

More stability in multiple reserve currency system

■ BY AARON LOW

THE move towards a multiple reserve currency system is inevitable and instead of fearing it, world economies should welcome it, a prominent American economist said yesterday.

This is because such an arrangement, which will include the United States dollar, the euro and the Chinese yuan, provides more stability than the single currency system now, said Professor Barry Eichengreen.

Prof Eichengreen told an awards ceremony at the Singapore Marriott Hotel last night, held to honour local financial industry leaders, that China wants the yuan to be an international currency and is making gradual moves towards it.

He cited recent moves by Beijing to persuade its neighbours to deal with the yuan as evidence that the nation is ready for such a transition.

Prof Eichengreen said a multi-currency system would be far more stable than what is in place now.

He noted that central banks behave the opposite of how the markets act, and this would have a stabilising effect.

For example, unlike hedge funds which switch their money quickly between currencies based on their relative values, central banks tend to shore up the currencies in which their reserves are based.

“Central banks take a more long-term position and they can hold, which acts as a stabilising force,” he said.

Prof Eichengreen added that the US policy of quantitative easing, or pumping liquidity into the system to avoid deflation and a double-dip recession, was “the only game in town”.

He acknowledged that Asian countries were feeling uncomfortable about their soaring currencies, but said that if the US did not act now, another deep American recession would hurt even more.

At last night’s ceremony, 15 senior management leaders in the financial industry were given the Distinguished Financial Industry Certified Professional (FICP) award. These include Standard Chartered regional chief executive Ray Ferguson, OCBC Bank CEO David Conner, and DBS Bank’s group executive responsible for its institutional banking group, Ms Jeanette Wong.

The FICP award, which is conferred annually by the Institute of Banking and Finance, is the highest certification a financial practitioner in Singapore can achieve under a national competency system. The award, now in its fourth year, has been given to 52 people.