Coping with double shock to the global economy by strengthening international macroeconomic policy coordination

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Since 2020, the global economy has been severely impacted by COVID-19 and the Ukraine crisis. The combination of double external shock and the inherent structural problems of the global economy drives the economic growth rate to sustained decline. At the same time, supply and demand factors jointly push up prices on a large scale, forming the fifth episodes of global high inflation after World War II. Sluggish growth and high inflation will severely restrict the improvement of residents' welfare in various countries. The lives of low-income groups around the world have become more straitened, and some low-income countries are facing the threat of humanitarian crises.

The rapid interest rate hikes in major developed economies have created significant growth pressures on most emerging economies, and vulnerable emerging economies are facing higher probability of currency and debt crises. Under the impact of COVID-19 and the Ukraine crisis, the most pessimistic situation is the emergence of a wide-ranging economic and financial crisis. This will have huge impact on global economic growth and the UN Sustainable Development Agenda. Coping with the challenging situation of sluggish growth, rising prices and high risks, governments around the world should demonstrate their solidarity in responding to the 2008 Global Financial Crisis (GFC), strengthen international macroeconomic policy coordination, and push global economic growth back to a normal track as soon as possible.

1. Global economy is facing enormous pressure under the shocks of Ukraine crisis and COVID-19

1.1 The sluggish growth of the global economy will continue after the double shock

After the GFC, the global economic growth shifts downward. The average growth rate in 2010-2019 was 3.7%, 0.8 percentage points lower than 2000-2007. The global economy has not been able to fully recover, mainly due to structural problems including aging population, declining labor productivity, and deteriorating income distribution. COVID-19 and the Ukraine crisis have not only affected economic and financial system, but also exacerbated some structural problems. The global economic growth momentum is still insufficient, and it is expected to continue the sluggish growth trend.

Table 1. Major global economic indicators after the GFC

Indicators	2010-2019	2000-2007
Average global GDP growth rate	3.7%	4.5%
Average GDP growth rate in advanced economies	2.0%	2.6%
Average GDP growth rate in emerging markets	5.1%	6.6%
Average growth rate of global merchandise trade	4.7%	12.1%
Average growth rate of global FDI flows	3.4%	16.5%
Global average non-financial sector leverage ratio	231.3%	206.4%

Data sources: World Bank, UNCTAD, Bank for International Settlements.

1.1.1 With the decline in population growth, the acceleration of aging and the impact of the COVID-19, the labor supply continues to slow down

After the 1970s, the global population growth continued to slow down. After the GFC, the slowdown in population growth became more pronounced. The average annual growth rate of the global population from 2010 to 2019 was 1.16%, 0.36 and 0.1 percentage points lower than 1990-1999 and 2000-2009. The global total fertility rate in 2019 was 2.4, only half of what it was 50 years ago. With accelerating population aging, combining the impact of the COVID-19, the labor supply is slowing down. From 2010 to 2019, the global average growth rate of the working-age population aged 15-64 (referred to as the "working-age population") was 0.95%, 0.67 and 0.53 percentage points lower than 1990-1999 and 2000-2009, respectively. By

2015, the proportion of the global working-age population turns from rising to falling. Factors such as health concerns and nursing responsibilities brought about by the COVID-19 will also reduce labor supply, and the global labor force participation rate has dropped by 1 to 2 percentage points compared to pre-pandemic level. In addition, the impediment of immigrant migrant workers further reduces the labor supply in some advanced economies.

1.1.2 The downward trend of labor productivity growth since the GFC will continue

According to Dieppe (2020), the growth rate of global labor productivity falls from the peak of 2.8% in 2007 to the trough of 1.4% in 2016, recovering slightly then, but remains below 2% in 2018. Emerging markets falls more sharply. The sustained decline in labor productivity is caused by a combination of multiple factors. After the double shock, the adverse effects of some unfavorable factors have expanded.

Firstly, population aging. Adler et al. (2017) find that compared with the 1990s, population aging causes an average annual decline in TFP growth of 0.2 percentage points in advanced economies and 0.1 percentage points in emerging markets from 2000 to 2010. Secondly, the productivity of the service industry is generally lower than that of the manufacturing industry (Sorbe et al., 2018), and the proportion of the global service industry has continued to increase, dragging down the growth rate of labor productivity. In 2018, the proportion of service industry to global GDP is nearly 3 percentage points higher than 2008. Thirdly, the efficiency improvement effect of resource allocation has declined. An important way of improving productivity in emerging markets is the reallocation of resources from the agricultural sector to the non-agricultural sector, but this effect weakened after the GFC. Cross-border M&A is an important channel for the optimal allocation of global resources. According to the statistics of the UNCTAD, the number of cross-border M&A has dropped significantly after reaching a high point in 2007. Although it recovered in 2015, it has shown a downward trend since then. Considering the resurgence of anti-globalization, the resource allocation optimization brought about by cross-border M&A will be further weakened in the future. Fourth, the negative influences of slowdown in global trade growth and the decline in investment on technological diffusion and the formation of economies of scale. After 2008, global FDI has shown a downward trend. In 2019, FDI falls by 40% compared with the peak in 2007. At the same time, the growth rate of trade continued to be lower than that of

GDP after 2008, and the proportion of global merchandise trade in GDP in 2019 is 4.8 percentage points lower than 2007. The COVID-19 and the Ukraine crisis have exacerbated trade protectionism, which makes it more difficult for global FDI and international trade to rebound significantly.

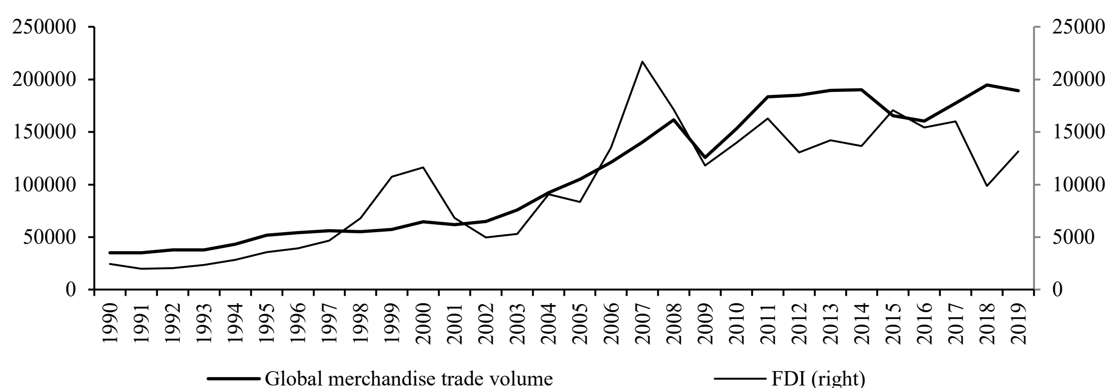

Figure 1. Global merchandise trade volume, FDI flow (billion US dollars)
Data source: UNCTAD.

1.1.3 The global income inequality continues to widen

According to World Inequality Lab's report, from 1980 to 2016, the richest 1 percent accounted for 27 percent of total income growth, but the lower 50 percent only accounted for 12 percent. This trend continues after 2016. The upgrading of the industrial structure increasing knowledge barriers, the concentration of income to high-skilled labor, and the loophole of tax system in some countries leading to lower effective tax rates for high-income groups, all of those factors contribute to worsen the income inequality. The COVID-19 has further deteriorated the global income inequality. The impact of the COVID-19 on social interaction industries is extensive, and low-income groups suffered more. Benefitting from online office, middle and high-income groups are less affected. The World Bank's research report shows that in 2021, the income of the high-income group (the top 20% quantile) loses 2% compared with that before the pandemic, while the low-income group (the bottom 20% quantile) loses 5%, which shows that the income of high-income group recovers faster significantly.

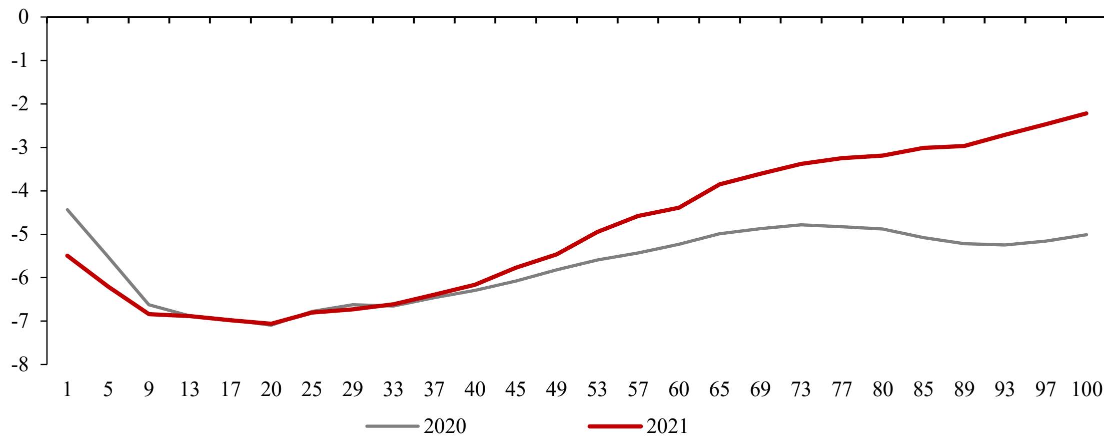

Figure 2. Income loss (%) for different income groups affected by the COVID-19
Note: The horizontal axis represents income percentiles (%).
Data source: World Bank.

1.1.4 Declining rate of fixed capital formation

From 2010 to 2019, the average growth rate of global fixed capital formation was 2.9%, 0.8 percentage points lower than 2000-2007. The reasons for the decline in investment after the GFC are twofold. Firstly, the sluggish economic growth leads to the weak demand. Secondly, facing severe asset losses such as bad debts in the GFC and slow repairing process, the support of financial industry for the real economy declines. From a longer-term perspective, the ageing population, the capital-saving features of technological progress, and the unbalanced distribution of global financial resources all have a negative impact on capital formation. According to IMF (2015), with the dependency ratio of the elderly population increasing by 1 percentage point, the savings rate may decrease by 0.5 to 1.6 percentage points. And the reduction in savings rate would be detrimental to capital formation. The proportion of knowledge-intensive investment (such as algorithms and software) in developed economies has continued to increase. For example, from 2000 to 2019, the proportion of intellectual property investment to whole private investment increases nearly 10 percent points in the United States. The knowledge-intensive investment chain usually is short, which is not conducive to stimulating more fixed asset investment. Emerging markets have large investment needs but are limited in financial resources, continuously facing huge funding gaps. The Global Infrastructure Center (GIH), a non-profit organization under the Group of 20 (G20), predicts that the global funding gap for infrastructure investment will reach $15 trillion by 2040, of which emerging markets account for about two-thirds.

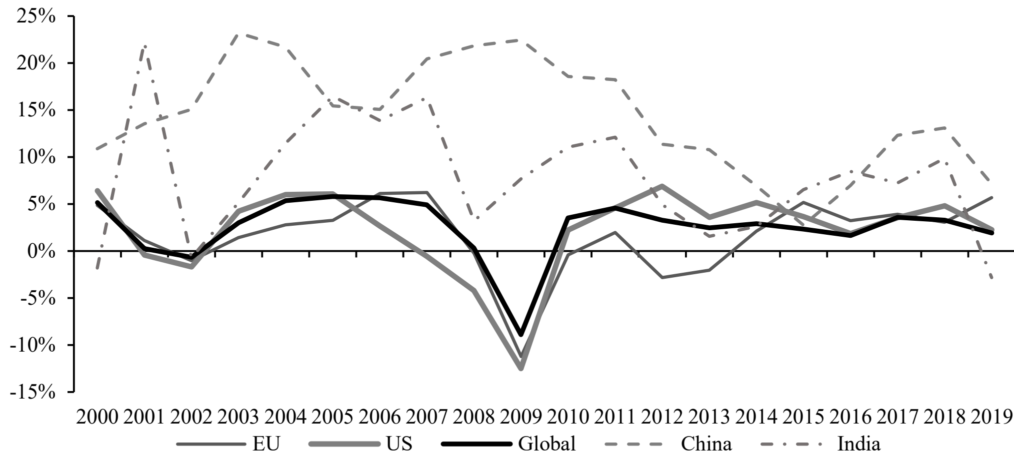

Figure 3. Growth rate of global fixed capital formation

Data sources: World Bank, Wind.

1.1.5 The trend of trade protectionism intensifies, and the adjustment and reconstruction of global supply chain will be detrimental to global economic growth

After the GFC, trade protectionism and anti-globalization have been on the rise, and the growth rate of global trade has slowed down significantly. After the COVID-19 and the Ukraine crisis, the localization and regionalization of the global supply chain will be strengthened. Major economies and multinational corporations are placing greater emphasis on security and stability to prevent supply chain disruptions. Many countries have elevated the resilience of supply chains to the national strategy level. The adjustment and reconstruction of the global supply chain are accelerated, and the global value chain is likely to be shortened, which is not conducive to economic growth. By data simulation, OECD (2021) finds that localized value chain adjustment will not only lead to a 5.5% loss in global economic output, but also reduce the economy's ability to withstand exogenous shocks.

1.2 Under the combined effect of supply and demand factors, global inflation rate will remain high

After World War II, the world has experienced roughly five episodes of high inflation. They are the high inflation brought about by the two oil crises in the early 1970s and the late 1970s, and the high inflation in the early 1990s, 2007 to 2008, and the third quarter of 2021 to the present. According to the World Bank, the median global CPI year to year growth rate in April 2022 is 7.8%, of which 9.4% in emerging markets and 6.9% in advanced economies, the latter hitting a new high in nearly four

decades. After then, the inflation level in developed economies such as the United States and the European Union remains high, exceeding 8%, and the high inflation in emerging markets continues. The high inflation in the early 1990s and the high inflation in 2007-2008 mainly occurred in developing countries, and prices in developed economies were relatively stable. The extent of this round of price increases is close to that of the previous two rounds, but it affects more countries than the previous two rounds, and is second only to the two oil crises in the 1970s. Stimulated by large-scale fiscal and monetary rescue policies, driven by the shock from the COVID-19 and the Ukraine crisis, the current high global inflation is caused both by the demand pull and cost push. With major economies tightening monetary policies significantly, demand has gradually slowed down, but supply capacity cannot be fully released due to multiple factors, resulting in global inflation rate higher than pre-pandemic level.

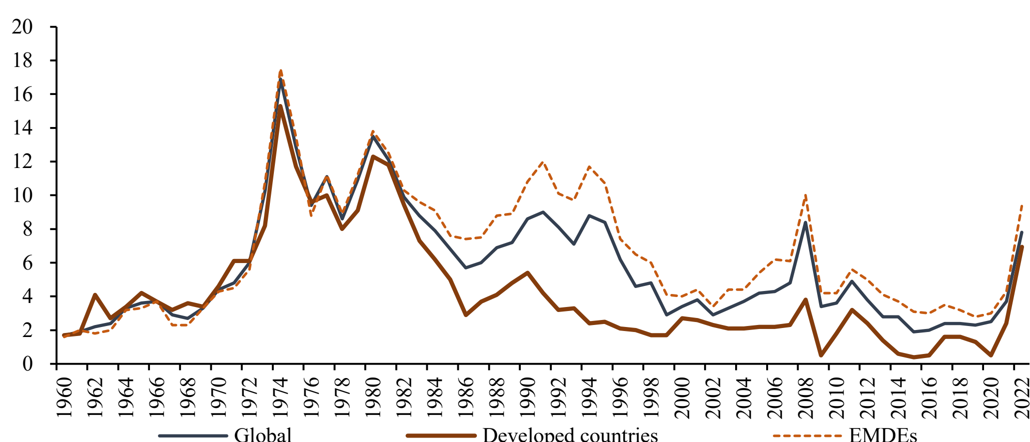

Figure 4. Global CPI Trend (yoy growth rate, %)

Data source: World Bank.

1.2.1 The Ukraine crisis pushes up energy and food prices, and the impact is still ongoing

The accommodative liquidity environment and the surge of demand after the COVID-19 have driven commodity prices to rise sharply. The Ukraine crisis further pushed up commodity prices. According to the World Bank, Russia and Ukraine's exports of energy products such as crude oil, natural gas and coal, 5 metals and minerals (such as cast iron and palladium), and 4 agricultural products (such as wheat and barley) account for more than 10% in global share, and some products accounted for more than 20%. In July 2022, the U.S. EIA predicted that the average price of Brent crude oil in 2022 and 2023 will be $104 and $94 per barrel, an increase of 47%

and 32% compared with 2021, respectively. The World Bank forecast is close to it. Russia, Iran, Venezuela and other countries have idle production capacity due to sanctions, and the global energy supply shortage is hard to be relieved in the short term. In March 2022, UNFAO Food Price Index hits to the historical record of 159.3. In September, the index fell to 136.3, an increase of 5.5% year-on-year and 40% higher than pre-pandemic level. Russia and Ukraine's wheat and corn exports together account for 30% and 20% in global share. Russia is also an important fertilizer exporter. Affected by the Ukraine crisis, the sharp rise in the cost of agricultural materials, the reduction of global food production caused by climate change, and the restrictions on food exports by many countries, global food prices are expected to remain high and may rise again.

1.2.2 Supply chain disruption and restructuring will systematically raise global production costs

Allocation of resources globally can improve production efficiency and reduce production costs. Globalization since the 1980s, especially the entry of emerging markets, is an important reason for the overall decline in global price levels. After the GFC, anti-globalization and trade protectionism have had a negative impact on the supply chain. The outbreak of the COVID-19 and the Ukraine crisis further impacts the effective operation of the supply chain and accelerates the reconstruction of the supply chain from a security perspective. According to data from the New York Fed, the current global supply chain stress index is at high level. Due to the intense geopolitical situation and the restructuring of supply chains, it is difficult for the global supply chain efficiency to return to pre-pandemic levels.

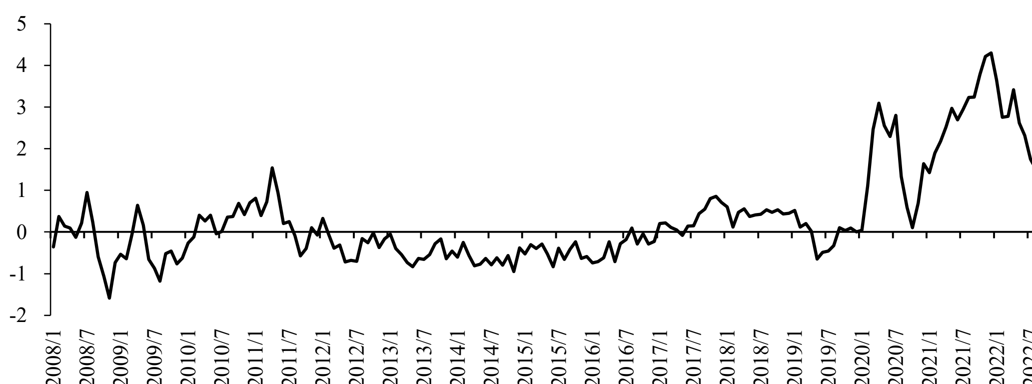

Figure 5. Global Supply Chain Stress Index

Note: Higher numbers indicate greater delays in delivery.
Data source: Federal Reserve Bank of New York.

1.2.3 The market dominance of leading enterprises has been enhanced, and the bargaining power of enterprises has been strengthened

Under the accommodative liquidity environment after the GFC, the market mechanism of survival of the fittest has weakened, and the market dominance of leading companies has increased. After the Covid-19, the situation of insufficient supply has improved the bargaining power of enterprises, and enterprises have enlarged their profits by raising prices. Taking the United States as an example, corporate after-tax profits account for 12% of GDP in 2022, 2-3 percentage points higher than the pre-pandemic level. Studies have shown that, in addition to rising wages and rising raw material prices, the chasing for higher profits is an important reason for the recent price hikes by U.S. companies (Bivens, 2022; Konczal and Lusiani, 2022). 54% of the 2020-2022 U.S. non-financial corporate price increase can be explained by the chasing for higher profits, compared with 11% over the past 40 years. A similar phenomenon exists in developing countries (UNCTAD, 2022). If market competition cannot be effectively enhanced, product prices in highly concentrated industries may remain high.

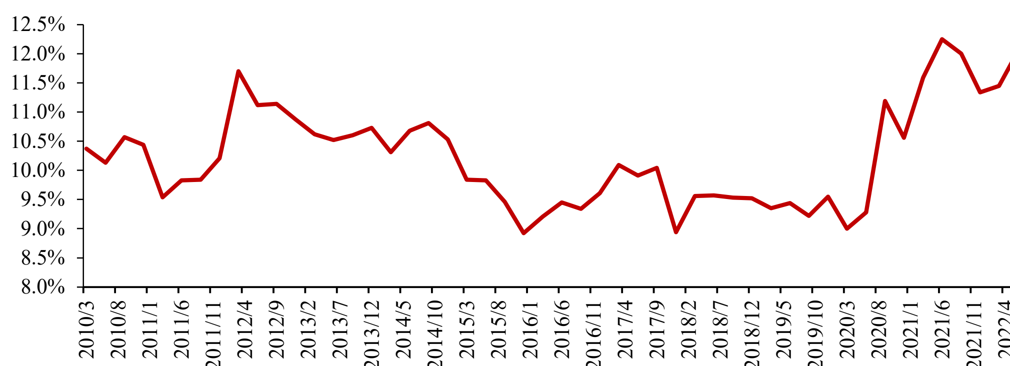

Figure 6. US corporate after-tax profits as a share of GDP

Data source: BEA.

1.3 The global risk level has risen significantly, and the probability of financial crises in emerging markets has increased

1.3.1 Stagflation risk rises as major developed economies raise interest rates rapidly

Under the pressure of high inflation, the Federal Reserve (Fed) rapidly increases the U.S. Federal Funds Rate from 0-0.25% to 3%-3.25% in 2022. By the end of this year, the rate could be 4.25%-4.5%, and Fed will continue to shrink its balance sheet. The European Central Bank ends its multi-year negative interest rate policy, raising

interest rates by 125 basis points during the year, and would continue to raise interest rates. Focusing solely on monetary policy will not only be difficult to solve the high inflation caused by complex structural problems, but will also disrupt the process of global economic recovery. Coupled with the lack of economic growth momentum, the global economy is expected to slow down rapidly, and the stagflation risk will gradually emerge. The WTO predicts that the growth rate of global merchandise trade volume will grow by 3.5% in 2022, 6.2 percentage points lower than 2022, and will further decline to 1.0% in 2023. International organizations including UNCTAD and the OECD predict that the global GDP growth rate will be 2.5%-3% in 2022, about 3 percentage points lower than that in 2021, and will drop to about 2.2% in 2023, significantly lower than the average growth rate of 3.7% in 2010-2019.

1.3.2 Financial market turmoil intensifies as the global liquidity tightening

After the international financial crisis in 2008, major developed economies implemented accommodative monetary policies for more than 10 years, and the financial market continued to deviate from the real economy. From 2009 to 2019, the cumulative increase of major stock indexes in the United States, Germany, and Japan exceeded the increase of real GDP by 5 times. Rapid rate hikes responding to high inflation will reverse abundant liquidity in the past decade, and this will cause a realignment of asset values in financial markets, leading to significant market turmoil. Since the beginning of this year, the global stock market has generally fallen. The major stock indexes in the United States, Germany and Japan have fallen by 25%, 23% and 8% respectively, and the MSCI Emerging Markets Index has fallen by 28%. The government bond yields of major developed economies rise rapidly, and the liquidity in the bond markets of Japan and the United Kingdom gets tight. Corporate bond credit spreads have widened, and default risks of companies with low credit ratings have been rising.

1.3.3 Suffering from multiple shocks, the probability of financial crisis in emerging markets rises

After the international financial crisis in 2008, debt levels in emerging markets rise rapidly. From 2009 to 2021, the leverage ratio of the non-financial sector in emerging markets increases by 116 percentage points, significantly higher than the 51 percentage point increase in advanced economies. The export orientation and resource dependence characteristics of most emerging market countries have not been

fundamentally improved, which intensifies economic and financial vulnerabilities. Under the multiple shocks of high commodity prices, weakening external demand and rapid interest rate hikes in the United States, emerging market exchange rate depreciation and sovereign default risks are rising rapidly. Since last year, emerging markets have been facing capital outflow pressure. In 2021, the top ten emerging market countries[1] invest 265.5 billion dollars in foreign securities, and the international capital inflow is 198.9 billion dollars, leading to 66.7 billion dollars net outflow. Higher U.S. interest rates and the Ukraine crisis have pushed up investor risk aversion, capital outflow pressure in emerging markets is even greater. The pressure of emerging market exchange rate depreciation has increased significantly. Since the beginning of the year, most emerging market countries have depreciated against the US dollar by 10%, and Egypt, Turkey, and Argentina have depreciated by more than 20%. In order to ensure imports and stabilize exchange rates, the foreign exchange reserves of emerging markets are rapidly depleting. As of June this year, the foreign exchange reserves of emerging markets fell by $379 billion, and some countries' foreign exchange reserves have largely been exhausted. The sovereign default risk is rising rapidly. According to Bloomberg statistics, there are 19 emerging market countries with $240 billion sovereign debt trading at distressed levels (yields more than 10 percentage points above the similar-maturity Treasuries), which can indicate investors believe default risk is high. Sri Lanka and Lebanon have already been in sovereign debt defaults, and default risk in Argentina, Pakistan, Egypt is high.

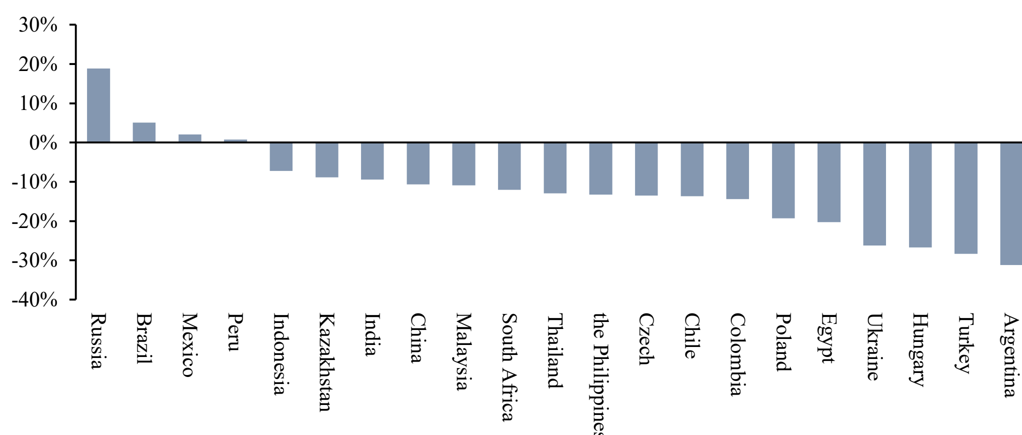

Figure 7. Movements of major emerging market currencies against the US dollar (YTD)
Note. Data ends at 2022.10.12.
Data source: Investing.com.

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[1]The top ten emerging market countries are: China, India, Russia, Brazil, Mexico, Indonesia, Turkey, Saudi Arabia, Poland, and Thailand.

2. Coping with dual shocks needs to increase international macroeconomic policy coordination

The current global economic predicament is caused by exogenous shocks and complex structural problems. Strengthening international macroeconomic policy coordination is an important means to stabilize the global economic and financial system. Internationally, there have been many practices of jointly overcoming crises, interest rate adjustments and monetary policy adjustments through multilateral coordination.

2.1 Responding to the GFC expanded the means of macroeconomic policy coordination

After the GFC, benefiting from timely macroeconomic policy coordination, the global financial market stabilized quickly, and the economy rebounded after a brief recession. International macroeconomic policy coordination provided important support in response to the GFC.

2.1.1 Macroeconomic policies cooperation through the G7 and G20

The G7 and G20 are important international economic policy coordination platforms. After the GFC, major economies used the G7 and G20 for information communication and policy coordination many times, especially the G7 finance ministers meeting in the United States in October 2008 had an important impact on the global response to the financial crisis. At the meeting, the United States put forward principled opinions on dealing with the GFC, including stabilizing financial markets, restoring credit flows, and supporting global economic growth. In response to the crisis, the United States advocated the implementation of large-scale fiscal stimulus policies, while Europe paid more attention to fiscal discipline and financial regulatory reform, and they reached a consensus through the G20 after mutual compromise. G20 members pledged to jointly deploy $1.1 trillion in international funds to jointly deal with the financial crisis (including $500 billion capital increase in emergency relief funds for the IMF), limit trade protectionism, and significantly strengthen financial supervision.

2.1.2 With signing currency swap agreements and joint interest rate cuts, monetary policy coordination has been significantly enhanced

After the subprime mortgage crisis broke out in 2007, the lack of confidence in

the credit market led to a credit crunch, and the global dollar liquidity was tight and continued to increase with the development of the crisis. The Eurodollar market is the largest US dollar offshore market. In December 2007, the Federal Reserve first signed a currency swap agreement of $24 billion with the European Central Bank and the Swiss National Bank, and then successively expanded the scale of currency swaps (close to $600 billion) and participation in central banks. Currency swap agreements provide dollar liquidity support for foreign central banks, alleviate dollar liquidity shortages in various countries, and play an important role in reducing financial market turmoil.

In the context of the continued deterioration of the financial condition in the U.S. and Europe, in October 2008, six central banks including the Federal Reserve and the European Central Bank simultaneously announced a 0.5 percentage point cut in interest rates. Although the Fed did not coordinate with the People's Bank of China, the People's Bank of China also cut rates simultaneously. This is a rare event in history that the world's major central banks have jointly cut interest rates, which eased market panic, and conveyed the determination to act together globally.

2.2 Developed economies have jointly intervened in exchange rates several times to stabilize foreign exchange markets

After the 1990s, major developed economies gradually withdrew foreign exchange market intervention, but they carried out joint intervention several times and achieved effective results, indicating that joint intervention under specific market conditions is an important tool for stabilizing the global foreign exchange market.

2.2.1 In June 1998, the United States and Japan jointly intervened in the devaluation of the Japanese yen

After the 1997 Asian Financial Crisis, many Asian countries faced the challenge of currency devaluation and capital outflow, and the yen also depreciated at that time. In 1998, the excessive depreciation of the yen became a destabilizing factor for the Asian macro economy, which would weaken the export competitiveness of other Asian countries and affect their economic recovery, dampening regional financial stability. In April 1998, Japan implemented exchange rate intervention, which only briefly pushed up the yen exchange rate. In early June 1998, the yen continued to depreciate rapidly against the dollar, and the exchange rate fluctuations increased

significantly. On June 17, 1998, the United States and Japan announced a joint intervention in the yen exchange rate. The United States bought about $833 million in yen assets. The exchange rate of the yen against the US dollar rose by 3.5%, and exchange rate fluctuations returned to normal levels. After the yen exchange rate rose, the stock markets of South Korea, Thailand, Indonesia and other Asian countries all rebounded, and their exchange rates stabilized.

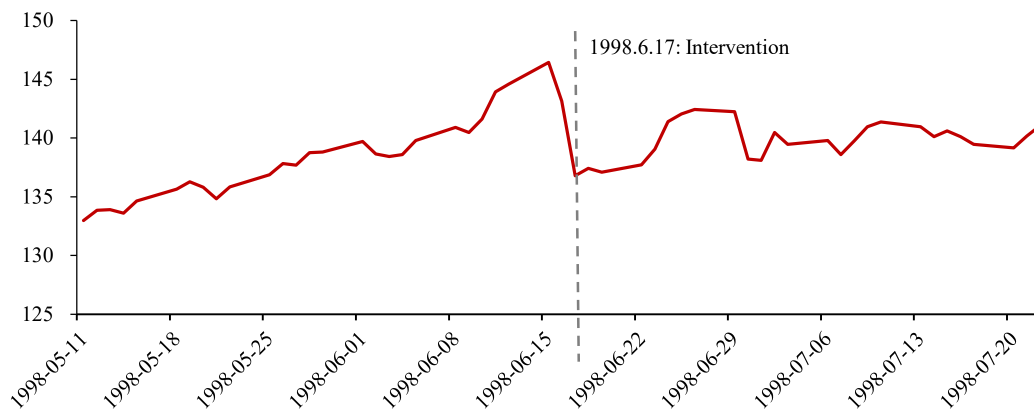

Figure 8. Trend of USD/JPY exchange rate in 1998

Data source: Wind.

2.2.2 In September 2000, the G7 jointly intervened in the devaluation of the euro

After the official circulation in 1999, the euro continued to depreciate. From January to August 2000, the exchange rate against the US dollar fell from 1.03 to 0.89, a depreciation of 16%, which was obviously inconsistent with the economic fundamentals of the Eurozone. The depreciation of the euro contributed to export promotion but also increase inflation rate in the Eurozone, and affected the export competitiveness of other countries such as the United States. The Eurozone has responded to inflationary pressures and supported the euro by raising interest rates several times, but the stabilizing effort was ineffective, and continued interest rate hikes would affect economic growth. On the eve of the G7 finance ministers meeting in September 2000, the European Central Bank, the Federal Reserve and the Bank of Japan simultaneously announced intervention in the euro exchange rate. The United Kingdom and Canada also participated in the intervention. On September 22, 2000, the EUR/USD exchange rate rose by about 4%, reversing the rapid depreciation of the euro.

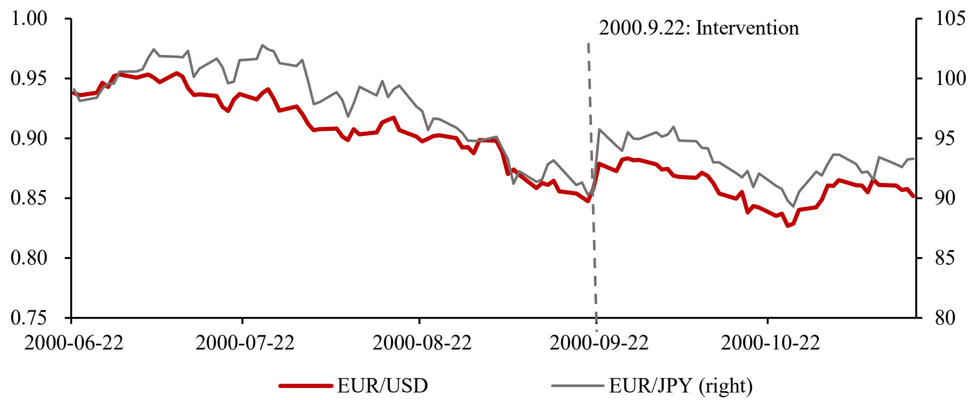

Figure 9. The exchange rate trend of the euro against the dollar and the yen in 2000
Data source: Wind.

2.2.3 In March 2011, the G7 jointly intervened in the appreciation of the Japanese yen

On March 11, 2011, Japan experienced the strongest earthquake in its recorded history. This tremendous shock created great uncertainty in Japanese financial markets. The yen appreciated about 5% against the dollar in a week due to two factors: expectations that Japanese insurance companies would need to liquidate reserves held as foreign assets, and the closing of carry trade positions in which investors borrowed in yen to lend abroad. Japan's stock index, the Nikkei 225, fell 18%, with stock market volatility reaching three times normal levels. The sharp appreciation of the yen would also weaken Japanese companies' export competitiveness of and increase the difficulty of post-earthquake reconstruction. On March 18, 2011, the G7 finance ministers and central bank governors meeting decided to jointly intervene in the yen exchange rate. After the G7 intervention, the yen depreciated against major currencies, its exchange rate fluctuations returned to normal levels, and the Nikkei 225 index rebounded by 5%.

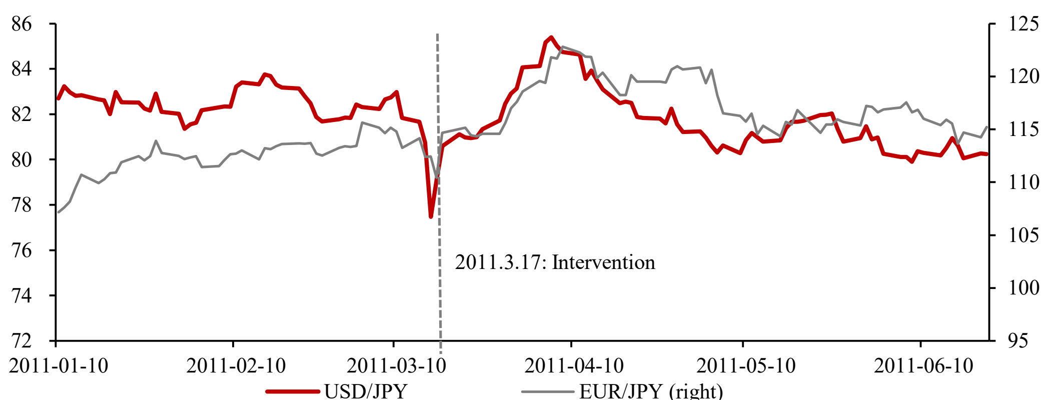

Figure 10. The exchange rate trend of USD/JPY and EUR/JPY in 2011
Data source: Wind.

2.3 The interest rate policy to curb inflation has also undergone international coordination

Stabilizing domestic price levels is the core objective of major central banks. However, when the inflation control policy has a large negative spillover effect, it is also necessary to adjust the policy rhythm. Policy coordination in history has important reference significance for the present.

2.3.1 The Fed adjusted its high interest rate policy in the mid-1980s

During the "stagflation" period of the 1970s and 1980s, major economies raised interest rates substantially to curb inflation. The rate and duration of interest rate hikes in the United States were higher than those in other economies. In December 1980, the federal fund rate was even close to 20%, then lowering but was still significantly higher than other major economies. In 1984, the federal fund rate was about 11%, 6-7 percentage points higher than that of Germany and Japan. At that time, the downward pressure on the global economy has emerged. High interest rates in the United States dampened global trade and increased the pressure on capital outflows from Europe and Japan. With the negotiation between the United States and Germany, France and Japan, the G7 summit in June 1984 issued a joint statement stating that high interest rates would affect global economic growth and increase the burden on debtor countries. In September 1984, the United States started the rate-cut cycle, with a total of 475 basis points of rate cuts from 1984 to 1987.

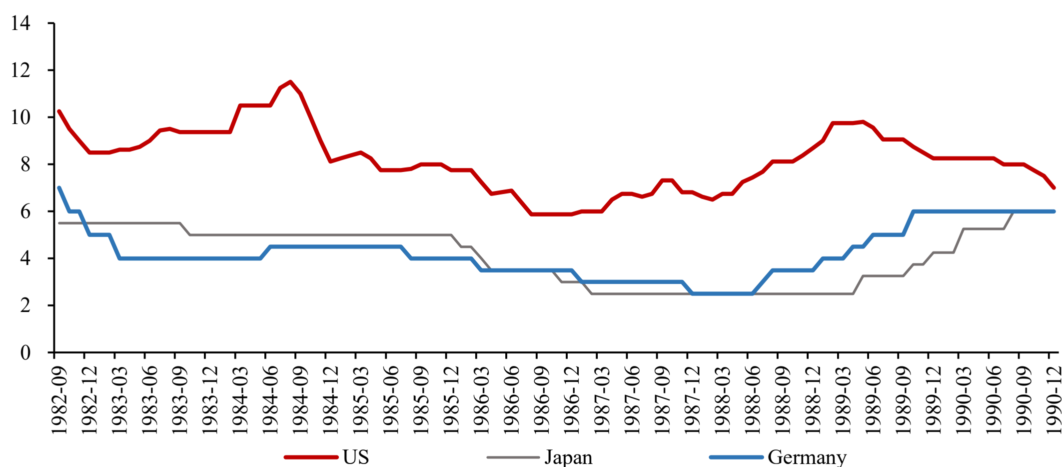

Figure 11. Policy rates (%) in the US, Germany and Japan in the 1980s

Data source: Wind.

2.3.2 In 1992, the Deutsche Bundesbank lowered its policy rate for negative spillover effect

Around the reunification in 1990, with inflation rising rapidly, the Deutsche Bundesbank raised interest rates rapidly, and the discount rate increased from 4% in early 1989 to 8.75% in July 1992, a new high since 1931. In the 1990s, members of the European Monetary System implemented an adjustable fixed exchange rate, with the Deutsche Mark as the anchor currency. Germany's high interest rates make it difficult for other member states to lower interest rates when the economy is down, limiting the room for their macroeconomic policy adjustment. The U.S. and Japan, with policy rates around 5 percentage points lower than Germany, were under capital outflows pressure. Affected by the outbreak of the crisis in the European Monetary System, as well as the impact of international pressures in the United States, France and Japan, with the easing of inflationary pressures, the Bundesbank began to cut interest rates in September 1992, and cut interest rates 14 times from 1992 to 1995, and the discount rate decreased to 3% at the end of 1995. After Germany cut interest rates, European countries including the Netherlands, Denmark and Austria also cut interest rates.

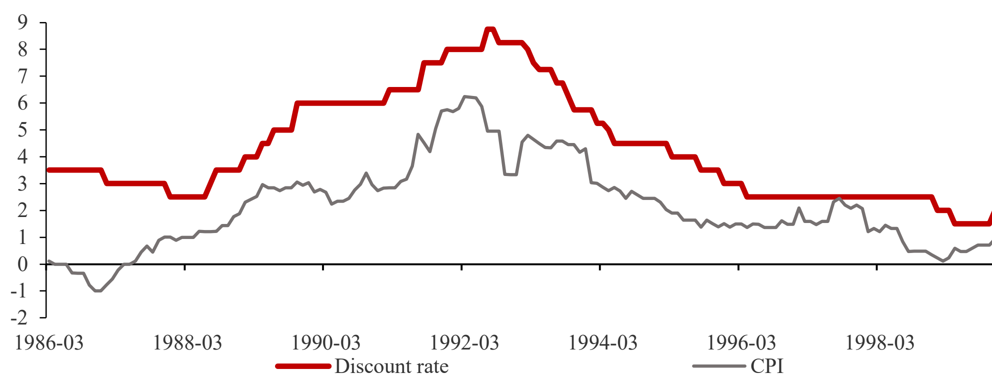

Figure 12. Discount rate and CPI (%) in Germany in the 1990s

Data source: Deutsche Bundesbank, Federal Reserve Bank of St. Louis.

3. Strengthen the coordination of international macroeconomic policies to stabilize the global economy

Under the double shock of the COVID-19 and the Ukraine crisis, the global economic volatility has intensified, the growth momentum has been insufficient, inflation has remained high, and financial risk has risen significantly. To solve the current global economic predicament, it is necessary to greatly strengthen the coordination of international macroeconomic policies, enhance the resilience of the

global economy in response to shocks, and prevent the global economy from falling into a prolonged period of low-speed growth.

3.1 Overcome the multiple obstacles faced by the supply side and unleash the potential of economic growth

Bolster investment weakness. In the past decade, the global fixed capital investment has been insufficient, which has restricted the improvement of supply capacity. There is a huge funding gap for infrastructure construction around the world, especially in emerging markets. Global investment in clean energy is under-invested, far below what is needed to meet global emissions targets[2]. It is necessary to use global infrastructure construction connectivity as a link to create a more inclusive international cooperation public platform, jointly establish high-quality, high-standard and sustainable international financing rules, collectively increase public capital investment, and enrich the international capital pool. Promote multilateral development agencies, policy banks, export insurance agencies and other international entities to jointly participate in international infrastructure construction, which could improve financing capabilities and diversify investment risks. On the foundation of accelerating national investment in clean energy transition, developed countries should increase climate financing support and technical support for developing countries' green transition.

Stabilize commodity prices and strengthen international cooperation in food security. Strengthen the financial supervision of the commodity derivatives market and restrain the excessive speculation of financial institutions. Release idle capacity in the sanctioned regions. Reduce trade controls on food exports and provide humanitarian assistance to emerging market countries in need.

Lower trade barriers and cooperate to improve supply chain resilience. Trade restrictive measures such as tariffs have increased global inflationary pressures. Utilize international platforms such as G20 to prompt member states to commit not to take new trade protectionist measures, and gradually reduce and cancel the trade restrictive measures that have been taken. Strengthen the principles of opening up, cooperation, fairness and non-discrimination, increase efficiency of cross-border

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[2]The International Energy Agency (IEA) projects that energy investment in 2022 is expected to be $1.4 trillion, compared with $2.8 trillion in 2030 to achieve the current climate target and more than $4 trillion in net-zero emissions target in 2050.

goods transportation, reduce restrictions on the export of key raw materials and components, and jointly improve the resilience of the supply chain.

Promote international scientific and technological innovation cooperation. Reduce restrictive measures on foreign direct investment (FDI), improve the transparency and efficiency of the FDI review mechanisms, and unleash the technological spillover effects of multinational companies. On the basis of strict protection of intellectual property rights, strengthen international cooperation in scientific and technological innovation, reduce barriers to transnational transfer of intellectual property right, and promote the exchange and cooperation of global scientific and technological talents.

3.2 Strengthen monetary policy coordination and expand the liquidity supply of major international currencies

Major developed economies are tightening monetary policy to curb inflation, leading to tight global liquidity and rising financing costs. While reducing demand, it also suppresses the ability and willingness of other countries to expand supply, which is not only detrimental to alleviating inflation pressures, but also increases global recession risk. As the U.S. dollar is the dominant reserve currency, the policy makers must consider the impact of dollar liquidity constraints on the global economy, and control the pace of interest rate hikes and balance sheet reductions. Since 2022, with a sharp strengthening of the dollar, other reserve currencies (including the euro, the pound and the yen), as well as emerging market currencies have all experienced substantial depreciation, increasing the imported inflationary pressures of various countries and causing financial market turmoil. The past practice of joint exchange rate intervention has effectively alleviated market panic and reduced foreign exchange market volatility. It is necessary to consider adopting joint exchange rate intervention measures to release a signal to stabilize the foreign exchange market, and to reduce the pressure of exchange rate depreciation and foreign exchange reserve depleting of various countries.

3.3 Strengthen the global financial safety net, improve risk monitoring, and enhance the anti-risk capability of emerging markets

The level of protection of the global financial safety net is unevenly distributed across countries. Developed countries can be covered at multiple levels at the global and regional levels, while many emerging economies could only turn to the IMF.

Emerging economies account for about 40% of the IMF's share, and the annual lending cap cannot exceed 145% of their share. The rescue scale of regional financial arrangements is too small, unable to meet the huge emergency financing needs of emerging economies. Increasing the influence of emerging market countries in the IMF can enhance the ability of emergency financial aid. At the same time, we need to strengthen policy communication through multilateral channels to jointly resolve the debt distress of emerging markets. In the process of rapid interest rate hikes in developed economies, it is necessary to improve global financial risk monitoring and fully consider the sustainability of fragile countries.

3.4 Adapt to the changing global economic pattern and enhance the global economic governance system

In the past two decades, the global economic structure has undergone major changes. Emerging markets have become the main growth drivers of the world, contributing more than 70% of global economic growth, and their proportion relative to the economic volume of developed economies has risen from 25% in 2000 to 73% in 2021. The initiative of emerging markets to participate in global economic governance is also increasing. However, the global economic governance system has not been able to fully adapt to this change, which is still dominated by developed economies. The internal structure unbalance, coupled with some countries implementing unilateralism and trade protectionism, limits the potential growth space of the global economy. On the basis of promoting multilateralism, it is necessary to accelerate the improvement of global economic governance reform, consolidate the responsibilities of major developed economies, and increase international public goods supply. International financial institutions such as the IMF and World Bank should increase the voting rights of emerging markets. The role of G20 in the global economic governance system should be enhanced, forming a regular mechanism for global macro policy coordination. Regional governance is an important supplement to global governance. It is necessary to strengthen regional financial cooperation, enrich the resources of multilateral development financial institutions, and jointly build a regional financial safety net.

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