

Global Agenda Council on the International Monetary System 2012-2014



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Understanding/Context

Five years after the onset of the global financial crisis, the most important recent development in the international monetary system revolves around recent budgetary and debt-limit exercises in the United States, where protracted delays to increase the federal debt limit led to a near-default on debt issued by the US government. A debt default would severely impact the global economy and upset the international monetary system. Another important development relates to policy changes coming out of the Third Plenum of the Communist Party of China. New policies point to continued opening up of the banking and capital markets system, which could impact on the demand for the renminbi and alter demand dynamics for the other major currencies.

Future potential challenges include the ability of the international monetary system to respond to economic developments in the main currency countries or blocs (the US, Europe and China). With Washington mired in political uncertainty, Europe struggling to emerge from recession and Chinese authorities attempting to orchestrate a soft landing, the international monetary system could be challenged on many different fronts. It will be important that the response to any potential adverse events is well managed.

Shaping the Agenda

In this context, the Global Agenda Council on the International Monetary System will produce a paper that gives an update on the current status of the international monetary system, sheds some light on the requirements for a currency to be considered truly international, provides additional suggestions on the required changes in the regulatory environment, and articulates a strategy for how to manage the transition and any attendant spill-over effects. A draft will be discussed during the World Economic Forum Annual Meeting 2014. Once feedback and buy-in has been received, the Council will 42

present the paper at a peripheral event of the meetings of the International Monetary Fund in the first quarter of 2014.

“One of the spill-over effects still playing itself out is the decline of the US dollar as the dominant international reserve currency.”

Given the evolving nature of the global economy, it would be useful for the Council to write a report that would provide a roadmap for how the international monetary system could play out under various scenarios over the next 10-20 years (e.g. gradual decline of the US dollar as global reserve currency, or a sudden shock caused by a US default and rush to acquire other reserve currencies). Given the make-up of the Council, it would be useful to publish a report that could be referred to by policy-makers as the definitive guide to managing the changing international monetary system.

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