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Hyun Song Shin was recently appointed as Adviser to President Lee Myung-bak on the International Economy. He is on leave from Princeton University, where he is the Hughes-Rogers Professor of Economics.

In his current role as presidential adviser, Professor Shin advises the President on international policy issues, and on the preparation of the G20 summit in Seoul. As an academic, Professor Shin has conducted research in financial economics with particular reference to financial institutions, risk and financial stability issues, topics on which he has published widely both in academic and practitioner outlets. He has held academic appointments at Oxford and at the London School of Economics, and has served in an advisory capacity to central banks and policy organizations on financial stability issues.

Procyclicality and Capital Flows: An Emerging Market Perspective

Abstract

Financial intermediaries borrow in order to lend. When credit is increasing rapidly, traditional deposit funding (core liabilities) is supplemented with other funding (non-core liabilities). Monetary aggregates reflect the relative size of non-core and core liabilities and hence convey information on the stage of the financial cycle. While core liabilities tend to be "sticky", non-core liabilities fluctuate in line with the leveraging and de-leveraging cycle. In emerging economies with open capital markets, non-core liabilities of the banking system take the form of short-term foreign exchange liabilities, increasing the vulnerability to the outbreak of "twin crises" where a liquidity crisis is compounded by a currency crisis. Dampening the leverage cycle mitigates excess liquidity associated with capital inflows, and builds resilience against sudden outflows.