



**BANK OF ENGLAND**

# News release

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29 October 2014

## **Managing global finance as a system - speech by Andrew Haldane**

Andrew Haldane, Chief Economist of the Bank of England, gives the annual Maxwell Fry lecture on Global Finance at Birmingham University.

Andrew's main theme is the growing size and complexity of global capital flows between countries. He notes that 'cross-border stocks of capital are almost certainly larger than at any time in human history'. And the apparent independence of domestic investment from domestic saving suggests that 'measured levels of global capital market integration ... remain at higher levels than at any point in history'. He discusses how this can be 'double-edged' from a financial stability perspective: it both shares risk (which can be stabilising) but also spreads and amplifies risk (which can be destabilising) – potentially generating 'more frequent and/or larger dislocations'.

He argues that many lessons have been learned from the financial crisis, not least the need to 'safeguard against systemic risk'. Yet when it comes to the fortunes of the international monetary system 'it is far from clear that these lessons have been learned, much less that the international rules of the road have been reformed'. 'Arguably, the rules of the road for this system have failed to keep pace with the growing scale and complexity of global financial flows'.

One of the consequences of the growth in cross border capital flows is 'the steady rise in the degree of co-movement in asset prices over time'. Cross-border spillovers are becoming more important and global common factors more potent. A particular example is the behaviour of yield curves across countries. 'To a first approximation, global yield curves appear these days to be dancing to a common tune'.

Andrew identifies four areas where the global financial system could be strengthened:

- a) Improving global financial surveillance, by tilting IMF surveillance away from monitoring individual country risk and towards multilateral surveillance and having more real-time tracking of the global flow of funds.
- b) Improving country debt structures, for example by encouraging countries to issue GDP linked bonds, or Contingent Convertible (CoCo) bonds.
- c) Enhancing macro-prudential and capital flow management policies. For example, he suggests that 'total credit follows a global cycle that has strengthened over time' in which case 'there may in future be a case for national macro-prudential policies leaning explicitly against these global factors' taking international macro-prudential policy co-ordination 'to the next level'. This next phase of macro-prudential policy may see measures 'targeted at particular markets, as well as particular countries'.
- d) Improving international liquidity assistance, for example by increasing the resources available to the IMF.