

THE WORLD ECONOMY AND THE G-20 AGENDA

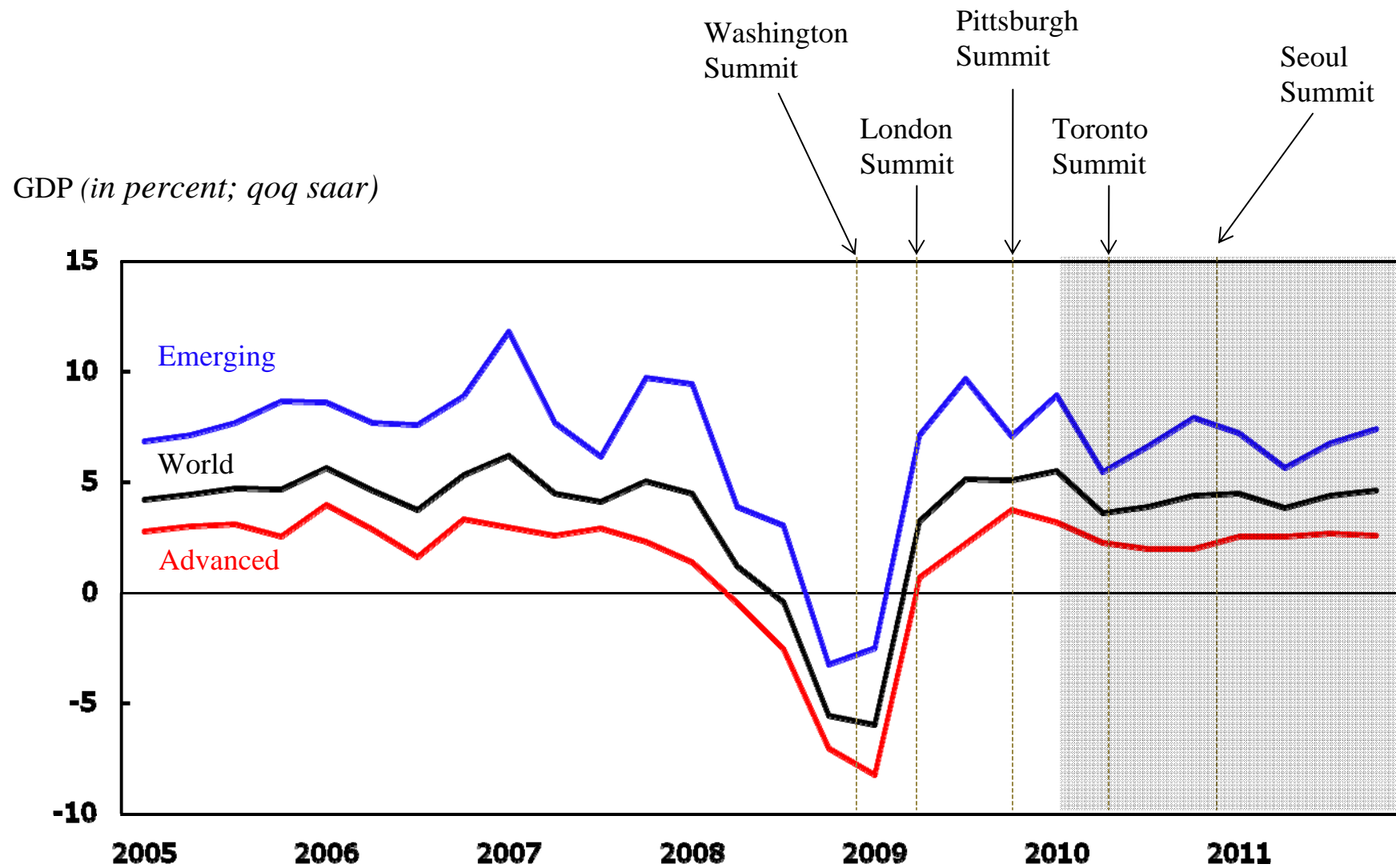
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* This presentation is adapted from the publications of Korea's Presidential Committee for the G-20 Summit.

1. Overview

Global Economy: Multi-speed Recovery



Source: IMF, World Economic Outlook

Global Economy: Growth Momentum



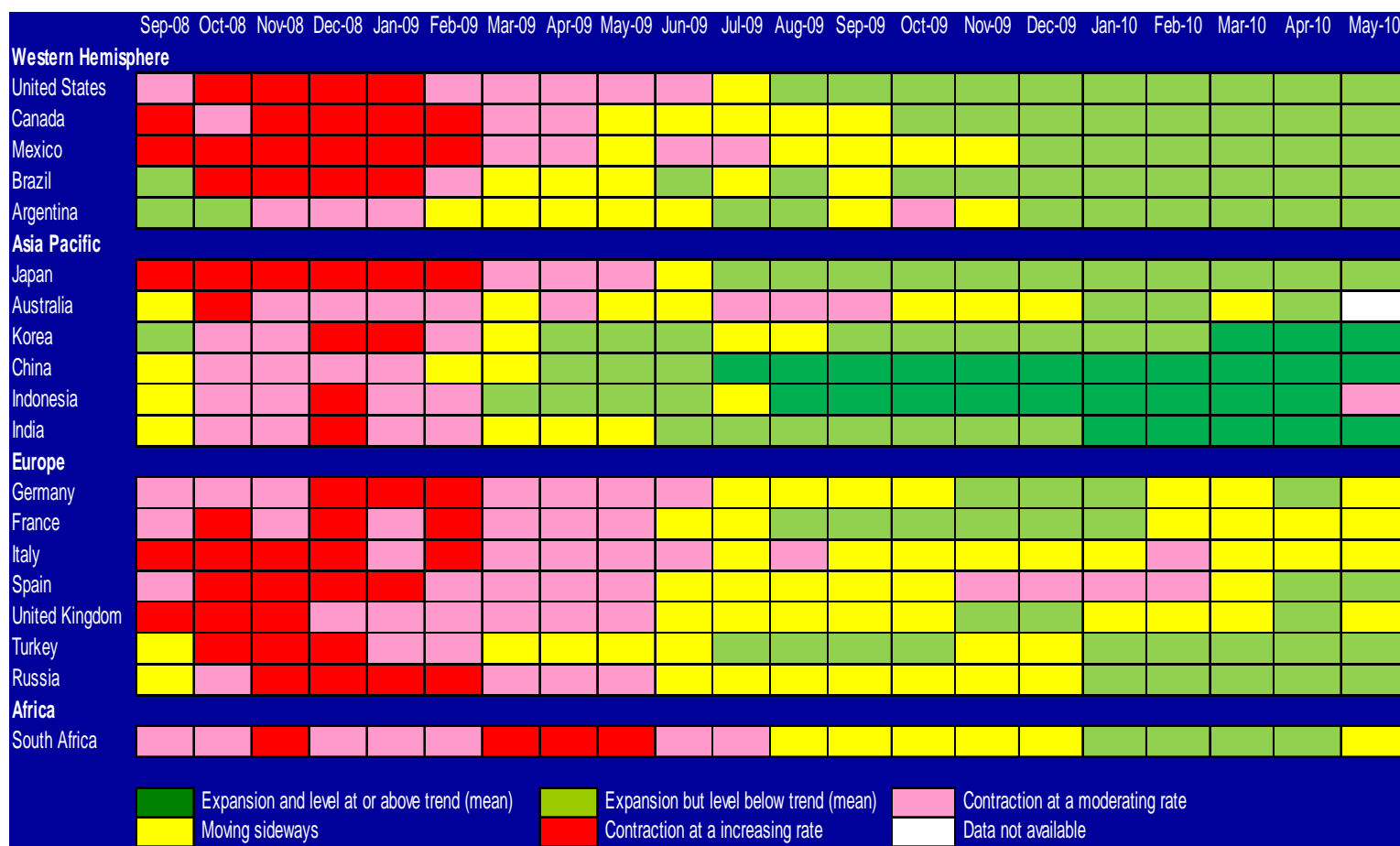
Lehman Brothers
Bankruptcy

Washington
Summit

London
Summit

Pittsburgh
Summit

Toronto
Summit



Source: IMF, Growth Momentum Indicator

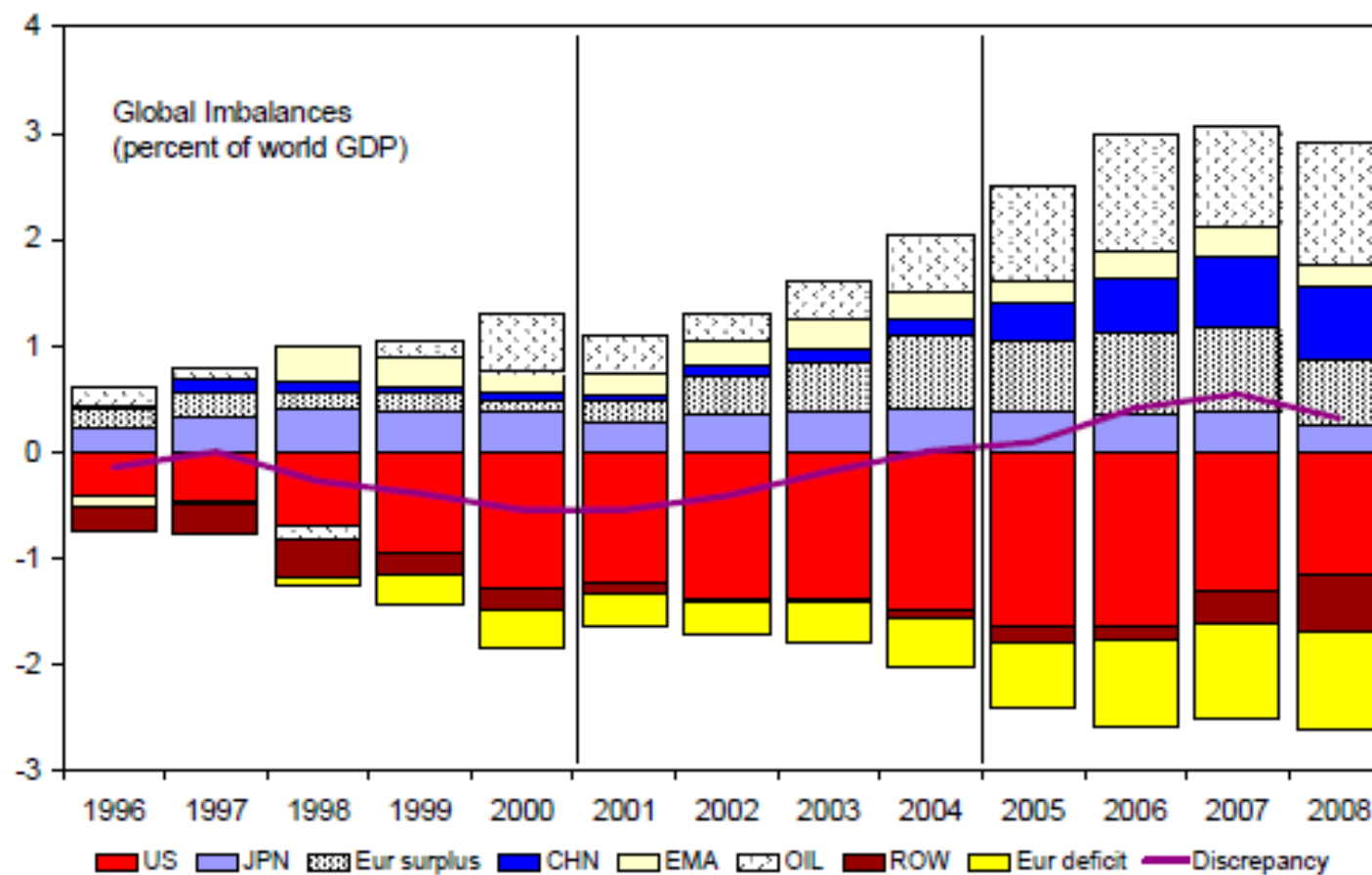
II. Follow up Agenda

II-1. Framework

Global imbalances, 1996-2008



Current account balances
(in percent of world GDP)

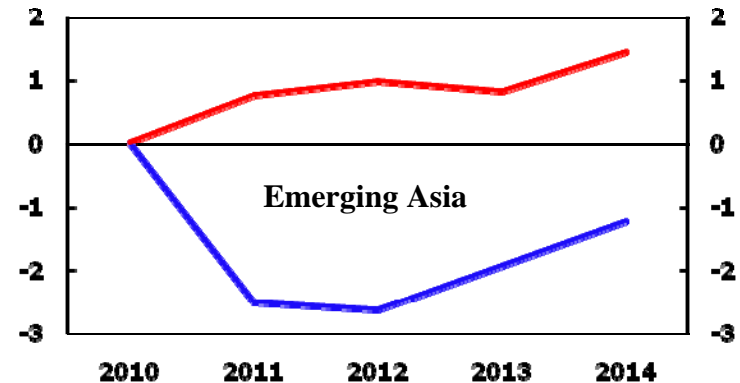
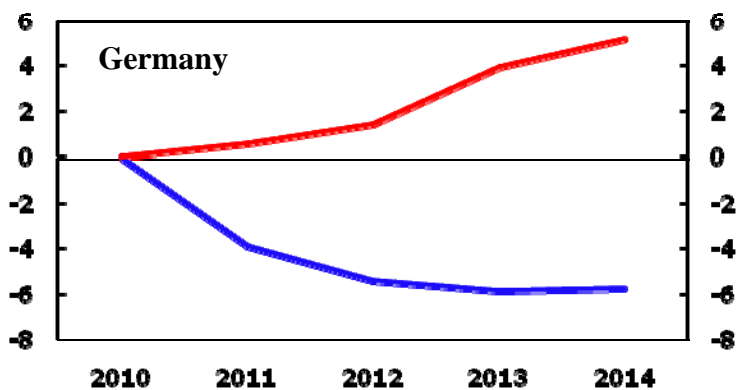
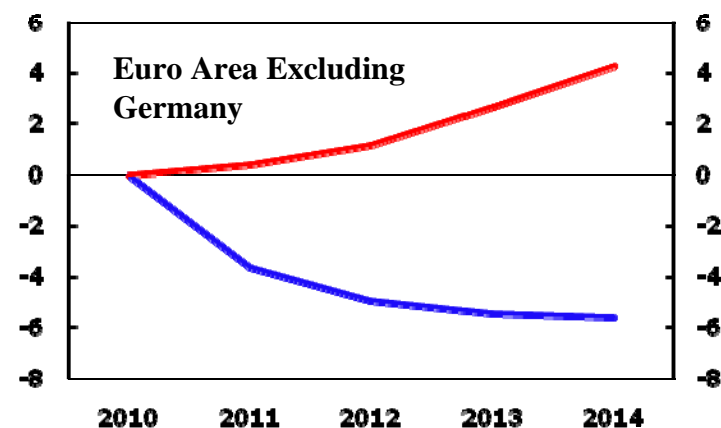
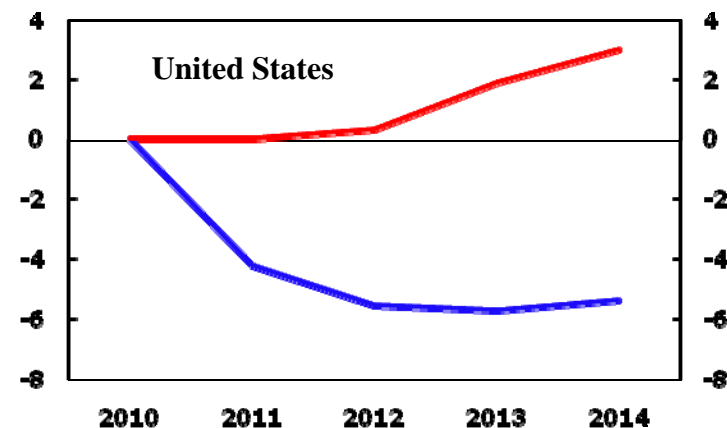


Note: 1. This figure is excerpted from "Global Imbalances: In Midstream", 2009, Olivier Blanchard and Gian M. Milesi-Ferretti
2. Source: IMF World Economic Outlook, October 2009



G-20 MAP Scenario Simulations: Real GDP

(percent deviation from baseline)



— Upside
— Downside

Source: IMF



Washington Summit

- **Agreed on immediate actions to take**
- Stabilize the financial system
- Recognize the importance of monetary policy support
- Use the fiscal measures to stimulate domestic demand
- Help emerging & developing economies gain access to finance
- Encourage the WB & MDBs to use their full capacity
- Ensure that IFIs have sufficient resources

London Summit

- **Commitments**
- Fiscal expansion (\$5 trillion by 2010)
- CB to use the full range of monetary policy instruments
- Restoring domestic lending & int' capital flows
- Agreed over \$1 trillion of additional resources by IFIs
- IMF to assess regularly the actions taken & required
- Support the IMF surveillance on the global economy

Pittsburgh Summit

- **Exit Strategy**
 - Sustain strong policy response until a durable recovery is secured
 - Prepare exit when the time is right in a cooperative and coordinated way
- * **Launching a Framework** for strong, sustainable and balanced global growth

Mid-term Policy Coordination: G20 Framework



Toronto Summit

- **Growth-friendly fiscal consolidation**
 - 3 Principles
 - Halve fiscal deficits by 2013 for advanced economies
 - Stabilize the Debt-to-GDP ratio by 2016
- **Group level policy options**
 - Advanced deficit countries
→ boost national savings
 - Advanced surplus countries
→ focus on domestic demand
 - Emerging surplus countries
→ strengthen social safety nets
 - All countries → structural reform

Seoul Summit

- **Strong, Sustainable and Balanced growth**
- **Comprehensive action plan**
 - Country-specific policy initiatives
 - G20 Mutual Assessment Process at the country level
- **Identification of additional measures**

II-2. Financial Regulatory Reform



Washington Summit

- **5 Common Principles**
 - Strengthening transparency and accountability
 - Enhancing sound regulation
 - Promoting Integrity in Financial Market
 - Reinforcing International Cooperation
 - Reforming International Financial Institutions
- **47 Action Plans**
 - Immediate actions
 - Medium-term actions

London Summit

- **Commitment**
 - FSF => FSB
 - Prudential regulation
 - Scope of regulation
 - NCJs
 - Compensation
 - Credit rating agencies
 - Accounting standards
 - International cooperation

Pittsburgh Summit

- **Capital Regulation**
 - Develop rules by 2010
 - Implementation by 2012
- **Compensation**
 - Endorsing the implementation standards of the FSB
- **SIFIs**
 - Ask the FSB to prepare the resolutions by 2010. Oct.
- **OTC Derivatives**
 - CCP by 2012
- **Burden Sharing**
 - Ask the IMF to prepare the report

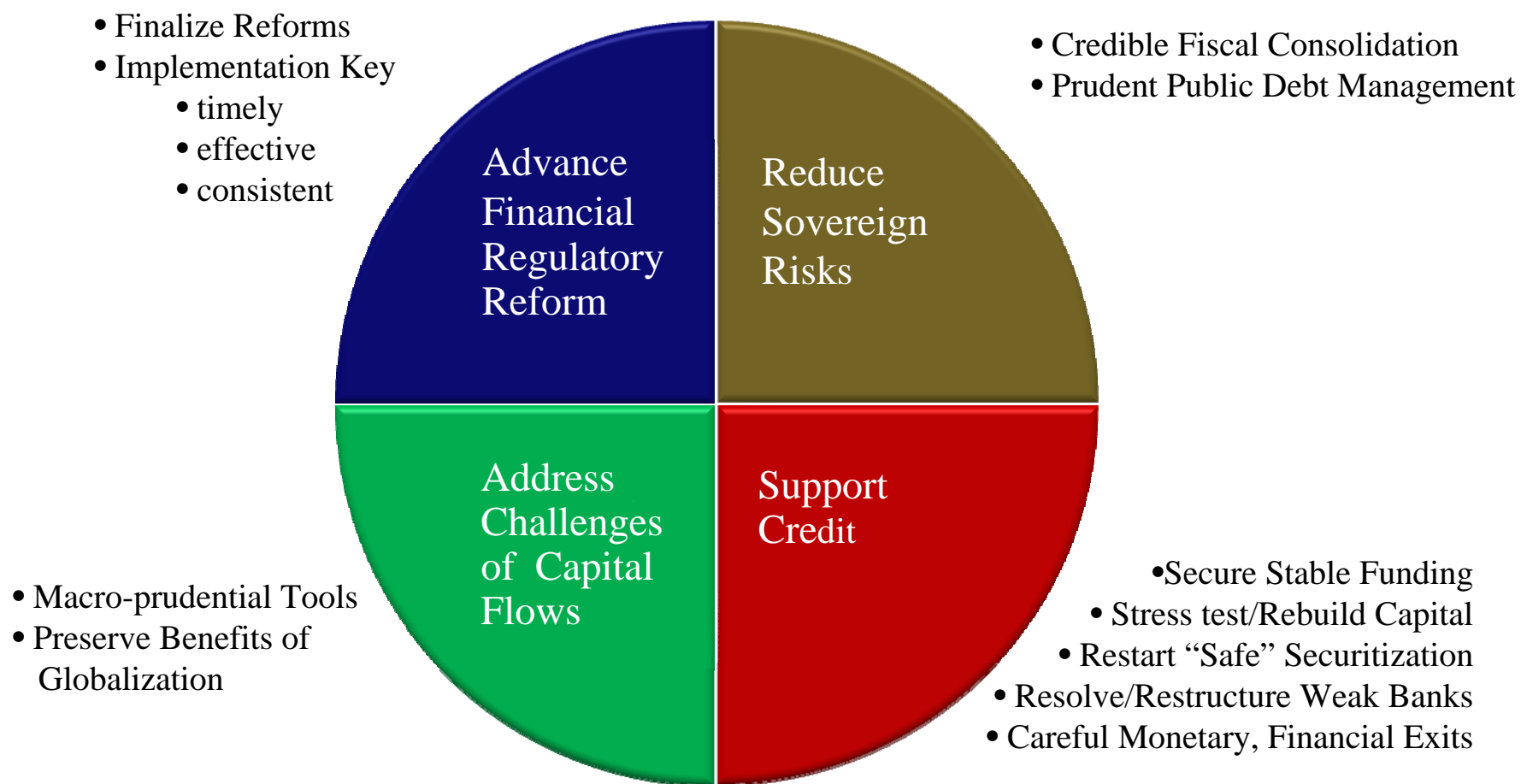
Financial Regulatory Reform

Toronto Summit

- **Financial sector burden sharing**
 - recognized a range of policy approaches among countries
 - agreed on five principles
- **Capital and liquidity requirements:**
 - new capital framework by Seoul Summit (BCBS)
- **Moral hazard of SIFIs**
 - concrete policy recommendations at Seoul (FSB)

Seoul Summit

- Establish a new framework by successfully completing key tasks of financial regulatory reform
- new capital framework
- SIFI measures
- stronger financial market infrastructure(OTC derivatives, CRAs, H/F)
- effective supervision
- transparent assessment and peer review



Source: IMF

II.3 International Financial Institutions Reform



The crisis has revealed the need for reform of international financial institutions to stay relevant in the changed economic reality.

Washington Summit

- **Need for reforming IFIs functions**
 - Key roles in crisis management
 - Anticipate potential stresses
- **Need for Governance Reform**
 - Reflecting the economic weights in the world economy of emerging or developing countries
 - Expanding the FSF membership to emerging economies

London Summit

- **IMF**
 - Introducing Flexible Credit Line (FCL)
 - Open, transparent and Merit-based election of senior leadership and heads
- **Expediting the Timeline of Reform**
 - IMF quota reform ('13.1=>'11.1)
 - WB voting reform ('11.spring=>'10.spring)
- **Increasing the IFIs Resources to Developing Countries**
 - \$1,100 billion

IFI Reform

Pittsburgh Summit

- **IMF**
 - 5% quota shift from the over-represented to under-represented
- **World Bank**
 - 3% voting power shift from the advanced to the developing & transition countries

Toronto Summit

- **IMF**
 - agreed to complete quota reform by the Seoul Summit
 - and to deliver on other governance reforms in conjunction with quota reform
- **World Bank**
 - completed the voice reform (3.13% voting power shift to DTC)
 - agreed to \$350 billion in capital increase of MDBs

Seoul Summit

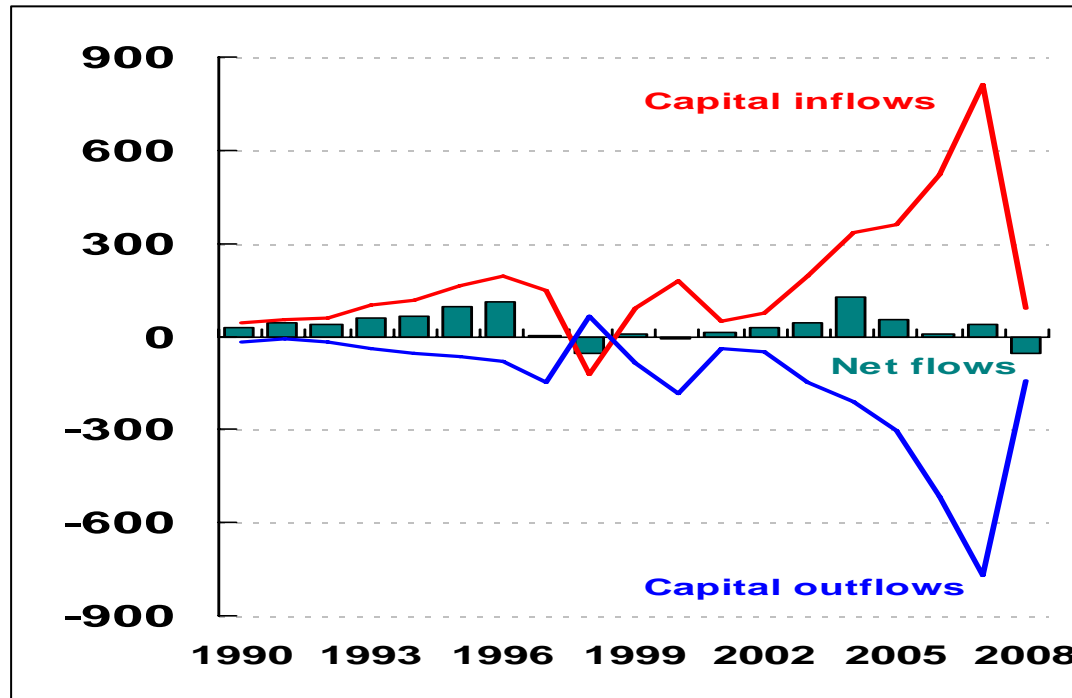
- **IMF quota reform**
 - complete a shift in quota share of at least 5% and substantial quota increase
- **IMF governance reform**
 - size and composition of the Board
 - Board's effectiveness
 - the Fund's Governors' involvement
 - Staff diversity
 - selection process for heads and senior leadership of IFIs

III. New Agenda

III-1. Global Financial Safety Nets

Heightened Volatility in Capital Market

Capital flows to/from developing Asia (\$ billion)



Source: IMF, Balance of Payments

- Increased cross-border capital transactions
- Introduction of complicated financial products
- Liberalization of foreign exchange regulation in EMEs

Global Financial Safety Nets

overview

Financial Safety Nets will better assist countries to deal with volatilities in global capital flows.

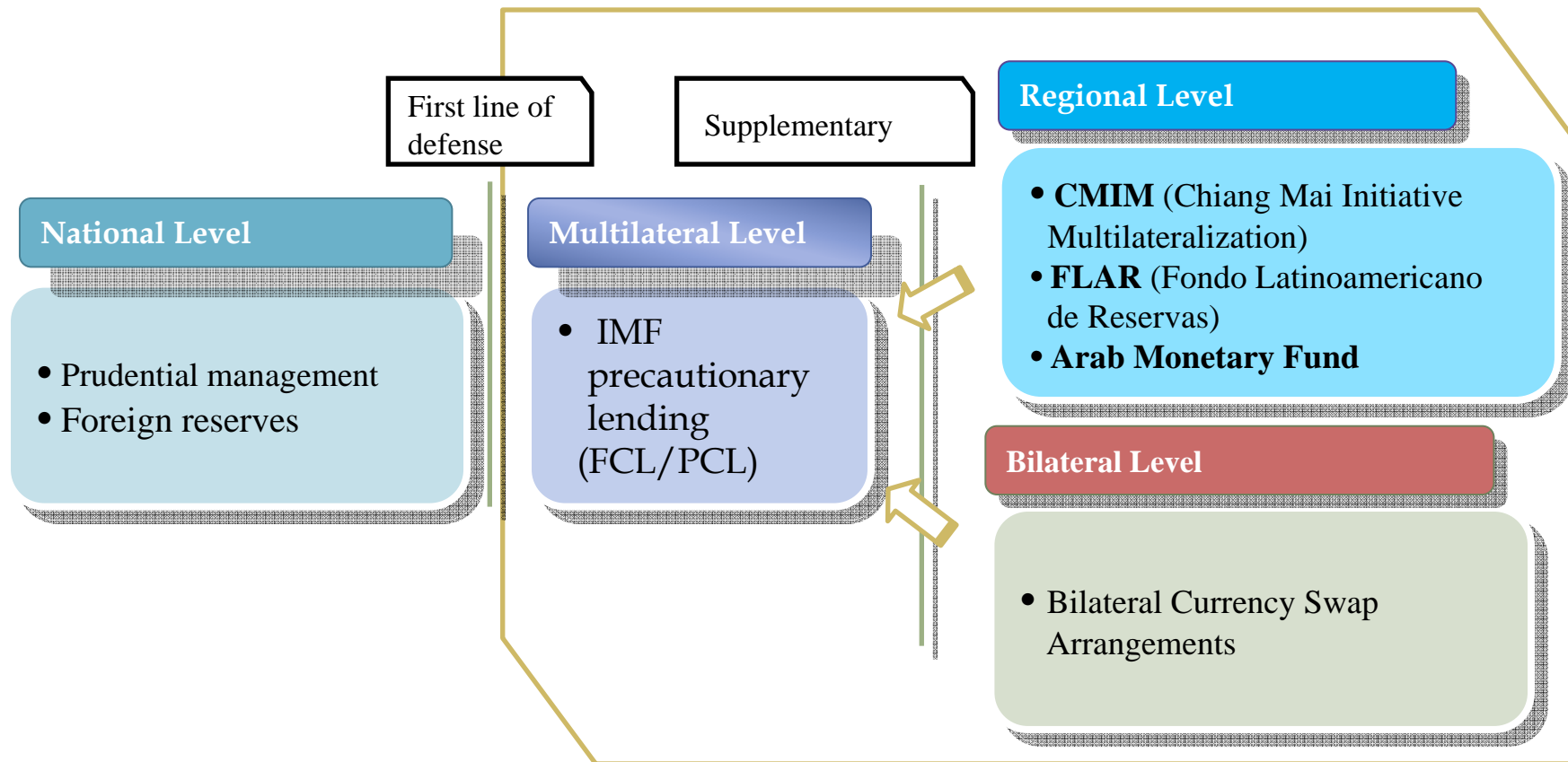
Toronto Summit

- Acknowledged need for national, regional and international efforts to deal with capital flow volatility, financial fragility, and crisis contagion
- Tasked Finance Ministers and Central Bank Governors to prepare policy options to strengthen global financial safety nets
- Called on the IMF to make rapid progress in reviewing its lending instruments

Seoul Summit

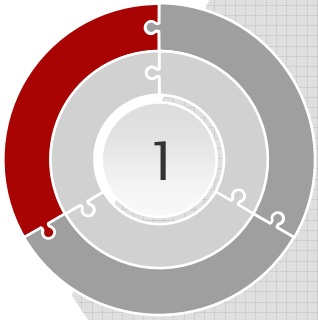
- Leaders to consider concrete measures to strengthen global financial safety nets

Global FSN: Options under construction



III-2 . Development

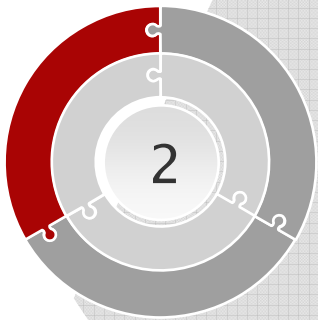
Why Development Is Important?



Poverty reduction is essential for developing countries

- Poverty in developing countries has become more severe
- Developing countries were gravely affected by the financial crisis
- Food and energy price volatility further burdened the poor
- The World Bank estimated that an additional 64 million will cross the poverty line by end-2010
- Benefits of the G20's policy cooperation must be shared

Why Development Is Important? *(continued)*



Development as part of the Framework

- Leaders agreed on the Framework for Strong, Sustainable and Balanced Growth at the Pittsburgh Summit
- Addressing development strengthens G20 legitimacy and leadership

Economic Growth & Resilience Oriented Approach

Contribution to the Framework

Economic growth in developing countries brings about multi-polar growth

- Generating new sources of demand
- Rebalancing global growth

Contribution to achievement of MDGs

An economic growth oriented development approach complements MDG efforts

- Poverty reduction contributes to achieving MDGs
- Differentiation from other development approaches

G20's mandate

The development agenda falls in line with the G20's broad mandate and expertise

- As the premier forum for international economic cooperation, the G20 needs to focus on economic growth
- Economic growth could be used as a filter to select action items

Where We Stand (Development Working Group)

DWG

- Mandated from the Toronto Summit
- First face-to-face meeting on July 19-20, Seoul
- Composed of G20 members
- Supported by the IOs and endorsed by the Sherpas

Key outcomes

- Discussed the G20 development agenda to focus on economic growth and resilience
- In particular, investment in Infrastructure, trade and human resource development in LIC
- Agreed to set principles to guide to select deliverable development action plans
- Established the role of IOs and MDBs in elaborating multi-year action plans on development

Timetable

- **September**
 - UN MDG High Level Plenary
 - Review MDG progress
 - Second DWG meeting
 - Draft development multi-year action plans
- **October**
 - Development conference
 - Form global consensus
 - Sherpa meeting
 - Draft development multi-year action plans