Dear Colleagues,

I am really happy to be among you today, and welcome you in the very heart of the European Union. And the G20 is close to the EU heart. It is also very close to my heart. I have been in basically all the meetings of the G20 since its relaunch in Autumn 2008. I have seen many leaders and Finance Ministers. Actually, I can cluster the countries according to the number of Finance Ministers I have seen in action. Without being complete, we have three clusters: the first, with two to four Finance Ministers since 2008 (China, Germany, Russia, UK and US); the second, with around six Finance Ministers (Argentina, France, Indonesia and Italy) and the third one with around eight/nine Finance Ministers (India, Japan, Mexico and South Africa). I have made no econometric analysis on the correlation between the clusters and economic variables … I leave that for my memoires.

The G20 in crisis times: Winning the war

The G20 is a forum which was created in 1999, in the aftermath of the Asian financial crisis and its global spillovers. For almost a decade it was mainly a discussion and consultation forum on international financial issues between finance ministers and central bank governors of the major advanced and emerging economies.
The global financial crisis of 2008 dramatically changed the nature of the G20 as it was lifted to Leaders’ level. Important measures were taken to help overcome the crisis.

The creation of the “Framework for Growth” came in 2009 with the Pittsburg Summit, when Leaders were strongly convinced of the need to cooperate and have a coordinated answer to the crisis so as to put growth on a strong, sustainable and balanced path.

When looking back at when international policy coordination has been successful in the G20, several shared factors seem to be present. These include: (i) a shared diagnosis of a problem; (ii) the ability to show success in implementing commitments, i.e. G20 commitments should be sufficiently tractable, controllable, and measurable, allowing members to directly link their commitments to the deliverables/outcomes; (iii) the relevance of G20 actions for citizens; and (iv) the internalisation of spillovers via coordination. Political spillovers are important, but not sufficient. Ultimately, economic spillovers from joint action have to be visible for ensuring success and political viability.

The G20 had its days of glory where collective action managed to avoid another Great Depression; these were the Washington 2008 and especially the London 2009 Summit where it was agreed to implement concerted fiscal stimulus; triple IMF resources and refrain from protectionism. In a sense, it was easy: one could take our bosses to the window and ask them to look outside … We can add some notable results achieved later on as regards tax transparency and tax avoidance (agreement on the new global Common Reporting Standard for Automatic Exchange of Information (AEoI); the agreement on Base erosion and profit shifting) and financial regulatory reform.
The G20 post-crisis: winning the peace?

Whilst the G20 has helped to effectively tackle the financial crisis, it has been less effective in overcoming the legacy of the crisis and creating conditions for strong, sustainable, balanced, and more inclusive growth. The factors for successful coordination were less and less present. It has become difficult to justify collective action by looking outside the window. We saw a growing divergence in the diagnostic phase, and thus the most appropriate policy response. We saw a weaker incentive to recognise the need for integrating prior policy commitments with new priorities, and ensure that the focus is kept on a limited number of deliverables to which all G20 members can agree. Appetite for structural reforms went down.

In short, the G20 helped to win the war, but it is struggling in winning the peace. We can draw a parallel with the European Union. In a sense, we are doing since 1957 what the G20 is trying to do since 2008, and at a much higher level of integration. The 2008 crisis has revealed the necessity of reinforcing the architecture of the Economic and Monetary Union. That necessity has always been there, but we have been able to recognise it only when facing challenging times. Once the economic weather improved, resisting the temptation to postpone difficult/unpopular decisions has proved difficult.

The G20 only lately recognised the importance of inclusiveness. It first came on the G20 radar in 2015; but progress was timid until last year's prominent focus on the future of work. This led also to the change in the Working Group's name which is now "Framework for strong, Sustainable, Balanced and Inclusive Growth."
The focus on inclusiveness has an important economic rationale. There is ever more empirical evidence showing that high levels of inequality constrain growth. Economies that do not find ways to deal with inequalities are also less resilient and can thus generate harmful international spillovers when faced with an economic shock. And most important, citizens in less inclusive economies request more protection, which could take the form of obstacles to international trade. We would all suffer should such risk materialize.

**Current challenges**

Let me come to the challenges that we are now facing. The baseline scenario remains that global growth bottoms out and rebounds modestly in the course of 2019 and firming up in 2020. But we see international institutions revised down their growth projections and risks remain clearly on the downside.

We need to be prepared with our policies in order to remain ahead of the curve. First and foremost, it is important to avoid policy missteps, and carefully calibrate country specific tools to guard against further slowdown. At the same time, we need to start discussing options in case of a further deterioration of global growth prospects, taking into account that our policy space since the last crisis has been diminished.

There are a number of no-regret policies. The key uncertainty for the global economy at the moment continues to be the ongoing trade tensions. These tensions need to be addressed at the source. We must be concerned about the latest developments last weekend. We also need appropriate fiscal policies; closely monitor the risks from the non-bank financial market; and ensure that the IMF remains adequately resourced.
A key question is what should be the appropriate policy mix in an environment where uncertainties are very high while the usual policy tools are limited in many cases. Interest rates have been at record low for long time and continue to be low; many economies face important fiscal constraints; structural reform fatigue has been quietly settling in since the height of the crisis.

Being prepared simply means that we need to be ready should the signs of recovery in the second half of the year and 2020 not be confirmed.

In order to remain the premier forum of international economic cooperation the G20 should pose the right questions, search for the right answers and be ready to take appropriate action if the downturn becomes more pronounced.

This we owe to our citizens and businesses who need a message that reassures them that governments are doing their best to take into account their concerns and steer the world economy through troubled waters.

**Global Imbalances and Demographic Change**

I am particularly thankful that the Japanese G20 Presidency put forward explicitly global imbalances and demographic change as two of the main priorities for this year.

We know from our EU experience how important these are. Addressing the root causes of global imbalances and dealing with demographic challenges is crucial for our global outlook. Taking the right steps to tackle these will also avoid falling in the trap of populism and policy mistakes.
Policy responses on *global imbalances* need to be nuanced and correspond to the driving causes and particular challenges faced by our economies. Policies to correct the excessive imbalances should not only be differentiated for surplus and deficit countries.

Correcting excessive imbalances requires both macroeconomic and microeconomic policies. These have to go hand in hand with framework conditions to make sure that excess savings are allocated optimally. Reforms and surveillance are needed in both source and recipient countries. Again, we can draw a parallel with the euro area. Before the crisis, imbalances built up linked to the misallocation of capital. During the crisis, a process of asymmetric adjustment took place, with countries in deficit adjusting more than countries in surplus. For the post-crisis, we have worked towards more differentiated fiscal policies, set-up for a better supervisory system, to complete the capital market union to reallocate excess savings via equity rather than debt, and, we have promoted structural reforms in recipient countries to ensure that capital ends in productivity boosting activities.

*Demographic changes* and their impact on diverse policy areas such as fiscal policies but also inequality, participation and migration should be discussed in international fora.

The size of the externalities and their impact on growth is a strong justification for dealing with this issue at the G20. What kind of policy orientation should we consider to deal with the challenges posed by population ageing for pension and healthcare systems? First, given the persistently low interest rates, reforms tackling problems at source rather than creating fiscal space through running down debt seem preferable. Second, reforms work: as an achievement of reforms over the past
years, there has been a sizable increase in the participation rates of older workers in Europe. The main danger now is reform reversal. Third, as pension reforms might be politically challenging, it would be better to link life expectancy and retirement age in a gradual way rather than pursuing big bang reforms. Lastly, on healthcare, the aging component might be less easy to predict as medical science advances and technology matters more. On all these issues there would be ample scope for sharing best practices.

**Role of the G20 Framework Working Group**

Deputies and Ministers expect that the Framework Working Group will be at the core of setting these proposals. I know you are very good analysts and sound economists. You (the Framework Working Group) should have the courage to bridge the gap between the analytical and political shores. Being provocative, being brave, and putting up the right questions is even more important than having the right answers.

It is your job to prepare analysis and recommendations for the political level; and help them better understand the results of different policy actions; of the possible trade-offs and spillovers; and ultimately show the way forward.

Expectations for the notes on imbalances and demographic change are high. We are also looking ahead at the second part of the year, where the stage for the next G20 Presidency would be set.

Your role, even more that of Deputies, should be to help lower the discount rate of your bosses, which means helping them to optimise over a longer time horizon and move away from a partial equilibrium
model, that is taking into account the powerful interactions between our economies.

Knowing how politics works, most of the time we won’t succeed but it is still worth trying.

Marco Buti