



Reserve Accumulation Global Imbalances, and the Dollar Trap

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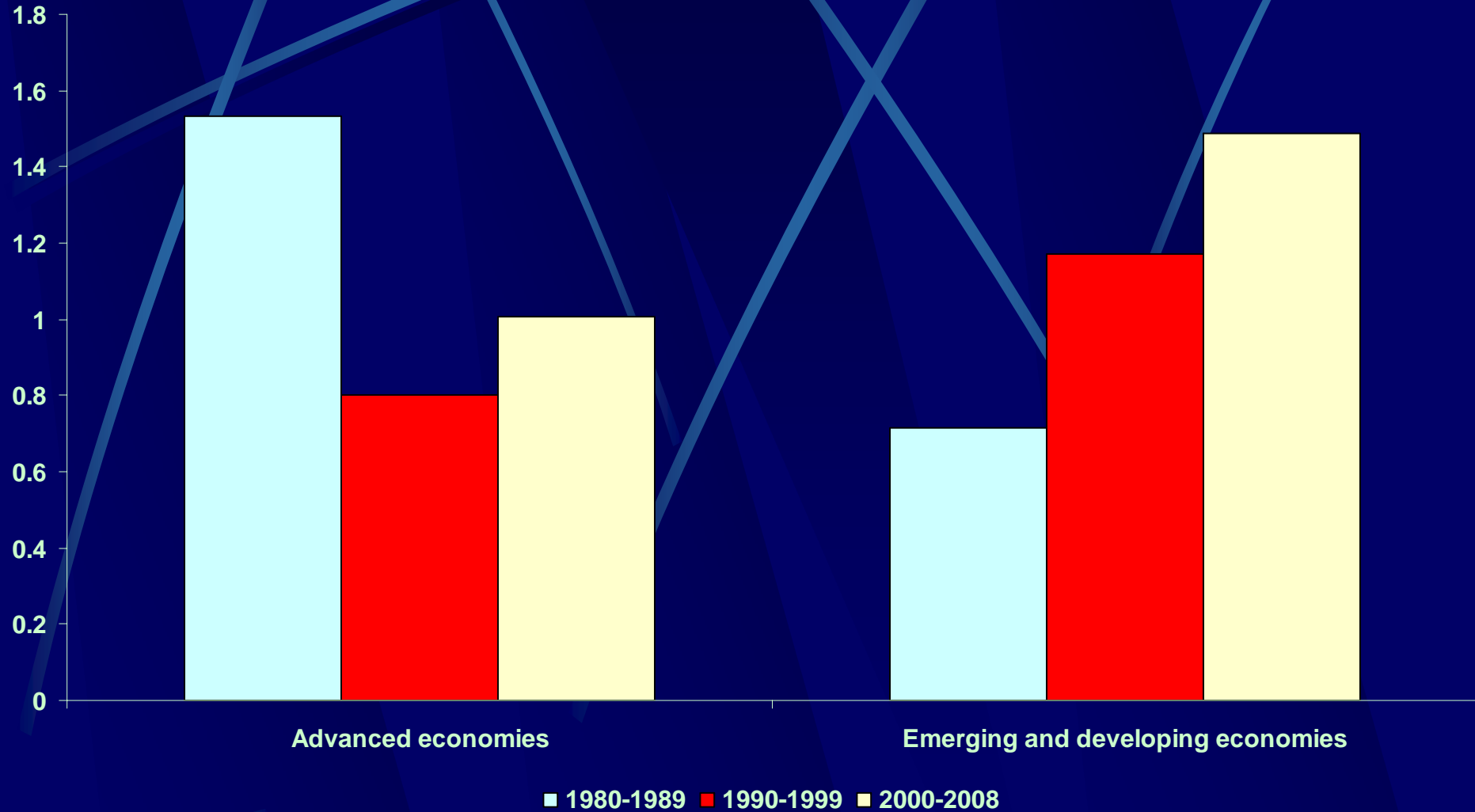


REINVENTING BRETTON
WOODS COMMITTEE

Reserve Accumulation: an Insurance Against Shocks

Macroeconomic Volatility in the World

(standard deviation of GDP growth, %)



Source: IMF

Emerging Economies: Increasing Reserve Accumulation

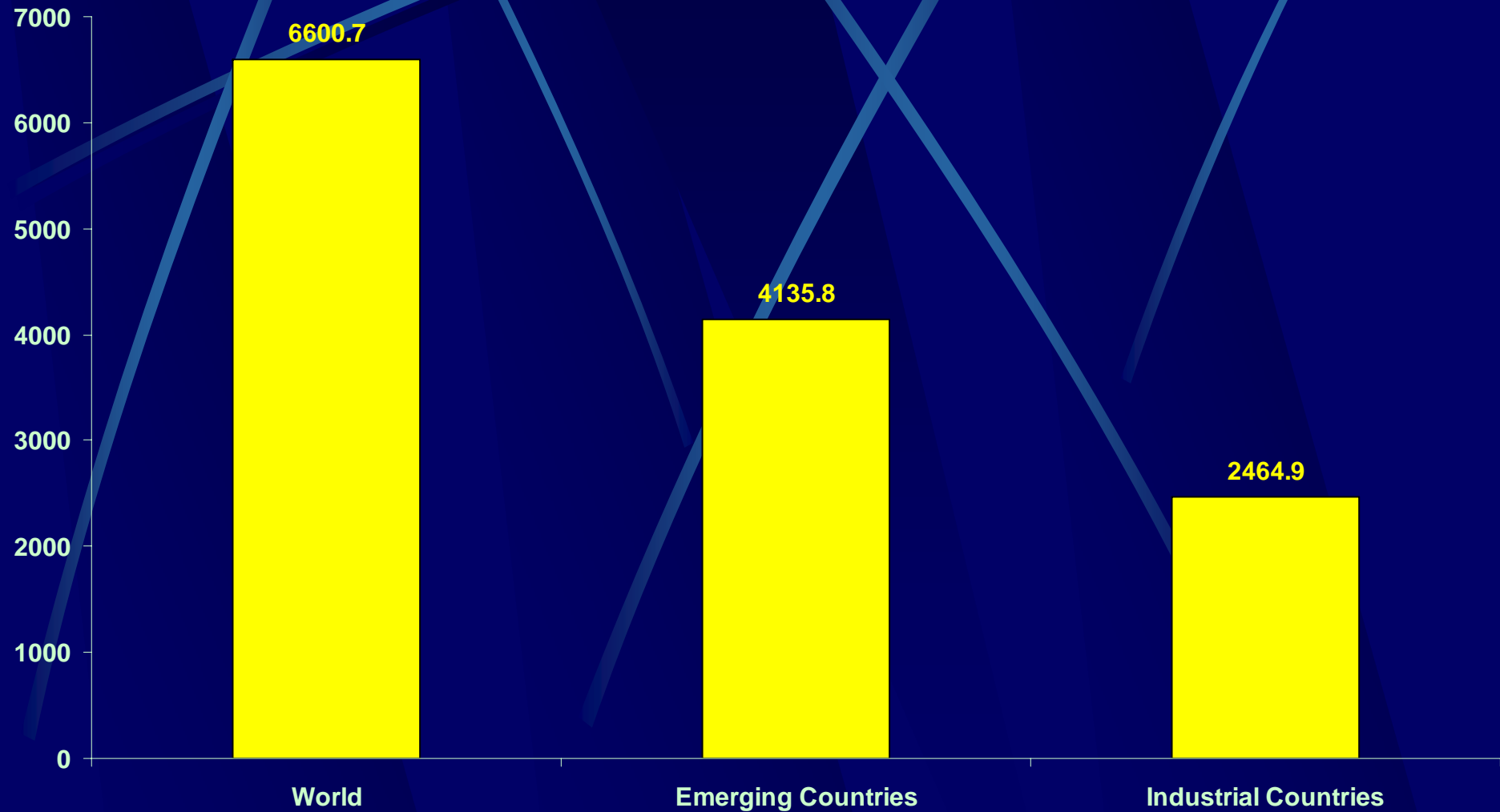
(change in reserves, billions of US\$)



Source: IMF

International Reserves in the World

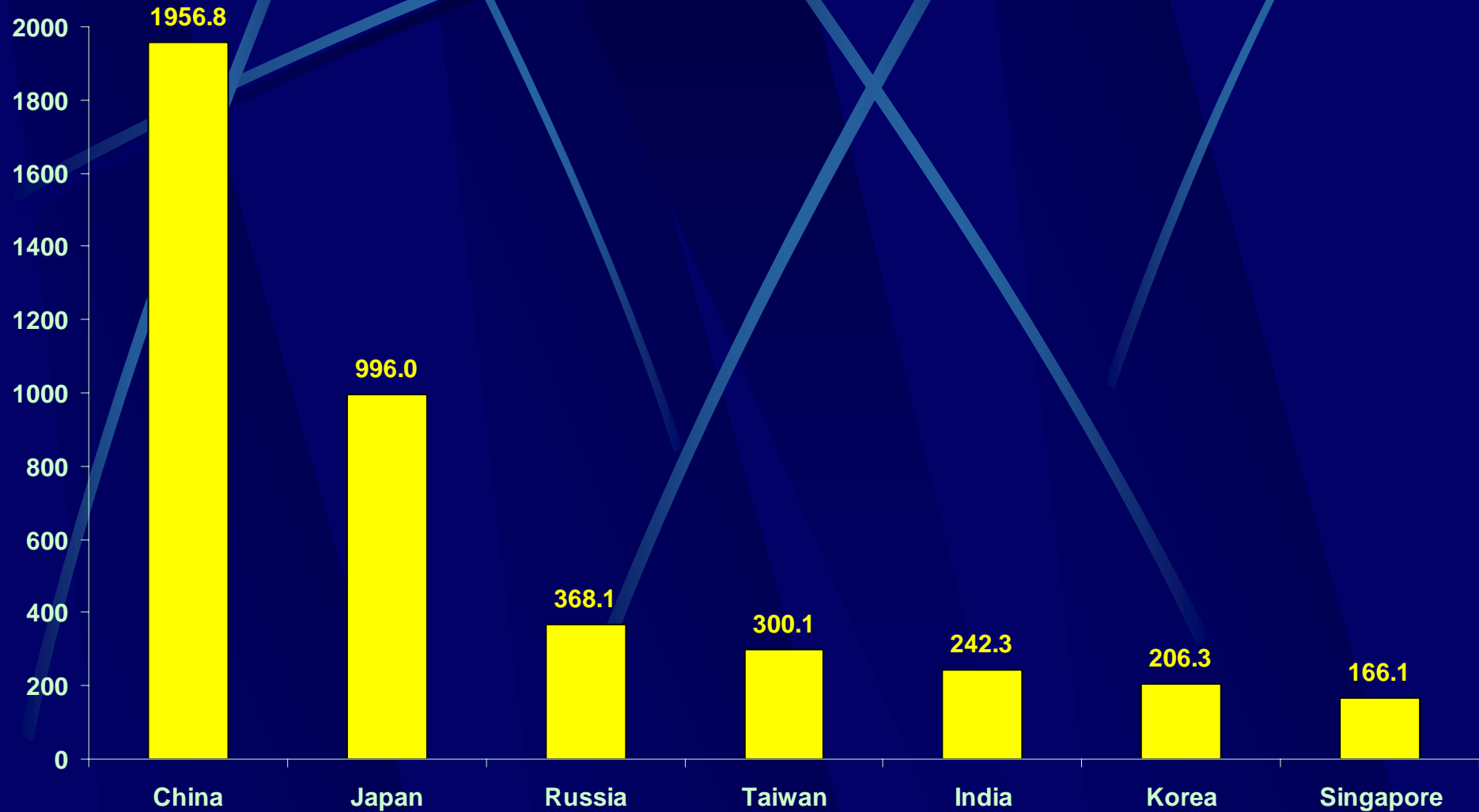
(2009Q1, International Reserves minus Gold, billions of US\$)



Source: IMF

Largest International Reserve Holders

(2009Q1, International Reserves minus Gold, billions of US\$)




Source: IMF

An Alternative to Reserve Accumulation: Lender of last resort

- Increased funding from existing IFIs
- Swap agreements among central banks
- Creation of an Emerging Market Fund

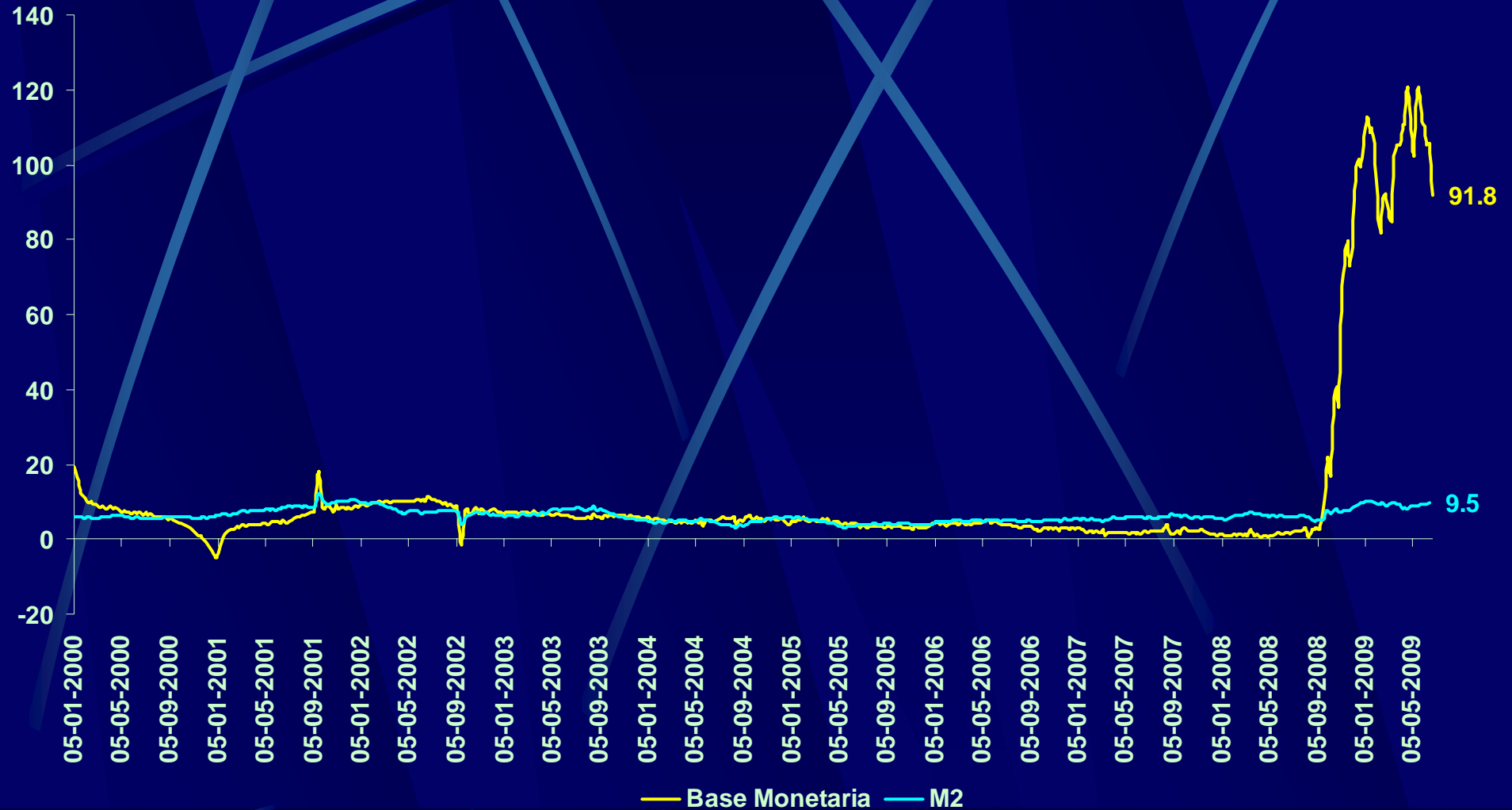
Problems

- No perfect substitutes to reserves
- Moral hazard
- Capitalization of a large enough fund (Preventing fund depletion at times of crisis)

**Large U.S. and Global
Imbalances:
 a Threat to the Current
International Monetary System**

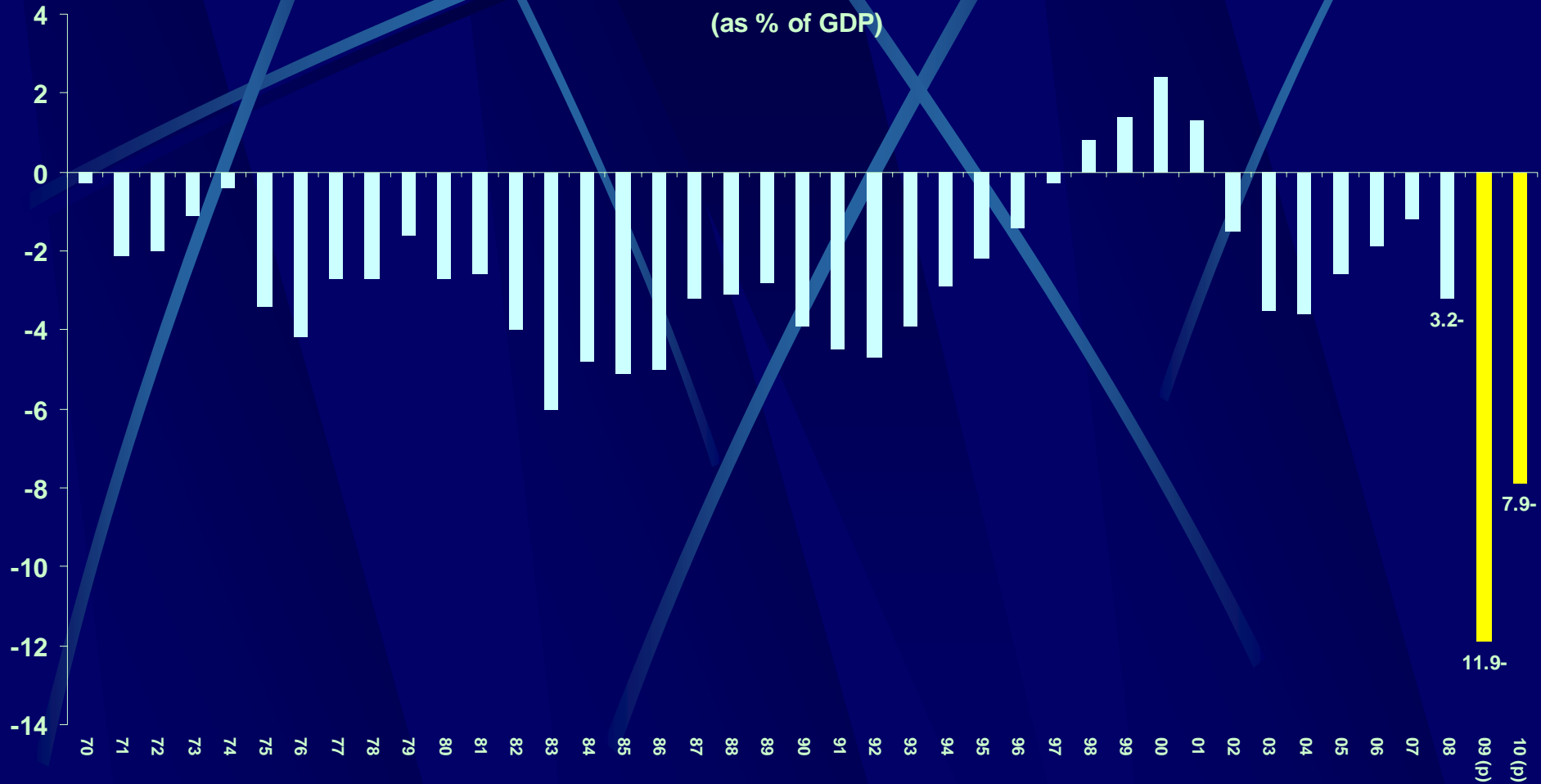
The Explosion of the US Monetary Base

(variación % anual, Mh al 24-06-2009, M2 al 15-06-2009)



Fuente: St. Louis FED

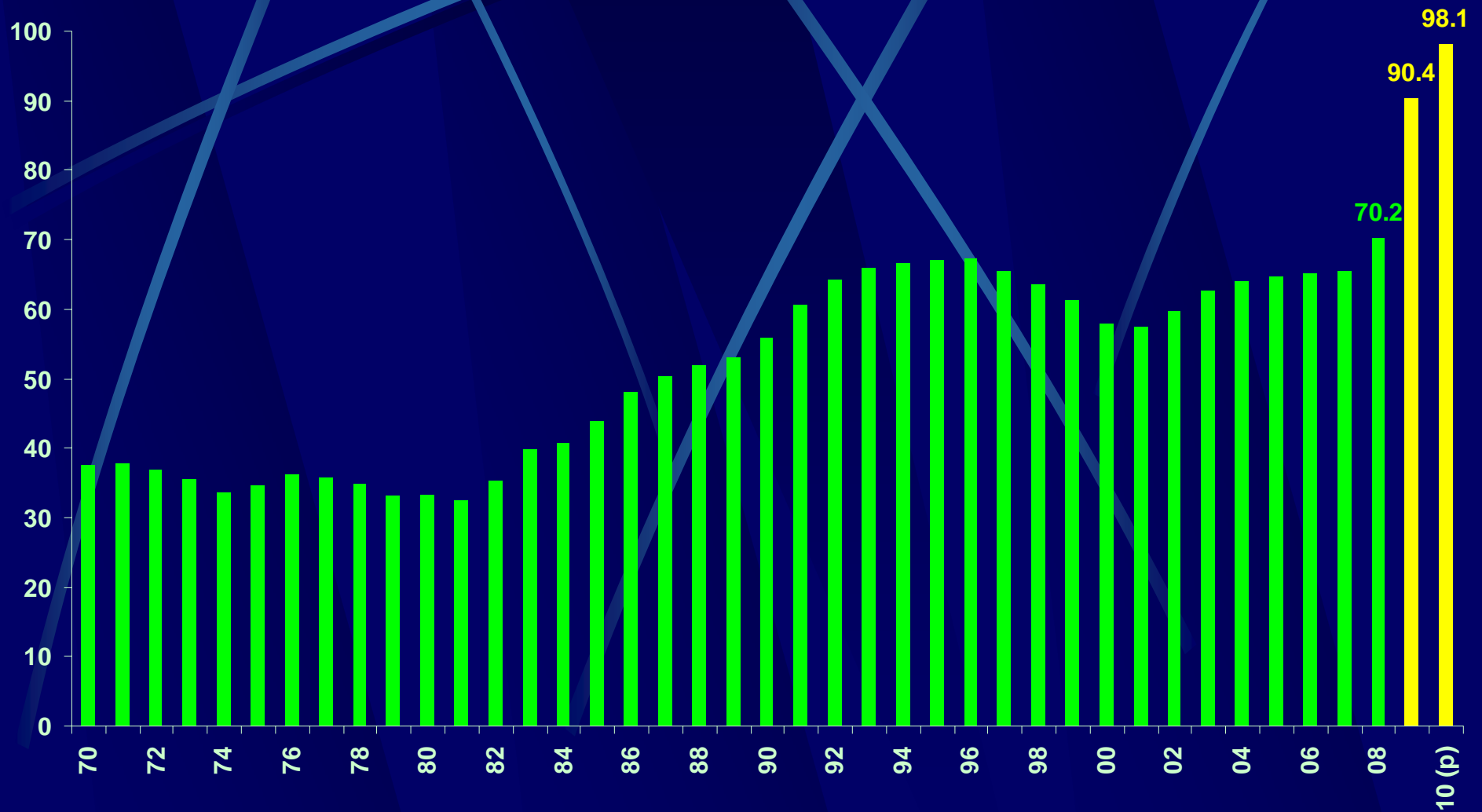
USA: Fiscal Balance



Source: IMF, Congressional Budget Office

USA: Public Debt

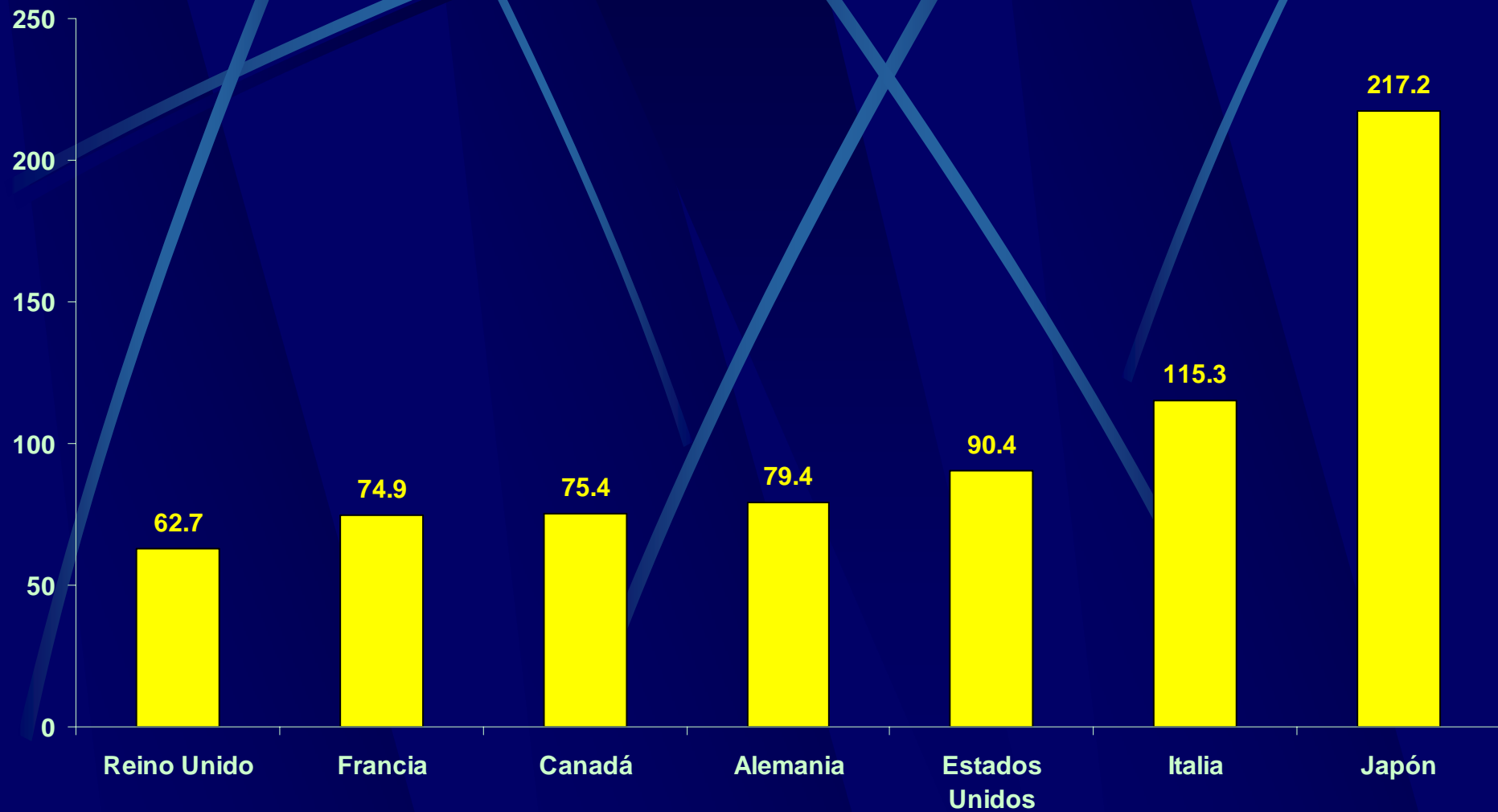
(as % of GDP)



Source: Office of Management and Budget

Public Debt in the G7, 2009 (p)

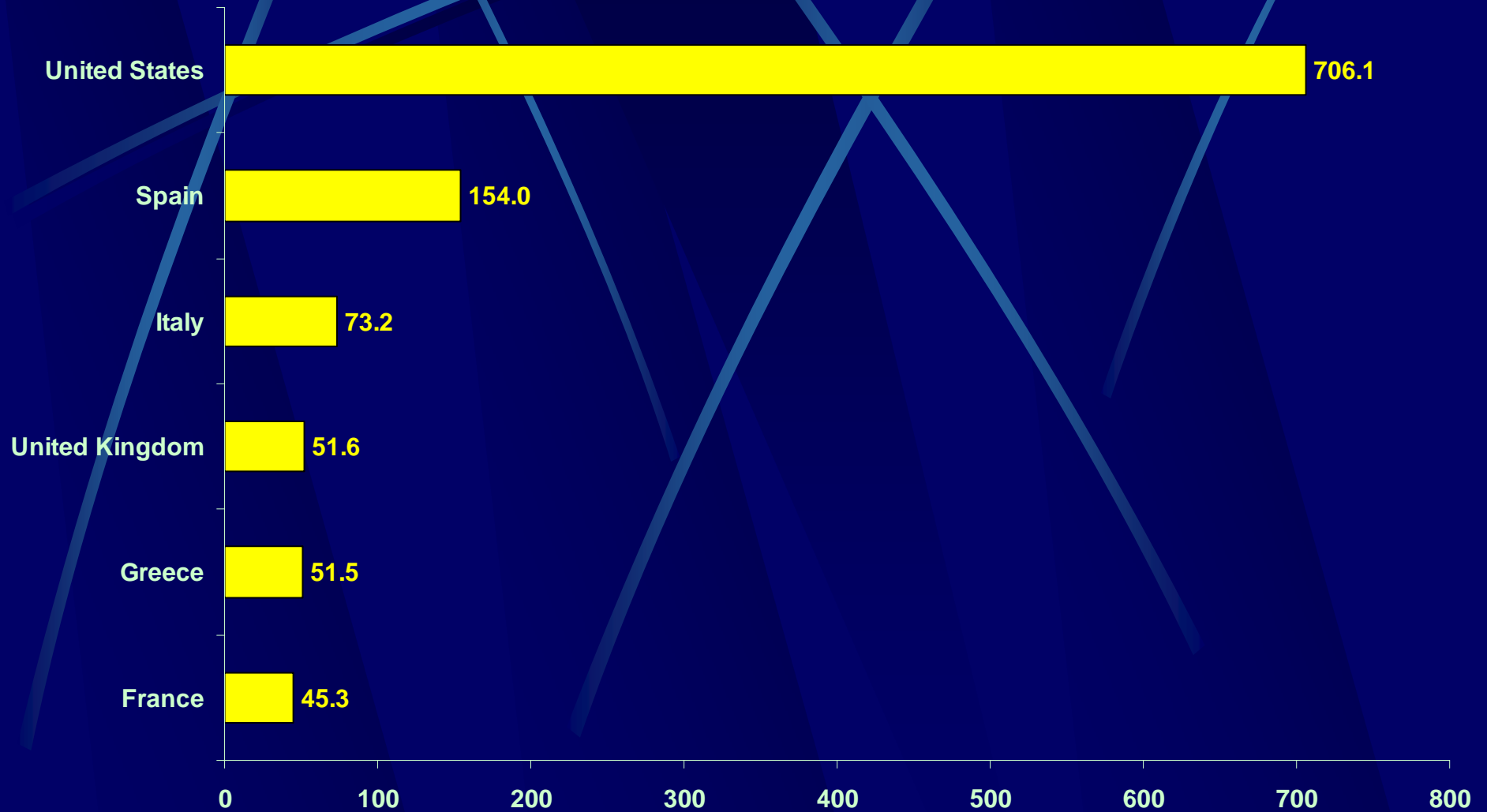
(% del PIB)



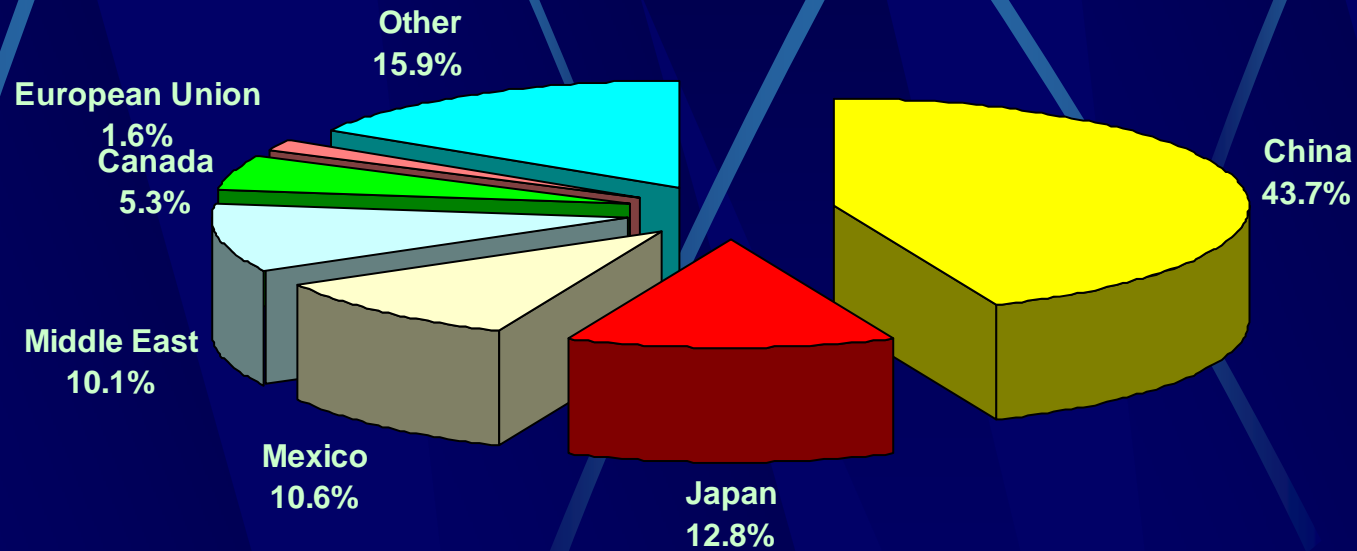
Fuente: Office of Management and Budget, FMI

Big Current Account Deficits 2008

(billions of US\$)



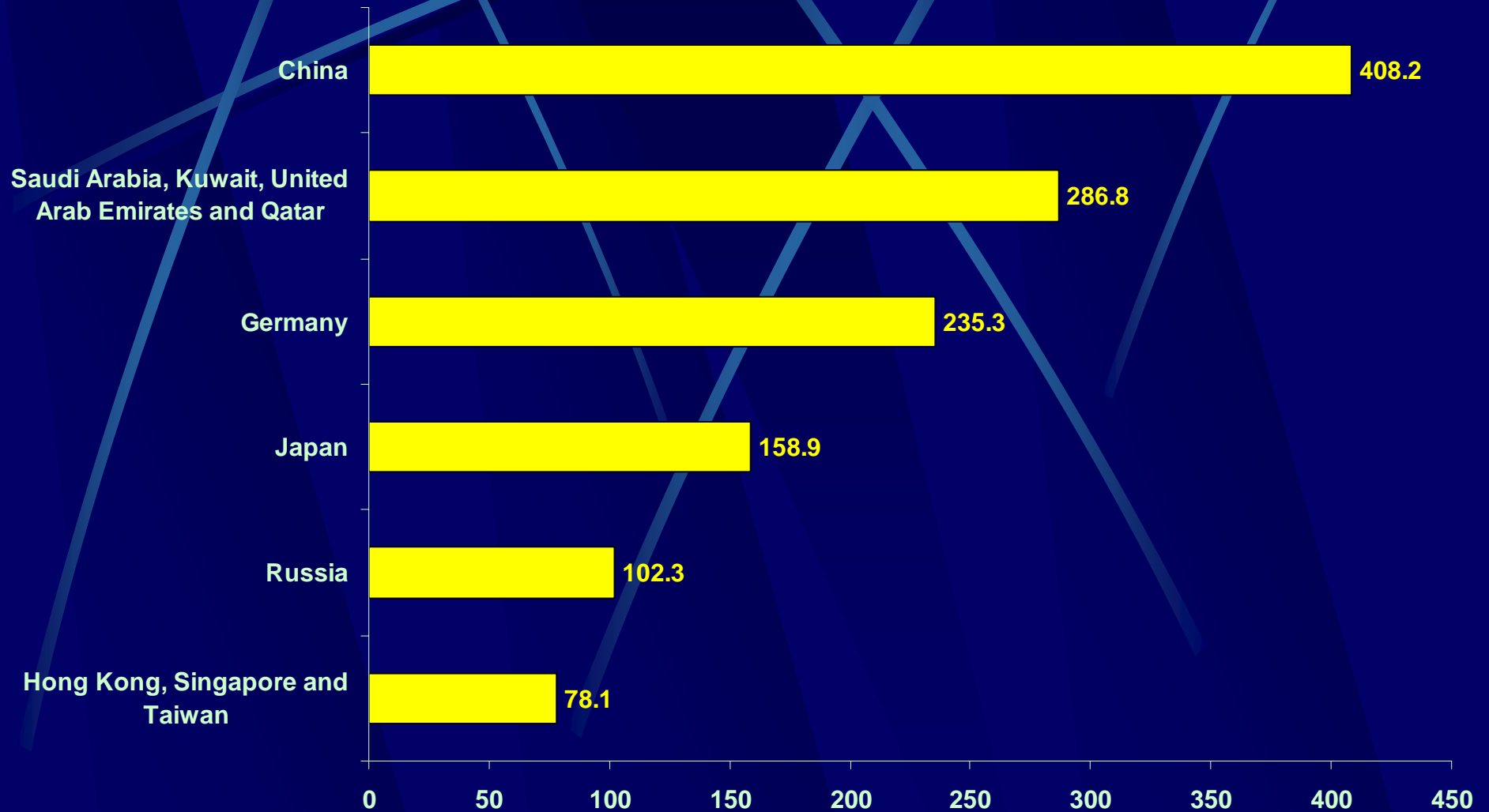
USA: Composition of the Current Account Deficit (2008)



Source: Bureau of Economic Analysis

Big Current Account Surpluses 2008

(billions of US\$)

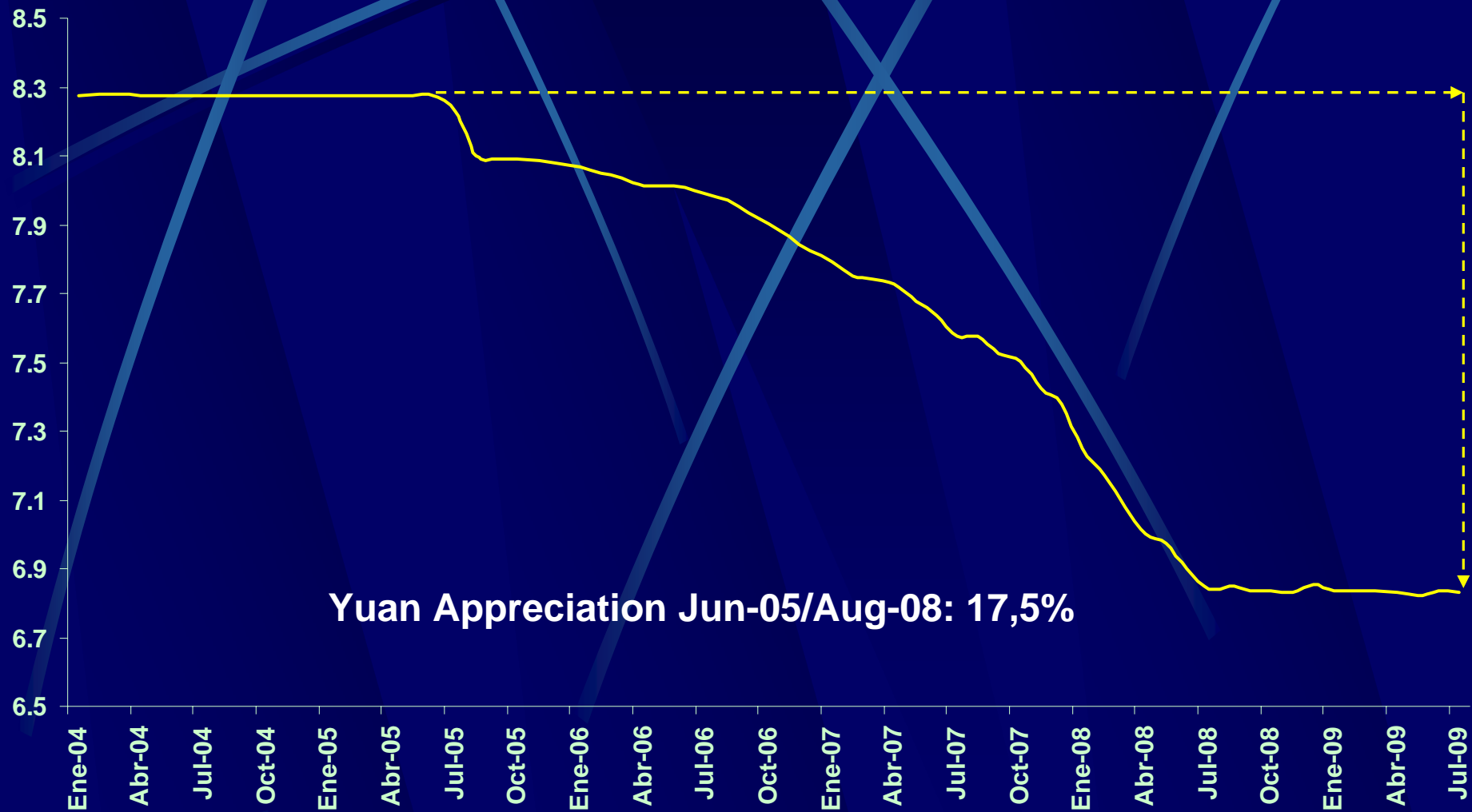


Two Mechanisms

- Growth Rebalancing
- Exchange Rate Realignment

Nominal Exchange Rate: Yuan

(Yuan/US\$)

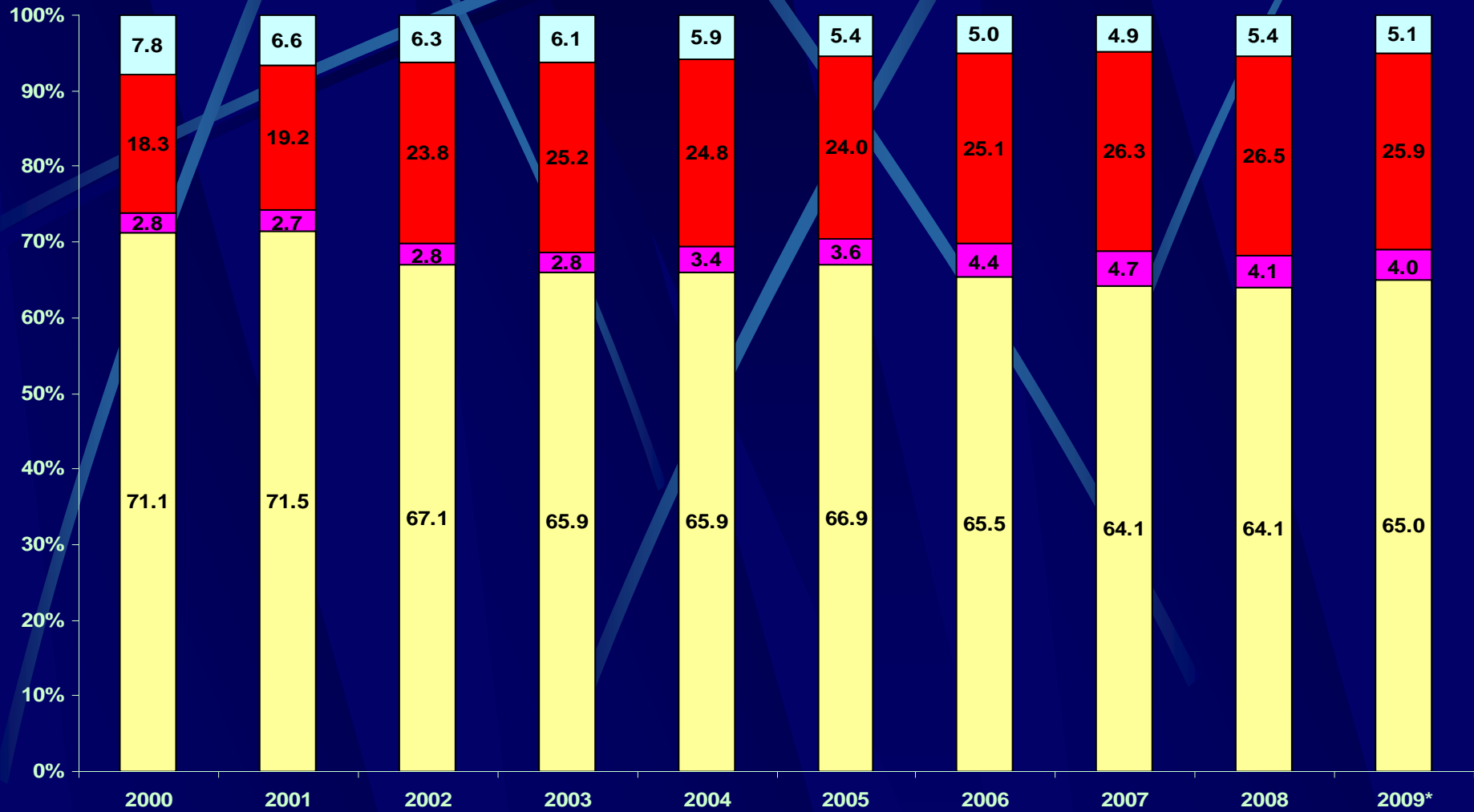


Yuan Appreciation Jun-05/Aug-08: 17,5%

Reserve Currencies: the Present and the Future

Reserve Currencies

(international reserves composition)



* data for first quarter

■ Dollar ■ Pounds ■ Euros ■ Other

Source: IMF

Alternative Options for Reserve Currency

- Euro?
- Yen?
- Yuan?
- BRIC currencies?
- SDR?

Main candidate today: SDR

SDR Issues

- Advantage of supra-national currency, uncontaminated by a country's local policies
- Expand and promote use of SDRs (financial instruments, commodity pricing)
- Enlarge basket of currencies used to determine the value of the SDR
- Central IMF role requires change in IMF's governance
- Ways to discipline both deficit and surplus countries (A tax on chronic surpluses?)

Conclusion

- Most likely: the US dollar will remain as the main reserve currency, but...
- Growing competition from other currencies: SDRs, BRIC currencies
- the dollar will continue to loose weight
- The process will be slow, gradual

Reserve Accumulation

-  Global Imbalances,
and the Dollar Trap