| | |
|---|---|
| **Forum:** | The Group of Twenty (G20) |
| **Issue:** | The role of International Monetary Fund in global economic crisis |
| **Student Officer:** | Evgenia Kriekouki |
| **Position:** | Deputy President |

## PERSONAL INTRODUCTION

Dear Delegates,

My name is Evgenia Kriekouki and it is my honour to serve as the Deputy President of the Group of Twenty. I have participated several times in MUN Conferences since 2012 however it is my first time chairing and I am really glad I got the opportunity to serve as a chair in this new Committee.

I am a second-year IB student in Platon School and I am planning to study Economics. The topics of G20 really interest me and the fact that it is a new committee intrigued me. In past MUN experiences, I participated mostly in the ECOSOC committee due to my interests in economics and sociology but G20 offers the possibility to explore topics that are beyond this scope.

My aim as a chair is to encourage everyone into researching, creating resolution so as to enjoy a fruitful debate. This guide is provided to you as a helping tool that will offer a better understanding of the topic and the base of your research. Yet, you should not only depend on this paper since you should be able to make adjustments to your country's policy. I strongly urge you to contact me ( email: evgenia99@yahoo.gr) any time if you need my support.

I look forward to working with you.

Sincerely,

Evgenia Kriekouki

## INTRODUCING TOPIC

The 2008 US crisis has initiated a sequence of events in the past years such as the Euro Zone Crisis finally resulting in the global crisis that we are fighting nowadays. In other words, the many countries are experiencing the consequences of the downturn in the business cycle known as recession, which include falling GDP, deflation, rising unemployment, poverty, decreased consumption and investment etc. Overall, the result is the slowdown of the global economic growth that is negative for the majority of the countries.


*http://www.veteranstoday.com/wp-content/uploads/2011/10/crisis.jpg*

Many financial organisations such as the World Bank and the International Monetary Fund (IMF) make many efforts to contribute to the solution on the recovery plan for the crisis that has occurred. It is important to highlight that these organisations play a significant role since they have a coordinating position around the globe.

To be more specific, IMF is a multilateral financial institution that was established jointly with the world Bank and the original purpose was to lend money to countries that experience deficits. However, the objectives have changed over the time and nowadays its primary focus is to oversee the global financial system, ensure stability in the macroeconomic environment, stabilise exchange rates and help countries paying the international payment on loans.

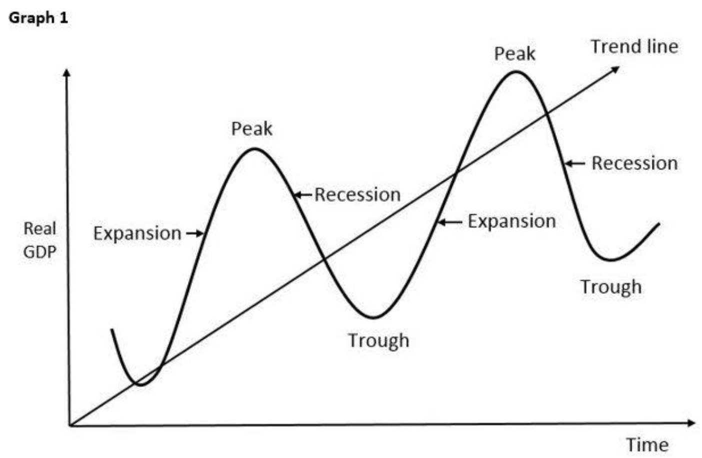
Since the beginning of the economic crisis in 2008, its lending to countries with debt problems (including developed countries like Greece, Iceland, Portugal) has significantly risen due to international payment difficulties cause by the financial situation. In addition, the loans provided by the IMF are usually accompanied with specific policies that countries must impose such as tight monetary policy, tight fiscal policy, currency devaluation and liberalisation policies.

In this debate, the main purpose is to investigate the different ways IMF could intervene so as to help in this crucial situation of global economic crisis and its contribution to a recovery plan.

## KEY DEFINITIONS[1]

### *Business Cycle:*

The business cycle is the fluctuation in economic activity that an economy experiences over a period of time. A business cycle is basically defined in terms of periods of expansion or recession.




http://www.higherrockeducation.org/img/Business%20Cycles%20Graph%201.JPG

### *Deflation:*

Deflation is defined as the sustained decrease in the price level of an economy. The price level refers to to the average prices of goods and services in the entire economy.

### *Gross domestic Product (GDP):*

GDP is a method of measurement for the economic activities of a country. It is defined as the monetary value of final goods and services in a given period of time. So, in order to calculate the value of the GDP, an addition of all the prices of goods and services during a specific year must be executed.

### *Economic growth:*

Economic growth is described as the increase in the value of GDP during a specific period of time, usually of one year and is expressed as a percentage to show the change.

---

1 "Sharper Insight. Smarter Investing." *Investopedia*. Investopedia, LLC, n.d. Web. 08 Jan. 2017.

### *Deficits:*

A deficit is the amount by which a resource falls short of a mark, most often used to describe a difference between cash inflows and outflows.

### *Macroeconomic environment:*

A macroeconomic environment is the condition that exists in the economy as a whole, rather than in a particular sector or region. In general, the macro environment includes trends in gross domestic product (GDP), inflation, employment, spending, and monetary and fiscal policy. The macro environment is closely linked to the general business cycle as opposed to the performance of an individual business sector.

### *Exchange rates:*

It is the price of a nation's currency in terms of another currency.

### *Fiscal policy:*

Fiscal policy include government spending policies that influence the macroeconomic environment and the setting of taxes.

### *Monetary Policy:*

Monetary policy consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates. Monetary policy is maintained through actions such as modifying the interest rate, buying or selling government bonds, and changing the amount of money banks are required to keep in the vault (bank reserves).

### *Currency Devaluation:*

Devaluation is a deliberate downward adjustment to the value of a country's currency relative to another currency, group of currencies or standard.

### *Liberalisation policies:*

Liberalization policies include policies that aim at reducing trading barriers on the free exchange of goods between nations such as decreasing tariffs.

## HISTORICAL INFORMATION

In the early year of the crisis, G20's work was greatly supported by the IMF since it influenced it. In November 2008 IMF contributed in G20's Leaders calling for coordinated global fiscal stimulus and called for the establishment of the FSB, a successor to the Financial Stability Forum in order to promote economic stability by the coordination and the strengthening regulation and supervision, the exploration of financial risk resources and other activities. The FSB charter provided for membership comprised of central banks, finance ministries, and other regulators from G20 countries and a few other advanced economies. The IMF and a few other international organizations were also asked to join. Furthermore, IMF provided an analytical support, most for the Mutual Assessment Process. Additionally, G20 called upon the collaboration of IMF with FSB so as to participate in the G20 Data Gaps Initiative. As a result, the IMF followed the guidelines, for instance the G20 resource mobilization strategy was adopted by the International Monetary and Financial Committee (IMFC). At successive Board meeting of IMF, Executive Directors would consider the engagement of IMF in the G20. Some Directors, however, thought that involvement with the G20 would be helpful for the IMF to build political support, and thus gain greater traction for its policy advice. The involvement with the G20 gave the IMF the opportunity to have its analysis reach the heads of state of the largest economies, and to gain traction for its recommendations. On the other hand, the involvement raised questions about whether all members have a voice in decision making, and about to whom the IMF and its management are accountable.[2]

At the time when euro crisis emerged IMF was encouraged to provide both policy and technical support and eventually to assists in offering financing to advanced economies in Europe. The institutional arrangement that was set involve a Troika including European Commission, European Central Bank and the IMF. Most authorities from G20 countries considered that the arrangement was a pragmatic and flexible response to a crisis that could have become systemic at a time of great fragility in the global economy. European authorities believed the IMF was well placed to put crisis response programs together—a role for which the EC and the ECB lacked experience. Other authorities, however, thought it inappropriate, from a governance perspective, for the IMF to be seated at the negotiating table alongside the monetary authority of a member country. In their view, this implicitly took certain policy actions "off the table" and constituted bad governance. Some authorities also mentioned that this partnership could compromise IMF surveillance of the euro area, including on issues related to countries that did not need IMF financial support.[3]

---

[2] http://www.ieo-imf.org/ieo/files/completedevaluations/FULL%20REPORT%20final.pdf

[3] http://www.ieo-imf.org/ieo/files/completedevaluations/FULL%20REPORT%20final.pdf

## TIMELINE OF EVENTS[4]

| | |
|---|---|
| October 9th 2008 | The IMF announces emergency plans to bailout governments affected by the financial crisis, after warning that no country would be immune from the ripple effects of the credit crunch. |
| October 11th 2008 | The G7 finance ministers and the IMF meet in Washington and put together a five-point plan, which includes spending billions of taxpayers' money to rebuild the global banking system and reopen the flow of credit. |
| October 15th 2008 | The FTSE (British index of stock market) suffers its fifth biggest fall in history. Meanwhile, the Dow Jones(American index of stock market) drops by 7.8%. Unemployment figures in the U.K. show the biggest rise since the country's last recession 17 years ago, up to 5.7%. American banks J.P. Morgan and Wells Fargo report big falls in profits, and retail sales in the US suffer their biggest fall in three years, with the decline in car sales hitting 3.8%. |
| October 22th 2008: | Pakistan seeks emergency bailout funds from the IMF. |

[4] https://lauder.wharton.upenn.edu/wp-content/uploads/2015/06/Chronology_Economic_Financial_Crisis.pdf

| | |
|---|---|
| October 24th 2008 | The Ukraine and Hungary seek $ 16.5 and $ 10 billion rescue packages respectively from the IMF. Investors fear that governments, central banks and finance ministers will not be able to stop the deepening of a global recession. |
| October 29th 2008 | The IMF, the EU and the World Bank announce a massive rescue package for Hungary. |
| April 2009 | G20 Summit increased IMF's resources to $750 billions |
| December 10th 2009 | Greece's debt has reached the highest level in its modern history, the country's deputy finance minister Philippos Sachinidis has said. |
| April 25th 2010 | The managing director of the International Monetary Fund, says the Greek people should not fear the IMF. |
| December 6th 2010 | 2010 Greece seeks longer to repay €110bn IMF bailout loan as austerity bites IMF team flies in to Athens amid fears over economic recovery and reforms as EU predicts public debt at 160% of GDP by 2013 |
| September 24th 2011 | The IMF urged EU leaders to act decisively on Greece to stem the debt crisis. |

## PREVIOUS ATTEMPTS

1. The G20 called upon the IMF and the FSB to collaborate in identifying macroeconomic and financial risks and the actions needed to address them, and to reshape regulatory systems so that authorities would be able to identify and take account of risks emanating from the financial sector. The G20 asked them to conduct the Early Warning Exercise (EWE) and to present the results to the IMFC, in addition to the G20 Finance Ministers and Central Bank Governors.
2. The IMF was effective in calling for global fiscal stimulus immediately following the Lehman collapse. But it prematurely endorsed fiscal consolidation in large advanced economies, and, in parallel, encouraged reliance on expansionary monetary policy to stimulate demand. This policy mix was less than fully effective in promoting recovery and contributed to capital flow volatility in emerging market countries.
3. The IMF provided analyses of reform priorities in the financial sector and increased its focus on financial stability in economies with systemically important financial sectors. But five-year intervals are too long to ensure that the largest financial centers receive the requisite surveillance focus. Also, integrating macro with financial sector analysis remains a work in progress.[5]
4. The IMF dramatically expanded its framework for addressing risks and vulnerabilities, filling a number of gaps exposed by the crisis. Authorities who were interviewed for this evaluation appreciated the progress made but found it difficult to absorb the messages from these exercises, and they indicated that warnings on the euro area crisis and the volatility from quantitative easing and its tapering were not timely or delivered with clarity. [6]

[5]"What Is the Role of the IMF and the World Bank?" *What Is the Role of the IMF and the World Bank?* N.p., n.d. Web. 08 Jan. 2017.

[6] http://wp.peio.me/wp-content/uploads/PEIO9/102_80_1443647577194_Gutner30Sept2015.pdf

## POSSIBLE SOLUTIONS

- The IMF should develop guidelines for structuring engagements with other organizations, whether as a member or a partner. These guidelines should clarify the IMF's roles and accountabilities in order to protect the institution's independence and to ensure uniform treatment of all members.
- Management should work with the IMFC to ensure that the IMF has sufficient resources to contribute to future crisis resolution. Quotas should be sufficient to cover members' needs under likely crisis scenarios, with borrowing arrangements set up to deal with tail risks.
- The IMF should try keep a focal point on the debate regarding different responses to the global crisis, remain open to alternative perspectives and encourage members to avoid hesitance of expressing their own opinion.
- The IMF should take into consideration the circumstance and the ability for access to finance when it advices countries.
- IMF should integrate important messages from flagship reports and risk assessments by other institutions .

## BIBLIOGRAPHY


- "Higher Rock Education." *Online Economics Lessons for Students, Homeschoolers and Teachers*. HIGHER ROCK EDUCATION AND LEARNING, n.d. Web. 08 Jan. 2017.
- "IMF's Response to the Global Economic Crisis." *International Monetary Fund*. IMF, n.d. Web. 08 Jan. 2017.
- Lendman, Stephen. "Global Economic Crisis Deepens." *Veterans Today*. Veterans Today Network, n.d. Web. 08 Jan. 2017.
- Panitch, Leo, and Martijn Konings. *The American Empire and the Political Economy of Global Finance*. Basingstoke: Palgrave Macmillan, 2009. Print.
- "Sharper Insight. Smarter Investing." *Investopedia*. Investopedia, LLC, n.d. Web. 08 Jan. 2017.
- "What Is the Role of the IMF and the World Bank?" *What Is the Role of the IMF and the World Bank?* N.p., n.d. Web. 08 Jan. 2017.
- Tragakes, Ellie. *Economics for the IB Diploma*. Cambridge: Cambridge UP, 2009. Print.