

Decisive action urgently needed

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A commitment to conclude the WTO's Doha Round will send a powerful message to the markets

The turmoil that shook the global financial system in August 2007 sparked the worst global financial crisis in the post WWII period. The global deleveraging process and loss of confidence in the major financial markets triggered the emergence of a credit crunch both in local and international markets. As the conditions in advanced economies deteriorated, emerging market economies started to be affected through trade channels and tightened access to international finance. Both advanced and developing economies are now being challenged with decreasing growth, and rapidly rising unemployment.

Various measures have been taken by the governments and the central banks to rebuild confidence in the financial markets and to revive demand to prevent a further slow down of the global economy. Monetary authorities have lowered interest rates and announced new

facilities to increase liquidity in the financial system. In addition, governments took action to strengthen the capital base of financial institutions, and insured assets and deposits to make the credit markets function normally again.

Challenges Ahead

A strong global recovery cannot be achieved without well functioning financial markets. With this in mind, policy makers should continue to implement measures to stabilise the financial system and to deal with the impaired assets. In parallel, to prevent a significant decline in aggregate demand the necessary measures must be taken particularly by countries with enough fiscal space. Moreover, to contain the adverse effects of the widespread capital outflows, it is crucial to provide liquidity support to economies hit hard by the crisis.

Economic conditions in developing countries are being aggravated by the decline in exports and remittances and a slowdown in FDI and other types of external financing. International Financial Institutions (IFIs) can play a vital role in alleviating the



effects of the crisis and helping developing countries. At a time of slowing trade and growth, providing resources to keep trade finance flowing is critical. Greater involvement of IFIs in trade financing activities is needed immediately. To complement international efforts to revive the economic growth in developing countries, the policy makers have to formulate schemes to lessen the impact of the crisis on employment and find ways to protect jobs.

The policy makers should also refrain from any type of protectionism. A commitment to conclude the WTO's Doha Round will send a powerful message to the markets. Procrastinating by policy makers on this front would definitely have a negative impact on global growth. Addressing these various urgent matters which I have mentioned above is critical in curbing the severity of the global recession and accelerating the global recovery.

A lot has been done to reinvigorate the financial sectors. However, significant challenges to complete the restructuring of financial sectors lie ahead. Policy makers need to advance the work to address the underlying vulnerabilities in the financial sector including regulatory and supervisory deficiencies and cross-border banking problems. Appropriate regulation and supervision should be put in place covering all financial activities, markets, products and players. International action is also important to reform the global financial system and to prevent a repetition of this crisis. In this regard, it is encouraging to see that the governance of all international standard setting bodies is being improved by expanding their membership to all G20 countries.

We also need to move forward with the reform

of international financial institutions in order to adapt their roles to changing circumstances. A more effective and inclusive global economic governance needs to be designed through the reform of IFIs to reflect the current global economic balance and political power. In this regard, strong emphasis should be given to improve the representation and voting rights of the dynamic emerging countries in these organisations in line with their rising importance in the global economy.

Conclusion

To find a sustained global response to the crisis, the international community needs to take ownership of the problem and collaborate effectively. Maintaining a high degree of international collaboration is necessary to make individual country responses more effective and to avoid creating adverse cross-border incentives. The policymakers should also work together to put in place credible exit strategies from the temporary measures introduced during these extra ordinary times.

The G20 is a very important platform for finding solutions to the global crisis and provides a good opportunity to coordinate responses at the leaders level. The first G20 summit in Washington DC provided initial guidance in this regard. Since November 2008, strong policy recommendations have been developed by the working groups to follow up the Leaders' commitments. I am happy to see that some concrete achievements have been made since then. I firmly believe the London Summit will give stronger signals of our decisiveness in achieving tangible results.

A more effective and inclusive global economic governance needs to be designed

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Global response

- *International community to collaborate effectively*
- *credible exit strategies from the temporary measures*
- *G20 an important forum to coordinate responses*
- *build on concrete achievements already made*
- *London Summit will give signals of tangible results*

