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I would like to thank the organizers of this conference for having invited me to take part in this very timely event. The views expressed here are mine and should not be construed as fully reflecting the positions of the institution I represent.

I will try to address the specific questions put forward by the organizers.

What are the key interdependencies among various types of intervention measures that might make unwinding a complex matter?

Unwinding of policy measures taken in the midst of the financial and economic crisis will be complex because of both their exceptional scope and scale, most notably in advanced economies.

As regards scope, the full gamut of policy areas has been mobilized to support impaired financial sectors and sharply contracting economies. Financial sector measures included mainly bank liabilities guarantees, recapitalization, and asset relief schemes. On the fiscal front, policy steps intended to support aggregate demand, while mitigating financial systemic risks, have resulted in a significant transfer of risks from private to sovereign balance sheets. On the monetary side, central banks' liquidity management policies used to supplement dysfunctional interbank markets or specific segments of capital markets, have also been reflected in a sizeable "leveraging" of central bank balance sheets. One key interdependency linking these remedial actions stems from the fact that the more these exceptional fiscal and monetary measures are applied on the demand side, the more they undermine incentives to restructure financial institutions on the supply side.

As regards scale, these policies have been stretched to the limits. Specifically, the operation of rule-based fiscal and monetary policy frameworks has been temporarily, but significantly, altered through the use of unconventional measures. This exceptional degree of discretion will have to be phased out gradually as financial and economic conditions stabilize. Such phasing out should be used by relevant authorities to signal that policy modes are gradually shifting as conditions are "normalizing." Decisions taken by the ECB Governing Council on 3 December 2009 to initiate a gradual phasing out of its enhanced credit support measures illustrate how adjustments in policy modes may be used to "validate" improving financial conditions. In addition, timely exit is needed both to anchor market expectations and to restore policy room that may be required to face further unexpected shocks. The effectiveness of exceptional measures ultimately depends on the credibility of steady state rule-based policy frameworks. This implies that relevant authorities must map out early enough a reversion to "normal" modus operandi. As regards the risk of additional shocks in the period of rehabilitation, the experiences of countries having faced serious financial dislocation confirm that it is crucial to keep enough policy space, at any point in time, to be able to sustain lasting recoveries.

Which intervention measures have the greatest potential for cross-sectoral and cross-border spillovers?

With respect to the financial sector, the potential for spillovers and distortions exists in two areas in particular.

As regards the first area, various financial sector support measures are likely to impact capital flows or distort competition. For example, blanket guarantees, such as deposit insurance schemes or guarantees of banks' other liabilities, are likely to affect capital flows, depending on the degree of asset substitution or cross-border financial integration. More targeted measures, such as recapitalization or asset relief schemes, are more likely to distort competition. With a view to mitigating these risks, coordination has taken place, to varying degrees, at the level of the European Union (EU) as well as at the G-7 and G-20 levels. Until now, these initiatives have proved effective in preventing any material rise in financial protectionism.

With respect to the second area, regulatory and supervisory reforms under way in major advanced economies need to be mutually consistent given the cross-border dimension of the ongoing financial crisis. However, such an outcome may prove difficult to achieve for at least three reasons. First, while further regulatory and supervisory convergence is being fostered by the relevant multilateral forums (e.g., the Financial Stability Board, the Basel Committee on Banking Supervision), residual divergences might well persist for some time in certain areas (e.g. capital requirements, accounting standards).

Second, beyond divergences in rule setting, another potential source of regulatory and supervisory arbitrage arises from the lasting tension between supranational rules or standards, on the one hand, and national enforcement and accountability frameworks on the other hand. Third, the supervisory overhaul encompassing micro- and macroprudential arrangements both in the United States and the EU is bound to improve relevant authorities' ability to identify and address incipient systemic risks. However, it remains to be seen whether these enhanced policy frameworks will contribute to greater global financial stability given prevailing differences in policy constraints and preferences between the two economic areas.

Which crisis policies, when unwound in an uncoordinated manner, bear the greatest downside risk of distorting capital flows and financial intermediation, or of regulatory arbitrage?

Distortions are likely to arise not only as a result of uncoordinated exits but also if exceptional measures are not removed in a timely manner. The EU may be used as a test case given its high degree of financial integration.

Steps have already been taken to restructure banks that had benefited from public support. The first objective of such reorganization is to prevent competitive distortions within the EU single financial market. A second objective consists in reducing the fiscal cost of policy intervention. While the EU rules governing state aid measures ensure consistency within the single market, it is not clear whether an adequate degree of convergence is currently secured among the EU and other large economic areas (e.g., bank resolution activities in the United States).

Further steps that have just been initiated relate to the gradual removal of exceptional financial support. As recommended by the EU Council, blanket guarantees on bank borrowing should be the first type of exceptional support to be gradually phased out, as access to funding markets continues to improve. The first objective of such sequencing is to restore normal market functioning for most financial institutions, while addressing persisting problems in individual financial institutions with appropriate prudential resolution tools (i.e., recapitalization, asset relief schemes). The second objective of this approach is to avoid overburdening fiscal and monetary policies as conditions gradually normalize and macroeconomic instruments lose their usefulness and effectiveness. In addition, by reverting to rule-based macroeconomic policies when appropriate, the EU would facilitate timely exits by other G-20 members

Conclusions

Conditions for exiting exceptional policy support are gradually falling in place. As systemwide support measures (e.g., liquidity management measures, blanket guarantee schemes) lose their usefulness and effectiveness for a large majority of financial institutions, their orderly phasing-out will be warranted. Timely withdrawal is essential to underpin medium-term credibility of rule-based macroeconomic policy frameworks. At the same time, support measures targeted at individual institutions should remain in place for the time being, as they are required to preserve financial stability.