March 18, 2017

Note on Resilience Principles in G20 Economies

G20 Framework Working Group

Objective

Financial crises can have severe and long-lasting consequences. Almost ten years after the beginning of the global financial crisis, we are still dealing with its aftermath and the global economy remains weaker than desirable. In the face of the large and enduring consequences of this crisis, the G20 has undertaken numerous actions to foster financial stability, confidence and growth, and has committed to cooperate closely and to take measures to prevent future crises and lessen their impact on economies and societies. In the context of remaining and future global economic challenges, enhancing *economic resilience* of G20 members is seen as a key element of G20 members' efforts to ensure stronger, more sustainable, more balanced, and more inclusive growth. Similarly, such growth can in turn boost resilience.

Economic resilience means the capacity to: (1) achieve sustainable growth in the face of risks and pressures related to structural challenges; (2) avoid excessive build-up of risks, imbalances and vulnerabilities in the face of shocks; and (3) absorb and overcome severe shocks and return quickly to a sustainable economic growth path. This emphasis will help reinforce the overall effectiveness of the G20's commitment to use all policy tools - monetary, fiscal, and structural – individually and collectively to achieve our goal of strong, sustainable, balanced, and inclusive growth.

This Note establishes a set of principles that can guide G20 members in considering different actions aimed at enhancing the resilience of their economies. As resilience is a broad concept, the principles listed below are not exhaustive, and applicability depends on the specific circumstances of members.

The selected principles and their components below have been identified in this initiative as being important for building resilience across our economies. Within this context, the principles are organised around five broad themes – real sector, public finance, private finance, monetary policy, and external sector. This list of principles has been informed by reports provided to the G20 by the IMF, the OECD and the BIS.

The current focus on resilience is intended to be complementary to other ongoing G20 initiatives and priorities, including the 2016 Hangzhou Enhanced Structural Reform Agenda (ESRA). Many of the principles agreed under ESRA are also relevant for resilience, and they are mutually supportive. When putting forward actions to foster resilience, members should also take into consideration relevant elements of these initiatives. Our overarching goal remains strong, sustainable, balanced, and inclusive growth.

Usage of Resilience Principles

The principles and their components below comprise a list of policies which G20 members may deem suitable to implement to enhance economic resilience and thereby contribute to stronger, more sustainable, more balanced, and more inclusive growth. This is intended to provide a non-binding and indicative menu for members in order to support policy making and does not imply that there is a need for action by all G20 members in all areas covered, recognising that economic realities differ between members. In keeping with the G20 principle of member-led and member-owned processes, members can choose to focus on those areas that they consider of greatest relevance to their own economies and national circumstances.

G20 members recognise that cooperative efforts to enhance the resilience of their respective economies can yield both individual and collective benefits, and that coordinated actions by members can leverage synergies. While the effects of individual policy actions are amplified through positive cross-border spillovers, any possible negative cross-border spillovers arising from individual policy actions should also be considered.

In the 2017 update of the G20 growth strategies, the principles may be used as an indicative guide by G20 members to highlight policy actions they are undertaking which can contribute to enhancing the resilience of their economies. These principles may also be referenced in the peer review process.

Principles on Resilience

KEY PRINCIPLES	KEY PRINCIPLE COMPONENTS
REAL SECTOR	
P1. Facilitate effective reallocation of labour, promote labour market inclusion and design efficient social security systems	I. Refer to the guiding principles of the ESRA priority area on advancing labour market reforms. II. Design unemployment benefits and labour market regulations to promote efficient reallocation, wage determination, job uptake and protection of workers. III. Accelerate the implementation of structural reforms and ensure adequate coordination with macroeconomic policies so as to increase and utilise the full potential of the economy.
P2. Promote productivity growth and entrepreneurship	I. Refer to the guiding principles of the ESRA priority areas on promoting competition and an enabling environment, encouraging innovation and improving infrastructure. II. Promote capital reallocation by fostering competition and facilitating market entry and exit. III. Monitor and evaluate subsidy programmes to assess whether they risk being obstacles to structural change. IV. Promote financial inclusion.
P3. Reduce corruption and enhance the quality of public institutions	I. Strengthen the transparency and accountability of public administration. II. Adopt policy frameworks which include the use of sound accounting practices, internal controls, and auditing systems in the public sector.
PUBLIC FINANCE	
P4. Exercise prudent management of public finances	I. Refer to the guiding principles of the ESRA priority area on promoting fiscal reform. II. Ensure that public debt is on a sustainable path taking into account longer term structural fiscal pressures. III. Establish or improve a fiscal framework that is simple and transparent, and includes a medium-term fiscal anchor or establishes a fiscal strategy, and allows for flexibilities if warranted by economic conditions. IV. When macroeconomic conditions permit, establish appropriate fiscal buffers to be able to respond to shocks and the unwinding of endogenous imbalances. V. When fiscal adjustment is required, ensure that the pace and composition takes a balanced account of fiscal sustainability, growth, and inclusiveness. VI. Improve the composition of public expenditures and revenues by prioritising growth-friendly expenditure, broadening the tax base and improving the transparency and efficiency of tax revenues.

KEY PRINCIPLES	KEY PRINCIPLE COMPONENTS
P5. Improve fiscal transparency, fiscal institutions and the analysis and management of fiscal risk	I. Ensure comprehensive, reliable and timely fiscal reports that are transparent and facilitate accountability. II. Develop analytical tools to identify main sources of fiscal risks and consider use of mitigating instruments. III. Build institutional capacity at the national level which provides government with macroeconomic and fiscal forecasts, and monitors and evaluates fiscal performance. IV. Develop methods for identifying, measuring and managing the public sector's contingent liabilities.
PRIVATE FINANCE	
P6. Exercise prudent oversight of private sector leverage	I. Evaluate and reduce, where appropriate, potential debt bias in tax systems and in public support programs. II. Strengthen corporate governance frameworks to facilitate capital market development. III. Support accounting standards that accurately reflect liabilities and assets. IV. Monitor the accumulated stock of private sector debt and other sources of vulnerability while strengthening domestic early warning systems, including building on the data gap initiative. V. Promote financial literacy.
P7. Reduce vulnerabilities in financial systems	I. Refer to the guiding principles of the ESRA priority area on improving and strengthening the financial system as well as the G20 financial sector reform agenda. II. Develop an efficient micro and macro prudential policy framework which includes transparent regulation, independent supervision and a sufficient set of policy instruments. III. Build up prudential buffers, as appropriate, which can be drawn down when needed and are commensurate with the risk/size of potential losses during a downturn. IV. Ensure that policy frameworks can help avert or mitigate fundamental misalignments and excessive volatility in asset prices.
P8. Strengthen insolvency and debt resolution frameworks	I. Implement insolvency frameworks in the corporate sector that are impartial, transparent, efficient, accessible, allow for swift actions and meet common international practices. II. Implement debt resolution frameworks which facilitate the cleanup of distressed balance sheets and enable debtors, creditors, investors and other stakeholders to participate in the restructuring process.
MONETARY POLICY	
P9. Conduct monetary policy in line with the central banks' mandates and legal provisions	I. Ensure the independence of the central bank under existing legal framework. II. Ensure price stability, and taking into account central banks' mandates, support sustainable economic activity.

KEY PRINCIPLES	KEY PRINCIPLE COMPONENTS
EXTERNAL SECTOR	
P10. Harness the benefits of capital flows and enhance monitoring and surveillance of cross border risks	I. Improve the analysis and monitoring of capital flows and management of risk stemming from excessive capital flow volatility. II. Monitor the build-up of foreign currency denominated debt and address currency mismatches. III. Encourage the use of enhanced collective action clauses and modified pari passu provisions in new sovereign bond issuance.
P11. Promote international trade and investment	I. Refer to the guiding principles of the ESRA priority area on promoting trade and investment openness. II. Strengthen macroeconomic foundations and policy frameworks to reap the benefits of openness to trade and international capital flows, and manage risks. III. Ensure that the benefits from trade are widely shared throughout the entire economy. IV. Ensure competition in the market for trade finance.
P12. Address excessive external imbalances and promote international cooperation on economic policies	I. Address excessive global imbalances including by boosting savings and increasing domestic demand. II. Abide by G20 commitments on exchange rates. III. Support work to further strengthen the Global Financial Safety Net. IV. Monitor spillover effects of domestic economic policies.