



# International Monetary Fund

September 17, 2019

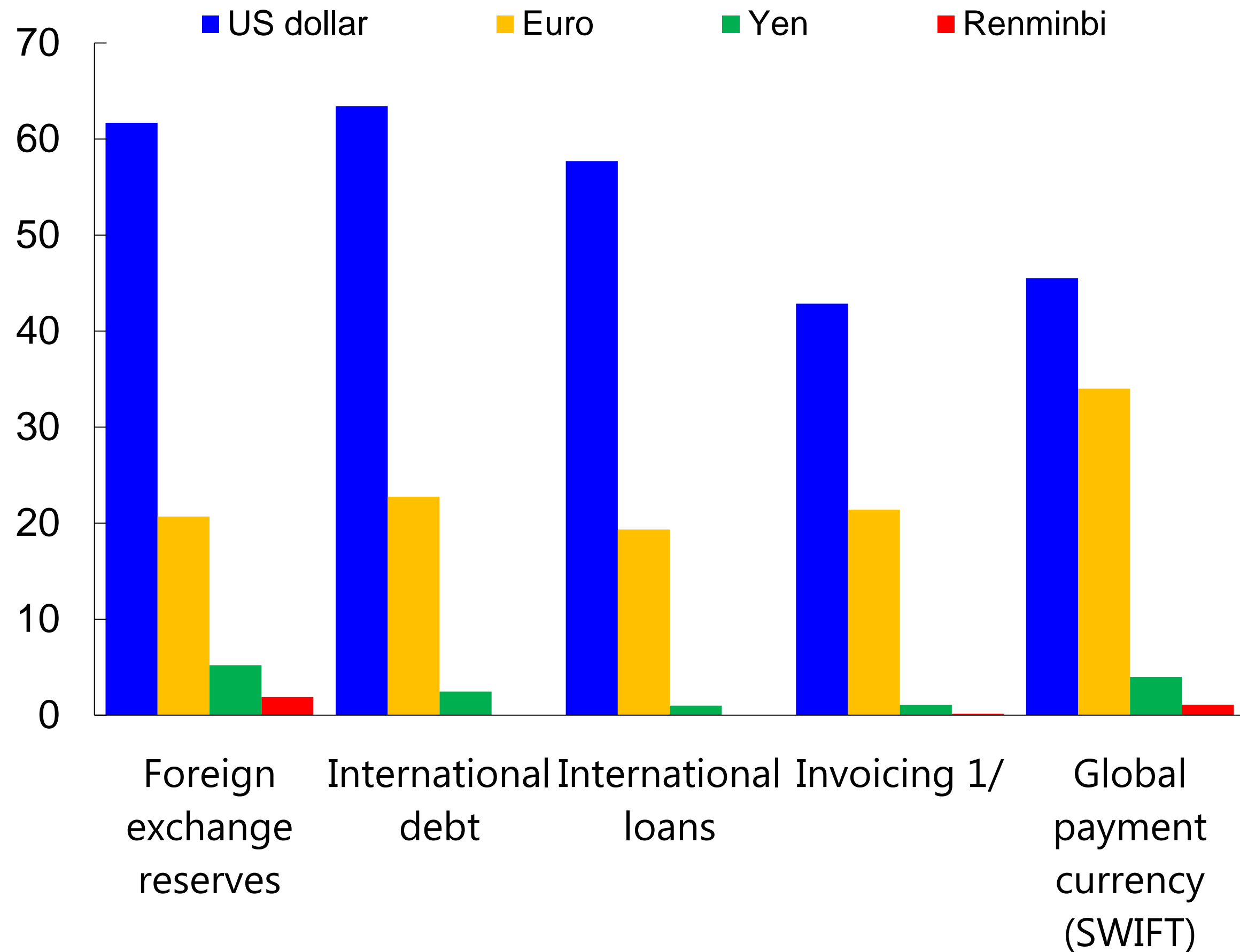
## The Future of the International Monetary System

**BCL-TSE Conference**

*Gita Gopinath*  
*Economic Counsellor*

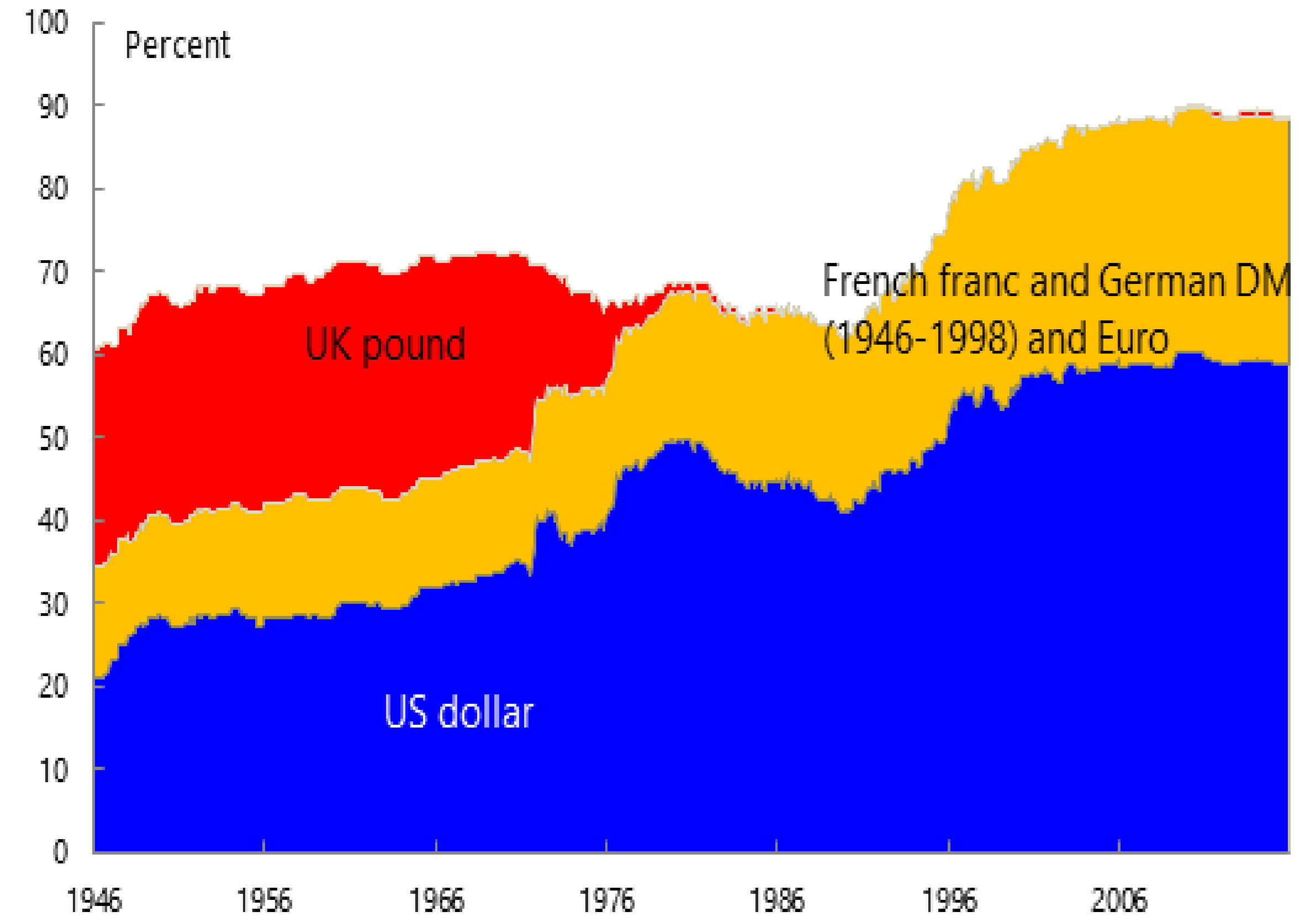
# A Snapshot of the current IMS

## Snapshot of the international monetary system (percent)



## Anchor Currency

(share of countries; 1946-2015; excludes freely floating cases)



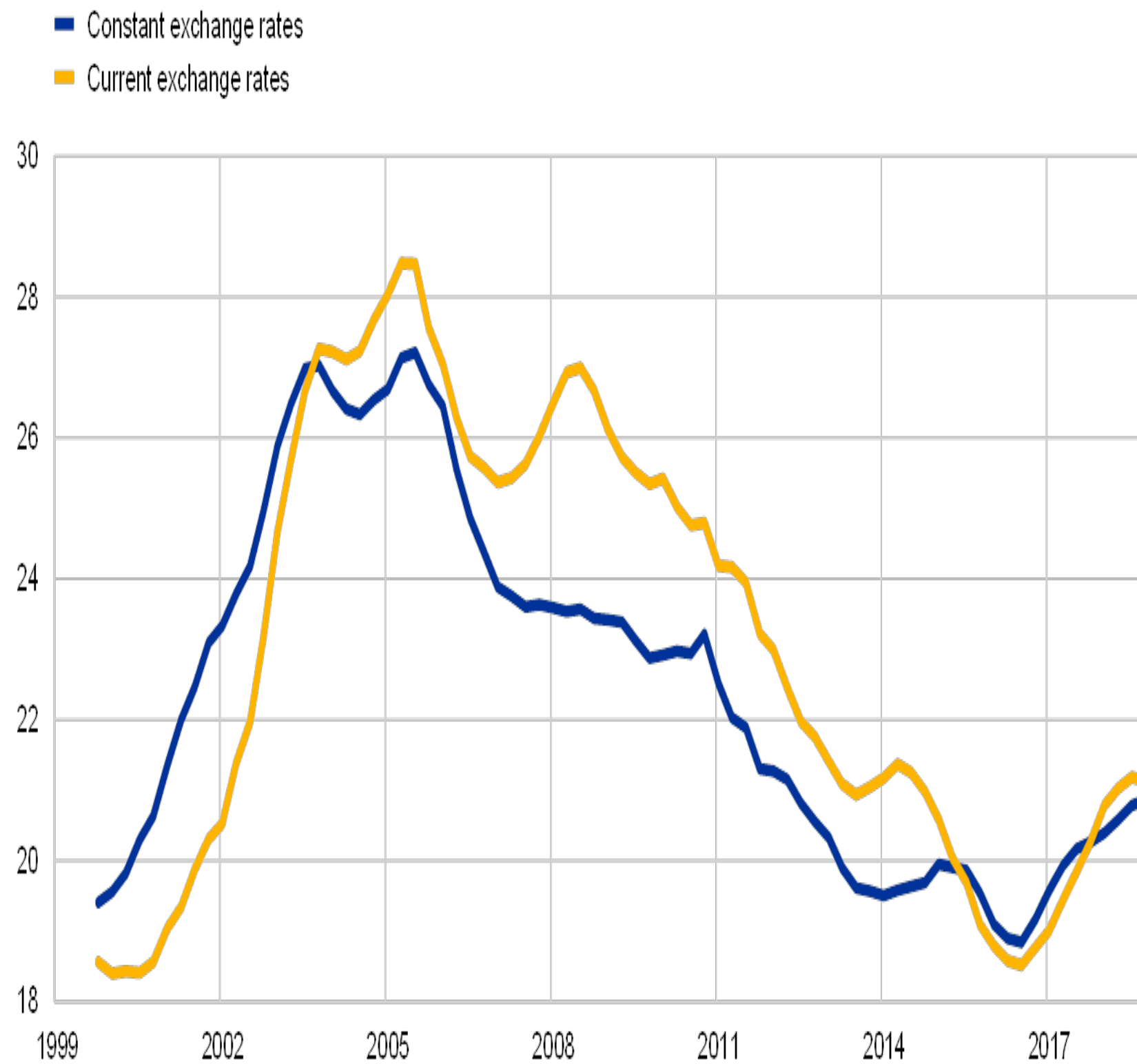
Sources: European Central Bank; Gopinath (2016), Ilzetki, E, C M. Reinhart, and K S. Rogoff. "Exchange Arrangements Entering the 21st Century: Which Anchor Will Hold?" Quarterly Journal of Economics 134 (2019) and IMF staff calculations.

1/ Average of imports and exports.

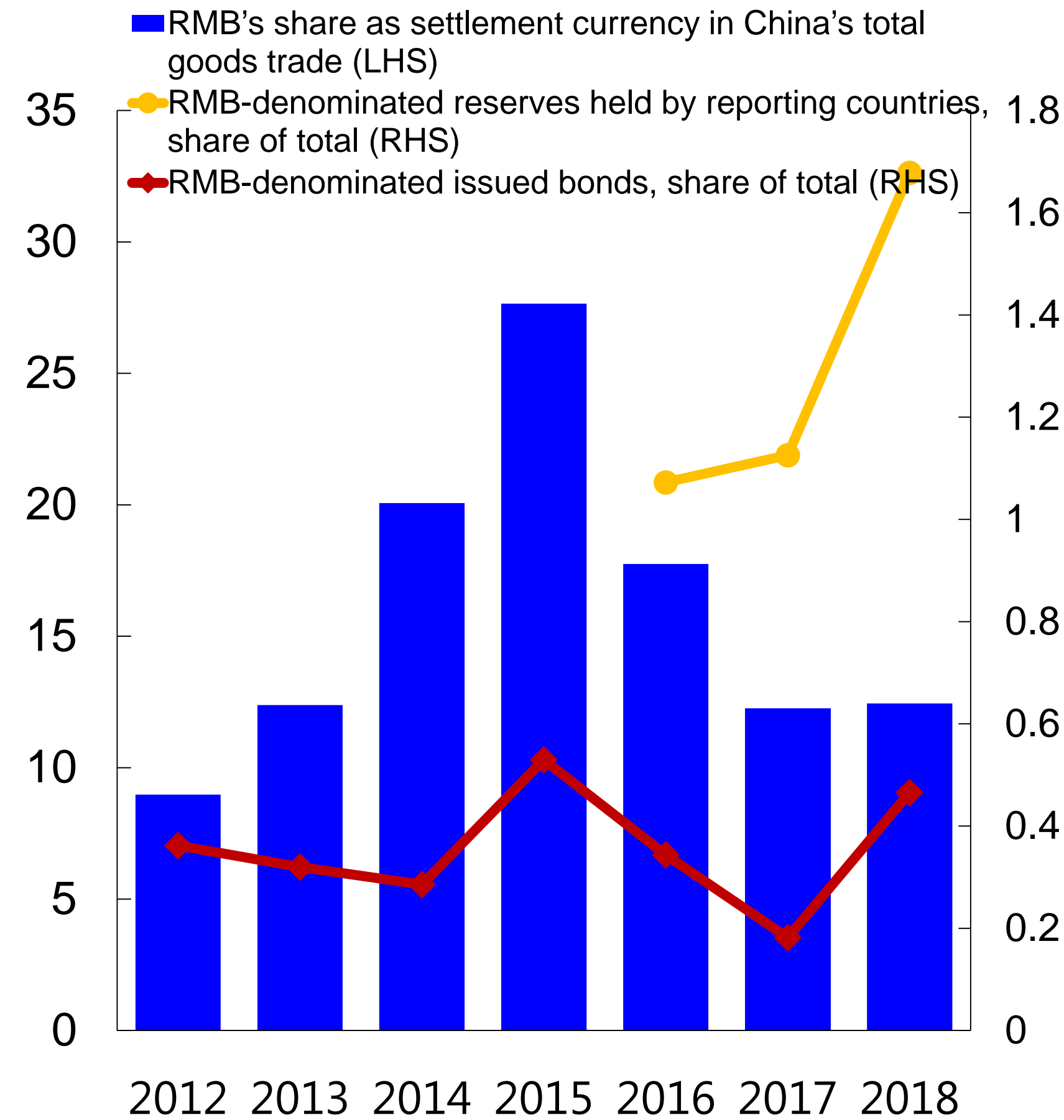
# Euro and RMB internationalization: status update

## Composite index of the international role of the euro

(percentages; at current and Q4 2018 exchange rates; four-quarter moving averages)

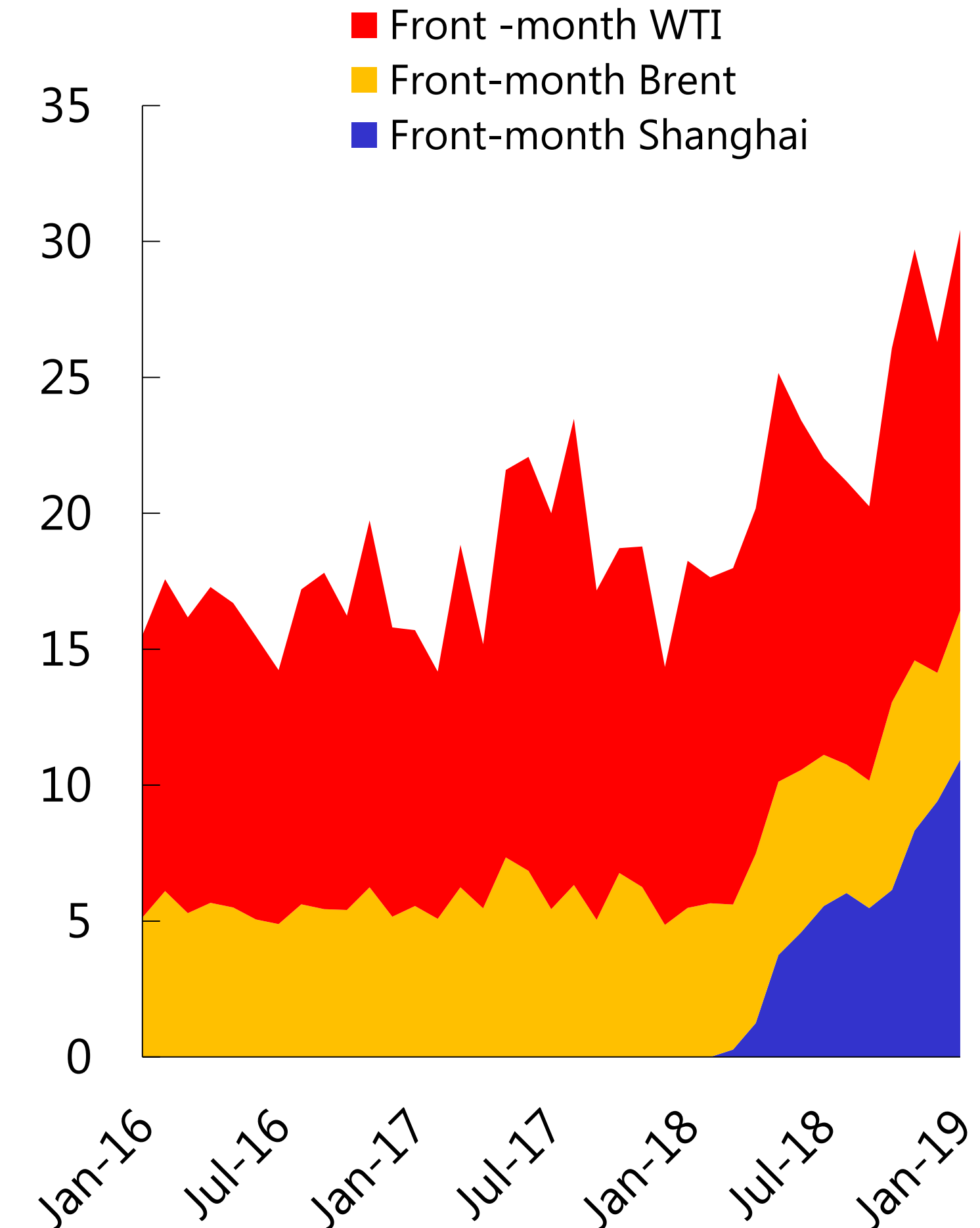


## RMB Settlement, Reserves and Bond Issuance (percent)



## Selected Oil Futures Benchmarks

(million lots) 1/

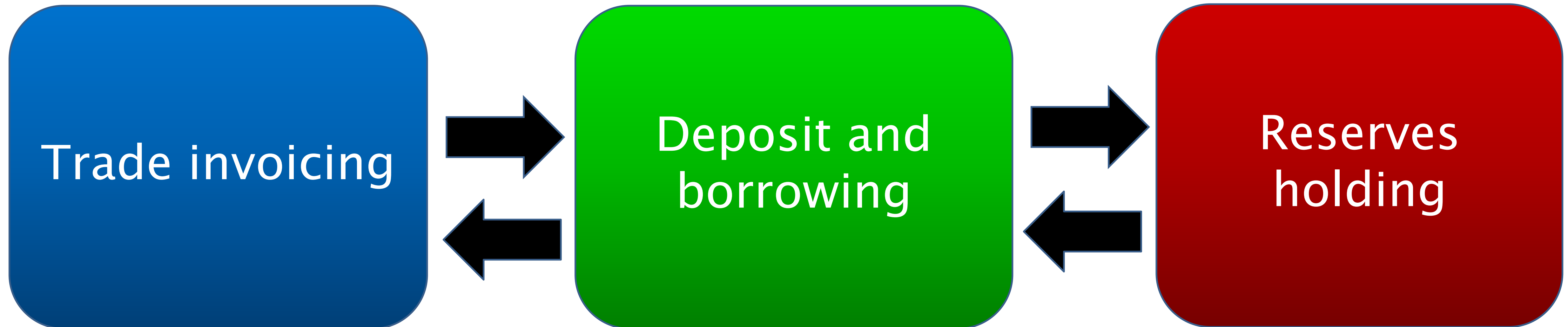


Sources: Bloomberg L.P.; Dealogic; Haver Analytics; People's Bank of China; and ECB(2019).

1/ Each lot is equal to 1000 barrels. Front-month refers to contracts with the nearest expiration date.

# Banking, trade and the making of a dominant currency

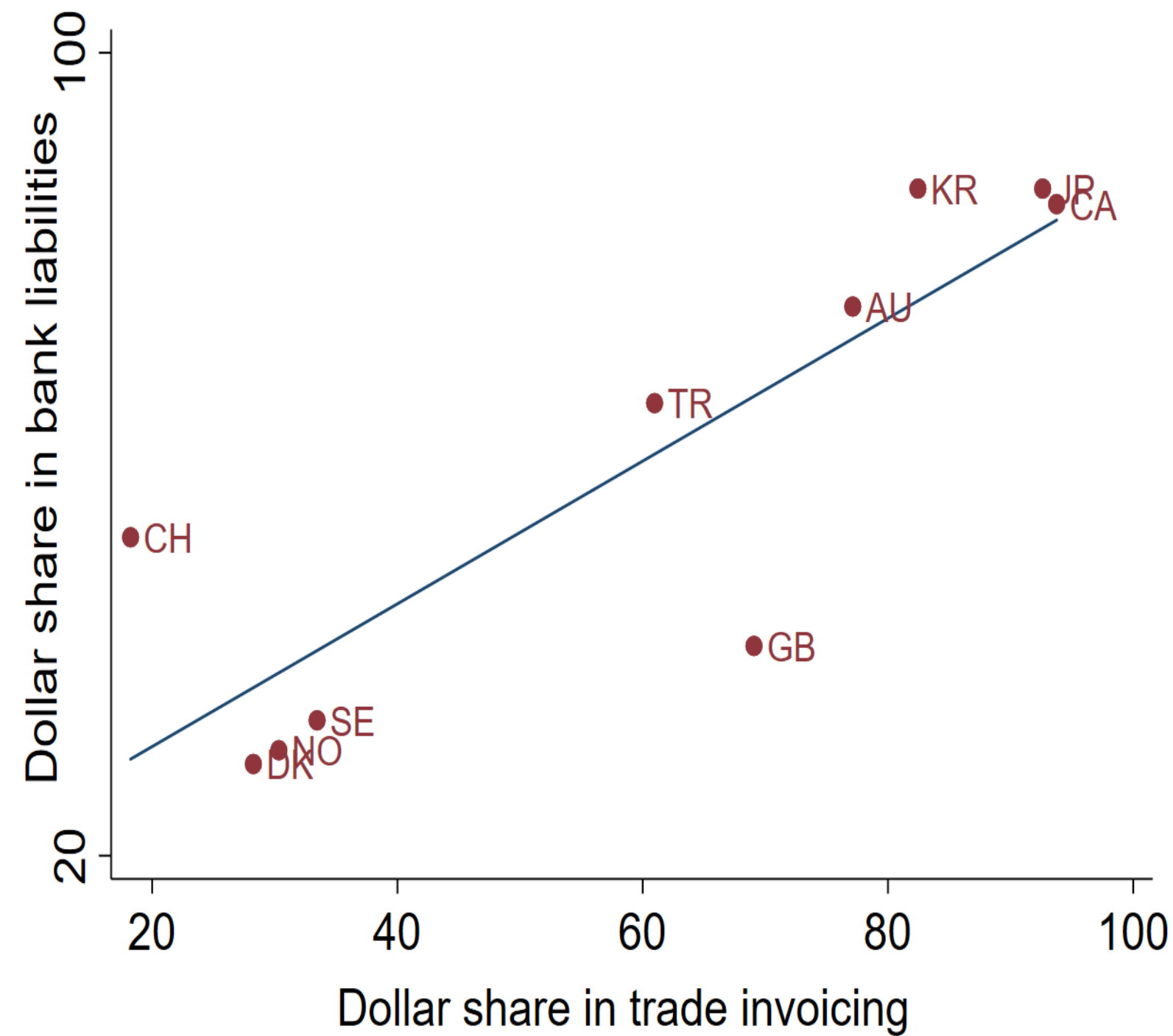
Gopinath and Stein (2018)



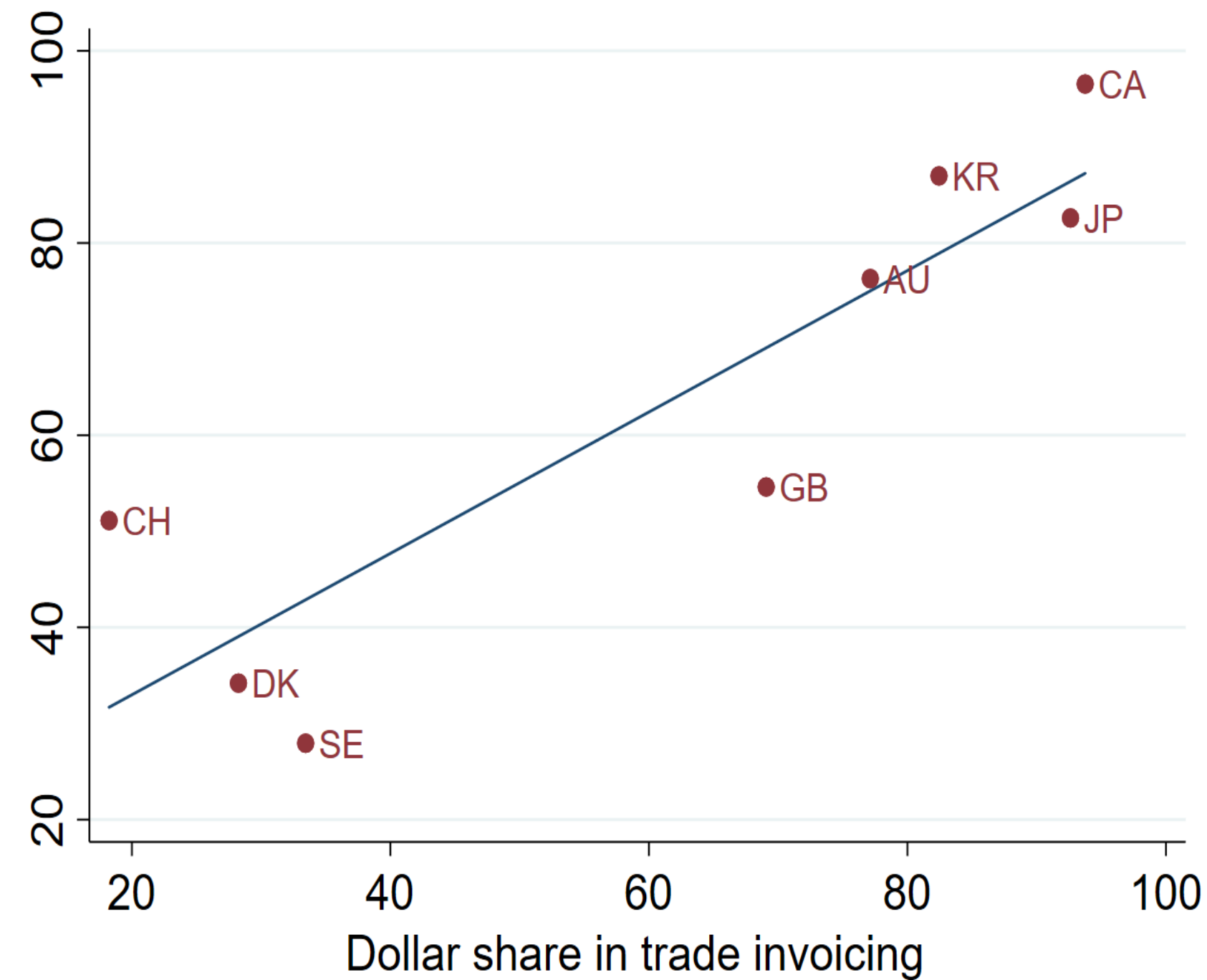
Eichengreen (2010):“ ...experience suggests that the logical sequencing of steps in internationalizing a currency is: first, encouraging its use in invoicing and settling trade; second, encouraging its use in private financial transactions; third encouraging its use by central banks and governments as a form in which to hold private reserves.”

# Complementarities between invoicing, funding and reserves

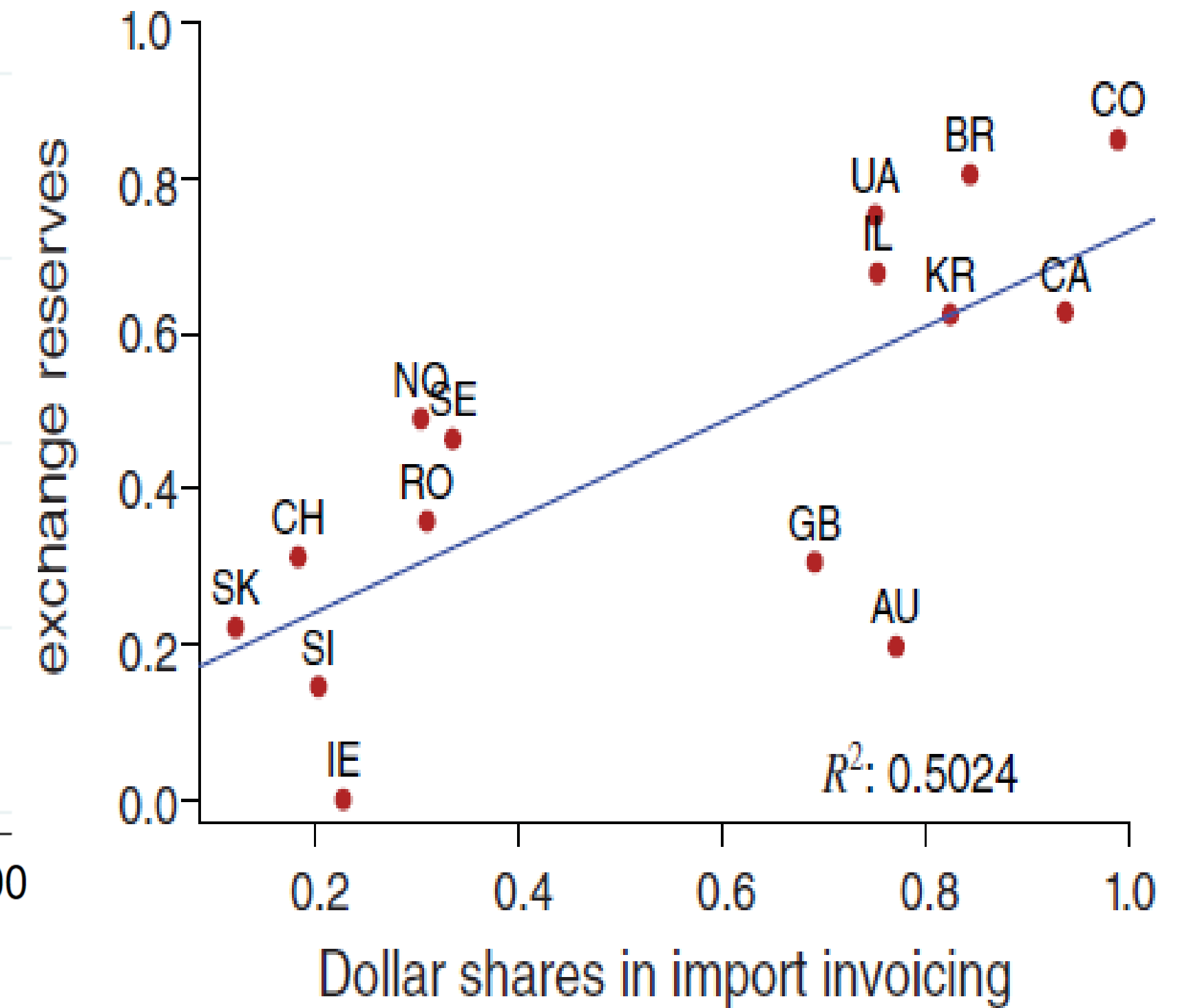
## Invoicing and bank liabilities



## Invoicing and bank deposits + loans



## Invoicing and reserves holding



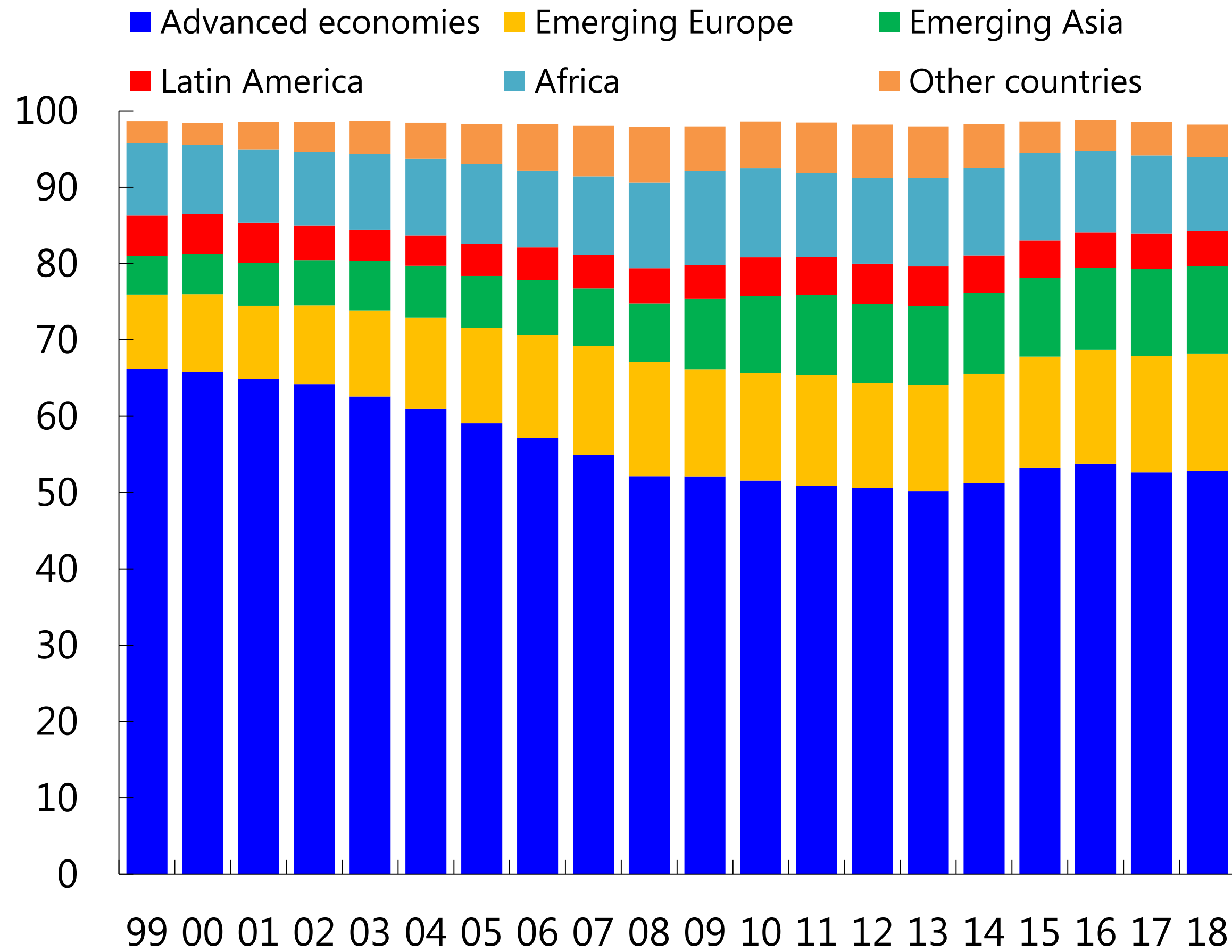
Sources: Gopinath and Stein (2019).



# Reserve potential of the euro

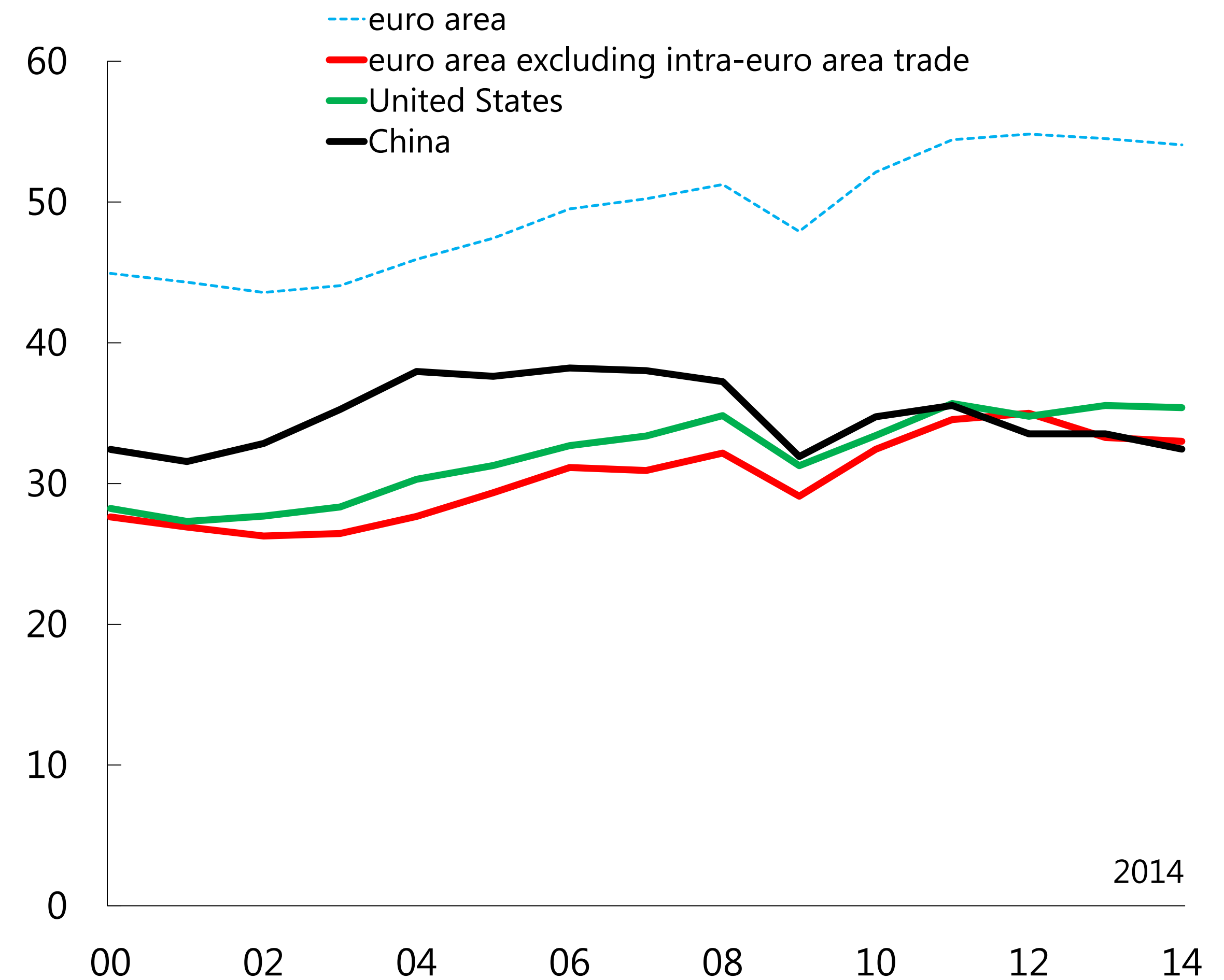
## About half of EA Trade is with EMs

(percent of total extra-EA exports)



## EA is well-integrated into global supply chains

(participation; percent)

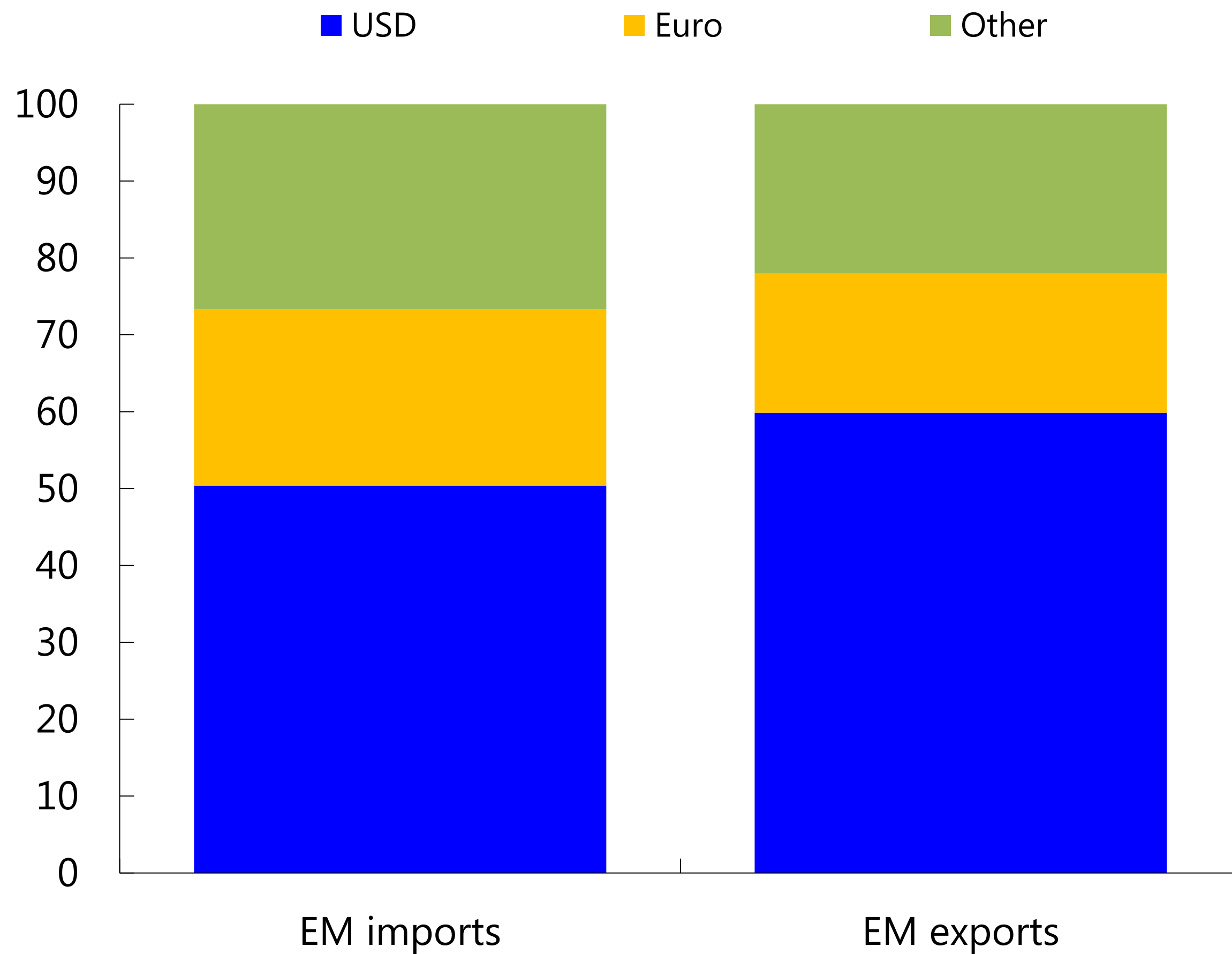


Sources: Haver Analytics; OECD, TiVA; ECB (2019), and IMF staff calculations.

# Trade invoicing and global reserve holdings

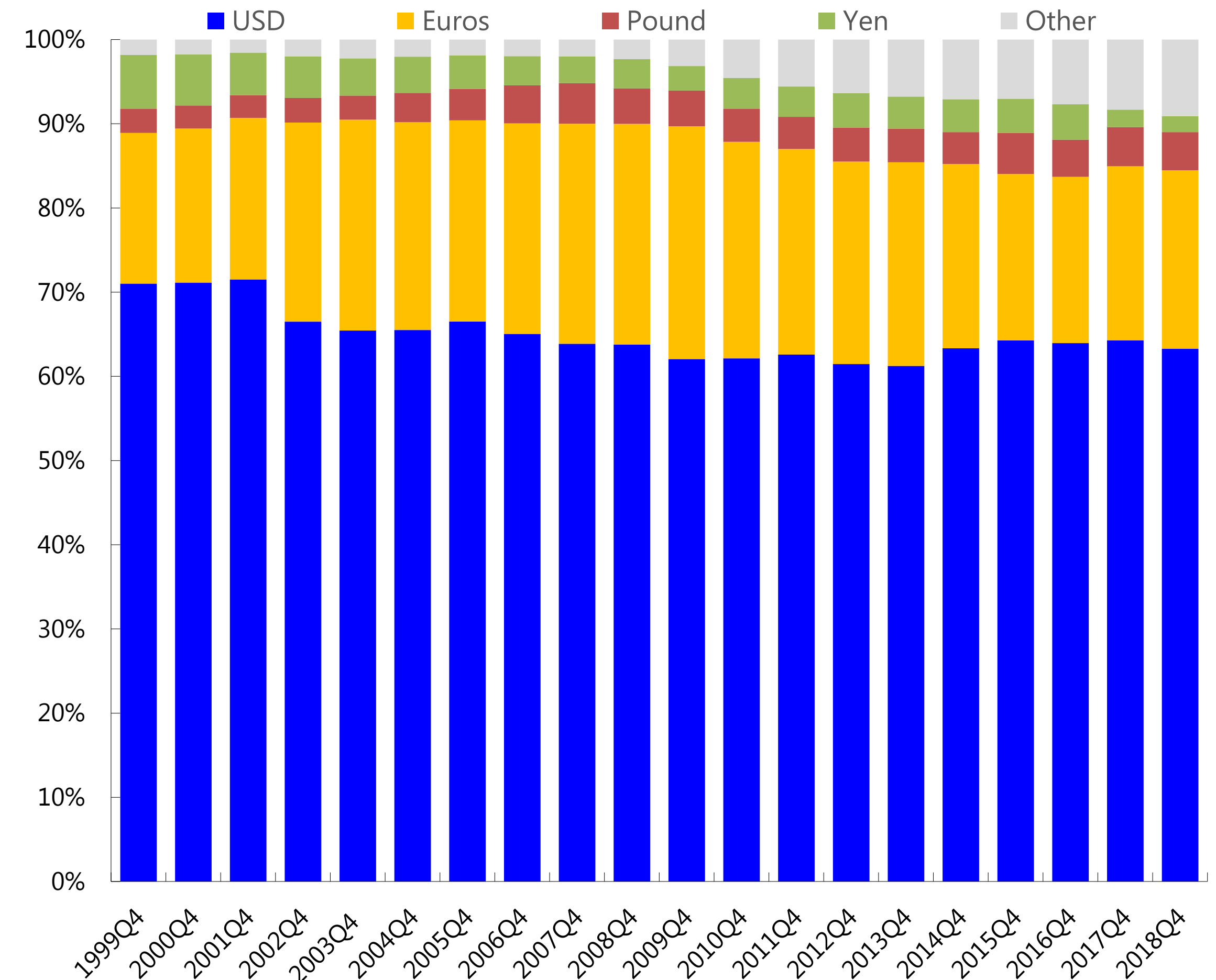
## EMs' trade invoicing

(percent)



## Global reserve holdings

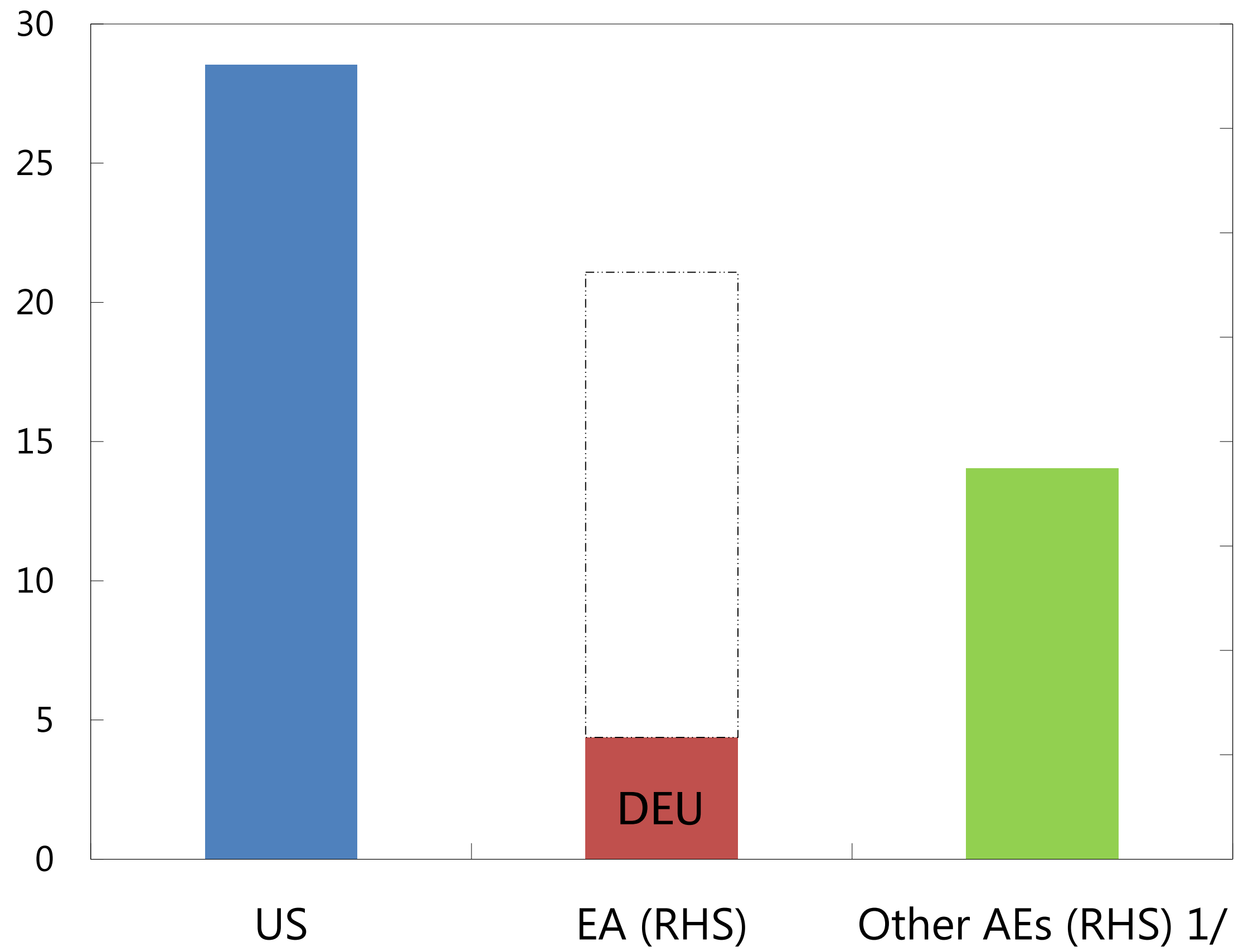
(percent of allocated reserves)



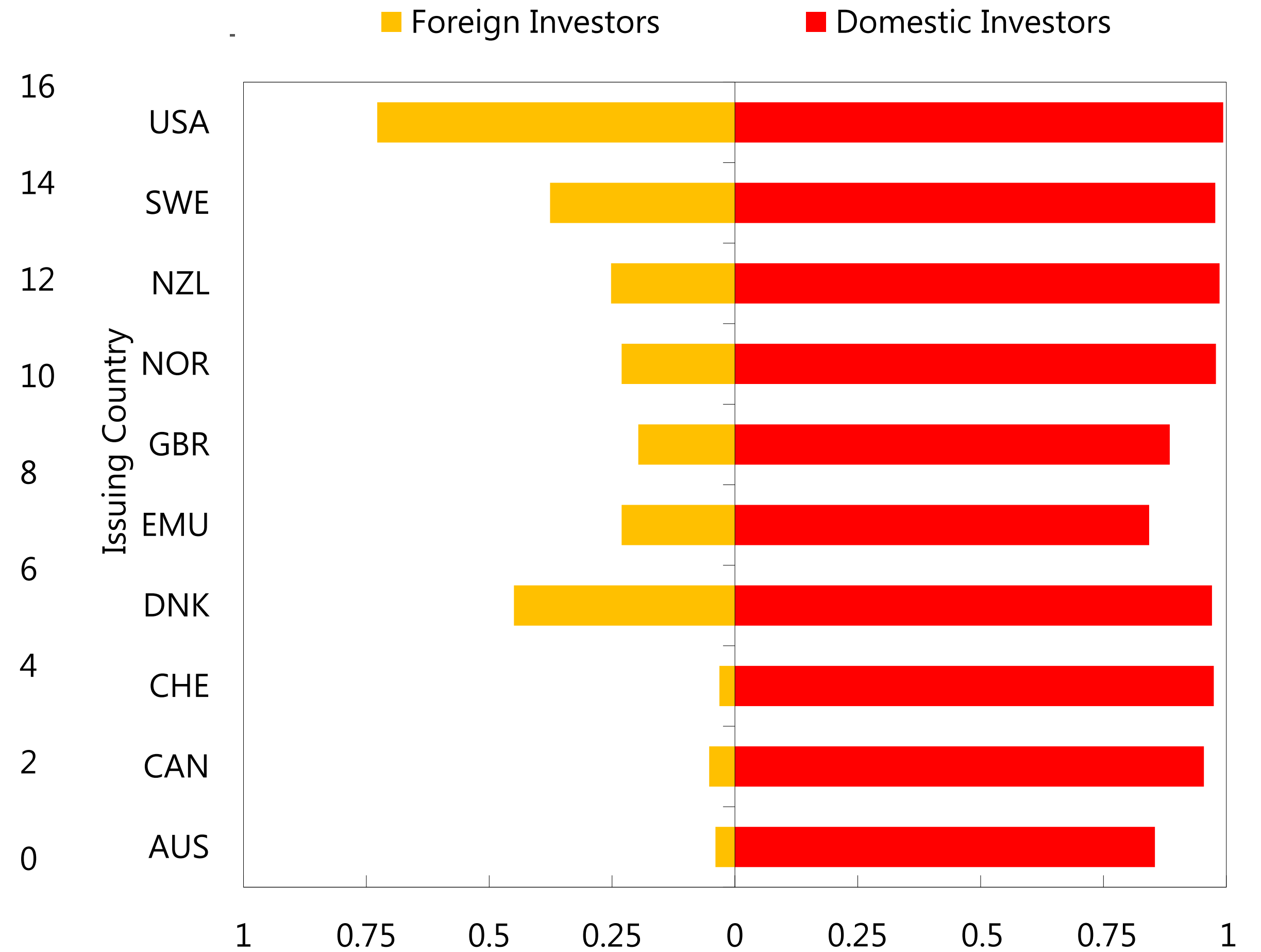
Sources: Haver Analytics; OECD, TiVA; Gopinath (2016), ECB and IMF staff calculations.

# Would issuing Eurobonds help?

## Outstanding government debt (USD trillion)



## Corporate bond investment denominated in the issuer's local currency



Sources: Haver; Maggiori, Neiman and Schreger (2019).

1/ Other AEs include Australia, Canada, Denmark, Japan, Norway, Sweden, and the UK.



# Strengthening the credibility of the euro

## Probability of Euro Break-up 1/

sentix Euro break-up index

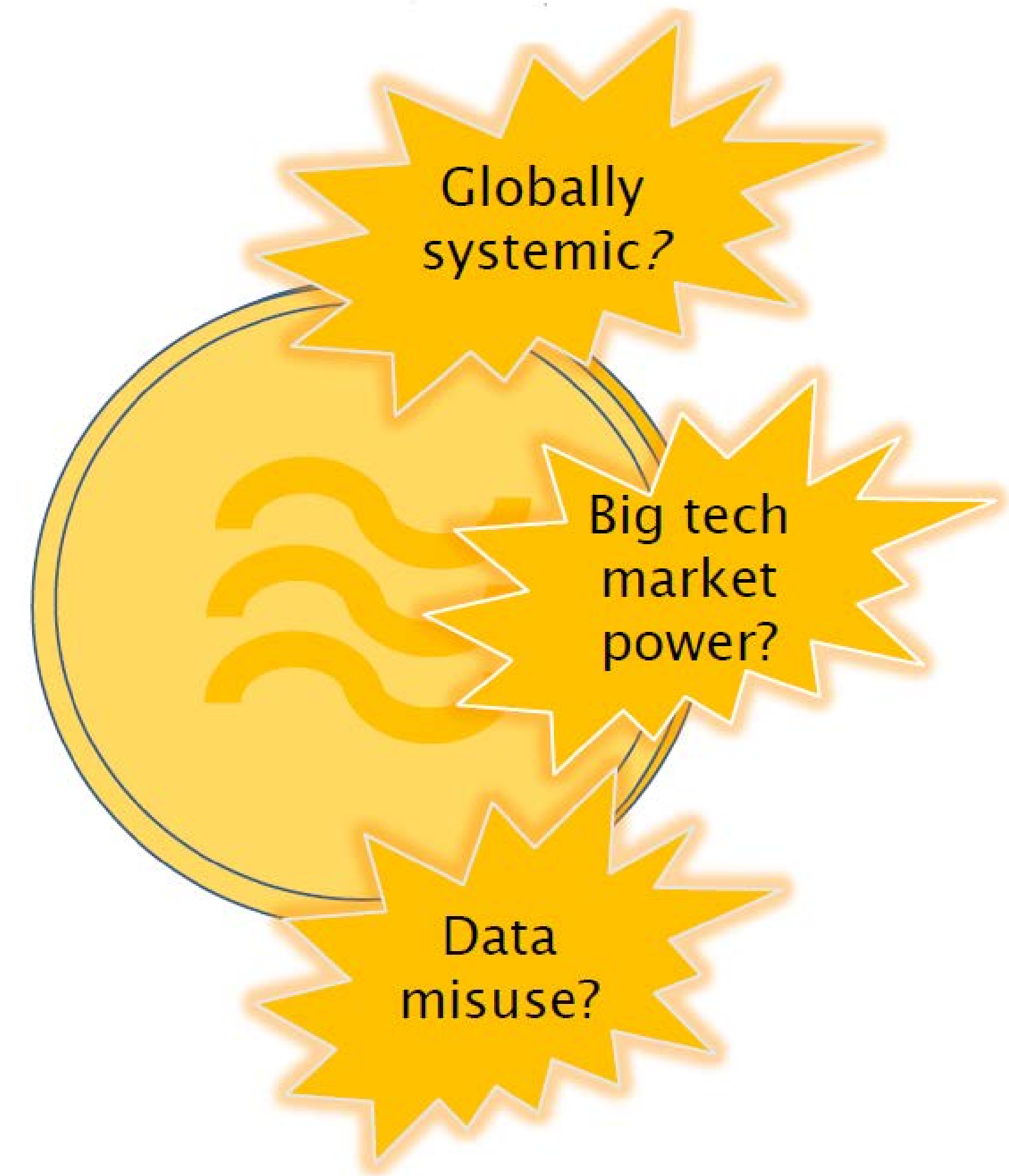
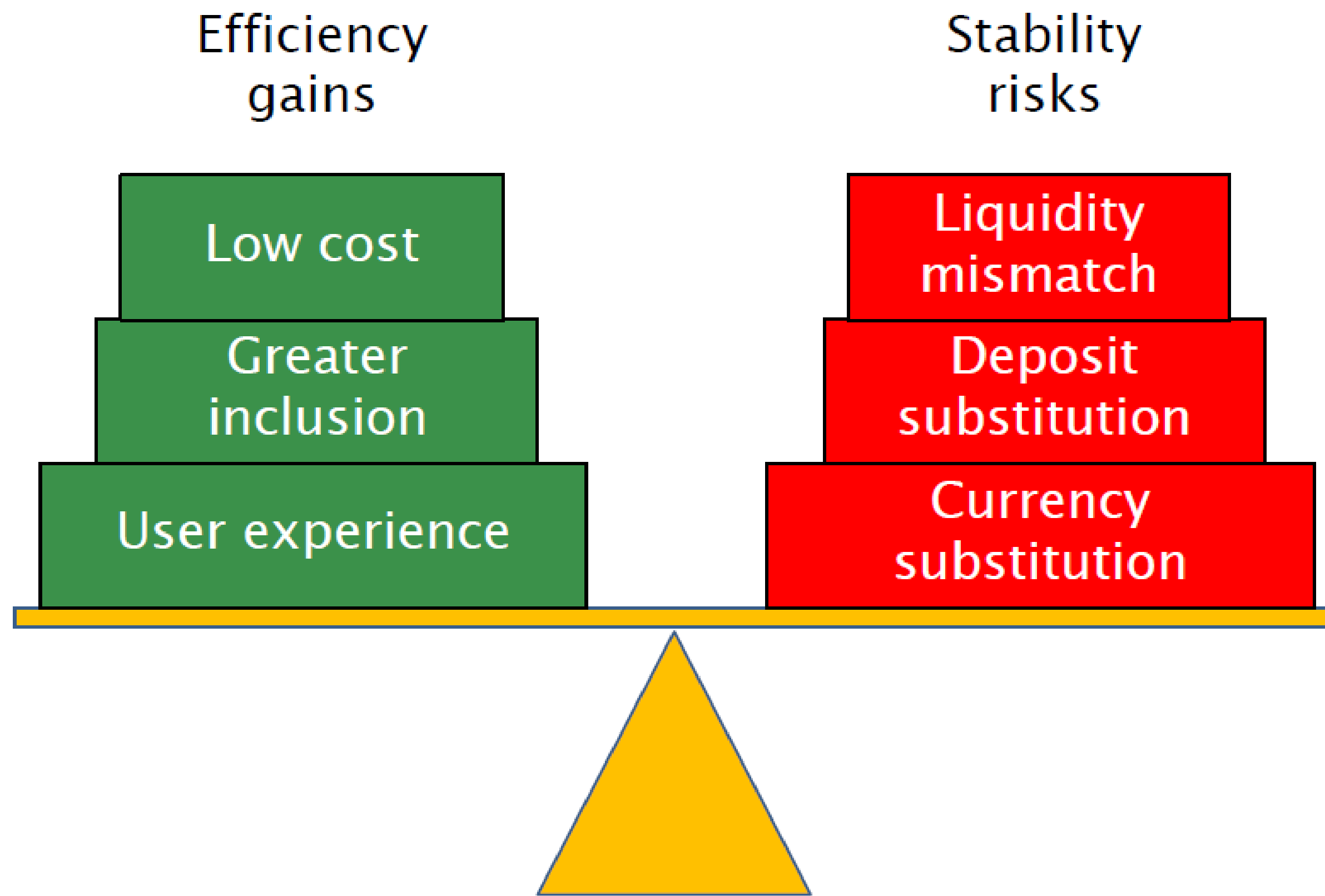
(index)



Source: Bloomberg L.P.

- Reforms to complete the euro area architecture will boost credibility
- Union wide: Banking union, capital markets union, central fiscal capacity
- National: Labor, product markets, corporate solvency

# What about the potential of stablecoins?



# Implications of Current IMS

Trade invoicing

Deposit and  
borrowing

Reserves  
holding

- **Low export elasticity**
- **ER volatility**

- **Currency mismatch**
- **Global Financial Cycle**

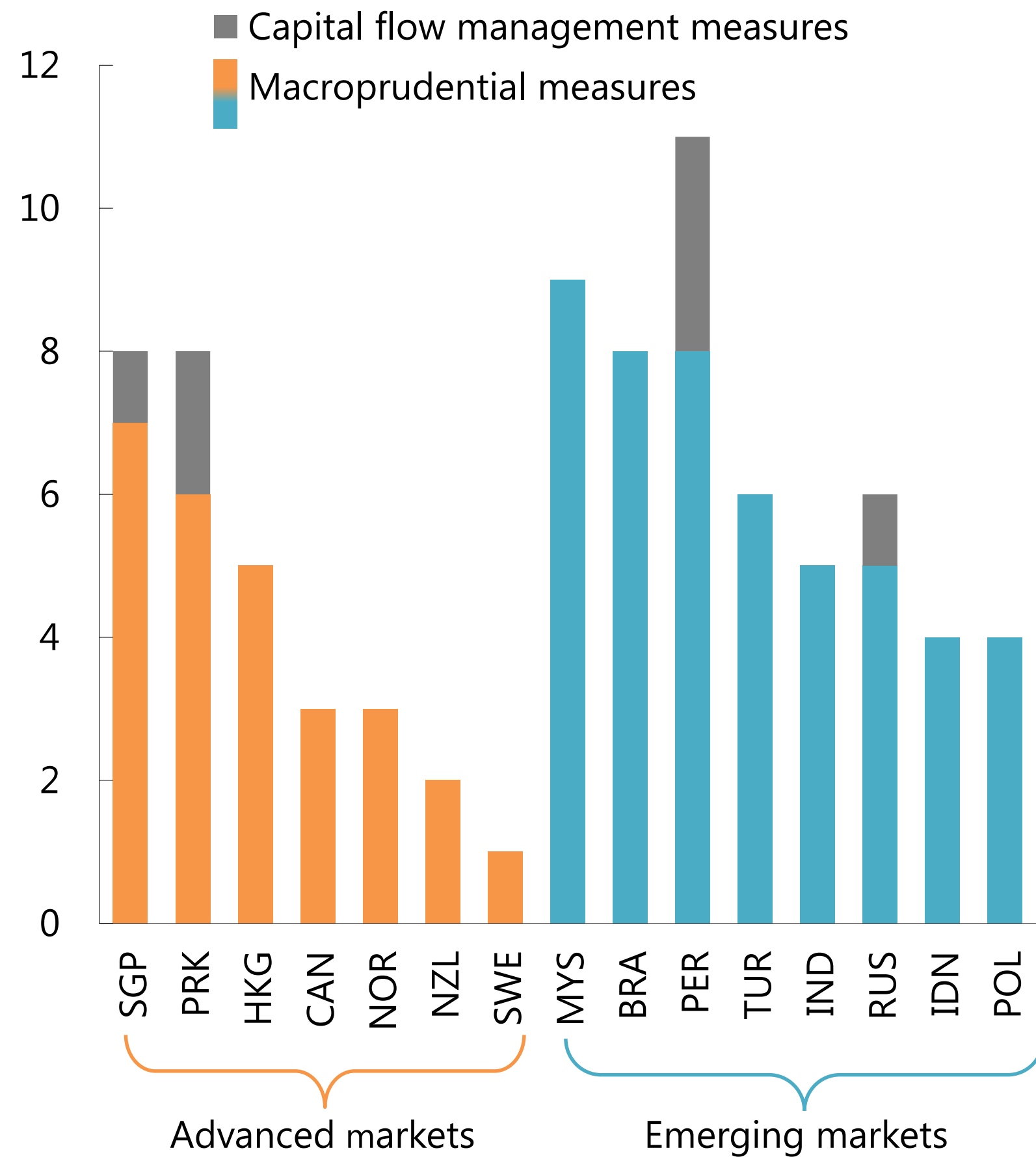
- **Demand for safe assets. Historically low interest rates**

# Dealing with dollar dominance : A case for an integrated policy framework

## Inflow Episode

### Number of macroprudential and capital flow management measures, 2010-11

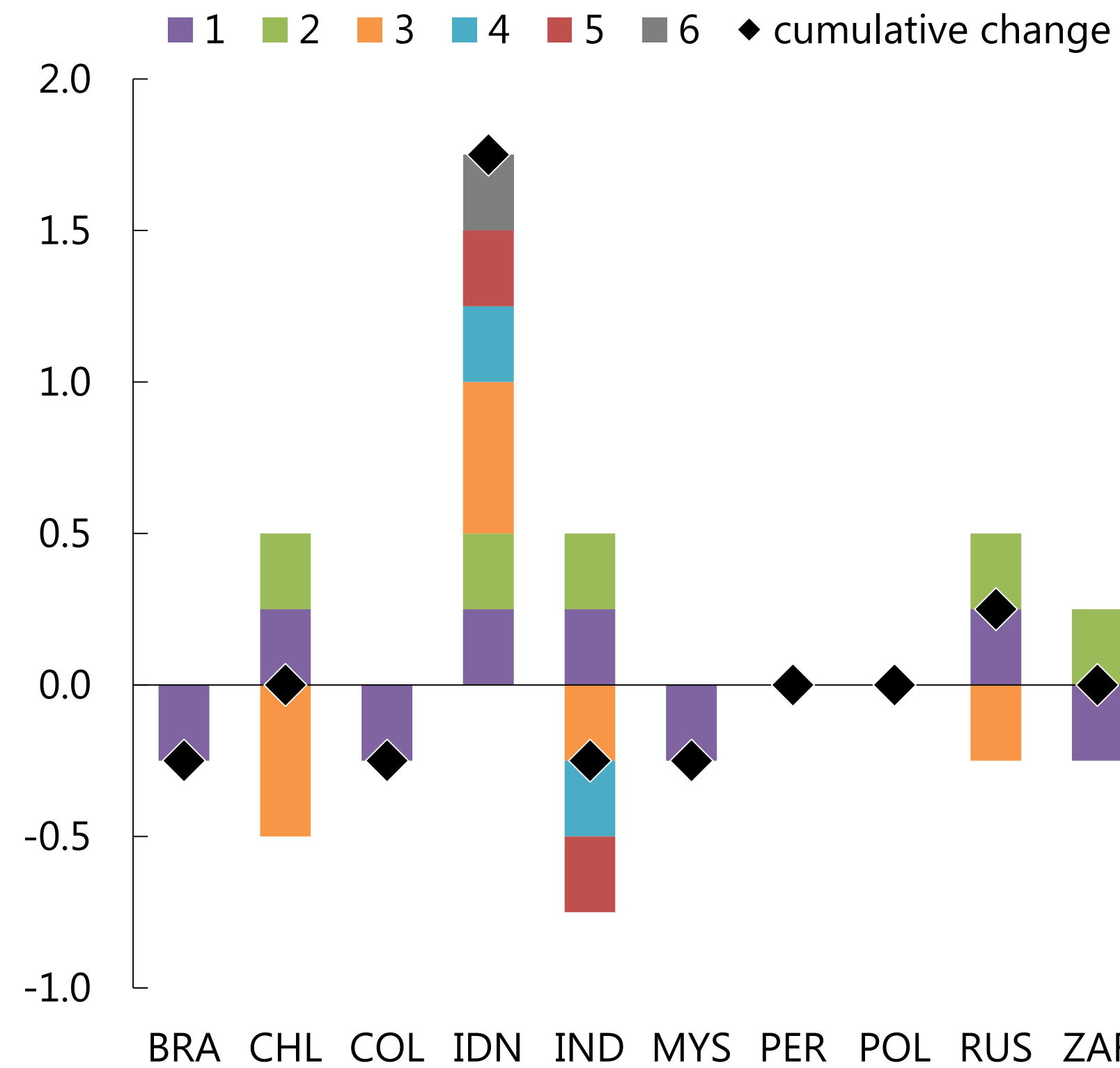
(number of measures)



## Outflow Episode

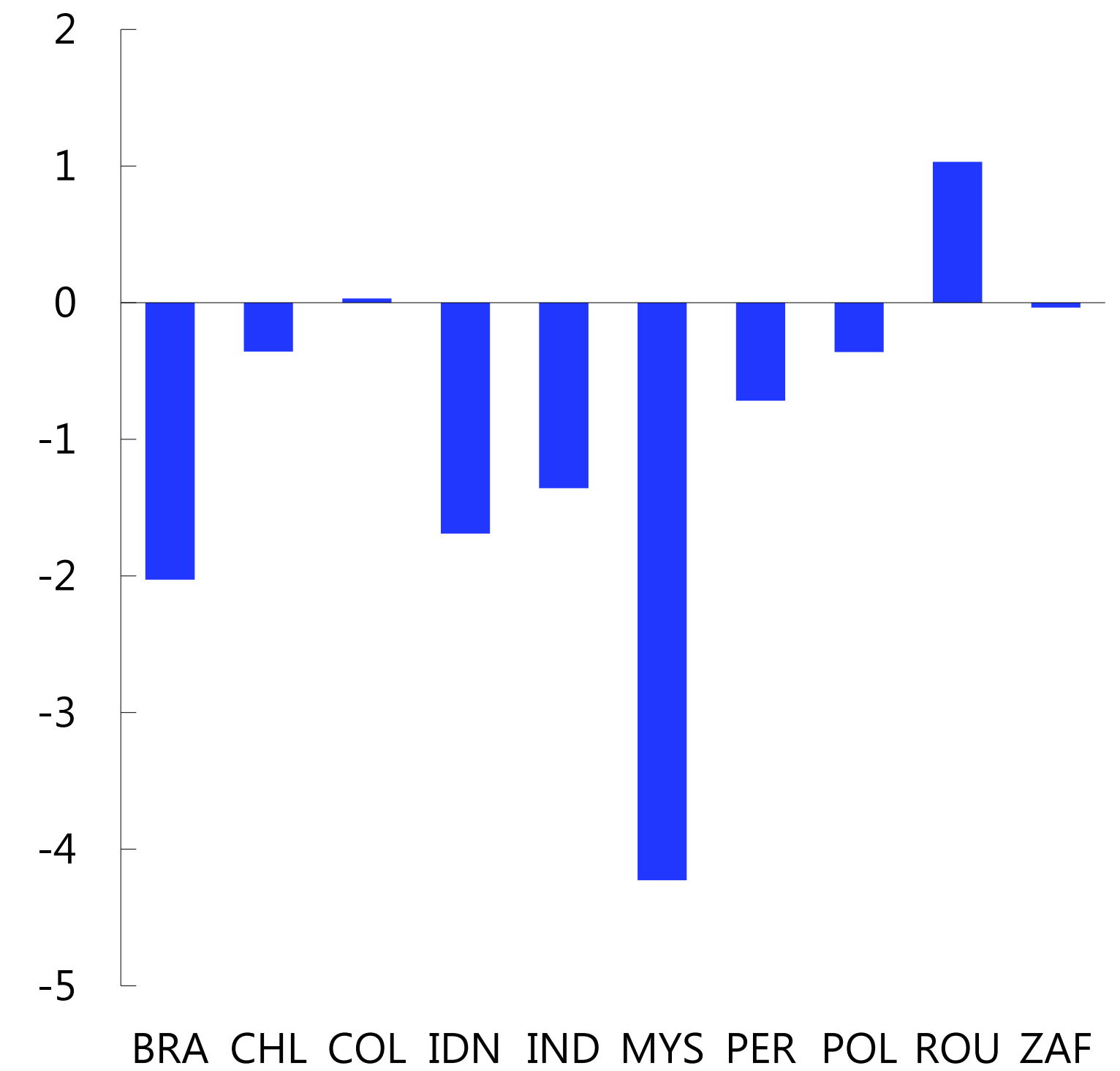
### Policy rates changes since March 2018

(percentage points)



### Foreign exchange intervention, March-October 2018

(cumulative; percent of GDP)



Sources: Alam and Others (2019); Haver Analytics; Bloomberg, L.P.; IMF, Balance of Payments; and IMF staff estimates.

# Some Policy trade-offs

**Monetary policy/flexible exchange rates**

**Benefits**

Expenditure switching but weaker under DCP

**Costs**

Negative balance sheet effect and risk of binding borrowing constraint in case of depreciation

**Capital controls**

**Benefits**

Prevent overborrowing and alter debt/consumption profiles

**Costs**

Distort capital flows

**FX intervention**

**Benefits**

Can free up monetary policy by affecting the exchange rate separately

**Costs**

Carry cost

- Not all instruments affect all imperfections
- Instruments interact in complex ways

- More tools = more difficult to communicate
- Clear communication is key in safeguarding efficacy and credibility of monetary policy

# Modeling the Integrated Policy Framework

## Shocks

- Real: Productivity, Commodity price
- Financial: World interest rate, Debt limit, Capital flows

## Country Characteristics

- Currency of trade invoicing
- Commodity export share
- Financial frictions

## Policy Options

- Monetary policy/Exchange rate flexibility
- FX intervention
- Macroprudential policy
- CFMs