Feedback from the G20 Summit in Toronto – June 25-26, 2010

Key Points of Discussion

1. State of the Economy
2. Market Uncertainty
3. Financial Regulation
4. Drivers of Sustainable Growth

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1. State of the Economy

Deficits are now the biggest risk to Global economic recovery

Key concerns

- The recovery is still fragile and growth is uneven between countries and within national economies.
- Growing burden of *excessive* government debt.
- General consensus is that fiscal consolidation is required for a sustainable recovery.

Proposed Solutions and Responses

Fiscal Consolidation

- Solution will be country specific - but with coordination
- Fiscal consolidation should be focused in areas such as
  - Innovation
  - Education
  - Infrastructure
  - Research and development
  - Phase-out of inefficient subsidiaries

- Budget deficits should be addressed through cutting expenses and not through increased taxes.

Taxes

- Introduce carbon taxes
  - Development of low emission technologies
- Tax burdens must be fairly shared

Structural Policy Reforms

- Need to reduce imbalances
    - Raise savings – countries with low savings/high deficits
    - Increase domestic demand in countries with high savings
    - Policies for the public sector
    - Be wary of <u>protectionism</u> rearing its ugly head >> be careful that stimulus packages don't become another form of protectionism
- Need to develop Global governance structures.

The Role of Business

- Invest in new productive capacity

Country Responses

Brazil	• Improve trust in financial markets through effective central banks • Still high levels of trade limitations • Need to develop global governance structures
China	• Maintain domestic demand • Development of low emissions technologies • Renminbi Exchange rate adjustment
Germany	• Germany will be the growth engine in Europe • Unemployment decreasing • Germany has a permanent stimulus package through social security
Canada	• Fiscal imbalances in the US without willingness to deal with issues • Crises could have been predicted • Private sector and public sector need to be more aligned
Italy	• Energy • No contradiction between fiscal consolidation and growth • Competitiveness and Gov. subsidies important for growth
UK	• Growth in financial services, real estate and government. Decline in manufacturing
Indonesia	• Global imbalances • Asian countries continue to buy US Treasuries • Capital countries flow upstream from developing countries to developed countries

2. **Market Uncertainty**

<u>Key concerns</u>

- Continuing <u>uncertainty</u> about what governments are going to do on a number of important issues – *more especially in the financial sector.*
- Banks cannot expand lending and businesses can't commit to borrowing for major investments if they are unclear about what the <u>rules of the game</u> are going forward.

3. Financial Regulation

Credible Financial Sector is Critical

Key concerns

- Some financial institutions in some countries have much better records than others.
- Broad support for greater transparency and consistent international framework.

Proposed Solutions and Responses

- New financial architecture required – having no bank allowed to fail
- In depth bank supervision is a must
- No "one size fits all" approach to regulation
- In cases where tax payers had to bail out banks – governments to impose taxes to make fiscal consolidation politically feasible and tough budgets fair
- No support for a global bank tax or a fund for future crises >> moral hazard and would increase systemic risk and undermine access to credit
- Governments to focus on key issues that led to crisis
    - capital ratios
    - leverage and
    - liquidity
- Caution : Not to tighten requirements too quickly in ways that might restrict private sector access to credit

The Canada Case (Gordon Nixon)

Reasons for a strong Canada:

- Sound macroeconomic policies – 15 years of budget surpluses/ fiscal restrain
- Proactive regulation – capital and leverage limits, stringent liquidity rules
- Structure of Canadian mortgage market
    - Home ownership as a right vs. obligation
    - Conservative ownership environment

Focus on:

- Capital and leverage limits – rules must not be too complex and agreement will never be reached
- Need to strike a balance
- Focus on shareholders

SA's input

- Address the cause of the problem
    - Sound macroeconomic policies
    - Development of capital markets
    - Risk taking and complexity
- Effective regulation required and not more regulation
- Support capital and liquidity proposals *however*
    - Increase national discretion
    - Extend the time for implementation of liquidity requirements
    - Emerging markets are in investment phase in areas such as home loans
- Reject
    - Bank Tax *except* in countries where public funds have been used
    - Volcker rule
    - One Size Fits All
- Harmonisation and convergence of accounting standards (IASB and FASB)
- Implement BASEL II across the board before BASEL III

4. **Drivers of Sustainable Growth**
    - Trade and Investment
    - Innovation
    - Entrepreneurship

Trade and Investment

Key concerns

- Trade a major casualty of the Global Financial Crisis
    - falling by 12% in value
    - Collapse in aggregate demand in USA and Europe
- Protectionism a huge worry during the down turn

Proposed Solutions and Responses

- Vigilance on protectionism and employment creation is important during the recovery
- WTO policies of open trade cannot be take for granted
- Need to break the logjam of the Doha Development Round >> this would result in a huge global stimulus package at no costs to governments
- Political impasse needs to be broken in the trade negotiation
- Need a strong voice from business – "B20"

Innovation

- Free trade directly linked to innovation – customers should be allowed to make free choices

- There's a need for strong and consistent protection of intellectual property rights, access to high quality education and support for research development
- Innovation must be encouraged through competition

Entrepreneurship

- High level of employment among young people in both developed and developing countries
- Efforts to create more economic opportunity for young people must include self-employment and entrepreneurship
- Skills development is necessary
- Need for public policies that support the launch and growth of SMMEs.
- SMMEs must have access to credit.

Country Responses

India	• Support of SMMES important for job creation • Skills development • Urbanisation > 50% of people in India live in villages • India saves a lot but also consumes a lot
France	• Need common rules and each chapter of DOHA round to be finalised
UK	• IP a major issue • Government to incentivise entrepreneurship • Academic excellence must be supported by governments
Africa	• Economic colonisation continues • Emerging countries do not have resources for subsidies
Korea	• Need for green growth strategy • Financial inequality can harm > need for financial inclusion • Business funding for Micro enterprises
Indonesia	• Countries are focussing more on regional trade agreements – is this hindrance or promoter of DOHA round? – regional agreements only account for 30%

5. Summary

Business Creates Jobs; Government creates the necessary environment

- Government should focus on structural changes , open trade and competition, innovation and entrepreneurship and
- Fiscal Consolidation important > no contradiction with growth
- Business leaders and governments need to focus on rebuilding public trust
- The need for coordination across countries.