

PANELISTS COMMENTS

Xavier Vidal-Folch, Deputy Director, *El País*, President of the World Editors Forum

Thank you, Monsieur Trichet, for your remarks and for having laid out, with some examples, the famous meeting of August, the difference between the informal and the formal institutions and the building of a consensus among different leading entities. The example, I believe, is a very good illustration of the difference between Basel III and Basel II, Mr President.

Panellists, if you want to exchange views, make comments and ask each other questions, it's your turn.

Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution

One can perhaps begin by saying that there are two dimensions, which you have pointed out, Jean-Claude, that are really very important. The first is speed. There was globalisation before, but now things are very different. I quite agree.

The second dimension is – and I believe that this has not been stressed enough – that, given a certain degree of informality, there is the possibility of including a debate with entities that are not necessarily typical sovereign entities. You did not say so, but I think that even private sector representatives could ultimately participate in this debate. I believe that this is really very important given the role played by the private sector in all of this. It is compatible with how the major international institutions function. Besides, the IMF needs more ministerial involvement so that management is not left to the directors alone. All the more so as the Monetary Fund now has an extremely large financial capacity. I believe that this was in fact the recommendation of the *Manual Report*.

Obviously, there is the reform of governance. In that, there is a certain alliance between the Americans and the emerging countries. I agree that gradual means must be found – maybe not radical – for emerging countries to find their place in this governance, in the quotas certainly, but also in what perhaps is just as important as the quotas, that is to say the seats and the constituent groups. I think that we are moving towards compromises and I hope that Europe shows, let's say, some flexibility, which I think is really necessary in this field.

Xavier Vidal-Folch, Deputy Director, *El País*, President of the World Editors Forum

Some haste as well.

Kemal Derviş, Vice President, Global Economy and Development, Brookings Institution

Some haste, Mr Kuroda?

Haruhiko Kuroda, President, Asian Development Bank

There are two points, regarding Basel III and stronger financial regulations. First, the Basel III agreement is a major achievement and I think this is going to make financial institutions safer in general. With strong capital bases, even if the situation is kind of difficult, hiring the banks and financial institutions can avert the total corruption and meltdowns experienced in the last 2-3 years.

However, I would like to make one cautionary remark. If you require all drivers to have stronger bumpers, in themselves, such regulations would make traffic accidents less severe. However, with stronger bumpers, drivers may feel that it is safer to drive faster, with more risky driving techniques. Likewise, with larger capital bases, which



inevitably accompany higher capital costs, financiers may engage in riskier activities and acquire riskier assets and so on. This means that stronger capital requirement is absolutely necessary.

At the same time, the incentives structure faced by financiers must be closely monitored and if necessary, regulated by financial supervisors and regulators. Otherwise, we may face a similar situation in the future, despite Basel III and stringent capital regulations. I think the whole range of financial-sector regulations and supervisions must be considered in a comprehensive way.

The second issue relates to expansion of the Basel committee. I would hesitate to say that it has a somewhat European bias, but a bias towards G10. It used to be based on G10 countries, but then it substantially expanded. From the point of view of emerging Asian markets, the Basel Committee still has not been completely reflecting the views, interests or opinions of emerging economies in Asia. The interaction, engagement and possibly membership of emerging Asian economies does not just include Singapore or Hong Kong. Much larger membership of emerging Asian economies is needed.

Jean-Claude Trichet, President of the European Central Bank

First of all, pardon! I am going to answer you in English!

I would say to Kemal that I agree entirely with his comment. In actual fact, in decentralised market economies, of course there is permanent contact with the private sector, and in the work carried out not merely in the Basel Committee, but in all work carried out in the process of successive consensus building for standards, rules and regulations, consultations are held regularly.

That said, I must say that the decisions we take are not taken with the private sector. As you know, better than anyone, they are sometimes criticised by the private sector, which is legitimate. Everyone must stay within their area of responsibilities. As far as we are concerned, we obviously have the systemic responsibility of ensuring the stability and resilience of the system on a medium and long-term perspective which of course is not necessarily the first concern – quite understandably – of every private entity involved.

Jacques Mistral, Head of Economic Studies, Ifri

I would say to President Kuroda that, as you know, in the governance of the Basel Committee, we do not only have all the G20 members. Our membership around the table consists of up to 27 countries. Those involved in the Central Bank's governance of systemic emerging economies in Asia, as well as the Supervising Head, are there. I chair this meeting, so I can tell you that they are very, very active in making very, very highly professional and sound remarks.

Again, the consensus we have is the minimum consensus at global level. If any partner wants to go further, he can, but we have an agreement at that level, which I think is very important. Now, we have a lot of work to do. If you have ideas regarding how to make the system even more efficient and effective, it would be possible. We have to settle the problem of the systematically-influential institutions. We have all the problems of understanding our liquidity ratio totally. We have all the problems that are associated with the incentives, as you said, which is very, very important. There are also all the loan banks. There is a lot of hard work to do and, as I said, there is no time for complacency at all.

Xavier Vidal-Folch, Deputy Director, *El País*, President of the World Editors Forum

Thank you, Jacques, you see...?

Jacques Mistral, Head of Economic Studies, Ifri

May I say a word before you give the floor to the audience. I have been struck by the fact that the three speakers have eventually moved towards the conclusion of Jean-Claude Trichet, by saying that, at the macroeconomic level, there was no major basic difference between the three continents, but that it was a question of timescale. Effectively, if one



thinks of China, for example, the idea of restructuring growth is very evident; it is also taking a lot of time in the United States. In addition, a depreciation of the currency is probably needed.

My question – it will be paired off with that of the participants – is: will we have the time? Jean-Claude began by talking about the speed of events. Today, there is the pressure of these huge capital flows; there is the volatility of exchange rates which obviously risks becoming excessive. Do we have time to wait for this agreement on the internal reorientation of demand?