

G-7 ministers to take on plunging shares, global economic stability

Turmoil from U.S. subprime mess needs stimulus for resolution

YUKO KAWAMOTO
Professor, Waseda University

When finance ministers and central bank governors from Group of Seven major industrialized nations meet in Tokyo on Feb. 9, they are expected to discuss the impact that sharply falling share prices worldwide and a worsening global economic out-

look are having on the real economy, as well as hammer out measures to stabilize the financial markets, which have been thrown into turmoil by the U.S. subprime crisis.

The weakening finances of bond insurers, called monolines, have also emerged as a major issue in the U.S. Against this backdrop, the U.S. Federal Reserve Board cut its federal funds rate target by 50 basis points toward the end of January, after reducing it by 75 basis points earlier that month. President George W. Bush and the U.S. Congress have also announced plans to put together a large-scale stim-

ulus package.

In contrast, persistent inflation fears are tying the hands of European monetary authorities, and the Bank of Japan's target for unsecured overnight call rates is currently set at 0.5%, giving it little room for credit easing in the future. The Japanese and European Union governments cannot put together stimulus packages that are large enough to make any difference, either. Ironically, it is only China and a few other emerging economies that are able to implement such stimulus measures now.

Financial markets have grown rapidly in trading vol-

ume over the last several years to become an entity quite divorced from the global real economy. If monetary authorities try to meet market expectations and raise their hopes too much, this could turn into a new kind of risk. In other words, monetary policy decisions that are made hastily without giving much thought to their full implications could end up increasing inflationary pressure significantly in the not-too-distant future.

The G-7 finance ministers and central bankers will be required to make difficult policy decisions for some time to come.