ECONOMIC AND FINANCIAL SECOND COMMITTEE

64TH GENERAL ASSEMBLY

Second Committee Special Event

Panel discussion on "Revitalizing the International Financial System"

Friday, 30 October 2009, 10:00 a.m. – 1:00 p.m.
Conference Room 2

Concept Note

The world financial crisis has revealed major flaws in the international financial system. The outcome of the September G-20 Summit in Pittsburgh highlights challenges that have to be met in revitalizing the system.

Financial sector reforms must involve reshaping regulatory systems to better identify risks, expand the scope of regulation, reduce the procyclicality of prudential regulation, strengthen capital and risk management and reorient executive compensation principles to deter excessive risk-taking. The success of these reforms depends on coordinated international action to prevent financial institutions from exploiting regulatory advantage in a financially integrated world. The creation by the G-20 in April 2009 of the Financial Stability Board to monitor international action represents a positive step in this direction, although its membership is not inclusive of many of the developing countries most severely affected by the current crisis. Establishing international mechanisms to coordinate regulation and standards is an important long-term process.

The financial crisis underscores the need for IMF surveillance to maintain a sharp focus on risks in all systemically important countries, especially the reserve currency-issuing countries, and their potential spillover effects. To this end, the IMF vulnerability exercise is being expanded to advanced economies and integrated with the early warning exercise to be conducted jointly with the Financial Stability Board. Continued progress is required in improving surveillance over the major financial markets and advanced economies as well as better integrating macroeconomic and financial sector surveillance.

In the G-20 Summit in Pittsburgh, leaders called for a new era in managing global imbalances. The primary long-term goal of enhanced surveillance must be to ensure the stability of the international monetary system, notably through the reduction of global imbalances. This can only be accomplished if countries enhance their coordination in fiscal and monetary policies, paying attention to challenges in shifting aggregate demand from deficit to surplus countries. While the Pittsburgh commitments do not include the creation of enforcement mechanisms, it is more critical than ever to build an effective framework for enhanced multilateral surveillance and policy coordination.

In support of reducing global imbalances, a start needs to be made in the long-term reform of the present international monetary system, in which a national currency, the

United States dollar, serves as a dominant reserve currency. The goal should be a truly global reserve system that can provide a stable foundation to growing world trade and financing for development. This issue was discussed in the first summit of the BRIC countries (Brazil, Russian Federation, India and China), held in Yekaterinburg, Russian Federation, in June 2009.

Since the onset of the financial crisis, IMF has been provided large-scale financing to countries faced with a loss of external funding. IMF has made changes to increase flexibility of the overall lending framework to better meet the diverse needs of members, while remaining consistent with it original mandate. In support, the Group of Twenty and the International Monetary and Financial Committee of the IMF Board of Governors have agreed to a substantial increase in the resources of the Fund.

The World Bank Group's rapid increase in lending for development investment in middle-income and low-income countries in a range of sectors has been acknowledged by the G-20 and the Development Committee. They stressed the need for the Bank to develop its financial capacity to fulfill its mandate and to work with the regional development banks to enhance coordination and effectiveness. Both bodies committed to ensuring sufficient funding for the WBG to meet its challenges.

Addressing global economic governance issues is a prerequisite of revitalizing and reforming the international financial system. In this regard, leaders at the G-20 Summit in Pittsburgh and the International Monetary and Financial Committee at its 4 October 2009 meeting called for intensified governance reform in the IMF to enhance its legitimacy, credibility and effectiveness. They urged an acceleration of work on the IMF quota review to successfully change the distribution of representation to reflect the increasing weights of dynamic emerging market and developing countries in the world economy while protecting the voting share of the poorest members. G-20 leaders and the Development Committee similarly called for the World Bank to expedite the process of significantly increasing voting power of under-represented countries.

Proposed questions for consideration

How can international cooperation and coordination among national regulators be enhanced? Do proposals for a new multilateral mechanism merit serious consideration?

Should improved international coordination on fiscal, monetary and exchange rate issues be confined to global and supranational institutions or based on closer collaboration among national authorities? What should be the role of the United Nations?

How can multilateral financing mechanisms be further enhanced? Is the lending capacity of the international financial institutions adequate?

Is a truly global reserve currency a realistic and viable alternative? How can the use of SDR be promoted?

What are the best approaches to effectively address global economic governance issues?