Comments on:
“International Coordination in Addressing Spillovers: Problems and Solution Strategies”

CAFIN Workshop
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Main Points of the Paper

- Spillovers from Unconventional Monetary Policy (UMP) on emerging market economies are present.
- Response has been differential across different QEs and other types of UMPs.
- Size, intensity, and incidence across markets and countries vary, hence there are needs to measure and monitor.
- Ideally, could use information to prevent risks from becoming systemic though international coordination.
Global Policy Cooperation

- Paper identifies 5 avenues for coordination
  - Currency management
  - Monetary policy
  - Regulatory changes
  - Systemic risk monitoring
  - Macro-prudential policies
- Discusses their effectiveness and potential
- Suggests greater role of the G-20
My Three Discussion Points

- What do we know about spillovers and what can we hope to know?
- What are the limits or obstacles to international policy cooperation?
- What can we expect to accomplish and how can we do it?
Spillovers: What Do We Know?

- Measurement is complicated
  - Can know *what is happening now* (e.g., correlations of data, definitions of statistical causation).
  - Harder to detect *what will happen next* or second round effects (e.g., what will be the “real” economic effects of, say, capital inflows into banking systems or portfolio equity/bonds?).
  - Hard to determine *where the spillovers will occur* (still debating the relative sizes of “push” and “pull” factors that appear to vary over time).
Spillovers: What *Can* We Know?

- Can have better “interconnectedness” information
  - BIS bank claims data being enhanced.
  - IMF working on global Flow of Funds data
  - CCPs has information on derivative exposures; central banks on bank flows.

- Can use better tools
  - Use of more computer power to do network modeling
  - Other statistical methods to measure “jointness” of probabilities of default or stress.
Why So Little Cooperation?

- Policymakers do not think in terms of trade-offs across their objectives.
- Disagreement about the economic situation and cross-border transmission effects of policies.
- Asymmetries of country size such that a significant portion of the gains accrue to countries too small to be included in any agreement.

See Ostry and Ghosh, Dec 2013, “Obstacles to International Policy Coordination and How to Overcome Them”
What Can We Expect to Accomplish?

- Cooperation more likely when trade-offs are recognized.
  - Role for “neutral assessor” [IMF? G-20?]
- Quid pro quos
  - Build-in methods for trade-offs ex ante (either through time or in different areas/sectors).
  - Need to ensure credibility
- Peer pressure
  - IMF General Data Dissemination System (GDDS) in the post Asian-crisis for better information/data
  - FSB Peer Reviews
  - Mandatory Financial Sector Assessment Programs for systemically important countries
How Can We Do It?

- Need to allocate resources to assessor role
  - G20 has no permanent staff (Secretariat moves from one country to another)
  - IMF’s role?

- Need to collect and distribute (spillover) information
  - Agree to reduce confidentiality or mask data to be used outside official community

- Keep developing common standards (even if lowest common denominator)
  - ROSCs, New LEI (Legal Entity Identifier)
  - Basel Committee, IOSCO, IAIS, CPSS, etc.