

## **Close International Cooperation Helps**

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Throughout the current global financial crisis, close central-bank cooperation has proven to be crucial in stabilizing fast-deteriorating economic and financial conditions in crisis-hit countries and contagion across the globe.

The ultimate goal has been to ensure the downturn bottoms out and world growth resumes its recovery quickly.

One of the most unprecedented actions was the cooperation between six major central banks in concurrently cutting their policy interest rates in October 2008.

Another significant cooperation initiative was the provision of dollar liquidity by the US Federal Reserve through currency-swap arrangements with economies in the euro zone, Japan, Mexico, South Korea, Singapore, Brazil and Switzerland. These early central-bank responses demonstrated the strong determination to stop the snowballing economic downturn and to lessen liquidity strains in the major economies of the world.

International efforts among governments intensified when the G-20 decided to enhance the International Monetary Fund's role in resolving the crisis by increasing its financial resources for lending to member countries in need of liquidity. These efforts resulted in doubling the ceiling of maximum loans for IMF members seeking assistance. The coordination efforts also led to the long-overdue call by many members for the IMF to relax conditionalities, while the Flexible Credit Line was also established to provide loans for members with strong economic fundamentals who encounter liquidity problems.

Without sufficient cooperation, be it internationally or regionally, policies to deal with problems in one country could have significant adverse spill-overs on others and the crisis impact

would likely be more pronounced. For example, initially, the announcement of Ireland's blanket deposit-guarantee scheme was not supported by similar efforts from neighboring nations.

The result was considerable capital outflows from these neighboring economies, especially the UK, which were then forced to quickly announce similar deposit-guarantee schemes.

Besides, economic recovery in the euro area is expected to fall behind other parts of the world due to lack of fiscal coordination among their governments.

The major reason a lack of policy coordination could lead to possibly abrupt and adverse consequences is the high level of global financial and trade linkages. Experience from this crisis has clearly demonstrated that these linkages have contributed to the increasing fragility of the world economy.

While the global economy remains fragile and recovery will likely be very gradual, it is essential that policy-makers enhance channels of coordination to prevent any possible slumps along the way.

The question to ask then is what further policy coordination is needed to sustain and spread the prospects of recovery. Specifically, it is very important that the major advanced economies carefully coordinate their exits from the unconventional liquidity-providing and credit-enhancing schemes and make sure that monetary tightening in the US and Asia later on will not negatively affect the paths of economic recovery in the more fragile regions, particularly the euro zone and Japan.

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**(The views expressed are the author's own.)**

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