

G20 Finance Deputies Meeting

9th October, 2014

Session on Accountability Framework

INTERVENTION

Dear Colleagues,

1. Our commitment to strong, sustainable and balanced growth received a major thrust this year due to the focus on structural reforms in our comprehensive growth strategies. We can all take pride, that under the Australian Presidency's leadership, G20 members have committed to almost 1000 policies as part of comprehensive growth strategies, which if implemented, will boost the collective G-20 GDP over 5 years, by an estimated 1.8 per cent over the October WEO baseline, against the ambition of at least 2% or \$2 trillion over the trajectory implied by extant policy.

2. This enhanced commitment on the part of members should be matched by an evolved assessment process. I would like to go through a short presentation to make my points clear.

3. G20 cooperation strategy has two pillars. One, for all countries to undertake domestic reforms in buckets such as trade, competition, employment and investment for growth that the Framework Working Group has emphasised. These are mainly domestic reforms that each country has to implement on its own. The second pillar of the cooperation framework is international policy coordination. There has been some progress on international policy coordination in the G20. The LEI (Legal Identity Identifier) promoted by FSB is one such example. We would like to emphasise that to achieve 2 in 5 there should be greater emphasis on the international policy coordination pillar. We propose that the Framework Working Group add new commitments and analysis to strengthen this pillar.

4. Back in 2008, at the Washington Summit, we agreed that a broader policy response is needed, based on closer macroeconomic cooperation, to restore growth, avoid negative spillovers and support emerging market economies and developing countries. Countries have sought to revive growth and employment. As the experience of last year showed us, there are risks to the

world economy from negative spill overs that arise when each country pursues its own growth agenda.

5. Standing in November 2008, we may have hoped that member countries will not adopt measures that may hurt other member countries. But the experience of the last 5 years shows that this is not entirely true. Many policy measures undertaken after the global crisis, have a potential direct negative impact on global growth. While we have made progress on tracking the “Number of measures”, there has been little progress on measuring the “growth impact” of these measures. Even fewer measures with negative spillovers by some member countries may have a far greater adverse impact on our ambition of 2 in 5, than a larger number of small measures. So what matters is not a quantification of the number of measures, but of their impact on global growth. This needs to be done.

6. To increase global growth we not only have to look at policies with positive impact on country growth and spillovers, but also reduce negative spillovers and risks to the world economy as a whole. Let me give an example of a development that is not taken into account in the 2 in 5 analysis. These are the risks that be arising to global growth from what might possibly be an asset price bubble. Look at rising asset prices in EMs, despite lower inflation and lower growth, in the post QE world. These could potentially be a source of risk to global growth.

7. Current focus of the assessment models is positive spillovers. At present, IO models do not include negative spillovers. In their comment on the draft Accountability Assessment, the IMF said: This (assessment of negative spillovers) implies that the current 2 in 5 exercise will be expanded to include negative spillovers. This would not be possible in the current framework. If G20 members wish to pursue this exercise, it will require a different form of input from the IOs.

8. It is universally true that every model is based on: 1) A set of assumptions about causal effects 2) A set of parameter values. We do not know what these models contain as they have not yet been shared yet and members have not had a chance to discuss them. Models, along with code and relevant data files, should be circulated to member countries and comments should be invited. Causal relationships and parameter values need to be examined. Any model assumes that A causes B for example that increase in formal employment causes an increase in GDP growth.

But this may not be universally true. It may be true in country A, but may it not be true in country B. It depends on the institutional framework in a country.

9. Models are bad at coming up with precise estimates. This is even more true for measuring the impact of any single intervention on growth. Usually we do a baseline scenario and simulate other scenarios. These provide a range around which growth is estimated. Currently the spillover analysis done by IOs and the growth are completely delinked.

10. In the spirit of the member led strategy of the FWG, member countries should share a list of the measures that potentially have negative spillovers. They should commit to sharing a list of such measures. This will be a new commitment. Peer reviewers and other members will have a chance to discuss these.

11. Thus, in addition to the pressure on member countries to carry out domestic reforms, we also create scope for putting pressure on them to avoid taking steps with negative effects on others, or at least to take the negative effect into account when they think of their contribution to global growth assessment. In addition to the baseline growth scenario, the IOs estimate scenarios in which international cooperation reduces the growth impact of these negative spillovers. FWG meetings should then discuss areas of international cooperation to reduce negative spillovers.

12. Thank you!