



Challenges for Central Banks

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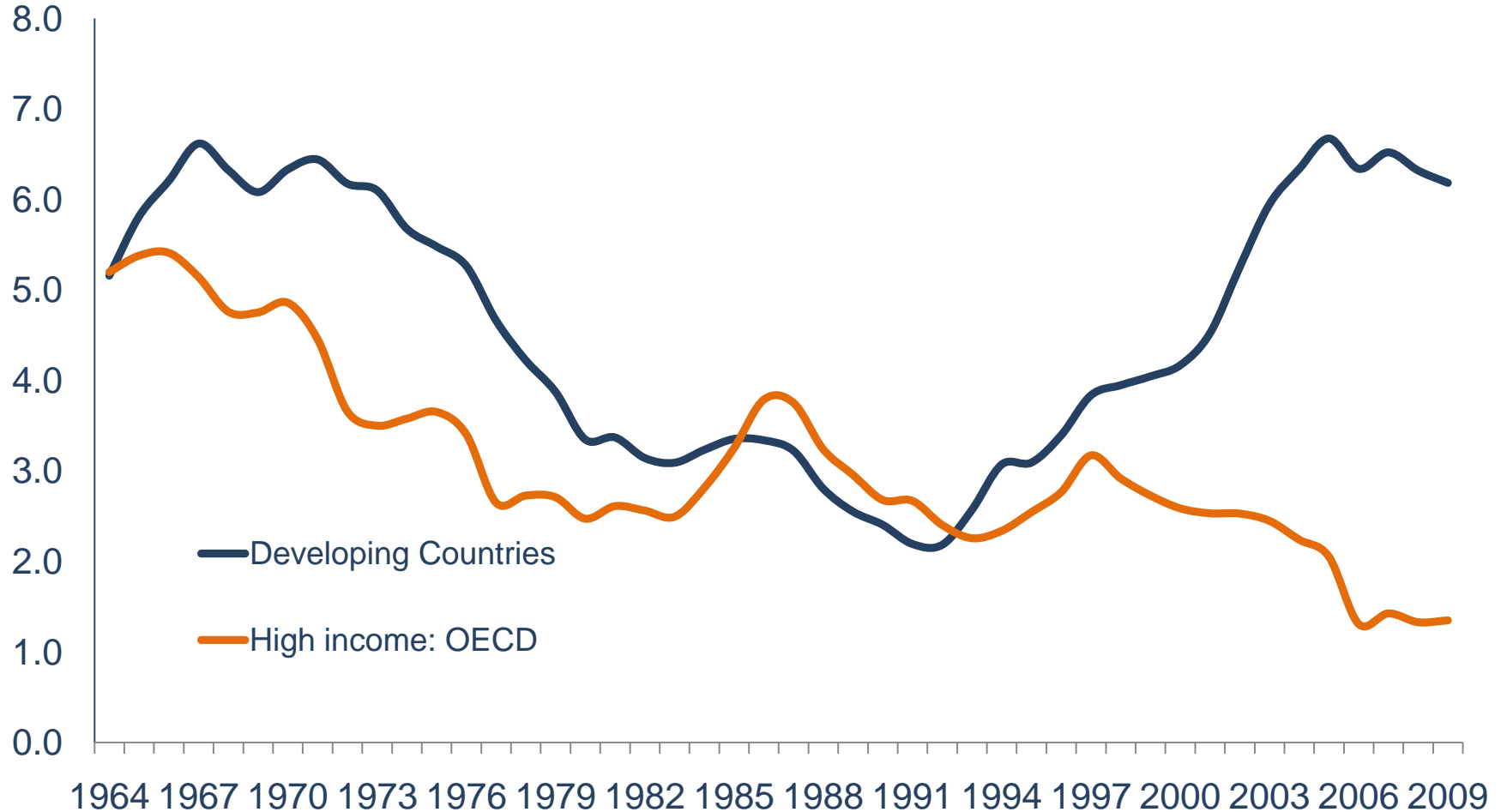
The world has changed since the early 1990s

- Delinking of growth trends as developing countries reformed, opened up and brought inflation under control
- Linking of cyclical growth as developing countries integrated into global economy
- Financial transmission has overtaken trade links
- Move towards a multipolar and multi-currency world



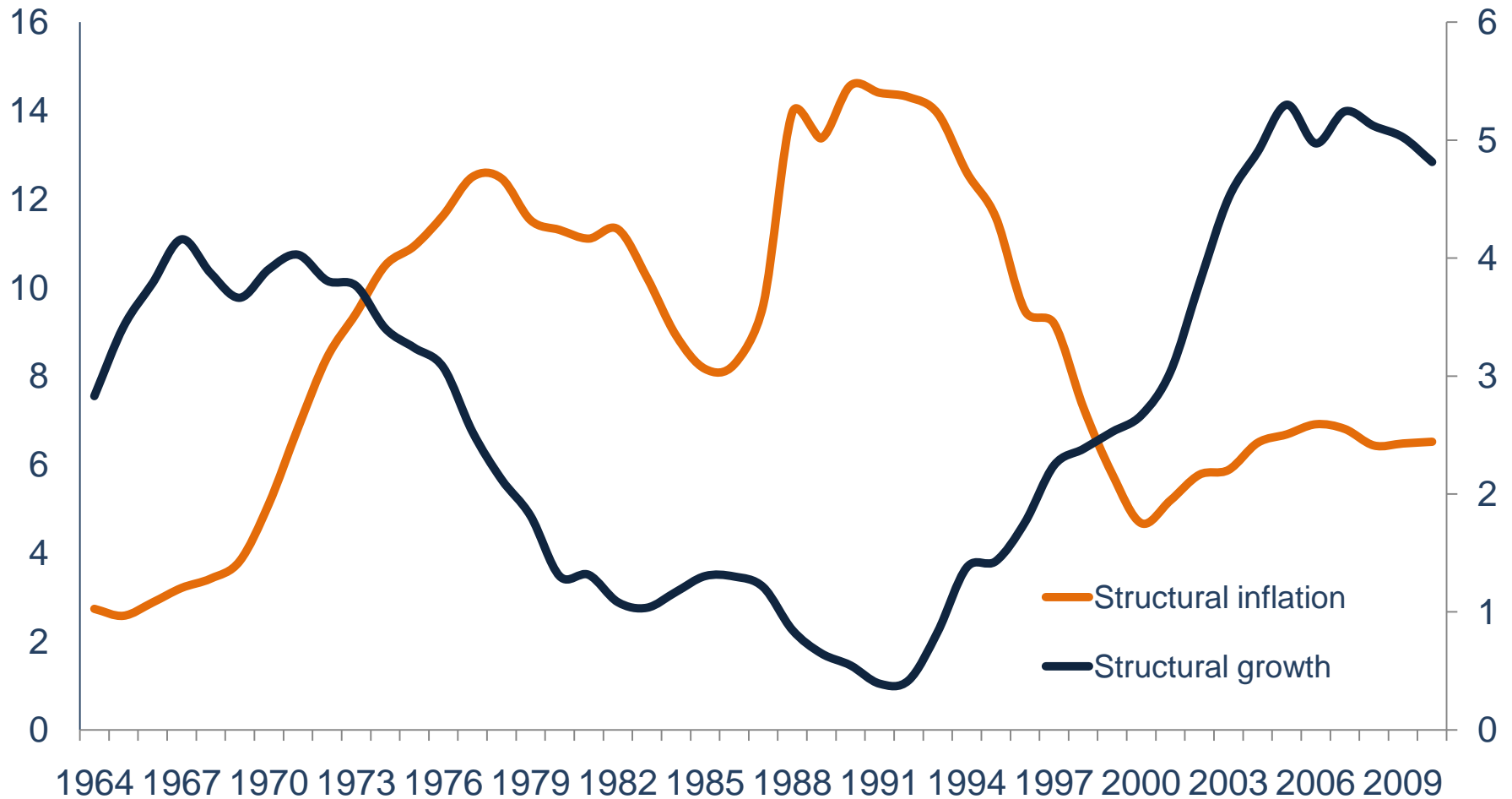
Structural growth has become delinked

Real GDP growth, 7-year moving average





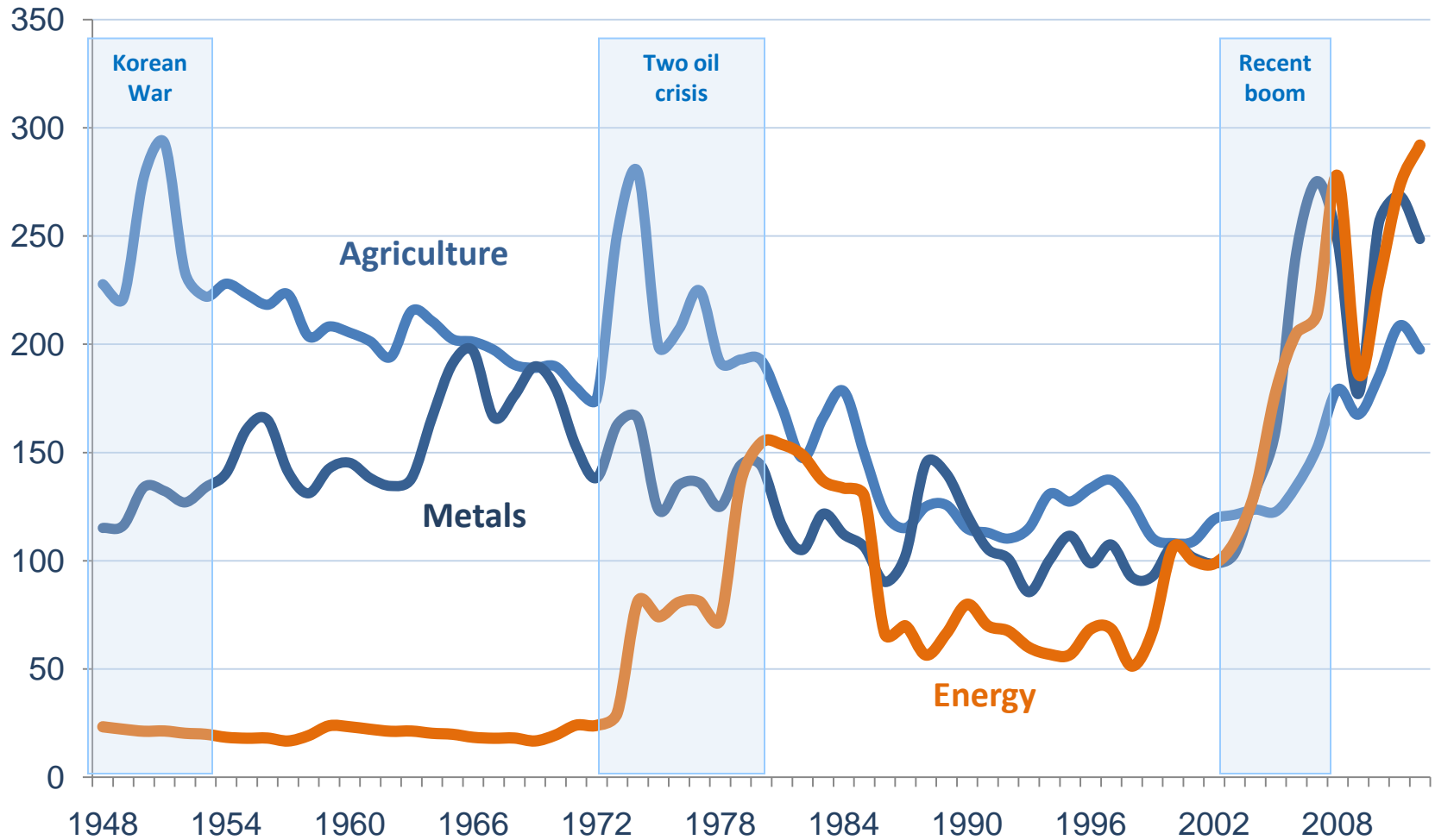
Developing countries reach potential growth in periods of low inflation





Inflation was brought under control as commodity prices declined

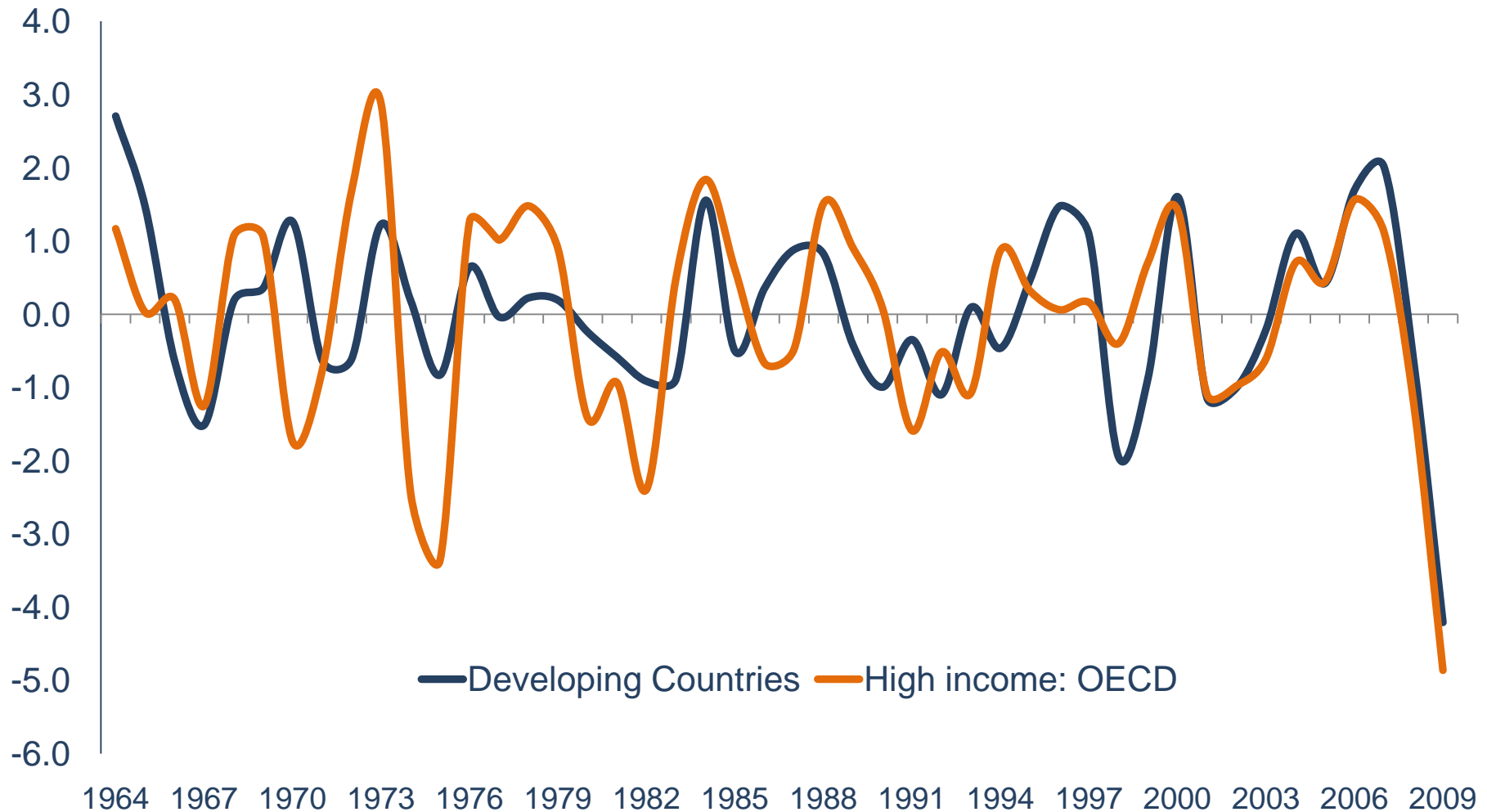
(Real, MUV-deflated, 2000=100)





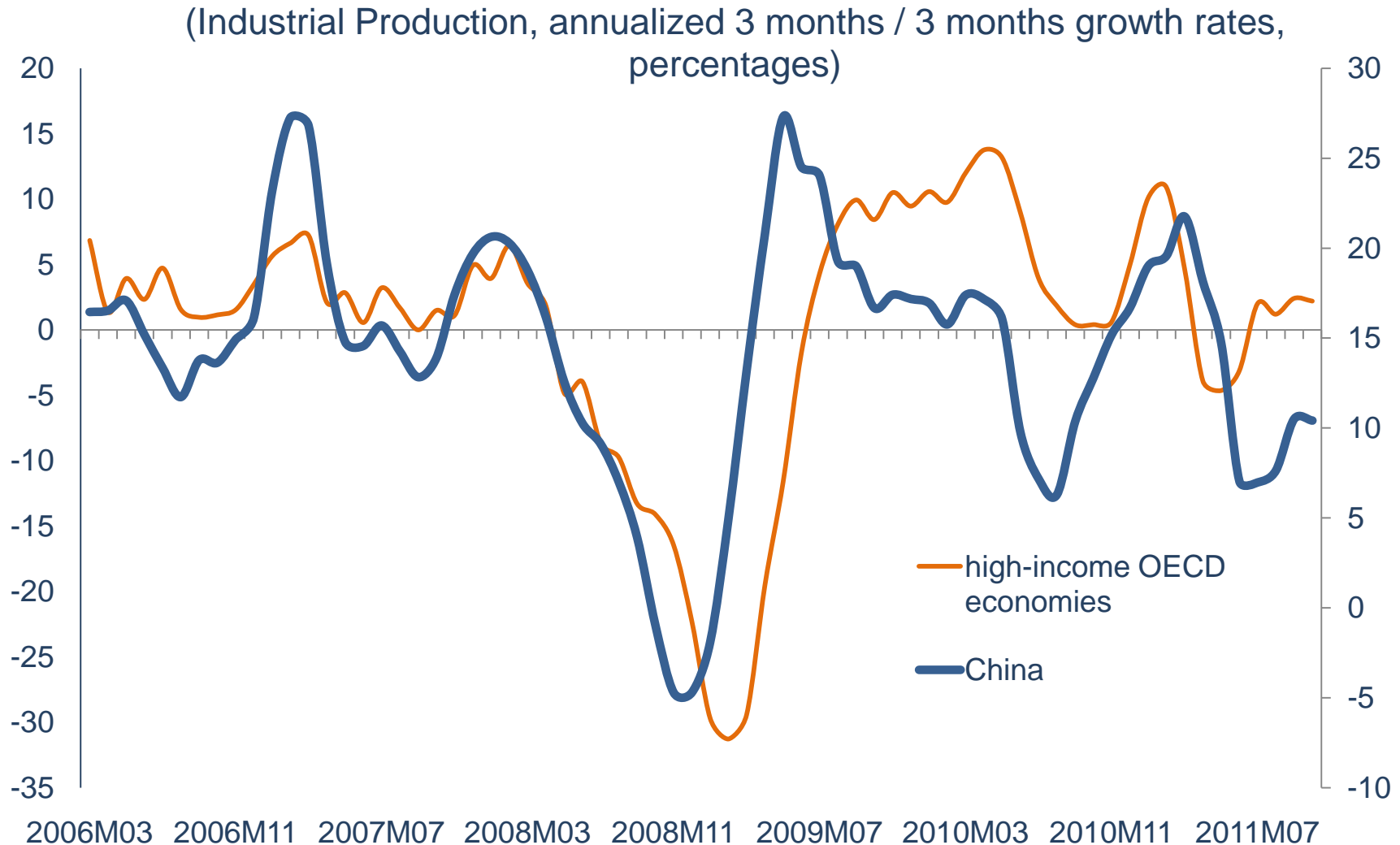
Cycles have become more synchronized

GDP growth in deviation from trend



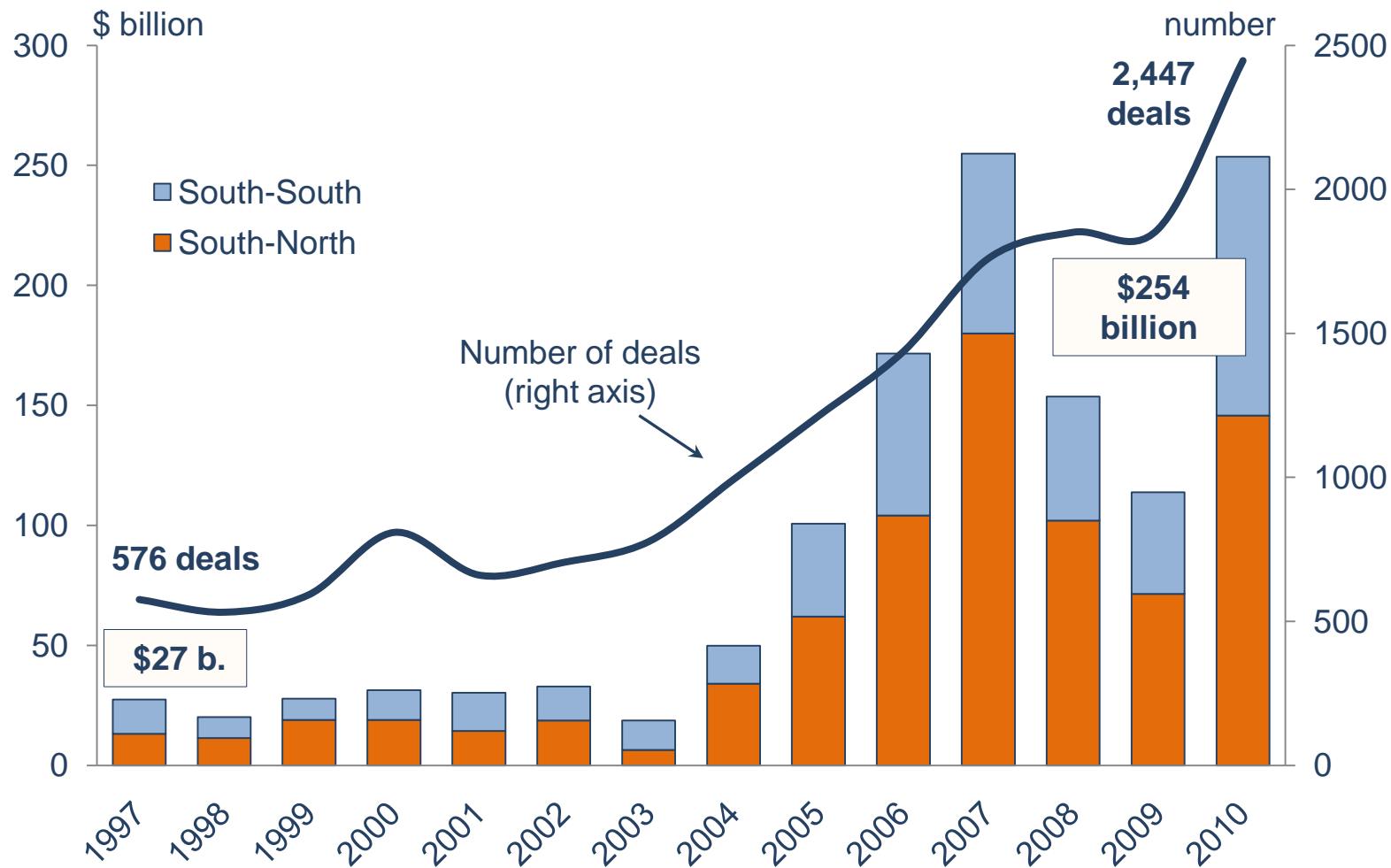


China is leading the global production cycle





Increasing cross-border M&A deals originating in EM is a feature of the new corporate landscape





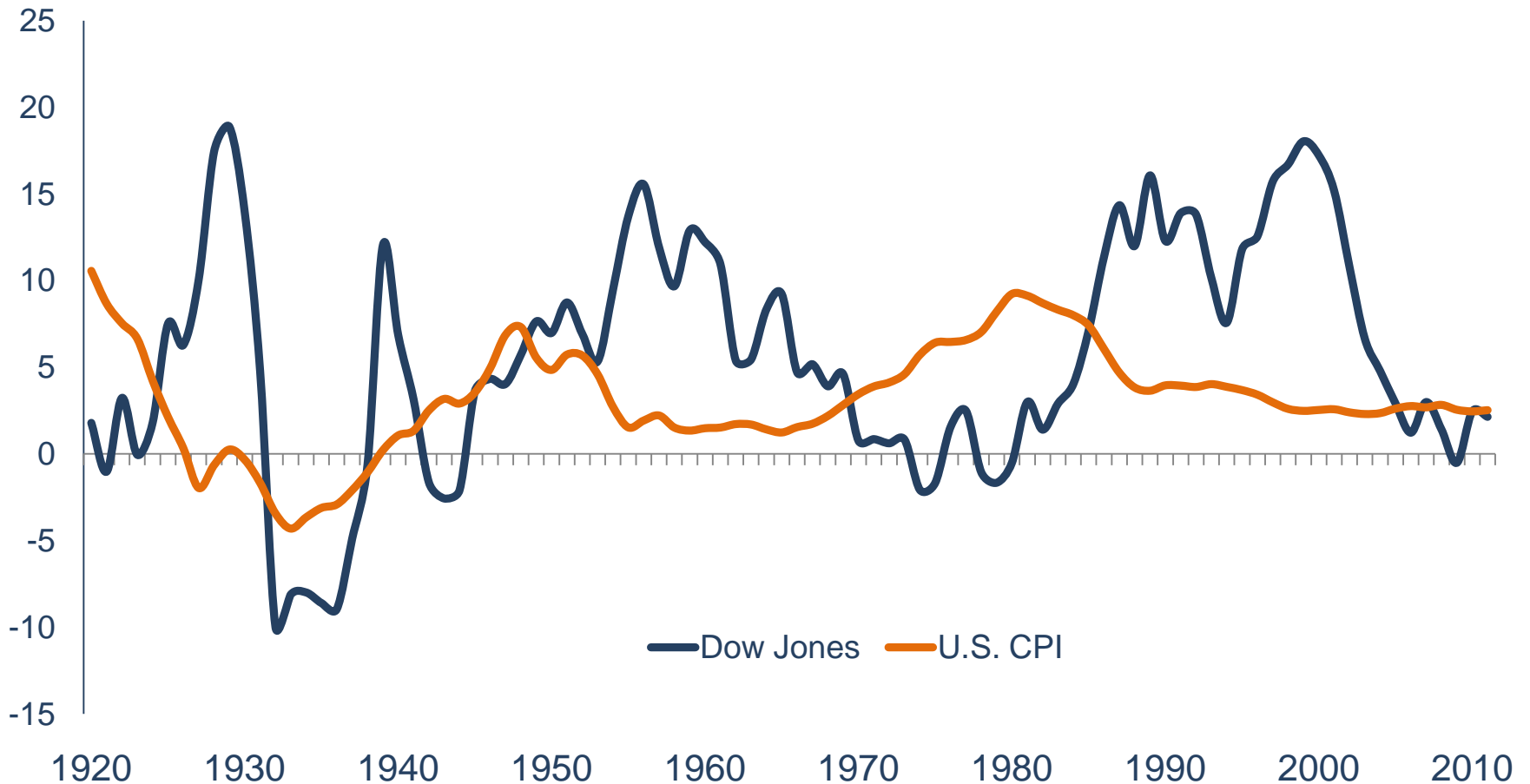
Challenges for central banks

- Focus no longer merely on inflation, but also on asset markets
- Prepare for future international financial shocks
- Facilitate shift towards multi-currency world
- Can monetary policy replace fiscal policy?



Asset price booms coincide with periods of decelerating inflation

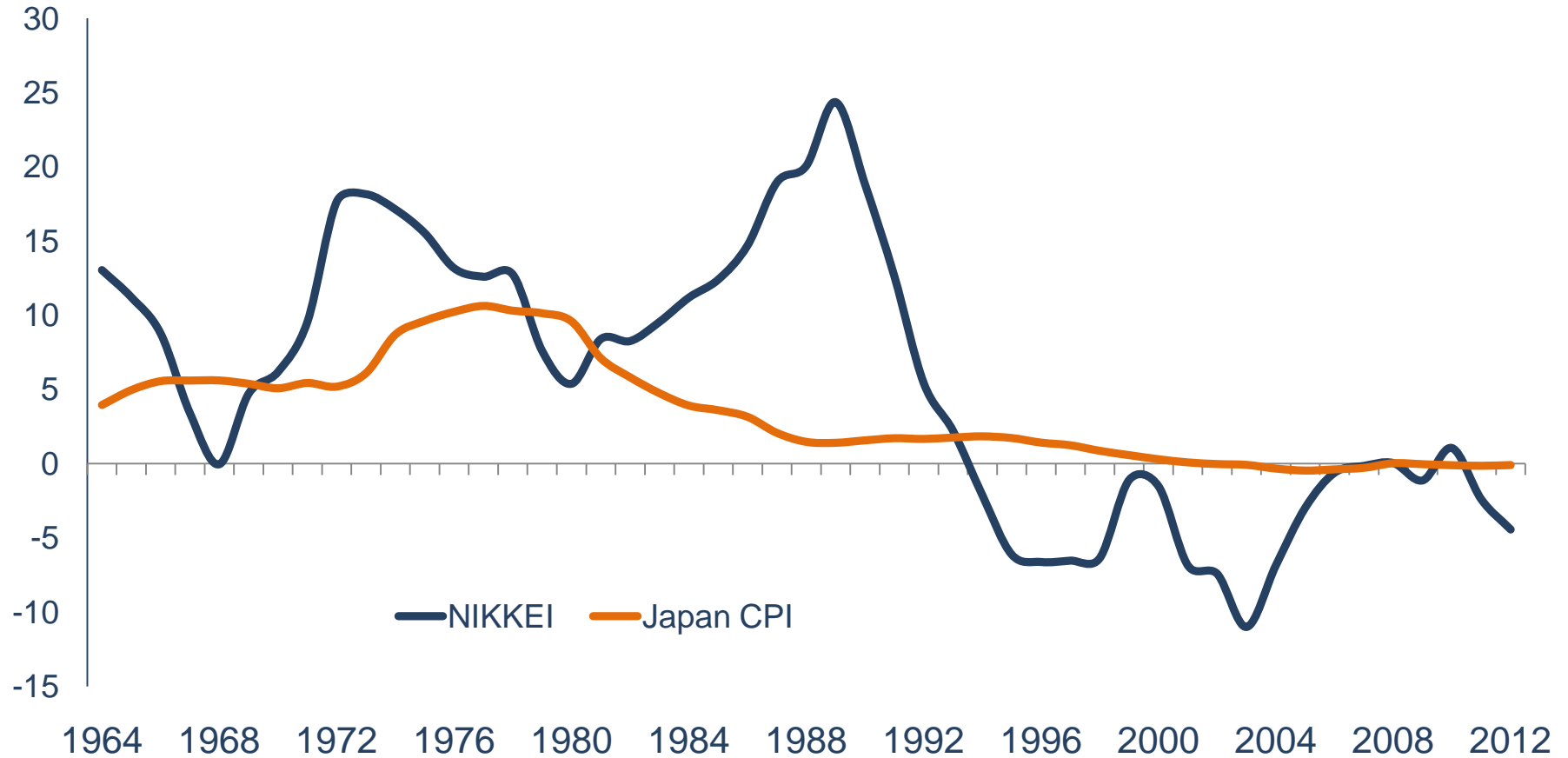
annual growth (%), average of 7 preceding years





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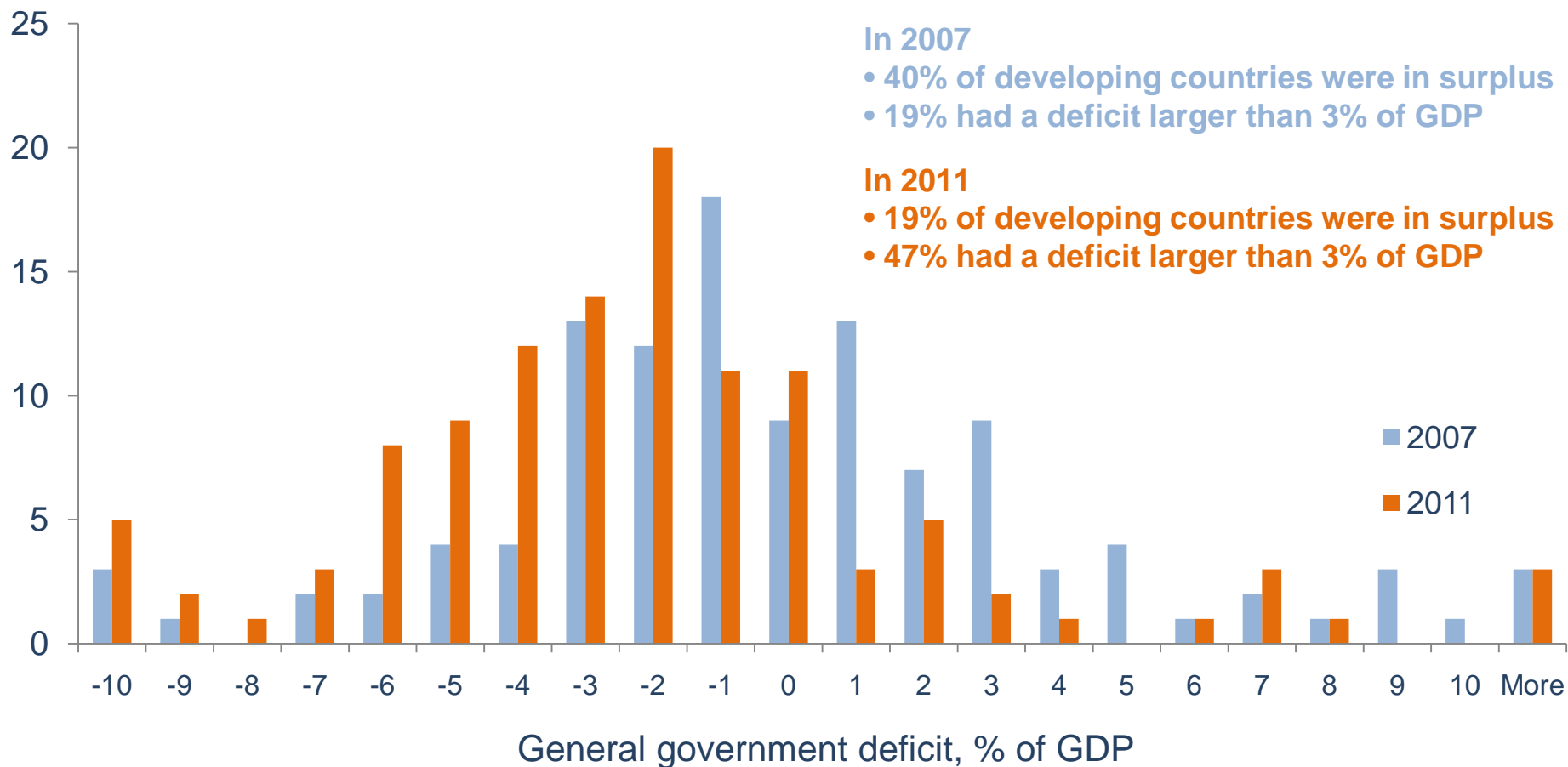
annual growth (%), average of 7 preceding years





Many developing countries have lost fiscal space

of developing economies





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