MODEL UNITED NATIONS

DMUN XII

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Economic and Financial Affairs Council

BACKGROUND GUIDE

Co-Chair: Austin Gordon
Co-Chair: Augie Emmanuel

Responding to Global Inflation and Financial Crises

Dalton Model United Nations XII

Economic and Financial Affairs Council

Letter from the Chair

Hi all, I'm Austin and I will be your co-chair for DMUN. I am passionate about climate, and a fervent Greta Thunberg stan. I dream of meeting her one day – maybe one of you can help connect me to her! I am one of the top youth chess boxers in America as my 6 foot 5 inches, 250-pound frame is complemented by an equal, if not greater, mind. I am very interested in our topic, and have been pestering Augie with ideas about it for months. Though I might be a little close-minded, hopefully, you all can inspire and impress me with your creative ideas.

Hi all, I'm Augie and I will be your co-chair for ECOFIN. I am an avid soccer player and also in the running to be Mr. United States despite my last eight pageant losses. I am also set to debut in the newest episode of the Masked Singer and when I'm not practicing my vocals or for an upcoming pageant, I spend a significant amount of free time practicing my soap carving. Please feel free to ask me, but really only my co chair Austin any questions you have on the topic — he's a huge fan of inflation and financial crises! He's also my talent agent, so if you're lucky, he might give you a free consultation if you sing in front of him.

Best,
Augie Emmanuel and Austin Gordon

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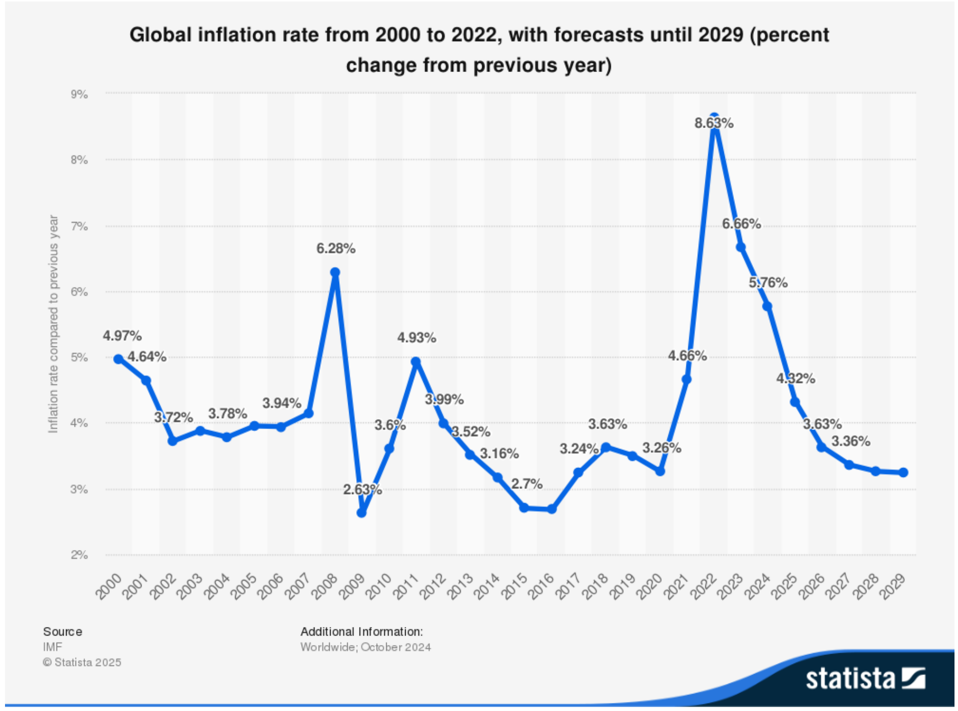
Committee Background

The Economic and Financial Committee (ECOFIN) stands among the initial committees of the United Nations and has total responsibility for comprehensively dealing with each global economic issue. It has played an important role in international economic discussions ever since first convening in San Francisco on April 25, 1945. All 193 UN member states all hold equal representation and voting rights in this committee. In recent years, ECOFIN has identified ten special large areas of international policy, including macroeconomic policy, development financing, sustainable development, globalization and interdependence, poverty eradication, agriculture, and food security. ECOFIN provides recommendations and frameworks for international cooperation on these issues, similar to other General Assembly committees. However, even with its large mandate, it cannot enforce policies or sanctions on sovereign nations.

ECOFIN seeks to understand the economy around the world and optimize it for the better. The economy constitutes a detailed system of exchange affecting daily life worldwide; it involves goods, services, in addition to countless financial flows. From single transactions, like buying food or using public infrastructure, to wide-ranging government investments in development projects, economic activity powerfully shapes societies and global stability. ECOFIN seeks to ensure that economic policies promote elongated growth, financial security, and equitable development across all nations.



Subtopic 1: Responding to Global Inflation

Throughout history, global inflation has had severe effects on economies such as increased costs of living, reduced purchasing power, and disrupted international trade. In 2022, driven by supply chain issues and pandemic-related economic disruptions global inflation reached its highest level since the mid-1990s in. However, recent data shows a downward trend in recent inflation rates, and according to the International Monetary Fund (IMF), by late 2025 global inflation is expected to decline to 3.5% from the previous 9.4% in 2022.

At the most basic level, inflation arises when demand outweighs supply, leading to more willingness from the consumer to pay higher prices. This is known as demand-pull inflation. Increased consumer spending can be a result of tax cuts or stimulus packages, as well as economic growth such as rising employment and higher wages. Another reason for demand to exceed the economy's ability to produce goods is increased government spending on various things such as infrastructure projects. With more money chasing the same amount of goods, businesses may raise prices because they know customers will be willing to pay more. In demand-pull inflation, rising prices are largely a reaction to the consumer-end of the economy, helping to balance supply and demand. If prices are raised too much, the demand will diminish, so companies are careful to ensure they properly weigh the two.

While demand-pull inflation is more consumer-driven, cost-push inflation comes from businesses' end. Cost-push inflation is caused by increased production costs as a result of higher wages, increased prices on natural resources, and supply chain disruptions. Labor strikes and minimum wage increases can also affect production costs. When production becomes more expensive, businesses will often pass those expenses onto consumers by raising their prices. Essentially, when production costs increase, companies will increase prices to maintain profit margins. Over time, this leads to inflation.

The last main type of inflation is built-in inflation, which happens because of the expectation of future inflation. If there is a trend of growing inflation and workers expect prices to continuously rise, they may demand higher wages to maintain their standard of living. In the same way, if businesses expect higher costs, they may preemptively raise prices in order to account for this. As wages increase, businesses may raise their prices to cover the additional cost of labor. This creates increased cost of living, which in turn motivates workers to demand even higher wages in the future, creating a cycle. Built-in inflation can give rise to other inflation, as with more wages, there is more consumer demand, leading to demand-pull inflation. Thus, inflation must be balanced and controlled on a global scale in order to keep the economy intact.

Different Measures of Inflation

In order to fully understand the impact inflation has on an economy, a number of metrics must be considered. The three most important inflation metrics are:

Consumer Price Index:

Consumer Price Index, or CPI, is a monthly report used to adjust tax brackets, social security payments, and wages. It is widely regarded as the most useful metric in gauging inflation and serves as the primary economic indicator for policymakers and businesses.Essentially, CPI tracks the changes in the weighted average price of everyday consumer goods and services such as housing, food, healthcare, transportation, and clothing. It works by selecting specific goods and services that represent the average household consumption, and collecting nationwide price data on these items. Then, each category is weighted based on its share of average household spending, and the weighted average price change is calculated. CPI is expressed as an index value, allowing it to be easily compared over time. The CPI is used in a multitude of ways. Beyond indexation, it is used to guide central bank interest rate decisions and fiscal policy measures. Additionally, it enables standardized international inflation analyses, which are incredibly valuable for those attempting to balance global inflation. However, the CPI is not without its limitations. First, the fixed baskets that items are put into fail to account for consumers switching to cheaper alternatives, making the price change over time not entirely accurate. Additionally, the national averages it utilizes may not always properly reflect the significant regional price differences; likewise, inflation impacts vary based on consumption patterns (which are not reflected on a year to year basis). For example, retirees spending more money on healthcare. Nevertheless, understanding CPI measurement is critical in evaluating the effects of various anti-inflation policies.

Producer Price Index:

While the CPI measures and tracks consumer prices, Producer Price Index, or PPI, captures price changes from the seller's perspective. This is done by measuring changes in selling prices for their output over time. Using price data from producers in several industries, prices are recorded at their first commercial transaction. Price changes are then weighted according to the shipments' value in different industries, helping to understand how it has fluctuated over time. PPI can be useful in signaling future CPI price changes, predicting what direction the economy is headed in. Additionally, it helps central banks and businesses be proactive rather than reactive when it comes to inflationary pressures, ensuring these can be identified before getting to buyers. What PPI fails to account for is the fact that producer price increases don't always reach the consumer. For example, when businesses experience higher costs, the company will sometimes choose to temporarily absorb that cost in the interest of maintaining market price or due to competitive pressures. As a result, PPI is mainly a tool for companies themselves to understand and inform decisions around pricing and inflation. Another shortcoming of PPI is its blind spot when it comes to the global supply chain. PPI only accounts for domestically produced goods and services, failing to take into accounts the mass amounts of imports which can affect production costs. For example, if oil prices rise globally but aren't produced domestically in high quantities, the PPI would not capture this impact fully.

GDP Deflator:

The final major measure of inflation is the GDP Deflator, which is the most comprehensive inflation measurement across the economy. Rather than comparing individual items or industries, the GDP Deflator takes the entire economic output of a country and compares it across years, demonstrating how prices change across the entire economy. The GDP Deflator also automatically weights the impact of certain goods and services on the economy, as the more they produce, the more they make up the nominal GDP used in calculating the GDP Deflator. However, the GDP Deflator is typically published yearly as opposed to the CPI and PPI which are released monthly, and while it can reflect a good picture of the economy, it lacks an ability to help predict future market changes well. Additionally, like the PPI, it only accounts for domestically produced goods, not imports that reflect the impact of the global economy. Lastly, it does not properly reflect the consumer experience as it captures price changes across the entire economy, including items consumers may never purchase themselves, such as industrial equipment or govern-

Why Does Inflation Matter?

When inflation rises, the cost of goods and services increases, and people must buy less with the same amount of money. This can disproportionately affect lower-income households, who now have to spend a larger amount of their income on necessities such as food, housing, and healthcare. In extreme cases, when countries experience hyperinflation,wages become almost worthless and there is widespread economic hardship and poverty. High inflation can also create economic instability, as fluctuations in pricing make it harder for businesses and individuals to plan for the future. When inflation gets too high, central banks sometimes increase interest rates in order to slow down the economy. This reduces both investment and consumer spending, as interest rates make borrowing money more expensive, thereby slowing down the spending. The U.S. Federal Reserve has increased interest rates numerous times as a means to counteract inflation and prevent an overheated economy. Inflation also has a profound effect on global markets and trade deficits. If a country has high inflation compared to the global market, they will have reduced exports and increased imports as consumers look to buy cheaper foreign alternatives. This can worsen trade deficits and impact international trade implications. Additionally, because of the uncertainty around inflation, it can often lower investor confidence in a currency's stability. This will lead to higher import prices, further exacerbating existing inflation.

Despite this, inflation is still necessary for a healthy economy. When kept at a moderate and stable level, it is incredibly useful in preventing economic stagnation and encouraging spending and investment. When people expect prices to increase over time through inflation, they are more likely to spend their money now rather than wait for things to get more expensive and hold on to it. This increased spending leads to more exchange of goods, allowing businesses to thrive and the economy to grow. With more consumer spending and more demand, there is increased investment in production, which helps businesses generate more revenue. Businesses invest more when they expect their revenue to increase due to rising prices and wages. Greater corporate investment leads to expanded production and increased research and development of new technologies. Furthermore, because of this higher demand, businesses are motivated to hire more workers and increase wages, leading to more job creation and improving living standards through a strong labor force. Countries with stable inflation, such as the United States, see steady wage growth which helps citizens maintain or increase their standard of living. Additionally, when inflation is too low, central banks have limited ability to help economic growth, whereas when there is steady inflation they have more room to be flexible when it comes to monetary policy. Moderate inflation gives banks the freedom to adjust interest rates accordingly to prevent stagnation in the economy and prevent recessions. Lastly, inflation can reduce the real burden of debt not just for nations, but for businesses and individuals as well. Because inflation lowers the value of money over time, debts become much less cumbersome and easier to pay off. For countries with high national debt, inflation is incredibly useful in reducing the burden and allowing it to be repaid easier.

Thus, inflation is a balancing act, and delegates will need to work together in order to optimize it for the whole world. While high inflation can lead to poverty and financial hardship, economic growth would be almost impossible without it. Additionally, any changes must be made in moderation, as quick and unpredictable shifts in pricing and inflation rates lead to unpredictability and financial suffering. As delegates work to manage inflation worldwide, they must be careful to prevent deflation and economic stagnation, as if prices consistently fall, consumers will be more likely to hold onto their money in anticipation of lower prices, which would stall the economy and slow down production and growth. Controlled inflation is essential for economic stability, debt reduction, wage growth, and investment. It keeps money moving, encourages productivity, and helps central banks steer the economy in the right direction.

History

The Great Inflation:

Following World War II, and the end of the Great Depression, economists and policymakers became too confident about their ability to keep the economy even and stable. There was a notion that central banks and other fiscal institutions could keep the economy perfectly managed. However, this view turned out to be too optimistic, as seen in the Great Inflation of the 1960s and 1970s, one of the most severe periods of prolonged inflation in modern history.

Starting in the mid-1960s, monetary policy became too easy, leading to a surge in inflation and inflation expectations. Inflation in the United States went from 1% per year in 1960-64, to a peak CPI inflation rate of 13% by the end of the 1970s. The roots of the Great Inflation lay in monetary policy that was too expansionary, based on the belief that a trade-off existed between inflation and unemployment (known as the Phillips Curve). The general view was that unemployment rates could remain low, and maintaining slightly higher inflation rates would lead to greater economic production and job creation. However, while attempts to keep unemployment low helped in the short term, they ended up creating more inflation in the long run. Economic strategists underestimated how inflation expectations could spiral, making inflation self-sustaining rather than a temporary tool for boosting employment.

Additionally, the U.S. Federal Reserve may have been under political pressure. At the time, the government was dealing with deficits from the Vietnam War and President Lyndon B. Johnson's Great Society Programs. This led to large government spending without corresponding tax increases, worsening inflationary pressures. There were also additional exacerbating factors which created difficulty for the Fed and other countries in offsetting the increase in inflation. There were

a number of shocks to the prices of oil and food. For example, in October of 1973, the Yom Kippur war broke out in the Middle East. When several Western nations supported Israel, the Organization of Petroleum Exporting Countries (OPEC) ceased oil exports. Because of this, in the early 1970s, the price of oil quadrupled. When inflation reached 5% in the early 70s, President Richard Nixon introduced wage price controls, a series of laws forbidding firms from raising their prices. However, this failed to address the root cause—excess demand and monetary expansion—and instead led to supply shortages, inefficiencies, and economic distortions. There was an increasing level of demand and wage price control was preventing businesses from responding with increased pricing. Thus, while wage price control kept inflation artificially low for a few years, it ultimately made it harder for the Fed to manage the underlying economic issues. When the wage price controls were finally lifted, pent-up inflation surged even higher, as businesses and workers scrambled to adjust prices and wages upward. While the original goal was to reduce unemployment, the efforts made by policymakers in this time only ended up leading to sharp increase in inflation.

By the late 1970s, it was clear that radical policy changes were needed. In 1979, U.S. President Jimmy Carter appointed Paul Volcker as Chairman of the Federal Reserve. Volcker abandoned the previous focus on controlling unemployment and instead prioritized reducing inflation at all costs. To subdue this incredible inflation, in October 1979, Chairman Volcker announced a dramatic break in the way that monetary policy would operate. The break he implemented allowed the Fed to sharply raise interest rates, helping to slow the economy and bring inflation pressures down. This measure worked, as inflation began to fall from 13% down to three percent in the 1980s, offsetting the issues of the 1970s. However, one of the effects of these policies was a downturn in economic activity as a result of the high interest rates. So while the interest rates were effective in reducing inflation dramatically, they also brought about an economic recession. By 1982, the unemployment rate was almost 11%. This resulted in a global recession, as the increased U.S. interest rates made it more difficult for developing nations to borrow money.. Ultimately, this short-term economic pain was necessary to restore price stability once inflation became entrenched. The Great Inflation demonstrates how important it is that inflation be managed and controlled, and that monetary policy does not become too permissive. Central banks must remain independent and not succumb to political pressure to keep interest rates low for short-term economic or electoral gains.

Latin American Hyperinflation: In the 1980s and 1990s, several Latin American countries began experiencing severe hyperinflation, with some countries reaching inflation rates of over 1000% annually. Latin American hyperinflation was partially because of the increased interest rates imposed by the U.S. Federal Reserve following The Great Inflation. Many governments in the 1970s, especially those in Latin America, became heavily reliant on debt-driven spending for development projects and social programs. When interest rates were rapidly increased by the US, these debts became completely unmanageable, leading to steeper borrowing costs and out of control inflation.

National currencies were weakened, and in order to combat this, many governments began printing more money. While this worked as a short term fix, it exacerbated inflation in the long run. Central banks were pressured by governments to increase money supply, only furthering currency depreciation, and prioritizing political interests over economic stability. Argentina, Brazil, Peru, and Bolivia were among the worst-affected countries, with inflation rates soaring to unprecedented levels.

Many Latin American countries depended heavily on commodity exports, and when global commodity prices fell, their trade balances suffered. Investors began seeking safer assets, further weakening currency and increasing imported costs. While attempts were made to reduce inflation through price controls and wage freezes, these measures only led to shortages and the emergence of black markets. Additionally, several nations attempted to use currency pegging in order to stabilize the economy and reduce inflation unpredictability. Currency pegging refers to when a country fixes the value of its currency to a more stable currency to maintain economic stability. This way, instead of exchange rates and monetary value fluctuating based on supply and demand, the central bank can keep a fixed exchange rate. The central bank must hold large reserves of the anchor currency (like U.S. dollars) to defend the peg. If demand for the local currency rises, the bank can sell it and buy the anchor currency, whereas if demand falls, the bank buys its own currency using foreign reserves. Currency pegs help enforce monetary discipline and prevent inflation from becoming too extreme, also reducing uncertainty for businesses and investors. This strategy had varied success. In 1991 Argentina created the Convertibility Plan, and attempted to peg the peso to the U.S. dollar at a 1:1 ratio. While this worked initially, after they ran out of reserves it became unsustainable and collapsed. Additionally, Venezuela fixed exchange rates to help stabilize trade, but this only created distortion and corruption. Ecuador altogether adopted the U.S. dollar as legal currency in order to stabilize their inflation. While this did reduce hyperinflation, it has to this day limited the government's control over monetary policy.

Lastly, some countries, such as Mexico and Brazil, were able to restructure their debt by working with the International Monetary Fund (IMF). This involved spending cuts and tax increases, but ended up working in restoring economic stability.

Current Situation

In recent years, inflation has re-emerged as one of the most pressing economic challenges worldwide. After decades of relative stability, the surge in inflation following the COVID-19 pandemic disrupted economies, weakened currencies, and forced central banks into aggressive policy measures. While inflation has begun to decline in some regions, the long-term consequences of these economic shocks remain uncertain. Delegates in committee will be tasked with addressing how to manage inflation effectively while ensuring sustainable economic growth, financial stability, and global cooperation.

While the worst of the pandemic may be over, the monetary policy that was implemented in attempts to stabilize and support the economy during the worst of it released large sums of money into the economy, which contributed to an increase in demand. This increase worsened supply issues, which were furthered by factory closures sparked by health and safety concerns. The increase in inflation after the pandemic was one of the largest in recent history, affecting economies at all income brackets. In developed nations, inflation reached levels unseen since the 1980s, peaking at 9.1% in the U.S. (June 2022), as well as exceeding 10% in parts of Europe and the UK. Inflation proved exceptionally disruptive for many economies that were gradually developing. Some countries, like Argentina, Turkey, and Venezuela, went through major drops in currency value, pushing many people into poverty and wearing away at general public faith in economic organizations. Inflation rates have since greatly moderated. However, they remain substantially above pre-pandemic levels, raising serious concerns about long-term financial instability. Global inflation is expected to fall 3.5% in 2025, according to the IMF; however, there are still issues, particularly for developing economies that may be affected by external occurrences.

Several factors contributed to this inflationary event. Many important issues with supply chains caused an untenable scarcity of necessary items. Consequently, prices rose substantially in multiple diverse areas, importantly computer chips and multiple farm goods. At the same time, the Russia-Ukraine war created an energy problem, especially in Europe, where being reliant on Russian oil and gas caused very high energy prices. Throughout the pandemic, financial and governmental strategies also had an effect; although many incentive initiatives and adequately reduced interest rates assisted in stopping financial ruin in 2020, they further encouraged surplus requirement. Companies struggled to meet consumer demand, so prices increased, which was strengthened by the scarcity of employees in many industrialized nations, where greater compensation increased production costs. In emerging economies, the situation was further compounded by currency depreciation, making imports even more expensive as well as worsening inflation.

Governments and central banks took action in multiple ways, and a usual approach was monetary tightening. To keep inflation in check, the U.S. Federal Reserve, The European Central Bank, and other key establishments raised interest rates in a forceful, determined way. This policy did help lower inflation somewhat, in addition to making economic growth slower, making borrowing more expensive as well as further increasing the chances of a recession. Some nations focused on supply-side efforts, such as increasing domestic energy production, to attempt to decrease dependence on volatile global markets. Governments in developing nations sought monetary help from the IMF, modifying current debt and putting into place many stringent polices in order to bring stability to national economies.

One particularly controversial approach is the currency peg, where a country affixes its rate of exchange to a more stable currency, such as the American dollar. This plan has seen both good and bad outcomes. For example, Panama and Ecuador have seen some benefits from using the dollar in keeping things stable. However, in countries like Argentina, efforts to stabilize the worth of currency have been unsuccessful because of a key shortage of outside money to properly support the set rate of exchange. Peg collapses frequently cause large devaluations, and this makes inflation noticeably worse. A similar problem occurs with dollarization, in which a country entirely uses the U.S. dollar in place of its own currency; even though this might decrease inflation, it also limits monetary policy choices, making responses to economic disturbances more difficult.

As inflation continues to be a key global problem, some very important questions have to be answered. How do governments effectively hand rapidly rising prices while still allowing the national economy to steadily grow? Should developing nations pursue a number of currency pegs or dollarization strategies, or are there better alternative available? What part should worldwide monetary organizations have in fragile economies? Should they keep inflation steady? How can countries adjust rules to keep inflation from affecting other countries?

The battle against rising prices is far from over. Certain economies are starting to experience some respite. However, others are still trapped in patterns of elevated costs, fragile currencies, and unsteady economies. Policymakers face the challenge of identifying solutions that reduce inflation in the short term and, furthermore, encourage stability, coupled with growth, over extended periods. When delegates attempt to formulate answers, they should carefully think about monetary as well as fiscal plans, the importance of international collaboration, along with sustained influence of inflation control on financial success. A detailed, new strategy that balances economic discipline with the needs of a fast changing global economy will be necessary for dealing with these problems.

Bloc Positions

Each country has a different economy, and thus delegates will enter committee with an array of opinions as to how the United Nations should address inflation rates. More developed economics, such as the United States, Germany, and Japan, may prioritize moderate inflation control, as they usually want low and stable inflation to protect savings and keep prices predictable. On the other hand, countries like Argentina, Turkey, and parts of Africa, which are still developing economies, may be more tolerant or even encouraging of increased inflation, because it can help reduce national debt and boost exports by making their goods cheaper on the global market. Lastly, oil-exporting countries, such as Russia and Saudi Arabia, often benefit from inflation, as rising prices increase the value of their natural resources. As delegates navigate committees and come up with solutions to address inflation worldwide, they should seek to work with those that can help them advance their own country's policy while also balancing inflation to help the world at large.

Subtopic 2: Financial Crises

Financial Crises occur in many shapes and forms. Examples include catastrophic collapse of a country's financial systems, stock market crashes, bank failures, and national recession. Financial crises can occur due to speculation by financial entities, inflation, excessive consumer debt, natural disasters, and pandemics. One can look at the Great Depression of 1929 and the global financial crisis of 2008 to understand financial crises and international responses; when disasters happen on a level so grand, they do not merely affect one country but nations worldwide. In response, organizations like ECOFIN play a crucial role coordinating measures to mitigate the effects of the crisis. Through interest rate reductions, government bailouts, and more stringent financial regulations, reactive national and international bodies must take action to ensure that national recessions do not impact the quality of life for generations.

History

Financial crises have appeared repeatedly throughout history, having a tendency to be generated by over-speculation, bad money management, lack of control, or macroeconomic disequilibria. Such crises usually generate severe economic recessions, bank failures, and widespread unemployment. Arguably the most devastating economic meltdown was the Great Depression (1929–1939), triggered by the October 1929 collapse of the stock market. Over the next decade, all economies experienced severe recessions in industrial output, mass-scale unemployment, and bank failures, leading to radical policy reversals such as the New Deal in America and increased state intervention in the majority of economies. The post-Second World War period was a period of relative peace, partly brought about by the financial

institutions that had been formed to prevent any future crises like the one the world had then witnessed.

Economic instability set in again towards the latter part of the 20th century. The Oil Crisis of the 1970s severely hit world economies and led to stagflation—a combination of economic growth stagnation and inflation—particularly in Western economies. The Latin American Debt Crisis of the 1980s saw countries such as Mexico, Brazil, and Argentina weighed down by unsustainable levels of debt incurred due to excessive borrowing and exorbitant interest rates, compelling IMF-sponsored bailouts and economic structural reforms. The Asian Financial Crisis of 1997-1998 saw the vulnerabilities of emerging economies in particular in Thailand, Indonesia, and South Korea as speculative flows of capital generated currency devaluations, flight of capital, and severe recessions.

The 2008 Global Financial Crisis, the biggest financial meltdown in recent times, was triggered by the bursting of the housing bubble in the U.S., subprime mortgage defaults, and irresponsible financial activities of biggest banks. The crisis brought about the collapse of institutions like Lehman Brothers, massive credit freezes, and demands for unprecedented government interventions in terms of multi-trillion-dollar bailouts and stimulus packages. Spillover consequences were felt worldwide, triggering recessions in most economies and regulatory overhauls such as the Dodd-Frank Act in the United States and Basel III banking standards.

More recently, the European Sovereign Debt Crisis (2010s) exposed Eurozone structural weaknesses, with countries like Greece, Portugal, and Spain facing unsustainable debt levels, necessitating international bailouts and austerity. These crises underlined the interdependent character of modern financial systems and the challenges in balancing national economic policy with international stability. The continuous evolution of financial markets, the rise of virtual currencies, and geo-political tensions present new dangers that must be addressed by global institutions like ECOFIN to prevent future financial disasters.

Past Action

In response to financial crises throughout history, the international community has made significant reforms and interventions to stabilize world markets and prevent future crises. The Bretton Woods Conference of 1944 laid the groundwork for modern financial stability by establishing institutions like the International Monetary Fund (IMF) and the World Bank, which were designed to provide economic assistance and promote international cooperation. The U.S. Glass-Steagall Act of 1933 also put commercial and investment banking apart to avoid speculative behavior, but it was subsequently repealed in 1999, sparking fears over financial deregulation.

Following the Global Financial Crisis of 2008, governments around the world imposed tighter financial regulation. The U.S. passed the Dodd-Frank Act (2010) to tighten regulation of banks and financial institutions, and the Basel III banking rules were designed to

put stronger capital requirements on banks around the world. The G20 also assisted in coordinating global financial policies to improve global economic governance. In Europe, the European Stability Mechanism (ESM) was established to lend funds to Eurozone economies in distress.

In response to the impact of debt crises, international financial institutions have developed a variety of debt relief programs. The Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI) were proposed to enable developing countries to reduce unsustainable debt. Following the COVID-19 pandemic, the Debt Service Suspension Initiative (DSSI) was introduced to provide temporary relief to low-income countries facing economic adversity.

Current Situation

Global Debt: Debt levels worldwide have reached all-time highs, creating concern over long-term financial stability. Overall global debt as of 2023 exceeded $300 trillion, with rapidly expanding economies disproportionately vulnerable to weakening currencies and rising borrowing costs. Higher interest rates set by reserve central banks, most notably the United States,”. The European Central Bank and Federal Reserve have pushed it harder for countries to cover debt payments, making sovereign default more likely. Some countries have already defaulted, such as Sri Lanka and Ghana, while others, such as Argentina and Pakistan, are poised on the edge of financial breakdown. ECOFIN is proactively meeting debt sustainability by collaborating with international financial institutions like the IMF and World Bank in creating programs for restructuring and facilitating responsible lending.

COVID-19: Even as more regulation and oversight gets implemented, financial crises remain a constant worry. The COVID-19 pandemic caused unprecedented economic disruptions, requiring massive government stimulus and central bank interventions to prevent economic collapse. In 2020 alone, governments worldwide allocated over $16 trillion in fiscal measures to stabilize markets and support businesses, yet global GDP still contracted by 3.1%. This causes many developing and emerging markets to remain buried deeper with global national debt, compounded interest and inflation complicating pre-existing concerns. According to the International Monetary Fund, over 60% of low-income countries are either at-risk for debt distress or already on the path, with nonpayment default being the most natural outcome. In addition, disruptions in supply chains, shortages of labor, and rising commodity prices have added more strain on global economies, increasing the economic divide between developed and developing countries. The pandemic also revealed vulnerabilities in financial markets, with volatility spiking and global stock markets experiencing unprecedented declines, prompting central banks to take extraordinary actions to rebuild confidence. ECOFIN remains committed to enhancing financial frameworks to address the long-term economic impacts of the pandemic, especially in at-risk areas.

Financial Risks (AI): ECOFIN continues to struggle with new financial dangers like cybersecurity, AI-led market instability, and the debt crisis of sovereign nations. Bank cyber attacks have grown stronger, and incidents like the 2016 Bangladesh Bank heist exposed vulnerabilities of global banking networks. AI and algorithmic trading have also contributed toward making market volatility, with flash crashes demonstrating the extent to which economic instability can be made in a short while. If not controlled, these technologies will perpetuate financial crises rather than prevent them. In addition, high levels of global debt, particularly in developing economies, present a serious challenge. When interest rates rise, most countries face the burden of repayment, making sovereign defaults and economic recessions more likely. Geopolitical tensions, trade disruption, and inflation also complicate the stability of finance. ECOFIN has to promote stronger cybersecurity frameworks, ethical AI regulations, and sustainable debt strategies to counter such risks and boost global economic resilience.

Bloc Positions

Various regional blocs have varying priorities in mitigating financial crises. Some prioritize robust financial regulation, sustainability of debt, and cybersecurity, promoting responsible lending and the ethical use of AI in financial markets. Others, confronted with sovereign debt crises and currency devaluations, demand more debt relief, international support, and safeguarding against predatory lending. Financially vulnerable regions promote financial inclusion, international support, and regulation of digital finance to counter risks. Economic resilience, digital financial innovation, and cybersecurity are prioritized by some nations, while economic diversification, sovereign wealth management, and financial stability are prioritized by others. Protectionist policies, alternative financial systems, and regional formations to counter external economic influence are favored by some blocs. Such differently held views shape global financial policy, balancing national interests with global stability.

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