

Prospective Changes in Monetary Policies in Advanced Economies, and Policy Challenges to Asia

Choongsoo Kim

Governor
The Bank of Korea

*Panel Discussion
BOK-IMF ER Conference
September 27, 2013*



THE BANK OF KOREA

Issues to Cover

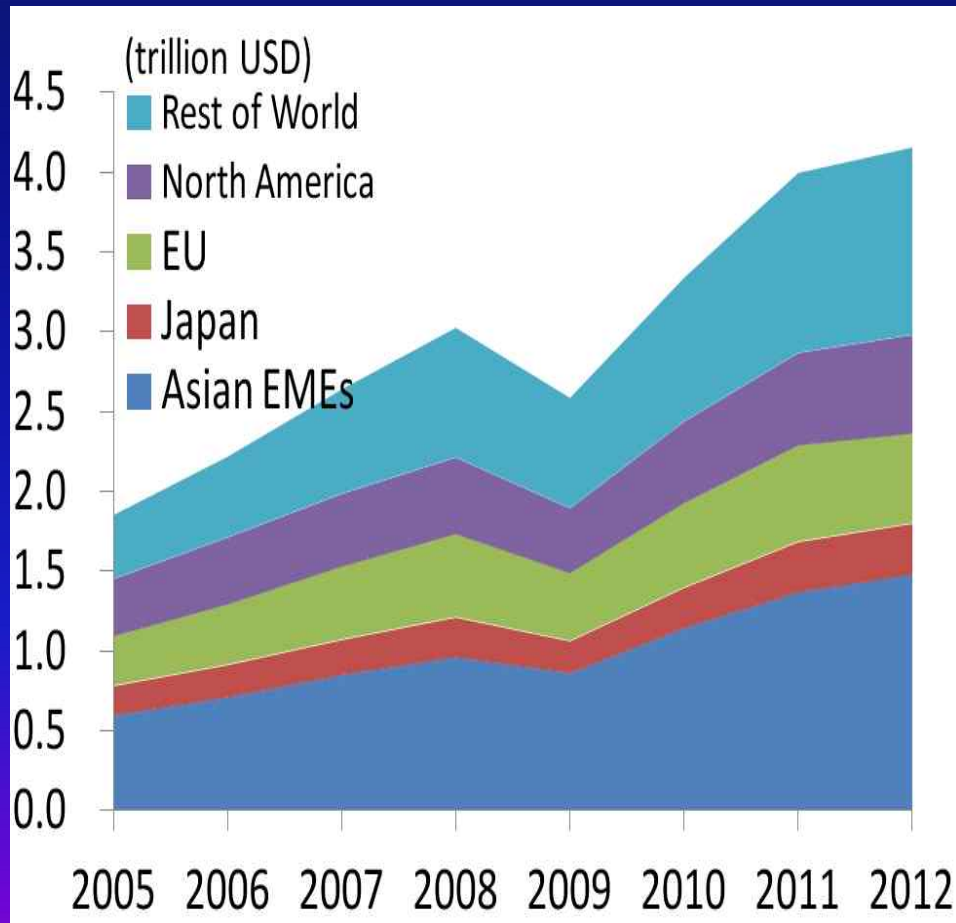
- **Current State of the Asian Economy**
- **Risks Stemming from Changes in Monetary Policies in Advanced Economies**
- **Policy Challenges and Implications**



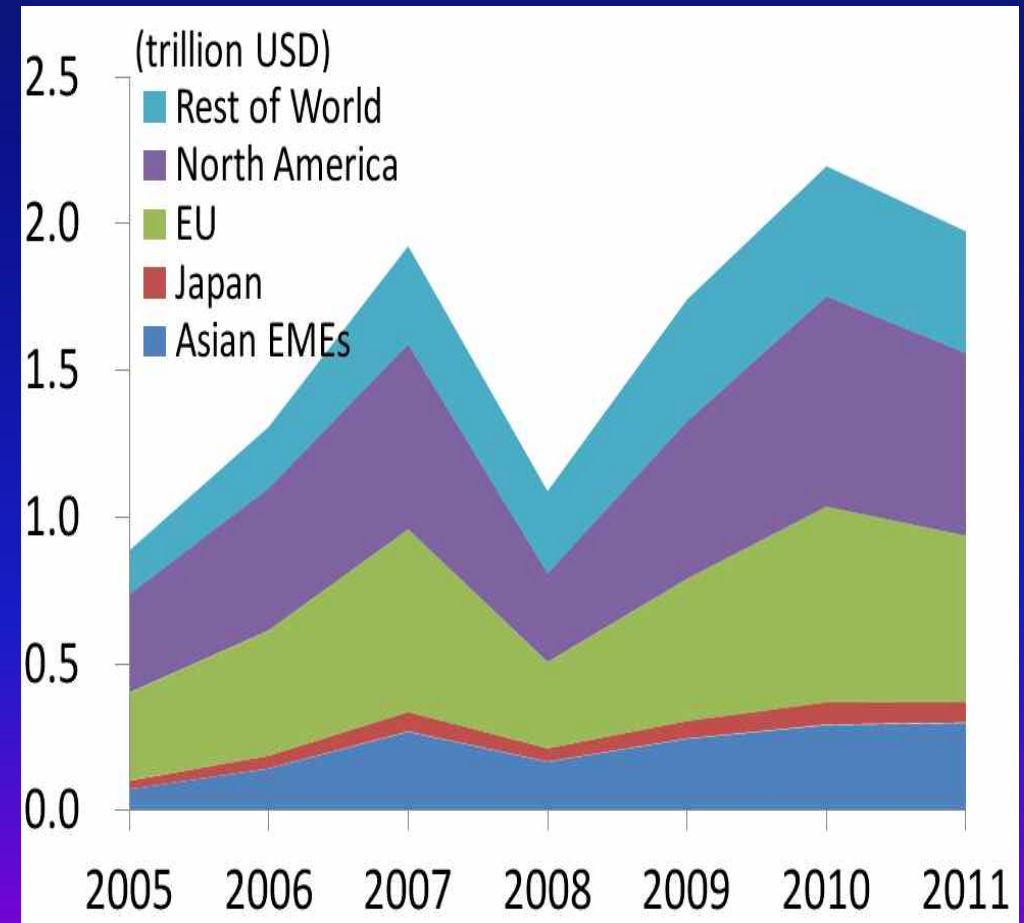
Asian EMEs: Susceptible to External Factors

● High export to and large capital inflows from AEs

Export Destinations



Capital Inflow Sources



Notes: 1) Asian EMEs: China (Mainland, HK SAR, Macau), India, Indonesia, Malaysia, the Philippines, Thailand, Korea, and Vietnam. 2) Taiwan is included in the right panel.
 Source: Direction of Trade Statistics and Coordinated Portfolio Investment Survey, IMF

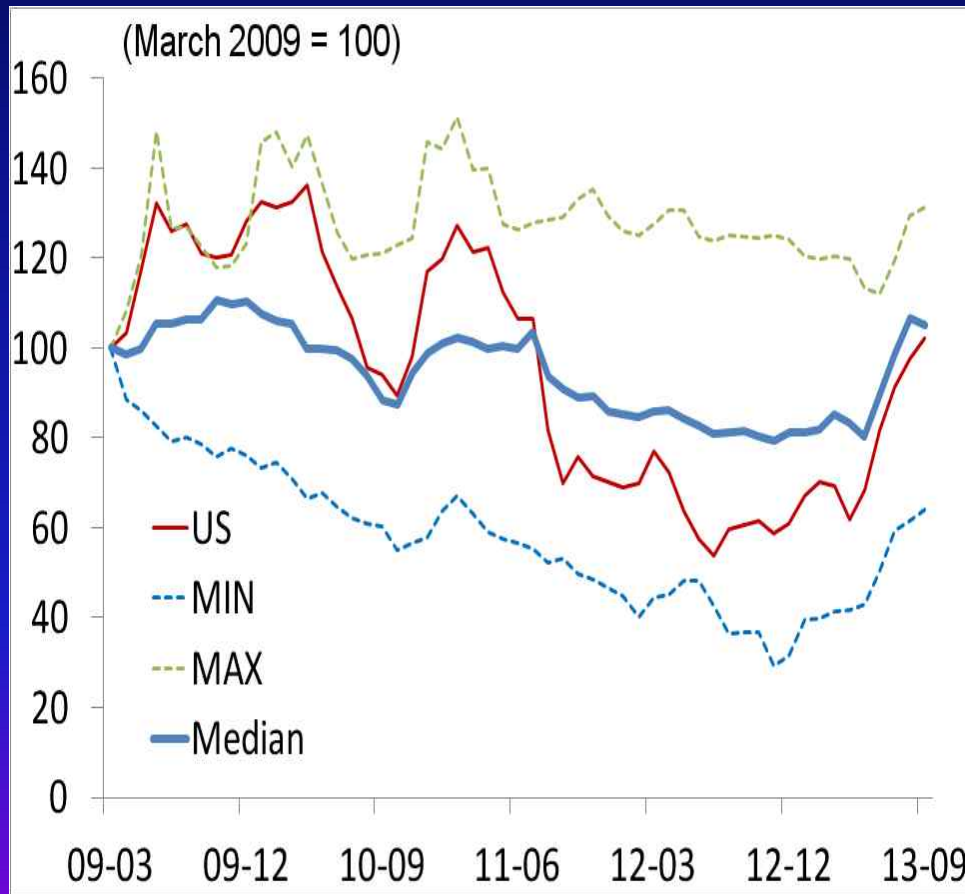


THE BANK OF KOREA

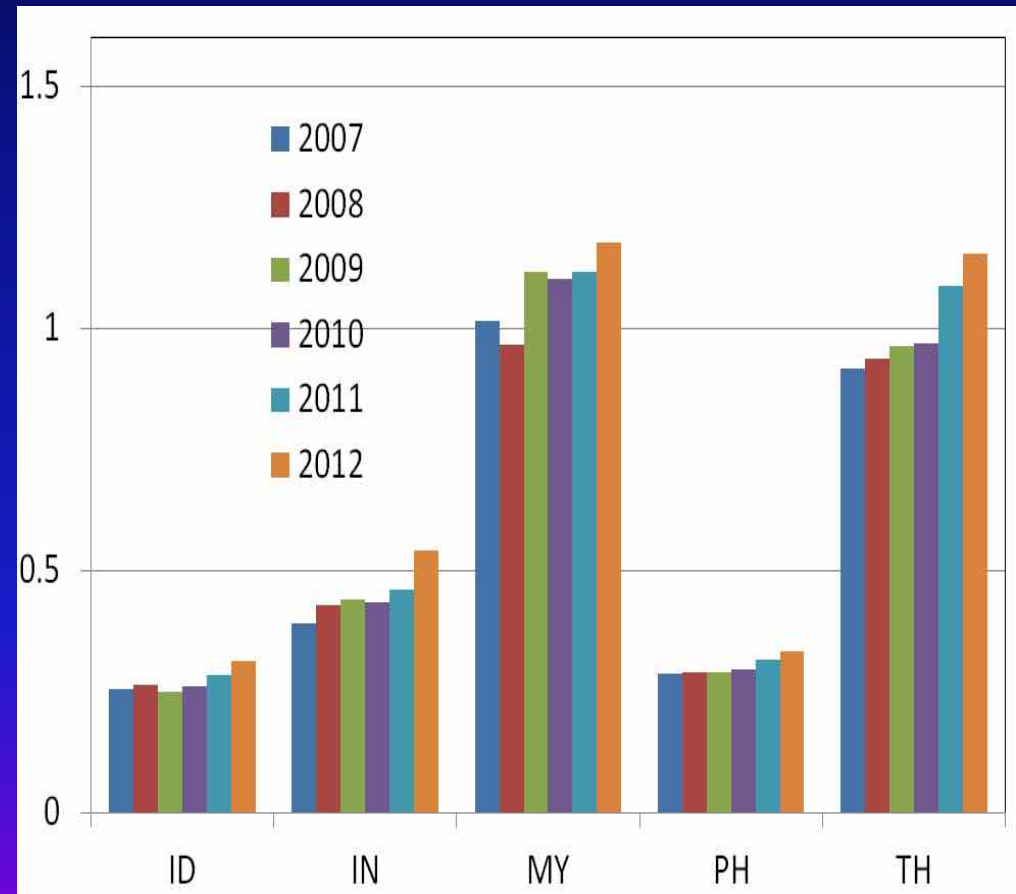
Effects of QEs on Asian EMEs

Interest rates fell, and the credit-to-GDP increased

Long-term Interest Rates



Credit to GDP Ratio

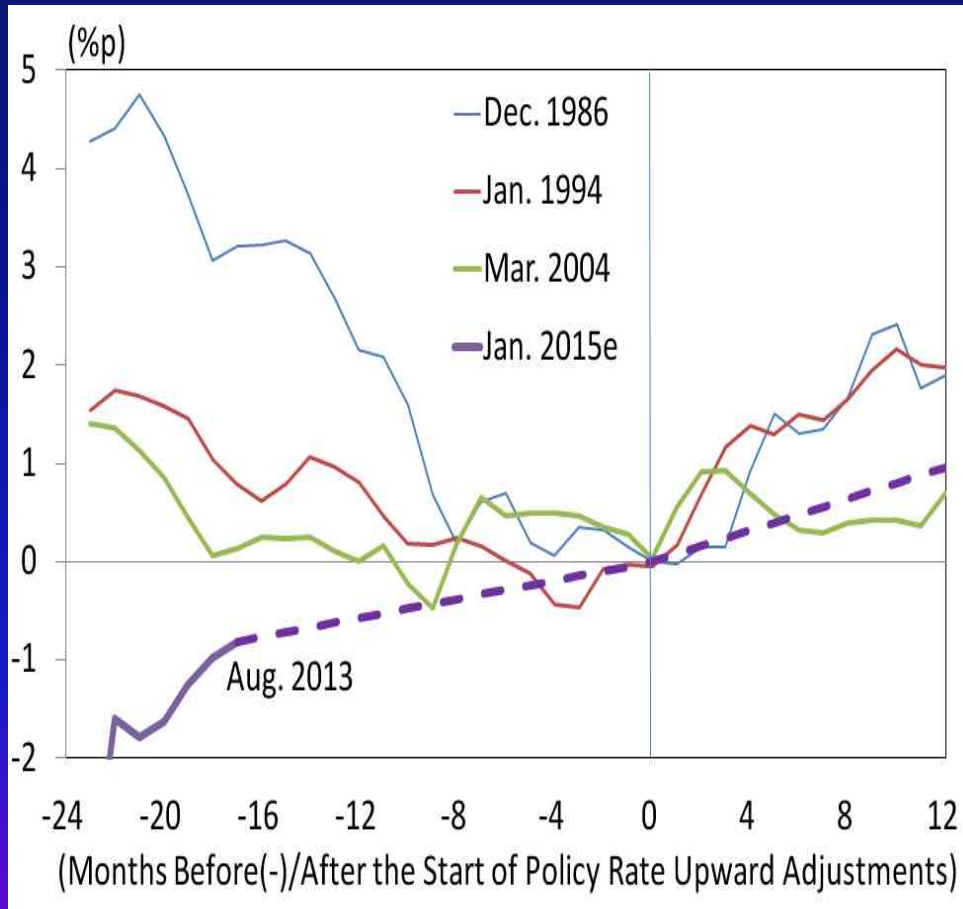


Note: Long-term interest rates (10yr TBs) cover China, Hong Kong SAR, India (IN), Indonesia (ID), Korea, Malaysia (MY), Taiwan, and Thailand (TH).

Source: Bloomberg, IMF

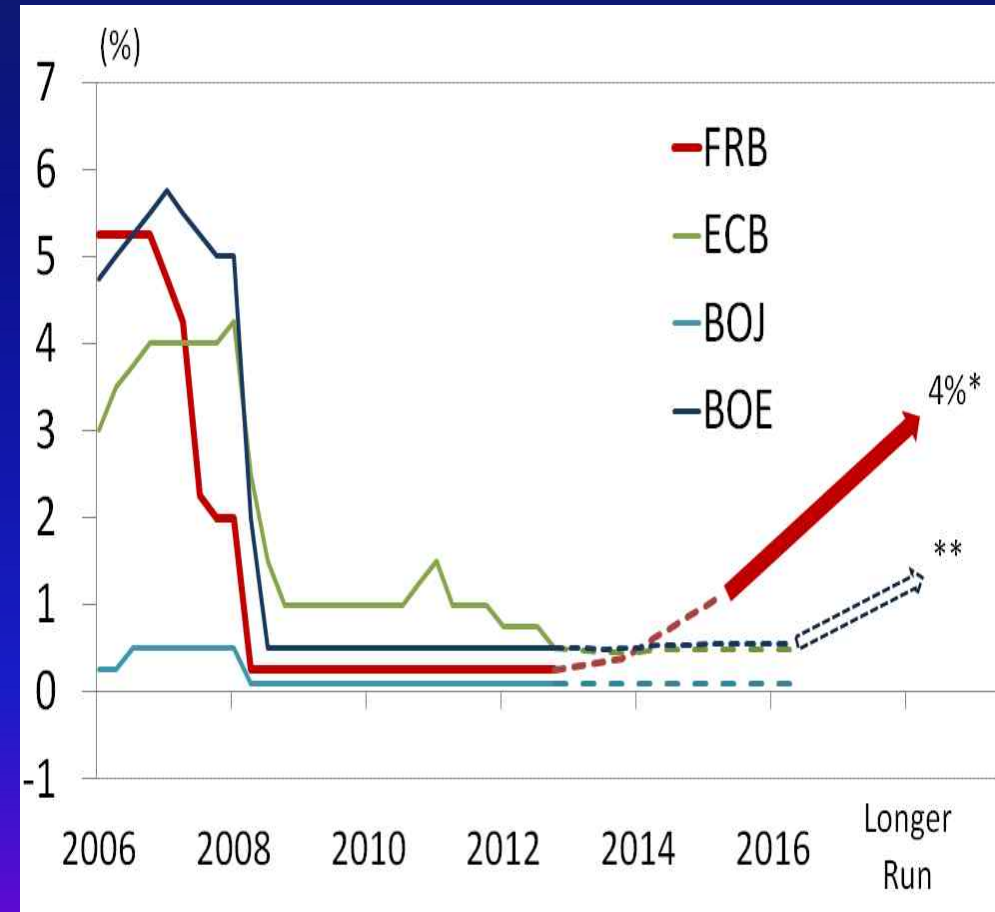
Characterizing the Changes of MP in AEs

Gradual and asynchronous TB(10yr) Rate on Rate Hike Cycle



Source: FRB, Blue Chip Forecast

Asynchronous MP Changes



Source: BOE, BOJ, ECB, FRB

* Median of FOMC members' forecasts

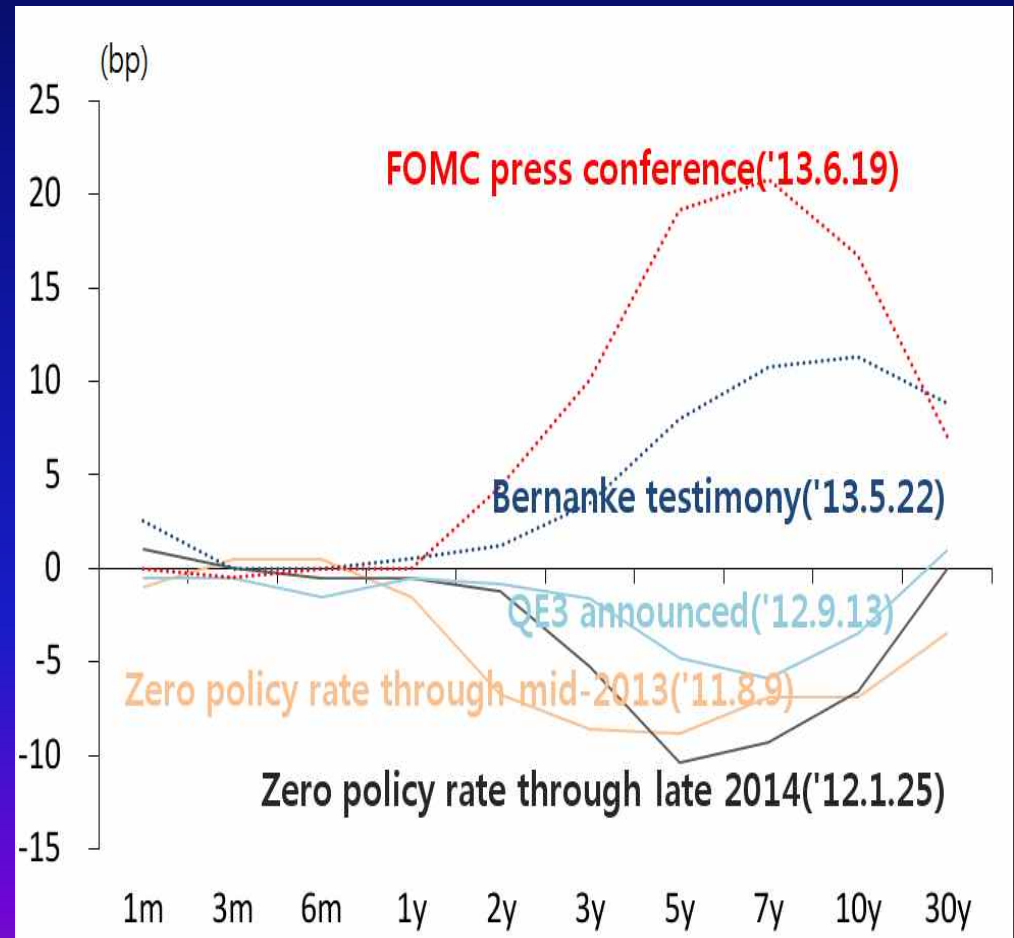
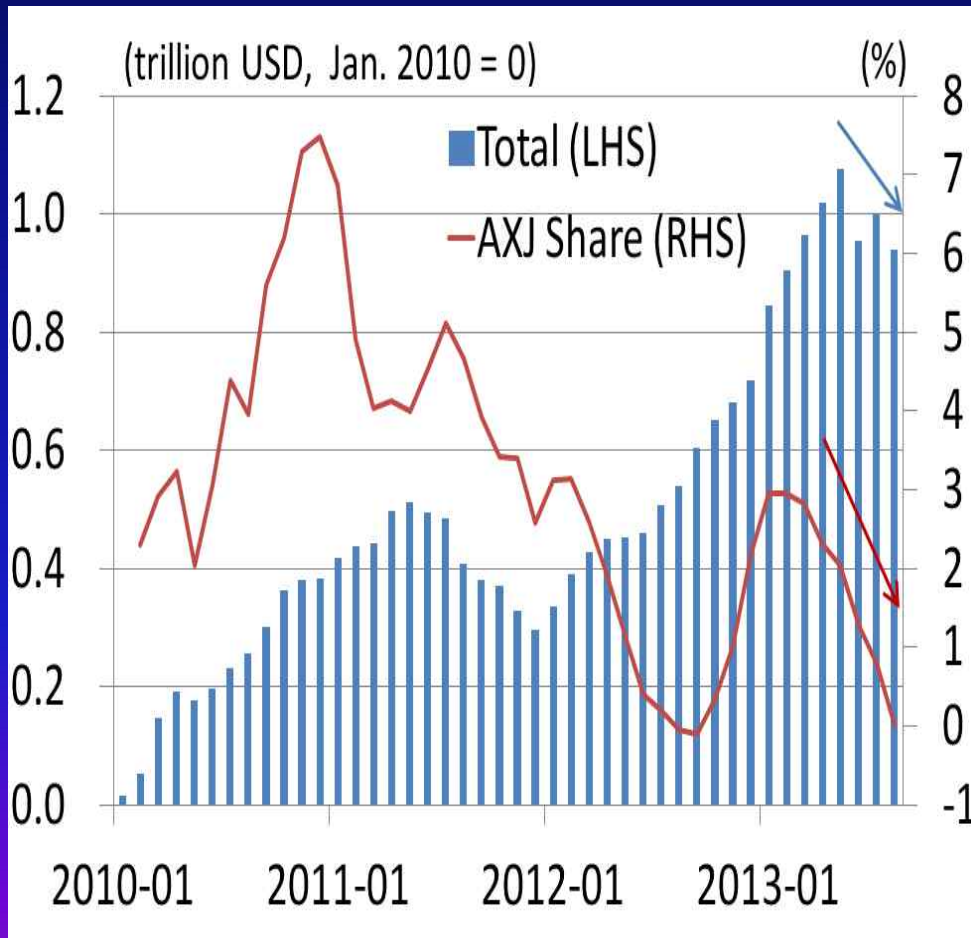
** Governor Carney (2013.8.28)

Risks to Asian EMEs

Capital outflow, high interest rates, etc.

Global Funds and AXJ Share

One-day Interest Rate Reactions to News



Notes: 1) Total represents the sum of equities and bonds. 2) The AXJ (Asia ex Japan) share is calculated using the accumulated amount since Jan. 2010.

Source: EPFR, Bloomberg

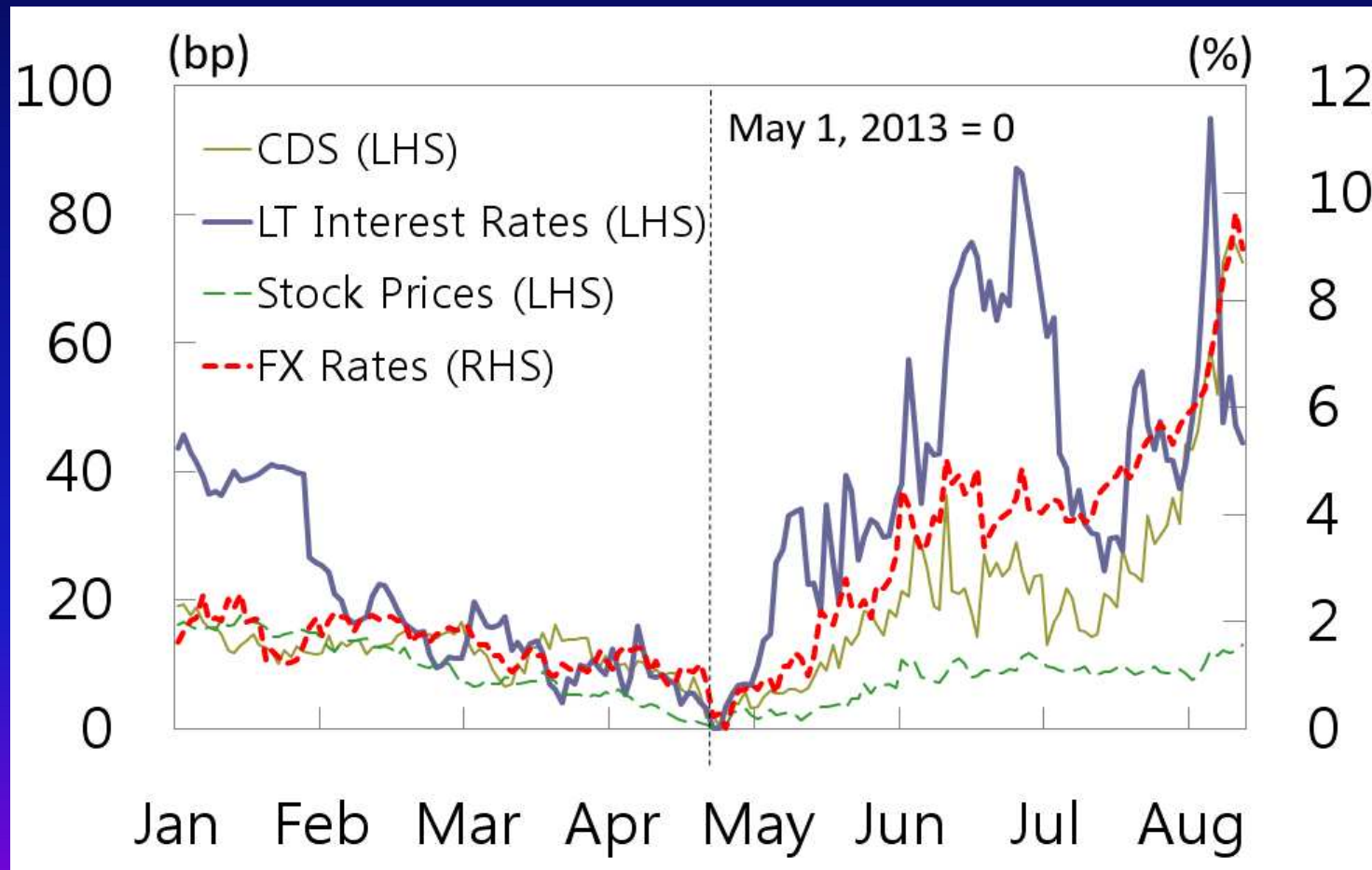


THE BANK OF KOREA

Differentiated Effects on Asian EMEs

● Dependence on country-specific pull factors

Inter-quartile Volatility Differences among Asian EMEs



Notes: 1) Data based on China, Hong Kong SAR, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan, and Thailand.

2) Inter-quartile difference = 75% quartile – 25% quartile.

Source: Bloomberg



THE BANK OF KOREA

Policy Challenges

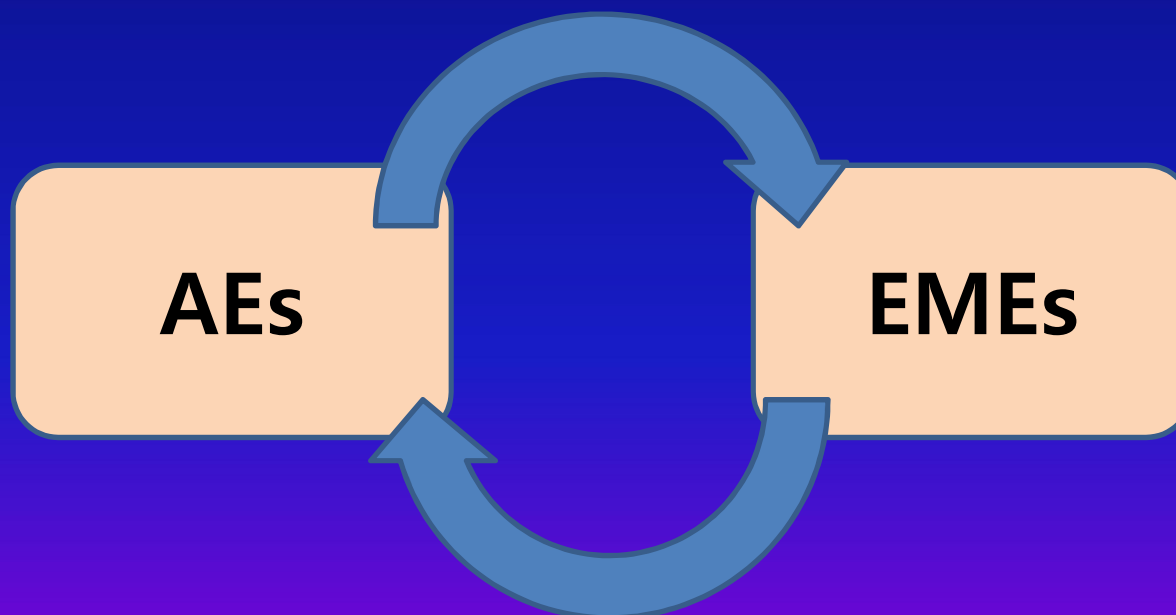
- Policy Rate Dilemma
- Market Liquidity Dilemma
- Fear of Losing International Reserves
- Asymmetric Usefulness of Macro-prudential Measures



Cooperation to Benefit All: AEs and EMEs

- Achieving a superior global equilibrium by shutting down two-way negative spillovers

Spillover Effects of MP Changes in AEs



Feedback of the Impact



THE BANK OF KOREA

Thank You



THE BANK OF KOREA