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G20 to urge clarity to mute volatility

MANAGING SIGNALS:: The G20 will ‘remain mindful’ of unintended side-effects from extended monetary easing to limit the impact on emerging markets and their currencies

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Global finance chiefs, faced with concern among emerging economies about the shockwaves of monetary policy announcements, are to urge decisionmakers to communicate changes precisely.

The G20 nations will pledge to “remain mindful” of unintended negative side-effects from extended monetary easing, according to a draft of the communique that was to be completed in Moscow yesterday, obtained by Bloomberg News.

Future changes will be “carefully calibrated and clearly communicated,” according to the document, which also emphasizes the harmful effects of “excess volatility” in financial markets.

Nations were also wrestling with how strongly to call for budget-cutting plans. Proposed medium-term budget targets, a goal sought by Germany, were softened to pledges to present fiscal strategies, a G20 official said yesterday. There was also debate over whether to single out the US and Japan for not following through on previous budget-planning commitments, the official said.

“Europe favors fiscal austerity, while the US believes that those countries that can afford it should use fiscal policy to stimulate the economy,” Pawel Samecki, deputy chairman of a World Bank and IMF advisory committee, said in an interview in Moscow yesterday.

Samecki also serves as the head of the Polish central bank’s international department.

Finance chiefs at the G20 gathering are grappling with competing priorities for the global economy. The draft communique notes that the US and Japanese economies are strengthening while growth slows in emerging markets and the euro area remains mired in recession.

“The emerging markets continue to remain very concerned that advanced-economy policies are creating volatility in global financial and currency markets and they are looking for defensive mechanisms,” Eswar Prasad, a former IMF official who teaches economics at Cornell University in Ithaca, New York, said in an interview.

Speculation about developed economies scaling back their unprecedented monetary easing has roiled emerging-market currencies and bonds since G20 finance chiefs last met in April. That prompted policymakers including US Federal Reserve Chairman Ben Bernanke to refine their message.

“The crucial challenge is how the financial markets manage these signals and how they manage them in a way in which emerging markets and their currencies are not negatively affected,” South African Finance Minister Pravin Gordhan said in an interview with Bloomberg Television on Friday.

The market reaction to the prospect of the Fed starting to taper its stimulus was “excessive, totally unjustified,” European Central Bank Governing Council member Christian Noyer said in Moscow.

Bernanke, who did not travel to the meeting, has now “done enough” to convey that US policy won’t change overnight, giving the rest of the world time to adjust, Gordhan said.

The US dollar weakened against most of its major peers in response to that reassurance.

The G20 discussed the importance of carefully calibrating and communicating the US unwinding its quantitative easing, South Korean Finance Minister Hyun Oh-seok told reporters in Moscow on Friday.

Several countries pointed out the possible negative spillover effects emerging economies may face from such moves, he said.

Bank of Japan Governor Haruhiko Kuroda said Japan will continue its “powerful” monetary easing program and that it will be natural for the US to throttle back its bond buying once the recovery takes hold.

Europe needs to do more to jumpstart its economy, US Treasury Secretary Jack Lew said as his EU counterparts defended their job-boosting efforts.

US Federal Reserve Vice Chairman Janet Yellen told the G20 meeting that calibrating the pace of unwinding stimulus would be in line with circumstances of the US economy, Hyun said.

Finance ministers from France, Italy and Germany said the EU is committed to fighting joblessness and pursuing its growth agenda.

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