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The
G8 Research Group
at the Munk School of Global Affairs at Trinity College in the University of Toronto
presents the

**2013 Lough Erne G8 Summit
Interim Compliance Report**

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3. Macroeconomic Policy: Global Imbalances [45]

Commitment:

“We reaffirm our commitment to cooperate to achieve a lasting reduction in global imbalances, which surplus and deficit countries must address.”

2013 G8 Lough Erne Communiqué

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Canada			+1
France			+1
Germany	-1		
Italy			+1
Japan			+1
Russia			+1
United Kingdom			+1
United States			+1
European Union			+1
Average Score	+0.78		

Background:

Global imbalances refer to the disparity in current account balances between countries. Resolving such imbalances refers to attempts to reduce the current-account surplus or current-account deficit a country may carry. Typically this entails surplus countries shifting to relying more on internal demand, and deficit countries shifting to focus on generating external demand.¹⁶⁹ Large, unsustainable global imbalances can have a profound destabilizing effect on the global economy, impeding international trade and investment by generating uncertainty in markets.¹⁷⁰ G8 leaders at Lough Erne stated their intentions to avoid any such vulnerabilities which could disrupt global economic recovery.¹⁷¹

At the 2009 L’Aquila Summit, the G8 acknowledged the importance of adjusting the global imbalance by “supporting strong internal demand in surplus countries and increasing savings rates in deficit countries through appropriate macroeconomic and structural policies.”¹⁷²

Though it has made commitments regarding other aspects of the health of the global economy, not until Lough Erne 2013 did the G8 again pledge to reduce global imbalances.

¹⁶⁹ Kowalski, P. and M. Leshner, “Global Imbalances: Trade Effects and Policy Challenges”, OECD (Paris) 2011. Date of Access: 5 December 2013. http://www.oecd-ilibrary.org/trade/global-imbances_5kg22x55618n-en.

¹⁷⁰ Kowalski, P. and M. Leshner, “Global Imbalances: Trade Effects and Policy Challenges”, OECD (Paris) 2011. Date of Access: 5 December 2013. http://www.oecd-ilibrary.org/trade/global-imbances_5kg22x55618n-en.

¹⁷¹ G8 Lough Erne Leaders Communiqué (Lough Erne), G8 Information Centre (Toronto) 18 June 2013. Date of Access: 5 December 2013. <http://www.g8.utoronto.ca/summit/2013lougherne/lough-erne-communication.html#economy>.

¹⁷² G8 Leaders’ Declaration: Responsible Leadership for a Sustainable Future (L’Aquila), G8 Information Centre (Toronto) 8 July 2009. Date of Access: 5 December 2013. <http://www.g8.utoronto.ca/summit/2009laquila/2009-declaration.html>.

Commitment Features:

Specific mechanisms used to reduce imbalances will differ for each G8 member according to their current account status, and according to the specific conditions of their economic outlook. The International Monetary Fund identifies two categories of rebalancing strategies, both internal and external.

Internal corrective adjustments will likely include fiscal consolidation, and efforts to improve the efficiency of public finance. Such measures would apply particularly to deficit countries like the U.S. and Japan.¹⁷³

External adjustments for surplus countries can include structural reforms to stimulate internal demand, improving social safety nets, tax reform, reform of state-owned enterprises. External strategies for deficit countries may involve structural reforms aimed at improving competitiveness, like investing in human and physical capital, and technology enhancements.¹⁷⁴ Reducing tariffs for certain sectors could also rebalance for both deficit and surplus countries.¹⁷⁵ Members also have the option of adjusting exchange rates to improve growth, to depreciate in cases of deficit countries, and appreciate in cases of surplus.¹⁷⁶ With these mechanisms, members can shift the sources of their demand, to counteract the existing bias of their economy.

The Lough Erne Statement on the global economy also emphasized sustainable growth, sustainable recovery, and job creation. Therefore the commitment to correct global imbalances should not infringe on such efforts.

Full Compliance will be based on the ability of a member to make policy adjustments to reduce their own deficit or surplus, with strategies including but not limited to any of the aforementioned mechanisms. A score of Full Compliance will also indicate that the member has undertaken adjustments to global imbalances while not hindering domestic growth and economic recovery.

Scoring Guidelines:

-1	Member does not implement policies to reduce their own deficit or surplus.
0	Member implements policies which shift demand appropriately to address global rebalancing but does so at the cost of domestic growth and confidence.
+1	Member implements policies which shift demand appropriately to address global rebalancing while maintaining domestic growth and confidence.

Lead Analyst: Emily Johnson

¹⁷³ Imbalances and Growth: Update of Staff Sustainability Assessments for G-20 Mutual Assessment Process, International Monetary Fund (Washington DC) September 2013. Date of Access: 5 December 2013. <http://www.imf.org/external/np/g20/pdf/map2013/map2013.pdf>.

¹⁷⁴ Imbalances and Growth: Update of Staff Sustainability Assessments for G-20 Mutual Assessment Process, International Monetary Fund (Washington DC) September 2013. Date of Access: 5 December 2013. <http://www.imf.org/external/np/g20/pdf/map2013/map2013.pdf>.

¹⁷⁵ Kowalski, P. and M. Leshner, "Global Imbalances: Trade Effects and Policy Challenges", OECD- (Paris) 2011. Date of Access: 5 December 2013. http://www.oecd-ilibrary.org/trade/global-imbalances_5kg22x55618n-en.

¹⁷⁶ Imbalances and Growth: Update of Staff Sustainability Assessments for G-20 Mutual Assessment Process, International Monetary Fund (Washington DC) September 2013. Date of Access: 5 December 2013. <http://www.imf.org/external/np/g20/pdf/map2013/map2013.pdf>.

Canada: +1

Canada has fully complied with its commitment to address global rebalancing and has abstained from introducing measures which impede domestic growth and confidence.

Canada has run a persistent current account deficit for the past four years.¹⁷⁷ Its domestic economy remains relatively strong, yet its exports are impeded by a drop in global demand.¹⁷⁸

On 18 October 2013, the European Union and Canada announced concluded negotiations on the Comprehensive Economic and Trade Agreement (CETA,) a major free trade agreement that will drop tariffs on several important sectors.¹⁷⁹ The agreement will increase bilateral trade by 20 per cent, stimulating Canada's dampened exports.^{180,181} Upon implementation, 98 per cent of EU and Canadian tariffs will be removed immediately.¹⁸² The agreement will not enter into force until ratified, a process which could take up to two years.¹⁸³

For concluding negotiations aimed at reducing tariffs and boosting exports, and avoiding measures which would undercut growth, Canada is given a score of +1 for full compliance.

Analyst: Kasra Behnampour

France: +1

France has fully complied with its commitment to reduce global imbalances.

France has run a current account deficit since the 1990s.¹⁸⁴

In July 2013, French President François Hollande commissioned a study on French competitiveness under the direction of French businessman Louis Gallois.¹⁸⁵ On 5 November 2013, Gallois' recommendations were released. The recommendations underlined the need to

¹⁷⁷ Current Account Deficit Down, But Still 'Near Record', CBC (Ottawa) 28 February 2013. Date of Access: 3 January 2014. <http://www.cbc.ca/news/business/current-account-deficit-down-but-still-near-record-1.1364787>.

¹⁷⁸ Current Account Deficit Down, But Still 'Near Record', CBC (Ottawa) 28 February 2013. Date of Access: 3 January 2014. <http://www.cbc.ca/news/business/current-account-deficit-down-but-still-near-record-1.1364787>.

¹⁷⁹ Canada, EU unveil 'historic' free-trade agreement, Globe and Mail (Toronto) 18 October 2013. Date of Access: 2 January 2014. <http://www.theglobeandmail.com/news/politics/eu-harper/article14924915/>.

¹⁸⁰ CETA: Canada-EU Free Trade Deal Lauded by Harper, Barroso, CBC (Ottawa) 18 October 2013. Date of Access: 2 January 2014. <http://www.cbc.ca/news/politics/ceta-canada-eu-free-trade-deal-lauded-by-harper-barroso-1.2125122>.

¹⁸¹ Staying on Track In an Uncertain World, Update of Economic and Fiscal Projections 2013, Department of Finance (Ottawa) 12 November 2013. Date of Access: 2 January 2014. <http://www.fin.gc.ca/efp-pef/2013/efp-pef-01-eng.asp#s2>.

¹⁸² Canada, EU unveil 'historic' free-trade agreement, Globe and Mail (Toronto) 18 October 2013. Date of Access: 2 January 2014. <http://www.theglobeandmail.com/news/politics/eu-harper/article14924915/>.

¹⁸³ Canada, EU unveil 'historic' free-trade agreement, Globe and Mail (Toronto) 18 October 2013. Date of Access: 2 January 2014. <http://www.theglobeandmail.com/news/politics/eu-harper/article14924915/>.

¹⁸⁴ Current Account Balance (% of GDP), Data, The World Bank (Washington DC). Date of Access: 1 January 2014. <http://data.worldbank.org/indicator/BN.CAB.XOKA.GD.ZS>.

¹⁸⁵ France readies response to shock therapy industry call, Reuters UK Edition (London) 5 November 2013. Date of Access 26 December 2013. <http://uk.reuters.com/article/2012/11/05/uk-france-competitiveness-idUKBRE8A415120121105>.

slash French labour costs and redirect tax burdens away from corporations and on to households.¹⁸⁶

On 3 July 2013 at the Berlin Conference, President Hollande committed to the implementation of the Youth Guarantee over the next two years.¹⁸⁷ The Youth Guarantee includes a commitment to supplying youth under the age of 25 with either “a job, continued education, an apprenticeship or a traineeship”¹⁸⁸ within four months of leaving formal education or becoming unemployed. Commitment to the Youth Guarantee exemplifies France’s efforts to global rebalancing via job creation and investments in human capital.

On 26 August 2013, French Minister of Economy and Finance Pierre Moscovici presented a motion to the French national assembly to reform the “Plan d’épargne en actions” (PEA).¹⁸⁹ The PEA is a national shared savings program meant to aid in the financing of small and medium sized businesses in France and contributes to national savings.¹⁹⁰ On 14 November 2013 the French National Assembly approved the reform.¹⁹¹

On 12 September 2013, President Hollande and Minister of Industry Arnaud Montebourg introduced a new industrial strategy aimed at reviving French industry through technological investment totalling EUR 3.5 billion.¹⁹² Investment will primarily benefit France’s biotechnology, transportation and digital sectors.¹⁹³ Minister Montebourg promised to create 475,000 jobs and EUR 45 billion in revenues over the next ten years and increase French industrial competitiveness.¹⁹⁴

On 25 September 2013, Minister of Economy and Finance Pierre Moscovici presented the 2014 budget. The 2014 budget featured a series of internal corrective adjustments focused on

¹⁸⁶ France readies response to shock therapy industry call, Reuters UK Edition (London) 5 November 2013. Date of Access 26 December 2013. <http://uk.reuters.com/article/2012/11/05/uk-france-competitiveness-idUKBRE8A415120121105>.

¹⁸⁷ EU Youth Guarantee, The Press and Information Office of the Federal Government of Germany (Berlin). 13 November 2013. Date of Access 28 December 2013. <http://www.bundesregierung.de/ContentArchiv/EN/Archiv17/Reiseberichte/2013/2013-11-13-paris-jugendarbeitslosigkeit.html>.

¹⁸⁸ EU Youth Guarantee, The Press and Information Office of the Federal Government of Germany (Berlin). 13 November 2013. Date of Access 28 December 2013. <http://www.bundesregierung.de/ContentArchiv/EN/Archiv17/Reiseberichte/2013/2013-11-13-paris-jugendarbeitslosigkeit.html>.

¹⁸⁹ Réforme du PEA, Ministère de L’Économie et des Finances (Paris) 26 August 2013. Date of Access 28 December 2013. <http://www.economie.gouv.fr/reforme-du-plan-epargne>.

¹⁹⁰ Réforme du PEA, Ministère de L’Économie et des Finances (Paris) 26 August 2013. Date of Access 28 December 2013. <http://www.economie.gouv.fr/reforme-du-plan-epargne>.

¹⁹¹ L’Assemblée approuve la creation d’un PEA-PME, Le Figaro (Paris) 14 November 2013. Date of Access 29 December 2013. <http://www.lefigaro.fr/flash-eco/2013/11/14/97002-20131114FILWWW00455-l-assemblee-approuve-la-creation-d-un-pea-pme.php>.

¹⁹² France launches broad initiatives to improve industry, Radio France Internationale English (Paris) 13 September 2013. Date Accessed 27 December 2013. <http://www.english.rfi.fr/economy/20130913-france-launches-broad-initiatives-improve-industry-create-jobs>.

¹⁹³ France unveils 3.5 billion Euro plan for ‘third industrial revolution’, Euractiv (Brussels) 16 September 2013. Date of Access 28 December 2013. <http://www.euractiv.com/innovation-enterprise/35-plan-third-industrial-revolut-news-530438>.

¹⁹⁴ France launches broad initiatives to improve industry, Radio France Internationale English (Paris) 13 September 2013. Date of Access 27 December 2013. <http://www.english.rfi.fr/economy/20130913-france-launches-broad-initiatives-improve-industry-create-jobs>.

improving the efficiency of public finance.¹⁹⁵ The budget featured cuts in lower public spending totalling EUR 15 billion.¹⁹⁶ The Ministries of Defence and Finance faced job cuts totalling 13 123 jobs.¹⁹⁷ Public spending is set to be redirected towards the Ministry of Education, the Ministry of Health and the Ministry of Justice where Moscovici plans to create 11,000 jobs.¹⁹⁸ Furthermore, the tax credit for competitive employment (CICE) will allow businesses to benefit from a 4 per cent decrease in labour costs.¹⁹⁹

The 2014 budget presents a projected 19.6 per cent to 20 per cent tax increase on households.²⁰⁰ Furthermore President Hollande's pension reform presented in July 2013 extends the contribution payment period required for a full pension.²⁰¹ It is projected that national revenue reaped from French households will increase by a total of EUR 12 million in 2014.²⁰²

On 29 December 2013, Hollande received approval from France's constitutional court to tax employees who earned more than EUR 1 million a year.²⁰³ It was announced that firms would pay a 50 per cent tax on all wages above the EUR 1 million mark.²⁰⁴ The measure may prove to be an impediment to the growth of industry.²⁰⁵

France has undertaken internal adjustments to reduce its current account deficit, including fiscal consolidation, increasing the efficiency of public spending, and external strategies to improve

¹⁹⁵ Le Budget 2014: Cap sur la croissance et l'emploi, Ministère de L'économie et des Finances (Paris) 6 October 2013. Date of Access: 27 December 2013. <http://www.economie.gouv.fr/files/plf2014-essentiel.pdf>.

¹⁹⁶ France unveils 'unprecedented' public spending cuts, The Telegraph UK (London) 25 September 2013. Date of Access 27 December 2013. <http://www.telegraph.co.uk/finance/financialcrisis/10334453/France-unveils-unprecedented-public-spending-cuts.html>.

¹⁹⁷ France unveils 'unprecedented' public spending cuts, The Telegraph UK (London) 25 September 2013. Date of Access 27 December 2013. <http://www.telegraph.co.uk/finance/financialcrisis/10334453/France-unveils-unprecedented-public-spending-cuts.html>.

¹⁹⁸ France unveils 'unprecedented' public spending cuts, The Telegraph UK (London) 25 September 2013. Date of Access 27 December 2013. <http://www.telegraph.co.uk/finance/financialcrisis/10334453/France-unveils-unprecedented-public-spending-cuts.html>.

¹⁹⁹ Impôts: qui va changer pour les entreprises et les collectivités, Le Monde (Paris), 31 December 2013. Date of Access 31 December 2013. http://www.lemonde.fr/politique/article/2013/12/30/impots-ce-qui-va-changer-pour-les-entreprises-et-les-collectivites_4341285_823448.html.

²⁰⁰ François Hollande admits French taxes are 'too much' Financial Times UK edition (London) 18 September 2013. Date of Access 26 December 2013. <http://www.ft.com/intl/cms/s/0/db16fde0-1f8f-11e3-aa36-00144feab7de.html#axzz2oqRLHFtv>.

²⁰¹ France's Hollande in tight spot on pension reform, Reuters UK (London) 21 July 2013. Date of Access 27 December 2013. <http://www.reuters.com/article/2013/07/21/us-france-pensions-analysis-idUSBRE96K02U20130721>.

²⁰² Le Budget 2014: Cap sur la croissance et l'emploi, Ministère de L'économie et des Finances (Paris) 6 October 2013. Date of Access: 27 December 2013. <http://www.economie.gouv.fr/files/plf2014-essentiel.pdf>.

²⁰³ Communiqué de Presse, Pierre Moscovici, Ministre de l'Economie et de Finance (Paris) 29 December 2013. Date of Access: 2 January 2014. <http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/16672.pdf>.

²⁰⁴ Communiqué de Presse, Pierre Moscovici, Ministre de l'Economie et de Finance (Paris) 29 December 2013. Date of Access: 2 January 2014. <http://proxy-pubminefi.diffusion.finances.gouv.fr/pub/document/18/16672.pdf>.

²⁰⁵ French Cleared to Impose Controversial Tax on Industry, Thompson-Reuters (New York) 31 December 2013. Date of Access: 2 January 2014. <https://tax.thomsonreuters.com/media-resources/news-media-resources/checkpoint-news/tax-accounting-news/france-cleared-impose-controversial-millionaire-tax/>.

competitiveness. There is concern that the controversial corporate tax and fiscal consolidation in the budget may have negative consequences for growth and domestic purchasing power respectively.²⁰⁶ The coming months will demonstrate whether these efforts have undercut confidence. At this interval, France is awarded a score of +1 for full compliance.

Analyst: Hadeer Shaheen

Germany: -1

Germany has thus far not complied with its commitment to bridge the global imbalance gap.

In September 2013, Germany's long-running current account surplus became the largest in the world at EUR 19.7 billion.²⁰⁷ The European Commission has criticised the surplus, expressing concerns that it represents an untenable level of export-reliance, and that Germany is not acting enough to strengthen domestic demand.²⁰⁸

On 15 October 2013, Germany submitted its Draft Budgetary Plans to the European Commission in compliance with the 'Two Pack' reform.²⁰⁹ The 'Two Pack' provides a schedule by which Member States must submit for approval and adopt their national budgets, in order to better coordinate budgetary policies in the common currency area.²¹⁰ The Draft Budget contained no new discretionary measures.²¹¹

On 13 November 2013, the European Commission determined to launch a detailed analysis of Germany's current account surplus, to ascertain whether it indicates a serious imbalance that could be harmful to the euro zone.²¹² The Commission's President suggested that Germany should do more to strengthen its domestic demand.²¹³

²⁰⁶ French 2014 Budget Seeks Savings, Taxes Households, Reuters U.S. (New York) 25 September 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/09/25/france-budget-idUSL5N0HL1Q320130925>.

²⁰⁷ EU Starts Investigating German Current Account Surplus, Reuters U.S. Edition (New York) 13 November 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/11/13/eu-germany-surplus-idUSL5N0IY2IJ20131113>.

²⁰⁸ Germany Under Review Over Economic Rule in EU, BBC Business (London) 13 November 2013. Date of Access: 2 January 2014. <http://www.bbc.co.uk/news/business-24922975>.

²⁰⁹ Draft Budgetary Plans of Euro Area Member States, Economic and Financial Affairs, European Commission (Brussels) 15 November 2013. Date of Access: 3 January 2014. http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm.

²¹⁰ Draft Budgetary Plans of Euro Area Member States, Economic and Financial Affairs, European Commission (Brussels) 15 November 2013. Date of Access: 3 January 2014. http://ec.europa.eu/economy_finance/economic_governance/sgp/budgetary_plans/index_en.htm.

²¹¹ Analysis of the Draft Budgetary Plan of Germany, European Commission (Brussels) 15 November 2013. Date of Access: 3 January 2014. http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/de_2013-11-15_swd_en.pdf.

²¹² EU Starts Investigating German Current Account Surplus, Reuters U.S. Edition (New York) 13 November 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/11/13/eu-germany-surplus-idUSL5N0IY2IJ20131113>.

²¹³ EU Starts Investigating German Current Account Surplus, Reuters U.S. Edition (New York) 13 November 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/11/13/eu-germany-surplus-idUSL5N0IY2IJ20131113>.

On 21 November 2013, Chancellor Angela Merkel denied that Germany's high trade surplus held danger for the euro area. Both the Chancellor and Bundesbank board member Andreas Dombret denied the idea that Germany should deliberately weaken its competitiveness.²¹⁴

Chancellor Angela Merkel spent three months following her election victory of 22 September 2013 forming her governing coalition.²¹⁵ During coalition talks, the issue of creating a nation-wide minimum wage was prominent. The parties agreed on a plan to introduce a minimum wage of EUR 8.50 in 2015 over a two-year period.²¹⁶ Though it is possible the nation-wide minimum wage could contribute to bolstering domestic demand, economists point out that the amount would not increase household purchasing power by a significant amount.²¹⁷ Having to pay a higher minimum wage could also prove threatening to small businesses.²¹⁸

Thus far, as a result of the election and coalition negotiations, and a budget that introduced no new discretionary measures, Germany has not taken action to stimulate domestic growth. It is awarded a score of -1 for non-compliance.

Analysts: Kriti Bhatt, Emily Johnson

Italy: +1

Italy has fully complied with its commitment to reduce global imbalances.

From mid-2011, Italy's current account deficit narrowed significantly, becoming a modest surplus in 2012, which persisted in 2013.^{219,220}

On 19 September 2013 the Ministry of Foreign Affairs published "Destinazione Italia." This set of 50 measures was developed in order to stimulate foreign direct investment, and intended to boost the competitiveness of Italian companies.²²¹

On 20 September 2013 the Ministry of Foreign Affairs published in their financial update for 2013 that net borrowing, absent of any new policies, could reach 3.1 per cent of the GDP. Italy's

²¹⁴ Bundesbank's Dombret defends German Trade Surplus, Reuters U.S. Edition (New York) 22 November 2013. Date of Access: 4 January 2014. <http://uk.reuters.com/article/2013/11/22/uk-germany-trade-bundesbank-idUKBRE9AL0J220131122>.

²¹⁵ Merkel Say Permanently Fixing Euro Zone Crisis Vital for Germany, Reuters U.S. (New York) 20 December 2013. Date of Access: 4 January 2014. <http://uk.reuters.com/article/2013/12/30/uk-germany-merkel-idUKBRE9BT0J620131230>.

²¹⁶ Economists Criticize Tame Coalition Deal, Deutsche Welle (Berlin) 28 November 2013. Date of Access: 3 January 2014. <http://www.dw.de/economists-criticize-tame-coalition-deal/a-17259465>.

²¹⁷ Views Diverge Over Minimum Wage in Germany, Deutsche Welle (Berlin) 26 September 2013. Date of Access: 3 January 2014. <http://www.dw.de/views-diverge-over-minimum-wage-in-germany/a-17117399>.

²¹⁸ Views Diverge Over Minimum Wage in Germany, Deutsche Welle (Berlin) 26 September 2013. Date of Access: 3 January 2014. <http://www.dw.de/views-diverge-over-minimum-wage-in-germany/a-17117399>.

²¹⁹ Macroeconomic Imbalances: Italy 2013, European Commission (Brussels) April 2013. Date of Access: 2 January 2014.

http://ec.europa.eu/economy_finance/publications/occasional_paper/2013/pdf/ocp138_en.pdf.

²²⁰ Current Account Balance in Millions, OECD StatExtracts (Paris) 2 January 2014. Date of Access: 2 January 2014. Link? Is this for Italy?

²²¹ Destinazione Italia, Ministero Dell'Economia E Delle Finanze (Rome) 19 September 2013. Date of Access: December 30 2013. http://www.esteri.it/MAE/approfondimenti/2013/20130925_destinazioneitaliainglese2.pdf.

agreement with the Council of the European Union to keep its deficit-GDP ratio below 3 per cent reinforces the commitment made to reduce global imbalances at the Lough Erne Summit.²²²

The OECD have identified that Italy's labour force has among the worst rates of basic literacy and numeracy of any advanced economy, and the IMF noted that it lagged significantly in ease of doing business.²²³ The IMF recommended a focus on improving competitiveness.

Thus, Italy has been given a score of +1 for their commitment to assist in reducing global imbalances.

Analyst:

Japan: +1

Japan has fully complied with its commitment to reduce global imbalances.

In October 2013, Japan's current account balance sank into deficit for the first time in nine months.²²⁴

On 12 December 2013, Prime Minister Abe and his cabinet passed a supplementary budget for the current fiscal year ending in March 2014.²²⁵ The budget accounts for JPY 5.46 trillion in stimulus. It was engineered to offset the effects of a scheduled increase in the national sales tax beginning in April.²²⁶

The 2013 stimulus package includes several measures to increase competitiveness, including support for capital investments in technology, support for SMEs (small and medium sized enterprises,) and resources for development in overseas markets.²²⁷ It also includes JPY 317.8 billion for the promotion of agriculture, forestry and fishing industries.²²⁸

²²² Update of the Economic and Financial Document 2013, Ministero Dell'Economia E Delle Finanze (Rome) 20 September 2013. Date of Access: 29 December 2013. http://www.mef.gov.it/en/doc-finanza-pubblica/def/2013-2013/documenti/Update_of_the_2013_EFD_xOn-Linex_PROTETTO.pdf.

²²³ Analysis: Italy's Reform List Reflect Tough Test for Euro Zone, Reuters U.S. (London) 13 October 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/10/13/us-economy-eurozone-italy-idUSBRE99C02J20131013>.

²²⁴ Fuel Costs Yield Deficit in Current Account, The Japan Times (Kyodo) 9 December 2013. Date of Access: 3 January 2014. <http://www.japantimes.co.jp/news/2013/12/09/business/fuel-costs-yield-deficit-in-current-account/#.Usnxe2RDudA>.

²²⁵ Japan approves \$53 billion extra budget to fund stimulus, Reuters U.S. Edition (New York) 12 December 2013. Date of Access: 3 January 2014. <http://www.reuters.com/article/2013/12/12/us-japan-economy-budget-idUSBRE9BB06220131212>.

²²⁶ Japan approves \$53 billion extra budget to fund stimulus, Reuters U.S. Edition (New York) 12 December 2013. Date of Access: 3 January 2014. <http://www.reuters.com/article/2013/12/12/us-japan-economy-budget-idUSBRE9BB06220131212>.

²²⁷ Outline of the FY2013 Supplementary Budget, Ministry of Finance Japan (Tokyo) 12 December 2013. Date of Access: 4 January 2014. <http://www.mof.go.jp/english/budget/budget/fy2013/03.pdf>.

²²⁸ Outline of the FY2013 Supplementary Budget, Ministry of Finance Japan (Tokyo) 12 December 2013. Date of Access: 4 January 2014. <http://www.mof.go.jp/english/budget/budget/fy2013/03.pdf>.

The government will finance the stimulus through the sale of shares in Nippon Telegraph and Telephone Corp, in addition to unexpectedly high tax revenue from 2013.²²⁹

On 24 December 2013, the cabinet approved the draft budget for the fiscal year beginning in April 2014.²³⁰ The budget includes a significant spending increase, rising over JPY 3 trillion more than the current fiscal year.²³¹

The budget for the 2014 fiscal year includes over JPY 5 trillion in spending on education and medical research.²³² Major measures in education include investments in universities and new scholarships.²³³

The fiscal 2014 budget will be financed by high tax revenues from 2013 and revenue from the sales tax raise coming into effect in April.²³⁴ However, 43 per cent of the budget will come from the issuance of new government bonds.²³⁵ The reliance on borrowing to fund new stimulus is of some concern. If the new budget fails to stimulate demand, growth could be stymied by the higher sales tax, drying up future tax revenue.²³⁶

Japan's budget measures aimed at increasing competitiveness and investing in human and physical capital demonstrate a willingness to address its current account deficit and contribute to the reduction of global imbalances. For the present, these expenditures have not undermined growth and recovery. Japan is thus awarded a score of +1 for full compliance.

Analyst: Emily Johnson

Russia: +1

Russia has fully complied with the commitment on global imbalances.

Russia has taken measures to address external imbalances.

On 1 July 2013, Russian Ministry of Industry and Trade launched the program of state support towards preferential car lending. The program provides for subsidies from the state budget to

²²⁹ Japan approves \$53 billion extra budget to fund stimulus, Reuters U.S. Edition (New York) 12 December 2013. Date of Access: 3 January 2014. <http://www.reuters.com/article/2013/12/12/us-japan-economy-budget-idUSBRE9BB06220131212>.

²³⁰ Japan's Government OKs Record Budget Spending, Trims New Borrowing, Reuters U.S. Edition (New York) 23 December 2013. Date of Access: 4 January 2014. <http://www.reuters.com/article/2013/12/24/japan-economy-budget-idUST9N0HP01M20131224>.

²³¹ Highlights of the Budget for FY2014, Ministry of Finance Japan (Tokyo) 24 December 2013. Date of Access: 4 January 2014. <http://www.mof.go.jp/english/budget/budget/fy2014/01.pdf>.

²³² Highlights of the Budget for FY2014, Ministry of Finance Japan (Tokyo) 24 December 2013. Date of Access: 4 January 2014. <http://www.mof.go.jp/english/budget/budget/fy2014/01.pdf>.

²³³ Highlights of the Budget for FY2014, Ministry of Finance Japan (Tokyo) 24 December 2013. Date of Access: 4 January 2014. <http://www.mof.go.jp/english/budget/budget/fy2014/01.pdf>.

²³⁴ Cabinet Oks Record Budget for 2014, The Japan Times (Kyodo) 24 December 2013. Date of Access: 3 January 2014. <http://www.japantimes.co.jp/news/2013/12/24/national/japans-cabinet-oks-record-95-88-tril-yen-fy-2014-budget/#.Usn8N2RDudA>.

²³⁵ Cabinet Oks Record Budget for 2014, The Japan Times (Kyodo) 24 December 2013. Date of Access: 3 January 2014. <http://www.japantimes.co.jp/news/2013/12/24/national/japans-cabinet-oks-record-95-88-tril-yen-fy-2014-budget/#.Usn8N2RDudA>.

²³⁶ Cabinet Oks Record Budget for 2014, The Japan Times (Kyodo) 24 December 2013. Date of Access: 3 January 2014. <http://www.japantimes.co.jp/news/2013/12/24/national/japans-cabinet-oks-record-95-88-tril-yen-fy-2014-budget/#.Usn8N2RDudA>.

credit institutions that provide loans to individuals willing to buy new cars. This measure is aimed at stimulating domestic demand in the automobile sector.²³⁷

On 16 July 2013, Russian Prime Minister Dmitry Medvedev at his meeting with the representatives of iron and steel industries highlighted the necessity to stimulate demand for its products, including through the implementation of major infrastructure projects.²³⁸

On 6 December 2013, Russian Minister of Finance Anton Siluanov announced that the Government would revise the expenditures on implementing state programs and cut them in order to provide the mid- and long-term budget sustainability.²³⁹

On 11 February 2014, Russian Government approved a set of measures to encourage domestic demand for petrochemical industry products. The proposed measures aim “to encourage the introduction of road construction standards, the use of polymer-bitumen binders and to extend the service life of motorways.”²⁴⁰

At the same time, external imbalances is not a problem of current importance for Russia. Russia has run a current account surplus for a long time. However, it decreased by more than a half in January-September 2013, mainly due to the fall in the trade surplus and growth in the deficits of the balance of services.²⁴¹

Russia has taken measures to address global imbalances during the compliance period and is awarded a score of +1.

Analyst: Andrey Sheleпов

United Kingdom: +1

The UK has fully complied with its commitment to lower global imbalances, earning a score of +1.

As of 20 December 2013, the UK’s current account deficit reached its highest level since 1989.²⁴²

On 26 June 2013, Chancellor of the Exchequer George Osborne announced the Spending Round 2013 statement, detailing government expenditures for April 2015 to April 2016.²⁴³ The Spending Round focused on fiscal consolidation, reducing borrowing and reducing debt. It announced that

²³⁷ Russian Ministry of Industry and Trade Launched a Program of State Support to Preferential Car Lending from July 2013, Russian Ministry of Industry and Trade 17 July 2013. Date of Access: 24 February 2014. <http://www.minpromtorg.gov.ru/industry/auto/247>.

²³⁸ Meeting on the iron and steel industry, Russian Government 11 February 2014. Date of Access: 24 February 2014. <http://government.ru/en/news/3069>.

²³⁹ Russian Minister of Finance Speech to Journalists, Russian Ministry of Finance 6 December 2013. Date of Access: 24 February 2014. http://www.minfin.ru/ru/press/speech/printable.php?id_4=20548

²⁴⁰ On approving measures to encourage domestic demand for petrochemical industry products, Russian Government 11 February 2014. Date of Access: 24 February 2014. <http://government.ru/en/docs/10338>.

²⁴¹ Guidelines for the Single State Monetary Policy in 2014 and for 2015 and 2016, Central Bank of Russia 11 December 2013. Date of Access: 24 February 2014. http://cbr.ru/eng/today/publications_reports/on_14-eng.pdf.

²⁴² UK deficit jumps to 24 year high ONS, The Guardian (London) 20 December 2013. Date of Access: December 27 2013.

<http://www.theguardian.com/business/2013/dec/20/uk-trade-deficit-share-gdp-ons>.

²⁴³ Spending Round 2013—Speech, United Kingdom Government (London) 26 June 2013. Date of Access: 6 January 2014. <https://www.gov.uk/government/speeches/spending-round-2013-speech>.

savings of GBP11.5 billion would be found in government budgets to continue the reduction in the deficit.²⁴⁴ The statement included intentions to cut wasteful expenditures and the running costs of government departments.²⁴⁵

On 4 December 2013 the HM Treasury published the “National Infrastructure Plan 2013” which outlines the Top 40 investment projects in the UK’s infrastructure. This plan focuses on long-term investments in roads, railways, energy, telecommunications, and flood defenses. This document is the latest update from the UK’s “National Infrastructure Plan” from October 2010.²⁴⁶

On 5 December 2013, Chancellor Osborne released the Autumn Statement.²⁴⁷ It contained plans to reduce the main corporate tax rate by 20 per cent in 2015, an increase in science capital funding by GBP500 million in 2014, and various measures to invest in education and skills funding.²⁴⁸

For combining efforts to invest in human capital with fiscal consolidation measures, the UK has fully complied with its commitment to lower global imbalances, though addressing its own current account deficit. The UK is awarded a score of +1.

Analyst:

United States: +1

The United States has fully complied with its commitment to reduce global imbalances by implementing external adjustment strategies that prioritize the generation of external demand through increased foreign direct investment and trade.

The U.S. runs a consistent current account deficit.²⁴⁹

On 30 July 2013, President Barack Obama announced a plan to cut the corporate tax rate from 35 per cent to 28 per cent while giving manufacturers a preferred rate of 25 per cent.²⁵⁰ Obama maintained the excess revenues reaped from this tax restructuring would be used for the purposes

²⁴⁴ Spending Round 2013, United Kingdom Government (London) 26 June 2013. Date of Access: 6 June 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf.

²⁴⁵ Spending Round 2013, United Kingdom Government (London) 26 June 2013. Date of Access: 6 June 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/209036/spending-round-2013-complete.pdf.

²⁴⁶ National Infrastructure Plan, United Kingdom Government (London) 4 December 2013. Date of Access: December 27 2013. <https://www.gov.uk/government/collections/national-infrastructure-plan>.

²⁴⁷ Autumn Statement, United Kingdom Government (London) 5 December 2013. Date of Access: 4 January 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263942/35062_Autumn_Statement_2013.pdf.

²⁴⁸ Autumn Statement, United Kingdom Government (London) 5 December 2013. Date of Access: 4 January 2014. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/263942/35062_Autumn_Statement_2013.pdf.

²⁴⁹ Current Account Deficits: Is There a Problem? Finance and Development, IMF (Washington DC) 28 March 2012. Date of Access: 1 January 2014. <http://www.imf.org/external/pubs/ft/fandd/basics/current.htm>.

²⁵⁰ Obama offers ‘grand bargain’ on the corporate tax rate, infrastructure, Reuters U.S Edition (New York) 30 July 2013. Date of Access: 27 December 2013. <http://www.reuters.com/article/2013/07/30/us-usa-obama-idUSBRE96T0F820130730>.

of job creation. This proposed plan was meant to ease congressional deadlock that has impeded the realization of necessary tax reforms to supplement external adjustment strategies.²⁵¹ On the same date, Undersecretary of Commerce Francisco Sanchez lead a discussion on the Doing Business in Africa Campaign. Undersecretary Sanchez underlined the need to open and maintain channels of communication and trade with emerging economies in Africa, and to connect American buyers to international trade partners in sub-Saharan Africa.²⁵²

On 27 August 2013, the U.S Department of Commerce allocated USD1.9 million to non-profit industry organizations to stimulate exports, create jobs, and bolster competitiveness.²⁵³ U.S Secretary of Commerce Penny Pritzker expects this initiative to generate USD426 million over the next three years.²⁵⁴

On 20 September 2013, Under Secretary of Commerce Francisco Sanchez announced a cyber security infrastructure trade mission to Saudi Arabia and Kuwait.²⁵⁵ This trade mission is part of President Obama's greater export initiative. It aims to make optimal economic use of U.S technical expertise abroad — a sector that the U.S has become very reliant on.²⁵⁶

On 8 October 2013 U.S Secretary of Commerce Penny Pritzker announced three new clean — energy contracts between the United States and Indonesia totalling nearly USD360 million.²⁵⁷ The clean energy contracts served to strengthen the U.S-Asia-Pacific trading relationship.²⁵⁸

²⁵¹ Obama offers 'grand bargain' on the corporate tax rate, infrastructure, Reuters U.S Edition (New York) 30 July 2013. Date of Access: 27 December 2013. <http://www.reuters.com/article/2013/07/30/us-usa-obama-idUSBRE96T0F820130730>.

²⁵² Senior Obama official leads discussion on trade and investment with Africa, United States Department of Commerce (Washington DC) 30 July 2013. Date of Access: 27 December 2013. <http://trade.gov/press/press-releases/2013/senior-obama-official-leads-discussion-on-trade-and-investment-with-africa-073013.asp>.

²⁵³ U.S commerce department awards \$1.9 million to stimulate exports, create jobs, The United States Department of Commerce (Washington DC) 27 August 2013. Date of Access 27 December 2013. <http://www.commerce.gov/news/press-releases/2013/08/27/us-commerce-department-awards-19-million-stimulate-exports-create-job>.

²⁵⁴ U.S commerce department awards \$1.9 million to stimulate exports, create jobs, The United States Department of Commerce (Washington DC) 27 August 2013. Date of Access 27 December 2013. <http://www.commerce.gov/news/press-releases/2013/08/27/us-commerce-department-awards-19-million-stimulate-exports-create-job>.

²⁵⁵ Obama official to lead cyber security infrastructure trade mission to Saudi Arabia and Kuwait, The United States Department of Commerce (Washington DC) 20 September 2013. Date of Access 27 December 2013. <http://trade.gov/press/press-releases/2013/obama-official-to-lead-cybersecurity-infrastructure-trade-mission-to-saudi-araia-and-kuwait-092013.asp>.

²⁵⁶ Obama official to lead cyber security infrastructure trade mission to Saudi Arabia and Kuwait, The United States Department of Commerce (Washington DC) 20 September 2013. Date of Access 27 December 2013. <http://trade.gov/press/press-releases/2013/obama-official-to-lead-cybersecurity-infrastructure-trade-mission-to-saudi-araia-and-kuwait-092013.asp>.

²⁵⁷ United State and Indonesia announce nearly \$360 million of new clean- energy contracts, The United States Department of Commerce (Washington DC) 8 October 2013. Date of Access 27 December 2013. <http://www.commerce.gov/news/press-releases/2013/10/08/united-states-and-indonesia-announce-nearly-360-million-new-clean-ene>.

²⁵⁸ United State and Indonesia announce nearly \$360 million of new clean- energy contracts, The United States Department of Commerce (Washington DC) 8 October 2013. Date of Access 27 December 2013. <http://www.commerce.gov/news/press-releases/2013/10/08/united-states-and-indonesia-announce-nearly-360-million-new-clean-ene>.

On 17 October 2013, the U.S International Trade Administration (ITA) implemented organizational changes in an effort to enhance client services.²⁵⁹ The four business divisions that once comprised the ITA were streamlined into functionally aligned units: Global Markets, Industry and Analysis, and Enforcement and Compliance.²⁶⁰ New ITA organization was undertaken with the purpose of “improving operations and delivery of services to help American businesses win globally by providing clearer points of contact for private sector clients.”²⁶¹

On 31 October 2013, President Barack Obama announced the United States’ first ever federal initiative to attract foreign direct investment to create U.S jobs.²⁶² This initiative enhanced the SelectUSA initiative launched by the Obama Administration in 2011. The mandate of the SelectUSA campaign was expanded to outline a role for the federal government in helping regional, state and local economic development organizations attract investment.²⁶³ Furthermore, President Obama announced the creation of global teams led by U.S ambassadors in 32 countries.²⁶⁴ Selected ambassadors are to serve as trade coordinators to encourage foreign direct investment.

Externally oriented growth strategies created to increase external demand and counteract the United States’ current import bias, coupled with enhanced federal support in the realms of trade and investment demonstrate commitment to reducing global imbalances. These measures have not yet had a negative impact on domestic confidence. The U.S. is therefore awarded a score of +1 for full compliance.

Analyst: Hadeer Shaheen

European Union: +1

The European Union is awarded a score of +1 for fully complying on its commitment to reduce global imbalances.

²⁵⁹ International trade administration implements organizational changes to offer better client services, The U.S Department of Commerce (Washington DC) 17 October 2013. Date of Access: 28 December 2013. <http://trade.gov/press/press-releases/2013/international-trade-administration-implements-organizational-changes-to-offer-better-client-serviecs-101713.asp>.

²⁶⁰ International trade administration implements organizational changes to offer better client services, The U.S Department of Commerce (Washington DC) 17 October 2013. Date of Access: 28 December 2013. <http://trade.gov/press/press-releases/2013/international-trade-administration-implements-organizational-changes-to-offer-better-client-serviecs-101713.asp>.

²⁶¹ International trade administration implements organizational changes to offer better client services, The U.S Department of Commerce (Washington DC) 17 October 2013. Date of Access: 28 December 2013. <http://trade.gov/press/press-releases/2013/international-trade-administration-implements-organizational-changes-to-offer-better-client-serviecs-101713.asp>.

²⁶² President Obama to announce first- ever federal effort to attract job creating foreign investment to the United States, The White House Press Office (Washington DC) 31 October 2013. Date of Access 27 December 2013. <http://www.whitehouse.gov/the-press-office/2013/10/31/president-obama-announce-first-ever-federal-effort-attract-job-creating->.

²⁶³ President Obama to announce first- ever federal effort to attract job creating foreign investment to the United States, The White House Press Office (Washington DC) 31 October 2013. Date of Access 27 December 2013. <http://www.whitehouse.gov/the-press-office/2013/10/31/president-obama-announce-first-ever-federal-effort-attract-job-creating->.

²⁶⁴ Barack Obama unveils plan to attract foreign direct investment, The Financial Times (London) 27 October 2013. Date of Access: 27 December 2013. <http://www.ft.com/intl/cms/s/0/e3ad9d9c-41f4-11e3-9d3c-00144feabdc0.html#slide0>.

The European Union's current account surplus is recorded at EUR 5 billion higher than the surplus in the third quarter of 2012.²⁶⁵

One of the chief reasons for the European Union's large and persistent surplus is Germany's buoyant surplus, which as of September 2013 became the largest in the world.²⁶⁶ Surpluses and deficits in the Euro zone are closely interconnected, owing to cross-border trade, and surplus of a large economy like Germany has a strong impact.²⁶⁷

On 13 November 2013, the European Commission announced it would launch a detailed analysis of Germany's current account surplus, to ascertain whether it indicates a serious imbalance that could be harmful to the euro zone.²⁶⁸ Germany's surplus is in excess of 6 per cent of the GDP, a rate which puts Germany in violation of one of the European Commission's new rules regulating economic imbalances.²⁶⁹ Commission President Jose Manuel Barroso expressed concerns that Germany's high exports are preventing struggling E.U. members from developing their own exports.²⁷⁰

For its efforts to review the German surplus and issue measures to balance the current accounts of the EU members to ensure recovery, the European Union is awarded a score of +1 for full compliance.

Analyst: Emily Johnson

²⁶⁵ EU28 Current Account Surplus 5.6 bn Euro, Eurostat (Brussels) 6 December 2013. Date of Access: 5 January 2014. http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-06122013-AP/EN/2-06122013-AP-EN.PDF.

²⁶⁶ EU Starts Investigating German Current Account Surplus, Reuters U.S. Edition (New York) 13 November 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/11/13/eu-germany-surplus-idUSL5N0IY2IJ20131113>.

²⁶⁷ Commission Publishes Report on Current Account Surpluses in the EU, European Commission (Brussels) 18 December 2014. Date of Access: 5 January 2014. http://europa.eu/rapid/press-release_MEMO-12-1002_en.htm.

²⁶⁸ EU Starts Investigating German Current Account Surplus, Reuters U.S. Edition (Brussels) 13 November 2013. Date of Access: 2 January 2014. <http://www.reuters.com/article/2013/11/13/eu-germany-surplus-idUSL5N0IY2IJ20131113>.

²⁶⁹ European Commission Launches Review of Germany's Export Surplus, The Guardian (London) 13 November 2013. Date of Access: 6 January 2014. <http://www.theguardian.com/world/2013/nov/13/germany-export-surplus-european-commission-review>.

²⁷⁰ European Commission Launches Review of Germany's Export Surplus, The Guardian (London) 13 November 2013. Date of Access: 6 January 2014. <http://www.theguardian.com/world/2013/nov/13/germany-export-surplus-european-commission-review>.