

Philipp Hildebrand: Globalisation and current developments in the financial markets

Summary of a speech by Mr Philipp Hildebrand, Vice-Chairman of the Governing Board of the Swiss National Bank, at the Swiss Institute of International Studies, Zurich, 13 March 2008.

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

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Fundamentally, globalisation is not a new phenomenon, and yet the world has changed dramatically in the past twenty years. This is also evident in financial markets, where, since August 2007, a local event like the correction in the US residential property market has rapidly developed into a global event. We are now experiencing the first truly major crisis of financial globalisation.

The longer the crisis lasts, the harder it will be – but also the more important – to keep in mind the advantages of financial globalisation and preserve them in the long run. There is a need for regulatory correction, and such a need will remain in the future. The existing system of regulation and supervision should be further improved. The regulation of liquidity and equity, in particular, needs to be fine-tuned, strengthened and adjusted to the latest developments in financial markets. However, it is possible that more will be needed than just the fine-tuning of regulations. The buffers in the financial system have to be strengthened. In simple terms, what is ultimately required is that international banks strengthen their capital backing. At the same time, bigger liquidity cushions are needed. In addition, the authorities should look into the possibility of supplementing the complex regulations with simpler and more robust indicators such as, for instance, more effective concentration limits and an upper limit for the indebtedness ratio.