

Global Financial Governance

Challenges and Regional Responses

Sept. 3-4, 2009, Berlin



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Deutsches Institut für
Entwicklungspolitik



German Development
Institute

inWent

Capacity Building International
Germany



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Conference Concept & Programme

Background

The global financial crisis has highlighted the importance of financial market stability as a public good, both on the national and international level. It has underscored the importance of comprehensive and efficient financial market regulation and supervision. The scope and severity of the crisis has also made clear the need for greater cross-border cooperation of national authorities and an efficient functioning of international financial organisations to counter the effects of the crisis and prevent new ones from occurring. Moreover, the crisis has changed the roles and stakes in global financial governance, with major emerging economies now assuming an integral role in the governance of the international financial system.

Against the backdrop of the global financial crisis, this dialogue seeks to examine the scope for global financial governance. Topics to be addressed include the regulation and macroprudential supervision of financial markets; the trade-off between innovation and regulation in financial market development; the scope for and potential benefits of regional macroeconomic and financial cooperation; the inflationary threat arising from both unorthodox monetary policies as reactions to the global credit crunch and fiscal expansion to dampen recessionary effects; and the ongoing discourse on the future shape of the global financial architecture.

Conference Concept

This two-day dialogue aims at identifying the policy implications of these recent trends in financial markets for large emerging countries and for the governance of the global financial system. It will provide a platform for mutual learning and peer-to-peer discussion about the challenges for securing financial market stability and managing global financial governance.

In a series of conferences with partners from India (March 2009), China (May 2009) and South Africa (May 2009) the dialogue between policymakers and researchers from Germany, international organisations and important anchor countries has been focused on regional approaches to the challenges of financial stability and the global financial crisis.

This event in Berlin is supposed to bring together and discuss views from the anchor countries, as well as from German, European and international bodies on topics which are of utmost importance for restoring a proper functioning of international markets and preventing new crises.

The InWEnt-DIE-dialogue will place particular emphasis on an exchange between government officials and academics to address the public policy-oriented issues related to financial stability and global financial governance. It will bring together policy makers and policy advisors from relevant public institutions and academic research from Brazil, China, India, Indonesia, Mexico and South Africa with their peers from international and German bodies. The number of participants will be limited to allow for an intensive debate.

The exchange of results of in-depth analysis and sound political assessment is expected to lead to a number of recommendations that can help to shape policies with regard to upcoming new challenges to financial markets worldwide. Cooperation and networking opportunities offer a starting point for future coordinated action.

3 September 2009

08:30-09:00	Registration
09:00-09:30	Opening
09:00-09:10	Words of welcome by Günther Taube Head of Department, International Regulatory Framework, Good Governance, Economic Policy, InWEnt – Capacity Building International, Germany
09:10-09:20	Words of welcome by Dirk Messner Director, German Development Institute (DIE)
09:20-09:30	Official welcome by Ingrid-Gabriela Hoven Director-General, Federal Ministry for Economic Cooperation and Development (BMZ)
09:30-09:40	Introduction to the conference topic by Ulrich Volz Senior Economist, German Development Institute (DIE), Conference Moderator
09:40-11:30	Session I: Perspectives on the global financial crisis

The global financial crisis has affected economies worldwide through sharp declines in international trade and investment flows. Whereas the US and European financial institutions have in part had a significant exposure to toxic assets, the direct effects of the US financial crisis on the financial systems of emerging economies have been modest at large.

The first session shall provide an overview of how the crisis has affected major emerging economies, their policy responses to date, and how effective these have been.

Chair	Johan Delport International Relations Unit, Research Department, South African Reserve Bank
Speakers	Liqing Zhang Dean, School of Finance, Central University of Finance and Economics, China
	Mathew Joseph Senior Consultant, Indian Council for Research on International Economic Relations (ICRIER)
	Renato G. Flôres Jr. Professor, Graduate School of Economics (EPGE), Getulio Vargas Foundation (FGV), Brazil
11:30-11:45	Coffee break
11:45-13:00	Keynote address John Williamson Senior Fellow, Peterson Institute for International Economics
13:00-14:00	Lunch

14:00-15:30	Session II: Regulation of financial markets and macroprudential supervision
	The crisis has disclosed the weaknesses and failures of regulatory frameworks and demonstrated the need for reform of regulatory structures and approaches, both on a national and international level. Among others, the crisis has revealed problems such as the pro-cyclicality of Basel II, the need for macroprudential supervision, and the importance of greater cross-border cooperation of national regulatory and supervisory authorities.
	This session will discuss lessons of the crisis for regulation and supervision and examine how implementation of reforms initiated on a national, regional and global level have progressed so far.
	Topics to be discussed include the European Commission's proposal for a new pan-European regulatory structure; good practices for macroprudential supervision, such as those in South Africa; and the G-20 approach to macroprudential supervision and the role that the IMF as well as the newly created Financial Stability Board ought to play in multilateral surveillance.
Chair	Peter Wolff Head of Division, German Development Institute (DIE)
Speakers	Wimboh Santoso Head of Financial System Stability Bureau, Bank Indonesia
	Jürgen Dreymann Director, International Policy Affairs, Federal Financial Supervisory Authority (BaFin)
	Francis Selialia Head, Macroprudential Analysis Division, Financial Stability Department, South African Reserve Bank

Andreas Freytag
Chair, Faculty of Economics and Business
Administration, Friedrich-Schiller-University, Jena

15:30-16:00 Coffee break

16:00-18:00 Session III:

Balancing innovation and regulation in financial market development

Financial markets have long been recognised as key drivers of economic development and will remain crucial for allocating the investments needed to stimulate and sustain growth and employment generation.

Further reform and development of banking sectors and capital markets will hence remain an important part of the development agenda.

While emerging markets have greatly increased the efficiency of their financial markets, substantial risks for stability remain as financial innovation has continued to proceed at great speed.

The rapid diffusion of new financial instruments like derivatives and asset-backed securities, as well as the entry of new investors like hedge funds and private equity to emerging markets raise questions to which extent policy and regulatory responses are required in these countries.

The global financial crisis has highlighted the risks associated with innovative financial products that have developed faster than regulatory authorities could keep pace with.

This session discusses the inherent trade-off between financial innovation and the associated risks for financial stability, and the degree of financial liberalisation that might be appropriate at different stages of development.

Chair K.P. Krishnan
Joint Secretary, Ministry of Finance, India

Speakers Zhang Xiaopu
Division Chief, Supervisory Rules & Regulations
Department, China Banking Regulatory Commission
(CBRC)

Eduardo Manhaes Gomes
Head of International Affairs Department, Securities and
Exchange Commission of Brazil (CVM)

Hung Q. Tran
Senior Director, Capital Markets and Emerging Markets
Policy Department & Head of Global Capital Markets
Research, Institute of International Finance

19:30 Conference dinner
Dinner remarks by Sebastian Paust
Chief Executive Officer, InWEnt – Capacity Building
International, Germany

4 September 2009

09:00-10:45 Session IV:

Perspectives for global liquidity and commodity prices

While global liquidity has already been expanding steadily since 2001, the Federal Reserve and most other major central banks are currently engaged in unprecedented expansionary monetary policies to counter the credit crunch and restore financial stability.

In most industrial countries and more recently also in some emerging market economies with a strong link to the dollar, especially China, broad money growth has been running well ahead of nominal GDP.

This has some dwellings for the current controversial debate about whether we will observe a deflation or inflation in the medium run. Surprisingly enough, for a long time goods price inflation had been widely unaffected by the strong monetary dynamics in many regions in the world.

Only with a considerable lag surplus liquidity poured into raw material, food and goods markets. Over the same time horizon, however, many countries have experienced sharp booms in asset prices, such as real estate or equity prices.

However, due to a high degree of competition in international goods markets and vast supply of cheap labour in many emerging markets, goods prices remained unaffected in the short run by any increase in aggregate demand. Only in the longer run, increasing capacity utilisation translated into higher wages, putting upward pressure on prices.

This session will discuss the potential inflationary consequences of the current unorthodox monetary policies and whether the next global bubble might be already under way. What are the implications when the world's most powerful economy, with a reserve currency everyone trusts and holds, decides to push a big credit expansion?

If global liquidity plays a significant role within the transmission mechanism on a global or on a national level, does the existence of global excess liquidity make a coordination of national monetary policies useful (abstracting from practicability issues)?

Chair Ansgar Belke
Professor of Macroeconomics, University of Duisburg-
Essen & designated Vice-President, German Institute for
Economic Research (DIW)

Speakers Marcel Fratzscher
Head International Policy Analysis Division, European
Central Bank

Daniel Gros
Director, Centre for European Policy Studies

A.B. Chakraborty
Adviser Monetary Policy Department, Reserve Bank
of India

10:45-11:00 Coffee break

11:00-13:00 Session V:

Regional macroeconomic and financial cooperation

Given that economies typically maintain close trade and investment ties with their neighbours – with the resulting danger of negative spillovers and financial contagion effects – the crisis has also been a reminder of the importance of macroeconomic and financial cooperation on a regional level.

The session will examine the experiences with regional macroeconomic and financial cooperation, a process which in East Asia has recently resulted in an agreement to create a regional reserve pool for the provision of short term liquidity for member countries experiencing balance-of-payments problems.

The common reserve pool will be flanked by the creation of a regional surveillance agency which shall monitor and analyse East Asian economies to detect macroeconomic and financial divergences. Regional pooling arrangements have existed in other regions for long, including Europe, Latin America and North America.

In the light of the East Asian developments, the session will discuss whether such regional pooling and surveillance arrangements could potentially assume a more important role in the future international financial architecture as complements to the IMF.

The session will also look into the development of local currency securities markets, a topic which has been identified as a key challenge to improve the long-term financing perspectives of emerging economies and reduce the vulnerability of their domestic financial systems.

The session will consider successful examples of regional financial cooperation aimed at developing local currency bond markets and discuss the politico-economic obstacles that are often obstructing cooperation.

Chair Ashok Kumar Lahiri
Executive Director, Asian Development Bank

Speakers Bernd Braasch
Director, Financial Stability Department, Deutsche Bundesbank

Haihong Gao
Director, Department of International Finance, Institute of World Economics and Politics, Chinese Academy of Social Sciences

Daniel Gersten Reiss
Head, External Debt and International Relations Department, Banco Central do Brazil

13:00-14:15 Lunch

14:15-17:00 Session VI:

Perspectives for the international financial architecture

The current crisis has sparked novel discussions about a new global financial order. Besides a better regulation and supervision of global financial markets, an enhanced role for and a reform of international financial institutions, the IMF and World Bank in particular, has become a key topic of discussions.

This session will address the reforms that have been initiated by the G-20 as well as the proposals that have been brought forward by the UN's Stiglitz commission. The session will focus on key areas of reform, highlighting the perspectives of emerging economies.

Besides the discussion on the mandate and governance reform of the international financial institutions, the session will also discuss the future shape of the international monetary system, which includes, among others, the role of the dollar as international reserve currency as well as recent proposals for establishing SDRs as an alternative reserve currency.

Chair Rolf Wenzel
Director General, Financial Market Policy, Federal
Ministry of Finance

Speakers Benhua Wei
Vice Governor, State Administration of Foreign Exchange
(SAFE); Advisor to the Governor, People's Bank of China;
and former Chinese IMF Executive Director

Ronaldo Malagoni Cavalcante
Director, Department of International Affairs, Banco
Central do Brazil

Johan Delpont
International Relations Unit, Research Department,
South African Reserve Bank

Jürgen Zattler
Deputy Director-General Multilateral and European
Development Policy, Economic and Financial Policies,
Federal Ministry of Economic Cooperation and
Development

John Williamson
Senior Fellow, Peterson Institute for International
Economics

17:00 - 17:15 Wrap up of conference results by Ulrich Volz
Senior Economist, German Development Institute (DIE),
Conference Moderator

17:15-17:30 Closing remarks
Jürgen Zattler
Deputy Director-General Multilateral and European
Development Policy, Economic and Financial Policies,
Federal Ministry of Economic Cooperation and
Development

Conference venue

EUROPAHAUS
InWEnt - Internationale Weiterbildung
und Entwicklung gGmbH

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