4 November 2011

The Cannes Action Plan for Growth and Jobs

The global economy has entered a new and difficult phase. Global growth has weakened, downside risks have heightened, and confidence has waned. Uncertainty over the sustainability of public debt levels in some advanced economies has increased, and the rebalancing in demand from the public to the private sector and from the external to the domestic sector has not materialized.

- In Europe, sovereign debt risks in some countries have generated a difficult dynamic of rising interest costs and stresses in the banking system, which are now weighing on confidence and real activity in the euro area. Growth in the euro area is now projected to be weaker and unemployment higher.
- In the US, the recovery has been shallower than expected. The desired rebound in private demand has not materialized due to a combination of weak job growth, the ongoing correction in the housing sector and the associated rebuilding of household balance sheets. More certainty and determination over medium-term fiscal consolidation will contribute to the strengthening of growth.
- In emerging markets, there are also clear signs of a slowing in growth as developments in advanced economies begin to weigh on these countries. In some emerging market economies, financial stability and overheating risks remain. The lack of exchange rate flexibility in some countries limits policy options to deal with these risks.

In the face of these challenges, we agree that strengthened international policy cooperation is needed now. We have agreed on an Action Plan to address short-term vulnerabilities and strengthen medium-term foundations for growth.

We are firmly committed to support the recovery, ensure financial stability and restore confidence. Only through collective actions on all of these fronts will we move closer to stronger, more sustainable and balanced growth. Our ultimate objective is to provide more and better jobs for our citizens, to promote social inclusion in all countries, and to foster development and poverty reduction particularly in less developed countries around the globe.

We have met our Seoul commitment to develop indicative guidelines to assess persistently large imbalances. This Action Plan reflects the views of the G20 and draws on the IMF Staff's independent assessments of the root causes of these imbalances and recommended policies to address them.

We hereby commit to decisively pursue the introduction of the following actions without delay.

Addressing Short-term Vulnerabilities and Restoring Financial Stability

We have agreed on a plan to sustain the near-term recovery, promote growth and restore financial stability in a manner that complements our medium-term reforms:

1. We commit to take all necessary actions to preserve the stability of banking systems and financial markets. We will ensure that banks are adequately capitalized and have sufficient access to funding to deal with current risks. Central Banks continue to stand ready to provide liquidity to banks as required.

2. G-20 members agree to implement an appropriate mix of measures to secure the recovery.

   a) Monetary policies will maintain price stability over the medium term and continue to support economic recovery. As warranted by national circumstances, including medium term consolidation plans, monetary policy will respond to changes in economic and financial market conditions subject to their likely impact on the medium-term outlook for price developments.

   b) Advanced countries, taking into account different national circumstances, will adopt policies to build confidence and support growth, and implement clear, credible and specific measures to achieve fiscal consolidation, including as set out in the country specific commitments below.

   c) Governments in the euro area commit to take all necessary measures and actions needed to ensure the stability of the euro area and have adopted a comprehensive package. (i) After having decided to flexibilise the EFSF instruments on the 21 July 2011, the 26 October euro area Summit agreed on a substantial leveraging of its resources up to 1 trillion euro. (ii) Euro area countries agreed to significantly strengthen economic and fiscal surveillance and governance of the euro area. (iii) A particular effort in terms of fiscal consolidation and structural reforms will be made by those euro area Member States that are experiencing tensions in sovereign debt markets. (iv) An exceptional solution was found to ensure the sustainability of the Greek public debt through a rigorous adjustment programme and a voluntary nominal discount on Greek debt held by private investors. (v) Last, a comprehensive set of measures to raise confidence in the banking sector has been agreed, including by facilitating access to term-funding where appropriate and temporarily increasing the capital position of large banks to 9%

of Core Tier 1 capital after accounting for sovereign exposures by the end of June 2012, while maintaining the credit flow to the real economy and ensuring that these plans will not lead to excessive deleveraging.

d) Italy commits to reaching a rapidly declining debt-to-GDP ratio starting in 2012 and close to a balanced budget by 2013. This objective, based on the full implementation of the 60 billion euro fiscal package approved during the summer, will be underpinned by the strengthening of the fiscal rules, stemming from both the European legislation and the introduction in the constitution of the balanced budget rule. Italy commits to implement, fully and swiftly, the comprehensive plan of growth enhancing structural reforms announced on October 26th. We support the measures presented by Italy in the Euro Summit and the agreed detailed assessment and monitoring by the European Commission. In this context, we welcome Italy's decision to invite the IMF to carry out a public verification of its policy implementation on a quarterly basis.

e) The US commits to the timely implementation of a package of near-term measures to sustain the recovery, through public investments, tax reforms, and targeted jobs measures, consistent with a credible plan for medium-term fiscal consolidation.

f) Japan commits to the expeditious implementation of substantial fiscal measures for reconstruction from the earthquake estimated at least 19 trillion yen (about 4% of GDP), while ensuring the commitment to medium-term fiscal consolidation.

g) Australia, Brazil, Canada, China, Germany, Korea and Indonesia, where public finances remain relatively strong, taking into account national circumstances, agree to let automatic fiscal stabilisers work and, should global economic conditions materially worsen, agree to take discretionary measures to support domestic demand as appropriate, while maintaining their medium-term fiscal objectives.

h) Emerging market economies commit to adopting macroeconomic policies to enhance the resilience of their economies and those in surplus will adopt macroeconomic policies to move towards more domestic-led growth, thus supporting the global recovery and financial stability.

3. We affirm our commitment to move more rapidly toward market-determined exchange rate systems and enhance exchange rate flexibility to reflect underlying fundamentals and refrain from competitive devaluation of currencies. The actions above should help address challenges created by developments in global liquidity and capital flow volatility, thus facilitating further progress on exchange rate reforms and reducing excessive accumulation of reserves. We welcome the recent changes to Russia’s foreign exchange regime to allow the rouble to move more in line with market forces and China’s determination to increase exchange rate flexibility consistent with underlying market fundamentals.

4. We recognize the special circumstances of large commodity producers in terms of reserve accumulation.
5. In all policy areas, we commit to minimize the negative spillovers on other countries of policies implemented for domestic purposes. We reaffirm our shared interest in a strong and stable international financial system, and our support for market-determined exchange rates. We reiterate that excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability.
6. We commit that the IMF must have adequate resources to fulfill its systemic responsibilities.

Strengthening the Medium-term Foundations for Growth

We have agreed that the actions to address immediate risks to recovery must be complemented by sustained, broad-based reforms to boost confidence, raise global output and create jobs.

We have agreed to a six-point plan to strengthen the medium-term foundations for growth: (1) commitments to fiscal consolidation; (2) commitments to boost private demand in countries with current account surpluses, and, where appropriate, to rotate demand from the public to the private sector in countries with current account deficits; (3) structural reforms to raise growth and enhance job creation across G-20 members; (4) reforms to strengthen national/global financial systems; (5) measures to promote open trade and investment, rejecting protectionism in all its forms; and (6) actions to promote development. Annex provides detailed policy commitments by all members, with the key actions summarised below:

1. Specific and concrete fiscal consolidation plans are essential to put public finances on a credible and sustainable track, and are key to reducing current account deficits (raising national savings), which will further promote global rebalancing in a number of large countries.
   a) Australia, Canada, France, Germany, Italy, Korea, Spain, the UK, and the US reaffirm their Toronto commitment to clear and credible fiscal consolidation plans to halve deficits by 2013 from 2010 levels, and stabilise or reduce government debt-to-GDP ratios by 2016. These plans will be robust to a range of economic outcomes, informed by prudent economic assumptions and, in some cases, reinforced with fiscal rules that take into account the economic cycle. In particular:
      - The United States commits to place its debt-to-GDP ratio on a declining path no later than the middle of the decade through a balanced deficit reduction plan that builds on the Budget Control Act of 2011, which enacted about $1 trillion in discretionary savings over the next ten years and locked in at least an additional $1.2 trillion in deficit reduction beyond that. The plan will include: additional spending reductions,

among them reforms to entitlement programs; tax reform that raises revenue, lowers rates, and cuts tax loopholes and expenditures; and stronger budgetary rules to enhance predictability and credibility. In combination with the Budget Control Act, these reforms will yield a total deficit reduction of $4 trillion over 10 years.

- France commits to reducing its fiscal deficit to 3% in 2013 through: tighter limits on central government and health insurance expenditure; better targeted social transfers; a growth-friendly reduction of tax expenditures; and the inscription of existing fiscal rules into the Constitution to anchor stability.
- The UK reaffirms its commitment to its planned fiscal consolidation and the detailed four-year departmental expenditure plans set out in the 2010 Spending Review. It will also undertake structural reforms, including measures to ensure growth-friendly fiscal adjustment and measures to address long-term spending pressures and imbalances, such as managing future increases in the state pension age more systematically in response to changes in longevity.

b) Japan commits to implementing the “Definite Plan for the Comprehensive Reform of Social Security and Tax” which sets out policies including the gradual increase in the consumption tax to 10% by the middle of this decade and to submitting implementing legislation by the end of FY2011 to realise these policies, in order to meet its Toronto commitment.

c) India commits to strengthening revenue mobilization through tax reforms, including a unified goods and services tax, and overhauling the personal and corporate tax code.

2. Countries with large current account surpluses and those with relatively weak private demand will play an important role in rebalancing and sustaining global demand.

   a) Germany will implement measures to promote private consumption and investment, with the expectation that, expressed as a share of GDP, both components will increase over time. Germany commits to taking measures aimed at strengthening domestic demand, including by alleviating inefficiencies that may underpin low investment and high private savings.

   b) Recognizing that private demand has been relatively weak in recent years, Japan will implement measures to promote private consumption and investment with the expectation that, expressed as a share of GDP, both components will increase over time. This includes accelerating the implementation of the “New Growth Strategy” comprising policies that will boost demand for a range of services

   c) China will rebalance demand towards domestic consumption by implementing measures to strengthen social safety nets, increase household income and transform the economic growth pattern. These actions will be reinforced by ongoing measures to promote greater exchange rate flexibility to better reflect underlying economic fundamentals, and gradually reduce the pace of accumulation of foreign reserves..

d) Other surplus economies recognise that they too have a significant role to play in promoting global rebalancing and commit to encourage private spending (Indonesia, Korea). Indonesia has announced a national plan for infrastructure that will significantly increase private investment.

3. Further progress on structural reforms is critical to raising output in all G-20 countries.

a) Structural reforms will be combined with active, flexible labour market policies and effective labour institutions that provide incentives for increasing formal and quality jobs. Members commit to promote mobility and encourage participation, including tax and benefit reforms to reduce long-term unemployment and encourage the participation of older workers and women where appropriate.

b) Members will enhance competition and reduce distortions. Actions include: infrastructure investment (Brazil, India, Indonesia, Mexico, Saudi Arabia, South Africa); supporting research, education and skills development and eliminating tariffs on machinery and manufacturing inputs (Canada); reform of pricing for factors of production, promote market-based interest rate reform in an orderly manner and gradually achieve RMB capital account convertibility as stated in its current 5-year plan (China); structural reforms in the services sector to boost productivity (France, Germany, Italy, Korea); tax reform aimed at a more employment-friendly taxation (Germany, Italy); raising standards of disclosure of information by financial institutions (Russia); phasing out wasteful and distortive subsidies in the medium term, while providing targeted support for the poor (India, Indonesia); reforms to energy efficiency and greater use of renewable and domestic energy resources (Turkey), agriculture (Argentina); ; enhanced regional integration to promote trade and investment (South Africa); improved practices and enhanced oversight of the short-term financing markets and reforms to help promote a rise in household savings as a share of GDP (US); transitioning to a clean energy economy through effective carbon price mechanism (Australia) and, efforts to promote green growth (Korea).

c) The EU is fully committed to accelerate and further deepen the Single Market integration through a comprehensive programme based on twelve key priority actions to boost growth. These include actions in the areas of services, trans-European networks, the digital single market, workers' mobility, financing for small and medium-sized enterprises and taxation. In the framework of the 'Europe 2020' strategy, the EU adopted several targets for 2020: to raise to 75% the employment rate for those aged 20-64, to improve the education levels, and to raise the share of public and private investment levels in R&D to 3% of EU's GDP.

d) We recognize the importance to the global economic recovery of maintaining stability in international oil markets, at a level consistent with global economic growth, as well as increasing transparency of energy policies in all countries.

e) Saudi Arabia is committed to continue playing its systemic role in stabilizing the oil markets in support of the global economy**.**

4. We commit to the full and timely implementation of the financial sector reform agenda agreed up through Seoul, including: implementing Basel II, II.5 and III along the agreed timelines; more intensive supervisory effort; clearing and trading obligations for OTC derivatives; standards and principles for sounder compensation practices, achieving a single set of high quality global accounting standards; a comprehensive framework to address the risks posed by systemically-important financial institutions; and, strengthened regulation and oversight of shadow banking. We endorsed the joint IMF/WB/FSB report on financial stability issues in emerging markets and developing economies.

5. We reaffirm our commitment to resist protectionism in all forms, rectify WTO inconsistent measures and advance the multilateral trade agenda, as agreed in Toronto.

6. While reducing barriers to trade and investment will help reduce the development gap and support progress towards the Millennium Development Goals, further efforts to support capacity building and channelling of surplus savings for growth-enhancing investments in developing countries, including infrastructure development, would also have positive spillovers for global growth, rebalancing and development.

   a) Improved market access for least developed countries should be complemented with a strengthening of trade facilitation, trade finance and aid-for-trade programs to enhance their trade capacity.

   b) Developing countries have the potential to contribute to stronger and more balanced global growth and should be viewed as markets for investment, especially in infrastructure. We welcome the MDBs Infrastructure Action Plan and the HLP recommendations. It is important to ensure adequate flows of official financing for development as well as to promote innovative approaches that leverage private capital.

We will also hold ourselves accountable for meeting our commitments to address near-term vulnerabilities and move ahead on reforms (see Annex). We will enhance our reporting and monitoring in 2012 and future years, developing a framework to assess progress against our commitments for the reform of our fiscal, financial, structural, and monetary and exchange rate, trade and development policies. As agreed in Seoul, we will continue to use the indicative guidelines as a mechanism to assess progress in rebalancing, and the consistency of fiscal, monetary, financial sector, structural, exchange rate and other policies.

We will continue to coordinate policy in the future as economic conditions evolve. Our Framework for Strong, Sustainable and Balanced Growth is not a point in time exercise, but a dynamic process to adjust to developments.

We ask our Finance Ministers to work closely together in the coming months to address vulnerabilities and sustain recovery.