

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2009

4–6 JUNE 2009, ST. PETERSBURG

PLENARY SESSION: POST-CRISIS FINANCIAL ARCHITECTURE

Moderator:

Tim Sebastian, Chairman, the Doha Debates

Panellists:

Alexei Kudrin, Deputy Prime-Minister, Finance Minister of the Russian Federation

Gertrude Tumpel-Gugerell, Member of the Executive Board, European Central Bank

Graeme Wheeler, Managing Director, World Bank

John Lipsky, First Deputy Managing Director, IMF

German Gref, Chairman of the Board and CEO, Sberbank

Vikram Pandit, CEO, Citi

Joaquín Almunia, European Commissioner for Economic and Monetary Affairs

Andrei Kostin, Chairman and CEO, VTB Bank JSC

Nouriel Roubini, Professor of Economics, Stern School of Business, Chairman, RGE Monitor, New York University

Panellists were unanimous that the current economic crisis is the worst recession since WWII, and marks the first crisis of the globalisation era. Although it was acknowledged that globalisation is a strong catalyst for growth in emerging economies, panellists agreed that it also causes imbalances in global capital flows. Emerging economies have been among the hardest hit by the crisis, as they have experienced significant capital outflows over short periods. It was noted that cumulative capital inflows into emerging markets (EM) amounted to \$618bn in 2007, vs a \$190bn outflow in early 2009; and that the cumulative current-account surplus for EM economies reached \$900bn in 2008, vs a near-\$600bn US current-account deficit. Hence, it was agreed, new institutions are required to place globalisation into an appropriate regulatory framework.

All participants agreed that the IMF, the Basel Committee, the G20, the World Trade Organisation and other international organisations should play a leading role in shaping a new financial architecture. It was also asserted that international financial organisations (IFO) had failed to fulfil their function of early crisis-prevention, and that they should be reformed as

their current structure is not appropriate for the level of development of the financial markets. Panellists heard the view that decisions taken at supra-national level should be effectively implemented at national levels, and that a respective mechanism should be elaborated for this.

It was noted that the regulatory system requires significant improvement, and a much higher level of transparency is required in the capital markets, with simple and unified regulatory principles addressing all segments of the market C including derivatives and asset-backed securities. New hedge-fund regulation is required, and there should be separate regulation of banks and financial institutions, with clear accounting standards.

There was broad agreement that the significant share of the grey market is a key problem, as non-transparency in the markets makes it impossible to estimate the volume of bad assets in the system. In this regard, it was noted, the number of exchanges and clearing systems should be increased.

Several of the panellists were less than optimistic about the expected recovery of the global economy, cautioning that the recent rally in the commodity and financial markets, accompanied by significant credit-spread tightening, should not mislead, as global imbalances have still not been resolved. The level of leverage in the system is still high, it was noted, and unemployment shows little sign of easing, therefore the global recession is likely to continue for a further six-to-nine months. At the same time, it would be dangerous to delay the process of reshaping the current financial architecture, as temporary decisions (such as liquidity injections) are failing to solve global imbalances.

Audience survey: At the close of the panel discussion, the audience was asked, *does the world's financial architecture need reforming or not?*: 75% percent of respondents agreed that it does.