



Special Report

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A G-20 Summit Primer

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Prepared by the staff of
BMO Capital Markets
Economics

www.bmocm.com/economics
1-800-613-0205

Charts in the appendix summarize the relative fiscal position of the G-20 based on both gross and net government debt positions (net of public sector assets). Net measures put Canada in a more favourable light. Net debt figures are not available for all countries.

G-20 Summit Fiscal Positions

Canada: This year's federal budget deficit will be less than 3% of GDP and the combined provincial shortfall will be around 2% of GDP. Ottawa's fiscal plan aims to balance the budget by 2014/15. The winding-down of the Action Plan will cut the deficit in half by 2011/12; spending restraint will yield savings of \$17.6 billion over five years.

United States: The U.S. is facing another budget deficit of over \$1.3 trillion (9% of GDP) in 2010, though significant borrowing capacity remains. Unwinding stimulus measures will cut the deficit sharply in 2011, but a big structural deficit will widen without action. The U.S. has yet to table a plan to ensure long-term fiscal stability.

China: Large-scale fiscal stimulus raised the central government fiscal deficit to 3% of GDP in 2009, where it is likely to remain this year. Debt levels seem moderate at about 20% of GDP, but serious transparency issues cloud the true picture.

Japan: By mid-2010, the government is expected to announce a medium-term fiscal framework that will cover the next three years. Japan's massive debt and sizeable deficit are of increasing concern.

Korea: Sizeable pre-crisis surpluses kept debt at moderate levels. Korea's swift and coordinated policy response to the crisis included heavy fiscal stimulus, but a rapid economic recovery kept the budget balanced. Surpluses are expected to resume, largely through expenditure reductions.

Germany: Even with one of the stronger budget positions in Europe, Germany's budget deficit will still be around 5% of GDP in 2010. Spending will be cut by 80 bln by 2014, with measures worth 0.5% of GDP to start in 2011. The goal is a 3% deficit (to GDP) by 2013.

France: While not as dire as others in Europe, France faces a significant deficit of 8% of GDP in 2010, but aims to bring that down to 3% by 2013. New deficit-narrowing measures will likely be announced in July.

Italy: The projected 2010 deficit is a reasonable 5% of GDP. Approved austerity measures will cut the shortfall to 2.7% by 2012. Italy's debt—at over 100% of GDP—is a bigger problem, and debt service costs are significant.

Britain: The recently announced budget contained sharp cuts to slash the deficit from 10.1% of GDP in 2010 to 1.1% in 2015/16. Markets and ratings agencies looked favourably on the budget, but it will be a major headwind to growth.

Russia: As the anti-crisis package gradually unwinds, the general government deficit is projected to improve from 6.2% to 2.9% of GDP in 2010. Longer term, authorities plan to reduce the non-oil deficit to its sustainable 4.7% (of GDP) target by 2013.

Brazil: Pre-crisis fiscal policy was generally prudent, but debt levels are high at almost 70% of GDP. A strong growth rebound kept the deficit to 3.3% of GDP last year, but election spending may make this year's 1.5% target difficult to reach.

Argentina: The fiscal deficit rose sharply to 3.9% of GDP last year. There is no exit strategy beyond the functioning of automatic stabilizers.

Mexico: Pre-crisis fiscal prudence was sidetracked as the global recession led to a major 6.5% GDP decline last year and sent the fiscal deficit sharply higher. With about 1/3 of revenues dependent on (declining) oil resources, major fiscal reforms are needed, but political will is lacking.

Australia: Australia has almost no net government debt and is in strong fiscal shape overall. The economic recovery is expected to return the budget to surplus by 2012/13. Restraining spending growth to 2% per year will help.

South Africa: The fiscal deficit rose sharply to over 6% last year, and is not expected to budge in 2010. Government debt rose in 2009, but remains moderate at about 30% of GDP. A gradual reduction in the fiscal imbalance is targeted as the government continues infrastructure projects related to transportation and energy bottlenecks. Revenue measures will be discussed if needed.

India: Progress in reducing India's perennially high fiscal deficits was interrupted by the global crisis. Last year's deficit of 10.5% may come down modestly this year, but little progress is expected in reducing a very high debt level of around 80% of GDP. Medium term plans to reduce the deficit are mainly revenue-driven.

Indonesia: Fiscal prudence brought major reductions in debt levels in recent years. Last year's deficit rose to a still-modest 1.6% of GDP, but the debt level continued to decline to 28.6% of GDP.

Turkey: After a 5.4% of GDP deficit in 2009, a slower increase in spending and healthier receipts are on pace to take the deficit under 4% in 2010. Cost controls are expected to yield a primary surplus from 2011.

Saudi Arabia: Massive fiscal surpluses gave way to a small deficit in 2009 due to lower oil revenues and aggressive stimulus. The deficit was financed by drawing down assets rather than borrowing, maintaining a pattern of fiscal prudence which brought debt levels to a modest 16% of GDP last year. Large fiscal surpluses are expected to resume.

G-20 Summit Priorities

The G-20 has identified four major themes for the Toronto summit:

1. **Sustainable and balanced growth:** The focus will be on sovereign risks and the timing and magnitude of fiscal restraint, and policy co-ordination.
2. **Financial sector reform:** A bank tax will be debated vigorously, while progress on regulatory reform, aimed at reducing excessive risk taking, will be evaluated.
3. **Free trade, reduce global imbalances:** China's recent modest revaluation action will shift the focus to guarding against new protectionist measures.
4. **Reform of international financial institutions:** Strengthen the IMF and World Bank's lending capacity, and enhance governance (lift emerging markets' role).

Canada: Prime Minister Harper and Finance Minister Flaherty have identified “*sustainable global growth*” as the top priority for the G-20. Canada also wants to avert a bank tax, and wants major nations to stabilize government debt—specifically for Europe to get its fiscal house in order.

United States: Ensure the removal of fiscal stimulus globally is not so abrupt as to cause the recovery to stall. The U.S. supports a bank tax, but it's not a top priority at the G-20.

China: The announcement of renewed yuan flexibility was an attempt to deflect G-20 criticisms over its economic policies and global imbalances. China has a clear interest to prevent protectionism and enhance trade liberalization. It will also benefit from changes to IMF governance and has expressed its opposition to a bank tax.

Japan: Japan is against a bank tax, and will be a forceful proponent of free trade. The country also wants the IMF and the Asian Development Bank to enable it to play a bigger role in supporting the recovery. Japan will also promote fiscal consolidation.

Korea: As a heavy trading nation, priorities include guarding against protectionism. Korea may also seek IMF governance reform to increase voting powers for emerging markets. With strong growth and fiscal accounts, Korea will be seen as pulling its weight on sustainable and balanced global growth.

European Union: The EU wants to ensure European fiscal sustainability, while maintaining growth. Financial reform regulation, e.g. bank tax, and IMF reforms, are also priorities.

Germany: Germany, in concert with Britain and France, is in favour of a bank tax. Ensuring European fiscal sustainability and trade liberalization are also priorities.

France: France, along with Britain and Germany, also favours a bank tax. Ensuring European fiscal sustainability while maintaining growth will also be emphasized.

Italy: Italy will focus on European fiscal sustainability and is not yet convinced on a bank tax.

Britain: Britain, along with Germany and France, favours a bank tax and introduced one domestically this week. Ensuring European fiscal sustainability is also a priority.

Russia: Russia is interested in ensuring medium-term European fiscal sustainability while keeping the recovery intact. Maintaining strong global growth will boost energy prices as Russia is heavily reliant on energy exports (63% of the total) and also dependent on European demand (50% of exports go to the EU). Russia opposes a bank tax.

Brazil: IMF governance may feature in Brazil's summit priorities. Brazil, like other developing countries, is pressing for more voting rights within the IMF. Strong growth (9% y/y in 2010Q1) means Brazil is doing its share for global growth. Brazil's banks are sound and weathered the financial crisis well. Brazil is against a global bank tax.

Argentina: Buenos Aires wants new measures to reform the global financial system. In the past, President Cristina Kirchner has wanted to discuss whether the U.S. dollar should continue to be the world's reserve currency.

Mexico: Battling protectionist measures is a top priority for Mexico. President Felipe Calderon has already said that "*protectionism is not the right answer*".

Australia: With an eye on its neighbours, Australia will press for more voting rights for China within the IMF. Australia opposes a bank tax, and favours fiscal consolidation.

South Africa: The sole African representative, South Africa will speak for the whole continent when it calls for an increase in development funding and easier access to international financing, as well as a call to avert protectionism.

India: Like other developing countries, India is pushing for greater representation in the IMF. India is opposed to a bank tax.

Indonesia: Indonesia earlier called for "*a new global economic order*" to emerge from the G-20. Jakarta is hoping that major reforms of the world's financial system will lead to a fairer economic system for developing nations. Top of the list will be more funds for developing countries. Indonesia is vulnerable to the drying up of loans from European and American banks.

Turkey: Turkey will focus on ensuring medium-term European fiscal sustainability while keeping the recovery intact—46% of exports go to the EU.

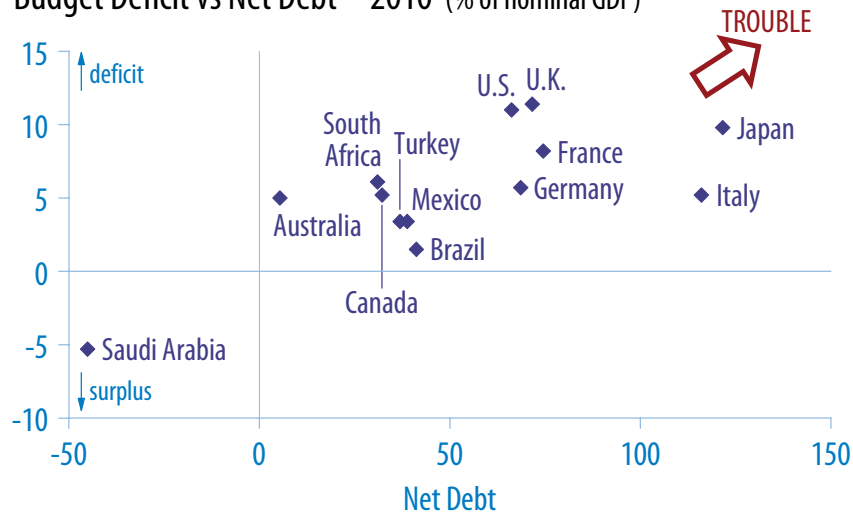
Saudi Arabia: As the only OPEC member in the G-20, Saudi Arabia wants the global recovery to stick and support oil prices. With some of its oil receipts priced in euros, they are quietly supportive of pan-European efforts to stabilize the euro.

Appendix

CHART 1

G-20 FISCAL LANDSCAPE – NET DEBT

Budget Deficit vs Net Debt – 2010 (% of nominal GDP)



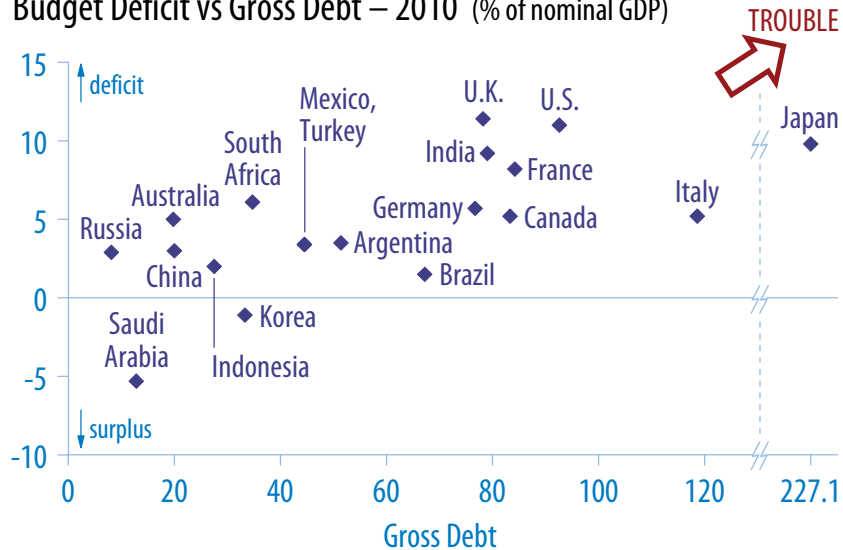
Excludes G-20 members not reporting net debt (Argentina, China, India, Indonesia, Korea, Russia)

Source: IMF

CHART 2

G-20 FISCAL LANDSCAPE – GROSS DEBT

Budget Deficit vs Gross Debt – 2010 (% of nominal GDP)



Source: IMF

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