"The New Global Economic Order – Multilateral Institutions and the New Regionalism"

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- Over the past three decades, the global economy has changed in significant ways and the recent Global Financial Crisis (GFC) has no doubt accelerated this evolution.
- Three aspects deserve our particular attention:
    - First, emerging market economies have raised their economic and political influence, becoming the main driver of world economic growth. They learned their lessons from the previous wave of emerging market crises in the 1990s and proved much more resilient during the recent crisis.
    - Second, financial markets have continued to grow and to integrate across the globe, and have become the main channel for the transmission of shocks and systemic risks.
    - Third, alongside policy coordination at the global level, there is a trend towards enhanced regional cooperation, as a complementary way to safeguard financial stability and to supply cross-border liquidity.
- Against this background, I would like to speak about Europe's experience in managing the recent crises and draw some conclusions for the future international economic order and monetary system.

- European integration, and in particular the creation of the euro, represented the biggest transformation of the International Monetary System since the end of the Bretton Woods system in 1971.

- First, the euro became quickly the second most important currency worldwide, although it was created to support the Single Market and strengthen European integration. The euro provides in many areas an alternative to the US dollar, especially for international trade and asset allocation.

- Second, the use of the single currency eliminated exchange rate volatility in the euro area and eliminated the European analogue of the Triffin Dilemma. Due to the central role played by the Deutsche Mark until 1998, German monetary policy, which had to be based on economic conditions in Germany, had strong spillover effects to other European economies, similar to the influence of US monetary policy to the rest of the world today.

- Third, as the euro area is the second largest economic area in the world just behind the United States, growth and stability among its 18 Member States is important for the world economy.

- The European sovereign debt crisis, which was amplified by the worst global financial crisis in 80 years, exposed problems in the conduct of economic policies and institutional gaps in the design of European Economic and Monetary Union (EMU). Policymakers, however, reacted rapidly and adopted a strategy with five components.

- First, at national level, Member States have made substantial progress on fiscal consolidation and structural reforms. In recent years, Greece, Ireland, Portugal and Spain have been ranked as “reform champions” by the OECD and think tanks. These countries are returning to healthy growth.

- Second, the ECB adopted unconventional monetary policies to ease credit market conditions in the euro area and played a crucial role in turning around market sentiment.

- Third, the European sovereign debt crisis fostered a complete overhaul and redesign of EMU's framework for policy coordination. The surveillance is now much tighter and broader with more power for the European Commission.

- Fourth, the banking sector is reinforced with better surveillance at the European level and the construction of the European Banking Union. Banking Union has the following pillars: a Single Supervisory Mechanism (SSM) for systemic banks, a Single Resolution Mechanism (SRM) and a Single Resolution Fund (SRF). Very recently, the ECB successfully conducted the Comprehensive Assessment of banks that cover 82% of total banking assets in the euro area. The results confirmed that the European banking sector is resilient and well capitalised, despite capital shortfalls in a few banks. Euro area banks have indeed increased their capital position by €560 billion since 2008.

- Fifth, Europe has created strong firewalls, the EFSF and ESM. This has closed a gap in the original design of EMU. During the last three and half years, the EFSF and ESM together disbursed €232 billion to five programme countries, exceeding three times the total disbursement from the IMF General Resources Account during the same period.

- Our crisis response explains very well why Europe is moving out of the crisis. This will allow us to focus now more on strengthening growth in Europe.

- The European response can also provide lessons for maintaining financial stability at the global level. The European experience demonstrates possible ways to strengthen policy coordination, tackle macroeconomic imbalances, improve financial surveillance, and foster crisis resolution.

- First, coherent policy coordination and credible surveillance frameworks are crucial to prevent excessive macroeconomic imbalances and financial volatility within a region. This is also a key issue facing the global economy since the end of the Bretton Woods system.
- For macroeconomic surveillance at the global level, one may think of strengthening the Mutual Assessment Process (MAP) launched at the G20 Pittsburgh Summit in 2009. The IMF should maintain a central role here to monitor imbalances at the global level and to provide advice for corrections.
- Second, successful global policy coordination ultimately needs to be translated into concrete reforms at national level. Macroprudential policies will become a major tool for a large number of countries. Fiscal space must be generated; the extent will depend on each country's vulnerabilities. Most importantly, sound institutions and structural reforms are necessary to sustain long-term growth.
- Finally, proper crisis resolution mechanisms are needed to alleviate the immediate effects of any financial crisis. At the 11th ASEM Finance Ministers' meeting in Milan in September, ministers from 49 ASEM Member States all agreed that "permanent arrangements like EFSF/ESM and Chiang Mai Initiative Multilateralization (CMIM) offer a useful instrument to deal effectively and speedily with potential bouts of financial instability".
- Regional Financial Agreements (RFA) have comparative advantages in sustaining financial stability at regional level. They have in-depth knowledge of region-specific issues and can mobilise large amounts of financing relatively quickly. Founded by regional members, RFAs also have stronger democratic support and less stigma than the IMF to intervene in regional economies
- However, RFAs need to coordinate efficiently with the IMF to generate synergies. With integrated financial markets and globally active financial institutions, risks that countries are

facing are increasingly contagious and systemic in nature. An international framework for policy coordination and surveillance is thus indispensable. The IMF has a wider representation, established surveillance and monitoring capacity as well as a global view. An efficient coordination between RFAs and the IMF would certainly generate synergies in terms of resource allocation and surveillance capacity. Coordination failure, in particular with respect to conditionality, could lead to "programme shopping" and associated moral hazard

- What will the world economic order look like in the future? On the real economy side, dynamic emerging market economies will continue to be a key engine for world economic growth. Our host economy is the best example for what might happen with the right policies. The future world economic order should thus reflect these countries' increasing contribution to the world economy. Open trade and closer economic cooperation among advanced economies and emerging market economies need to be further promoted in order to maintain stability, sustain consumption and investment, enhance growth and manage a crisis if necessary.

- On the financial side, we are heading towards a multipolar currency world. Although the US dollar will very likely remain the most important global currency, the euro and one or two Asian currencies will play influential roles in international trade and financial transactions.

- Regarding crisis prevention and management, the world economy will be better protected by solid global financial safety nets composed of three lines of defence. At national level, fiscal space and robust institutions are crucial for the conduct of counter-cyclical policies. At regional level, fully-fledged RFAs can absorb unexpected shocks and limit cross-regional contagion. The final layer of the safety nets would be the IMF and other forms of global policy coordination, like the G20, Financial Stability Board and coordinated central bank actions.

- The euro area is aware of its responsibility at home and in the fast evolving world. Further integration in the euro area will strengthen the resilience of its Members States, safeguard macroeconomic and financial stability in Europe, and promote growth and stability around the world.