

G-20 Workshop on Securing Sustainable Economic Recovery
15 – 16 November 2009, Seoul, Korea

CHAIR'S STATEMENT

Introduction

1. The Korean Ministry of Strategy and Finance and the Bank of Korea co-hosted a G-20 Workshop on *Securing Sustainable Economic Recovery* in Seoul from 15 to 16 November 2009. The purpose of this workshop was to consider the sustainability of the current economic recovery and discuss key policy challenges that await us on our way to full recovery and beyond.
2. This document provides an overview of key themes that emerged from discussions held at the Workshop. This Statement is not a complete record of all discussions that took place, nor a statement of agreed outcomes of the Workshop.

Session 1: Sustainability of the current economic recovery

3. While financial market conditions have improved and global economy has returned to positive growth, the pace of recovery is sluggish, with banking system weaknesses still persisting. Furthermore, the recovery is uneven and not yet self-sustaining, particularly in advanced economies - posing significant policy challenges.
4. Some participants at the workshop suggested the following questions on both the supply and demand side would need to be addressed if solid global recovery is to be sustained:
 - Supply side – What will be the post-crisis level and growth of potential output? How much can potential output decline and how will it affect the overall pace and size of recovery?
 - Demand side – Two rebalancing acts: How and when will the shift from public to private spending take place? How will the global sources of demand be rebalanced?

5. Many participants emphasized the importance of global rebalancing and suggested a number of ways to achieve such balance, including exchange rate adjustment and improving some countries' competitiveness through product and labor market reforms.
6. In addition, some participants noted that discussions thus far had not taken into account differentiation in recovery and that these differences in pace and nature of recovery should be more carefully taken into account when discussing policy challenges and options.
7. In this context, it was recognized that some developing and emerging countries may not have entered into any extraordinary stimulus packages and therefore may not have anything to exit from. On the other hand, most advanced countries' recoveries are largely sustained by governments' stimulus packages, making 'exit strategy' an extremely important issue for sustained recovery.
8. Some pointed out rapid capital inflows as one significant challenge for some emerging countries. These countries may need to absorb capital inflows while avoiding domestic financial and price instabilities.
9. Extensive discussion in these areas also highlighted the fact that current account deficit countries face very different set of issues to those in current account surplus positions.

Session 2: Achieving medium-term fiscal sustainability

10. As a subset of achieving sustainable growth, participants discussed the importance of medium-term fiscal sustainability.
11. With the general government gross debt-to-GDP ratio of advanced economies projected to rise from 75 to 115 percent during 2008-14 (assuming no further fiscal action), the scale of the fiscal challenge is unprecedented.
12. Despite the size of the problem, participants drew on past experiences and reconfirmed the importance of not exiting pre-maturely.

13. There was a broad consensus that it is too soon to tighten fiscal policies right now. Participants, however, agreed it is not too early for countries to start developing clear strategies aimed at achieving fiscal consolidation and communicating these strategies to the broader community so as to prepare them for the challenges ahead.
14. To this extent, many participants shared details of their countries' efforts in securing medium-term fiscal soundness.
15. Participants also noted the diverse range of fiscal challenges facing different economies, particularly by non G-20 developing countries and once again emphasized the need for G-20 to be broad in its approach if it is to be a truly global economic cooperation body.

Session 3: Tasks of the monetary policy

16. Participants agreed policy responses by central banks to the financial crisis were effective in re-gaining financial market stability and establishing economic recovery.
17. Some participants, however, noted that there were some limitations to the implementation of stimulus monetary policy; particularly if inflation remains high and sudden reduction in exports of commodities including petroleum cause the value of home currency to drastically fall.
18. Some shared the view that at times of severe crisis with significant negative externalities; central banks should take over basic financial intermediation functions through their own quantitative easing measures involving adjustment of size and composition of their balance sheets. This will ensure the transmission mechanism of policy rate adjustments function effectively.
19. Most participants agreed monetary policy exit strategies should be based on clear principles with a particular emphasis on transparent communication with the market. Some suggested principles included the following:
 - Monetary policy should focus on price stability in order to anchor inflation expectations and maintain central bank credibility and independence.

- Communication regarding exit strategies should be clear and include timely reporting of balance sheet developments.
 - Policy authorities need to understand how the monetary transmission mechanism may have changed.
20. In the wake of the financial crisis, the role of central banks expanded to include the market-maker of last resort beyond the traditional role of the lender of last resort.
 21. Drawing on lessons learnt from the crisis, participants agreed there is a need for monetary policy frameworks to be reconsidered. The key questions are : (i) whether monetary policy frameworks should incorporate objectives of macroprudential and financial stability in addition to the traditional mandate of price stability; and (ii) whether policy rates could be used as tools of macroprudential policy. It appeared that these issues warrant further discussions.
 22. There were also suggestions that large capital inflows to emerging countries may cause asset bubbles to emerge and that effective solutions to tackle such problems would need to be explored.
 23. Going forward, participants took the view that in relation to the post-crisis management, relationship between macroprudential policy and monetary policy would likely to be one of the important issues to be discussed within G-20.

Session 4: How to tackle moral hazard risks of SIFIs

24. Participants were provided with information about the Financial Stability Board's (FSB's) work program on reducing moral hazard posed by systemically important financial institutions (SIFIs).
25. There are broadly two approaches in tackling moral hazard posed by SIFIs: One approach is to acknowledge the existence of SIFIs and find ways to reduce probability and impact of a SIFI's failure. The other approach is to ensure there can be no SIFIs. While the FSB has adopted the first approach to date, there are others who prefer the second approach.

26. Currently, FSB is focusing their work on three areas:
- reduce the probability and impact of failure of SIFIs.
 - improve resolution capabilities
 - strengthen market discipline and market infrastructure to deal with a SIFI failure.
27. FSB will provide the final report on this issue to Leaders for their consideration at the November 2010 G-20 Summit.
28. While there is a broad agreement on the need for regulation, there are still differences in views on how to implement such regulations. The following are selected examples of views presented at the workshop.
- Stronger supervision, contingency plans, and resolution plans are not yet proven effective in reducing the systemic risk caused by SIFIs, and SIFIs should not be defined solely by size, but also by their contributions to systemic risks.
 - Measures to separate SIFIs or to limit business lines should be combined with structural policies to facilitate higher competition, which can reduce incentives for SIFIs to further increase in size.
 - Structural reforms which voluntarily refrain SIFIs from increasing their size may be more effective than strict regulations.
29. While the participants acknowledged the complexity of this issue, given the importance of the issue and the fact that some countries are already pursuing their own regulation in this area, there was a sense that the issue would need to be actively progressed throughout 2010.

The road to economic recovery and growth

30. While the discussions at the workshop highlighted the complexity and the interconnectedness of all the challenges facing us, it provided rich input into shaping and fine-tuning the G-20's work program for 2010 and ensuring the world achieves a strong, sustained and balanced economic recovery and growth in the future.