Christian Noyer: Regulation in the face of global imbalances

Opening speech by Mr Christian Noyer, Governor of the Bank of France and Chairman of the Board of Directors of the Bank for International Settlements, at the VIth International Symposium of the Banque de France on “Which regulation for global imbalances?”, Paris, 4 March 2011.

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Ladies and Gentlemen

I am very pleased to welcome you here in Paris to the International Symposium of the Banque de France. As you may know, this symposium is a recurrent event – this is the 6th edition – but this year it has taken a particular significance as it coincides with the French Presidency of the G-20.

This presidency occurs at a key moment of the reform of governance and regulation of the global economy. Hence, today’s topic “Regulation in the face of global imbalances” was not chosen at random. However, beyond this proximity with the work of the G-20, I hope this symposium will also provide an excellent opportunity for extending discussions beyond this institutional forum, for strengthening relations between central bankers (there are more than 100 in this room), government officials, business managers and leading academics from around the globe who honour us with their presence today and to whom I would like to extend my warmest thanks.

The world economy has experienced major developments over the last two decades. These changes have brought progress – strong growth, low inflation, less poverty – but they have also led to crises. Indeed, the acceleration in globalisation in the 1990s and 2000s was accompanied by steady growth in world imbalances. Even though the role played by these imbalances in the triggering of the last crisis is still a matter of debate, their coincidence with the rise in financial imbalances in several economies, such as the credit and securitisation boom, the sharp increase in asset prices, government deficits, etc., is striking. In short, the issue of global imbalances and that of regulation in a global economy are undeniably closely linked.

Two major topics appear particularly relevant to our discussions today.

The first focuses on the developments in the international monetary and financial system. The financing of current account imbalances has been facilitated by the liberalisation of capital movements that occurred in a large number of countries in the 1990s; international capital flows thus increased seven-fold between 1990 and 2010. These flows clearly had a positive effect, in particular for emerging countries which require capital to develop. However, the rapid increase in the volume of financial flows was accompanied by a rise in their volatility, which represents a new source of risk. The sudden withdrawals of international capital have played a major role in triggering and spreading financial crises over the past fifteen years. This is the main concern of the French Presidency of the G-20 and it appears crucial to me to examine it, not only from the narrow perspective of the management of capital flows, but also from the wider perspective of global liquidity.

Indeed, the increase in global imbalances is not confined to current account positions. In addition to the growth in *net* international capital *flows*, the very sharp rise in *gross* positions in international portfolios, not exclusively but largely linked to the accumulation of foreign exchange reserves by the major emerging economies, is one of the most significant developments of the past few years. The striking synchronisation of the recent economic crisis across the major economies is certainly in large part a result of this.

In any case, the issue of the appropriate level for the supply of safe and liquid international assets and the international monetary and financial system best able to provide this has yet to be resolved. As you know, this issue is at the heart of France's presidency of the G-20.

The second major topic is international economic and financial coordination and I will briefly touch on its two main components.

The first component concerns the Framework for Strong, Sustainable and Balanced Growth. This initiative has been given wide media coverage since its adoption at the G-20 summit in Pittsburgh in September 2009. However, I am inclined to think that it has sometimes been distorted and that its scope has been underestimated. This initiative is indeed a promising and ambitious one: promising as it could be the impetus for genuinely enhancing international economic cooperation through the combination of economic policies taking greater account of externalities and structural reforms, in order to achieve the jointly defined global objectives. Ambitious, of course, as it involves countries making explicit commitments on measures to be taken and discussing the outcomes with their peers, as part of what is known in G-20 jargon as the Mutual Assessment Process (MAP). Under the Korean presidency, whose efficacy and vision I would like to praise, an initial exercise resulted, in late 2010 in Seoul, in the adoption of a detailed country-by-country action plan and the commitment to tackle more specifically the global imbalances identified by the indicative guidelines. Far from me the idea of underplaying the difficulty of the exercise but the progress made so far is not inconsiderable and in this regard I am happy that the Ministers and Governors meeting in February in Paris resulted in agreement on a set of benchmark indicators.

The second component concerns financial regulation. It is very clear that, in this area, we are past the stage of proposals and are now mainly concerned with consolidating the agreements approved by the Heads of State and Government in Seoul, especially the Basel III framework. The agreement that we achieved in 2010 made it possible to reconcile the need for far-reaching reforms with the need to reduce uncertainty relating to regulatory changes. Implementing these reforms in a harmonised framework capable of ensuring a genuine level playing field is now the crucial challenge, both from the point of view of our collective credibility and the overall effectiveness of the new mechanism. This very significant advance in terms of financial regulation should not obscure the progress that still needs to be made regarding the work underway, especially in the areas of market infrastructures (including for commodity markets), tighter regulation of activities included under the designation the "shadow banking system" and the behaviour of market players themselves. Once again, I underscore our collective responsibility, which is to ensure that all of the G-20 countries and, more widely, the international community as a whole apply international standards.

Today's discussions will be divided into four sessions. The first, chaired by Axel Weber, will examine the notion of disequilibrium after the crisis and will allow us to discuss the unpredictable evolution of global imbalances in the medium term, in the light of different assumptions concerning economic growth and savings trends in the different zones.

Mario Draghi has agreed to chair the second session that will focus on questions related to supervision and coordination. As I have already said, the current context is characterised by the reform of global governance and regulation, a process given impetus by the G-20. Therefore, at this stage, it seems appropriate to explore topics such as the evolution of the role of international financial institutions and the accomplishments and future progress in harmonising global financial regulations.

The third session, chaired by Michel Camdessus, should help us to gain further insight on what could, or should, be the role of central banks in a post-crisis environment. For example, should central banks more explicitly incorporate considerations of financial stability into their policies than they do today? If so, how? To what extent would the extension of their roles be compatible with their independence or even with their mandates to ensure price stability?

The reform of the international monetary system will be the central theme of the last session that will take the form of a roundtable chaired by Martin Wolf.

I am particularly grateful to Bill White for accepting the difficult task of drawing a summary of our symposium which is bound to be both dense and captivating. I would like to hand the floor to Axel Weber to chair the first session, and, once again, I would like to thank all the eminent personalities who have agreed to participate in this symposium.