

Financial Globalisation

Why, How, When?

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Rethinking Financial Globalisation

- *Two aspects of financial globalisation*
 - *Capital mobility*
 - *Foreign participation*
- *Financial globalisation, if well managed, can yield benefits for the economy*
- *But for most EMEs, financial globalisation not costless and benefits not compelling*

Capital Mobility

- *Financial globalisation in itself does not cause crisis but is channel through which crisis contagion takes place.*
- *Institutional structure for global rules remains inadequate to challenge of financial globalisation*
 - *International trade has WTO; International finance?*

Foreign Participation

- *To what extent should foreign banks be allowed to take deposits?*
 - *especially retail deposits*
 - *especially through branches*
- *To what extent should financial openness be limited by prudential need for strong domestically anchored banks?*

Finance and Asia's Rebalancing

- *Domestic financial development can achieve most benefits of financial globalisation while minimising contagion risk from abroad*
- *Deepening financial markets is important element in Asia's economic rebalancing*
 - *improve efficiency of investments*
 - *reduce precautionary savings*

When Financial Globalisation?

- *Financial globalisation can maximise benefits of domestic financial reform but*
 - *should not be rushed*
 - *should be carefully sequenced.*
- *Long-term response to risks of financial globalisation – not insulation but resilience.*
- *Driving a car*