

## Annex 4

### The St. Petersburg 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. Recognizing this, we have enhanced our Accountability Assessment framework over the past year and established a common approach to monitor progress in the areas of fiscal, monetary and exchange rate policies, and structural reforms. This enhanced process continues to be based on the guiding principles of country ownership, a "comply or explain" approach, concreteness, consistency across members, and fairness, openness, and transparency. We thank the International Organizations (IMF, World Bank, BIS, ILO, OECD, and UNCTAD) that provided their technical expertise to the process.

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 and exchange rate, and structural reform commitments.

#### **Collective Progress to Strong, Sustainable, and Balanced Growth**

Since the 2009 Pittsburgh Summit, we have put forward a wide-range of commitments covering all key policy areas. These policies have been important to boost growth both over the short and long term. Members have made important progress in implementing these reforms, with many either fully implemented or in progress. Despite these efforts, the current state of the global economy is too weak and more needs to be done to ensure global growth is strong, sustainable, and balanced.

- ***Growth is not strong.*** Private demand has strengthened in the United States and growth has picked up in the U.K. and Japan. There are signs of recovery in the euro area. While growth has continued in emerging market economies, it has slowed down in some of them. Overall, the recovery remains too weak, risks remain tilted to the downside, and output gaps in many advanced economies are wide, reflecting a protracted recovery typical of large financial crises (*Fig. 1*), a strong contraction of demand, incomplete internal and external adjustments, and a widespread, synchronized drag from fiscal policy. Weakness in the global economy is reflected in repeated downward revisions to the IMF's already weak WEO forecasts for global GDP growth since 2011 (*Fig. 2*). These revisions have been driven by the prolonged recession in some advanced economies, and more recently, by a greater than anticipated slowdown in growth among emerging markets. Weak growth is also evident in labour markets (*Fig. 3*), where the ILO reports that unemployment has increased by 28 million since 2007, and could rise by a further 5.1 million in 2013 to more than 202 million worldwide.
- ***Growth is not sufficiently balanced.*** As the IMF's 2013 update of the Indicative Guidelines demonstrates, large and persistent external and internal imbalances remain for the seven members identified in 2011, while two new members have been identified and assessed. Although headline current account positions have improved markedly from pre-crisis peaks in

some countries, they remain wide in others (*Fig. 4*). Some members believe the improvements reflect important structural reforms and persistent rebalancing efforts, from China in particular, while other members consider that a substantial part of the improvement reflects demand compression in advanced deficit economies, and therefore this trend may not be as durable as needed. This insufficient rebalancing of global demand remains one of our key challenges. In addition, weak private sector growth and job creation further contributes to income inequality, which has been rising in some countries. There is broad agreement that more needs to be done to secure better balanced global growth.

- ***Growth may not be sustainable.*** Although there has been significant private sector deleveraging and banking sector repair in some countries, particularly the United States, a range of additional reforms are still required across many economies to ensure a sustainably robust global recovery. This includes, as indicated above, further policy adjustments to promote internal adjustments and balanced growth, strengthen private sector demand, improve financial conditions, put public finances on a sustainable path, and encourage more inclusive growth.

In emerging market economies, capital flow volatility has increased. Emerging economies are particularly sensitive to swings in global risk appetite that stem from domestic structural challenges and the expectations of eventual monetary policy recalibration in advanced economies. Swings in investor sentiment have resulted in significant exchange rate and asset price volatility, affecting financial stability and constraining monetary policy in some cases.

Other policy challenges to achieving sustainable growth include formulating and implementing credible medium-term strategies in advanced countries to ensure sustainable public finances, while limiting the impact of synchronized and front-loaded fiscal consolidation policies; strengthening demand and access to finance at the same time as additional progress is made in private sector deleveraging; fixing impaired monetary policy transmission mechanisms, and completing the implementation of financial sector reforms.

Members have committed to a wide range of structural reform measures to promote sustainable growth. Solid progress has been made in implementing these commitments, but many still need to be completed.

Going forward, downside risks to the outlook remain high. We have outlined our assessment of the key risks and challenges facing the global economy in the accompanying St. Petersburg Action Plan.

## **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 aim to fulfil the Cannes and Los Cabos commitments to minimize

the negative spillovers on other countries of policies implemented for domestic purposes, in all areas of policy.

## **Fiscal Policy**

### *Key Commitments:*

At the 2010 Toronto Summit, 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, at Los Cabos, Leaders of advanced economies 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.

### *Assessment of Progress:*

Based on the Toronto commitment and using the IMF's latest publicly available data with a 0.5 percentage point band around forecasts of 2013 deficits, advanced economies are projected to reach the Toronto target of halving deficits from their 2010 levels by 2013 (*Fig. 5*). For this commitment, the U.K. was assessed on its cyclically adjusted primary balance while the U.S. was assessed on its federal government deficit. As well, most advanced economies remain on-track to stabilize or reduce their debt-to-GDP ratios by 2016 (*Fig. 6*).

As agreed, all advanced economies have put forth strategies that are geared toward maintaining or lowering the debt-to-GDP ratio over the medium term. Canada, France, Germany, Italy, Korea, and Spain have explicitly committed to reduce debt as a share of GDP through country-specific targets for the debt-to-GDP ratio beyond 2016. The U.K. commits to set a debt target once the exceptional rise in debt has been addressed. Given its low debt, Australia commits to maintaining fiscal sustainability over the medium term. Japan will seek to steadily reduce the public debt-to-GDP ratio after achieving a primary surplus by fiscal year 2020. In the U.S., the President's budget projects that federal debt held by the public will be on a downward path over the next decade.

A number of emerging economies (Argentina, Brazil, China, India, Indonesia, Mexico, Russia, and Turkey) have also laid out elements of their strategies to promote fiscal sustainability.

Overall fiscal tightening of discretionary spending in the G-20 is projected to be greater in 2013 than in 2012 (*Fig. 7*), as cyclically adjusted primary deficits are expected to decline in most advanced countries (*Fig. 8*). However, debt-to-GDP ratios in most advanced economies are projected to remain high over the longer term (*Fig. 9*).

In emerging market economies, debt-to-GDP ratios are generally lower than in advanced economies, even though a few members have high deficits (*Figs. 10 and 11*).

Over the past year, some members have also fulfilled other general fiscal policy commitments. Korea has implemented an active stimulus package to support growth. The United States acted to smooth the pace of fiscal adjustment. Other members have taken efforts to improve the efficiency and effectiveness of the taxation system (Australia, Brazil, Canada, France, Indonesia, Spain, UK), reform pensions and review public expenditure (Canada, France, Italy, Spain, UK), and introduced policies to boost the efficiency of public expenditures (India, France).

### **Monetary and Exchange Rate Policies**

#### *Key Commitments:*

On monetary policy, members' commitments are focused on maintaining price stability and supporting the economic recovery according to their respective mandates, and remaining mindful of the risks and unintended negative side effects of extended periods of monetary easing. In addition, 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*

Over the past few years, inflation in a number of regions has tended to be above rates that would normally be expected given the degree of economic slack. More recently, inflation has retreated to rates more consistent with sizable excess capacity, and has even tended to undershoot targets in some cases. Overall, there has been general success in advanced economies in terms of meeting their price stability objectives. Inflation in the U.K. was well above target in 2011 due in part to temporary factors but has since fallen back closer to the 2 per cent target. The stance of U.K. monetary policy remains highly accommodative to support the recovery. In the U.S., while inflation fell short of the 2 per cent goal for much of the year, inflation expectations have remained in line with the medium-term objective. In the euro area, inflation in headline CPI was close to 2½ per cent through much of 2012, but has been below 2 per cent since February. While inflation pressures are expected to remain subdued in an environment of weak economic activity in the euro area, inflation expectations continue to be firmly anchored. After more than a decade of mild deflation, Japan introduced a price stability target of 2 per cent in January 2013. Among emerging market economies, inflation generally remained in line with central banks' targets (explicit or implicit) (*Fig. 12*).

##### *Exchange Rates*

The G-20 has made progress towards its commitment to exchange rate flexibility, but more progress is required. Moving more rapidly towards more market determined exchange rates has been one of the

key policy objectives of members since the Pittsburgh Summit. Most advanced economies already have free floating exchange rates and fully convertible currencies, and some major emerging market economies have introduced significant reforms to increase flexibility since Pittsburgh. These reforms include China's decision to broaden the RMB trading band against the USD since April 2012 and allowing market forces to play a larger role in determining movements of its exchange rate. The renminbi has appreciated substantially since 2005, reaching new highs in both bilateral and multilateral terms. The renminbi's value was somewhat stable against the U.S. dollar in late-2012 and early-2013, but has since appreciated by nearly 2 per cent against the U.S. dollar and by almost 5 per cent in multilateral terms since February (*Figs. 13-15*). Russia has also gradually increased the flexibility of its exchange rate and reports data on its foreign exchange interventions in a transparent manner. Indonesia's rupiah regained its floating status in February 2011, while Mexico achieved a freely-floating exchange rate in November 2011, according to the IMF's exchange rate classification system. In Brazil, the real has become much more responsive to market forces since late 2012. Throughout the G-20, no exchange rate regime has been re-classified since the Los Cabos Summit (*Table 1*).

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.

The stock of foreign exchange reserves has increased since the Los Cabos Summit in some countries (*Fig. 16*). In some cases this is due to operating profits and currency valuation effects.

#### *Unconventional Monetary Policies*

The G-20 recognizes "the support that has been provided to the global economy in recent years from accommodative monetary policies, including unconventional monetary policies". Yet many emerging market countries consider that quantitative easing policies in reserve issuing countries have increased the volume and variability of capital flows to emerging market economies, causing greater exchange rate volatility and complicating their domestic macroeconomic policy management. More recently, emerging market economies have been particularly concerned about uncertainties around the possible phasing out of quantitative easing and eventual future increases in global policy rates as growth strengthens, as these uncertainties may have contributed to a reversal of capital flows. Countries with high current account deficits have been more seriously affected, impacting exchange rates and investor confidence.

In the view of most emerging market economies, implementation of macro-prudential and capital management measures has been necessary for many countries to manage the financial stability implications of these capital flows. As well, many emerging market countries believe that disruptions in exchange rates brought about by heightened variability of capital flows could overshoot adjustments

based on market fundamentals, and thus measures to counter these effects should not run counter to G-20 commitments. Most emerging market economies are also of the view that the G-20 could consider strategies to better increase their policy cooperation, including effective and transparent communication, to minimize spillovers from domestic policy actions.

In the view of most advanced economies, accommodative and unconventional monetary policies have supported the recovery and helped establish a foundation for resumed growth. The recovery of more durable growth in advanced economies will benefit the global economy, including emerging markets. These countries also highlight that the process of eventual normalization of macroeconomic policies should be viewed as a welcome development for the global economy, since it will reflect improved economic conditions.

The G-20 agrees that sound macroeconomic policies, structural reforms and strong prudential frameworks will help address an increase in volatility. Efforts to strengthen and appropriately regulate the financial sectors in all countries are an essential part of any sustainable long-run policy response and as a result must continue to be a priority of the current structural reform agenda. G-20 members reiterate that future changes to monetary policy settings will continue to be carefully calibrated and clearly communicated. The G-20 will continue to monitor developments in this area and discuss how both advanced and emerging economies can prepare for the eventual normalization of global interest rates.

### **Structural Reform Policies**

Members have committed to a wide range of structural reform measures, particularly in areas related to labour and product markets, human capital development, tax reform, and infrastructure. Members have made solid progress to begin implementing these commitments, but most are not fully implemented. Members have made the most progress on labour market and taxation reforms, while implementation of reforms in other areas, such as human capital and product market regulations, has been more limited (*Fig. 17*).

Assessing progress on structural reforms has been complicated as many of the commitments put forward to date are either not clearly defined or have no time frame to reference. Therefore, since the Los Cabos Summit the G-20 has aimed to reset the structural reform agenda to make commitments more specific, measurable, and relevant to achieving strong, sustainable, and balanced growth. For the St. Petersburg Action Plan, members were asked to restate their two most important and relevant existing reform commitments, state explicitly and concretely how they contribute to achieving strong, sustainable and balanced growth, and indicate concrete ways in which progress can be measured. Members also put forth several new commitments that are meaningful, assessable and ambitious as part of the St. Petersburg Action Plan.

***Argentina***

Argentina has made progress towards all of its structural reform commitments, especially those related to the financial sector. Argentina should also make further efforts to increase the degree of assessability of its commitments.

***Australia***

Australia made good progress towards its structural reform commitments in the G-20, with the implementation of their programs and passing of legislation in the respective areas.

***Brazil***

Brazil has made good progress on most of its structural reform commitments although some of its commitments are difficult to assess given their broad scope. Brazil has made especially strong progress on its taxation reforms and improving its infrastructure, and efforts are being made to boost investment.

***Canada***

Canada has made good progress on its structural reform agenda, particularly regarding fiscal consolidation and labour market initiatives. Its commitment to establish a common securities regulator, however, has been delayed despite consistent efforts by the federal government to achieve this. While the labour market initiatives set out in the 2013 budget are relevant and assessable, further reforms may be necessary given comparatively low labour productivity growth. In particular, efforts should be made to increase labour mobility and address skills shortages in capital-intensive sectors.

***China***

China has made strong progress towards its structural reform commitments and in some cases exceeded the criteria listed in its commitments. Progress was especially strong for creating urban jobs, strengthening the social safety net, and increasing R&D spending, while the services sector has become increasingly important to the economy. However, further efforts are still needed to strengthen social safety nets, lower barriers to market entry, strengthen labour's social protection, and reduce income inequalities. Financial sector reforms should be accelerated to improve resource allocation within the economy and contain risks.

***European Union***

The EU has made progress in meeting all of its structural reform commitments, which focus on integrating the Single Market. The EU's major policy successes include the creation of the Single Supervisory Mechanism, plans to implement a single set of financial services regulations in January 2014, and to develop a growth-friendly regulatory framework by avoiding undue burdens for the EU's businesses, citizens and public administrations. Further efforts are needed on the advancement of the banking union and enhancing intra-EU labour mobility.

***France***

France has made good progress towards its structural reform commitments, notably launching and implementing the National Compact for Competitiveness and Jobs, reducing significantly labour costs

for firms. The latest law on “employment securitisation” will significantly improve the functioning of the French labour market. More could still be done to increase innovative capacities and the export performance of SMEs.

***Germany***

Germany has fulfilled many of its structural reform commitments. Of particular note was progress towards facilitating immigration of skilled workers, enhancing labour market competition, and boosting R&D and education spending. Further progress is still needed to increase domestic demand, notably by boosting private investment and service sector competition, and further increasing female labour force participation.

***India***

India has made progress towards most of its commitments, especially those to expand infrastructure spending and its Unique Identification Project, with almost 250 million Aadhaar cards being generated by December 2012. Steps have also been taken to facilitate FDI, and a draft GST bill has also been created.

***Indonesia***

Indonesia has made progress towards all of its structural reform commitments, especially infrastructure investment, supporting social assistance, and bureaucratic reform. Progress towards tax reforms continues despite some delays.

***Italy***

Italy has made good progress towards all of its structural reform commitments, and many have been fully implemented. The most notable progress has included reforms to the pension system, a public spending review, labour market reforms, and measures to improve public sector efficiency. Continued efforts are still needed to fully implement its entire reform agenda.

***Japan***

Japan has made significant progress towards all of its structural reform commitments as it implements its growth strategy. This includes pursuing economic partnerships with an expanded set of countries and encouraging innovation in healthcare. Further efforts are still needed to increase female labour force participation.

***Korea***

Korea has made concrete progress or has developed plans for all of its G-20 commitments. Its labour market reforms have been particularly successful. Korea also made progress towards its financial sector reforms, and will implement Basel III within this year.



**Mexico**

Mexico has taken action towards all of its policy commitments, notably labour market, educational, telecommunications, and financial sector reforms. Further reforms to improve the business environment are still needed but are on the current administration's agenda.

**Russia**

Russia's structural reform commitments focus on reducing unemployment and unemployment spells, and improving labour mobility. Russia is making strong progress on its past commitments focused on the labour market and financial sectors. Its 2012 unemployment rate target was fulfilled, the Employment Protection Program was adopted in late 2012, and other initiatives are at the early stages of implementation. Similarly, full implementation of its financial sector reforms has either already been achieved or is expected to be achieved in 2013.

**Saudi Arabia**

Saudi Arabia has made strong progress towards all of its structural reform commitments, especially introducing new mortgage laws and labour market reforms, and expanding credit to SMEs. Efforts are continuing to boost the employment of Saudi nationals, increase the supply of housing, improve infrastructure, particularly in the area of transportation, and further develop SMEs.

**South Africa**

South Africa has made solid progress towards its structural reform commitments, notably on infrastructure investment, creating temporary jobs through an expanded public works project, and pilot projects to improve healthcare. Development of a broader African FTA has progressed, although it has been slightly delayed from the original timeline. South Africa's most recent initiative of promoting a lower-carbon economy and society through a carbon tax and climate change financing is also welcome. Major reforms across the entire policy spectrum are still needed though to address South Africa's massive unemployment and inequality challenges.

**Spain**

Spain has made progress towards almost all of its G-20 commitments, and it is notable that they were made in the context of a severe recession. These include labour market reforms to reduce severance pay and help youth find jobs, as well as further liberalizing the private sector. Although Spain has made progress towards its structural reform commitments, it is essential that they are fully and rapidly implemented.

**Turkey**

Turkey has made progress for many of its structural reform commitments, especially on reforms to increase domestic savings with the implementation of new private pension system and to boost employment for youth and women. Education reforms have also been implemented, and there are plans to increase savings, continue to activate the labour markets, and reform the energy sector.

***UK***

The UK has made good progress towards its structural reform commitments, especially those to improve the business environment, reduce corporate tax rates, and increase infrastructure investment. Implementation of new structural reforms will contribute to growth. However, the UK is encouraged to accelerate reforms aimed at enhancing the economy's skills base and strengthening competitiveness.

***US***

The US has made considerable progress to reform its financial sector, which was a key component of its structural reform agenda. Additionally, clearing banks have reduced intraday credit exposure in the tri-party repo market and are on schedule to implement key changes in settlement process in 2013 and 2014. Changes made to government mortgage refinancing programs have enabled more than 2.5 million mortgages to be refinanced. Progress is still needed to ensure that employees not covered by a workplace retirement savings plan are enrolled in direct deposit Individual Retirement Accounts, as previously committed, and in strengthening transition to work for the long-term unemployed.

**Conclusion**

G-20 members have made solid progress towards their commitments across all policy areas. Despite these policy successes, the G-20 has still not achieved its goal of strong, sustainable, and balanced global growth. The policy actions included in the St. Petersburg Action Plan, accompanied by the full implementation of previous commitments, are crucial for the G-20 to meet this goal and enhance its credibility. Over the next year we will continue to monitor progress towards our commitments, further strengthen the Accountability Assessment Framework, and present another Accountability Assessment at the Brisbane Summit.