Thomas Jordan: Globalisation and financial markets – challenges and opportunities

Summary of a speech by Mr Thomas Jordan, Member of the Governing Board of the Swiss National Bank, at ETH Alumni Engineering & Management, Zurich, 13 November 2007.

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

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In the past few years, globalisation of financial markets has attained a remarkable level, exceeding that of goods markets in a number of respects. The future is likely to see considerable further development in this direction. In principle, the effects of financial market globalisation are positive. It leads to a higher level of efficiency in the international allocation of capital and allows for better risk distribution in investments. However, the globalisation of financial markets in Switzerland means that more companies are being taken over by foreign investors, while new risks arise in the case of investments abroad – risks that are difficult to quantify.

The globalisation of financial markets confronts monetary policy with a dual challenge. On the one hand, it changes the way in which the monetary policy transmission mechanism works, and the interpretation of economic models becomes more difficult. On the other hand, external shocks have a greater impact on both domestic financial markets and the domestic economy. Consequently, globalisation of financial markets results in greater uncertainty in monetary policy and increases the necessity of monetary policy stabilisation by central banks.

Overall, Switzerland – a small open economy with a highly developed financial sector – is in a position to derive particularly significant benefits from the globalisation of financial markets. It is important to take advantage of these opportunities. Protectionism when foreigners acquire companies and excessive regulation of foreign investment should be avoided. Rather, the sale of Swiss companies below their real value can be avoided through innovation, flexibility and good management, and excessive risks of foreign investments can be limited through more personal responsibility on the part of investors.