



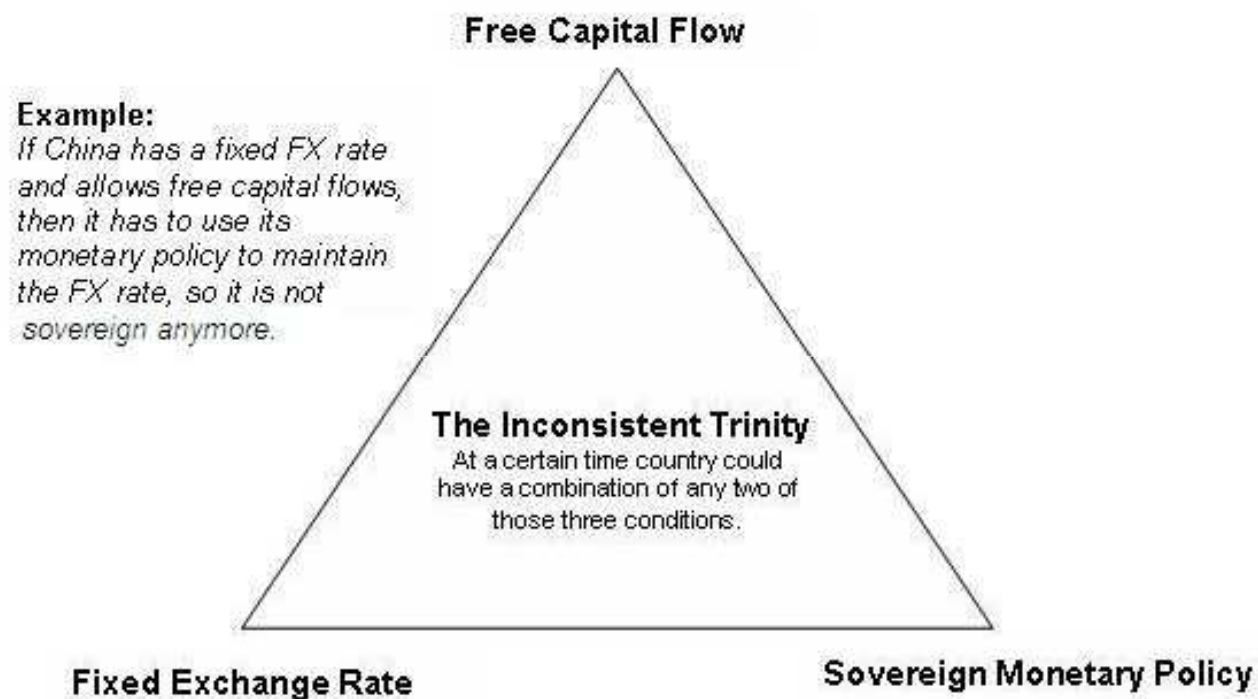
Friction and Tensions in the International Monetary System

Shahin Vallee, Visiting Fellow, Bruegel/BNP Paribas
October 2011

- World Trade and Article 8 of the Articles of Agreement of the IMF
- Fischer and Financial Globalisation
- Bhagwati (1998), The difference between trade in widgets and trade in dollars
- The Asian crisis, LTCM, the Russian crisis, the US Congress
- Management of capital flows is essentially a national matter

- Reality is one half of the world lives with full capital mobility, the other half doesn't.
- In the last 20 years those that don't, have had better economic performance (correlation isn't causality but)
- The international monetary system is the stage of underlying confrontation between two paradigms

Areas of friction



Capital Flows Management

- Financial Safety Nets
- Capital Controls

Monetary Policy Framework

- Inflation targeting and its discontent
- Financial stability and macro-prudential policy

Exchange Rate alignment, volatility and anchors

- Plaza, Louvres and the Japanese crisis
- G2 and China's rebalancing

Still in cognitive Dark Matter

- Is free movement of capital really growth enhancing?
- Profound disagreements

Some progress on safety nets

- FCL/PCL of the IMF
- Bilateral currency swap (Fed, PBoC, Chiang Mai)
- Multilateral?

Framework for Capital Controls still vague

- Ultima ratio
- Macro-prudential?

Monetary System with no Monetary Anchor

- Non system relies on Inflation targeting
- Inflation targeting everywhere?

The End of Monetary Policy History?

- After Inflation Targeting
 - Financial system exists and is not neutral
 - Financial stability matters (bubbles, macro and financial imbalances)

Exchange Rate Misalignments

- Japan in the 1980s (Shirakawa (2010))
 - Yen (1984), Plaza (1985) and Louvres
- China today
 - G20, G2 and IMF MAP

Regional Currencies and Currency Blocks

- An Asian currency?
- A triad (USD, EUR and RMB)

Global Currency

- SDR (inclusion, expansion)
- Ghost of Bancor and Governance issues

Internationalisation of the RMB

- Trading Currency
- Financial Account and the offshore market
- Reserve Currency

What does China want?

- Hegemonic Dominance (Subramaniam (2011))
- Stakeholder
- Multilateralism