2001 Genoa Compliance Report

Economic Growth - Strengthening the International Financial System

Commitment:

Looking forward, we endorse our Finance Ministers' recommendations for action to further strengthen the international financial system and their commitment to foster international consensus in this endeavour. In particular, the international financial institutions and the G7 countries should stand ready to help countries adopt the policies required to ensure sustained access to capital markets. We also support our Finance Ministers' suggestions to further develop the framework for private sector involvement.

Assessment:

Score / Country	Lack of Compliance -1	Work in Progress 0	Full Compliance +1
Britain		0	
Canada			+1
France		0	
Germany		0	
Italy		0	
Japan	-1		
Russia		N/A	
United States	-1		
Overall	-1.0		

Individual Country Compliance Breakdown:

Britain: 0

There have been significant discussions by British officials in relation to improving the International Financial System, however, since the events of September 11, 2001, the focus has shifted from improving access to capital markets to eliminating the financing of terrorism and conflict prevention. As with the other members of the G7, Britain has been involved in a plethora of meetings, reaffirming its commitment to improving the international financial system. Earlier this year, the G-7 Finance Ministers and Central Bank Governors, adopted an integrated Action Plan to increase predictability and reduce uncertainty about official policy actions in the emerging markets, by utilizing a market oriented approach. This Action Plan is part of an overall endeavor whereby the sovereign debt of all countries would ultimately be investment grade, a rating that every country could eventually achieve with the right policies. Thereby creating the conditions for sustained growth of private investment in emerging markets and helping raise living standards of the people in emerging market countries. In addition, the Finance

Ministers and Central Bank Governors of the G10 countries met in Washington D.C. on 21 April 2002. They agreed that an, improved assessment of debt sustainability was essential for developing a more rigorous analytic basis for making key judgements. In that context, the British noted that assessments of debt sustainability had to be forward-looking and dynamic, and needed to take account of factors such as economic policies, public and private sector deficits, interest rates, and economic growth.

Canada: +1

Canada has complied with its commitment of strengthening the international financial system in a number of different ways. There has been official reaffirmation of the commitment by Finance Minister Paul Martin at meetings with the World Bank and the IMF earlier this year, as well as during meetings at the ministerial level in preparation for the Kananaskis summit. Furthermore, there have been changes in budgetary allocations to accommodate these pledges. According to the Canadian Department of Finance, the 2002-2003 plans and priorities include strengthening the international financial system and trying to make it impervious to abuses including money laundering. However, these allocations are apparently a response to the increased need for security in the wake of September 11, as opposed to a direct action based on last year's commitment. Initiatives towards strengthening the financial system have been made, with Paul Martin leading the G8 effort to create a plan that will try to prevent crises in emerging economies, forcing lenders to agree to restructuring efforts under "collective action" clauses.

There is widespread agreement amongst the G8 that a means will have to be found to extend the improvements in the supervisory and regulatory infrastructure in international financial markets to the important emerging market countries, as illustrated in the commitment made at Genoa. Integration of the emerging market countries into the international financial system and consequently ensuring sustained access to capital markets will require that both the quality of supervision and the ability of financial institutions in these countries be raised to international standards. However, significant progress has not been made in attaining these goals. While there have been meetings of the financial stability fund with Latin American, Eastern European, and Asian countries, a concrete plan of action has not emerged from these sessions, and the issue remains open for discussion and speculation. In terms of private sector involvement, the OECD, in which Canada is a member, has had sessions concerning the importance of businesses in the financial system, but has not created a framework for the involvement of the private sector.

France: 0

There have been official reaffirmations regarding this commitment on multiple occasions since Genoa, including addresses at the national assembly by the French Prime Minister and President, in addition to meetings of the International Monetary and Financial System in November and April. France has stated the need to strengthen the international financial system through continued vigilance, with reforms aimed at improving economic flexibility and resilience. In doing so, the French have stressed the urgency of building an international financial system that is more robust against small mistakes or sudden changes in perceptions, while also promoting growth, efficiency, and the diversification of risk. Furthermore, France has signed on to a plan created by Canadian Finance Minister Paul Martin that will try to prevent crises in emerging economies, forcing lenders to agree to restructuring efforts under "collective action" clauses. In their year-end assessment of France's economic status, the IMF praised the government for their emphasis on improved market access for developing countries' exports through increased trade liberalization. France has also been a strong supporter of an initiative to help the seven low-income countries of the Commonwealth of Independent States - Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan - accelerate poverty reduction and economic growth, while ensuring sustainable fiscal and external debt positions.

Despite the extent of involvement in institutions and conferences dedicated to achieving the Genoa commitments, France's contribution has been largely rhetorical in nature. There is little evidence of bureaucratic review, or a reallocation of funds towards achieving the stability that is desired in the international financial system. Furthermore, legislation has not been changed to reflect France's commitment to international financial stability. French Minister of Economy, Finance, and Industry Laurent Fabius has indicated that the paramount economic priority for France will be the reduction of the national deficit in order to meet standards outlined by the EU. Consequently, compliance has not been fully achieved in the period since the Genoa Summit.

Germany: 0

The German government has reiterated its firm belief that the international financial architecture requires increased flexibility to meet the needs of an ever-changing system. The German government has been supporting its domestic institutions in allotting more attention to these underlying issues. In addition to domestic contributions aimed at achieving their commitment, the German government has also been involved in a number of group-wide declarations and commitments that further strengthen their resolve. On April 20, 2002 the G-7 Finance Ministers and Central Bank Governors adopted an integrated Action Plan to increase predictability and reduce uncertainty regarding official policy actions in the emerging markets by utilizing a market oriented approach. This Action Plan is part of an overall endeavor whereby the sovereign debt of all countries would ultimately be investment grade; a rating that every country could eventually achieve with the right policies. This would ultimately serve to create the conditions for sustained growth of private investment in emerging markets while helping to raise living standards of the people in emerging economies. In addition, the Finance Ministers and Central Bank Governors of the G10 countries met in Washington D.C. on 21 April 2002. They agreed that an improved assessment of debt sustainability was essential for developing a more rigorous analytic basis for making key judgements. In that context, they noted that assessments of debt sustainability had to be forward-looking and dynamic, and needed to take into account factors such as economic policies, public and private sector deficits, interest rates, and economic growth.

Similar to France, Germany's individual contribution to the commitment has been rhetorical in nature. There is little, if any, evidence of a bureaucratic review, or any physical allocation of resources towards achieving the commitments made at Genoa. Consequently, compliance has not been fully achieved. Instead, in the year since Genoa, German Finance Minister Hans Eichel has placed more attention on the internal domestic state of the German economy.

Italy: 0

Actions by the Italian government since Genoa would suggest that Italy has honoured its commitment to the strengthening of the international financial system through a number of different initiatives. There has been official reaffirmation of the commitment in various fora, including the meetings of the International Monetary Financial Committee, as well as meetings at the ministerial level in preparation for the Kananaskis summit. Furthermore, Italy has supported a multi-donor initiative aimed at encouraging diverse financial sectors in developing countries that was launched at the end of April. The Financial Sector Reform and Strengthening (FIRST) Initiative will complement and support other donor activities in strengthening national financial sectors through highly targeted, responsive projects proposed to it directly by developing countries and their advisors. Giorgio Leccesi, the director of the Ministry of Economy and Finance, represented Italy at the CIS-7 conference held earlier in the year, which launched an initiative to assist the seven low-income countries of the Commonwealth of Independent States - Armenia, Azerbaijan, Georgia, the Kyrgyz Republic, Moldova, Tajikistan, and Uzbekistan - accelerate poverty reduction and economic growth, while ensuring sustainable fiscal and external debt positions. Italy has also reformed legislation allowing for increased involvement of the private sector through a program offering bonds exchangeable for shares in privatized companies. Italy was also involved in the creation of a G7 action plan for a framework that will help prevent financial crises in emerging markets through obligating lenders to agree to restructuring efforts under "collective action" clauses. However, there has yet to be progress in achieving a distinct framework for private sector involvement in the international financial architecture, which has not been developed at this time.

Japan: -1

Japan has not moved forward significantly in achieving compliance with its commitments from the Genoa Summit. While there have been official reaffirmations of the need for the objectives to be met, internal economic difficulties have prevented Japan from achieving these goals. While Finance Minister Masajuro Shiokawa has stated that Japan's position will remain unchanged with respect to ODA and other development initiatives, the commitment to strengthening the international financial system has diminished in terms of importance. The government has been striving, with increasing difficulty, to fulfill its obligation to the other G8 nations to continue on its path of economic growth as the world's second-largest economy. While there has been advancement in the areas of reforming the banking system and the process of providing international loans, which are both factors that strengthen the international financial system, these are directed at stemming the internal financial crisis which has worsened significantly in recent months. Furthermore, Japan has undertaken a policy of monetary "loosening", aimed at easing deflation and subsequently increasing high and sustainable world economic growth. There has been, however, little advancement in terms of ensuring capital access to emerging markets. Japan, as a member of the financial stability fund created by the G8, has had meetings with Latin American, Eastern European, and Asian countries, however, a concrete plan of action has not emerged from these sessions, and the issue remains open for discussion and speculation. There has been no clear evidence of internal bureaucratic review, or significant budgetary reallocation towards fulfilling the objectives of this commitment.

Russia: N/A

No available information at the time of this assessment.

United States: -1

Following the events of September 11, 2001, the Government of the United States has been primarily involved in the fight against terrorism. A significant amount of work has been done to improve the international financial system in regards to halting the financing of terrorism and terrorist cells. The United States Government has been involved in a number of group-wide declarations and commitments that further strengthen its resolve to transforming the international system into a strong system for international capital markets. This has been accomplished primarily through the G10 April declaration focusing on assessments of debt sustainability, public and private sector deficits, interest rates, and economic growth. The G7 integrated Action Plan, creating the conditions for sustained growth of private investment in emerging markets and helping raise living standards of the people in emerging market countries, has not been met with significant resolve by the United States government. Consequently, compliance has not been fully achieved within this specific issue area.

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