Policy Panel Discussion at the BOJ International Conference on “Future of Central Banking under Globalization”

May 27, 2010
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Bank of Japan
Overview

1. Changes in global capital flows

2. Designing financial infrastructure to ensure financial stability

3. Implications for future central banking
1. Changes in global capital flows

(1) Ratio of banks’ foreign claims to global GDP

Note: Foreign claims comprise cross-border claims and local claims in foreign currencies. Interoffice accounts are excluded.

Sources: Bank for International Settlements, "Locational International Banking Statistics"; International Monetary Fund, "WEO Database."
1. Changes in global capital flows

(2) Net external claims through international banking system

Note: The width of each arrow indicates the net amount.
1. Changes in global capital flows

(3) Banks’ net foreign claims by currency

1. Changes in global capital flows

(4) Banks' net foreign U.S. dollar claims by nationality

<table>
<thead>
<tr>
<th>Year</th>
<th>U.S. banks</th>
<th>European banks</th>
<th>Japanese banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>95</td>
<td>-1.2 trl</td>
<td>-0.2 trl</td>
<td>-0.15 trl</td>
</tr>
<tr>
<td>97</td>
<td>-1.0 trl</td>
<td>0.0 trl</td>
<td>0.15 trl</td>
</tr>
<tr>
<td>99</td>
<td>-0.8 trl</td>
<td>0.2 trl</td>
<td>0.35 trl</td>
</tr>
<tr>
<td>01</td>
<td>-0.6 trl</td>
<td>0.4 trl</td>
<td>0.55 trl</td>
</tr>
<tr>
<td>03</td>
<td>-0.4 trl</td>
<td>0.6 trl</td>
<td>0.75 trl</td>
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<tr>
<td>05</td>
<td>-0.2 trl</td>
<td>0.8 trl</td>
<td>0.95 trl</td>
</tr>
<tr>
<td>07</td>
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<td>1.0 trl</td>
<td>1.15 trl</td>
</tr>
<tr>
<td>09</td>
<td>0.2 trl</td>
<td>1.2 trl</td>
<td>1.35 trl</td>
</tr>
</tbody>
</table>

USD trillions


2. Designing financial infrastructure to ensure financial stability

(1) Framework of U.S. dollar funds-supplying operations

* USD funds supplied against pooled collateral posted by financial institutions to the Bank of Japan
2. Designing financial infrastructure to ensure financial stability

(1-2) Recent results of U.S. dollar funds-supplying operations conducted by central banks

(a) 1 week

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Amounts of bid ($ bil.)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BOJ</td>
<td>ECB</td>
</tr>
<tr>
<td>May 11</td>
<td>-----</td>
<td>9.2</td>
</tr>
<tr>
<td>May 19</td>
<td>-----</td>
<td>0</td>
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</table>

(b) 3 months

<table>
<thead>
<tr>
<th>Auction Date</th>
<th>Amounts of bid ($ bil.)</th>
<th>Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BOJ</td>
<td>ECB</td>
</tr>
<tr>
<td>May 18</td>
<td>0.2</td>
<td>1.0</td>
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</tbody>
</table>
2. Designing financial infrastructure to ensure financial stability

(2) Wider LLR role of central banks

- Federal Reserve
- Bank of New York
- Japanese banks’ overseas branches
- Japanese banks
- Bank of Japan
- FX swap market

Overseas | Japan
2. Designing financial infrastructure to ensure financial stability

(3) Framework of cross-border collateral arrangements

- CSD: Central Securities Depository (FRBNY, Euroclear UK & I etc.)
- Custodian
  - Counterparty's account
  - Overseas central bank account
  - BOJ account

(1) Overseas
(2) Japan
(3) Japan
(4) Japan
(5) Japan

* JPY funds supplied against pooled collateral including cross-border collateral
2. Designing financial infrastructure to ensure financial stability

(3-2) Eligibility of cross-border collateral (foreign government bonds) among G10 central banks

(As of May 2010)

<table>
<thead>
<tr>
<th>Government Bonds</th>
<th>Eurosystenm</th>
<th>FRB</th>
<th>BOE</th>
<th>SNB</th>
<th>BOC</th>
<th>Riksbank</th>
<th>BOJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>Euro area Gov. Bonds</td>
<td>--</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>×</td>
<td>○</td>
<td>△ France, Germany</td>
</tr>
<tr>
<td>US Gov. Bonds</td>
<td>×</td>
<td>--</td>
<td>△</td>
<td>○</td>
<td>○</td>
<td>○</td>
<td>△</td>
</tr>
<tr>
<td>UK Gov. Bonds</td>
<td>×</td>
<td>○</td>
<td>--</td>
<td>○</td>
<td>×</td>
<td>○</td>
<td>△</td>
</tr>
<tr>
<td>Swiss Gov. Bonds</td>
<td>×</td>
<td>○</td>
<td>△</td>
<td>--</td>
<td>×</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Canadian Gov. Bonds</td>
<td>×</td>
<td>○</td>
<td>△</td>
<td>×</td>
<td>--</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Swedish Gov. Bonds</td>
<td>×</td>
<td>○</td>
<td>△</td>
<td>○</td>
<td>×</td>
<td>--</td>
<td>×</td>
</tr>
<tr>
<td>JGB</td>
<td>×</td>
<td>○</td>
<td>△</td>
<td>×</td>
<td>×</td>
<td>○</td>
<td>--</td>
</tr>
</tbody>
</table>

○: permanently eligible, △: temporary eligible, ×: not eligible
3. Implications for future central banking

1. Macro-prudential perspective

2. Financial infrastructure

3. “Lender of Last Resort” function
Appendix

Sovereign risk in Europe
Sovereign risk in Europe

(1) Europe’s sovereign CDS spreads
Sovereign risk in Europe

(2) Europe’s government bond yields (10 years)

(spreads from German government bond yields, bps)

Source: Bloomberg.