



BANQUE CENTRALE DU LUXEMBOURG

EUROSYSTÈME

# Sovereign Funds

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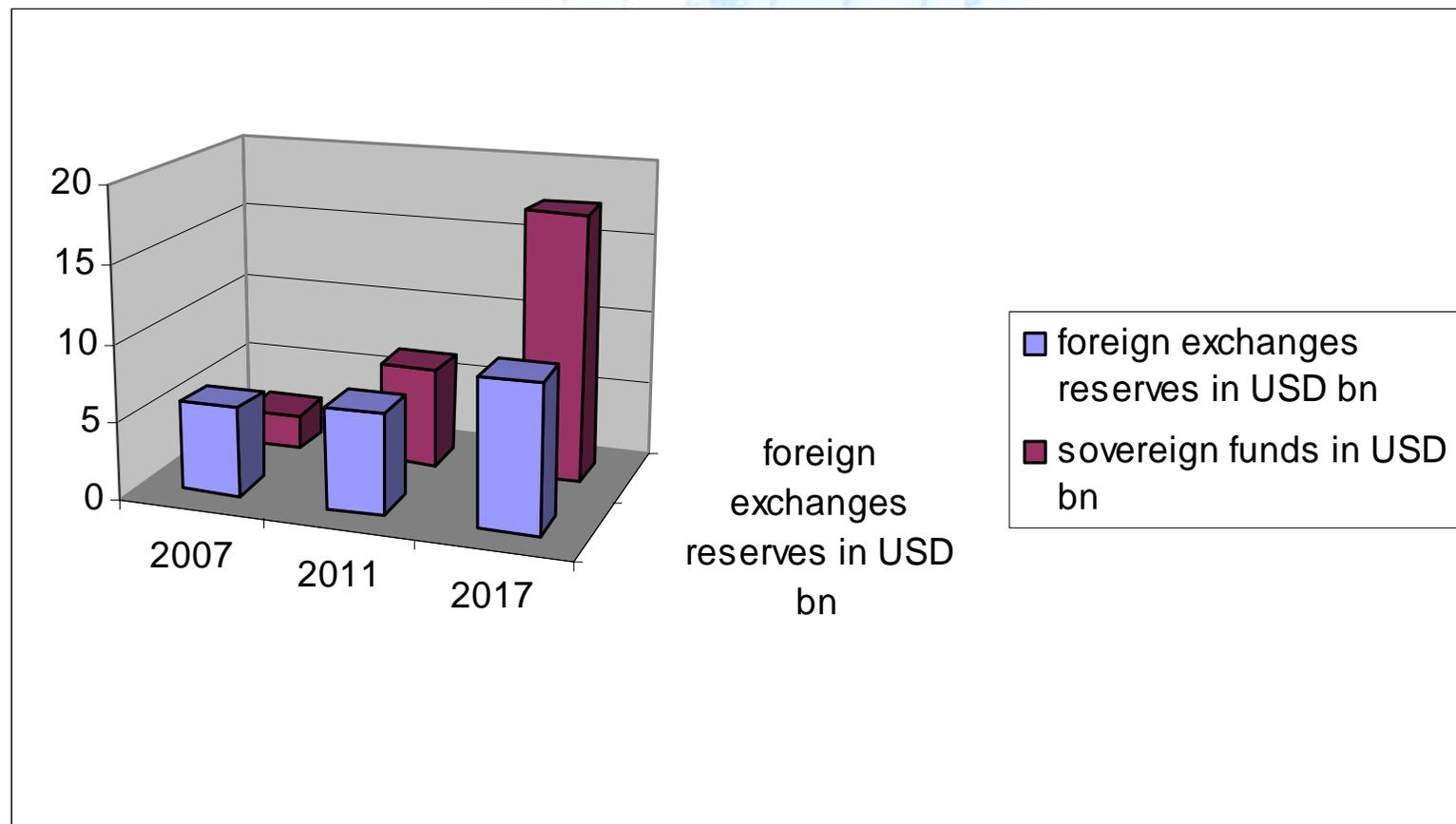
**Eurosystem**



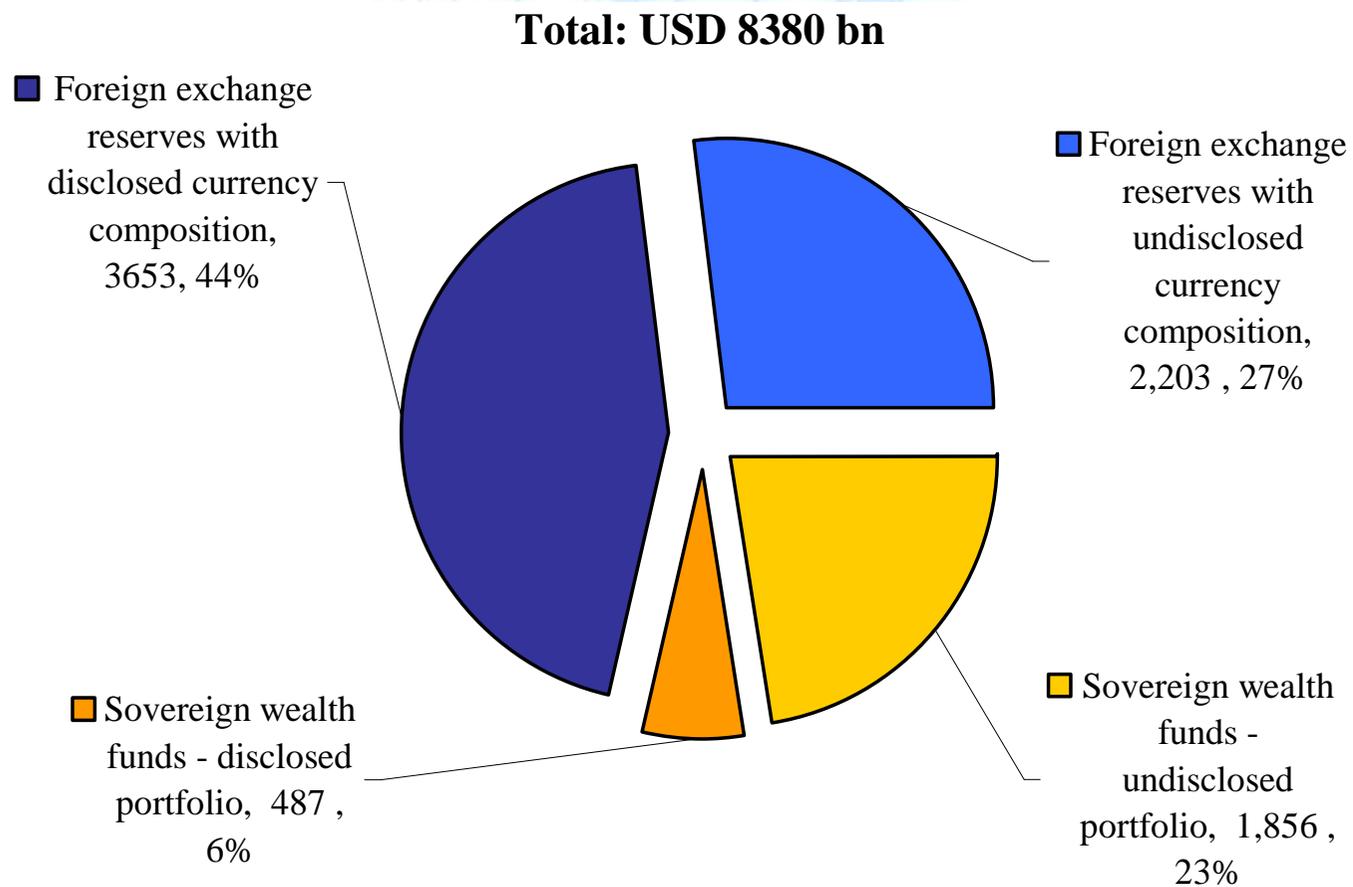
# Introduction

- **Support to common European approach:**
  - ◇ **Open investment environment**
  - ◇ **Respect of EC Treaty and international commitment**
- **Specific concerns:**
  - ◇ **Financial stability**
  - ◇ **Foreign exchange reserves**

# Expected growth of foreign reserves assets compared to sovereign funds



# Transparency corporate governance



# Challenges and possible solutions

- **Independence of central bank in definition and implementation of the monetary policy and exchange rate**
- **Fiscal and economic discipline**
- **Due cooperation between central banks and sovereign funds (exchange of information, consultation or even co-decision)**
- **Strict transparency requirements**

# Financial stability

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- (+)**
    - **Broadening of long-term investment**
    - **Global risk sharing**
    - **Typically not leveraged**
  - (-) Non economic motives:**
    - **Distorsion of price mechanisms**
    - **Herding Behaviour**
    - **Currency distribution**

# Conclusion

- **Sovereign funds: partner for growth and stability ?**
- **Yes, but recommendations to combine sovereign funds:**

## **At world level:**

- ◇ **Structural and macro-economic reforms designed to foster domestic demand**
- ◇ **Enhance financial systems**
- ◇ **Relation with central banks**

**• At European level:**

◇ **Regulatory initiatives at EU level (to avoid fragmentation of capital market and national actions)**

◇ **Transparency information disclosure of asset allocation (currency composition and instruments)**

◇ **Reporting to central banks**

◇ **Corporate governance and regulation on services of general interest (golden shares)**