

TD Economics

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A Preview on the G-20 Agenda

As the G-8 meeting in Huntsville and the G-20 summit in Toronto commence this week, here's a snapshot of the main topics on the agenda. While the G-8 leaders will discuss a variety of political, economic and social issues – such as maternal and child health, nuclear non-proliferation, climate change, and global relations with Iran and North Korea – the G-20 meetings will be mainly focused on economic issues. The co-ordination of policies to foster economic growth, banking regulation reform, changes in representation of multilateral organizations, international trade imbalances, and the phase-out of fossil fuel subsidies will all have a place on the agenda.

A series of letters were recently sent out by the G-20 leaders, each of them hinting of the themes the respective countries would like to discuss during the meetings. U.S. President Barack Obama's missive called for greater exchange rate flexibility at a global scale –arguably targeted at China's control over the renminbi - and for countries to be mindful of the fragility of the global recovery when implementing fiscal and monetary stimulus exit strategies.

Germany's Chancellor, Angela Merkel, and French President, Nicolas Sarkozy, teamed up to promote the idea of a global tax on financial institutions destined to pay for future bail-outs, which was very timely for David Cameron, the United Kingdom's prime minister, who just unveiled a new budget including a new tax on banks.

For its part, Canadian Prime Minister, Stephen Harper, released a statement on June 22 in which he mentions "Canada will continue to use its G-8 Presidency to maintain international focus on Iran's nuclear program, and we stand ready to implement additional sanctions, as necessary, to promote regional and international peace and security." On the economic front, Canada has already made clear it does not support a bank levy, a position shared by Australia, Brazil, Japan, and South Korea. Prime Minister Harper has also mentioned advanced countries should lay down clear strategies for fiscal consolidation.

In a preemptive move, China last Friday decided to proceed with reform of its exchange rate regime and to enhance the renminbi exchange rate flexibility. The announcement was seen as an opportunistic political move to remove the country's contentious exchange rate policy from the spotlight at the G-20 summit. Although it will take time to assess the extent to which the Chinese government will relax its grip on the currency, the announcement will provide a tool to deflect criticism by the U.S. and other countries, such as Brazil and India, which have complained of the undervalued renminbi creating an unfair trade advantage for Chinese exporters. Instead, President Hu Jintao would like to promote the issue of reform and changes in representation in the governing bodies of multilateral organizations, such as the International Monetary Fund and the World Bank. China and other developing economies have long argued for greater recognition of their growing role in the global economy.

In turn, both the European Commission and European Council, in a letter signed by their respective presidents Jose Barroso and Herman Van Rompuy, laid down the issues they intend to discuss. Among others, they include the need for differentiated exit strategies from extraordinary fiscal stimulus, debt reduction and fiscal consolidation, making progress towards the completion of the Doha round on international trade, and promoting strong and concrete actions on climate change.

As our brief discussion just demonstrated, this long list of complex and different topics provides plenty of room for disagreement among the member countries. For instance, there is broad consensus in favor of financial regulation reform and proposals by the Basel Committee on Banking Supervision have been under review since last December. However, we are doubtful that there will be agreement on the specific details necessary to ultimately shape the reform during the relatively brief period that G20 members will be meeting. Nailing down consensus on the details is complicated by the fact that some countries are already moving in their own direction (such as the U.S. reform bills already before the House and the Senate). In all, we hope the summit will conclude with at least a handful of concrete concerted actions. At the very least, the summit will review developments and concerns on the economic front, hold members accountable for issues advanced at the prior Pittsburgh summit, and move the ball down the field on some issues that will be revisited at the next meeting later this year. The bottom line is that given the number of complex issues being tackled at the G20 summit, finalized outcomes occur over a longer time period, not a weekend. And frankly, when it comes to the economic and financial issues discussed above, member countries still have a lot of ground to cover before they converge at mid-field.

Beata Caranci
Associate Vice President and Deputy Chief Economist
<mailto:beata.caranci@td.com>

Martin Schwerdtfeger
Economist
<mailto:martin.schwerdtfeger@td.com>

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