



# To the point.

Information from the Federal Ministry of Finance.

# G20

## Presidency 2017

### Finance Track priorities

“Increasing resilience, improving investment conditions, shaping digitalisation.

These are the guiding principles of our G20 presidency in the Finance Track.”



German Finance Minister Wolfgang Schäuble

Dear Reader,

On 1 December 2016, 17 years after the inaugural meeting of the G20 in Berlin, Germany is set to assume the G20 presidency once again. We hope to be good hosts to our partners and are looking forward to the forthcoming projects and meetings. Our programme in the Finance Track will build on the work of the Chinese presidency, as well as introducing new ideas. We want to focus on four areas:

- **Resilience:** How can we strengthen the resilience of the large G20 economies? How can we improve the way crises are dealt with?
- **Investment conditions – ‘Compact with Africa’:** How can we foster economically viable infrastructure investment and private-sector investment, especially in Africa and in cooperation with African countries?
- **Digitalisation:** How can we take advantage of the opportunities offered by modern technologies, particularly in the area of finance, while at the same time managing the associated risks?
- **Tax policy:** How can we make the international tax system fairer and more reliable?

This brochure provides an overview of the topics, events and goals for what is known as the Finance Track, the area of responsibility of the Finance Ministry and the Deutsche Bundesbank, during Germany’s G20 presidency in 2017.

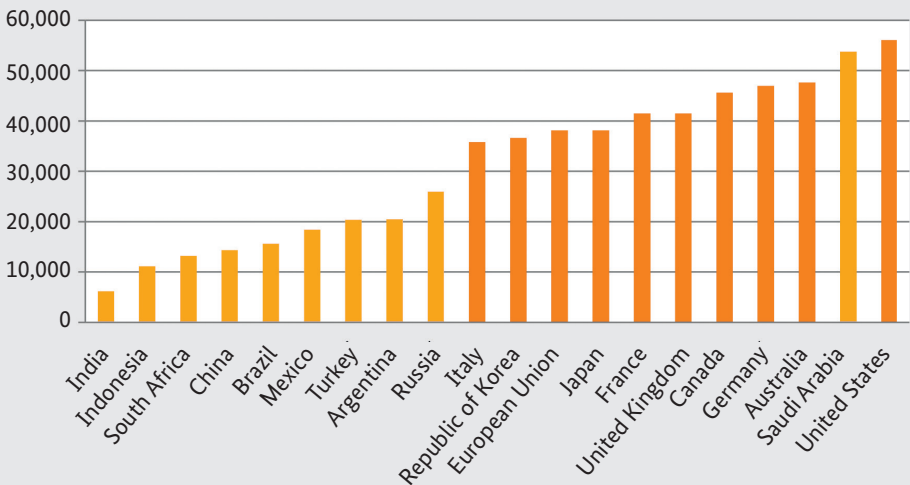
The Federal Ministry of Finance

## G20 – a forum for international cooperation

The Group of 20 (G20) comprises 19 major advanced and emerging economies and the European Union. The G20, which was founded in 1999, became the most important forum for economic coordination on the global level in 2008–2009 during the financial crisis. Today, the G20 is the most significant forum for discussing the international regulatory framework. The cooperation among the G20 members made an essential contribution to stabilising national economies and financial markets in the aftermath of the crisis, the repercussions of which still shape the G20's work. Increasingly, however, the forum is also focusing on preventing new crises through forward-looking cooperation, learning from experience and making economies more resilient. This will be an important focus within the Finance Track during the German G20 presidency.

Together, the G20 member countries currently represent over 85 percent of global gross domestic product, three-quarters of world trade and roughly two-thirds of the world's population.

### Per capita income based on purchasing power parities in 2015, in international dollars



Source: Own chart using IMF data

■ Emerging economies ■ Advanced economies

### **What has the G20 already achieved in the Finance Track?**

The financial crisis demonstrated the need for a better global regulatory framework, particularly in the financial sector.

The G20 has achieved successes in many areas. All G20 countries have pledged to carry out economic and structural reforms and have made progress in these areas, as evidenced by the G20's annually adjusted growth strategies. In the Finance Track, the G20 helped broker agreements on a variety of regulatory measures which were subsequently pursued further in the appropriate bodies, such as the Basel Committee or the EU, and were ultimately implemented in national law. The monitoring and regulation of the international financial system has been enhanced, so as to reduce risks for taxpayers in the future and to increase the stability and resilience of financial systems. The G20 has focussed not only on banks, but also on other financial service providers, developing a work programme on the shadow banking sector. The G20 has also made good progress towards its goal of creating a fairer international tax system. Groundbreaking work on this was achieved with the agreement on greater tax transparency and combating base erosion and profit shifting (BEPS) by multinational corporations. Furthermore, the G20 has agreed that multilateral development banks should deploy a larger share of their resources for investment purposes.

### **The German G20 presidency in 2017**

Germany will once again assume the G20 presidency on 1 December 2016, after last holding it in 2004. In 1999, Germany hosted the inaugural meeting of the G20, which was chaired by Canada. The G20 presidency has also been held by China (2016), Turkey (2015), Australia (2014), Russia (2013), Mexico (2012), France (2011), South Korea (2010) and the United Kingdom (2009).

In addition to the G20 members, representatives of guest countries are invited to participate on a regular basis. During the German presidency, Spain (a permanent guest invitee), the Netherlands, Norway, Switzerland and Singapore will be taking part in the Finance Track. International organisations such as the International Monetary Fund, the World Bank, the United Nations, the Financial Stability Board and the OECD are also invited to the G20 meetings.

**“Once we agree, we will deliver”**

G20 Leaders' Communiqué, 4–5 September 2016

## G20 Members and guest countries



A special role is played by the countries that make up the 'Troika', which consists of the country currently holding the G20 presidency together with the preceding and upcoming host countries (at present China and Argentina). The Troika mechanism serves to ensure continuity in implementing measures and decisions, and facilitates the transition from one presidency to the next. This is because the G20 does not have its own organisational structures, which leaves the current host country with the responsibility for organisation and logistics, in addition to coordinating policy issues.

### **How do the G20 countries work together?**

The most visible part of the G20 process are the summits where the heads of state and government meet. Chancellor Angela Merkel represents Germany at the summits, while Finance Minister Wolfgang Schäuble and Bundesbank President Jens Weidmann participate in the Finance Track meetings. Other ministries take part in their own specialist G20 tracks.

#### **The Sherpa Track**

The G20 summits are prepared by 'sherpas', who are usually senior members of the staff of the heads of state and government. The summits for the heads of state and government were incorporated into the G20 process in 2008 as a response to the financial crisis. The G20 summit in Germany will be taking place in Hamburg on 7–8 July 2017.

#### **The Finance Track**

For discussions concerning the finance sector, finance ministers and central bank governors come together at meetings that are prepared by the finance ministers' and central bank governors' deputies and their teams. The German finance minister's personal deputy holds the official title of G20 Finance Deputy.

The largest and most important event in the Finance Track under the German presidency will be the meeting of the finance ministers and the central bank governors in the German city of Baden-Baden in March 2017. As in previous years, the German presidency will also hold a meeting for the finance ministers and central bank governors on the sidelines of the International Monetary Fund's and World Bank's annual and spring meetings in Washington, D.C. For an overview of all the events in the Finance Track under the German presidency, see the graphic below.

The Sherpa Track and the Finance Track work together closely, and the results from all work areas are summarised in the leaders' communiqué. Since financial and economic issues continue to play an important role at the level of the heads of state and government, the finance ministers also participate in the summits for G20 leaders.

The dialogue with civil society and with NGOs, businesses, and unions, as well as scientists, women's groups and youth groups, are another important part of the G20. Representatives of seven dialogue streams (Civil20, Think20, Business20, Labour20, Science20, Women20, and Youth20) will be developing recommendations to present as part of the Dialogue Forums and discuss them with the G20.

**Specialist conferences, working groups and workshops**

Intensive political coordination takes place on various working levels among the governments ahead of the G20 meetings. In the Finance Track, this includes specialist conferences, working groups and workshops with the participation of researchers, industry representatives and officials from other ministries. The first meeting of the G20 deputies under the Germany presidency in Berlin on 1 December 2016 will also be accompanied by an academic conference on 30 November 2016 entitled “Towards a More Resilient Global Economy”. On 2–3 December 2016, two working groups – the G20 Framework Working Group and the G20 International Financial Architecture Working Group – will also hold meetings.

Digitalisation, one of the key topics under the German presidency, is the focus of a G20 specialist conference (“Digitising Finance, Financial Inclusion and Financial Literacy”) which will take place near the German city of Wiesbaden on 25–26 January 2017 and which is being organised by the Deutsche Bundesbank.

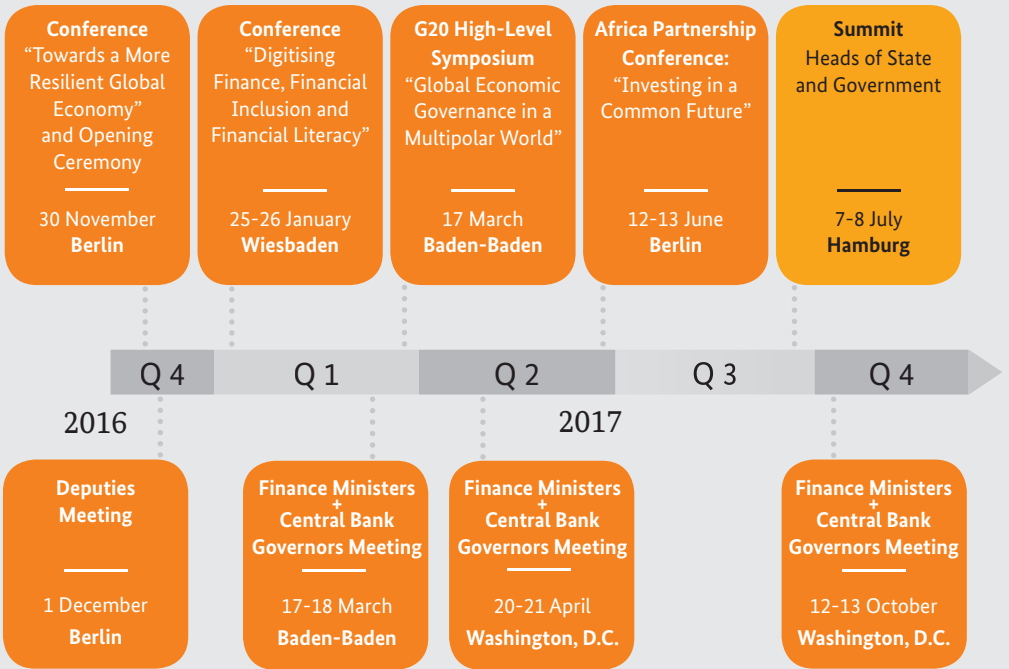
A G20 workshop on the topic of financing small and medium-sized enterprises, entitled “Helping SMEs go global – Moving forward in SME finance”, will take place in Frankfurt on 23–24 February 2017 in cooperation with the KfW development bank, the Federal Ministry for Economic Development and Cooperation and the SME Finance Forum (IFC/World Bank Group). The workshop is intended to spotlight this issue within the framework of the G20 and to promote the development of support programmes in this area.

Ahead of the meeting of finance ministers and central bank governors, a high-level symposium on the topic of “Global Economic Governance in a Multipolar World” will be held in Baden-Baden on 17 March 2017. The event, which will be attended by high-ranking experts, will focus on the role of the G20 and the international financial institutions in the financial crisis and on ways to strengthen international cooperation.

The third specialist conference, which will take place in Berlin on 12–13 June 2017, is dedicated to ‘Global Partnerships’ and, more specifically, a ‘Compact with Africa’. The conference is being organised jointly by the Federal Ministry of Finance and the Federal Ministry for Economic Development and Cooperation.

# POINT OF FOCUS

## Overview of the Finance Track events



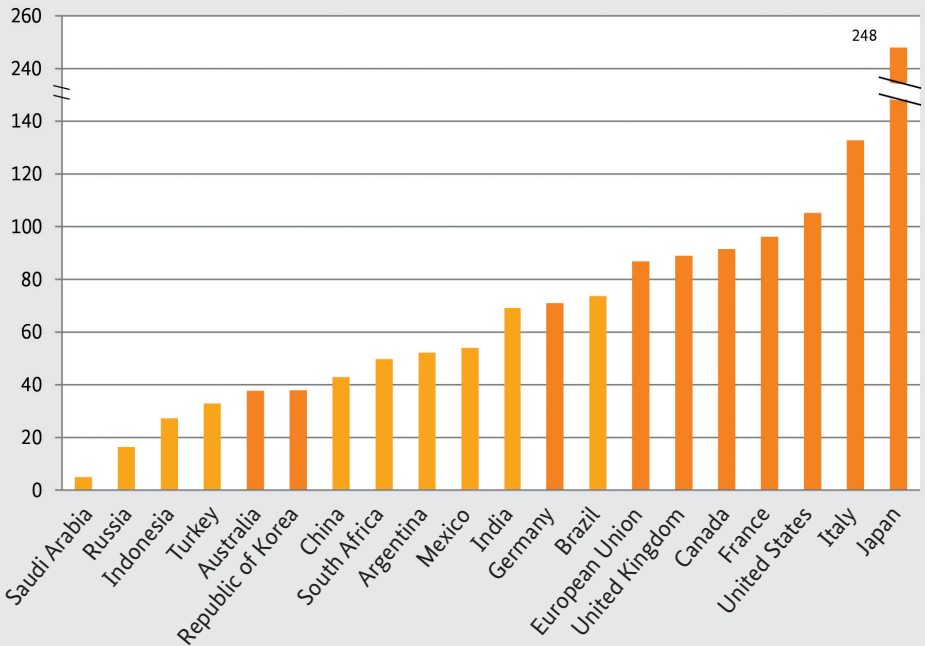


## Priorities of the German G20 presidency in the Finance Track

### Strengthening economic resilience

The global economy is currently growing at a pace close to its long-term average, but overall growth is weaker than it was in the aftermath of previous economic contractions. In addition, public debt (see graphic) and private debt is very high in many countries.

### Public debt as % of GDP in 2015



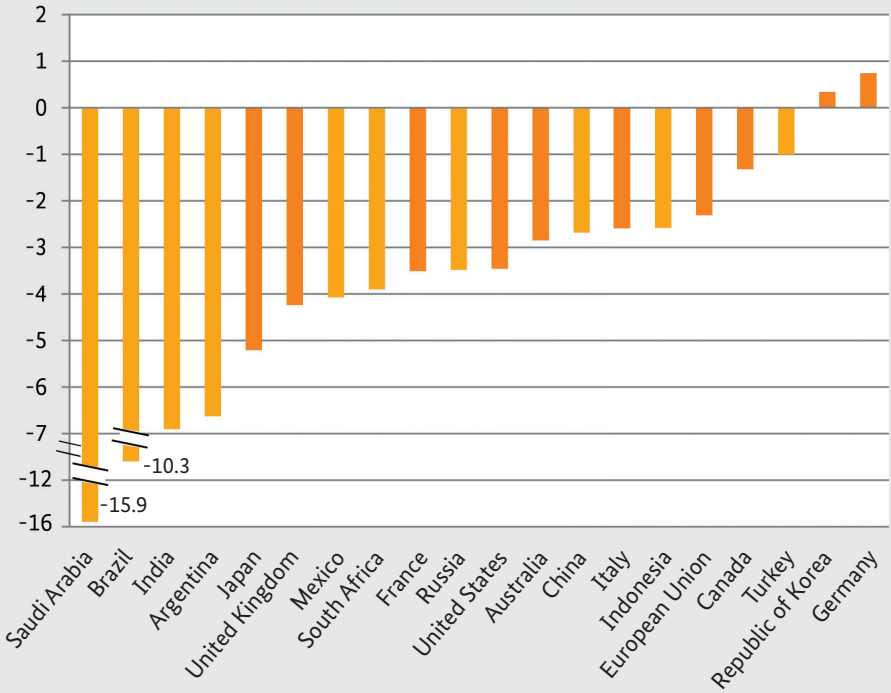
Source: Own chart using IMF data

■ Emerging economies ■ Advanced economies

Moreover, the will to carry out reforms has declined in many countries and essential structural reforms have been postponed. Taken together, these factors not only hamper economic growth but also increase the risk of countries being overwhelmed in the event of another crisis.

# POINT OF FOCUS

## Budget deficit as % of GDP in 2015



Source: Own chart using IMF data

■ Emerging economies ■ Advanced economies

Cooperation among the G20 members aims to tackle these challenges and to strengthen the global economy as a whole, by improving the resilience of each individual G20 economy. The goal of the German G20 presidency's Finance Track is to take action on these matters and build on the Chinese presidency's work on growth-enhancing structural reforms.

The G20 will be agreeing on principles to strengthen the resilience of national economies, improve countries' ability to absorb economic shocks and develop better responses to long-term structural challenges such as demographic change. The principles will guide the G20 members when it comes to developing appropriate national-level measures to enhance economic resilience. In addition to the above, we will continue to advocate a strict monitoring of the implementation of all national growth strategy measures and push for the continued implementation of the G20 Action Plan on SME Financing agreed in 2015.

### **Improving investment conditions: ‘Compact with Africa’**

An increasingly networked world needs to build global partnerships that go beyond the framework of the G20 – partnerships with Africa are especially important. For there to be sustainable development and employment opportunities in African countries, we need to improve conditions for private-sector investment and for investment in infrastructure, especially the financing environment.

The Finance Track will be setting up a ‘Compact with Africa’ initiative to tackle this issue: Its aim is to encourage private-sector investment in African countries and create closer links between the G20 initiatives, international organisations, and African countries. The initiative is also intended to create better investment conditions, for example by improving legal certainty, making taxation more reliable, and reducing investment risks with the help of international guarantees. Furthermore, the G20 will provide political support for specific investment agreements between African countries, international organisations, and partner countries.

### **Taking advantage of digitalisation, mitigating risks**

New technologies hold great promise, especially in the financial sector: New digital systems and business models can help boost productivity and lower costs, for example through automation and reduced transaction costs. They can also improve access to financial services and create greater equality of opportunity.

Nevertheless, we should also heed the risks that can arise from digital innovation. This is why we support the Financial Stability Board’s work to monitor digital financial innovation, taking into account the impact on financial stability.

Taking advantage of digitalisation requires a certain degree of knowledge of financial systems. This is why we want to open discussions on suitable education and training measures for enhancing financial literacy.

## **Making taxation fair and reliable worldwide**

We remain committed to making national tax systems fairer and more reliable throughout the world during the German presidency.

We will therefore be continuing the current G20 tax policy agenda: In particular, we will be implementing the recommendations for preventing base erosion and profit shifting (BEPS) and encouraging tax compliance by achieving the broadest possible participation in the exchange of information in tax matters. We need to ensure that the beneficial owners of investment income can be securely identified and that international access to information concerning beneficial owners is further improved. We will also be continuing the G20 initiative for greater legal certainty in taxation: Increased legal certainty lowers the risk of unwarranted double taxation and thereby promotes international economic activity. We also want to turn our attention to the special requirements for tax administrations in developing countries and discuss the implications of digitalisation for taxation.

## **Ensuring continuity, pursuing the G20 agenda**

In addition to the key topics listed above, Germany will also be continuing the G20 agenda in a number of other areas. The G20 can only achieve lasting progress if there is continuity: Adopted measures must be implemented and compliance monitored. These are steps that play an increasingly important role in the G20 agenda. Many of the issues broached are so complex that they cannot be adequately dealt with during just one presidency. Under the German presidency, the G20 will need to continue its ongoing work to finalise its regulatory plans, especially in the following areas.

## **Strengthening the international financial architecture**

We will be continuing the preparations begun under China's presidency to further strengthen the international financial architecture and global financial safety net. This safety net centres on the International Monetary Fund (IMF), of which practically all states of the world are members. An effective collaboration that is actively supported by the G20 is in place between the IMF, its member states, and other international organisations to ensure global financial stability, complementing and strengthening efforts to improve individual countries' economic and financial resilience at the national level.

The G20 paved the way towards further strengthening the IMF's financial capacities; thus the IMF doubled its own resources in early 2016 and began the renewal of extensive bilateral credit lines. Financial stability depends on debt sustainability, i.e. countries must be able to service their debt (interest

and principal payments) on time, while still having scope for other important expenditures such as investments and social spending.

We want to improve debt sustainability, in particular by developing sustainability principles for low-income countries.

We want multilateral development banks to use their capital more effectively and increase their involvement in financing infrastructure projects.

While the unhindered cross-border flow of capital is essential to the market economy and global free trade, large, volatile capital flows are a challenge for individual countries. This is why the German presidency will be pushing for all G20 members to join the OECD Code of Liberalisation of Capital Movements, which was adopted several decades ago. The Code helps prevent responses at the national level which might endanger trade and the financial system, while remaining flexible enough to allow for country-specific measures to be developed and reviewed on a regular basis. The Code is an excellent instrument for improving the regulatory framework for international capital movements.

### **Fostering financial market stability**

Functioning financial markets encourage economic growth by mobilising capital for urgently needed investments and we will carry on the G20's efforts in this matter, primarily with the aim of implementing and developing the Financial Stability Board's regulatory agenda. Capital requirements for banks (Basel III) and the continued reduction of risks associated with large financial institutions and service providers will be key here. Since we have made good progress in the banking and insurance sectors, it is important we now address the risks associated with other key players on the financial market.

We will also be taking steps to reduce risks in the shadow banking sector and to create an analytical framework for measuring the impact of our reforms.

We will continue the ongoing work on green finance by improving international disclosure for financial risks associated with environmental factors. We will also initiate efforts to develop instruments for measuring and controlling these risks with the aim of creating a robust basis for environmentally-friendly financing.

## **Other topics**

We also want to broach other important issues in the financial sector under the German G20 presidency, for example return remittances to home countries by individuals working abroad. While these remittances are very important for a lot of families living in developing countries, they can also be abused, which is why we need clear rules on the matter. We need to achieve the right balance between the need to combat money laundering and the financing of terrorism on the one hand and, on the other hand, keeping the costs of sending remittances to the receiving countries low. The Financial Action Task Force, the Global Partnership for Financial Inclusion, and a Financial Stability Board working group will be discussing the matter further and submitting recommendations on how these standards can be better implemented.

## Summary and Outlook

At their meeting in Hangzhou, China, on 4–5 September 2016, the G20 heads of state and government agreed on the following:

*“We reaffirm that the G20’s founding spirit is to bring together the major economies on an equal footing to catalyze action. Once we agree, we will deliver.”* (excerpt from the Leaders’ Communiqué)

Germany is fully committed to making substantial progress during its G20 presidency, especially on the topics that have been identified as priorities.

Then we will pass the baton to Argentina, which will be holding the G20 presidency for 2018.

### For more information:

- Explanatory film “G20 – einfach erklärt” (in German): [www.youtube.com/finanzministeriumtv](http://www.youtube.com/finanzministeriumtv)
- G20 brochure in the “To the point” series: [www.bundesfinanzministerium.de/auf-den-punkt](http://www.bundesfinanzministerium.de/auf-den-punkt)
- Overview of documents on the G20 and G7/G8 summits (in German): [www.bundesfinanzministerium.de/Gipfeldokumente](http://www.bundesfinanzministerium.de/Gipfeldokumente)
- Overview of the German government’s statements on the G20 and G7/G8 summits (in German): [www.bundesfinanzministerium.de/Gipfelerklaerungen](http://www.bundesfinanzministerium.de/Gipfelerklaerungen)



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