

CHAIR'S SUMMARY: G7 FINANCE MINISTERS AND CENTRAL BANK GOVERNORS' MEETING

G7 Finance Ministers and Central Bank Governors (FMCBGs) met in Chantilly on July 17th and 18th, 2019. They reaffirmed the importance of their close cooperation to address the current and future economic and financial challenges and committed to work together for a more inclusive, equal and sustainable economic model.

Ministers and Governors discussed more specifically ways to: (i) first, continuing to address current risks in the global economy and the financial system to support strong, sustainable, balanced and inclusive growth that generates widespread prosperity; (ii) second, accelerating the work to tackle new challenges, including most importantly making the international tax system fairer, addressing the competition challenges that are raised by the digitalization of the economy, and advancing the agenda on climate and green finance; (iii) third, ensuring that the benefits of growth are more widely shared, fighting inequalities within countries as well as between advanced and developing countries.

ADDRESSING RISKS IN THE GLOBAL ECONOMY AND THE FINANCIAL SYSTEM

Global economy

Ministers and Governors exchanged views on the global economy and the financial system. They noted that while global growth appears to be stabilizing with an expected moderate pick-up in 2020, risks remain tilted to the downside. Most importantly, trade and geopolitical tensions have intensified.

Ministers and Governors agreed to continue to address these risks, including by taking further action if and when appropriate, and to strengthen international cooperation and frameworks. They reaffirmed their commitment to use all policy tools to achieve strong, sustainable, balanced and inclusive growth, and safeguard against downside risks. Fiscal policy should be flexible and growth-friendly, while rebuilding buffers where needed and ensuring debt as a share of GDP is on a sustainable path. In line with central banks' mandates, monetary policy will continue to support economic activity, while remaining mindful of financial stability and recognizing that monetary policy alone cannot address all economic challenges. Continued implementation of structural reforms will enhance our growth potential.

Ministers and Governors also reaffirmed their previous exchange rate commitments. They recalled their commitment to ensure resilience of the financial sector and limit spillovers and contagion. They agreed that policy makers should strive to reduce excessive global imbalances in a way that supports global growth.

They recalled the conclusion of the G20 Osaka Leaders' Summit on the necessary reform of the World Trade Organization and reaffirmed their commitment to further strengthening the global financial safety net with a strong, quota-based, and adequately resourced IMF at its center. Key

takeaways from the High Level Public Conference held on 16 July 2019 by the G7 Presidency, on the occasion of the 75th anniversary of the Bretton Woods agreements, were discussed: in particular, while the international monetary system proved to be resilient to the 2008 Global Financial Crisis, it will need to continue to adapt to new challenges as they arise, including the smooth provision of global public goods.

Cybersecurity in the financial sector

Ministers and Governors welcomed the G7 joint cross-border crisis management exercise on a cyber incident affecting the financial system performed in June 2019 by the G7 Cyber experts group (CEG). This complex undertaking is the first exercise of its kind amongst financial authorities (G7 Ministries of Finance and Central Banks, Bank Supervisors and Market Authorities).

Cyber risks are increasing and pose a genuine and growing threat to the stability and integrity of the financial sector. Ministers and Governors agreed that only a coordinated approach based on information sharing and trust can respond to this rising challenge. They acknowledged that cooperation among public authorities has an important role to play as regards cyber security in the financial sector and recognized that the G7 is an appropriate forum to advance multilateral efforts on this issue.

Ministers and Governors underlined the importance of deepening their engagement in three areas:

- On regulation, they stressed the importance for the different standard-setters to coordinate their initiatives in order to maintain a clear and consistent regulatory environment for all market participants. They asked the CEG to review, as part of its planned self-assessment, if the Fundamental Elements that have been produced at G7 level have sufficiently influenced the drive towards consistency in the recommendations made to financial actors;
- On information, they tasked the G7 CEG to analyze how to make progress on a common categorization of cyber incidents affecting the financial sector, for better measurement of their impact;
- On preparation, they agreed to draw the lessons of the G7 joint crisis management exercises both for national and coordinated future exercises and to establish a programme of exercises for the coming years.

Stablecoins and other various new products

Ministers and Governors acknowledged that while innovation in the financial sector can bring substantial benefits, it can also entail risks. They agreed that stablecoins and other various new products currently being developed, including projects with global and potentially systemic footprint such as Libra, raise serious regulatory and systemic concerns, as well as wider policy issues, which both need to be addressed before such projects can be implemented.

Regarding regulatory concerns, Ministers and Governors agreed that possible "stablecoin" initiatives and their operators would in any case need to meet the highest standards of financial regulation, especially with regards to AML/CFT, in order to guarantee they do not affect the

stability of the financial system, or consumer protection. Possible regulatory gaps would also need to be addressed.

Regarding systemic concerns, Ministers and Governors agreed that projects such as Libra may affect monetary sovereignty and the functioning of the international monetary system.

Ministers and Governors agreed however that those projects underline the need for cross-border payment systems to be significantly improved and less costly for consumers.

Ministers and Governors welcomed the preliminary findings of the G7 working group¹ on stablecoins coordinated by Benoît Cœuré, Chair of the Committee on Payments and Market Infrastructures, and called for its deepening of the above mentioned issues. The final report of the working group, including its recommendations, is expected by the time of the IMF-World Bank Annual Meetings in October 2019. The group will coordinate with the G20, the Financial Stability Board and other relevant standard setting bodies.

ADDRESSING NEW CHALLENGES

International taxation

Considering the need to improve the current international tax framework, without undermining its principles, Finance Ministers agreed that it is urgent to address the tax challenges raised by the digitalization of the economy and the shortcomings of the current transfer pricing system. Ministers therefore fully supported a two-pillar solution to be adopted by 2020 through the work programme endorsed by the G20 Leaders.

Under the first pillar, new nexus rules should be developed to address new business models, such as highly digitalized business models, allowing companies to do business in a territory without any physical presence.

In addition, tax certainty should be reinforced and aggressive tax planning should be limited, in particular for the transfer pricing of distribution activities.

The new taxing rights under pillar one could be determined by reference to criteria reflecting the level of businesses' active participation in a customers' or users' jurisdiction, such as valuable intangibles or employment of a highly digitalized model, on which ministers agreed that the OECD should further reflect.

The new rules should be administrable and simple.

¹ Composed initially with senior officials from the G7 central banks as well as from the International Monetary Fund, the Bank for International Settlements and the Financial Stability Board, the working group will be expanded to representatives from G7 ministries of finance. The Secretariat of the Committee on Payments and Market Infrastructures provides support for the group.

Ministers also agreed that, in order to avoid double taxation and ensure the stability of the international tax system, robust and effective tax dispute resolution through mandatory arbitration must be a component of this global solution.

Under the second pillar, ministers agreed that a minimum level of effective taxation, such as for example the U.S. GILTI regime, would contribute to ensuring that companies pay their fair share of tax. The tax level to be set would depend on concrete design features of the rules.

The G7 looks forward to further progress in the context of the G20 and a global agreement on the outlines of the architecture by January 2020 at the level of the Inclusive Framework on BEPS.

Competition and the digital economy

Ministers and Governors recognized that the digitalization of the economy raises competition challenges. They welcomed the ongoing reflections and inputs coming from academia and different fora, including recent studies and policy proposals², and looked forward to further contributions as inputs for their reflection and possible policy actions.

They welcomed the *Common Understanding* agreed by the G7 competition authorities presenting their consensus views and way forward to address those challenges. Building on this work, Ministers and Governors reaffirmed that competition rules and their enforcement can and should adapt as appropriate to new challenges, including those raised by the digital transformation or new economic understanding, while keeping their guiding principles.

Ministers and Governors encouraged the G7 competition authorities to pursue their coordinated work and to pay particular attention to (i) the potential impact of the accumulation of data combined with network effects on market power and barriers to entry; (ii) the need for enforcement authorities to adapt their approach as necessary to address anticompetitive behaviors by dominant firms in digital markets and to assess the impact of mergers on competition and innovation; (iii) the relationship between competition and regulation in addressing digital challenges.

Ministers and Governors noted that discussions on those issues remain ongoing, including with regards to academic and institutional analyses. They underlined that, while competition policies are defined and implemented at country (or EU) level, coordination and cooperation among jurisdictions are essential.

² Report Unlocking digital competition of the expert panel led by Pr. Jason Furman to the British Government; report Competition policy for the digital era, by Jacques Crémer, Yves-Alexandre de Montjoye and Heike Schweitzer to the European Commission; report released by the Committee for the study of digital platforms of the Stigler Center of the University of Chicago, led by Fiona Scott Morton, with Ariel Ezrachi.

Climate and green finance

Ministers and Governors took stock of and discussed objectives and strategies for climate and green finance in view of the upcoming UN Climate Action Summit in September and the upcoming replenishment of the Green Climate Fund in 2019.

They also discussed more specifically the role of the private sector in the transition towards a green and low-carbon economy. Attention was given to the role of the financial sector, in particular to the proposal of building a taxonomy of sustainable activities, building on common fundamental principles and correspondences between existing taxonomies at regional level. Those Ministers and Governors that are members of the Network for Greening the Financial System encouraged the implementation of the recommendations listed in the comprehensive report of the Network for Greening the Financial System, which aim at enhancing the role of financial actors in managing environmental risks and mobilizing capital for green and low-carbon investments.

Ministers and Governors welcomed actions undertaken by the MDBs and the IMF to mainstream environmental considerations within their activities and looked forward to continued efforts in that regard.

FIGHTING INEQUALITIES WITHIN AND BETWEEN COUNTRIES

Inequalities in advanced economies

Ministers and Governors deepened their policy discussion on inequalities that started in Bari in 2017 and was further advanced in Whistler in 2018. They reaffirmed that a key challenge facing G7 economies is to make sure that every person has a real and fair chance to contribute to, and share in, economic success.

Ministers and Governors underlined the importance of strengthening equality of opportunities to deliver a more inclusive economy that works for everyone. They agreed on the value of sharing good practice to achieve this objective, and discussed in that regard the OECD presentation of a set of good practices in advanced economies to enhance equality of opportunities. The OECD also presented the Going for Growth report they released on July 12, which underlines the positive relationship between enhancing equality of opportunities and raising potential growth.

Ministers and Governors also discussed more specifically policies on pay transparency to enhance fairness within companies with the identification of pay differential and pay gaps. While recognizing that countries differ in terms of collective preferences regarding pay differences between executives and employees, Ministers and Governors agreed that transparency on pay helps shed light on the issue. They also reaffirmed the need to close the gender pay gap and to fight against all types of discrimination.

Ministers and Governors finally underscored the essential role that the private sector can and should play in taking initiatives to promote equal opportunities and combat discrimination. In that regard, they discussed the initiatives presented by the representatives of the Gender Equality Advisory Council in favor of greater gender equality in the workspace. They also welcomed the

informal exchanges conducted with representatives of the business community and the civil society in a wider session on gender equality.

Policy discussion on equality of opportunities, including through exchanging on good practices and sharing experiences, including on pay transparency, will remain an important part of the international agenda.

Financing for development

Ministers and Governors discussed ways to improve financing for development, particularly in Africa. Recognizing the significant challenges faced by low-income countries in Africa, notably in the Sahel region, they underlined the need to mobilize further all development partners and enhance their coordination.

Against the backdrop of rising debt vulnerabilities, they underscored, in line with the outcomes of the Paris Forum Conference held in Paris on 7 May 2019, the need to design and ensure implementation by all actors, public and private, of global standards on international financing and investment, including export finance. Enhancing transparency and consistency of financing practices with IMF-World Bank debt sustainability analysis is key in that regard.

Ministers and Governors also welcomed the ongoing work of the IMF and World Bank, which aims at increasing access to concessional financing, enhancing the flexibility and tailoring of programs to country-specific needs, and addressing debt vulnerabilities and other structural issues. They also underlined the importance of strengthening capacity building and domestic resource mobilization, as well as efficiency of public spending and public financial management. Ministers and Governors expressed their support for a successful replenishment of the International Development Association (IDA) and the African Development Fund and called for a continued focus on providing resources to the poorest countries.

In addition, Ministers and Governors underscored the importance of further enhancing private finance and creating the conditions for local private sectors development. They reiterated their support to the G20 Compact with Africa and agreed to encourage strong implementation of this initiative to help accelerate achievement of Compact objectives. Possible enhancement could include a stronger role given to the World Bank Group as well as a stronger focus on technical assistance for reforms.

Women's digital financial inclusion in Africa

Ministers and Governors also discussed the Bill and Melinda Gates Foundation report on women's digital financial inclusion in Africa and its recommendations. The report identifies five already existing initiatives that together form a relevant and coherent package to make progress in this area³. Ministers and Governors underlined the importance of advancing the agenda of women's

³ the African Development Bank's African Digital Financial Inclusion facility, the World Bank's Identification for Development Initiative (ID4D), the United Nations Capital Africa Policy Accelerator, the Africa Research

digital financial inclusion in Africa, as a key dimension of women's economic empowerment. They welcomed the recommendations of the report as a meaningful contribution to this work.

Initiative on Identity, Payments and Governance and the Blavatnik School of Government's Pathways for Prosperity Commission Facility