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 4

Provisional Programme

10.00 a.m. **Opening Session**

Welcome Remarks by **H.E. Ambassador Park In-kook,** Chairperson of the Second Committee of the United Nations General Assembly

10.05 a.m. **Panel Discussion**

Panelists:

Mr. Ranjit Teja, Deputy Director of the Strategy, Policy and Review Department, International Monetary Fund

Mr. Jeffrey Lewis, Senior Adviser and Head of the International Policy and Partnership Group (IPPG),0393grDirReducnal d HeaEd Co.3(.).ic]TJ.348

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"Revitalizing the International Financial System"
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SUMMARY

Opening of the meeting

1. The meeting was opened by **H.E. Mr. Park In-kook,** Chairperson of the Second Committee. He welcomed the speakers and delegations to the special event. In his introductory remarks, Ambassador Park highlighted several main issues in revitalizing the international financial system and proposed a number of questions for consideration. The concept note of the panel discussion and panelist presentations, where available, can be accessed at www.un.org/esa/ffd.

Panel presentations

2. The panelists were: Mr. Jomo K. Sundaram, Assistant Secretary-General for Economic Development, United Nations; Mr. Ranjit Teja, Deputy Director of the Strategy, Policy and Review Department, International Monetary Fund (IMF); and Mr. Jeffrey Lewis, Senior Adviser and Head of the International Policy and Partnership Group (IPPG), Poverty Reduction and Economic Management Network, World Bank.

3. **Mr. Jomo K. Sundaram** noted that the problem of unsustainable global imbalances goes back to 1971 when the Bretton Woods system collapsed. Since then, a kind of non-system has emerged, characterized by deregulation, including capital account liberalization, and self-regulation. However, financial globalization, while increasing instability, has not contributed to investment or economic growth, with developing countries as its innocent victims. In this process, financial liberalization has been much more significant than trade liberalization and fixed capital formation has exhibited a downward trend. Greater financial volatility has also contributed to the outflow of resources from developing countries, with short-term capital flows particularly problematic. The speaker also stressed that there was a failure of the system in anticipating the current crisis.

4. The current crisis has had a dramatic impact on developing countries in terms of stock market collapse, a reversal of capital flows, rising borrowing costs and exchange rate volatility. Financial crisis has quickly spread to real economy and led to a serious deflationary spiral and, unlike 1970s crises, all parts of the world have been affected through trade and financial impact. Policy response to crisis has not been adequate, with double standards being applied to developed and developing countries, particularly in constraining fiscal policy space.

5. The emergence of the G20 as the center of international crisis management has marginalized the Bretton Woods institutions (BWIs) and presents major challenges, both to the BWIs and the UNnancialqin callenges, b.

10. The speaker singled out one implication of the crisis: the adaptation to new realities will continue long after growth resumes. First, the crisis has produced humility in terms of predictive capacity as the policy making world missed the signs of the coming crisis. Second, there has been a shift in the role of government from lender of last resort to insurer or investor of last resort. Third, fiscal and monetary policy frameworks have fallen apart so that monetary and fiscal authorities have had to change the rules. Fourth, rethinking of financial sector liberalization is under way.

11. The speaker also stressed that the crises have highlighted weaknesses and gaps for developing countries in the global financial system that require attention. First, there is the higher vulnerability of middle- and low-income countries to erosion in access to finance, unrelated to

next spring approached the tax more like an “insurance tax” that would generate funds for potential rescue packages of the financial sector.

- With regard to the potential introduction of a new global reserve currency, it was emphasized that there was currently no adequate structure in place that could manage such a device; the IMF was certainly not equipped to do this. Moreover, much depended on the political will of the international community to diversify from the US dollar.

- Several delegates asked for clarification on the exact relationship between the decision-