Fireside Chat:
The Future of Central Banking

Speaker:

Stefan Ingves
Former Governor, Central Bank of Sweden; Chair, Toronto Centre

Moderator:

Jennifer Elliott
Advisor, Monetary and Capital Markets Department, International Monetary Fund

Opening Remarks:

Tobias Adrian
Financial Counsellor and Director, Monetary and Capital Markets Department, IMF

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Transcript:

Babak Abbaszadeh:

Good afternoon distinguished guests. I am Babak Abbaszadeh, CEO of the Toronto Centre. Welcome to our 25th anniversary event. I'd like to take a moment to thank our founders and funders, the governments of Canada and Sweden, the World Bank, the Schulich School of Business in Toronto, and the IMF. Since our establishment in 1998, Toronto Centre has trained more than 20,000 supervisors and regulators from 190 countries and territories. We remain committed to increasing the capacity of these public officials to build more stable inclusive financial systems, which contributes to economic prosperity. We greatly appreciate the goodwill of many dedicated professionals at the World Bank and the IMF who support our mission and collaborate with us to bring quality capacity building programs to supervisors worldwide.

Shadow banking, cryptocurrency, and ever-sophisticated financial crimes today have replaced credit default swaps of yesterday, although we are reminded again that banking crisis can happen. To help us make sense of this kaleidoscope of challenges and resiliency required, we have organized this interactive fireside chat bringing in and featuring our board chair, the former governor of the Central Bank of Sweden, Governor Stefan Ingves. (I call all former governors "Governor"). Jennifer Elliott of the IMF, who's also a very dedicated and wonderful Toronto Centre Board member, has kindly agreed to moderate this session. We're also delighted to have Tobias Adrian of the IMF. You have received their bios. I would like to also acknowledge our other board members who are here, too many to name, and also our staff, who worked so hard to make this session happen. Before we start, and this is a cue to the audio/visual friends back there, I want to show you a very brief video of what others have said to us on our silver anniversary. Thank you.

Video begins*

Mark Carney:
Born out of the Asian financial crisis and really pioneering work and pioneering spirit that persists to this day in terms of frontier issues around financial stability.

Carolyn Rogers:
My appreciation for the Toronto Centre goes back to my days as leading a provincial regulator, we relied heavily on the Toronto Centre to train our supervisors. To OSFI, we used the Toronto Centre services there too; we were part of the team delivering and receiving the training. And now in my capacity at the bank and then internationally, my time as the Secretary General of the Basel Committee, I was really proud to see how strong the Toronto Centre's international reputation was. So, there aren't many organizations in the world that train the really important skill of financial supervision.

Jonathan Dixon:
You've made an invaluable contribution to supporting supervisors from around the world as they seek to improve people's lives, especially in emerging markets and developing economies.

Elsie Addo Awadzi:
They took an early interest in promoting gender as a key issue in supervision and that was quite bold. The Toronto Centre is mainstreaming, and it's not just talking about it, but it's actually raising a cadre of supervisors that are beginning to get aware.

Namakau Mundia Ntini:
On behalf of the Pensions and Insurance Authority, I wish to the Toronto Centre, for the opportunity rendered to us to benefit from the various capacity building engagements, we want to wish the Toronto Centre a happy 25th anniversary.

Rt. Hon. Paul Martin:
In my opinion, it represents an important Canadian approach that can work abroad in addressing future crises. I believed in the Toronto Centre then, and I do so strongly today.

Video ends

Babak Abbaszadeh:
Thank you, these are very humbling words for us, and we are very grateful. At this point, I would like to turn the floor to Tobias Adrian, and we're very happy to have him as a champion of Toronto Centre. He's the Financial Counselor and Director of the Monetary and Capital Markets Department of the International Monetary Fund. His bio is too long to read, we'll wreck our event, but he is responsible for all manners of financial stability and capacity building for the member countries of the IMF in the supervisory area. Tobias, yes, we are very delighted that you are able to be here. Thank you.

Tobias Adrian:
So welcome to the International Monetary Fund, and welcome to this flagship event by the Toronto Centre, and congratulations to 25 years of the Toronto Centre. That is a big accomplishment. Let me turn back in time a little bit: so back in '98, the Asian financial crisis was just not quite behind everybody, and of course Stefan Ingves had joined the IMF in order to help, hands-on with the financial crisis. This was also a transformational event for MCM for the Monetary and Capital Markets department, which at that time was called MAE, the Monetary Affairs and Exchange Department. Since the late nineties, what we are doing in MCM has really grown and capacity development,

particularly in the area of supervision and regulation, has become extremely important. Alongside that we are doing surveillance, particularly through the financial sector assessment programs, which really came to life around that time as well. We are extremely happy to partner with the Toronto Centre in the endeavor to build institutions around the world, to build resilient, well governed financial regulatory bodies, which in turn are building resilient and well governed banking systems.

There is a lot of co-operation going on between the Toronto Centre and the IMF and the World Bank, and it is really going back to the crucial contributions of Stefan. Stefan was at the IMF at that time, and he was from the very beginning with the Toronto Centre; he's the board chairman. And of course, besides being Central Bank Governor of the Riksbank for so many years, he was also chair of the Basel Committee, particularly during the important time after the global financial crisis when banking regulations were redone from scratch. So, I'm really extremely honored to introduce this panel. We have seen a number of banking turbulences recently, but we have also have seen a lot of resilience in the banks. So, what is quite remarkable of the past month is that the US banks were sold off, European banks were sold off, but emerging market banks were not sold off. So, equity market investors did not have an adverse view on emerging markets, at least not major emerging markets. And I think that's a testament to a lot of the work that has gone into the supervisory frameworks and into the capacity development work that so many in this room have worked on. So, with that congratulations, to 25 years and welcome back, Stefan. It's always fantastic to have you here and the great honor. So, I pass the floor to Jennifer.

Jennifer Elliott:
Thanks Tobias. Stefan, this is a great pleasure for me. So first of all, congratulations, you've recently been named the winner of the Central Banking's Lifetime Achievement Award, which is quite something. I did think though, that you're probably not actually going to retire, so maybe they should have held off a little bit. So, you're between jobs, and that gives us a great opportunity to hear from you candidly, because as most people in the audience who know Stefan know, he doesn't like to express an opinion. So today we have, because he's here and he's between jobs, we're going to hear what you think and to me, it's teed it up really nicely for us. The first question we got to ask: so you've been through the Swedish banking crisis, the Asia crisis, the global financial crisis, all the reforms that happened after that, the Basel Committee, the FSAP was created here at the IMF and the World Bank, the Toronto Centre came into being, we've done all this work and yet, the world had been rattled by two regional banks in the US going down and then a GSIB having to be acquired by another GSIB, a global systemically important bank being acquired, a huge bank. What does it mean? Does it mean that we haven't reformed enough? Does it mean you can never reform enough, or does it mean this is a blip and we're not in a crisis? That's a lot of questions.

Stefan Ingves:
Well, first of all, there seems to be a consensus in many, many countries that it's okay to run banks with too little capital. And that consensus emerges out of a conversation between politicians and bankers. And there are many studies that show in a quite detailed way how much capital you actually would need in order to really last a long time. And there is something about the timeframe and the political processes in this, and here we have a record that goes hundreds of years back in time, so there's nothing new under the sun when it comes to this. We always sort of settled on, settled on not enough capital, and part of that is that it's actually in the interest of the politicians and the bankers to expand the balance sheets in the short run. And then you just ignore that this comes to bite you, let's say on average in some countries in my own country, once every 30 years or something like that.

And then, the other part of it is, and I think that this is something about how the human mind works, this time is different. Mom and dad and grandpa, grandpa, grandma, grandpa, they did some stupid things, but this time we have really figured it out and it's safe. It's super safe. If we just add a couple of more hard-to-understand equations, we can get just a little bit closer to the edge and it's still solid as a rock. And that's not the case in real life because things happen, and then you have to deal with them. So, this sort of comes back again and again. And I recall, I'm not going to mention any countries when I was working, here used to belong to the men in black, flew in with my black suit and my black leather briefcase. And the first question I got in this country, in a deep financial crisis, has this ever happened before?

Jennifer Elliott:
But listening to that, you're suggesting we're sort of doomed to repeat ourselves, then? Okay, Stefan, really? So, does that mean the Basel Committee should have gone further, up to the GFC?

Stefan Ingves:
That's my view. But I was just the chairman, and it was my job to make sure that you got a compromise.

Jennifer Elliott:
So, it's inevitably a compromise, but we get better every time. You think it's better after the GFC?

Stefan Ingves:
It's hard to tell because all the technical stuff you do within the Basel Committee, dealing with risk weights and all of that; risk weights are sort of like the weather report, but leverage ratio and real capital that's the size of your rubber boots, and that determines whether you will survive or not. And it's just very, very difficult to look into the future and, the way that human minds work, we tend to fight yesterday's war, and then you figure you'll find something new or you try create shadow banks or you do crypto this and that and work your way around it, and that is because you make so much money if you lever up. So, if there's a lot of leverage in the system, at least a few get filthy rich in the short run, and that's very tempting.

Jennifer Elliott:
So, what does the taxpayer take from that? What does the taxpayer do to protect themselves better?

Stefan Ingves:
Well then it becomes very ideological because then you say governments aren't supposed to own banks, and like it or not, central banks are lenders of last resort and governments become owners of last resort. At the same time, it becomes very sort of ideological; in some parts of the world, in some countries, the government has the capacity to clean up banks and in other parts of the world, the government shouldn't touch anything because it's actually cheaper to give the bank away, but ideally to foreigners. But that usually is also strongly disliked by the ruling elite, so it's very, very hard to come up with kind of balanced solutions when it comes to these things. At the same time, we need banks. We definitely need banks because they do an awful lot of good things, but from time to time they just run into trouble.

Jennifer Elliott:
Okay, so the other part of my question though was also do you think this was a blip, so the approximate cause of both problems in Switzerland and here is interest rates going up and the tide goes out a little bit. Do you think these are just some institutions that had a rocky time and it's going to be smooth now or do you think this is a harbinger for things to come?

Stefan Ingves:
It's too early. It's too early to tell. But when I was sort of thinking about what has happened lately and right now things seem to be okay, where I started, I've reminded myself of Barings Bank: a very peculiar bank, special bank in Singapore that went down because they're super focused on doing the wrong thing. And then you had LTCM, and they went down without anything really else happening in the system. So, we do have cases when banks really focus on doing things the wrong way, and that you only see with hindsight because then with hindsight you can say, "okay, each and every time there was a fork in the road, the wrong way and the right way, they chose the wrong way" but that you only with hindsight. So, there's actually quite a difference between a huge systemic problem, when the whole country or the whole system is in trouble, and then the few banks going under here and there, and it's too early to tell but so far I would say that it's more sort of the former in the sense that there appears to be a few banks that have sort of focused on not getting their act together and then that came back to bite you and that need not imply that the whole system is in trouble.

Jennifer Elliott:
And so, what I asked about taxpayers and what lesson they take from this, what about supervisors, because one of the narratives you hear all the time in the press is "supervisory failure, supervisory failure". What do you think?

Stefan Ingves:
I mean, sometimes it's an issue of resources and what you call risk-based supervision. Well, what does risk-based supervision mean? It means that you supervise large banks, and then you have less-supervised supervision of medium size and small banks, well then something blows up and you get criticized for that. C'est la vie, I mean you just have to live with that because you cannot solve every imaginable problem in the world with supervision. You can do as best as you can. What does matter though, and this is what we have at the IMF, I do think that supervisory capture is an issue at the domestic level. Because if you get too close to the banks, you probably end up in small countries supervising your buddies, and if you don't plan to be a supervisor for the rest of your life, you want to maybe get a job at a bank, and if that gets too cozy, then you might have a problem. So, it's better actually, from time to time, to have a bunch of people from the IMF showing up completely, detached and just say, "give me the numbers". And then you sort of conclude these numbers don't look good, now what?

Jennifer Elliott:
Yeah, and then that's inspiration for my colleagues in the audience for sure because we're not always welcome in that regard.

Stefan Ingves:
No, no, no, no. But people do understand that maybe they don't like you and they didn't like me either when I was here. But it sort of makes sense. It makes a lot of sense.

Jennifer Elliott:
Good.

Stefan Ingves:
And let me also add to that, that here, you have huge differences between countries because, and part of it is maybe a cultural thing, because in some countries, in some parts of the world, it's not a problem that somebody shows up from abroad criticizing you, because you are strong enough and you are confident enough in your own right, and you have institutions strong enough where they can say, "thank you, we will fix it, just tell us what to do and we will fix it." "You caught us, this wasn't good. So, we'll deal with it." In other parts of the world and in other countries, it's culturally just too difficult, just too difficult to handle that, to have somebody else telling you what to do.

Jennifer Elliott:
Okay, so let's move past supervision then to your other job. So, you've done a lot of work in supervision, but you're actually a governor of a central bank, so you have to run monetary policy. The question of the moment right now is what's the trade off now between price stability and financial stability? Is there a trade off? And if there is, how do you think about it?

Stefan Ingves:
Yeah, I think that that tradeoff is always there, one way or the other. And it's been there for a long, long time and there's not anything sort of special about it right now. And that's because if you run a central bank, people sort of intuitively understand that that's where the money comes from. If you cry too much about it and things blow up, you're going to get criticized. It will never fly then to say it was the supervisor's fault or I only deal with monetary policy, and this should have been handled somebody somewhere else. You're part of the system and then you are always responsible one way or the other. And this creates a dilemma from time to time. And let me pick one complete very one example of that from the nineties in my case, but you can find this in many countries, when rates started going up in the nineties, we had just fixed the banking system and we knew that we had to raise the rate and we knew when the banking system was going to die again. That was the dilemma.

We made it that time because the fence didn't go that high. And that sort of comes back from time to time in many, many countries, and then the rest really depends on how much capital do you have in the banks and what's the structure of your financial system. You always need to be mindful of that because doing monetary policy in the real world is not a tailored equation. There's nothing wrong with the equations, but you actually need to understand what you're doing; you need to understand the plumbing and the mechanics of these things, and that's where you find the limits of what is doable and not doable. And then, of course, the more capital you have in the financial sector, the better off you are because that gives you more degrees of freedom when it comes to monetary policy.

So, ideally the whole financial sector should be capitalized in such a way that rates can go up and down without bad accidents happening, but it's incredibly hard to get to that point where, on the one hand, the central bank is always responsible because that's where the money comes from. But in many, many cases and that from my own country, you have supervision somewhere else and then you have all sorts of other things kind of going on. Let's say in the housing market, just to pick one example. So, you are always responsible, but you are never in full control, and you just have to accept that as a fact of life, and if you don't like that, don't take the job.

Jennifer Elliott:
And if you don't like criticism, don't take the job.

Stefan Ingves:
And if you don't like criticism, don't take the job either. I mean that's just the way things are. But it is a dilemma. It is truly, in my view, a dilemma which we have not truly solved yet, and that bothers me.

Jennifer Elliott:
So, I take from what you say, you would not argue that financial stability shouldn't be in your mandate.

Stefan Ingves:
It is. Like, it doesn't really matter what you put in the paragraphs, you're stuck with it, and it's been like that since 1668 in my country because people do understand that the central bank, that's where the money is and that's where the money comes from, and that's just the way these things work. As long as you have your own currency because your own money, by definition has something to do with what the central bank does, and you cannot escape from that. If you set up a currency board, if you use somebody else's currency, that's a completely different setup. But as long as you have your own currency, there's no escape.

Jennifer Elliott:
Very good. Well, speaking of currency, let's move to digitalization, which I know is a favorite topic. So, we're in a world that digital transformation's happening quickly and more quickly than regulators, the supervisors and central banks could keep up with, I think is fair to say. What do you think about regulation and supervision and crypto assets? And maybe recently we've had some pretty big collapses, FTX, but there have been some other collapses of crypto assets. It it's bouncing back, but what do you think, what is your view of why this has grown up? Whether it's a threat to money, fiat money, whether it's here to stay as something we should regulate out of existence, how should we Regulate it?

Stefan Ingves:
Hard to give a precise answer to that, and that has something to do with the size and how fast these things grow, because you can argue that crypto, this, that and the other, that's sort of similar to trading stamps or paintings. And then you say, "well, if that's what you want to do, you are on your own" and either you make money or you lose money. But eventually these things, if they grow and if they grow enough, then many, many citizens are likely to become affected in one way or the other. And I think a kind of a worse case, which is very much pre-crypto, but it's a good example is the pyramid scheme they ended up within Albania when the whole country went down because every everybody got so gung-ho about this. I mean that wasn't good, and if we don't watch out, we can end up in a similar situation. And here, and this is just my impression because I don't deal with crypto myself, you don't do that when you are a central bank governor.

Jennifer Elliott:
Now you're free to! *laughs*

Stefan Ingves:
Well, I have a few more months. *laughs* No, the issue is the following that if you take a longer time perspective, we have spent 150 years, maybe 200 years in many, many countries defining what a stock exchange is, defining what a broker is, defining what it means to trade for your own account, defining what it means to trade for your client's account, and if you mess things up, you get sent to jail and we have defined what a bank is, it might be hard and we have legal definition of a deposit. But then in the crypto world, everything is just one big mess. And you can make a lot of money probably out of that in the short run. But if history gives us any guidance, it's going to blow up for sure. And it has, that's why I call stable coins "unstable coins", because that's what they are.

Jennifer Elliott:
That was pretty unequivocal. Okay, my last question and then we're going to go to audience questions, so feel free to challenge the views on crypto if you so desire. Some central banks have, in reaction of course to crypto assets, introduced CBDC. How do you see CBDC affecting monetary policy, financial stability going forward? What do you think?

Stefan Ingves:
Not much, and the reason is the following, when you're talking about physical bank notes, you need to be mindful of the fact that physical bank notes appear in the shape and form they have today in the late 1800s. During that period, banks issued their own banknotes, and that created a huge mess, and there was a consensus in societies of that day that we needed to standardize, and money comes from the central bank. Back in those days everything was on paper. Now we are moving into a world where we have to assume that nothing is on paper and that physical banknotes become more or less irrelevant. If we don't create CBDC, then essentially that means that we have privatized money because then it becomes impossible for the general public, for the citizens to hold central bank money, and my personal view, and this is a value judgment, I think that that's a bad idea.

And in that environment, it's going to be enough to have a few central banks issuing their own CBDCs, and then your citizens will move over to that currency instead. But this is different. This is about monetary theory, which is a different topic to monetary policy. It's a totally different topic because this is actually about how you create money. When you do monetary policy, you assume that somebody else has created money already and that's where you sometimes have a bit of confusion. But I do not think it's going to threaten how we actually conduct monetary policy at all. But here, absolutely, the devil is in the details, no question about that.

Jennifer Elliott:
And by implication, smaller countries might have something to grapple with.

Stefan Ingves:
Yes, there's no question. That's there for sure. But I also think that in some instances, smaller countries will move much faster than many others because I do think that in special cases the CBDC can be very, very helpful when it comes to let's say financial inclusion, because in some countries the central bank is the only functioning institution.

Jennifer Elliott:
In a few.

Stefan Ingves:
If they are the ones who actually produce something you can trust, why say no to that.

Jennifer Elliott:
Okay. So, with that, I'd like to take some questions from the audience. Don't be shy. At the back!

Audience Member:
Thank you very much. Speaking about the future of central banking, climate risk is one important risk that financial institutions are beginning to measure and manage. What do you see as the role of central banks, and the Swedish central bank obviously has done a lot in this space, but more broadly in the central banking world? Thank you.

Stefan Ingves:
Well, first of all, central banks are part of our societies and part of monetary policy. Payment system financial stability is really dealing with understanding what's going on in your particular economy, and then if climate change starts to make a difference in terms of the economy is functioning, then you cannot ignore that. You just have to try to understand that as best as you can, and with a fairly high likelihood, we're going to see relative price changes when it comes to moving out of brown into something green or greener, and that will affect the functioning of the economy, and you need to understand that and sort of factor that, so to speak, into the equation when you do monetary policy. If this is a major thing or not, it's a bit too early, too early to tell. Many central banks today are independent and many central banks today are quite resourceful.

So, in many central banks in different parts of the world, they have the capacity to actually think about these things and write about them and explain to the general public what is actually going on, and from that perspective, I think it's a responsibility of central banks to produce this type of a public good. When it comes to managing your own reserves, you need to be careful about what you do with those reserves, and you have some choices. I don't know where we will end up, and here you will find differences in different parts of the world and in different countries is to what extent the central bank should engage in lending directly to green investments in this and that. There I'm much more hesitant, and if you want to do that, to me it sounds more like kind of a fiscal issue, and you would probably be better off doing it on the fiscal side in one form or the other.

But clearly, central banks were never designed to deal with global warming. So the really, really tough parts of it have to be dealt with by others because central banks simply just do not have, given most legal frameworks, any tool to deal with these issues, so you have to live with it and ideally you should be ahead of the curve, you can talk about it, but at the end of the day, many of these problems will have to be solved by somebody else. But, as I said earlier when Jennifer asked questions, people understand that the central bank, that's where the money is. So, that will of course create an infinite perennial demand on central banks that they should support this, that, and the other, and then it becomes an issue of what kind of governance structures do you have in your own country when you set this up.

Jennifer Elliott:
It's something that we worry about a little bit here though, the overburdening of central banks, I mean central banks and emerging and developing economies, they have a big row to hoe and then sort of piling on other mandates worries us. Does that worry you?

Stefan Ingves:
Both yes and no, because if we're talking about very formal mandates, then that becomes difficult to deal with. But it is your responsibility when you run a central bank to actually understand what's going on in your economy, and from that angle you actually have to maybe rejig a bit what you do within the central bank as such, in terms of how you actually think about things and what you focus on. One way or the other, the general trend is going to affect the macro in one form or the other. And monetary policy is part of the macro.

Jennifer Elliott:
Okay. *Calls on audience member*

Audience Member:
I work on bank resolution and so I'd certainly be happier if banks had a lot more capital and that we didn't have to resolve them, but making the assumption that we don't make progress on that, what would you conclude from recent developments in terms of the resolve ability of banks and that the reform agenda posts the global financial crisis on making banks more resolvable. Certainly, the Riksbank, has been in the forefront of cross-border coordination, the Nordic Baltic simulations. And I'd personally like to draw some positives from the recent cases, but do you think banks are more resolvable? Do you think the resolution reforms have helped or do you draw a less positive conclusion from the recent events?

Stefan Ingves:
It depends on what your financial sector looks like in the individual case, and you can come up with this sort of theoretical idea, which actually has truth in this country because if you have 7,000 or 8,000 banks and a small bank goes under, then you sort of run the bank through the carwash and outcomes a beautiful bank on Monday morning. But, if you have three banks, very large banks relative to the size of your economy, then what do you do? Then it becomes sort of very, very different and much more difficult. Suppose just for the sake of the argument, that you run things by the book and you bail-in a lot of bond holders, well then you get a randomly composed set of owners of that particular bank, and we just don't know whether they are capable of running the bank or not. That's when it gets difficult, and that's when it gets more difficult than most people think because you can deal with a small bank over the weekend, but if you really want to do a proper due diligence, with emphasis on proper, of a very large bank, we're talking about six months. Somebody has to run that institution in the meantime and then it always gets political in one way or the other, and it gets even more complicated when you do these things cross border.

I can use the Baltic cases, the Baltic countries as a good case during the global financial crisis because then the issue was the following: the Baltic countries were totally dependent on Swedish banks. The Swedish banks created a huge mess in the Baltic countries, but Sweden was not dependent on Swedish banks creating a huge mess in the Baltic countries because they were just so small. This is where it gets complicated and difficult, when it comes to dealing with cross-border issues and how to figure out how to do that and ideally, at least in good times, talk about these things with your neighbor from time to time.

Jennifer Elliott:
So, was that a Toronto Centre program that you did, the cross border one? I know you've done some of the crisis simulations with the Toronto Centre, to practice. And you still didn't really help him because he doesn't feel good about the resolve ability of global systemically important banks, I think from what you said, but is it still worth practicing? That was my question.

Stefan Ingves:
Yes, it is always worth practicing because when I was appointed director general of the Swedish Bank support authority, we had absolutely nothing on the books before that happened in terms of how you actually do things. I ended up buying one bank for one Krona at two o'clock in the morning, and I asked my chief legal counsel, "could you help me and explain to me from a legal perspective what happens when a bank goes bust in this country?" and the guy says, "I have absolutely no idea because I think the last time was 1905", and that's not a good position to be in. So, if you have a bit of formal guidance, it's enormously helpful and that guidance will never ever be perfect, because it's just too hard to have that detailed foresight.

But at least it tells you sort of something about what to do and what not to do, and it also ideally gives you some guidance to the bankers so that you can tell them at two o'clock in the morning, "Guys, you can go home now, because I run this institution." And if you are hesitant when it comes to that, bring in your lawyers and there's no question who's in charge. And that, you need to sort of think about in advance and you need some kind of a framework for that. I mean, everything we did in the early nineties was basically running the bank support authority as if we were an investment bank and a holding company and it worked, but it's not a good position to be in.

Jennifer Elliott:
And maybe in many countries don't have the same political stability and credibility that you would've enjoyed at the time.

Stefan Ingves:
No, it was a very, very simple sort of agreement between me, myself, and the government. The country was in dire straits, really in dire straits. Somebody needed to handle this. The politicians said, "we'll give you the money on the powers, tell you us what you need. If it doesn't work, we'll fire you."

Jennifer Elliott:
Calls on audience member

Audience Member:
Thank you. As the use of artificial intelligence and machine learning continues to grow in the financial sector, how can central banks leverage their potential to manage monetary policy and prudential regulation while ensuring that these technologies are used ethically and responsibly?

Stefan Ingves:
As if I would know, but my entire professional life, I have argued with highly, highly intelligent and skilled technicians who always have argued that if I add two more complicated equations, I can get a little bit closer to Niagara Falls without anything bad happening.

Life has taught me that markets function the worst when you need them the most, and AI cannot solve that problem. That is something that you need to sort of accept and understand. And if you think that AI can solve every imaginable problem, then you probably end up with a problem yourself. Suppose just for the sake of the argument, that you expand the balance sheet of your bank very, very quickly. In most post-mortems, when you look at banks that went through an episode like that and then went under, you realize that management lost control and AI is not going to help you with that. How do you think that AI can keep control of everything? I have my doubts, but it can probably be helpful, probably very, very helpful in the sense that maybe we can figure out how to do these things so that you get to deal with red flags earlier than otherwise, but how you technically actually set it up and do it that I don't, don't know.

Audience Member:
Thank you, Stefan and Jennifer. Interesting conversation. So, you were talking about the trade-offs between monetary policy and financial stability, but particularly in the current context when rates are going up. That made me wonder about the opposite. So, when rates are kept low for a very long time and that may be encouraged leveraging everywhere, not only in banks, but everywhere. To what extent do central banks need to be concerned with this and monetary policy need to be concerned with this, or do you feel that other regulatory measures, supervision, or other tools are effective in dealing with the potential buildup of risks in this situation?

Stefan Ingves:
Well, it's the same kind of bet that I talked about earlier: either you bet that somebody else is going to take care of the problem or it bothers you to the extent that you are actually mindful of what is going on. In my case, during my tenure, what happened was that the politicians were very adamant making sure that the central bank does not do supervision nor macro-prudential, and then you end up in a situation where the only thing you can do is to constantly complain about what's going on in the housing market. And if the whole thing blows up, then at least exposed, you can say, "I told you so" and this is just one of the realities of policy making, and sometimes the policy mix isn't sort of quite optimal.

Jennifer Elliott:
I think the audience member was politely accusing central bankers of being short-termists and building a longer-term risk that then supervisors are, I'm paraphrasing, then supervisors are stuck with it. He's asking, don't you have a responsibility as a central banker when you're setting rates to think about the financial stability consequences?

Stefan Ingves:
I think so, but that's because I spent so many years dealing with things falling apart, so I know what it is and how many people get hurt and how many years it takes to dig yourself out of the hole you ended up in. But that's my preference. But at the same time, if you on the political side decide that you want to have... decide, that's to say too much, it's over-emphasizing it. If the sum of decisions on the political side for decades produces a dysfunctional housing market, that creates a lot of risks. Well, there's not much you can do about that because in the real world, you just have to live with these imperfections and ideally be aware of them and make the best of it.

But Jennifer's point is a serious and important one, and that is the timeframe within which you do things. That's a serious issue in the sense that if you look at how most monetary policy reports talk about monetary policy, basically you talk about it in a timeframe, one to three years out. But if that creates an enormous leverage in year five, how do you deal with this? This is a perennial dilemma when we deal with the future, because how should you go about discounting the future and how do you discount, what kind of a discount rate should you use for a really, really bad outcome in the distant future? That's one of the hardest things with human beings have to deal with, and in many, many instances, we just tend to, and this is not specific to central banking at all, we just tend to ignore it.

Jennifer Elliott:
Yeah, I think that speaks to climate monetary policy and financial stability and bankers management, all of them. Yeah. Okay. Question.

Audience Member:
Thank you, Stefan and Jennifer, for the conversation. My question goes into, if there was a change in global currency from the dollar to the Yuan, what immediate changes in central policy banking do you see and their impact on the global economy?

Stefan Ingves:
Hard to tell, but these changes usually take quite a long time and it's a sort of a slow-moving process, so you never change these sorts of systems or lack of systems from one day to the other. And there are many, many sort of studies that talk about these things, and if you look at the economic might, if I call it that of the UK, they were sort of seriously shrinking for a long, long time, and still the pound was sort of widely used as a transactions currency. Today you have the dollar, what do we know what we have in the future? But it seems to be incredibly hard to engineer planned transitions. That's why, for example, the SDR has never kind of taken off as a global currency, because it's in the interest of somebody else to stick to whatever it is that we have.

One way to think about money, not at all in monetary policy terms and all the rest of it, is that money is actually a product, and it makes it convenient to transact, and either you are capable of producing a high-quality product, including payment systems, or you are not. As long as you're producing good money, other people will use your money, but that actually includes how you transact and how you make payments. So, in addition to financial stability, price stability, you also need what I call transactional efficiency, and if there is no transactional efficiency because it takes forever to send money across the globe, then somebody else is going to come up with another solution. Mostly we never talk about monies using the plural in that fashion, and either my apples are good or they're bad, and if they're bad, you'll use somebody else's apples. And of course, given that there are so many trained economists in the room, and I'm an economist myself, we always think that there is a plan, and there is a solution at the end once you have executed that plan. But given the randomness in the real world, some of it you just have to eat and accept that.

Jennifer Elliott:
Sort of related question though, one thing's always puzzled me. Why do you think that the problem of cross-border payments and how expensive they are still eludes us, right? Why?

Stefan Ingves:
Because so far central banks have been unwilling to cooperate and construct a system that makes it super-fast and cheap to make these transactions. While at the same time, it has been incredibly profitable for the private sector to create what I would call an oligopolistic system for these transactions. If you combine that with legacy IT systems that you ideally would like to write off and make money out of those systems as long as possible, then you end up with a very, very slow process. Then of course, which is a completely different topic and a difficult one to deal with, is money laundering and all those aspects of it. So, I would say that today it is well understood in the business that we have one equilibrium, but it's unstable. But no one really wants to move to a new equilibrium.

Somehow Libra was a sort of threat to the whole system, but if you read the Libra papers, if I call it that, it struck me and we're talking about several hundred, a couple of hundred pages, and I actually had my IT people look at it and they came back with a report explaining all these things, but they wrote about 10 pages on the topic, what kind of money is Libra? When you read those 10 pages, then you sort of immediately concluded, maybe these guys should have studied a bit of monetary theory from the 1800s, but since they had not done that, they just ran up against the wall because all those who were involved in this of course had the technical capability, but when you are making payments, and particularly when you're making payments across the border, everything you do is intangible.

So, we're not really talking about computers only; we're at the same time talking about a legal framework. The only way to define money or a transaction in the IT world is to have a legal framework going with it. But at the same time, all legal frameworks today are national, and so far there hasn't been a willingness on the major players in the world to get together and sort of figure it out and say, okay, this is what we're going to do, and that has made it a rather slow process. But this is a dilemma in the sense that most people do understand today, that I can talk to my buddies in real time from Washington DC to somebody in Wellington in New Zealand, but I can't get the money to go there in real time, and this remains a dilemma. I also see this at the European level because also in Europe, all the various EU member countries, they have their own systems and they have their own legacy systems, and they have their own sort of legacy systems that were created by legacy banks.

All of them understand that if we get rid of this and run a European system, it will be much more efficient, probably much, much cheaper for the consumers and the end users, but how do I as a financial institution maintain my profit in that new environment? What if I move too early so I will lose out and just lose market share? So that's really sort of the hard part of it to figure out, how to unlock this, and so far, we just haven't been able to do that. Here we're talking actually about real stuff, not the theoretical things coming to agreements, but actually here when it comes to, now talking about the retail side, international payment systems, cross border payment systems in combination with CBDCs is one avenue, which certainly would be doable. But so far, there hasn't been a total failure on the public private sector side, so that central banks have sort of been a bit reluctant to move in that direction. And that's because all central banks have a national mandate. No central bank has a global mandate. The fund has.

Jennifer Elliott:
Something for us to think about. We have time for maybe one more.

Audience Member:
So, this is a question that is not as profound as the ones that you've been asked, so I apologize. This is more a leadership question, Stefan. So, you're now going to move from the center stage to the most important seats in the theater as a spectator. So, as you're doing that, do you think that the current generation of regulators, supervisors, and your peers, central bank governors, do you have confidence in them? Do you think that they have it in them to manage this complex system that you are leaving for them to manage?

Stefan Ingves:
I think it's very much similar to conversations when you go and do a fund program, and you talk to a finance minister or a central bank governor, and then you ask yourself, do I think that this individual has the right instincts and the guts to do things, or not. And, if you don't have the guts to decide, it doesn't matter how many books you have read and how many equations you have mastered, it's not going to help you. And particularly if you're running into trouble at the end, the only way to do it is to have a conversation with yourself. Am I willing to do this? Can I lose my job if I do this? Am I willing to just try to survive or am I going to do something for the common good or maybe the history books? And that's very, very hard to answer; you just don't know in advance.

What I do know, and what I've learned over the years when it comes to being involved in situations like that, is that those who are masterful in good times maybe aren't that masterful in difficult times, and that's the hardest thing when it comes to choosing those who are working together with. Will they last till three o'clock in the morning and are they ready to take one step forward or will they disappear behind the curtains? And I know instances like that when individuals have said to me, "I can't take this, I just cannot take this". It's irresponsible to decide within three hours because it takes three months or

three years to figure this one out. And I've had to say that. You can say, "but I only have three hours". And that's really, really the hard part. But it really helps if you've done it before. So, if you drive an ambulance, it's hard the first time, but if you do it for a couple of years, it's a lot easier. If you do a fund program, if you've done many fund programs, it gets easier. And if you are a fireman, it's not a good thing to start knitting on the hose when the house is burning. You should try to do that in advance.

Audience Member:
I was just trying to tell everybody in the room to basically note what Stefan is saying. He has reasonable doubt. **laughs** No, it's the end of the day. But anyway, I think that's a huge issue about just the time when the system is turning so interesting and complex. People like you, and your generation is almost stepping out and a new lot is coming in and there is an issue of who's going to make the call and do they have the right mindset or right temperament to do it. I think that will remain the test of time. My question is really motivated from Toronto Centre's leadership quest, plus your own experience.

Stefan Ingves:
Well, the hard part, I mean, I'm speaking for myself, when I went to the Stockholm school, I never expected to lead anything or anybody. And I also had my mathematical and theoretical phase in life. Then eventually when you rise through the ranks, you need to accept the idea that somebody else is going to do the math, and it's your job to decide. All of us, if you have the privilege of rising through the ranks and you survive, have to go through that process and internalize that in one way or the other because you simply cannot do everything yourself; that is physically absolutely impossible to do. So, in the end, you have to know the plumbing, and then you have to learn, and maybe this is not well put, you have to know how to bet on people.

Can I trust these guys or not? Do they seem to have the right instincts? Do they on average seem to come to a reasonable conclusion or are they in complete denial? So, this thing is just going to go totally overboard because they just don't get it. That's part of leadership: trying to understand that, which has nothing, absolutely nothing to do with the financial sector. Just if you are a military man, it's the same thing. If you're running hospitals, if you're running large corporations, whatever it is that you do and you sort of rise through the ranks, then each and every manager or leader is going to have to grapple with those things.

Jennifer Elliott:
I think that's a great way to end. We have appreciated your leadership across the board. You were here for a while. You were with the Basel Committee, you've been a long time in your own country at the helm, and we can see why it ran so well. It's been an amazing experience to ask you these questions because the answers are so well framed and so coherent and the thinking that you have done over these many years of experience. It's absolutely irreplaceable, and I think we all appreciated it very much. Thank you, Stefan.

Stefan Ingves:
Thank you. Thank you.