

G20 2020 key takeaways

- **The G20 held its ministerial summit this past weekend in Riyadh, Saudi Arabia**
- **The title of this year’s agenda is: “Realizing Opportunities of the 21st Century for All”**
- **In our view, the four main aspects present in the discussion were:**
 - (1) **The implementation of an ‘ESG’ framework at the sovereign level, as a more holistic approach to evaluate countries;**
 - (2) **Focus on openness literacy. The aim is to create conscience about the benefits of free trade not only in terms of boosting economic growth rates, but also in terms of reduction of income inequality and the benefits of an open capital account;**
 - (3) **In terms of current issues, the central topic continues to be to identify where is the economy in the current business cycle, as well as which could be the potential triggers of the next recession: Could it be ‘Coronavirus’? or Bernie Sanders’ presidential candidacy?; and**
 - (4) **What economic policies are best to tackle potential recessions**
- **The main G20 summit will take place on November 20th and 21st**

Ministerial G20 summit. The Group of Twenty (G20) held its ministerial summit this past weekend in Riyadh, the capital city of Saudi Arabia. Even though the main G20 summit will take place in November, the ministerial meetings are quite relevant as it is where the agenda is set, as well as the goals to be achieved, the desired coordinated policies to be implemented, and negotiations start to take place.

Relevance and composition of the G20. Since its creation back in September 2009, the G20 has been the single most important global institution in terms of coordinated economic policy. The world shares the idea that in the absence of the G20 it would have been extremely harder to ‘get out of the woods’ from the Global Financial Crisis in 2008-2009. The G20 is comprised by 19 countries - Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, the United Kingdom, and the United States of America-, and the European Union, represented collectively by both, the European Commission and the European Central Bank (ECB).

The G20 2020 agenda. The title of the G20 agenda for this year is: “Realizing Opportunities of the 21st Century for All”. The three key aims of the 2020 G20 Presidency are: (1) Empowering people, by creating the conditions in which all people -especially women and youth-, can live, work, and thrive; (2) safeguarding the planet, by fostering collective efforts to protect our global commons; and (3) shaping new frontiers, by adopting long-term and bold strategies to share benefits of innovation and technological advancement.

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The G20 presidency rotates every year. Argentina led the G20 two years ago, Japan did it last year, and this year it is the turn for the Kingdom of Saudi Arabia.

The G20 accounts for more than 90% of the world’s GDP, slightly more than 65% of the population, 50% of the Earth’s land, and nearly 80% of the globe’s trade.

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G20's main takeaways. In our view, four aspects dominated the discussion: (1) The workgroups surrounding the G20 agenda, mainly focused on the implementation of an 'ESG' framework at the sovereign level; (2) the effects of the nationalist populism wave that the world has been going through in the past few years on the structural side of macroeconomics. In particular, the aim is to create conscience about the benefits of free trade not only in terms of boosting economic growth rates, but also in terms of reduction of income inequality and the benefits of an open capital account; moving on to (3) short-term issues, the central topic continues to be to identify where is the economy in the current business cycle, as well as which could be the potential triggers of the next global recession: Could it be the 'Coronavirus' epidemic? or Bernie Sanders' presidential candidacy in the US?; and (4) economic policies that could be used to tackle potential recessions.

(1) Workgroup surrounding the G20 agenda. The most important topic discussed in this context was the implementation of an 'ESG' framework (*ESG* as *Environmental-Social-Governance*) at the sovereign level to be able to evaluate how close the world is getting close to the G20 2020 goals. The 'ESG' model has been extensively used in the analysis of companies and institutions in the past few years. However, this time the G20 is fostering the use of it at the sovereign level to have a more comprehensive evaluation of a country's medium-, and long-term vulnerabilities, as it is comprised of an explicit assessment of institutional and social stability indicators, as well as vulnerabilities arising from climate change.

(2) Structural macro. The aim here was to generate conscience about the benefits of trade openness on economic growth, but also on the reduction of income inequality. In this context, Kristalina Georgieva, the new Managing Director of the International Monetary Fund (*IMF*), highlighted that even though there are several studies and empirical evidence of the benefits of free trade on boosting a country's economic growth, there are still doubts about the benefits on income inequality reduction. Georgieva mentioned that, for example, for a middle-, and high-income family, the average prices for goods in an open economy are 25% lower, compared to a closed economy, while for a low-income family, these goods are 65% cheaper in an open economy, contributing to the reduction of income inequality. Moreover, openness in the capital account was another topic under discussion, particularly as the wave of nationalist populism that has created relevant trade tensions has now also permeated in capital flows. We highlight here the outstanding presentation of the Governor of Banco de México.

The Saudi Arabian economy -with a total area close to Mexico's territory (1.95 million squared kilometers), with 2.15 million squared kilometers-generated a nominal GDP of 760 billion US dollars in year 2019, approximately, making it the #17th in the world, just one place below Indonesia (#16) and two places below Mexico (#15), but one place above Turkey (#18), and two places above Argentina (#19).

Saudi Arabia's population currently ranks #19, with a population of slightly more than 33 million people, between Canada (#19) and Australia (#20). Mexico ranks #9 with 125 million people, approximately.

Per capita GDP in Saudi Arabia is nearly US\$ 23,000, ranked #11 in the world, one place below South Korea (#10), and one place above Russia (#12). Mexico ranks #15 in both, nominal and per capita GDP, with nearly US\$ 10,000.

Mexico – Benefits and responsibilities stemming from a free capital account.

The governor of Banco de Mexico, Alejandro Díaz de Leon, emphasized in the importance of keeping free capital mobility and a flexible exchange rate regime in order to be able to fully benefit of free trade. In particular, Diaz de Leon focused on benefits such as being able to diversify the investor base, develop local markets, and improve the assets price-discovery process. He added that instead of imposing restrictions to reduce price volatility, it is healthier for countries to keep strong macro fundamentals and sound balance sheets in both the public, and the private sector.

(3) Current issues. The main topic under discussion continues to be where is the world economy in the current business cycle and the seemingly higher probability that we might be getting closer to a global recession. In contrast to the past *IMF-World Bank* Fall meetings (October 2019) or the latest *World Economic Forum (WEF)* back in January -where the main focus was the de-synchronization of global growth, mainly because the US economy seems to be breaking apart from the global deceleration dynamics-, this time the discussion was centered in the probability of the ‘Coronavirus’ epidemic or Bernie Sanders’ presidential candidacy in the US might -jointly or separately-, trigger the next global recession.

“Coronavirus”. The “Coronavirus” epidemic will trigger a short-term slowdown globally, particularly in China. However, it could also detonate the next economic recession. Four reasons were discussed: (i) The degree of contagion of “Coronavirus” is well above *SARS* (Severe Acute Respiratory Syndrome); (ii) the Chinese economy is significantly larger than back in year 2002 when *SARS* hit the world. China accounted for 8.3% of the global economy in 2002, while it is now responsible for one fifth of the world economy; (iii) the global economy seems to be in a much more vulnerable stage *vis-à-vis* 2002, mainly because it has already endured 10 years of expansion, and there is not much space for a significant increase in monetary stimulus, as interest rates are already at historical lows; and (iv) even though consensus is anticipating a “V-shaped” recovery of the Chinese economy after the “Coronavirus” effect, there is a non-negligible probability that it could observe an “L-shaped” recovery. This could happen if businessmen do not invest enough to go back to pre-“Coronavirus” stage, which could well then happen if they do not share a very optimistic appraisal of the economy in the next few years.

The most important crude oil company in Saudi Arabia is the state-owned Saudi Aramco, that is no longer owned by the government in full, as the government conducted an IPO a few months ago.

The Saudi Arabian government has aimed for many years to diversify its economy out of crude oil, with little success.

Knowing that crude oil might not continue to be the main source of fuel on Earth in the next few years, the crown prince, Bin Salman, has set his father’s kingdom priority to diversify the Saudi economy. As a result, he pushed hard to conduct Saudi Aramco’s IPO. As a result, last year Saudi Aramco issued stock accounting for 1.5% of the company, generating US\$ 25.6 billion in fresh resources to invest in other sources of growth for the Saudi economy.

At the moment of publication of this report, the number of people infected by “Coronavirus” has reached nearly 79,000, and there are close to 2,500 unfortunate deaths.

Bernie Sanders’ plausible presidential candidacy in the US. Either by itself or accompanied’ by the impact of “Coronavirus” on the economy, another possible trigger for a global recession is the increasingly higher probability of Bernie Sanders becoming the Democratic Party candidate to run for president in November. We do acknowledge that it is too early to tell if Sanders will be the US Democratic candidate, given that he has only won the primary caucus in three not-particularly populated states (Iowa, New Hampshire, and Nevada). Whether Sanders is able to defeat Trump in the elections or not, Sanders’ socialist discourse and his past vote against the USMCA (United States-Mexico-Canada trade agreement) will probably hinder global confidence among financial investors and businessmen in general. Even consumer sentiment might fall as well. This can translate into higher volatility in global financial markets and lower investment and consumption levels, potentially leading the world economy towards a recession.

(4) Economic policy to tackle a potential global recession. The most important discussion around this topic was based upon the fact that interest rate levels are already at historical lows. As a result, there is not much space to implement further monetary stimulus. This is why fiscal policy comes back to the center of the equation, “accompanying” the existing monetary stimuli, particularly focused on infrastructure projects. Besides providing support to the global economy, fiscal expansion directed towards infrastructure development could well reach the least-favored deciles of the socio-economic pyramid. Here we highlight the participation of the Minister of Finance of Mexico.

Mexico – Importance of responsible counter-cyclical fiscal policy. Arturo Herrera, Minister of Finance of Mexico, talked about the urge for many countries, including Mexico, to be able to conduct counter-cyclical policies, while keeping healthy public finances. In this context, MoF Herrera recognized the need to boost tax collection well above the current ratio of non-oil revenues to GDP of 13% in Mexico -very low compared to the OECD average at 34%-, and suggested to implement a holistic model to allow sustainable higher revenue levels and create what he called “a technically defined framework” that allows the country to save in good times, and spend in the rainy day, to smooth down the country’s business cycles.

It is worth noting that on the one hand, Herrera mentioned Blanchard’s recommendation when he was the *IMF* chief economist at the time of the global financial crisis, that countries should conduct a fiscal expansion up to 2%-pts of GDP, if they had ‘the space’ to do it, in order to ‘accompany’ the monetary efforts. On the other hand, even though Herrera did not mention anything particular in terms of how he will boost tax revenues, we believe that he will try to push for a fiscal reform that complies with the president’s promise of not increasing or creating new taxes. Under these grounds, it is our take that fiscal revenues could be boosted then by reducing the list of goods and services that either pay zero VAT or are exempt of this tax, as well as by reducing deductibles, and change the income brackets to get to a higher personal income tax rate ‘faster’ in the induced progressiveness. We are not sure that the wealth tax will be imposed, despite global and local pressure, as the president seems not to like this tax.

Diaz de León on monetary policy in Mexico. Banco de Mexico governor said that last year Mexico faced four challenges: (1) Lower crude oil production; (2) trade tensions globally; (3) a less accommodative Fed monetary policy; and (4) Mexico's own idiosyncratic factors. However, he also highlighted that this year the country is facing a different set of factors: (1) Increased social tensions in Latin America; (2) reduced trade tensions globally; (3) central banks have continued reducing interest rates; and (4) the "Coronavirus"-related threat to dampen down global economic growth will probably foster central banks -the Fed included-, to become even more accommodative, despite there is not much space left. In our view, these comments support our view that Banxico will continue to lower interest rates at least up to reach a level of 6.50% this year, from the current 7.00%.

The importance of global coordinated actions and the Saudi leadership. Currently it is quite hard to achieve coordinated action globally, mainly because of the nationalist populism wave the world has been experiencing in the past few years. As a result, global coordination efforts such as the G20 meetings are indeed welcomed. Furthermore, we consider it is quite a development that Saudi Arabia is leading the G20 agenda for the very first time, in order for the country to continue with the most recent reforms towards opening the country, as it is the case of the 33-year old crown prince, Bin Salman's, latest changes in the law, particularly enhancing women's rights. For example, women are now allowed to drive cars and perform several bureaucratic processes that were an exclusive prerogative of men.

Going forward. While G20 countries will continue to work hard throughout the year in the agenda that was set up last weekend, the next global event will be the IMF/WB Spring meetings in April, and the G20 main summit will take place on November 20 and 21, once again in Riyadh.

Related research note

"2019 IMF/WB Fall Annual Meetings – Geopolitical issues restrict capacity of policymakers to react", October 21, 2019 <[pdf](#)>

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