



1930
2020

Promoting monetary
and financial stability

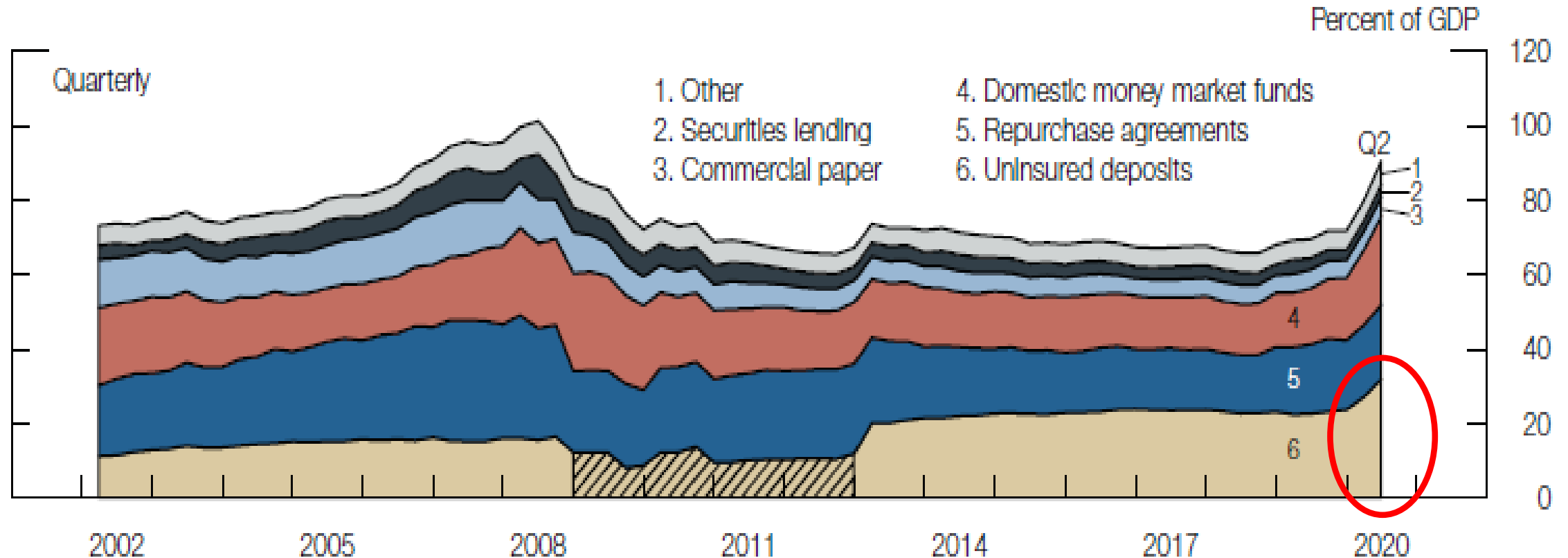
Central bank balance sheet and financial stability

ECB Forum on Central Banking 2020, 12 November 2020

Hyun Song Shin*, Economic Adviser and Head of Research, BIS

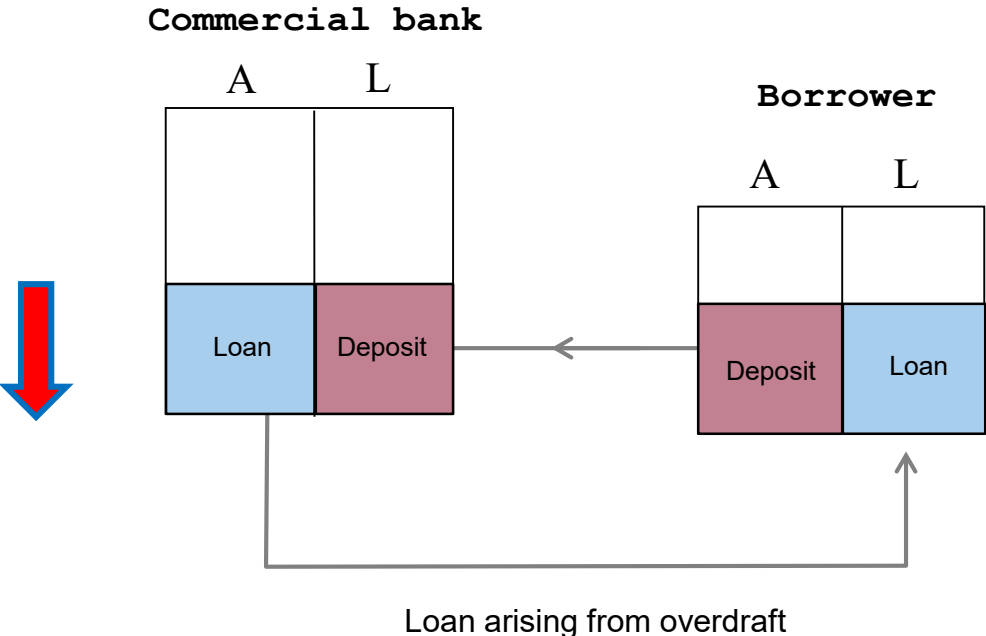
*The views expressed here are mine and not necessarily those of the Bank for International Settlements

“Dash for cash” in March 2020 underscores role of elastic nodes in financial system

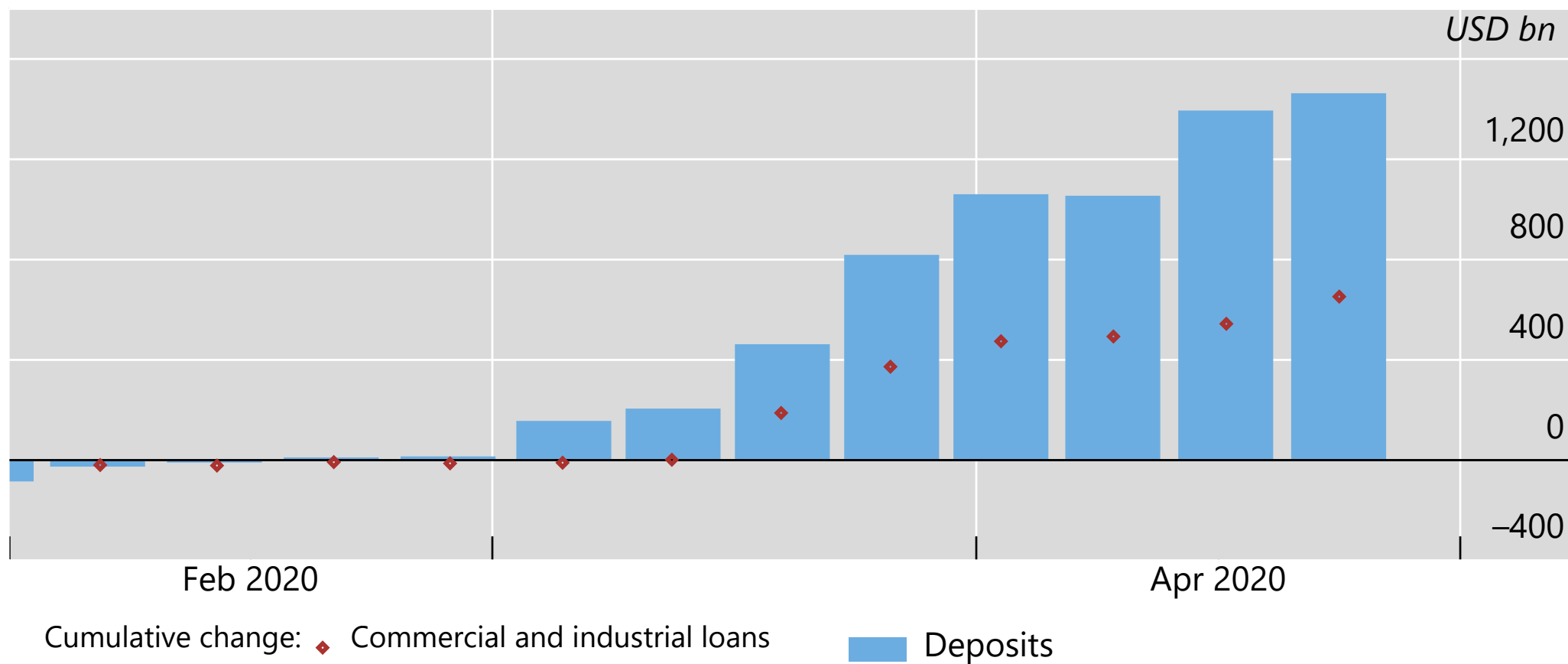


Source: Federal Reserve Financial Stability Report, November 2020.

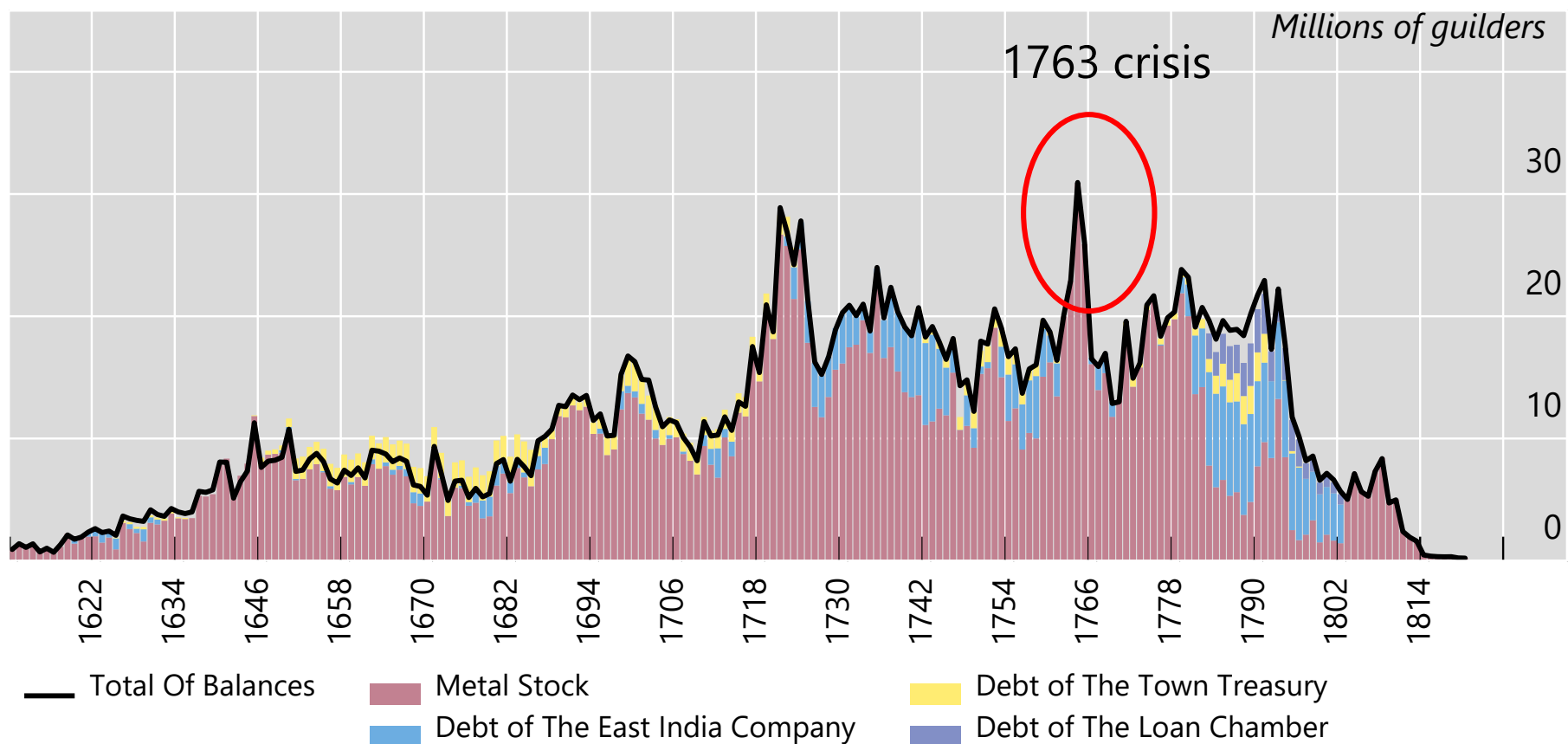
Commercial bank as elastic node: money creation through overdraft



Commercial bank deposits and C&I loans of US commercial banks

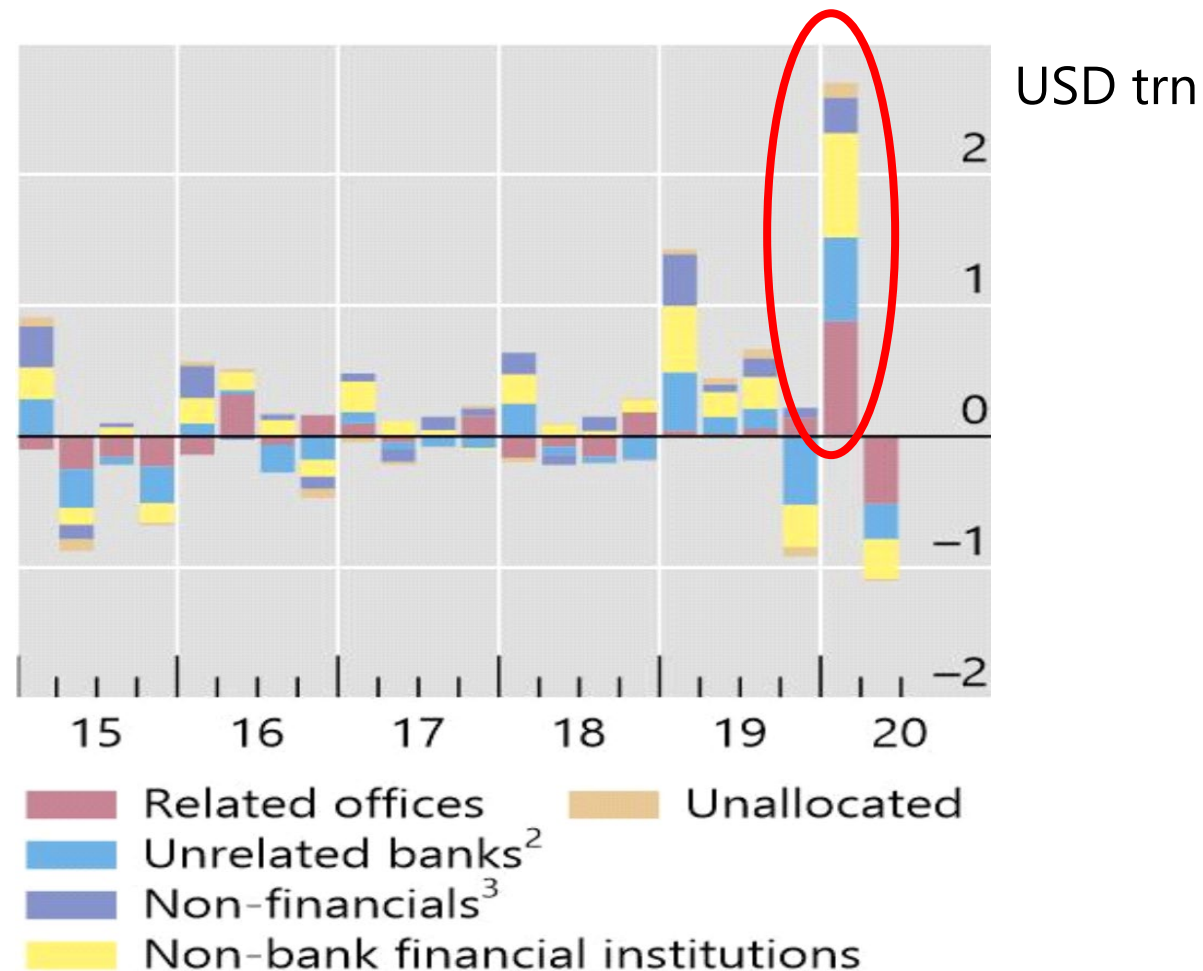


Assets of the Bank of Amsterdam



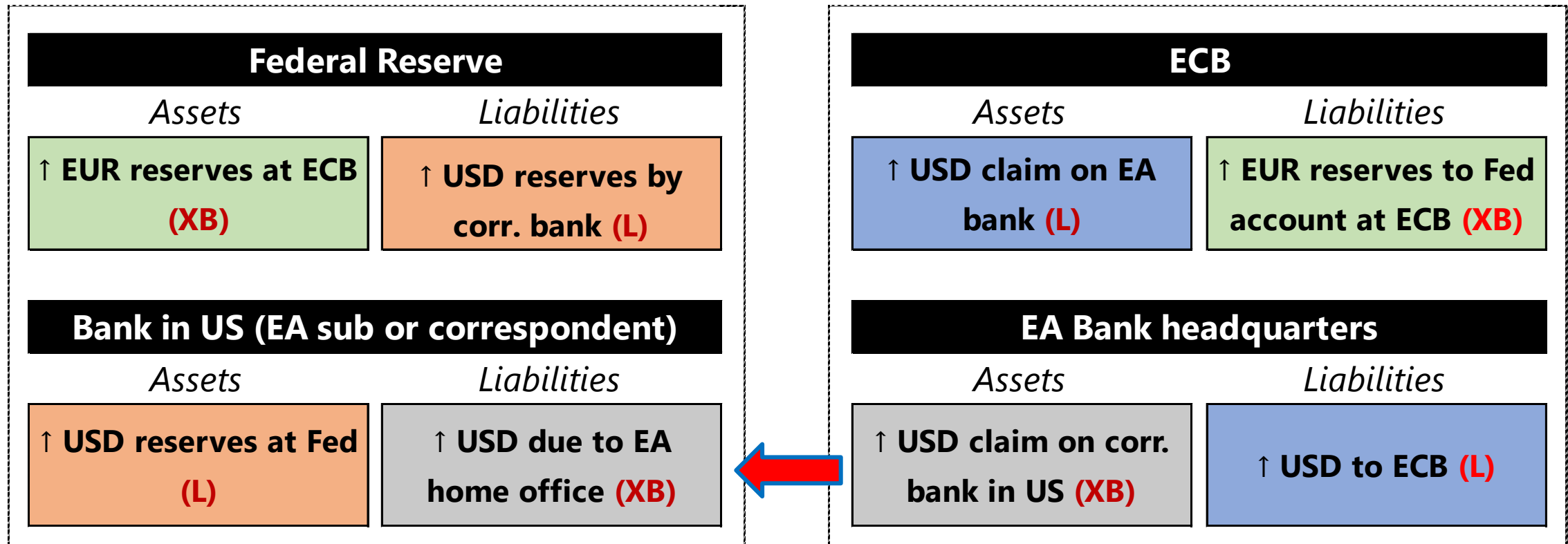
Schnabel and Shin (JEEA 2004) "Liquidity and contagion: the crisis of 1763".

Elastic nodes in international context: cross-border positions of BIS-reporting banks



¹ Global cross-border claims, by counterparty sector; quarterly changes are adjusted for breaks in series and exchange rate fluctuations (LBS).

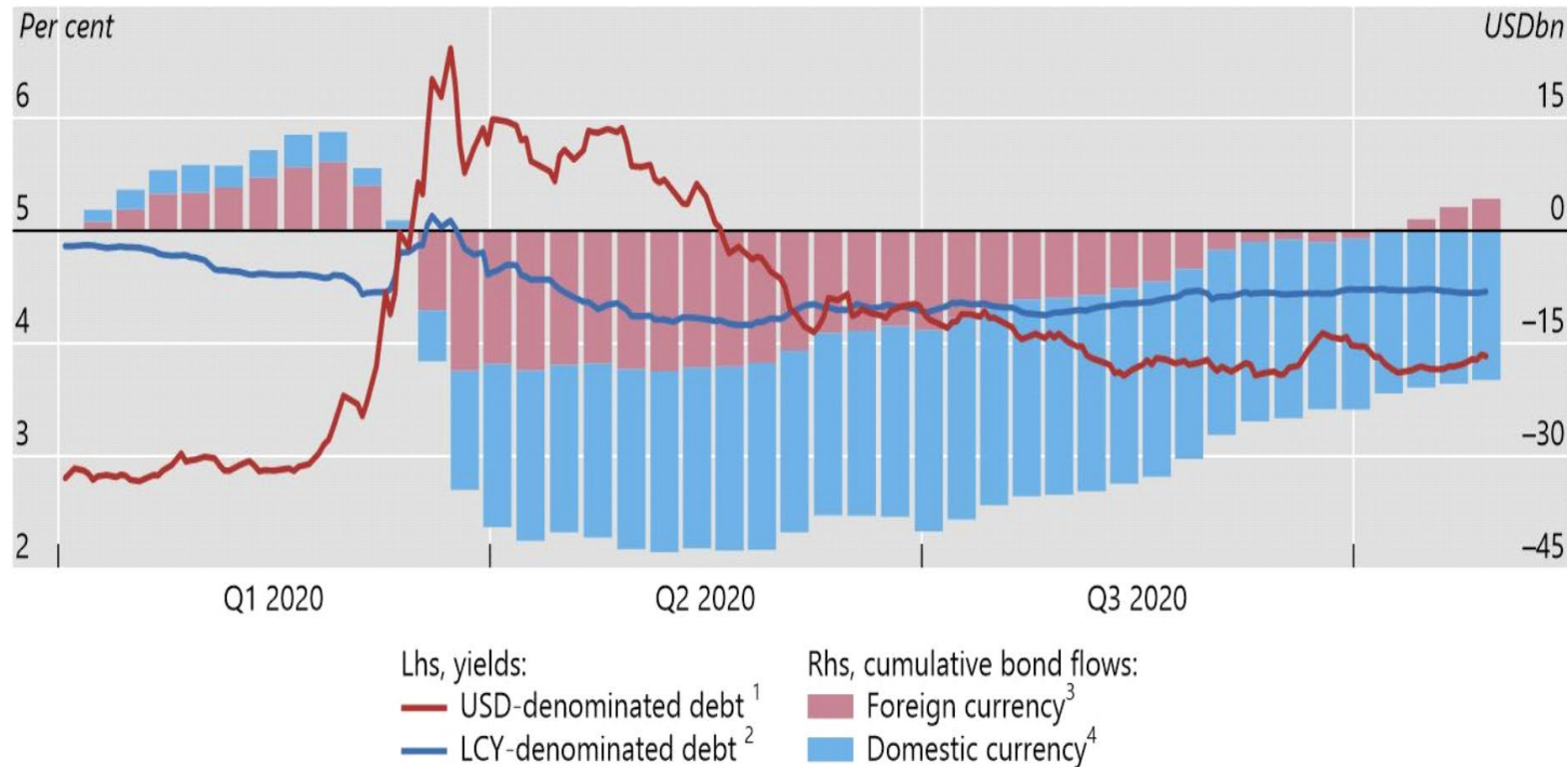
Elastic nodes in the international context: central bank swap lines



Source: Aldasoro et al (2020) *BIS Bulletin*, forthcoming.

Which currencies receive “flight to safety” flows?

Portfolio outflows from EME domestic currency sovereign bond markets have not reversed

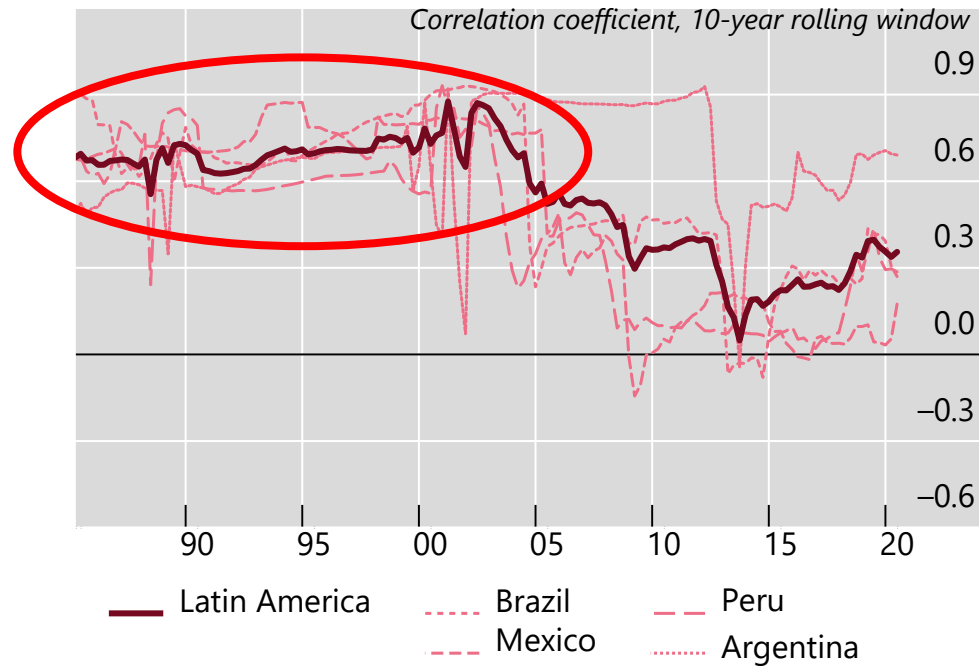


¹ JPMorgan EMBI Global index, stripped spreads. ² JPMorgan GBI-EM Broad index, yields on traded index. ³ Flows to foreign and blend currency bond funds. ⁴ Flows to local currency bond funds.

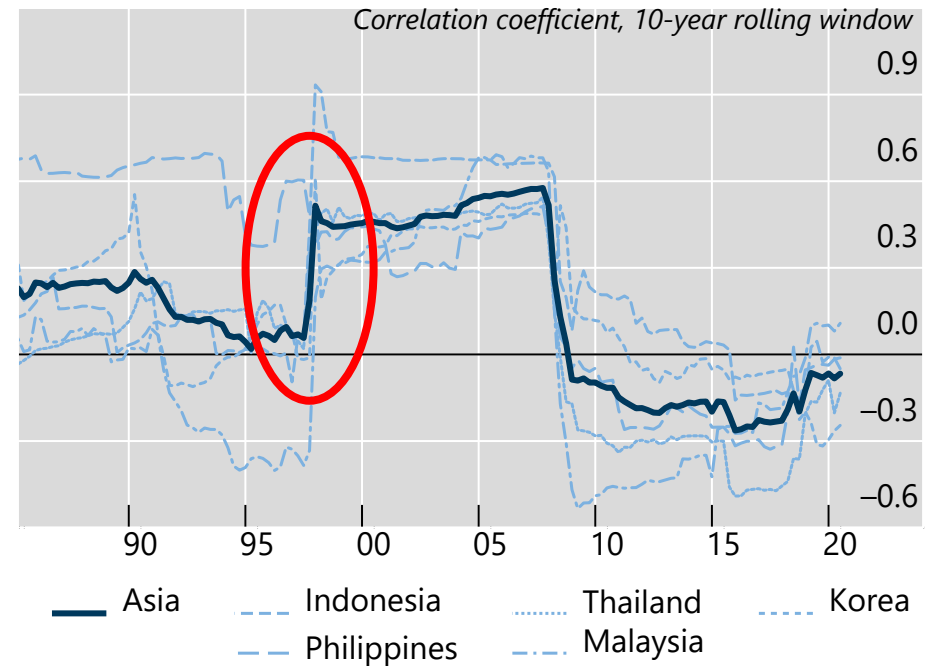
Source: EPFR; JPMorgan Chase; national data; BIS calculations.

Sharp depreciations raise exchange rate pass-through to inflation

Latin America

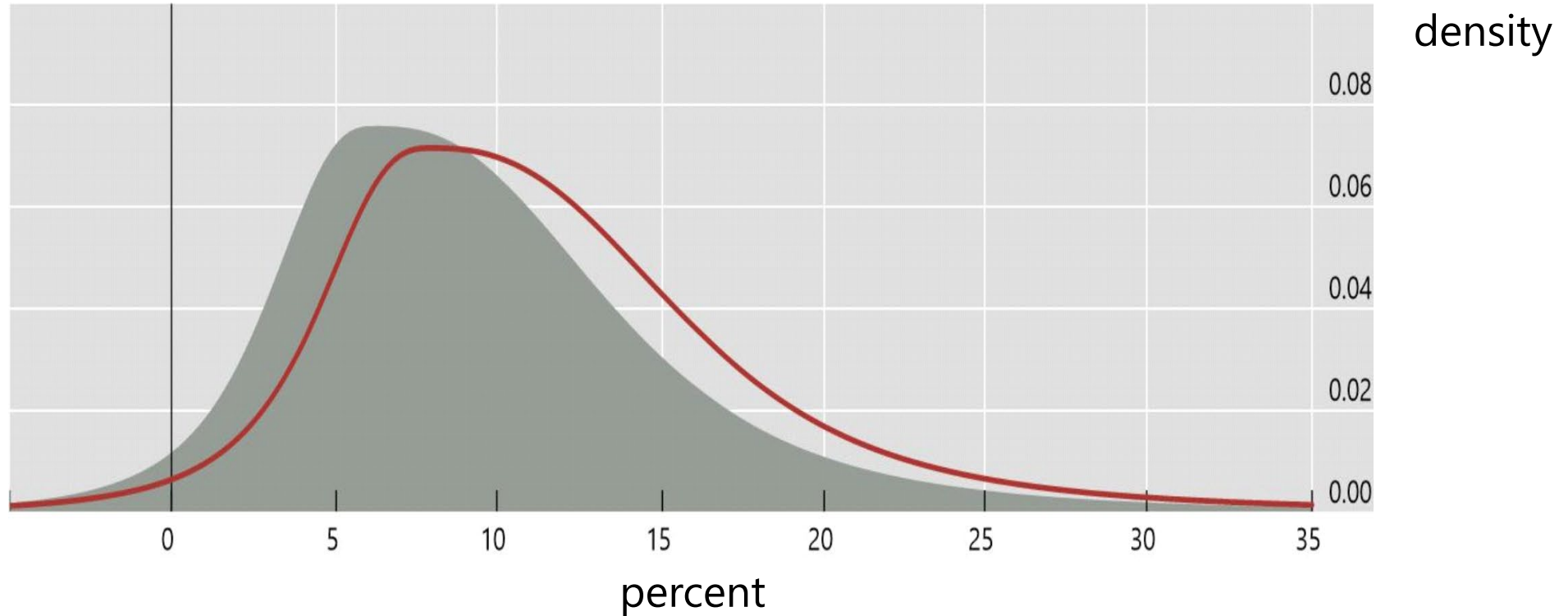


Asia



Sources: IMF *International Financial Statistics*; Global Financial Data; national data.

“Inflation-at-Risk” for EMEs for one standard deviation increase in fiscal deficit



* Change in one-year-ahead conditional inflation forecast distribution (change from grey to red) when there is a one standard deviation increase in deficits.

Source: Banerjee, Contreras, Mehrotra, Zampolli, BIS Working Paper 883.

Tentative lessons from March 2020

- “Dash for cash” underscores importance of **elastic nodes** that accommodate demand for money
- Commercial banks are the **first line of defence**
 - Accommodate demand for money through overdrafts, unlike stablecoins or MMFs
- Central banks are the **second line of defence**, both domestically and internationally
- However, not all currencies are created equal; currency crises unmoor inflation expectations and depreciation passes through to inflation
- **Fork in the road** for the eventual outcome is the monetary response