

# **International Financial Architecture: New Players, New Sources of Funds and the Need for Financial Regulation**

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# CAPITAL FLOWS AND RESERVES

TABLE 1 - NET CAPITAL FLOWS TO DEVELOPING COUNTRIES

US\$ billions

	2000	2001	2002	2003	2004	2005	2006
FDI	166.5	171.0	157.1	160.0	217.8	280.8	324.7
Portfolio equity	13.4	5.6	5.8	24.3	39.9	66.7	94.1
Bonds	20.9	10.3	10.4	24.7	39.8	55.1	49.3
Banks	(-)3.8	7.8	2.3	14.5	50.6	86.0	112.2
Other	(-)3.7	(-)6.5	(-)6.9	(-)4.4	(-)4.0	(-)4.9	(-)5.5
Short-term debt	(-)6.3	(-)23.7	0.5	55.0	68.4	67.7	72.0

Source: The World Bank, Global Development Finance, Vo. 1, p. 37, 2007

TABLE 2 - DEVELOPING COUNTRIES: CURRENT ACCOUNT BALANCES AND INCREASE IN RESERVES

US\$ billions	2000	2001	2002	2003	2004	2005	2006
Curr.Ac Balance	34.4	12.1	60.5	101.9	113.6	256.4	348.5
Incr in Reserves	45.1	80.8	174.4	294.7	404.0	391.7	633.1

Source, The World Bank, Global Development Finance, Vol. 1, 2007, p.37

# CAUSES

- NET EXPORTS AND AGGREGATE DEMAND
- REDUCE EXTERNAL VULNERABILITIES
- 1990S EXPERIENCE:
  - BALANCE OF PAYMENTS CRISES
  - EXPERIENCE WITH IMF RESCUE PACKAGES AND CONDITIONALITIES

BUT

- DIFFERENTIATE ACCUMULATION OF RESERVES OUT OF:
  - CURRENT ACCOUNT SURPLUSES
  - CAPITAL INFLOWS AND FOREIGN LIABILITIES
- SIDE EFFECT:
  - IMPACT ON EXCHANGE RATES
- ➔ POTENTIAL VULNERABILITY REMAINS HIGH AND NEED FOR LIQUIDITY PROVIDER WILL EMERGE IN THE FUTURE

## DILEMMAS: SAFER INTERNATIONAL MONETARY AND FINANCIAL STRUCTURES

- NEED FOR TRULY INTERNATIONAL FINANCIAL REGULATION:
  - OPEN PARTICIPATION
  - SYSTEMIC, RATHER THAN PIECE BY PIECE
  - CONSIDERATION OF DEVELOPING COUNTRIES NEEDS AND SPECIFIC VULNERABILITIES (EX: DEVELOPMENT BANKS)
  - CLARIFICATION OF CONFLICTS BETWEEN FINANCIAL RULES AND TRADE AGREEMENTS ON SERVICES

## DILEMMAS CONTD.

- NEED FOR LIQUIDITY-CREATING MECHANISMS: TIMELINESS AND APPROPRIATE CONDITIONALITIES
- REGIONAL MONETARY INSTITUTIONS
- THE QUESTION OF SOVEREIGN WEALTH FUNDS
- NEED FOR SOVEREIGN DEBT REDUCTION MECHANISMS REMAINS

## THE LONGER VIEW: THE KEYNES PLAN

- CREATION OF A ELASTIC INTERNATIONAL MEANS OF PAYMENT, FREE OF THE TRIFFIN PARADOX
- PENALTIES FOR DEFLATIONARY BALANCE OF PAYMENTS SURPLUSES BESIDES THOSE ON DEFICIT COUNTRIES
- REGULATION OF CAPITAL FLOWS