1. Macroeconomy: Exchange Rates [40]

Commitment [#40]:
"We will move toward more market-determined exchange rate systems and enhance exchange rate flexibility to reflect underlying economic fundamentals and refrain from competitive devaluation of currencies."

Seoul Summit Document

Assessment:

Country	Lack of Compliance	Work in Progress	Full Compliance
Argentina		0	
Australia			+1
Brazil	-1		
Canada			+1
China		0	
France			+1
Germany			+1
India		0	
Indonesia		0	
Italy			+1
Japan	-1		
Korea	-1		
Mexico			+1
Russia			+1
Saudi Arabia		0	
South Africa		0	
Turkey		0	
United Kingdom		0	
United States		0	
European Union			+1
Average Score	+0.25		

Commitment Features:
This commitment requires G20 member states to avoid devaluing their currencies and instead to allow their markets to have more influence in setting their respective foreign exchange rates. Countries generally devalue their currencies in order to increase exports and domestic employment. The commitment calls for an end to a "currency war," in which countries devalue their currencies and commits the G20 members to promote policies that enhance exchange rate flexibility. Members pledged to be vigilant against excess volatility and disorderly movements in exchange rates.[4] During the Seoul Summit, G20 leaders agreed to the Seoul Action Plan, which promoted a move towards more market-determined exchange rates.[5]

Market-determined exchange rate or a floating exchange rate: An exchange rate with no government or central bank action to keep it stable. In a pure or "clean" float there is no

[4] Asia-Pacific leaders promise to refrain from competitive currency devaluation, Japan Times (Kyodo) 15 November 2010. Date of Access: 25 January 2011. http://search.japantimes.co.jp/cgi-bin/nb20101115a1.html
[5] G20 Leaders Agree to Refrain from 'Devaluing' Currency, Business World (Seoul) 12 November 2010. Date of Access: 27 December 2010. http://www.businessworld.in/bw/2010_11_12_G20_Agree_To_Refrain_From_Devaluing_Currency.html

government or central bank intervention at all in the foreign exchange market, and determination of the exchange rate is left to market forces.[6]

Devaluation: Officially announced lowering in the value of the domestic currency relative to foreign currencies, usually as a means of correcting balance of payment deficit, at least temporarily.[7]

Scoring Guidelines:

-1	Member does not make progress in moving toward a more market-determined exchange rate AND does not refrain from competitive devaluation of its currency.
0	Member makes progress in moving toward a more market-determined exchange rate OR member refrains from competitive devaluation of its currency.
+1	Member moves toward a more market-determined exchange rate AND refrains from competitive devaluation of its currency.

Argentina: 0
Argentina has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Argentina has made progress toward fulfilling its commitment to move toward a market-determined exchange rate system and has refrained from competitive devaluation of its currency.

Since the Seoul Summit in November 2010, Argentina has refrained from competitive devaluation of its currency. It has however intervened in the foreign exchange market and sterilized over USD10.9 billion in funds in an effort to stem the decline of its currency.

The Argentine Central Bank's Inflation Report for the third quarter of 2011 stresses that, in addition to the upward pressure put on domestic prices, rises in raw material prices also lead to higher levels of appreciation of the currencies of emerging countries. It emphasises that the inflow of foreign currency generated by the current commodity boom positions the real exchange rate at an over-appreciated level than that suitable for a successful industrialization process that would ensure full employment levels.[8] It states, "In Argentina, the float regime for the exchange rate has contributed to recreating a suitable environment for the comprehensive development of the various sectors. This policy has allowed the relative value of the local currency to adapt to changes in fundamental macroeconomic variables, restricting external volatility. Furthermore, prudential regulation of short-term capital flows has been an essential tool for moderating exchange rate fluctuations."[9]

The Argentine Central Bank's Inflation Report for the second quarter of 2011 notes, "the Central Bank of Argentina (BCRA) is implementing a monetary and exchange rate policy that, on the one hand, regulates the means of payment and seeks to reduce the exchange rate volatility and, on the

[6] John Black, Nigar Hashimzade, Gareth D. Myles. Oxford Dictionary of Economics. Oxford University Press US, 2009. Page 174.
[7] John Black, Nigar Hashimzade, Gareth D. Myles. Oxford Dictionary of Economics. Oxford University Press US, 2009. Page 115
[8] Inflation Report – Third Quarter 2011, [Argentina] August 2011. Date of Access: September 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 3rd Quarter of 2011 → Click See
[9] Inflation Report – Third Quarter 2011, [Argentina] August 2011. Date of Access: September 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 3rd Quarter of 2011 → Click See

other, promotes international reserves accumulation, with the purpose of deepening monetization levels and bank lending."[10]

This policy involves the use of sterilization of capital inflows through the sale of bonds and other financial instruments; in the second quarter of 2011, the Argentine Central Bank sterilized over USD10.9 billion in funds to balance currency supply and demand.[11]

The report however specifies that the Argentine Central Bank has avoided using nominal appreciation of the peso to counterbalance inflationary pressure from rising commodity and food prices, due to potential macroeconomic consequences.[12] The report noted that Argentina, like many Latin American economies, faces a dilemma with respect to using monetary policy to counteract inflationary pressure, since increased interest rates might attract speculative and destabilizing capital inflows.[13]

Thus Argentina has been awarded a score of 0 for partially complying with its commitment to move toward a more market-determined exchange rate and refrain from competitive devaluation of its currency.

Analysts: Krystel Montpetit and Nayma Hasan

Australia: +1

Australia has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. It has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

On 5 May 2011, the Reserve Bank of Australia (RBA) released a Statement on Monetary Policy. The central bank stated that further tightening of monetary policy is "likely to be required at some point for inflation to remain consistent with the 2-3 per cent medium-term target." The RBA announced that it would prepare for the expected "challenging" economic environment by setting policy to ensure a continuation of the low and stable inflation that has made an important contribution to Australia's strong economic performance over the past two decades.[14] The RBA has kept the cash rate on hold at 4.75 per cent since it was last raised by a quarter of a percentage point in November 2010.[15]

[10] Inflation Report – First Quarter 2011, Central Bank of Argentina (Buenos Aires) March 2011. Date of Access: March 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 2nd Quarter of 2011 → Click See.

[11] Inflation Report – First Quarter 2011, Central Bank of Argentina (Buenos Aires) March 2011. Date of Access: March 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 2nd Quarter of 2011 → Click See.

[12] Inflation Report – First Quarter 2011, Central Bank of Argentina (Buenos Aires) March 2011. Date of Access: March 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 2nd Quarter of 2011 → Click See.

[13] Inflation Report – First Quarter 2011, Central Bank of Argentina (Buenos Aires) March 2011. Date of Access: March 30th 2011. http://www.bcra.gov.ar/index_i.htm → Click Inflation Report → Select: 2nd Quarter of 2011 → Click See

[14] Statement on Monetary Policy: Overview. Reserve Bank of Australia (Canberra) 3 February 2011. Date of Access: 10 April 2011. http://www.rba.gov.au/publications/smp/2011/may/pdf/overview.pdf

[15] Dollar higher, bonds weaker at noon. Herald Sun. 13 May 2011. Date of Access: 15 May 2011. http://www.heraldsun.com.au/business/australian-dollar/dollar-higher-bonds-weaker-at-noon/story-fn7j1bhl-1226055354369

Thus Australia has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Ivana Jankovic and Kenson Tong

Brazil: -1

Brazil has not complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Brazil has not made progress in moving toward a more market-determined exchange rate and has not refrained from competitive devaluation of its currency.

In the past year, Brazil has taken active policy action to slow the appreciation of the real by using capital controls to protect itself from large capital inflows and overvalued exchange rates.

On 23 September 2011, Finance Minister Guido Mantega said in Washington that the government was not planning for now to withdraw measures it took earlier this year that aim to tamper the upward pressures on the real including a tax imposed on some currency derivatives transactions, which is known as the IOF. "The IOF is one of those, we introduced it, then we can take it away when it's no longer needed. We are always looking at all the possibilities, but there is no decision," said Mantega.[16]

On 21 September 2011, President Dilma Rousseff urged world leaders to stop manipulating their currencies while attending the United Nations General Assembly in New York. Without mentioning specific countries, President Rousseff said the world needs to prevent countries from influencing the value of their currencies through both expansionary monetary policy and fixed exchange rates.[17]

On 19 September 2011, the Foreign Ministry of Brazil released a statement urging the World Trade Organization to allow its members to protect their industries from trade imbalances prompted by currency fluctuations. The foreign ministry said global rules protecting against unfair trade practices date from when most exchange rates were fixed. Mechanisms including anti-dumping and safeguard mechanisms, as well as retaliation rights, need to be updated to deal with "steep fluctuations in exchange rates."[18]

On 27 July 2011, according to the decree signed by President Rousseff and published in the Official Gazette, the government levied a 1 per cent tax, which might be increased to 25 per cent if needed, on some net dollar positions by investors in the country's futures market. Minister Mantega claimed that these measures were necessary or else "they would have an exchange rate

[16] Brazil Real Gains, Paring Weekly Rout, on Currency Tax Removal Speculation, Bloomberg (New York) 23 September 2011. Date of Access 26 September 2011. http://www.bloomberg.com/news/2011-09-23/brazilian-real-advances-paring-biggest-weekly-sell-off-since-2008-crisis.html

[17] Brazil's Rousseff Urges Nations to Halt Currency War, Bloomberg (New York) 21 September 2011. Date of Access 26 September 2011. http://www.bloomberg.com/news/2011-09-21/brazil-s-rousseff-urges-nations-to-halt-currency-war-1-.html

[18] Brazil Urges WTO to Take Action on Currency Moves as Chinese Imports Surge, Bloomberg (New York) 19 September 2011. Date of Access 26 September 2011. http://www.bloomberg.com/news/2011-09-19/brazil-seeks-wto-talks-on-measures-to-regulate-currency-exchange-rates.html

that would hurt exporters and domestic production." The real fell as much as 2 per cent against the dollar, the largest drop since June 2010, after the announcement.[19]

On 8 July 2011, the Central Bank of Brazil announced in an e-mailed statement that banks have to make non-interest bearing deposits with the central bank equivalent to 60 per cent of short dollar positions that exceed USD1 billion dollars or their capital base, whichever is smaller.[20]

In a 16 April 2011 statement to the International Monetary and Financial Committee in Washington D.C., Brazilian Finance Minister Guido Mantega pointed to advanced economies' expansionary monetary policy and export-driven economic recovery plans as factors that lead emerging economies like Brazil to use capital controls to protect themselves from volatile capital flows and overvalued exchange rates.[21] Minister Mantega insisted that "Brazil, for one, is doing and will continue to do whatever it thinks is necessary and adequate to its circumstances to face the challenges arising from large and volatile capital flows."[22]

On 29 March 2011, the Brazilian government announced an increase – to 6 per cent – in taxes on international bond sales and loans with average minimum one-year maturities.[23]

In January 2011 The Brazilian central bank set reserve requirements for Brazilian banks' holdings of short dollar positions and also purchased dollars in foreign exchange markets for the first time in twenty-one months.[24]

Brazil failed to comply with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Thus Brazil has been awarded a score of -1.

Analyst: Kenson Tong

Canada: +1

Canada has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Canada has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

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[19] Brazil Real Slides as Government Taxes Foreign-Exchange Derivative Trading, Bloomberg (New York) 27 July 2011. Date of Access 26 September 2011. http://www.bloomberg.com/news/2011-07-27/brazil-real-slides-as-government-taxes-foreign-exchange-derivative-trading.html

[20] Brazil Central Bank Moves to Curb Short Dollar Bets and Rein in Real Rally, Bloomberg (New York) 11 July 2011. Date of Access 26 September 2011. http://www.bloomberg.com/news/2011-07-11/brazil-central-bank-moves-to-curb-short-dollar-bets-and-rein-in-real-rally.html

[21] Statement by Mr. Guido Mantega Minister of Finance of Brazil On Behalf of the Constituency comprising Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname and Trinidad and Tobago, International Monetary and Finance Committee (Washington) 14 April 2011. Date of Access 7 June 2011. http://www.imf.org/External/spring/2011/imfc/statement/eng/bra.pdf

[22] Statement by Mr. Guido Mantega Minister of Finance of Brazil On Behalf of the Constituency comprising Brazil, Colombia, Dominican Republic, Ecuador, Guyana, Haiti, Panama, Suriname and Trinidad and Tobago, International Monetary and Finance Committee (Washington) 14 April 2011. Date of Access 7 June 2011. http://www.imf.org/External/spring/2011/imfc/statement/eng/bra.pdf

[23] Brazil Imposes 6% Tax on International Bonds Due to Curb Real Appreciation, Bloomberg (New York) 29 March 2011. Date of Access 7 June 2011. http://www.bloomberg.com/news/2011-03-29/brazil-imposes-6-tax-on-international-bond-sales-to-curb-real-s-advance.html

[24] Brazil Imposes 6% Tax on International Bonds Due to Curb Real Appreciation, Bloomberg (New York) 29 March 2011. Date of Access 7 June 2011. http://www.bloomberg.com/news/2011-03-29/brazil-imposes-6-tax-on-international-bond-sales-to-curb-real-s-advance.html

On 24 September 2011, Canadian Finance Minister Jim Flaherty reiterated Canada's commitment to price stability with talk of expanding the Special Drawing Right (SDR) basket of currencies.[25] Harper said Canadian monetary authorities were only prepared to intervene in the currency market if they deem movements in the currency were contrary to the country's interests and not being driven by actual underlying fundamentals.[26] "We understand there are upward pressures on the Canadian dollar," Harper said. "As long as we think those are economically based, the government is committed to flexible exchanges."[27]

Prime Minister Stephen Harper has however made clear that he is prepared to act to stem the appreciation of his country's currency caused by speculative inflows of capital.[28] He insists that while it is unlikely for Canada to endure an "extreme" capital influx owing to the country's close economic ties to the U.S., the Bank of Canada isn't likely to tolerate any appreciation that undermines the Canadian economy.[29]

On 17 March 2011, the G7 Finance Ministers and Central Bank Governors released a statement to address the dramatic events in Japan. The finance ministers expressed solidarity with the Japanese people. In response to the movements in the exchange rate of the yen resulting from the tragic events, the authorities of the United States, the United Kingdom, Canada, and the European Central Bank announced that they would join with Japan, on 18 March 2011, in concerted intervention in exchange markets. They said, "As we have long stated, excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[30]

On 26 March 2011, Bank of Canada Governor Mark Carney presented at the Annual Meeting of the Inter-American Development Bank in Alberta. Governor Carney proposed a global code of conduct for capital flows. He said, "our long-term objective should be a well-functioning international monetary system that delivers sufficient nominal stability in exchange rates and domestic prices, with timely adjustment to shocks and structural change."[31]

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[25] The Honorable Jim Flaherty Minister of Finance relays the Statement Prepared for the International Monetary and Financial Committee of the Board of Governors of the IMF. Department of Finance Canada. 24 September 2011. Date of Access: 1 October 2011. http://www.imf.org/External/AM/2011/imfc/statement/eng/can.pdf

[26] Harper Says Canada Would Prevent Speculative Dollar Move, Bloomberg (New York) September 21, 2011. Date of Access: 2 October 2011. http://www.bloomberg.com/news/2011-09-21/harper-says-canada-would-act-to-prevent-any-speculative-move-in-the-dollar.html

[27] Harper Says Canada Would Prevent Speculative Dollar Move, Bloomberg (New York) September 21, 2011. Date of Access: 2 October 2011. http://www.bloomberg.com/news/2011-09-21/harper-says-canada-would-act-to-prevent-any-speculative-move-in-the-dollar.html

[28] Harper Says Canada Would Prevent Speculative Dollar Move, Bloomberg (New York) September 21, 2011. Date of Access: 2 October 2011. http://www.bloomberg.com/news/2011-09-21/harper-says-canada-would-act-to-prevent-any-speculative-move-in-the-dollar.html

[29] Harper Says Canada Would Prevent Speculative Dollar Move, Bloomberg (New York) September 21, 2011. Date of Access: 2 October 2011. http://www.bloomberg.com/news/2011-09-21/harper-says-canada-would-act-to-prevent-any-speculative-move-in-the-dollar.html

[30] Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows. Bank of Canada. (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/

[31] Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows. Bank of Canada. (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/

Governor Carney proposed a code of conduct for capital flows that included four elements: a clear objective to promote a sustainable and effective flow of private capital; a decision framework that recognizes that capital controls should not be the first option; principles to guide the design of temporary, targeted and transparent measures; and, recognition of the responsibilities of capital-exporting countries to monitor risks.

Thus Canada has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Natasha Britto and Ivana Jankovic

China: 0

China has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, China has not fulfilled its commitment to move toward a market-determined exchange rate system, but it has refrained from competitive devaluation of its currency.

On 4 October 2011, in response to the legislation of the Currency Exchange Rate Oversight Reform Act of 2011 in the U.S., China showed its strong opposition to the Act, stating that it "severely violates the [World Trade Organization (WTO)] rules and obstructs China-US economic relations and trade."

The People's Bank of China released a statement showing its disagreement with the legislation and stated "RMB has appreciated remarkably in real terms and is moving closer to its equilibrium level taking domestic inflation into account." It also criticized the Act as it might "seriously affect the progress of China's reform of the exchange rate regime and might also result in a trade war that no one would like to see."[32]

Foreign Ministry Spokesperson Ma Zhaoxu pointed out that the RMB has appreciated by 7 per cent against the U.S. dollar since China decided to further the reform of the exchange rage regime in June 2010. This appreciation indicates China's determination to improve the managed floating exchange rate regime and increase the flexibility of the RMB exchange rate in a self-initiated, gradual and controllable progress, as stated in the Remarks on the U.S. Senate's RMB Exchange Rate-Related Bill.[33] In fact, another Foreign Ministry Spokesperson Jiang Yu expressed similar views on this issue on 14 September 2011[34] and 7 September 2011[35] in the regular press conference before the Bill was passed.

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[32] People's Bank of China on the U.S. Senate's Voting to Consider Currency Exchange Rate Oversight Reform Act of 2011 on Oct , The People's Bank of China (Beijing) 4 October 2011. Date of Access: 9 October 2011. http://www.pbc.gov.cn/publish/english/955/2011/20111004174509537934640/20111004174509537934640_.html

[33] Foreign Ministry Spokesperson Ma Zhaoxu's Remarks on the US Senate's RMB Exchange Rate-Related Bill, Ministry of Foreign Affairs of the People's Republic of China (Beijing) 4 October 2011. Date of Access: 9 October 2011. http://www.fmprc.gov.cn/eng/xwfw/s2510/2535/t865577.htm

[34] Foreign Ministry Spokesperson Jiang Yu's Regular Press Conference on September 14, 2011, Ministry of Foreign Affairs of the People's Republic of China (Beijing) 15 September 2011. Date of Access: 8 October 2011. http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t860124.htm

[35] Foreign Ministry Spokesperson Jiang Yu's Regular Press Conference on September 7, 2011, Ministry of Foreign Affairs of the People's Republic of China (Beijing) 8 September 2011. Date of Access: 8 October 2011. http://www.fmprc.gov.cn/eng/xwfw/s2510/2511/t857055.htm

On 7 September 2011, the Government of China released a white paper on peaceful development. In the section "Implementing the opening-up strategy of mutual benefit," China promised to improve the managed, floating exchange rate system based on market supply and demand, and make the renminbi convertible under capital account in a phased way. Chinese officials believe this would create better conditions for maintaining the stability of international currencies…and promoting the sound development of economic globalization.[36]

On 23 June 2011, the People's Bank of China signed a new bilateral local currency settlement agreement with the Central Bank of the Russian Federation in Russia. According to the new agreement, "economic entities from both countries will be able to conduct settlements and payments for trade of goods and services with a currency of their choice, either a freely convertible currency, RMB or the ruble." The agreement was expected to deepen financial cooperation and promote bilateral trade and investment between China and Russia.[37] In addition, a similar bilateral local currency agreement with an amount of RMB7 million was signed between China and Kazakhstan in Astana on 13 June 2011.[38]

On 27 May 2011, the United States Department of the Treasury released a Report to Congress on International Economic and Exchange Rate Policies, which included a report on Chinese exchange rate policy. The report noted that China has allowed the renminbi to appreciate against the dollar roughly 9 per cent in real terms since it announced its intention to do so before the Toronto G20 Summit in June 2010.[39] However, the report also noted "a more rapid pace of nominal appreciation would enable China to achieve the needed adjustment in the real value of its currency, while simultaneously reducing inflationary pressures in its economy."[40]

From 18-21 January 2011, President Hu Jintao met with United States President Barack Obama in Washington. The meeting produced the "China-U.S Joint Statement" which outlines several commitments by each country, including a commitment to build a comprehensive and mutually beneficial economic partnership. China committed to "continue to promote RMB exchange rate reform, enhance RMB exchange rate flexibility, and promote the transformation of its economic development model."[41]

In the past year, China has introduced a number of additional measures as part of the incremental easing of restrictions on the convertibility of the renminbi and its use by foreigners: exporters are able to keep foreign exchange income offshore without converting it back into renminbi; and,

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[36] China issues white paper on peaceful development. Ministry of Foreign Affairs of the People's Republic of China, (Beijing) 7 September 2011. Date of Access: 8 October 2011. http://www.fmprc.gov.cn/eng/zxxx/t856325.htm

[37] China and Russia Signed New Bilateral Local Currency Settlement Agreement, The People's Bank of China (Beijing) 23 June 2011. Date of Access: 9 October 2011. http://www.pbc.gov.cn/publish/english/955/2011/20110630151646500985220/20110630151646500985220_.html

[38] China and Kazakhstan Signed Local Currency Swap Agreement, The People's Bank of China (Beijing) 13 June 2011. Date of Access: 9 October 2011. http://www.pbc.gov.cn/publish/english/955/2011/20110620094736003275160/20110620094736003275160_.html

[39] Report to Congress on International Economic and Exchange Rate Policies, United States Treasury Department (Washington) 27 May 2011. Date of Access: 7 June 2011. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf

[40] Report to Congress on International Economic and Exchange Rate Policies, United States Treasury Department (Washington) 27 May 2011. Date of Access: 7 June 2011. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf

[41] China-U.S. Joint Statement (Washington) Ministry of Foreign Affairs of the People's Republic of China. (Beijing) 20 January 2011. Date of Access: 22 April 2011. http://www.fmprc.gov.cn/eng/zxxx/t788173.htm

under a pilot scheme announced by the People's Bank of China, mainland enterprises can conduct direct overseas investment using renminbi. At the same time, domestic banks are now required to maintain a minimum foreign exchange position set at the level held on 8 November 2010.[42]

However, Chinese officials have released statements that indicate that exchange rate reform will be gradual and in line with Chinese economic objectives. On 14 January 2011, Cui Tiankai, a vice foreign minister reiterated that China will not concede to foreign demands for faster gains in the yuan and will instead continue its gradualist approach to currency reform. Tiankai noted that, "reform of the exchange rate formation mechanism for the renminbi … is based on China's own developmental interests and needs, and is not in response to demands from another country."[43]

Thus China has been awarded a score of 0 for partially complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Kenson Tong & Ivana Jankovic

France: +1

France has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. France has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

France is a member of the European Union, the economic and political alliance of 27 European member states. The EU prohibits the devaluation of currencies thus France is unable to engage in the process without risking its membership in the organization.[44] The European Central Bank manages the foreign exchange reserves and can intervene in foreign exchange markets to influence the exchange rate of the euro.[45]

On 8 August 2011, France, as a member of the G7, reiterated its support for market-determined rates and a stable financial system. The Group of Seven Finance Ministers and Central Bank Governors issued the following statement, "Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will consult closely in regard to actions in exchange markets and will cooperate as appropriate."[46]

On 18 March 2011, France, as a member of the G7, agreed to intervene in global currency markets to prevent undue appreciation of the yen in an effort coordinated by G7 finance ministers to stabilize the Japanese economy in the wake of the earthquake and tsunami in early March. In a statement, G7 Finance Ministers declared, "excess volatility and disorderly movements in

[42] China Yuan Down Late After Central Bank Guides Currency Lower, The Wall Street Journal (Shanghai) 12 May 2011. Date of Access: 12 May 2011. http://online.wsj.com/article/BT-CO-20110512-706443.html
[43] China defends Yuan policy ahead of Hu's U.S. trip, Reuters (Beijing) 14 January 2011. Date of Access: 22 April 2011. http://www.reuters.com/article/2011/01/14/us-china-usa-hu-idUSTRE70D16E20110114
[44] Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011. http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse
[45] Foreign Exchange Operations, European Central Bank (EU) Date of Access: 27 March 2011. http://www.ecb.int/ecb/orga/tasks/html/foreign-exchange.en.html
[46] Statement of G7 Finance Ministers and Central Bank Governors, French Ministry of Economy, Finance and Industry. (Paris) Date of Access: 28 September 2011. http://www.economie.gouv.fr

exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[47]

On 18-19 February 2011, France hosted the G20 finance ministers and heads of the central banks of the G20 member states. During the meeting, President Nicolas Sarkozy reiterated France's commitment to market-determined exchange rates. President Sarkozy noted that his priorities as host of the 2011 G8 and G20 Summits include "moving toward more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamental and refraining from competitive devaluation of currencies and assessing the state of global financial imbalances."[48]

Thus France has been awarded a score of +1 for full compliance with its commitment to move toward a market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Jasmine Hamade and Ivana Jankovic

Germany: +1

Germany has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Germany has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

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[47] Statement of G7 Finance Ministers and Central Bank Governors, Bank of Canada (Ottawa) 17 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/statement-of-g7-finance/

[47]Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows, Bank of Canada (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/

[48] Nicolas Sarkozy's Speech to the G20 Ministers of Finances, French G8-G20 Presidency (Paris) 18 February 2011. Date of Access 7 June 2011. http://www.g20-g8.com/g8-g20/g20/english/for-the-press/speeches/nicolas-sarkozy-s-speech-to-the-g20-ministers.971.html

[49] Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011. http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse

[50] Foreign Exchange Operations, European Central Bank (EU) Date of Access: 27 March 2011. http://www.ecb.int/ecb/orga/tasks/html/foreign-exchange.en.html

[51] Statement of G7 Finance Ministers and Central Bank Governors, French Ministry of Economy, Finance and Industry (Paris) Date of Access: 28 September 2011. http://www.economie.gouv.fr

On 18 March 2011, Germany, as a member of the G7, agreed to intervene in global currency markets to prevent undue appreciation of the yen in an effort coordinated by G7 finance ministers to stabilize the Japanese economy in the wake of the earthquake and tsunami in early March. In a statement, G7 Finance Ministers declared, "excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[52]

Thus Germany has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analyst: Jason Li

India: 0

India has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, India has made progress toward fulfilling its commitment to move toward a market-determined exchange rate system and has refrained from competitive devaluation of its currency.

The aim of India's policy action is to counter the depreciation of the rupee and the surging inflation, thus ensuring price stability. It is not engaging in competitive devaluation of its currency, but it is still intervening in the foreign exchange market in order to stem the decline the rupee.

Price stability remains India's highest priority. Mumbai-based emerging Asia economic at Bank of America stated that the Reserve Bank of India's "top priority is [to curb] inflation despite concerns about global turmoil."[53]

Yet, in spite of the Reserve Bank of India's aggressive campaign against inflation, the rupee hit a two-year low at INR48.23 against the dollar on 20 September 2011. Action by the Reserve Bank of India (RBI), which raised interest rates 12 times in the past 19 months, has done little for price stability. "The depreciation that has happened in the rupee when compared to the other Asian currencies vis-à-vis the dollar is the sharpest. In fact, year-to-date, the rupee has depreciated 7.1 per cent against the dollar.[54]

On 16 September 2011, the Reserve Bank of India increased the repurchase rate to 8.25 per cent from 8 per cent.

On 10 May 2011, Reserve Bank of India Governor Duvvuri Subbarao said that the exchange rate of the Indian rupee has been flexible over the past two years and that the central bank had not

[52] Statement of G7 Finance Ministers and Central Bank Governors, Bank of Canada (Ottawa) 17 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/statement-of-g7-finance/

[52]Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows, Bank of Canada (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/

[53] India Raises Benchmark Rate as Subbarao Breaks Ranks with BRIC Economies, Bloomberg (New Delhi) September 16 2011. Date of Access: October 5 2011. http://www.bloomberg.com/news/2011-09-16/india-raises-benchmark-rate-as-subbarao-breaks-ranks-with-bric-economies.html

[54] Rupee: This May Not Yet Be the Bottom, Financial Times (London) 20 September 2011. Date of Access: 5 October 2011. http://blogs.ft.com/beyond-brics/2011/09/20/rupee-this-may-not-yet-be-the-bottom/#axzz1ZnsymwRM

intervened in the currency market.[55] Governor Subbarao said that the RBI's policy of foreign exchange management has permitted the exchange rate to act as a buffer in that it depreciates to help the economy when it is weak and appreciate to reduce excess demand when it is strong. Governor Subbarao also stated, "The policy has also minimized the danger that foreign inflows would be attracted by 'one-way bets' on appreciation, or domestic firms would borrow excessively from abroad without hedging their exposure."[56]

Governor Subbarao also affirmed that the choice to nurture a floating exchange rate is in India's "collective interests."[57] Further, the Reserve Bank of India vowed to "not be part of currency wars" and to have exchange rates "determined by market fundamentals."[58]

Thus India has been awarded a score of 0 for partial compliance with its commitment to move toward a more market-determined exchange rate and refrain from competitive devaluation of its currency.

Analyst: Natasha Britto

Indonesia: 0

Indonesia has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Indonesia has made progress toward fulfilling its commitment to move toward a market-determined exchange rate system and has refrained from competitive devaluation of its currency.

On 23 September 2011, the Bank of Indonesia and the Indonesian Ministry of Finance made concerted efforts to stem the decline of the rupiah in the foreign exchange and debt markets. Governor of the Bank of Indonesia Darmin Nastution stated that "if the selling pressure remains strong, Bank of Indonesia will continue to intervene" in the market.[59] In this endeavour, "Bank of Indonesia reportedly spent USD200 million to intervene in the currency market."[60] With substantial market intervention in the form of selling foreign exchange reserves, Indonesia does not fully maintain its commitment to move towards a market-determined exchange rate.

The Bank of Indonesia's main functions are to maintain "a stable rupiah for goods and services, reflected by the inflation rate and also exchange rate stability against other foreign currencies, which is reflected by rupiah performance against other foreign currencies."[61] Since the Seoul

[55] India's Capital Inflow Concerns East, The Wall Street Journal (New York) 10 May 2011. Date of Access: 20 May 2011. http://online.wsj.com/article/SB10001424052748703864204576314762448606074.html?mod=WSJ_topics _obama

[56] India's Capital Inflow Concerns East, The Wall Street Journal. 10 May 2011. Date of Access: 20 May 2011. http://online.wsj.com/article/SB10001424052748703864204576314762448606074.html?mod=WSJ_topics _obama

[57] India Will Not Be Part of Currency Wars, The Times of India (Mumbai) 25 February 2011. Date of Access: 15 March 2011. http://timesofindia.indiatimes.com/business/india-business/India-will-not-be-part- of-currency-wars-Subbarao/articleshow/7566505.cms.

[58] India Will Not Be Part of Currency Wars, The Times of India (Mumbai) 25 February 2011. Date of Access: 15 March 2011. http://timesofindia.indiatimes.com/business/india-business/India-will-not-be-part- of-currency-wars-Subbarao/articleshow/7566505.cms.

[59] BI, MOF Help Prompts Rupiah, Bond Rebound, Jakarta Globe (Jakarta) 23 September 2011. Date of Access: 9 October 2011. http://www.thejakartaglobe.com/markets/bi-mof-help-prompts-rupiah-bond-rebound/467350.

[60] BI Spends Billions to Save Rupiah, Jakarta Globe (Jakarta) 8 October 2011. Date of Access: 9 October 2011. http://www.thejakartaglobe.com/home/bi-spends-billions-to-save-rupiah/470327.

[61] Status of the Bank of Indonesia. Bank of Indonesia. Date of Access: 24 March 2011. http://www.bi.go.id/web/id/

Summit, the Bank of Indonesia has implemented several new policies intended to control short-term foreign capital flows, including placing limits on Indonesian banks' short-term external borrowing to no more than 30 per cent of the banks' capital.[62]

Thus Indonesia has been awarded a score of 0 for partial compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Gaston Alegre and Ava-Dayna Sefa

Italy: +1

Italy has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Italy has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

Italy is a member of the European Union, the economic and political alliance of 27 European member states. The EU prohibits the devaluation of currencies thus Italy is unable to engage in exchange rate intervention without risking its membership in the organization.[63]

On 8 August 2011, Italy, as a member of the G7, reiterated its support for market-determined rates and a stable financial system. The Group of Seven Finance Ministers and Central Bank Governors issued the following statement, "Excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will consult closely in regard to actions in exchange markets and will cooperate as appropriate."[64]

On 18 March 2011, Italy, as a member of the G7, agreed to intervene in global currency markets to prevent undue appreciation of the yen in an effort coordinated by G7 finance ministers to stabilize the Japanese economy in the wake of the earthquake and tsunami in early March. In a statement, G7 Finance Ministers declared, "excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[65]

Thus Italy has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Krystel Montpetit and Irene Noemy-Magharian

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[62] 2010 Economic Report on Indonesia, Bank of Indonesia (Jakarta) 6 May 2011. Date of Access 8 June 2011. http://www.bi.go.id/NR/rdonlyres/365FA82B-A53E-40C6-A609-436E8D5BB2AF/22918/ChapterIV1.zip

[63] Euro, New York Times Topics (New York) 5 February 2011. Date of Access: 27 February 2011. http://topics.nytimes.com/top/reference/timestopics/subjects/c/currency/euro/index.html?scp=1&sq=italy%20currency%20devaluation&st=cse

[64] Statement of G7 Finance Ministers and Central Bank Governors, French Ministry of Economy, Finance and Industry (Paris) Date of Access: 28 September 2011. http://www.economie.gouv.fr

[65] Statement of G7 Finance Ministers and Central Bank Governors, Bank of Canada (Ottawa) 17 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/statement-of-g7-finance/

[65]Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows, Bank of Canada (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/

Japan:-1

Japan has not complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Japan has not made progress in moving toward a more market-determined exchange rate and has not refrained from competitive devaluation of its currency.

Since the Japanese currency has been driven higher in the past few months as investors have sought a haven from concerns over Eurozone and US debt and a slowing global economy, Japan has taken active policy action to slow the appreciation of the yen by intervening in the foreign exchange market.

On 29 September 2011, the Japanese authorities announced their plan to boost their funds for foreign exchange market interventions by raising the cap on the issuance of short-term financing bills to JPY165 trillion from the current JPY150 trillion.[66] Japanese Finance Minister Jun Azumi told reporters that the plan will enable the government to "take flexible and decisive action" in the Forex market.[67] This means that Japan will have more leeway in case it needs to step in the market to counter speculators pushing up the yen.

From 28 July 2011 to 29 August 2011, the Japanese Ministry of Finance and Strategy intervened in the foreign exchange market by selling an unprecedented total of JPY4,512.9 billion in a bid to weaken the yen.[68] This unilateral intervention in the foreign exchange market by the Japanese Ministry of Finance and Strategy, intended to slow down the appreciation of the yen and boost economic growth, marks a divergence from its last intervention on 18 March 2011, when it was backed by the G-7.

Yukio Edano, Japan's Chief Cabinet Secretary was quoted as saying that the government stepped in at the right moment. "Recent currency moves were one-sided and could have hurt the economy and, considering this, the intervention was timely," Edano told local reporters.[69] The Governor of the Central Bank of Japan stated, "The Bank of Japan strongly expects that the action taken by the Ministry of Finance in the foreign exchange market will contribute to stable price formation in the market"[70]

At its Monetary Policy Meeting, held on 4 August 2011, the members of the Policy Board of the Bank of Japan also concurred to ease monetary policy by boosting asset purchases. The Policy Board stated that it would increase the total size of the Asset Purchase Program by about

(a) [66] Japan MOF Plans To Boost Forex Intervention Fund, Marketnews International (Tokyo) 29 September 2011. Date of Access: October 2 2011. http://www.reuters.com/article/2011/09/30/japan-economy-azumi-idUSL3E7KU03T20110930

[67] Japan to boost FX intervention fund by 15 trillion yen, Reuters (Tokyo) 29 September 2011. Date of Access: October 1 2011. https://mninews.deutsche-boerse.com/index.php/japan-mof-plans-boost-forex-intervention-fund?q=content/japan-mof-plans-boost-forex-intervention-fund

[68] Foreign Exchange Intervention Operations, 28 July 2011-29 August 2011, Bank of Japan (Tokyo) 31 August 2011. Date of Access: 1 October 2011. http://www.mof.go.jp/english/international_policy/reference/feio/monthly/110831.htm

[69] Japan takes unilateral action to counter currency appreciation, Centralbanking.com (Tokyo) 4 August 2011. Date of access: 23 September 2011. http://www.centralbanking.com/central-banking/news/2099491/japan-takes-unilateral-action-counter-currency-appreciation

[70] Statement by the Governor, Speeches and Statements 2011, Bank of Japan (Tokyo) 4 August 2011. Date of Access: 23 September 2011. http://www.boj.or.jp/en/announcements/press/danwa/dan1108a.htm/

JPY10 trillion from about JPY40 trillion to about JPY50 trillion.[71] Since increasing the money supply tends to depreciate a country's currency, this quantitative easing measure adopted by the Bank of Japan falls within the scope of this commitment.

The Minutes of the Japanese Central Bank's Policy Monetary Meeting on 11-12 July 2011, which were released on 9 August 2011, confirmed the continuation of the Central Bank's three-pronged approach of pursuing powerful monetary easing consisting of comprehensive monetary easing, ensuring financial market stability and providing support to strengthen the foundations for economic growth.[72] Central Bank officials stipulated that this approach was crucial in order for the Japanese economy to overcome deflation and return to a sustainable growth path with price stability.[73]

The minutes also report that one member of the Central Bank said, "the potential need for additional monetary easing by affecting longer-term interest rates has not yet decreased, given that there is a risk that the time necessary to achieve price stability would be prolonged."[74]

On 27 May 2011, the United States Department of the Treasury released a Report to Congress on International Economic and Exchange Rate Policies, which included a report on Japanese exchange rate policy. The report notes that "Japan maintains a floating exchange rate regime, but its authorities have intervened in the past, both individually and jointly with the G7 to counter disorderly conditions in the market. Japanese authorities recently have intervened twice in foreign exchange markets, once alone on September 15, 2010, and jointly with the G7 on March 18, 2011."[75]

On 18 March 2011 Japan requested assistance from G7 finance ministers to prevent undue appreciation of the yen in the wake of the earthquake and tsunami in early March. In response, G7 finance ministers organized a coordinated intervention in foreign currency markets to stabilize the yen. In a statement, G7 Finance Ministers declared, "excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[76]

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[71] Enhancement of Monetary Easing, Releases 2011, Bank of Japan (Tokyo) 4 August 2011. Date of Access: 23 September 2011. http://www.boj.or.jp/en/announcements/release_2011/k110804a.pdf
[72] Minutes of the Monetary Policy Meeting on July 11 and 12, 2011, Bank of Japan (Tokyo) 9 August 2011. Date of Access: October 1st 2011. http://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2011/g110804.pdf
[73] Minutes of the Monetary Policy Meeting on July 11 and 12, 2011, Bank of Japan (Tokyo) 9 August 2011. Date of Access: October 1st 2011. http://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2011/g110804.pdf
[74] Minutes of the Monetary Policy Meeting on July 11 and 12, 2011, Bank of Japan (Tokyo) 9 August 2011. Date of Access: October 1st 2011. http://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2011/g110804.pdf
[75] Report to Congress on International Economic and Exchange Rate Policies, United States Treasury Department (Washington) 27 May 2011. Date of Access 7 June 2011. http://www.treasury.gov/resource- center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf
[76] Statement of G7 Finance Ministers and Central Bank Governors, Bank of Canada (Ottawa) 17 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/statement-of-g7-finance/

The Bank of Japan continues to maintain a loose monetary policy, with the Policy Board unanimously ruling to keep its benchmark policy rate at a range of 0-0.1 per cent.[77] This policy is likely to continue until the current trend of low levels of inflation begins to improve. The Japanese authorities have actively intervened in open market operations to curb the appreciation of the yen.

Japan failed to comply with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Thus Japan has been awarded a score of -1.

Analysts: Krystel Montpetit and Gaston Alegre

Korea: -1

Korea has not complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Korea has not made progress in moving toward a more market-determined exchange rate and has not refrained from competitive devaluation of its currency.

From December 2010 until September 2011, Korea took active policy action to stem the appreciation of the won by using various capital controls to curb large capital inflows. In light of the sudden capital outflows that began in mid-September, Korean authorities reversed their policy and started intervening in the foreign exchange market against the depreciation of the won.

From 19 September to 23 September 2011, the Bank of Korea, which acted on behalf of the Korean Finance Ministry, intervened to sell dollars each day of the week in an effort to stem a sharp slide in the won and stabilize the currency in light of the sudden capital outflows.[78] On 23 September 2011 alone, the Central Bank sold around USD4 billion, bringing the dollar down from a high of KRW1,196 to close at KRW1,166.[79]

On 22 September 2011, Korean Finance Minister Bahk Jae-wan called on the Group of 20 to come up with "near-term steps to stabilize global markets."[80]

On 7 September 2011, the Korean Ministry of Strategy and Finance revealed its plan to impose a 14 per cent tax on all interest incomes earned from foreign currency bonds sold in the country, which are commonly known as Kimchi bonds.[81] Granting it wins parliamentary

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[77] Enhancement of Monetary Easing, Releases 2011, Bank of Japan (Tokyo) 4 August 2011. Date of Access: 23 September 2011. http://www.boj.or.jp/en/announcements/release_2011/k110804a.pdf

[78] South Korea caps week of fierce won defense, The Wall Street Journal (New York) 23 September 2011. Date of Access: 24 September 2011. http://online.wsj.com/article/SB10001424053111904563904576588242138009476.html?mod=rss_asia_whats_news

[79] South Korea caps week of fierce won defense, The Wall Street Journal (New York) 23 September 2011. Date of Access: 24 September 2011. http://online.wsj.com/article/SB10001424053111904563904576588242138009476.html?mod=rss_asia_whats_news

[80] South Korea caps week of fierce won defense, The Wall Street Journal (New York) 23 September 2011. Date of Access: 24 September 2011. http://online.wsj.com/article/SB10001424053111904563904576588242138009476.html?mod=rss_asia_whats_news

[81] Seoul plans tax on foreign currency bonds, Financial Times (London) 7 September 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/ab38add6-d936-11e0-884e-00144feabdc0.html#axzz1ZZCo8lgM

approval, the new proposal will be effective in 2012.[82] The tax is the Ministry's latest effort to curb capital inflows since the beginning of the year in order to reign in the current high levels of appreciation on the Korean won. On the same day, the Ministry also put forth its proposal to introduce a tax on profits from some derivatives products such as the yen-swap deposits from 2012.[83]

On 1 August 2011, the measure introducing a levy of up to 0.2 per cent imposed on foreign debt owed by banks, which was approved by the Korean parliamentt on 20 April 2011, took effect.[84] The new regulation applies to non-deposit foreign debt at commercial banks, Korea Development Bank, Export-Import Bank of Korea, Industrial Bank of Korea, credit business units of the agricultural and fisheries cooperatives' and Korea Finance Corp.[85] The bank levy is part of a series of measures aimed at controlling surging capital inflows to temper the appreciation of the won, along with controls on the amount of foreign currency derivatives at banks and an unwinding of a tax waiver on foreign investment in domestic government bonds.[86]

On 19 July 2011, the Korea Ministry of Strategy and Finance announced that it would impose a ban on foreign and domestic financial companies to buy bonds denominated in a foreign currency that are sold in Korea if the issuer intends to swap the proceeds into won.[87] "The introduction of this new regulation came as the country's currency has gained nearly 6 per cent against the US dollar this year to become one of the world's fastest appreciating currencies."[88] The new tightened measure is part of the Korean government's efforts to temper the rising won.

An examination conducted by the Korean bank and financial regulators revealed that about 70 per cent of proceeds from kimchi bonds were converted into won for domestic use, thus defeating the regulations limiting overseas borrowings for use in the country.[89] Even with the

[82] Seoul plans tax on foreign currency bonds, Financial Times (London) 7 September 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/ab38add6-d936-11e0-884e-00144feabdc0.html#axzz1ZZCo8lgM
[65] Seoul plans tax on foreign currency bonds, Financial Times (London) 7 September 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/ab38add6-d936-11e0-884e-00144feabdc0.html#axzz1ZZCo8lgM
[84] Macro-prudential stability levy to be imposed from August 1, 2011, Press Releases, Bank of Korea (Seoul) 20 April 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2595&bPage=8
[85] Macro-prudential stability levy to be imposed from August 1, 2011, Press Releases, Bank of Korea (Seoul) 20 April 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2595&bPage=8
[86] Seoul takes kimchi bonds off the menu, Financial Times (London) 19 July 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/b7153548-b1e0-11e0-a06c-00144feabdc0.html#axzz1ZZCo8lgM
[87] Seoul takes kimchi bonds off the menu, Financial Times (London) 19 July 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/b7153548-b1e0-11e0-a06c-00144feabdc0.html#axzz1ZZCo8lgM
[88] Seoul takes kimchi bonds off the menu, Financial Times (London) 19 July 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/b7153548-b1e0-11e0-a06c-00144feabdc0.html#axzz1ZZCo8lgM
[89] Seoul takes kimchi bonds off the menu, Financial Times (London) 19 July 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/b7153548-b1e0-11e0-a06c-00144feabdc0.html#axzz1ZZCo8lgM

costs of switching into won, kimchi bonds have offered alluring terms. By removing the attractive bonds, the Korean authorities hope that it will tamper upward pressure on the won.[90]

On 27 May 2011, the United States Department of the Treasury released a Report to Congress on International Economic and Exchange Rate Policies, which included a report on Korean exchange rate policy. The report notes that "Korea officially maintains a market- determined exchange rate, and its authorities intervene with the stated objective of smoothing won volatility."[91] The report also noted that the results of a 2010 IMF consultation with Korea indicated that the won was 5 to 20 per cent undervalued relative to its real equilibrium level.

On 19 May 2011, Korean authorities announced that they would impose tighter limits on the amount of currency derivatives banks are allowed to hold, in a policy change aimed at limiting foreign capital inflows through forward trades.[92] In a statement released on May 19 2011, the Ministry of Strategy and Finance, the Financial Supervisory Commission, the Bank of Korea and the Financial Supervisory Service lowered the ceiling on banks' foreign exchange forward positions by 20 per cent.[93] "The new limit is aimed at curbing foreign capital inflows, in particular capital inflows by banks' surging forward trades, which lead to a surge in banks' short-term borrowing," the authorities said.[94]

On 20 April 2011, the Korean Ministry of Strategy and Finance issued a statement reporting it would impose a levy of up to 0.2 per cent on foreign debt owed by banks as part of measures it has been introducing to avert the repeat of a currency crisis.[95] The ministry said the revised regulations on foreign exchange transactions, approved by the Korean parliamentt early this month, will take effect from 1 August 2011.[96]

In December 2010 Korea introduced a new tax on foreign borrowing by Korean banks in an effort to curb appreciation of the won.[97]

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[90] Seoul takes kimchi bonds off the menu, Financial Times (London) 19 July 2011. Date of Access: 24 September 2011. http://www.ft.com/intl/cms/s/0/b7153548-b1e0-11e0-a06c-00144feabdc0.html#axzz1ZZCo8lgM

[91] Statement of G7 Finance Ministers and Central Bank Governors, Bank of Canada (Ottawa) 17 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/statement-of-g7-finance/

[92] Government to tighten caps on FX Forward Position, Press Releases, Bank of Korea (Seoul) 19 May 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2628&bPage=7

[93] Government to tighten caps on FX Forward Position, Press Releases, Bank of Korea (Seoul) 19 May 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2628&bPage=7

[94] Government to tighten caps on FX Forward Position, Press Releases, Bank of Korea (Seoul) 19 May 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2628&bPage=7

[95] Macro-prudential stability levy to be imposed from August 1, 2011, Press Releases, Bank of Korea (Seoul) 20 April 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2595&bPage=8

[96] Macro-prudential stability levy to be imposed from August 1, 2011, Press Releases, Bank of Korea (Seoul) 20 April 2011. Date of Access: September 29 2011. http://english.mosf.go.kr/pre/view.do?bcd=N0001&seq=2595&bPage=8

[97] SKorea announces levy on bank foreign borrowing, Agence-France Presse (Paris) 19 December 2010. Date of Access 7 June 2011. http://www.google.com/hostednews/afp/article/ALeqM5gBGVOBhG7Y0i-QNNZCk4Og1Eo9iA?docId=CNG.e152c6d2ed379078cb131dacb3e4b27a.6e1

Korea failed to comply with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Thus Korea has been awarded a score of -1.

Analysts: Krystel Montpetit and Gaston Alegre

Mexico: +1

Mexico has fully complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Mexico has both moved toward a more market-determined exchange rate and refrained from competitive devaluation of its currency.

On 3 October 2011, Bank of Mexico Governor Agustin Carstens "downplayed the benefits of foreign exchange market interventions, saying that what will ultimately elevate the Mexican currency is solid economic fundamentals."[98] Carstens continues to advocate for Mexico's 'neutral' policy stating "as long as the markets continue to work well, I think central bank intervention is not required."[99] In this sense, Mexico upholds its exchange rate commitment by refraining from currency market intervention.

On 10 February 2011, Mexican Finance Minister Ernesto Cordero stated that, "in Mexico we respect the rules of the foreign exchange market. We do not intervene in it and we will remain like that… Mexico's exporting strength does not depend on our currency."[100] This comment was a response to complaints from Mexican exporters lobbying for a weaker peso. As Mexico continues to grapple with various economic challenges such as 'surging money inflows,' it continues to abide by free trade principles established in the North American Free Trade Agreement. Specifically, NAFTA investment rules "prohibit the use of capital controls, based on the notion that the free trade market should rule the international financial system."[101]

On 21 March 2011, Cordero again reiterated Mexico's commitment to market-determined exchange rates when he stated that, "we're not intervening in the market… Mexico is opposed to capital controls."[102] In a report released on 17 March 2011 by the Credit Suisse Group, Chief Latin American economist Alonso Cervera wrote that, "Mexico will likely continue to stand out as a country that is unwilling to fight aggressively with current market forces."[103]

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[98] Mexican Peso Stumbles on Greek Worries, Near 2.5-Year Low Again, Wall Street Journal (Mexico City) 3 October 2011. Date of Access: 9 October 2011. http://online.wsj.com/article/BT-CO-20111003-714793.html.

[99] Mexico's Carstens backs 'neutral' policy, Reuters (Washington) 24 September 2011. Date of Access: 9 October 2011. http://www.reuters.com/article/2011/09/24/businesspro-us-mexico-economy-carstens-idUSTRE78N18220110924.

[100] Update 1- Mexico finance minister rules out FX intervention, Reuters (New York) 10 February 2011. Date of Access: 27 March 2011. http://www.reuters.com/article/2011/02/10/mexico-economy-cordero-idUSN1029338520110210

[101] Mexico's Hot Money Challenge, Epoch Times (New York) 6 March 2011. Date of Access: 27 March 2011. http://www.theepochtimes.com/n2/opinion/mexicos-hot-money-challenge-52467.html

[102] Mexico Considers Raising Frequency, Amount of Dollar Options, Cordero Says, Bloomberg (New York) 21 March 2011. Date of Access: 27 March 2011. http://www.bloomberg.com/news/2011-03-21/mexico-considers-raising-frequency-amount-of-dollar-options-cordero-says.html

[103] Mexico Considers Raising Frequency, Amount of Dollar Options, Cordero Says, Bloomberg (New York) 21 March 2011. Date of Access: 27 March 2011. http://www.bloomberg.com/news/2011-03-21/mexico-considers-raising-frequency-amount-of-dollar-options-cordero-says.html

Cordero was present on 27 March 2011 at the Inter- American Development Bank annual meeting in Canada. The IADB is a unique bank whose shareholders include 48 countries (including Mexico) that seek creative poverty reduction policies through various developmental schemes in Latin America and the Caribbean.[104] During the meeting Cordero announced, "we [Mexico] haven't imposed any type of capital control, nor will we."[105]

Thus Mexico has been awarded a score of +1 for full compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Irene Noemy-Magharian and Ava-Dayna Sefa

Russia: +1

Russia has complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

On 12 November 2010, the Russian Central Bank board of directors approved the Guidelines for the Single State Monetary Policy in 2011 and for 2012 and 2013. According to this document, the Central Bank will scale down its intervention in the exchange rate determination process and prepare economic agents for floating exchange rate conditions. Moreover, the Central bank will not hamper the development of market-based exchange rate trends caused by fundamental changes in the economy.[106] In the Draft Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014, published on 3 October 2011, the Central Bank puts forwards as one of its priorities for three coming years reduction of its direct intervention in the exchange rate determination and facilitation of the transition to a floating ruble exchange rate.[107]

Russian authorities have refrained from competitive devaluation of the ruble.

On 1 March 2011, the Russian Central bank widened the floating band for its bi-currency basket to 5 rubles from 4 rubles and cut the maximum currency intervention volume within the floating band to USD600 million from USD650 million.[108] Any intervention exceeding the volume of USD600 million may lead to the widening of the band by 5 copecks.

From 1 November 2010 to 30 September 2011 Russian ruble exchange rate to the US dollar decreased by 4%[109] and by 0.4 % to the euro.[110]

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[104] About the Inter-American Development Bank, Inter-American Development Bank (Washington) Date of Access: 27 March 2011. http://www.iadb.org/en/about-us/about-the-inter-american-development-bank,5995.html

[105] Mexico Finance Minister: Sees US Interest Rates Holding Steady, FoxBusiness (Calgary) 27 March 2011. Date of Access: 27 March 2011. http://www.foxbusiness.com/industries/2011/03/27/mexico-finance-minister-sees-rates-holding-steady/

[106] Guidelines for the Single State Monetary Policy in 2011 and for 2012 and 2013, Bank of Russia (Moscow) 12 November 2010. Date of Access: 4 April 2011. http://cbr.ru/eng/today/publications_reports/on_11-eng.pdf.

[107] Draft Guidelines for the Single State Monetary Policy in 2012 and for 2013 and 2014, Bank of Russia (Moscow) 3 October 2011. Date of Access: 3 October 2011. http://cbr.ru/today/publications_reports/on_2012(2013-2014).pdf

[108] On Implementation of the Exchange Rate Policy of the Bank of Russia, Bank of Russia (Moscow) 1 March 2011. Date of Access: 4 April 2011. http://cbr.ru/Press/Archive_get_blob.asp?doc_id=110301_1813501.htm.

[109] RUB/USD Basic Chart, Yahoo! Finance. Date of Access: 2 October 2011. http://finance.yahoo.com/q/bc?s=RUBUSD=X&t=1y.

On 23 December 2010, the Chairman of the Russian Central bank said that the Central bank interventions mechanism is designed only for preventing sharp fluctuations of the ruble's exchange rate.[111]

In September 2011, the Russian Central bank sold about USD6.8 billion and EUR590 million. These interventions were implemented in order to increase the ruble's exchange rate and counteract its devaluation not caused by the fundamental factors.[112]

Thus Russia has been awarded a score of +1 for taking measures to make its exchange-rate system more flexible, and avoid competitive devaluation of the ruble.

Analyst: Andrey Shelepov

Saudi Arabia: 0

Saudi Arabia has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Saudi Arabia has not made progress toward fulfilling its commitment to move toward a market-determined exchange rate system, but it has refrained from competitive devaluation of its currency.

On 16 February 2011, Muhammad Al Jasser, head of Saudi Arabian Monetary Agency, stated that the riyal has been pegged to the dollar, and will continue to remain that way as foreign exchange reserves are an important part of Saudi Arabia's countercyclical policy, and the government draws down on the reserves to increase spending when the economy faces a downturn.[113]

On the requirements set by the Supreme Council of the GCC countries [in Bahrain December 2000], Saudi Arabia continues to keep its currency pegged to the US dollar as an anchor, in preparation of creating a unified currency.[114]

Thus Saudi Arabia has been awarded a score of 0 for partially complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analyst: Nayman Hassan

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[110] RUB/EUR Basic Chart, Yahoo! Finance. Date of Access: 2 October 2011. http://finance.yahoo.com/q/bc?s=RUBEUR=X&t=1y.

[111] Interview of the Bank of Russia chairman Sergey Ignatiev to Kommersant Newspaper, Bank of Russia (Moscow), 23 December 2010. Date of Access: 4 April 2011. http://www.cbr.ru/search/print.asp?File=/press/press_centre/ignatiev_kommersant-23122010.htm.

[112] Bank of Russia interventions on the domestic FX market, Bank of Russia (Moscow) 7 October 2011. Date of Access: 13 October 2011. http://cbr.ru/eng/hd_base/VALINT.asp.

[113] Dollar peg serves Saudi Arabia well – c.bank governor, Reuters Africa (Oxford) 16 February 2011. Date of Access: 30 March 2011. http://af.reuters.com/article/energyOilNews/idAFLDE71F2KY20110216?sp=true.

[114] Saudi Arabian Monetary Agency – Forty Sixth Annual report (Riyadh) August 2010. Date of Access: 29 March 2011. http://www.sama.gov.sa/sites/samaen/ReportsStatistics/ReportsStatisticsLib/5600_R_Annual_EN_2010_11_14.pdf

South Africa: 0

South Africa has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, South Africa has made progress toward fulfilling its commitment to move toward a market-determined exchange rate system, but it has not refrained from competitive devaluation of its currency.

While purchases of foreign exchange in the market by the South African Reserve Bank, aiming to moderate the effect of capital inflows, have been rather small since the 2010 Seoul Summit[115], the Reserve Bank still has not fully complied to its commitment to refrain from competitive devaluation of its currency.

South Africa's current exchange rate is determined by forces in the exchange market; this policy is supported by the South African Reserve Bank.[116] On 10 February 2011, South African President Jacob Zuma addressed the South African Parliament. In his speech, the President stated, "Concerns about the exchange rate have been taken to heart. Exchange rate control reforms…are being implemented."[117]

South African Finance Minister Pravin Gordhan followed up on the President's statement in the 28 February 2011 Budget Speech, where he outlined the policies announced and implemented by the South African Reserve Bank since October 2010 to protect the rand from destabilizing capital flows:

> Recognising the impact of rand strength on the manufacturing industry, in particular, we announced measures in October to moderate the potential effect of capital inflows. Foreign exchange regulations were amended to permit greater foreign investment by South African institutions. Stepped up foreign exchange purchases by the Reserve Bank have partially offset upward pressures on the rand. As a result of these policy adjustments and in line with shifts in investor sentiment globally, the rand depreciated from December 2010 to mid- February 2011 by about 10 percent against the US dollar, the euro and sterling.[118]

Gordhan also noted that rapid currency depreciation can be disruptive to macroeconomic stability and industrial capacity, and insisted that South African currency policy aims primarily to prevent exchange rate fluctuation.[119]

Thus South Africa has been awarded a score of 0 for partially complying with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Irene Noemy-Magharian and Krystel Montpetit

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[115] Emerging markets daily, Citibank. 11 October 2011. Date of Access: 16 October 2011.
[116] IMF SA supports flexible exchange rates, BusinessLive. 24 November 2010. Date of Access: 27 March 2011. http://www.businesslive.co.za/southafrica/sa_markets/2010/11/24/imf-sa-rep-supports-flexible-exchange-rates
[117] State of the National Address by President Jacob Zuma, (Cape Town) 10 February 2011. Date of Access 27 March 2011. http://southafricahouseuk.com/documents/statnat.pdf
[118] National Budget Speech, South African National Treasury (Pretoria) 28 February 2011. Date of Access 7 June 2011. http://www.treasury.gov.za/documents/national%20budget/2011/speech/speech2011.pdf
[119] National Budget Speech, South African National Treasury (Pretoria) 28 February 2011. Date of Access 7 June 2011. http://www.treasury.gov.za/documents/national%20budget/2011/speech/speech2011.pdf

Turkey: 0

Turkey has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. Specifically, Turkey has made progress toward fulfilling its commitment to move toward a market-determined exchange rate system and has refrained from competitive devaluation of its currency.

Turkey has refrained from competitive devaluation of its currency, but the Central Bank of Turkey has however intervened to stem the decline of the lira "after the currency sank more than 17 per cent against the dollar this year."[120]

On 6 October 2011, the Turkish Central Bank sold USD350 million after offering as much as USD1.35 billion. On 5 October 2011, it sold USD750 million, the biggest auction in its history.[121] The Central Bank defended its position to counter the downward pressure on the lira, stating in its statement on 5 October 2011, "the Central Bank of Turkey may continue to supply FX liquidity to the market via high-volume foreign exchange selling auctions similar to the one held today in the framework of the strategy set out at the Monetary Policy Committee meeting of 4 August 2011, when deemed appropriate" because "excess volatility and disorderly movements apart from economic fundamentals have been observed in the exchange rates of developing countries, including Turkey, recently."[122]

On 4 August 2011, Turkey's Central Bank cut its benchmark interest rate to a record low to shield the economy from the impact of the European debt crisis and slowing growth in the U.S.[123] It lowered the one-week repo rate by a half per cent point to 5.75 per cent[124] and took separate steps to prop up the lira by selling USD300 million on the foreign exchange market.[125]

On 22 April 2011, Turkey's Central Bank Governor Erdem Basci announced the bank's decision to keep Turkey's interest rate at a record low.[126]

On 28 April 2011, the Central Bank released a Summary of the Monetary Policy Committee Meeting. The central bank stated that Turkey's monetary policy would continue to focus on price stability. It noted, "Strengthening the commitment to fiscal discipline and structural reform agenda in the medium term would support the improvement of Turkey's sovereign risk, and [thus

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[120]Emerging market currencies advance on market intervention from Turkey to Russia, Bloomberg (Ankara) 5 October 2011. Date of Access: 11 October 2011. http://origin-www.bloomberg.com/news/2011-10-05/emerging-market-currencies-advance-on-intervention-from-turkey-to-russia.html

[121] Turkish Central Bank Wields 'Big Stick' On the Lira as Reserves Dwindle, Bloomberg (Ankara) 6 October 2011. Date of Access: 12 October 2011. http://www.bloomberg.com/news/2011-10-05/turkish-central-bank-wields-big-stick-on-the-lira-as-reserves-dwindle.html

[122] Press Release on Foreign Exchange Selling Auctions, Central Bank of Turkey. (Ankara) 5 October 2011. Date of Access: 12 October 2011. http://www.tcmb.gov.tr/yeni/eng/

[123] Turkish Bank Cuts Benchmark Rate to 5.75% to Support Growth, Bloomberg (Ankara) 4 August 2011. Date of Access: 5 October 2011. http://www.bloomberg.com/news/2011-08-04/turkey-cuts-benchmark-interest-rate-to-5-75-.html

[124] Turkish Bank Cuts Benchmark Rate to 5.75% to Support Growth, Bloomberg (Ankara) 4 August 2011. Date of Access: 5 October 2011.http://www.bloomberg.com/news/2011-08-04/turkey-cuts-benchmark-interest-rate-to-5-75-.html

[125] EM Currencies: Trading Down. 23 September 2011. (London) Date of Access: 5 October 2011. http://blogs.ft.com/beyond-brics/2011/09/23/em-currencies-trading-down/#axzz1ZnsymwRM

[126]Turkish Central Bank Holds Rate at Record Low, The Wall Street Journal (Istanbul) 22 April 2011. Date of Access: 1 May 2011. http://online.wsj.com/article/SB10001424052748704071704576277040019296486.html?mod=googlenews_wsj

facilitates] macroeconomic and price stability." The report also went on the state that "sustaining the fiscal discipline will also provide more flexibility for monetary policy and support social welfare by keeping interest rates permanently at low levels." The report concluded by noting that the implementation of the structural reforms envisaged by the European Union accession process remains "to be of utmost importance."[127]

The Central Bank has moved to accelerate reserve accumulation to contribute to financial stability in order to "be able to adapt to the rapidly changing structure of capital flows."[128] Moreover, the central bank successfully terminated the fees of Turkish lira required reserves and effectively redrew "the operational structure of liquidity management[129] to direct capital inflows driven by global fiscal expansion to "investment instruments with longer maturities."[130] The objective was to "continue to implement the floating exchange rate regime in 2011."[131]

Thus Turkey has been awarded a score of 0 for partial compliance with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency.

Analysts: Natasha Britto and Krystel Montpetit

United Kingdom: 0

The United Kingdom has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. The United Kingdom has made progress toward fulfilling its commitment to move toward a market-determined exchange, but it has not fully refrained from competitive devaluation because of the adoption of its quantitative easing policy.

On 6 October 2011, the Bank of England's Monetary Policy Committee announced that it would increase the size of its asset purchase program by issuing GBP75 billion of central bank reserves into the economy to a total of GBP275 billion dollars for the first time since 5 November 2009 to target "vulnerabilities associated with the indebtedness of some euro-area sovereigns and banks have resulted in severe strains in bank funding markets and financial markets more generally. These tensions in the world economy threaten the UK recovery."[132] This monetary policy easing

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[127] Summary of the Monetary Policy Committee, Central Bank of the Republic of Turkey (Ankara) 28 April 2011. Date of Access: 28 April 2011. www.tcmb.gov.tr/yeni/eng/

[128] Monetary and Exchange Rate Policy for 2011, Central Bank of the Republic of Turkey (Ankara) 21 December 2010. Date of Access: 15 March 2011. http://www.tcmb.gov.tr/yeni/announce/2010/Mon_Exc_Pol_2011.pdf.

[129] Monetary and Exchange Rate Policy for 2011, Central Bank of the Republic of Turkey (Ankara) 21 December 2010. Date of Access: 15 March 2011. http://www.tcmb.gov.tr/yeni/announce/2010/Mon_Exc_Pol_2011.pdf.

[130] Monetary and Exchange Rate Policy for 2011, Central Bank of the Republic of Turkey (Ankara) 21 December 2010. Date of Access: 15 March 2011. http://www.tcmb.gov.tr/yeni/announce/2010/Mon_Exc_Pol_2011.pdf.

[131] Monetary and Exchange Rate Policy for 2011, Central Bank of the Republic of Turkey (Ankara) 21 December 2010. Date of Access: 15 March 2011. http://www.tcmb.gov.tr/yeni/announce/2010/Mon_Exc_Pol_2011.pdf.

[132] News Release: Bank of England Maintains Bank Rate at 0.5% and Increase Size of Asset Purchase Programme by £75 billion to £275 billion, Bank of England (London) 6 October 2011. Date of Access: 7 October 2011. http://www.bankofengland.co.uk/publications/news/2011/092.htm

is expected to have a weakening effect on the currency.[133] This action is counted as partial competitive devaluation because Mervin King, the Bank's Governor specifically points out that the "United Kingdom's main export markets" has especially "slackened."[134] By weakening the sterling, UK exports become more competitive in the global market.

On 18 March 2011, the Bank working under instruction from the government intervened in the foreign exchange market when it "sold JPY12 billion for sterling. This action was undertaken as part of a concerted intervention in yen by the G7 monetary authorities."[135] This strengthening of the sterling against the yen was done in response to the Japanese earthquake in March to calm investor fears of economic volatility in Japan.[136]

In the press notices for December 2010[137], January 2011[138], February 2011[139], April 2011[140], May 2011[141], June 2011[142], July 2011[143], August 2011[144], and September 2011[145], the Treasury announced no intervention operations were undertaken.

Therefore, because the United Kingdom has made progress toward fulfilling its commitment to move toward a market-determined exchange, but has not fully refrained from competitive devaluation because of the adoption of its quantitative easing policy, it receives a score of 0.

Analyst: Jason Li

United States: 0

The United States has partially complied with its commitment to move toward a more market-determined exchange rate and to refrain from competitive devaluation of its currency. The United

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133 We're not China, The conscience of a liberal, Blog of Paul Krugman, New York Times (New York) 18 October 2010. Date of Access: 15 October 2011 http://www.krugman.blogs.nytimes.com/2010/10/18/were-not-china/

134 Governor's Letter to the Chancellor, Bank of England (London) 6 October 2011. Date of Access: 8 October 2011. http://www.bankofengland.co.uk/monetarypolicy/pdf/govletter111006.pdf

135 UK Official Holdings of International Reserves March 2011, HM Treasury (London) 5 April 2011. Date of Access: 9 October 201. http://www.hm-treasury.gov.uk/d/pn_37_11.pdf

136 Statements relating to coordinated G7 intervention in the international foreign exchange markets, HM Treasury (London) 18 March 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/int_g7_intervention.htm

137 UK Official Holdings of International Reserves December 2010, HM Treasury (London) 6 January 2011. Date of Access: 26 March 2011. http://www.hm-treasury.gov.uk/d/pn_02_11.pdf

138 UK Official Holdings of International Reserves January 2011, HM Treasury (London) 3 February 2011. Date of Access: 26 March 2011 .http://www.hm-treasury.gov.uk/d/pn_12_11.pdf

139 UK Official Holdings of International Reserves February 2011, HM Treasury (London) 3 March 2011. Date of Access: 26 March 2011. http://www.hm-treasury.gov.uk/d/pn_26_11.pdf

140 UK Official Holdings of International Reserves April 2011, HM Treasury (London) 5 May 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_46_11.pdf

141 UK Official Holdings of International Reserves May 2011, HM Treasury (London) 3 June 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_54_11.pdf

142 UK Official Holdings of International Reserves June 2011, HM Treasury (London) 5 July 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_71_11.pdf

143 UK Official Holdings of International Reserves July 2011, HM Treasury (London) 3 August 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_94_11.pdf

144 UK Official Holdings of International Reserves August 2011, HM Treasury (London) 3 August 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_100_11.pdf

145 UK Official Holdings of International Reserves September 2011, HM Treasury (London) 5 October 2011. Date of Access: 9 October 2011. http://www.hm-treasury.gov.uk/d/pn_113_11.pdf

States has made progress toward fulfilling its commitment to move toward a market-determined exchange, but it has not fully refrained from competitive devaluation because of the adoption of its quantitative easing policy.

The main aim of the U.S. program of quantitative easing, which was announced on 8 January 2011 and phased out mid-2011, was to revive a depressed economy threatened by the risk of deflation and not to boost trade competitiveness by devaluating the dollar.[146] However, the effect of quantitative easing, if not matched abroad, is a depreciation of the dollar – whether this was the intended result or not.[147] Thus the United States has not fully refrained from competitive devaluation.

On 21 September, 2011, the Federal Reserve announced plans "to purchase, by the end of June 2012, $400 billion of Treasury securities with remaining maturities of 6 years to 30 years and to sell an equal amount of Treasury securities with remaining maturities of 3 years or less."[148] Dubbed "Operation Twist"[149] by the media, this is targeted to "put downward pressure on interest rates and help make broader financial conditions more accommodative." This policy, albeit a loosening of monetary policy that can lead to a slight weakening of the dollar, solely aims to stimulate internal demand and growth rather than devaluate the dollar. Thus it does not count as competitive devaluation.

The U.S. Department of the Treasury also releases the monthly financial statements of the Exchange Stabilization Fund (ESF).[150] The ESF continues to undertake three main types of operations — the purchase or sale of foreign currency, the acquisition or use of SDRs, and loans or credits to foreign governments or entities to implement US international economic policy, including the intervention of the exchange market. [151] The continued existence of the program means that the US is not moving towards a market-determined exchange rate system. The latest ESF report is for August 2011.[152]

[146] Unconventional Monetary Policy and Central Bank Communications, Board of Governors of the Federal Reserves System (Washington) 25 February 2011. Date of Access: 26 March 2011. http://www.federalreserve.gov/newsevents/speech/yellen20110225a.htm
[147] We're not China, The conscience of a liberal, Blog of Paul Krugman, New York Times (New York) 18 October 2010. Date of Access: 15 October 2011 http://www.krugman.blogs.nytimes.com/2010/10/18/were-not-china/
[148] Press Release, Board of Governors of the Federal Reserve System (Washington) 21 September 2011. Date of Access: 11 October 2011. http://www.federalreserve.gov/newsevents/press/monetary/20110921a.htm
[149] Let's Twist Again, Like We Did in '61, New York Times (Washington) 10 September 2011. Date of Access: 11 October 2011. http://www.nytimes.com/2011/09/11/your-money/federal-reserve-considers-a-revival-of-operation-twist.html
[150] Exchange Stabalization Fund: Finances and Operations, U.S. Department of the Treasury (Washington) 5 August 2011. Date of Access: 8 October 2011. http://www.treasury.gov/resource-center/international/ESF/Pages/finances.aspx
[151] Exchange Stabilization Fund. U.S. Department of the Treasury (Washington) 5 August 2011. Date of Access: 8 October 2011. http://www.treasury.gov/resource-center/international/ESF/Pages/esf-index.aspx
[152] Exchange Stablization Fund Statement of Financial Position. U.S. Department of the Treasury (Washington) 31 August 2011. Date of Access: 8 October 2011. http://www.treasury.gov/resource-center/international/ESF/Documents/Trunc%20+%20Notes.pdf

On 13 July, 2011, the Federal Reserve released the Monetary Report to the Congress[153], which shows that the Committee had maintained the "target range for the federal funds rate at 0 to 1/4 percent" and made "no changes to the Committee's asset purchase program" for the first half of the year. This means that the US did not engage in new forms of competitive devaluation after January's Asset Purchase Program. However, that the fact remains that it started, continued on and finished the Asset Purchase Program after making the commitment.

The report also states that the continued depreciation of the US dollar was "spurred in part by monetary policy tightening abroad and fears that the pace of economic recovery in the United States was slowing, the foreign exchange value of the dollar declined over much of the first half of the year." In other words, the depreciation of the US dollar was not due to competitive devaluation, but to the actions of other countries.

On 27 May, 2011, the Treasury released a report to Congress on International Economic and Exchange Rate Policies.[154] The report showed an average of a 7.1 per cent depreciation of the dollar against other major currencies in the first four months of 2011.

The only exception was on 18 March 2011 when the "dollar appreciated by 7.9 per cent against the yen from March 17 through April 6, but declined through the remainder of April" [155], because the US joined the G7 in strengthening their currencies at Japan's request to mitigate the economic instability after an earthquake in the country. This particular move is considered a move away from market-determined exchange rate but not a competitive devaluation.

In February 2011, the Treasury released a report to Congress on International Economic and Exchange Rate Policies, announcing that in January 2011, the dollar declined by 1.1 per cent against other major currencies and 0.3 per cent against the OITP currencies.[156] The decline of the dollar was attributed to growing foreign economies. The Monetary Policy Report to the Congress, released 1 March 2011, also states the stabilization of Europe's financial situation as a reason for the dollar's weakening.[157]

On 25 February 2011, the Vice Chair of the Board of Governors of the Federal Reserve System, Janet L. Yellen, attended the University of Chicago's Booth School of Business U.S. Monetary Forum. She said that monetary policies, namely to keep nominal interest rates low, deployed by

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[153] Monetary Report of the Congress (Washington) 13 July 2011. Date of Access: 8 October 2011. http://www.federalreserve.gov/monetarypolicy/files/20110713_mprfullreport.pdf

[154] Report to Congress on International Economic and Exchange Rate Policies, U.S. Department of the Treasury Office of International Affairs (Washington) 27 May 2011. Date of Access: 8 October 2011. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf

[155] Report to Congress on International Economic and Exchange Rate Policies, U.S. Department of the Treasury Office of International Affairs (Washington 27 May 2011. Date of Access: 8 October 2011. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/FX%20Report%20Final%205-27-11.pdf

[156] Report to Congress on International Economic and Exchange Rate Policies, U.S. Department of the Treasury Office of International Affairs (Washington) February 2011. Date of Access: 26 March 2011. http://www.treasury.gov/resource-center/international/exchange-rate-policies/Documents/Foreign%20Exchange%20Report%20February%204%202011.pdf

[157] Monetary Policy Report to the Congress, Board of Governors of the Federal Reserves System (Washington) 1 March 2011. Date of Access: 26 March 2011. http://www.federalreserve.gov/monetarypolicy/files/20110301_mprfullreport.pdf

the Federal Open Market Committee (FOMC) put "moderate downward pressure on the foreign exchange value of the dollar."[158]

On 8 January 2011, Ms. Yellen announced that as part of the Federal Reserve's Asset Purchase Program, the FOMC will purchase an additional $600 billion in longer-term Treasury securities by the middle of 2011.[159] Ms. Yellen said that this would have a modest impact on the value of the US dollar that tends to lower "U.S. demand for foreign goods."[160]

Therefore, because the United States has made progress toward fulfilling its commitment to move toward a market-determined exchange, but has not fully refrained from competitive devaluation because of the adoption of its quantitative easing policy, it receives a score of 0.

Analyst: Jason Li

European Union: +1

The European Union has fully complied with its commitment to move toward a more market determined exchange rate system and refrain from competitive devaluation of its currency.

On 6 October 2011, President of the European Central Bank (ECB) Jean-Claude Trichet predicted that the euro will retain its value over the coming years, saying "The inflation expectations for the next ten years are fully in line with our definition of price stability."[161]

On 4 October 2011, the EU Council and the EU Parliament agreed on new legislative proposals on economic governance, called the 'six-pack' measures, which aim to avoid "accumulation of excessive imbalances" and ensure "sustainable public finances."[162] The new legislation contains provisions that will help monitor and prevent macroeconomic risks in the euro zone,[163] thus better guaranteeing the stability of the euro.

On 12 May 2011, European Central Bank Executive Board member Juergen Stark said Europe's recovery is strong enough to continue without additional support from governments and the region's central bank. He stated, "The economy no longer needs fiscal or monetary policy support … Growth is increasingly self sustaining and is broad based and the first quarter was significantly stronger than expected."[164]

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[158] Unconventional Monetary Policy and Central Bank Communications, Board of Governors of the Federal Reserves System (Washington) 25 February 2011. Date of Access: 26 March 2011. http://www.federalreserve.gov/newsevents/speech/yellen20110225a.htm

[159] The Federal Reserve's Asset Purchase Program, Board of Governors of the Federal Reserves System (Washington) 8 January 2011. Date of Access: 26 March 2011. http://www.federalreserve.gov/newsevents/speech/yellen20110108a.htm#f11

[160] The Federal Reserve's Asset Purchase Program, Board of Governors of the Federal Reserves System (Washington) 8 January 2011. Date of Access: 26 March 2011. http://www.federalreserve.gov/newsevents/speech/yellen20110108a.htm#f11

[161] ECB's Trichet: Euro Will Hold Value Over Next 10 years, CNBC (Luxembourg) 6 October 2011. Date of Access. 7 October 2011. http://www.cnbc.com/id/44801266

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On 18 March 2011, the European Union, as a member of the G7, agreed to intervene in global currency markets to prevent undue appreciation of the yen in an effort coordinated by G7 finance ministers to stabilize the Japanese economy in the wake of the earthquake and tsunami in early March. In a statement, G7 Finance Ministers declared, "excess volatility and disorderly movements in exchange rates have adverse implications for economic and financial stability. We will monitor exchange markets closely and will cooperate as appropriate."[165]

Thus the European Union has been awarded a score of +1 for its compliance with its commitment to move toward a more market-determined exchange rate and refrain from competitive devaluation of its currency.

Analysts: Huda Abdi and Ivana Jankovic

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http://www.bloomberg.com/news/2011-05-13/stark-says-euro-economy-no-longer-needs-fiscal-monetary-support.html

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[165]Bank of Canada Governor Mark Carney discusses Challenges Posed by Globalization, Proposes Global Code of Conduct for Capital Flows, Bank of Canada (Ottawa) 26 March 2011. Date of Access: 22 April 2011. http://www.bankofcanada.ca/2011/03/press-releases/governor-mark-carney-discusses-challenges/