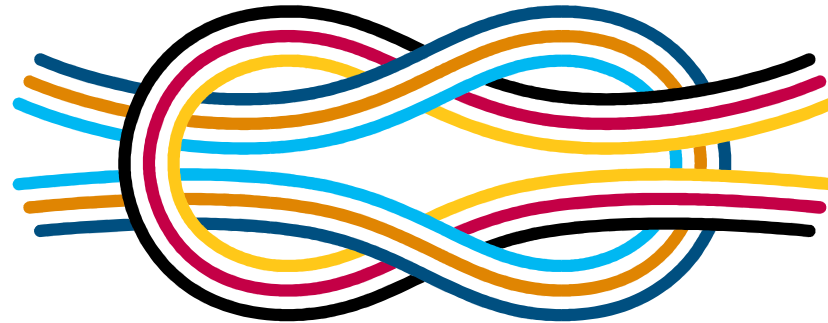




Bundesministerium
der Finanzen



G20 GERMANY 2017

Session II: “Enhancing the Resilience: Which type of macroeconomic policies, financial policies, and economic structures support the resilience to different types of shocks?”

Torsten Arnsward – Head of Fiscal Policy Division
German Federal Ministry of Finance, Berlin.

37th Meeting of the Central Banks Governors' Club
Belek, Antalya-Turkey; 3 April 2017

German G20 Presidency 2017 Agenda

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Building Resilience

- **Global Economy**
- International Financial Architecture
- Financial Markets
- International Taxation
- Trade and Investment
- Employment

Improving Sustainability

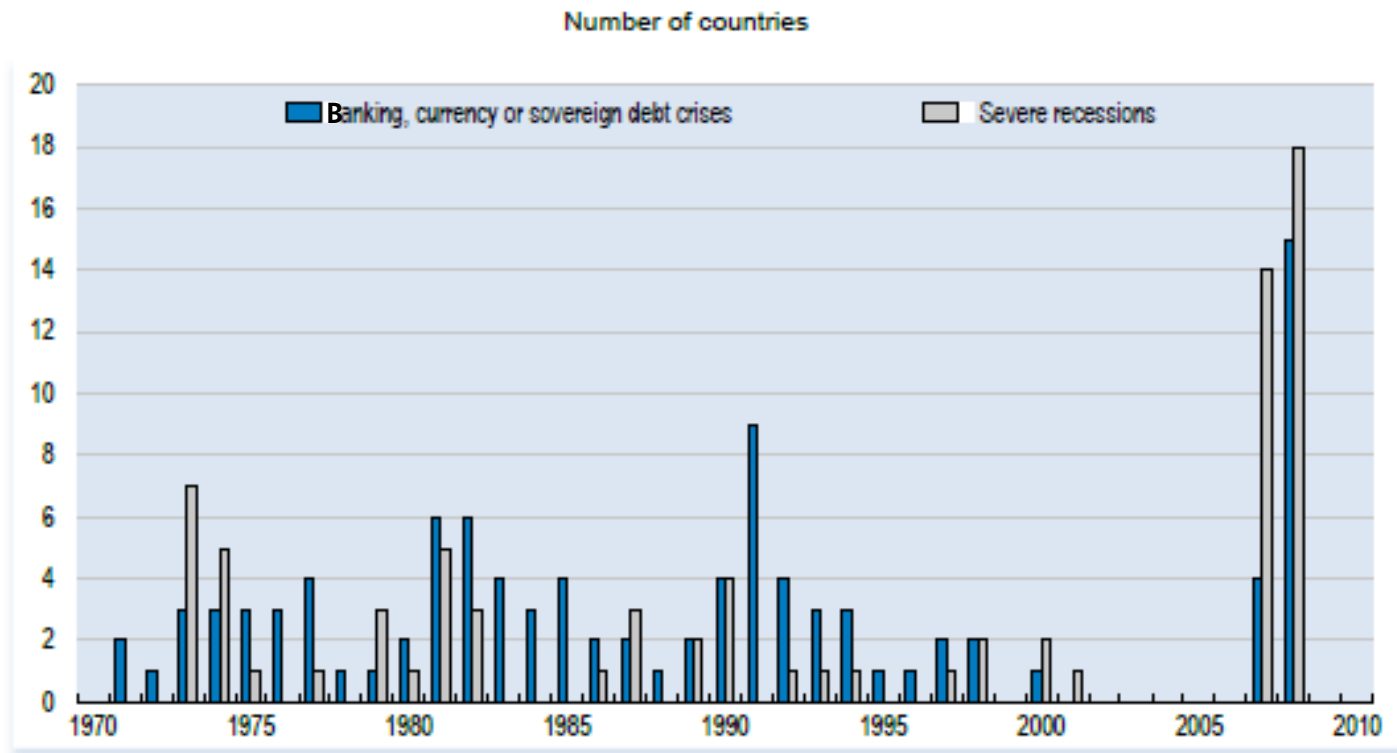
- Climate and Energy
- 2030 Agenda
- **Digitalisation**
- Health
- Empowering Women

Assuming Responsibility

- Tackling the causes of displacement
- **Compact with Africa**
- Combatting Terrorism-Financing / Anti-money laundering
- Anti-corruption
- Food Security

Resilience – why is it a G20 priority? #1

Various types of crises and severe recessions have been frequent:



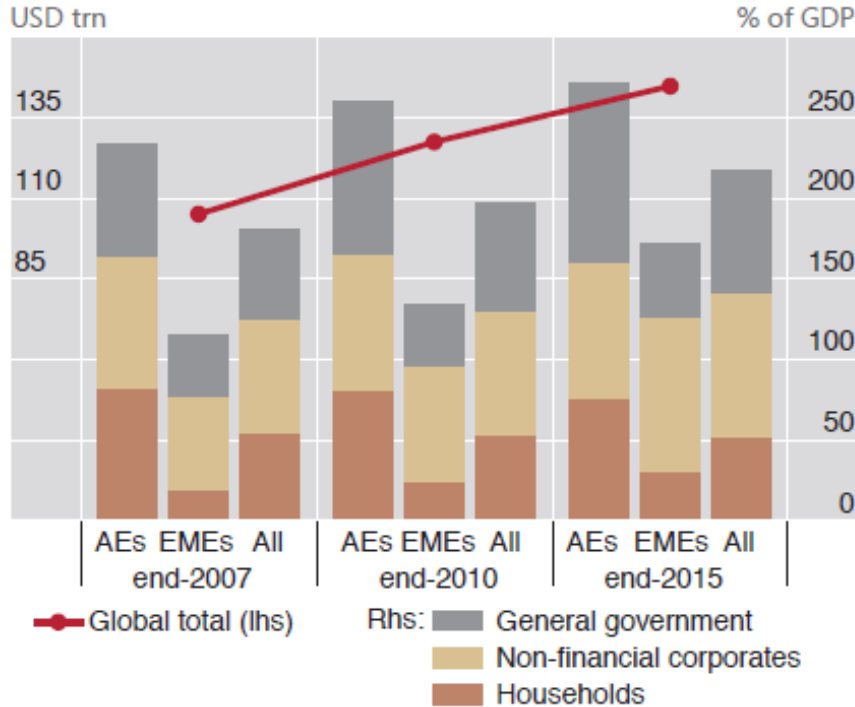
Note: The chart refers to crisis and severe recession episodes for 35 OECD countries over the period 1970Q1-2010Q4. Crisis episodes are from Babecky et al. (2012).

Source: OECD Economic Policy Paper No. 20; December 2016

Resilience – why is it a G20 priority? #2

Global debt as a proportion of GDP has risen:

Global Debt :

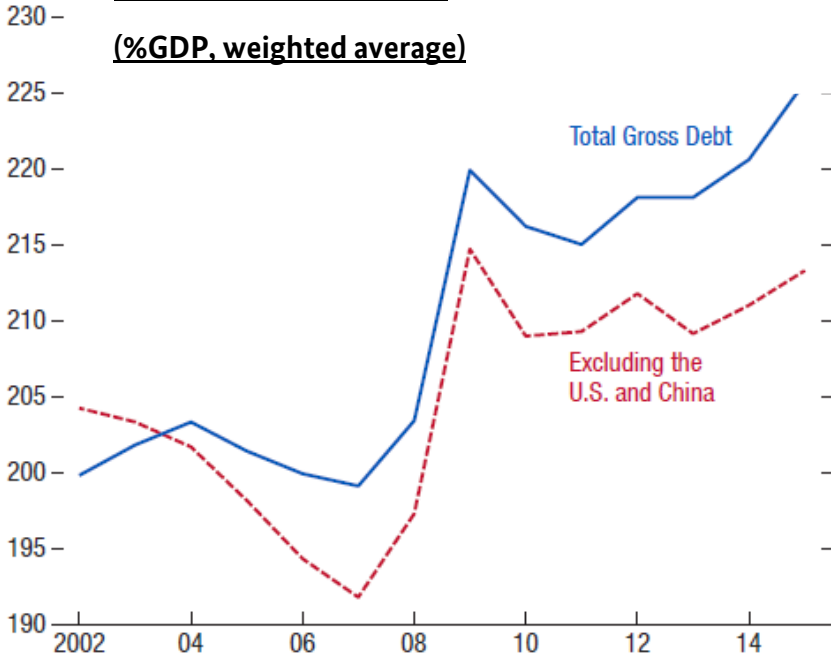


Source: BIS 86th Annual Report, March 2016



Global Gross Debt:

(%GDP, weighted average)



Sources: Abbas and others 2010; Bank for International Settlements; Dealogic; IMF, *International Financial Statistics*; IMF, *Standardized Reporting Forms*; IMF, *World Economic Outlook*; Organisation for Economic Co-operation and Development; and IMF staff estimates.

Note: U.S. = United States.

Source: IMF Fiscal Monitor, October 2016



Resilience – in the G20

G20 Agenda

- Broaden the agenda of the G20 beyond improving regulation of financial markets.
- The German Presidency aims at tackling other areas, through which resilience of economies may be improved.

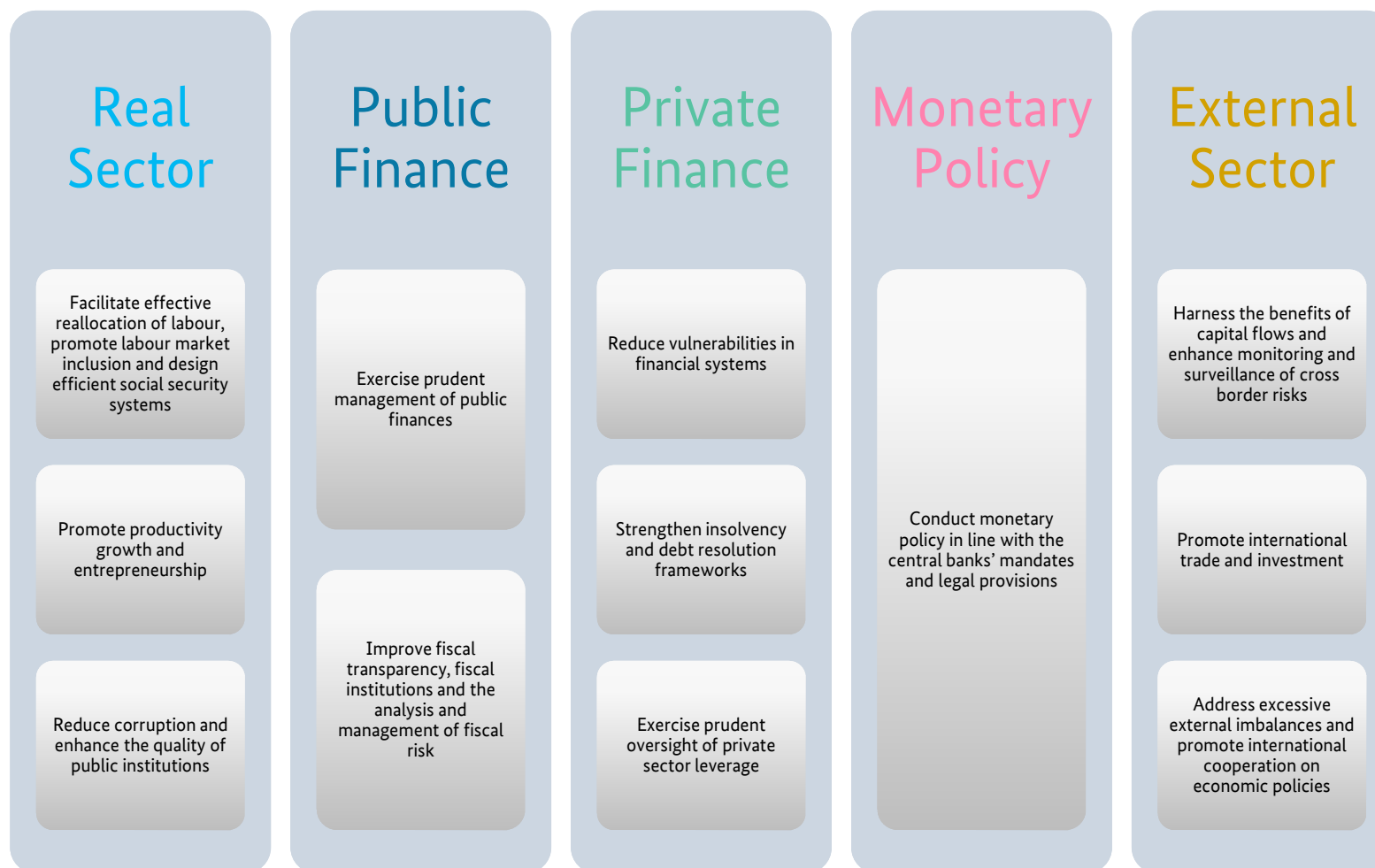
Definition

“Economic resilience means the capacity to:

- *achieve sustainable growth in the face of structural challenges;*
- *avoid excessive build-up of risks, imbalances and vulnerabilities*
- *absorb and overcome severe shocks and return quickly to a sustainable economic growth path.”*

Note on Resilience Principles: Key Principles

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Real Sector

- Enhancing Resilience through:
 - Labour force mobility – allowing the labour market to respond to shocks when they occur.
 - Productivity – make productivity growth more resilient by fostering capital reallocation.
 - Quality of public institutions – ensuring institutions support a resilient economy.

Strengthening the link between skills in the labour force and job requirements is indeed one example of a policy intervention where large productivity gains could be generated, given that skill mismatches are high in many OECD countries

(OECD – March 2016).

Public Finance

- Enhancing Resilience through:
 - Establishing fiscal buffers: Putting debt on a sustainable path – to prepare for and mitigate the impact of future crises.
 - Transparency and prudent management of public finances.
 - Quality of public finance – public spending and taxation regimes to promote growth and resilience.

“Entering a financial crisis with a weak fiscal position exacerbates the depth and duration of the ensuing recession“

(IMF 2016)

Private Finance

- Enhancing Resilience through:
 - Monitoring and assessing level of private debt – being aware of bubbles/booms before they cause problems
 - Continuing work on reforming the financial system – building on previous work to ensure the system is prepared for a future crisis.
 - Ensuring institutions and legal frameworks are effective in a crisis.

At 225% of world GDP, the global debt of the non-financial sector—comprising the general government, households, and nonfinancial firms—is currently at an all-time high.

Two-thirds, amounting to about \$100 trillion, consists of liabilities of the private sector.

(IMF 2016)

External Sector

- Enhancing Resilience through:
 - Monitoring and evaluation of capital flows – awareness of where/when capital flows could make an economy vulnerable
 - Recognising the impact of global imbalances, trade and investment on resilience

Ultimately, recognising the importance of international capital flows would call for monitoring the financial cycle from a cross-country perspective. This is because the vulnerabilities in a particular jurisdiction may be greater when its exposure to global financial conditions is shared with other jurisdictions.

(BIS November 2016)

Monetary Policy

- Enhancing Resilience through:
 - Using monetary policy alongside fiscal policy and structural reforms
 - Central bank independence.

From its faltering initial steps in the 17th century, central banking has become indispensable to macro-economic and financial stability. Its performance at the height of the crisis proved this once more. Independence, underpinned by transparency and accountability, allowed central banks to act with the determination needed to put the global economy back on the recovery path.

(BIS 2016)

Thank you
for your attention!

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