



**TÜRKİYE CUMHURİYET  
MERKEZ BANKASI**

## **Response of the G20 to the Global Financial Crisis**

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Deputy Governor**

**CBRT-ECB Joint Conference  
Balanced and Sustainable Growth – Operationalising the G20 Framework  
27 August 2015, Frankfurt am Main**

# The G20's response in the aftermath of the global financial crisis of 2008-2009.

- In the aftermath of the global financial crisis (GFC) of 2008-2009 the G20 was effective in
  - (i) stabilizing financial markets and
  - (ii) launching a global economic stimulus
    - “...the largest and most coordinated fiscal and monetary stimulus ever undertaken...”
  
- The G20 succeeded in averting the possibility of an economic depression.

# A long-term response of the G20 to the global financial crisis of 2008-2009.

- The global financial crisis of 2008-2009 warranted coordinated economic policies for
  - strong growth,
  - a much stronger framework to correct global imbalances,
  - sound commitments to ensure that global growth is sustainable and
  - a safer, more resilient source of finance.
- The G20 responded convincingly by
  - launching the “*Framework for Strong, Sustainable and Balanced Growth [SSB]*” at the Pittsburgh Summit in 2009;
  - gradually strengthening the scope and governance of the framework through **new** commitments; and
  - coordinating the fundamental overhaul of international financial regulatory standards.

# A long-term response of the G20 to the global financial crisis of 2008-2009.

- **G20 policy coordination** is to ensure that fiscal, monetary, trade and structural policies are collectively consistent and lead to SSB growth.
- The **governance**: Mutual Assessment Process (MAP).

# Mutual Assessment Process

**2009  
Pittsburgh**

- MAP launched
  - «...a cooperative process of mutual assessment of our policy frameworks and the implications of those frameworks for the pattern and sustainability of global growth.»

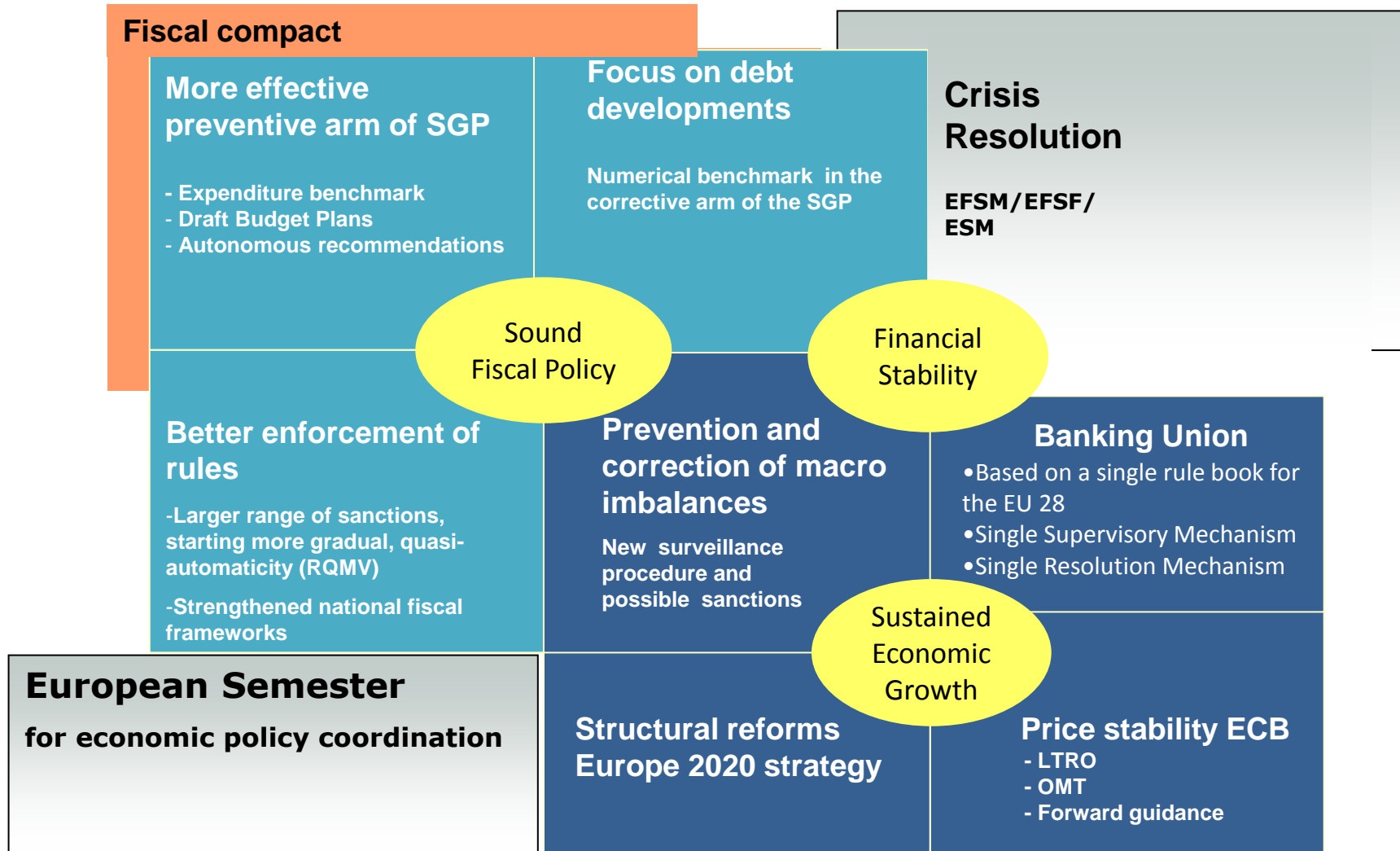
**2010  
Seoul**

- Enhanced MAP
  - External sustainability is promoted
    - Indicative Guidelines
- Accountability Assessment
  - Maintaining G20 credibility : «Comply or explain approach»

**2012  
Los Cabos**

- Enhanced Accountability Assessment
  - Peer review

# A Comparison between the G20 and the EU Governance Frameworks

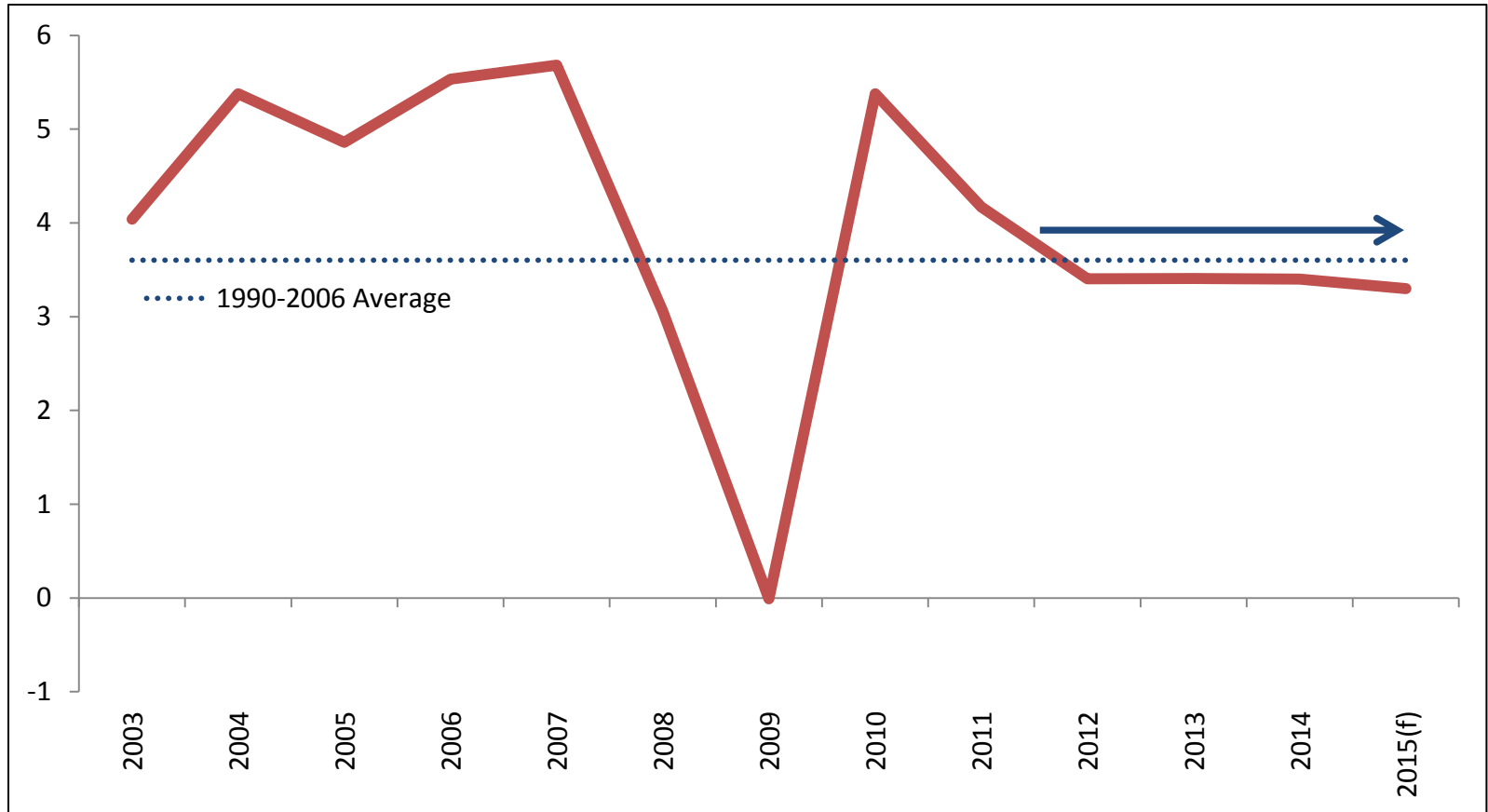


## The Assessment of the G20's Response.

- Has response of the G20 to the GFC succeeded in achieving the SSB growth aim?

# Weak Recovery...

## World Output Growth (%)

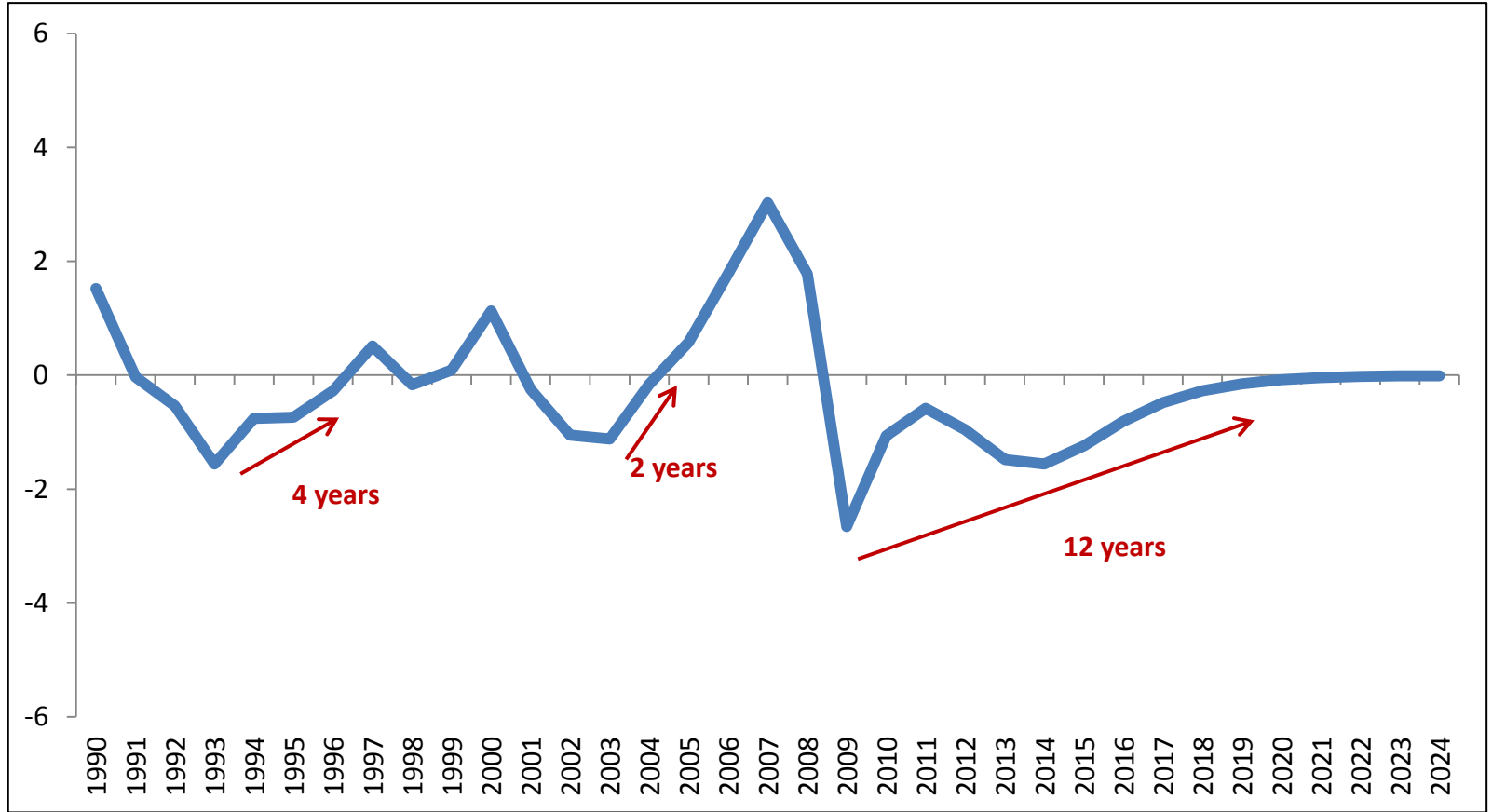


Source: IMF WEO July 2015



# ...And Still Ongoing Recovery.

## Global Output Gap (%)



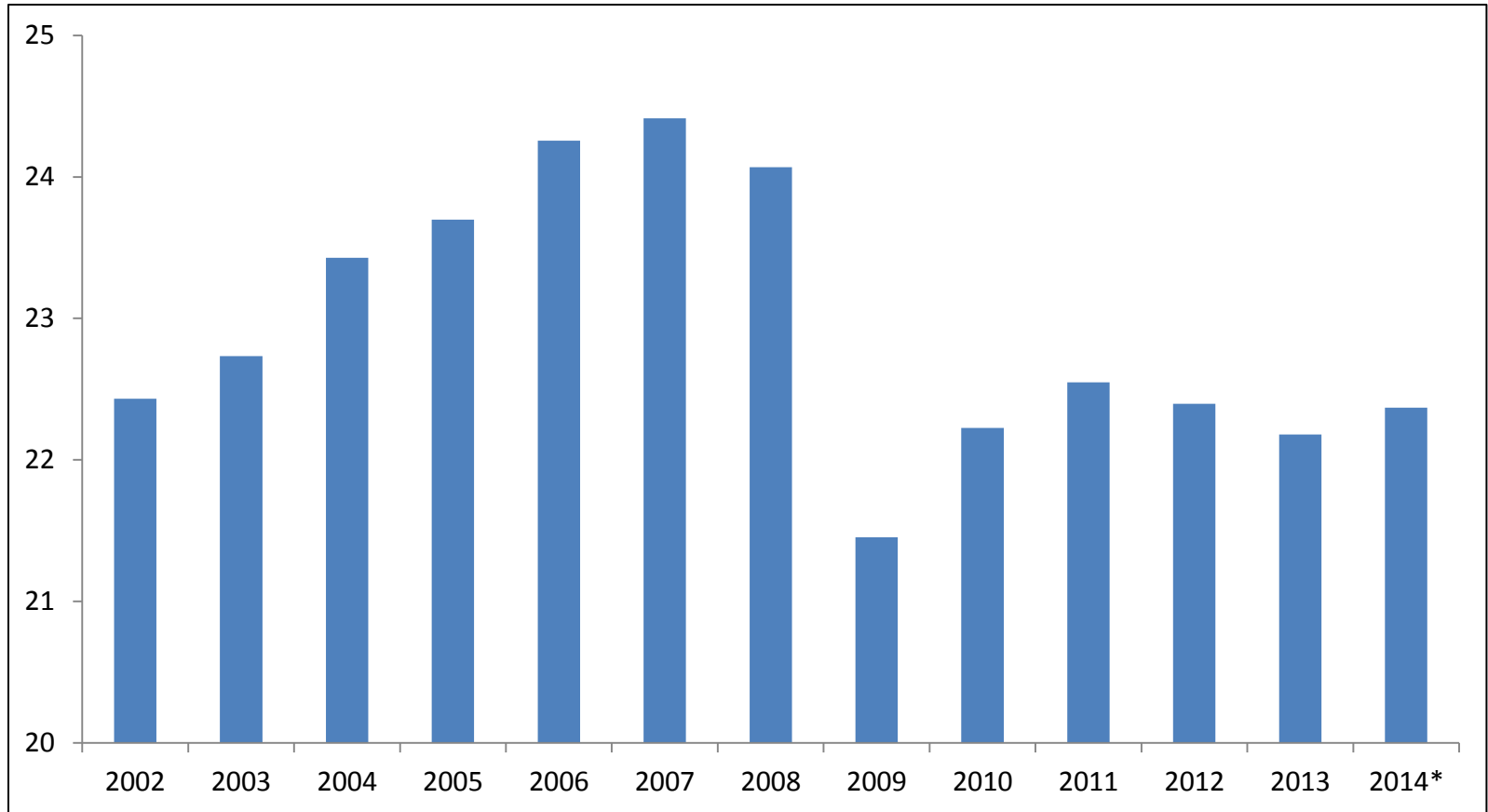
Source: OECD Long-term baseline projections 2014

## The Assessment of the G20's Response.

- Has the G20's response to the GFC succeeded in achieving the SSB growth aim?
- *Answer for the strong growth aim:*
  - *We have not achieved a strong global growth rate yet.*

# Investment level has been low in the post-global crisis era.

## World Gross Capital Formation (% of GDP)

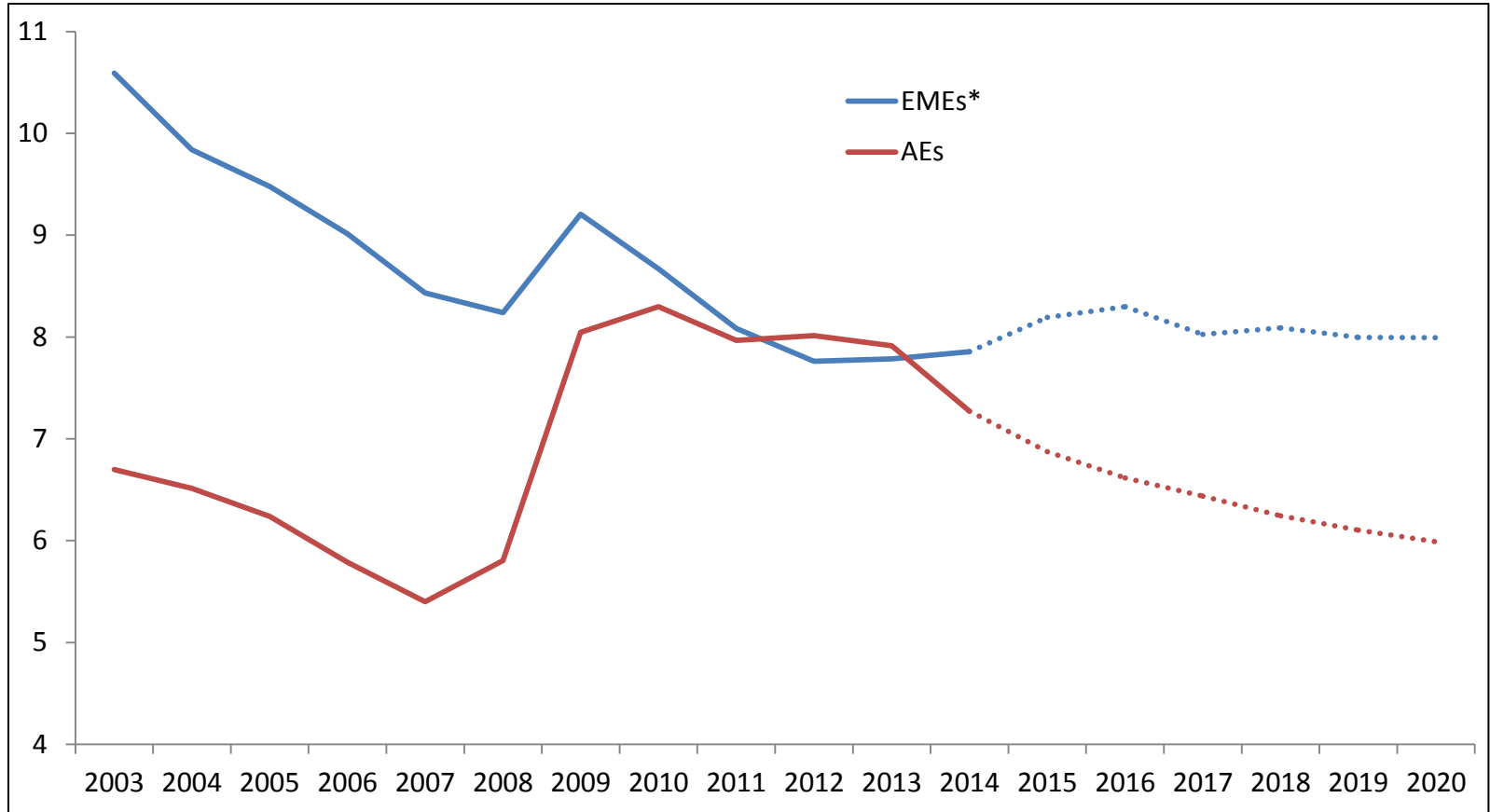


Source: WB WDI

\* Gross capital formation in 2014 is computed by using 5-year average growth rate.

# Unemployment rate is declining, but still higher than the pre-crisis levels for AEs

## Unemployment Rates (%)

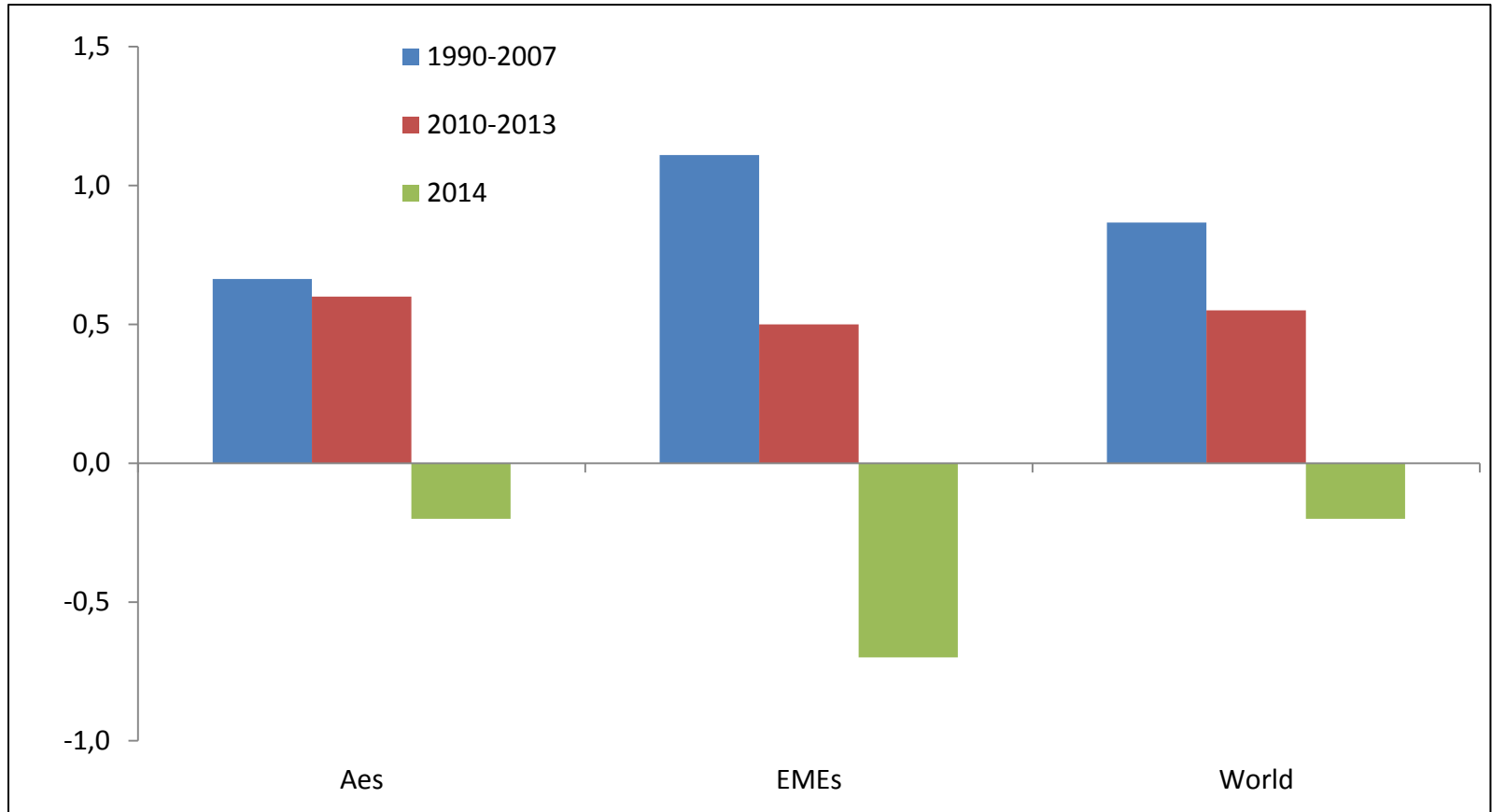


Source : IMF WEO April 2015

\* Average unemployment rate of Argentina, Brazil, China, Indonesia, S. Korea, Mexico, Russia, S.Africa, Turkey

# Productivity growth has been low since the crisis with no signs of strengthening in the near future.

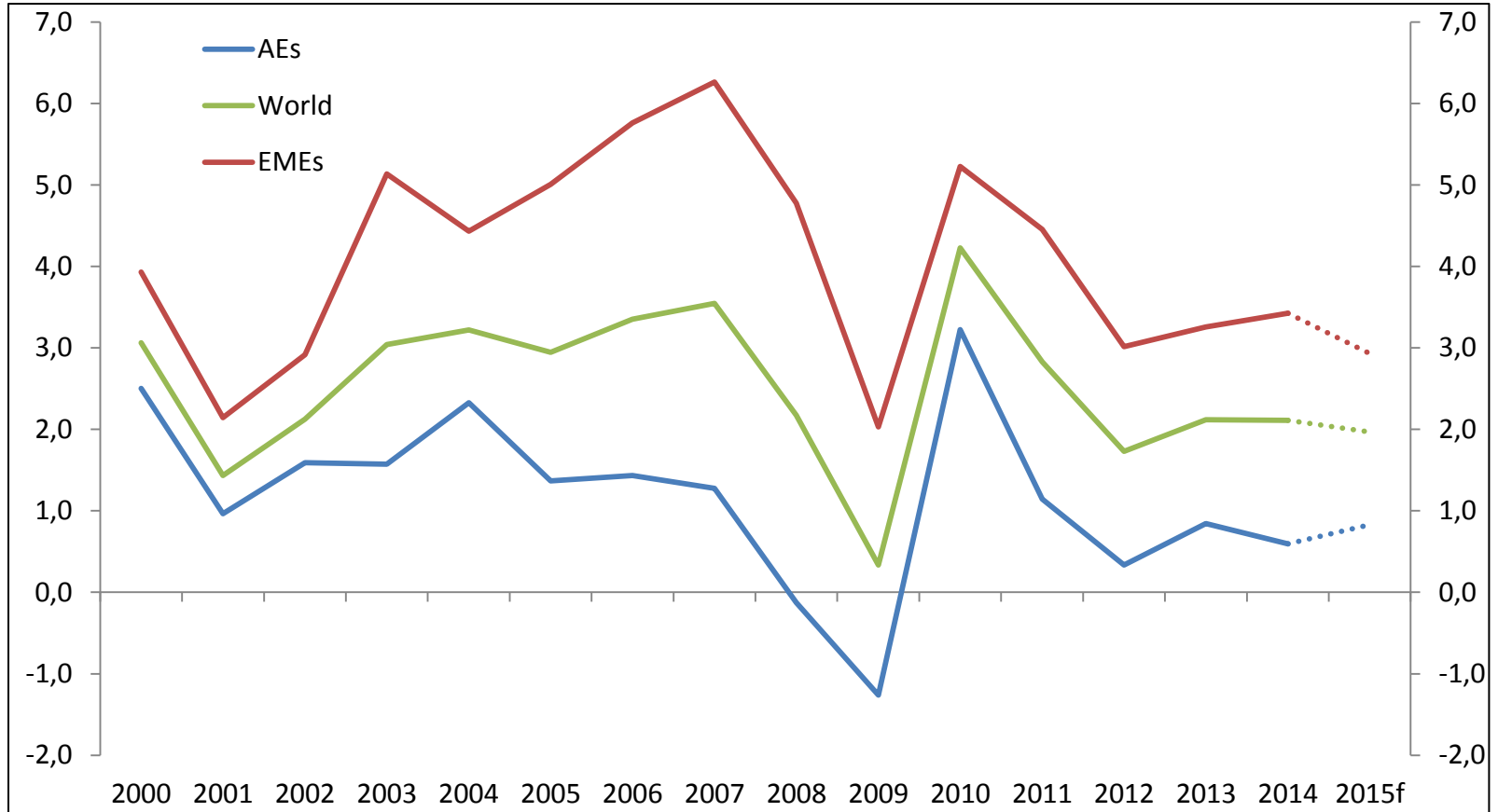
## Average Total Factor Productivity Growth (%)



Source: The Conference Board

# Labor productivity growth is also declining.

## GDP per Person Employed (%)



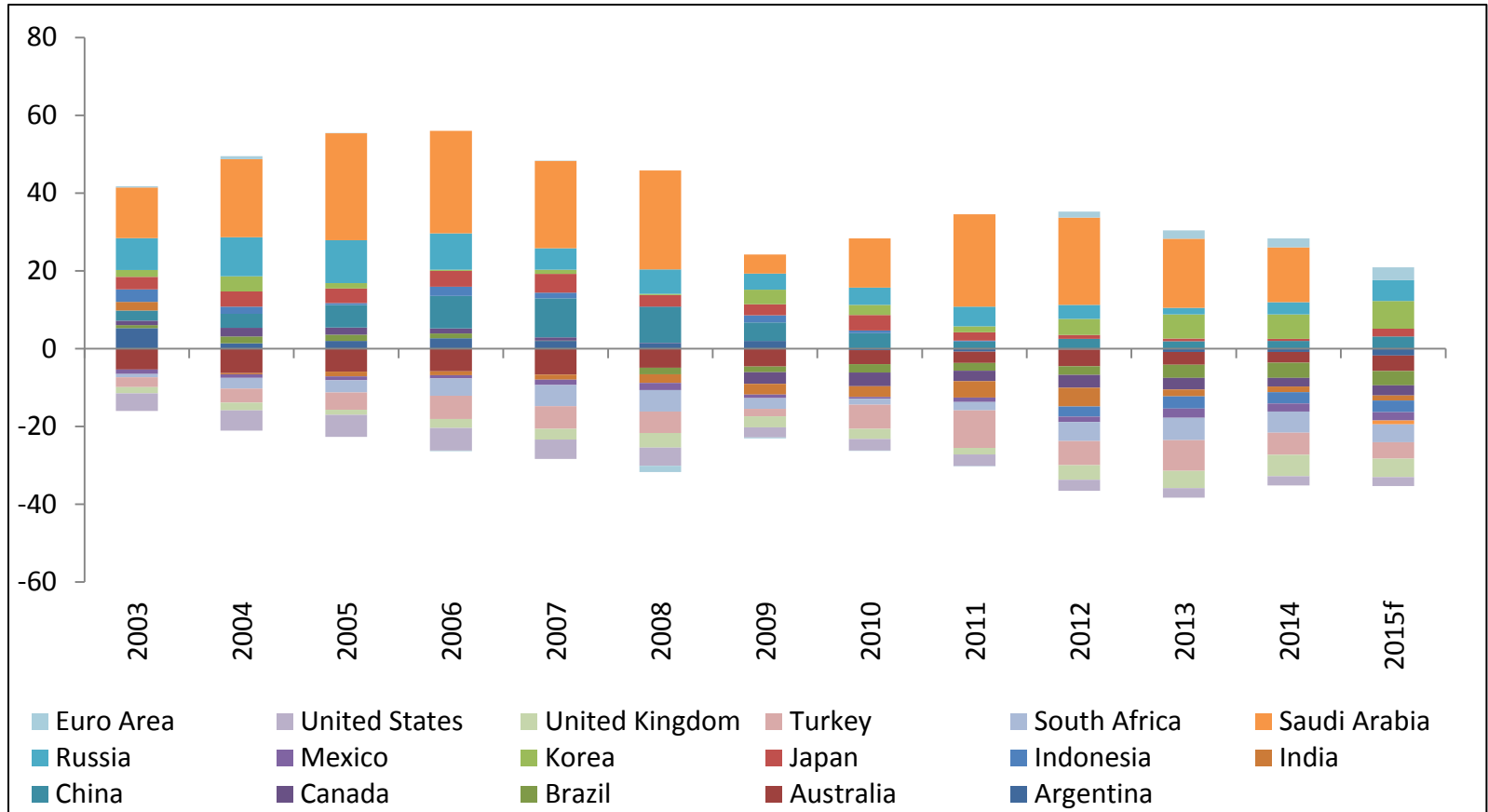
Source: The Conference Board

## The Assessment of the G20's Response.

- Has the G20's response to the GFC succeeded in achieving the SSB growth aim?
- *Answer for the sustainable growth aim:*
  - *Global growth does not seem to be sustainable yet.*

# Global imbalances are narrower compared to the pre-crisis period...

## Current Account Balance (%GDP)

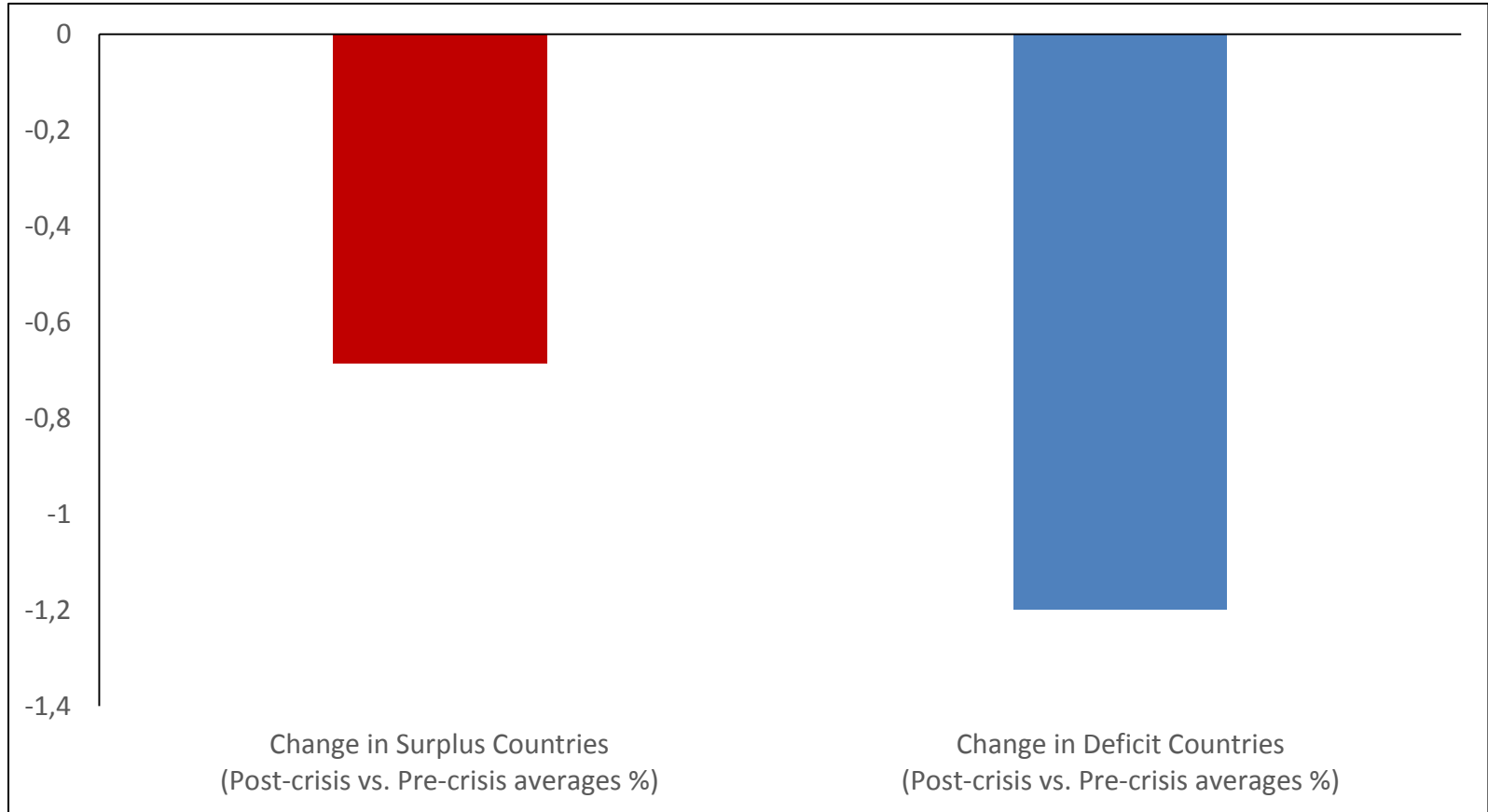


Source: IMF



....in both deficit and surplus G20 countries.

### Change in Current Account Balance (%GDP)

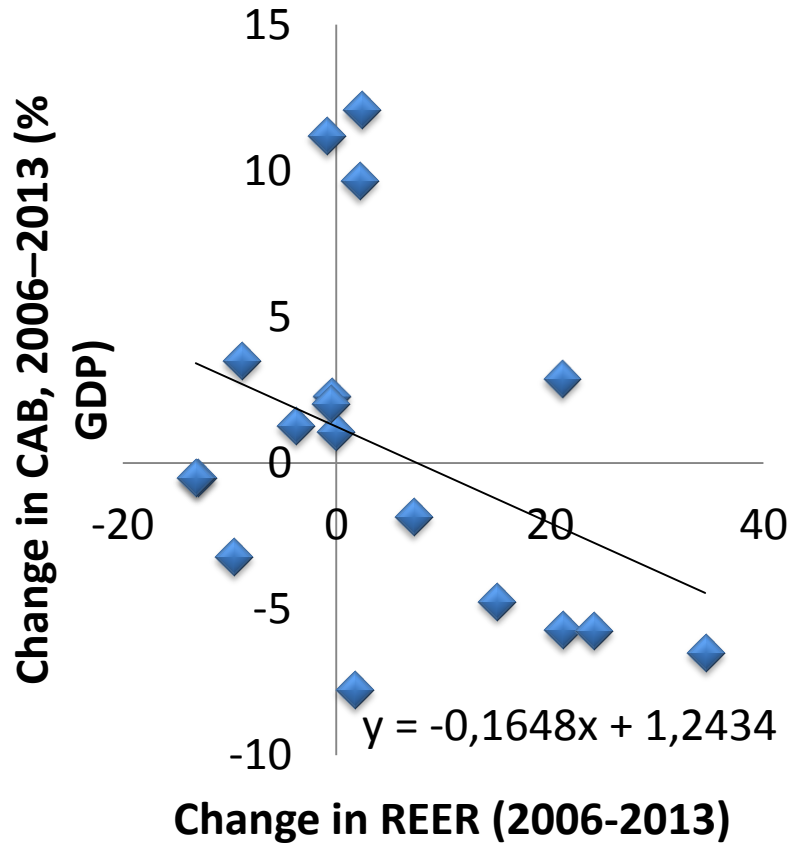


Source: IMF WEO April 2015, CBRT Calculations

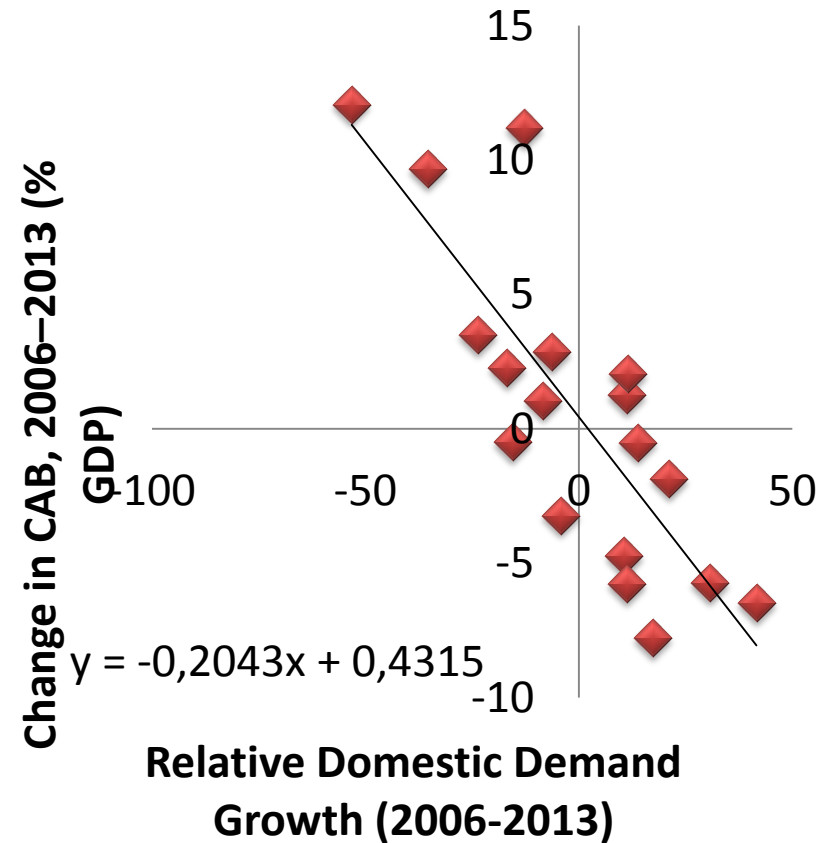
Note: The difference between post-cris averages of current account balances and pre-crisis averages of current account balances

# However, role of demand compression is higher

## Expenditure Switching?



## Expenditure Reduction?

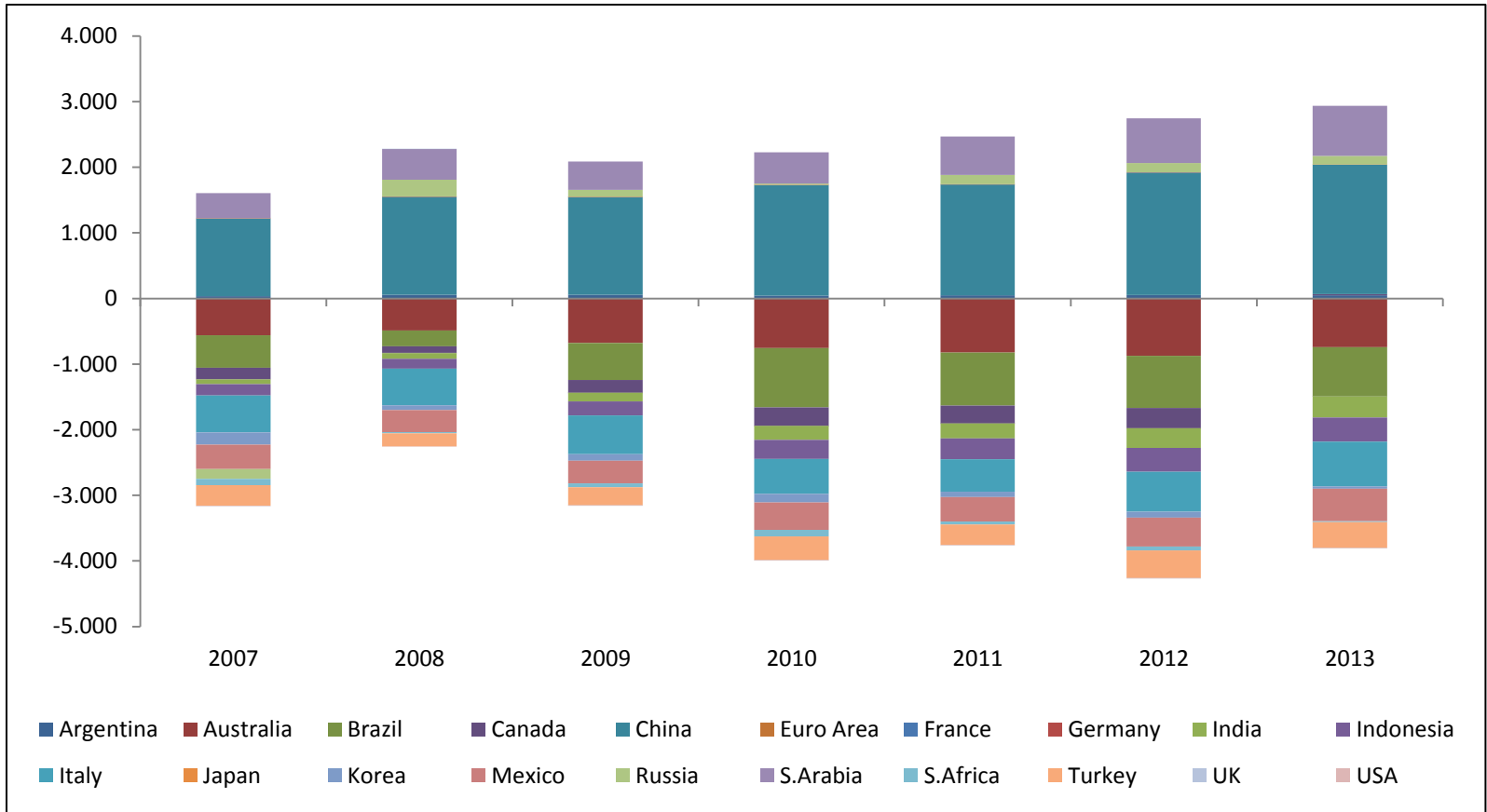


Source: IMF WEO October 2014

Reference: Aslam A., S. Beidas-Strom, M.E. Terrones and Yopez J. (2014), «Global Imbalances: Whither now?», [www.voxeu.org](http://www.voxeu.org)

# ...and not much improvement in stock balances

## Net International Investment Positions (Thousands \$)



Source: IMF IFS

# The Assessment of the G20 Response.

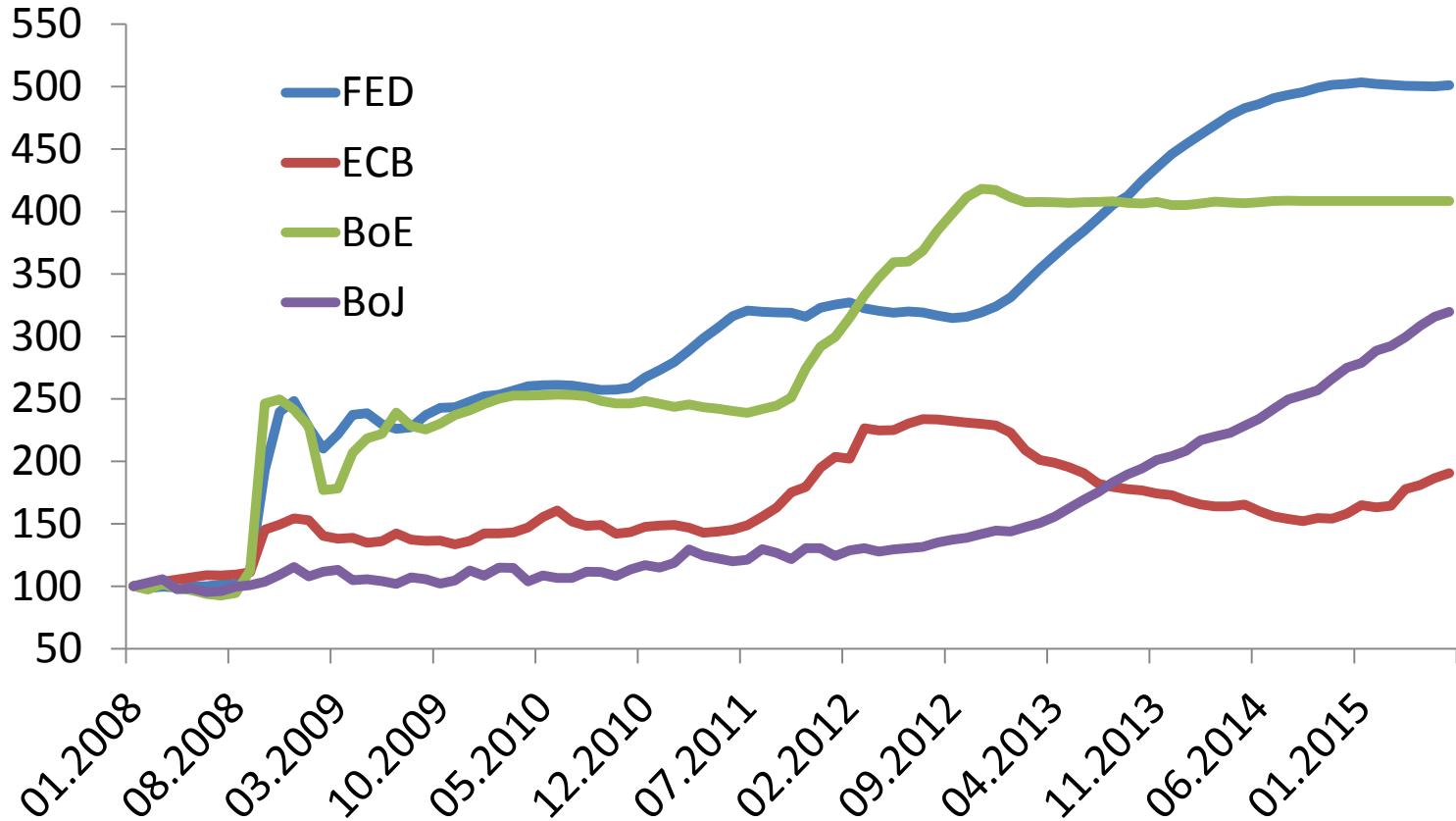
- Has the G20 response to the GFC succeeded in achieving the SSB growth aim?
- *Answer for the balanced growth aim:*
  - *It is fair to say that there still exists global imbalances.*
- *Overall, there have been improvements in the global economy.*
- *However, we are still far from the G20's aim of achieving Strong, Sustainable and Balanced Growth.*

# What can be done in order to make response of the G20 successful?

- Further fiscal, monetary, trade and structural policies?

# Room for manoeuvre is limited for monetary policies in AEs: Balance sheet policies.

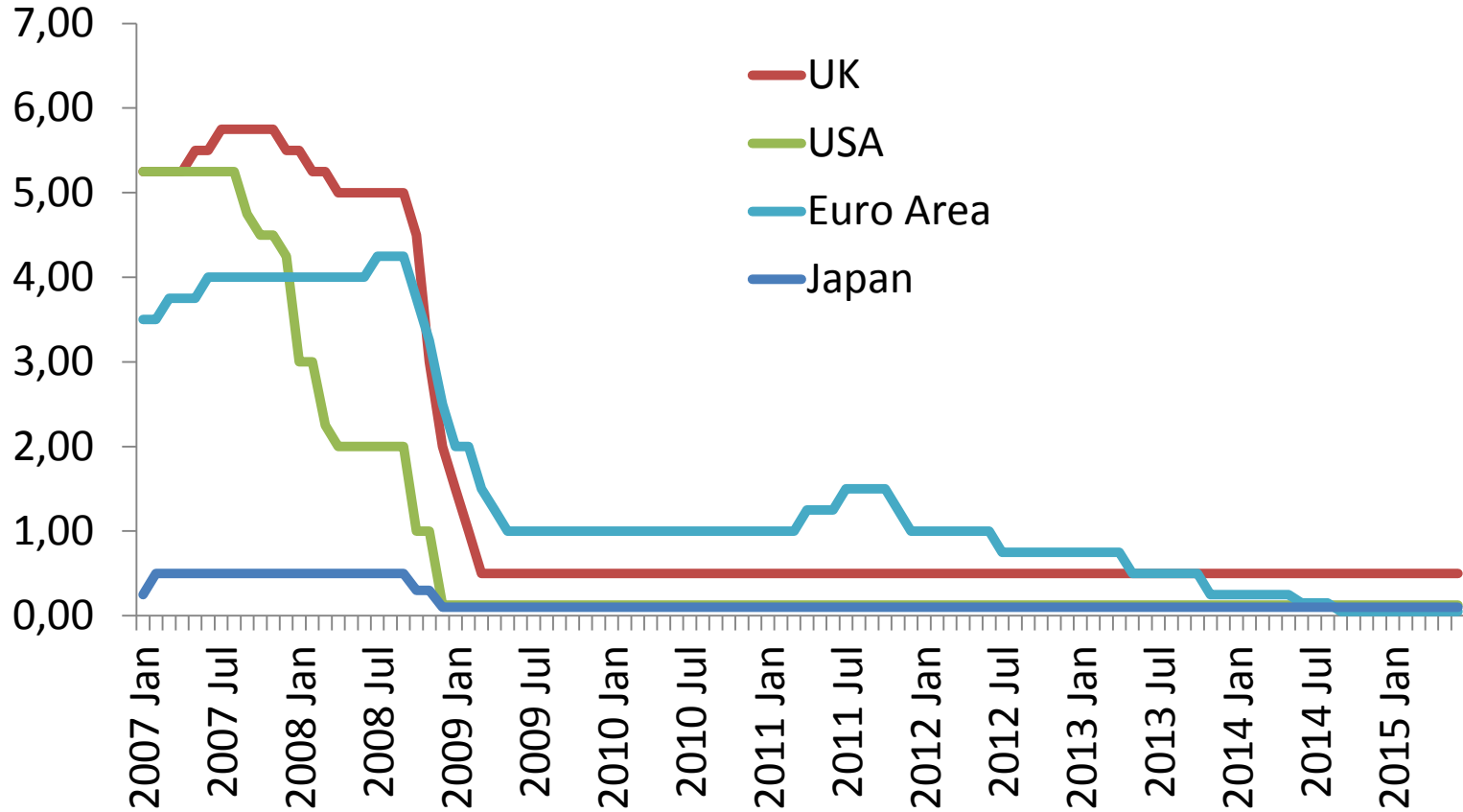
## Balance Sheets of Major Central Banks (2008=100)



Source: Bloomberg

# Room for manoeuvre is limited for monetary policies in AEs: Interest Rate Policies.

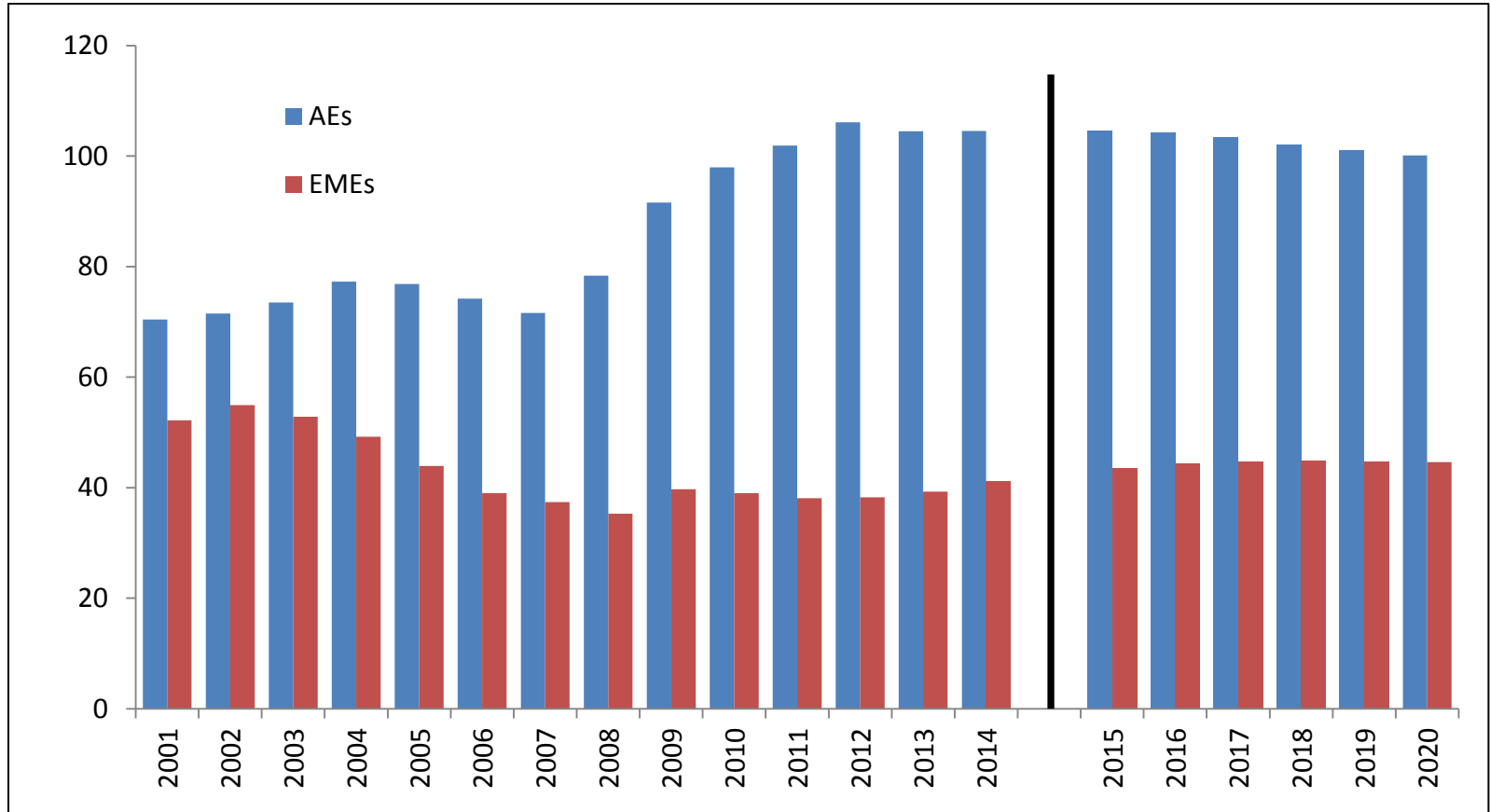
Policy Rates (%)



Source : IMF IFS, Bloomberg

# Fiscal policy could be utilized if there is space without jeopardizing the sustainability of Debt/GDP ratios

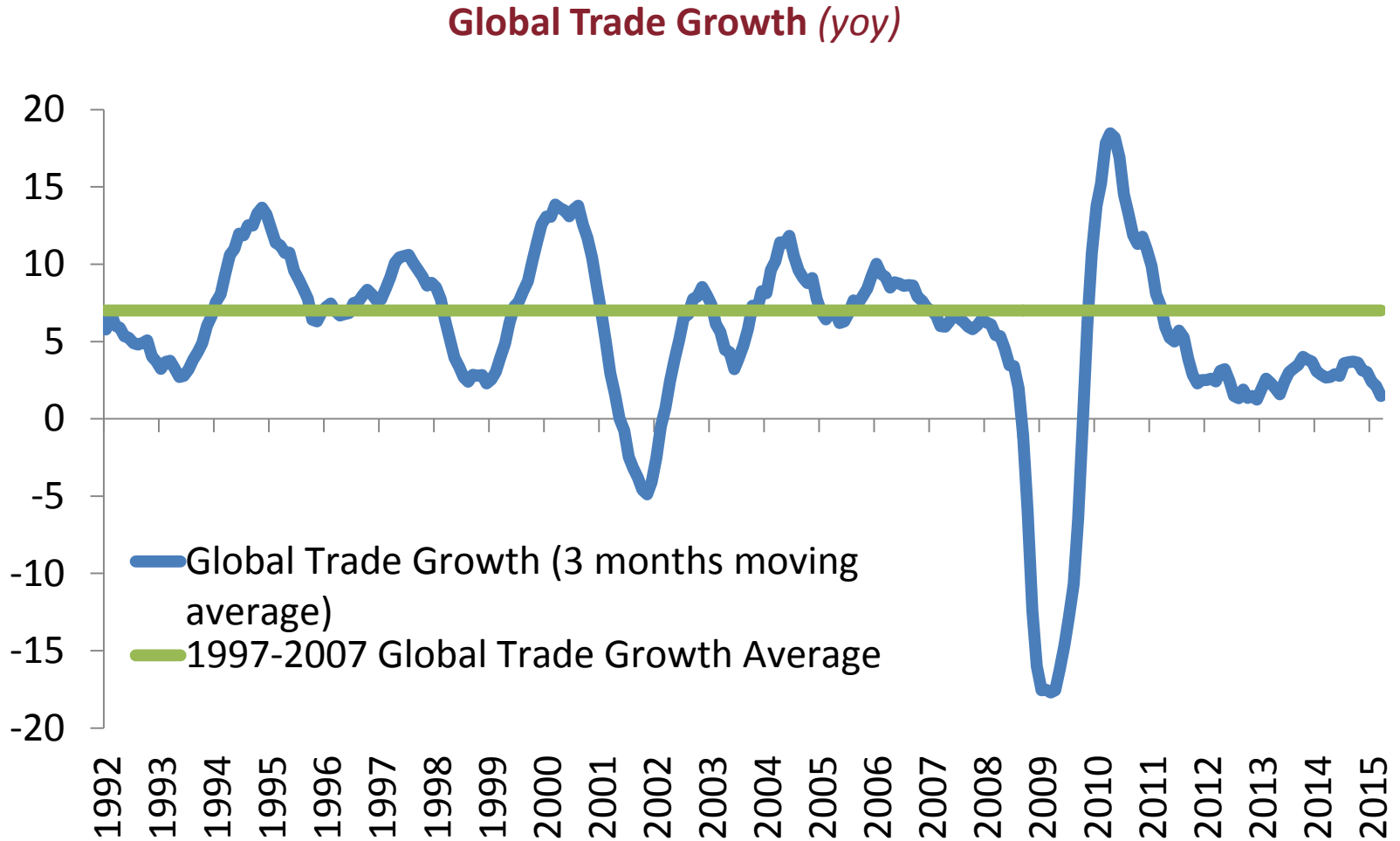
## Government Gross Debt (% GDP)



Source : IMF WEO April 2015



# Slower global trade growth in the post-GFC era.



Source: CPB World Trade Monitor

# What can be done in order to make the G20 response successful?

➤ Structural reforms!

# Launch of Growth Strategies (GSs)

**2013**

**St.**

**Petersburg**

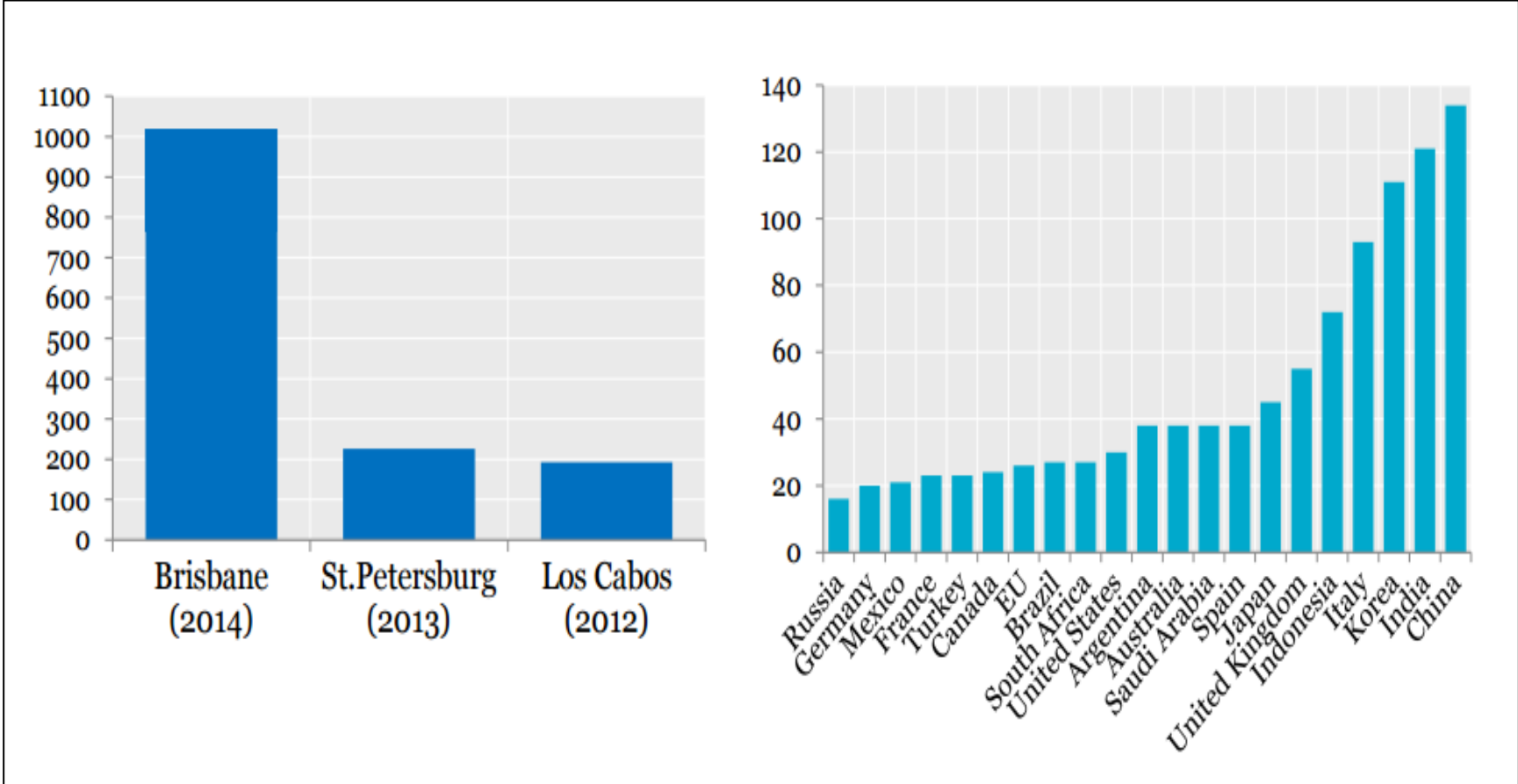
- Decided on Comprehensive GSs:
- «We ask our Finance Ministers to develop further the comprehensive growth strategies for presentation to the Brisbane Summit»

**2014**

**Australia**

- Launched GSs with the aim of “boosting growth and jobs”
- Focus Areas: Trade, Investment, Competition, Employment
- Final Objective: Raising the level of G20 GDP by more than 2 percent in 5 years (2 in 5)

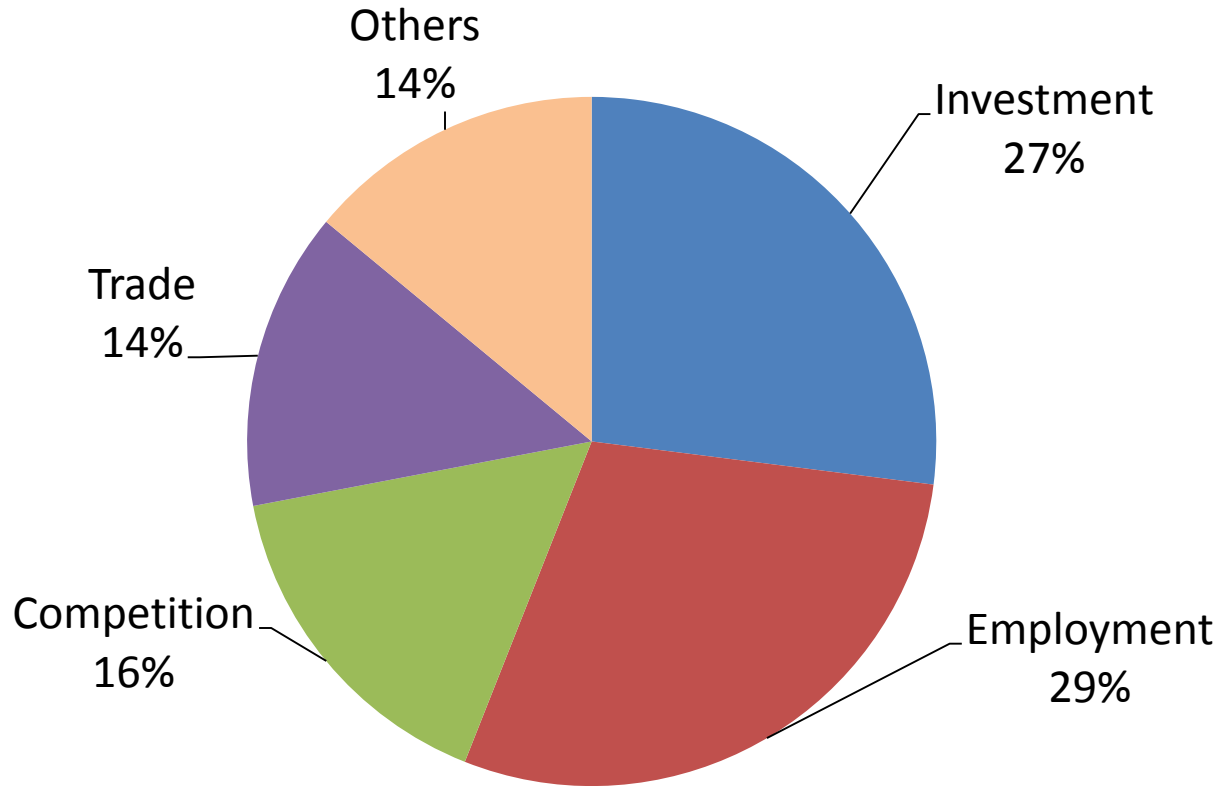
# GSs: 1000+ commitments



Source: OECD Assessments

# Breakdown of Structural Reform Commitments (2014)

1000+ structural reform commitments on 4 thematic areas

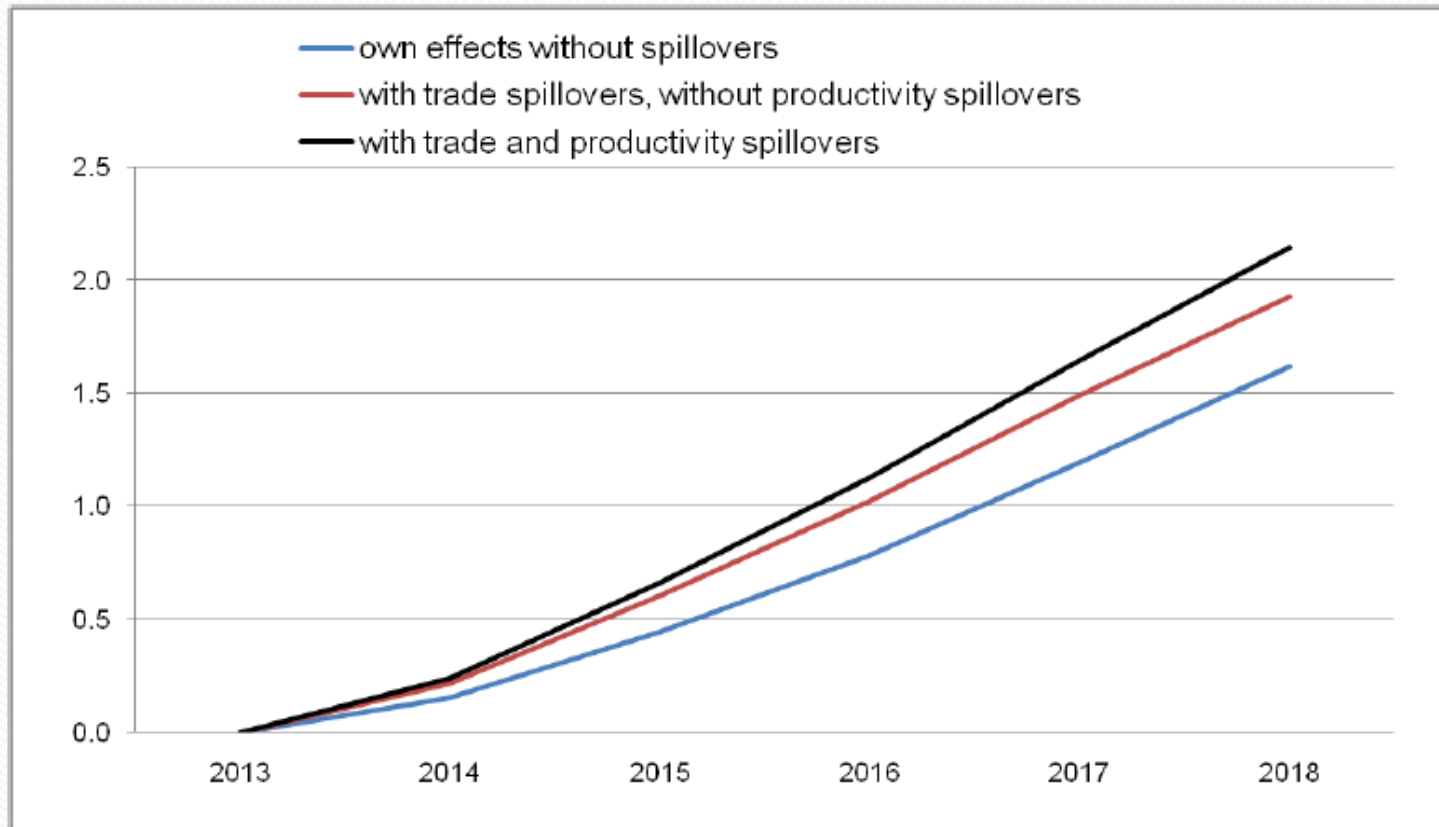


## Outcome of GSs in 2014

***‘Analysis by the IMF-OECD indicates that our commitments, if fully implemented, will deliver 2.1 per cent. This will add more than US\$2 trillion to the global economy and create millions of jobs.’***

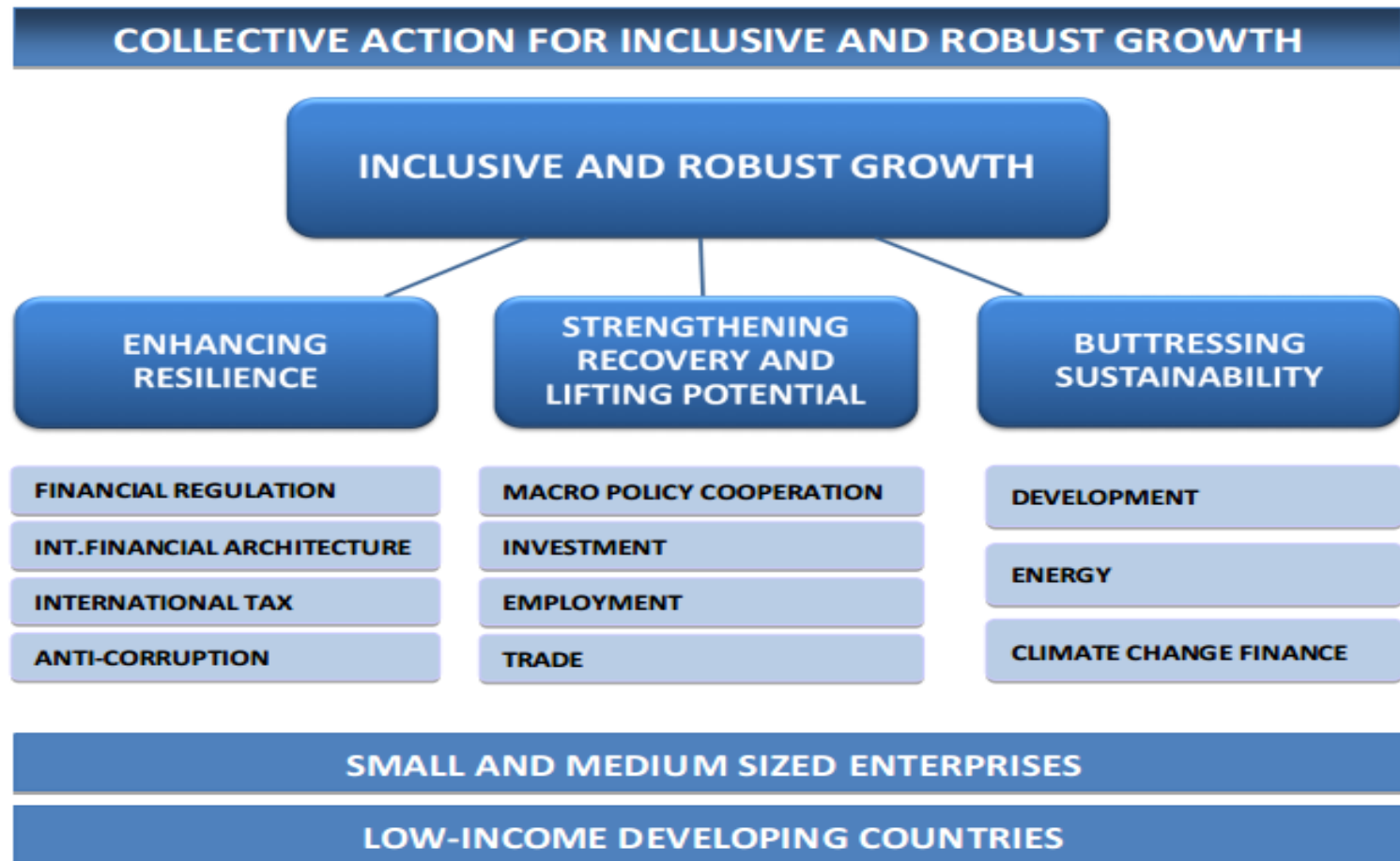
(G20 Brisbane Leaders’ Summit, 15-16 November 2014)

# Estimated Impact of GSs on G20 GDP Growth



Source: «Modelling the Impact of Structural Reforms and Their International Spillovers», IMF Research Department, Economic Modelling Division, June 2015 Seminar on «Assessing the Impact of Structural Reforms»

# Three Pillars of the 2015 Turkish Presidency Agenda





# Priorities of the Turkish G20 Presidency

## Three I's of the Agenda

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graph TD; A[Three I's of the Agenda] --- B[Implementation]; A --- C[Inclusiveness]; A --- D[Investment];
```

**Implementation**

**Inclusiveness**

**Investment**

# First I: Implementation

**2014  
Brisbane  
Summit**

- «*We will monitor and hold each other to account for implementing our commitments...*»

**2015  
Turkish  
Presidency**

- A robust framework to monitor the implementation of GSs
- Adjustment of GSs

**2015  
Monitoring  
Mechanism**

- **Brisbane Commitments : Detailed Monitoring**
  - 5-8 commitments that have highest growth impact
- **Other Commitments: Including Pre-Brisbane & fiscal commitments**

## Second I: Inclusiveness

- To unlock the potential of SMEs as to stimulate economic growth.
- Launch of the World SME Forum (WSF) in Istanbul in May 2015.
- G20/OECD high level principles on SME financing to be delivered by the Antalya Summit.
- Reducing gender inequality and youth unemployment via labour and product markets reforms in GSs.

## Third I: Investment

- Country specific investment strategies and aggregate investment ambition to be finalized by the Antalya Summit
  - Focus areas: Ecosystem, infrastructure and SME financing
  - Increase the overall level of investments, especially through private sector participation
  - Improve the efficiency of public sector capital expenditures.

# Conclusion

- **The premier forum for global economic policy coordination.**
- **Successful GFC management.**
- **The framework for SSB growth to address the root causes.**
- **With limited success and spaces structural reforms have become important to raise potential growth.**
- **The Turkish presidency: inclusive and robust global growth through collective action with a view to lift the potential of the global economy..**
- **Continued policy coordination and cooperation will be a key test of the G20's effectiveness.**



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THANK YOU