The world economic crisis and the role of the G-20

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Abstract

The second summit of the G-20 in London produced positive—though still modest—results with a view to solving the crisis and giving rise to long-term sustainable growth. The concrete results have to do with Members' commitment to contribute to the recovery of global demand, by means of the capitalization of multilateral financial institutions and the implementation of fiscal and monetary measures at the domestic level. Effective measures were either adopted or committed to in this second meeting and it was agreed to further the reform of multilateral credit institutions as well as the regulatory and supervisory restructuring of the international financial system. The most important issue is of an institutional nature, since it has been decided to leave in the hands of the G-20 and of the recently created Financial Stability Board the political leadership to manage the crisis and the design and implementation of the proposed reforms.

1. Introduction

The first summit of the countries comprising the Group of Twenty, summoned with the aim of discussing a coordinated strategy to face the grave world economic crisis that broke out in mid-2008, was a highly relevant event. On the one hand, because for the first time in many years, it was recognised that global problems cannot be solved unilaterally, not even within the barely wider scope of the developed countries that make up the G7 and the so-called BRICS (Brazil, Russia, India, China and South Africa). On the other hand, because the response to this summons and the communiqué produced at said first meeting, held in Washington D.C. on 15 November 2008, gave the group a say in matters beyond the monetary and financial framework, thus leading to an enlargement of its scope of action, which was originally limited to those two questions.

This wider scope of action referred to in the preliminary documents and in the communiqué of the second summit held in London on 1 and 2 April 2009 involves coordination at the macroeconomic level, that is, the coordination of monetary and fiscal policies, fluctuations in exchange rates, foreign trade, employment, cooperation to preserve the environment, reform of multilateral credit institutions, and the re-establishment of the world financial system.

The scale of this crisis, which is the most serious since that of the 1930s, determines the complexity of the pending agenda, on which representatives of other areas of government are working in addition to the G-20 leaders and finance ministers. As pointed out by British Prime Minister Gordon Brown after the first summit, problems have acquired such a magnitude that they cannot be left only to finance ministers. From an institutional point of view, the WTO, the ILO, and other international organisations are either directly or indirectly involved in dealing with the different issues raised.

It is worth mentioning that, in parallel with the steps taken by the G-20, whose member countries account for nearly 90 per cent of world GDP and trade, the United Nations is also organising a conference on the crisis. Said conference, scheduled for early June at the UN Headquarters in New York, will mean another step forward in the acknowledgement of the fact that the grave economic and social problems derived from the crisis require the involvement and cooperation of the entire international community.

2. Causes

One of the main obstacles that prevent us from advancing towards a solution to this crisis has to do with the diagnosis. Those belonging to a certain current of opinion claim that it was the result of a lack of supervision and proper regulations in the financial system, which made it impossible to adequately control the boom of the speculative bubble driven by the low interest rates recorded in the United States at the beginning of the century. Actually, they disregard the fact that the interest rate differential between the United States and other developed markets, and particularly, with respect to developing markets, has existed for a long time, and is the result of a lack of fiscal and monetary discipline favoured by the inconvertibility of the dollar since 1970.

The power to issue reserve currency and to resort to government indebtedness and unlimited credit growth, as long as both the domestic market and those of the rest of the world were willing to accumulate reserves in US dollars, gave rise to a strong expansion of government spending, money supply and fiscal deficit in said country. There have been several reasons for this increase in spending, some of a political nature, unrelated to the market demand for public goods, while increasing liquidity kept interest rates in dollars below those recorded in the rest of the world. In spite of interest rate differentials, international savings in US dollars showed exponential growth, based on the security or hedge offered by the accumulation of assets denominated in the reserve currency. The consequence of this process was a gradual increase in the difference between domestic savings and investment coefficients in the United States, reflected in growing fiscal and balance-of-payment deficits.

The financial sector used this increasing liquidity to promote and expand credit, and therefore, household indebtedness and private consumption. Internationally, it acted as a drive chain, placing loans and raising benefits based on interest rate differentials, thus further multiplying, in turn, lendable funds. The growth of consumption boosted by credit and the resource allocation driven by spending in sectors unrelated to consumer demand, in turn favoured higher imports from the country's main trade partners, mostly, China, Japan and other Southeast Asian countries, and, to a lesser extent, Europe. Thanks to their economic structure and competitiveness, these countries were in a position to meet the increasing and diversified demand of the first economy in the world, which was ever less satisfied by the evolution of domestic supply or by export growth.

The potential for credit expansion reached its limit when it surpassed the repayment capacity of an increasing number of American consumers, which was shown alongside the increase of interest rates since 2005. Mortgage losses were merely a sign of the inability of a vast sector of the population to face these and other debts. As failures multiplied, they had an impact on the value of bank assets or collaterals, thus triggering merges and bankruptcies of said institutions and their eventual rescue by the State. At the international level, the dissemination of financial packages including bad debts spread the crisis to Europe and Japan. The plunge in credit and the consequent drop in consumption and investment did the rest; the crisis, which was at first thought to be just financial, is actually a crisis of the real economy and has spread to most countries around the globe, including the developing world.

3. The dilemma of recovery

The solutions proposed to overcome this crisis should be based on a clear diagnosis regarding its causes, that is, the distortion of consumption and investment patterns provoked by the previously described policies with the connivance of asymmetric disciplines at the international level. As has been stated by the G-20, in the latter case, the International Monetary Fund has failed to supervise or impose requirements on the most economically powerful actors, particularly those issuing reserve currency.

The intent to restore global demand and resource transfers to levels prior to the crisis is no longer feasible. This is early evidence that proves the need for significant changes in income distribution both among and within countries. On the other hand, we are faced with the question of how the tremendous financial debt that has accumulated and continues growing will be paid, and who will pay for it, to prevent the recession from becoming a depression.

The adjustment that this paradigm shift demands is reflected in the different positions assumed within the G-20. Members are aware of the need to ensure the monetary and fiscal sustainability of rescue packages, though they have not reached any agreement yet. Should sustainability not be achieved, a great deal of the cost of demand expansion policies will require a strong monetary depreciation or indebtedness of the United States Treasury and other OECD countries, reimbursement of which will be impossible, being consequently reflected in the value of their currencies sooner or later. As opposed to this option that implies the transference of costs to the rest of the world—which would but worsen disparities between national incomes—another space for discussion is gradually developing within the G-20. The idea is that the international community should make an equitable effort and the negative impact on developing countries should be mitigated.

This scenario assumes global equilibrium at a lower level of aggregate demand than that recorded in recent years, and resource allocation compatible with social requirements—especially of the most underprivileged sectors in the world—in terms of access to food, housing, drinking water, transport, health care and a sustainable environment. This requires a deep structural reform in OECD countries.

4. London Summit: Proposals and results

a. Macroeconomic coordination

The different positions expressed during the preparatory meetings and the discussions held during the London summit have to do with the mid- and long-term sustainability of money supply and fiscal packages.

The increase in money supply and indebtedness in OECD countries implies a great absorption of financial resources and, therefore, a rise in developing countries' interest rates in order to curb capital flight. In the latter, the counter-cyclical measures to be taken until the long-term reforms mentioned above materialise, would depend, meanwhile, on a positive result in the autonomous balance of payments, capital inflows that might derive from the capitalisation and increased lending capacity of international financial institutions—namely, the IMF, the World Bank and Regional Development Banks—the relaxation of stringent conditions attached to their loans, and new emission of Special Drawing Rights (SDRs).

The agreements reached at the London summit imply trebling the Monetary Fund's available resources from USD 250 to USD 750 billion, endorsing the allocation of USD 250 billion in new IMF Special Drawing Rights, supporting USD 250 billion more in additional loans by the World Bank and Development Banks, and securing USD 250 billion to support trade finance.

In all, the committed support totals USD 1.1 trillion, partially committed by Japan, the European Union and the United States already. Five trillion dollars more in monetary and fiscal stimuli applicable in all OECD countries should be added to this figure. In 2009–2010, according to the London summit communiqué, the amounts channelled through multilateral credit agencies and domestic packages should trigger a 4% increase in output of goods and services over the value that would be achieved if said measures were not in place.

Regarding these stimulus packages, paragraph 11 of the London communiqué expresses members' determination to ensure long-term fiscal sustainability and price stability as well as to set up credible exit strategies once soundness of the financial sector and economic recovery have been secured. To a certain extent, it seems to respond to the concerns of the European Union, especially France and Germany, but safeguarding the priority attached by the United States to economic recovery and rationalisation of financial institutions. Paragraph 12 of the communiqué includes a pledge to conduct national economic policies cooperatively and responsibly, to refrain from competitive devaluations, and to promote a stable international monetary system.

An important aspect included in paragraph 12 refers to an "even-handed and independent" IMF surveillance of national economies and financial sectors, of the impact of national policies on others, and of risks facing the global economy. The communiqué does not go further than this oversight role, since it does not mention any recommendations regarding domestic policies and their implementation by national states. This last aspect is left to the discussion of a new charter for sustainable economic activity, which will be considered at the next meeting of the G-20.

It is worth highlighting that the mid- and long-run sustainability of the fiscal measures to be put in place by OECD countries is deemed essential for a balanced development of the world economy and a more equitable income distribution, as long as the higher temporary indebtedness be compensated for by a reduction in socially unproductive spending. This requires not only balanced budgetary revenues and expenditures, but also a thorough reform of the policies that have set the foundations on which this crisis has unfolded. In the meantime, it is still to be seen whether the stimulus packages of multilateral agencies will suffice to mitigate the negative impact of the crisis on developing countries.

b. International trade

The balance between money supply and demand, namely of country's and regions' saving-investment coefficients in the medium and long term, is a necessary condition for the sustainable development and expansion of trade.

The adjustment of the current situation, characterized by strong imbalances, presupposes substantial changes in the exporting and importing flows of goods and services, and of autonomous capitals from some of the countries with important economic weight, such as the United States, Germany, China and Japan. Likewise, it is necessary to try that changes do not have a negative impact on the national accounts of developing countries. Accomplishment of the previous requisites demands differentiating the adjustment and countervailing measures that necessarily accompany the pursuit of balance, from those of a protectionist type whose continuity and expansion may contribute to worsen the crisis.

Within the latter measures, it is decisive to substantially diminish access barriers and distortions to agriculture in OECD countries, which have a negative impact on developing countries´ output and exports, and, as a consequence, on their aggregate demand. The dismantling of agricultural protectionism is a necessary but not sufficient condition, taking into account the limited diversification of industrial and service output and exports of many developing countries, whose expansion and promotion depend on appropriate multilateral disciplines. These disciplines should ensure, on the one hand, the symmetric treatment of agricultural and industrial exports and, on the other hand, adequate flexibilities for developing countries regarding concessions on non-agricultural manufactures and services.

The London summit communiqué reiterates the political commitment made at the Washington summit—now prolonged until late 2010—to resist the application of new barriers to investment or to trade in goods and services, of new restrictions on exports or export stimulus packages inconsistent with the World Trade Organization (WTO). It restates the commitment to support a new allocation of 250 billion dollars for trade finance, included in the chapter devoted to economic coordination and recovery.

Regarding the Doha Round, it makes no reference to the substantive matters of the negotiations. It stresses the importance of reaching an ambitious and balanced outcome, which is urgently needed, and which must be built upon the progress made so far, including that in modalities. Unlike the Washington summit Action Plan, which established the commitment to approve the modalities before the end of 2008, the London communiqué does not set any terms. It expresses the need to give political attention to the critical issue of the Round, profiting from all relevant international meetings to achieve that aim.

c. Employment, poverty and environment

The growing concern about unemployment raised by the crisis has made the issue of employment gain special relevance in the preparatory work leading to the London summit, which included a conference gathering high-ranking officials of the labour ministries held in the second half of March.

Paragraph 26 of the communiqué expresses the commitment to support those affected by the crisis through job creation and by means of income support measures. Regarding job creation, it identifies growth stimulus, investment in education and training, and active labour market policies that would contribute to that specific aim. It calls upon the ILO, in collaboration with other relevant institutions, to assess the actions taken and those required for the future.

Regarding poverty, the commitments with the Millennium Development Goals and the Official Development Assistance, including trade support, debt relief and the special commitments with sub-Saharan Africa, were reaffirmed. It is stated that the actions and decisions taken at the London summit would provide additional resources by 50 billion dollars with those aims.

Regarding environmental issues, the communiqué emphasizes the transition towards clean, innovative, resource-efficient low-carbon technologies and infrastructure. It encourages multilateral lending agencies and regional development banks to fully contribute to the achievement of this objective. It reaffirms the commitment to reach an agreement at the Climate Change Conference in Copenhagen in December 2009, and to face the threat of irreversible climate change, based on the principle of common and differentiated responsibilities, according to the degree of development.

The solutions to unemployment are related to long-term structural reforms in the international economy, particularly those reforms aimed at achieving a better resource allocation. Regarding current conditions, international financial institutions can play a decisive role in case the promised contributions are effectively made available and directed towards infrastructure projects of economic and social importance in developing countries.

d. Reform of the multilateral financial institutions

The London summit communiqué reiterates, in its financial chapter, the commitment to increase the capital and resources of the International Monetary Fund, the World Bank and the Development Banks, as detailed in paragraph a) above. It enumerates the new lines of credit—which are of a more flexible type—like the IMF's New Arrangement to Borrow, and the Flexible Credit Line.

It includes the commitment to accelerate the quota reform and the review of IMF members' voice agreed in April 2008, to be completed by January 2011, so as to enhance the participation of developing countries in the decisions. Likewise, it contemplates implementing, during the second four–month period of 2010, the changes to the World Bank structures agreed upon.

Regarding the Managing Director and Chairman of the IMF and World Bank respectively, and of the senior staff at both institutions, it establishes that they must be appointed by means of an open, transparent and merit-based selection process. It stipulates a greater involvement of governors, namely, of the representatives from country members, in providing strategic direction to the IMF and increasing its accountability.

Even though greater flexibility in the use of new credit lines is mentioned, the IMF retains an ample margin of discretion to impose conditions on members regarding the use of funds to sustain the balance of payments. On the other hand, the greater share of developing countries and the quota re-distribution do not imply, for the time being, changes in the veto power held by the United States and other members of the institution. The allocation of the Special Drawing Rights by USD 250 billion would constitute the only instrument to provide liquidity that is not subject to conditionality. Due to its share in IMF's capital, Argentina would have a right to a figure nearing 1% of the amount to be distributed among its members.

A fundamental aspect on which there has been preliminary exchange of opinions is that of multilateral surveillance and the enforcement of macroeconomic disciplines, particularly for those members with the greatest weight in the world economy. The symmetry of treatment, regardless of indebtedness with the multilateral lending agencies, is seen as one of the main questions, so as to avoid repeating the imbalances that have led to the crisis. It is linked to the topic of conditionality, which is being strongly questioned by developing countries.

e. Restructuring the international financial system

The G-20 summit reassured the establishment of the Financial Stability Board as a successor to the Financial Stability Forum that was constituted by the G-7 countries. In this case, the number of members has been increased to include all G-20 countries, Spain and the European Commission.

The role of the new institution—at the beginning constituted by the finance ministers or the presidents of the central banks of the members—will be, from the viewpoint of international economy, that of collaborating with the IMF to provide early warning about macroeconomic and financial risks, and to propose actions aimed at addressing the problems and preventing possible crises.

With relation to the international financial system, the Board will have to extend the application of the regulatory framework it proposes and defines, as well as extend its oversight to all the important financial institutions, instruments and markets, including futures markets and hedge funds. Likewise, it will be in charge of adopting measures, once the economic recovery takes place, tending to improve the transparency of the financial packages and institutions' risk coverage, by means of adequate asset/liability ratios. It will also have jurisdiction over executive bonuses, to ensure the independence, transparency and neutrality of Credit Rating Agencies, and to adopt measures, that include taking action against non-cooperative jurisdictions that do not lift banking secrecy (tax havens).

The greatest pressure on the need to make use of strong language in matters of the regulation of the financial system was exerted by the European countries, since they greatly attributed the responsibility for the crisis to the lack of a clear and precise set of regulations regarding the functioning, oversight, control and transparency of institutions and markets. The United States, which at the beginning believed it convenient to postpone the formulation of strict commitments in this area, agreed to incorporate them only if the requirements are included gradually and in relation to the economic recovery and stabilization of financial markets.

In spite of the progresses recorded in the London summit communiqué with relation to the reorganization of the international financial system, implementing the goals set is not an easy task, taking into account the role played by the sector in resource transferences between and within countries. By way of example, many of the tax havens are extensions of the national financial systems and will not be easily dismantled unless the deep-rooted conception of how they work is changed, and said sector is re-oriented so as to play its natural role of efficient social allocation of savings to finance investment, consumption and trade.

5. Conclusion

The second G-20 summit in London had a positive, though still humble, outcome aimed at resolving the crisis and giving rise to long-term sustainable growth. Mostly, the concrete results are related to the members' commitment to contribute to the recovery of global demand by means of the capitalization of the multilateral financial institutions and the implementation, already under way, of domestic fiscal and monetary measures. The difference with the first summit in Washington—which opened up talks on the crisis at a high-level—lies on the fact that effective measures were adopted or committed to on this occasion, and that it was agreed to advance on the reform of multilateral lending institutions, as well as on the regulatory and oversight restructuring of the international financial system.

Bearing the long-term in mind, the most relevant topic discussed at the London summit is of an institutional nature. The communiqué provides granting the G-20 and the recently created Financial Stability Board the political management of the crisis and the design and instrumentation of the reforms pointed out.

It constitutes a step forward if compared with the concentration of the agenda in the G-7, not long ago still in force. Time will tell if the advance is consolidated and deepened and if cooperation becomes the main axis of the management of international economic affairs. The new G-20 summit summoned for late 2009 and the role taken by the United Nations calling for a Conference on this matter leave expectations open.

<u>The Global Plan for Recovery and Reform</u>
<u>2 April 2009</u>

1. We, the Leaders of the Group of Twenty, met in London on 2 April 2009.

2. We face the greatest challenge to the world economy in modern times; a crisis which has deepened since we last met, which affects the lives of women, men, and children in every country, and which all countries must join together to resolve. A global crisis requires a global solution.

3. We start from the belief that prosperity is indivisible; that growth, to be sustained, has to be shared; and that our global plan for recovery must have at its heart the needs and jobs of hard-working families, not just in developed countries but in emerging markets and the poorest countries of the world too; and must reflect the interests, not just of today's population, but of future generations too. We believe that the only sure foundation for sustainable globalisation and rising prosperity for all is an open world economy based on market principles, effective regulation, and strong global institutions.

4. We have today therefore pledged to do whatever is necessary to:

    - restore confidence, growth, and jobs;
    - repair the financial system to restore lending;
    - strengthen financial regulation to rebuild trust;
    - fund and reform our international financial institutions to overcome this crisis and prevent future ones;
    - promote global trade and investment and reject protectionism, to underpin prosperity; and
    - build an inclusive, green, and sustainable recovery.

    By acting together to fulfil these pledges we will bring the world economy out of recession and prevent a crisis like this from recurring in the future.

5. The agreements we have reached today, to treble resources available to the IMF to $750 billion, to support a new SDR allocation of $250 billion, to support at least $100 billion of additional lending by the MDBs, to ensure $250 billion of support for trade finance, and to use the additional resources from agreed IMF gold sales for concessional finance for the poorest countries, constitute an additional $1.1 trillion programme of support to restore credit, growth and jobs in the world economy. Together with the measures we have each taken nationally, this constitutes a global plan for recovery on an unprecedented scale.

Restoring growth and jobs

6. We are undertaking an unprecedented and concerted fiscal expansion, which will save or create millions of jobs which would otherwise have been destroyed, and that will, by the end of next year, amount to $5 trillion, raise output by 4 per cent, and accelerate the transition to a green economy. We are committed to deliver the scale of sustained fiscal effort necessary to restore growth.

7. Our central banks have also taken exceptional action. Interest rates have been cut aggressively in most countries, and our central banks have pledged to maintain expansionary policies for as long as needed and to use the full range of monetary policy instruments, including unconventional instruments, consistent with price stability.

8. Our actions to restore growth cannot be effective until we restore domestic lending and international capital flows. We have provided significant and comprehensive support to our banking systems to provide liquidity, recapitalise financial institutions, and address decisively the problem of impaired assets. We are committed to take all necessary actions to restore the normal flow of credit through the financial system and ensure the soundness of systemically important institutions, implementing our policies in line with the agreed G20 framework for restoring lending and repairing the financial sector.

9. Taken together, these actions will constitute the largest fiscal and monetary stimulus and the most comprehensive support programme for the financial sector in modern times. Acting together strengthens the impact and the exceptional policy actions announced so far must be implemented without delay. Today, we have further agreed over $1 trillion of additional resources for the world economy through our international financial institutions and trade finance.

10. Last month the IMF estimated that world growth in real terms would resume and rise to over 2 percent by the end of 2010. We are confident that the actions we have agreed today, and our unshakeable commitment to work together to restore growth and jobs, while preserving long-term fiscal sustainability, will accelerate the return to trend growth. We commit today to taking whatever action is necessary to secure that outcome, and we call on the IMF to assess regularly the actions taken and the global actions required.

11. We are resolved to ensure long-term fiscal sustainability and price stability and will put in place credible exit strategies from the measures that need to be taken now to support the financial sector and restore global demand. We are convinced that by implementing our agreed policies we will limit the longer-term costs to

our economies, thereby reducing the scale of the fiscal consolidation necessary over the longer term.

12. We will conduct all our economic policies cooperatively and responsibly with regard to the impact on other countries and will refrain from competitive devaluation of our currencies and promote a stable and well-functioning international monetary system. We will support, now and in the future, to candid, even-handed, and independent IMF surveillance of our economies and financial sectors, of the impact of our policies on others, and of risks facing the global economy.

Strengthening financial supervision and regulation

13. Major failures in the financial sector and in financial regulation and supervision were fundamental causes of the crisis. Confidence will not be restored until we rebuild trust in our financial system. We will take action to build a stronger, more globally consistent, supervisory and regulatory framework for the future financial sector, which will support sustainable global growth and serve the needs of business and citizens.

14. We each agree to ensure our domestic regulatory systems are strong. But we also agree to establish the much greater consistency and systematic cooperation between countries, and the framework of internationally agreed high standards, that a global financial system requires. Strengthened regulation and supervision must promote propriety, integrity and transparency; guard against risk across the financial system; dampen rather than amplify the financial and economic cycle; reduce reliance on inappropriately risky sources of financing; and discourage excessive risk-taking. Regulators and supervisors must protect consumers and investors, support market discipline, avoid adverse impacts on other countries, reduce the scope for regulatory arbitrage, support competition and dynamism, and keep pace with innovation in the marketplace.

15. To this end we are implementing the Action Plan agreed at our last meeting, as set out in the attached progress report. We have today also issued a Declaration, *Strengthening the Financial System*. In particular we agree:

    - to establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission;

    - that the FSB should collaborate with the IMF to provide early warning of macroeconomic and financial risks and the actions needed to address them;

- to reshape our regulatory systems so that our authorities are able to identify and take account of macro-prudential risks;

- to extend regulation and oversight to all systemically important financial institutions, instruments and markets. This will include, for the first time, systemically important hedge funds;

- to endorse and implement the FSF's tough new principles on pay and compensation and to support sustainable compensation schemes and the corporate social responsibility of all firms;

- to take action, once recovery is assured, to improve the quality, quantity, and international consistency of capital in the banking system. In future, regulation must prevent excessive leverage and require buffers of resources to be built up in good times;

- to take action against non-cooperative jurisdictions, including tax havens. We stand ready to deploy sanctions to protect our public finances and financial systems. The era of banking secrecy is over. We note that the OECD has today published a list of countries assessed by the Global Forum against the international standard for exchange of tax information;

- to call on the accounting standard setters to work urgently with supervisors and regulators to improve standards on valuation and provisioning and achieve a single set of high-quality global accounting standards; and

- to extend regulatory oversight and registration to Credit Rating Agencies to ensure they meet the international code of good practice, particularly to prevent unacceptable conflicts of interest.

16. We instruct our Finance Ministers to complete the implementation of these decisions in line with the timetable set out in the Action Plan. We have asked the FSB and the IMF to monitor progress, working with the Financial Action Taskforce and other relevant bodies, and to provide a report to the next meeting of our Finance Ministers in Scotland in November.

<u>Strengthening our global financial institutions</u>

17. Emerging markets and developing countries, which have been the engine of recent world growth, are also now facing challenges which are adding to the current downturn in the global economy. It is imperative for global confidence and economic recovery that capital continues to flow to them. This will require a substantial strengthening of the international financial institutions, particularly the

IMF. We have therefore agreed today to make available an additional $850 billion of resources through the global financial institutions to support growth in emerging market and developing countries by helping to finance counter-cyclical spending, bank recapitalisation, infrastructure, trade finance, balance of payments support, debt rollover, and social support. To this end:

- we have agreed to increase the resources available to the IMF through immediate financing from members of $250 billion, subsequently incorporated into an expanded and more flexible New Arrangements to Borrow, increased by up to $500 billion, and to consider market borrowing if necessary; and

- we support a substantial increase in lending of at least $100 billion by the Multilateral Development Banks (MDBs), including to low income countries, and ensure that all MDBs have the appropriate capital.

18. It is essential that these resources can be used effectively and flexibly to support growth. We welcome in this respect the progress made by the IMF with its new Flexible Credit Line (FCL) and its reformed lending and conditionality framework which will enable the IMF to ensure that its facilities address effectively the underlying causes of countries' balance of payments financing needs, particularly the withdrawal of external capital flows to the banking and corporate sectors. We support Mexico's decision to seek an FCL arrangement.

19. We have agreed to support a general SDR allocation which will inject $250 billion into the world economy and increase global liquidity, and urgent ratification of the Fourth Amendment.

20. In order for our financial institutions to help manage the crisis and prevent future crises we must strengthen their longer term relevance, effectiveness and legitimacy. So alongside the significant increase in resources agreed today we are determined to reform and modernise the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope and governance to reflect changes in the world economy and the new challenges of globalisation, and that emerging and developing economies, including the poorest, must have greater voice and representation. This must be accompanied by action to increase the credibility and accountability of the institutions through better strategic oversight and decision making. To this end:

- we commit to implementing the package of IMF quota and voice reforms agreed in April 2008 and call on the IMF to complete the next review of quotas by January 2011;

- we agree that, alongside this, consideration should be given to greater involvement of the Fund's Governors in providing strategic direction to the IMF and increasing its accountability;

- we commit to implementing the World Bank reforms agreed in October 2008. We look forward to further recommendations, at the next meetings, on voice and representation reforms on an accelerated timescale, to be agreed by the 2010 Spring Meetings;

- we agree that the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process; and

- building on the current reviews of the IMF and World Bank we asked the Chairman, working with the G20 Finance Ministers, to consult widely in an inclusive process and report back to the next meeting with proposals for further reforms to improve the responsiveness and adaptability of the IFIs.

21. In addition to reforming our international financial institutions for the new challenges of globalisation we agreed on the desirability of a new global consensus on the key values and principles that will promote sustainable economic activity. We support discussion on such a charter for sustainable economic activity with a view to further discussion at our next meeting. We take note of the work started in other fora in this regard and look forward to further discussion of this charter for sustainable economic activity.

<u>Resisting protectionism and promoting global trade and investment</u>

22. World trade growth has underpinned rising prosperity for half a century. But it is now falling for the first time in 25 years. Falling demand is exacerbated by growing protectionist pressures and a withdrawal of trade credit. Reinvigorating world trade and investment is essential for restoring global growth. We will not repeat the historic mistakes of protectionism of previous eras. To this end:

    - we reaffirm the commitment made in Washington: to refrain from raising new barriers to investment or to trade in goods and services, imposing new export restrictions, or implementing World Trade Organisation (WTO) inconsistent measures to stimulate exports. In addition we will rectify promptly any such measures. We extend this pledge to the end of 2010;

- we will minimise any negative impact on trade and investment of our domestic policy actions including fiscal policy and action in support of the financial sector. We will not retreat into financial protectionism, particularly measures that constrain worldwide capital flows, especially to developing countries;

- we will notify promptly the WTO of any such measures and we call on the WTO, together with other international bodies, within their respective mandates, to monitor and report publicly on our adherence to these undertakings on a quarterly basis;

- we will take, at the same time, whatever steps we can to promote and facilitate trade and investment; and

- we will ensure availability of at least $250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs. We also ask our regulators to make use of available flexibility in capital requirements for trade finance.

23. We remain committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least $150 billion per annum. To achieve this we are committed to building on the progress already made, including with regard to modalities.

24. We will give renewed focus and political attention to this critical issue in the coming period and will use our continuing work and all international meetings that are relevant to drive progress.

<u>Ensuring a fair and sustainable recovery for all</u>

25. We are determined not only to restore growth but to lay the foundation for a fair and sustainable world economy. We recognise that the current crisis has a disproportionate impact on the vulnerable in the poorest countries and recognise our collective responsibility to mitigate the social impact of the crisis to minimise long-lasting damage to global potential. To this end:

    - we reaffirm our historic commitment to meeting the Millennium Development Goals and to achieving our respective ODA pledges, including commitments on Aid for Trade, debt relief, and the Gleneagles commitments, especially to sub-Saharan Africa;

    - the actions and decisions we have taken today will provide $50 billion to support social protection, boost trade and safeguard development in low income countries, as part of the significant increase in crisis support for these and other developing countries and emerging markets;

- we are making available resources for social protection for the poorest countries, including through investing in long-term food security and through voluntary bilateral contributions to the World Bank's Vulnerability Framework, including the Infrastructure Crisis Facility, and the Rapid Social Response Fund;

- we have committed, consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide $6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years. We call on the IMF to come forward with concrete proposals at the Spring Meetings;

- we have agreed to review the flexibility of the Debt Sustainability Framework and call on the IMF and World Bank to report to the IMFC and Development Committee at the Annual Meetings; and

- we call on the UN, working with other global institutions, to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

26. We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organisations, to assess the actions taken and those required for the future.

27. We agreed to make the best possible use of investment funded by fiscal stimulus programmes towards the goal of building a resilient, sustainable, and green recovery. We will make the transition towards clean, innovative, resource efficient, low carbon technologies and infrastructure. We encourage the MDBs to contribute fully to the achievement of this objective. We will identify and work together on further measures to build sustainable economies.

28. We reaffirm our commitment to address the threat of irreversible climate change, based on the principle of common but differentiated responsibilities, and to reach

agreement at the UN Climate Change conference in Copenhagen in December 2009.

Delivering our commitments

29. We have committed ourselves to work together with urgency and determination to translate these words into action. We agreed to meet again before the end of this year to review progress on our commitments.