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G20 insists eurozone must help itself

By Robin Harding and Adam Thomson in Mexico City

The G20 has a mixed record in successful co-ordination of global economic policy but there was robust agreement on one point at this weekend's meeting of finance ministers in Mexico City: the rest of the world would not stump up extra money for the International Monetary Fund until the eurozone did more to help itself.

That view was so widely held among non-eurozone countries going into the meeting, including the US, the UK and Japan, that the drafting of a communiqué was unusually smooth. A rough first draft was agreed at midnight on Saturday – a time when most G20 negotiations are only just getting started.

But the price of a quiet weekend for international finance ministers, many of whom did not stick around in Mexico City for more than 24 hours, was a limit to their ambitions. The communiqué says the G20 will consider providing extra funds to the IMF in April depending on how much the eurozone has done to boost its own defences against financial contagion in the meantime.

"The message from the rest of the G20 to Europe is clear. Europe must put up more money and take other measures to strengthen its own defences. Otherwise, the rest of the world will not boost the IMF's capacity to help Europe," said Eswar Prasad, professor of trade policy at Cornell University and former head of the IMF's China division.

The G20 did make some progress on how to increase IMF resources. If extra money is agreed in April it will take the form of bilateral loans to the fund, rather than a general capital increase that would need a lengthy and contentious negotiation about quotas and voting power. A range of other options – such as creating a special purpose vehicle to channel international support to Europe – has been put on ice.

The communiqué singled out higher oil prices as a risk to the global economy but welcomed "the commitment by producing countries to continue to ensure adequate supply".

“On Iran and oil, I had a series of encouraging conversations with countries planning to significantly reduce imports from Iran,’ said Timothy Geithner, US Treasury secretary. “We are working together to help ensure that there are alternative sources of oil from major producers to help offset reductions in exports from Iran, and here too, I am encouraged.”

The mood in Mexico City was more upbeat, compared with the last time the G20 finance ministers gathered in Cannes, because of an improvement in global economic data.

“We welcome the important progress made by Europe in recent months,” noted the communiqué. “Substantial policy actions have taken place since our last meeting, and recent economic developments point to the continuation of a modest global recovery and an easing in global financial market stress.”

But it continued: “Nevertheless, growth expectations for 2012 are moderate and downside risks continue to be high.” The communiqué warned of structural problems, insufficient global rebalancing, and high levels of public and private debt.

The focus on the eurozone meant that the G20 had little time to work on long-term issues of global economic governance, which Mexico has pledged to make a primary goal of its G20 presidency.

“The exigencies of coping with the eurozone debt crisis have decisively shifted the focus of the G20 away from longer-term issues, including reforms of the global financial regulatory framework and the international monetary system,” said Mr Prasad.