November 14, 2014

The Brisbane Accountability Assessment

The G-20's Accountability Assessment framework was established to monitor progress against past commitments and identify areas where further policy actions may be required. Ensuring the complete and timely implementation of all commitments is critical to achieving strong, sustainable and balanced growth. The Accountability Assessment framework is based on the guiding principles of country ownership, a "comply or explain" approach, concreteness, consistency across members, fairness, openness and transparency.

The following Accountability Assessment describes our progress towards the overarching goal of strong, sustainable, and balanced growth, as well as an assessment of progress against our previous fiscal, monetary, exchange rate, and structural reform commitments.

Collective Progress towards Strong, Sustainable and Balanced Growth

Since the 2009 Pittsburgh Summit, the G-20 has put forward a wide range of commitments covering all key policy areas. Members have made important progress in implementing these reforms, and these actions have been important to support growth both over the short and long term. However, the G-20 still faces challenges to achieving its objective of strong, sustainable and balanced growth.

- ***Growth is not sufficiently strong.*** Overall, the global economic recovery is fragile and uneven, even when compared to previous financial crises (*Figure 1*). Since the St. Petersburg Summit, there have been some signs of strengthening in the global economy, particularly in North America and the U.K. In the euro area, growth remains modest. While growth in some key emerging market economies remains robust and is becoming more sustainable, including in China and India, it is slowing in some other emerging members. Global GDP is expected to grow around its long-term average in 2015; however, this will not be sufficient to close the global output gap. Above average growth is required to close output gaps, which are particularly large in several advanced economies. Unemployment was high in many countries before the crisis, the jobs that were lost during the crisis have not yet been fully recovered in advanced economies (*Figure 2*) and downward revisions to growth forecasts have been sizable (*Figure 3*). Since April 2011, the outlook for global growth has been revised down consistently by the IMF, and the recovery continues to disappoint. Based on current policies, and acknowledging the difficulties in estimating output gaps, the OECD estimates that the global output gap will not close until 2021 (*Figure 4*). Clearly, much more needs to be done to strengthen both the actual and potential growth of the global economy.

- ***Growth is not sufficiently balanced.*** Since the St. Petersburg Accountability Assessment, current account deficits in the G-20 have declined, and current account surpluses have also, in most cases, edged down (*Figure 5*). Although overall current account imbalances are below their pre-crisis levels, which has reduced risks to the global economy, they are still high in some cases and appear to be stabilizing rather than continuing to trend down. In surplus countries that have achieved a notable reduction in imbalances, part of the adjustment is due to important structural reforms. However, some members have highlighted the role that demand compression in trading partners has played in the improvement in the current account position, which, they argue, suggests that improvement, where achieved, may not be entirely durable. Also, in many economies, growth is not sufficiently inclusive. Analysis by the International Organizations shows that inequality has increased in most G-20 countries over the last few decades, albeit to different degrees.

- ***Growth may not be sustainable.*** There has been some good progress on reducing a number of the risks to the global outlook since St. Petersburg. The repair of financial balance sheets continues in advanced economies, and the European Union has continued to take important steps towards building a banking union. In the U.S., excessively rapid fiscal consolidation was largely avoided. Emerging markets have also taken some measures, including tightening macroeconomic policy, to address risks in their economies.

  Despite this progress, risks in these areas remain and others have materialized. As a result downside risks have increased since St. Petersburg. These include:

  - In some advanced economies, persistently low inflation may pose a risk to the outlook as it increases the possibility that additional demand shocks could result in deflation. This is a particular concern in the euro area where there is evidence that inflation expectations are beginning to decline.
  - There is also uncertainty surrounding the impacts of the transition from highly accommodative monetary policy in some advanced economies. The prolonged period of low interest rates may have led to an aggressive search for yield and a mispricing of risk. While normalization will be taking place in the context of stronger growth in these economies, which should have positive effects on balance for the rest of the world, the reaction of financial markets can be unpredictable and abrupt changes in risk sentiment could complicate macroeconomic management for members of the G-20.
  - Public debt remains high for a number of members, which carries risks to the global economy.
  - Private debt levels also remain high in some advanced economies, leaving households and businesses in these economies more susceptible to higher interest rates.
  - High levels of credit growth and off-balance sheet borrowing by financial institutions have increased financial stability risks in some countries.
  - Insufficient progress on adjustments and structural reforms across the membership is reducing the resilience of the global economy.
  - Most recently, risks from geopolitical tensions in Ukraine and the Middle East have risen, and the Ebola outbreak in West Africa adds a new, potentially large, downside risk to growth and confidence.

Further progress is needed to achieve the G-20's objective of strong, sustainable and balanced growth. The macroeconomic and financial policies as well as the structural reforms put forward in members' comprehensive growth strategies as part of the Brisbane Action Plan are designed to address the main challenges in members' economies, including the key rigidities and distortions that are holding back strong, sustainable and balanced growth.

Domestic Policies

Recognizing the interrelations between members and across the range of policy areas, an important aspect of the G-20's work has been to exchange views on the externalities of policies undertaken for domestic purposes. These discussions have been principally on maximizing positive spillovers. While fostering positive spillovers has been a key goal of the G-20's Growth Strategy work this year, minimizing negative spillovers remains a commitment under Cannes and Los Cabos. Members are also continuing to clearly communicate policy actions and be mindful of their impact on the global economy in managing the eventual normalization of monetary policy in some advanced economies. The Framework Working Group will continue to improve its discussions of spillovers from policies implemented for domestic purposes in the context of the global economy discussions.

Fiscal Policy

Key Commitments: Fiscal commitments have evolved over time. At the 2010 Toronto Summit, when the recovery appeared well in place, most advanced economy members committed to at least halve 2010 government deficits as a share of GDP by 2013 and to stabilize or reduce government debt-to-GDP ratios by 2016. In 2012, in Los Cabos, Leaders agreed that the pace of fiscal consolidation should be appropriate to support the recovery, taking country-specific circumstances into account and, in line with the Toronto commitments, should address concerns about medium-term fiscal sustainability. In 2013 in St. Petersburg, advanced economies, as well as a number of emerging markets, agreed to set out medium-term fiscal strategies to support fiscal sustainability. They agreed to implement the strategies flexibly to take into account near-term economic conditions so as to support economic growth and job creation while putting debt as a share of GDP on a sustainable path. Many members have updated their St. Petersburg fiscal strategy as part of their growth strategies for the Brisbane Summit taking into account policy developments, short-term growth and inflation developments.

Assessment of Progress:

Based on data from the most recent IMF Fiscal Monitor, a few advanced economies have achieved the original Toronto target of halving deficits from their 2010 levels by 2013 (*Figure 6*).[1] At the same time, there has been a major fiscal consolidation effort in many countries, with substantial improvements in cyclically-adjusted primary balances, particularly in many countries with larger deficits (*Figure 7*). This has occurred despite the renewed weakness in global economic growth. As well, almost all advanced economies are expected to stabilize their debt-to-GDP ratio by 2016. Japan aims to achieve a primary surplus by FY2020 and thereafter will seek to steadily reduce the public debt-to-GDP ratio (*Figure 8*). Nonetheless, high debt-to-GDP ratios and structural deficits remain in most advanced economies

[1] The U.K. was assessed on its cyclically adjusted primary balance while the U.S. was assessed on its federal government deficit.

(*Figures 9 & 10*), which carries risks to the global economy and highlights the need for continued progress towards long-term fiscal sustainability. Although a number of emerging markets have lower debt-to-GDP ratios than many advanced economies, deficit levels remain high among some members (*Figures 11 & 12*). While debt-to-GDP ratios have increased in most of advanced economies since the crisis, some emerging markets, including Argentina, India, Indonesia and Turkey, have made significant improvements in reducing their debt-to-GDP ratios (Figure 9 and 11).

Over the past year, some members have also fulfilled other general fiscal policy commitments. Germany has reached a balanced budget. France has passed a reform on its pay-as-you-go pension system. Some members have made progress on expenditure reforms (Canada, Italy, Korea, Mexico, South Africa, United Kingdom, India) and others on improving the efficiency and effectiveness of the taxation system (Canada, Mexico, Spain, France, China).

Monetary and Exchange Rate Policy

Key Commitments: On monetary policy, members' central banks are focused on maintaining price stability and supporting the economic recovery according to their respective mandates, and remaining mindful of the risks associated with the use of and exit from extended periods of monetary easing. In addition, certain members have committed to support the supply of credit. Members' central banks have also committed that future changes to monetary policy settings will continue to be carefully calibrated and clearly communicated. Members have committed to move more rapidly towards more market-determined exchange rate systems, to enhance exchange rate flexibility to reflect underlying fundamentals, and to avoid persistent exchange rate misalignments, while recognizing that excess volatility of financial flows and disorderly movements in exchange rates have adverse implications for economic and financial stability. Finally, members have agreed not to target their exchange rates for competitive purposes, to resist all forms of protectionism, and to keep their markets open.

Assessment of Progress:

Inflation

While G-20 members' central banks have generally succeeded in achieving their price stability objectives (*Figure 13*), risks to the inflation outlook represent an important uncertainty for the global economy. Despite significant monetary support, inflation has been persistently below objectives in the euro area and Japan, carrying important implications for real interest rates and debt burdens.

Exchange Rates

The G-20 continues to make progress towards its commitment to exchange rate flexibility, which helped to promote economic stability during periods of economic and exchange rate volatility over the past year. However, more progress is required, especially in limiting exchange-rate interventions to those periods characterized by disorderly movements and/or significant misalignments of the exchange rate. Most advanced economies continue to have free floating exchange rates and fully convertible currencies. In emerging markets, major developments over the past year include a further widening of

China's exchange rate trading band, allowing the market to play a greater role in determining the renminbi's value (*Figures 14-16)*. Russia completed the transition to a floating exchange rate regime, fulfilling its commitment to do so by 2015, and continues to maintain a high degree of foreign exchange transparency. In Argentina, the peso was allowed to depreciate rapidly in early 2014, but pressure remains on foreign exchange reserves. All G-20 members' exchange rate regimes remain under the same classification as at the time of the last assessment (*Table 1*). Continued progress toward the G-20's exchange rate commitments would be welcome.

In some emerging market economies facing exchange rate pressures, the stock of foreign exchange reserves has declined following measures to promote exchange rate stability (*Figure 17*). Among some members, reserve growth has moderated recently. Valuation effects from currency fluctuations may have played a role in some instances.

As to the role of transparency, some members argue that the provision of timely data by all G-20 members on the factors underlying changes in reserves would facilitate assessment of progress in meeting exchange rate commitments made in the context of the G-20. However, some members argue that current disclosure of information on exchange rates and reserves is sufficient to assess progress on these commitments, and consider that not revealing intervention data is important for financial market stability and for a more market determined exchange rate.

Unconventional Monetary Policies

For much of the year financial market conditions featured extremely low risk premia on financial assets and low levels of volatility. This is to some extent a direct reflection of the extraordinarily accommodative monetary policy adopted by central banks in many advanced economies following the crisis, but other factors are at play. The tolerance for risk in financial markets contrasts with the lack of risk appetite for activities in the real economy and the uncertainty about the outlook.

As expectations of a recovery in the United States become more firmly entrenched, global borrowing costs are expected to rise, leading to adjustments in the pricing of risk. A sharp reassessment of risk by investors and unforeseeable shocks (such as geopolitical events) are also factors that could lead to a generalized re-pricing of risk.

Our primary response to further strengthen and refine our domestic macroeconomic, structural, and financial policy frameworks needs to be suitably complemented by spillover analysis. Proper appreciation and identification of the global financial linkages and key risk-taking channels as well as clear communication, continued careful calibration and information sharing within the G-20 could help to improve preparedness and outcomes. In this vein, central banks have made important efforts to improve clarity surrounding future policy moves, including through the use of forward guidance.

Scenario analysis

Recognizing the risks associated with these developments, at the February meeting in Sydney, G-20 Finance Ministers and Central Bank Governors tasked the International Organizations and the Framework Working Group to prepare macroeconomic scenarios to help inform their policy discussions. The objective was to enhance the global economy discussion by considering a range of possible outcomes, to take a more forward-looking approach to global economy discussions, and to enhance understanding of possible policy tensions. The Framework Working Group held a number of sessions through the year during which members discussed possible alternative outcomes associated with a sharp re-pricing of risk in financial markets. These sessions were used to inform discussions among Deputies, Ministers and Central Bank Governors.

While there were challenges in how to best calibrate the level of detail put forward as part of these scenarios, there was a general consensus that considering alternative scenarios helped to promote a stronger understanding of the uncertainty around the baseline projection as well as each other's policy actions, including potential spillover effects and transmission channels. It also helped strengthen members' preparedness for alternative outcomes. Going forward, these discussions could encourage stronger cooperation and improved information sharing, which will enhance G-20 communication, the effectiveness of policy responses and risk management.

Structural Reform Policies

Members committed to a wide range of structural reform measures in previous Action Plans, particularly in areas related to labour and product markets, human capital development and infrastructure. Members have made solid progress in implementing these commitments, but not all of them are fully implemented. For the Brisbane Action Plan, members proposed new structural reform commitments, in addition to macroeconomic and financial policies, as part of their comprehensive growth strategies.

Argentina

Argentina has made progress towards all of its St. Petersburg commitments, which pertained to the financial and housing sectors as well as increasing the availability of economic data.

Australia

Australia has made progress towards its structural reform commitments, with progress in the implementation of the national disability insurance scheme and national broadband network and agreement reached with states and territories on schools funding. Most tax reform commitments have also been fully implemented or accelerated, although some have been modified.

Brazil

Brazil has made progress on all of its St. Petersburg commitments, which include maintaining a downward trend for public sector debt, increasing public infrastructure through PPPs and investing in human capital. Further detail on its successful social inclusion commitment would be helpful.

Canada

Canada has implemented its main structural policy commitments. In particular, the Government is pursuing its trade, infrastructure and skill development commitments. The initiative to establish a common securities regulator with willing provinces and territories is in progress as agreements in principle on a Cooperative Capital Markets Regulatory System have been reached with four provinces.

China

China continues to make significant progress on structural reform. Items requiring administrative approval have been cut significantly to allow market to play a decisive role, resulting in a remarkable increase of the number of newly registered enterprises and hence the increase in employment and demand. Financial sector reform is progressing steadily, such as further liberalizing interest rate and approving more private banks. The operation of the China (Shanghai) Free Trade Zone is a successful trial on the new reform fronts. Other progress includes steps to accelerate development of the service sector, broaden and deepen social security coverage, promote urbanization, increase R&D spending and expand the value-added tax.

European Union

The EU continues to make progress on its structural reform commitments, particularly on efforts to further integrate the Single Market and securing financing for growth and employment. One aspect of EU structural reform that could see more meaningful progress is in the area of intra-euro area imbalances.

France

France has made progress towards its structural reform commitments, notably in the labour market by taking measures to reduce labour costs and improve job market efficiency (reduction of labour market segmentation, streamline of collective layoffs regulation). The Competitiveness and Employment Tax Credit will significantly reduce labour cost and tax on production, and thus improve competitiveness. The schemes, “Jobs for the future” and “Generation Contracts”, should stimulate the employability of young and senior workers.

Germany

Germany has either fulfilled or is on track to fulfill most of its structural reform commitments. In particular, Germany has taken steps to promote the availability of skilled workers, foster productivity and innovation, as well as boost R&D and education spending. Also, the separation of business activities within banks is underway.

India

India has made progress towards its commitments to bring various prices to market levels, including the indexing of railway freight fares to fuel prices and steps towards government decontrolling of diesel prices. Steps have also been taken to improve corporate governance and resolve corporate distress via legislation, as well as implement the Direct Benefit Transfer to the targeted population.

Indonesia

Indonesia has made progress towards its structural reform commitments, notably infrastructure investment and poverty reduction. Indonesia has also made progress towards tax reforms, improving access to better health care and better social security protection, including the pension system.

Italy

Italy has made progress on its commitments, including on reform the labor market (such as reducing the labor tax wedge) and the reform of the justice system. Since the government's structural reform agenda is ambitious, it is important to proceed swiftly with a full implementation of all key reforms to maximize their synergies, particularly those aimed at reducing labor market duality and improving the business environment.

Japan

Japan has made progress towards its structural reform commitments, particularly through its June 2014 revised Revitalization Strategy. This includes pursuing and concluding economic partnerships with an expanded set of regions and countries, encouraging innovation in healthcare, enhancing corporate governance, and promoting female labour market participation. Japan is encouraged to strengthen its labour market, such as discouraging labour market dualism.

Korea

Korea has made progress on all of its G-20 commitments. Efforts have been made to promote investment and boost employment, especially for those in vulnerable groups. Efforts to boost productivity in the service sector are also ongoing, with targeted reforms being implemented in key service industries.

Mexico

Mexico has completed or made progress on all of its G-20 commitments, especially through the approval and implementation of its comprehensive set of economic reforms in the fiscal, energy, competition, telecom, financial, labor market and education fields. The social security reform is currently under discussion in Congress.

Russia

Russia has made progress on several of its commitments. The unemployment rate remains low and below target. The new regulatory powers granted to the Central Bank of Russia are also an important step towards its commitment to strengthen financial consumer protection. The Bank's efforts to wind down excessively risky banks are also welcome. Russia's commitments to improve transport infrastructure remain on track, and will be financed both through the Sovereign Wealth Fund and private-public partnerships.

Saudi Arabia

Saudi Arabia has made progress on its commitments. The implementation of its ambitious program to increase the supply of housing is on track, with increased private sector involvement and a better target to people in need. Saudi Arabia has also committed to complete transportation projects. However, more would need to be done to develop the projects and ensure that increased public sector spending does not weaken the medium-term fiscal outlook. Saudi Arabia has also launched initiatives to increase consumer protection and boost financial inclusion.

South Africa

South Africa has made progress towards its structural reform commitments, notably its commitment to invest in infrastructure and increase its focus on job creation initiatives. South Africa is also working to promote a lower-carbon economy and society through a carbon tax and climate change financing, although implementation of the carbon tax was postponed to 2016 to allow adequate time for design and consultation. Important steps are underway towards reducing electricity constraints by constructing two new power plants and signing the Grand Inga Hydro Power Project Treaty. South Africa is encouraged to make further progress on improving its regulatory environment.

Spain

Spain has made progress on all of its structural reform commitments over the last year. These focus on further liberalizing the private sector, including detecting and removing regulatory barriers to the internal market, as well as reducing indexation in the public sector. Spain is encouraged to make continued progress on implementing the Market Unity Law.

Turkey

Turkey's structural reform commitments are focused on increasing domestic savings, boosting employment, reforming the energy sector and further developing financial markets. Turkey's policy steps have significantly increased the domestic savings rate and the majority of actions in their Financial Centre Strategy and Action Plan have been completed. Authorities should continue to improve the link between the social assistance system and the labour market to reduce the unemployment rate and increase participation rates of women.

UK

The UK continues to make progress towards its structural reform commitments, especially those to improve the business environment, reduce corporate tax rates, and increase infrastructure investment. Implementation of new reforms, including those to increase the housing supply, will contribute to economic growth. However, the UK is encouraged to accelerate reforms aimed at increasing labour productivity and maintaining financial sector stability to encourage a sustainable recovery.

U.S.

Progress has been made to reform the financial system and to reduce intra-day credit exposures in the tri-party repo market. Progress has also been made on government mortgage refinancing programs, which have been enacted and subsequently improved. More progress is needed on infrastructure investment and on re-integrating the long-term unemployed into the labor market.

Conclusion

G-20 members have made progress towards their commitments across all policy areas. Despite these policy efforts, the G-20 has still not achieved its goal of strong, sustainable, and balanced global growth. The member-specific comprehensive growth strategies prepared for the Brisbane Summit, accompanied by the full implementation of previous commitments, are crucial for the G-20 to meet this goal. The key goal of growth strategies is to address the main policy challenges that are holding back the recovery and limiting growth in potential output, in addition to ensuring that G-20 members' macroeconomic policies are appropriately calibrated to economic conditions. G-20 Finance Ministers and Central Bank Governors have agreed to an ambition of raising collective GDP by at least two per cent over five years above the level implied by policies in place, or committed to, at the St. Petersburg Summit through policy actions in growth strategies. Over the next year the G-20 will monitor progress towards the commitments members put forward in Growth Strategies, adapt the Accountability Assessment process to gauge implementation of these measures and the two per cent ambition, and present another Accountability Assessment at the 2015 Summit in Turkey.