

Four key priorities for the G-20 Summit

Bill Rhodes

Multilateral cross-border solutions to create international policy co-ordination are essential for the effective protection of the global financial system

THIS MONTH, UK PRIME MINISTER Gordon Brown hosts the Group of 20 Summit with the goal, as he has phrased it, of moving towards a “global new deal”. The cornerstone of such an endeavour should be a set of new international co-operative arrangements across national borders – arrangements that could establish an urgently needed level of international policy co-ordination between governments and central banks, combined with meaningful continuous dialogue between the private financial sector and the official sector.

The Latin American debt crisis of the 1980s and the Asian financial crisis of the 1990s demonstrated that intensive co-ordination between governments, the IMF and World Bank, and private creditors was the path to resolving problems that threatened the financial system. Now, once again, the system is endangered, demanding a similar level of collaboration to ensure solutions. Ideally, permanent mechanisms for such co-operation will be established in the global financial system architecture, along with the adoption of more effective international regulatory norms and accounting standards.

Key priorities for the G-20 include:

■ **Emerging markets** – especially non-sovereign corporate borrowers – face an exceedingly challenging funding environment, exacerbated by heavy refinancing needs in the near term. Deleveraging and repatriation of funds have intensified the problem; retrenchment by private-sector creditors is partly a consequence of global recession. However, in a clear example of unintended consequences, extensive government support for mature market banks has created real – or perceived – pressure to reduce credit flows to subsidiaries in emerging market countries. The Institute of International Finance now projects emerging markets growth of just 1.8% in 2009 (after 5.7% last year and 7.8% in 2007). It says a significant boost to capital flows into these countries, prompted in part by use of expanded resources from the IMF, could yield important benefits to growth, not just for the emerging markets, but indeed to global growth more broadly. And we dare not lose sight of the fact that global growth this year, according to IIF forecasts, will be negative by 2% for the first time in decades (after gaining just 0.7% in 2008 and 2.3% in 2007).




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■ **Financial protectionism and economic nationalism:** Loss of liquidity has been a major problem in specific markets as well as globally. Internationally agreed solutions are needed that allow firms to deploy liquidity when and where necessary. However, some recently implemented measures do the opposite – and maximising local requirements without international co-ordination can serve to limit liquidity available in other markets, including the mature economies. Additionally, such measures may trigger similar responses by other authorities, leading to fragmentation and further reduction in global liquidity and efficiency.

■ **Regulation:** Internationally co-ordinated approaches, based on consistency and co-operation, effectiveness and efficiency, are essential to retain the benefits of the international market in financial services and to resist rising pressures towards fragmentation. It might appear advantageous for national authorities to move quickly, even if it means getting ahead of others in the current environment, or imposing rules that restrict the flow of funds within an international group. However, such actions may undermine understanding and co-ordination across jurisdictions, and may encourage similar actions elsewhere – in effect, raising barriers around different parts of the financial system.

■ **Restoration of liquidity:** I have previously written about the need to restore sufficient levels of trade financing globally, which is still urgently required. Action is also needed to revive the securitisation markets; due to new capital and liquidity requirements, there will be constraints on the credit-generating capability of bank balance sheets. This will be essential to critical sectors such as credit cards, automobile finance, mortgages, and student loans. Caution is needed though, to ensure that any revisions of capital, accounting and reporting rules do not render securitisation unnecessarily costly or difficult, or undermine macroeconomic goals.

In many local markets, much has been made of the unique opportunity presented by the current crisis. However, without multilateral, cross-border solutions, there remains a real danger of losing the global financial system in the way the global trade system was lost in the 1930s. 



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