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After the crisis: Toward a new financial framework

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Content

- Global imbalances and the crisis
- The role of the US dollar
- Towards a new financial infrastructure





What caused the crisis

- Bankers' greed?
- Failing supervisors?
- Failing policy makers?
- Etc.



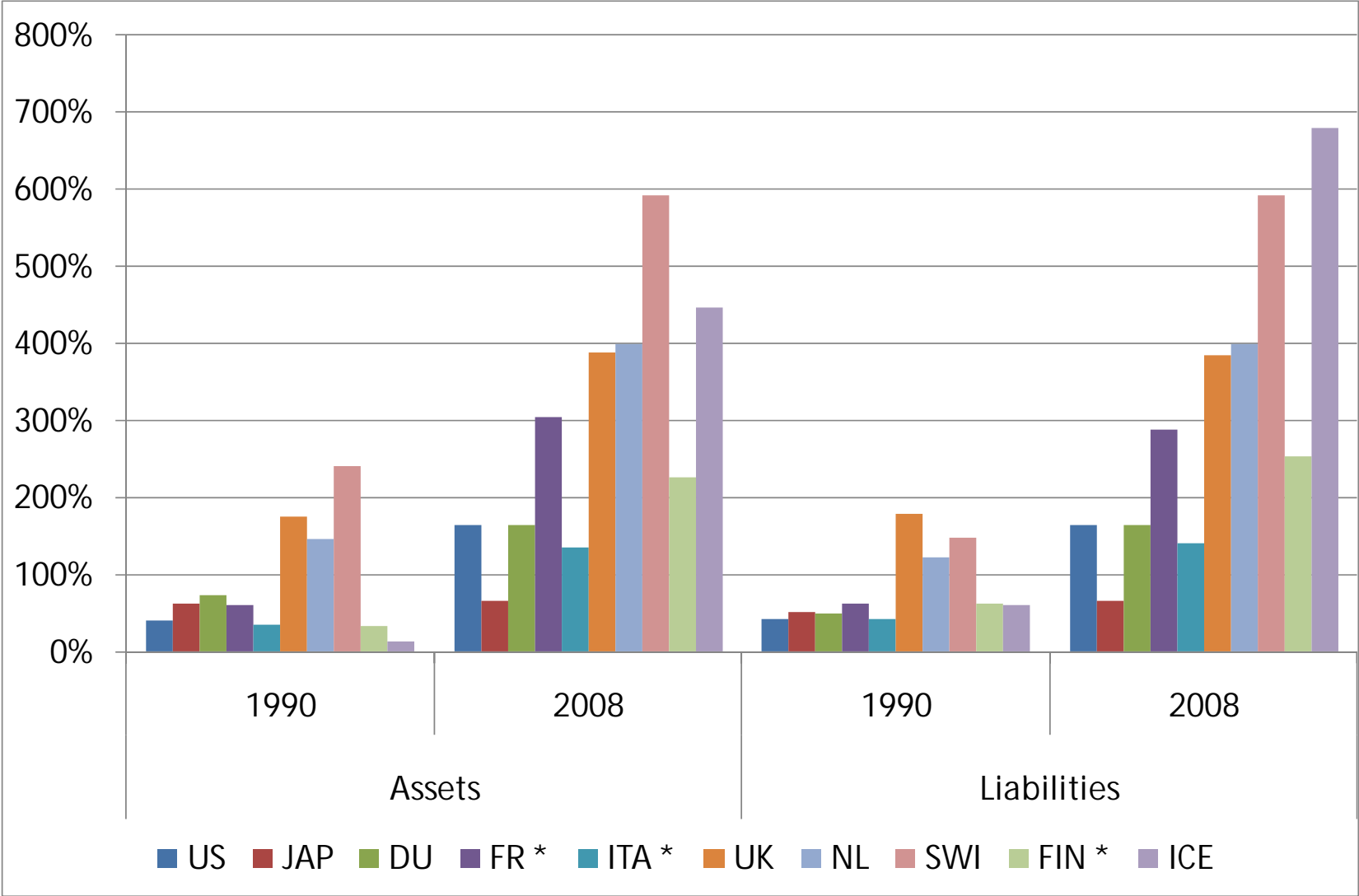
Global imbalances as the ultimate cause *Rabobank*

- Huge savings deficits in a.o. US, UK, Eastern Europe
- Huge savings surpluses in Asia, OPEC, Germany, Switzerland, NL
- Dominance of cross-border capital flows
- Huge build-up of cross border assets and liabilities

New style globalization: gross assets and liabilities as % of GDP



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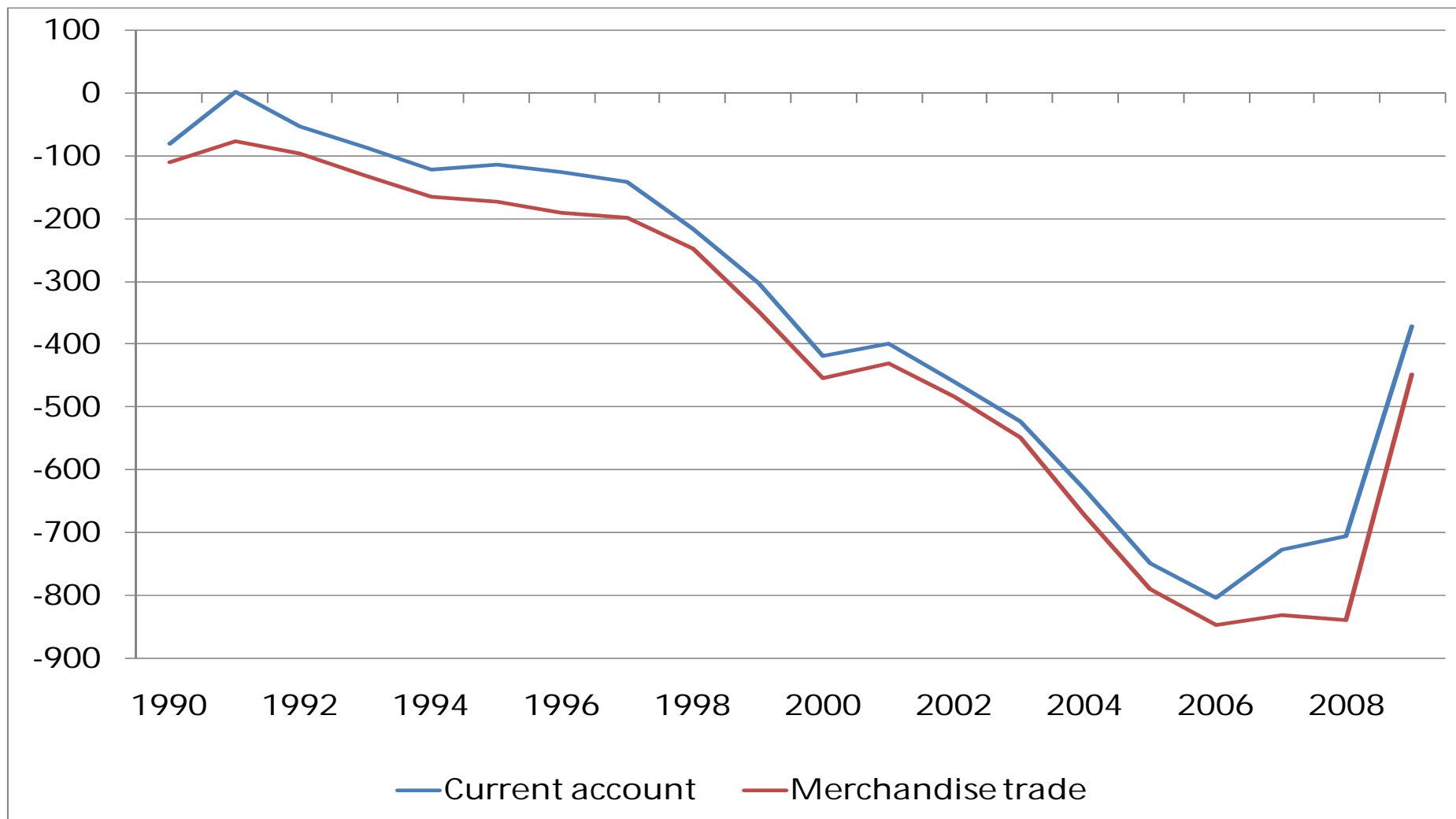
Unbalances caused by policy choices

- By the US: neglect of external deficit
- By China: undervaluation of currency in order to stimulate economic growth
- By other Asian countries
- Surplus countries recycled surpluses back into the US
 - Bernanke's savings glut
 - Chicken and egg situation



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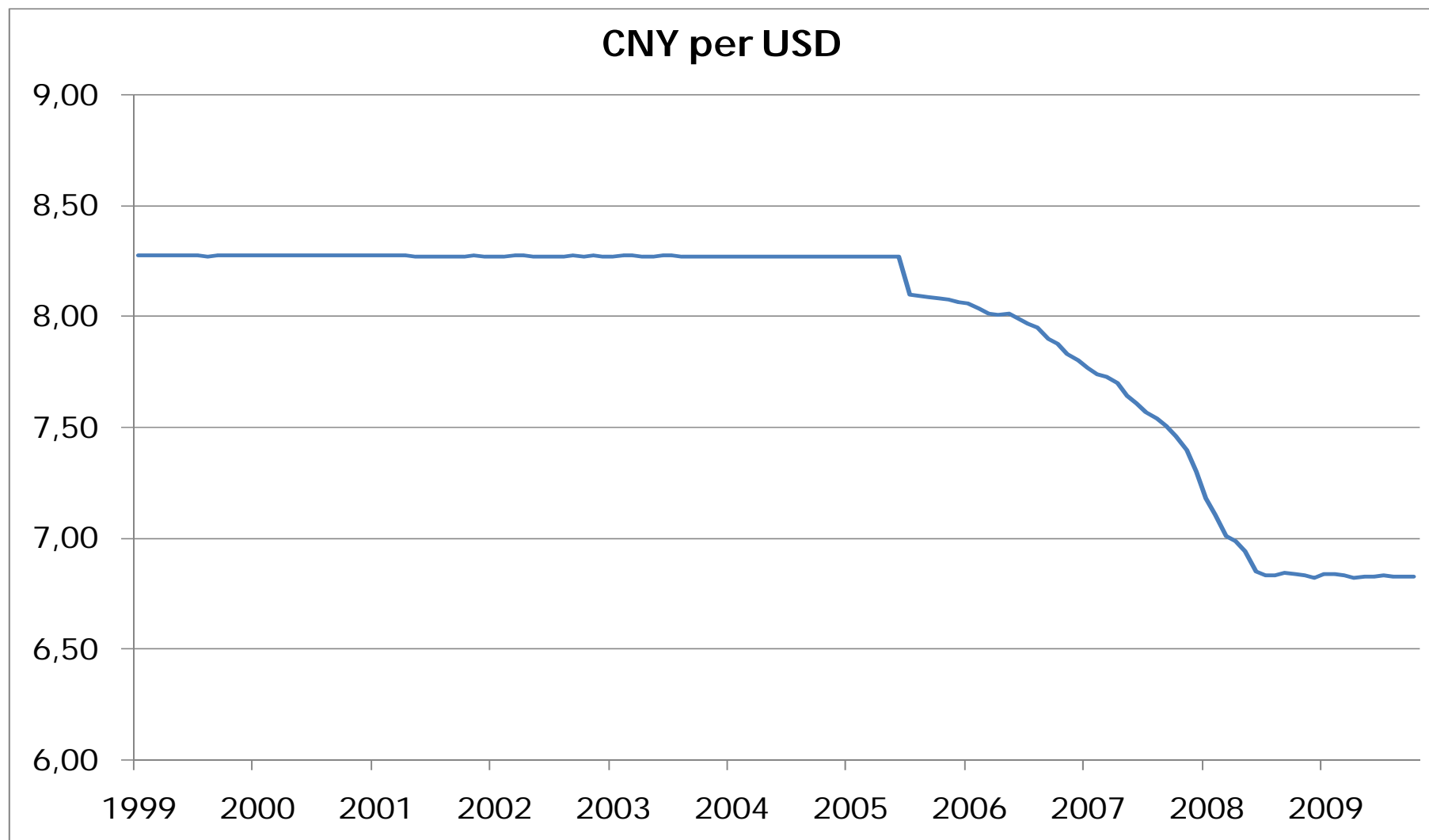
The US balance of payments





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Chinese exchange rate policy





EMs learned their lessons from the Asian crisis *Rabobank*

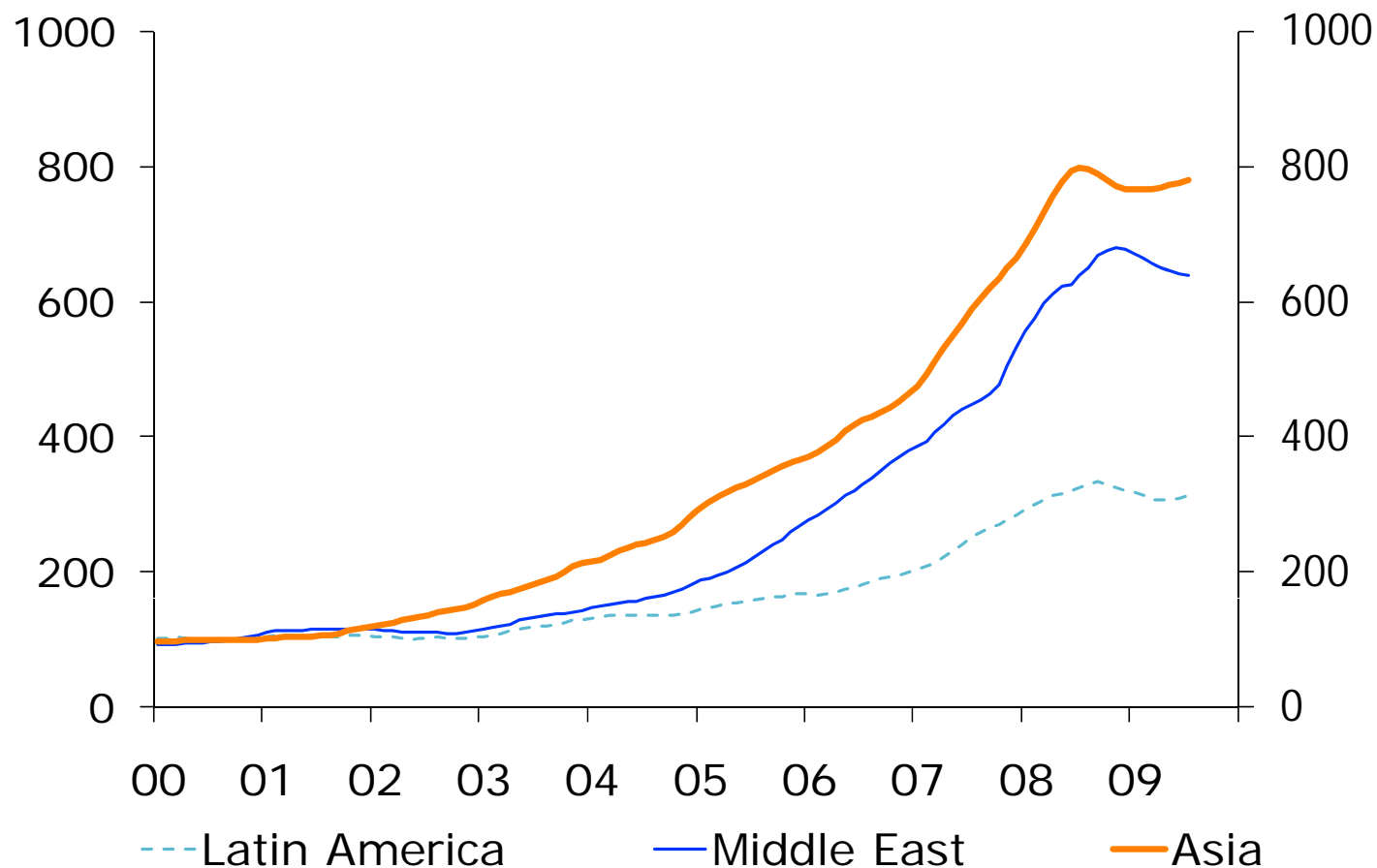
- Current account deficits make a country vulnerable
- Volatile capital flows can cause serious headaches
- IMF support not automatic
 - No automatic lender of last resort function
 - Conditionality
- Conclusions drawn:
 - Surpluses add to financial strength
 - Huge reserves best guarantee against acute financial problems
- The result: huge global imbalances



Explosion of international reserves

International Reserves

2000 = 100

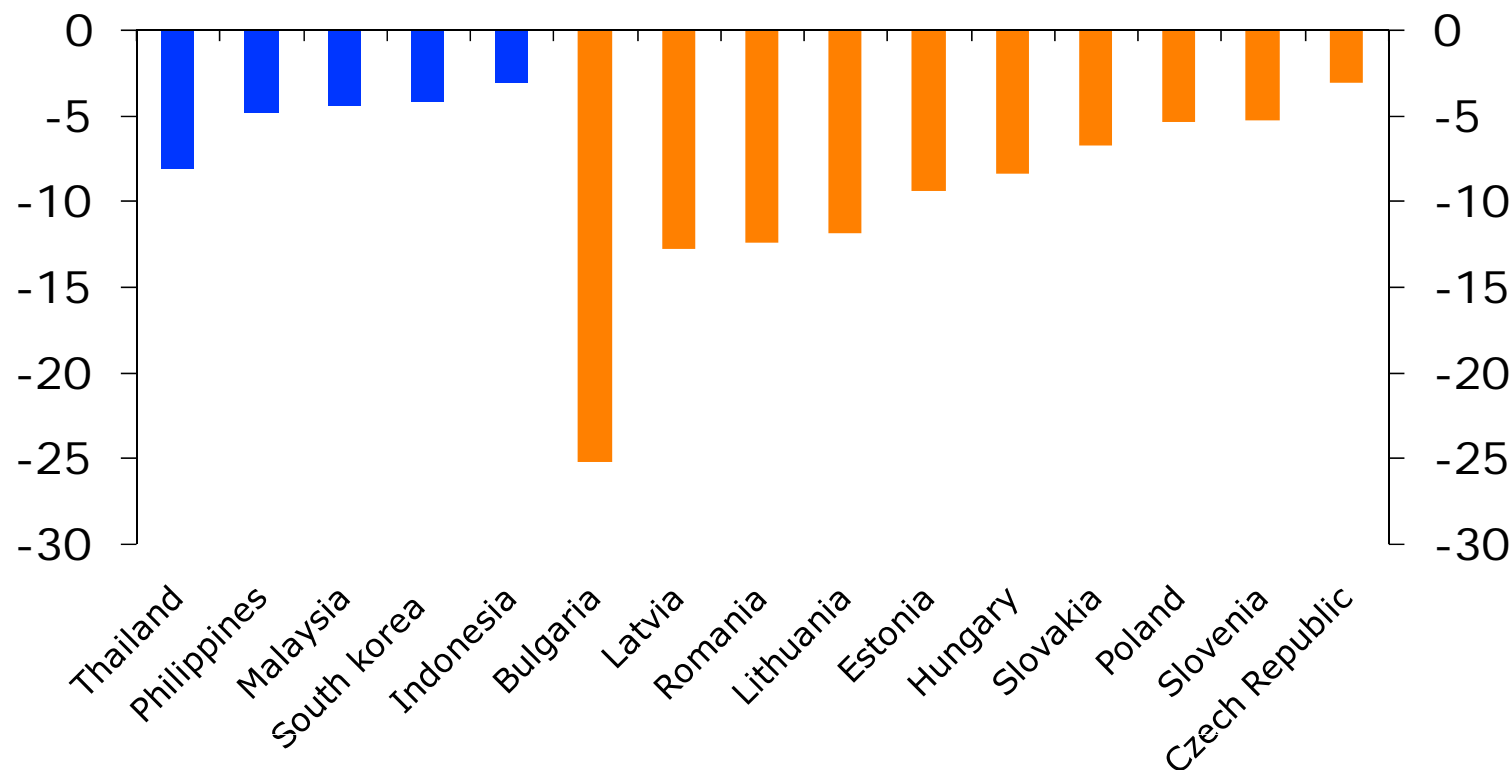




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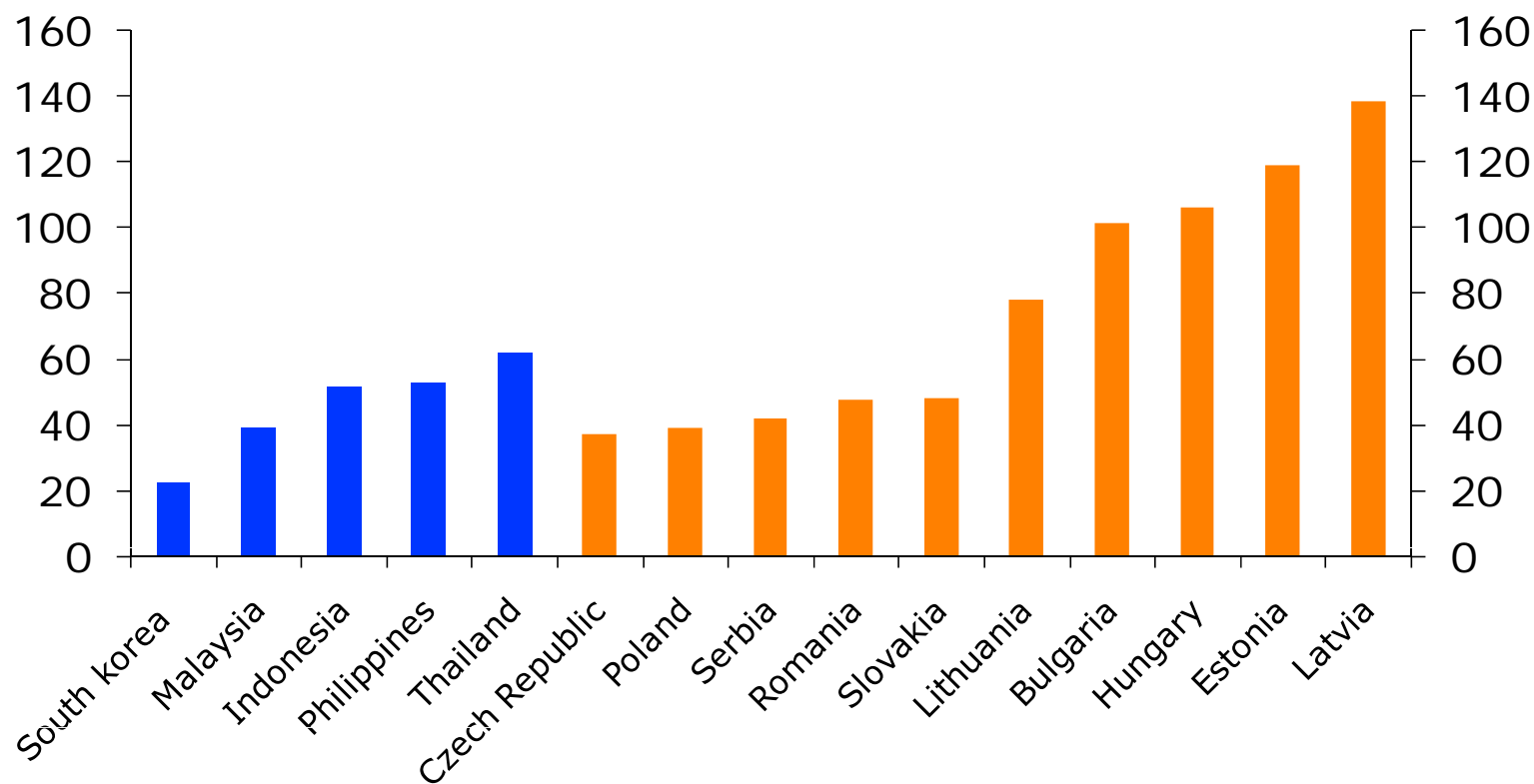
Eastern EU 2008 versus Asia 1996

Current account balance
(Asian countries 1996, Eastern European countries 2008)
% of GDP



Eastern EU 2008 versus Asia 1996

Foreign debt
(Asian countries 1996, Eastern European countries 2008)
% of GDP





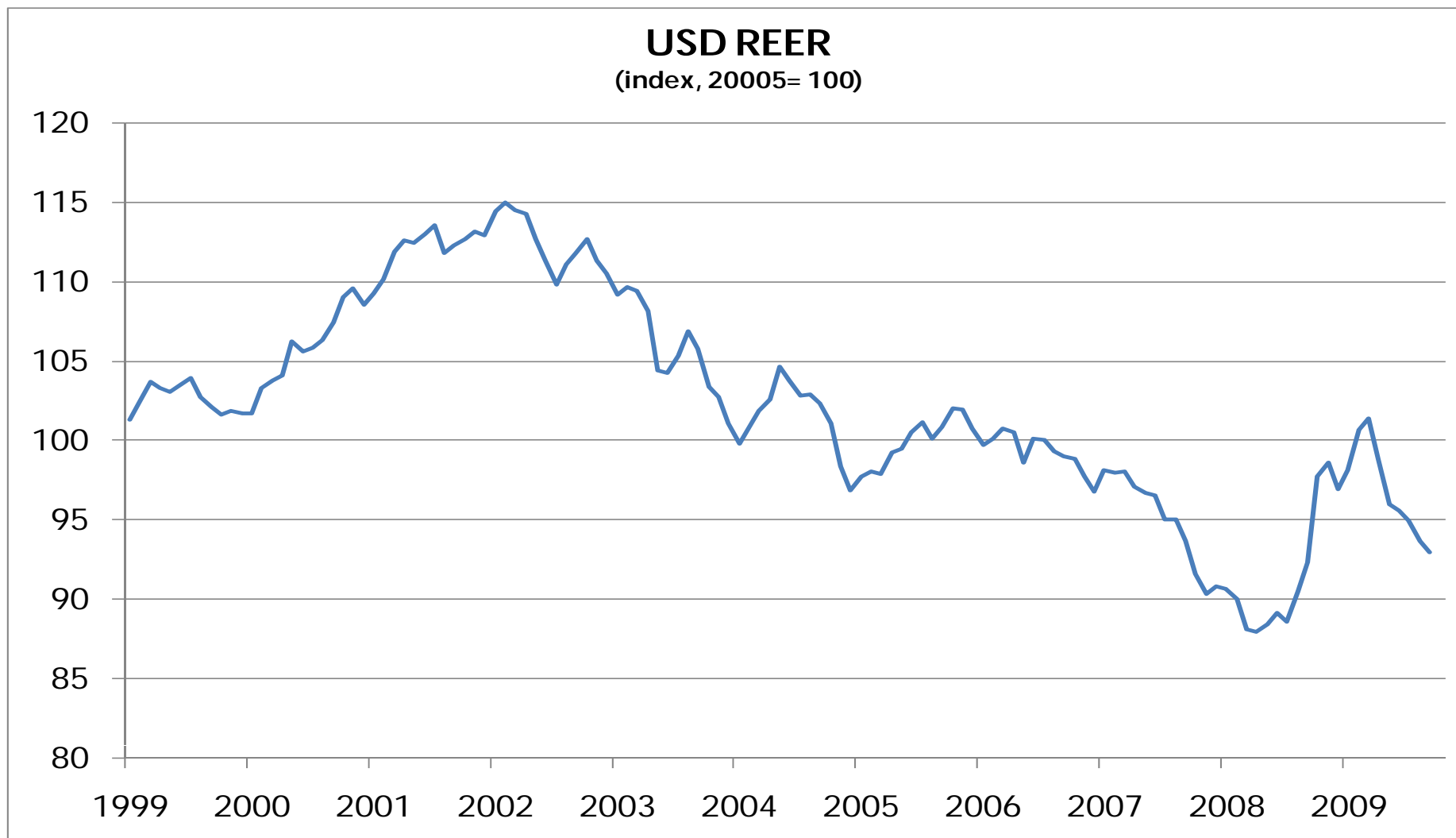
The dollar's special role

- Formal role under Bretton Woods
- No formal position since 1973
- But still dominant position as:
 - Trade currency
 - Investment currency
 - Reserve currency
 - Vehicle currency
- Consequences for US economy
 - Seigniorage income from creation of dollars
 - “Exorbitant privilege”
 - Foreign debt in home currency
 - Responsibility for global monetary stability



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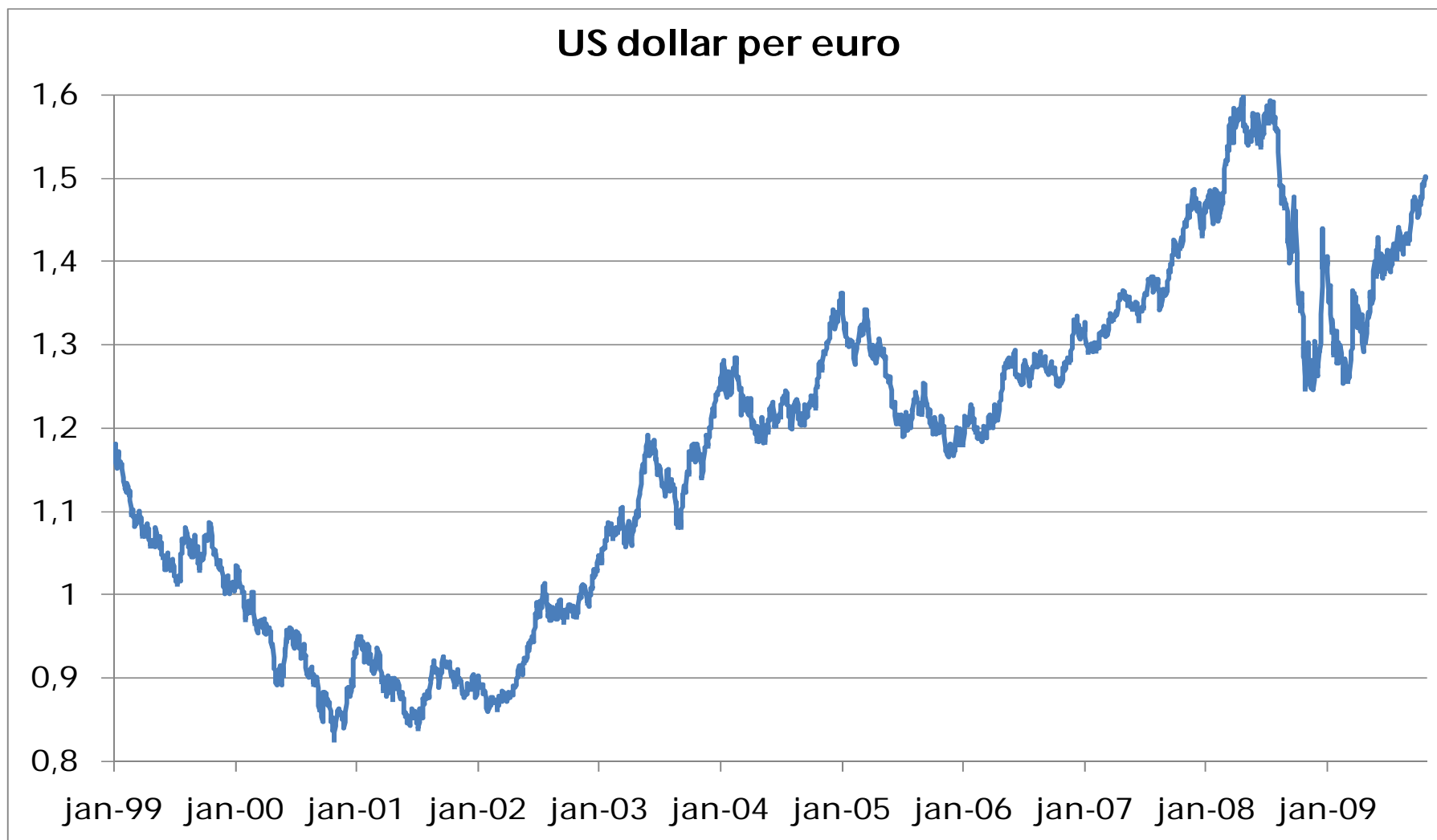
Dollar on downward trend?





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All pressures concentrate on EUR/USD





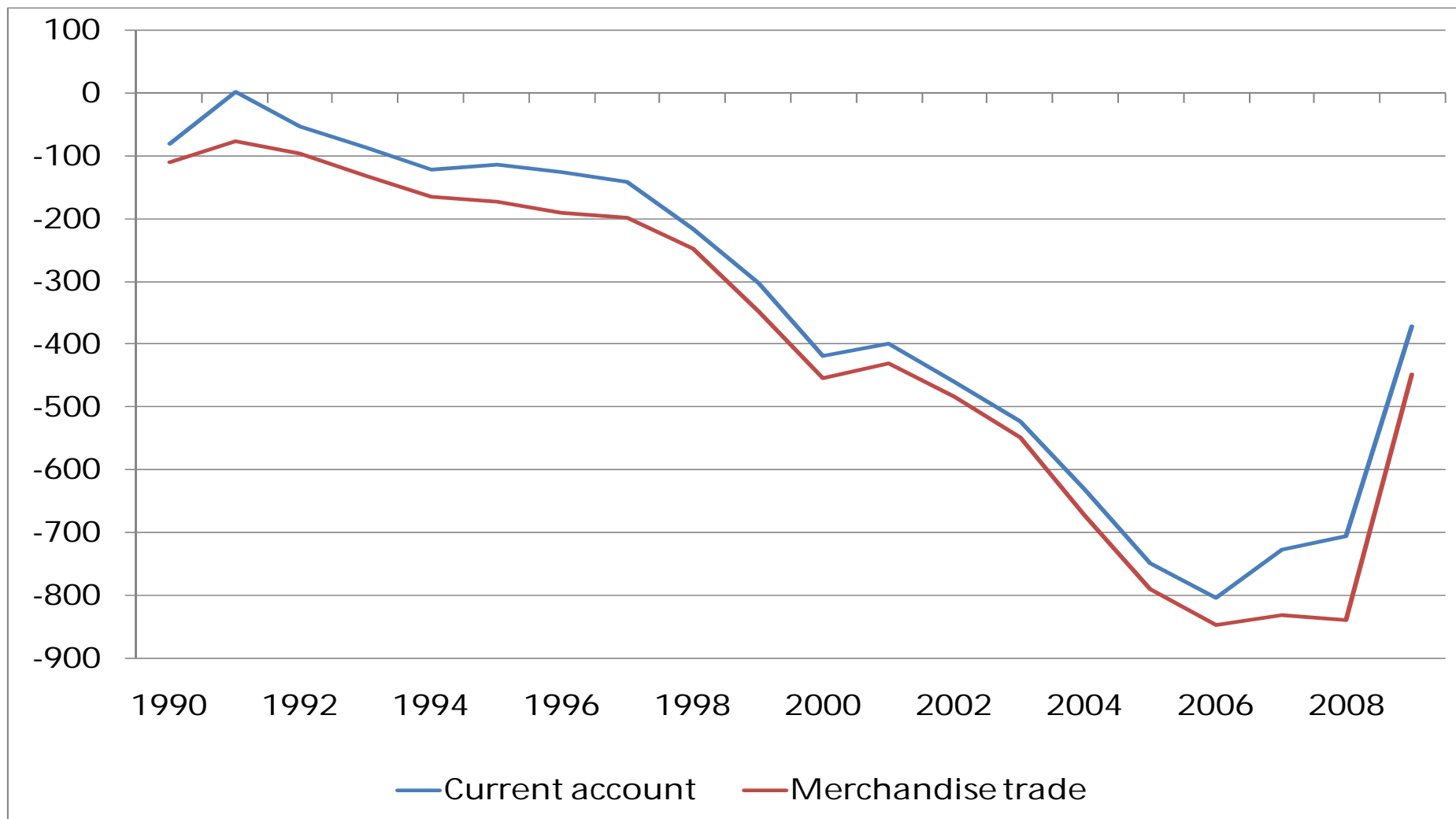
The future

- Economic recovery is on its way
- Sustainability is still doubtful
- Rebalancing of global BoP positions is essential
- This needs a further reshuffling of exchange rates
- The world economy needs a weaker and, more important, a normal dollar
- The IMF needs reform



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The US balance of payments





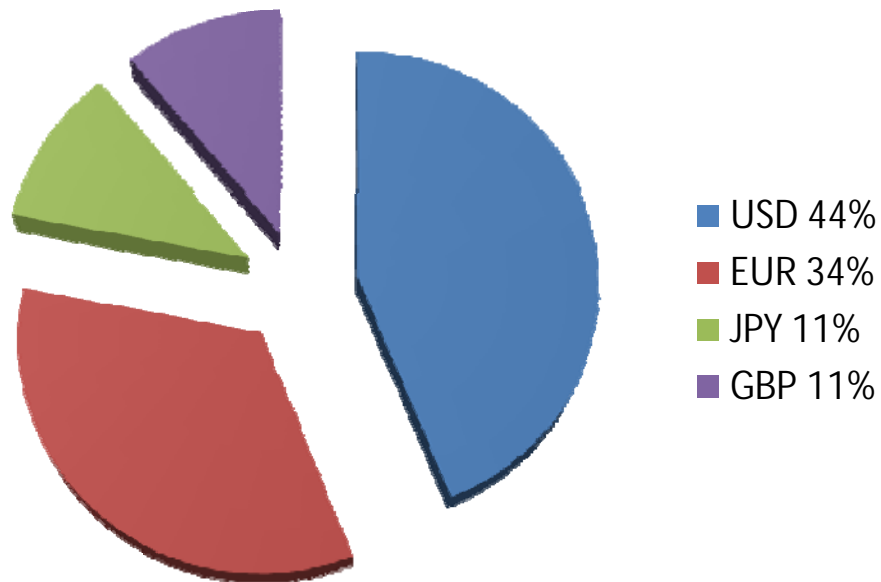
A new role for the IMF

- More automatic role as lender of last resort decreases the need for huge reserves
- Monitoring of balance of payments positions of both deficit and surplus countries
- Introduction of a new monetary standard → revival of the SDR
- More balanced representation in IMF and World Bank
 - No place for individual European countries?
 - Less influence for traditional industrial countries
 - More influence for emerging economies

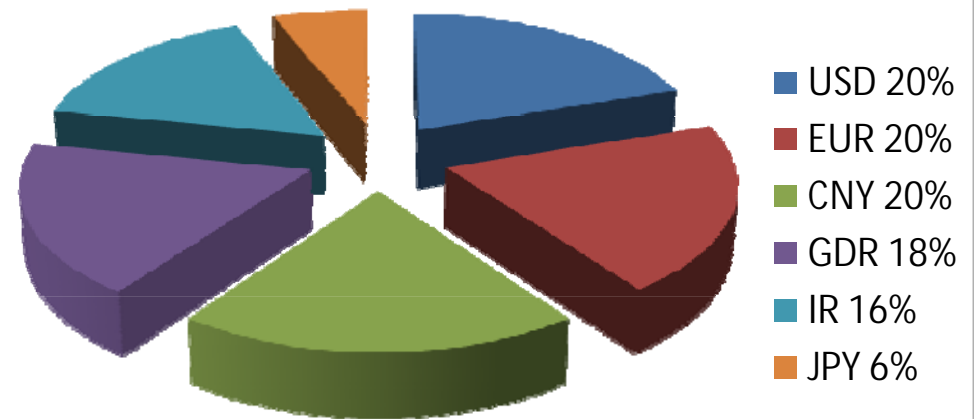
Towards a new reserve currency?



SDR today



Future SDR?





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More information?

www.rabobank.com/kennisbank