G-20 WORK PROGRAMME FOR 2007

SHARING – INFLUENCE, RESPONSIBILITY, KNOWLEDGE

In preparing to Chair the G-20 in 2007, South Africa has sought to consult widely among G-20 members in an endeavour to assemble a work programme that is both practical and relevant to the broad membership of the forum.

In building the work programme, the objectives have been to create, through consensus, a programme that builds on the existing and recent-past work programmes, one which is of interest to the broad membership, helps facilitate the sharing of knowledge and experience, and strengthens the co-operative nature of the forum.

This consultative process commenced during the second half of 2006, following the G-20 Management Troika's agreement on the broad themes for the 2007 work programme. Updates were provided to G-20 deputies at the October 2006 meeting in Sydney, Australia and briefly at the November 2006 Ministers' and Governors' meeting in Melbourne, Australia. Comments from bilateral meetings with G-20 members have been integrated into the work programme.

2007 WORK PROGRAMME

For 2007, South Africa intends to have a G-20 work programme in place that contains a mix of legacy issues, which have been deliberated within the G-20 at some stage since the forum's inception. A few new issues are also being introduced which add to the range of issues discussed within the G-20. In consultation with the G-20 membership, the following themes for the 2007 work programme have been identified:

POTENTIAL THEME	LEGACY OR NEW	MECHANISM TO DISCUSS	LEVEL OF DISCUSSION IN 2007
Global and domestic economic developments	2000–2006	G-20 Meetings	Ministers' and Governors' meeting
Reform of the Bretton Woods Institutions	1999–2002, 2004–2006	Workshop	Ministers' and Governors' meeting

Fiscal elements of growth and development (Fiscal space)	New	Workshop	Ministers' and Governors' meeting
Commodities and financial stability	Part legacy (Financial stability), Part new (Commodities)	Workshop	Ministers' and Governors' meeting

GLOBAL AND DOMESTIC ECONOMIC POLICIES AND PRINCIPLES

A discussion on global and domestic economic policies and principles has been a standard G-20 agenda item since 2000, and this tradition, which takes cognisance of the G-20's Accord for Sustained Growth (2004), will be continued in 2007.

Bilateral consultations suggest that there could be several possible issues for consideration in 2007 and these will be finalised closer to the time of the first deputies' meeting.

REFORM OF THE BRETTON WOODS INSTITUTIONS

The reform of the Bretton Woods Institutions is a further legacy item that South Africa wants to retain in the 2007 programme. This would build on the important momentum created during Australia's term, which resulted in the successful conclusion of the first stage of International Monetary Fund (IMF) governance reform.

In 2007, it is intended that the G-20 work programme focus on both IMF and World Bank reform.

With regard to the IMF, it is planned that the work programme contribute toward helping to resolve the multiple challenges that exist in achieving a successful second stage of IMF governance reform. The framework guiding the G-20 inquiry will be the search for consensus, convergence and compromise in achieving the second stage of IMF governance reform

Several issues will be examined by the G-20. These include the following:

- A detailed examination of the elements of a new quota formula. This could include the rationale for particular variables and their weights, and could incorporate an analysis of the best ways to achieve the twin objectives of simplicity and efficiency;

- The purposes of IMF quotas and the extent to which access to Fund resources should be a function of quotas or of access policy;

- The meaning of economic weight, options for best capturing economic weight, the periods for assessing economic weight, and approaches to addressing the challenge of data availability;

- A detailed assessment of options to achieve convergence on the quantum of increase of basic votes.

In addition, the 2007 work programme could include an initial examination of options on the best way to achieve a "significant further alignment" of quotas with the relative economic positions of IMF member countries when the next round of ad hoc quota increases takes place.

The work programme will also include some elements of IMF mandate-related reform. In 2007, these include the following:

- Approaches to designing and implementing the proposed new liquidity instrument for emerging-market economies;

- A discussion on progress with the work being undertaken by the IMF Executive Board on surveillance;

- Considering new approaches to improving the Fund's role in low-income countries;

- Monitoring progress with efforts to achieve a fully transparent process for the selection of the IMF Managing Director; and

- Monitoring of the Independent Evaluation Offices' review of IMF corporate governance.

Regarding the World Bank, a range of governance and policy/mandate issues could form part of the G-20 Work programme for 2007. These include the following:

- Exploring ways in which the G-20 could contribute to accelerating governance reforms in the World Bank, including finding ways to enhance the voice and participation of low-income countries in the World Bank, both at the level of the Executive Board and senior management;

- Considering ways of strengthening the World Bank's role in middle-income countries;

- Considering the merits of a possible selective capital increase;
- Considering the merits of a possible increase in basic votes;
- Examining in detail the proposal submitted by Mexico to consider the merits of a multilateral reinsurance corporation located within the World Bank Group;
- Considering options for improving the process of selection of the President of the World Bank; and
- Monitoring progress with and obtaining regular updates on the External Review Committee on Bank-Fund Collaboration.

FISCAL ELEMENTS OF GROWTH AND DEVELOPMENT

Fiscal elements of growth and development, or fiscal space, represents a new component of the G-20's work programme. This theme incorporates two main elements: The role of public expenditure and fiscal space in supporting and extending economic growth; and macroeconomic perspectives on fiscal policy and fiscal space.

Fiscal space, public expenditure and economic growth

This element focuses on the core role of fiscal policy – to use public expenditure to support a country's economic and social objectives, including economic growth. The amount of "fiscal space" available to meet the many competing demands for public services depends on a range of factors which include, among other factors, the efficiency with which expenditure is allocated and utilised, the revenue raised to finance them, and long-term growth of the economy, which, in turn, is affected by fiscal decisions. Public debt levels, for instance, need to be assessed not only in relation to current and expected future income, but also against the whole set of potential future liabilities, actual and contingent, on-budget and off-budget, that are likely to result from current and past policy decisions.

Fiscal space can be created or expanded through greater efficiency in tax collection and/or expenditure management and a number of relevant issues could merit more in-depth consideration in the fiscal workshop and deputies' meetings. For G-20 jurisdictions with low tax-to-GDP burdens, one paper could discuss strategies for raising governments' tax collections to at least 15 or 20 percent of GDP, with the use of the peer exchange mechanism to illustrate country experiences of fundamental tax reform.

Of interest to G-20 countries with high tax-to-GDP ratios and future high social security commitments due to ageing societies, is a discussion on fundamental corporate income or consumption-type tax reform.

A background paper could sketch the domestic and international complexities of the current corporate tax model, which may have increased the burden on tax administrations and which may have led to aggressive tax avoidance and evasion behaviour by corporate entities and others with adverse outcomes. Various reform options and the experiences of countries that have addressed the deadweight losses associated with corporate tax regimes might be a useful area of focus.

On the budget side, the efficiency with which public funds are spent is a key element of reducing the cost of programmes and freeing up resources for other programmes. More indirectly, efficient spending reflects the overall quality of the design of the programmes.

The link between these two could merit further discussion, including the use of budget rules such as "performance budgeting" to enhance spending efficiency. Major public expenditure reforms in member countries and their economic effects might be assessed in order to develop a better understanding of best practice in this area.

In light of the renewed emphasis across the G-20 on infrastructure development – to foster industrial development, the expansion of markets and access to services for under-serviced areas of many countries – public expenditure in this area could provide a special focus for discussion within the G-20. Some of the dimensions of the issue include measuring the effectiveness of public spending on infrastructure and the approaches to budgeting and planning for infrastructure development, maintenance and replacement. The broader role of public infrastructure spending on private-sector investment – the extent of crowding-in that occurs and the conditions under which it occurs – could provide an additional perspective.

A related area in which fiscal space plays an important role in policy is the classification of expenditure that is on or off budget. Privatisation of state assets could provide short-term windfalls and create fiscal space. Applying windfall gains to the early redemption of public debt could create fiscal space on a sustainable basis by reducing longer-term debt-servicing costs. Other balance-sheet related efforts might include the commercialisation of public service provision to reduce the public-sector's overall operating cost.

A final area of focus on fiscal space could be on the extent of fiscal decentralisation in G-20 countries. Decentralisation can and has been pursued and achieved for various reasons including possible higher efficiencies of service delivery at local and provincial levels of government. Fiscal decentralisation can have implications for general government revenue and expenditure, financial balances at different levels of government, and fiscal space. However, real issues exist when measures designed to increase fiscal space at one level of government simply transfer burdens to another level without any net increase in fiscal space across the system.

An analysis of member countries' experiences could provide an interesting comparative perspective and would benefit from using a common assessment framework. The fiscal workshop might consider a special session to explore the issue with a view to developing a G-20 perspective on appropriate fiscal decentralisation.

Macroeconomic perspectives on fiscal policy and fiscal space

Within the broader context of fiscal policy adjustment and public expenditure, many countries have focused on ways to create more fiscal resources to finance new programmes, develop infrastructure and meet other social needs.

The short-term adjustment of fiscal policy should be assessed with greater reference to longer-term effects on public finances stemming from demographic changes or from policies to increase economic growth rates.

Those efforts are conducted within a broader context of creating fiscal space that include management of the fiscal stance over the business cycle and adjustments to the stance in response to domestic and international shocks to macroeconomic stability. For some countries, cyclically-adjusted fiscal management may also include fiscal rules and other norms affecting the size of deficits and borrowing. Following discussions on financial stability and the role of exchange rate policies, it may be useful to look at the experiences of G-20 countries in recent years by adjusting fiscal policy to meet the challenges of macroeconomic stability.

Traditionally, fiscal policy has played an important role in managing aggregate demand through the peaks and troughs of the business cycle, or in accommodating financial, commodity and other economic shocks. Greater volatility in cross-border financial flows due to increased uncertainty or other economic shocks can increase the volatility of the business cycle, and result in large and sudden changes to capital flows, exchange rates and the flow of goods and services. Approaches to exchange rate management play an important role in the transmission of the shocks and the effectiveness of fiscal policy in moderating them. Fiscal policy adjustments to such shocks occur through discretionary changes to the deficit level, changes to expenditure derived from automatic increases in flows, and changes to revenue growth.

A general lesson of recent decades is that, unless governments attempt to fix their exchange rates, a difficult and risky task in an integrated global capital market, or attempt to control and regulate international capital flows, fiscal policy is quite limited in its power to regulate short-run domestic demand.

A review of the macroeconomics of fiscal policy would allow countries to share their perspectives and experiences on fiscal policy in an era of pronounced business cycles and global imbalances, large and generally unpredictable commodity price movements, secular advances in key world economies, and regional economic communities and monetary arrangements.

The questions to be addressed would be the following: What are some of the lessons about the effectiveness of fiscal policy as a tool of short-run aggregate demand management? Should the conduct of fiscal policy focus more exclusively on securing long term growth objectives and, if so, what are some of the lessons? This returns the discussion to the issues addressed under the first theme outlined above.

COMMODITIES AND FINANCIAL STABILITY

In previous years the G-20 has examined the question of financial stability from several perspectives, including the effects of volatility in exchange rates and other asset prices.

For 2007, it is proposed that the G-20 looks at ways in which commodity prices in recent years have affected G-20 members' economies, and the role played by financial markets and financial regulatory frameworks in accentuating positive economic outcomes and minimising (or exacerbating) negative effects. The economic effects of commodity price changes differ between commodity exporters and importers, and can include positive and negative developments including boosts to exports and growth, rising tax revenues, lower costs of capital, industrial change, financial instability, higher inflation and exchange rate volatility.

It is proposed that the theme be broken down into two parts. The first is to provide an analytical and descriptive global ***overview of commodity price trends*** and patterns with basic supply and demand analyses for a range of oil and fuel prices, metal prices and agricultural commodity prices. A longer-term perspective on commodity prices could be developed alongside an analysis of price trends in the past year or two. This could include, for example a scenario analysis and stress-testing in the event of a slow-down in commodity prices.

The second component of this theme could examine the systemic effects of commodity prices on member's economies and financial systems and the ***role of macroeconomic and financial-sector policies in addressing price shocks***. Market reactions to the shocks and how policy makers and/or financial authorities have responded could be the main focus of the theme.

Market responses to shocks could include an analysis of the main channels for shocks at a macroeconomic level – through the current account (export earnings) and/or the financial account (changes to portfolio and foreign direct investment). They could then proceed by tracing how the shocks are transmitted to the financial system – through changes in interest and exchange rates, intermediation of new investment (commodity exporters) and/or increasing credit risk. Other channels and transmission mechanisms may also be relevant to specific economies.

As with other possible types of shocks, a key policy consideration for financial systems in the case of commodity price shocks is how regulatory frameworks interact with financial markets to prevent or resolve large-scale economic distortions and financial crises. Emphasis could be placed on the extent to which the price shocks are systemic, and the appropriate market and policy or regulatory responses to them could be assessed. The role of financial depth and measures to develop markets in securities and other financial assets might also be examined in this context.

Emphasis might be placed on the impact these shocks have had on credit cycles, capital adequacy in the banking system and risk exposures of other financial institutions. Policy responses in the financial sector could result in rethinking the long-term structure of the industry and its regulation.

The role of financial depth and measures to develop markets in securities and other financial assets might be examined in this context. The theme could explore the longer-term policy adjustments implemented by financial authorities in the wake of price shocks and their implications for financial-markets development, regulatory practice and diversification of risk.

A range of macroeconomic responses to the price shocks could also be assessed or commented on as part of members' views, in part, to analyse more fully the impact of the price shocks and, in part, to place the financial and regulatory policy responses in perspective. This might include fiscal and monetary policy responses, reserves accumulation and exchange rate intervention. Some key considerations are whether monetary or fiscal adjustments may have been made, and whether they had worked as expected by the authorities. Particular emphasis could be placed on the extent to which commodity producers sterilise the effects of price changes by adjusting expected borrowing, paying down debt or establishing revenue funds. The role of commodity prices in contributing to "dutch disease" could also be explored, or longer-term economic adjustment effects and how they have been addressed by the monetary and fiscal authorities.

Specific sectoral responses in the real economy may also be worth exploring in the context of economic adjustment to the shocks. This might include consideration of whether commodity importers have diversified energy sources to minimise the negative effects of rising prices or the extent to which commodity exporters use revenues to diversify their export baskets.

2007 AFRICAN POLICY WORKSHOPS

During South Africa's term as G-20 Chair, South Africa will host two one-day African policy workshops on policy themes of significant interest to African policy-makers. These workshops will be held in South Africa and will take place on the day preceeding each of the two G-20 deputies' meetings, at the same venues as the deputies' meetings.

These workshops will not be held under the auspices of the G-20. However, South Africa intends to invite approximately 15-20 senior G-20 officials to participate in each of these workshops and to facilitate information sharing and knowledge of the policy challenges confronting African countries.

The dates and venues of the two workshops are Friday 23 March 2007, in Pretoria and 7 September 2007, in Durban. Details will be made available to the invited officials closer to the time of the workshops.

G-20 SECRETARIAT
SOUTH AFRICA

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