

NBP

N a r o d o w y B a n k P o l s k i



SHAPING the **FUTURE**
of the INTERNATIONAL
MONETARY **SYSTEM**

National Bank of Poland, 26 May 2010

The message of the conference

The recent turmoil in financial markets has clearly exposed more than ever the importance of the international monetary system for the entire world economy. It is perhaps too early to say whether flaws in this system were merely a catalyst of the crisis or were among the key reasons underlying the turmoil. Regardless of the answer, it makes sense to highlight the key developments taking place in this system. Observing the recent trends should help in the process of finding a remedy aimed to convert the system into a kind of a stability pillar, which may become extremely useful in overcoming the current problems. Among the issues addressed during at conference sessions, the following ones will be discussed:

- A decade has passed since the European Economic and Monetary Union was established. As regards the assessment of the first decade of the EMU, much of the attention is being focused on the prospects of eastward expansion of the euro as the new EU entrants are making arrangements to introduce the single currency. However, the impact of euro introduction affects the international monetary system as a whole. First, the performance of the euro on foreign exchange markets reflects the size of risk aversion or appetite for risk. The strengthening of the euro is considered to imply an increase in the global appetite for risk, while the euro depreciation is in most cases associated with an increase in risk aversion. Needless to say, this relationship exerts an enormous influence on policymaking in several parts of the world. Second, the euro implementation is likely to have encouraged other regions to consider monetary cooperation. In the wake of the recent financial crisis it is worth monitoring the above mentioned events which will most probably shape the future of the international monetary system.
- Far East Asia is well known for its tendency to accumulate foreign exchange reserves. This phenomenon is not confined merely to China and Japan. However, the future of the region will depend to a large extent on the action undertaken by these two key players. Will these two countries follow the example of France and Germany in fostering monetary cooperation or will they introduce a new kind of framework which will emphasize the importance of the entire region? Will this cooperation give a strong enough impetus to establish another monetary union? If so, what will its impact be on the international monetary system as a whole? Will a prospective monetary integration make the region less inclined to export capital (often at the expense of domestic economies)? Most recent declarations of China regarding an idea of introducing an alternative to the US dollar may suggest that the vision of the new chapter in the history of international monetary system is already being shaped.
- There is a clear link between the EUR/USD exchange rate and oil prices. Most of the key oil exporters have managed to accumulate an impressive amount of foreign exchange reserves. That is why their opinions cannot be ignored. Although Russia has already communicated its agenda to play a more significant role in the global economy, it remains to be seen whether Russian aspiration will be translated into reality. Another important initiative undertaken by the oil exporters is the GCC countries' plan to strengthen monetary ties. The year 2010 was originally set as a target for the implementation of the monetary union. In the meantime, the introduction date has been re-scheduled and there is no certainty this objective will be accomplished. Most recently, further discrepancies about the final model of the union have emerged. However, as the example of the EMU indicates, these and many other discrepancies can be overcome. If the currency union is introduced there, what will the consequences be for the rest of the world? With much of the oil proven reserves located in the GCC countries, there are arguments which help to justify prospects that suggest that this region will gain importance in the entire international monetary system.
- Only a decade ago, anything south of the Rio Grande seemed to embrace the US dollar. Western Hemisphere seemed a natural candidate to become the US-dollar zone. Throughout the last decade, new political factors have emerged which have rendered the prospect of creating a US dollar zone more remote. The recent crisis and growing concerns about the soundness of the US currency give rise to opinions calling for reconsidering the monetary future of the region. A growing share of the euro in the structure of FX reserves in some Latin American states is obvious. However, will this region rely on foreign currencies or will decide to push in the direction of regional cooperation? Venezuela has already announced its intention to establish a monetary union at some time in the future. On the other hand, mounting internal economic problems, as well as high reliance on oil, make this prospect extremely remote. At the same time, Brazil's growing significance should also be taken into consideration at the time of deliberating about the future of monetary union. Last but not least: what is the US attitude towards the issue? After all, the US is the greatest beneficiary of the international role of the dollar and is not likely to remain indifferent to the potential erosion of the significance of its own currency.
- It seems that regional tendencies will prevail in the years to come. Nevertheless, an undertaking aimed to tackle current deficiencies of the system, points in the direction of eventual coordination of activities among its key participants. In recent history of the system, there were episodes when joint cooperation helped overcome large imbalances. The most evident examples was the La Plaza Agreement of September 1985, followed by the Louvre Agreement signed in February 1987. The twenty fifth anniversary of the agreement signed in a New York hotel seems to be a good opportunity to discuss the issue of coordination in the monetary system. In the wake of the current imbalances, are there chances of signing either the La Plaza II or the Louvre II agreement? If so, what conditions must be fulfilled to ensure similar degree of success compared to the one seen in the late eighties of the last century?

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- 8.00 – 9.00** Registration of participants
- 9.00 – 9.10** Welcome address – **Piotr Wiesiolek, First Deputy President, National Bank of Poland**
- 9.10 – 9.30** Address by the Honorary Guest **Robert A. Mundell**, Professor of Economics at Columbia University, recipient of the Nobel Memorial Prize in Economics
- Session I
- 9.30 – 11.00** **RECENT TENDENCIES IN THE INTERNATIONAL MONETARY SYSTEM**
- Emergence of “Chimerica” and its impact on the world economy.
 - Carry trade and repatriation rally.
 - Are BRIC countries’ currencies’ play a dominant role in the system?
- Chairman: **Witold Koziński – Deputy President, National Bank of Poland**
- Panelists
- **Subir Gokarn** – Deputy Governor, Reserve Bank of India
 - **Eisuke Sakakibara** – Professor, Waseda University
 - **Lawrence Schembri** – Chief of International Economic Analysis Department, Bank of Canada
 - **Niu Tiehang** – Senior Fellow, China Center for International Economic Exchanges
- 11.00 – 11.15** Coffee break
- 11.15 – 12.45** Session II
- THE EURO AND ITS INTERNATIONAL DIMENSION**
- The review of the euro’s role as an international currency. Being second best: curse or blessing in disguise.
 - Stability at the expense of growth: not very appealing for the rest of the world.
 - Promoting international role of the euro.
- Chairman: **Stanisław Gomułka** – former Deputy Minister of Finance
- Panelists
- **Thierry Bracke** – Head of the Division, European Central Bank
 - **Harold James** – Professor of History and International Affairs, Princeton University
 - **David Marsh** – Chairman, London and Oxford Group
 - **Wilhelm Nölling** – Professor of Political Sciences, University of Hamburg
 - **Adam S. Posen** – Senior Fellow, Peterson Institute for International Economics
- 12.45 – 14.00** Lunch
- 14.00 – 15.30** Session III
- NEW REGIONAL CURRENCY BLOCS**
- Far East Asia: Is the euro posing a feasible alternative or merely a kind of inspiration?
 - GCC currency union - inspired by the euro, dependent on dollar?
 - Americas: from the dollar area into the uncharted territories.
 - Is the era of cheap oil over?
- Chairman: **Krzysztof Rybiński** – former Deputy President, National Bank of Poland; Professor of Economics, Warsaw School of Economics

Panelists

- **Fahad Aldossari** – Head of Money and Banking Division, Saudi Arabian Monetary Agency
- **Jihad B. Azour** – Vice President – Senior Executive Advisor, Booz and Company
- **Romulo A. Martinez** – Operations Officer, OPEC Fund for International Development (OFID)
- **Pawel Olejarnik** – Energy Analyst, International Energy Agency
- **Philip Poole** – Global Head of Emerging Markets Research, HSBC
- **Samir Ranjan Pradhan** – Senior Researcher, Gulf Research Center

15.30 – 15.45

Coffee break

15.45 – 17.00

Session IV

COORDINATION OF THE SYSTEM: A PRECONDITION FOR OVERCOMING CURRENT PROBLEMS

- Was La Plaza a real success or was it a one-off reason for the emergence of the Japanese bubble?
- Conditions necessary to ensure worldwide coordination of the system.
- What are the key factors necessary to view the La Plaza II as a success?

Chairman: **Marc Uzan** – **Executive Director, Reinventing Bretton Woods Committee**

Panelists

- **Rishi Goyal** – Senior Economist, International Monetary Found
- **Mirosław Gronicki** – former Minister of Finance
- **Ousmene Mandeng** – Head of Public Sector Investment Advisory, Ashmore Investment Management Limited UK
- **Jerzy Osiatyński** – former Minister of Finance

17.00 – 17.30

Concluding remarks