

Philipp M Hildebrand: Developing countries and international capital markets

Summary of a speech by Mr Philipp M Hildebrand, Member of the Governing Board of the Swiss National Bank, to *economiesuisse*, Zurich, 14 June 2005.

The complete speech can be found in German on the Swiss National Bank's website (www.snb.ch).

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After having plummeted on the back of the Asian crisis, capital flows to developing countries have risen considerably again in the last three years. In 2005, they are likely to reach the approximate level at which they stood shortly before the Asian crisis. Capital flows are channelled mostly to a few emerging markets, notably China. China's monetary order is currently undergoing profound changes, with the country gradually liberalising capital movements. The concept of the "impossible trinity", which was developed by the Nobel Prize winner Robert Mundell, asserts that this will inevitably lead either to a loss in monetary autonomy or to a flexibilisation of the exchange rate regime. Both trends can be clearly observed: the pressure on the fixed exchange rate on the one hand, and the rapid expansion of the monetary and credit aggregates on the other. In the longer term, China's monetary order will probably move towards floating exchange rates. This transition will hopefully be successful. As China's monetary policy of gradual change has so far proved its worth, it is likely to serve as an example to other developing countries.