

Introduction

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This volume is a collection of the speeches, presentations and papers from a high-level seminar on “Currency internationalisation: lessons from the global financial crisis and prospects for the future in Asia and the Pacific”. The event was co-hosted by the Bank of Korea (BoK) and the Bank for International Settlements (BIS), and was held on 19–20 March 2009 in Seoul, Korea. Officials from 12 central banks, as well as academic scholars and BIS economists, attended the seminar. The formal addresses included speeches by Sungil Lee, Senior Deputy Governor of the BoK, and Már Gudmundsson, Deputy Head of the Monetary and Economic Department of the BIS.

The conference came under the auspices of the BIS Asian Research Programme (www.bis.org/arp). From September 2006 to August 2009, the Asian Research Programme focused on policy-oriented studies of topics of interest to central banks and supervisory authorities in Asia and the Pacific, and co-organised a series of conferences, seminars and workshops in the region. The objectives of the three-year programme were to contribute to a better understanding of the policy challenges and to leave a lasting research footprint for the BIS in the region. Topics of interest included improving monetary policy and operations, developing financial markets, maintaining financial stability and strengthening prudential policy.

The purpose of this seminar was to review experiences of economies in the Asia-Pacific region with currency internationalisation and to assess the prospects for further internationalisation, emphasising the policy implications facing central banks if current trends continue. Lessons learned about currency internationalisation since the intensification of the strains in global markets in mid-2007 were also discussed.

Summary of the conference papers

The seminar began with a presentation that laid out a conceptual framework for thinking about currency internationalisation. This was followed by presentations on the experiences of different economies from the region as well as the euro area. These experiences varied widely, with some economies having highly internationalised currencies while others were relatively insular, although most presenters viewed an increasing degree of internationalisation as largely inevitable and generally beneficial. The conference then concluded with a panel discussion on the lessons from the crisis for currency internationalisation, and prospects for the future.

Current issues in currency internationalisation

In the first presentation of the first session, Professor Peter Kenen (Princeton University) provided a conceptual framework for thinking about currency internationalisation. He laid out the dimensions, process, and costs and benefits together with the extent of internationalisation in Asia. His presentation stressed the distinctions between financial liberalisation, international financial centres and currency internationalisation, and interactions between internationalisation and the development of the domestic financial system.

Next, Anella Munro (now Reserve Bank of New Zealand) and Philip Wooldridge (BIS) explored the motivations for borrowers to raise funds in a currency unrelated to their operations and swap the proceeds into the desired currency, instead of borrowing the desired currency directly. They found that the characteristics of foreign currency bonds issued by residents and local currency bonds issued by non-residents differ in ways consistent with these issuers arbitraging cost differentials.

Perspectives from Europe and Japan

Focused discussion of different individual economies' experiences with currency internationalisation began in the second session. Frank Moss (European Central Bank) argued that the euro was born as an international currency, based on the international role of its predecessors. He then discussed the evolution of this role during the first 10 years of EMU, and the impact of the global financial crisis.

Shinji Takagi (Osaka University) then reviewed the experience of Japan with its attempt to internationalise its currency from 1984 to 2003, and the relative success of different government policies in achieving this objective.

Prospects for the renminbi

In contrast to the previous cases, China represents a major economy with a relatively non-internationalised currency. Yongding Yu and Haihong Gao (Chinese Academy of Social Sciences) argued that China's increasing economic integration and over-reliance on the US dollar raises the prospects for renminbi internationalisation.

Wensheng Peng (then Barclays Capital, now CICC), Hongyi Chen (Hong Kong Institute for Monetary Research) and Chang Shu (Hong Kong Monetary Authority) followed by suggesting that the renminbi already plays a significant role in terms of its impact on the exchange rates of the Asian currencies, and that its role will grow with increasing convertibility.

Progress towards internationalisation

Kyungsoo Kim and Young Kyung Suh (Bank of Korea) argued that the international use of the won has been insignificant so far, but that this did not protect Korea from the international financial crisis. However, increased internationalisation may reduce the effectiveness of monetary policy and hinder the stabilisation of the domestic capital market going forward.

Luke Goh (Monetary Authority of Singapore – paper not available) characterised the Singapore experience as an evolutionary path away from explicit non-internationalisation to allowing an increasing range of international transactions in Singapore dollars.

The regional dimension

Yung Chul Park and Kwanho Shin (Korea University) argued that full convertibility of both the current and capital accounts is necessary but not sufficient for currency internationalisation, and examined the implications of currency internationalisation in East Asia for monetary and financial integration.

Monetary policy challenges with an internationalised currency

Shyamala Gopinath (Reserve Bank of India – paper not available) suggested that the degree of internationalisation should be interpreted as an indicator of the confidence that the global economy has in the economy of the issuing country. Currently the rupee plays only a limited role internationally, mainly in economies in India's immediate vicinity, although this is likely to grow with the size of the economy.

Ric Battellino (Reserve Bank of Australia) described the internationalisation of the Australian dollar, beginning with the floating of the currency and removal of capital controls in 1983, and discussed the extent to which the Australian dollar is now internationalised. He then discussed the implications of this for financial markets, the conduct of monetary policy, the balance of payments and financial stability.

Panel discussion: Lessons from the crisis and prospects for the future

In the final session, a paper presented by Hans Genberg (Hong Kong Monetary Authority) provided the backdrop to a panel discussion on lessons from the crisis and prospects for the future. He started by recalling briefly the main features, benefits and costs of currency internationalisation and argued that some alleged benefits are not as self-evident as they might at first appear. He then addressed the role for policy to promote the international use of a currency, how many international currencies there could be and the possible role for regional currencies.