Introductory and closing remarks for the panel session on "The future of financial globalisation"

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- This is the last session of a very interesting conference in which we've heard a wide range of views on the future of financial globalisation. In this panel, we have the opportunity to hear from extremely experienced practitioners who need no introduction. We will learn their views on what the future of financial globalisation means for central banks.
- Let me introduce the discussion with four questions that arise from the papers presented yesterday and this morning. Panel members are welcome to give their views on issues other than those raised by these questions.
- The first question relates to Philip Lane's paper about the channels through which financial globalisation has influenced the financial crisis. Overall, has financial globalisation been helpful or harmful in containing the effects of the crisis? What is your net cost-benefit assessment?
- My second question is prompted by Pierre-Olivier Gourinchas's and Olivier Jeanne's comments about financial globalisation in a world without a riskless asset: can a structural reduction in the natural interest rate fully justify a continuation of extraordinarily accommodative monetary policy at the global level? Or, should central banks be aware of the distortions that a prolonged period of low interest rates might impose on balance sheet repair?
- Related to this point, and drawing on the paper by Hyun Song Shin on capital flows and the risk-taking channel of monetary policy: what are the channels through which expectations of extraordinarily accommodative monetary policy conditions in advanced economies could reduce bank risk perception and stimulate cross-border banking sector capital flows in emerging market economies?
- The last question is prompted by Alan Taylor's paper, which analyses the global financial crisis from a historical perspective: how should crisis prevention mechanisms be re-designed? What is the best way to deal with a finance capitalism that Alan names "the Great Leveraging"?
- I am looking forward to hearing the panel's opinions – and, in particular, their views on the future of fiscal policy and its interactions with monetary and financial stability. I will not introduce the speakers, who are already very well known. I will follow the seating order, so I will ask Ravi Menon to give his presentation first.

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- Let me wrap up this interesting discussion with a personal view on how financial globalisation can affect monetary policy. This is very much related to the paper that Hyun Shin has presented this morning. In my view, the growing relevance of monetary policy spillovers caused by financial globalisation suggests that central banks need to take better account of the global implications of their actions.
- Put differently, in an interconnected world, it may not be enough to keep one's own house in order, notwithstanding the importance of that in itself. Tightly integrated markets, and financial instruments across the world, mean that a country's economic and financial conditions are increasingly subject to global conditions. And those conditions, in turn, are influenced by the collective behaviour of markets and policymakers, even though they might appear independent of any one country's actions.
- One simple example is how accommodative monetary conditions spread in the run-up to the recent crisis and are now spreading again. Unusually low policy rates in the core industrial countries in the years preceding the crisis were transmitted to the rest of the world through a reluctance to allow exchange rates to appreciate. The outcome was an unusually accommodative global monetary policy stance despite record global growth. This amplified the global credit and asset price boom, magnifying and extending the damage of the subsequent bust.
- Currently, persistently large interest rate differentials support capital and credit flows to emerging market economies and have put upward pressure on their exchange rates. This makes it more difficult for emerging market central banks to pursue their domestic stabilisation objectives. As a result, monetary policy in emerging market economies may be systematically loose.
- These considerations do not require a global coordination of monetary policies, but they do call for central banks to take better account of the global effects and feedbacks that arise from individual monetary policy stances. This will require a shift to a more global analytical approach to monetary policy, one that seeks to factor in interactions and feedback effects. Such a shift would resemble the move that has already occurred in regulation and supervision, from a micro- to a more systemic perspective. A frank exchange of views on the international dimension of domestic policies is a first step towards better domestic policymaking.