

London Summit 2009: Extensive Expansionary Policy only Solution to the Global Recession:

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September, 2008 despite the repetitive indications by the financial and business journals the lack of the risk control on bad debt, insurance, and large financial institutions led the US and Europe economy into a recession. Indeed, indicated by the failure of large mergers, insolvency of firms and declining stock market prices. The financial institutions responded by reducing their borrowing which resulted into a liquidity crisis. The TED spread (the rate at which the banks extend loan to each other) raised to its record level (October, 10th had the record level of 4.65%). Lack of available funds and investment make the situation worst. By December 2008 the stock market started to crash and the number of lost job in US increased to 533,000 while in Canada the number reached to 70,600 jobs. Government of the different countries tried to cope up with the problem, by injecting funds into the economy, but a collective effort was required to deal with the crisis that aroused at a global level. At this time the London Summit of G-20 was a looked forward event by all.

G-20, which is a group of financial ministers and central bank governors of the 20 world largest economies (almost 85% of world GNP), is thought to be the board of governors for the world economy. In London summit the members decided to use the expansionary monetary and fiscal policies to tackle the problem. The central banks have used all the conventional and non conventional instruments to increase the output and growth of economies. Along with that the greater support has been provided to the banking sector to improve the liquidity and lending situation. This is expected to improve the job availability, raise the output levels, and speed up the transition to the green economy. All this is supported by strengthening the existing regulatory and supervisory structure, by increasing the transparency, honesty and reducing the trends of too much risk taking. The required regulatory structure will have a protective and rational approach towards all of the stake holders, including the customers and other related countries.

As a first step towards the restructuring of the regulatory framework a new FSB (Financial Stability Board) will be established that will work in coordination with IMF to deal with the macroeconomic issues like excessive risk taking, management of financial institutions and markets. To support the developing economics (the potential markets) the G20 decided to provide additional \$850 billion by IMF to be invested into infrastructure, trade financing, balance of payment management and other related fields in such countries, including social protection plans. Increased resources will be provided by the IMF and MDBs to be lend to the lower income countries.

It is believed by the G20 members that the only long term and effective solution to the sustainable growth is open economy. Since it is expected that the current decline in the demand has been because of the protectionism by the countries for their local market, through import restrictions and other fiscal measures to protect the financial sector of the countries. Therefore the members have reiterated their commitment against any such measures.

All these packages by G20 summit had a very positive response by the market, the London FTSE rose by 4.3%, German Dax index gained 6.1% Japan's and Hong Kong indexes did positive respond. The buying mood returned to the market the oil prices also raised by 10%.

Despite all these positive responses by the international investors, there can be many concerns about the long term effects of these initiatives on the world economy especially on under developed countries. The funds to be provided to the lower income countries are mostly through IMF and other lending institutions. This will be linked with lots of restrictions on the fiscal and monetary independence of the country governments. Along with this it will lead to an increased supply of money in the economies which if not directed towards the investment can only lead to consumption oriented societies. Emphasis against protectionism can overflow the markets of such countries with foreign products, an increased competition for the local underdeveloped industries. These and many other apprehensions are unaddressed. Yet all the initiatives are to be welcomed and perceived in the best interest of the global economy as a whole, keeping in view the all the possible pros and cons the developing countries have to get their share of cake along with not letting the big economies hijack theirs.