

London Summit Outcomes

The London Summit took place at a time when the world confronts the worst economic crisis since the Second World War. The London Summit aims were to bring together leaders of the world's major economies and key international institutions to take the collective action necessary to stabilise the world economy and secure recovery and jobs. Leaders faced an unprecedented range of challenges – of averting an even more severe downturn and restoring growth in the short term, while at the same time reshaping the financial system, preserving the world trading system, and laying the foundations for a sustainable recovery.

Real action was agreed at the Summit, with Leaders agreeing on steps to:

- **Restore confidence, growth, and jobs:** Leaders reaffirmed their commitment to work together to restore growth and jobs, while preserving long-term fiscal sustainability. They agreed actions to accelerate the return to trend growth and committed to taking whatever action is necessary to secure that outcome, and called on the IMF to assess regularly the actions taken and the global actions required. They committed to make available an additional \$1.1 trillion programme of support to help the world economy through the crisis and to restore credit, growth and jobs. Most of this will be provided through the international financial institutions (see below) ;
- **Strengthen financial supervision and regulation:** Leaders agreed to strengthen the financial system by putting in place a better and more credible system of surveillance and regulation to take account of macro-prudential risks and prevent excess leveraging, including (for the first time) regulation and oversight of large hedge funds and credit rating agencies. They also agreed actions to tackle non-cooperative jurisdictions and common principles for executive remuneration.
- **Fund and reform our international financial institutions to overcome this crisis and prevent future ones:** Leaders agreed to make an additional \$850 billion in resources available through international financial institutions like the IMF, World Bank, and other multilateral development

banks, including a \$500 billion expansion of the IMF's resources, an SDR allocation of \$250 billion, and at least \$100 billion in additional lending from MDBs. The leaders also agreed to ensure to they have the facilities needed to meet the needs of emerging markets and developing countries and speed up reform of international financial institutions to ensure national representation is in line with the changing balance of the world economy.

Promote global trade and investment and reject protectionism, to underpin prosperity: Leaders committed not to resort to protectionism, direct or indirect, and put in place a transparent monitoring mechanism; and to take measures which promote trade, including a commitment to make available \$250 billion to halt the slow-down in trade finance, which facilitates up to 90% of world trade.

- **Build an inclusive, green, and sustainable recovery:** Leaders reaffirmed their commitment to meeting the Millennium Development Goals and to delivering on development aid pledges; made \$50 billion available to low income countries, including through the proceeds of agreed IMF gold sales; agreed that the IMF would further support low income countries; and called on the UN to establish an effective mechanism to monitor the impact of the crisis on the poorest and most vulnerable.

1) Restoring Confidence, Jobs, and Growth

A series of financial market events beginning in 2007 has culminated in the worst international banking crisis in generations. Despite unprecedented interventions by governments to fix the financial system, this crisis has triggered a global recession. Before the G20 Leaders met, forecasts suggested that most of the advanced economies and many developing and emerging economies would remain in severe recession over 2009, with world growth in real terms resuming and rising to over 2 percent by the end of 2010.

In response to these events, governments of the G20 nations have agreed to take action to accelerate the return to trend growth and support families and businesses through the recession. In the UK for example, the Government has increased spending to support homeowners and people at risk of losing their job and provided support to get the financial sector lending again. The Bank of England has cut interest rates to their lowest level ever, making it cheaper for businesses and households to borrow. Other countries across the globe have taken similar action.

At the London Summit, leaders of the G20 reaffirmed their commitment to work together to restore growth and jobs. They expressed their confidence that the new actions and commitments agreed at the Summit would accelerate the return to trend growth; and they committed today to taking whatever action is necessary to secure that outcome. Recognising that further action may be needed, they called on the IMF to assess regularly the actions taken and the global actions required

Not only did Leaders agree to take further action – and not just on fiscal policy but in other policy areas too – but they tied the need for such action to the achievement of quantified and timebound objectives for growth; and put in place a clear monitoring mechanism for judging progress. This represents a significant step forward in international macroeconomic coordination to deal with the crisis.

2) Strengthening financial supervision and regulation

Problems in the financial sector and weaknesses in supervision were one of the fundamental causes of the crisis. Increased lending and securitisation of assets reduced transparency and exposed the banking system to high levels of systemic risk.

While market participants were unable to understand the nature of the risks they were exposed to, the regulatory system allowed them to increase leverage dramatically in the run up to the crisis. The tendency of the financial sector to over-expand during upswings was exacerbated by a number of factors: over reliance on Credit Ratings Agencies (CRAs) assessments of the credit risk and potential CRA conflicts of interest, inadequate accounting standards and capital requirements that served to reinforce rather than dampen financial market overexpansion, and remuneration policies that encouraged excessive leveraging and risk-taking.

At the Summit, G20 leaders agreed a blueprint for reforming the regulatory framework of the financial sector. Key principles underlying this framework include the need to strengthen macroprudential supervision; for capital requirements to explicitly incorporate countercyclical elements – but that in present circumstances it would be inappropriate to raise them until recovery takes hold; for all systemically important institutions, including hedge funds, to be subject to regulation and supervision; for common principles for remuneration so as to discourage excessive risk taking; to ensure credit rating agencies do their job properly and without conflicts of interest; and to deal with tax havens and non-cooperative jurisdictions. Leaders also agreed that a central role in coordinating this agenda should be taken by the Financial Stability Forum, now renamed the Financial Stability Board and incorporating all G20 countries.

Agreement on specific measures across all of these areas and all of the G20 countries represents an unprecedented degree of international regulatory coordination, and will lead to major reforms of the global financial sector – reducing the risk of a recurrence of this crisis.

3) Funding and reforming our international financial institutions to overcome this crisis and prevent future ones

The global financial crisis has resulted in the seizing up of international financial markets that are essential for keeping the world economy functioning. The effects of this have been particularly felt in developing and emerging economies.

Governments as well as households and businesses in these countries have found it more difficult to borrow, adding to pressures on economic growth from reduced global demand and exports and increasing unemployment. International financial institutions like the International Monetary Fund (IMF) and the World Bank have an essential role in ensuring the stability and recovery of emerging markets and developing economies.

To ensure international financial institutions have the resources needed to provide responsive and effective support to developing economies – which have been key factors in world economic growth over the last ten years and are vital to ending the global recession – **G20 Leaders have agreed to resources available through the IFIs by \$850 billion. They agreed to treble IMF resources to \$750 billion, initially funded through bilateral borrowing to be then incorporated into an expanded and enlarged New Arrangements to Borrow of up to \$500 billion. Leaders also agreed to an SDR allocation of around \$250 billion – to provide an additional \$100 billion in liquidity to emerging and developing economies (including \$19 billion for the poorest) – and urged ratification of the 4th Amendment for an additional \$30 billion SDR allocation.**

Leaders urged MDBs to make available at least an additional \$100 billion in resources over the next few years, and also committed to providing up to \$50 billion of trade liquidity support as part of the global effort to ensure the availability of at least \$250 billion of trade finance.

Leaders also agreed to ensure that the international financial institutions have the facilities they need to address the current crisis and meet the needs of emerging markets and developing countries: welcoming the IMF's new Flexible Credit Line (FCL) for eligible countries, urging the IMF to reform its surveillance and lending facilities to address the causes of countries' balance of payments needs, supporting

the World Bank Vulnerability Framework through voluntary bilateral contributions, increasing individual country limits on World Bank lending to enable large countries to access required levels of finance, allowing low income IDA countries with sustainable debt positions and sound policies to gain temporary access to non-concessional IBRD lending, and a temporary lifting of caps on the proportion of concessional lending by the MDBs provided as budget support to low income countries.

As well as increasing resources, it is important that each country has confidence in the institutions' relevance, effectiveness and legitimacy, to ensure credibility.

At the London Summit, leaders recognised that action needs to be taken to improve the credibility of IFIs. **The G20 therefore agreed:**

- **reform of representation on IFIS – IMF quota reform to be brought forward to be completed by 2011; and similar reform of the World Bank to be completed by 2010**
- **selection and recruitment of heads of IMF and World Bank to be based on merit**
- **consideration of greater involvement of the Fund's Governors in providing strategic direction to the IMF and increasing its accountability;**

4) Promoting global trade and investment and reject protectionism, to underpin prosperity

Trade is vital for the health of the global economy: The more open to trade economies are, the greater the benefits. History demonstrates this: since 1945, average tariffs for developed countries, like the UK, Europe and the US, have fallen from nearly 40% to less than 5%; world exports have risen 27-fold; and world income has risen eightfold.

However, world trade is forecast to fall by 9% this year – the largest decline in 60 years – due to lower global demand and reduced exports. This decline is exacerbated by growing protectionist pressures, but also the drying up of trade credit – essentially the insurance exporters pay while their goods are in transit, which roughly 90 per cent of world trade relies on.

The G20 leaders stated that reinvigorating world trade and investment is essential for restoring world growth and leaders agreed on action to stop the slowdown in world trade. Specifically, leaders :

- **committed to ensure that countries do not resort to protectionism, by extending their pledge made in November** not to raise trade barriers or impose any new trade restrictions to 2010, and rectifying any such measures promptly.
- **committed to minimise any negative impact of domestic policy action on world trade and investment** including fiscal policy and action in support of the financial sector, and not retreat into financial protectionism.
- committed to notify promptly the WTO of any such measures and called on the WTO, together with other international bodies, **to monitor and report publicly on adherence to these undertakings on a quarterly basis**
- to take measures to support trade, including a commitment to make available **\$250bn in trade finance** over the next two years, through both national agencies, and the Development Banks, as well as making better use of financing that is already there.

- stated their personal **commitment to the Doha Round** and agreed to prioritise the negotiations.

5) Ensuring a fair and sustainable recovery for all

The global financial crisis affects all countries, rich and poor, and the response will also affect all— both rich and poor countries now, but also future generations.

Leaders recognised the human dimension to the crisis and committed to support those affected by creating employment opportunities and through income support measures. And they stated their determination not only to restore growth but also to lay the foundation for a fair and sustainable world economy.

The effects of the current crisis on developing countries could result in an additional 90 million people a year living in extreme poverty, and threaten progress made towards achieving the Millennium Development Goals. A global recovery will not be sustainable unless it benefits the poorest and provides them with the opportunities they need to escape poverty. Leaders :

- reaffirmed their **commitment to meeting the Millennium Development Goals** and to **achieving Official Development Assistance pledges**, including commitments on Aid for Trade;
- made **\$50 billion available to low income countries**, including through the Rapid Social Response Fund, investing in food security and supporting the World Bank's Vulnerability Financing Framework;
- agreed the IMF should double concessional lending access limits and capacity to increase its support to low income countries, and requested the IMF to bring forward proposals to use **the proceeds of agreed gold sales** to do so; and
- called on the UN to establish a **mechanism to monitor the impact of the crisis on the poor**.

Understanding that a return to business-as-usual growth will leave them vulnerable to rising oil prices and the potentially catastrophic impacts of climate change, several

have committed sizeable parts of their economic recovery packages to low carbon investments. Leaders agreed to **pursue a path of economic growth that creates green business opportunities**. The opportunities will not only provide jobs and contribute to the economic growth; they will also ensure that the recovery is sustainable in the longer term.