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Global Finance Chiefs Cite Signs of Stability

G-8 Leaders Call for 'Exit Strategy' for Stimulus, Agree to Craft Common Standards

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Financial chiefs from the Group of Eight industrialized nations yesterday offered their most optimistic assessment yet of the global crisis, noting encouraging signs of economic stabilization and calling for an "exit strategy" from the policies that have been used to stimulate growth around the world.

Following two days of meetings in Lecce, Italy, the eight finance ministers -- including U.S. Treasury Secretary Timothy F. Geithner and his counterparts from Britain, France, Germany, Italy, Canada, Japan and Russia -- also agreed to create "a set of common principles and standards governing the conduct of international business and finance."

The strategy for obtaining those goals, they said in a communique, would be known going forward as "the Lecce Framework," with the objective of identifying and filling in the regulatory gaps that helped cause the current crisis. Geithner, in particular, called on international banking regulators to this year map out better ways to "quickly resolve failures of cross-border financial firms."

In Europe, officials have already moved to adopt new measures for more rigorous oversight of rating agencies and companies selling securitized assets. Geithner pledged the United States would offer its own broad proposals for "more conservative standards" when it unveils a much-anticipated reform plan to overhaul domestic financial regulation later this week.

Treasury officials said yesterday that plan will include measures to set tougher capital standards and oversight for banks, better coordinate oversight of global financial institutions, and improve monitoring and transparency in global derivatives markets.

"Because risk does not respect borders, we will put forward several international proposals in our reform package to help raise standards globally," Geithner said in Lecce yesterday.

Financial chiefs expressed cautious optimism on the global economy, pointing to the recent rebound in stock markets and a bout of encouraging economic data. Signs of a bottoming out of the crisis are particularly strong in the United States and China. Officials said, however, that significant risks remain.

The World Bank last week projected the global economy would contract by 3 percent this year, significantly worse than earlier estimates. Many nations in Europe are mired in deeper recessions than the one in the United States and have moved more slowly to clean up their financial systems. Europe has yet to put many of its banks through the kind of "stress test" the United States conducted, and analysts are concerned about another wave of bank failures in Europe, which could hinder a global economic recovery.

Yet economic signs of life were sufficient for the financial chiefs yesterday to focus on how to wind down massive fiscal and monetary actions worldwide, and to ask the International Monetary Fund to help come up with a plan. Germany, in particular, sounded an alarm over the run-up in already-high deficits from Japan to Britain to the United States, as well as the easy monetary policies of low interest rates and tax cuts seen in some nations.

Although the officials agreed on both the need to continue government spending sprees as warranted, as well as the need to ramp them down as economies improve, there was an important difference of emphasis. The United States and Britain, for instance, appeared to play up calls for "sustained" spending to ensure a recovery, while Germany and other countries highlighted the need to return to fiscal prudence as fast as possible.

"It is interesting that France and Germany, which face prospects of very weak recoveries, continue to be most vocal in cautioning against the risks of stimulus measures," said Eswar Prasad, senior fellow at the Brookings Institution.