



Recovery, Reform, Resolution





I. Introduction

The Group of Twenty (G-20) Finance Ministers and Central Bank Governors is a multinational forum that brings together the major industrialized and developing economies in order to discuss key issues in the global economy. The inaugural meeting was held in 1999 in Berlin, Germany, but since then the forum summits have been held in different cities each year. The main purpose of the G-20 is to support economic growth and development across the globe by strengthening the international financial architecture and promoting dialogue on national policies and international financial institutions. [1]

Together, the G-20 nations (listed in Appendix 1) represent approximately 90% of global gross national product (GNP), 80% of world trade (including within the EU) as well as two-thirds of the world's population. [1] This makes the G-20 an important international forum with legitimacy and influence over the global economy and the international financial system.

II. Goals of the G-20

The G-20 exists to strengthen the international financial architecture and to foster sustainable economic growth and development. [2] In the current times of financial turbulence and economic hardship, the G-20 is especially important:

- To tackle the international financial and economic crisis, to restore worldwide financial stability, and to lead the international economic recovery

- To open trade and investment, to avoid a retreat to protectionism, and to direct necessary additional support to emerging markets and developing countries.
- To make progress on long-term issues such as climate change and international development.

III. History of the G-20

The G-20 has done valuable work in the first years of the twenty-first century on a number of international economic issues. In addition to promoting confidence in international markets and closer international cooperation, it has served to mandate specific reforms in its member states to help achieve broader international goals. The brief summaries below show the year-by-year evolution of the G-20:

1. Berlin (Germany), 1999

In its inaugural meeting, Finance Ministers and Central Bank Governors from the member states established the G-20 and articulated its broadly defined objectives, including stable and sustainable economic growth and development. They expressed support for continued multilateral trade liberalization in the context of the WTO. They emphasized preventative action to reduce vulnerability to international economic crises and unexpected financial shocks through consistency in exchange rate and monetary policy. Lastly, they encouraged international codes and standards in transparency, data dissemination, and financial sector policy. [3]





2. Montreal (Canada), 2000

The G-20 discussed the process and effects of globalization. Despite support for greater economic integration, an emphasis was placed on ensuring financial and economic stability, to address the economic and social difficulties of globalization. The G-20 resolved to increase the effectiveness of international financial institutions by enhancing cooperation and improving the transparency of their activities and decision-making processes. In addition, to reduce vulnerability to crises, the G-20 recommended exchange rate arrangements, prudent liability management, private sector involvement in crisis prevention and resolution, and the adoption of international codes and standards in transparency, data dissemination and financial policy. Other recommendations were made in areas like technical assistance to developing nations on financial matters and concerted efforts to reduce financial abuses. Lastly, the G-20 supported cooperation and global public goods, and greater trade liberalization in a manner that still protects citizens' access to a national social safety net. [4]

3. Ottawa (Canada), 2001

In the wake of the September 11th terrorist attacks and the subsequent global slowdown, this summit was marked by a rejection of the worldwide financing of terrorism. As a result, the main product of the discussions was an Action Plan on Terrorist Financing. In addition, the G-20 nations agreed on the importance of protecting the investment environment of the poorer G-20

nations, and ensuring sustainable capital investments to these countries. Lastly, they expressed support for the WTO Doha Development Round and multilateral trade liberalization. [5]

4. Delhi (India), 2002

In addition to all of the above, the G-20 nations continued to discuss their support for greater transparency and accountability in the International Financial Institutions (IFIs), as well as sound national financial systems, effective supervision, and corporate governance in line with global best practices. They also agreed on the need for gradual capital account liberalization in member countries. On comprehensive and market-compatible approaches to crisis resolution, the G-20 supported collective action clauses, a sovereign debt restructuring mechanism (SDRM), and a code of good practices. On development, the G-20 supported strong institutions and a climate that fosters savings and investment (in human capital and infrastructure), transparency, and the rule of law in developing nations. [6]

5. Morelia (Mexico), 2003

The G-20 nations agreed to continue their gradual reforms, voicing continued support for the Monterrey Consensus and the UN Millennium Development Goals (UNMDG). Drawing on completed case studies, the G-20 reiterated the shared belief that solid institutions and sound, deep and sophisticated domestic financial markets were the key to maximizing the benefits of globalization. They reaffirmed their support for





increased crisis prevention and resolution, by welcoming the use of collective action clauses (CACs) and their inclusion in future sovereign bonds under foreign jurisdiction, and also by setting a renewed focus on best practices and international standards. [7]

6. *Berlin (Germany), 2004*

The G-20 discussed the global outlook, including the sharp rise in oil prices and geopolitical tensions, and its effect on industrialized and developing economies. Moreover, growth-enhancing strategies (to be nationally implemented) were discussed and drafted in a G-20 Reform Agenda [8] (“Accord for Sustained Growth” [9]). To this end as well, the G-20 aimed for a robust and effective international financial and trade architecture to deliver fairer access to markets. Similarly, the G-20 welcomed the World Bank’s development of principles and guidelines for effective insolvency and creditor rights systems. It also emphasized at a national level the role of the central banks as a supplier and overseer of payment services. G-20 nations also supported gradual regional integration as a step towards general economic integration, by proposing the formation of regional integrated financial markets for bonds and financial services. Moreover, the impact of demographics on economic policy was discussed, especially with regards to common ageing-related budgetary pressures in the coming decades, and the need for fiscal consolidation and structural reforms. [10]

7. *Xianghe (China), 2005*

This year the G-20 nations discussed the concern that high oil prices might lead to inflationary pressures, and supported decreases in artificial price-setting, as well as greater transparency and a long-term investment framework for clean energy and sustainable development. They also recognized the importance of continued reform of the Bretton Woods Institutions (BWI) in a joint statement on the issue, emphasizing the need to improve the governance, management and operational strategies of these institutions. The G-20 this year also issued a similar statement, but this time on “Global Development Issues,” [11] recalling the need for a successful completion to the Doha Development Round, the UNMDG and the Monterrey Consensus. [12]

8. *Melbourne (Australia), 2006*

The G-20 summit in Melbourne covered many of the above topics, including the economic effects of the reform of the Bretton Woods Institutions, the global demographic changes, and global energy and mineral markets. As usual, the result was continued support for sound fiscal and financial policy, increasing trade, national growth strategies, and development aid. [13]

9. *Kleinmond (South Africa), 2007*

The G-20 nations agreed to pursue steps to support national saving (including continued fiscal consolidation) in the United States and Japan, and further progress on growth-enhancing reforms in Europe and in Asia. On financial markets, they agreed on the need for more effective financial





supervision and management of financial risks, and transparency among financial intermediaries, including regulators, rating agencies, the private sector and the international financial community. They also agreed to promote a balance between fiscal policy (as a counter-cyclical macroeconomic instrument) and creating fiscal space to finance social and economic development over time, through medium-term fiscal frameworks and long-term – or intergenerational – budgeting. The G-20 also discussed medium-term challenges like climate change, energy security and protectionism, respectively supporting clean energy, hedges against commodity price volatility (especially in energy), and greater trade liberalization. In addition, the G-20 voiced continued support for the reform of the IFIs, by enhancing the meritorious selection of senior management and the representation of the increasingly dynamic emerging market economies. [14]

10. Sao Paulo (Brazil), 2008

At the latest meeting of Finance Ministers and Central Bank Governors in Brazil, the G-20 discussed the 2008 financial crisis, the worst financial crisis in decades. They welcomed the upcoming meetings of member country Heads of State in November 2008 and April 2009, to maintain financial stability and combat the economic slowdown. The G-20 nations condemned excessive risk taking and faulty risk management practices in financial markets, as well as inconsistent macroeconomic policies and deficiencies in financial regulation. They warned against protectionist impulses during the slowdown, recommended measures for increased

financial regulation, and called on the IFIs to help stabilize and strengthen the international financial system by pursuing reform and advancing international cooperation for development. [15] In this summit, the coordinated international response to the financial crisis was still in its early stages, and much work was left to be completed afterwards.

IV. Extraordinary Measures: the 2008 Financial Crisis

In addition to the annual G-20 summit held in Sao Paulo, Brazil, the G-20 convened a summit at the level of Heads of State for the first time in history in November 2008, to address the threat of the global financial and economic crises. This first ‘G-20 Leaders Summit’ led to a follow-up summit of Finance Ministers in March 2009, and a second Heads of State summit in April 2009. The Finance Ministers met again in September 2009 in preparation for the latest G-20 Leaders summit also held in September 2009. A more detailed description of these summits can be found below:

1. Heads of State summit, Washington, DC (U.S.A), November 2008

In this first special summit, G-20 leaders discussed the root causes of the crisis, and the underlying factors in the global economy that had contributed to it. Most importantly, these leaders agreed on measures to be taken, in addition to the work already done to stimulate G-20 economies, provide liquidity, strengthen the capital of financial institutions, and protect savings and deposits. The G-20 leaders aimed to address acute “regulatory





deficiencies” in the international financial system, by enhancing monetary policy support, recommending fiscal measures to stimulate domestic demand, and improving access to credit in developing economies through liquidity facilities and with the help of multilateral development banks (MDBs). [16]

In addition, the G-20 leaders agreed on common principles for financial market reform in the short and medium term, including strengthening transparency and accountability, enhancing sound regulation, promoting integrity in financial markets, reinforcing international cooperation and reforming International Financial Institutions. [16] These common principles were outlined in greater detail in an “Action Plan to Implement the Principles for Reform,” with immediate measures to be adopted by March 2009. Lastly, the G-20 leaders voiced their commitment to an increasingly open global economy, especially during a severe economic crisis, and tasked their Finance Ministers to develop additional recommendations in certain specific areas of finance reform. The Finance Ministers were asked to develop measures to mitigate against pro-cyclicality in regulatory policy, to review and align global accounting standards (especially for complex securities), to strengthen the resilience and transparency of credit derivatives markets and reduce their systemic risks, to review compensation practices and incentives for risk-taking and innovation, and to define the scope of ‘systemically important’ institutions. [16]

2. Finance Ministers summit, Horsham (United Kingdom), March 2009

In preparation for the G-20 Leaders Summit in April, the Finance Ministers convened to discuss the progress made since November 2008. To restore global growth, the G-20 Finance Ministers focused mainly on restoring lending through continued liquidity support, bank recapitalization and joint recommendations for what to do with impaired ‘toxic’ assets. They developed a separate communiqué on this topic titled “Restoring Lending: a framework for financial repair and recovery.” [17]

On strengthening the financial system, the G-20 called for regulation and oversight of all systemically important financial institutions, markets and instruments, and general ‘macro-prudential’ oversight to prevent the build-up of systemic risk. Similarly, the G-20 endorsed regulatory oversight of all Credit Rating Agencies, compliance with the International Organization of Securities Commissions (IOSCO) code, full transparency of exposures to off-balance-sheet vehicles, improvements in accounting standards, and the standardization of credit derivatives markets. In addition, the Finance Ministers reiterated their support for an institutional reinforcement of the Financial Stability Forum (FSF) and the International Financial Institutions. [18]

3. Heads of State summit, London (United Kingdom), April 2009

At the second G-20 Leaders summit, the economic crisis took center stage, as the pressing need to provide stability, growth, and especially jobs dominated the agenda. The Heads of State defended an open world economy based on market





principles, effective regulation, and strong global institutions. They also recommended measures to restore confidence, growth, and jobs, repair the financial system to restore lending, strengthen financial regulation to rebuild trust, promote global trade and investment and reject protectionism. [19]

The G-20 trebled the resources available to the IMF to \$750 billion, especially to finance the growth and access to credit of developing economies in times of crisis. All in all, the fiscal expansion measures taken and to be taken by the G-20 constituted the largest worldwide fiscal and monetary stimulus and comprehensive support program in modern times.

The heads of state also issued two additional declarations. The first declaration was on “Strengthening the Financial System” [20] and the second on “Delivering Resources through the International Financial Institutions.” [21] In the former, the G-20 reaffirmed and further detailed all the measures discussed in the March 2009 Finance Ministers summit, including the establishment of a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF). In the latter, the G-20 specified the use of its determined funding allocations (including \$750 million to the IMF and \$100 million to other MDBs), and its vision for future reform of the IFIs. Lastly, the G-20 reiterated its support for continued trade liberalization and for progress toward a fair and sustainable world economy that can also address other challenges like the UNMDGs or climate change. [22]

4. Finance Ministers summit, London (United Kingdom), September 2009

In preparation for the G-20 Leaders summit held in Pittsburgh in September, the G-20 Finance Ministers and Central Bank Governors convened to discuss progress since April and potential points to be covered at the Heads of State Summit. They supported continued financial support and expansionary monetary and fiscal policy, to ensure price stability and long-term fiscal sustainability. [23] They supported greater transparency in physical and financial markets, more responsible lending and spending, and greater integration to discuss rules for global financial flows. They also discussed the completion of the delivery of the \$850 billion in support to IFIs, and the need to reform these to provide greater weight to the emerging economies.

5. Heads of State summit, Pittsburgh (U.S.A.), September 2009

The most recent G-20 Summit in Pittsburgh signaled a landmark moment in the history of international economic cooperation. It celebrated the beginning of mild recovery in many parts of the global economy, after one of the worst global economic downturns to date. Most importantly, this summit emphasized the need to capitalize on these gains by continuing to combat unemployment and especially committing to much greater cooperation in the future. Most notably, the G-20 drafted a “Framework for Sustainable and Balanced Growth,” a broad and meaningful agreement to coordinate financial sector policies to make sure the world economy is growing together in a safe and sustainable manner. This includes the adoption by the end of 2010 of international





regulations regarding financial institutions and a restructuring of the international financial architecture (with limits on executive pay, financial instrument complexity, financial institutions, etc.) to avoid problems like reckless risk-taking or destabilizing booms and busts. [24] The G-20 nations also created the Financial Stability Board (FSB) discussed in April 2009, to monitor these new financial regulations.

In light of what this crisis has revealed about the global economy, the G-20 nations decided to grant more authority to rapidly growing developing economies. They agreed to give more weight to many of these emerging actors; by increasing quota shares from over-represented to under-represented countries at the International Monetary Fund (IMF), by raising the voting power of developing economies at the World Bank (WB), and by designating the G-20 rather than the G-7 as the principal forum for the discussion of key global economic problems. [24] The G-20 also reiterated its support for continued improvements in global access to food, fuel, and finance, in an environmentally friendly manner.

For the above reasons, the Pittsburgh summit surpassed expectations in terms of the degree of international solidarity it engendered, giving great hope to further international cooperation that will continue to stabilize and support a growing world economy.

V. Moving Forward

In light of the above summits, the past year and a half has clearly represented a unique period in the history of the G-20. For the first time, due to the severity of the international financial and

economic situation, it is the Heads of State of member countries that have participated in the G-20 summits. This historic development is a testament to the severity of this unprecedented crisis, and its significance for the global economy. Given the dramatic changes presented at the Pittsburgh summit, this upcoming year may prove equally unique for the G-20, in that it will test whether the commitments that have been made can be upheld. This will require continued close and consistent monitoring of the global economy and of the international financial system. As the world economy continues to recover, it is important to set the foundation for closer economic cooperation between G-20 economies. To start with, another meeting of the G-20 Heads of State will take place in San Francisco (U.S.A.) in February 2010. At this meeting, the G-20 Leaders are expected to build on the progress made at the Washington, London, and Pittsburgh summits described above, and to project a vision for international economic cooperation going into the new decade.





VI. Appendix 1 – G-20 Membership

Members:

1. Argentina
2. Australia
3. Brazil
4. Canada
5. China
6. European Union (European Council Presidency + European Central Bank)
7. France
8. Germany
9. India
10. Indonesia
11. Italy
12. Japan
13. Mexico
14. Russia
15. Saudi Arabia
16. South Africa
17. South Korea
18. Turkey
19. United Kingdom
20. United States of America

Also includes representatives from:

21. The International Monetary Fund (IMF) - Managing Director
22. The World Bank (WB) – President
23. Chair of the International Monetary and Financial Committee (IMFC)(*)
24. Chair of the Development Committee (IMF-WB forum)(*)

(*) See Appendix 2 for details



VII. Appendix 2 – The IMFC and the Development Committee [25]

International Monetary and Financial Committee

The IMFC (established on September 30, 1999, by a resolution of the IMF Board of Governors), has the responsibility of advising, and reporting to, the Board of Governors on matters relating to the Board of Governors' functions in supervising the management and adaptation of the international monetary and financial system, reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with disturbances that might threaten the system.

The IMFC has 24 members who are governors of the Fund, ministers, or others of comparable rank. The membership reflects the composition of the IMF's Executive Board: each member country that appoints (and each group of member countries that elects) an Executive Director appoints a member of the IMFC. A number of international institutions, including the World Bank, participate as observers in the IMFC's meetings.

Development Committee

The Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries, better known as the Development Committee, was established in October 1974 to advise the Boards of Governors of the IMF and World Bank on critical development issues and on the financial resources required to promote economic development in developing countries. Over the years, the Committee has interpreted its mandate to include trade and global environmental issues in addition to traditional development matters. The Committee (like the IMFC) usually meets twice a year.

The Development Committee has 24 members (usually ministers of finance or development) who together represent the full membership of the IMF and World Bank. In addition, there is a chairman who at present is Mr. Agustín Carstens, Mexico's Secretary of Finance and Public Credit.





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