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A MULTI-CURRENCY RESERVE ENVIRONMENT?

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At the recent IMF Annual Meetings, the debate was widely focused on the evolution of the international monetary system that, for many aspects, is leading towards a "multi-currency system", with characteristics still not well identified.

This is a new uncharted territory and the BIS, several months ago now, addressed the issue at a joint Swiss National Bank – IMF conference, in particular with the presentation "More Pluralism, More Stability?"[1] by Claudio Borio, Head of the BIS Monetary and Economic Department. The presentation highlighted the problems linked to the model to which the international monetary system seems to be directed, and the need to establish stronger anchors at national and international level.

The international monetary system must now face the difficult shift, by the main central banks, from policies of injection of increasing liquidity, with even negative rates, from quantitative easing to tapering.

The increase in the balance sheet assets of the Federal Reserve System, the European Central Bank, the Bank of England and the Bank of Japan makes it difficult a further expansion in order to face future - and not unlikely – significant destabilization of the integrated international financial market.

Only a joint action of central banks - coordinated within the IMF as lucidly proposed by former Governor of the Reserve Bank of India Raghuram Rajan – will ensure an orderly return. The prolonged hesitancy of the FED to act – a rise in interest rates was announced on December 15 after several postponements – is clear evidence.

The persistence of significant current account deficits in the balance of payments of the US and Great Britain, the stabilisation trend of the Chinese surplus and the growing surplus of the Euro countries in fact make it difficult to pursue international stability by the FED alone, also for the well-known "Triffin dilemma". The FED alone cannot provide the reserve assets in the new phase of the international monetary system, but it should be accompanied by the ECB and the People's Bank of China within the IMF cooperation.

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The report "Using the SDR as a Lever to Reform the International Monetary System"[2] edited by the Robert Triffin International in May 2014, as a complement of the *Palais Royal Initiative*[3] presented to the G20 in 2011, had shown that the trend towards a multicurrency system would require the cooperation between the IMF and central banks. And also that the first steps of this trend were the inclusion of the renminbi in the SDR basket and the launch of activity in SDR, not only for the official SDR but also on the market.

The contribution of the renminbi to the new system can take place only through a gradual process leading to the expansion and strengthening of the Chinese financial market. Quite appropriately, the Chinese monetary authorities - as the Bundesbank did at the time for the international role of the Deutsche Mark - tend to avoid creating a destabilising "offshore" renminbi market favouring a slow and gradual but steady "onshore" market even through the use – to ease the transition – of the SDR, which now includes a significant share of the Chinese currency, on its own domestic market.

The seminar "Navigating the Multi-currency Reserve Environment", organised by the World Bank during the IMF Annual Meetings, was an important opportunity to discuss the evolution of the financial markets of the different national currencies and the role of the SDR. The seminar followed the announcement of the agreement between the World Bank itself and the People's Bank of China for an issuance programme of 2 billion SDRs in the Chinese domestic market, payable in renminbi.

On the European side, the working paper "ESBies: Safety in the Tranches"[4] of the European Systemic Risk Board (ESRB) aims to create a market of European Safe Bonds (ESBies) with characteristics that match the demand of euro-denominated union-wide safe assets, without joint liability. The aim of the proposal is to create a euro bond market that can respond to the needs of investors looking for safe and liquid financial assets, allowing these European securities to have a large diffusion in the international market and enter central bank reserves. This market is essential so that Europe can contribute to and facilitate the functioning of an emerging multicurrency reserve system.

[1] "More Pluralism, More Stability?", Claudio Borio, Seventh high-level SNB-IMF Conference on the International Monetary System, May 2016.
[2] "Using the SDR as a Lever to Reform the International Monetary System", The Federalist Debate, Paper No. 1, May 2014.
[3] Palais-Royal Initiative "Reform of the International Monetary System: A Cooperative Approach for the Twenty First Century", a group convened by Michel Camdessus, Alexandre Lamfalussy and Tommaso Padoa-Schioppa, February 2011.
[4] "ESBies: Safety in the Tranches", European Systemic Risk Board, Working Paper Series, No. 21, September 2016.

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