

## 2019 G20 Osaka Summit Interim Compliance Report

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“The University of Toronto ... produced a detailed analysis to the extent of which each G20 country has met its commitments since the last summit ... I think this is important; we come to these summits, we make these commitments, we say we are going to do these things and it is important that there is an organisation that checks up on who has done what.”

— *David Cameron, Prime Minister, United Kingdom, at the 2012 Los Cabos Summit*

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## 2. Macroeconomics: Exchange Rates

“We also reaffirm the exchange rate commitments made by our Finance Ministers and Central Bank Governors in March 2018.”

*G20 Osaka Leaders’ Declaration*

### Assessment

	No Compliance	Partial Compliance	Full Compliance
Argentina			+1
Australia			+1
Brazil			+1
Canada			+1
China	-1		
France			Not applicable
Germany			Not applicable
India			+1
Indonesia			+1
Italy			Not applicable
Japan			+1
Korea			+1
Mexico			+1
Russia			+1
Saudi Arabia		0	
South Africa			+1
Turkey			+1
United Kingdom			+1
United States			+1
European Union			+1
Average		+0.82 (91%)	

### Background

The issue of exchange rate flexibility has been on the G20 agenda since the establishment of the forum, and commitments to move toward more market-determined exchange rate systems have been reiterated at almost each G20 summit.

At the 2009 Pittsburgh Summit, G20 leaders committed under the G20 Framework for Strong, Sustainable and Balanced Growth to “undertake monetary policies consistent with price stability in the context of market oriented exchange rates that reflect underlying economic fundamentals.”<sup>552</sup> At the 2010 Toronto Summit, the leaders decided to further enhance exchange rate flexibility, particularly in emerging markets, and mentioned that “market-oriented exchange rates that reflect underlying economic fundamentals contribute to global economic stability.”<sup>553</sup> At the 2010 Seoul Summit, G20 leaders agreed to the Seoul Action Plan, which provided for a move towards more market-determined exchange rates.<sup>554</sup> At the 2011 Cannes Summit, G20 leaders considered exchange

<sup>552</sup> G20 Leaders Statement: The Pittsburgh Summit, G20 Information Centre (Toronto) 25 September 2009. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2009/2009communiqué0925.html>

<sup>553</sup> G20 Toronto Summit Declaration, G20 Information Centre (Toronto) 27 June 2010. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2010/to-communiqué.html>

<sup>554</sup> G20 Seoul Summit Leaders’ Declaration, G20 Information Centre (Toronto) 12 November 2010. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2010/g20seoul.html>

rate volatility as “a risk to growth and financial stability” and renewed their Seoul Summit commitment to avoid persistent exchange rate misalignments and to refrain from competitive devaluation.<sup>555</sup> At the 2012 Los Cabos Summit, G20 leaders reiterated their exchange rates commitment and welcomed the commitment by China to “allow market forces to play a larger role in determining movements in the renminbi (RMB), continue to reform its exchange rate regime, and to increase the transparency of its exchange rate policy.”<sup>556</sup> At St. Petersburg, the commitment was renewed in virtually the same form.<sup>557</sup> The previous G20 exchange rate commitments were reiterated at Antalya,<sup>558</sup> Hangzhou,<sup>559</sup> Hamburg<sup>560</sup> and Buenos Aires.<sup>561</sup>

### **Commitment Features**

This commitment refers to the communiqué of the G20 finance ministers’ and central bank governors’ meeting held on 19-20 March 2018 in Buenos Aires, Argentina. The communiqué stated that “flexible exchange rates, where feasible, can serve as a shock absorber. We recognise that excessive volatility or disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will refrain from competitive devaluations, and will not target our exchange rates for competitive purposes.”<sup>562</sup>

Thus, the commitment requires G20 members to allow the value of their currencies to be flexible in order to serve as a shock absorber. Market-determined exchange rate or a floating exchange rate is an exchange rate that is determined by market forces with minimal government or central bank interference affecting the value of the currency. In a pure float there is no government or central bank intervention at all in the foreign exchange market, leaving the value of the currency subject entirely to market forces.<sup>563</sup>

At the same time, commitments on exchange rates flexibility in the G20 documents always go along with promises to refrain from competitive devaluation and not to target exchange rates for competitive purposes. Refraining from competitive devaluation is one of the aspects of flexible exchange rate regime. Competitive devaluation, often referred to as a currency war, is a policy involving measures taken by national governments to decrease the value of their currencies in order to increase exports, boost growth and domestic employment, or avoid deflation. Thus, competitive devaluation can be considered as an action aimed against the market-determined exchange rate goal. G20 members should achieve market-determined flexible exchange rates by refraining from interference with the price of their currencies, including competitive devaluation attempts.

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<sup>555</sup> Cannes Final Declaration, G20 Information Centre (Toronto), 4 November 2011. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2011/2011-cannes-declaration-111104-en.html>

<sup>556</sup> G20 Leaders Declaration Los Cabos, G20 Information Centre (Toronto) 19 June 2012. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2012/2012-0619-loscabos.html>

<sup>557</sup> G20 Toronto Summit Declaration, G20 Information Centre (Toronto) 27 June 2010. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2010/to-communiqué.html>

<sup>558</sup> G20 Leaders’ Communiqué Antalya, G20 Information Centre (Toronto) 20 November 2015. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2015/151116-communiqué.html>

<sup>559</sup> G20 Leaders’ Communiqué Hangzhou, G20 Information Centre (Toronto) 5 September 2016. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2016/160905-communiqué.html>

<sup>560</sup> G20 Leaders’ Declaration Hamburg, G20 Information Centre (Toronto) 8 July 2017. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2017/2017-G20-leaders-declaration.html>

<sup>561</sup> G20 Leaders’ Declaration Buenos Aires, G20 Information Centre (Toronto) 1 December 2018. Access Date: 4 April 2020. <http://www.g20.utoronto.ca/2018/2018-leaders-declaration.html>

<sup>562</sup> Communiqué, Finance Ministers and Central Bank Governors (Buenos Aires), Centre for International Institutions Research (Moscow) 20 March 2018. Access Date: 4 April 2020. [https://www.ranepa.ru/images/media/g20/2018buenosaires/communiqué\\_g20\\_finance\\_2018.pdf](https://www.ranepa.ru/images/media/g20/2018buenosaires/communiqué_g20_finance_2018.pdf)

<sup>563</sup> Floating Exchange Rate, Cory Mitchell, Investopedia, 9 April 2020. <https://www.investopedia.com/terms/f/floatingexchangerate.asp>

**Scoring Guidelines**

-1	G20 member does not move toward a more flexible and market-determined exchange rate.
0	G20 member moves toward a more market-determined exchange rate and exchange rate flexibility, but fails to refrain from competitive devaluation of its currency.
+1	G20 member moves toward a more market-determined exchange rate and exchange rate flexibility, including by refraining from competitive devaluation of its currency.

*Centre for International Institutions Research*

**Argentina: +1**

Argentina has fully complied with the commitment on exchange rate flexibility.

On 1 September 2019, Argentina imposed currency controls in an attempt to stabilise markets as the country faces a deepening financial crisis. The government restricted foreign currency purchases following a sharp drop in the value of the peso. Firms will have to seek central bank permission to sell pesos to buy foreign currency and to make transfers abroad.<sup>564</sup>

On 27 January 2020, Argentina’s central bank released policy guidelines aimed at increasing the monetary supply and avoiding major exchange rate fluctuations. The bank said in a statement that it supported a managed exchange rate float to avoid sharp fluctuations in the value of the currency. The monetary policy should promote a “prudent expansion” of the monetary supply, the bank said.<sup>565</sup>

Argentina has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Irina Popova*

**Australia: +1**

Australia has fully complied with the commitment on exchange rate flexibility.

According to the Reserve Bank of Australia Annual Report 2019, the last time the bank intervened in foreign exchange markets was in 2008.<sup>566</sup>

Australia refrained from competitive devaluation of its currency.

Thus, it is awarded a score of +1.

*Analyst: Andrei Sakharov*

**Brazil: +1**

Brazil has fully complied with the commitment on exchange rate flexibility.

<sup>564</sup> Argentina imposes currency controls to support economy, BBC (London) 2 September 2019. Access date: 20 May 2020. <https://www.bbc.com/news/business-49547189>

<sup>565</sup> More money, managed float: Argentina central bank draws policy guidelines, Reuters (Buenos Aires) 28 January 2019. Access date: 20 May 2020. <https://www.reuters.com/article/us-argentina-cenbank/more-money-managed-float-argentina-central-bank-draws-policy-guidelines-idUSKBN1ZQ2JC>

<sup>566</sup> Operations in Financial Markets, Reserve Bank of Australia (Canberra) 16 October 2019. Access Date: 17 May 2020 <https://www.rba.gov.au/publications/annual-reports/rba/2019/pdf/operations-in-financial-markets.pdf>.

The Brazilian economy operates with a floating exchange rate regime and, consistent with the inflation-targeting regime, the Central Bank of Brazil does not intervene in the foreign exchange market to determine the exchange rate level. Nonetheless, the bank pursues the permanent and functionality of the foreign exchange market, and may intervene to reduce excessive volatility by offering foreign exchange hedge or liquidity to market agents by means of several instruments.<sup>567</sup>

Brazil refrained from competitive devaluation of its currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

**Canada: +1**

Canada has fully complied with the commitment on exchange rate flexibility.

According to the information on the Bank of Canada official website the last time the bank intervened in foreign exchange markets to affect movements in the Canadian dollar was in September 1998. Canada's current policy is to intervene in foreign exchange markets on a discretionary, rather than a systematic, basis and only in the most exceptional of circumstances.<sup>568</sup>

Canada refrained from competitive devaluation of its currency.

Thus, it is awarded a score of +1.

*Analyst: Andrei Sakharov*

**China: -1**

China has not complied with the commitment on exchange rate flexibility.

China maintains strict control of the renminbi's rate on the mainland. Every morning, the People's Bank of China sets a so-called daily midpoint fix, based on the previous day closing level and quotations taken from inter-bank dealers. The currency is allowed to trade within a narrow band of 2 per cent above or below the day's midpoint rate.<sup>569</sup>

No evidence of China taking steps towards more flexible exchange rates was found within the monitoring period.

Thus, China receives a score of -1.

*Analyst: Alexander Ignatov*

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<sup>567</sup> Foreign exchange policy, Central Bank of Brazil (Brasilia). Access date: 20 May 2020. <https://www.bcb.gov.br/en/financialstability/fxpolicy>

<sup>568</sup> Foreign Exchange Intervention, Bank of Canada (Ottawa). Access Date: 17 May 2020. <https://www.bankofcanada.ca/rates/exchange/foreign-exchange-intervention/>.

<sup>569</sup> The yuan hit an 11-year low this week. Here's a look at how China controls its currency, CNBC (Englewood Cliffs) 28 August 2019. Access date: 18 May 2020. <https://www.cnbc.com/2019/08/28/china-economy-how-pboc-controls-the-yuan-rmb-amid-trade-war.html>

**France: Not applicable**

France is a member of the European Monetary Union. All the decisions concerning monetary policy and exchange rates are made by the European Central Bank. Thus, France is not assessed on the implementation of this commitment.

*Analyst: Irina Popova*

**Germany: Not applicable**

Germany is a member of the European Monetary Union. All the decisions concerning monetary policy and exchange rates are made by the European Central Bank. Thus, Germany is not assessed on the implementation of this commitment.

*Analyst: Andrey Sbelepor*

**India: +1**

India has fully complied with the commitment on exchange rate flexibility.

The exchange rate of the rupee along with other major currencies such as US dollar, euro, and yen are published by the Reserve Bank of India on a monthly and daily basis. The spot exchange rate specifies how much the rupee is equivalent to a unit of the specified currency. The rupee followed a pegged exchange rate system until 1991, after which it shifted to a floating exchange rate system.<sup>570</sup>

India has refrained from competitive devaluation of its currency and has a free-floating exchange rate for its national currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

**Indonesia: +1**

Indonesia has fully complied with the commitment on exchange rate flexibility.

Bank Indonesia decided in 2005 to adopt the inflation targeting framework, in which inflation is the primary monetary policy objective, while adhering to the free floating exchange rate system. Exchange rate stability plays a crucial role in achieving price and financial system stability. For this reason, Bank Indonesia also operates an exchange rate policy designed to minimise excessive rate volatility, rather than to peg the exchange rate to a particular level.<sup>571</sup>

Indonesia refrained from competitive devaluation of its currency and has a free-floating exchange rate for its national currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

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<sup>570</sup> Reserve Bank of India (Delhi). Access date: 19 May 2020.  
<https://www.rbi.org.in/SCRIPTs/PublicationsView.aspx?id=17985>

<sup>571</sup> Monetary Policy Objectives, Bank of Indonesia (Jakarta). Access date: 18 May 2020.  
<https://www.bi.go.id/en/moneter/tujuan-kebijakan/Contents/Default.aspx>

**Italy: Not applicable**

Italy is a member of the European Monetary Union. All the decisions concerning monetary policy and exchange rates are made by European Central Bank. Thus, Italy is not assessed on the implementation of this commitment.

*Analyst: Andrei Sakebarov*

**Japan: +1**

Japan has fully complied with the commitment on exchange rate flexibility.

Japan introduced a floating exchange rate system in February 1973. Since then the Japanese economy has experienced large fluctuations in foreign exchange rates; to mitigate the negative influence of such fluctuations on the Japanese economy, Japan's authorities conduct foreign exchange market interventions as needed. Under Article 7, Section 3 of the Foreign Exchange and Foreign Trade Act of Japan, "the Minister of Finance shall endeavor to stabilize the exchange rate of Japanese currency by taking necessary measures such as the buying and selling of foreign means of payment." The Bank of Japan, as the agent of the Minister of Finance, executes foreign exchange interventions in accordance with the directions of the Minister of Finance by using the Foreign Exchange Fund Special Account. When foreign exchange rate developments are regarded as too volatile and the Minister of Finance decides to conduct an intervention, the Ministry of Finance Forex Division informs the Bank of Japan Forex Division of such decision, and officially announces the total amount of interventions.<sup>572</sup>

Generally, Japan does not apply foreign exchange interventions.

Japan has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Pavel Doronin*

**Korea: +1**

Korea has fully complied with the commitment on exchange rate flexibility.

In December 1997, the daily fluctuation limits for the interbank exchange rate were abolished and, thus, Korea's exchange rate system was shifted to a free-floating system.<sup>573</sup>

Korea refrained from competitive devaluation of its currency and has a free-floating exchange rate for its national currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

**Mexico: +1**

Mexico has fully complied with the commitment on exchange rate flexibility.

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<sup>572</sup> Outline of the Bank of Japan's Foreign Exchange Intervention Operations, Bank of Japan. Access date: 23 March 2020. [https://www.boj.or.jp/en/intl\\_finance/outline/expkainyu.htm/](https://www.boj.or.jp/en/intl_finance/outline/expkainyu.htm/)

<sup>573</sup> Exchange Rate System, Bank of Korea (Seoul). Access date: 19 May 2020. <https://www.bok.or.kr/eng/main/contents.do?menuNo=400186>

The peso's exchange rate system is described as floating, but the Bank of Mexico has a policy of active intervention in the foreign exchange market.<sup>574</sup>

On 10 March 2019, the Bank of Mexico stepped into the foreign exchange market to prop up the peso after the currency plummeted to an all-time low on the back of collapsing global oil prices and fears over the economic impact of coronavirus. The bank said the country's currency commission increased the size of its program of foreign exchange auctions to USD30 billion from USD20 billion to "maintain an orderly operation of the exchange market."<sup>575</sup>

Mexico has refrained from competitive devaluation of its currency and has a free-floating exchange rate for its national currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

**Russia: +1**

Russia has fully complied with the exchange rate commitment.

According to the Bank of Russia, Russia is using a floating exchange rate regime, which implies that the exchange rate of the ruble is not fixed and that there are no pre-established targets for the exchange rate or the pace of its movements. The dynamics of the exchange rate of the ruble are determined by the ratio of the demand for and supply of foreign currency in the foreign exchange market. In normal conditions, the Bank of Russia does not conduct any foreign exchange interventions to influence the exchange rate of the ruble.<sup>576</sup>

Russia has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Andrey Shelepon*

**Saudi Arabia: 0**

Saudi Arabia has partly complied with the commitment on maintaining flexibility of the national currency.

On 4 April 2020, the Saudi Arabian Monetary Authority (SAMA) affirmed its commitment to its exchange rate policy of pegging the Saudi riyal to the US dollar as a strategic choice that supported economic growth in Saudi Arabia for over three decades. Furthermore, SAMA remained committed to maintaining the exchange rate at the official rate of 3.75 riyals to the dollar as an anchor of monetary and financial stability.<sup>577</sup>

Saudi Arabia has not targeted its exchange rate for competitive purposes, however no evidence of Saudi Arabia taking steps toward more flexible exchange rates was found within the monitoring period.

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<sup>574</sup> Mexican Peso, IBanFisrt. Access date: 20 May 2020. <https://ibanfirst.com/currency-reference-centre/mxn/>

<sup>575</sup> <https://www.reuters.com/article/us-mexico-peso/mexico-central-bank-props-up-battered-peso-rates-outlook-uncertain-idUSKBN20W32Q>

<sup>576</sup> Exchange rate regime of the Bank of Russia, Bank of Russia 20 March 2020. Access Date: 15 May 2020. [www.cbr.ru/eng/dkp/exchange\\_rate](http://www.cbr.ru/eng/dkp/exchange_rate).

<sup>577</sup> SAMA Affirms Commitment to Exchange Rate Policy, Saudi Arabian Monetary Authority (Riyadh) 4 April 2020. Access date: 18 May 2020. <http://www.sama.gov.sa/en-us/news/pages/news-557.aspx>

Thus, Saudi Arabia receives a score of 0.

*Analyst: Alexander Ignatov*

**South Africa: +1**

South Africa has fully complied with the exchange rate commitment.

South Africa has a floating exchange rate which is described as “supervised.” The South African Reserve Bank, therefore, reserves the right to intervene on the spot market to influence the value of the rand, mainly against the US dollar.<sup>578</sup>

South Africa has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Alexander Ignatov*

**Turkey: +1**

Turkey has fully complied with the exchange rate commitment.

On 5 December 2020, the Central Bank of the Republic of Turkey (CBRT) published the Monetary and Exchange Rate Policy for 2020 where stated the following:

- The CBRT will continue to implement a floating exchange rate regime;
- Exchange rates are not used as a policy tool under the current regime;
- The supply and demand for foreign exchange are mainly determined by economic fundamentals, the monetary and fiscal policies implemented, international developments and expectations;

The CBRT has no nominal or real exchange rate target. Nevertheless, if the exchange rates deviate significantly from economic fundamentals and exchange rate movements permanently affect price stability or pose risk to financial stability, the CBRT will not remain indifferent to these developments and respond with the instruments at its disposal.<sup>579</sup>

Turkey has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Pavel Doronin*

**United Kingdom: +1**

The United Kingdom has fully complied with the exchange rate commitment.

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<sup>578</sup> South African Rand, iBanFirst. Access date: 18 May 2020. <https://ibanfirst.com/currency-reference-centre/zar/>

<sup>579</sup> Monetary and Exchange Rate Policy for 2020, Central Bank of Turkey (Ankara) 5 December 2019. Access date: 18 May 2020. <https://www.tcmb.gov.tr/wps/wcm/connect/0a520b12-e5de-4948-956a-1a1c4b45b2d0/MonetaryandExchangeRatePolicyfor2020.pdf?MOD=AJPERES>

The Bank of England does not set the exchange rate.<sup>580</sup>

The UK has a market-determined flexible exchange rate, and no facts of competitive devaluation of its currency during the compliance period have been found.

Thus, it receives a score of +1.

*Analyst: Andrey Sheleпов*

**United States: +1**

The United States has fully complied with the commitment on exchange rate flexibility.

No information on the Federal Reserve System's market interventions targeting the exchange rate of the US dollar has been registered during the monitoring period.

The United States has refrained from competitive devaluation of its currency.

Thus, it is awarded a score of +1.

*Analyst: Andrei Sakbarov*

**European Union: +1**

The European Union has fully complied with the commitment on exchange rate flexibility.

Euro has a free-floating exchange rate and no information on the European Central Bank interventions targeting the exchange rate of euro has been registered during the monitoring period.

The European Union refrained from competitive devaluation of its currency.

Thus, it is awarded a score of +1.

*Analyst: Irina Popova*

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<sup>580</sup> Who sets exchange rates?, Bank of England. Access Date: 3 April 2020.  
<https://www.bankofengland.co.uk/knowledgebank/who-sets-exchange-rates>.