



EUROPEAN CENTRAL BANK

# **Globalisation, inflation, imbalances and monetary policy**

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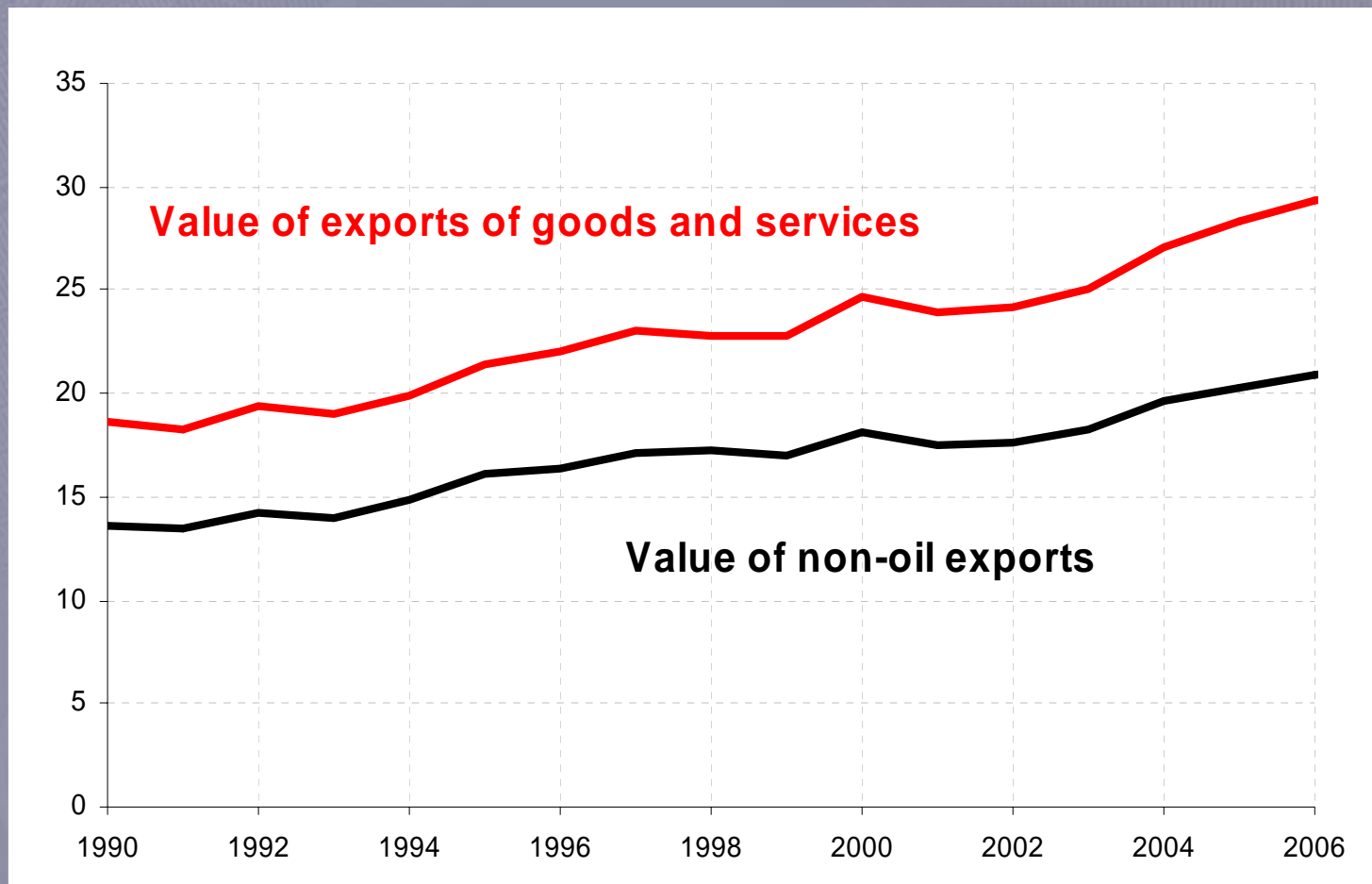
St Louis, 25 May 2006

# Outline

1. Introduction
2. The process and pace of globalisation
3. Globalisation and inflation dynamics
4. Globalisation and global imbalances
5. Multilateral strategy for addressing global imbalances
6. The contribution of Europe's economic policy
7. The role and conduct of monetary policy

# The increasing pace of globalisation: Exports relative to GDP

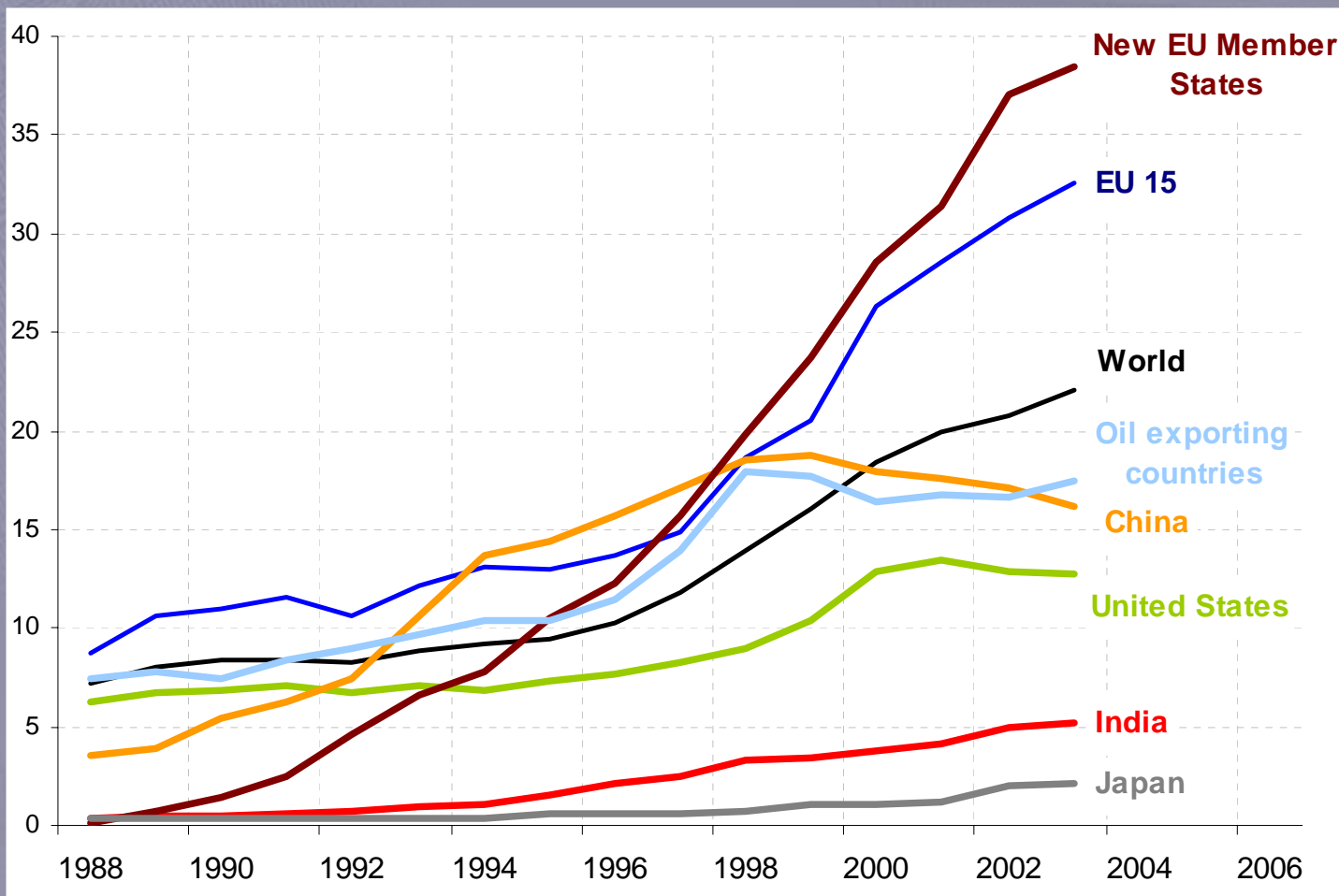
## World exports as a percentage of world GDP



Source: IMF, World Economic Outlook, April 2006. Note: figures beyond 2005 are WEO forecasts

# The increasing pace of globalisation: Foreign Direct Investment (FDI) relative to GDP

Inward FDI stocks (percent of GDP)

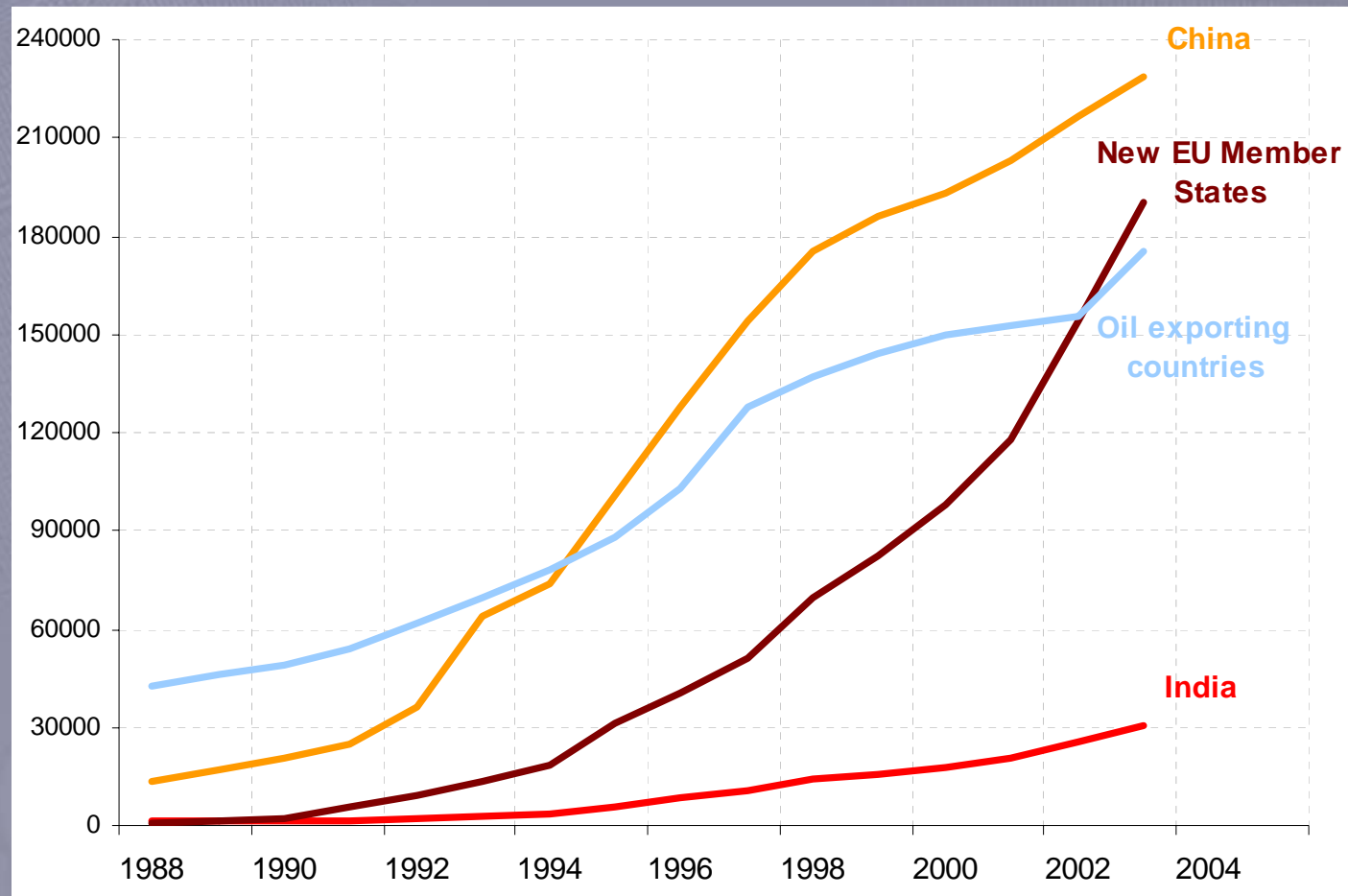


Source: UNCTAD

Note: Last figures relate to 2003

# FDI stocks in millions of US dollars for selected areas

Inward FDI stocks (in millions of US dollars)



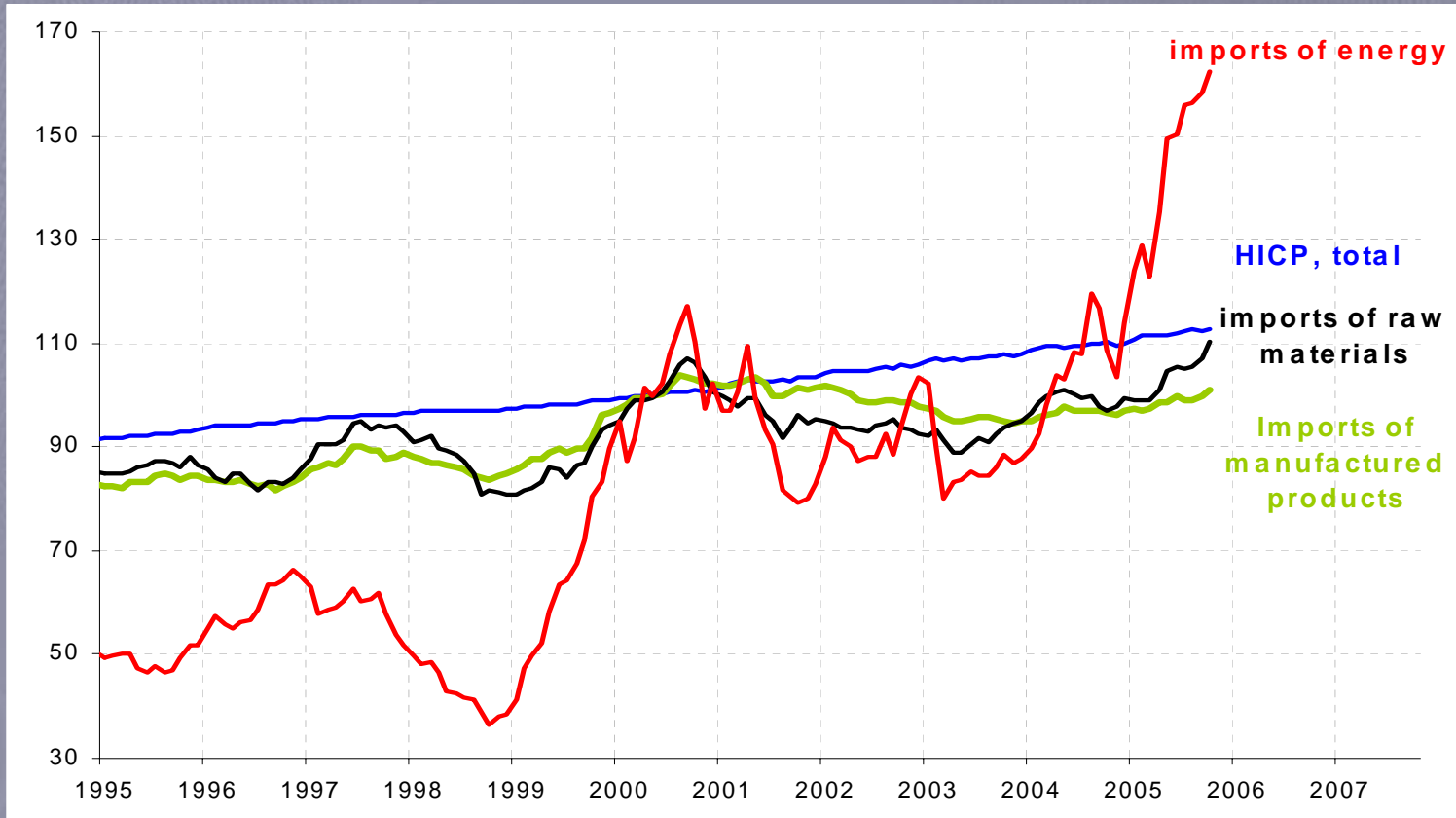
Source: UNCTAD

Note: Last figures relate to 2003

# Consumer prices and import prices in the euro area: dynamics and trends

## Euro area import unit value indices for selected commodities

(Indices: 2000=100; monthly data)

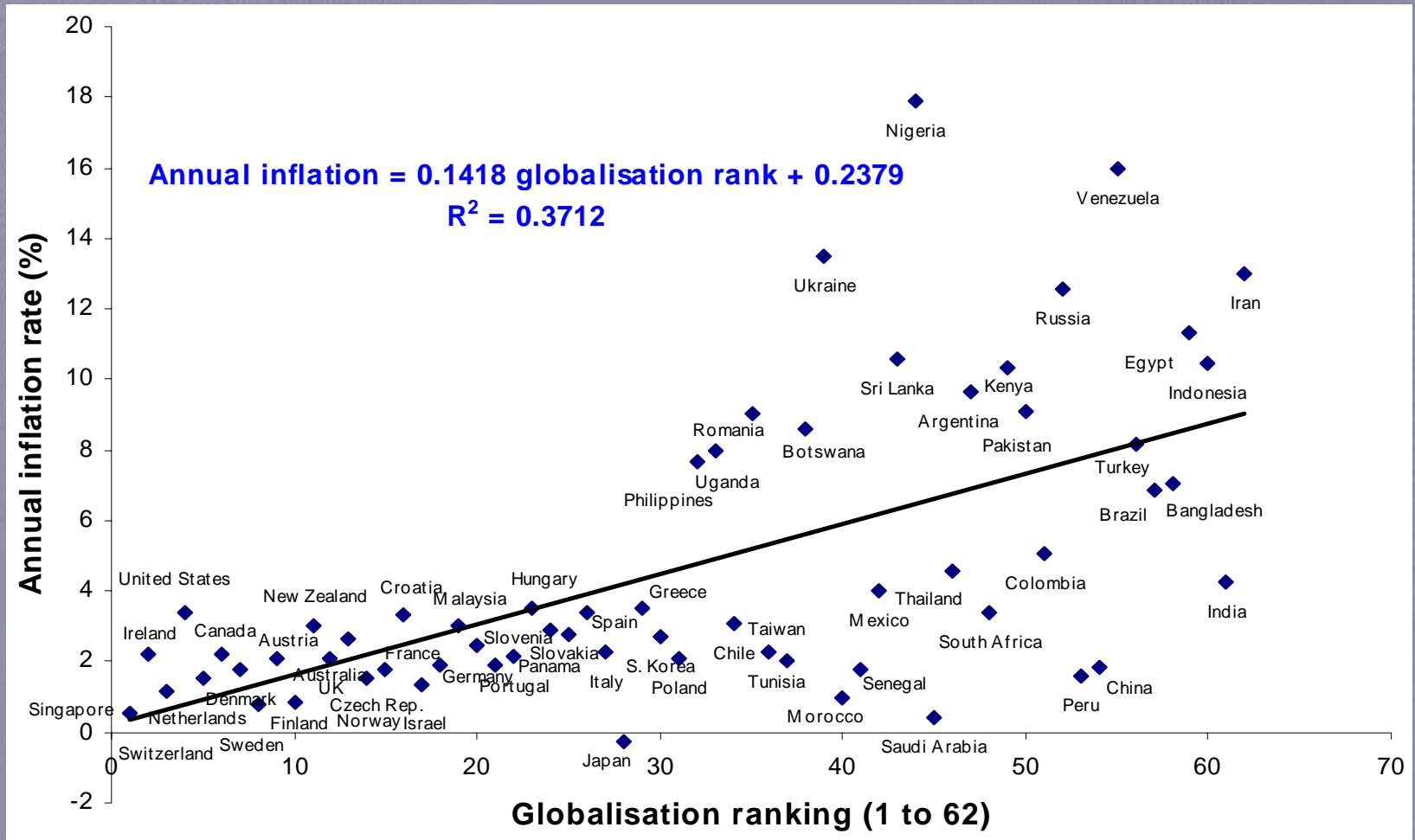


Source: Eurostat, OECD

Note: HICP (Harmonized Index of Consumer Prices). Imports of energy include oil and gas.

# More “globalised” countries tend to have lower inflation

Globalisation index and annual consumer price inflation in 2005



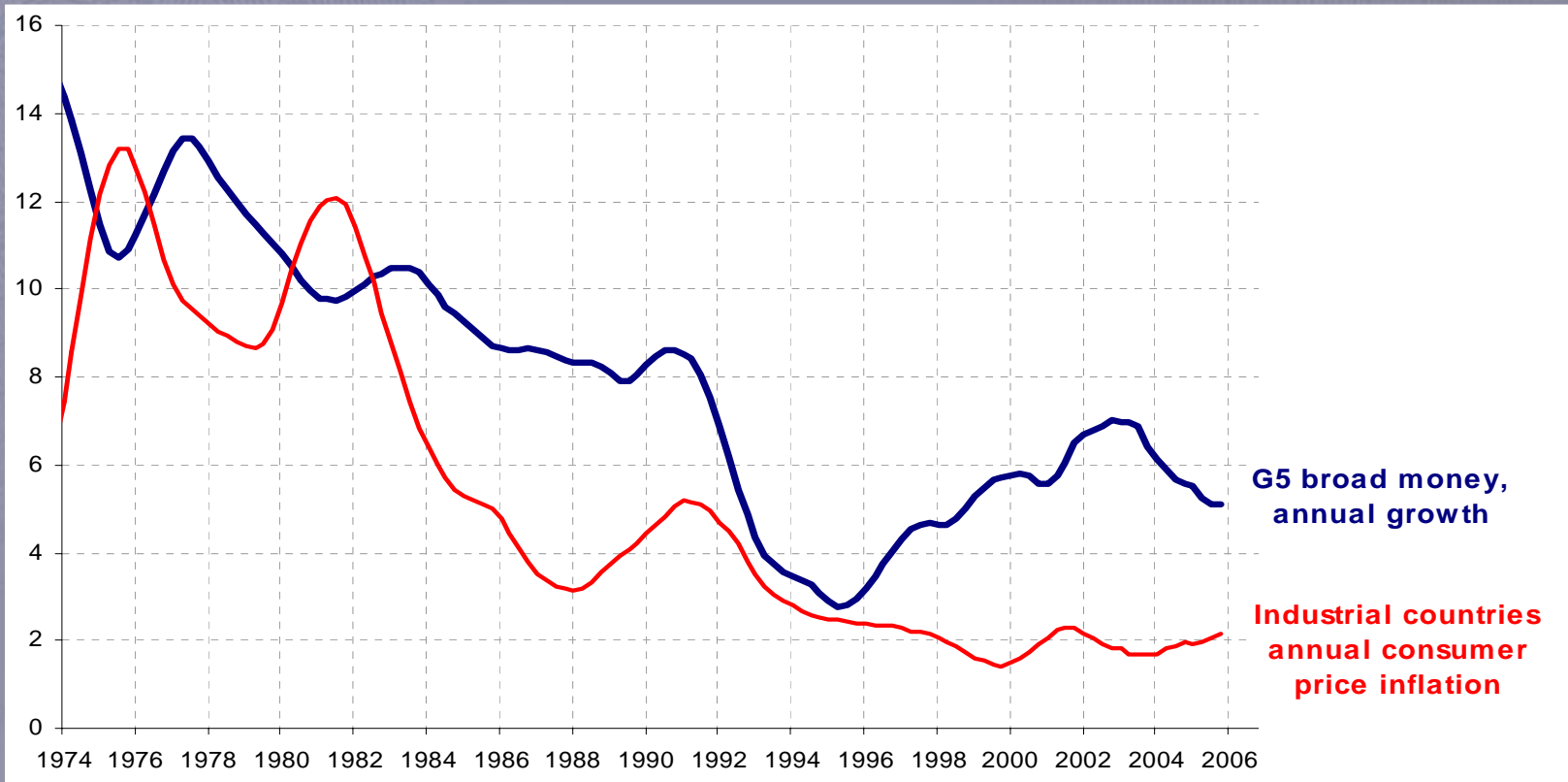
Source: AT Kearney / Foreign Policy Magazine and IMF



# Global liquidity growth and inflation

## Annual money growth and inflation in industrial countries

*Two-year moving average of annual percent changes; quarterly data*



**Source:** BIS, ECB.

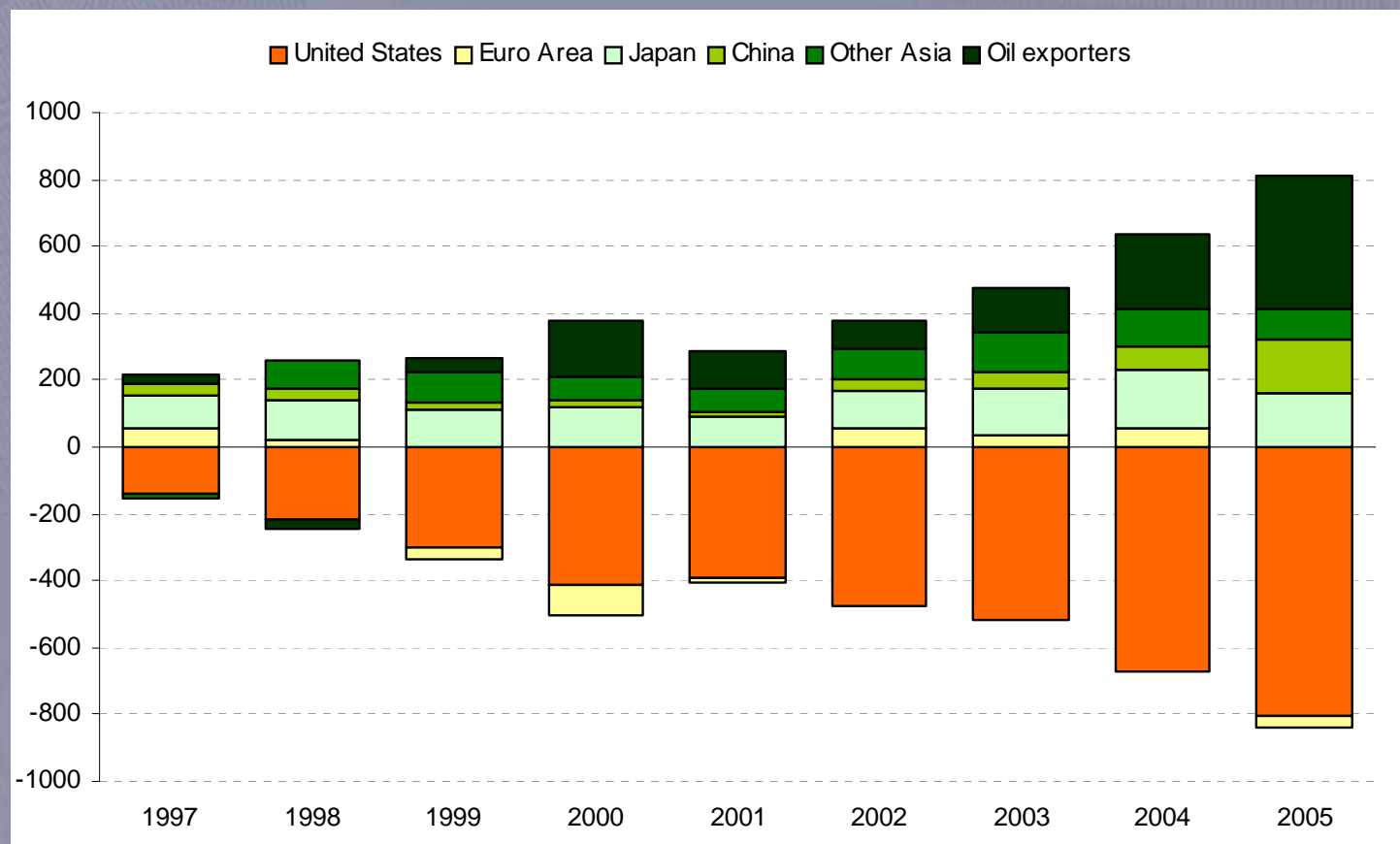
**Note:** The G5 money aggregate is a geometric weighted average of broad money measures in the euro area, United States, Japan, United Kingdom and Canada, using PPP exchange rates of 1995 for conversion into a common currency. Inflation refers to all industrial countries according to the IMF classification.



# Current account balances of selected economic areas

## Current account balances by region

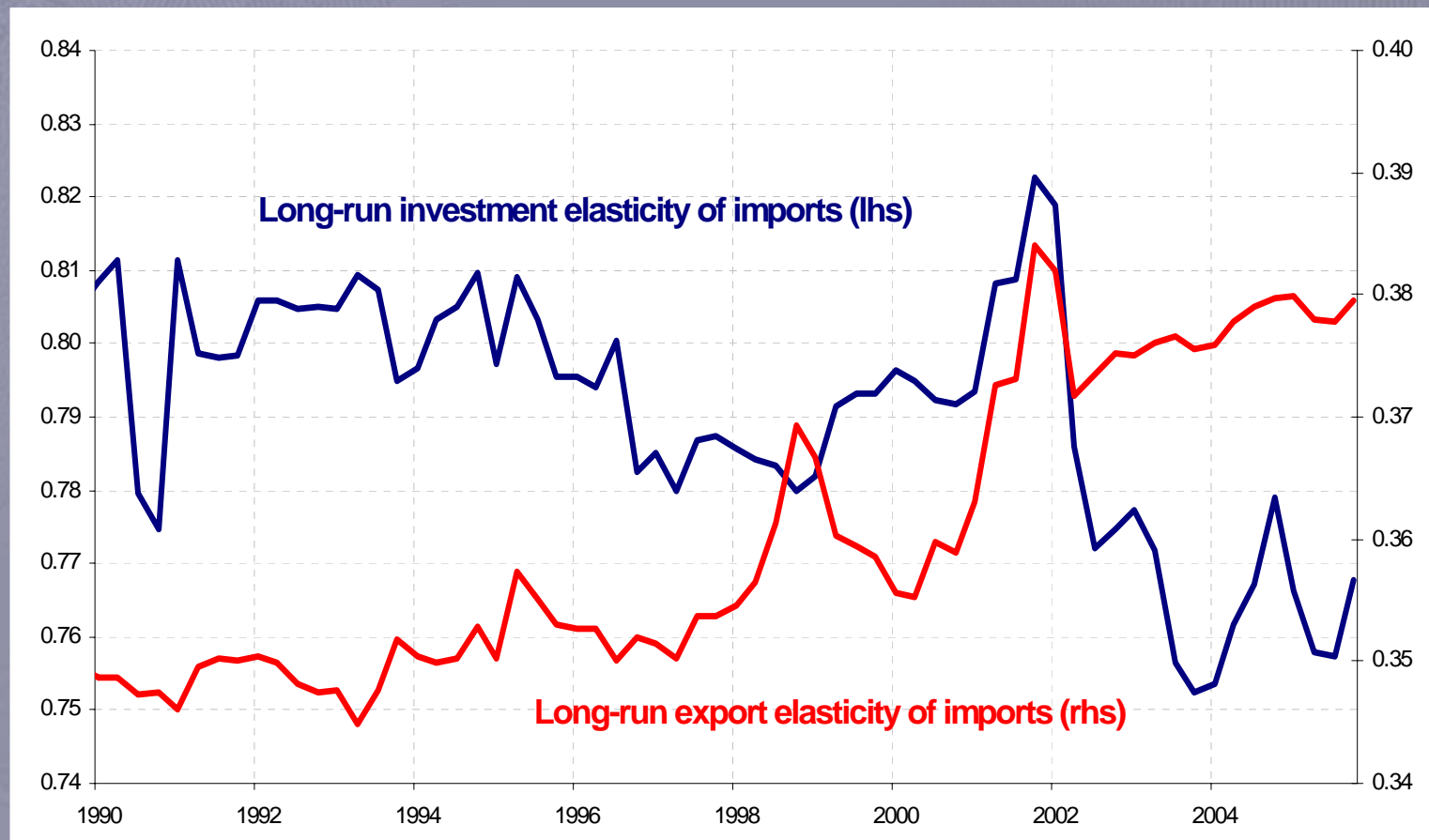
(billions of US dollars)



Source: IMF World Economic Outlook April 2006

# Long-run imports sensitivity to exports has increased

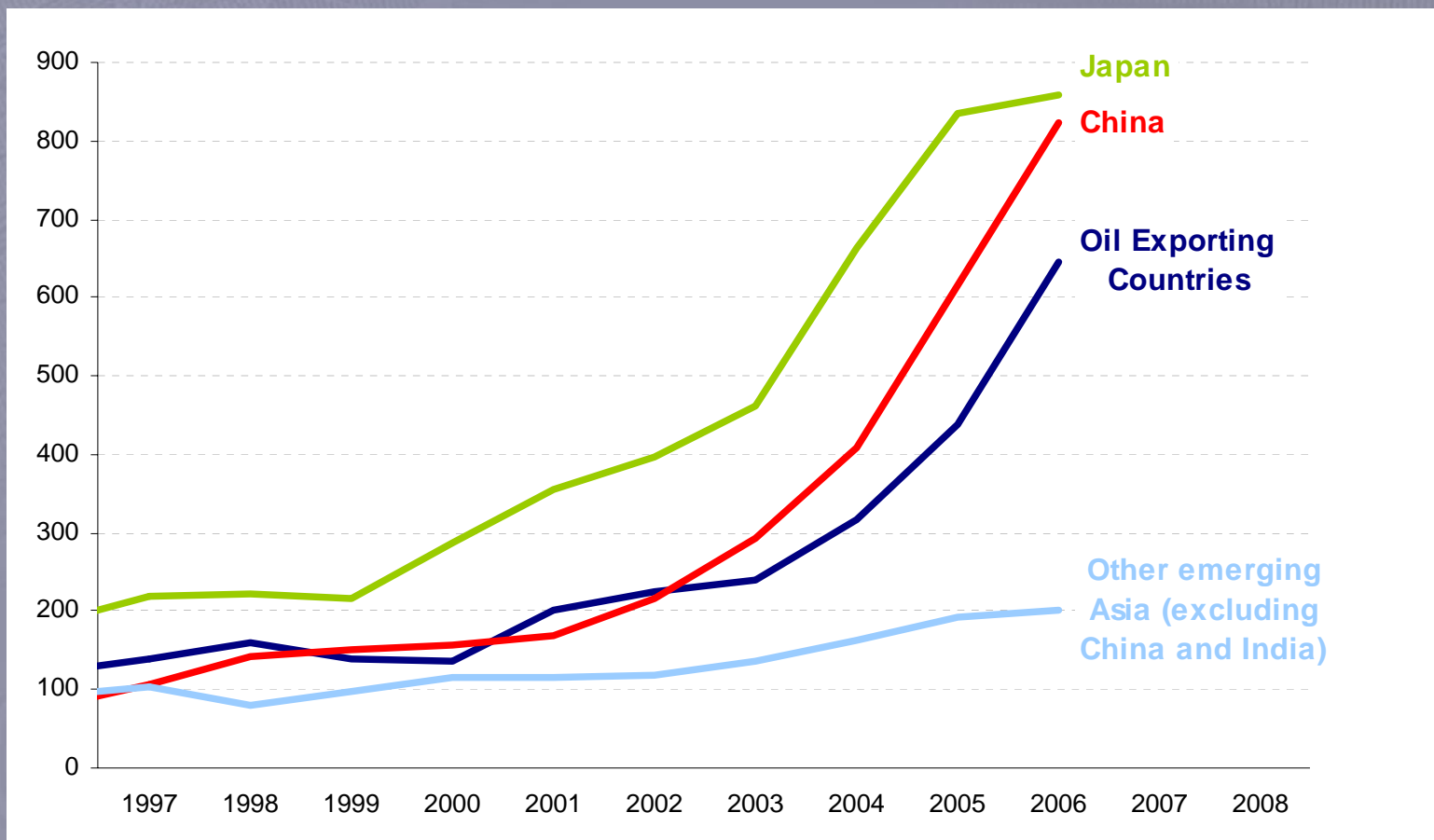
## Long-run elasticities of imports with respect to selected GDP components in the United States



Source: ECB staff calculations

# Rapid increase in foreign exchange reserves in some economic areas

Foreign exchange reserve holdings (billions of US dollars)

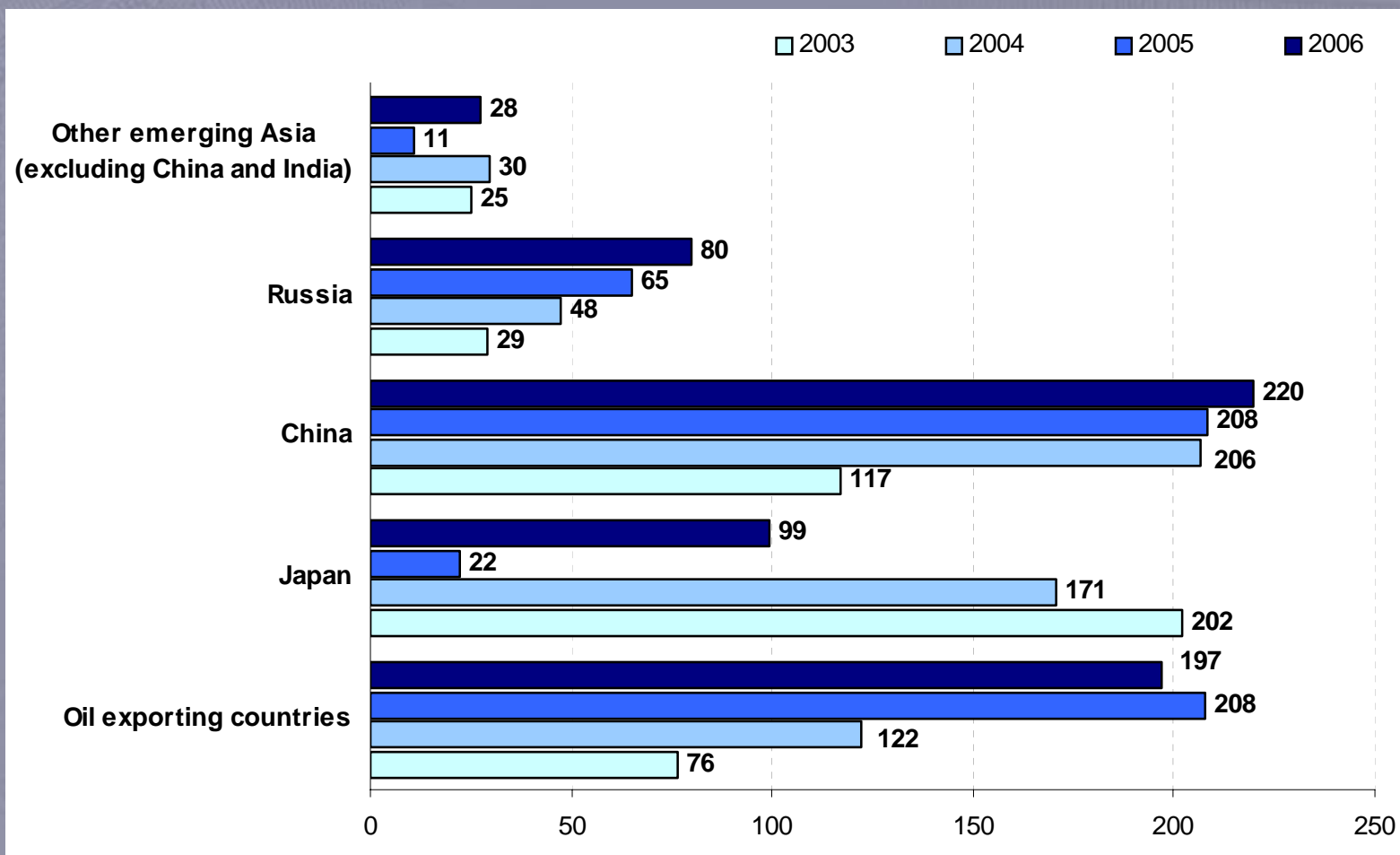


Source: IMF, World Economic Outlook, April 2006

Note: Last figures refer to 2006 and are estimates.

# Reserve accumulation in recent years

**Reserve assets** (year-on-year change; billions of US dollars)



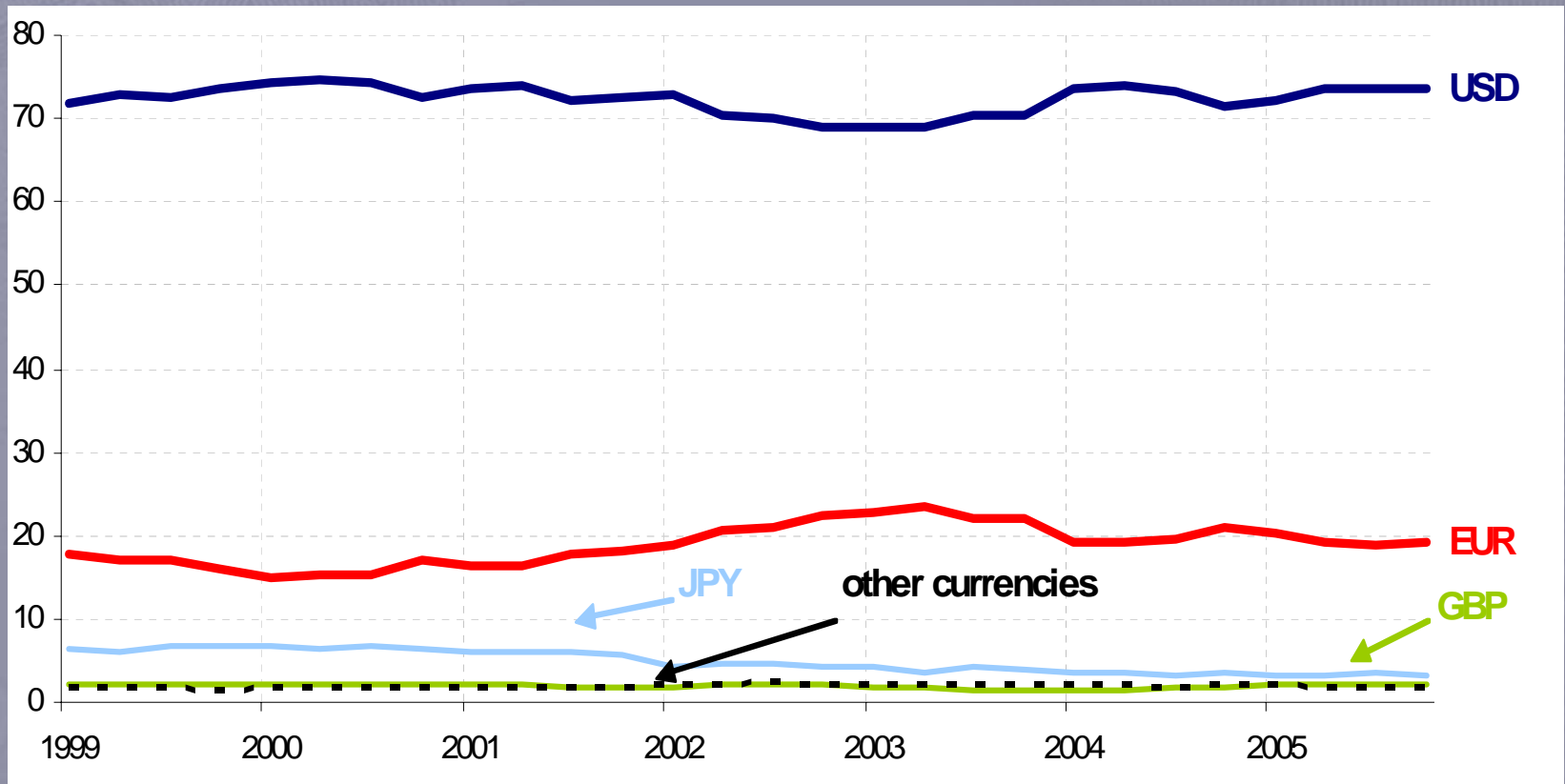
Source: IMF, World Economic Outlook, April 2006

Note: Figures for 2006 are estimates

# The share of the euro in official reserves has increased slightly in industrial countries

## Currency shares in foreign exchange reserves of industrial countries

(percentages, at current exchange rates)



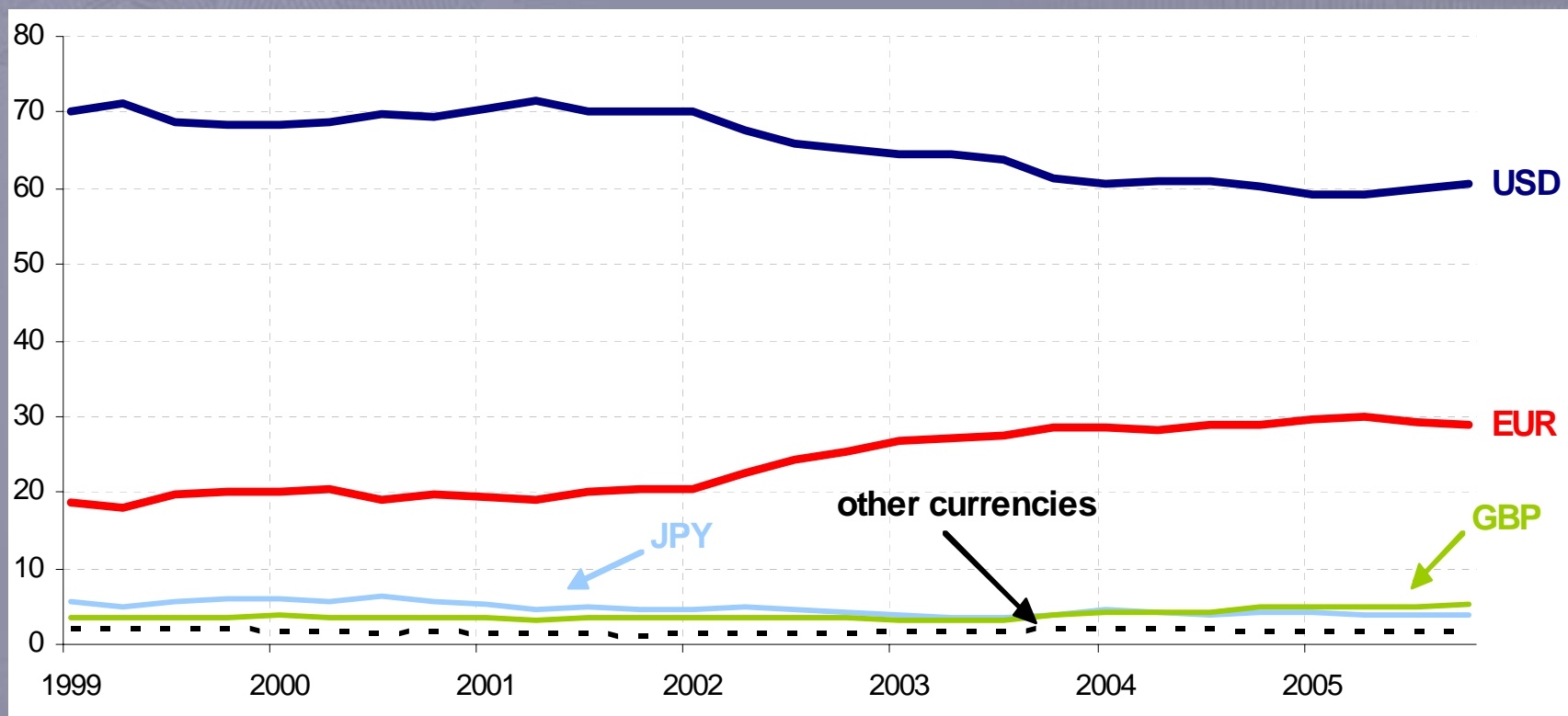
**Source:** IMF and ECB calculations.

**Note:** Currency shares are only reported for countries that disclose the currency composition of their foreign exchange reserves: e.g. China and some oil exporting countries do not disclose this information.

# The share of the euro in official reserves has increased significantly in emerging markets

## Currency shares in foreign exchange reserves of some emerging markets

(percentages, at current exchange rates)



**Source:** IMF and ECB calculations.

**Note:** Currency shares are only reported for countries that disclose the currency composition of their foreign exchange reserves: e.g. China and some oil exporting countries do not disclose this information.