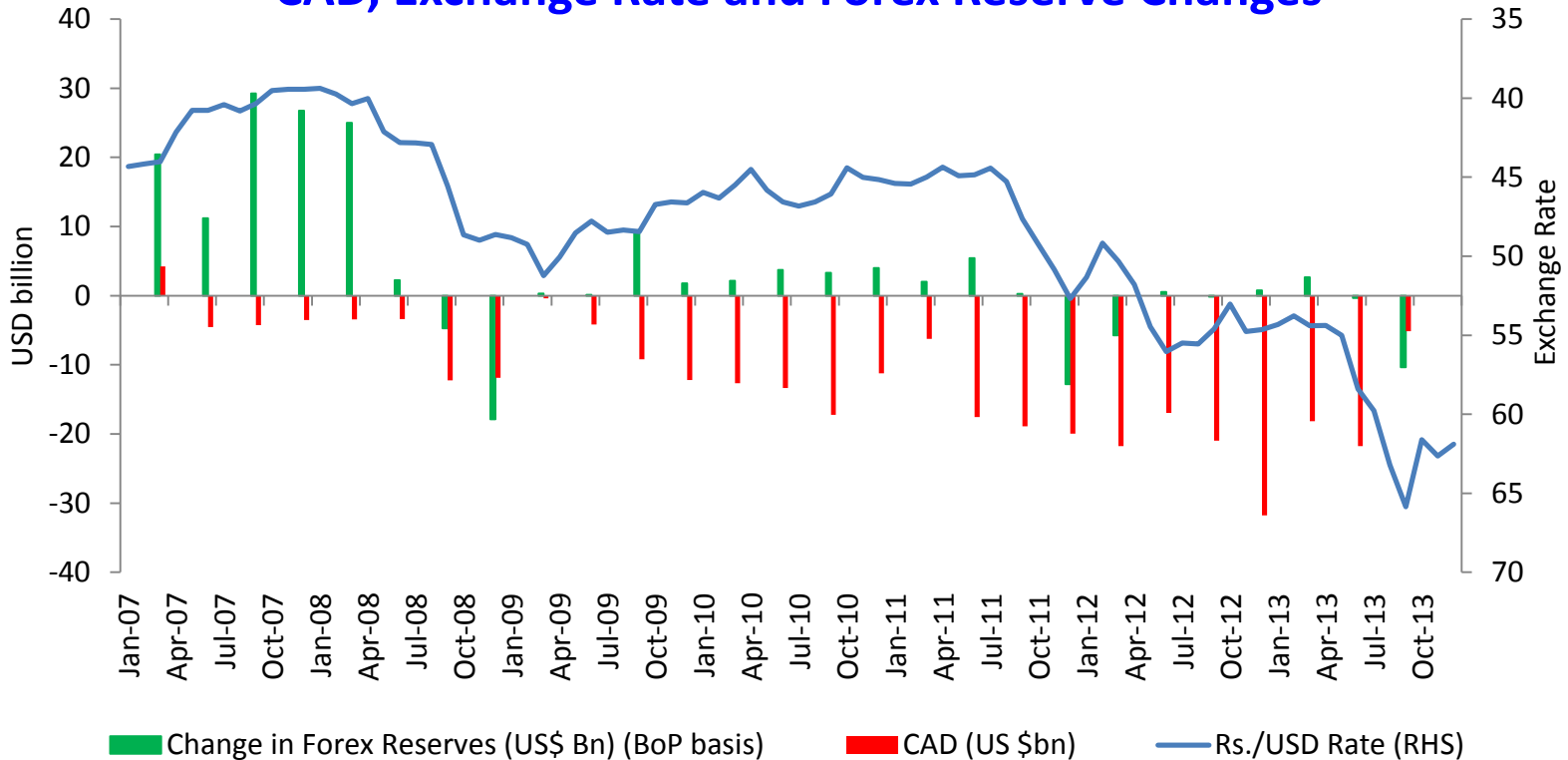


Source: IIF and World Bank *Capital Flows here includes Capital Inflows into BRICS+Mexico and Indonesia



Indian Experience

CAD, Exchange Rate and Forex Reserve Changes



Note: Reserves increase (+)/ decrease (-).

RHS scale is in reverse order.



Conclusion

- * **High Asset Prices**
- * **Greater volatility in Capital flows to EMEs**
- * **Constrains Monetary Policy in EMEs**
- * **India: two bouts of stress**
- * **Impact of taper uncertain**



THANK YOU