

Reforming  
the International Monetary System  
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# Towards a multicurrency reserve system

## Positive aspects

- A multicurrency reserve environment means more countries have a stake in global stability and aim to play an active role in international monetary cooperation.
- More equitable sharing of the « exorbitant privilege »
- The change in reserve composition is likely to be gradual
- For central banks, reserve currency diversification can be good
- The desire to internationalize their currencies drives emerging market economies to implement economic reforms and strengthen institutions
- The international use of major creditor countries' currencies is likely to result in an appreciation of their currencies, thereby facilitating adjustment of their external balance of payments.
- IMF's encouragements to improve communication and coordination of policy action in view of addressing spillovers are welcome.

# But complacency would be dangerous

- No guarantee that the system will be more stable.
- No satisfactory solution to the Triffin dilemma; i.e. the use of a national currency as an international currency
- Needs of the national economy overriding the needs of the global economy
- Weakening of the external constraint, exacerbating macro-economic imbalances
- Huge and volatile private capital flows and undesirable liquidity spillovers
- Downside risk to monetary and financial stability; loss of control of monetary aggregates, generating global monetary waves fostering vicious circles of boom and bust episodes.
- « Built-in destabilizer », link with 2008 crisis and danger of new crisis.

# Need to move to a multilateral reserve currency

- Importance of managing global liquidity as a global public good, calibrating global liquidity to the needs of the global economy .
- Rational solution is to move to multilateral currency reserve system, with multilateral drawing rights (MDRs) issued by an IMF transformed into a global central bank, endowed with the necessary legal and financial instruments to regulate global liquidity.
- This requires fundamental reform of the IMF, enhancing its surveillance role and strengthening its legitimacy and governance (see recommendations of Palais-Royal Initiative).
- If Bretton Woods II negotiations are not possible in the short run, the second best would be to enhance the use of the SDR.
- Danger of current situation but reasons for hope: ideas on the table, China's attitude.

## Broadening SDR use as a lever for gradual IMS reform

- Change anachronic name
- Use SDR more actively in the official sector life
- Reform allocation regime : general and targeted allocations
- Enable IMF to issue SDRs as International Lender of Last Resort
- Revival of Substitution Account idea for orderly diversification of reserves
- Make the SDR more attractive and user-friendly
- Promote private SDR market : clearing arrangements, legal and administrative rules, develop private SDR operations by public sector (e.g. World Bank and China SDR bond issues)