Workshop 1: The state of the world economy and finance

The workshop will address economic, financial and monetary issues. First, the World Economic Outlook and its present multiple risk dimensions. Second, the present state of financial reforms after the Brisbane G20 meeting of November 15 and 16, and after the stress test of the European banks within the framework of Banking Union. And, third, the implications of sustained unconventional monetary policy and of its eventual withdrawal in the advanced economies.

I - World Economic Outlook

In 2014, the global economic recovery has been characterized by a relatively disappointing and uneven growth. According to the IMF, world growth this year is projected at 3.3%, 0.4% lower than in the April 2014 W.E.O. In advanced economies, the legacies of the pre-crisis boom and of the subsequent bust are still overshadowing the recovery. Particularly in the Euro area, the legacy of the sovereign risk crisis, starting in 2010, still negatively influences the real economy.

The emerging economies, whilst having been largely preserved from the crisis of the advanced economies, are nevertheless presently adjusting to rates of growth that are lower than before the crisis and in the time of the post-crisis recovery.

The pace of recovery is now largely country specific. But economic analysis suggests that, in almost all economies, the overall growth potential is lower than before the crisis.

Contrasting with this relatively disappointing recovery, financial markets have been very optimistic in 2014, with high equity prices, low level of risk pricing, compressed spreads and extremely low volatility. There are a number of indicators suggesting that financial markets are presently under-pricing risk, and not necessarily internalizing the impact of the progressive likely withdrawal of monetary stimulus in some major advanced economies.

The workshop would concentrate on several issues that need active attention from the international community, in particular:

- What are the underlying causes of the decrease of “total factor productivity” in the advanced economies?
- Is there a real danger of “secular stagnation” in the advanced economies? What are the multiple dimensions of such a stagnation if confirmed?
- Is a significant increase of investment, in particular infrastructure investment - as recommended by the IMF - appropriate to support demand in the short term and help boost potential output in the medium term? More generally what is the pertinence of the debate “austerity versus growth”?
- In Europe, particularly in the Euro area, there is an overall lack of domestic demand signaled by a significant current account surplus and by a low level of inflation. What would be the most effective way to activate domestic demand and counter sustained low inflation?
- Important geopolitical tensions have been, until now, confined to the regions involved. Is there a real risk for some of these geopolitical tensions to turn global and to impact significantly the world economy as a whole?

II - Progress of Financial Reforms

Since the first G20 commitment to fundamental reform of the global financial system, significant progress has been made. What is remarkable is that all decisions have been prepared and taken by the International

Community as a whole, including systemic emerging economies, and not only by the advanced economies (Basel Committee, G10, G7), as was the case before the crisis.

The workshop would concentrate, amongst others, on four issues that are of particular importance:

- Finalization of a new minimum standard for "Total Loss Absorbing Capacity" (TLAC) for the Global systemically important banks (GSIB's). These proposals, called by the 2013 St Petersburg Summit of the G20, have just been issued for public consultation (November 10th). The TLAC objective is that GSIB's would have sufficient capacity to absorb losses, before and during resolution, and then would be able to ensure the continuity of critical economic functions.

- Actively pursuing OTC derivatives market reforms. 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 is needed to promote trading on exchanges or electronic trading platforms. Equally bilateral and multilateral discussions on outstanding cross-border issues are far from being achieved.

- Shadow banking monitoring. The fourth annual global shadow banking monitoring report estimate that the outstanding financial assets of "pure" shadow banking amount to 35 trillion $. With the new banking regulations, risks can migrate outside the core of the banking system to become part of the overall systemic risk embedded in shadow banking. This makes essential the strengthening of the oversight and regulation of shadow banking to preserve it as a transparent, resilient and sustainable source of market based financing for real economies.

- Avoiding the fragmentation of the international financial system. 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.

- Good and credible start of Banking Union in Europe is not only key for the European recovery but also for the global financial stability. The results of the Asset Quality Review and of the stress test would be assessed in the perspective of the necessary activation of credit in the Euro area.

III - Unconventional Monetary Policy

Until now, all central banks of the large advanced economies have embarked on long standing accommodating policies and sustained bold unconventional monetary policy. What was and what is the meaning of this persistent situation more than seven years after the start of the subprime crisis and more than six years after Lehman Brothers bankruptcy? The following questions would be explored amongst others:

- What are the financial and real economy risks associated with a long standing very high level of monetary accommodation in the advanced economies?

- What is the likely impact, in particular on the emerging economies and on the world economy, of the progressive withdrawal of monetary stimulus that has started in the United States?

- Are we experiencing a kind of "new normal" monetary policy required by persistent new economic and financial structural features of the advanced economies (in particular, but not exclusively, the threat of secular stagnation)?

- All advanced economies have embarked on sustained unconventional monetary policy, whilst the instruments, until now, utilized by the major central banks, are different. Can we explain this situation by the different structure of the financing of the various advanced economies? What are in this respect the European specificities?