Macroeconomic: Exchange Rates [16]

Commitment [#16]:

"We affirm our commitment to move more rapidly to enhance exchange rate flexibility to reflect underlying economic fundamentals, avoid persistent exchange rate misalignments and refrain from competitive devaluation of currencies . . ."

Cannes Summit Final Declaration

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina		0	
Australia			+1
Brazil	-1		
Canada			+1
China			+1
France			+1
Germany			+1
India		0	
Indonesia		0	
Italy			+1
Japan	-1		
Korea		0	
Mexico			+1
Russia			+1
Saudi Arabia		0	
South Africa			+1
Turkey		0	
United Kingdom			+1
United States			+1
European Union			+1
Average Score		+0.5	

Background:

At the 2009 Pittsburgh Summit, G20 leaders committed under the G20 Framework for Strong, Sustainable, and Balanced Growth to "undertake monetary policies consistent with price stability in the context of market oriented exchange rates that reflect underlying economic fundamentals."[4]

At the 2010 Toronto Summit leaders vowed to further enhance exchange rate flexibility, particularly in emerging markets, and declared "Market-oriented exchange rates that reflect underlying economic fundamentals contribute to global economic stability."[5]

[4] G20 Leaders Statement: The Pittsburgh Summit, G20 Information Centre (Toronto) 24-25 September 2009. Date of Access: 4 February 2012. http://www.g20.utoronto.ca/2009/2009communique0925.html.

[5]The G20 Toronto Summit Declaration, G20 Information Centre (Toronto) 27 June 2010. Date of Access: 2 February 2012. http://www.g20.utoronto.ca/2010/to-communique.html.

At the 2010 Seoul Summit, G20 leaders agreed to the Seoul Action Plan, which promoted a move towards more market-determined exchange rates.[6] The average compliance score of the exchange rate commitment during the Seoul compliance cycle was 0.25. The commitment had the third lowest rate of compliance of all commitments profiled by the G20 Research Group during the Seoul compliance cycle.[7]

At the 2011 Cannes Summit, leaders agreed "exchange rate volatility creates a risk to growth and financial stability" and renewed their Seoul Summit commitment to avoid persistent exchange rate misalignments and to refrain from competitive devaluation.[8]

Commitment Features:
This commitment requires G20 members to avoid devaluing their currencies and to allow the value of their currency to be determined by market forces. Countries generally devalue their currencies in order to increase exports and boost growth and domestic employment. The commitment calls for an end to "currency wars" in which countries devalue their currencies and commits G20 members to promoting policies that enhance exchange rate flexibility.

Market-determined exchange rate or a floating exchange rate: An exchange rate which is determined by market forces with minimal government or central bank interference affecting the value of the currency. In a pure float there is no government or central bank intervention at all in the foreign exchange market, leaving the value of the currency subject entirely to market forces.

Devaluation: Reduction in the value of the domestic currency relative to foreign currencies.

Competitive devaluation: The phenomenon wherein countries intervene in the market to aggressively devalue their currencies, often by enacting or introducing policies that exert a strong downward pressure on the currency, usually with the intent of increasing their exports to address a balance of payments deficit or to increase domestic employment.

In an economic downturn, countries often engage in practices intended to stimulate economic growth. A subsidiary effect of some growth-stimulating policies can be the exertion of a downward pressure on the national currency. These policies, if they are not intended to purposely lower the value of the national currency to increase exports, should first and foremost be interpreted as attempts to stimulate growth and not as attempts to competitively devalue the currency. Such circumstances need to be examined thoroughly on a case-by-case basis.

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[6] The G20 Seoul Summit Leaders Declaration, G20 Information Centre (Toronto) 12 November 2010. Date of Access: 3 February 2012. http://www.g20.utoronto.ca/2010/g20seoul.html.
[7] 2010 Seoul G20 Summit Final Compliance Report, G20 Information Centre (Toronto) 6 November 2011. Date of Access: 3 February 2012. http://www.g20.utoronto.ca/compliance/2010seoul-final/index.html.
[8] Cannes Summit Final Declaration – Building Our Common Future: Renewed Collective Action for the Benefit of All, G20 Information Centre (Toronto) 4 November 2011. Date of Access: 3 February 2012. http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html.

Scoring Guidelines:

-1	Member does not make progress in moving toward a more market-determined exchange rate AND does not refrain from competitive devaluation of its currency.
0	Member makes progress in moving toward a more market-determined exchange rate OR member refrains from competitive devaluation of its currency.
+1	Member moves toward a more market-determined exchange rate AND refrains from competitive devaluation of its currency.

Lead Analyst: Brandon Bailey
Co-Director of Compliance: Krystel Montpetit

Argentina: 0

Argentina has partially complied with its commitment to move toward a more market-determined exchange rate and refrain from competitive devaluation of its currency. Specifically, Argentina has not fulfilled its commitment to move towards a more market-determined exchange rate, but it has refrained from competitive devaluation of its currency.

Since the Cannes Summit in November 2011, Argentina has continued to tighten controls on foreign exchange and imports in an effort to stem capital flight, which has caused exchange rate volatility and the depreciation of its currency. Far from engaging in competitive devaluation of its currency since the Argentinian peso is naturally declining, the Argentinian government is nevertheless intervening in the foreign exchange market to prop its currency, thus moving away from a market-determined exchange rate.

Starting February 2012, the Argentinian government imposed new regulations on imports which now require all importers to seek government approval through Afip, a tax company, before they are allowed to bring goods into the country.[9] Although competitive devaluation was not the Argentinian government's main motivation behind the establishment of new regulations on imports — rectifying the balance of trade is, the restriction of imports nevertheless exerts a real upward pressure on the Argentinian peso since it reduces payment in a foreign currency and thus the demand for it.

Since the imposition of new foreign currency controls in October 2011,[10] the tax agency Afip has screened all requests by individuals and businesses to purchase foreign currency which has made it more difficult to access foreign currency.[11] This has contributed to reducing demand for foreign currency, skewing exchange rates in favour of Argentina.

The Argentine Central Bank's Monetary Program for 2012 reaffirms Argentina's decision to continue intervening in the foreign exchange market.[12] It says: "in order to maintain the balance

[9]Argentina Capital Flight Fell To $3.26B In 4Q On Forex Controls, Wall Street Journal (Buenos Aires) 16 February 2012. Date Accessed: 4 March 2012.http://online.wsj.com/article/BT-CO-20120216-719947.html

[10] Argentina Tightens Foreign Exchange Controls to Stem Faster Capital Flight, Bloomberg (Buenos Aires) 28 October 2011. Date Accessed: 4 March 2012. http://www.bloomberg.com/news/2011-10-27/argentina-central-bank-toughens-foreign-exchange-rules-amid-capital-flight.html

[11]Argentina Capital Flight Fell To $3.26B In 4Q On Forex Controls, Wall Street Journal (Buenos Aires) 16 February 2012. Date Accessed: 4 March 2012.http://online.wsj.com/article/BT-CO-20120216-719947.html

[12] Monetary Program 2012, Banco Central De La República Argentina (Buenos Aires) December 2011. Date Accessed: 4 March 2012. http://www.bcra.gov.ar/pdfs/polmon/Programa%20monetario%202012_i.pdf

in the monetary market, the Central Bank will sterilize any surplus between money supply and demand"[13] and that "sterilization needs in 2012 are expected to amount to about 30 per cent of the planned expansion of currency purchases on the foreign exchange market."[14]

On 9 March 2012, the Central Bank announced a new rule limiting foreign currency withdrawals for Argentines abroad. The rule, which took effect on 3 April 2012, will no longer allow overseas Argentines to withdraw foreign currency from their bank accounts in Argentina if their accounts do not already have the desired currency.[15]
Thus Argentina has been awarded a score of 0 for partially complying with tis commitment to move toward a more market determined exchange rate and refrain from devaluation of its currency.

Analyst: Sohini Das

Australia: +1
Australia has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

On 9 February 2012 the Reserve Bank of Australia (RBA) released a Statement on Monetary Policy. According to the RBA, The AUD, in trade-weighted terms, has appreciated "significantly" since December 2011, reading its highest point since the middle of 2011.[16] On a year-end basis underlying inflation is stable at 2.5%, the mid-point of the medium term target range of 2-3%.[17]

In response to the 'improved' inflation outlook at the end of the year 2011 the Board reduced the cash rate by a cumulative 50 basis points at their November and December meetings.[18] At its February meeting the Board decided to maintain a cash rate of 4.25%, relative to the 4.5% from November 2010.[19]

On 9 February 2012, The RBA said that "[o]ver the months ahead, the Board will continue to monitor information on economic and financial conditions and adjust the cash rate as necessary to foster sustainable growth and low inflation."[20]

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[13]Monetary Program 2012, Banco Central De La República Argentina (Buenos Aires) December 2011. Date Accessed: 4 March 2012.
http://www.bcra.gov.ar/pdfs/polmon/Programa%20monetario%202012_i.pdf
[14] Monetary Program 2012, Banco Central De La República Argentina (Buenos Aires) December 2011. Date Accessed: 4 March 2012.
http://www.bcra.gov.ar/pdfs/polmon/Programa%20monetario%202012_i.pdf
[15]Central Bank To Limit Forex Withdrawals For Argentines Abroad, The Wall Street Journal (Buenos Aires) 11 March 2012. Date of Access: 29 April 2012. http://online.wsj.com/article/BT-CO-20120311-713687.html
[16] Statement on Monetary Policy, Reserve Bank of Australia (Sydney) 9 February 2012. Date of Access: 3 March 2012. http://www.rba.gov.au/publications/smp/index.html
[17] Statement on Monetary Policy, Reserve Bank of Australia (Sydney) 9 February 2012. Date of Access: 3 March 2012. http://www.rba.gov.au/publications/smp/index.html
[18] Statement on Monetary Policy, Reserve Bank of Australia (Sydney) 9 February 2012. Date of Access: 3 March 2012. http://www.rba.gov.au/publications/smp/index.html
[19] Statement on Monetary Policy, Reserve Bank of Australia (Sydney) 9 February 2012. Date of Access: 3 March 2012. http://www.rba.gov.au/publications/smp/index.html
[20] Statement on Monetary Policy, Reserve Bank of Australia (Sydney) 9 February 2012. Date of Access: 3 March 2012. http://www.rba.gov.au/publications/smp/index.html

Thus Australia has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Dave Stewart and Julian Ferling

Brazil: -1

Brazil has not complied with its commitment to move more rapidly to enhance exchange rate flexibility and refrain from competitive devaluation of its currency. Specifically, Brazil has not made progress in moving to enhance exchange rate flexibility and has not refrained from competitive devaluation of its currency.

On 18 December 2011, Finance Minister Guido Mantega said the Brazilian government would not allow the real to appreciate to USD1.60. He said the government would not let the currency rise as much as in the past and would consider increasing the levy on some short dollar positions in the derivatives market if it saw excessive valuations as well as raising taxes on imports to protect domestic industries from unfair competition.[21]

On 23 January 2012, Finance Minister Guido Mantega said that the government would continue to implement policies aimed at preventing currency gains in an attempt to ensure GDP growth of at least 4%.[22] On 3 February 2012, the Central Bank bought an unspecified amount of dollars in the currency forwards market to slow the real's 9% appreciation since the beginning of 2012.[23] When this proved insufficient to tamper the rise of its currency, Brazil's Central Bank bought once again an unspecified amount of dollars in the foreign exchange market on 7 February 2012.[24]

On 22 and 23 February 2012, the Central Bank intervened in the currency market by buying dollars in the spot market as yet another attempt to prevent the rapid rise of the real, still rising faster than other commodity currencies which may lead to speculation and unwanted levels of inflation.[25]

[21] Brazil Won't Let Real Reach 1.6 Per Dollar, Mantega Tells Estado, Bloomberg (New York) 18 December 2011. Date of Access: 28 March 2012. http://www.bloomberg.com/news/2011-12-18/brazil-won-t-let-real-reach-1-6-per-dollar-mantega-tells-estado.html

[22] Brazil Central Bank Buys Dollars for Second Day to Ease Currency's Rally, Bloomberg (New York) 6 February 2012. Date of Access: 4 March 2012. http://www.bloomberg.com/news/2012-02-06/brazil-real-snaps-four-day-advance-as-greek-talks-rekindle-growth-concern.html

[23] Brazil Central Bank Buys Dollars in Bid to Slow Real's 9% Rally This Year, Bloomberg (New York) 3 February 2012. Date of Access: 4 March 2012.http://www.bloomberg.com/news/2012-02-03/brazil-rate-futures-yields-fall-for-third-day-on-food-price-data.html

[24] Brazil Central Bank Buys Dollars for Second Day to Ease Currency's Rally, Bloomberg (New York) 6 February 2012. Date of Access: 4 March 2012. http://www.bloomberg.com/news/2012-02-06/brazil-real-snaps-four-day-advance-as-greek-talks-rekindle-growth-concern.html

[25] Brazil Cen Bank Makes First Spot Dlr Purchase Since Feb 6, Deutsche Boerse Group (Frankfurt) 22 February 2012. Date of Access: 4 March 2012. https://mninews.deutsche-boerse.com/index.php/brazil-cen-bank-makes-first-spot-dlr-purchase-feb-6?q=content/brazil-cen-bank-makes-first-spot-dlr-purchase-feb-6

On 1 March 2012, the Brazilian government announced the extension of a tax on foreign loans which is set to induce a weakening of the real.[26]Brazilian President Dilma Rousseff harshly criticized rich nations for engaging in a currency war, which has led to a wave of capital inflows entering emerging economies such as Brazil, exerting upward pressure on their currencies.[27] The Brazilian government warned that it would take further measures to stem the real from appreciating. Central Bank President Alexandre Tombini reaffirmed that "the bank was ready to intervene in the foreign exchange and derivatives markets whenever necessary."[28]

Brazil failed to fulfil its commitment to move toward a more market determined currency and refrain from devaluation of its currency. Thus Brazil has been awarded a score of -1.

Analyst: Sohini Das

Canada: +1

Canada has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Canada has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

In an interview with Maclean's on 20 December 2011, Bank of Canada Governor Mark Carney restated his belief that "there's no question" that a flexible, market-oriented exchange rate can act as a "shock absorber" to dampen the impact of economic crises.[29]

In February 2012, Canadian Prime Minister Stephen Harper travelled to China and concluded a "declaration of intent" on a Foreign Investment Promotion and Protection Agreement, seeking to establish a strong economic partnership between the two countries. In addition, the two countries agreed on agricultural initiatives to cement a stable, market-determined trading environment in the lucrative Chinese beef and Canadian canola seed trade.[30]

The Bank of Canada has not adjusted interest rates since September 2010. On 8 March 2012, Maclean's reported that the Bank of Canada believed the Canadian economic outlook had "marginally improved"[31] and that the country did not face a crisis akin to Europe that would require interest rates intervention.

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[26] Brazil declares new 'currency war', CNN (New York) 2 March 2012. Date of Acess: 4 March 2012 http://www.cnn.com/2012/03/02/business/brazil-currency-war/

[27]Brazil slams rich countries over "currency war", Reuters (Brasilia) 1 March 2012. Date of Access: 4 March 2012 http://www.reuters.com/article/2012/03/02/us-brazil-economy-iof-idUSTRE8201VH20120302.

[28]Brazil slams rich countries over "currency war", Reuters (Brasilia) 1 March 2012. Date of Access: 4 March 2012 http://www.reuters.com/article/2012/03/02/us-brazil-economy-iof-idUSTRE8201VH20120302

[29]The EU's mess seen from Canada, Maclean's (Toronto) 20 December 2011. Date of Access: 5 March 2012. http://www2.macleans.ca/2011/12/20/the-eus-mess-seen-from-canada-bonus-fresh-mark-carney-quotes/

[30] Canada, China tighten trade ties, Financial Post (Toronto) 8 February 2012. Date of Access: 4 March 2012. http://business.financialpost.com/2012/02/08/canada-china-tighten-trade-ties/

[31]Bank of Canada singles out household debt as "biggest domestic risk," Maclean's (Toronto) 8 March 2012. Date of Access: 8 March 2012. http://www2.macleans.ca/2012/03/08/bank-of-canada-singles-out-household-debt-as-biggest-domestic-risk/

On 17 April 2012 the Bank of Canada announced its intention to maintain its target for the overnight rate at 1% and noted "the economic momentum in Canada is slightly firmer than expected."[32] The Bank of Canada went on to state "in light of the reduced slack in the economy and firmer underlying inflation, some modest withdrawal of the present considerable monetary policy stimulus may become appropriate, consistent with achieving the 2% inflation target over the medium term."[33] The next scheduled date for announcing the overnight rate target is 5 June 2012.

On 18 April 2012 markets responded to the indication that interest rates may be raised as the loonie closed up 0.96 of a cent at USD1.0099.[34] Bank of Montreal economist Douglas Porter described the Bank of Canada's statement as "hawkish" and "a pretty serious amping up of the message."[35] CIBC chief economist Avery Shenfeld forecasted the announcement could point to a possible fall tightening at the earliest as "Carney prefers to give markets plenty of heads-up to any change in policy direction."[36] As of 6 May 2012 the interest rate has remained unchanged.

Canada has worked toward a more market-determined exchange rate and refrained from competitive devaluation of its currency. Thus Canada has been awarded a score of +1.

Analyst: Brandon Bailey

China: +1

China has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. China has made progress toward fulfilling its commitment to enhance exchange rate flexibility to reflect underlying economic fundamentals, avoid persistent exchange rate misalignments and refrain from competitive devaluation of currencies.

On 14 November 2011, the International Monetary Fund (IMF) and the World Bank published the Financial System Stability Assessment (FSSA) and the Financial Sector Assessment (FSA) respectively, which constitutes China Financial Sector Assessment Program (FSAP) reports. The Financial System Stability Assessment (FSSA) states "While existing risk management approaches are reasonable for the current environment, there are weaknesses in execution and a

[32] Bank of Canada maintains overnight rate target at 1 per cent, Bank of Canada (Ottawa) 17 April 2012. Date of Access: 3 May 2012. http://www.bankofcanada.ca/2012/04/press-releases/fad-press-release-2012-04-17/

[33] Bank of Canada maintains overnight rate target at 1 per cent, Bank of Canada (Ottawa) 17 April 2012. Date of Access: 3 May 2012. http://www.bankofcanada.ca/2012/04/press-releases/fad-press-release-2012-04-17/

[34] Bank of Canada surprising signal of higher interest rates sends loonie higher, The Guardian (Charlottetown) 18 April 2012. Date of Access: 3 May 2012. http://www.theguardian.pe.ca/Business/2012-04-17/article-2957431/Bank-of-Canadas-surprising-signal-of-higher-interest-rates-sends-loonie-higher/1

[35] Bank of Canada surprising signal of higher interest rates sends loonie higher, The Guardian (Charlottetown) 18 April 2012. Date of Access: 3 May 2012. http://www.theguardian.pe.ca/Business/2012-04-17/article-2957431/Bank-of-Canadas-surprising-signal-of-higher-interest-rates-sends-loonie-higher/1

[36] Bank of Canada surprising signal of higher interest rates sends loonie higher, The Guardian (Charlottetown) 18 April 2012. Date of Access: 3 May 2012. http://www.theguardian.pe.ca/Business/2012-04-17/article-2957431/Bank-of-Canadas-surprising-signal-of-higher-interest-rates-sends-loonie-higher/1

material upgrade will be needed if any further interest rate or exchange rate liberalization occurs or if banks adopt more aggressive strategies."[37]

On 15 November 2011, the People's Bank of China, China's Central bank, announced that "the reforms of interest rate and exchange rate have made significant progress with market forces playing a fundamental role in the formation of interest rate and renminbi exchange rate. As for the planned reforms' timeframe, and while the direction of reforms was made clear in the 12th Five Year Plan, the concrete reform steps and sequence will hinge on real indicators of the Chinese economy coupled with flexibility."[38]

On 18 November 2011, Chinese Prime Minister Wen Jiabao attended the ASEAN-China Commemorative Summit on the fringe of the ASEAN and Related Summits in Nusa Dua on the Indonesian island of Bali. During the summit, Prime Minister Wen Jiabao told American President Barack Obama that China will strengthen the flexibility of the renminbi's exchange rate, and that it had already achieved notable success in exchange rate reform.[39] He affirmed that the Chinese government was closely observing fluctuations in the renminbi's exchange rate and would pursue exchange rate reforms.[40] He also mentioned that offshore forwards markets have showed "expectations of depreciation in the renminbi's exchange rate" since late September 2011.[41] He hastened to add: "This has not been determined by people but is a response of the market to the renminbi exchange rate."[42]

On 22 November 2011, the Government of China and the Government of Hong Kong agreed to a deal which will grant Hong Kong more access to the Chinese currency. Under the new agreement, Hong Kong will be able to access RMB400 billion from the Chinese Central Bank, up from RMB200 billion.[43]The deal will boast a lifespan of three years, replacing an existing agreement signed in 2009.[44] The Hong Kong Monetary Authority has significantly extended the

[37] People's Republic of China: Financial System Stability Assessment, International Monetary Fund, 14 November 2011. Date of Access: 1 March 2012. http://www.imf.org/external/pubs/ft/scr/2011/cr11321.pdf

[38] China FSAP Reports Published by the International Monetary Fund and the World Bank, The People's Bank of China, 15 November 2011. Date of Access: 1 March 2012. http://www.pbc.gov.cn/publish/english/955/2011/20111115115528030352648/20111115115528030352648_.html

[39] China's Wen tells Obama exchange rate reforms successful, Reuters, 19 November 2011. Date of Access: 4 February 2012. http://www.reuters.com/article/2011/11/19/us-china-usa-currency-idUSTRE7AI0JM20111119

[40] China's Wen tells Obama exchange rate reforms successful, Reuters, 19 November 2011. Date of Access: 4 February 2012. http://www.reuters.com/article/2011/11/19/us-china-usa-currency-idUSTRE7AI0JM20111119

[41] China's Wen tells Obama exchange rate reforms successful, Reuters, 19 November 2011. Date of Access: 4 February 2012. http://www.reuters.com/article/2011/11/19/us-china-usa-currency-idUSTRE7AI0JM20111119

[42] China's Wen tells Obama exchange rate reforms successful, Reuters, 19 November 2011. Date of Access: 4 February 2012. http://www.reuters.com/article/2011/11/19/us-china-usa-currency-idUSTRE7AI0JM20111119

[43]China to make more yuan currency available for trade, BBC News, 22 November 2011. Date of Access: 21 February 2012. http://www.bbc.co.uk/news/business-15831777

[44]China to make more yuan currency available for trade, BBC News, 22 November 2011. Date of Access: 21 February 2012. http://www.bbc.co.uk/news/business-15831777

operating hours of the renminbi payments system, so that renminbi transactions carried out in London during the European working day can be processed and settled speedily.[45]

On 1 December 2011, the People's Bank of China, China's Central Bank, announced a 0.5% points cut in "RMB required reserve ratio for deposit taking institutions," effective on 5 December 2011."[46] The cut is the "first since 2008."[47]

On 25 December 2011, the People's Bank of China announced "Enhanced Cooperation for Financial Markets Development between China and Japan," in which the bank emphasized that "these developments should be market-driven."[48]Holding the world's largest foreign-currency reserves — China holds about USD3.2 trillion while Japan holds USD1.3 trillion — China and Japan agreed to direct trading of their currencies.[49]The plan was announced during a visit to China by Japan's Prime Minister Yoshihiko Noda.[50]

For the year 2011, the Bank for International Settlements (BIS) contented that the renminbi's real value was up by 5.3%, a higher proportion than any other currency except Venezuela's bolivar.[51]

On January 16 2012, Central Bank Governor Zhou Xiaochuan met with Chancellor of the Exchequer George Osborne in Beijing. They exchanged views on current global and European economic situations and measures to enhance cooperation in monetary and financial areas between the two countries.[52]On the same day, the UK Treasury announced plans to make London the leading international centre for trading the renminbi.[53]

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[45] Boost for City's China trade, BBC News, 15 January 2012. Date of Access: 4 February 2012 http://www.bbc.co.uk/news/business-16569868

[46] RMB Required Reserve Ratio for Deposit Taking Institutions Cut by 0.5 Per cent Points, People's Bank of China, 1 December 2011. Date of Access: 1 March 2012. http://www.pbc.gov.cn/publish/english/955/2011/20111201155734560100355/20111201155734560100355_.html

[47] China cuts bank reserve ratio to boost lending, BBC News, 19 February 2012. Date of Access: 21 February 2012. http://www.bbc.co.uk/news/business-17093005

[48]Enhanced Cooperation for Financial Markets Development between China and Japan, The People's Bank of China, 25 December 2011. Date of Access: 1 March 2012. http://www.pbc.gov.cn/publish/english/955/2011/20111225173248498166576/20111225173248498166576_.html

[49] Currency Agreement for Japan and China, The New York Times, 26 December 2011. Date of Access: 4 February 2012. http://www.nytimes.com/2011/12/27/business/global/china-and-japan-in-currency-agreement.html

[50] China and Japan plan direct currency exchange agreement, BBC News, 25 December 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-16330574

[51]A way to finance Europe's rescue, The New York Times, 21 November 2012. Date of Access: 4 February 2012. http://www.nytimes.com/2011/11/22/business/a-way-to-finance-europes-rescue.html

[52] Governor Zhou Xiaochuan met with UK Chancellor of the Exchequer GeorgeOsborne, The People's Bank of China, 18 January 2012. Date of Access: 1 March 2012. http://www.pbc.gov.cn/publish/english/955/2012/20120120145848735207347/20120120145848735207347_.html

[53] London seeks major role in yuan trading, BBC News, 16 January 2012. Date of Access: 21 February 2012. http://www.bbc.co.uk/news/business-16571765

On 29 January 2012, China's Prime Minister Wen Jiabao reiterated China's long-standing commitment to "further improve the [CNY] exchange rate formation mechanism, strengthen the flexibility of the [CNY] exchange rate in both directions, maintaining a basically stable [CNY] exchange rate at a reasonable and balanced level."[54] He added that the Chinese government will advance the renminbi's convertibility in an orderly manner and broaden the use of the currency in cross-border trade settlements.[55]

On 12 March 2012, Chinese central bank officials asserted that China's consequential trade deficit in February 2012 showed that the value of its currency was close to equilibrium after more than six years of gradual appreciation. Yi Gang, Deputy Central Bank Governor, speaking at the National People's Congress, the annual session of China's parliament, said: "This trade deficit is a positive sign that the renminbi exchange rate is close to its equilibrium level."[56]

On 14 March 2012, Prime Minister Wen Jiabao said Beijing will push for reforms, he added that the yuan's value may already be close to an optimum level. He mentioned that "We will step-up exchange rate reforms, especially in increasing two-way fluctuations," on the last day of the National People's Congress meeting.[57]"In the Hong Kong market, NDFs (non-deliverable forwards) have started to fluctuate both ways. This tells us the yuan is possibly near a balanced level."[58]

On 19 March 2012, the Managing Director of IMF Christine Lagarde visited China. She backed, in principle, China's hope of turning its currency into a global reserve currency. She mentioned that "What is needed is a roadmap with a stronger and more flexible exchange rate, more effective liquidity and monetary management, with higher quality supervision and regulation, with a more well-developed financial market, with flexible deposit and lending rates, and finally with the opening up of the capital account,"[59]

On 27 March 2012, China President Hu Jintao told U.S. President Barack Obama in Seoul that China plans to "let the market play a greater role, improve the flexibility of the yuan exchange rate, and maintain a basic stability of the rate at reasonable and balanced levels."[60]

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[54] China's Wen: government debt risk "controllable", Reuters, 29 January 2012. Date of Access: 4 February 2012. http://www.reuters.com/article/2012/01/30/us-china-finance-idUSTRE80T01320120130

[55] China's Wen: government debt risk "controllable", Reuters, 29 January 2012. Date of Access: 4 February 2012. http://www.reuters.com/article/2012/01/30/us-china-finance-idUSTRE80T01320120130

[56] China hints at a halt in the renminbi rise, Financial Times (London) 12 March 2012. Date of Access: 15 May 2012. http://www.ft.com/intl/cms/s/0/972b0948-6c33-11e1-b00f-00144feab49a.html#axzz1ovOr1qMQ

[57] China to allow the yuan to float more freely, BBC News, 14 March 2012. Date of Access: 20 April 2012. www.bbc.co.uk/news/business-17362888

[58] China to allow the yuan to float more freely, BBC News, 14 March 2012. Date of Access: 20 April 2012. www.bbc.co.uk/news/business-17362888

[59] Lagarde says China must reform economy and yuan, BBC News, 19 March 2012. Date of Access: 20 April 2012. www.bbc.co.uk/news/business-17425356

[60] China Accelerates Markets Opening as QFII Quota Doubles, Bloomberg, 3 April 2012. Date of Access: 9 April 2012. http://www.bloomberg.com/news/2012-04-03/china-increases-qfii-by-50-billion-and-rqfii-by-50-billion-yuan.html

On 11 April 2012, China's central bank launched a new system to settle cross-border yuan payments, a key back-office project aimed at facilitating the Chinese currency's use in international trade and investment. The China International Payment System, known as CIPS, will be open to banks around the world and be the key infrastructure accommodating international yuan transactions.[61] Cross-border yuan trade settlement has amounted to 2.08 trillion yuan (USD333 billion) in 2011.[62] Li Bo, who is the head of People's Bank of China's second monetary policy department that implements yuan-related policies, said that "This is infrastructure that is conducive to expanding the use of the yuan in cross-border trade settlement, to serving the real economy and to capital account opening."[63] He mentioned without elaborating that the conditions for yuan convertibility "are increasingly ripe."[64] The new system, which will take one or two years to develop, will partly replace the existing cross-border yuan settlement system that mainly goes via Hong Kong. It will double the daily running time to 17 hours a day, from the current 8 hours a day, to allow banks in the Americas, Europe and Africa to participate.[65] Ultimately, the system will support simultaneous settlement of yuan and foreign currency transactions between banks.[66]

On 14 April 2012, the People's Bank of China decided to enlarge the floating band of RMB's trading prices against the US dollar. PBOC announced, "Effective from April 16, 2012 onwards, the floating band of RMB's trading prices against the US dollar in the inter-bank spot foreign exchange market is enlarged from 0.5 percent to 1 percent" in order to "meet market demands, promote price discovery, enhance the flexibility of RMB exchange rate in both directions, further improve the managed floating RMB exchange rate regime based on market supply and demand with reference to a basket of currencies."[67]

Thus China has been awarded a score of +1 for complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Cheng Li and Krystel Montpetit

[61]China c.bank to build "expressway" for yuan settlement, Reuters, 11 April 2012. Date of Access: 12 April 2012.http://www.reuters.com/article/2012/04/11/china-yuan-system-idUSL3E8FB1U320120411

[62]China c.bank to build "expressway" for yuan settlement, Reuters, 11 April 2012. Date of Access: 12 April 2012.http://www.reuters.com/article/2012/04/11/china-yuan-system-idUSL3E8FB1U320120411

[63]PBOC Plans Payment System in Step Toward Convertibility, 11 April 2012. Date of Access: 12 April 2012. http://www.bloomberg.com/news/2012-04-11/pboc-plans-payment-system-in-step-toward-convertibility.html

[64]PBOC Plans Payment System in Step Toward Convertibility, 11 April 2012. Date of Access: 12 April 2012. http://www.bloomberg.com/news/2012-04-11/pboc-plans-payment-system-in-step-toward-convertibility.html

[65]China c.bank to build "expressway" for yuan settlement, Reuters, 11 April 2012. Date of Access: 12 April 2012.http://www.reuters.com/article/2012/04/11/china-yuan-system-idUSL3E8FB1U320120411

[66]China c.bank to build "expressway" for yuan settlement, Reuters, 11 April 2012. Date of Access: 12 April 2012.http://www.reuters.com/article/2012/04/11/china-yuan-system-idUSL3E8FB1U320120411

[67]The People's Bank of China Announcement [2012 No.4], The People's Bank of China, 14 April 2012. Date of Access: 26 April 2012.
http://www.pbc.gov.cn/publish/english/955/2012/20120414090756030448561/20120414090756030448561_.html

France: +1
France has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

France is a member of the European Union, the economic and political alliance of 27 European member states. The EU prohibits the devaluation of currencies thus France is unable to engage in the process without risking its membership in the organization. The European Central Bank manages the foreign exchange reserves and can intervene in foreign exchange markets to influence the exchange rate of the euro.[68]

On 20 February 2012, at a meeting of G20 Finance Ministers and Central Bank Governors, France and other members of G20 agreed to continue working towards the commitments made in the Cannes Action Plan. In a statement, G20 Finance Ministers and Central Bank Governors declared, "We agreed today to enhance monitoring and accountability to ensure that our commitments are achieved, including on fiscal, financial, structural, monetary and exchange rate, trade and development policies as mandated by our Leaders in Cannes."[69]

Thus France has been awarded a score of +1 for fully complying with its commitment to move toward a market-determined exchange rate and to refrain from competitive devaluation of its currency

Analysts: Babajide Ajayi, Brandon Bailey and Krystel Montpetit

Germany: +1
Germany has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Germany is a member of the European Union, the economic and political alliance of 27 European member states. The EU prohibits the devaluation of currencies thus Germany is unable to engage in the process without risking its membership in the organization. The European Central Bank manages the foreign exchange reserves and can intervene in foreign exchange markets to influence the exchange rate of the euro.[70]

On 18-20 February 2012, Mexico hosted a meeting of G20 Finance Ministers and Central Bank Governors. During this meeting, Germany and other members of G20, agreed to continue working towards the commitments made in the Cannes Action Plan. In a statement, G20 Finance Ministers and Central Bank Governors declared, "We agreed today to enhance monitoring and accountability to ensure that our commitments are achieved, including on fiscal, financial,

[68]Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011.
http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse
[69] Mexico City G20 Communique, The Telegraph (London) 26 February 2012. Date of Access : 3 March 2012 http://www.telegraph.co.uk/finance/financialcrisis/9107453/Mexico-City-G20-Communique-full-text.html
[70]Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011.
http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse

structural, monetary and exchange rate, trade and development policies as mandated by our Leaders in Cannes."[71]

Thus Germany has been awarded a score of +1 for fully complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Babajide Ajayi, Brandon Bailey and Krystel Montpetit

India: 0

India has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Albeit refraining from competitive devaluation, it has moved away from a market-determined exchange rate by intervening to counter the depreciation of its currency.

On 22 November 2011, India's Finance Ministry asserted that the Reserve Bank of India had only a "limited" ability to curb the fall of the Indian rupee.[72] Finance Minister Pranab Mukherjee contended that the fall reflected uncertainty in the international market, adding that the Government of India "expect[s] there will be a self-correction."[73]

On 23 December 2011, IndiaPrime Minister Manmohan Singh acknowledged that the Indian economy faced many domestic hurdles, made obvious by the "sharp depreciation of the INR," which was a matter of concern.[74]

On 6 February 2012, Ratings Agency Standard and Poor's warned that there could be a downgrade in India's investment-grade credit rating.[75] The Ratings Agency stressed that Indian Finance Minister Pranab Mukherjee admitted that growth slowdown and high inflation had become serious challenges plaguing the Indian economy. He stated that "the options for fiscal steps as well as monetary measures are increasingly becoming limited. However, there is potential for policymaking in other areas," and "innovative remedies would be required to address these challenges."[76]Since March 2010, the Indian Central bank has increased interest rates on 13 different occasions in an effort to hold down rising prices, which were induced by falls in the Indian rupee.[77]

On 13 February 2012, in an interview to the Wall Street Journal, Governor of the Reserve Bank of India Dr Subbarao stated "by inclination, I believe that markets should be allowed to function

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[71] Mexico City G20 Communique, The Telegraph (London) 26 February 2012. Date of Access : 3 March 2012 http://www.telegraph.co.uk/finance/financialcrisis/9107453/Mexico-City-G20-Communique-full-text.html

[72] India rupee hits all-time US dollar low, BBC News, 22 November 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/world-asia-15832048

[73] India rupee hits all-time US dollar low, BBC News, 22 November 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/world-asia-15832048

[74] India PM says growth hurt by 'negative comments', BBC News, 23 December 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/world-asia-india-16313085

[75] India economy: Growth to fall below 7% for 2011-2012, BBC News, 7 February 2012. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/world-asia-india-16923108

[76] India central bank sells dollars to boost ailing rupee, BBC News, 15 December 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/world-asia-india-16193664

[77]India's inflation rate falls but remains above 9%, BBC News, 14 November 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-16173884

and that we should minimize our intervention and that's good for building the resilience of the economy."[78]

On 17 April 2012, the Reserve Bank of India cut interest rates by 50 basis points; its first reduction in three years in an effort to spur growth.[79]

On 7 May 2012, the India Times reported that the Reserve Bank of India likely intervened "to lift the currency of its intraday lows," according to a Mumbai-based brokerage firm who declined to be named. Traders said it was the eleventh time in 2012 that the Indian Central Bank is believed to have stepped into the market to prop up the rupee. The Reserve Bank of India (RBI) intervenes only to prevent sharp volatility and has a policy of not commenting on rupee movements or confirming forex market interventions.[80]

On 15 May 2012, Reuters confirmed the India Times' report asserting that the rupee strengthened "from a near record low against the dollar after the RBI stepped in with what various dealers described as massive intervention." Reuters reported that dealers asserted that the dollar sales via state-run banks totalled USD400-500 million, continuing a pattern of aggressive interventions in the April and May 2012 as the rupee threatened to touch the record low of 54.30. The Reserve Bank of India also adopted measures such as forcing exporters to convert half of their foreign currencies in their accounts in order to prop up the sliding rupee.[81]

Thus India has been awarded a score of 0 for partially complying with its commitment: albeit refraining from competitive devaluation of its currency, it has moved away from a market-determined exchange rate by intervening to prop up its currency.

Analysts: Cheng Li and Krystel Montpetit

Indonesia: 0

Indonesia has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Albeit refraining from competitive devaluation, Indonesia has moved away from a perfect market-determined exchange rate by intervening to counter the depreciation of its currency.

On 10 November 2011, Bank Indonesia, Indonesia's Central Bank, stated it "is continuously monitoring the developments of rupiah and ensures the adequacy of rupiah and foreign exchange liquidity needed to maintain the stability of domestic markets" in response to exchange rate

[78] Interview of RBI Governor, Dr. D Subbarao by Mr. Alex Frangos of The Wall Street Journal, Reserve Bank of India, 22 Feb 2012. Date of Access: 2 March 2012. http://rbi.org.in/scripts/BS_SpeechesView.aspx?Id=670

[79] RBI cuts repo rate by 50 bps; sees little room for more, Reuters, 17 April 2012. Date of Access: 16 May 2012.http://in.reuters.com/article/2012/04/17/rbi-rate-cut-repo-rate-crr-subbarao-gdp-idINDEE83G02Z20120417

[80] Rupee slides, Reserve Bank of India's intervention suspected, The Economic Times, India Times (Delhi) 7 May 2012. Date of Access: 18 May 2012. http://articles.economictimes.indiatimes.com/2012-05-07/news/31610623_1_rupee-slides-rupee-movements-central-bank

[81] RBI's 'massive' intervention sparks rupee gains, Reuters, 15 May 2012. Date of Access: 19 May 2012. http://in.reuters.com/article/2012/05/15/markets-india-rupee-rbi-idINDEE84E01Q20120515

depreciation.[82] Bank Indonesia noted that the volatility of the rupiah's exchange rate was diminishing.[83] On 23 November 2011, Head of treasury at ANZ Panin Bank Wiling Bolung claimed Bank Indonesia was "in the market to ease volatility rather than defend a specific level."[84]

In January 2012, on average, the rupiah depreciated by 0.28% to IDR9,060 per US dollar, but on point-to-point the rupiah appreciated by 0.65% to IDR8,990 per 1 US dollar. The increase in foreign exchange demand for imports, particularly fuel, put pressure on Rupiah exchange rate.[85]

As part of their 17 January 2012 review, Bank Indonesia reported that the rupiah exchange rate experienced downward pressure throughout the second half of 2011 as a result of European fiscal crises and "rising indications of weakening in the world economy."[86] However, the rupiah's depreciation was comparable to other currencies in the region.[87] Bank Indonesia asserted that the rupiah's fluctuations have been market-oriented, determined by global financial markets and external shocks stemming from pressure put on global markets by "the absence of new policies launched by the Fed in its FOMC to stimulate the economy and the release of a swollen ECB balance sheet."[88]

On 1 February 2012, Bank Indonesia spokesperson Difi A Johansyah announced that BI unexpectedly cut the benchmark interest rate by 25 basis points to 5.75% in order to boost Indonesia's economic growth in the midst of the global economy downturn. Difi added, "Bank Indonesia will continue to strengthen its policies through interest rate policy, foreign exchange policy, macro-prudential policies to manage capital flows and liquidity, and to coordinate with the government."[89]

On 4 May 2012, Bloomberg and the Jakarta Globe reported that the rupiah appreciated on speculation that Bank Indonesia, the Central Bank of Indonesia, intervened to "support the

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[82] Board of Governor Decreased BI Rate to 6,00%, Bank Indonesia (Jakarta) 10 November 2011. Date of Access: 17 March 2012. http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_133711.htm

[83] Board of Governor Decreased BI Rate to 6,00%, Bank Indonesia (Jakarta) 10 November 2011. Date of Access: 17 March 2012. http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_133711.htm

[84] Rupiah touches 17-month low as funds sell assets, The Jakarta Post (Jakarta) 23 November 2011. Date of Access: 27 March 2012. http://www.thejakartapost.com/news/2011/11/23/rupiah-touches-17-month-low-funds-sell-assets.html

[85] BI Rate Lowered by 25 bps to 5.75%, Bank Indonesia (Jakarta) 9 February 2012. Date of Access: 14 May 2012.http://www.bi.go.id/web/en/Ruang+Media/Siaran+Pers/sp_140312.htm

[86] Monetary Policy Review: Economy, Monetary, and Banking, Bank Indonesia (Jakarta) 17 January 2012. Date of Access: 27 March 2012. http://www.bi.go.id/NR/rdonlyres/03FC1D42-8840-41E5-B908-F959211423DB/25136/zMPRJanuary2012rev.pdf

[87] Monetary Policy Review: Economy, Monetary, and Banking, Bank Indonesia (Jakarta) 17 January 2012. Date of Access: 27 March 2012. http://www.bi.go.id/NR/rdonlyres/03FC1D42-8840-41E5-B908-F959211423DB/25136/zMPRJanuary2012rev.pdf

[88] Monetary Policy Review: Economy, Monetary, and Banking, Bank Indonesia (Jakarta) 17 January 2012. Date of Access: 27 March 2012. http://www.bi.go.id/NR/rdonlyres/03FC1D42-8840-41E5-B908-F959211423DB/25136/zMPRJanuary2012rev.pdf

[89] BI Cuts Interest Rate Despite Inflation Fears, Jakarta Post (Jakarta) 10 February 2012 http://www.thejakartapost.com/news/2012/02/10/bi-cuts-interest-rate-despite-inflation-fears.html

currency to stem imported inflation after the rupiah dropped to a 23-month low."[90][91] If those reports are confirmed, it implies that Bank Indonesia moved away from a market-determined exchange rate by intervening to prop up the currency.

Thus Indonesia has been awarded a score of 0 for partially complying with its commitment: albeit refraining from competitive devaluation of its currency, it has moved away from a market-determined exchange rate by intervening to prop up its currency.

Analysts: Heidi Shim, Brandon Bailey and Krystel Montpetit

Italy: +1

Italy has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Italy is a member of the European Union, the economic and political alliance of 27 European member states. The EU prohibits the devaluation of currencies thus Italy is unable to engage in the process without risking its membership in the organization. The European Central Bank manages the foreign exchange reserves and can intervene in foreign exchange markets to influence the exchange rate of the euro.[92]

On 18-20 February 2012, Mexico hosted a meeting of G20 Finance Ministers and Central Bank Governors. During this meeting, Italy and other members of G20, agreed to continue working towards the commitments made in the Cannes Action Plan. In a statement, G20 Finance Ministers and Central Bank Governors declared, "We agreed today to enhance monitoring and accountability to ensure that our commitments are achieved, including on fiscal, financial, structural, monetary and exchange rate, trade and development policies as mandated by our Leaders in Cannes."[93]

Thus Italy has been awarded a score of +1 for fully complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Yu Yao, Brandon Bailey and Krystel Montpetit

Japan: -1

Japan has failed to comply with its commitment to enhance exchange rate flexibility: it has not refrained from competitive devaluation, thus moving away from a market-determined exchange rate. However, Japanese Finance Minister Jun Azumi holds that upward movements in the yen

[90] Rupiah Advances to Pare Weekly Loss on Intervention Speculation, Bloomberg (New York) 4 May 2012. Date of Access: 5 May 2012. http://www.businessweek.com/news/2012-05-03/rupiah-rebounds-from-june-2010-low-on-intervention-speculation

[91] Indonesia's Rupiah Gains on Suspected Intervention; Bonds Fall, Jakarta Globe (Jakarta) 7 May 2011. Date of Access: 18 May 2012. http://www.thejakartaglobe.com/markets/indonesias-rupiah-gains-on-suspected-intervention-bonds-fall/516497

[92] Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011. http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse

[93] Mexico City G20 Communique, The Telegraph (London) 26 February 2012. Date of Access : 3 March 2012http://www.telegraph.co.uk/finance/financialcrisis/9107453/Mexico-City-G20-Communique-full-text.html

result from international speculation and not Japanese economic fundamentals, thus compelling Japanese authorities to intervene in the market to tamper the undesired rise of the yen.[94]

From 31 October 2011 to 4 November 2011 the Bank of Japan sold approximately JPY9091.6billion for USD; specifically, the intervention entailed sales of JPY8072.2 billion on 31 October 2011, JPY282.6 billion on 1 November 2011, JPY227.9 billion on 2 November 2011, JPY202.8 billion on 3 November 2011, and JPY306.2 billion on 4 November 2011.[95] There were no interventions for the remainder of the quarter.[96] While the Ministry of Finance has not reported any interventions since,[97] in a speech to the National Diet on 24 January 2012 Minister of Finance Azumi said that "trends in exchange rate markets" still represent a "risk" to Japan.[98]

On 16 November 2011,the Bank of Japan, Japan's Central Bank, warned that the country's economic growth will likely be hurt by the European debt crisis, flooding in Thailand and a strong Japanese yen.[99] The Central Bank announced that it would leave its key interest unchanged between zero and 0.1% in order to boost growth.[100]

On 19 December 2011, the Ministry of Finance planned to raise the issuance limit for bills to fund currency intervention to JPY195 trillion (USD2.5 trillion), the first increase since 30 September 2011.[101] According to the Ministry of Finance, more than JPY65 trillion will be available for additional intervention.[102] Finance Minister Jun Azumi said the increase was needed so that he could be prepared to take "decisive" actions when needed.[103]

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[94] Tokyo, Seoul warn after currency moves, The Wall Street Journal (New York) 18 May 2012. Date of Access: 20 May 2012.http://www.marketwatch.com/story/tokyo-seoul-warn-after-currency-moves-2012-05-18

[95] Foreign exchange intervention operations (October-December 2011), Ministry of Finance (Tokyo) 7 February 2012. Date of Access: 25 March 2012. http://www.mof.go.jp/english/international_policy/reference/feio/quarter/e2310_12.htm

[96] Foreign exchange intervention operations (October-December 2011), Ministry of Finance (Tokyo) 7 February 2012. Date of Access: 25 March 2012. http://www.mof.go.jp/english/international_policy/reference/feio/quarter/e2310_12.htm

[97] Foreign exchange intervention operations (January 30, 2012 – February 27, 2012), Ministry of Finance (Tokyo), 29 February 2012. Date of Access: 25 March 2012. http://www.mof.go.jp/english/international_policy/reference/feio/monthly/120229.htm

[98] Speech on Fiscal Policy by Minister of Finance Azumi at the 180th Session of the National Diet, Ministry of Finance (Tokyo) 24 January 2012. Date of Access: 25 March 2012. http://www.mof.go.jp/english/public_relations/statement/fiscal_policy_speech/e20120124.htm

[99] Bank of Japan issues growth warning as it holds rates, BBC News, 16 November 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-15751127

[100] Bank of Japan issues growth warning as it holds rates, BBC News, 16 November 2011. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-15751127

[101] Japan Plans to Bolster Intervention War Chest, Bloomberg, 19 December 2011. Date of Access: 24 March 2012.http://www.bloomberg.com/news/2011-12-20/japan-plans-to-bolster-intervention-war-chest.html

[102] Japan Plans to Bolster Intervention War Chest, Bloomberg, 19 December 2011. Date of Access: 24 March 2012.http://www.bloomberg.com/news/2011-12-20/japan-plans-to-bolster-intervention-war-chest.html

[103] Japan Plans to Bolster Intervention War Chest, Bloomberg, 19 December 2011. Date of Access: 24 March 2012.http://www.bloomberg.com/news/2011-12-20/japan-plans-to-bolster-intervention-war-chest.html

On 7 February 2012, the Bank of Japan disclosed that the sale of Japanese yen on several occasions in November 2011 had been followed by relative stability in the Japanese yen's exchange rate.[104] The Japanese Ministry of Finance and Strategy confirmed that it intervened unannounced in foreign exchange markets to weaken the Japanese yen in November 2011.[105] Japanese Ministry of Finance and Strategy data reveals that Japan carried out JNY1.02 trillion worth of unannounced intervention during the first four days of November 2011 after selling a record JNY8.07 trillion on 31 October 2011.[106] Japanese Minister of Finance and Strategy Jun Azumi told reporters that the Ministry was "not rejecting any option" in the currency markets, indicating Tokyo was ready to intervene again if the yen rose in a manner that did not reflect market fundamentals. He affirmed that the Japanese government "will take every step to protect national interests when necessary."[107]

On 14 February 2012, the Bank of Japan announced that it would expand its asset purchase program by JNY10 trillion.[108] The Central Bank said in a statement:"The outlook for Japan's economy continues to entail high uncertainty regarding the prospects and outcomes of the European debt problem, the supply and demand balance of electricity and the effects of the yen's appreciation."[109] The Bank set an inflation goal of 1%, pledging to keep an easy policy until that price level is in sight.[110]

On 28 February 2012, Japanese Finance and Strategy Minister Jun Azumi said that he told his G20 counterparts that he is prepared to take firm measures against excessive currency moves, reaffirming his will and readiness to intervene against any sharp gain in the Japanese currency.[111] Azumi emphasised that "even in bilateral meetings, I clearly stated that Japan is prepared to take firm steps against excessive moves."[112] Finance and Strategy Minister Azumi also rejected suggestions that the G20 had hinted at softening its insistence that currenciesadhere to market

[104] Japan's Secret Yen Interventions Could Be Template For Future, The Wall Street Journal, 7 February 2012. Date of Access: 5 March 2012. http://online.wsj.com/article/BT-CO-20120207-719675.html

[105] Japan confirms stealth intervention to limit yen, Financial Times, 7 February 2012.Date of Access: 5 March 2012. http://www.ft.com/intl/cms/s/0/b91061ce-5168-11e1-a99d-00144feabdc0.html#axzz1oCqlCIWH

[106] Japan confirms stealth intervention to limit yen, Financial Times, 7 February 2012.Date of Access: 5 March 2012. http://www.ft.com/intl/cms/s/0/b91061ce-5168-11e1-a99d-00144feabdc0.html#axzz1oCqlCIWH

[107] Japan confirms stealth intervention to limit yen, Financial Times, 7 February 2012.Date of Access: 5 March 2012. http://www.ft.com/intl/cms/s/0/b91061ce-5168-11e1-a99d-00144feabdc0.html#axzz1oCqlCIWH

[108] Bank of Japan increases stimulus to boost growth, BBC News, 14 February 2012. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-17022941

[109] Bank of Japan increases stimulus to boost growth, BBC News, 14 February 2012. Date of Access: 26 February 2012. http://www.bbc.co.uk/news/business-17022941

[110] UPDATE 2-Japan MOF official: nothing strange in forex moves, Reuters, 22 February 2012. Date of Access: 5 March 2012.http://www.reuters.com/article/2012/02/22/forex-japan-mof-idUSL4E8DM50D20120222

[111] UPDATE 1-Japan Azumi: told G20 Japan ready to take firm FX measures, Reuters, 27 February 2012. Date of Access: 5 March 2012.http://www.reuters.com/article/2012/02/28/japan-economy-idUSL4E8DS0BU20120228

[112] UPDATE 1-Japan Azumi: told G20 Japan ready to take firm FX measures, Reuters, 27 February 2012. Date of Access: 5 March 2012.http://www.reuters.com/article/2012/02/28/japan-economy-idUSL4E8DS0BU20120228

principles, saying that a mention of market volatility in the G20 statement did not signal a significant change in currency policy from previous statements.[113]

On 27 April 2012, the Bank of Japan announced enhancement of monetary easing regarding the Asset Purchase Program. The Bank "decided to increase the total size of the Program by about 5 trillion yen, from about 65 trillion yen to about 70 trillion yen."[114] The maximum outstanding amount of financial assets purchased through the Program shall be about 40 trillion yen.The maximum outstanding amount of loans provided through the Program shall be about 30 trillion yen.[115]

Thus Japan has been awarded a score of -1 for not complying with its commitment to refrain from competitive devaluation and move toward a market-determined exchange rate. It is however noted that Japanese authorities contend that the rise in the yen is not a reflection of economic fundamentals, but a reflection of international speculation driven by the uncertainties plaguing the global economy.[116]

Analysts: Cheng Li and Krystel Montpetit

Korea: 0

Korea has partially complied with its commitment: it has refrained from competitive devaluation, but it has moved away from a market-determined exchange rate by intervening to stem the decline of the won, which the Korean Minister of Strategy and Finance describes as an over-reaction to external events that does not reflect Korean economic fundamentals.[117]

The United States Department of the Treasury Office of International Affairs contends that "Korea officially maintains a market determined exchange rate, and its authorities intervene with the stated objective of smoothing [KRW] volatility."[118] The Report to Congress on International Economic and Exchange Rate Policies confirms that Korean financial authorities did not take any action to manipulate Korean currency when the currency was around KRW1151.80 per USD on

[113] UPDATE 1-Japan Azumi: told G20 Japan ready to take firm FX measures, Reuters, 27 February 2012. Date of Access: 5 March 2012.http://www.reuters.com/article/2012/02/28/japan-economy-idUSL4E8DS0BU20120228

[114] Enhancement of Monetary Easing, Bank of Japan, 27 April 2012. Date of Access: 28 April 2012. http://www.boj.or.jp/en/announcements/release_2012/k120427a.pdf

[115] Amendment to "Principal Terms and Conditions for the Asset Purchase Program", Bank of Japan, 27 April 2012. Date of Access: 28 April 2012. http://www.boj.or.jp/en/announcements/release_2012/rel120427c.pdf

[116] Tokyo, Seoul warn after currency moves, The Wall Street Journal (New York) 18 May 2012. Date of Access: 20 May 2012.http://www.marketwatch.com/story/tokyo-seoul-warn-after-currency-moves-2012-05-18

[117] Tokyo, Seoul warn after currency moves, The Wall Street Journal (New York) 18 May 2012. Date of Access: 20 May 2012.http://www.marketwatch.com/story/tokyo-seoul-warn-after-currency-moves-2012-05-18

[118] Report to Congress on International Economic and Exchange Rate Policies, Department of the Treasury Office of International Affairs (Washington) 27 December 2011. Date of Access: 5 March 2012. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%202011.pdf

29 December 2011.[119] The report also asserts that the Bank of Korea did not automatically tighten monetary policy even when it faced with strong inflationary pressures.[120]

At the end of 2011, the USD/KRW exchange rate stood at 1,151.8 won to the dollar, up 17 won from the previous year, which corresponds to a depreciation of 1.5%. However, the average USD/KRW rate in 2011 was 1,108 won, down 48 won from the year before, corresponding to an appreciation of 4.3% and confirming that Korea has let its currency appreciate against the dollar.[121]

On 9 February 2012, the Bank of Korea announced that it would keep "the benchmark seven-day repurchase rate unchanged at 3.25% for an eighth month period as the economy slowed and exports declined due to European fiscal turmoil."[122]

However, on 18 May 2012, the Wall Street Journal reported that the Bank of Korea intervened to support the won after it fell to a five-month low of KRW1,175.4 against the dollar. Currency dealers cited in a Reuters report estimate the size of the Bank of Korea's intervention on 18 May 2012 at more than USD1 billion.[123]

Thus, Korea has been awarded a score of 0 for partially complying with its commitment: it has refrained from competitive devaluation, but it has moved away from a market-determined exchange rate by intervening to stem the decline of the won. It is however noted that the Korean authorities have intervened to counter a fall in the won that is argued to be attributed to extreme volatility in the market, not reflecting Korean economic fundamentals.

Analysts: Heidi Shim and Krystel Montpetit

Mexico: +1

Mexico has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

[119] Stronger won exposed to more volatility, The Korea Herald (Seoul) 10 January 2012. Date of Access: 2 March 2012. http://www.koreaherald.com/business/Detail.jsp?newsMLId=20120110000848

[120] Report to Congress on International Economic and Exchange Rate Policies, Department of the Treasury Office of International Affairs (Washington) 27 December 2011. Date of Access: 5 March 2012. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX Report 2011.pdf

[121] Foreign Exchange Market Trends (2011), The Bank of Korea (Seoul) 31 January 2012. Date of Access: 20 March 2012. http://www.bok.or.kr/contents/total/eng/boardView.action?menuNaviId=634&boardBean.brdid=10559&boardBean.menuid=634

[122] Rising oil price may see gov't fail to achieve inflation target, Korea Jooang Daily (Seoul) 27 Feburary 2012. Date of Access: 3 March 2012. http://koreajoongangdaily.joinsmsn.com/news/article/html/039/2949039.html

[123] Tokyo, Seoul warn after currency moves, The Wall Street Journal (New York) 18 May 2012. Date of Access: 20 May 2012.http://www.marketwatch.com/story/tokyo-seoul-warn-after-currency-moves-2012-05-18

On 20 January 2012 the Central Bank of Mexico, the Bank of Mexico, kept the interest rate at a steady 4.5% for the 24th consecutive meeting.[124] Bank of Mexico Governor Agustin Carstens said that "the current monetary policy posture is conducive to reaching the permanent inflation target" according to official minutes from the meeting.[125]

On November 82011, Manuel Sánchez, a member of the Governing Board of the Bank of Mexico, said that a flexible exchange rate was desirable because "flexibility helps prevent the build-up of unsustainable balance-of-payments disequilibria which in the past were common causes of currency and banking crises."[126]

On 9 December 2011, Sánchez said in a statement that the "[t]he important role played by long-term investors in the government securities market" is a reflection of their confidence in Mexico's "flexible exchange rate regime."[127]

On 14 February 2012, Mexican Finance Minister Antonio Meade said that G20 countries must work to avoid a dangerous spiral of currency devaluations, stating "[i]f we get caught in this spiral it is clear, and I am convinced, that it will end badly."[128]

Thus Mexico has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Dave Stewart and Julian Ferling

[124] Mexico Sees No Risks on Horizon to Inflation Targets, Meade Says, Bloomberg (New York) February 09 2012. Date of Access: 26 February 2012. http://www.bloomberg.com/news/2012-02-09/mexico-sees-no-risks-on-horizon-to-inflation-targets-meade-says.html

[125] Mexico Sees No Risks on Horizon to Inflation Targets, Meade Says, Bloomberg (New York) February 09 2012. Date of Access: 26 February 2012. http://www.bloomberg.com/news/2012-02-09/mexico-sees-no-risks-on-horizon-to-inflation-targets-meade-says.html

[126] The Strengths and Challenges of Mexico's financial System, Mexico Financial Day 2011, CEO Roundtable (New York) 8 November 2011. Date of Access: 12 February 2012. https://docs.google.com/viewer?a=v&q=cache:JEbflqnrVuQJ:www.bis.org/review/r111110e.pdf+november+8+2011+manuel+sanchez&hl=en&gl=ca&pid=bl&srcid=ADGEESiVerudaViptUddBBqq2Npff5STtoPww7Z53tO1rzxOH66m8C8j7aw18avuXY21Iz9r9K69phBbC4ZX7kMLhRAaVB4BqSbYml06uUOPctWsi6i8UHLLrKs7OTYY14Ci4MfwDw3k&sig=AHIEtbQdIgk1Z5tUaNgX9DezT1Bto6sdaA

[127] Mexico's Economic Integration and Outlook, United States-Mexico Chamber of Commerce, California Regional Chapter (Los Angeles) 9 December 2011. Date of Access 22 February 2012. https://docs.google.com/viewer?a=v&q=cache:n7l2pSIIptYJ:www.bis.org/review/r111220b.pdf+The+important+role+played+by+long-term+investors+in+the+government+securities+market+seems+to+reflect+their+confidence+in+the+sound+management+of+public+debt+as+well+as+the+flexible+exchange+rate+regime+mexico&hl=en&gl=ca&pid=bl&srcid=ADGEESijrWi8r2l52AGkIQFmZ2SUKQ3i4niIBe1pXLbvi6t-trGU8NV9cnTLULeqRVZCim8PqmpyAkYS__1x-iYYxb0t6bsFyllr6sCTQB8z5UuuvbC7edhdg5Qx3ccah49grPJ-1hEH&sig=AHIEtbS26thtXGpngyE6GAEYPd2aqX_3Lw

[128] INTERVIEW-Mexico Finmin says G20 Must Avoid Devaluation Spiral, Reuters (Mexico City) 14 February 2012. Date of Access February 282012. http://www.sharenet.co.za/news/INTERVIEWMexico_finmin_says_G20_must_avoid_devaluation_spiral/482b6c968248cfa14019602dd7678ca6

Russia: +1
Russia has complied with its commitment to enhance exchange rate flexibility to reflect underlying economic fundamentals, avoid persistent exchange rate misalignments and refrain from competitive devaluation of currencies.

Russia has taken measures to move toward a more market-determined exchange rate of its national currency.

On 28 October 2011, the Russian Central Bank Board of Directors approved Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014. According to the Guidelines the exchange rate policy conducted by the Central Bank will be aimed at "consistently scaling down the Bank's direct intervention in the rate-setting process and creating conditions for the transition to a floating exchange rate regime."[129]

Russian authorities have refrained from competitive devaluation of the ruble.

From 4 November 2011 to 31 May 2012 Russian ruble exchange rate to the US dollar decreased by 8.6%[130] and increased by 2.1% to the euro.[131]

Thus Russia has been awarded a score of +1 for taking measures to make its exchange-rate system more flexible, and avoid competitive devaluation of the ruble.

Analyst: Mark Rakhmangulov

Saudi Arabia: 0
Saudi Arabia has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Saudi Arabia has failed to follow a market-determined exchange rate system but has refrained from competitive devaluation of its currency.

Since Saudi Arabia has followed a fixed exchange rate regime since 1986 (USD1 = SAR3.75), it has not moved toward a more market-determined exchange rate nor has it engaged in competitive devaluation.

Thus Saudi Arabia has been awarded a score of 0 for failing to move toward a more market-determined exchange rate, but for refraining from competitive devaluation.

Analyst: Brandon Bailey

South Africa: +1
South Africa has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, South Africa has made progress toward fulfilling its commitment to move toward a market-determined exchange rate and has refrained from competitive devaluation of its currency.

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[129] Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014, Bank of Russia 28 October 2011. Date of Access: 2 April 2012. http://cbr.ru/eng/today/publications_reports/on_12-eng.pdf.
[130] RUB/USD Basic Chart, Yahoo! Finance. Date of Access: 2 April 2012. http://finance.yahoo.com/q/bc?s=RUBUSD=X&t=1y.
[131] RUB/EUR Basic Chart, Yahoo! Finance. Date of Access: 2 April 2012. http://finance.yahoo.com/q/bc?s=RUBEUR=X&t=1y.

On 13 November 2011, Rob Davies, South African Trade and Industry Minister, maintained that the rand was overvalued as it did not reach to the competitive exchange rate.[132] In compliance with G20, he recognized that "there was little South Africa could do about its exchange rate, noting the central bank was constrained by its need to manage inflation."[133]

However, on 1 March 2012, Dr. Monde Mnyande, Chief Economist and Advisor to the South African Governor, stated that South Africa had been consistent with its non-interventionist position dealing with its exchange rate policies. He however pointed out that the current international economic situation challenges South African policies "in terms of balancing upward pressure on domestic inflation and weak domestic economic activity within the context of more limited fiscal space than at the onset of the global financial crisis."[134] Despite Dr. Mnyande's remark, South Africa has refrained from competitive devaluation of its currency.

Thus, South Africa has been awarded a score of +1 for fully complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analyst: Heidi Shim

Turkey: 0

Turkey has partially complied with its commitment to move toward a more market-determined exchange rate and refrain from competitive devaluation of its currency. Specifically, Turkey has not fully fulfilled its commitment to move toward a market-determined exchange rate, but has refrained from competitive devaluation of its currency.

Since the Cannes Summit in November 2011, Turkey has refrained from competitively devaluing its currency, but the Turkish Central Bank has intervened in the foreign exchange market in order to prop up the Turkish lira twice, not fully fulfilling its commitment to move toward a market-determined exchange rate.

On 27 December 2011, the Turkish Central Bank released the Monetary and Exchange Rate Policy for 2012, which stated that the Central Bank would continue to implement a floating exchange rate regime in 2012. The foreign exchange rate would not be used as a policy tool, and would be determined by market forces of supply and demand.[135]

However, on 30 December 2011, the Turkish Central Bank sold around USD750 million during a direct intervention in the foreign exchange market after the lira hit a record low on 28 December 2011. The Central Bank also sold bonds to reduce liquidity in the market in order to further

[132] Rand swings a worry, Business Report (Cape Town) 13 November 2011. Date of Access: 4 March 2012. http://www.iol.co.za/business/markets/south-africa/rand-swings-a-worry-1.1177113

[133] Rand swings a worry, Business Report (Cape Town) 13 November 2011. Date of Access: 4 March 2012. http://www.iol.co.za/business/markets/south-africa/rand-swings-a-worry-1.1177113

[134] Address by Chief Economist and Adviser to the Governor Dr Monde Mnyande at the 6th Annual Risk and Return South Africa Conference (Cape Town) 1 and 2 March 2012. Date of Access: 5 March 2012. http://www.resbank.co.za/Publications/Speeches/Detail-Item-View/Pages/default.aspx?sarbweb=3b6aa07d-92ab-441f-b7bf-bb7dfb1bedb4&sarblist=a01d874c-c3f6-4b93-a9dc-c984cf8652cf&sarbitem=336

[135] Monetary Exchange Rate Policy for 2012, Central Bank of the Republic of Turkey (Ankara) 27 December 2011. Date of Access: 4 March 2011. http://www.tcmb.gov.tr/yeni/announce/2012/Mon_Exc_Pol_2012.php

strengthen the lira's value.[136] The Central Bank justified the intervention on the grounds of the anticipated announcement of year-end inflation figures at just over 10% and the need to begin disinflation "sooner than market expectations."[137]

On 22 March 2012, Turkey's Central Bank tightened its monetary policy by not lending at its benchmark rate. The higher interest rates helped stem a decline in the lira.[138] These measures were negated after the Central Bank offered TRY5 billion at the benchmark rate on 5 April 2012. The lira gained less than 0.1% compared to as much as 0.4% earlier in the day.[139]

Thus Turkey has been awarded a score of 0 for partial compliance with its commitment to move towards a more market-determined exchange rate and to refrain from competitively devaluing its currency.

Analyst: Sohini Das

United Kingdom: +1

The United Kingdom has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

On 3 November 2011, Financial Secretary to the Treasury Mark Hoban stated that "the G20 recognised the importance of moving towards more market determined exchange rate systems refraining from competitive devaluation of currencies. It is vital that the G20 resist all forms of protectionism. And in the EU, reforms in to economic governance emphasise the importance of effective discipline to constrain those whose behaviour might threaten regional economic stability. "[140] The British Financial Secretary to the Treasury went on to reiterate the importance of moving towards a more market determined exchange rate and refraining from competitive devaluation of currencies, which can be consider as they want to make a process of doing it. Furthermore, on 9 December 2011, British Chief Secretary to the Treasury Danny Alexander asserted that "it helps to impose discipline over inflation by limiting the ability to use exchange rate devaluation to compensate for high domestic inflation."[141]

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[136] Turkey gives lira brief boost; stocks end year down, Reuters (Istanbul) 30 December 2011. Date of Access: 4 March 2011.http://www.reuters.com/article/2011/12/30/markets-turkey-idUSL6E7NU17620111230

[137] Turkey fails to stop lira slipping, Financial Times (Istanbul) 2 January 2012. Date of Access: 4 March 2012. http://www.ft.com/intl/cms/s/0/df709d72-3555-11e1-84b9-00144feabdc0.html#axzz1oCpkK500

[138]Turkey Tightens by Halting Benchmark Funding; Yields Climb, Bloomberg Businessweek (Istanbul) 22 March 2012. Date Accessed: 29 April 2012. http://www.businessweek.com/news/2012-03-22/turkey-tightens-by-halting-benchmark-funding-yields-climb

[139]Turkish Lira Erases Gains as Central Bank Provides Cheap Funding, Bloomberg (Istanbul) 5 April 2012. Date Accessed: 29 April 2012 http://www.bloomberg.com/news/2012-04-05/turkish-lira-erases-gains-as-central-bank-provides-cheap-funding.html

[140] Speech by The Financial Secretary to the Treasury, Mark Hoban MP at Chatham House, HM TREASURY (London), 3 Nov 2011. Date of Access: 3 March 2012. http://www.hm-treasury.gov.uk/speech_fst_031110.htm

[141] Speech by the Chief Secretary to the Treasury, Rt Hon Danny Alexander MP, at the Scottish Council for Development and Industry, HM TREASURY (London) 9 December 2011. Date of Access: 2 March 2012. http://www.hm-treasury.gov.uk/speech_cst_091211.htm

Since the 2011 Cannes G20 Summit, ergo since it committed to refrain from competitive devaluation, the Bank of England's Monetary Policy Committee has not conducted a new round of quantitative easing, which can exert a downward pressure on the currency even if it is not the main motivation of the Central Bank. The Bank of England's last round of quantitative easing — his second one since 2009 — took place on 6 October 2011.[142]

The United Kingdom has thus moved toward a market-determined exchange rate and has refrained from competitive devaluation, earning the country a score of +1.

Analyst: Yu Yao

United States: +1

The United States has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

On 13 July 2011, the Federal Reserve released the Monetary Report to the Congress, in which[143] it stated that the continued depreciation of the US dollar was "spurred in part by monetary policy tightening abroad and fears that the pace of economic recovery in the United States was slowing, the foreign exchange value of the dollar declined over much of the first half of the year." In other words, the depreciation of the US dollar was not engendered by the two rounds of quantitative easing (QE) conducted by the Federal Reserve, which can be deemed as competitive devaluation, but to tighter monetary policies in other countries and to investors' return to safe haven currencies, which include the American dollar.

On 25 January 2012, Chairman of the Federal Reserve Ben Bernanke stated that "the Committee decided to keep the target range for the federal funds rate at 0 to ¼% and currently anticipates that economic conditions are likely to warrant exceptionally low levels for the federal rate at least until late 2014.[144].

However, the Federal Reserve has thus far not announced a new round of quantitative easing, injecting additional liquidity in the economy, which could have exerted a downward pressure on the dollar. Since the November 2011 Cannes Summit, ergo since it committed to refraining from the competitive devaluation of its currency, the Federal Reserve of the United States has not engaged in a new bout of quantitative easing. Many economists had forecasted that the Federal Reserve would announce a third round of quantitative easing in the first quarter of 2012, expanding its monetary policy once again, but, as of 27 March 2012, it has not.

On 11 Apirl 2012, Vice Chair of the Federal Reserve Janet L. Yellen stated "such a policy involves keeping the funds rate close to zero until late 2015. This highly accommodative policy path generates, according to the FRB/US model, a notably faster reduction in unemployment than in the baseline outlook. In addition, the inflation rate runs close to the FOMC's longer-run goal of

[142]Pointing fingers and pushing levers, The Economist (London) 6 October 2011. Date of Access; 21 March 2012. http://www.economist.com/blogs/freeexchange/2011/10/europes-central-banks-and-crisis

[143] Monetary Report of the Congress, Board of Governors the Federal Reserve System (Washington) 13 July 2011. Date of Access: 1 March 2012. http://www.federalreserve.gov/monetarypolicy/files/20110713_mprfullreport.pdf

[144]Transcript of Chairman Bernanke's Press Conference, Board of Governors the Federal Reserve System (Washington) 25 January 2012. Date of Access: 1 March 2012. http://www.federalreserve.gov/mediacenter/files/FOMCpresconf20120125.pdf

2 percent over coming years."[145] In the speech, Vice Chair of the Federal Reserve Janet L. Yellen claimed to maintain a highly accommodative monetary policy stance longer.

Therefore, the United States fulfilled its commitment to move toward a market-determined exchange and has refrained from competitive devaluation. It thus receives a score of +1

Analyst: Yu Yao

European Union: +1

The European Union has fully complied with its commitment to move toward a more market-determined exchange rate system and refrain from competitive devaluation of its currency.

In December 2011 and February 2012, the European Central bank introduced the Long-Term Refinancing Operation (LTRO). LTRO functions by providing cheap 3-year ECB loans to Eurozone banks at the low benchmark level of 1%.[146] Some economists refer to LTRO as "quantitative easing by the back door" because the ECB is prevented by its mandate from functioning in the same capacity as the Federal Reserve and is limited from printing more euro to help indebted Eurozone countries.[147] By offering cheap liquidity to Eurozone's banks through the LTRO, the ECB counts on the banks to use the cheap loans to buy Eurozone sovereign bonds, averting a worsening of the debt crisis.[148] Like in the case of quantitative easing, the ECB's LTRP can potentially exert a downward pressure on the currency.[149] However, since the LTRO's purpose is clearly not to correct a balance-of-payments deficit by boosting exports, but to avert a worsening of the Eurozone debt crisis, the LTRO is not to be interpreted as competitive devaluation.

On 18-20 February 2012, at the Meeting of G20 Finance Ministers and Central Bank Governors, the European Union along with other G20 members declared "We agreed today to enhance monitoring and accountability to ensure that our commitments are achieved, including on fiscal, financial, structural, monetary and exchange rate, trade and development policies as mandated by our Leaders in Cannes."[150]

[145] The Economic Outlook and Monetary Policy, Money Marketeers of New York University (New York) 11 April 2012. Date of Access: 25 April 2012.

[146] ECB Long Term Refinancing Operation (LTRO) in Focus 29 February 2012. Date of Access: 24 March 2012 http://www.schweitzfinance.com/2012/02/29/ecb-long-term-refinancing-operation-ltro-in-focus/

[147] ECB Long Term Refinancing Operation (LTRO) in Focus 29 February 2012. Date of Access: 24 March 2012 http://www.schweitzfinance.com/2012/02/29/ecb-long-term-refinancing-operation-ltro-in-focus/

[148] Eurozone crisis live: ECB lends banks €529bn but markets fall on US QE doubts - 29 February 2012. Date of Access 24 March 2012 http://www.guardian.co.uk/business/2012/feb/29/eurozone-debt-crisis-ecb-loans-ltro

[149] ECB Long Term Refinancing Operation (LTRO) in Focus 29 February 2012. Date of Access: 25 March 2012 http://www.schweitzfinance.com/2012/02/29/ecb-long-term-refinancing-operation-ltro-in-focus/

[150] Mexico City G20 Communique, The Telegraph (London) 26 February 2012. Date of Access : 3 March 2012

On 3 May 2012 the ECB decided at its monthly meeting to maintain its record-low 1% main interest rate.[151] This was unsurprising as all 47 banks and think-tanks surveyed by Dow Jones Newswires had expected the interest rate to remain static.[152] An "official with knowledge of the matter," according to The Wall Street Journal, claims the ECB "sent signals in discussions that they are not currently considering another long-term refinancing operation" at the recent spring meetings of the IMF.[153] It is therefore unlikely the ECB will announce a new LTRO in the near future, ostensible out of fear "that continuing to provide cheap money through long-term maturity loans will only encourage banks to become 'addicted' to central bank funding" and "delay the reforms that both banks and governments need to make to their balance sheets."[154]

The European Union has moved toward a market-determined exchange rate and, despite LTRO potentially exerting a downward pressure on the euro, it has nonetheless refrained from competitive devaluation. Thus the European Union has been awarded a score of +1.

Analysts: Babajide Ajayi, Brandon Bailey and Krystel Montpetit

[151] ECB Keeps Interest Rates at Record Low, the Wall Street Journal (New York) 3 May 2012. Date of Access: 5 May 2012.
http://online.wsj.com/article/SB10001424052702304746604577381661518900688.html?mod=googlenews_wsj
[152] ECB Leaves Interest Rates Unchanged, The Financial (Tbilisi) 3 May 2012. Date of Access: 5 May 2012.
http://finchannel.com/Main_News/Markets/108599_ECB_Leaves_Interest_Rates_Unchanged/
[153] ECB Keeps Interest Rates at Record Low, the Wall Street Journal (New York) 3 May 2012. Date of Access: 5 May 2012.
http://online.wsj.com/article/SB10001424052702304746604577381661518900688.html?mod=googlenews_wsj
[154] ECB Keeps Interest Rates at Record Low, the Wall Street Journal (New York) 3 May 2012. Date of Access: 5 May 2012.
http://online.wsj.com/article/SB10001424052702304746604577381661518900688.html?mod=googlenews_wsj