GLOBAL ECONOMY

G20 agrees on criteria for IMF scrutiny of countries

By Chris Giles in Washington

Published: April 15 2011 22:09 | Last updated: April 16 2011 00:16

Finance ministers and central bank governors of the world's most important economies agreed on Friday the criteria by which they would assess whether countries should receive special scrutiny by the **International Monetary Fund.**.

The **Group of 20**, meeting in Washington, see this move as a small step to trying to resolve global economic imbalances, which contribute to overheating in emerging economies and persistent unemployment in the developed world.

The difficult policy decisions needed to resolve imbalances, such as greater currency flexibility in emerging markets, have been put off until the autumn, and there was no sign that a meeting of minds was any closer.

The G20 has also discussed progress on financial reforms for large and systemically important financial institutions and the international monetary system, but no decisions were taken on Friday.

Christine Lagarde, French finance minister, said the package of "indicative guidelines" agreed "keeps the momentum in the G20 process and moves forward the priorities of the French presidency".

G20 officials said the list of countries requiring further examination – not published – would include all large and important economies and those which account for more than 5 per cent of G20 output.

That list would include the US, **China**, **Japan**, Germany, France and Britain individually, but also the eurozone as a bloc. Other countries are also expected to be on the list given large public or private debt levels or large external surpluses.

The examination will be undertaken by the International Monetary Fund and will compare the country's public debt and deficits, and external balances against others in the G20, historical norms and economic theory to see whether policy action was required.

Professor Eswar Prasad, of Cornell University, said the G20's agreement will help the IMF hold countries' feet to the fire and "it will be interesting to see how much the major G20 economies push back when the IMF does hold their feet to the fire".

There was no new enforcement mechanism envisaged to ensure countries complied with any recommendations, Ms Lagarde conceded, but added that she hoped the process would foster "goodwill" among national leaders to do the right thing.

Although there was little rancour in the latest G20 attempt to address global imbalances, there was no sign of any agreement on the substantive issues.

The US has hardened its stance on China's managed currency. European finance ministers also point out the renminbi has depreciated against the euro even as it has modestly appreciated against the dollar. China insisted on Friday that it will not be rushed into increasing the flexibility of its exchange rate.