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New Economic Thinking

Too Much Debt, Financial System Stability and Wider Economic Impacts

16th Annual Chicago Federal Reserve Bank International Banking Conference: *Shadow Banking Within and Across National Borders*

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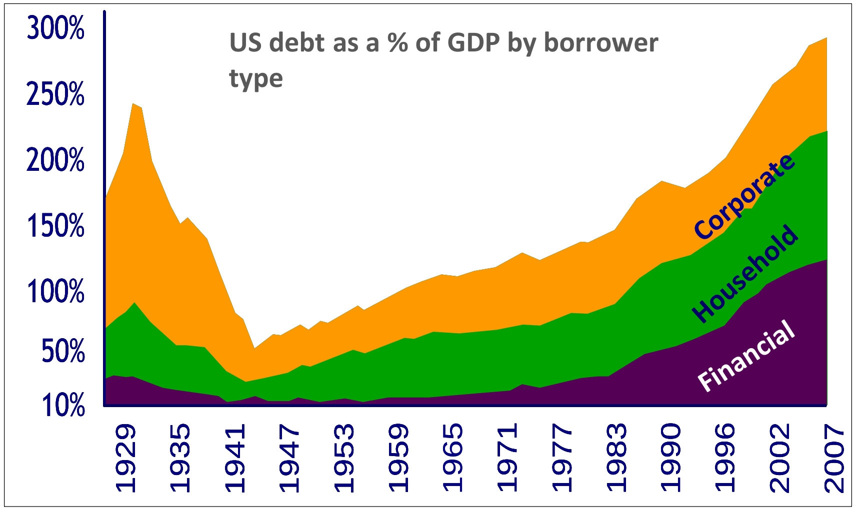
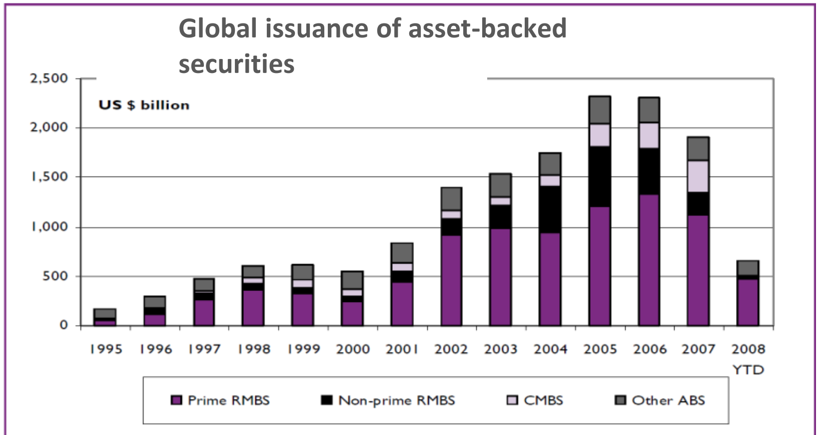
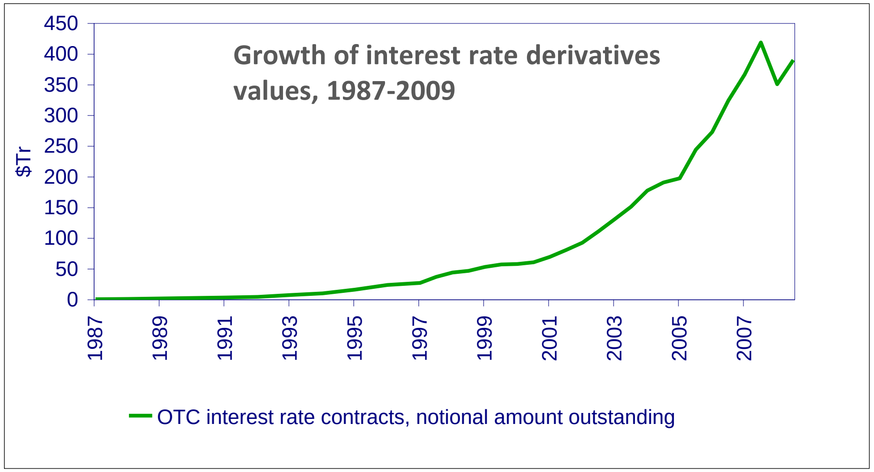
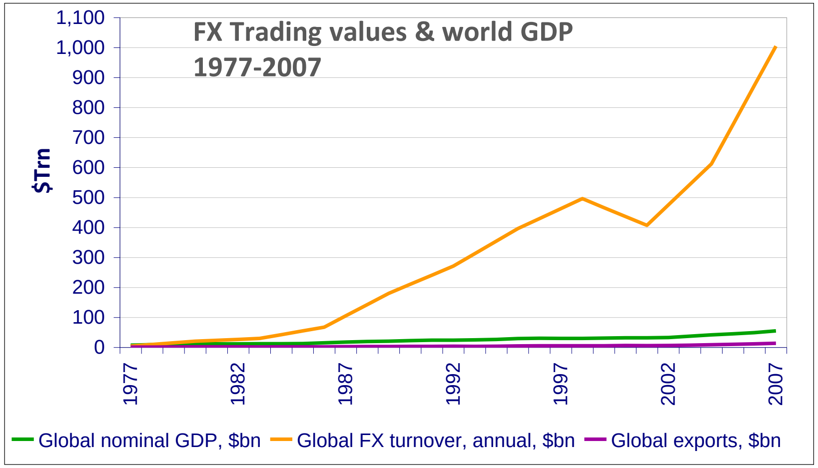
Measures of increasing financial intensity



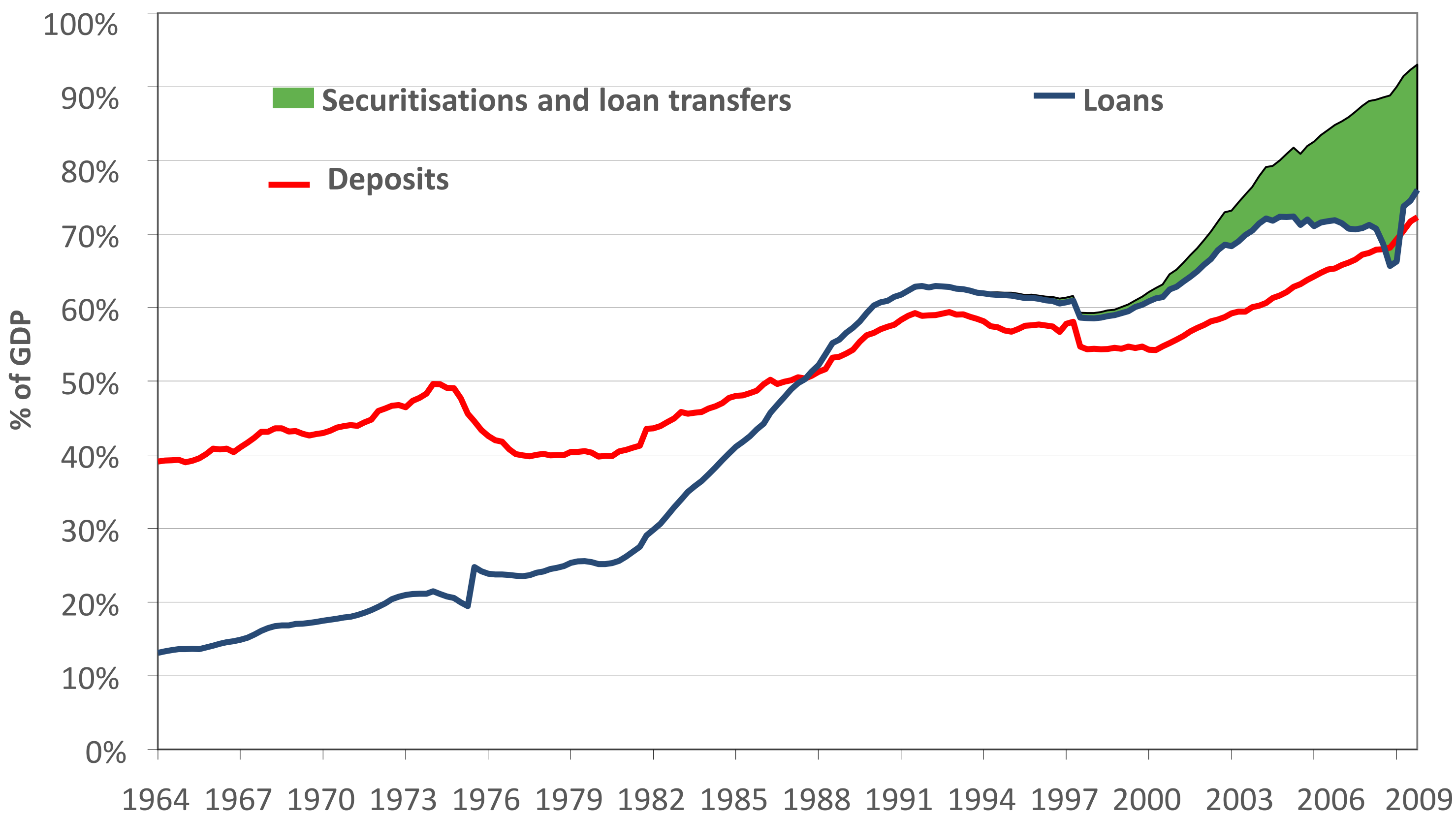


Notes: Public issuance only. Full-year issuance, except for 2008 which is up to and including September 2008. 'Other ABS' includes Auto, Credit Card and Student Loan ABS.
Source: Bank of England





Household deposits and loans:
1964 – 2009



Source: Bank of England, Tables A4.3, A4.1

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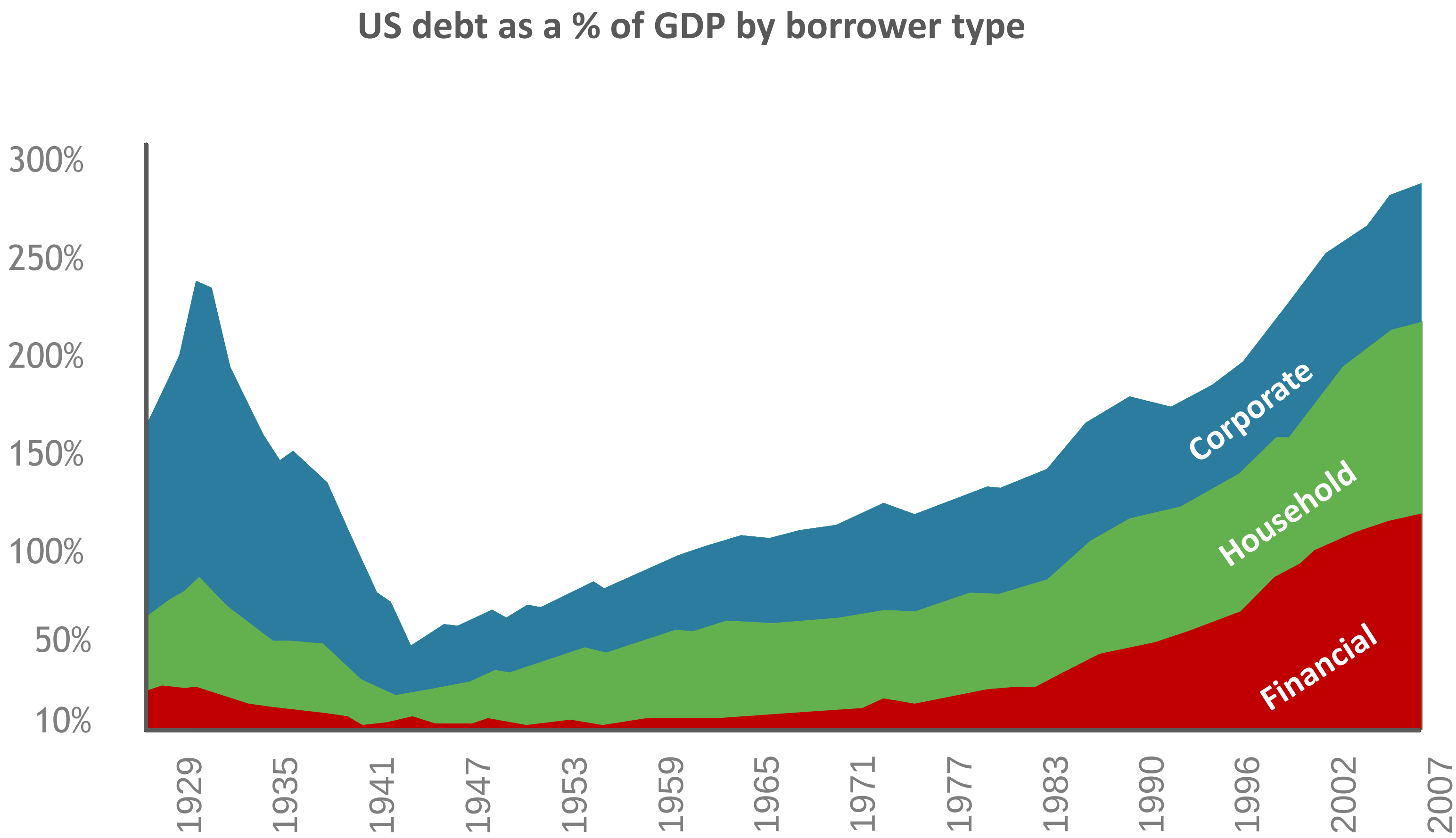
Measures of increasing financial intensity



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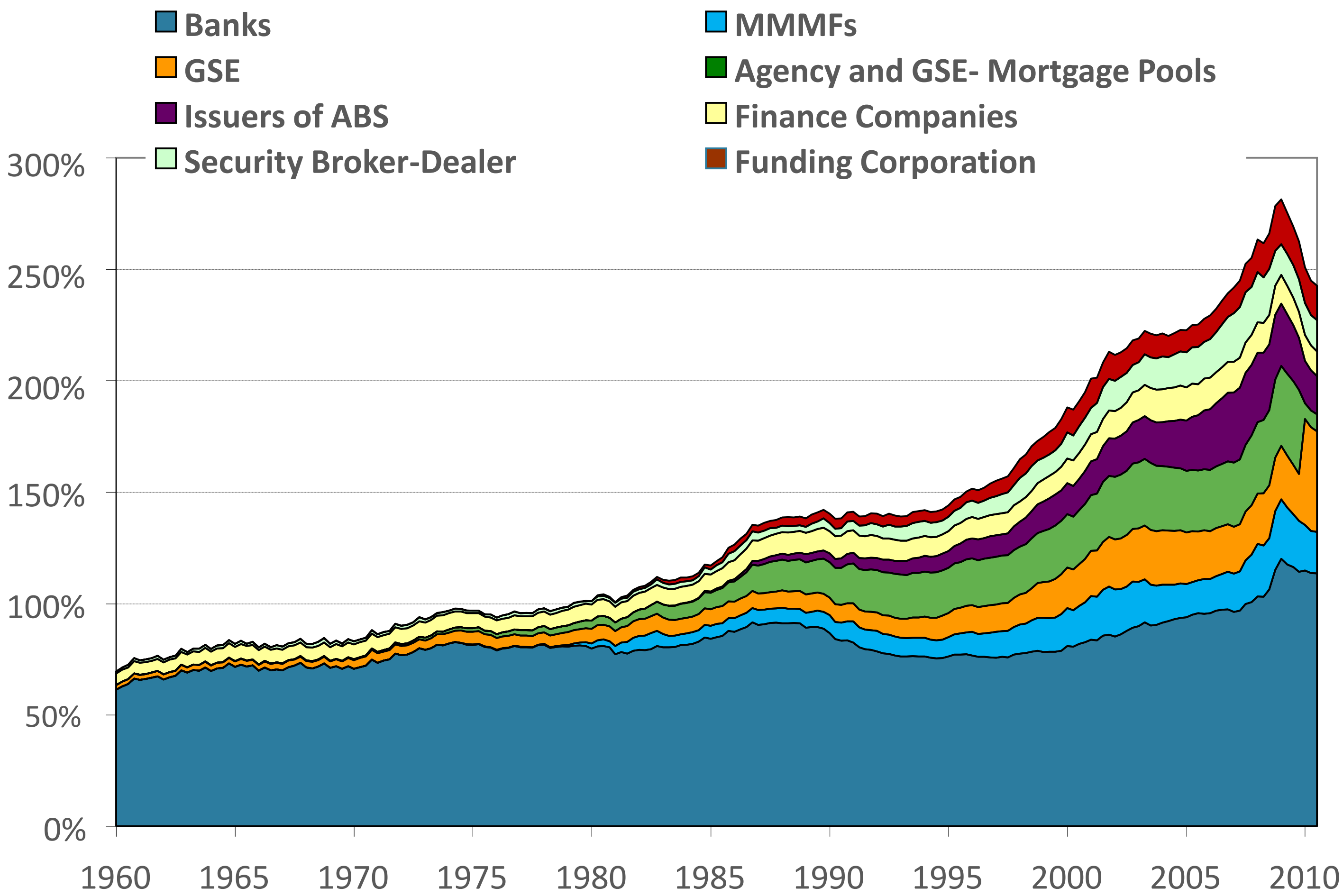
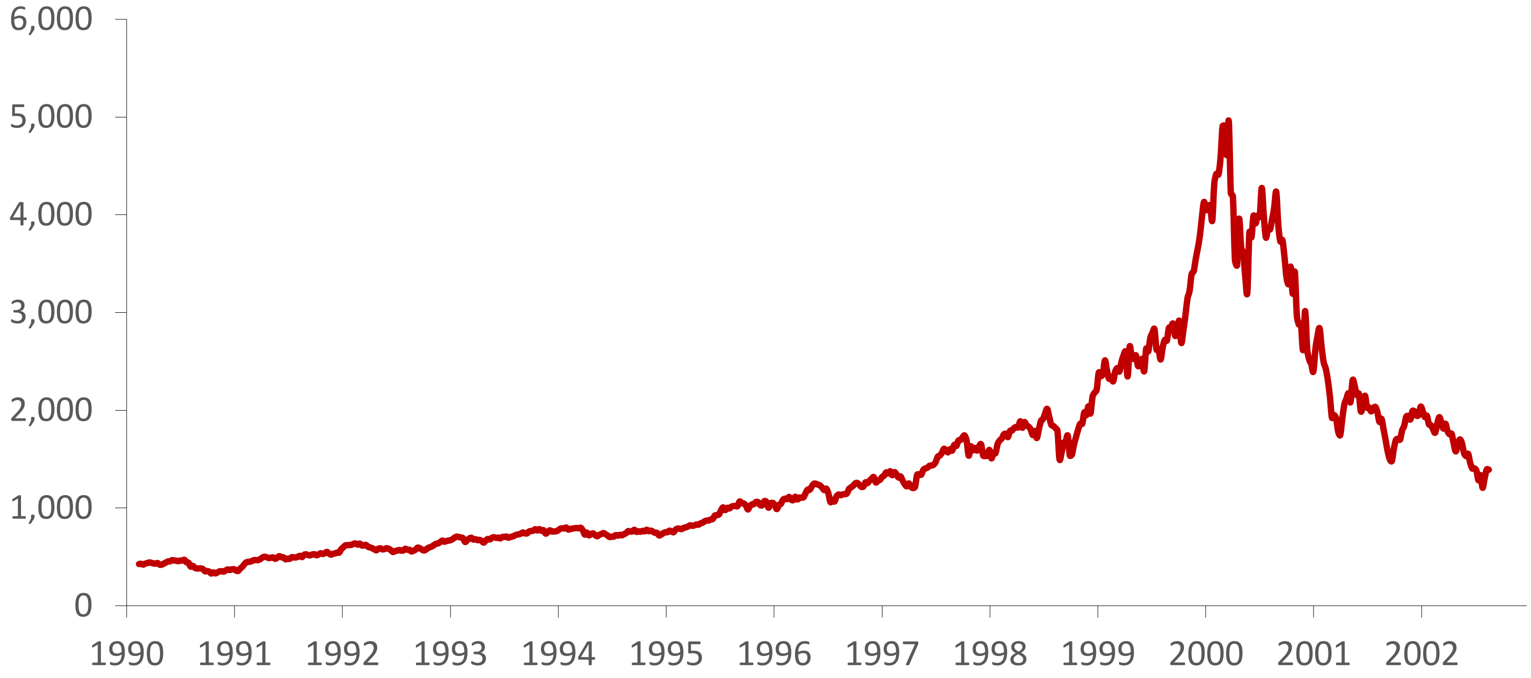
US financial sector assets



NASDAQ index 1990 – 2003

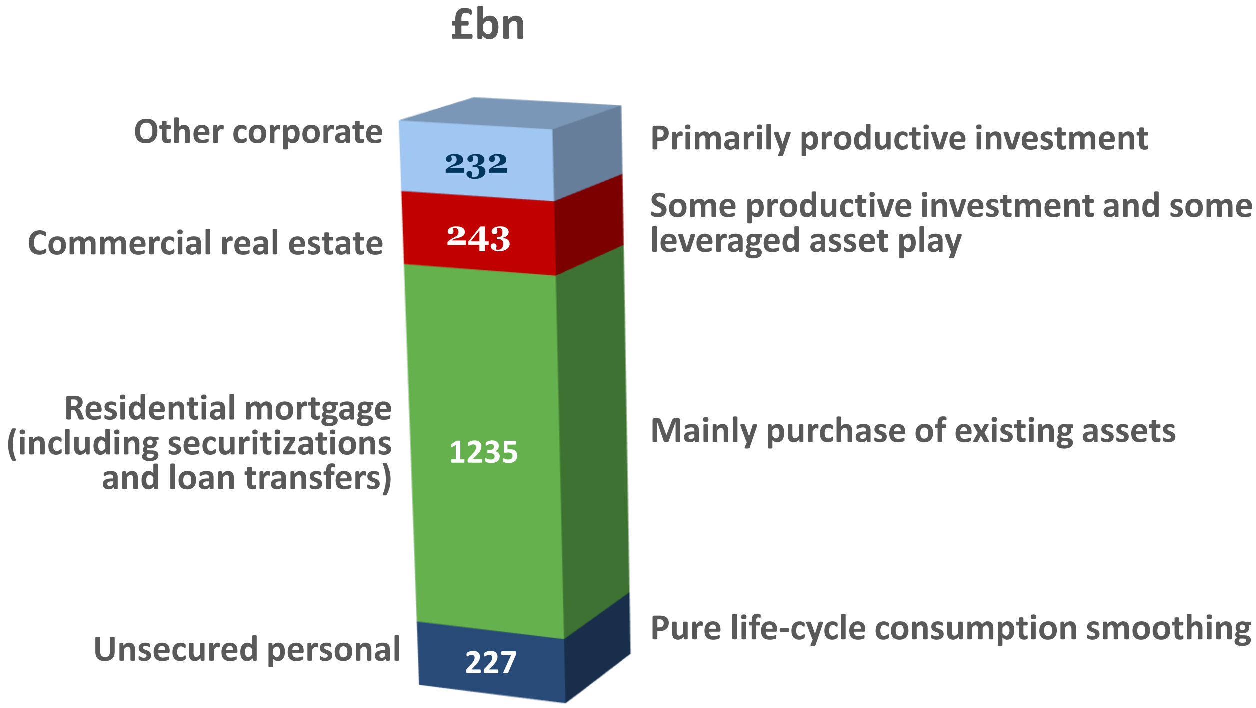


Source: Datastream

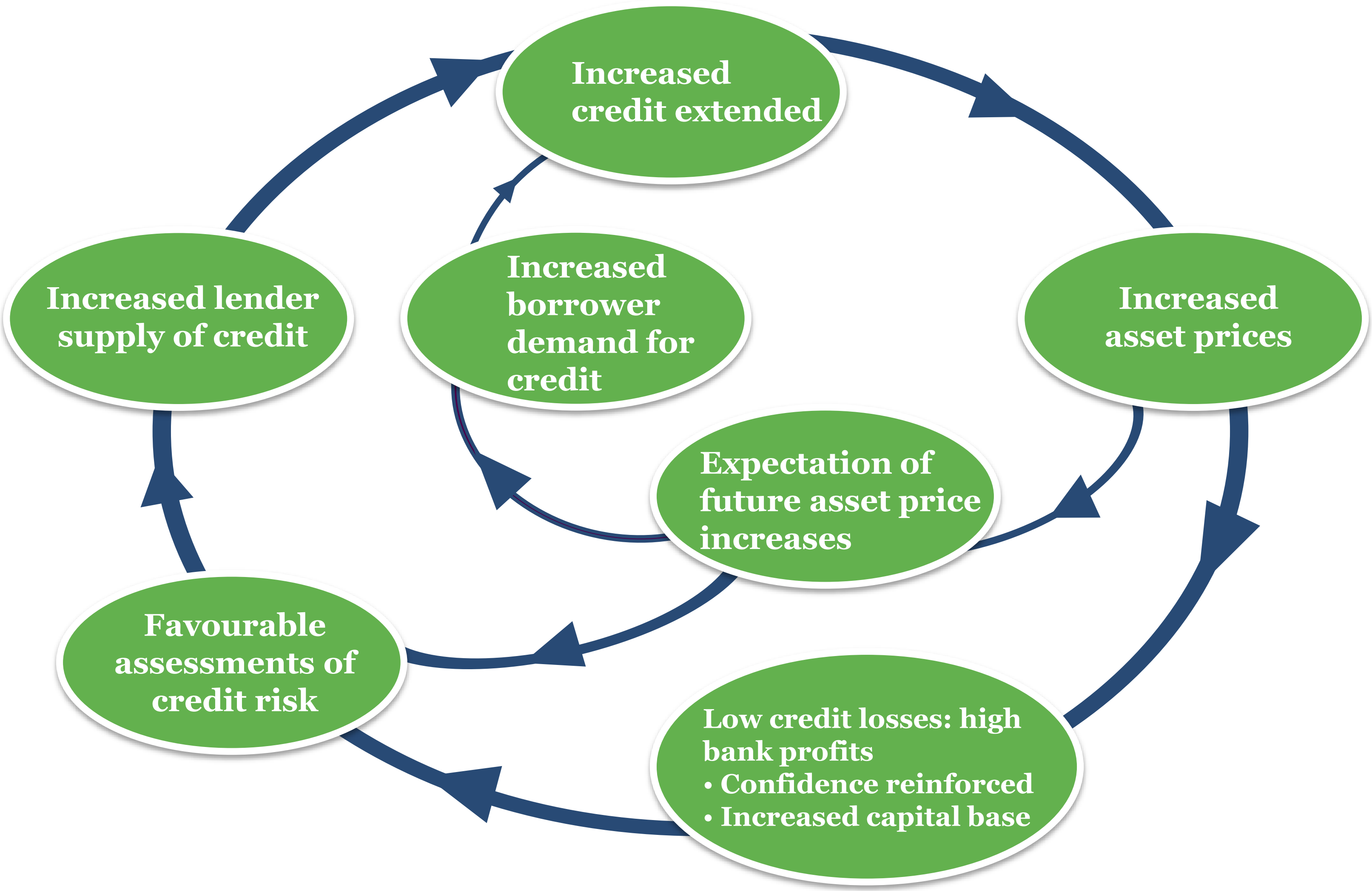
Categories of credit

Loans to businesses / "entrepreneurs"	… to finance real investment projects
Loans to businesses / speculators / investors	… to finance purchase of existing assets
Mortgage loans to households	… to finance residential houses
Loans to "impatient" / temporarily cash limited / poorer households	… to bring forward consumption

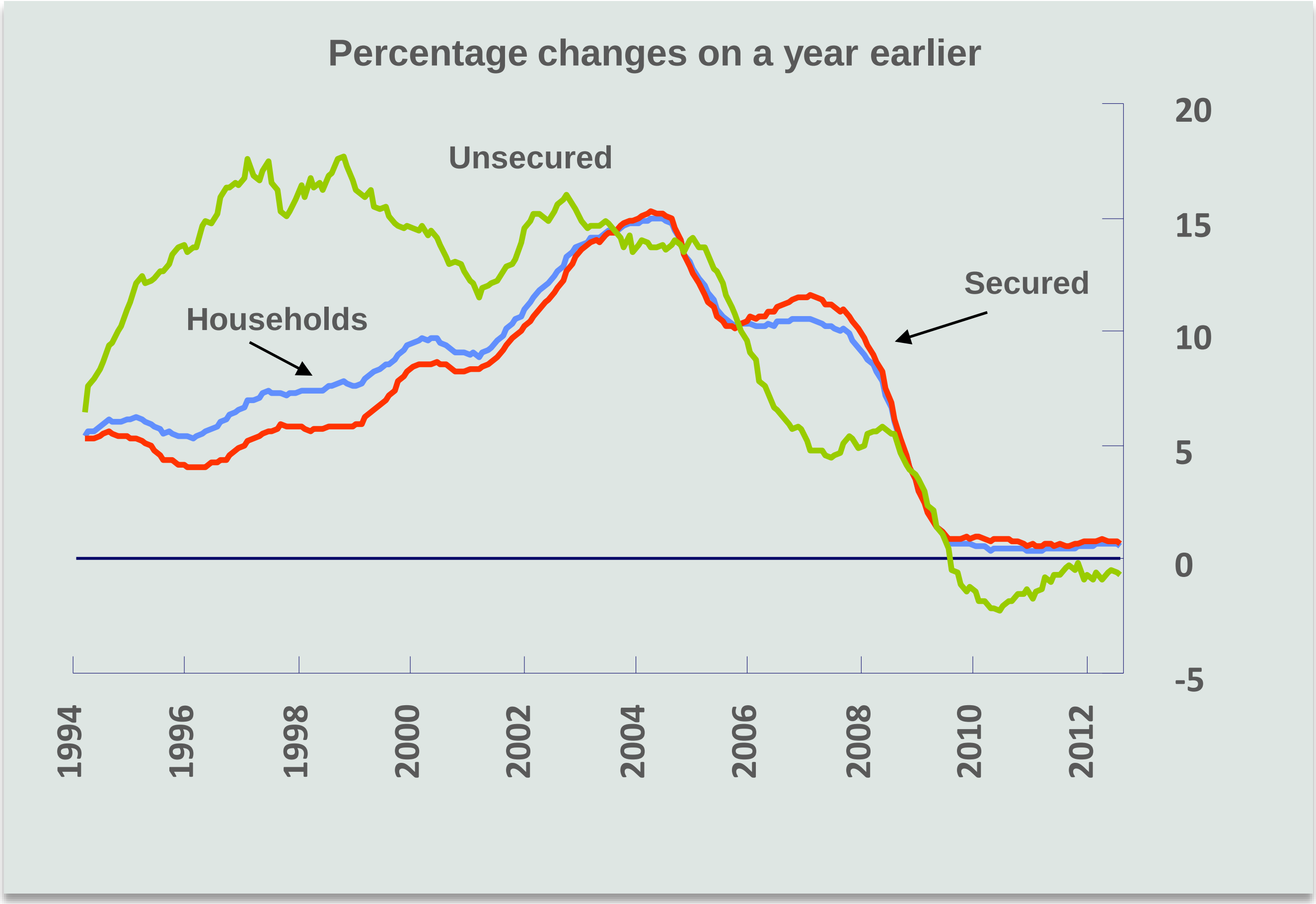
Categories of debt: UK, 2009



Credit and asset price cycles

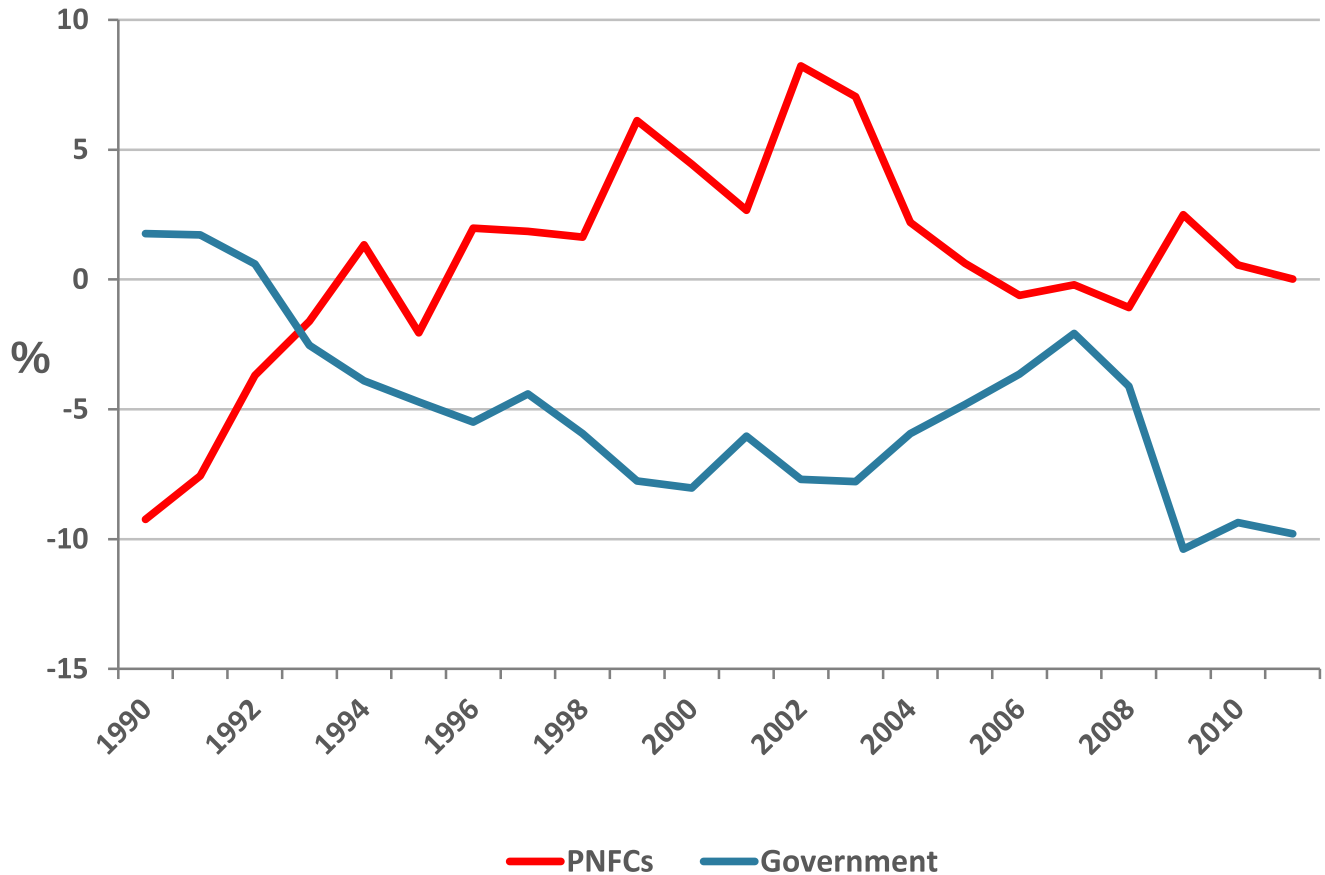


Lending to UK households



Source: Bank of England "Trends in Lending"

Sectoral financial surpluses/deficits as % of GDP: Japan 1990 – 2012



Source: IMF, Bank of Japan Flow of Funds Accounts

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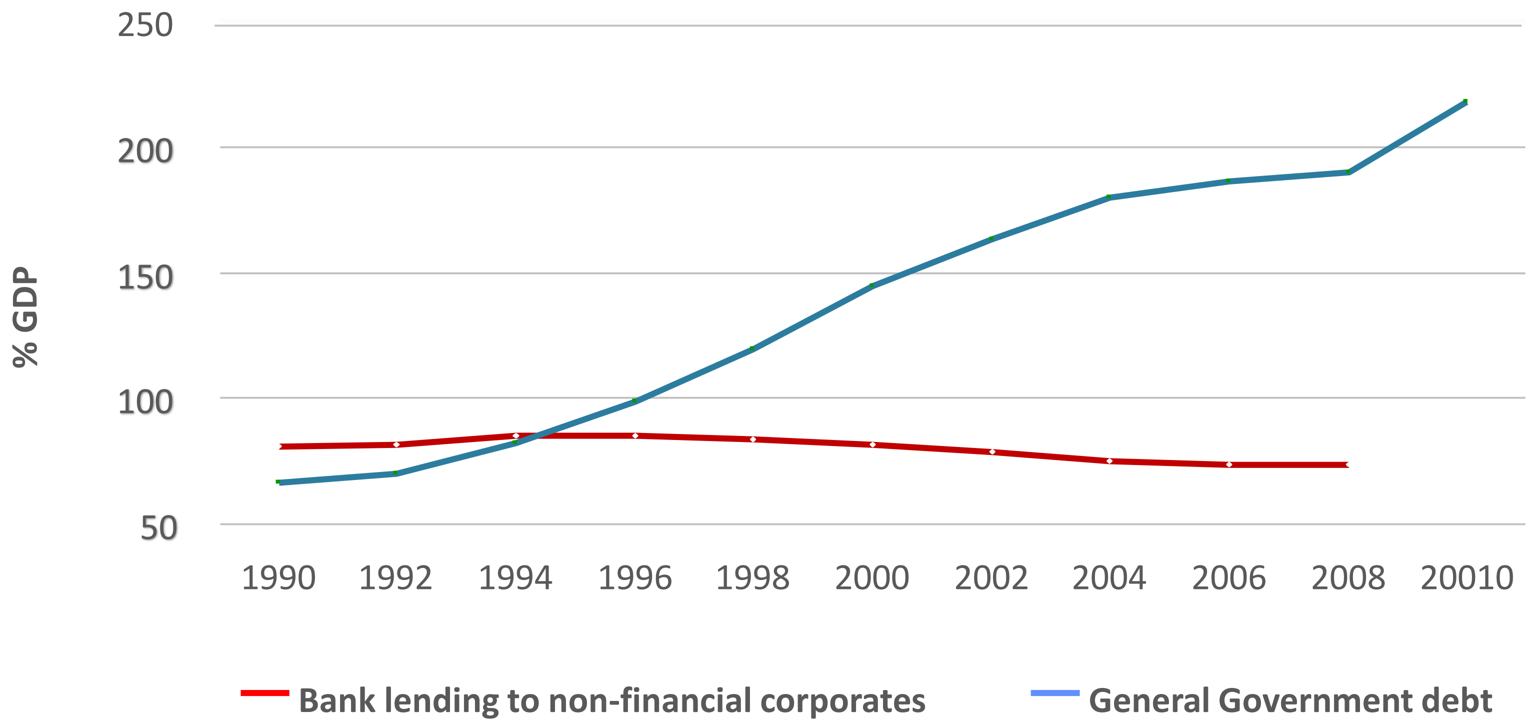
Japanese government and corporate debt: 1990 – 2010



Source: BoJ Flow of Funds Accounts, IMF WEO database (April 2011), FSA calculations

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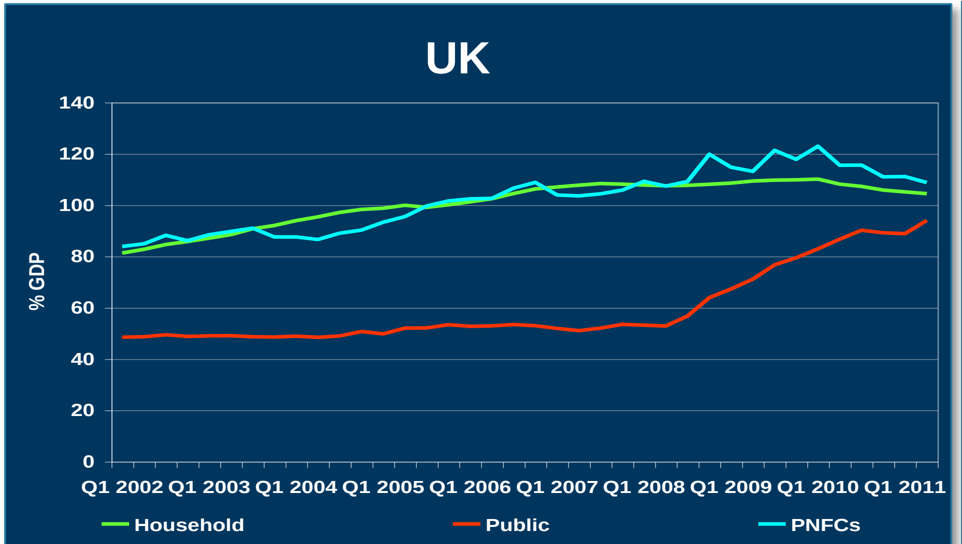
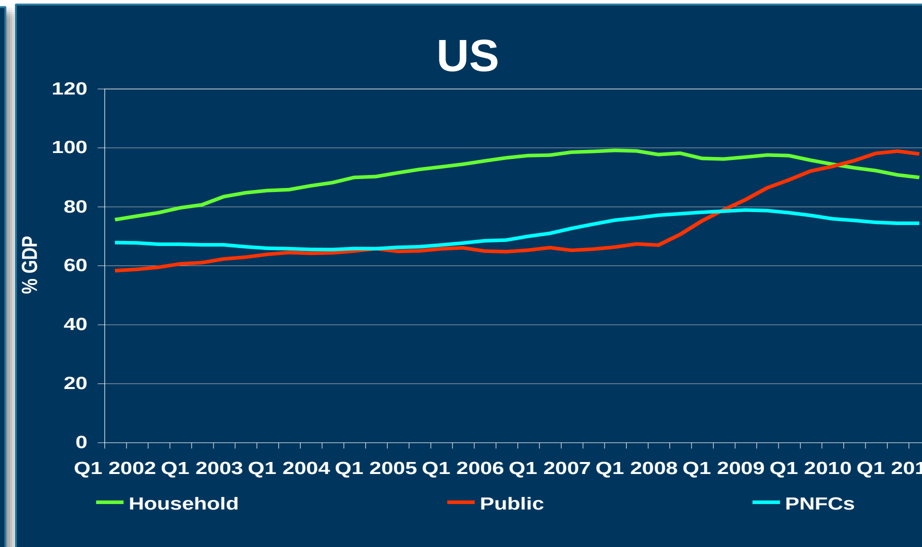
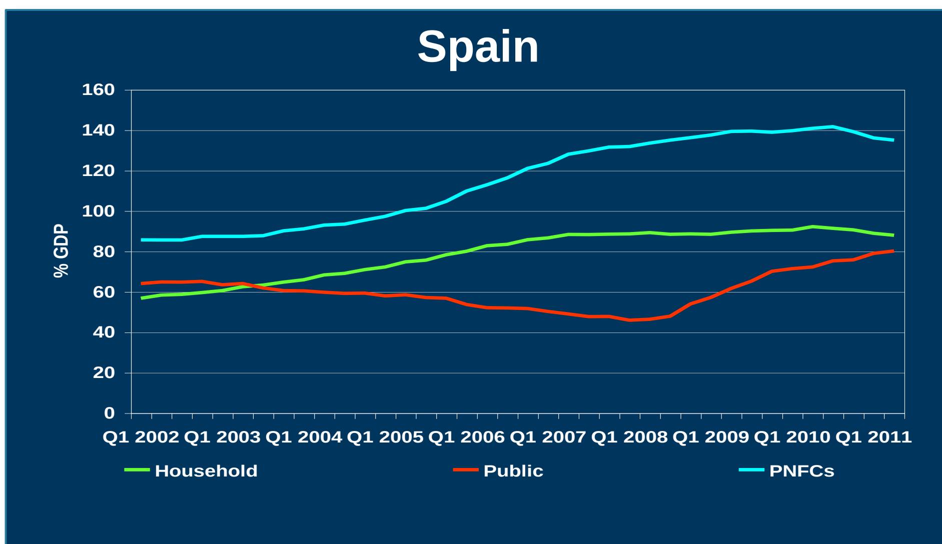
Shifting leverage: private and public debt-to-GDP



Source*:* ONS Note: PNFC = private, non-financial corporates; Public = central and local government



Source: BEA Note: PNFC = private, non-financial businesses; Public = federal, state and local government



Source: ECB Note: PNFC = private, non-financial corporates; Public = central and local government

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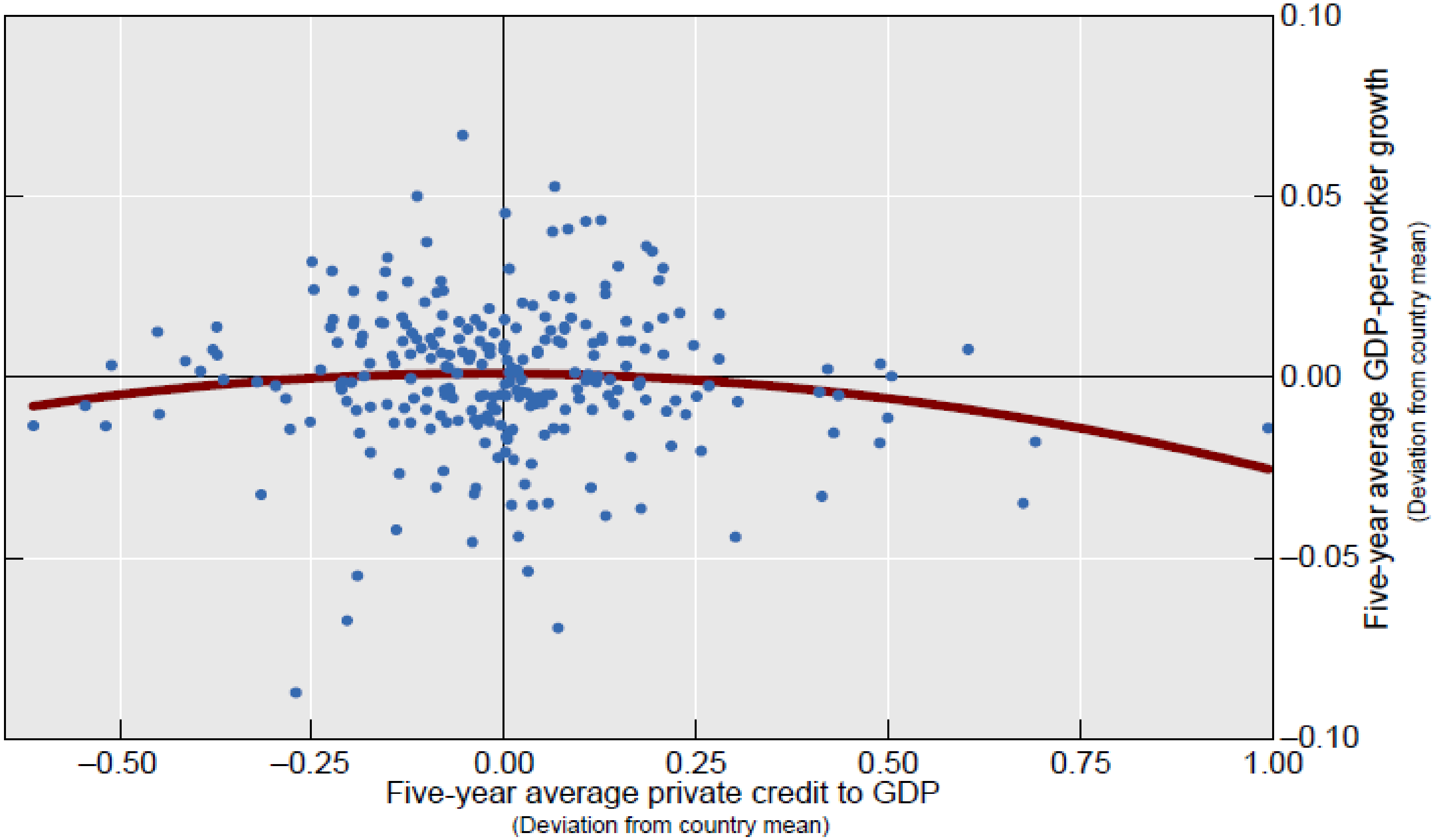
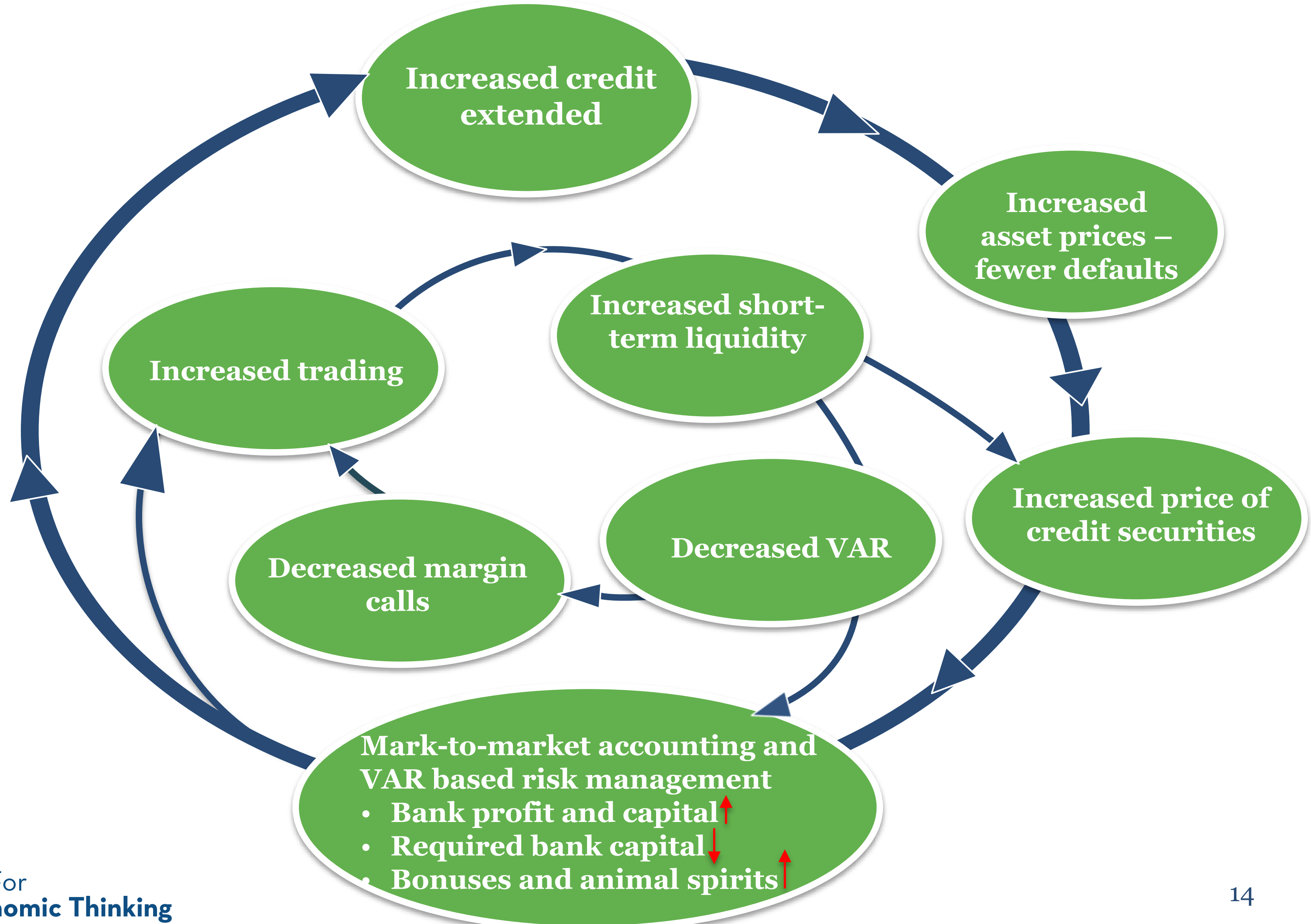
Private credit to GDP and growth

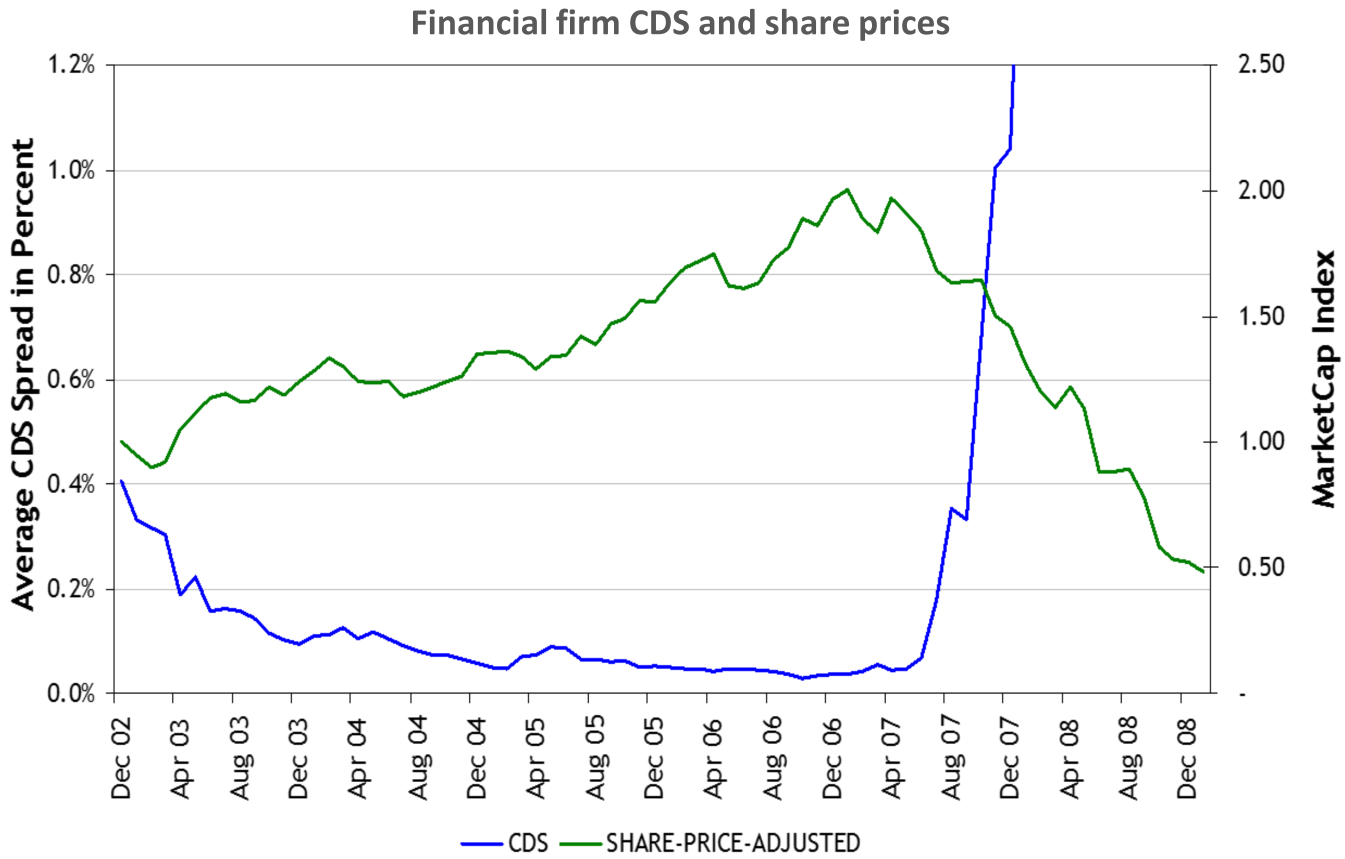


Source: *S. Cecchetti and E. Kharroubi, BIS Working Paper No. 381 "Reassessing the impact of finance and growth"*

Credit and asset prices: with securitised credit and mark-to-market accounting

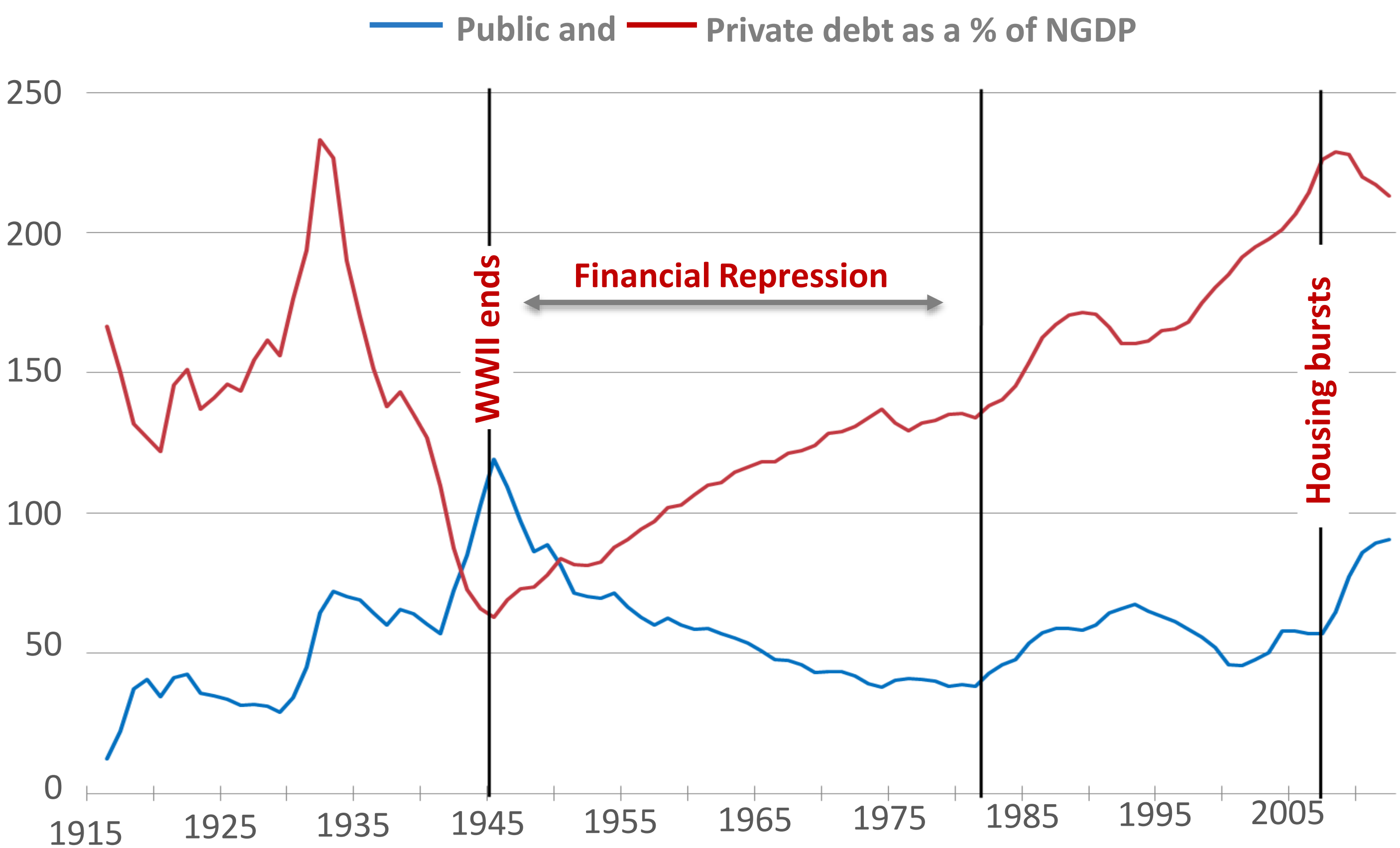


Irrational exuberance in equity and debt markets



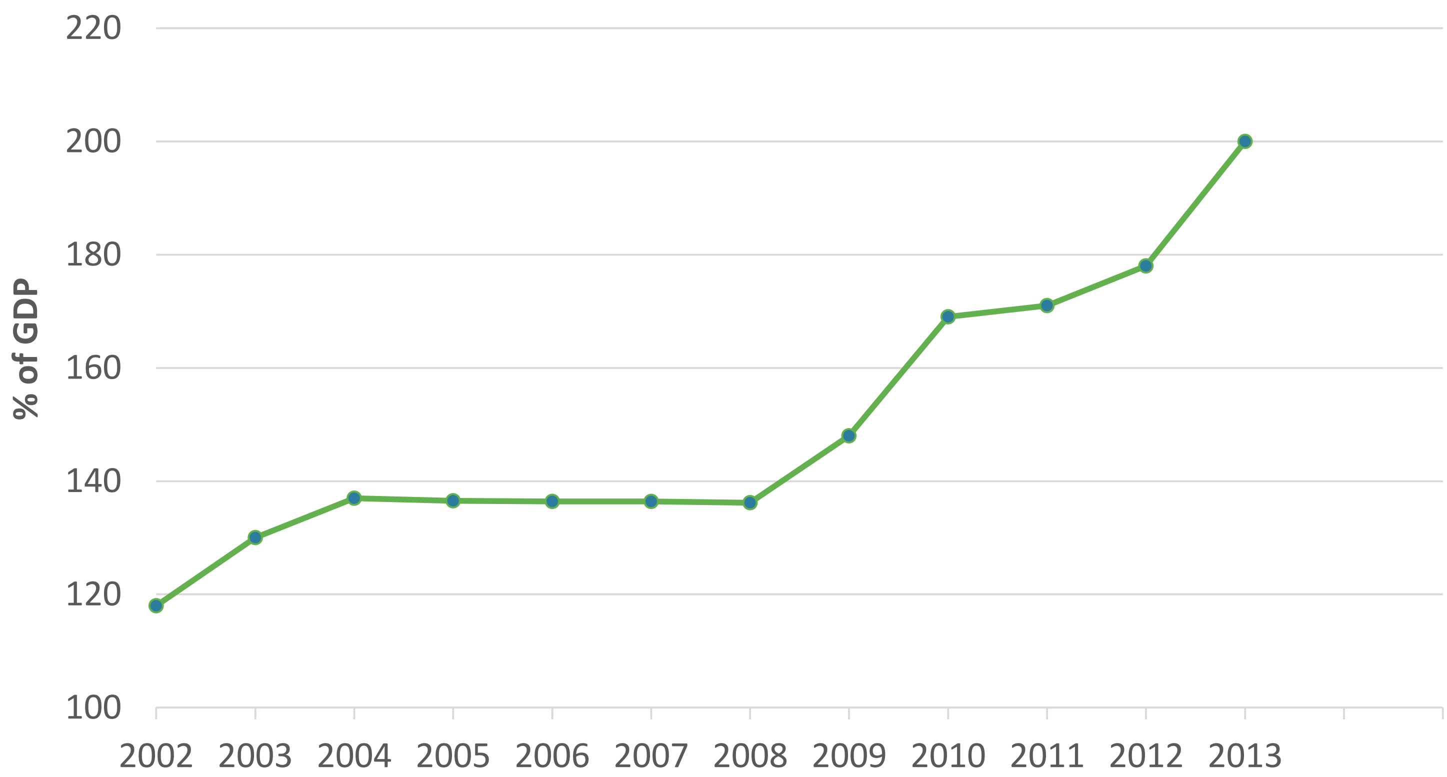
Source: *Moody's KMV, FSA Calculations*

Private and public leverage cycles: US

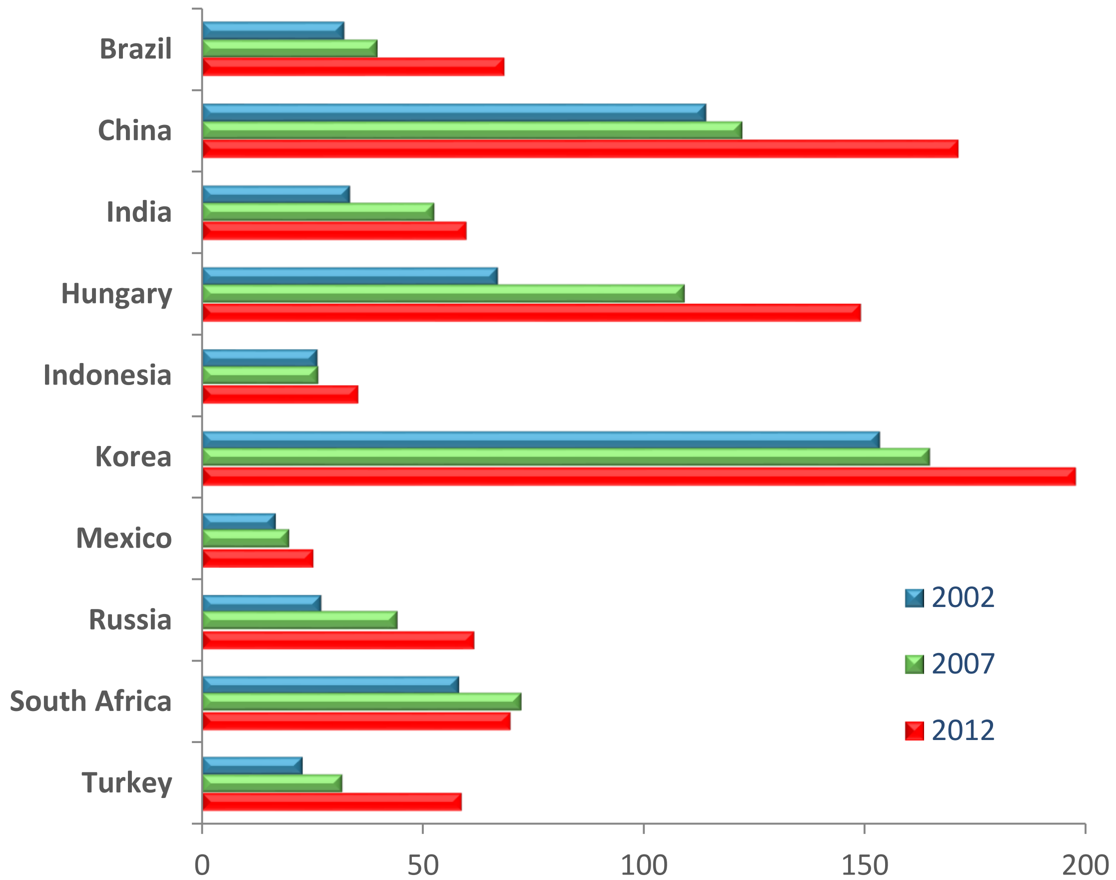


Source: *McCulley and Pozsar*

China: total social finance to GDP



Non-financial private sector* credit outstanding, % GDP



Source: BIS, Citi Research
*Households + corporates

Leaning against credit cycles: monetary or macro-prudential levers?

	Monetary policy – interest raises	Macro-Prudential levers
Pros	• Gets into all the cracks	• Can address specific credit categories
Cons	• Elasticity of response variable by category of credit	• Will stimulate innovation to avoid