

# **Financial Risks, Stability, and Globalization**

Editor  
**Omotunde E.G. Johnson**

**International Monetary Fund**

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Omotunde E.G. Johnson**

**Papers presented at the eighth seminar on central banking  
Washington, D.C. June 5–8, 2000**

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# Foreword

The stability of the international financial system is an important international public good. Working with other institutions, the International Monetary Fund has an important role to play in the center of competence for ensuring the stability of this international financial system. This is all part of the IMF's efforts to make globalization work for the benefit of all.

During the last few years, especially since the financial crises of 1997–98, the IMF has been working on a wide range of financial architecture–related issues, aimed mainly at strengthening the institution's capacity in three crucial areas: preventing crises, improving the functioning of domestic and international financial markets, and providing temporary and appropriate financial assistance. As part of this work, the IMF takes a keen interest in understanding issues related to risk measurement and management in financial markets, in measures to improve the efficiency with which those markets function, as well as in the design of public policy to prevent and contain financial crises. In examining systems as a whole, the IMF's focus is always on the promotion of macroeconomic stability. Hence, the IMF has been paying particular attention to identifying sources of vulnerability and problems with potentially adverse systemic consequences at an early stage.

In building up its competence to perform its tasks, the IMF staff learns from experience and from dialogue with other international organizations, academia, and the private sector. One of the most effective ways of conducting this dialogue is via conferences and seminars that bring together participants from many of the IMF's member countries. The central banking seminars have proved extremely productive in this regard. Indeed, the topics of the eighth Central Banking Seminar, the proceedings of which are published in this book, give some indication of the breadth of the IMF's interest in risk management and financial sector stability issues that have a bearing on macroeconomic stability.

In the areas covered, the book brings out many of the complexities with which practitioners and policymakers must contend for appropriate decision making. The diversity of the experience and insights of the conference participants has helped to ensure a balanced approach. I hope that the book is a further testament to the serious efforts of the international community to enhance its collective ability to identify

sources of vulnerability, increase the resilience of domestic and international financial markets, and improve the functioning of the system as a whole. I have no doubt that the papers will contribute immensely to pointing the way forward for many of the issues covered.

HORST KÖHLER  
*Managing Director*  
*International Monetary Fund*

# Preface

This book contains the proceedings of the IMF's eighth Central Banking Seminar, which was held June 5–8, 2000, and organized by the IMF's Monetary and Exchange Affairs Department in collaboration with the IMF Institute. Since they began in 1983, these seminars have been organized every two to three years; the seventh in the series took place in January 1997. The seminars have provided a useful forum for wide-ranging discussions on a number of central banking issues among senior practitioners from the IMF membership. The objective has not necessarily been to reach definitive conclusions or to arrive at a consensus on any issue. The topics chosen feature prominently in current debates in the monetary, banking, and exchange areas. The seminars also are an opportunity to inform relevant and interested parties about the IMF's current analytical and policy work in the areas concerned.

This volume takes its title from the theme of the eighth seminar, "Financial Risks, Stability, and Globalization." Apart from staffs of the IMF and the World Bank, participants were drawn from the Bank for International Settlements, the Inter-American Development Bank, private financial firms, academia, regulatory and supervisory agencies, and central banks. Officials from over 35 countries were represented. The diversity of the specialties and backgrounds of the main speakers and the commentators demonstrates the complexity of the topics discussed. As expected, the diversity contributed strongly to the depth of the discussions.

The topics themselves are of immense concern to the IMF, in general, and its Monetary and Exchange Affairs Department in particular. Indeed many of the issues raised feature prominently in the IMF's Article IV consultations and technical assistance. But the topics also reflect the growing amount of time and energy that policymakers, including central bankers, in all parts of the world have had to devote in recent years to safety, efficiency, and stability of the financial system. Macroeconomic policymakers particularly seek to understand the major factors determining risk management, efficiency, and stability in financial systems; the economic costs of suboptimal levels of risk management, efficiency, and stability; and the nature of optimal policy interventions. In this context, the IMF in its relations with countries has been paying great attention to banking and financial sec-



tor issues, such as bank soundness, systemic bank restructuring, and the safety and efficiency of systemically important payment systems, and their interaction with the macroeconomic environment. It has been the intention in organizing this seminar to reflect some of this ongoing work of the IMF and to obtain the views of other experts on these issues. We hope that the volume will be of value to policymakers as well as researchers.

STEFAN INGVES

*Director*

*Monetary and Exchange Affairs Department  
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# Acknowledgments

This book has been made possible with the assistance and support of many persons. A particular debt of gratitude goes to Stefan Ingves, Director of the IMF's Monetary and Exchange Affairs Department (MAE), who asked me to organize the seminar. Mohsin Khan, Director of the IMF Institute, also gave support at critical moments, especially during the seminar itself. In the organizational work leading up to the seminar, I would like to thank Anne-Marie Gulde-Wolf for useful suggestions, and Nicole Bourassa, Charmion O'Connor, and Janet Stanford for the excellent way they performed the numerous administrative and secretarial tasks involved.

During the seminar, apart from the main speakers and discussants whose contributions are visibly recorded in this book, the chairmen of the sessions played an invaluable role in making the seminar a real success. The keen interest of the other participants, as shown by their active participation in the discussions, also contributed greatly to the seminar's success.

In preparing the manuscript for publication, the secretarial support of Patricia Delgado-Pino, Adriana Rota, and Cynthia Galang was critical. Paul Atang and Kiran Sastry provided research assistance. The book also benefited from the editorial expertise of Natalie Baumer of MAE and Jacqueline Irving of the IMF External Relations Department. Marina Primorac coordinated the production of this book.

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