

Addressing Systemic Issues: Enhancing the Coherence and Consistency of the International Monetary, Financial, and Trading Systems In Support Of Development.

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One prominent economist stated that it not a matter of return on money, but rather a matter of returning the money. This is a confidence problem that triggered massive deleveraging and risk aversion at times when both leveraging and risk taking are mostly needed. Investors and money market makers forego high returns on the back of concerns about redemption and liquidity needs. Expectedly, corporate credit is shrinking, affecting both domestic and foreign demand alike.

Second Round spillovers have already hit major world economic centers, while risks of affecting emerging and developing countries are not far. Large liquidations have been a phenomenon over the past few months, and capital flows to EM and DC have declined significantly, and rather reversed, while spreads widened and fear from default risks emerged. The situation is more complex in countries which are dependent on high leveraging and exports proceeds from raw materials, as their prices continue to decline fast as they surged fast. Volatility of such a type is unwelcomed.

These are times for globally coordinated moves. These are times for collective interest to dominate individual, regional or subgroups interests. **These are the times where systemic challenges are boldly addressed through decisive commitments and coordinated policy actions of the same character: systemic and institutional.** This is what is taking place on different fronts, though at different paces.

The ambitious bailout packages of some 1.5 trillion dollars, were critical to help put the fire down or at least stop it from getting wilder. **The coordinated monetary policy actions targeted to boost liquidity were indeed necessary to ensure complementarities and effectiveness of the policy mix.** Despite their technical limitations, the announced **fiscal stimulus packages in many countries,** and particularly in systemic countries, are essential to keep momentum until confidence restores, within, and beyond their borders.

Bailout packages are not a replacement to needed institutional and structural reforms. The world community is decisively committed to upgrading the full spectrum of governance institutions.

Empowering surveillance and supervisory bodies is vastly needed, and has already been pledged by countries and international organizations.

Improved governance frameworks is crucial. Nevertheless, an intelligent balance between boosting stability and preserving creativity and innovation in financial markets is essential. And such formula is reachable through higher values for internal and external governance, codes of conduct, empowered surveillance, and the like.

Enhanced interaction between supervisors, standard-setters and surveillance institutions is indispensable. The world community is committed to achieve such prime goal through broader memberships, and institutionalized mechanisms for information sharing.

Improving and empowering domestic and global early warning systems as an effective tool for risk assessment and crisis prevention. The joint IMF/WB FSAP is a prime tool for achieving such goal, which may develop to a type of a **Supra FSAP** to assess systemic risks in the global economy, or at least in main financial markets. The recent G-20 decision to take FSAP is indeed a decision on the right track.

Building dynamism and autonomy in regulatory frameworks to fight pro-cyclicality: That is combating excessive risk taking during upturns, and fighting risk aversion during slowdowns.

While acknowledging fiscal policy limitations, there is consensus that the macroeconomic apparatus will be used to support growth. Countries need to spend more on infrastructure building and other productive services that tend to build momentum for growth; such as education. Accelerating projects execution is a priority area for effective spending. Additional resource allocation for maintenance activities is also useful; both for the economy and for preserving its public capital base. Tax cuts or rebates and social programs are most effective when targeted to focus on lowest income groups. In all cases fiscal stimulus need to be designed with minimum debt creation and cost to future developmental plans.

Accommodating EM and DE interests is another prime issue. The bailout packages in advanced economies should not be a reason for crowding out EM and DC from access to resources needed to finance their

developmental programs, poverty alleviation efforts, or their capacity to refinance their debts. Avoiding contractions in capital flows and bringing emerging markets and developing economies interests on the global agenda was addressed quite extensively during the IMF/World Bank Annual Meetings, as well as in all other country groups meetings.

The newly introduced IMF Short-Term Liquidity Facility and World Bank vehicles to finance infrastructure development and trade, represent the kind of welcomed initiatives during such times. Meanwhile, regional development banks are called upon to assume such important role of providing fast-access to capital with relatively relaxed conditionality, especially for countries with good track record. **Development and poverty alleviation efforts must not be stopped in midst of the financial crisis.**

In Conclusion

1. The **world economy has the institutions and foundations** needed to make it recover, whereas commitment to coordinated **and collective policy action remains crucial.**
2. This crisis has **triggered the attention and the will for needed bold global institutional reforms including stronger governance frameworks, higher standards, empowered surveillance, and more institutionalized crisis prevention and management processes.** The origins of these crises were developing over time, and reforms need their time to develop into the system.

3. **Global development is supported by the world community:**
- a. The **commitment** of the major world economies to **secure sufficient capital flows to** EM and developing countries,
 - b. The call on **regional development banks** to follow suits with the IMF and WB in tailoring easily accessible emergency funds to economies with good track records,
 - c. The commitment to **preserve market oriented policies** and to **refrain from any protectionist practices** against the free flow of trade of goods and services, capital, and FDI, and
 - d. **Widening the scope of policy coordination** to contain EM and developing counties' interests.
4. The work of the various **high level commissions and working groups** established by the **UN, EU, IMF, and various countries groups is vital.**

Thank you very much.