

Global

# Economic Watch

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## G20 Finance Ministers and Central Bank Governors Meeting

### Economic Analysis

Modest goals; downgraded agenda; vague agreement

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- **Following the conclusions of the Seoul Summit in November, the 2011 French presidency of the G20 has included on the agenda a new big goal: the reform of the international monetary system.**  
This reform is expected to attract much effort at 2011's meetings. It will try to redefine IMF's Special Drawing Rights to include new currencies (with the Renminbi in mind) and clarify the role of the dollar as a reserve currency. The rest of the agenda includes the well-know G20 issues: rebalancing of growth, coordination of policies and development.
- **After the first Ministers meeting held over the weekend, the main "achievement" was the definition of a set of indicators to monitor the evolution of global imbalances, but they are quite vague.**  
These indicators will be understood as guidelines or benchmarks and will not consist of compulsory targets or bounds. Moreover, given the way the communiqué is written, there is wide scope to interpret whether current account balances, exchange rates and/or monetary policies (including reserve accumulation) will be part of these indicators. As it stands, countries with quite different positions on the matter could easily read the communiqué to suit their own agenda.
- **In spite of the expectations generated over the last few days, there was not much discussion on some other topics.**  
Apparently, issues such as inflation, the volatility of commodity prices, capital controls, currency manipulation or trade wars were not fully addressed.

## The ambitious agenda...

After the Korean presidency, the G20 Finance Ministers and Central Bank Governors Meeting took place in Paris from 18<sup>th</sup> to 20<sup>th</sup> of February under the 2011 French presidency. This was the first top-level meeting after the November's G20 meeting in Seoul, and the first of a series of meetings<sup>1</sup> leading to the G20 Summit in Cannes on 3-4 November. In addition to the follow up of the topics on the agenda for 2011, a few new initiatives have been presented. The French presidency has grouped the key priorities as follows:

1. **Reforming the international monetary system (IMS)**, to establish collective responses to macroeconomic deficiencies (high exchange rate volatility, growing imbalances and ever-increasing stockpiling of foreign exchange reserves by emerging countries). This would also require reducing imbalances and increased coordination of economic policies within the Framework for Strong, Sustainable and Balanced Growth.
2. **Strengthening financial regulation**, by implementing the rules already agreed by the G20 and strengthening financial regulation in other areas, for example commodity markets.
3. **Reducing the volatility in commodity prices**, particularly food and energy.
4. **Supporting employment**, particularly for young people, **and strengthening the social dimension of globalization**: consolidating a floor for social protection systems; respecting social and labour rights; and designing more coherent strategies by international organizations.
5. **Improving global governance**, supporting the role of the G20 as premier economic cooperation body. In particular, strengthening the synergy between the G20 and the United Nations.
6. **Acting for development**. The French Presidency will take to the G20 the debate on development funding through innovative financing, particularly via the financial transaction tax.

## ... gives way to a vague agreement

Despite the ambitious scope of the agenda, the real objectives of this weekend's meeting were much more modest, and have not been met. The only partial achievement was related to global imbalances. Recall that the G20 summit in Seoul wound down on November 12, 2010, with no agreement on targets for current account deficits and surpluses. Instead, the finance ministers of member states were to set out "indicative guidelines," in this meeting to measure and reduce current account imbalances in consultation with the IMF.

Over the weekend, ministers allegedly agreed on a series of economic indicators that will be monitored to control the evolution of global imbalances. These economic indicators include public sector debt and deficits and private debt and savings rates, but also indicators related to external imbalances. However, the key sentence in the four-page "communiqué" is open to interpretation:

*"While not targets, these indicative guidelines will be used to assess the following indicators: (i) public debt and fiscal deficits; and private savings rate and private debt (ii) and the external imbalance composed of the trade balance and net investment income flows and transfers, taking due consideration of exchange rate, fiscal, monetary and other policies."*

The vague reference to policies instead of specific indicators was the compromise solution to avoid the Chinese opposition to the use of current account, exchange rates or monetary reserves as specific indicators to monitor. Thus, the way it is written, some countries (like France, or the US) might say that exchange rates and monetary policies (including reserve accumulation) will be indicators to take into consideration, when determining whether a country's policies lead to imbalances. At the same time, other countries (China) can easily read the opposite. Indeed, Ministers from several countries, in particular US Treasury secretary Geithner, continued exerting pressure to address the need for stronger limits for exchange rate policies. Therefore, this issue seems to be far from over.

Although the French presidency showed great satisfaction for the achievement, it should be clear that the agreement on the indicators does not include any kind of compulsory targets but rather only indicative guidelines or benchmarks. In fact, the IMF has been commissioned to provide an assessment of policies by October. Before that, in April, an agreement should be reached on the specific levels and guidelines for those indicators.

<sup>1</sup> The calendar of events under the French Presidency is as follows: 12 November 2010 : Start of the G20 French Presidency of the G20; 18-19 February 2011: Ministerial Meeting G20 (Finances); 14 April 2011: Ministerial Meeting G20 (Finances); 22-23 June 2011: Ministerial Meeting G20 (Agriculture); 23 September 2011: Ministerial Meeting G20 (Finances); 25-27 September 2011: Ministerial Meeting G20 (Work and Employment); 16 October 2011: Ministerial Meeting G20 (Finances); 3-4 November 2011: Summit of the G20 in Cannes.

In short, the meeting came up with no clear agreement on how to address global imbalances. And even if it were to be clarified later, when the actual list of indicators comes out, the agreement has no teeth, as they are just guidelines.

## Missing points

There were no other big agreements to mention. The G20 also showed their determination to support Egypt and Tunisia, but Saudi Arabia and China seem to have exerted pressure to avoid the use of any kind of reference supporting democracy in the final statement.

There are some issues that, apparently, have not been discussed thoroughly, although some discussion had been expected over the last few weeks. Among them, it is important to note the following:

- Tackling inflation and volatility of commodity prices. Some discussion was expected within the context of policy coordination, in particular, after the central role of loose monetary policies in previous meetings. The communiqué just asked international organisations to report back to the G20 on the drivers of higher commodity prices and to consider possible action. This notwithstanding the fact that the IMF has consistently pointed to fundamentals, not speculation, as the main driver of commodity prices ever since the price spikes of 2008.
- Avoiding protectionist measures. No mention at all.
- Capital controls and intervention on exchange rate markets. There are no evidence of further discussions beyond the (no) agreement on the use of indicators.
- Changes in international monetary system.

Closely related to the last issue, over the last few weeks France had put forward the idea of reforming the international monetary system. This issue will continue to be on top of the agenda during the French presidency, especially after the release of an IMF note on Special Drawing Rights as an alternative reserve asset. Apparently in Paris there has been some discussion on the idea of increasing the number of currencies in the SDR basket. Indeed, IMF managing director Dominique Strauss-Kahn emphasized the need to include the renminbi in the SDR basket as soon as possible, though he also pointed out the difficulties of having a non-convertible currency in the basket.

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