NATIONAL ASSEMBLY

QUESTION FOR ORAL REPLY

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Prof B Turok (ANC) to ask the Minister of Finance:

(1) What was the central theme of the October 2010 G20 meeting?

(2) whether there was a divide on the question of currency intervention and quantitative easing; if so, (a) how did the meeting divide and (b) what was South Africa's position in this regard?

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REPLY:

(1) The central theme of the October 2010 Finance Ministers and Central Bank Governors' meeting was to firm up earlier agreed measures intended to sustain economic recovery and the strong, sustainable, balanced growth which we had committed to work towards as the G20 nations. Further areas that were discussed include financial regulation reforms, the reform of the international financial institutions and energy subsidies and financial inclusion.

(2) There was a divide on the question of currency intervention and quantitative easing.

(a) The meeting was divided on the following areas

- Exchange rate policy
- Current account balances
- Whether or not to set limits on foreign exchange reserve accumulation by G20 member countries

Views of some of the member countries:

The United States recommended that G-20 countries should (i) commit to undertake policies consistent with reducing external imbalances below a specified share of GDP over the next few years, recognising that some exceptions may be required for countries that are structurally large exporters of raw minerals; (ii) to facilitate the orderly rebalancing of global demand, by committing to refrain from exchange rate policies designed to achieve competitive advantage either through weakening their currency or preventing appreciation of an undervalued currency, and (iii)the G-20 should call on the IMF to assume a special role in monitoring progress on the members' commitments (including publishing a semi-annual report assessing G-20 countries' progress toward the agreed objectives on external sustainability and the consistency of countries' exchange rate, capital account, structural and fiscal policies towards meeting those objectives).

China's views were that (i) as the global economy faces downside risks and the G20's first priority is to ensure the global recovery, G20 member countries should highlight actions in promoting growth and advancing fiscal consolidation rather than set exchange rate policy as a G20 priority; (ii) the report on Framework for strong, sustainable and balanced growth should not over-emphasize the rebalancing issue and the role of exchange rate adjustments, since these are no panaceas to addressing the global imbalance; (iii) the purpose of the Seoul Action Plan is to promote the comprehensive progress towards "strong, sustainable and balanced" growth, not solely focus on addressing the global imbalances; (iv) there is no rationale to set limits on the accumulation of foreign exchange reserves; (v) it is not useful to propose targets for current account balance and timeframes under the current situation.

Australia emphasized the importance of sustaining market confidence in the G20, thus suggesting that the G20 should have a frank discussion on these issues and communicate to the markets that it has a common purpose on this matter. In this regard, Australia emphasised the need for a clearer G20 message, especially in respect of implementation plans for the agreed actions. Agreeing with the US proposal as a good start, Australia emphasised the need to move towards more flexible exchange rates to address imbalances, that the IMF should play a greater role in monitoring progress in this regard, and that the current account deficit does not always reflect bad economic policy. Australia cautioned against current account targets.

In addition, Australia called for the need to:

- tackle the US's concerns on exchange rate policy (i.e. lack of cooperation, and protectionism); and
- focus on attaining strong, sustainable and balanced growth.

The majority of emerging economies (Brazil, Argentina, Turkey and Russia) while fully supporting flexible exchange rates, noted that current imbalances cannot be addressed solely through exchange rate policy. Most rejected the setting of limits to reserve accumulation and emphasized the need for monitoring of progress in attaining the G20 commitments. These are to be country–led as opposed to being IMF-driven.

(b) South Africa's response

South Africa as a small, open economy and faced with the problem of a rapidly appreciating currency, called for a multilateral and inclusive solution to the issues raised in 2(a) above. South Africa highlighted the urgency to resolve the debate on currency issues before it spills into a trade war. *It is evident that confronting China or the US, the two main actors in the global imbalances debate and currency dispute, will not provide a solution.* South Africa called for consideration of rebalancing not only through addressing monetary policy challenges, but also through investment in growth in developing economies and addressing all forms of protectionism.