WELCOME AND INTRODUCTION

I am delighted to welcome you to the 1st Mecpoc Economic Symposium "Can Central Banks Alone Win the Global Challenge?"

This title, phrased as a question, is based on two assumptions: one, that there is a significant challenge ahead for financial markets and the world economy following the turmoil in the US in the past few months; and two, that central banks are on the spot as the main actors who are expected to provide responses and solutions.

Less than a year ago, the world economy looked in much brighter conditions than today, and yet, there were a number of rising concerns. One common apprehension was related to the possible dire consequences of an ever-expanding US external deficit, with the biggest fear being that a growing trade deficit would cause a flight away from the dollar, causing a dollar meltdown, followed by a painful period of adjustment that would finally mark a transition to a new era where the euro would replace the dollar as the new global currency. Other scholars were simply pointing their finger at the increasingly asymmetrical macro-economic and financial conditions with virtually one single country, the US, financing world growth thanks to a combination of public and private debt.

World economic conditions today are shaped by two major events that have hit the world economy: one, a financial crisis that did not originate from the US external deficit, but rather from within the US financial system, sending waves across the world; and two: a tendency of the prices of energy and food to rise globally. These two events take us directly into today's symposium: central banks are dealing simultaneously with rising inflation and fears of systemic breakdown. Can they win this dual challenge?

With respect to price stability, inflation rates have been low and stable almost worldwide since the mid-1990s. Central banks have been praised for adopting effective strategies to keep inflation in check, and not only they have been effective, they have also been lucky. Until now, globalization has been keeping prices and costs down, and the job of central banks has been facilitated by their operating in a favorable environment for maintaining price stability. With the current reversed global price trend, a major challenge to central banks' ability to keep prices in check could now be in the cards.

With respect to financial stability, this was meant to be strengthened thanks to the implementation of new international regulations and provisions, recommended by the Basle Committee, that seemed to paving the way to a more secure banking and financial environment. Yet, as a few scholars had timely observed, more strict capital ratios for banks do not make the banking system less prone to liquidity crises, and the subprime mortgage mess that started in the US is taking a toll beyond the US borders and irrespectively of banks' compliance to Basle rules.

Interesting times are when our ideas get tested. And these may indeed be interesting times, especially for central bankers, dealing with an inflation threat that comes along with concerns for financial stability. Central bankers are used to facing trials like these. The problem, this time, is that they come at the same time, and—at least according to standard policy recipes—require opposite responses. Although accustomed to taking more than one exam on the same day, even college students would balk at taking tests that require totally contradictory answers for a passing grade!

How serious is this challenge? And, if it is serious, how well can central banks alone manage the emergency? For the answers to these questions we look forward to hearing our speakers and the knowledge that they will be sharing with us today. Whether central banks can effectively pass this dual test of maintaining price stability in a financially stable environment while successfully handling the global challenge with little or no additional government involvement is our topic today.

To help us disentangle these issues I'm truly honored to introduce our speakers, who will provide a unique combination of expertise ranging from academic research to banking, managerial and policy-making experience. I wish to express my gratitude to our speakers for accepting our invitation to this symposium in Lugano.

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