Philipp Hildebrand: The international monetary system

Opening remarks by Mr Philipp Hildebrand, Chairman of the Governing Board of the Swiss National Bank, at the High-Level Conference on the International Monetary System, Zurich, 10 May 2011.

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Good morning, Ladies and Gentlemen. I am pleased to welcome you to the second joint SNB-IMF conference on the international monetary system. It is a privilege for the Swiss National Bank to cooperate with the IMF and contribute to this important debate by yet again bringing together such a distinguished group of policy makers and experts. The IMF Managing Director, Dominique Strauss-Kahn, is once more honouring this event with his participation.

The reform of the international monetary system is subject to an ongoing debate. The global financial crisis put a sudden end to a near decade of seemingly healthy growth widely distributed across the globe. The crisis rocked the system to its core. It has brought forth concerns about the stability of an increasingly complex and interconnected global economy. It has also refocused attention on the potentially destabilising effects of unprecedentedly large and, at times, extremely volatile cross-border financial flows.

Globalisation has led to dramatic changes. Emerging economies have been steadily moving to the fore of the international scene. It is imperative that the international monetary system adapts itself to these rapid changes. A thorough reassessment and reform of the system have become a priority among policy makers. Switzerland, as an open economy with an important currency and a leading financial centre, has a vital national interest in participating actively in the reform debate. The IMF occupies a central role in the international monetary system. Therefore, it is natural that the Fund has also come under scrutiny, and its many activities are being reviewed.

Judged by the recent proliferation of conferences about the international monetary system, one might conclude that the system is in need of a major overhaul. This is not necessarily the case. I share the Managing Director's view, expressed recently in Nanjing, that the current system, despite many imperfections, also has good features. What is required are improvements, not revolutionary changes. In other words, the current system can be strengthened while preserving its core features. If progress is slow, it is because even small changes typically require difficult political decisions. Continuous dialogue and cooperation are therefore essential. Only through a regular and open exchange of views can we hope to forge a common understanding of the strengths and weaknesses of the current system and address any remaining shortcomings – step by step.

Since our last conference, the international community has made progress on the reform agenda. The Fund has greatly increased its capacity to provide financial support to members and adapted its lending tools. It has modernised its surveillance activity, for example by introducing new tools to track spillovers. Furthermore, it has reopened the discussion on the management of capital flows, although admittedly this has been controversial. Under the French presidency, the G20 has been at least as active as the Fund. Of particular relevance is the steady implementation of the Mutual Assessment Process, a new instrument for multilateral cooperation and oversight aimed at promoting economic adjustments worldwide. We will have the privilege of hearing from Minister Lagarde about this important endeavour later during lunch.

In today's conference, we would like to advance from diagnosis to treatment. Last year, the main focus was on the sources of instability and the inadequate asymmetric adjustment mechanisms of the current system. This year, the aim is to progress towards a common understanding of the role of the Fund and to discuss concrete reform proposals. In doing this, it is important that we stay focused and realistic.

The two main tasks of the IMF are crisis prevention and crisis resolution. The main Fund policies for achieving these tasks are surveillance and financial support. Before leaving the floor to our panellists, allow me to reflect very briefly on these two topics.

The IMF is mandated to oversee the international monetary system and monitor the economic and financial policies of its member countries. In this way, it helps to ensure the effective operation of the international monetary system, thereby promoting and sustaining sound economic growth. In recent years, much has been done to make surveillance more focused and effective. Attempts to better integrate financial sector issues and spillover effects are all steps in the right direction. However, for surveillance to be relevant and gain traction, it is equally important that the IMF is sufficiently independent in its conduct of surveillance. To deliver credible messages, the Fund's technical expertise has to be beyond any suspicion of political manipulation. Surveillance, in other words, has to be an exercise in objectivity. Only then can it also be an exercise in collaboration and contribute to a sounder and more resilient international monetary system. This being said, IMF surveillance and collaboration does not release national policy makers from their responsibilities. Keeping one's own house in order is a prerequisite for an orderly global village. This is particularly true, though not exclusively, in the domain of fiscal policy. Fiscal responsibility is the paramount challenge of our age.

Let me now turn to the second main Fund activity, financial support. The scope and nature of this activity has changed considerably over the past few years. Fund resources have been strongly supplemented, and the Fund's lending toolkit has been made more flexible. But multilateral financing has not been the only instrument used in tackling the crisis. Regional facilities and central bank swap lines have also played a very important role. All these instruments have acted as complements, and not as substitutes, and together they have prevented a breakdown of the system. Looking into the future, the important question is whether it is necessary to proceed beyond the existing loose network of multilateral, regional and bilateral facilities towards a truly global financial safety net. This would imply formal, systematic coordination between the different facilities to allow synchronised provisioning of liquidity during crises. Apart from the fact that any significant transfer of power from national to supranational authorities is extremely difficult to achieve, I am not yet convinced that a global financial safety net of this kind is necessary or even desirable. First, concerns about moral hazard must be taken seriously. Second, we have to be careful not to undermine established mechanisms at the national level. Finally, let us not forget that it is only the central banks that can create liquidity as needed. And their cooperation has proven to be very effective during the recent crisis.

Let me now shortly outline the topic of the five panels of today's conference.

The first panel will discuss policy discipline and spillovers in an interconnected global economy. It will assess proposals for improving the surveillance of the system and global policy cooperation.

The second panel will deal with global liquidity provision in systemic crises. It will evaluate the adequacy of currently available facilities and proposals on expanding them.

The third panel focuses on capital flow management. It will follow up on the recently initiated discussion about a new, more uniform and balanced approach.

The fourth panel will discuss the desirability and feasibility of a multi-polar currency and reserve system, and the fifth panel will wrap up and outline realistic objectives for 2011 and beyond.

I am looking forward to a lively discussion and open exchange of views. Let me remind everyone that this conference is being conducted strictly in accordance with the Chatham House Rule. With these words, I open the conference and leave the floor to the panellists.