WORKSHOP ON ECONOMIC AND FINANCIAL ISSUES

The workshop will address two major issues. First, the World Economic Outlook and its multiple risk dimensions. Second, the present state and the workplan of financial reforms immediately after the Antalya Summit of November 15 and 16.

I - WORLD ECONOMIC OUTLOOK

In 2015, the global economic recovery has been characterized by a relatively disappointing and uneven growth. According to the IMF recent projections, world growth this year is projected at 3,1% − 0,3% lower than last year, and 0,2% below the July 2015 forecasts−. In advanced economies, the legacies of the pre-crisis boom and of the subsequent bust are still overshadowing the recovery but growth is picking up slightly in comparison with 2014. The emerging economies, which had been largely preserved from the acute crisis of the advanced economies in 2008-2009, are now adjusting to lower rates of growth: activity in emerging market and developing economies is projected to slow again in 2015 after several years of persistent slowing down.

The mediocre global growth in 2015 should not be interpreted as signaling necessarily the same low level of growth in 2016: the IMF growth projections for 2016 are 3,6% for the world (+0,5% more than this year), 2,2% for the advanced economies (+0,2% more) and 4,5% for the emerging and developing economies (+0,5% more than in 2015).

But growth would remain disappointing and uneven and risks remain numerous at the global level: crisis legacies in some advanced economies, in particular high level of public and private debt; weaknesses in a number of emerging markets with substantial domestic imbalances and increase of debt outstanding; large scale economic rebalancing in China; marked downturn of oil and commodity prices; and, last but not least, high level of financial market volatility.

The workshop would concentrate on several issues that should require attention from the international community, in particular but not exclusively:

- What are the underlying causes of the apparent decrease of growth of "total factor productivity" and of labor productivity observed in many economies?
- Is there a real danger of "secular stagnation" in advanced economies, including the United States? What are the multiple dimensions of such a stagnation if confirmed?
- In Europe, particularly in the Euro area, there is an overall lack of domestic demand, signaled, in particular, by a significant current account surplus and by a low level of inflation. What are the appropriate ways (fiscal, PPP infrastructure investment, new deal of social partners in some countries) to activate domestic demand and counter sustained low inflation in order to complement the monetary policy of the ECB?
- What are the short and medium term consequences of persistent low oil and commodity prices?
- Are the (likely) increase of interest rates by the Federal Reserve System already fully priced in the US and in world financial markets?
- Is there a real risk for some of the present acute geopolitical tensions –in particuliar in Africa, in the Middle East and in Eastern Europe- to turn global and to impact significantly the world economy as a whole?

II – FINANCIAL REFORMS: PROGRESS MADE AND WORKPLAN

Since the first G20 commitment to fundamental reform of the global financial system, a lot of progress have been made. What is remarkable is that all measures are now prepared and decided by the International Community as a whole, including systemic emerging economies, (new inclusive composition of Basel Committee, Financial Stability Board and G20) and not only by the advanced economies as was the case before the crisis (previous restricted format of Basel Committee, G10, G7).

The workshop could concentrate, amongst others, on five issues that are of particular importance:

- Ending too-big-to-fail. It is clearly one of the most decisive measure proposed for the Antalya Summit. The various “Total loss Absorbing Capacity” (TLAC) assessments for Global Systemically Important Banks should normally be finalized by the Summit. Another related issue is the ending of too-big-to-gail for financial institutions and entities other than banks. As regards insurance the IAIS (International Association of Insurance Supervisors) is on its way to finalize higher loss absorbing requirements for global systemically important insurers. Progress has to be made also for identifying “non-banks – non insurers” global systemically important institutions.

- Pursuing OTC derivatives market reforms and reinforcing Central Counterparty Clearing Houses (CCPs) resilience. Good progress was made as regards adoption of legislation and regulations for higher capital requirements for non-centrally cleared derivatives and for trade reporting requirements. A lot of further work remains to be done to be sure that the CCPs for the OTC derivatives transactions are themselves not too-big-to-fail but solid and resilient. Work needs to be actively pursued in the fields of recovery planning and resolvability.

- Market based finance. There still is a permanent threat of disorderly adjustments in financial markets taking into account the disconnect between risk taking in financial markets and developments in real economy. It is important therefore to address vulnerabilities in capital market and asset management activities both on a short term basis and on a longer term basis. The issue is to devise the additional policy tools to mitigate systemic risks coming from non-bank, non-insurance asset managers.

- Misconduct risks. On this important issue, the present orientations of the FSB and of the international community are threefold: reinforcing disincentives to misconduct; designing benchmarks and improving global standards of conduct in a number of markets (fixed income, commodities and currency markets); possible withdrawal from correspondent banking.

  A recent paper published by the G30 stressed the cultural dimension of the fight against misconduct: in several financial institutions an important shift in the corporate culture towards integrity and ethical values and behavior is of the essence.

- Preserving a global playing field. Preventing regulatory arbitrage, segmentation and/of renationalization of the global system is more important than ever. To preserve an open level playing field, regulation needs to cover comprehensively global financial markets and institutions, while avoiding conflicts, inconsistencies and gaps between regimes.