

Making the Global Financial System Work for All = A Truly Resilient System

Report of the G20
Eminent Persons Group on
Global Financial Governance (EPG)

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A Truly Resilient Financial System

- Resilience - about surviving and thriving, regardless of the challenge. (Rockefeller Foundation)
- Climate change
- Forced dislocation => political shocks
- Cyber security
- Pandemics => economic and political shocks
- **The global financial system critical to addressing these challenges, but is also vulnerable to them**

Eminent Persons Group on Global Financial Governance

MAKING THE
GLOBAL FINANCIAL SYSTEM
WORK FOR ALL



Report of the
G20 Eminent Persons Group
on Global Financial Governance

- Group established by G20 Finance Ministers and Central Bank Governors in April 2017
- **Recommend reforms to global financial architecture and governance of the system of international financial institutions**
- 16 people (8 advanced + 8 emerging economies (Chair: DPM Tharman)
- Final Report presented to the G20 at its meetings in Bali in October 2018 (www.globalfinancialgovernance.org)

EPG Context

Now face different realities, particularly from Bretton Woods:

- **Economic, social and political divides widened**, undermining social contracts and support for international cooperation
- A **steady and irreversible shift towards multipolar world**, more equal players and decentralization in decision-making
- **Challenges of unprecedented scale, urgency and complexity** – securing jobs, and environmental and financial sustainability.
- **More deeply inter-connected** (trade + capital + ideas) challenges stability - cannot be tackled by nations on their own

EPG Approach

- **Build credible and coordinated global financial architecture** for a world that is more decentralized in decision-making, more interconnected and more challenged in the future
- **Mold this decentralized system into a new multilateralism** that is more resilient and stronger than the sum of its parts
- Recognize that **helping countries get their national policies right** is at the heart of achieving mutual prosperity
- Focus work and recommendations in three areas:
Development; Finance; and Governance

How to get resilient downhill flows?

- **Attract private capital + institutional investors**
- **Developing and emerging economies**
 - Improve governance and human capital – country ownership
 - Develop local financial system
 - Mobilizing local long-term capital (institutional investors)
- **International community**
 - Use international financial institutions more effectively
 - Monitor debt levels to ensure sustainability
 - Improve framework for regulating capital flows + safety net

EPG Recommendations: **Making Capital Flows More Stable**

Get full benefits without risks from excessive volatility:

- IFI community should accelerate efforts to help countries develop deep, resilient + inclusive financial markets.
- IMF policy guidance enabling countries to move toward long-run goal of openness and better manage risks.
 - Benefit from capital flows while maintaining financial stability + assure markets measures taken appropriate
 - Enable sending countries to meet domestic objectives while avoiding large adverse international spillovers

EPG Recommendations: **Stitching Together Global Safety Net**

- Stitch together the various layers of the GFSN to achieve scale and predictability.
- Establish a standing IMF liquidity facility for timely access to temporary support during global liquidity shock
 - Use pre-qualification in considering the activation of RFA supports
- Enable the IMF to rapidly mobilize additional resources in large and severe global crises

EPG Recommendations: **Strengthen Risk Surveillance**

- Integrate surveillance efforts of IMF, FSB and BIS in a coherent **global risk map**, while preserving independence of each of the institutions' perspectives (incorporate non-official and contrarian views)
- Build on IMF-FSB Early Warning Exercise (EWE) to ensure policy follow-up from the global risk map

EPG Recommendations: Governing the System as a System

G20 providing strategic guidance in global governance

- Refocus on strategic agenda, rationalize work streams, and devolve to IFIs

Governance of system-wide reforms

- A G20-led group, including key non-G20 constituencies and IFIs, should steer reorientation of development finance over next three years
- Building complementarity among all development partners, and clear system of metrics to track impact and value for money.
- A biennial strategic forum convened by the IMFC and DC should identify development risks before they manifest, and the required collective responses.

Governance within IFIs

- Executive Boards to focus on strategic priorities + advance system-wide goals
- Adopt practical, risk-based approach to delegate responsibility to Mgmt
- Increase diversity and skills – match shift in business models + complexity

Regulatory Framework for the IFIs?

- Today: de facto rating agencies “regulate” IFIs
 - State-owned financial institutions without access to liquidity backstop (all institutions, but for EIB)
 - Half-a-notch downgrade
- Create liquidity backstop
 - Collaboration among subset of central banks (IMF?)
 - New form of contingent capital (cf. ESM callable cap.)
 - Would increase WBG lending capacity by 10 percent (more for RDBs)

Global Financial Resilience

- Developing local (currency) financial systems
- Building domestic resource mobilisation
- Enforcing standards of debt sustainability
- Establishing framework for capital controls
- Stitching together the global financial safety net
- Developing regulatory framework for IFIs