

David Clementi: Crisis prevention and resolution - two aspects of financial stability

Speech by Mr David Clementi, Deputy Governor of the Bank of England, at the Inaugural Lecture at the South Bank University Centre for Monetary and Financial Economics, London, on 6 September 2000.

* * *

Introduction

Ladies and Gentlemen,

When I was invited to give the inaugural lecture at the Centre for Monetary and Financial Stability, I was pleased to accept. It is obviously an honour to be asked to inaugurate any academic institute but supporting the foundation of a centre dedicated to the pursuit of monetary and financial stability is, for a central banker, a particular pleasure! After all, monetary and financial stability and the interaction of the financial system with monetary policy are at the heart of the Bank's mission. The first of the Bank's core purposes is maintaining the integrity and value of the currency or, in other words, monetary stability; the second is maintaining the stability of the financial system.

I intend to focus my remarks on this second core purpose. Financial stability has always been an integral concern for central banks. We have been reminded of its importance by the events of recent years. The Asian Crisis in particular set in train a programme of international work and discussions, looking at ways to prevent a recurrence and to handle one if it did. One concrete result was the creation of the Financial Stability Forum, which meets semi-annually, bringing together central banks, finance ministries and regulators to discuss issues of common concern and to develop policies for controlling risks to the international financial system.

The work broadly falls into three categories: crisis prevention, surveillance and crisis resolution. It is my intention today to concentrate on crisis prevention and crisis resolution and to discuss in some detail two issues currently under debate. The first relates, in the context of the revision of the Basel Accord, to the aggregate capital in the banking system and the optimal level of bank capital. The second concerns the international financial architecture and the respective roles of the private and official sector in dealing with liquidity crises.

But before I turn to these I would like to say something about surveillance. This responsibility is shared in the UK between the Bank, FSA and HMT. Following the creation of FSA, the respective roles of the three parties were set out in a Memorandum of Understanding between them. While HMT is responsible for the structure of financial legislation and the FSA is responsible for the regulation of individual firms, the Bank is responsible for the stability of the financial system as whole. To this end, the Bank dedicates significant time and resources to tracking developments in the global economy and financial markets with a view to identifying potential threats to financial stability. Major developments are discussed each month in the Bank's Financial Stability Committee. Within the Bank, the Financial Stability Committee occupies a similar position in relation to financial stability as the MPC does for monetary stability. Bank staff present papers to the Financial Stability Committee evaluating the overall conjunctural position and reviewing issues of specific concern. The staff assessment of financial stability is shared with the Treasury and FSA and discussed with them in the Standing Committee, set up under the MoU, that meets each month to monitor financial stability and to consider issues of common concern. The objective is to identify sources of instability before problems emerge, to be in a position to take preventative action or to respond quickly in the event of trouble.

The Bank sets out to articulate publicly its financial stability role and to communicate current concerns by the publication semi-annually of the Financial Stability Review. Each edition includes an overview of financial stability providing an assessment of current threats to the system, ranging from imbalances

in the major industrialised economies or debt structures in EMEs, to sectoral issues such as equity market volatility or gearing in the telecoms industry. While other commentators may talk of economic miracles, you can rely on central banks to find disaster waiting in the wings! But if surveillance feeds off central bankers' capacity to worry, then crisis prevention and crisis resolution, working on rules to minimise the risk or the cost of a financial crisis, may be the only prospect for us to get a decent night's sleep.

Crisis prevention: bank capital requirements

I would like to discuss one particular weapon in the crisis prevention armoury, which is bank capital. This is, of course, a very topical subject at the moment, with the revision by the Basel Committee on Banking Supervision of the 1988 Capital Accord.

Importance of capital

Why does bank capital have a crucial role in crisis prevention? This question has two aspects: first, the importance of capital itself; and second, the special role that banks play in the economic system. Capital has a vital two-fold role. First, capital - or rather equity capital - acts as a buffer against insolvency. It therefore helps to protect the system and limit calls on the safety net. And second, equity capital helps to align the objectives of the firm's owners with the objectives of the authorities. Where the owners of firms invest only pinpoint capital, or see their investment erode to the point where the firm is only marginally solvent, owners have an incentive to "gamble for resurrection", because with limited liability, taking on extra risk has substantial potential upside but no extra downside for owners. But with a higher cushion of capital, owners do have something to lose.

That said, we should not overstate the role of capital in ensuring the health of the banking system. If other fundamentals are shaky - such as the macroeconomic environment, the legal system, or the framework for asset valuation and auditing - capital is likely to produce only limited comfort. And capital adequacy is of course only one aspect of prudential regulation, with other aspects of risk management such as liquidity management and systems and controls also being vitally important.

The Basel Committee has now of course explicitly recognised that the formal regulatory minimum capital framework is only one pillar in the edifice of bank soundness. It has to be complemented by supervisors individually reviewing the capital adequacy of banks in the light of a wide range of risk factors - the second pillar of the proposed new Accord - and by market discipline on banks, the third pillar.

On the question of why we focus on banks, it would be difficult to overstate the importance of a stable banking system to economic health and growth. Banks play a crucial role in intermediating savings and credit and they are at the heart of the payments system. Most firms in most economies remain heavily reliant on banks for finance, and even in economies where a significant number of firms can turn to the capital markets for finance, banks retain important roles as providers of payment facilities, short-term credit, and backup liquidity. In less advanced economies, their role is even more dominant, to the extent that a number of full-blown macro-economic crises have had their roots in weak banking systems.

Changes to the Basel Accord

As I have said, the capital framework for banks is currently under review by the Basel Committee. It is worth reminding ourselves what this framework consists of. First, it sets out a method for measuring the riskiness of assets. Second, it sets out a definition of capital. And third, it lays down a minimum ratio between capital, the numerator, and risk assets, the denominator, namely that capital should be at least 8% of risk-adjusted assets, with at least 4% of this consisting of Tier 1 capital.

What changes will the new Accord make to these elements?

The work has to date been heavily focused on the first element of the framework, the method for measuring risk. There will be substantial changes here, with the aim of introducing more risk sensitivity to the existing crude measures and to widen the coverage of the measures beyond just credit risk and market risk which was addressed in the previous review of the Accord. The direction of the changes was laid out in the Committee's consultative paper of June last year and I do not intend to go into a description here.

On the second aspect, the Committee has stated that "With respect to the definition of regulatory capital, the Committee will maintain at this stage the existing rules set out in the 1988 Accord." In other words, they will not at this stage be revising their definition of capital. Just to remind you, this definition of capital broadly divided capital into two tiers, of which Tier 1 mainly consists of shareholders equity and reserves and Tier 2 of certain subordinated debt instruments and an element of general provisions. There have been some modifications to the definition since 1988, for instance to introduce another layer of less permanent capital to back short term trading risks, and more recently to accommodate some more innovative types of issues which can be aligned with Tier 1 for capital purposes (but with debt for tax purposes - an outcome which I believe is technically described as "having one's cake and eating it"!).

It would of course be intellectually more satisfying to be reviewing the whole framework together, but the Committee's decision not to revisit this definition at this time is, I believe, a defensible pragmatic one: modernising the denominator is proving quite difficult and contentious enough without involving the numerator as well. That said, there is a discussion which needs to take place at some point as to whether the definition has achieved the right composition of elements and emphasis on those elements.

How much capital does the system need

It is on the third aspect of the framework that I mainly wish to offer some thoughts today, that is, on the level of capital that should come out of the framework. Here again, the Committee has signalled a "no change" or at least a "no change in aggregate" intention, by saying that "The Committee believes that the new framework should at least maintain the overall level of capital currently in the banking system."

We should of course be under no illusion that the ratios chosen in 1988 were arrived through a scientific process. If I may digress briefly into anecdote, I recall that Bill McDonough once related that he had asked his staff why, under the market risk amendment to the capital accord, it had been decided to apply a three-times multiplier to the outcome of VAR models. Why three times? The answer came back that three times was selected because "two times was too low and four times was too high". I imagine that the process of selecting 4% minimum equity was very similar to this. The selection of a capital ratio ought, ideally, to depend upon answers to the following questions: what is the risk we are trying to limit? What is a good measure of that risk? What residual level of risk are we willing to tolerate? And how do we fix a capital level so as to achieve that residual level? These questions were not explicitly addressed back in 1988, although possibly we can infer some of the implicit answers from the regime that was established. However, although neither 1988's Accord's measure of risk nor its selection of the minimum capital ratio may have been scientifically derived, the Committee's statement that we will at least maintain the overall level of capital in the system indicates that, ex post, they are reasonably happy with what the 1988 Accord achieved.

But what exactly do they mean by this statement? And how do we go about achieving their intended outcome? Is it, indeed, a reasonable outcome to strive for? I will try to address these questions.

One way of thinking about the 1988 Accord is that, aimed principally at internationally active G10 banks, and using crude measures of risk that assumed some sort of average portfolio and profile of risk for such banks, it set a "confidence level" for the soundness of individual banks and hence the system. Looked at in this light, the Committee's statement means that the authorities do not intend to tolerate a different - ie lower - level of confidence following the introduction of the new Accord. In other words,

under the new regime, the average internationally-active G10 bank will not be more likely to fail than it would be under the old regime.

This seems a fairly sensible way to view the relationship of the old Accord with the new version. It leaves plenty of scope to see redistribution of required capital, from less-than-averagely risky banks to more risky ones. It also leaves scope for overall capital to reduce over time, if better risk measurement or other techniques lead to a reduction in the risk taken.

That said, looking at the appropriate level of capital in this way still means that we have to be able to measure the current confidence level for G10 bank insolvency which is established by the existing Accord. This is not an entirely straightforward task. One starting point could be the ratings of G10 banks. The median rating of banks, taking the entire rated G10 population of more than 300 banks, is A1 on the Moody's scale, or A+ on the Standard and Poor's scale. This would indicate a near-invisible insolvency probability for such banks over a 1 year horizon. However, this very small insolvency probability does reflect two factors which ideally we would wish to discount. First, the ratings reflect the bank's actual capital level which will in most cases be significantly above the regulatory minimum. And second, in some cases the rating also reflects the agency's expectation that public support would be forthcoming for the bank, which of course we would wish to strip out. A more accurate measure of the confidence level established by the Basel 8% would be the "standalone" ratings produced by some agencies, for those banks whose capital is at or close to the Basel minimum. Even on this basis, nearly all such banks are rated above investment grade. The message therefore from this view of the matter is that under the new Accord we should be targeting a minimum level of regulatory capital for our G10 internationally active banks that is at least consistent with an investment grade rating.

An alternative way of assessing the regulatory soundness standard would be on a "bottom up" basis, that is by modelling the probability of default arising from a typical credit portfolio if the bank held only the Basel minimum capital. The advent of credit risk modelling techniques such as CreditMetrics allow such an exercise to be attempted. Any results under this sort of approach need to be treated with a fair amount of caution, given the number of assumptions involved. The work we have done at the Bank, experimenting with these models and using different parameters, at least supports the proposition that G10 international banks (the target constituency for the Accord) should have capital on the basis of a one-year default probability that is consistent with an investment grade rating.

Assuming that we can somehow identify the current confidence level implicit in the existing capital Accord, we may, as I suggested above, nevertheless want to debate the question of whether the Committee would be right in aiming to replicate this under the new Accord. Is this a reasonable objective? Or are we being too conservative?

Clearly there are types of banking exposures for which too much capital is being demanded, such as lending to very high quality corporates. This has led to some exposures being moved outside the banking system, through disintermediation or regulatory arbitrage. This problem is one of the main drivers behind the Basel Committee's current review of risk measures. However, there are equally transactions for which the Basel minimum is severely inadequate, such as lending to some OECD countries. But the question is really whether on average the regulatory requirement produces the right level of protection.

Given the Bank of England's general concern for systemic risk, we would tend to evaluate this question in terms of whether the existing cushion of capital has given the right level of protection to the system, ie have we established the right level of tolerance towards banking crises. Individual bank failures do not prove inadequacy of the framework - although a complete absence of bank failures would suggest severe overprotectionism.

It is very difficult to answer this question definitively, given that bank failures and banking crises tend to have their roots in a number of different causes, not just inadequate capital. It is difficult to say therefore how much difference extra capital would have made, or how many more crises would have resulted had the regulatory capital demand been lower. Nevertheless the frequency of crises, even in developed countries since the Basel Accord was implemented, is not so low as to make us feel that the regulatory demand for capital is overstated. Using IMF data on banking crises, we find that during the

1990s four out of 11 G10 countries have suffered a banking crisis - a statistic which I do not find particularly comforting. And, although developed countries tend to escape the twin plague of a banking crisis combined with a currency crisis, we should not suppose that this rather high incidence of crisis in developed countries is mitigated by the costs of the so called crises being noticeably low. I hesitate to put precise numbers on costs, because they do vary quite considerably. However, as Bank of England research which is to be presented later to this conference indicates, both the fiscal and welfare costs on all the measures used are very significant indeed. On some measures, in fact, the output costs of banking crises in developed countries tend to be higher than in emerging markets, largely because the length of crises is longer in developed countries. Overall, therefore, in the light of past experience, I think we would be taking an unjustified risk if we deliberately set out to lower the existing regulatory demand for capital.

Crisis management and payments

Standstills: I want to turn now from crisis prevention to crisis resolution and from domestic banking to more general international liquidity crises. While the banking system was a source of instability in many countries during the Asian crisis, a more immediate problem was the liquidity crisis triggered by the sudden outflow of capital from the region. It is the free movement of capital that I would like to discuss and, in such a regime, the need for arrangements that would deal with a liquidity crisis where developing countries get into payment difficulties.

The international capital market

Global capital flows have exploded since the 1970s. Between 1970 and 1996, real GDP in the G7 economies more than doubled. Over the same period, world trade volumes rose by roughly twice this amount. But since 1970, real gross private capital flows have risen by a factor of more than eight - double the growth in world trade and four times the growth in world income.

Rising capital flows have delivered huge benefits to the developing countries. Capital liberalisation, like trade liberalisation, has facilitated “catch-up” in the levels of income of these countries. It delivers a permanent, and potentially huge, welfare gain. The experience of the Asian tigers from the 1970s onwards, and before that of Germany and Japan during the 1950s and 1960s, is testimony to that.

But large-scale capital flows also bring risks. Capital flows are not just large, but volatile too. The financial crises in Mexico in 1994, across South-East Asia in 1997, in Russia in 1998 and in Brazil last year are the most recent and visible examples. But the incidence of financial crisis has in fact been rising since the early 1980s. And the cost of financial crises are considerable. In the stricken South-East Asian countries, capital flow reversals and output losses were anywhere between 5% and 20% of GDP. In many of these cases, there has been encouraging evidence of a V-shaped recovery in output and asset prices following crisis. But the depth of the V is clear evidence of the potential cost of volatile capital movements.

Capital markets have of course been prone to “panics, manias and crashes” for as long as they have existed. It would be naïve to think we can ever entirely prevent crises - and indeed it may be undesirable to attempt to do so. But it is realistic to think that the incidence and severity of crisis can be mitigated through appropriate public policy actions. This is the grandly-titled “new international financial architecture” about which you have no doubt heard.

I want to discuss some of the efforts of the official sector in redesigning the international architecture - achievements to date and, importantly, challenges for the future. While a lot has been achieved, much remains to be done. I will also suggest where I think the official community’s future efforts might best be directed.

Dealing with financial crisis

The first priority of the official community must of course be crisis prevention. And on this front good progress has been made. For example, we now have a substantial array of codes and standards of best practice covering public policy issues: transparency in macroeconomic policies; core principles for the supervision of banks, insurance companies and securities firms (including the changes to the Basel Accord which I have just discussed); principles for corporate governance, insolvency and market integrity; and standards for data, auditing and accounting. Implementation of these codes of best practice is now the key - ensuring that crisis-prevention principles are put firmly into practice, in both developed and emerging economies. The IMF has a key role to play in this implementation process, through their assessments of compliance with standards and transparency about these assessments.

But even with preventative measures in place, liquidity crises will still occur from time to time. Creditors may sometimes choose to flee simply for fear of other creditors doing so before them. A country can face a liquidity “run” in much the same way as a bank. And these types of coordination failure are difficult to resolve with standard macroeconomic policy tools, like monetary policy.

So what policy alternatives are available? One means of resolving this rush for the exits is for the IMF to provide emergency liquidity support in potentially unlimited amounts - a classic international lender of last resort. But virtually no-one envisages the IMF (or anyone else) playing such a role. As a practical matter, the IMF simply lacks the resources. Its usable resources are currently less than \$150 billion. The external debt of the developing countries is well over \$2 trillion. So the IMF’s ability to fill financing gaps is already heavily circumscribed and will become more so over time.

Even with the resources, it is very doubtful whether unlimited IMF lending would be desirable. More likely, it would simply stoke-up moral hazard problems for the future, potentially increasing the incidence of crisis and the corresponding cost for taxpayers. So an international lender of last resort appears both impractical and undesirable.

This recognition that it is neither practical nor desirable to see the IMF in a role of Lender of Last Resort has prompted considerable thinking about the nature of private sector involvement in crisis resolution and the modalities of sovereign payments suspensions or standstills. Payments suspensions are in some ways the obverse of recognising the limits on IMF lending. And, reflecting this, sovereign standstills litter history over the last two centuries: in Latin America in the 1820s; among the US states in the 1830s and 1840s; in Latin America again in the 1870s; among the majority of sovereign debtors in the 1930s; and in Latin America once again in the 1980s.

All too often in the past, however, sovereign standstills have also been a recipe for chaos and confusion. The recent sovereign defaults in Russia, Indonesia and Ecuador are good cases in point. But looking back over history, it is clear that messy and protracted sovereign standstills are very much the rule rather than the exception. Historical experience with sovereign standstills probably looks quite a lot like corporate experience before insolvency rules were put in place, with the work-out process inefficient and inequitable. I will return to that corporate bankruptcy analogy later on.

Against this backdrop, the key issues facing the official community seem to me to be twofold. First, how do we establish a more coherent framework for crisis management, that recognises and reconciles the countervailing forces of large and rising capital flows on the one hand, and small and limited official lending on the other. Second, given these constraints, is it possible within that framework to establish a role for standstills that are efficient, equitable and expeditious. I discuss each in turn.

A framework for crisis management

The Cologne Summit statement by G7 finance ministers and central banks in June 1999 was a step towards establishing a framework for international crisis management. It listed the “principles” and “tools” underpinning this framework - if you like, the ingredients. It did not, however, provide a recipe for combining these ingredients. The official community’s framework for crisis management remains a discretionary, “case-by-case” one.

This approach has benefits. Crises clearly differ in form and severity, which calls for flexibility in the official sector's approach to dealing with them. But discretion also carries some costs. For private creditors, it adds to uncertainty when framing their lending plans. The IMF's latest Capital Markets Report states that the private sector is "highly uncertain, if not outright confused about the official community's approach to achieving its goals".

Discretion also has costs for the official community. It risks "gaming" by the private sector, with the official sector providing more money ex-post than would have been optimal ex-ante. By altering official and private sector behaviour in this way, a discretionary approach to crisis management potentially increases both the cost and the incidence of crisis.

Are there feasible, rules-based alternatives? One simple means of establishing an official "line-in-the-sand" would be to place an explicit cap on IMF lending. No rule is of course inviolable. But publicly-stated constraints are likely to have greater credibility. This would reduce uncertainty among private creditors. And it would drive home the point that "bail in" by private creditors would need to be greater, the larger a country's financing needs, which provides the right set of incentives from a moral hazard perspective.

Payments standstills as a crisis management tool

This limited pool of IMF lending would need to be complemented with other crisis management tools. Voluntary rollover agreements with creditors - the like of which were put in place in Korea and Brazil recently - would be an important part of that crisis management toolkit. So too would voluntary bond restructurings, as have recently been undertaken in Pakistan, Ukraine and Ecuador. An ongoing dialogue between country debtors and their private creditors - what the Institute for International Finance call "Country Clubs" - would facilitate both of these voluntary tools for crisis resolution.

Involuntary payments suspensions also deserve consideration as part of the official sector's toolkit, however. As a crisis management tool, they may be beneficial in certain situations. Where a country is vulnerable to short-term capital movements, standstills could serve as a potentially important circuit-breaker. They might be an efficient means of forestalling "runs" on a country because they prevent pessimistic creditor expectations becoming self-fulfilling. More generally, whether capital is short-term or not, they could serve as an important incentive device. Having standstills as a credible backstop might in some circumstances increase incentives for debtors and creditors to seek voluntary resolutions to crisis sooner.

Through both of these mechanisms, standstills might help resolve coordination failures among creditors, and hence forestall liquidity crisis.

How do we ensure that standstills are efficient and equitable? The decision to default must be principally for the debtor. But the official sector can alter debtor incentives in important ways. One incentive device would be for the IMF to support standstills by agreeing to lend through their duration - what the IMF call "lending-into-arrears" - provided the standstill process, once entered into, is orderly and speedy. If standstills were a structured part of the IMF's ex-ante crisis management framework, this would increase the chances of the standstill process itself proving ex-post efficient. There is also encouraging work being done by the private sector on drawing up best practice guidelines for sovereign debt work-outs.

Some have argued that articulating a clearer role for standstills may perversely alter debtor incentives, by weakening the presumption that debtors should pay their debts in full and on time. But an orderly standstills process should support, not supplant, market forces and market disciplines. Corporate bankruptcy law grew up as it became clear that market forces delivered losers as well as winners and that some orderly means was needed of dealing with the losers. In this way, bankruptcy law supports the market mechanism.

The situation is no different in a sovereign context. A well-articulated framework for dealing with sovereign liquidity problems should reduce the inefficiencies and inequities of the current unstructured approach to standstills. It would support the international capital market mechanism. It would be no

more likely to induce debtors to default than bankruptcy law is to induce corporate debtors to default. In neither case is default a soft option. We would of course hope and expect sovereign standstills to be the exception rather than the rule. But it is better to plan for all contingencies, and to articulate these plans, than have international public policy made on the hoof. In this respect, crisis-fighting shares many similarities with fire-fighting. Fire-prevention is ideal, but will never entirely prevent fires occurring. So it makes sense to have a fire-fighting plan, which everyone understands and abides by, to minimise the damage when fires do occur.

Would standstills work?

The issue of whether standstills should form a part of the official sector's toolkit of responses remains under active debate. A number of arguments against the use of standstills have been made by policymakers, academics and the private sector. Let me try and articulate some of the concerns.

First, would standstills risk cutting-off capital flows to the emerging markets - if you like, killing the goose that lays the golden egg? History offers some clues here. For example, there appears to be no evidence from 1930s experience of defaulting countries having fared worse than non-defaulting countries in terms of subsequent output growth. And looking across a broader sweep of history, some empirical evidence has failed to find any discernibly negative long term effect of a country's prior debt-servicing record on the terms or volume of its borrowing.

That is not to say that default is costless, certainly in the short to medium term. The loss of access to capital markets and the time and effort involved with restoring credibility with creditors is, quite correctly, a strong deterrent for any country contemplating default.

Historical evidence may in any case be uninformative about investor behaviour in the future under a more structured framework for international crisis resolution. If this framework helped resolve the collective action problem among creditors, it ought to benefit creditors as well as debtors. Indeed, by reducing the risk to creditors in this way, standstills should be mutually beneficial to both parties. If that is the case, there is no reason to believe that, in a world of structured standstills, there is much risk of the golden-egg-laying goose being cooked.

Second, might the prospect of standstills prompt a pre-emptive rush for the exits? In a world of structured standstills, there is perhaps some risk of skittish investors rushing for the exits sooner. Indeed, these investors may choose not to enter emerging markets in the first place - standstills would pre-empt the inflow rather than precipitating the outflow. But the behaviour of longer-term investors needs also to be weighed. They would stand to gain from country runs being forestalled. Their incentives to flee are thereby diminished. The net effect might be some change in the composition of the developing countries' capital stock, with fewer fleet-of-foot, skittish investors and a greater number of longer-term, sticky investors. This change in capital stock ought to be advantageous from the welfare perspective.

Third, might standstills worsen contagion between markets, the like of which we saw following Russia's debt moratorium in 1998? Contagion appears to be a fact of life in a world of cross-border capital flows. The question is: would articulating a role for structured standstills worsen contagion? It is not clear that more coherent crisis-management framework would increase the incidence of standstills; it might reduce their cost. And to the extent that contagion is sourced in investor uncertainty, it might to some extent be mitigated by the proposals I have outlined.

So, to summarise, there are good reasons to think that a world of structured standstills might alter investor behaviour and the international flows of funds. It is difficult, however, to believe that these changes would be damaging to the international capital market mechanism - indeed, some would clearly improve its functioning. Sovereign defaults will continue to occur periodically. But the official sector could possibly mitigate their cost by establishing a coherent framework for crisis management, with payment suspensions as one of the tools.

None of this is at all to suggest that the issue of standstills - in or outside the Bank of England - is fully articulated and concluded. It is a difficult area requiring contributions from all sides and the

intellectual argument is ongoing. Finding the right balance between rules and discretion, in this area as in so many, remains a key issue for policymakers. There is work to be done on the modalities of how standstills might operate in different crisis cases. What is the role of the IMF in the standstill process? Does the process need to be underpinned by statute or would non-statutory principles suffice? And when might a standstill require capital controls to guard against leakage?

The Bank is currently working on some of these issues, practical and conceptual. I would encourage those among you with an interest in international public policy to help us in addressing them, joining the growing number of, in particular, US academics who are exploring this topic. It is very much a live debate and I have no doubt these issue will be discussed at length, at and around the World Bank and IMF Annual Meetings in Prague later this month.

Conclusion

I have now talked myself - quite literally - to a standstill. I hope, in describing two current issues in the policy debate, I have been able to convey something of the Bank's role in financial stability and the importance of current work in this area. I am encouraged to see how many aspects of financial and monetary stability are included in the programme for this conference. I wish you well with it and the future of the Centre itself and I hope the Centre and the Bank will maintain a close relationship.