

Central Banking

Week 13: Global Coordination and Central Banking

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Agenda

1. Global Coordination and Central Banking
2. Class Activity

1. Global Coordination and Central Banking

Introduction

- Central banks increasingly operate in a globalized financial system, requiring coordination and cooperation.
- This lecture will cover:
 - The evolution of central bank coordination from the Bretton Woods era to the present.
 - The key frameworks and institutions supporting central bank cooperation.
 - The role of the ECB, BIS, IMF, and G20 in international coordination.
 - Real-world examples of cross-border policy alignment.
 - Challenges and implications for monetary policy and financial stability.

Why Global Coordination?

- Mitigating spillover effects from major economies.
- Coordinating monetary policies to prevent financial crises.
- Harmonizing regulatory frameworks to reduce systemic risks.
- Facilitating crisis response through cross-border liquidity support.
- Addressing global financial imbalances through coordinated interventions.

Historical Evolution of Central Bank Coordination

- **Bretton Woods (1944):** Establishment of the IMF and World Bank to stabilize exchange rates and provide financial assistance.
- **Plaza Accord (1985):** Coordinated intervention to devalue the US dollar.
- **Asian Financial Crisis (1997-1998):** IMF-led stabilization packages and coordinated monetary policy.
- **Global Financial Crisis (2008):** Central bank swap lines to provide liquidity.
- **COVID-19 Pandemic (2020):** Joint monetary and fiscal interventions.
- **Current Trends (2025):** Focus on digital currencies, climate risks, trade tariffs and cybersecurity.

Key Institutions and Frameworks

- **BIS (Bank for International Settlements):** Platform for global monetary and financial cooperation.
- **IMF (International Monetary Fund):** Provides financial stability and crisis intervention.
- **Largest economies CBs** (e.g., Fed, ECB, BoJ): Coordinates with G20 and emerging markets.
- **G20:** Platform for policy discussions among major economies.
- **FSB (Financial Stability Board):** Monitors and makes recommendations for global financial stability.

Case Study: ECB's International Cooperation Activities

- Focus on:
 - **G20 Emerging Markets:** Technical assistance and policy advisory.
 - **EU Candidate Countries:** Strengthening central banking frameworks.
 - **Regional Institutions:** Promoting regional financial stability.
- Activities include:
 - Workshops, expert visits, joint research.
 - Staff secondments and training programs.

Case Study: Global Liquidity Swaps (BIS 2022)

- Following the 2008 crisis, major central banks established swap lines to provide USD liquidity.
- Central banks involved:
 - Federal Reserve, ECB, BoJ, Bank of England, SNB.
- Objective: Mitigate USD funding pressures and prevent market disruptions.

Challenges in International Coordination

- **Policy Divergence:** Differing monetary policy goals across regions.
- **Data Sharing:** Data privacy concerns limit cross-border cooperation.
- **Exchange Rate Management:** Conflicts between floating and fixed regimes.
- **Cybersecurity Risks:** Cross-border payment systems vulnerable to attacks.

Current Trends in Central Bank Cooperation

- Rise of **digital currencies and payment systems**.
- Focus on **green finance and climate-related risks**.
- Addressing **cybersecurity risks in interconnected financial networks**.
- Enhancing cross-border payment systems.

Conclusion

- Global coordination is vital to ensuring financial stability in a globalized financial system.
- Institutions like the BIS, IMF, and ECB play key roles in harmonizing monetary policies.
- The rise of digital currencies, climate risks, and cybersecurity challenges will shape future coordination efforts.
- Ongoing challenges include policy divergence, data sharing, and geopolitical tensions.

2. In-class Group Activity

Any QUESTIONS?

Thank You!

Next Class

-(June 04) Future Challenges for Central Banks

- The readings will be posted on the Cyber Campus website.

We expect to have a guest speaker from the National bank of Ukraine.