HIMUNC VII BACKGROUND GUIDE

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The IMF Crash of 2008

Dear Delegates,

Welcome to the seventh iteration of HIMUNC! Thank you for your presence at this year's conference. We extend a warm welcome to each of you and anticipate your active participation. As your chairs, we are committed to ensuring that this committee offers engaging debates and an unforgettable experience. We are eager to have you join us and contribute to the success of this conference.

Our focus in this committee will be on a pivotal moment in recent economic history: the 2008 IMF Crash, a crisis that significantly impacted the global financial landscape. Specifically, we will delve into understanding and mitigating systemic risks, enhancing global financial stability, and addressing inequality and socioeconomic impacts in the post-crisis recovery.

The IMF Crash of 2008 revealed the fragility of the international financial system, exposing vulnerabilities and necessitating measures to rebuild and fortify the global economy. The aftermath called for strategies to navigate the intricate web of systemic risks while striving for stability, resilience, and inclusiveness in the economic recovery.

In this committee, we will address the multifaceted aspects of systemic risk, explore the measures that have been undertaken post-2008, and deliberate on strategies to reduce vulnerability to future crises. Furthermore, we will analyze the socioeconomic impacts of the 2008 crisis, with a particular focus on inequality and the ways in which recovery efforts can be tailored to address these disparities.

Our goal is to collectively work towards solutions that foster sustainable growth, ensure financial stability, and uplift those disproportionately affected by the crisis. We encourage you to bring unique perspectives, insights, and proposals to the table as we navigate this crucial subject.

If you have any questions, thoughts, or need assistance, please do not hesitate to contact the chairs or our Undersecretary-General of Specialized Agencies, Saravana Balaji Mohan Balaji. We look forward to a successful committee and can't wait to witness your contributions!

Regards,

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<u>Topic 1: Systemic Risk and Global Financial Stability Measures Post-2008</u>

The Crash

In 2008, The IMF Financial Crisis occurred. This crisis was triggered by a set of economic and financial downturn events over the course of several years. During the early 2000s, in the United States, the real estate bubble caused by increased demand for houses encouraged many people to buy risky mortgages. These lenders issued subprime mortgages to borrowers and in return would increase the sum of payment rates after a few years. As a result, banks began to sell mortgage-backed securities (MBS) worldwide. Other financial institutions started to create derivatives of these mortgage-backed securities. Later in 2006, home prices began declining rapidly, following a decrease in value for MBS markets. A few financial institutions such as the Lehman Brothers started to receive major backlash and financial stress from this decline and filed for bankruptcy. The crisis quickly began to spread across regions, affecting financial and credit markets worldwide.[1]

From there, the International Monetary Fund (IMF) began to initiate and provide financial assistance and advice to struggling countries. These pivotal events eventually led to the economic global financial crisis of 2008. The measures taken post-2008 were enforced by the G20 forum in an effort to save the crumbling financial economy and reform the social damage that was caused. The G20 conferred with the Federal Security Office (FSB) and began to develop regulatory reforms to stabilize global financial systems. This in turn reduced the risk of future crises. Other examples include the Dodd-Frank Wall Street Reform and Consumer Act in the

[1] "Post-2008 Financial Crisis Reforms." Financial Stability Board, 13 June 2022, www.fsb.org/work-of-the-fsb/market-and-institutional-resilience/post-2008-financial-crisis-reforms/. Accessed 15 Oct. 2023.

United states, signed by President Obama in 2010 to enhance the security and protection by setting restrictions to financial institutions. They had also created programs to assist consumers and limit lender users. These were the first major leaps in gaining back a sustainable and balanced economy.[2]

Where Has The Focus Been?

Since 2008, systemic risk and financial stability have been a main focus for many central banks, authorities, and international organizations whose main goal is to implement various forms of financial stability. Regular stress tests are conducted to assess the resilience of the financial system and the overall economy.[3] The Basel Committee on Banking Supervision introduced the requirement of capital and liquidity requirements to reduce the chances of a financial crisis.[4] Transparent and more improved reporting has been required to help provide more detailed and timely information about the actions made to help reduce the risk. As technology has also improved, there has been an increased effort on protecting and regulating companies and ensuring they don't introduce new risks and cyber threats.

Current Status

The financial crisis of 2008 left a great impact on the global financial system, leading to systemic risks and measures needed to secure worldwide financial stability. In response, numerous countries authorized significant regulatory changes to make financial institutions and the broader system stronger. This included laws like the Dodd-Frank Act in the United States and the international adoption of Basel III standards, which demanded higher capital reserves for

[2]Keregero, Chirongo Moses. 2017. "Systemic Risk and Global Financial Stability." ResearchGate, December. https://www.researchgate.net/publication/323825294_Systemic_Risk_and_Global_Financial_Stability. Accessed 15 Oct. 2023.

[3] Harun, C.A., Gunadi, I. (2022). Financial Stability and Systemic Risk. In: Warjiyo, P., Juhro, S.M. (eds) Central Bank Policy Mix: Issues, Challenges, and Policy Responses. Springer, Singapore. https://doi.org/10.1007/978-981-16-6827-2_5

[4] Acemoğlu, Daron, Asuman Ozdaglar, and Alireza Tahbaz-Salehi. 2015. "Systemic Risk and Stability in Financial Networks." The American Economic Review 105 (2): 564–608. https://doi.org/10.1257/aer.20130456.

banks.[5] This resulted in increased oversight, stress tests, and macroprudential strategies became routine to spot and mitigate systemic risks.[6] To manage the orderly conclusion of financial institutions without causing chaos, technology was used as a resolution mechanism. Recent challenges and circumstances, such as the COVID-19 pandemic, emphasized the need for constant caution and adaptability in addressing systemic risks.[7] As financial markets continue to embrace digitalization, cybersecurity and tech-related risks have become more important. Overall, the period following 2008 has seen a collaborative effort to secure the global financial system's foundations, maintaining financial stability as a continuously evolving dynamic.

Questions To Consider:

1. How did the 2008 crisis affect the stability of the international monetary system, and what changes can be made to address these stability concerns?
2. What is the current status of the global economy, and how does it compare to the pre-2008 era? What challenges and risks still exist, and how can they be addressed?
3. Did countries suffer more because of the 2008 crisis, and how has the IMF helped them since then?

Topic 2: Addressing Inequality and Socioeconomic Impacts in Post-Crisis Recovery

The Economic Downfall

In the wake of the global financial crisis of 2007-2008, addressing inequality

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[5] Hayes, Adam. 2023. "Dodd-Frank Act: What It Does, Major Components, and Criticisms." Investopedia. August 2, 2023. https://www.investopedia.com/terms/d/dodd-frank-financial-regulatory-reform-bill.asp.
[6] Amadeo, Kimberly. 2022. "What Is the Dodd-Frank Wall Street Reform Act?" The Balance. May 31, 2022. https://www.thebalancemoney.com/dodd-frank-wall-street-reform-act-3305688.
[7] European Central Bank. 2022. "Macroprudential Policy Strategy." November 29, 2022. https://www.ecb.europa.eu/ecb/tasks/stability/strategy/html/index.en.html.

and mitigating the socioeconomic impacts became a capital task of international organizations and governments worldwide. The crisis revealed stark imbalances in wealth distribution and highlighted the vulnerability of marginalized communities, leading to their economic downfall. As economies staggered towards recovery, there was a growing recognition that concerted efforts were needed to ensure that the benefits of recovery were equitably distributed.

At the heart of this initiative was the understanding that unchecked inequality could lead to economic progress, and undermine long-term stability. The crisis served as a catalyst for reevaluating economic policies and recalibrating development strategies to prioritize inclusivity and social justice.

The United Nations played a pivotal role in efforts to address these challenges. Through various agencies and initiatives, the UN worked to implement policies and programs aimed at reducing inequality and alleviating the socioeconomic impacts of the crisis. For instance, the UN Development Programme (UNDP) launched targeted projects to provide vocational training and employment opportunities for marginalized communities in affected regions. The UN Economic and Social Council (ECOSOC) convened special sessions to facilitate policy dialogues and share best practices for inclusive recovery.[8]

The purpose of these endeavors was twofold: firstly, to ensure that vulnerable populations were not left behind in the recovery process, and secondly, to create a more sustainable global economy. The emphasis on inclusivity sought to break the cycle of poverty and create opportunities for socioeconomically disadvantaged groups to

[8] Martin. 2023. “Reduce Inequality within and among Countries - United Nations Sustainable Development.” United Nations Sustainable Development. October 20, 2023. https://www.un.org/sustainabledevelopment/inequality/?scrlybrkr=2bf111d9.

participate in the recovery and subsequent growth phases. People at the forefront of these efforts included policymakers, economists, development experts, grassroots organizations, and representatives from civil society. Their collective aim was to craft policies that not only addressed immediate post-crisis challenges but also laid the groundwork for a more equitable future.

Geographically, the focus was global, with particular attention paid to regions hardest hit by the crisis. This included areas with high levels of unemployment, housing market collapses, and financial instability such as Argentina and Ukraine. The UN's initiatives were tailored to the specific needs of each region, recognizing that a one-size-fits-all approach would be insufficient.

The drive to address inequality and economic impacts in post-crisis recovery emerged as a crucial response to the far-reaching consequences of the 2008 financial crisis. Through targeted initiatives and collaborative efforts, the United Nations and its partners worked to ensure that the recovery process was inclusive and that the benefits were shared by all, laying the foundation for a more resilient, equitable global economy.

Current Status

In the aftermath of a crisis, inequality often intensifies, this results in affecting vulnerable populations. Therefore, post-crisis recovery efforts must be guided by principles of equity and inclusion. Immediate assistance and guidance should be directed towards those most in need, enabling access to essentials like healthcare, housing, and food security. Simultaneously, investments in education and skills training can empower individuals to adapt to evolving job markets, with a focus on bridging the digital divide. Progressive tax systems and fair labor practices can help mitigate income disparities while fostering diverse and inclusive workforces can boost innovation and productivity. Overall, a comprehensive and compassionate approach to recovery, centered on addressing inequality, not only supports the vulnerable but also fosters resilience and shared success.[9]

Future

The future status of addressing inequality and socioeconomic impacts has been an important concern for both global organizations and policymakers. Over time, they have prioritized policies aimed to help vulnerable groups of people and ensure they have effective benefits of recovery. Education and programs that help work on skill training have been more invested in to help individuals adapt to the economic changes and circumstances in employment. Healthcare has also been more accessible and affordable, especially since the start of COVID-19. Focus on many gender and workforce-related policies have increased and their positive impact continues to help reduce socioeconomic disparities. Living communities and conditions have also greatly improved as investments in underserved communities increase.

Questions to Consider:

1. What new policies can be put into place to promote fair labor practices and progressive tax systems with the aim of decreasing income disparities?
2. Considering the long-term impact of the COVID-19 pandemic, how can responses to this period enhance strategies for addressing post-recovery efforts?

[9] "Lasting Effects: The Global Economic Recovery 10 Years after the Crisis." 2018. IMF. October 3, 2018. https://www.imf.org/en/Blogs/Articles/2018/10/03/blog-lasting-effects-the-global-economic-recovery-10-years-after-the-crisis.

3. What role can technology play in creating equitable economic opportunities and how can these tools be made accessible to society?
4. How can monetary organizations collaborate to ensure recovery efforts are targeted to the specific needs of regions hit by the crisis?
5. What measures can be taken to empower marginalized communities with resources for sustainable, long-term economic participation and growth?

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