Global economic governance

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The Committee on Economic and Monetary Affairs adopted an own-initiative report drafted by Gunnar HÖKMARK (EPP, SE) on Global Economic Governance.

Members recognise the need for policy-makers around the world to continue working on solutions to reform global economic governance to help rebalance the world economy and avoid another slump. They stress that the **reform of global governance should ensure that markets are embedded in a comprehensive institutional framework** for them to function properly. One of the priority objectives of worldwide economic governance must be the creation of a favourable environment for long-term investment.

Members support the work and commitments of G20 States to implement properly phased growth-friendly fiscal consolidation plans in the medium term while supporting domestic demand at a pace determined by each country's circumstances, pursuing appropriate monetary policies, enhancing exchange rate flexibility to better reflect underlying economic fundamentals, and undertaking structural reforms to foster job creation and contribute to global rebalancing. They note, however, that, otherwise, prospects at G20 level of correcting global imbalances so far seem limited.

Policy recommendations to address global economic governance: the report:

- notes that imbalances stemming from structural misalignments and a lack of competitiveness in the domestic economy should be addressed by both surplus and deficit countries, as these could also be a source of fundamental problems;
- stresses that the financial and economic crisis demonstrated that the inflow of capital as a result of global imbalances should be accompanied by responsible monetary policy and strong financial regulation and supervision;
- stresses the importance of responsible monetary policies; urges central banks of major economies to consider potential negative externalities, such as asset bubbles, carry-trade dynamics and financial destabilisation in other countries, when implementing conventional or non-conventional measures;
- states that the **exchange rates** should reflect underlying market fundamentals in order to enhance openness and flexibility and to facilitate economic adjustment, and therefore should not be managed or manipulated by national monetary authorities;
- urges reconsideration of the **use of 'Special Drawing Rights' (SDRs) as a possible replacement for the dollar** as the world's reserve currency, which could help stabilise the global financial system; asks the IMF to explore further allocation as well as a broader use of Special Drawing Rights (SDR) in particular for the purpose of enhancing the multilateral exchange rate system.

The report notes that many of the current fora, like the **G20**, are only for **informal discussion**, **without legal basis** or the attributes of international organisations in their decision-making processes or in the implementation and supervision of their decisions, and will as such remain weak as governing structures. It notes that the consensus method of decision-making which characterises many of the global cooperation bodies does not encourage bold decisions to be taken and often leads to vague non-binding agreements. Members urge the global forum to emulate the EU's move away from exclusive reliance on unanimity.

Reform of the international monetary and financial system and its institutions: Members stress that the European Union must play a leading role in global economic reform to make international institutions more legitimate, transparent and accountable. They believe that the EU should be able to speak with **one voice** and call for an **EU seat in the IMF and the World Bank**. They call for a more democratic IMF, including an open and merit-based election of its managing director, and a substantial increase in voting rights for developing and transitional nations.

The report underlines the need for a global understanding and a **common approach** regarding monetary policy, international trade, sustainable public finances and flexible currencies based on economic fundamentals; considers that the global economy should be characterised by open markets for the mutual benefit of all participants. Members also underline that high social and environmental standards are vital and must be developed in all regards. They stress that the IMF and WTO should be the core of such a process, with input from the G20 and other relevant bodies.

The Commission is called upon to refine the EU trade and investment strategy to **include the BRIC** countries (Brazil, Russia, India and China) as future major trading partners with their own interest in a common global network of interlocked interests of socially and ecologically sustainable development.

The report also calls for the establishment of an international board of central banks – comprised in the first place of the central banks of the EU, Japan, UK and US – with a mandate to coordinate monetary policy, to oversee financial supervision, and to extend and promote the SDRs as a global reserve currency.

Global financial sector governance: Members call in this regard for the Union's supervisory authorities to take the lead in building international cooperation and establishing best practices in financial regulation. It also underlines that convergence towards a common financial regulatory framework between the US and the EU would be beneficial.

The report insists on the need for:

- the global implementation of reforms that improve the transparency and accountability of financial institutions;
- further reforms of rules and practices in the banking and shadow banking system are warranted;
- the European financial supervisory bodies to have a clear mandate to work in close cooperation with their non-EU or international counterparts, as the European Systemic Risk Board (ESRB) does with the Financial Stability Board (FSB);
- a greater degree of integration between the mechanisms put in place in different sectors;
- the development adequate criteria for identifying systemically important financial institutions, with the aim of avoiding 'too big or too interconnected to fail' institutions, and therefore to reduce systemic risk through the use of additional reserve and capital requirements as well as antitrust laws.

The report calls on the **Basel Committee on Banking Supervision** to propose measures to ring-fence the retail banking activities of systemically important institutions and requires them to be capitalised on a standalone basis. It recommends the development of a suitable **international infrastructure** under the aegis of the IMF offering authorities and industry alike a unique source for standardised basic financial data as a technical enabler for international prudential tasks and safer and more efficient industry processes alike.

Reconfiguration of the international monetary system: Members stress the positive effects of a stronger economic governance framework in the EU and the euro area for global cooperation and coordination. They note the great importance of strengthening and deepening the European Single Market not only as an internal objective but also as a leading example for other trading blocs around the world.

The Commission is called upon to submit a **proposal on how to improve the EU's internal decision-making procedure** to improve its coherence as regards external representation in the area of economic and financial affairs to ensure that the EU's representation is democratically accountable to the European Parliament, Member States and national parliaments.