R.T.I. WORKING PARTY ON GLOBAL LIQUIDITY

Terms of reference

Robert Triffin International (R.T.I.) establishes a working party on global liquidity.

The work of the group will be centred on the following tasks:

- To assess the trend of global liquidity since the outcome of the last global financial crisis;
- To review the impact of the greater importance of the US dollar and other recent changes in the currency composition of international financial liabilities;
- To clarify what are the main drivers behind the components of global liquidity and how liquidity creation and credit extension in major economies are transmitted to other economies through capital flows and international bank activities ;
- To examine the issue of current adequacy of global liquidity as regards the need for both growth and systemic stability at the global level;
- To search for the appropriate approach and tools to the management of liquidity at the international level with a view to ensuring balanced monetary and financial conditions in the long run and providing an adequate safety net in time of stress.

In its report dated February 8th 2011 (1) The Palais Royal Initiative (P.R.I.) stressed that "seemingly appropriate liquidity conditions in individual economies may add up to excesses or shortfalls internationally". In this respect it observed that in the run up to the crisis an unsustainable global expansion was facilitated by rapid growth in global credit and that when the crisis occurred, liquidity in financial markets all but evaporated. From peak to trough, gross capital inflows worldwide fell from nearly 20% of global GDP to less than 2%. The report expressed the view that "Such extreme fluctuations have critical effects on the functioning of the global economic and financial system and macro-financial stability at the country level. Yet the phenomenon is poorly understood."
Following this call for a better understanding of the concept, the BIS set up a working group under the chairmanship of M. Jean-Pierre Landau, Deputy Governor of the Banque de France, which resulted in a well-documented report (2) published in November 2011. Since then the BIS provides on a

quarterly basis a set of global liquidity indicators. Furthermore, the BIS has on several occasions expressed its views on this topic (3)and a number of surveys provided by BIS (4) and IMF (5) economists have also contributed to the debate.
Even, if the concept is now better understood and if a statistical background is available, little real progress has been made on the crucial problem of the international management of global liquidity and its pro-cyclical features. In addition, the network provided by the various safety nets of the IMF and regional institutions is too fragmented. It is also too small to provide at very short notice all the liquidity that could be needed in case of financial stress. The call for making the IMF the global lender of last resort expressed by specialists (6), by P.R.I (7) and by the R.T.I.'s working party on SDRs (8) has never been taken in consideration. Recently, the G20 Eminent Persons Group proposed, in case of need, to mobilise unused SDRs from member country savings and to allow market borrowing by the IMF; these proposals remain in the realm of pragmatic measures but don't deal with systemic aspects and don't address the possible causes of global instability. If effectively adopted, they would help but they look too narrow in scope and remain subject to consensus building.

Starting from the background already available, provided especially by the P.R.I., R.T.I. publications and the BIS, the working party will consider the different aspects and risks resulting from the current global liquidity conditions and make proposals for their adequate management. It will be chaired by M. Bernard Snoy, Chairman of R.T.I. ; its members will be specialists of the International Monetary System, monetary and prudential policies, capital markets and international capital flows. A technical support by the BIS is expected.

Elements of a bibliography

(1) Camdessus,M., Lamfalussy, A. and Padoa-Schioppa, T. 2011. *Reform of the international Monetary System: A cooperative approach for the Twenty first Century (The Palais Royal Report)* and Boorman,J and Icard,A. 2011 *Reform of the International Monetary System: The Palais Royal initiative* (Washington D.C.:Sage Publications).

(2) BIS- CGFS papers N°45 Nov. 2011 *"Global Liquidity-Concept, Measurement and Policy implications"*

(3) Caruana J. *"Global liquidity where it stands and why it matters "*Frankfurt Mars 2014; *"International arrangements for a resilient global economy" Reykjavik Sept. 2017*

(4) BIS Working papers N°402 January 2013. Eickmeier,S.; Gambacorta, L.; Hofmann,B. *"Understanding Global Liquidity"* ; Shin, H.,S."*Monetary policy challenges posed by global liquidity"* 50thADB annual meeting Tokohama May 2017; BIS Working papers N° 644 June 2017 Avdjiev, S.; Gambacorta,L.; Glodberg,L. and Schiaffi,S. "*Shifting drivers of global liquidity";* BIS Quarterly review September 2018 Aldiosaro, I.; Ehiers,T. *"Global liquidity: Changing instrument and currency patterns"*

(5) IMF Working paper WP/12/246 Chen,S.; Liu ,Ph; Maechler, A. and al. "*Exploring the dynamics of Global Liquidity";* Naoyuki Shinohara, Deputy Managing Director IMF Bank of K orea International Conference June 2013 "*The Financial Crisis, Capital Flows and Global Liquidity"* ; IMF Working Papers N°15/287 December 2015 Korniyenko,Y and Loukoianova ,E *"The impact of unconventional Monetary Measures by the Systemic Four on Global liquidiy and Monetary conditions*

(6) Fischer,S. 2000 *On the need for an international Lender of Last Resort"* Priceton Essays in International Finance N° 220.; Obstfeld,M."*Lenders of last resort in a globalised world"* Bank of Japan Monetary and Economic Studies, November 2009;Williamson, J. *"International monetary reform, a specific set of proposals"* Routledge2016;

(7) Camdessus, Lamfallussy and Padoa Schioppa, op.sit.

(8) R.T.I 2014 *"Using the Special Drawing Rights as a lever to reform the International Monetary System*".