



Shifting from currency to current account management – a new proposal at the coming G20

Overview

G20 is to be held on the 11th and 12th of November in Seoul, South Korea. We do not expect G20 to produce enforcing measures, but we do expect the leaders to reach a common understanding, as revealed by the preparatory work of finance ministers and central bankers in Gyeongju, Korea last weekend, on important and strategic issues, such as “no winner in the currency war”, “global cooperation is still required to prevent the double dip”, reform of IMF. Four key issues are likely to be discussed at the coming G20.

- Rebalance global imbalance. Currency war is not a solution, the proposal of shifting from currency to current account is a new leading trend. Managing the ratio of the current account to GDP within the band of 4% is supported by the US and China. G20 will also propose to IMF to coordinate the MAP (Mutual Assessment Program) and the peer to review national economic policies of the G20 countries. The IMF “spillover assessment” will play a crucial role in this domain.
- Ensure ongoing global economic recovery. There is a need to support demand in the short term, but also to consolidate fiscal policy in the medium term. The G20 will probably focus on priorities of the different countries and put forward aggressive and lax policies. The G20 will validate the growing divergence of cycles and policies.
- Strengthen the international financial regulatory system. Currently, the global banks do make efforts to reform, and progresses are clearly visible with the work of Basel III and FSB, but the government authorities and the central banks are the less disciplined ones. Given the exposure of banks to government bonds and liquidity, banks could be weakened in the future because of the current behaviors of the government authorities.
- Reform the international financial institutions. A key issue will be the increase and reallocation of IMF quotas and voting rights, following the engagements of Pittsburgh and Toronto, at the cost of the European countries and to the benefits of the BRIC countries. Besides the reform of quotas, the composition of the executive board of IMF will also be reformed. The meeting of Gyeongju showed an even more ambitious approach of the G20 for this part, with a possible doubling of IMF quota, and 6 % of them being reallocated to emerging countries, instead of 5% as previously envisaged.

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	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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