

# Challenges to Central Banking from Globalized Financial Systems

Conference at the IMF in Washington, D.C., September 16–17, 2002

**Introduction by Mr. Stefan Ingves,  
Director Monetary and Exchange Affairs Department**

I am pleased to join Mr. Aninat in welcoming all of you to this conference, which is organized by the Monetary and Exchange Affairs Department in collaboration with the IMF Institute. My thanks go particularly to our distinguished guest speakers and discussants. Let me say a few words on behalf of the Monetary and Exchange Affairs Department.

This is the IMF's ninth central banking conference since 1983. These conferences have provided a forum for wide-ranging discussions between the speakers, participants, and IMF staff on the evolving role of central banks. The conferences have always aimed to tackle topics that have emerged as key policy priorities for central bank practitioners at that time. The objective has not necessarily been to reach definitive conclusions or to arrive at a consensus view. Rather, the aim is to identify and improve our understanding of the topics that feature prominently in current debates with a view to improving policy effectiveness.

The focus of attention has shifted over time.

- The 1990 conference came at a time of unprecedented change in the world economic and political order. The conference put great emphasis on central banks' roles in countries moving to market-based economic systems. Practical examples and guidance were provided on such issues as central bank legislation and central bank independence, measures to move from direct to market-based monetary policy instruments and supporting the development of financial markets.
- After many countries had laid the ground-work for institutional changes in central banking, our 1994 conference focused predominantly on monetary policy frameworks to achieve *monetary stability*. The prominence of that topic arose not only from inflation rates in the three-digit range for many transition economies in the early nineties, but more generally the less favorable inflation record in emerging and developing countries compared to industrial countries. The conference stressed the importance of a nominal anchor for monetary policy. It discussed the role that exchange rate pegs and currency boards could play in monetary stabilization. And, it reiterated the importance of de facto central bank independence to avoid central bank decisions from being dominated by fiscal concerns.
- In light of the rising degree of globalization and increased incidences of financial crises, our last two conferences, in 1997 and 2000, were devoted to the importance of having strong and well-regulated financial sectors that can cope with capital flows. The

examples of Mexico and Sweden provided valuable insight in how to deal with banking crises, many of which were unfortunately still to come. Since I attended the 1997 conference in my function as the Deputy Governor of the Bank of Sweden, I remember well, the wide-spread interest among central bankers and the IMF on how Sweden dealt with its banking crisis.

Since then, many countries have considerably strengthened their regulatory and supervisory framework and are increasingly observing international best practices. However, financial crises are not going away. The second day of this conference will thus be devoted to the complex role of central banks in: (i) monitoring the stability of the financial systems, (ii) taking financial stability considerations into account when making monetary policy decisions, and (iii) responding in a time of crisis. In his opening remarks, Mr. Aninat has already given you a flavor of the many challenges and questions which central banks are facing in that respect.

Like you, we in the Fund are grappling with the policy challenges posed by financial globalization. We have been asked to take on a new role of helping countries weather financial crises through the joint World Bank-IMF Financial Sector Assessment Program. Our intensive work on FSAPs is moving us even closer to the cutting policy edge of financial globalization.

At the same time, our traditional role of providing technical assistance in central banking is as prominent as ever. We find that financial globalization is leading to requests for assistance on new policy issues such as the adoption of inflation targeting by emerging market countries. The challenges posed by partial dollarization to many central banks is another example prompting requests for assistance. A third example is the strengthening of the framework of public debt management, for which the IMF and World Bank have recently developed guidelines. Presentations on the first day of the conference will address these issues, and share with you some country experiences.

I hope you will enjoy the conference and benefit from the exchange of views. At the same time, of course, I must confess that we ourselves hope to learn from the experience of you the policymakers. Against this background, I look forward to the conference presentations and discussions.