Comments on
«Bilateral Data on Capital Flows:
Role in Financial Stability Monitoring»

Glenn Hoggarth
Bank of England

Comments on Bilateral Data on Capital Flows Role in Financial Stability Monitoring (by Kevin Cowan)

Glenn Hoggarth, Bank of England

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Main points in the paper

- Push (creditor) factors important in determining EME capital inflows

- <u>Bilateral</u> flows matter especially from <u>banks</u>. Own research on Chilean banks' IB spreads highlights impact of individual creditor country and creditor bank specific risk.

- <u>Portfolio</u> flows: type of creditors (eg hedge funds, institutional investors) matter more than country of origin. Currency of bond issuance also important.
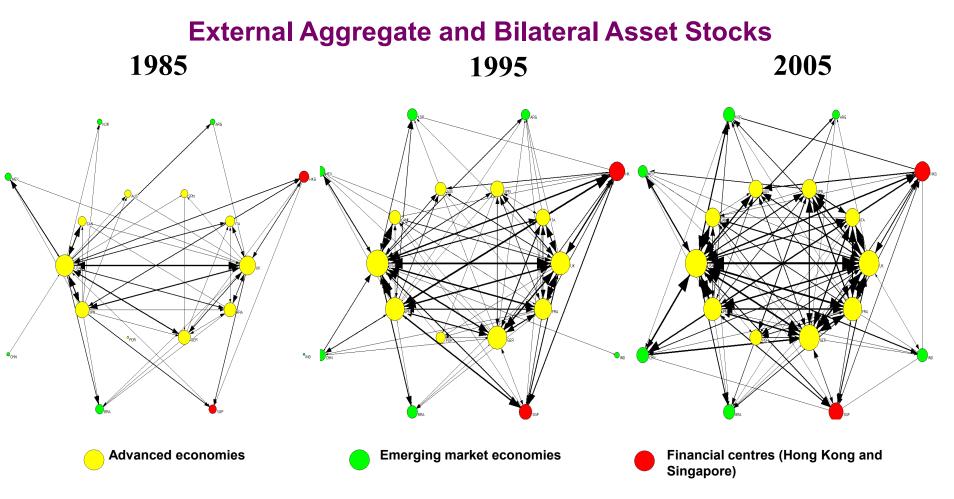
Recommendations in the paper

More data and analysis:

- Bank inflows. Take account of credit and funding risk both in the host and <u>individual</u> home creditor country and individual creditor banks.

- Portfolio flows. Given heterogeneity put main focus on the type of investor rather than source country.

My comments

- Fully agree bilateral flows are important

External Aggregate and Bilateral Asset Stocks

1985　　　　　　　　　1995　　　　　　　　　2005

Advanced economies　　　Emerging market economies　　　Financial centres (Hong Kong and Singapore)

Kubelec, C and Sa, F (2010) "The Geographical Composition of National External Balance Sheets: 1980- 2005", *Bank of England Working Paper* No. 384 and Bank of England calculations
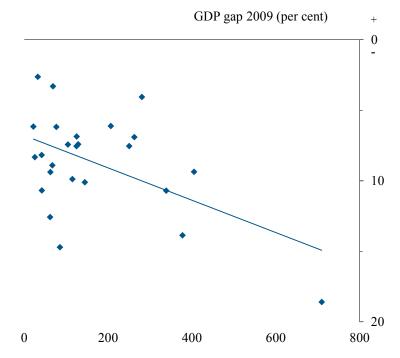
Banking flows

- Volatile too in advanced countries – gross inflows (% of GDP) much more so than in EMEs in recent global boom and bust.

- Important for host policy makers what weight to attach to domestic v home risk – and home country v home bank specific risk.

- For surveillance need <u>leading</u> rather than just current indicators of risk of banking inflows.

    1. Flows. Growth in bilateral lending.

    2. Stock of external debt (% of GDP).

Gross external private debt and output losses (advanced economies)

Trend line: $y = -0.0115x - 6.8$. Slope t statistic is 2.9, R^2 is 0.26.
Source: Al-Saffar, Y, Ridinger, W and Whitaker, S (2013), 'The role of external balance sheets in the financial crisis', *Bank of England Financial Stability Paper* No 24, October.

Portfolio flows/broader comments

- Agree about importance of investor type eg interest sensitive leverage investors v long term institutional investors.

- Emphasise more currency of issuance. Also for <u>whole</u> external balance sheet. Some good but irregular measures of fx mismatches (Lane *et al*, Turner *et al*). Role for IFIs in systematic data collection?

- Sector of borrower – gov, banks, nbps, 'shadow banks'.

- Make more of existing data! (missed the global crisis partly because underplayed risk of gross cross border bilateral assets and liabilities eg European banks with the United States).