Global

Economic Watch

Madrid, 21st February 2011

G20 Finance Ministers and Central Bank Governors Meeting

Modest goals; downgraded agenda; vague agreement

Economic Analysis

Economic Scenarios Unit
Juan Ruiz
Chief Economist
juan.ruiz@grupobbva.com

Jorge Rodríguez Vález
jorge.rv@grupobbva.com

- **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 18th to 20th 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[1] 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.

[1] 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.

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances, investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

This document is provided in the United Kingdom solely to those persons to whom it may be addressed according to the Financial Services and Markets Act 2000 (Financial Promotion) Order 2001 and it is not to be directly or indirectly delivered to or distributed among any other type of persons or entities. In particular, this document is only aimed at and can be delivered to the following persons or entities (i) those outside the United Kingdom (ii) those with expertise regarding investments as mentioned under Section 19(5) of Order 2001, (iii) high net worth entities and any other person or entity under Section 49(1) of Order 2001 to whom the contents hereof can be legally revealed.

The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA and the rest of entities in the BBVA Group which are not members of the New York Stock Exchange or the National Association of Securities Dealers, Inc., are not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".