LETTER FROM THE EXECUTIVE BOARD

Dearest Delegates,

Welcome to the SHIS MUN 2024
It is with great pleasure that we address you as we embark on this stimulating journey of diplomacy, dialogue, and debate. As you prepare to immerse yourselves in the pressing issues before us, we offer this guide as a compass to orient your initial exploration. However, we urge you not to consider it the final destination of your preparation but rather as a springboard for further inquiry and analysis.
Upon entering the committee, we implore you to embody the role of an expert fully. This entails not only exercising diplomacy and maintaining decorum but also demonstrating the initiative and resourcefulness characteristic of effective diplomats. Our simulation is designed to evaluate not just your research prowess or public speaking skills but your comprehensive abilities as a global citizen and leader.
In this dynamic environment, we encourage you to engage in constructive dialogue, logical debates, and collaborative problem-solving. Remember that the notions of 'right' and 'wrong' are often nuanced and context-dependent, and our aim is to foster a spirit of flexibility and open-mindedness among all participants.
While this guide provides a foundation, we urge you to delve deeper, drawing upon your own experiences, insights, and perspectives. Your unique portfolio and the depth of your research will shape the quality of discourse within our assembly.
Should you have any questions or require clarification on any matter, do not hesitate to reach out to us. Your active participation and dedication are crucial to the success of our simulation.
We eagerly anticipate the exchange of ideas and the collaborative efforts that lie ahead. May your endeavours be marked by fruitful deliberations and meaningful contributions.

Godspeed! We eagerly await your presence and participation.
Warm regards,

Tatva Amogh Anjaneya Singh Shekhawat
(Co-Chair) (Co-Chair)

Introduction to the Agenda

What is an economic recession?

- A recession is a significant, pervasive, and persistent decline in economic activity.
- Economists measure a recession's length from the prior expansion's peak to the downturn's trough.
- Recessions may last as little as a few months, but the economy may not recover to its former peak for years.
- An inverted yield curve has predicted the last 10 recessions, although some predicted recessions never materialised.
- Unemployment often remains high well into an economic recovery, so the early stages of a rebound can feel like a continuing recession for many.
- Nations use fiscal and monetary policies to limit the risks of a recession.

What is the economic deficit?

In financial terms, a deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets. A deficit is synonymous with a shortfall or loss and is the opposite of a surplus. A deficit can occur when a government, company, or person spends more than it receives in a given period, usually a year.

- A deficit occurs when expenses exceed revenues, imports exceed exports, or liabilities exceed assets in a particular year.
- Governments and businesses sometimes run deficits deliberately, to stimulate an economy during a recession or to foster future growth.
- The two major types of deficits incurred by nations are budget deficits and trade deficits.

About the US Economy

Constituting less than 5 percent of the world's population, Americans generate and earn more than 20 percent of the world's total income. America is the world's largest national economy and leading global trader. The process of opening world markets and expanding trade, initiated in the United States in 1934 and consistently pursued since the end of the Second World War, has played an important role in the development of American prosperity. According to the Peterson Institute for International Economics, American real incomes are 9% higher than they would otherwise have been as a result of trade liberalising efforts since the Second World War. In terms of the U.S. economy in 2013, that 9% represents $1.5 trillion in additional American income.

About the US Economic Deficit

Understanding the Deficit

The US federal budget deficit is the annual shortfall between government revenue (primarily taxes) and government spending. When spending exceeds revenue, the government must borrow money to cover the difference, adding to the national debt.

The Current Situation

As of FY 2023, the US budget deficit was $1.7 trillion, representing 6.3% of the Gross Domestic Product This is a significant increase from recent years, though it's important to note that deficits often spike during economic downturns or crises.

- **Bipartisan Policy Center's Deficit Tracker:** This source provides real-time data on the deficit. According to their May 2023 report, the deficit was $348 billion, an increase of $108 billion year-over-year. While revenues increased by 5%, outlays surged by 23%.
- **US Treasury Fiscal Data:** This official source offers comprehensive data on the national deficit. Their data indicates a decrease in the deficit for the period October 2023 to June 2024 compared to the previous year.However, the overall deficit remains substantial.

Factors Driving the Deficit

Several factors contribute to the widening deficit:

1. **Increased Government Spending:**
    - Social Security and Medicare: These programs are facing rising costs due to an aging population.
    - Defence Spending: Military expenditures have been on the rise in recent years.

    - Interest Payments: As the national debt grows, so does the interest the government must pay on it.
2. **Tax Cuts:** Recent tax cuts have reduced government revenue.
3. **Economic Downturns:** Recessions typically lead to lower tax revenue and increased government spending on safety nets.

<u>Concerns and Implications</u>

A large and growing deficit can have several negative consequences:

- **Increased National Debt:** The deficit contributes to the accumulation of national debt, which can limit the government's ability to respond to future crises.
- **Higher Interest Rates:** As the government borrows more, it can drive up interest rates, affecting consumers and businesses.
- **Slower Economic Growth:** High debt levels can hinder economic growth by crowding out private investment.
- **Reduced Global Confidence:** A large deficit can erode confidence in the US economy, affecting currency exchange rates and investment.

<u>Addressing the Deficit</u>

Reducing the deficit requires a combination of spending cuts and revenue increases. Potential solutions include:

- **Entitlement Reform:** Making changes to Social Security and Medicare to control costs.
- **Tax Reform:** Revising the tax code to increase revenue without harming economic growth.
- **Spending Cuts:** Identifying areas where government spending can be reduced without compromising essential services.
- **Economic Growth:** Promoting economic growth can increase tax revenue and reduce the deficit as a percentage of GDP.

Introduction to the International Monetary Fund (IMF)

Welcome to the International Monetary Fund Committee session at this year's SHIS Model United Nations conference. As representatives in this crucial forum, you will step into the role of IMF officials and member state delegates, working together to address global financial stability and economic growth challenges.

Established in 1944, the IMF plays a pivotal role in the international monetary system by promoting global economic stability and financial cooperation. Its mission encompasses providing financial assistance to member countries in need, offering policy advice, and fostering global monetary cooperation. With 190 member countries, the IMF's decisions have far-reaching impacts on global economic policies and financial stability.

This committee session will focus on key issues currently facing the IMF, including financial crises management, debt sustainability, and economic development strategies. Delegates will engage in in-depth discussions and negotiations, striving to create comprehensive solutions to enhance global economic stability and development.

Your task is to represent your assigned country's interests, collaborate with fellow delegates, and contribute to forming effective policies that address both immediate and long-term economic challenges. We look forward to a productive and insightful session as we tackle these pressing global issues together.

Key issues pertaining to the Agenda

The US Economic Deficit

The United States' fiscal health has deteriorated significantly in recent years. The federal budget deficit, the annual shortfall between government revenue and expenditure, has expanded dramatically. In fiscal year 2023, the deficit reached a staggering $1.7 trillion, constituting 6.3% of the Gross Domestic Product - a substantial increase from previous years (Office of Management and Budget, 2023). This trajectory is unsustainable. as it implies a burgeoning national debt with consequential implications for economic growth and international standing.

The repercussions of such a massive deficit extend beyond domestic borders. As the US government borrows heavily to finance its expenditures, it exerts upward pressure on global interest rates. This phenomenon, often termed "crowding out," can stifle private investment, hindering economic growth not only within the US but also in other countries reliant on capital markets. Furthermore, a persistently large deficit can erode confidence in the US dollar as a reserve currency,potentially affecting its exchange rate and influencing global trade patterns.

To mitigate the risks associated with the burgeoning deficit, policymakers must adopt a comprehensive approach. This includes a combination of spending cuts and revenue enhancements. However, achieving a delicate balance between these measures is challenging, particularly in a politically polarized environment. Moreover, the global economic landscape, characterized by increasing geopolitical tensions and the specter of recession, complicates the policymaking process.

Global Economic Recession

The specter of a global recession casts a long shadow over the world economy. A confluence of factors, including persistent inflation, aggressive monetary tightening by central banks, and geopolitical uncertainties, has heightened recession fears. Key economic indicators, such as inverted yield curves and declining manufacturing activity, have sent warning signals.

The interconnectedness of the global economy exacerbates the risks of a recession. Supply chain disruptions, initiated by the COVID-19 pandemic, have exposed the fragility of global trade. A downturn in one major economy, such as the US,can trigger a domino effect, impacting countries across the globe through trade, financial channels, and confidence shocks. The 2008 financial crisis serves as a stark reminder of the interconnectedness of the global economy and the potential for rapid contagion.

Policymakers worldwide are grappling with the challenge of balancing the need to combat inflation with the imperative of supporting economic growth. Central banks have embarked on aggressive monetary tightening campaigns, raising interest rates to cool down overheating economies. However, this approach carries the risk of inducing a recession. Governments,on the other hand, face the dilemma of providing fiscal stimulus to bolster economic activity while maintaining debt sustainability.

Debt Management

The issue of debt management has assumed paramount importance in recent years. Many countries, both developed and developing, have experienced a significant increase in their debt-to-GDP ratios. This metric, a key indicator of a country's fiscal health, has raised concerns about long-term sustainability.

For heavily indebted countries, the prospect of debt crises looms large. The COVID-19 pandemic exacerbated debt burdens, and the subsequent rise in interest rates has further compounded the problem. To address this challenge, a combination of debt relief, restructuring, and sustainable growth strategies is required. International cooperation, through institutions such as the International Monetary Fund and the World Bank, is essential in facilitating debt resolution and preventing financial contagion.

Global Trade and Investment

Global trade has been buffeted by a series of challenges in recent years. Protectionist measures, geopolitical tensions, and supply chain disruptions have created a complex and uncertain environment for businesses. A potential recession could further exacerbate these challenges, leading to reduced trade flows and investment.

Foreign direct investment is a crucial driver of economic growth, job creation, and technology transfer. However,the global economic outlook, coupled with geopolitical risks, has dampened investor sentiment. To attract FDI, countries must create conducive business environments, characterized by political stability, sound economic policies, and robust infrastructure.

Financial Market Volatility

Financial markets have exhibited increased volatility in recent years, reflecting underlying economic and geopolitical uncertainties. The interconnectedness of financial markets means that shocks in one market can rapidly spread to others,potentially leading to systemic risks.

To mitigate financial stability risks, policymakers must adopt a combination of macroprudential and microprudential measures. Macroprudential policies focus on the overall financial system, while microprudential regulations target individual financial institutions. Early warning systems, stress testing, and effective crisis management frameworks are also essential components of a robust financial regulatory regime.

Social and Economic Impact

The consequences of economic downturns are felt most acutely by vulnerable populations. Job losses, declining incomes,and reduced access to essential services can exacerbate social inequalities and poverty. Governments must prioritize social safety nets, employment support programs, and income redistribution measures to mitigate the negative impacts of economic shocks.

Moreover, the provision of quality public services, such as education, healthcare, and infrastructure, is crucial for long-term economic growth and social development. Governments must balance the need to reduce public spending with the imperative of maintaining essential services.

International Cooperation

Addressing global economic challenges requires a concerted effort from the international community. Multilateral institutions, such as the IMF, World Bannk, and WTO, play a pivotal role in fostering cooperation and providing financial support to countries in need.

The G2O, as a forum for major economies, has emerged as a key platform for addressing global economic issues.However, the effectiveness of multilateral cooperation is contingent on the willingness of member countries to prioritize common interests over national agendas. Geopolitical tensions and diverging economic priorities can hinder progress on global cooperation,

BINDING SOURCES

Official United Nations Documents

Resolutions, reports, and statements issued by the UN Security Council, General Assembly, International Court of Justice,and other UN bodies form the cornerstone of international law and policy. These documents provide authoritative perspectives on global issues.

Government Statements and Documents

Official communications, speeches, and policy papers from relevant governments offer insights into national positions,diplomatic stances, and domestic policies. These documents are crucial for understanding the perspectives of different countries.

International Treaties and Agreements

Multilateral and bilateral treaties, conventions, and agreements establish legal frameworks governing international relations. These documents outline the rights and obligations of states, providing essential context for analyzing global challenges.

Reports from International Organizations

Documents and reports from organizations like the World Bank, IMF, WHO, and others offer data-driven analyses,recommendations, and assessments of global trends and challenges. They provide valuable insights into economic, social,and health issues.

Academic Journals and Research Papers

Peer-reviewed articles and research papers published in academic journals offer in-depth analysis, original research, and expert opinions on various topics. These sources contribute to the scholarly understanding of complex issues.

Credible News Sources

Reports from established and reputable news organizations provide timely information, diverse perspectives, and eyewitness accounts. These sources are essential for staying updated on current events and understanding public opinion.

Historical Records and Documents

Primary and secondary historical sources offer context and background information on past events, diplomatic relationships, and conflicts. These documents help to understand the evolution of issues over time.

Human Rights Reports

Reports from organizations like Amnesty International, Human Rights Watch, and the UN Office of the High Commissioner for Human Rights document human rights abuses and violations. These sources are crucial for advocating for human rights and accountability.

Data from Think Tanks and Research Institutions

Research and analysis from respected think tanks and research institutions provide in-depth studies, policy recommendations, and data-driven insights on various issues. These sources contribute to informed policymaking and public discourse.

Official Statistical Data

Data from official national statistics offices and international databases provide quantitative information on economic,social, and environmental indicators. These data are essential for evidence-based analysis and policymaking.

Investopedia

As a leading financial and investment education platform, Investopedia offers reliable definitions, explanations, and analysis of economic and financial concepts. It can be a valuable resource for understanding complex economic terms and theories.

QUESTIONS PONDER UPON

1. **Economic Trends**: What are the key indicators suggesting a potential global economic recession, and how might these indicators vary across different regions?
2. **Impact of US Deficit**: How is the increasing economic deficit of the US impacting global financial markets and international trade?
3. **Policy Responses**: What policy measures can the IMF recommend to mitigate the risks associated with a global recession, particularly in relation to the US economic deficit?

4. **Debt Sustainability**: How sustainable is the current level of US debt, and what are the long-term implications for both the US economy and the global financial system?
5. **International Cooperation**: How can international cooperation be strengthened to address the potential global recession, and what role should the IMF play in facilitating this cooperation?
6. **Economic Forecasting**: What are the IMF's current forecasts for global economic growth, and how have recent developments, including the US deficit, influenced these forecasts?
7. **Structural Reforms**: What structural reforms might be necessary for the US to address its growing deficit and reduce the risk of a recession?
8. **Market Reactions**: How have financial markets reacted to concerns about the US deficit and the possibility of a global recession, and what can be done to stabilize market conditions?
9. **Support for Vulnerable Economies**: How can the IMF support economies that are particularly vulnerable to the effects of a global recession exacerbated by the US deficit?
10. **Historical Comparisons**: How does the current economic situation compare to previous global recessions, and what lessons can be drawn from past experiences to address the current challenges?

IMPORTANT RESOLUTIONS PASSED TILL DATE

1. IMF Quota and Governance Reforms (2010)

- **Resolution**: The IMF approved a major overhaul of its quota system and governance structure. The reforms aimed to enhance the representation of emerging and developing economies within the IMF while increasing the financial resources available to the institution.
- **Details**: The reforms included a 100% increase in IMF quotas, which bolstered the Fund's lending capacity and provided a more accurate reflection of the global economy's shifts. This was crucial in addressing the economic fallout from the 2008 global financial crisis.

2. Global Financial Safety Net (2012)

- **Resolution**: The IMF established the Global Financial Safety Net (GFSN) framework to provide support to member countries facing financial distress.
- **Details**: The GFSN included IMF resources, regional financial arrangements, and bilateral swap arrangements. This framework was intended to offer a

coordinated response to financial crises and reduce the impact of global recessions.

3. Debt Sustainability Framework (2013)

- **Resolution**: The IMF introduced an updated Debt Sustainability Framework (DSF) for low-income countries.
- **Details**: The DSF aimed to enhance the assessment of debt sustainability and provide better guidance on managing debt in low-income countries. This resolution was significant in preventing debt crises and promoting economic stability.

4. Enhanced Structural Reform Agenda (2015)

- **Resolution**: The IMF adopted an Enhanced Structural Reform Agenda focusing on structural reforms to boost economic resilience and growth.
- **Details**: The agenda included recommendations for labor market reforms, improved governance, and enhanced fiscal policies. It was designed to support countries in navigating economic downturns and managing deficits more effectively.

5. IMF's Response to COVID-19 (2020)

- **Resolution**: The IMF provided a comprehensive response to the economic impact of the COVID-19 pandemic.
- **Details**: This included rapid financial assistance to member countries through emergency financing facilities, debt relief initiatives for the most vulnerable nations, and support for global economic recovery efforts. The IMF also engaged in policy advice to help countries manage fiscal deficits exacerbated by the pandemic.

6. Review of IMF's Lending Toolkit (2021)

- **Resolution**: The IMF reviewed and updated its lending toolkit to better address evolving global economic challenges.
- **Details**: This involved enhancing the flexibility and effectiveness of IMF lending instruments to provide more tailored support for member countries dealing with economic recessions and financial instability.

7. Sustainable Development Goals (SDGs) Alignment (2022)

- **Resolution**: The IMF aligned its policies and strategies with the UN's Sustainable Development Goals (SDGs).

- **Details**: This included integrating considerations of sustainable and inclusive growth into IMF policy advice, particularly in managing fiscal deficits and promoting economic stability in the face of global challenges.

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Books

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2. **"The Big Short: Inside the Doomsday Machine"** by Michael Lewis
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Journal Articles

1. **"US Fiscal Policy and Global Economic Stability"** by Alberto Alesina and Francesco Giavazzi
   - http://www.nber.org/papers/w14433
2. **"The US Debt Ceiling and Global Financial Markets"** by Mark Zandi
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3. https://www.nber.org/research/data/us-business-cycle-expansions-and-contractions
4. https://www.whitehouse.gov/omb/

Reports

1. **"Global Financial Stability Report"** by the International Monetary Fund
   - http://www.imf.org/en/Publications/GFSR
2. **"The State of the World Economy"** by the World Bank
   - http://www.worldbank.org/en/publication/global-economic-prospects

Research Papers

1. **"Economic Recessions and Financial Market Stability"** by Jeremy C. Stein
   - http://www.nber.org/papers/w18785.pdf
2. **"Fiscal Deficits and Debt: The US Experience"** by Carmen M. Reinhart and Kenneth S. Rogoff
   - http://www.nber.org/papers/w15639

Online Resources

1. **IMF Financial Stability Reports**
   - http://www.imf.org/en/Publications/FSR

2. **World Bank Economic Monitoring**
   - http://www.worldbank.org/en/research/economic-monitoring

Additional Research Areas

https://data.worldbank.org/indicator https://www.oecd.org/ https://www.nber.org/
https://www.fsb.org/https://data.worldbank.org/country
https://www.imf.org/en/Publications/WEO

Important terminologies

1. Fiscal Deficit

- **Definition**: A fiscal deficit is a shortfall in a government's income compared with its spending. A government that has a fiscal deficit is spending beyond its means. The gap between income and spending is closed by government borrowing.
- **Relevance**: Indicates the need for borrowing and impacts economic policy decisions i.e. can influence interest rates and borrowing costs within an economy.

2. Gross Domestic Product (GDP)

- **Definition**: The total monetary or market value of all the finished goods and services produced within a country's borders in a specific time period.

  The calculation of a country's GDP encompasses all private and public consumption, government outlays, investments, additions to private inventories, paid-in construction costs, and the foreign balance of trade.

- **Relevance**: As a broad measure of overall domestic production, it functions as a comprehensive scorecard of a given country's economic health.

3. Debt-to-GDP Ratio

- **Definition**: The debt-to-GDP ratio is a metric that compares a country's public debt to its gross domestic product (GDP). It reliably indicates a country's ability to pay back its debts by comparing what the country owes with what it produces. The debt-to-GDP ratio is often expressed as a percentage
- **Relevance**: It often triggers financial panic in domestic and international markets alike when a country defaults on its debt. The higher a country's debt-to-GDP ratio climbs, the higher its risk of default generally becomes.

4. Monetary Policy

- **Definition**: Refers to central bank activities that are directed toward influencing the quantity of money and credit in an economy. Expansionary monetary policy stimulates a receding economy and contractionary monetary policy slows down an inflationary economy.
- **Relevance**: By incentivizing individuals and businesses to borrow and spend, the monetary policy aims to spur economic activity. Conversely, by restricting

spending and incentivizing savings, monetary policy can act as a brake on inflation and other issues associated with an overheated economy.

5. Fiscal Policy

- **Definition**: Fiscal policy refers to the use of government spending and tax policies to influence economic conditions, especially macroeconomic conditions. These include aggregate demand for goods and services, employment, inflation, and economic growth.
- **Relevance**: Expansionary fiscal policy, with increased spending and tax cuts, stimulates economic activity during recessions. In contrast, contractionary fiscal policy, involving spending cuts and tax increases, helps control inflation during economic booms.

6. Inflation

- **Definition**: Inflation is a gradual loss of purchasing power, reflected in a broad rise in prices for goods and services over time.

  The inflation rate is calculated as the average price increase of a basket of selected goods and services over one year.

- **Relevance**: Affects cost of living and economic stability. It aims to measure the overall impact of price changes for a diversified set of products and services. It allows for a single value representation of the increase in the price level of goods and services in an economy over a specified time.

7. Recession

- **Definition**: A recession is a significant, widespread, and prolonged downturn in economic activity. A common rule of thumb is that two consecutive quarters of negative gross domestic product (GDP) growth indicate a recession.
- **Relevance**: Impacts employment, investment, and overall economic activity. Recovery from a recession typically involves economic stimulus measures and policy interventions to restore growth and stability.

8. Global Economic Stability

- **Definition**: A state of consistent and predictable economic performance across the world, characterised by moderate inflation, steady growth, and low volatility in financial markets. It implies balanced economic interactions between countries, minimal disruptions in trade and investment flows, and resilience against global financial crises.

- **Relevance**: Important for preventing crises and ensuring sustainable economic development; achieving global economic stability involves coordinated international policies, effective regulation, and economic reforms that foster sustainable development and reduce systemic risks.

9. Debt Sustainability

- **Definition**: The ability of a country to meet its debt obligations without requiring debt relief or accumulating arrears.
- **Relevance**: Crucial for long-term economic stability and creditworthiness -underpins financial stability, minimises default risk, and maintains investor confidence by aligning debt levels with economic capacity and growth potential.

10. Quantitative Easing (QE)

- **Definition**: A non-traditional monetary policy tool used by central banks to stimulate the economy by purchasing securities in the open market to reduce interest rates and increase the money supply.

  Quantitative easing creates new bank reserves, providing banks with more liquidity and encouraging lending and investment.

- **Relevance**: Aims to boost asset prices, enhance liquidity, and encourage borrowing and investment. QE helps counteract deflationary pressures and support economic recovery during periods of stagnation or recession.

11. Current Account Balance

- **Definition**: The difference between a country's savings and its investments, including trade balances, net income, and current transfers. It is is part of a country's financial inflow and outflow record. It is part of the balance of payments, the statement of all transactions made between one country and another.
- **Relevance**: Indicates the country's foreign trade position, activity around a country's industries, capital market, services, and the money entering the country from other governments or through remittances.

12. Interest Rates

- **Definition**: The cost of borrowing money, usually expressed as an annual percentage of the principal amount. It is the cost of debt for the borrower and the rate of return for the lender.
- **Relevance**: Pivotal in influencing economic activity by affecting borrowing costs, consumer spending, and investment decisions.

13. Banking Crisis

- **Definition**: A situation where a bank or several banks face insolvency or severe or liquidity issues, leading to a loss of confidence and widespread financial instability. It typically results in bank runs, credit shortages, and disruptions in financial intermediation.
- **Relevance**: Can potentially exacerbate economic downturns, constrain credit flow, and require substantial government or central bank intervention to restore stability.

14. Exchange Rates

- **Definition**: The rate at which one currency can be exchanged for another.
- **Relevance**: Influence international trade and investment flows, affecting a country's trade balance, inflation, and economic competitiveness. Fluctuations can impact import and export prices, financial stability, and overall economic growth.

15. Structural Reforms

- **Definition**: Long-term, fundamental changes to a country's economic framework, such as labour market adjustments, regulatory overhauls, or tax system modifications..
- **Relevance**: Important for addressing systemic issues in an economy and aimed at improving efficiency, productivity, and growth potential. changes in economic policies or institutional frameworks aimed at improving economic efficiency and growth