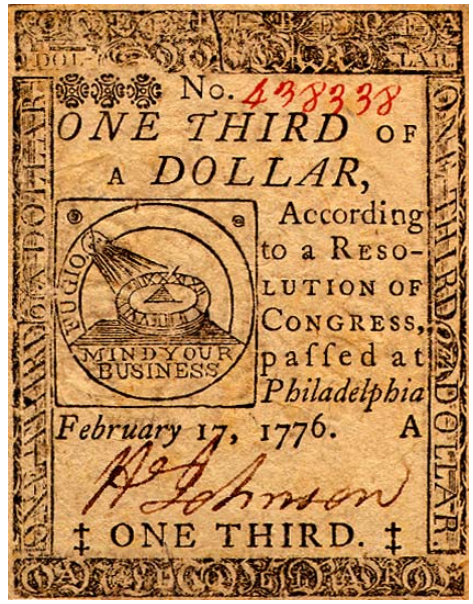

America's Assets and Liabilities in the Global Economy
Presentation to 2014 Global Economic Forum
July 1, 2014

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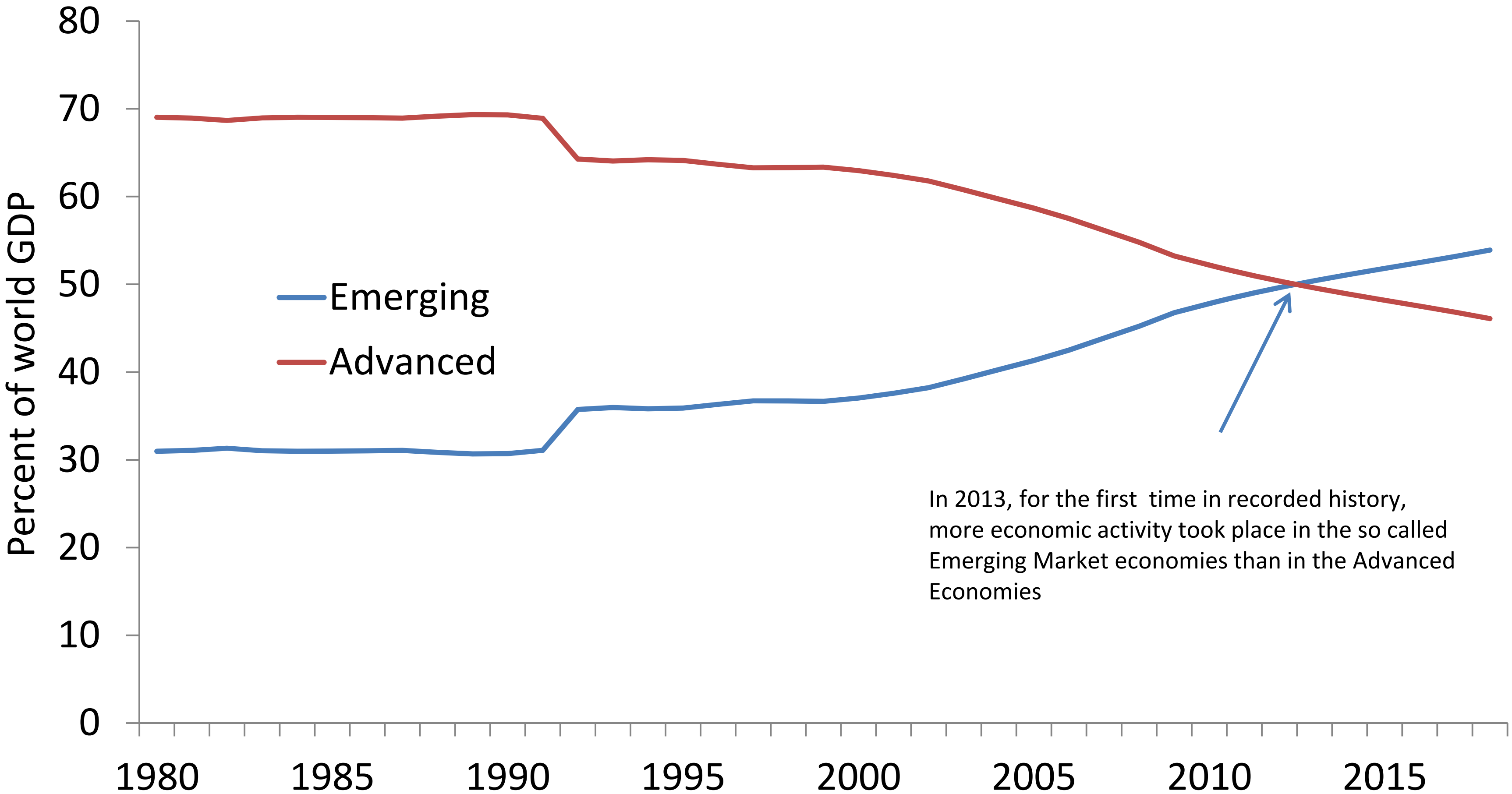
Vice President & Associate Director of Research for International Economics
Director, Globalization & Monetary Policy Institute
Federal Reserve Bank of Dallas

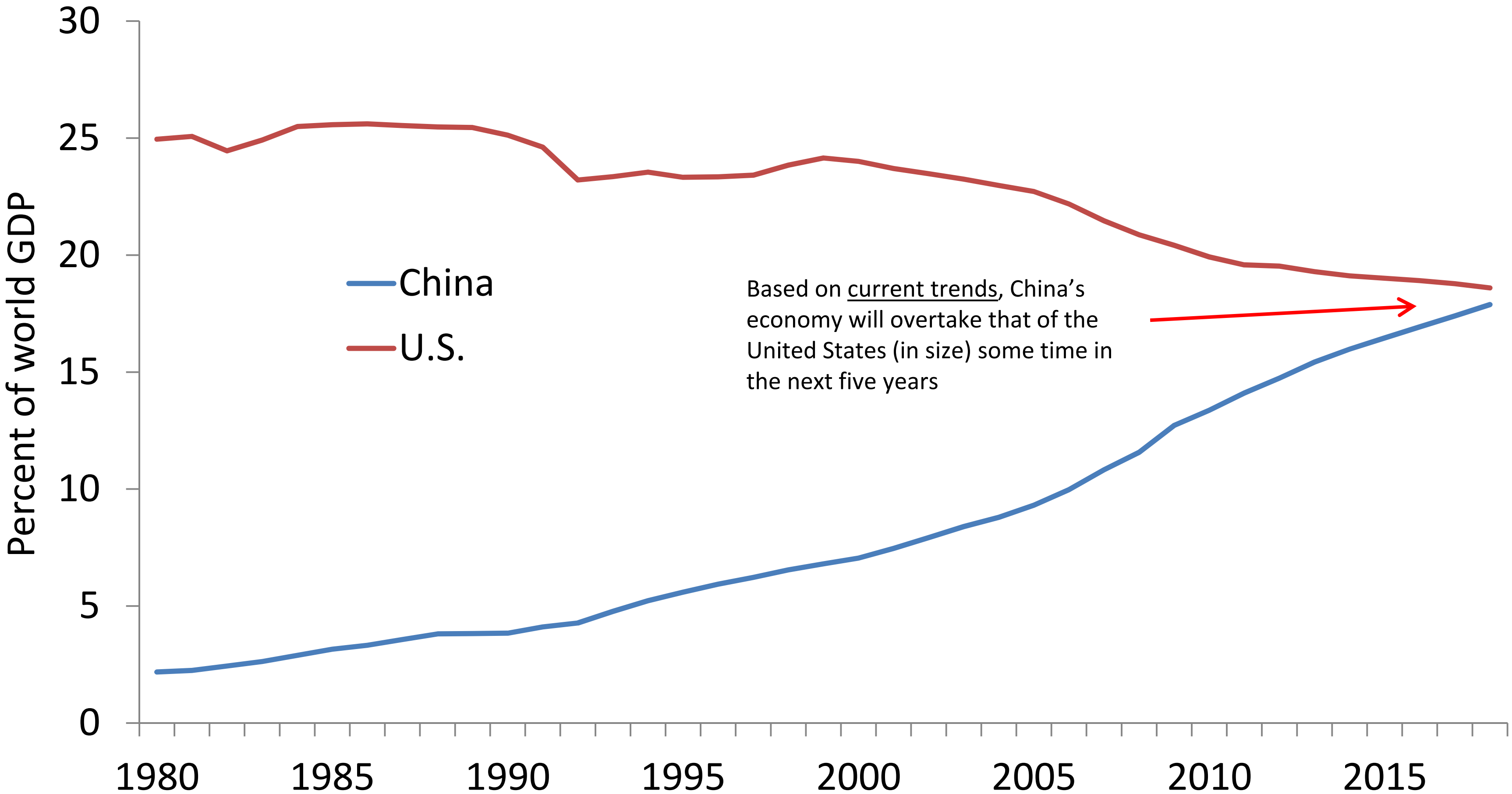
Overview

- The importance of globalization
- Financial globalization and the indebtedness of the United States
- Is the United States different?
- Concluding observations

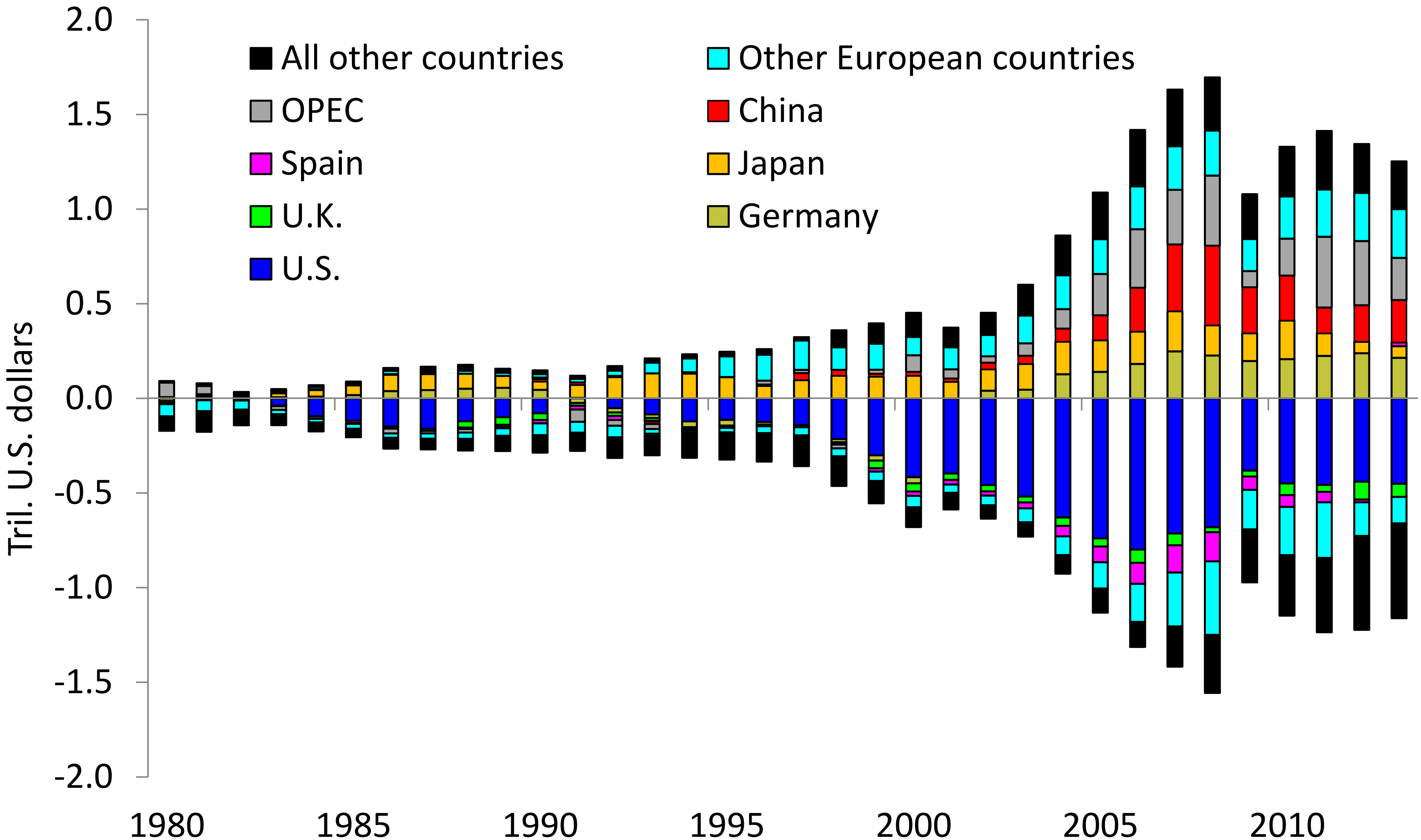
The world has changed…



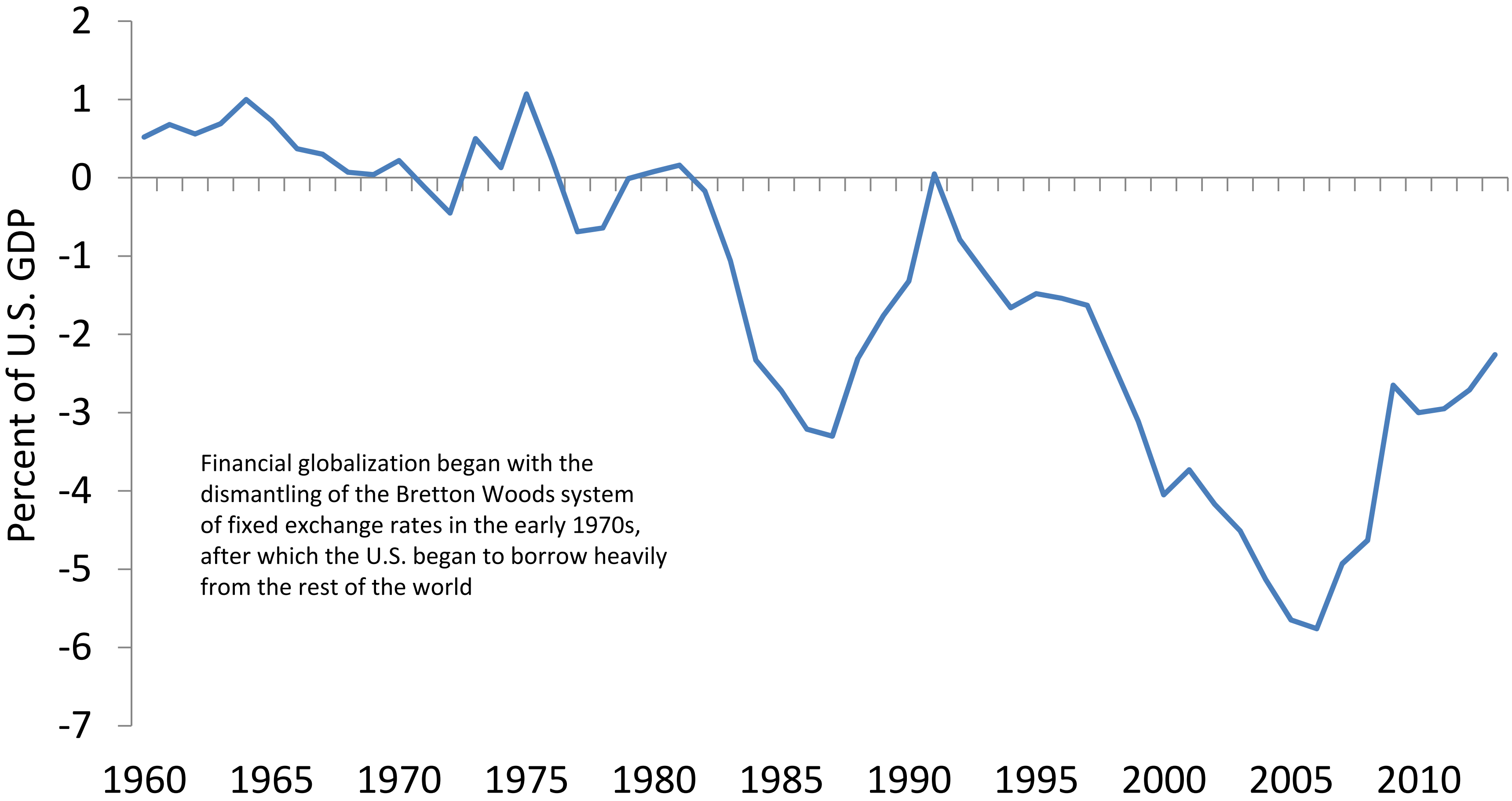
…and will change further



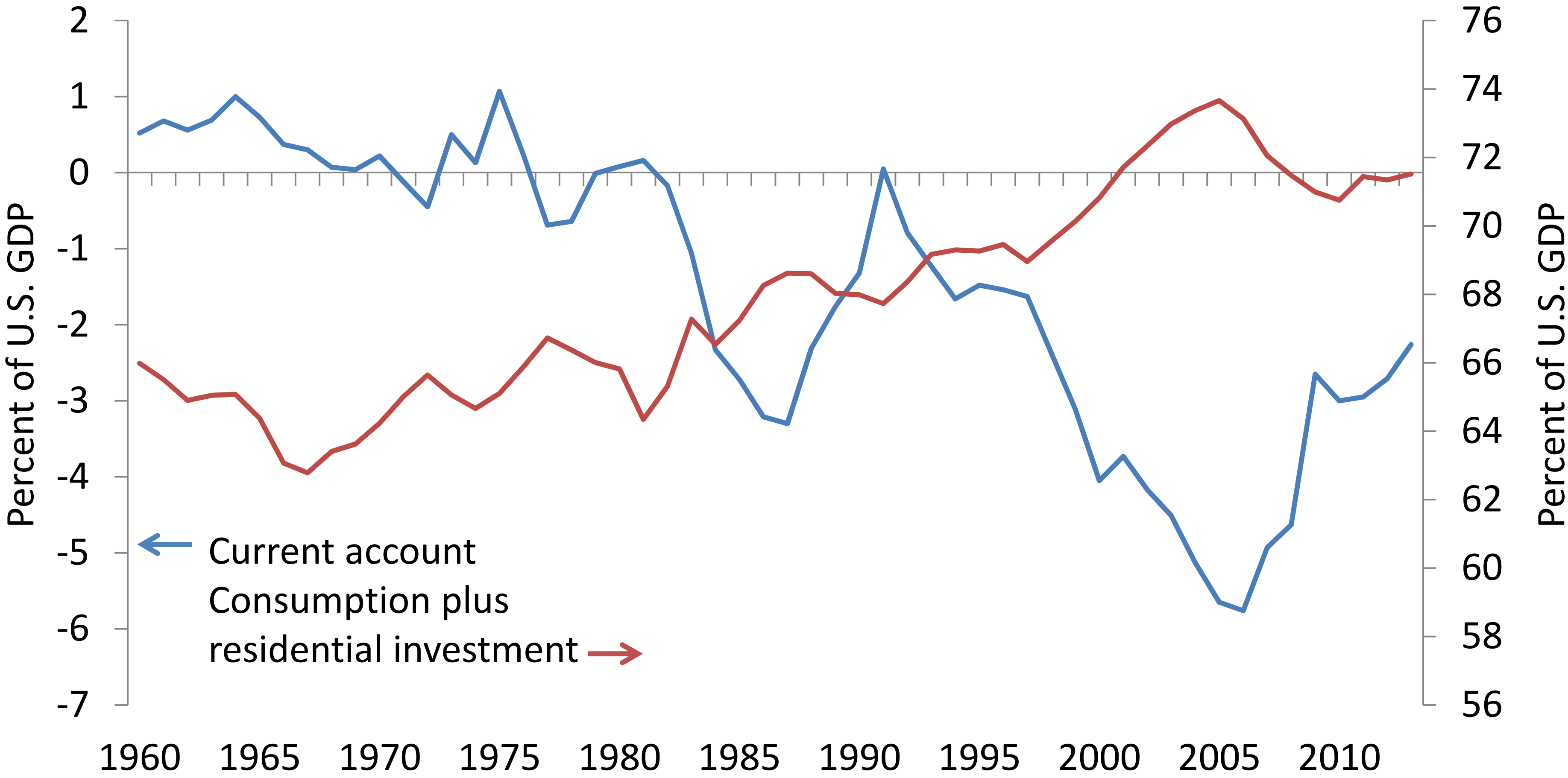
Global capital flows



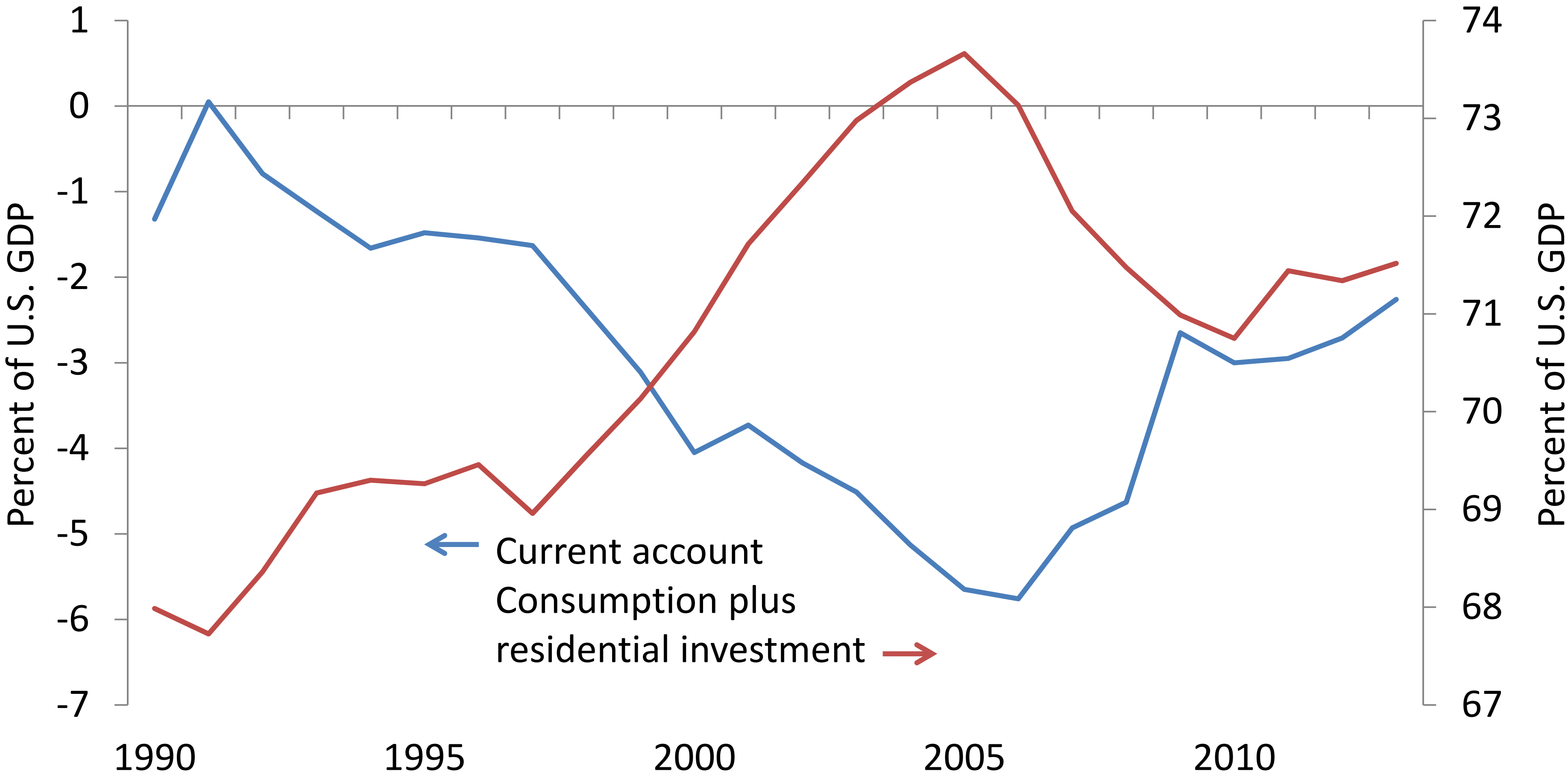
U.S. borrowing from the rest of the world



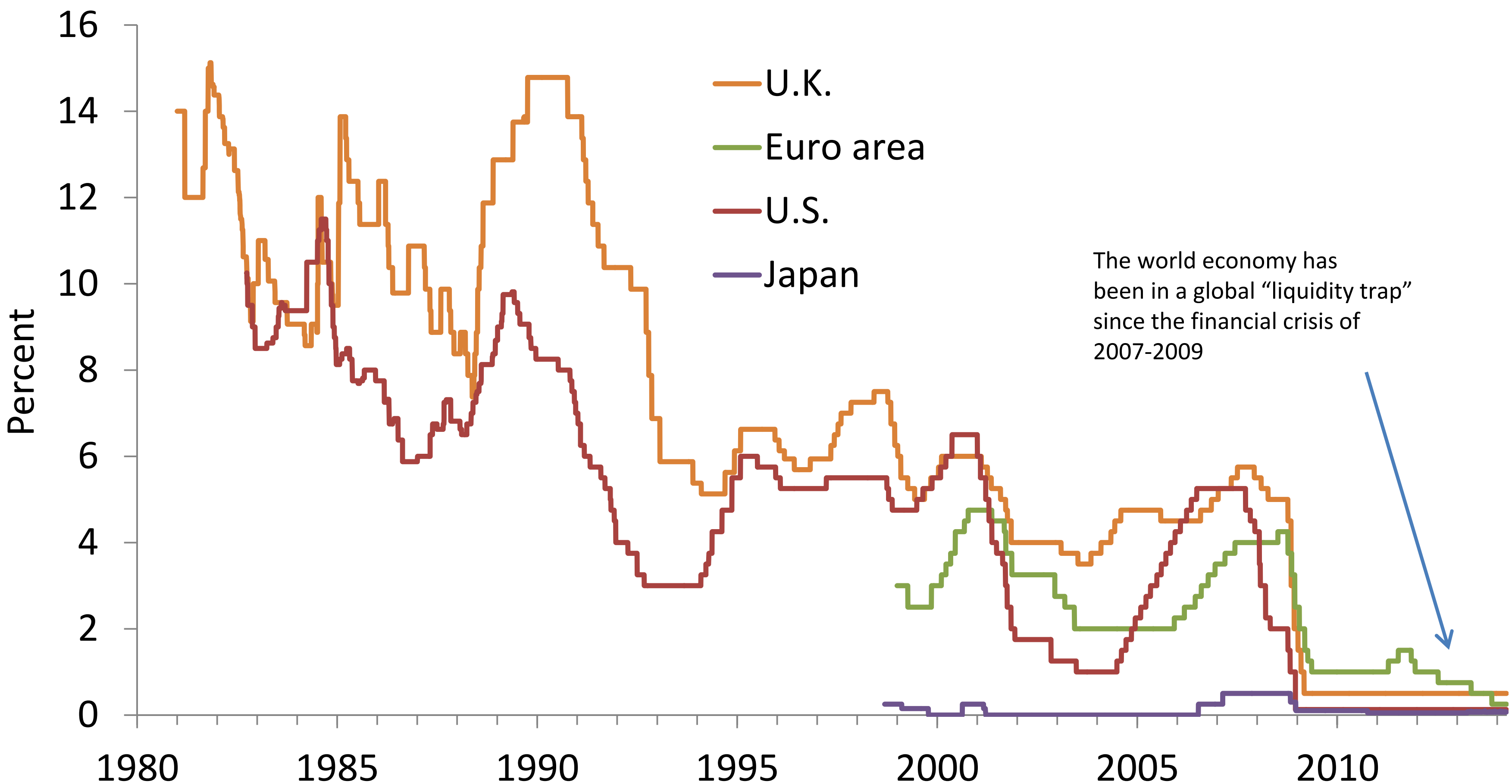
U.S. borrowing from the rest of the world



Party time!

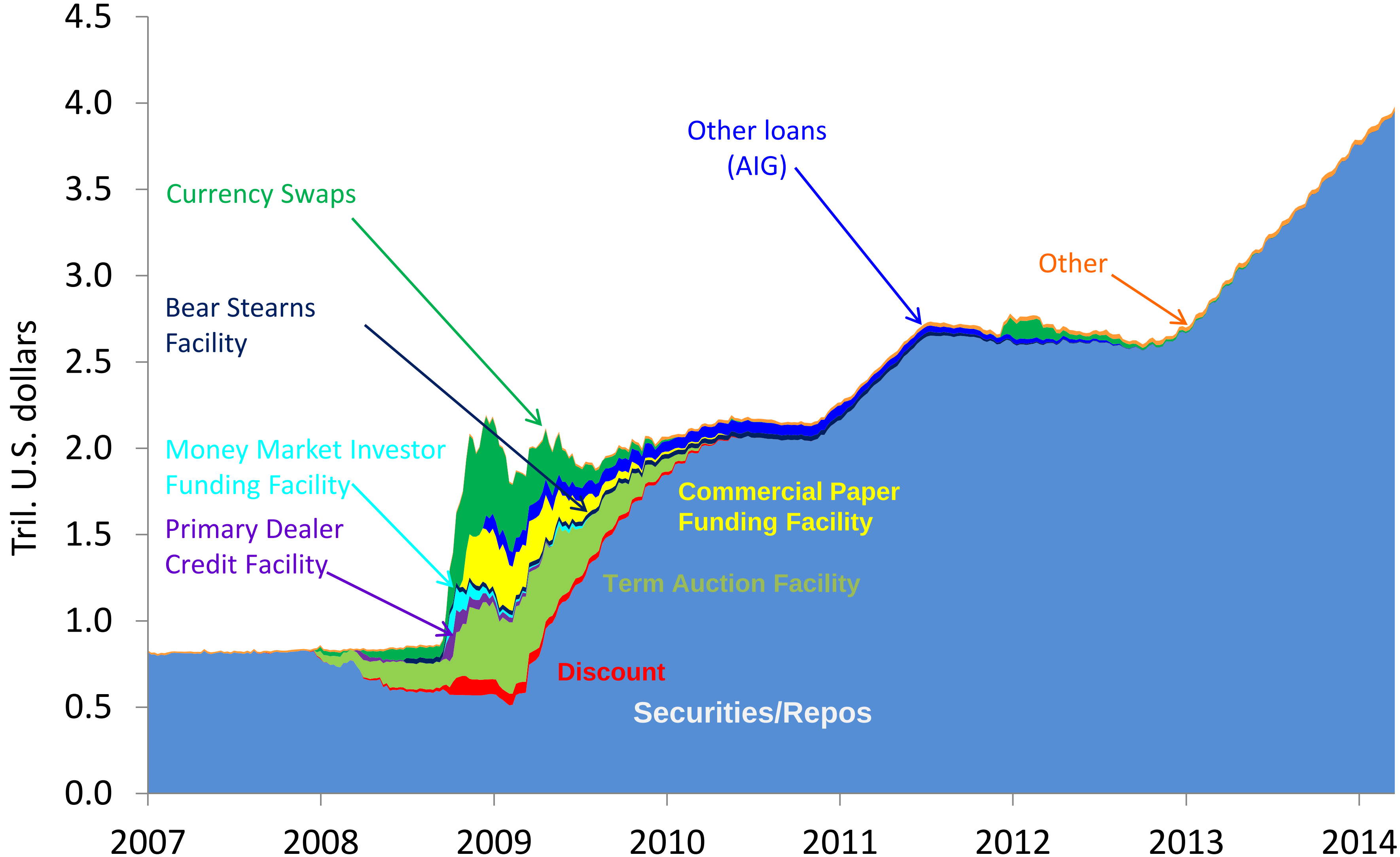

1
0
-1
-2
-3
-4
-5
-6
-7
Percent of U.S. GDP
74
73
72
71
70
69
68
67
Percent of U.S. GDP
1990
1995
2000
2005
2010
Current account
Consumption plus
residential investment

The world has also changed for central bankers

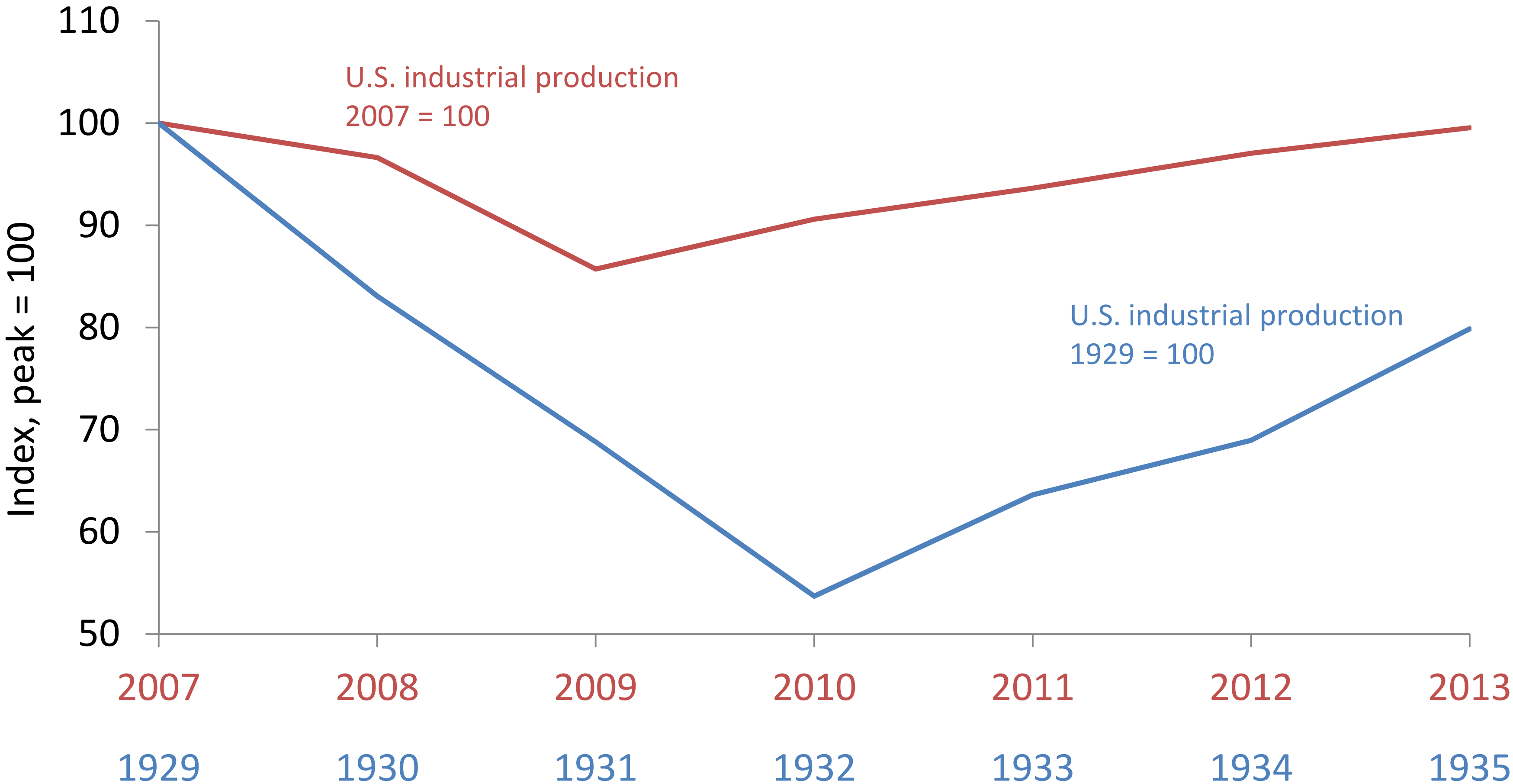


Note: With the introduction of quantitative and qualitative monetary easing by the Bank of Japan on April 4, 2013, the main operating target for money market operations changed from the uncollateralized overnight call rate to the monetary base. The average rate is plotted for Japan starting April 4, 2013.

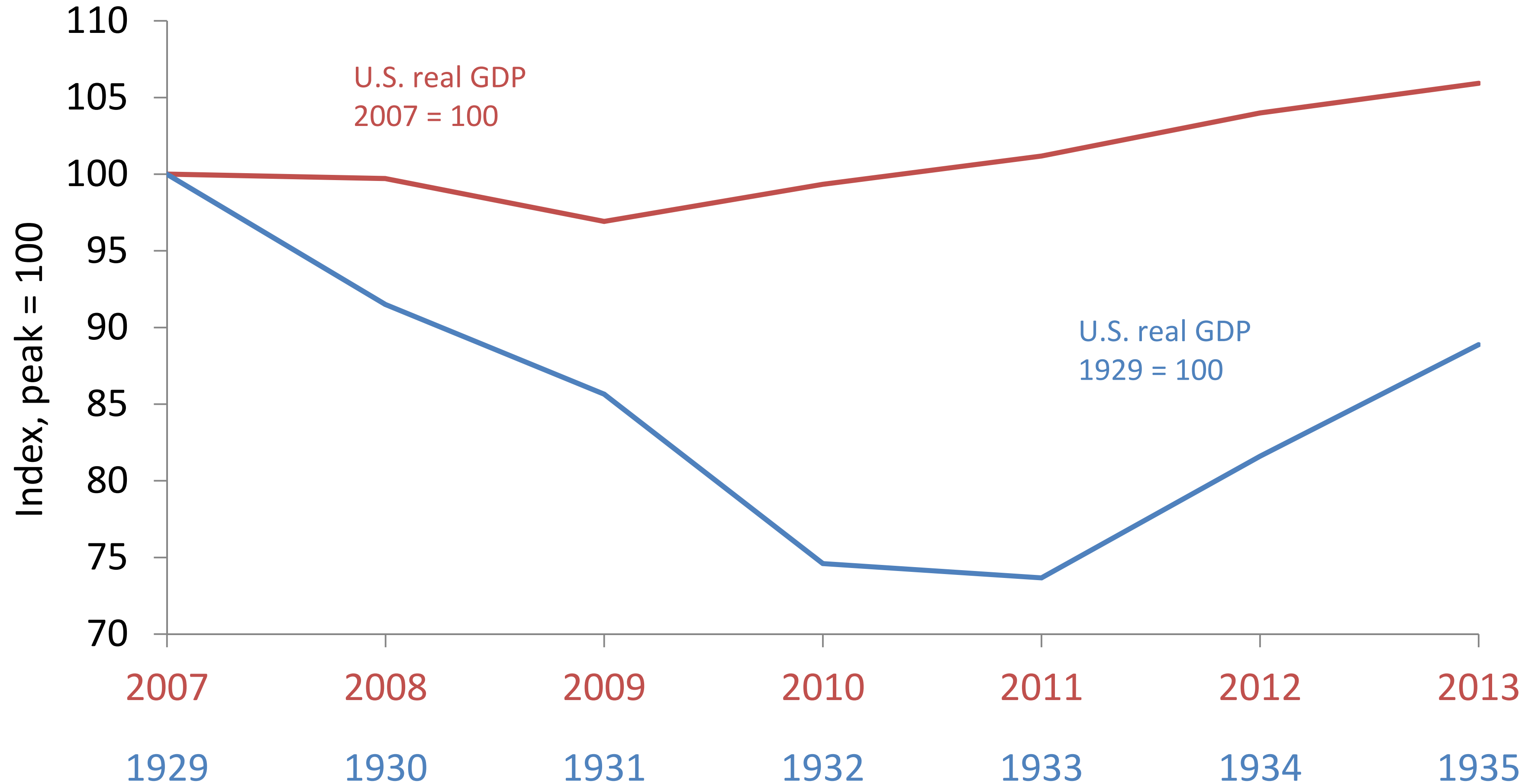
Federal Reserve's Balance Sheet



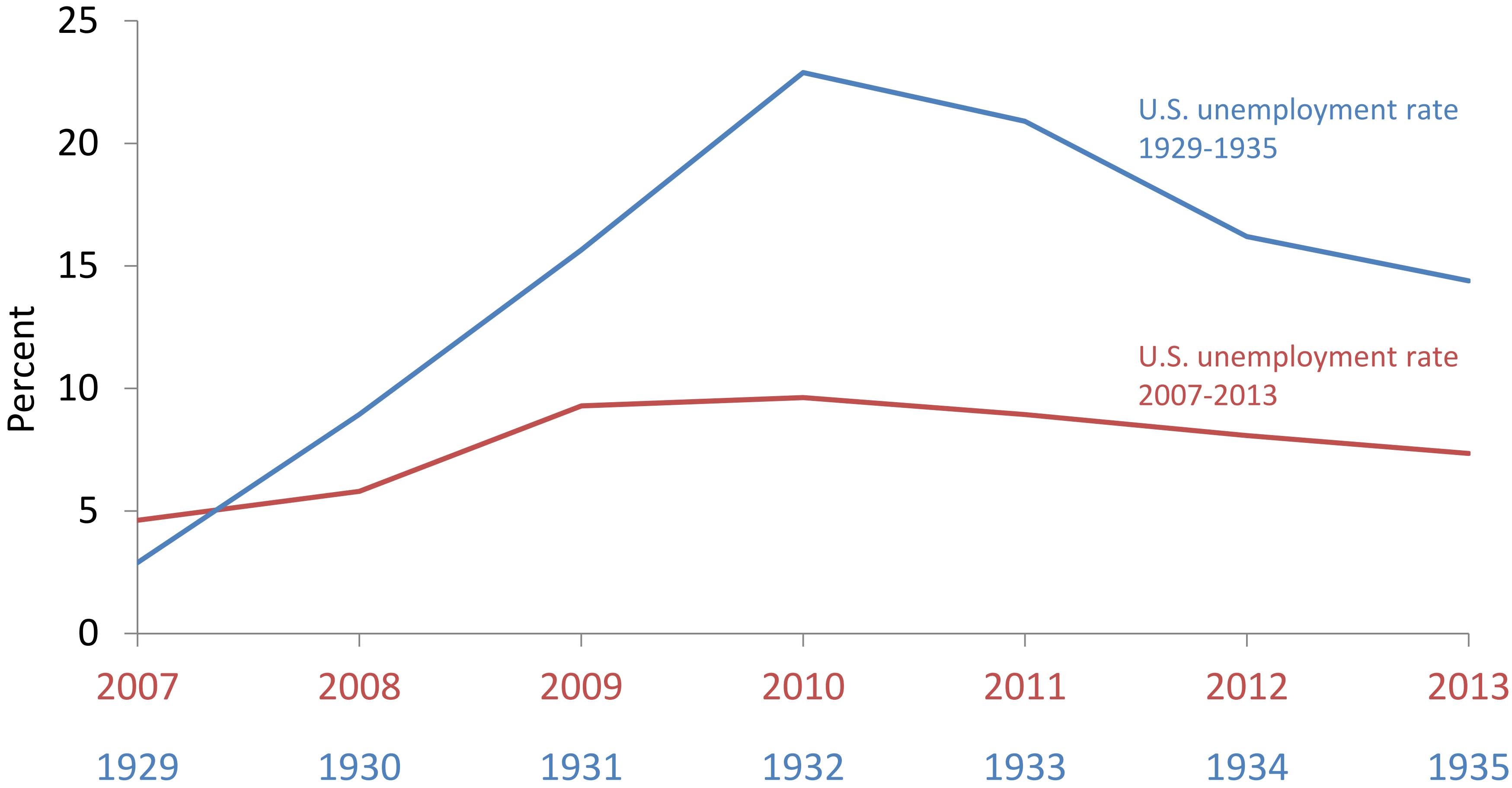
The Great Depression and the Great Recession



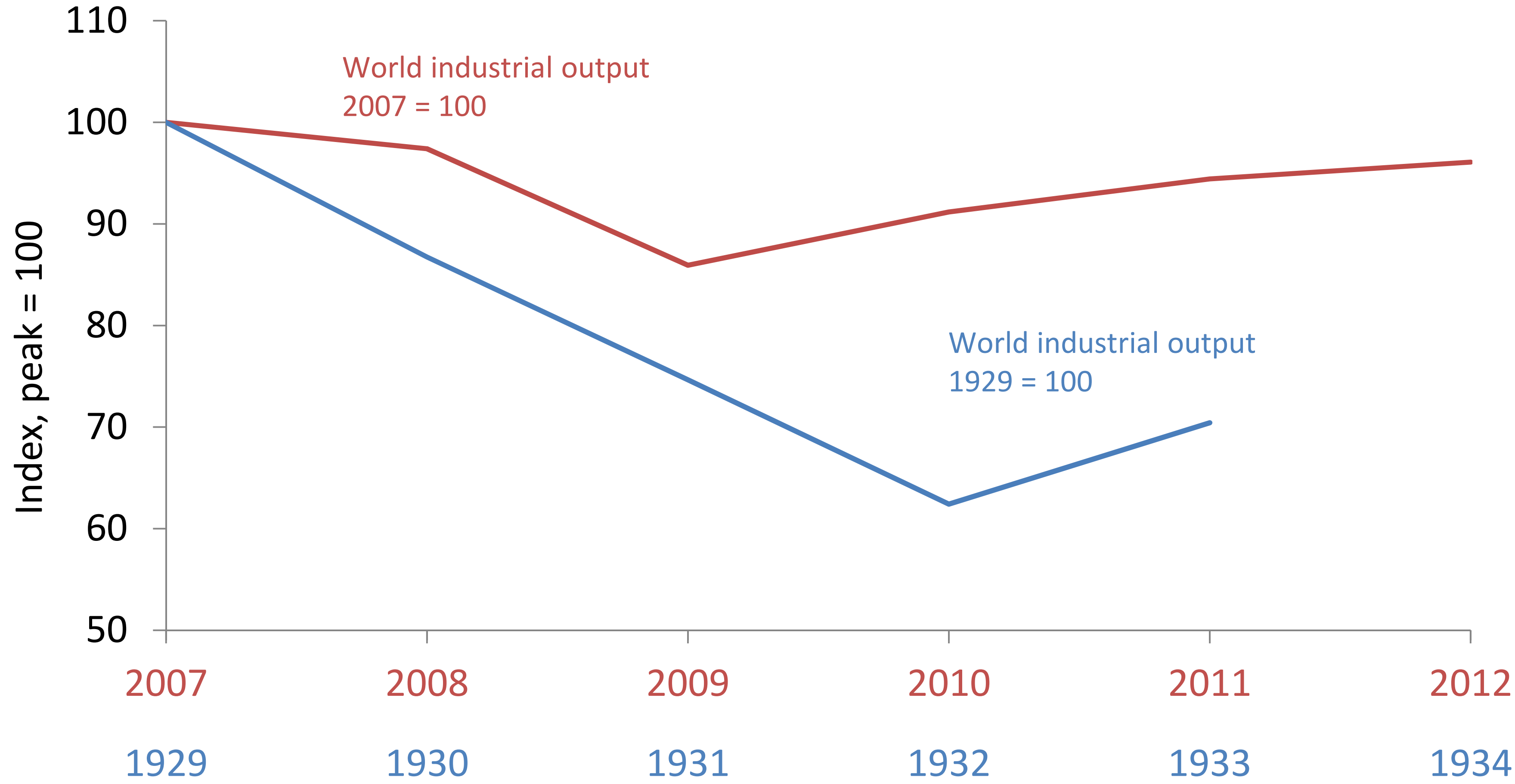
The Great Depression and the Great Recession



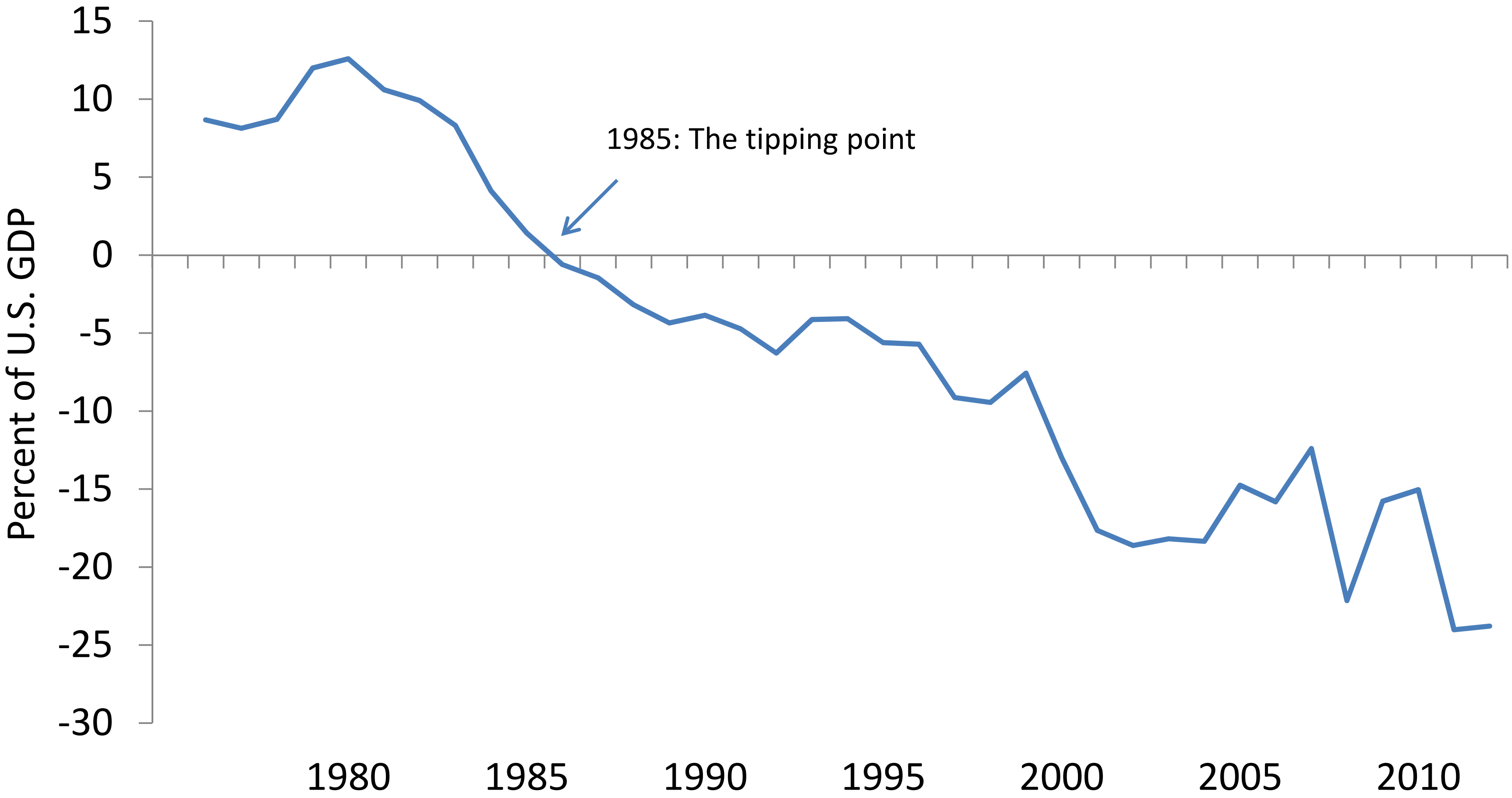
The Great Depression and the Great Recession



The Great Depression and the Great Recession



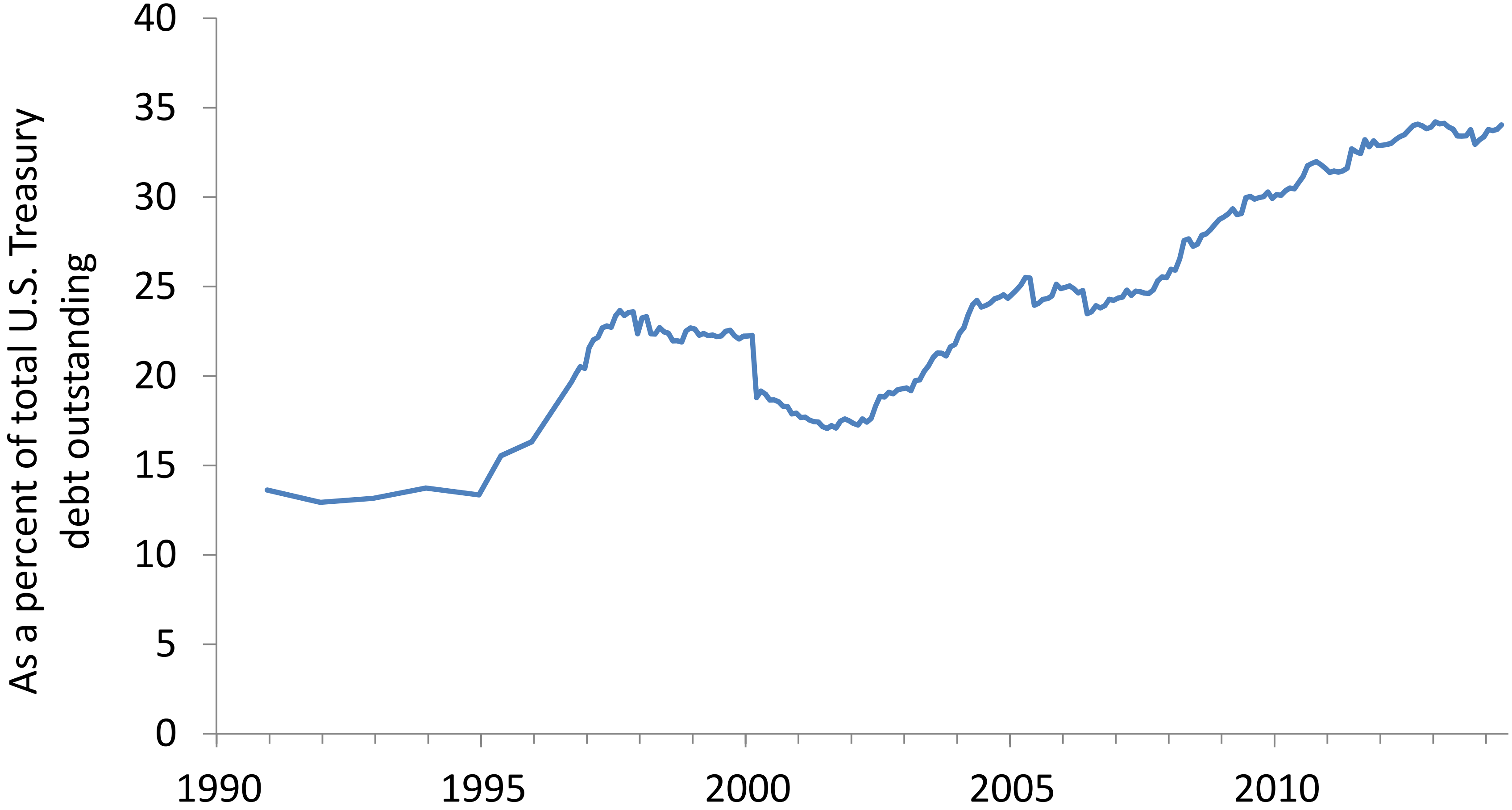
From being a net creditor to net debtor



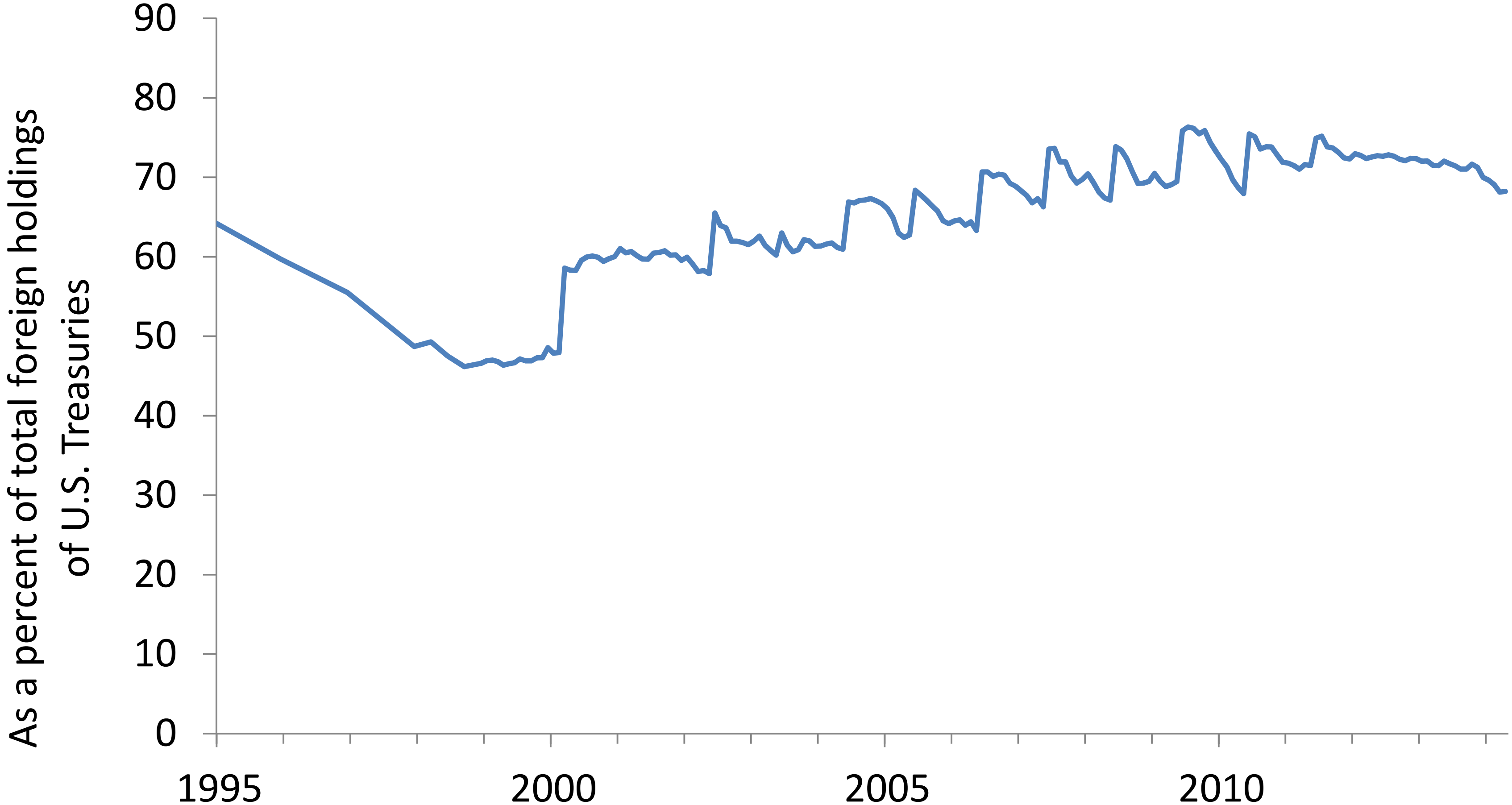
Is the U.S. “different”?

- Role of the U.S. dollar as a global currency
  - As vehicle for holding foreign exchange reserves
  - As a unit of account for pricing (e.g. oil, airplanes)
- Seigniorage revenue
  - About half of US currency held outside the United States
- Ability to issue debt in our own currency
  - US almost uniquely privileged in this regard
- “Safe-haven” status

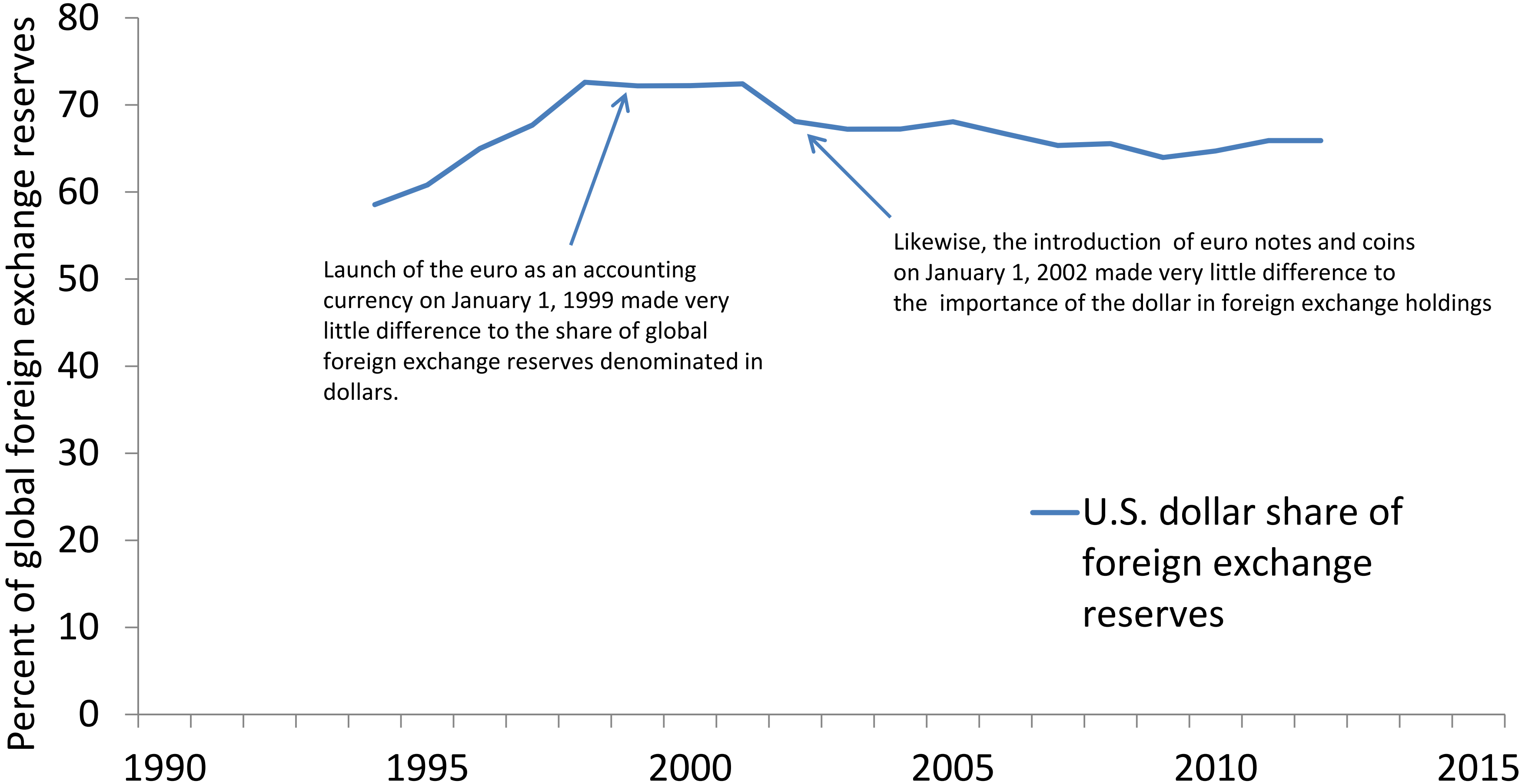
Foreign holdings of U.S. Treasury debt



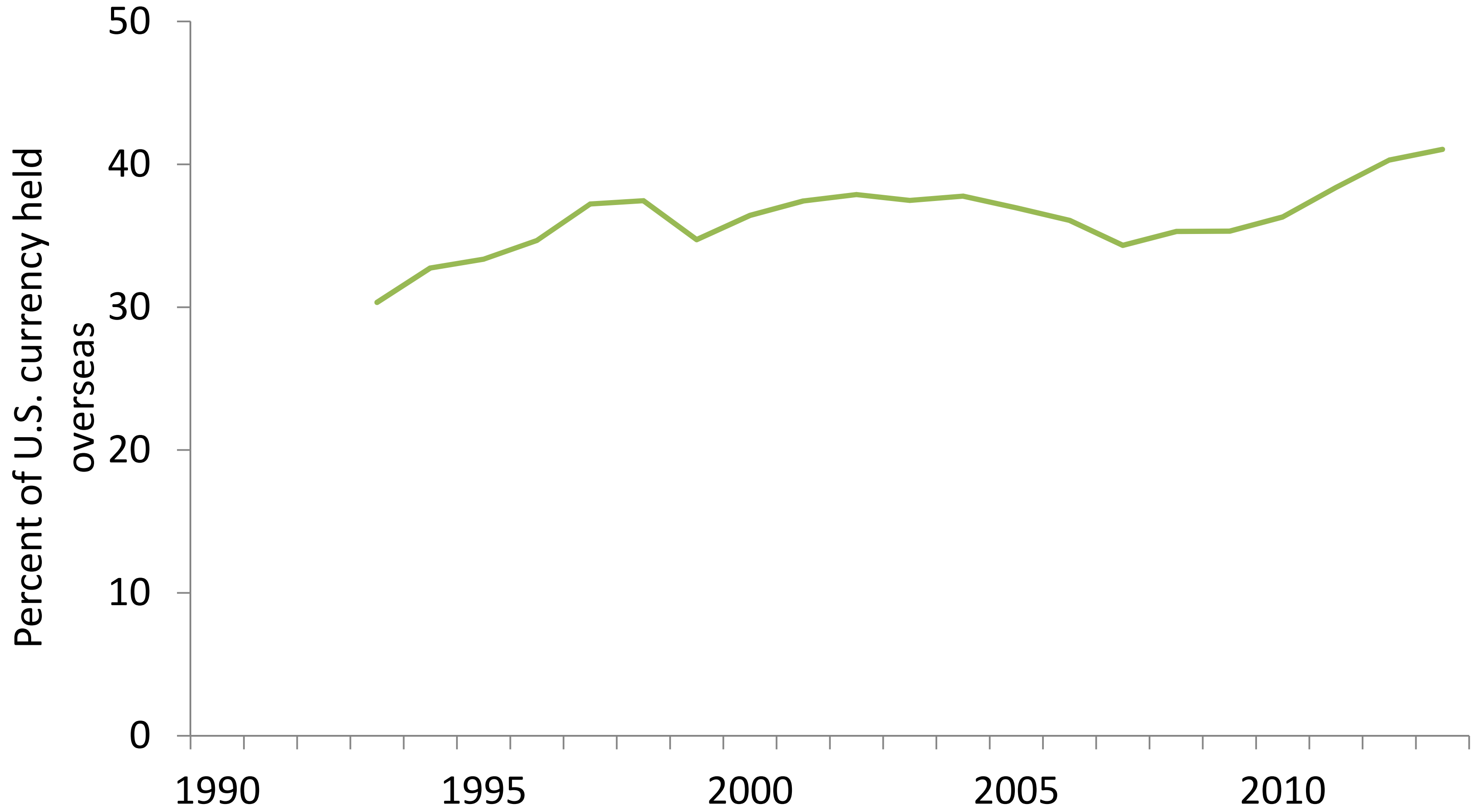
Foreign official institutions' holdings of U.S. Treasury securities



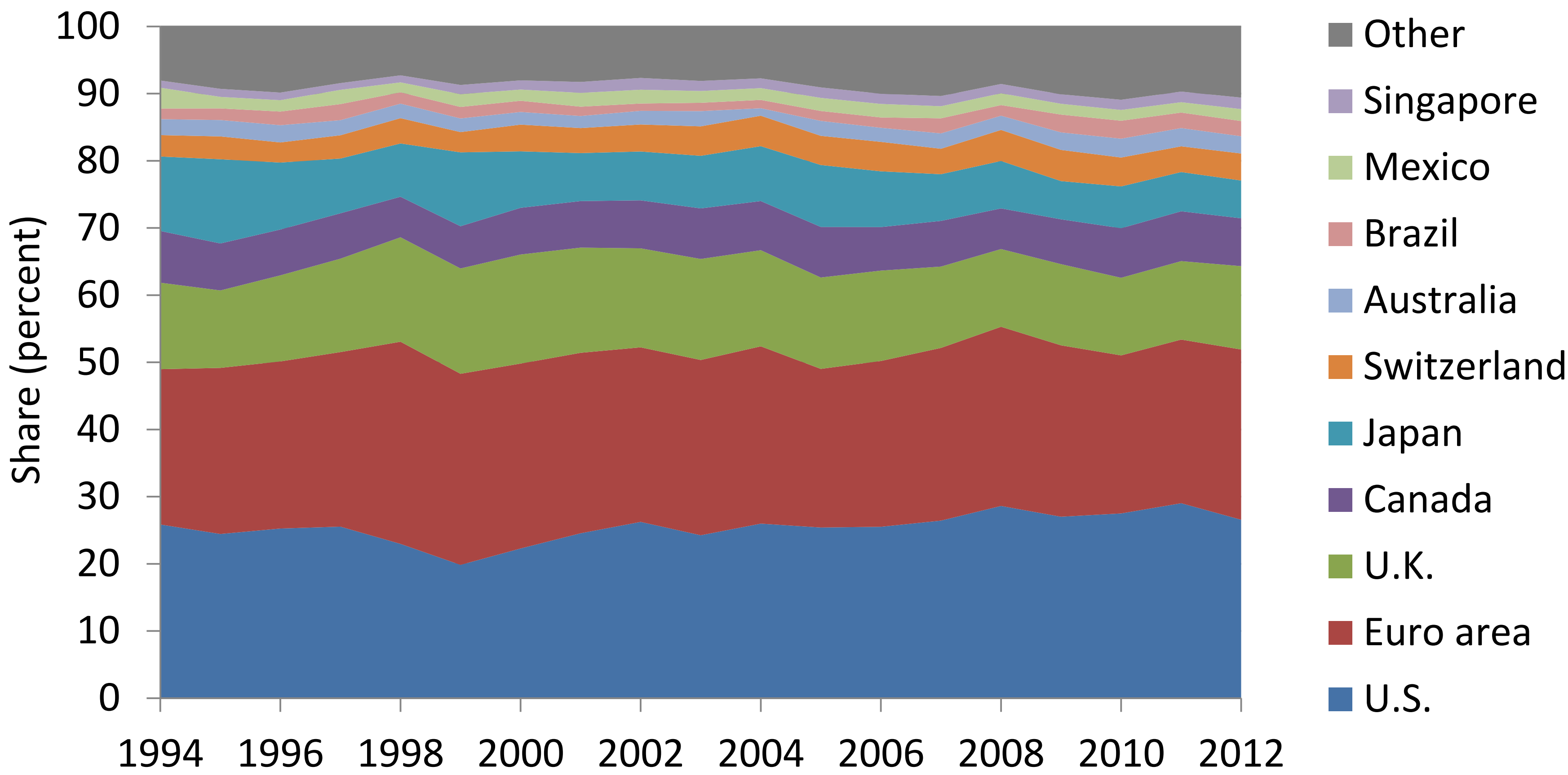
U.S. dollar the preferred vehicle for holding foreign exchange reserves



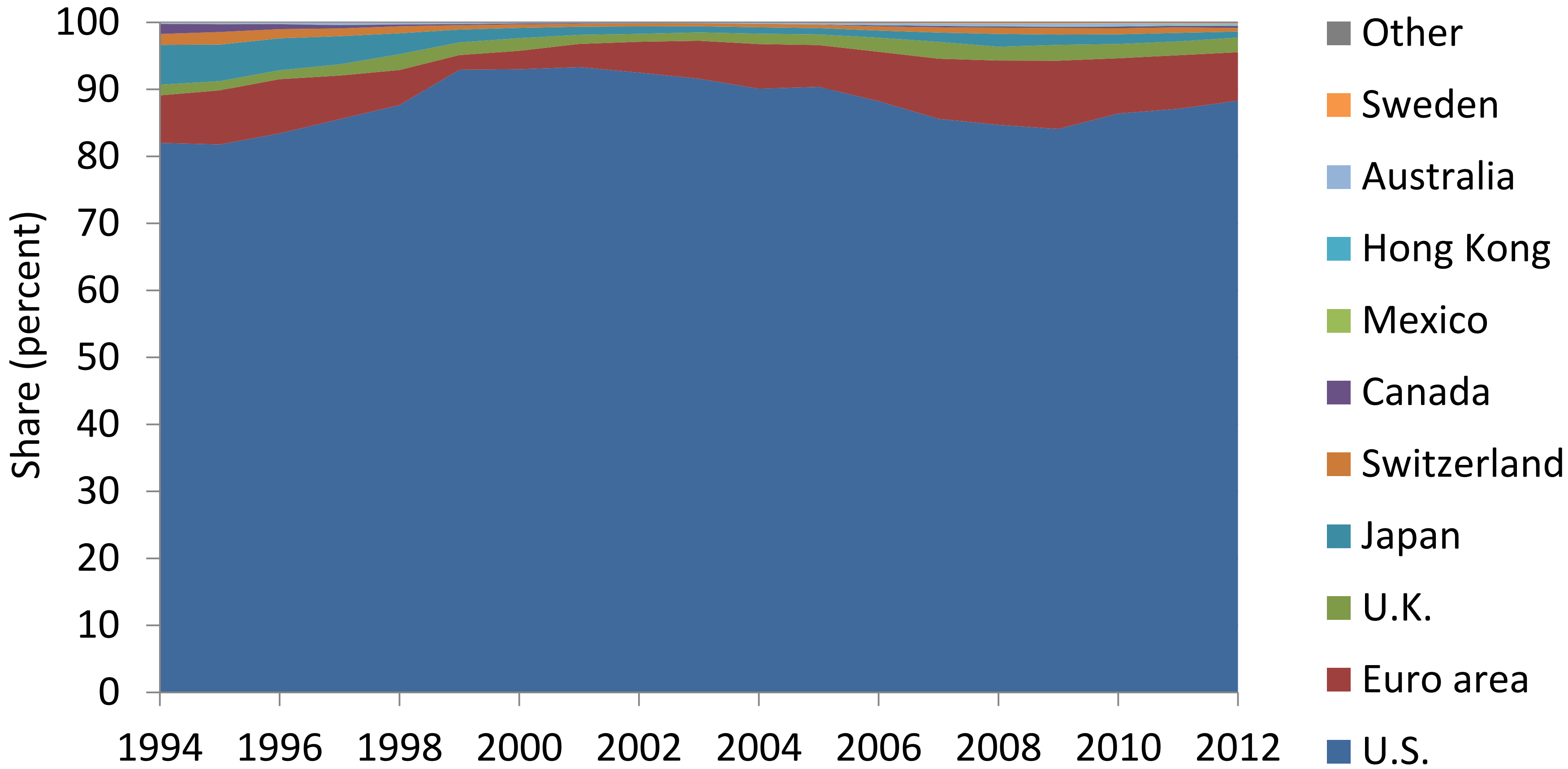
A tidy source of profit to the U.S. taxpayer



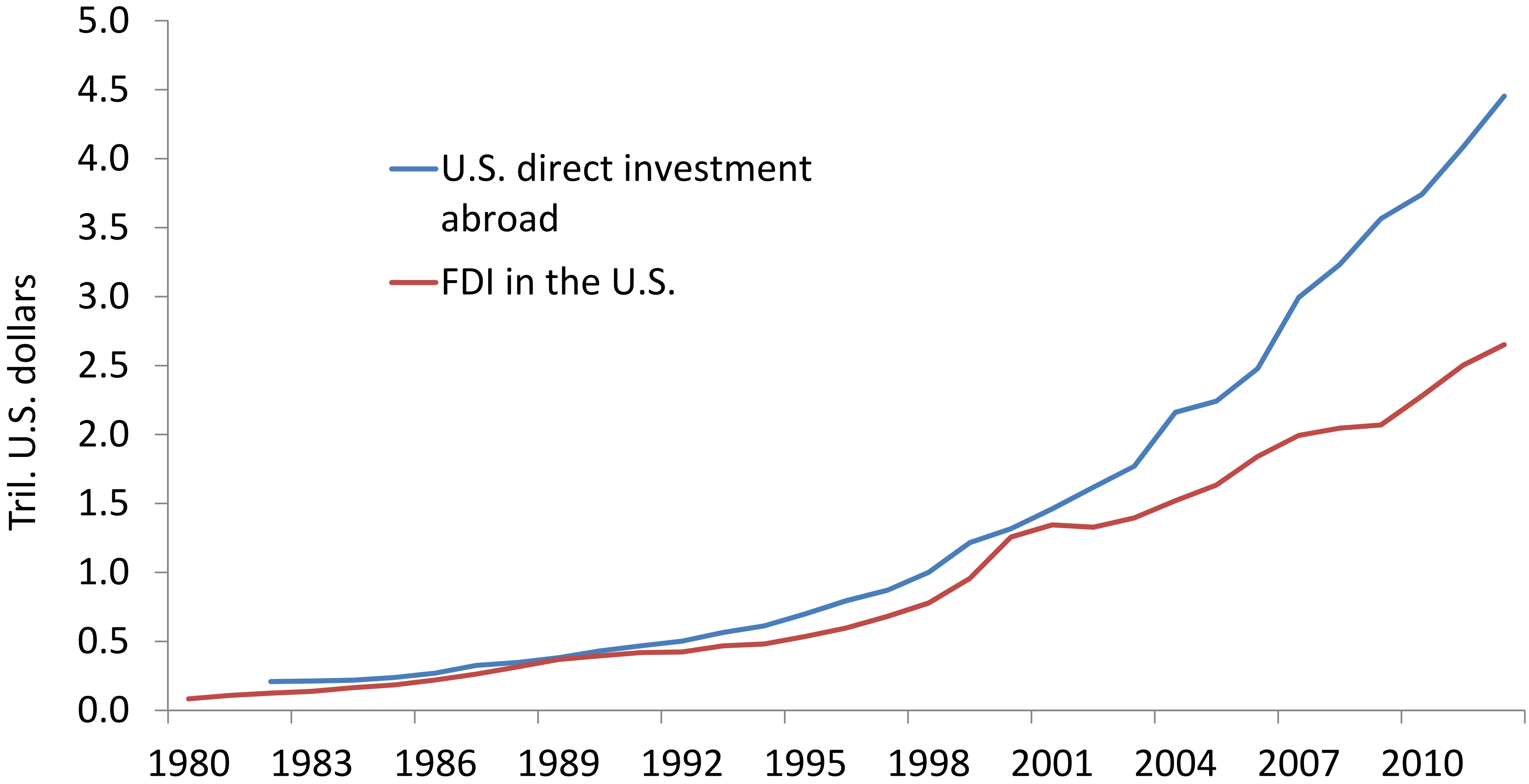
Currency Composition of U.S. International Assets



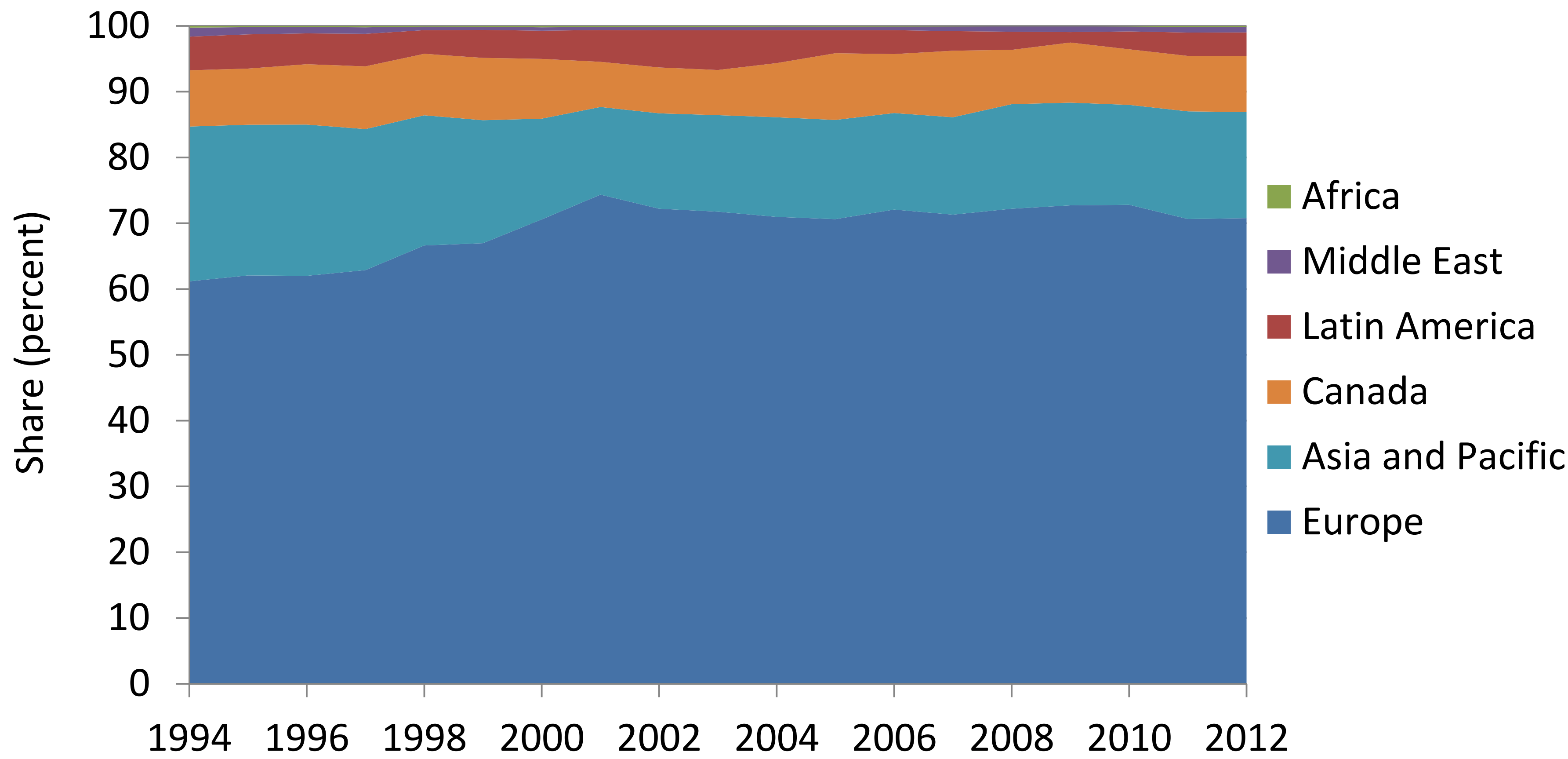
Currency Composition of U.S. International Liabilities



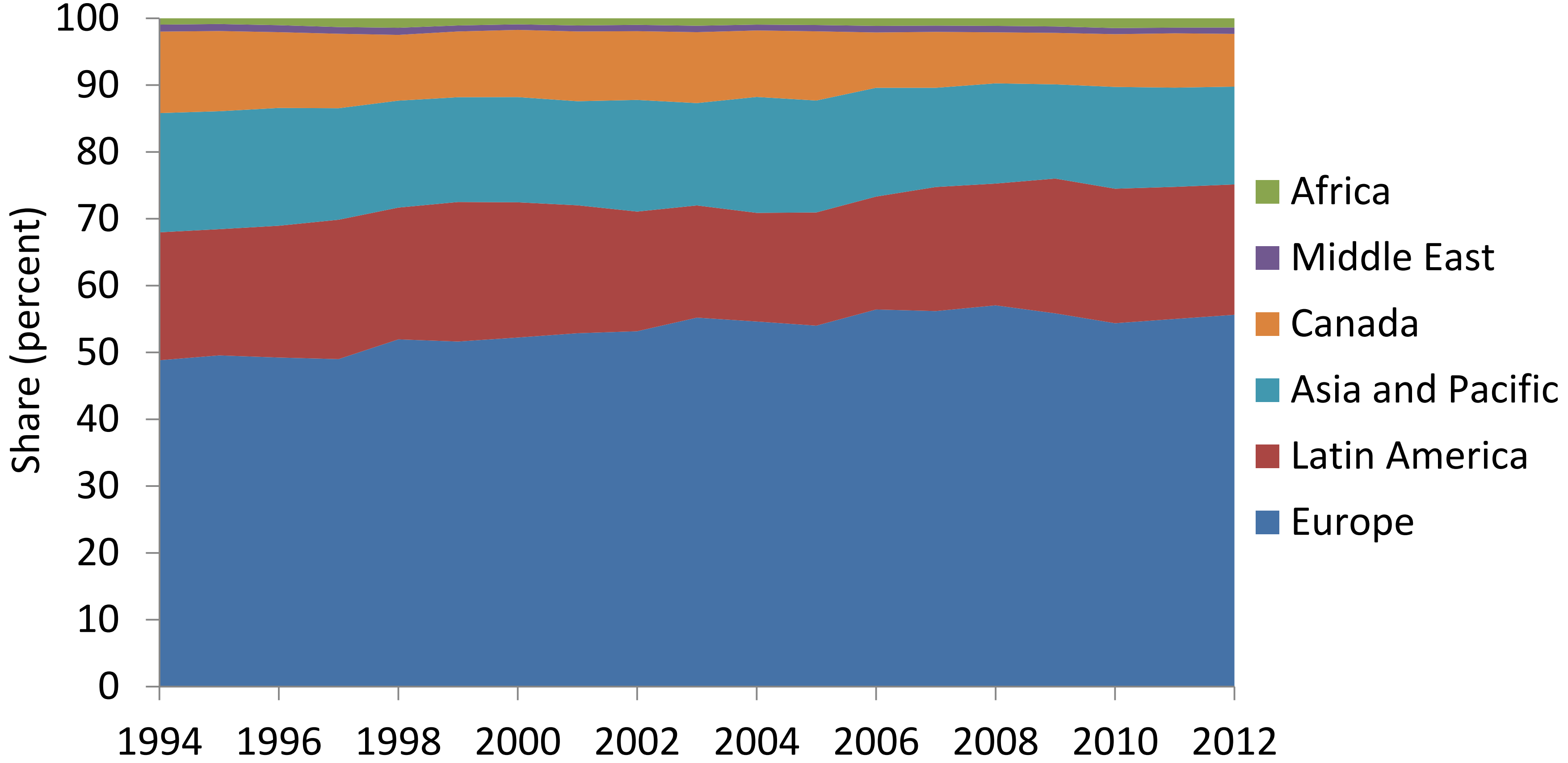
Total FDI in the U.S. and abroad



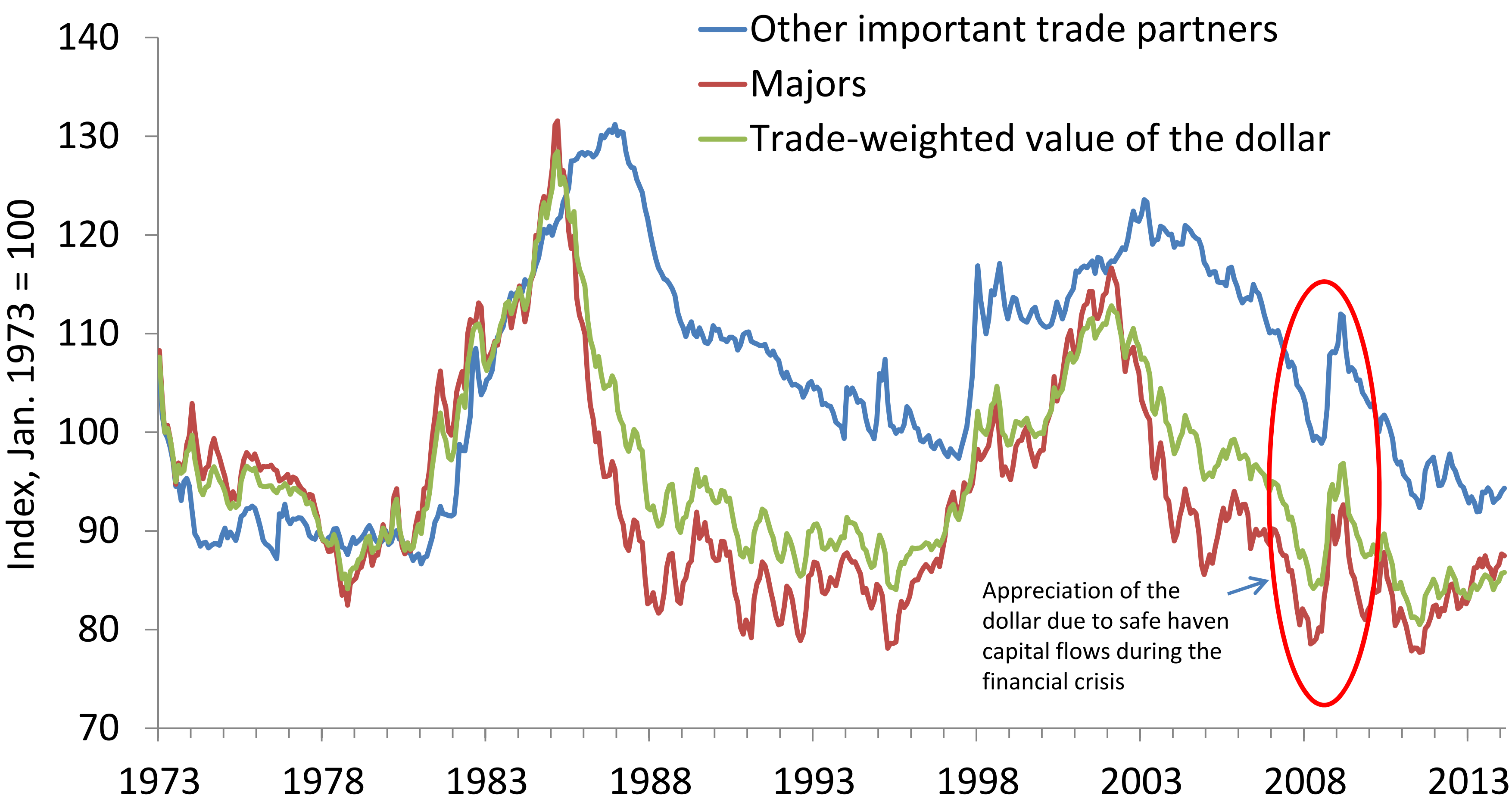
Composition of foreign direct investment in the U.S.



Composition of U.S. direct investment abroad



The external value of the dollar



Final thoughts

- Globalization is driving a fundamental rebalancing of global economic activity
- Financial globalization has seen the U.S. go from being a net creditor to the rest of the world to being a net debtor
- Nevertheless, the U.S. is different in important respects
- A key challenge going forward will be to ensure that we do not squander that position

Globalization and Monetary Policy Institute