



Chair's Summary

G20 Conference “Towards a More Resilient Economy” Berlin, Germany, 30 November 2016

The Conference

On 30 November 2016, the incoming German G20 Presidency, with the support of the Centre for European Policy Studies (CEPS), gathered together G20 Finance Deputies, representatives of International Organisations and world-renowned academics to discuss economic and financial resilience.

Resilience is a topic that matters to the G20 and the wider international community: all G20 members have experienced the severe impact of the last financial and economic crisis on growth, employment, public finances, social cohesion and support for globalisation. It is therefore imperative for the G20 to do everything possible to avoid such a crisis reoccurring and to prepare their economies for exogenous shocks and endogenous challenges.

In this context, economic resilience includes reducing vulnerabilities of economies through strengthening their capacity to absorb and overcome severe shocks, for example by avoiding unsustainable financial booms and supporting sustainable and inclusive growth in the face of risks and pressures related to structural challenges and megatrends.

The Conference highlighted the issue of resilience and analysed its component parts. It then discussed policy measures which individual economies could use to enhance resilience, a priority for the German G20 Presidency in the finance track. Specific priority areas may differ from member to member. Nonetheless, coordinated actions could exploit synergies and the effects of individual policy actions could be amplified through positive cross-border flows.

Conference participants debated and discussed at length six overarching themes:

Public Debt: Sustainability and Transparency

Participants discussed how public finances can be managed to achieve and sustain resilience and how the state of public finances can be better measured and monitored.

Fiscal institutions and fiscal transparency have a crucial role to play in ensuring resilience, for example through independent forecasting and scrutiny of public finances. A number of examples were put forward of successful institutions at national level which promote and ensure fiscal transparency. Notably, participants discussed ways to present

and consolidate public sector balance sheets as well as the critical role of macroeconomic assumptions as inputs for fiscal rules. Several participants emphasised the importance of communicating with the public and of credibility and national ownership when it comes to implementing fiscal rules. On the macroeconomic policy mix, participants weighed the appropriate roles and the interdependence between fiscal and monetary policies when interest rates are at the zero lower bound.

Private Debt: Deleveraging and Avoiding Bubbles

Participants discussed how to ensure that private sector leverage is at a sustainable level and how to deal with debt overhang problems. Over-leveraging in the private sector is not only a risk in the short-term but can hinder resilience and growth in the longer term, for example by reducing the potential for investment. The financial sector, when appropriately regulated and monitored, can play a central role in enhancing resilience by being less susceptible to asset price bubbles and facilitating equity finance.

Reducing the debt bias can enhance loss absorbing capacities and hence the resilience of the private sector. Appropriate tax policies, prudential policies and bankruptcy regimes could help to discourage the build-up of unsustainable private debt.

The Real Economy: Resilience through Flexibility

This session examined and reaffirmed the importance of structural reforms for enhancing resilience to future shocks and challenges. Structural reforms (alongside fiscal and monetary policy) are essential to increase resilience, for example by increasing product and labour market flexibility and adaptability in response to shocks flanked by policies to enhance the efficiency of social safety nets that help buffer shocks (“flexicurity”). A wide range of national level measures were considered to enhance resilience, including active labour market policies (e.g. reskilling) and policies to foster competition such as removing barriers to entry and exit of firms, especially for small and medium sized enterprises (SMEs).

Taxes: Improving the Global Framework

Participants discussed how to mobilise tax resources effectively to enhance resilience. This included the need to ensure compliance with tax laws and further support for developing countries’ tax administrations.

On tax certainty, there was consensus regarding the need to ensure that appropriate measures are in place to allow businesses, including SMEs, to know where, when and how their products and profits would be taxed. In this context, it was noted that effective dispute prevention and dispute resolution mechanisms can play an important role. More generally, the importance of unified standards was stressed. Participants also started a much needed discussion on the broader issue of taxes and digitalisation, covering both direct and indirect taxation. This touched upon the question of value creation in digital business models and on the relevance of data as an “input”. Moreover, participants

discussed the appropriateness of the existing tax framework for these new business models.

Capital Flows: Shocks or Shock Absorbers?

This session stressed that avoiding over-reliance on short-term capital and foreign denominated debt is essential to building resilience. Much of the discussion focussed on circumstances in which to employ capital flow measures and/or macro-prudential measures and their effectiveness. To be able to assess these, participants also identified several gaps in the data currently available. Another important topic related to the difficulties of financing the vast investment infrastructure needs of emerging markets in a resilient fashion.

A lively discussion centred on international instruments such as the *OECD Code of Liberalisation of Capital Movements* and the IMF's *Institutional View* – and their role in dealing with capital flows, fostering resilience and raising investor confidence.

Global Financial Architecture

Participants discussed what determines the stability of the global financial architecture - specifically whether these are macro or micro factors. Participants stressed that heightened political uncertainties necessitated strong policy action on the national, regional and global level. At a national level, G20 members can commit to do their part to ensure that the Global Financial Safety Net remains credible, by strengthening the resilience of their economies through appropriate policy measures. At the regional level, further development of Regional Financial Arrangements was emphasised but a close cooperation with the IMF was considered essential. At the international level, all actors should work together to ensure “sustainable financing” through both appropriate funding and proper incentives and by avoiding a “race to the bottom” regarding the conditionality of international financial institutions. Continuing work on balance sheet optimisation on the part of the Multilateral Development Banks will be an important aspect. Also, the IMF toolkit should be developed further, to ensure that well-designed instruments offer the best support to members within the available IMF resource envelope.

Next Steps

The German Presidency is grateful to all participants for their active participation in this conference. The discussions during the conference will be an important input to ensure that further work on this issue is underpinned by solid expert advice. The results of the conference will feed into the resilience debate in subsequent meetings in the finance track.