While the report is careful not to single out the US, the central bank fraternity views Donald Trump's unfunded tax cuts and higher spending as reckless. The stimulus will force the US Federal Reserve to raise interest rates faster, and out of step with Europe and Asia. This risks a spike in the dollar, which in turn threatens to topple the vast edifice of dollar-denominated debt outside US jurisdiction.

BIS said global dollar lending had exploded to around $US25 trillion when "equivalent" swaps and derivatives were included. It is a form of leveraged leakage from quantitative easing and zero rates. The intermediaries are often European and Asian banks. It fuelled a global asset and credit boom when the going was good. The process is now going to reverse. The stronger dollar and rising US rates together act as a tightening tourniquet on world liquidity. Mr Shin said the dollar exchange rate is what drives the world's animal spirits, in both directions.

When it strengthens, banks with unhedged exposure are forced to retrench. "The tail risk in the portfolio goes up and they might have to cut back positions, not just for dollar bonds but for other assets as well. The mechanism acts as a broad tightening of credit conditions," he said. Emerging markets are on the front line. Dollar debt in these countries has doubled to $US7.2 trillion since 2007, much of it owed by companies. Dollar bond issuance soared by 17 per cent last year alone.

Most of these countries have built up defences after learning the harsh lesson of the Asia/Russia crisis of the late Nineties. "Emerging markets are starting with hefty foreign exchange reserves and are in a very different position from 1997. The buffers are much larger," said Mr Shin.

Nevertheless, many risk having to raise rates "pro-cyclically" into a downturn to defend their currencies. The squeeze has already exposed the rot in Argentina and Turkey. Signs of stress are spreading to Indonesia, South Africa and Brazil, among others.

The "blowback" into the US, Europe and rich economies could be hard to contain. Emerging markets have accounted for two thirds of global growth over the last seven years.

World asset markets are already stretched. The BIS said credit spreads were "at or below" levels last seen just before the global financial crisis. The reality is that governments have little left in the arsenal if a recession were to hit soon. The BIS has long argued that central banks boxed themselves into a corner during the era of inflation targeting, letting asset booms run unchecked but then intervening massively to prevent the bust.

This has led to "zombie" companies. It explains poor productivity growth and a loss of dynamism. It inevitably leads to credit-driven asset bubbles. It becomes ever harder for central banks to confront these excesses.

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