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Economic Watch

Global

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Economic Analysis

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G20 Cannes' Summit

No concrete agreements and no progress on the European debt crisis

- **The main points in the Cannes' original agenda were overshadowed by the European debt crisis and the threat of a Greek referendum**
  The main points in the original agenda included (i) the reform of the international monetary system (IMS) with the idea of convincing China to flexibilize its exchange rate and include its currency in the basket for the IMF's SDR, (ii) reducing global imbalances and supporting global growth, trying to obtain a commitment from countries with external surpluses to increase demand and countries with a more solid fiscal position to support private sector demand, and (iii) strengthening financial regulation, where the main proposal backed by France and Germany was the introduction of a financial transactions tax

- **Advancing on the solution of the European debt crisis gained center stage, but there was no major progress on that front either.**
  The G20 leaders welcomed the eurozone rescue plan agreed in Brussels in October, but there was no reference to supporting the EFSF from non-eurozone countries. In addition, the G-20 reached no agreement on how the IMF could assist in resolving the euro-zone debt crisis. Any decisions on how funds could be channeled through the IMF are postponed to a meeting of G20 finance ministers in February. It is not clear how the announced new IMF facility (a Precautionary and Liquidity Line, PLL) improves existing IMF facilities (FCL and PCL). The only silver lining is the agreement to have the IMF monitor the implementation of Italy's commitments for reform. This is important as Italy has not convinced eurozone leaders with its proposed reform measures, and shows that Italy is now the main source of concern on the eurozone sovereign front. However, as the only decision of substance in respect to the eurozone crisis, this is a very poor result.

- **Scant advances on the original points of the G20 agenda. Chinese position on exchange rate flexibility and global imbalances remains unchanged**
  There were only vague commitments from China to more balanced growth, but nothing that has not been said before, and no mention whatsoever of changing its exchange rate management, even with the sweetener of including it into the IMF's SDR basket. Chinese declarations about global imbalances were also very vague. Solutions to global imbalances get postponed once again.

- **No commitments were made on specific measures to promote growth**
  The G20 said countries where public finances were strong were committed to take measures to support domestic demand and countries with large external surpluses committed to increase domestic demand and increase exchange rate flexibility. But there were no specific commitments to new measures from individual countries.

- **As expected, there was no consensus on a financial transactions tax. The list of global SIFIs focuses the attention**
  The release of the list of 29 Global SIFIs played a prominent role, although there are serious doubts about the coherence of the SIFIs framework, including the possibility of exacerbating moral hazard as markets may interpret that Global SIFIs have implicit public sector support. As expected, the proposal of a financial transactions tax, reached no consensus on the face of strong opposition from the US and UK, despite French efforts.

- **All in all, the G20 summit turns out to be a lost opportunity**
  The badly managed euro crisis forced a last minute change in the agenda for the G20 summit, as all countries wanted to be certain what was going to happen in Greece before deciding anything. The threat of a Greek referendum and the possibility of a disorderly default meant that countries outside Europe wanted the eurozone to demonstrate it had the crisis under control before they consider additional IMF resources. In the end, there were no advances on the G20 and the IMF building a financial protection wall for Italy and Spain. Thus, an opportunity to reduce market tensions in Europe was lost. This is further evidence that the solution to the European debt crisis will have to start from within Europe.

  As for the medium-run issues such as promoting growth and addressing global imbalances, there were no changes in deeply established positions, especially in China, so no major progress could be achieved relative to previous summits. We will thus have to wait and see if the gulf separating surplus and deficit countries is bridged, an unlikely proposition as of now.

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