Response of the G20 to the Global Financial Crisis

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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.
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.

- **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

Fiscal compact

More effective preventive arm of SGP
- Expenditure benchmark
- Draft Budget Plans
- Autonomous recommendations

Focus on debt developments
Numerical benchmark in the corrective arm of the SGP

Better enforcement of rules
- Larger range of sanctions, starting more gradual, quasi-automaticity (RQMV)
- Strengthened national fiscal frameworks

Sound Fiscal Policy

Prevention and correction of macro imbalances
New surveillance procedure and possible sanctions

Financial Stability

Crisis Resolution
EFSM/EFSF/ESM

Banking Union
- Based on a single rule book for the EU 28
- Single Supervisory Mechanism
- Single Resolution Mechanism

European Semester
for economic policy coordination

Structural reforms
Europe 2020 strategy

Sustained Economic Growth

Price stability ECB
- LTRO
- OMT
- Forward guidance

Price stability ECB
- LTRO
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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.

Source: OECD Long-term baseline projections 2014
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 (%)
Labor productivity growth is also declining.

GDP per Person Employed (%)
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-crisis averages of current account balances and pre-crisis averages of current account balances
However, role of demand compression is higher

Expenditure Switching?

\[ y = -0.1648x + 1.2434 \]

Change in CAB, 2006–2013 (% GDP)

Change in REER (2006-2013)

Expenditure Reduction?

\[ y = -0.2043x + 0.4315 \]

Change in CAB, 2006–2013 (% GDP)

Relative Domestic Demand Growth (2006-2013)

Source: IMF WEO October 2014
...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)

- FED
- ECB
- BoE
- BoJ

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

Global Trade Growth (yoy)

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
1000+ structural reform commitments on 4 thematic areas

- Employment: 29%
- Investment: 27%
- Trade: 14%
- Competition: 16%
- Others: 14%
‘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

Three Pillars of the 2015 Turkish Presidency Agenda

COLLECTIVE ACTION FOR INCLUSIVE AND ROBUST GROWTH

INCLUSIVE AND ROBUST GROWTH

ENHANCING RESILIENCE
- FINANCIAL REGULATION
- INT. FINANCIAL ARCHITECTURE
- INTERNATIONAL TAX
- ANTI-CORRUPTION

STRENGTHENING RECOVERY AND LIFTING POTENTIAL
- MACRO POLICY COOPERATION
- INVESTMENT
- EMPLOYMENT
- TRADE

BUTTRESSING SUSTAINABILITY
- DEVELOPMENT
- ENERGY
- CLIMATE CHANGE FINANCE

SMALL AND MEDIUM SIZED ENTERPRISES

LOW-INCOME DEVELOPING COUNTRIES
Priorities of the Turkish G20 Presidency

Three I’s of the Agenda

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.
- 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.