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The last session was very exciting and sparked a lot of emotion. We no longer see the same degree of emotion about the financial crisis we experienced a year ago, but I would like to start by recalling that 12 months ago, in October 2008, we were standing on the edge of a precipice.

The degree of anxiety that existed surrounding the international financial markets was unprecedented, at least since the 1930s, and when we now find ourselves a year later in a situation that appears to be a lot more stable, we can perhaps tend to forget very quickly what the world was like a year ago and what has happened since.

There are even some people, particularly in the United States and particularly on the right of the American political spectrum, who are saying, “The crisis was exaggerated. At the end of the day, it was exaggerated for political purposes by certain individuals who wanted to increase the role of the United States domestically and throughout the world, as well as its role within the international institutions.”

When I hear this, it makes me think it is similar to someone who suffers from a heart attack, who has been taken to a hospital and is operated on with some success, who is now not entirely back to full health but who is getting better and no longer in danger of dying, and who now says, “What heart attack are you talking about? I am doing fine. There is no problem.”

There has been a massive amount of State intervention. There has been rapid, highly effective cooperation between the central banks, as Lionel Zinzou pointed out yesterday. There have been meetings of the G20, as Jean-David Levitte said at dinner yesterday evening, which have been highly successful insofar as they have conveyed an image of international cooperation. They have tripled the size of the International Monetary Fund. There has therefore been extremely robust action, of a kind that can only be called Keynesian, by governments in Europe, Japan, China and above all the United States. This is not something that should be forgotten. If there had not been State intervention at this level, the last few months would have turned out very differently, so I wanted to start by reminding us of that fact.

There are two main areas to look at in terms of financial regulation. Looking to the future, one of the first points I would like to underline is the importance of the interaction between the macro and micro levels. My plan is to concentrate on this for a few minutes, on the basis that my colleague Nicolas Véron will perhaps address the micro level as such, should he wish to.

When we try to explain the crisis, we find we can only do so by looking in great detail at this interaction between the macro and micro levels. There are two dimensions to the *macro-finance* aspect. There is the purely macro dimension, and a lot was said yesterday about the major payment imbalances, the "global imbalances" in payments and therefore the liquidity that these imbalances have created in the United States and the amount of capital coming in, primarily from the Far East and China, but also from the Middle East. The other dimension of the interaction between the macro and micro levels is the macro aspect of financial risk. I will come back to this in a few minutes. But first, let's look at major imbalances and global imbalances. My focus for this point will be primarily on the future.

For there to be balance, not only do deficit-ridden nations need to reduce their deficits, but nations that produce surpluses need to reduce those too.

If we look at the world economy, we have China, with a surplus on its current account of around 10% of its GDP and which at certain times has been as high as 12%, and also of course, significant surpluses in the oil-exporting nations, particularly the Gulf states. Taken together, these two surpluses created a wave of liquidity that moved primarily towards the United States and no doubt contributed to the crisis but it was not, in my view, one of its primary causes. It may have played a part, but the crisis would have occurred anyway, even without the deficits. No-one will ever be able to prove it, but that's what I believe.

Looking to the future, I want to emphasise that in order to rebalance the world economy in terms of deficits, it is important not to forget – this is a message we were given yesterday and I would like to add my support – the emerging countries.

When we look at the oil-producing countries and the price of oil, no one has ever really been successful in predicting it with much confidence, but we can say that it will rise, that the price of oil will be fairly high, and that the oil-exporting countries will generate significant surpluses. There will therefore be surpluses on that side.

Looking at China, I hope that the Chinese surplus will not continue at 10% or 12% of GDP. But asking China to reduce its surplus radically, bring it back down to zero and balance its current account is unrealistic. The Chinese growth model and the necessity of absorbing workers who are still coming in from the rural areas is such that balancing the Chinese economy, which had been primarily driven by domestic demand, will take time. It will take more than a few years. It could perhaps be achieved within ten. We therefore need to look at the Chinese surplus as one that will decrease, I hope, to 5% or 6% of Chinese GDP but which will remain nonetheless.

So combined with that generated by the oil-producing countries, there will be a surplus in the world. If there is a surplus there must be a deficit elsewhere, somewhere for the capital generated by China and the oil-exporting countries to go. It is essential that a large proportion of this capital moves to the developing nations and other emerging countries, including Africa.

If it is once more America that absorbs all of this liquidity, we will have more problems. I think the American deficit will remain. There will not be an American surplus or even a balanced American current account, but if America has a deficit of 2% of GDP, we will need – I have done the calculation – all the developing countries and emerging countries, excluding China, to have a deficit of around 4% of GDP over roughly the next five years. I think this is feasible and certainly not excessive. In fact, it reflects the need for investment and capital in poor countries. There is nothing more natural than wanting a world in which capital moves to developing and emerging countries.

This is where governance has a part to play. More of the flow of capital generated by the oil-producing countries and China needs to move towards the developing and emerging countries rather than solely to America. This flow of capital needs to be managed, balanced, and not generate new crises such as those experienced in developing countries in the 1960s, 1970s, 1980s and 1990s. It is clearly important that the developing countries should feel secure enough to be ready to import this capital rather than simply accumulating ever-greater reserves.

This is where both the International Monetary Fund and the World Bank come in, along with the bilateral relationships between China and the oil-producing nations, and the emerging countries. We can see that China has established bilateral relationships with many of these countries. This is a good thing. It will help to steer capital towards these countries, but it is important that it should be complemented by a kind of world governance centered on the Bretton Woods institutions with the International Monetary Fund, which has new "precaution and finance" facilities, and also an increase in the capital of the World Bank and regional multilateral development banks to facilitate the flow of capital.

This was the first point I wanted to make. Time is limited, so I cannot say any more, but it is very important when we are looking at the world macro-economy and world governance.

The second point relates to risk management and its relationship with the macroeconomy. It is important to stress that the mathematical models used to date have dealt with correlations due to the macroeconomy as if it did not exist.

The main point I would like to make here is a very simple one. If you have two events, each with a risk of occurrence of 10%, and if you treat these two events as separate, the probability that they will both occur at the same time is 1%. Many risk assessment models in the financial system have relied on this as a working hypothesis. They have treated events that were connected at a macroeconomic level as if they were independent events. One of the reasons we had an economic crisis due in part to the analyses of the ratings agencies, as Jacques said, is that these elements were treated as independent. In fact, the mechanisms of macroeconomics means that these events were far from being independent and the probability that they would occur at the same time was actually very high. That was the most crucial mistake made by the financial analysis models: they did not link macroeconomic analysis to microeconomic analysis. One of the most important reforms we should undertake is to ensure that in future microeconomic risk analyses take account of possible correlations with the macroeconomic environment. I'm afraid I've run out of time, so this has been very brief. Thank you.