Conference on “80 Years after Bretton Woods : Relaunching Multilateralism through Regional Monetary Unions”

Summing up

Day 1 : Monday 6 May 2024

Venue : Museu do Dinheiro, Banco de Portugal

Introduction

Museu do Dinheiro | Vice-Governor dos Santos | Bernard Snoy

The conference, which had 58 registered participants, was opened by a warm welcome speech on behalf of Banco de Portugal by **Vice Governor Luis Máximo dos Santos**. He recalled that his first contact with Robert Triffin’s line of thought was at the University of Lisbon School of Law as a student of Professor Paulo de Pitta e Cunha, his great admirer and promoter in Portugal. He praised also the spirit of cooperation that characterized the Bretton Woods system, the innovative nature of the established solutions and the balance between well defined principles and the pragmatism needed for success. While the Bretton Woods international order had undoubtedly contributed to the Glorious Thirty Years (1945-75), the period following the end of the Cold War appeared not to have revealed so much wisdom. Given the failure of major international institutions to reform and to adapt to new players and the increasing rejection of hyper-globalization, perceived as incompatible with national democracy and national sovereignty, it was a good idea to ask whether the impulse towards monetary regionalization could provide an effective response to geo-economic fragmentation and help relaunch a more effective multilateralism.

In his introductory statement, **Bernard Snoy**, Chairman of RTI, thanked the co-organizers of the conference, Banco de Portugal and the Academia das Ciências de Lisboa, stressing the personal roles of Prof. Clara Raposo, Vice-Governor Banco de Portugal, and of Prof. Jorge Braga de Macedo, Jubilee Professor of Economics at Nova School of Business and Economics, Treasurer of the Academia and former Minister of Finance, who signed the Treaty of Maastricht, for their key role in preparing the conference. He thanked also the Gutt Fund (Free University of Brussels) for its important financial support to the conference He conveyed the message of Michel Camdessus, former Managing Director of the IMF, on the danger of new financial crises and of global incapacity to address multiple challenges if we failed to reform the IMF, to broaden its mandate and to improve global economic and monetary governance.

Bernard Snoy explained how RTI was trying to perpetuate the intellectual legacy of the late Belgian-American economist Robert Triffin (1911-1993), who enunciated more than 60 years ago what has become known as the Triffin Dilemma (TD), namely: «It is impossible for a national currency used as a world currency to serve properly both the needs of the national economy of the country issuing that currency and the needs of the international economy». The TD had not disappeared with the suspension of the convertibility of the US dollar in 1971, nor with the generalization of floating exchange rates. Its manifestation were manifold: potential loss of trust in the US dollar given the growing US net external liquid debt, the « exorbitant privilege » due to the disappearance of macroeconomic constraints combined the « exorbitant burden of becoming the world's debtor/creditor and consumer of last resort », loss of control on global liquidity (GL) , « built-in destabilizing » effect on the macro-economic policies of emerging economies (EE) and developing economies (DE), obliging them to divert a large part of their savings to accumulate unproductive exchange reserves. He referred to comments by Jacques de Larosière, also former Managing Director of the IMF, clearly linking the financial crises of the last decennia to the lack of action on the Triffin Dilemma (TD). Robert Triffin had also spent his life imagining and advocating solutions, in particular through the move to a potential multilateral global reserve system, based on the Special Drawing Rights (SDRs). The SDRs had been created through the second amendment of the IMF statutes but maintained in a marginal role. In 2010, a group of former central bankers, including Michel Camdessus, Alexandre Lamfalussy, Tommaso Padoa-Schioppa and Paul Volcker, had re-actualized most of the Robert Triffin ideas under the "Palais Royal Initiative ». Their recommendations had not been heeded. Since then, with the pressing need for the ecological transition, the pandemic and the Ukraine war, the process of economic de-globalization and geo-political fragmentation had created an unfavorable context for global reform. As Robert Triffin had done in his life, namely working on regional integration projects when global reform projects were blocked, RTI had proposed the theme of the conference « Relaunching Multilateralism through Regional Monetary Unions».

Christian Ghymers, Vice Chairman of RTI, complemented the introduction by drawing attention to the fact that, despite new monetary regionalism and de-dollarization, the US dollar was still the key currency of the international monetary system. More specifically:

- The reason for the continued strength of the dollar is the growing scarcity of dollar safe assets necessary as collaterals on wholesale money markets dominated by non-bank financial institutions. The TD appears to-day not only in this scarcity but in the cyclical differentiation between « first best » and « second best » safe assets, with the danger of cyclical runs on the safest assets while the second best could suddenly become illiquid. The resulting pro-cyclicality of global liquidity could generate huge destabilizing flows.
- The present trend to monetary regionalism comes in response to the weaponization of the US dollar and combines an increasing use of local currencies for cross border payments and a strategy of internationalization of the Chinese RMB as reserve and invoicing currency but this does not mean that the international monetary system is de-dollarizing in the sense that other countries would like to compete with the US for being a larger debtor-at-sight, having the capacity to become the borrower/consumer of last resort. In fact, a world with multiple national reserve currencies could be more unstable, reproducing and making worse the flaws of the current international monetary system.
- Nevertheless, de-dollarization is ineluctable, among others because only a multilateral currency-based system will be able to finance de-carbonization in EEs and DEs. It will not take place with substitution for other national currencies. But it would be encouraged by the changes that regional monetarism will provoke.

Ghymers envisions a scenario under which Distributed Ledger Technologies (DLT) would make it possible at no cost to create private SDRs and where demand would lead Central Bank Digital Currencies (CBDCs) to merge the official and the private SDR. The IMF would begin to issue SDR safe assets The regional monetary arrangements would encourage a wider use of the SDR as vehicle currency. They would set up Regional Monetary Funds (RMF), denominated in SDRs and fix their own criteria and conditionality for financial support to their regional members. The RMFs would bargain with the IMF, which could award them specific mandates, allowing for a decentralization of some IMF functions. SDR complementary resources could be transferred - under conditions - from the IMF to the RMFs. These RMFs would also use their power to issue their own "communiqués" diffusing technical assessments about members' policies, giving so a possible action tool for financial markets and official creditors (e.g. financial spreads) which would also provide a test of their credibility . They would act as a lever for implementing macroeconomic dialogues both inside and outside each region and with other regions as well as with the IMF. The IMF would remain the global Lender of Last Resort (LOLR). Ghymers suggested three reasons why such ideas were less unrealistic than trying to reach direct agreement at the international level for three reasons:

- Regional cohesion might rise under external pressure.
- It was easier to reach agreement among like-minded countries; and
- The next crisis might make the absolute necessity of a multilateral LOLR in SDRs, obvious, in addition to the important role of the Federal Reserve System

Session 1: 80 Years after Bretton Woods: Challenges to Multilateralism and the Prospects for Regional Monetary Cooperation

This session was moderated by **Professor Clara Raposo,** Vice Governor of Banco de Portugal, Professor at the Institute of Economics and Management (ISEG) of the University of Lisbon . She reminded the audience that the Bretton Woods institutions had been the cornerstone of long-term prosperity, facilitated the response to a number of economic and monetary crises and sustained global peace. However, the global family was now facing structural transformation. We needed to see how these institutions could be strengthened and how deeper regional monetary integration could bring a positive contribution for the adjustment to new challenges.

Session 1: Kassi-Brou, Flôres, Mourinho Félix and Raposo   Governor J.-CL. Kassi Brou

Jean-Claude Kassi-Brou, Governor of the Central Bank of the States of Western Africa (BCEAO), former President of the Economic Commission of the Western African States (ECOWAS), shared the more than 60 years experience of the Western African Monetary Union, which already involved a banking union and a capital markets union, unlike the European Union . Despite a major devaluation in 1994, pegging first to the French franc and later to the euro had allowed more stability while guaranteeing full convertibility. Member States enjoyed a higher growth rate and were more successful in the fight against inflation. It had mitigated the risks of crises, allowing member countries allowing countries to better coordinate fiscal, structural and other economic policies in the context of a monetary union involving solidarity: if a country faced a shock, it had access at a lower cost to both domestic and international liquidity accumulated at the regional level. This required of course a minimum of political consensus. Also, when a balance of payments shock affected simultaneously all the member countries, external resources would be needed to support the monetary union. This was where the Bretton Woods institutions, enhanced to face the new challenges, could better play their role.

Renato G. Flôres Jr., Director, International Intelligence Unit, Fundaçao Getulio Vargas, Professor at the Post-Graduate School of Economics of Rio de Janeiro, started by asserting that no lender of last resort nowadays would be any more able to cope with a serious dollar crisis. The first question was to understand why, despite the Triffin Dilemma, the US dollar could maintain its universal currency status. The first reason was the continuing superior military power of the US; the second was the enormous complexity of the International Monetary System (IMS), with the exponential increase in its number of participants, transactions and networks. However, two factors are undermining the continued dominance of the US dollar:

- The US external liabilities and domestic deficit are spiraling out of control: sooner or later a crisis is inevitable; and
- The US hegemon has been abusing its power, among others through its unbounded use of sanctions of all sorts, and meddled in too many conflicts, while the world is drowning into blunt disrespect for multilateral institutions and disregard of international law; as a result, the US dollar credibility has staggered; its safety virtues are debatable; its liquidity is something "in the hands of a benevolent god".

Renato Flôres Christian Ghymers

This led Flôres to a pessimistic assessment: the non-Western core, i.e. all countries outside the US and the European Union (EU), the Global South in modern terns, live in a state, if not of fear, certainly of great insecurity as regards the hegemon's currency. Contrary to RTI, Flôres finds it useless to talk about reforming global institutions and arrangements. In his view, the IMF is too close to the hegemon. He does not see the US agreeing to the changes in the IMF Articles of Agreement required for the upgrading of the SDR. He sees no chance in enlarging or promoting the classical idea of monetary unions. Endeavors should rather concentrate on protecting, preserving as much as possible the frail existing multilateral architecture, coupled with stubborn fight for the respect of international law.

Flôres sees however steps to possible solutions consisting of inducing and creating concrete realities to push other currencies or mechanisms to substitute the hegemon's in select instances of the IMS. The more direct way would be through trade, with payments of the associated financial flows settled in currencies other than the dollar, concentrating on the trade between the BRICS countries and countries other than the US and EU countries. Shares of around 40% of world exports and 35% of imports might be expected to move away within a few years from being settled in US dollars to other currencies such as the RMB, the Russian rouble, the Brazilian real or the currencies of other emerging countries. Flôres quotes a Working Paper of Banque de France by Prof. Barry Eichengreen et al., arguing that capital account convertibility would not be a requirement for the RMB acquiring reserve currency status. The gist of the argument lies in that a wise combination of four facilities – bilateral currency swaps, offshore clearing banks, panda and dim sum bonds and the expanding Cross-border Interbank Paying System (CIPS), a Chinese platform similar to and compatible with SWIFT -- can reduce the direct demand for RMB reserve assets, ensuring liquidity and safety to the currency. Flôres sees a risk reducing role in such arrangements for regional agreements, less ambitious than monetary unions (like ASEAN, BRICS+ or Shanghai Co-operation Organization) and for Regional Multilateral Development Banks. He acknowledges that such a restricted version of a multiple currency scenario might involve a global loss of efficiency but asserts that this loss of efficiency might be more than compensated by the lowering of international tensions that would be associated with a more equitable distribution of power in the international banking system.

Ricardo Mourinho Félix, head of the Directorate of International Relations of Banco de Portugal, former Vice-President of the European Investment Bank and former Deputy Minister of Finance, reminded the audience that, despite their imperfections, the Bretton Woods institutions had, over the last 80 years, facilitated the move of many EEs and DEs out of poverty. But to-day's challenges were of a different order: demographic winter in developed economies, climate change affecting in very different ways the African and Latin American and Asian countries, mounting tensions leading to massive migrations, geoeconomic fragmentation, friendshoring, global uncertainty, etc. The challenge now was to devise, at the global and regional levels, the institutions and the incentives for the largest wealth transfer ever, channeling resources where they were needed for the ecological transition. The European Union had a role to play, building not only on its experience of integration but also as a powerhouse in research and green technology: under the Green Pack, the EU had generated four times more patents than China and twice as many as the United States. The EU was, however, not very good at bringing research to the factory. We have to complete the EU Banking and Capital Markets Union. Europe needed both to strengthen its strategic autonomy and to reorient its external relations towards Africa and Latin America.

Through a preregistered video message, **Luiz Awazu Pereira da Silva**, former Deputy General Manager of the Bank for International Settlements, former Deputy Governor of the Central Bank of Brazil and former Deputy Finance Minister of Brazil in charge of international affairs,

stressed the similarities between the challenges at the time of the Bretton Woods conference and the situation to-day: in both cases, there was a need for global macro-financial stability and the need for great amounts of short-term liquidity and long-term financing, then for rebuilding after the war, now for the transition to net-zero. Pereira da Silva detailed a number of steps to work towards a more ambitious "New Green and Fair Bretton Woods", including the following suggestions:

- On the liquidity front: the G7 members could re-allocate all or part of their current SDR holdings to poor developing countries that have committed Nationally Determined Contributions (NDCs) objectives with pledges to Net Zero and well formulated strategies detailed in their Country Climate Development Report (CCDR). While SDRs were not a currency, they could be used to mobilize hard currency liquidity to launch and pay for the current expenditures of a green project. The regional monetary arrangements among Central Banks in each region could also contribute to short term funding.
- On the long-term financing front, developing countries' green bond issuances, as well as other climate-risk related financial instruments (e.g. CAT bonds) could have a "credit enhancement" feature that would make them "investable" by large asset managers, pension funds and even central banks of developed countries. The guarantors would have to be the Multilateral Development Bank (MDB) system, the members of the Glasgow Financial Alliance for Net Zero, the Bretton Woods institutions themselves…

Luiz Awazu Pereira da Silva, former Deputy General Manager of BIS

Pereira da Silva concluded by inviting reforms to ”out-of-the-box-financial engineering”, including digital green SDRs, global monetary creation, making more out of our MDBs balance sheets, debt relief and restructuring for development, etc.

In the ensuing debate, speakers came back to the issue of the LOLR. **Christian Ghymers** reiterated that the shortage of safe assets and the issue of LOLR would be solved if the IMF was allowed to issue SDRs as a genuine currency while Hung Tran pointed to the de facto LOLR role played by the Federal Reserve in the Great Financial Crisis. **Renato Flôres** said that the Global South did not have sufficient trust in the Fed nor in the IMF. There was no sufficient trust either in the European Union, which, five years after its signature had not yet ratified the Mercosur Treaty and could not be relied upon to challenge the hegemonic role of the dollar. There was a deep sense of insecurity in the Global South and a feeling that the hegemon was resorting too systematically to violations of international law, which was a sign of weakness. The purpose was not to replace the dollar by the Renminbi but to reduce somewhat its exorbitant privilege and to allow some emerging countries' currencies to share in the privilege by having their currency used for reserve purposes. On the issue of Regional Monetary Unions, **Ricardo Mourinho Félix** recognized that few monetary unions, at their inception, complied with the conditions formulated by Robert Mundell for an optimum currency area. Monetary Unions, when created, were, most of the time, very imperfect and had to fight to meet criteria. Their creation was more a question of political will. **Jean-Claude Kassi Brou** argued that regional integration was a good and necessary step, bringing stability not only to its members but also to the countries in its neighborhood but that the bigger issue was the management of liquidity at the international level.

Session II "80 Years after Bretton Woods : In the face of Geo-economic Fragmentation, do Regional Monetary Unions provide an Answer?

This session was chaired by Ambassador **Antonio Martins da Cruz**, President of the Portugal Section of ELEC, former Minister of Foreign Affairs of Portugal. He reminded the audience that our world was characterized not only by geo-economic but also by geo-political fragmentation. There were 55 conflicts ongoing in the world, hurting 2 billion people. The United Nations could not provide answers to these conflicts as nations could not agree on common principles and double standards applied. Unilateral sanctions, weaponizing the economy, were hurting 55% of the world population. Concerns about the supply chain, with moves towards nearshoring or friendshoring, could have negative effects for the populations. How, in such a context, could regional monetary unions provide an answer? They were perhaps only recreating an horizon of hope.

The first speaker was **Hervé Carré**, former Director General of Eurostat. He was one of the architects of the European Monetary System and had been Adviser to Professor Jorge Braga de Macedo when he was Minister of Finance of Portugal in 1991-93. In January 1992, the Maastricht treaty was signed, setting up the roadmap to the adoption of a single currency

by 1999. Shortly thereafter, in April 1992 the Portuguese authorities decided to fix the escudo within the Exchange Rate Mechanism (ERM) of the EMS and to use the ERM as an instrument to foster convergence, reduce public sector borrowing requirements, reduce public debt and reduce inflation. However, after the years of deregulations marked by the full liberalization of capital movements, the dismantling of exchange control and the absence of any oversight of the banks external position, it was easy for operators to take positions against the currencies they found weak. They would borrow such a currency, convert it immediately into DM and then await for the weekend realignment which would enable them to make a huge profit with a revalued DM. This is the scenario which was repeated in the crises in 1992 / 93:

- on 16 September 1992, the Pound Sterling and the Italian lira left the ERM after speculative attacks and the Spanish peseta is devalued by 5%;

- on 23 November 1992, the Spanish peseta and the Portuguese escudo were devalued by 6%;

- on 3 January 1993 the UK authorities decide not to rejoin the ERM in 1993;

- on 14 May 1993, the Spanish peseta and Portuguese escudo devalued again by 8 and 6,5%

- on 2 August 1993, after strong attacks, mainly on the French franc, the ERM fluctuation band was widened to 15 % and calm was restored on the markets; with realignment made within the fluctuation band ,one way bets disappeared.

With calm restored on the market, the Portuguese authorities took the opportunity to launch an international bond issue of one billion US dollars, which was easily sold .This was the market recognition of the fact that Portugal was on track to adopt the single currency according to the Maastricht treaty. The period from August 1993 to the end of 1998 was one of increasing stability in the run-up to EMU, which Portugal joined from the very beginning. In conclusion, Hervé Carré paid a tribute to the quality of Portuguese leadership of the crucial years following the signing of the Maastricht Treaty.

To the question whether the European EMU was a real monetary union and could be a model for similar unions in Africa, Latin-America or Asia, Hervé Carré answered that a lot of work was still needed, and the EMU would remain incomplete as long as the Capital Markets Union was not effective.

The second speaker, Professor **Anoop Singh**, former Director of the IMF Asian Department and former Member of India's 15th Fiscal Commission, concentrated on the fundamental impasse – the "historic impasse" according to Michel Camdessus - concerning the global safety net 80 years after the creation of the Bretton Woods institutions. Global public debt not only in the US (a first downgrading of the US debt had already occurred two years ago) but also in advanced and emerging countries was at a historic high, above 120% of global GDP. It would not take long for the debt problems of a few emerging countries to spiral further into a global debt crisis. This was happening at a time when we had no global financial safety net, no

monitoring of global liquidity and no LOLR. The IMF had the mandate of monitoring current account balances but no mandate over movements in capital accounts. If the mandate of the IMF was broadened to include a constitutional authority over capital accounts, it would need also instruments to manage global liquidity and to become a genuine LOLR such as the capacity to issue SDRs. In fact, the IMF was the only body that was meant to be the LOLR but had not been endowed with the instruments to implement this fundamental role.

Session 2 : Hervé Carré, Anoop Singh and Antonio Martins da Cruz

Anoop Singh went on to discuss the related issue of governance. We had all witnessed the long delays encountered with the resolution of the sovereign debt crisis of Sri Lanka and of other emerging countries when the principal creditor was not a member of the Paris Club. The debt resolution plan indispensable to have an IMF program was delayed as creditors were not part of the same "game plan". Here again the IMF was lacking the instruments to be the LOLR. Hopes placed in bilateral or regional financial arrangements proved disappointing. Of course, bilateral swaps extended by the Federal Reserve during the COVID crisis had been helpful but when the Indian Reserve Bank had approached the Fed to be part of such arrangements, it had been told that they were intended only for currencies that could offer "safe global assets". The BRICS had tried already in 2014 to establish, next to their MDB, the New Development Bank, a restricted safety net arrangement involving Contingent Reserve Assets (CRAs). When it was tested, it did not work: the last thing the Central Bank of Brazil wanted was to extend a swap to any of the BRICS partners. Singh's conclusion was: we do have an institution, the IMF, designed 80 years ago to be the LOLR, let us make it work.

In a pre-registered video message, **Jose-Antonio Ocampo**, former Minister of Finance of Colombia, former UN Undersecretary for Economic and Social Affairs, contrasted the network of Multilateral Development Banks, which was covering all developing countries, with the rather "light" group of existing Regional Monetary Arrangements, providing liquidity support, namely

- The European Stability Mechanism, by far the most important one, set up in 2012, in the aftermath of the sovereign debt crisis in the Eurozone.
- The Chiang Mai initiative established in 2000 after the Asian monetary crisis, involving six ASEAN countries as well as China, Japan and South Korea: the original bilateral swap arrangements had been broadened and multi-lateralized.
- The Latin American Reserve Fund (FLAR) created in 1978 during the Latin American debt crisis as a reserve pooling arrangement for the Andean countries. Subsequently, Uruguay, Costa Rica, Paraguay had joined and Chile, which had left it, had rejoined. It was expected that Mexico would join soon. The FLAR was providing balance of payments financing, liquidity support and debt restructuring financing.

Jose Antonio Ocampo, former Minister of Finance of Colombia

Jose-Antonio Ocampo advocated the development of such regional arrangements as a network that could complement the actions of the IMF. He saw them also as a base from which a broader use of SDRs could be developed.

Professor **Andrew Sheng,** former Chairman of the Hong Kong Securities and Futures Commission and Chief Adviser to the China Banking Regulatory Commission, Distinguished Fellow of the Asian Global Institute, addressed the audience through a video message, which was accompanied by slides. He explained how the geopolitics of money were "empire driven". The strongest State in the empire could lead the monetary union and enjoyed the exorbitant privilege of currency creation but it had to underwrite the public good while countries in the periphery might be willing to pay the hegemon for security and other public goods via holding its debt. After World War II, the US had been a generous hegemon, underwriting the Marshall Plan and running a deficit so that Europe and Japan could recover. However, as Triffin had shown, such a system led to excessive debt, inflation, social inequality and low productivity. The system had been transformed into what Sheng called the "Wall Street Hedge Fund Model": the dollar reserve currency status was allowing the US to borrow long-term debt with Treasury bonds paying interest rates between 0 and 4% and to reinvest the proceeds with a higher rate of return in emerging market economies. However, the system had led to greater and greater debt accumulation, with global debt reaching $ 235 trillion or 238% of Global GDP (2022) while the G7 countries had a debt exceeding 120% of their GDP and 39 out of 69 Low-income countries were in or near debt distress. The Congressional Budget Office was estimating that the US debt would grow to 148% of GDP by 2048.

Andrew Sheng, former chairman , Hong Kong Securities and Futures Commission

On the conditions of success of a monetary union, such as the Euro-system with the ECB implementing a single monetary policy and a single exchange rate policy, with the absence of exchange controls, Andrew Sheng stressed the need for unified capital markets, fiscal policies and integration of different political views. The success of monetary unions depended on one supra-body or lead member to be LOLR or underwriter of losses within the union.

Andrew Sheng commented on monetary integration in Asia: in fact, there was trade integration with variable geometry but no monetary union. After the 1997/98 Asian financial crises, currencies which had been closely linked to each other were floated against the dollar, reserves increased and bank supervision tightened. The Chiang Mai Initiative of central banks expanded but was never operationalized because one of the conditions for a member State to draw on the facility was to be subject to the IMF conditionality. Insufficient attention was given to the importance of stock markets and of long-term institutional investors to deleverage excess debt since bond markets and local currency bonds only increased the overall debt burden and made countries vulnerable to interest rate shocks.

As concerned the internationalization of the RMB, the creation of an RMB zone had never been the official stance of the Chinese authorities had never been the creation of an RMB zone. The 2009 statement of PBoC Governor Zhou Xiaochuan was in favor of the creation of an international reserve currency disconnected from individual nations, removing the inherent deficiencies caused by using credit-based national currencies. He added: “The reform should be guided by a grand vision and begin with specific deliverables. It should be a gradual process that yields win-win results for all”. Similarly, the more recent 20th Party Congress Report had a constructive tone: “We will promote the internationalization of the RMB in an orderly way, deeply involve ourselves in the global industrial division of labor and cooperation, and endeavor to preserve the diversity and stability of the international economic landscape and economic and trade relations”. The US dollar dominant role was due to the liquidity and efficiency of the US bond and equity markets: it had taken 70 years for the US dollar to overtake the British pound. The steady progress in RMB internationalization is no threat to US dollar dominance. The RMB share of the SDR and of global foreign exchange reserves was still small. There was a lot of talk about de-dollarization but not a lot of action. Sanctions had prompted demands for deglobalization and de-dollarization: 29% of global trade was under sanctions of some kind; 40% of energy producers were under sanctions and the USA had imposed since the 1990s to more than 20 countries, two-thirds of the world’s sanctions. Central Bank Digital Currencies (CBDC) could be used to escape sanctions. There were CBDC pilots by the Hong Kong Monetary Authority (HKMA), the Bank of Thailand, the Central Bank of the United Arab Emirates and the PBoC. The next stage would be netting cross-border payments using CBDCs or Stablecoins.

In conclusion, what were the alternatives to the dollar: ideally, SDRs as a supranational currency, as RTI and Michel Camdessus recommended; gold, which was attractive to investors as it has no counterparty risk; cyber-currencies but they could not survive nuclear war or, in a

conventional war, disruption of internet from cutting of fiber-optic cables, satellite disruption or massive energy failure. This led Sheng to the conclusion that the US dollar status was for the US to lose and not easily for others to gain. That meant that, in the foreseeable future, given the primacy of the US in military, technology and finance terms, the IMS would not be reformed without the implicit or explicit consent of the US. Given the current geopolitical tensions, it was unlikely that in the next five years a major agreement for reform could be reached among the major shareholders of the Bretton Woods institutions. But there was no reason to abandon a very active debate at the academic level on what should be done.

Professor Jorge Braga de Macedo, former Minister of Finance of Portugal

In the debate that followed, Professor **Jorge Braga de Macedo,** former Minister of Finance of Portugal (1991-1993) , came back on the importance of geopolitics, first of all, in the context of the Community of Portuguese Speaking Countries (CPLP), which were given special emphasis in the conference and, second, in the historical context of the relations between Portugal and Spain. When Portugal joined the European Economic Community, it benefited from the EFTA experience, but it did not have the geopolitical weight of Spain. The fact that the Spanish government was very quick in stabilizing the peseta and in joining the ERM of the EMS obliged Portugal to follow suit with the escudo during its first presidency, just after the conclusion of the Maastricht Treaty. As a former director in the Directorate General responsible for economic and financial affairs, Professor Jorge Braga de Macedo was able to show credibility very early on thanks to the competent team of officials in the Ministry of Finance in 1991-93, led by Hervé Carré. As it turns out, this would happen a second time in 2012 when the Troika, in which Hervé Carré was also involved, had to help a number of countries of the eurozone to overcome their debt problems. In this case, there is econometric evidence that the interest rate spread between Portuguese and German bonds fell in the first

half of 2012, well before the famous speech by Mario Draghi committing the ECB to do "whatever it takes" to maintain the integrity of the Euro-zone. The effect of the good advice and management had appeared in a paper presented at the Academy of Science and included in Jorge Braga de Macedo's *Festschrift* edited by Luis Brites Pereira, Maria-Eugenia Mata and Miguel Rocha de Sousa, Springer, 2021, with the title "The peculiar first semester of 2012", written by Antonio Pinto Barbosa and Luis Catela Nunes, pp.165-174.

Hung Tran, Senior Fellow, Atlantic Institute

Hung Tran, Senior Fellow at the Atlantic Council, observed that the SDR, as it was organized now, was as vulnerable as the CBDCs in case of conflict. It was nothing more than a unit of account representing a claim on the five currencies that were composing it. If anyone of the five countries issuing these currencies refused to pay their part, the SDR would disappear. As organized now, the SDR could not be a reserve currency. **Christian Ghymers** intervened, however, to make clear that, when RTI was talking about the future role of the SDR, it did not have in mind the present basket currency but the genuine multilateral reserve currency that the IMF could issue if there was a change in its statutes. The IMF would buy eligible safe assets from its members in exchange for bonds it would issue, denominated in SDR.

Vassil Karaivanov, Secretary General of ELEC-Bulgaria, observed that the value all alternatives currently proposed to replace the dollar, SDRs or digital currencies, was always expressed in dollars. So he did not see the need to look for any other reserve currency.

Anoop Singh agreed that, as it was currently conceived, the SDR was not really functioning, but things were moving. A number of advanced countries were thinking of transferring their SDRs to other institutions, in particular MDBs, which could use them as equity to raise market finance. The question under discussion was whether this transfer to other institutions would

make the SDRs lose their character of reserve asset. France, the United Kingdom and 9 other IMF shareholders were considering such a move. This could be a small but historic step.

Dinner Speech by Vice-Governor Raposo

At the dinner, kindly hosted by Banco de Portugal at the end of the first day of the conference, the Vice-Governor **Clara Raposo** started thus "Aren't we all somehow children of Bretton Woods? None of our lives would have been what they are, had the IMF and the World Bank not been created, had multilateralism not been a meaningful term". She recalled that the agreement emerging from Bretton Woods was still a cornerstone of today's international monetary and financial system. Although the exchange rate peg that was the symbol of the Bretton Woods system was abandoned in 1973, the IMF and the World Bank remained pillars of the international economic landscape, providing technical and financial assistance to many countries around the globe.

Dinner speech of Vice-Governor Clara Raposo

She acknowledged that the floating exchange regime that followed the abandonment of fixed parities in 1973 might have induced the idea that competitive devaluations could be a solution to structural problems limiting economic progress. Portugal had learnt it the hard way as the economy went through two deep balance of payments crises in the early stages of its democratic regime requiring the assistance of the IMF in 1977-78 and again in 1983. It was only after Portugal joined European Economic Community in 1986 that it decisively conducted important structural reforms that paved the way to a more prosperous future. In this context, regional monetary integration had provided synergy gains and imposed the necessary discipline. In this context, she celebrated the success story of the first 25 years of the euro. She

recognized that the euro project was initiated without a fully completed architecture and somewhat partial accession criteria. The lack of a system to deal with asymmetric shocks and current account crises, the absence of common supervision and insolvency mechanisms to deal with banks of systemic importance, the absence of fiscal federalism traits and totally credible fiscal rules were items that had been left to be done later. In the meantime, the sovereign debt crisis had tested the limits of the European integration but in the end the European project emerged stronger: the EU institutional framework was strengthened. More recently, policy support at the European level had been crucial to overcome first the health and economic crisis triggered by the pandemic and second the difficulties and disruptions in the global energy market triggered by the invasion of Ukraine. The ECB had reacted to the inflation surge by removing the exceptional level of accommodation that characterized the previous years and moved interest rates to restrictive territory.

Support for the euro had increased during the recent period. Nevertheless, to keep the euro together, we needed to make the euro better equipped to deal with the medium-term challenges such as population ageing, the climate change and geoeconomic fragmentation. Progress in the integration and development of EU capital markets and the banking sector were key to mobilize private investments needed to carry out the green and digital transitions and to enhance EU's productivity and competitiveness. Central banks could contribute by supporting the development and integration of pan-European financial markets infrastructures.

She concluded with words of optimism: "Despite the fact that there is strong antagonism and polarization in today's world, the Bretton Woods institutions are still core, for the multilateral approach that must be adopted to reach a global solution to the challenges of our times". She referred to the enthusiastic mood she had perceived at the 2024 spring meetings of the IMF and World Bank Group in Washington, with a special event "Celebrating 80 years of Bretton Woods: What's Next?". Better – or different – dialogue was the way to reach multilateral solutions. To honor the principles that had underpinned Bretton Woods, there was no other way than "together, at last, build trust and join forces to jointly solve global problems; For the sake of our children".

Day 2 : Tuesday 7 May 2024

Venue: Academia das Ciências de Lisboa

Introduction

Academia das Ciências President José Luis Cardoso's welcoming remarks

In his introductory remarks, Professor **José Luís Cardoso**, President of the Academy of Sciences of Lisbon, said that, through his lenses of an historian of economic ideas, he had always been interested in the outcomes of the Bretton Woods Conference, especially due to the essential role played by John Maynard Keynes in the organization of the conference and of its several preparatory meetings. He stressed the innovative nature and inspired vision of the Keynes Plan, which involved: a) a multilateral compensation mechanism integrated into an international organization, aiming at multi-lateralizing intergovernmental payments; b) an international currency disconnected from any country's money supply; and c) an adjustment process in which creditor countries also had their share of responsibility in keeping the sustainability of the system. The issues raised by Keynes were still present in the sessions of the conference.

Professor Cardoso made also reference to the founding father of modern economics in Portugal, Professor Antonio Manuel Pinto Barbosa, who, in a conference held at the Academy in 1977 had conveyed his appreciation of Keynes' role in the preparation of the Bretton Woods Agreement. Pinto Barboso was a distinguished member of the Academy of Sciences and had also served as Governor of Banco de Portugal. This made the Academy a particularly appropriate place for a conference addressing the new challenges 80 years after Bretton Woods.

Session 3: The State of Regional Economic and Monetary Cooperation in Africa

Lessons from the past and issues for the future

The session was moderated by **Professor Jorge Braga de Macedo**, Treasurer of the Academy, who is also the successor of Professor Pinto Barbosa, the longest serving Minister of Finance of Portugal, one of the founders of Nova School of Business and Economics.

Session 3 : Governor Óscar Évora Santos, Zenaida Cassama, Prof. Jorge Braga de Macedo, Oswaldo Victorino Joao and Prof. Maria-Eugenia Matata

The first speaker was **Zenaida Cassama**, National Director for Guinea Bissau, BECEAO. She stated that since the conquest of independence, the African countries had put emphasis on economic and monetary cooperation and on regional integration as a key part of their strategy of structural transformation but that they had to overcome three important obstacles, namely the small size of their national economies, the absence of structural complementarity and the dependence on the import of intermediate products. Inter-regional trade on the African continent represented only 15% of its total trade, compared to 62% for the European Union and 23% in the case of ASEAN. She mentioned the eight existing Regional Economic Communities (REC) in Africa. Unfortunately, the successive shocks of COVID-19 and the Russian-Ukrainian conflict had affected significantly their development in terms of macroeconomic convergence and structural change.

As concerned the WAEMU, of which Guinea-Bissau was a member since 1997, a number of positive developments had been the establishment of infrastructure for regional payments, the adoption of a regulatory framework for the issue of digital currency and the implementation of the project of interoperability of digital financial services. The accession of Guinea-Bissau to the WAEMU had made possible to control inflation, to reduce the budgetary and balance of payments deficits and to reinforce the resilience of the financial sector.

Maria Esperança Mateus Majimeja, Board Member of Banco de Moçambique, was expected to speak in the same session. At the last minute, she had to remain in Mozambique but she sent the text of her prepared remarks. She was focusing on the challenges and stages of policy coordination, a single currency being the final stage in the process, one which for African countries was still far away. The incentive for coordination was depending on the existence of interdependency between the economies of the countries concerned. In her view, Africa faced three main challenges:

- A low level of commercial and macro-financial integration.
- High asymmetries between African economies in terms of openness to international trade and poor development and integration of the national financial market; and
- Weak institutional frameworks for implementing policies: even the WAEMU had no direct authority to coordinate fiscal policy.

Maria Esperança Mateus Majimeja mentioned lessons for the future such as:

- The primacy to be given to the need for coordination: this had to happen first at the level of the RECs; the General Assembly of Governors of the Association of the African Central Banks established in 2023 the need for each REC to define a roadmap for the harmonization of monetary policies so that integration would gradually take place.
- The creation of regional institutions, programs and other key enablers of the economic integration process: examples included the creation of the Pan-African Bank (Afreximbank, 1993), the Program for Infrastructure Development in Africa (2009) , the Pan-African Payment and Settlement System (2022).

In conclusion she stated: “Experience shows that monetary unions have not only emerged from the recognition of economic benefits; political will has always played an important and decisive role“. Incentives had to be created for political actors such as the availability of funding for infrastructure and structural reforms.

Professor **Óscar Évora Santos**, Governor of Banco de Cabo Verde, spoke about Cabo Verde participation in ECOWAS and the objective of ECOWAs to go beyond monetary cooperation towards a common currency, the Eco. He was concerned that the fundamentals in terms of economic integration were not there, given the low degree of interregional trade in Africa (except in the case of landlocked countries). The Eco was work in progress, but its introduction had been postponed several times. The new deadline was 2027. Four main convergence criteria had been established: budget deficit of less than 4% of GDP, inflation not exceeding 5%, no central bank financing of fiscal deficit beyond 10% of tax revenue, external reserves

above three months of imports. Cabo Verde was meeting these criteria but only a handful of other ECOWAS countries were meeting them. Cabo Verde had a currency cooperation agreement with Portugal, signed in 1998, pegging the Cabo Verde escudo to the Portuguese escudo (one of the founding currencies, now the euro). Using the exchange rate as a nominal anchor had allowed Cabo Verde to liberalize its current account and subsequently its capital account. The question now was; is the country ready to leave the escudo to join the Eco? The governor had doubt as Cabo Verde citizens had more confidence in the escudo and ECOWAS' future required also the respect of political criteria (no military coup) and stronger institutions.

The moderator quoted his work on Cabo Verde and Mozambique showing both CPLP members from African countries where governance issues had been tackled , as showed in a project of study by the National Bureau for Economic Research (NBER) in Cambridge Mass., US, published in 2016. Referring to his long association with the Catholic University of Angola, through Professor Manuel Alves da Rocha, a foreign member of the Academy, he introduced the next speaker **Osvaldo Victorino João**, who gave a comprehensive picture of the process of regional integration in Africa and of its most important milestones, under the auspices of the African Union:

- In 1980, the Lagos plan of action for self-sustained economic development
- In 1991 the Abuja Treaty on the African Economic Community (AEC), proposing integration through Regional Economic Communities (RECs). Each REC was to move successively from the creation of a free trade zone to a customs union, then a single market, a common central bank and a common currency, thus ending up with an Economic and Monetary Union
- In 1994, the Common Market for Eastern and South-eastern Africa (COMESA) for integration through trade and investment.
- In 2001, the African Union Development Agency (NEPAD) as a socio-economic development framework
- In 2002, the African Union succeeding the Organization of African Unity to accelerate the process of integration; and
- In 2018, the African Free Trade Area, creating the world's largest free trade area by number of countries.

Despite valuable efforts, the process of regional integration in Africa has been fragmented and redundant, with eight RECs, most of them existing prior of the AEC. Most of the African countries are in more than one REC. The East African Community (EAC) is the most integrated one and the Southern Africa Development Community (SADC) the least integrated. The most advanced dimensions of integration are the free movement of people and the convergence of macroeconomic variables. As concerned the integration score of individual countries, South Africa is the highest performer and Angola is among the worst performers. The reasons for Angola lagging behind are the long period of war, which ended only in 2002, the high inflation rate, the excessive dependence on oil and vulnerability to oil shocks, erratic politics, public

debt exceeding 100% of GDP; after the COVID and war in Ukraine shocks, the inflation rate exceeded 20%.

The handicaps preventing integration were political instability, lack of political will, lack of domestic support, low level of competitiveness in the private sector, poor regional infrastructure to connect the continent and the high level of disparities among African countries in macroeconomic terms. The economic integration design that had been adopted did not seem to be the right one. There was lack of a common convergence agenda.

In conclusion, Osvaldo Victorino João suggested abandoning the REC approach in favor of several constructive proposals such as :

- The integration process in Africa should be de-fragmented. What was happening with the proposed African Trade Area was a good step but had to be accelerated.
- The convergence criteria would only be met if there were penalties for the countries that failed to achieve them and benefits for those who did.
- The Bretton Woods institutions should improve their cooperation and support the African Union instead of working only country by country.
- The Debt Service Suspension Initiative (DSSI) was a good example of the challenges faced by the African countries in the present context of geopolitical fragmentation
- The biggest economies of the continent had to lead the integration process in order to achieve step by step the monetary union.

The last speaker in this session was **Maria-Eugenia Mata**, economic historian and Jubilee Professor of Nova School of Business and Economics. She talked about the research that had led to her book: "The Portuguese Escudo Monetary Zone : Its impact in Colonial and Post-Colonial Africa"(published in 2020 by Palgrave) . The Portuguese Escudo Monetary Zone (EMZ) was set up in 1961 as a macro-political experiment, drawn to promote economic growth and economic integration of Portugal and the countries of its empire and take advantage of the new international opportunities created by European economic integration, Portugal being a member of EFTA. The EMZ was a star shaped trade, labor, capital and monetary market with Portugal at its center and seven very unequal territories at its periphery. The Bank of Portugal was the central bank of the EMZ and gathered all the means of international payment (gold and foreign currencies) of the EMZ. An Escudo Monetary Fund (EMZ Fund) was created in the Banco de Portugal to enable the concession of loans to overseas territories in order to make possible the inter-territorial and international payments of all territories under Portuguese administration. However, the system suffered from the distance among its components, the large differences in size of the local economies, rigidities and asymmetric shocks. The evolution of the EMZ illustrates the consequences of war for an entire financial and monetary system, the impact of increasingly negative investors' expectations about the possibilities of transferring their savings, the perception that the mainland's currency was safer than the currencies of the territories, considering the rising success of political and military groups fighting for decolonization.

Professor Mata explained how the Treaties of independence of the five former Portuguese territories in Africa had led to the creation of new currencies, namely the Guinean peso (Guinea-Bissau in 1978), the metical (Mozambique, 1980), the Cabo Verdian escudo (Cabo Verde, 1977), the kuanza (Angola, 1976) and the dobra (Sao Tomé e Principe, 1976). In many territories, nationalizations took place of properties, plantations, stores, equipment and even bank deposits of the former colonizers. The independence agreements included financial and monetary agreements to which were added technical cooperation agreements, covering a wide array of sectors, with emphasis on training in banking and finance as in most of the former colonies, there were no banking network at the time of the independence. The EMZ Fund continued its operations until the 1980s, supporting the payment system for Portuguese exports to the new countries.

In the ensuing debate, **Antoine Vivant** asked whether some countries (Sahel countries) were not making a less positive assessment of their participation in the WAEMU than Guinea-Bissau and were not considering to leave the WAEMU. The answer given was that if they would really leave the WAEMU, it would be much more for political rather than economic reasons.

Another question was how to get out of the vicious circle: countries had no incentive to join a regional monetary union if there was no interdependence; but there was no interdependence because there was no regional trade. **Osvaldo Victorino João** agreed that incentives were needed: the African Union or the RECs should have funding mechanisms for countries that would take the step to embark in a regional integration process.

Another question by **Vassil Karaivanov** related to the use of gold to implement transfers out of Mozambique. Professor Mata acknowledged that this might have happened during some periods when Mozambique had exhausted its foreign exchange reserves. Mozambique was close to South Africa and parallel markets might have developed using gold to transfer resources . We should have in mind the tremendous impact of a long and devastating war on the economy of the former Portuguese colonies.

Governor Óscar Évora Santos concluded in saying that, while Africa today represented only a small fraction of the Global GDP, its importance was steadily increasing in geopolitical and demographic terms: there were today 800 million young Africans and by 2050, the population of Africa would reach 2.5 billion. In this connection, **Jorge Braga de Macedo** pointed to the need for closer cooperation between the European Union and the African Union, which was now a member of the G20.

Session 4 : The State of Regional Economic and Monetary Cooperation in Latin America and in Asia

Lessons from the past and issues for the future

Session 4 : Christian Ghymers, Manuel Clarote Lapao, Professor Maria-Eugenia Mata, Professor Jorge Braga de Macedo and Rodolfo Lavrador

This session, moderated by **Professor Maria-Eugenia Mata,** began with a "magistral" presentation of **Christian Ghymers**, Vice Chairman of RTI and President of the Interdisciplinary Institute for Relations between Europe, Latin America and the Caribbean (IRELAC), who started by making reference to the Portuguese age of Enlightenment and the role played by José Correia da Serra (1750-1823), its first secretary, who was also a member of other European academies, including the Liège Academy, and who was considered by Thomas Jefferson as the most erudite man he had ever encountered.

He went on to the conditions under which regional monetarism could play a positive role of lever towards the broader objectives of regional integration and reform of the IMS.

The trend to regional monetarism could be explained by a number of factors: deterioration of the geopolitical context, global financial instability, weakening of the multilateral order and opportunities offered by new technologies applied to payments such as blockchain; more recently, the primary motivation was to lessen dependence on the dollar, limiting the spillovers of monetary policy by the Federal Reserve Board and the "weaponization" of the dollar. Two

trends were becoming obvious: the increasing use of local currencies for cross-border payments and a strategy of internationalization of the Chinese RMB as both reserve and invoicing currency.

Though regional monetarism entailed high risks of monetary fragmentation and more protectionism. It did not mean in itself that the international monetary system was being de-dollarized, in other words, even though at some point de-dollarization was ineluctable and even desirable, the solution was not to substitute other national currencies to the dollar. A multi-currency IMS would reproduce the flaws of the present system and even make it worse. History showed that a multi-key-currency system would be highly unstable, given the indeterminacy of the exchange rate equilibrium. Furthermore, it could not solve the Triffin dilemma as it could not ensure the adequate supply of stable safe assets. Indeed, any country willing to provide a key reserve currency would need to become borrower/consumer of last resort to issue the needed level of safe assets. To compete with the dollar to become a key currency meant to try to be a larger debtor than the US. Instead, the right objective of the reformed IMS should be to issue safe assets which are not the debt of a national economy but the liability of the multilateral system as counterpart of national liquid assets. One had to realize that it was becoming impossible to issue sufficient stable safe assets denominated in national currencies. An additional point was that financing the decarbonization of the planet under the current IMS appeared impossible.

According to Ghymers, Regional Monetary Arrangements (RMAs) could become a game changer for the IMS in two main steps:

- RMA as a catalyzer of regional integration: RMAs were the proof that cooperation was easier among like-minded partners, sometimes subject to a common external threat, than at the multilateral level. RMAs could spur regional integration if the right method was followed by obliging technicians from different countries (rather than diplomats or ministers) to meet on a regular basis, behind closed doors, speaking informally (under Chatham House rules), not for taking decisions but for monitoring the national policies, analyzing alternatives, reporting collegially to Ministerial Councils, stimulating economic cooperation and policy coordination, triggering a virtuous circle of better governance and above all enhancing mutual trust to escape the "Prisoners' dilemma " (distrust among partners when uncertainty prevails). This was a matter of psychology more than economics: human being facing technical issues under a common threat tend to cooperate. The issue of exchange rates implied monitoring of the national policy mix, improvement of mutual knowledge, awareness that national interests converge to regional interest. Coordination had to be perceived as the self-interest of each participant by reaching a common objective (such as escaping spillovers or dependence from the dollar), helping creating consensus. We should not forget that the successful integration of Europe started thanks to a regional monetary arrangement, the European Payments Union (EPU), in the creation of which Robert Triffin played a crucial role. In addition to a collegial technical committee meeting regularly behind closed doors, there was the US generous Marshall Plan as the carrot

promoting cooperation. Other historical cases included the Monetary Committee (combining Central Bank and Treasury representatives) doing the technical monitoring of the ERM in the EU convergence process towards the euro, and the CFA organization of regional surveillance of national policies under the WAEMU and CAEMU Treaties as well as the Macroeconomic Dialogue Network Experiment (REDIMA), which was conceived and implemented from 2000 to 2006 by ECLAC. These regional experiences demonstrated the capacity to solve the prisoners' dilemma through closed-doors exchanges between macroeconomic experts. In particular, Brazil was able to cushion the regional financial turmoil of the beginning of the years 2000s and to cooperate informally despite numerous regional conflicts at that time. The Brazilian experience might be useful for the CPLP. Drawing upon these experiments, Ghymers proposed to organize in all regions similar "Monetary Committees"

- RMAs as facilitators of inter-regional cooperation: the discussions of the RMA Monetary Committees had to include cross-border payments systems, with regional clearing houses. In his view, they should propose moving to CBDCs for applying tokenization in SDR with almost no transaction cost. General tokenization would foster the development of private SDRs for financing national debts. This would be combined with the creation of Regional Monetary Funds (RMFs) in SDR, representing a given percentage of the national reserves, complemented by multilateral resources with conditionalities, the access to which would be linked to technical propositions submitted by the Monetary Committees to their respective Ministerial Councils. In this way, some IMF missions would be decentralized to the RMFs. These RMFs could become a lever for implementing macroeconomic dialogues both inside each region and with the other regions as well as with the IMF. This would lead also to regions speaking with one voice in the discussions concerning the reform of the IMS. Hopefully this would lead to consensual views on common interests. A coalition could be forged for changing the IMF statutes, supported by pressures for merging the private and the official SDRs, the interventions of central banks taking place more and more in SDRs. Ghymers thinks that this would make the hegemon realize that sharing its power would be beneficial. The ultimate objective would be to turn the IMF into a global federal LOLR. Each region would bargain with the IMF for the award of specific mandates against the creation of SDR complementary multilateral resources.

The second speaker was **Rodolfo Lavrador**, General Manager for International Business, Caixa Geral de Depósitos, former Secretary of State at the Portuguese Ministry of Finance after the 1995 elections, representing Banco Nacional Ultramarino, Macau.

He addressed how could Macau positions itself in the East Asia Monetary Cooperation around China), starting by explaining that BNU is one of the local commercial leading banks and also, together with the Bank of China, the issuing bank (but it did not have any competence in defining Macau's monetary policy, which belonged to the AMCM - Macau Monetary and Exchange Authority). Although it had its own currency (the Pataca), pegged to the US dollar, it seemed to him obvious that Macau's position in this, as in other matters, of international monetary cooperation, would depend on the political position of the authorities in mainland

China. The current local priority seemed to be the project to digitize the Pataca, which fell within the scope of the Macau Government's program for modernization of its financial sector in conjunction with the priority of the bond market, improving the financial legal framework, payment systems as Easy Transfer fast payment and its real time settlement system for HKD payments and tax incentives to attract more asset management companies, all with the ambition of transforming Macau's financial sector into a platform that connected mainland China to the world and that supported the internationalization of the Chinese currency. Macau's positioning and possible role in any monetary cooperation process would depend very much on what it could offer in terms of added and differentiated value. In this sense, the differentiating factor might be Macau's directive to act as the facilitator in cooperation between China and Portuguese speaking countries.

Looking to China's position, it seemed clear to Rodolfo Lavrador that the main priority, in terms of international monetary policy, continued to be the process of internationalization of the renminbi, through its acceptance in commercial exchanges in general and in Asia in particular. There was a relationship between power and currency, which certainly involved the internationalization of the domestic currency, but also the creation and membership of international monetary institutions. From this perspective, China had promoted monetary cooperation through its accession to monetary stability mechanisms, regional swaps arrangements, such as the CMI (Chiang Mai Initiative) and the later CMIM (+Multilateralization). Another instance was the creation of the AIIB Asian Infrastructure Investment Bank, linked to OBOR – One Belt One Road Initiative. Or even being part of the AMU – Asian Monetary Unit. To him China (and Macau by extension) would be an active protagonist in greater monetary cooperation in the region if it achieved a dominant monetary position among Asian countries and exerted greater influence at an international level through the use of the renminbi. However, he did not believe it was realistic to think that a monetary union could be achieved in the region, with for example the AMU evolving from a mere basket currency to a currency, as this depended on factors that were very difficult to combine, such as political will, economic convergence, institutional structure (it would be a process that would require the construction of collective institutions) and popular support. It would always depend on geopolitics and the global economy.

When asked questions related to the Pataca's peg to the US dollar being able to evolve, for example, into a pegging to the renminbi, he gave as a personal opinion that, although in the long term such an evolution would certainly not displease the Chinese authorities, in the short term, the reasons why the peg to the US dollar existed remained valid, so any short-term change in this direction would be a surprise to him. He believed that China saw such an evolution as an outcome of a possible future total or greater internationalization of the renminbi and not as a way or a mean of achieving it

Manuel Clarote Lapão, Director of Development Cooperation of CPLP, started by explaining that, rather than regional, CPLP was a transcontinental community, with an intergovernmental

nature. There were great geographical distances among its members so that oceans served the member States common borders to many members. CPLP as a maritime platform, accounts for 4% of world GDP and ranks as the 4th oil producer. CPLP is an immense repository of resources, biodiversity, population, fresh waters, maritime resources, sun and wind, agricultural products, minerals and geothermal sources, etc. CPLP has 10 members and 29 countries are associated observers. CPLP countries are members of regional communities such as the EU, the Mercosur, the ASEAN, the ECOWAS the Economic Community of Central African States and the Southern Africa Development Community.

CPLP's areas of activity are political-diplomatic coordination, cooperation in all sectors, projects aiming at the promotion of the Portuguese language, reinforcement of civil society and economic and business cooperation, promoting trade and investment; CPLP cooperation was transversal since it promoted interconnection between various thematic areas and sectors and aligned with the commitments expressed in the 2030 Agenda for Sustainable Development and with the Sustainable Development Goals. CPLP followed closely the activities of the World Bank Group and of the other MDBs. However, Lapao was concerned about statements in the minutes and reports of the recent spring meeting of the Bretton Woods institutions, indicating that countries in the Global South were paying more in debt service than they were getting in development aid and that $50 billions of promised international aid flows had not reached their intended beneficiaries in 2024. He drew attention to the fact that 60% of low-income countries were at risk of debt distress; not enough money was available to sustain the achievement of the 2030 Agenda and matters could get worse with the multiplicity of challenges and crises.

Speaking at the end of the session, Professor **Jorge Braga de Macedo**, expressed how committed he was to fostering the links between the Academy and CPLP countries. This all began at the turn of the century in Macau, when a CPLP meeting was held by China for the first time and he represented the OECD, having followed through with CPLP Secretariat and IICT, a *Tropical Research Institute* in Lisbon he run until 2015, when it was taken over by the greater University of Lisbon, which subsequently created a *Tropical College*. providing many opportunities to developing its links with the CPLP. Special attention was given to Macau, where a CPLP meeting had given China for the first time the opportunity to develop its links with the CPLP. Special attention was given to another small member, namely East-Timor: after a difficult beginning, East Timor has been accepted as an observer in ASEAN since 2022 but its participation as a full member has been delayed by requirements such as the absence of a building sufficiently large to host meetings for all members. There was also an association of the African countries for which Portuguese was one of the official languages. This included Equatorial Guinea. There was active cooperation with Lusophone universities. Like the *Académie française* for the French language, the Lisbon Academy claims authority on the Portuguese language. it is divided into a Sciences class and a "Letters" which includes Literature and Social Sciences, including Economics and Finance, of which he is Acting Dean.

Vassil Karaivanov asked Christian Ghymers how long he thought that the US could increase its Government deficit, which was a condition for the continued supply of the dollar safe asset that the dollar-based IMS needed. **Ghymers** answered that we could not count indefinitely on the US debt. This was why it would become at some point necessary to move to a multilateral institution issuing a multilateral liability in SDR strictly equivalent to national assets being accumulated.

Bernard Snoy suggested that the experience of the negotiations leading to the Treaties of Rome and of Maastricht showed the necessity not only of building trust and complicity among national technicians but also the need at some crucial points for strong political leadership. He referred to the Belgian Minister of Foreign Affairs Paul-Henri Spaak, who had chaired the Committee of Experts set up after the Messina Conference. **Ghymers** agreed that we needed a two-tier system where Committees of national technicians made technical analyses and proposed solutions and Councils of Ministers made decisions. **Jorge Braga de Macedo** mentioned the leadership role of Jacques Delors, who led the group of Central Bank Governors who produced the Delors Report, and added that he revealed a profound understanding of the two Iberian countries having recently joined the European Economic Community. He also evoked the Italian Prime Minister Giulio Andreotti who had found the way, at the European summit of Rome in October 1990, to go around the reluctance of UK Prime Minister Margaret Thatcher to agree to the launching of the intergovernmental conference that led to the Maastricht Treaty. Her positions were so well known that he simply omitted to ask her individually whether she agreed. When he asked around the table, she did not use her veto.

Keynote speech by Vitor Gaspar,

Director of the IMF Fiscal Department

Maria Luis Albuquerque, former Minister of Finance of Portugal

The speech by former Minister Gaspar was introduced by his former deputy and successor as Minister of Finance, **Maria Luis Albuquerque,** now member of the Supervisory Board of Morgan Stanley. She recalled Vitor's brilliant career with Banco de Portugal, the ECB as Director General of Research, and the European Commission, where he headed the European Bureau of European Policy Advisers. She concentrated on the difficult years when he was Minister of Finance, between 2011 and 2013, and had to restore Portugal's credibility after serious imbalances in the Portuguese economy had been allowed to accumulate for a number of years. There were difficult negotiations with the IMF and the European Commission. Many hurdles had to be overcome to deliver on the rescue plan. Vitor Gaspar had to work under immense pressure; he was the most hard-working member of the team and showed a great sense of humor. Maria Luis Albuquerque recalled an amusing anecdote about the first press conference given by Vitor Gaspar as Minister of Finance: it started on time, while most of the journalists were late, and it finished on time. She still thinks that Vitor Gaspar is not getting the credit he deserves for the way in which he got Portugal out of its sovereign debt crisis.

Vitor Gaspar, Director Fiscal Affairs, IMF, former Minister of Finance of Portugal

Vitor Gaspar chose the topic of "**the impact of geopolitics on fiscal policy**" for his keynote address. He started his presentation by showing that the fault lines are growing across the world. "Polarization" and "fragmentation" appear in headline news everywhere. However, he showed that the global trade-to-GDP ratio has not declined so far. No sign of deglobalization is found at the aggregate level. The geopolitical risk index is also not particularly high compared

with the past. The geopolitical uncertainty index has been flat for the U.S., although it has risen for China and Germany. Nonetheless, he highlighted that geopolitics has shifted trade patterns. The U.S. trades more with Mexico and Vietnam, while China trades more with India, Indonesia, and Brazil. He also showed that global power has shifted in the long run. The share of the EU in global GDP has decreased, while China's share has increased. More worryingly, productivity growth in the EU has been falling behind the U.S. since 1995. Then he argued that geopolitics are already having substantial fiscal policy implications. The governments are now facing a difficult policy trilemma amid rising geopolitical tensions. First, rising spending pressures (with higher interest payments, pension and health care, defense, climate, SDGs, and industrial policy). Second, political red lines on taxation. And third, the imperatives of debt sustainability and financial stability. As in all policy trilemmas, policymakers can have two but not all three elements. Something has to give.

In conclusion, he made four policy recommendations. The governments should (i) spend better; (ii) ensure that revenue keeps up with spending; (iii) rely on strong fiscal rules, frameworks and institutions; and (iv) recognize that fiscal policy is a structural policy crucial for competitiveness and growth.

In the question time, **Bernard Snoy** wondered how the huge investment expenditures required for the ecological transition could be financed, taking into consideration the red lines on taxation. **Hung Tran** pointed out that, if fiscal policy was industrial policy, which would mean changes in how we work and live, it would encounter strong resistance. **Christian Ghymers** raised the issues of increases in the relative price of energy and the possibility to cut the annual $1 trillion of subsidies to fossil fuels. **Jorge Braga de Macedo** asked about the concept of income tax neutrality. **Vitor Gaspar** answered that cutting fossil energy subsidies has been a long-standing recommendation of the IMF. If current energy subsidies continue, public debt levels would become unsustainable in many countries. The political economy needs to be taken into consideration when implementing fiscal reforms, such as energy subsidy reforms, and carbon pricing and taxation. In this context, income tax neutrality remains the benchmark to evaluate tax reforms around the world. It is also important to recognize that the general public dislikes inflation and budget deficits much more than economic professionals consider. Future research should engage more with political economy aspects.

Session 5 : Where do we go from here ?

80 Years after Bretton Woods, what kind of regional initiatives could contribute to a more stable and equitable international monetary system? If Robert Triffin were alive, what kind of initiative would he promote at the regional and global level?

Ousmène Mandeng, Hung Tran, Fabio Masini, Antonio Martins da Costa,
Jorge Braga de Macedo and Marc Uzan

This session was moderated by **Antonio Martins da Costa**, President of the American Chamber of Commerce of Lisbon. Having attended the discussion on changes in the patterns of trade, he wondered if we were not just exchanging our previous dependence on oil and other sources of fossil energy for a new dependence on critical raw materials. He drew attention to the importance of the transatlantic relation between the US and the European Union. Trade between the two blocks amounted to 800 billion dollars, which was more than the US-China trade or the EU-China trade. The two blocks accounted for one third of global GDP and one half of personal consumption in the world.

Fabio Masini, summarizing his discussion note "Building Multilateral and Multi-layered Global Economic Governance: the Role of Regional Integration" recalled first the key points of his analysis of the last 80 years with the emergence and persistence of a historical flaw in the IMS : the Triffin Dilemma, particularly in its form of Built-in Destabilizer, causing basic imbalances and obliging developing countries to accumulate reserves, reducing their possibilities for domestic investment. Efforts to get rid of the hegemonic dollar-based system and to build a more balanced and multilateral system had repeatedly failed. The US had hindered the IMF attempt to boost the role of the SDR after the first oil shock in the 1970s, dissuading Saudi Arabia to invoice oil in SDR. When in 1994, the IMF Managing Director Michel Camdessus had tried to issue $50 billion in SDRs to help face multiple financial threats, the USA, assisted by Germany and the UK, had vetoed him. in 2010, Stiglitz had stated: "the US is exporting Treasury

bills to be held in reserves – partly at the expense of automobiles …. This means that the government must run a fiscal deficit to keep the economy at full employment”. There had been illusions that, with the advent of the euro, the EU would be willing to develop the international reserve currency role of the euro, but the EU was not willing to be the consumer of last resort. Before the weaponization of the dollar that followed the Russian invasion of Ukraine, pressures towards multilateralism in the IMS became increasingly manifest. The acceptance of the renminbi in the SDR basket in 2016 and the issue of $650 billion in SDRs in August 2021 were a testimony of this. Nevertheless, SDRs continued to be relegated to be parked as a reserve asset in central banks instead of being used as a multiplier for actions devoted to the development and the provision of global public goods. Inaction was not an option. Weaponization of other currencies to resist to the hegemon as proposed by Professor Renato Flôres could become even riskier.

Fabio Masini and Antonio Martins da Costa

Faced with this unsatisfactory situation at the global level, Fabio Masini was putting on the table two very concrete initiatives:

1. A regional safety net for Latin America: a regional monetary fund would be established pooling 30% of the reserves in gold and foreign assets of the countries of the region, as a first line of defense in case of national financial crisis. This would be a first line of defense and be part of a global multi-layered system of safety nets. This would oblige

central banks and treasuries to be more transparent between one another and coordinate their economic policies.

2. An EU-Africa Plan for Next Generation: the idea is that the EU countries would pool the about €150 billion in SDRs attributed to them in 2021 and channel them to multilateral development banks (the African Development Bank and the European Investment Bank) as prescribed holders of SDRs, and collateralize them to issue €750 billion bonds to be used for a jointly designed development plan , targeting six main objectives : energy independence, digital infrastructure, health infrastructure, green transition. This would constrain African countries to agree on common priorities and strategies and would also strengthen European identity as a global actor thus contributing to multilateralism. and climate change, education and a regional safety net.

The message of **Hung Tran**, Senior Fellow, Atlantic Institute, former Assistant Director in the IMF Capital Markets Department, was that the future was Asia. It represented already 54% of the global GDP. The ASEAN trade exceeded dollar 1 trillion. Next to China, other giants were emerging: India, Indonesia and other ASEAN countries. Demand for financial integration and monetary cooperation were bound to increase with trade. Asian countries, in line with the spirit of the time, were increasing the use of domestic currencies for the settlement of trade and foreign investment. The landscape of the regional economy would evolve, with three pillars growing quickly: 1) each country would develop its payment and settlement system, having in mind interoperability; 2) central banks would open bilateral swap lines to each other; China had already swap lines with 44 countries; 3) the countries were investing heavily in technology, e.g. mobile phone payments, while the US remained behind, working still with checks. These developments were reaching a critical mass and setting examples for other countries in the world.

Ousmène Jacques Mandeng, Senior Advisor Global Blockchain Technology, Accenture, said that the most problematic aspect of the Bretton Woods system as it had evolved over the last 80 years was that only very few currencies served in international payments, producing a high dependency on the so-called key currencies. Under Article VIII of the statutes of the Articles of Agreement of the IMF, member countries had to abstain from discriminatory currency arrangements for current transactions comprising international trade and interest payments. In reality, only a few were commonly used. This was the biggest shortcoming, already identified by Robert Triffin, that would need to be addressed. The IMF today still considers only five currencies, the dollar, euro, sterling, yen and renminbi , as freely usable currencies out of about 145 currencies in circulation. The narrow set of currencies seemed particularly problematic as large emerging markets, representing about half of the world's real economy, remained significantly constrained in using their own currencies in international payments.

Fortunately, a new willingness to adopt unconventional approaches was pointing in the right direction. CBDCs initiated a new fundamental debate about the use of money. New approaches were being tested on how new technologies could facilitate foreign exchange settlement, establish more direct monetary relations and reduce risk in particular in foreign

transactions. The European Union is at the forefront with important work being done on the digital euro; this was in line with the EU's increasing emphasis on open strategic autonomy and the enhanced role of the euro. Recent initiatives like the BIS Innovation Hub CBDC project mBridge aimed at conducting international payments using local currencies to advance currency diversification. There is no doubt that Triffin would be pleased with these new technological solutions solving many old problems.

Marc Uzan, Founder and Executive Director of the Reinventing Bretton Woods Committee (RBWC) expressed appreciation for the many occasions when RTI and RBWC had worked together. RBWC was following since three decades the evolution of the Bretton Woods institutions. In the past, we took for granted that the Bretton Woods institutions were here to stay. Today, our first priority should be to make sure that we would be able to continue to treasure them in the future. A multiplicity of new challenges (pandemia, climate change, biodiversity, concerns for supply chains, cost of living, etc.) and increased polarization ((Ukraine, Middle-East, US-China conflict) have dramatically increased geopolitical risk and global uncertainty. We are coming out of decades of supportive demographics, globalization and technological advances, which have resulted in high growth, but many of these trends are now reversed: the assumptions of growth through trade, ever expanding supply chains and financial globalization have been disrupted by the pandemia. The war in Ukraine has ruptured the rules that governed the international order. International cooperation is at its lowest point since the end of the Cold War and the peace dividend has evaporated as defense spending has risen across the world. A polycrisis (i.e. disparate crises interacting such that their overall impact far exceeds the sum of each of them), as described by the Columbia University historian Adam Tooze, has now emerged. These developments have led to a rush for energy and food security, re-shoring of supply chains and the adoption of protectionist policies. In this changed environment, we are facing a new debate about the Bretton Woods institutions and their global role in policy coordination. Do they have the right mandate, governance, policies and staffing to continue securing global economic prosperity? Were the institutions fit for financing the ecological transition and managing our global commons? Could they adapt their operations to new areas, without forgetting their core mandate and mission creep?

A lot of reflection on these issues was taking place in the two institutions. The problem was to navigate between two forms of global governance: the first was Bretton Woods driven under US leadership, but the second was spearheaded by China with partners in the Global South, forging new or parallel institutions such as the Asian Infrastructure investment Bank. Up to now, China was quiet and prudent at the global level and showed commitment to the good functioning of the Bretton Woods framework, despite an unsatisfactory representation.

In this context, the RBWC was initiating in 2024 a series of international events (a first event had already taken place in Austria and was followed by an event in China with others to come in Latin America, Asia and Nordic countries), trying to understand better geoeconomic fragmentation and the emergence of different perspectives at the regional level. RBWC was

also always ready to assist the successive G20 presidencies, helping them to showcase some topics and produce "deliverables". The overall objective remained to keep multilateralism alive, despite "blockalization".

Jorge Braga de Macedo concentrated his final remarks on some of his most fundamental convictions and on the economists who had most influenced him. He remembered when his teacher and friend Paulo de Pitta e Cunha (1937-2022), mentioned in the opening session, introduced him to Robert Triffin at the 1971 IMF annual meeting and was the dean of the economics session of the Academy over the last ten years. James Peaslee, lawyer with Cleary Gottlieb Steen & Hamilton, was co-author in 1977 of Triffin's piece on "Monetary and Political Aspects of Optimal Economic Interdependence". Jorge Braga de Macedo's conviction was that, for regional initiatives to play a positive role in containing financial instability, they needed to be embedded in the relevant institutions of global surveillance. The architecture of the world economy in the new millenium could benefit from Robert Triffin's vision of Europe 50 years ago. Other sources of inspiration were Ralph C. Bryant (Brookings Institution) and Richard Cooper (Professor of International Economics at Yale, later Under-Secretary of State for Economic Affairs), his teacher and lifelong friend. He had followed a seminar given by Cooper on "the politics of the international economy" and written a paper on how his ideas could apply to Portugal. Cooper was less radical than Triffin and had brought Robert Triffin out of his ivory tower. Jorge Braga de Macedo regretted that the IMF and the World Bank had shown incapacity to work with the WTO. He reiterated the importance of close cooperation between the European Union and the African Union.

In his conclusions, **Bernard Snoy** thanked again all those who had cooperated to the preparation and the implementation of the conference. **Jorge Braga de Macedo**, who had been a student of Robert Triffin at Yale, had inspired the program. His experience as Minister of Finance who had signed the Maastricht Treaty and made sure, with the assistance of **Hervé Carré**, that Portugal would join the euro at its inception, was particularly relevant for the discussions over the two days of the conference. It was not possible to give justice to the contributions of all the speakers and moderators. Among the "deliverables" of the conference Bernard Snoy singled out a few important ideas :

- "We are all the children of Bretton Woods" as said by **Vice-Governor Raposo** in her dinner speech. We all needed to be grateful for a framework and for institutions that had for so long underpinned global growth and prosperity. **José Luís Cardoso** had stressed our intellectual debt to John Maynard Keynes, even if his main ideas had not prevailed at Bretton Woods.
- There was recognition that Robert Triffin and his followers had correctly identified a fundamental flaw at the heart of the IMS since Bretton Woods and even more since the abandonment of the dollar's convertibility in gold: this was the TD, which was taking a number of forms :a more and more unsustainable indebtedness of the United States, financial instability, insufficiency of safe assets, "built-in destabilizer" effect on

emerging countries, multiple asymmetric and unequitable features, limited number of currencies used in international transactions, etc.

- We needed change and reform of the IMS and of the Bretton Woods institutions but, as underlined by **Ricardo Mourinho Félix** and **Marc Uzan**, this was made difficult by the multiple new challenges and crises, generating fragmentation and polarization, increasing geopolitical risk and global uncertainty. The priority was to preserve and enhance the capacity of the Bretton Woods institutions to deliver on their core mandate and to adapt to new ones. The superb keynote speech by **Vitor Gaspar** showed the extent to which geopolitics has impacted fiscal policy, which requires countries to strengthen their fiscal frameworks in the face of a difficult policy trilemma.
- There was not the same consensus on how to proceed to reform the IMS. Nevertheless contributions by several speakers, in particular **Christian Ghymers, Fabio Masini, Luiz Awazu Pereira da Silva, Jose Antonio Ocampo and Anoop Singh** were pointing to a concrete path under which regional monetary arrangements, instead of leading to an unstable multi-reserve currency model, would help create trust and solidarity among "like-minded" countries. They could create "multilateral funds" in SDRs and decentralize a number of IMF function, facilitating the move to a "green and fair Bretton Woods", including the transformation of the IMF into a genuine LOLR. De-dollarization was not per se the solution although it would become unescapable. The flaw in the system would not be solved but made worse if several countries were genuinely competing to promote the international use of their currency and become LOLR, which meant also debtor of last resort. But it was not even sure that China aspired to such a role. **Fabio Masini** had put on the table two concrete proposals that could create a positive dynamic: a regional safety net for Latin America and a EU-Africa Plan for Next Generation.
- Other speakers such as Professor **Renato Flôres** expressed skepticism about any possibility for reform at the global level. **Andrew Sheng** had concluded that "the US dollar status was for the US to lose and not easily for others to gain". Renato Flôres, particularly concerned at the way in which the United States was weaponizing the dollar, proposed to concentrate efforts on a broader use of national currencies, particularly from emerging countries, for the settlement of cross-border trade. This would be facilitated through technological innovations such as CBCDs, as shown by **Ousmène Jacques Mandeng**. In fact it could be complementary and not incompatible with the development of regional monetary arrangements.
- The past and present experience with regional monetary arrangements and regional monetary unions turned out to be encouraging, even though all of them still needed to be consolidated and required a minimum of political consensus. **Governor Kassi-Brou** of the BCEAO confirmed the positive impact of monetary unions, where they existed, in terms of macroeconomic and structural policy convergence. The experience of the African countries belonging to the CPLP was particularly illuminating. The presentations by **Governor Óscar Évora Santos, Zenaida Cassama, Maria-Esperança**

Mateus Majimeja confirmed the support of their respective central banks to the process of regional integration, without ignoring the need for convergence. **Osvaldo Victorino Joao** gave a comprehensive picture of the milestones of regional integration on the African continent and made constructive proposals, including a greater support from the Bretton Woods institutions to the African Union, while **Manuel Clarote Lapão** emphasized the commitment of the CPLP Secretariat towards its consulting members such as the Academy so as to improve mutual knowledge about member states. There were important lessons to draw from the history escudo zone as described by **Professor Maria-Eugenia Mata.**

- Asia was perceived by **Hung Tran** and **Andrew Sheng** as the continent where change was taking place at the fastest pace. **Rodolfo Lavrador** gave an interesting insight from Macau, which seemed a particularly important place to observe regional integration and the cooperation of China with its ASEAN neighbors.

Bernard Snoy's concluding remarks