

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

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# Issues to Cover

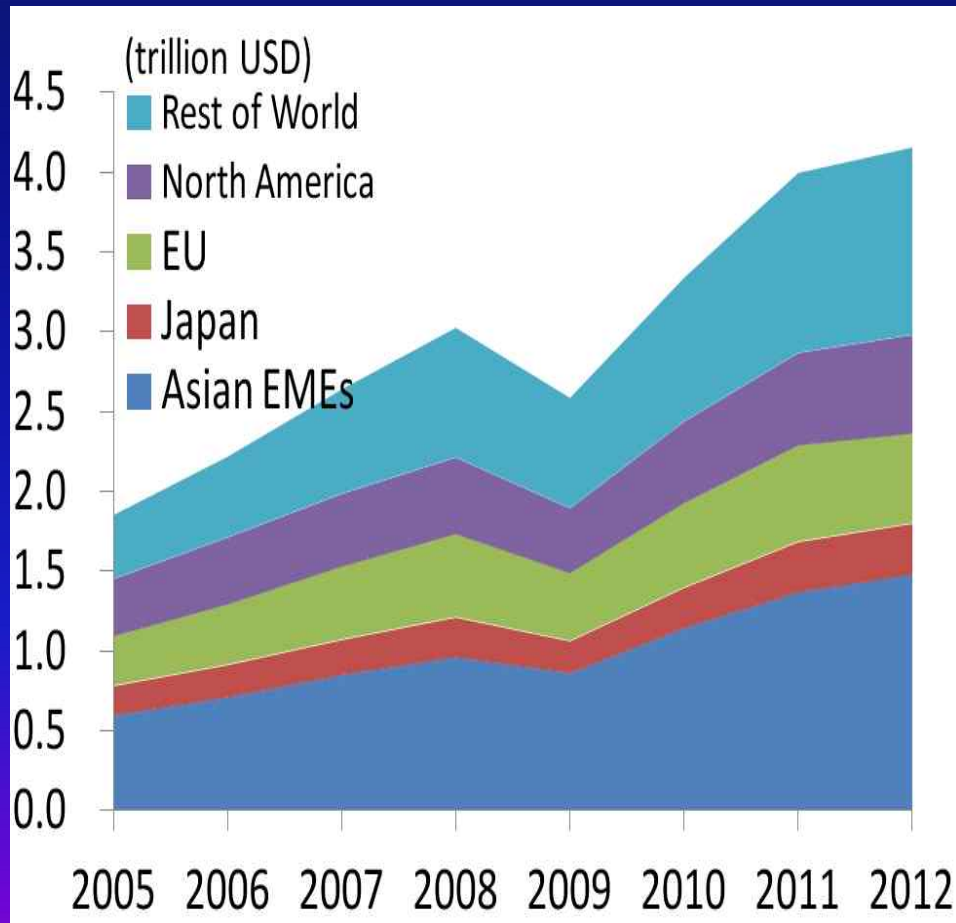
- **Current State of the Asian Economy**
- **Risks Stemming from Changes in Monetary Policies in Advanced Economies**
- **Policy Challenges and Implications**



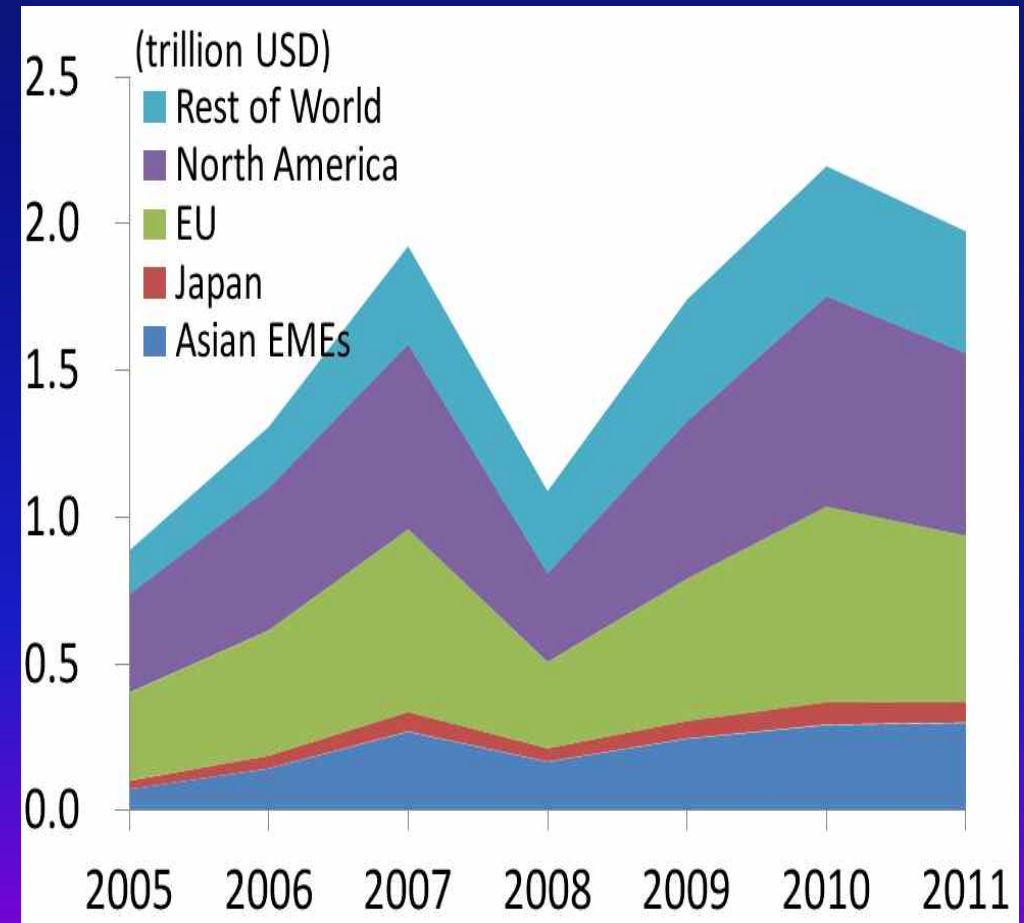
# Asian EMEs: Susceptible to External Factors

## ● 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

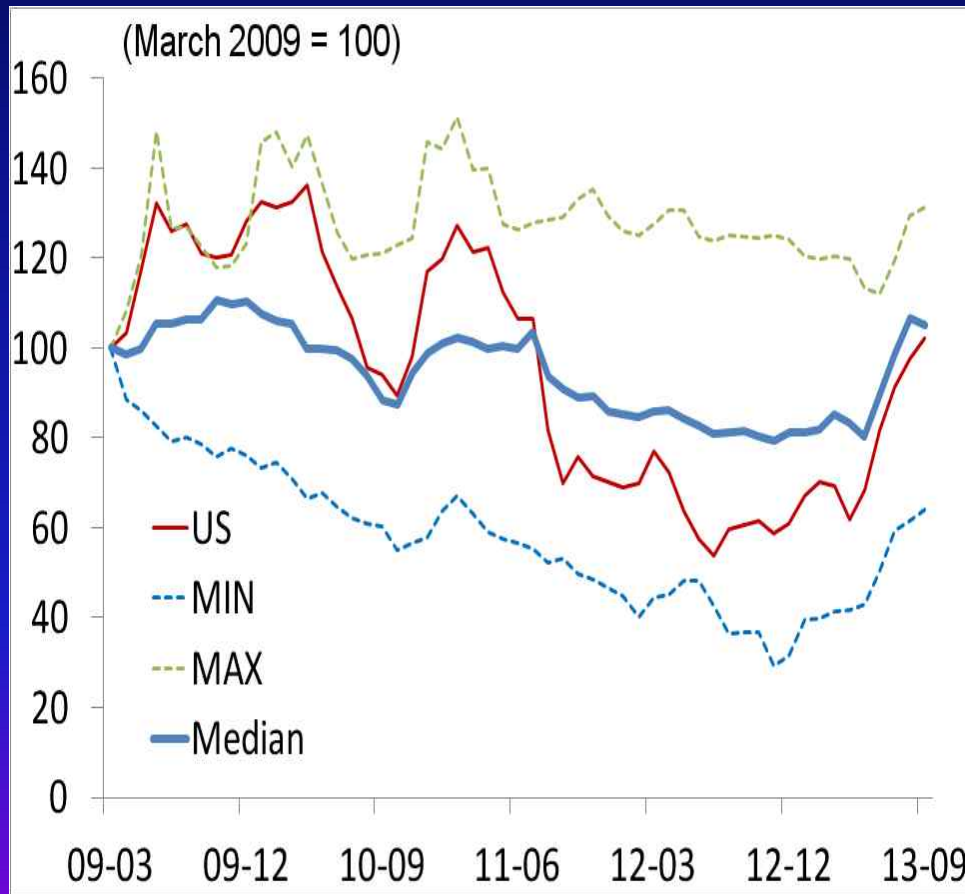


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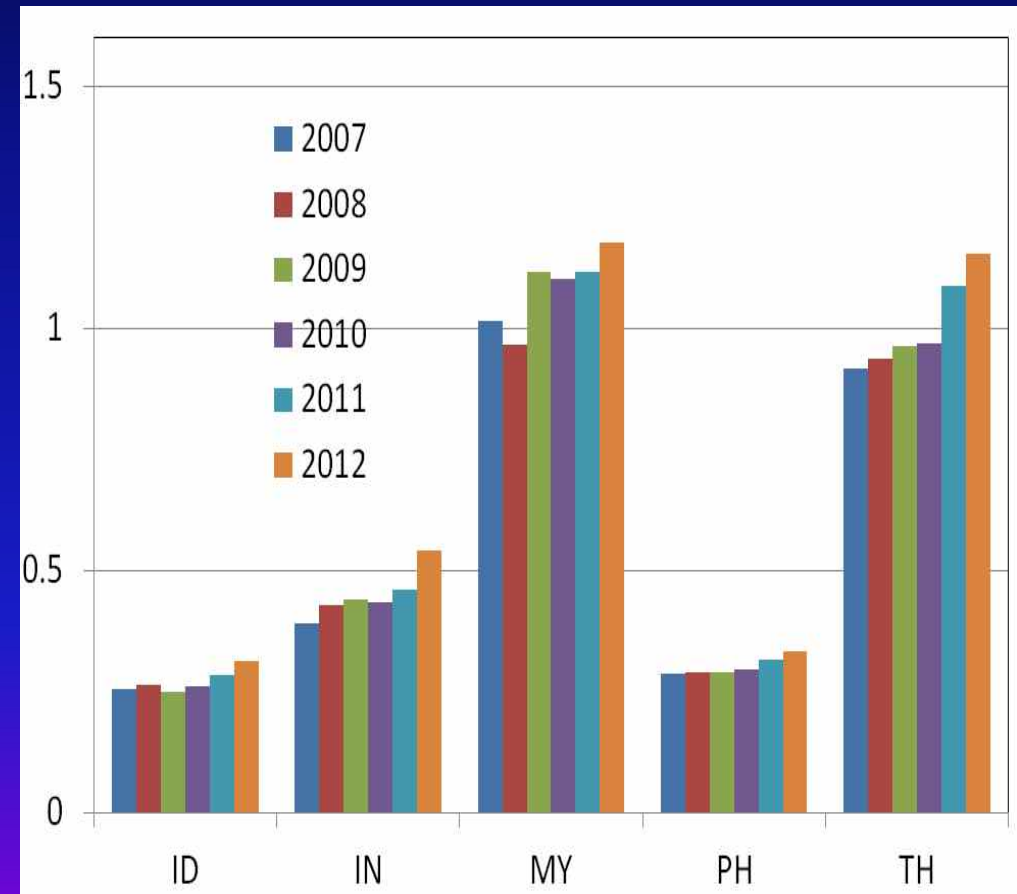
# Effects of QEs on Asian EMEs

## ● 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).

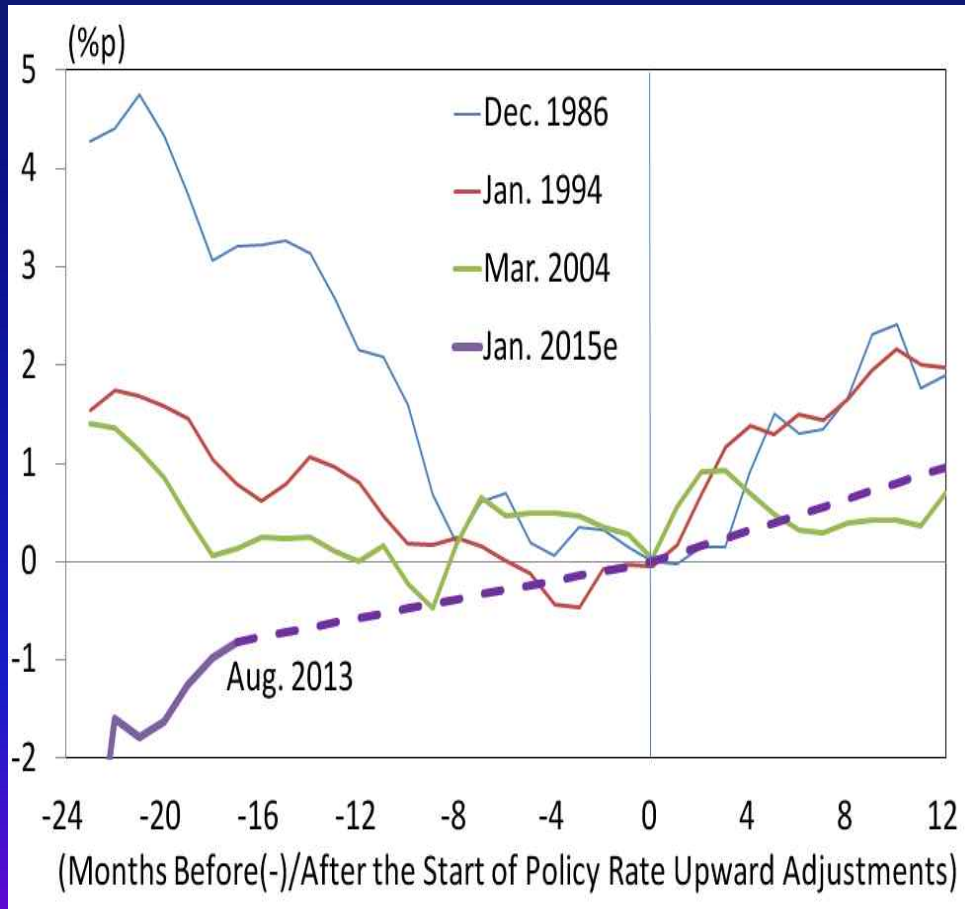
Source: Bloomberg, IMF



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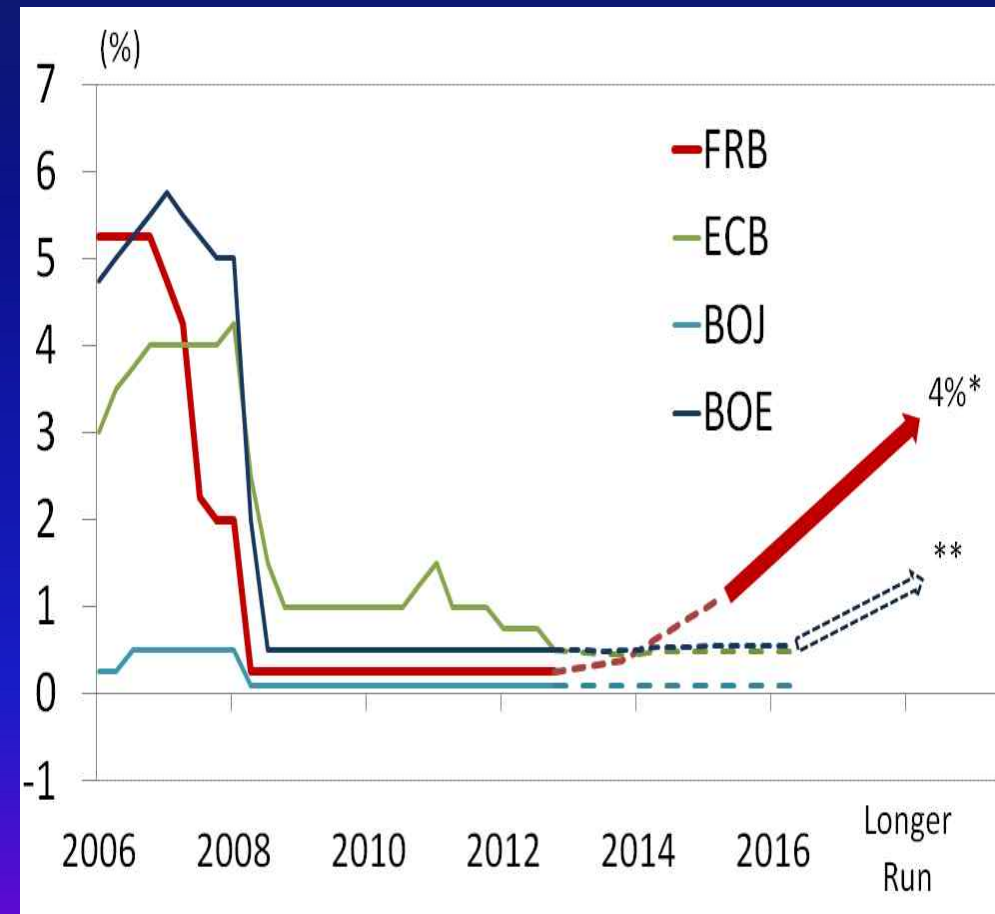
# Characterizing the Changes of MP in AEs

## 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

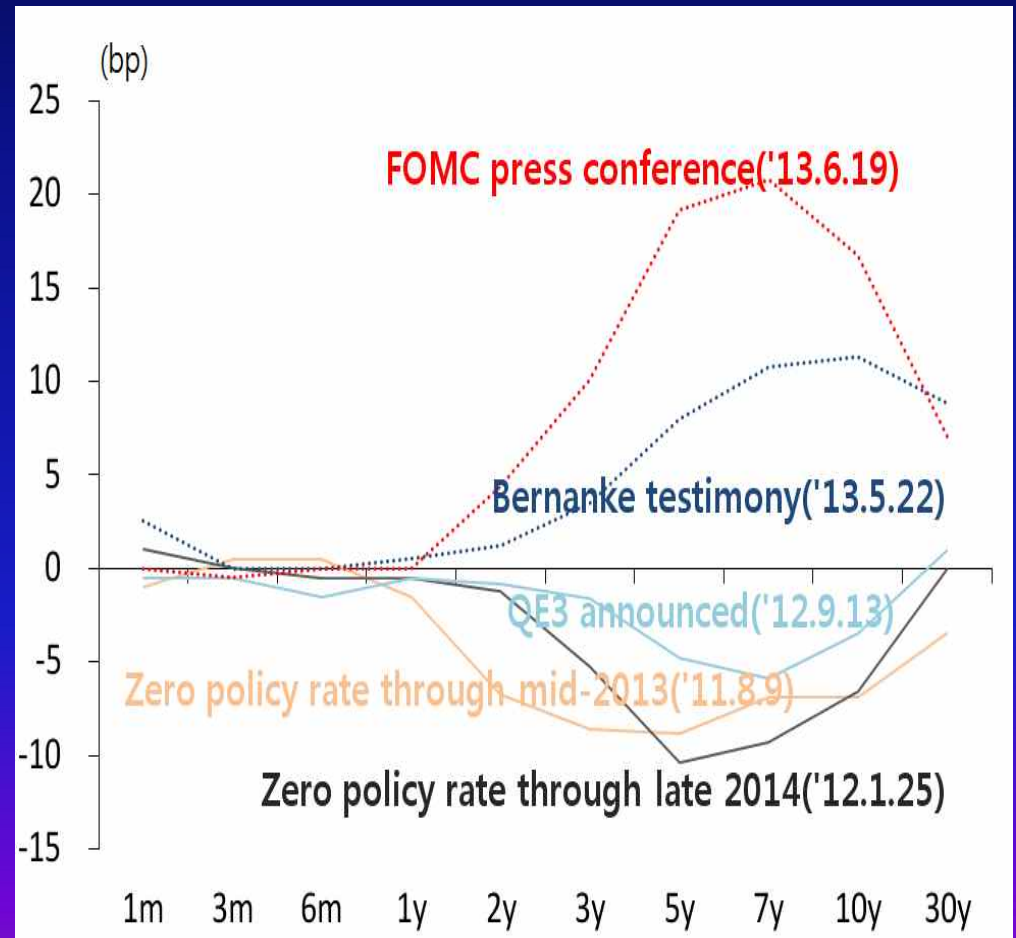
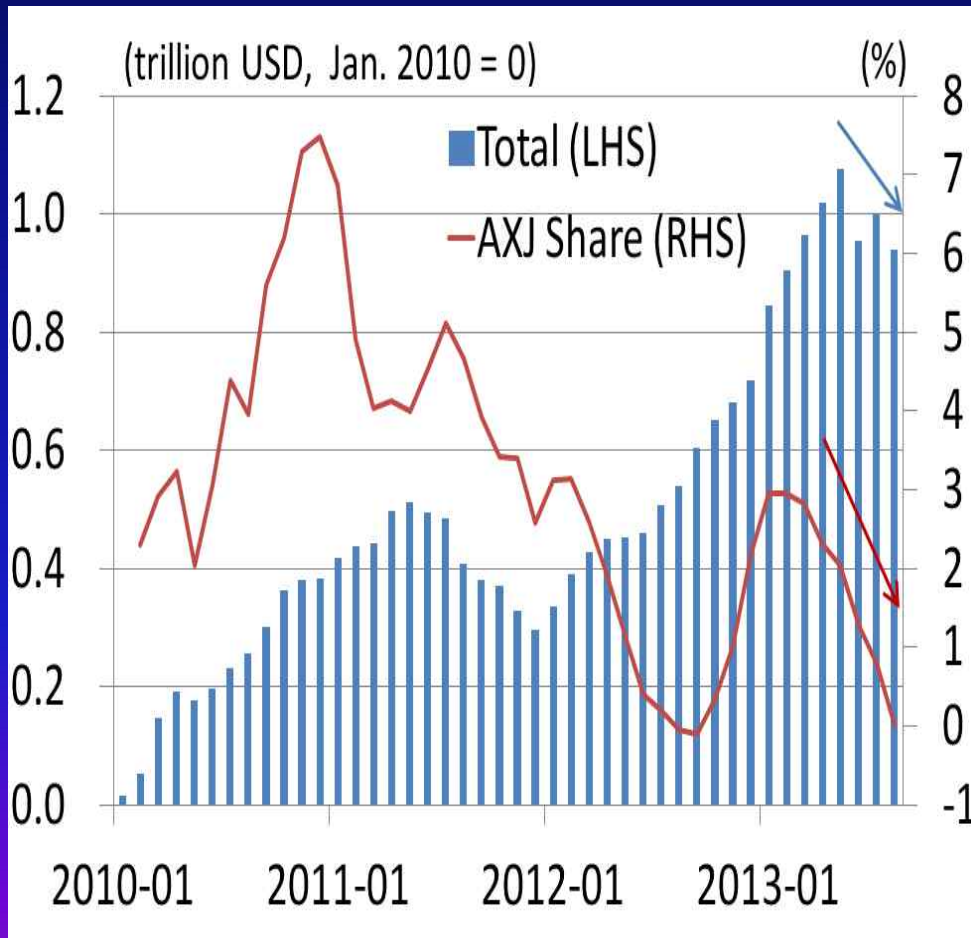
\*\* Governor Carney (2013.8.28)

# 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.

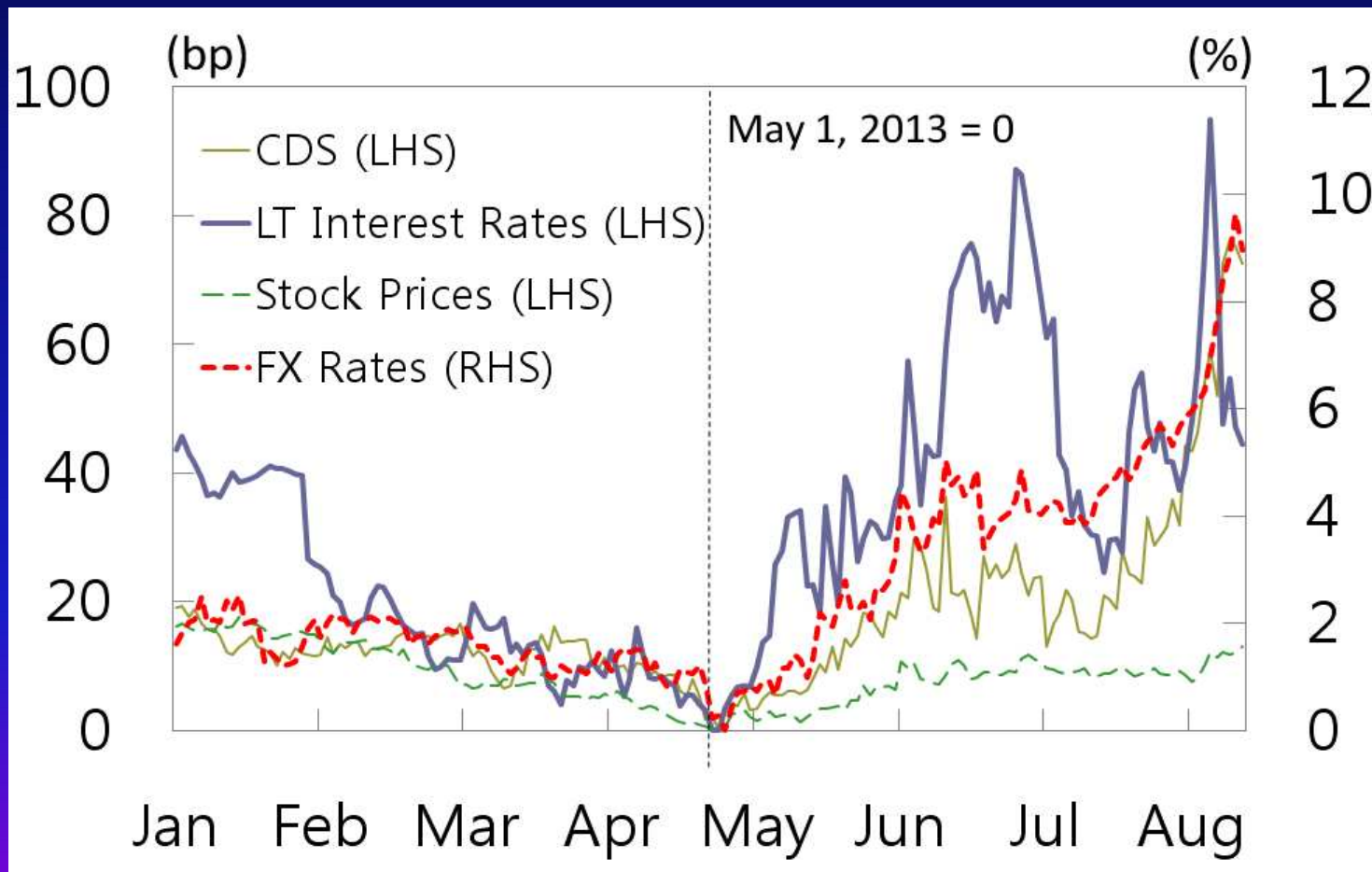
Source: EPFR, Bloomberg



# 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



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# Policy Challenges

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

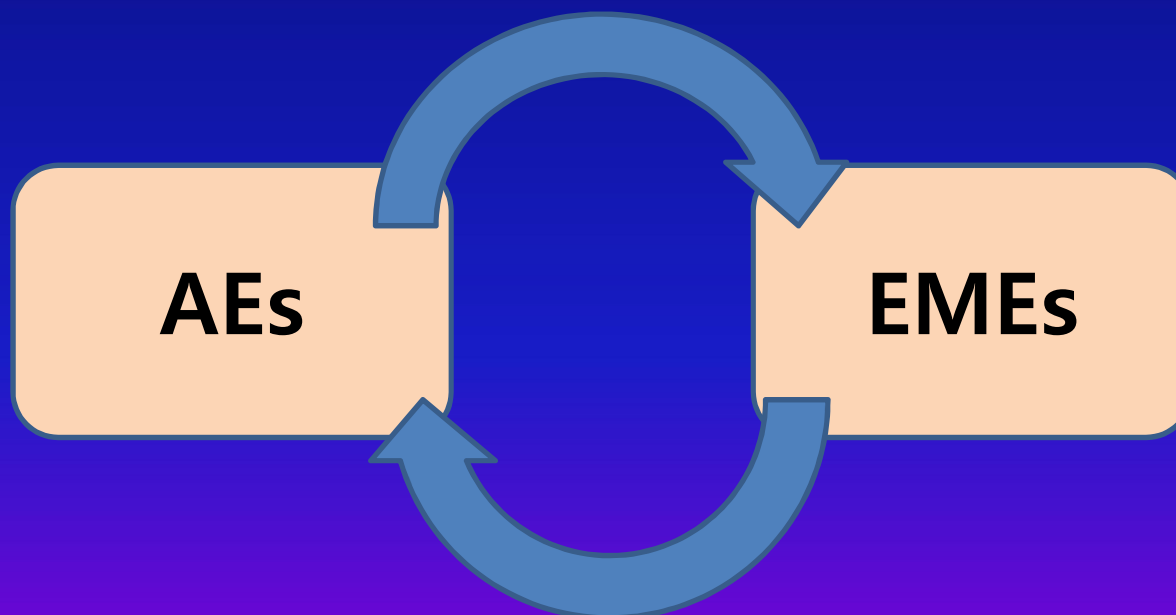




# Cooperation to Benefit All: AEs and EMEs

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

## Spillover Effects of MP Changes in AEs



Feedback of the Impact



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**Thank You**



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