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The G20 and the EU: A Win-Win Game

By Moreno Bertoldi, Heinz Scherrer and Guergana Stanoeva

Summary

This article analyses the role played by the European Union in the G20 Finance Ministerial and Central Bank Governors process, the so-called "G20 finance track". Thanks to its experience in the coordination of economic policies and its important economic weight, the EU has been able to add significant value to the work of the G20. In return, it has been quite open in taking into account the suggestions of its peers in the G20 and translating some of them into policy action. We discuss some cases that demonstrate the important synergies that have been developed between the G20 and the EU and we conclude with suggestions for further developing the existing potential.

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Introduction

This article analyses the role played by the EU in the G20 Finance Ministerial process, the so-called "G20 finance track". The G20 was established in 1999 as a gathering of Finance Ministers and Central Bank Governors in the context of the Asian financial crisis and upgraded to Leaders level in 2008 in reaction to the global financial crisis. The EU has been a member of the G20 from the very beginning. Thanks to its experience in the coordination of economic policies, the EU has been able to provide significant value added to the G20 work. In return, it has been quite open in taking into account the suggestions of its peers in the G20 and translating some of them in policy action.

The EU in the G20 "finance track"

How the G20 "finance track" works

As the G20 is the main forum for international economic and financial cooperation, inevitably the G20 finance track plays a crucial role in it. Still it is not the only work strand of the G20. There is also the "non-financial track" that covers issues concerning trade, employment, agriculture, development, climate change, etc. The issues discussed in the "finance" and "non-finance" tracks are brought to the attention of G20 Sherpas who, as representatives of G20 Leaders, are in charge of preparing the G20 Summits (see Table 1 for the main types of meetings under the 2016 G20 Presidency).

Table 1: Main Types of Meetings and Working Groups under the Chinese G20 Presidency

G20 Summit of Heads of State/Government	
G20 Finance Track	**G20 Sherpa Track**
Finance Ministers and Central Bank Governors	Sherpas
Finance and Central Bank Deputies	Labour and Employment Ministers
Framework for Strong Sustainable and Balanced Growth Working Group (WG)	Energy Ministers
International Financial Architecture WG	Trade Ministers
Investment & Infrastructure WG	Agriculture Ministers
Climate Finance Study Group (SG)	Agriculture Deputies
Green Finance SG	Employment WG
	Energy Sustainability WG
	Development WG
	Anti-Corruption WG
	Trade and Investment WG
	Meetings of engagement groups: B20 (Business 20); L20 (Labour 20); T20 (Think 20); Y20 (Youth 20); W20 (Women 20)

The agenda of the G20 "finance-track" is composed of (i) recurrent topics and (ii) special topics. Recurrent topics include: the global economic situation and outlook; macroeconomic cooperation and coordination, policies aimed at fostering growth; financial regulatory reform; tax transparency; and the reform of the international financial architecture. Depending on the mandate provided by Leaders at their Summits other issues can be added to the agenda. For instance, recognising the essential role that the long-term financing of the economy plays in supporting the G20 goal of strong, sustainable and balanced growth, in February 2013 Finance Ministers and Central Bank Governors agreed to establish a Study Group on Financing for Investment which afterwards was upgraded to the G20 Investment and Infrastructure Working Group. In preparation of the finance track meetings, the G20 Presidency prepares "issues notes" presenting the main questions for discussion.

The finance track work of each Presidency starts with a top down approach. Following the Leaders' Summit (which in general takes place in the autumn), the new Presidency normally organises before the end of the year a G20 Finance Deputy meeting to discuss and define the priorities and the work programme until the next Summit. The working and study groups[1] of the finance track then meet and prepare a work programme that is discussed and approved by Finance Ministers at their ministerial meeting in February. On the basis of the approved work programme, the working groups prepare reports and policy recommendations (for

instance on the G20 growth strategies) that are then transmitted to Deputies and Ministers that, once approved, become the core of the Action Plan for the G20 Summit.

After each G20 Finance meeting, Finance Ministers and Central Bank Governors issue a carefully crafted communiqué, where they state the consensus reached and possible policy actions to be undertaken by G20 members. As the G20 works by consensus, these documents generally are market-reassuring and try to support global confidence. More importantly, they provide an indication of the level of ambition in the field of international economic cooperation among G20 countries (most recently on tax cooperation)[2], and are therefore carefully read by market participants.

The EU in the G20 "finance track"

At the Finance Ministers' and Central Bank Governors' meetings, the EU is represented by the Commissioner for Economic and Financial Affairs, Taxation and Customs, the Finance Minister of the rotating EU Council Presidency, and the European Central Bank Governor[3] (this applies also for the Deputies meetings).

The EU in the G20 represents all EU Member States. As some EU Member States are also G20 members (France, Germany, Italy and the UK) or permanent guests (Spain), EU representatives play a key role in the coordination process of the EU positions in the G20. The aim is to provide as much as possible a consistent message on the EU policy stance and actions to the rest of the world.

The common European negotiating position on "finance track" topics is stated in so-called "terms of reference". This is a short document which summarises the EU common view on the topics present in the Finance Ministers' and Central Bank Governors' agenda[4].

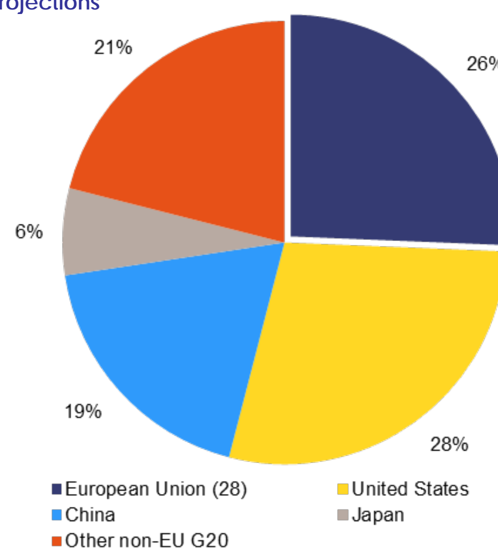
The EU coordination process starts well in advance of each G20 meeting. "Draft Terms of reference", jointly prepared by the European Commission, the ECB and the EU Council Presidency, are first circulated for written comments and then discussed by EU State Secretaries for Finance in the EU Economic and Financial Committee. The final terms of reference are subject to approval by Ecofin Ministers.

The role of the EU in the G20

Examples of EU contributions to the economic policy coordination process in the G20

The EU is the G20 member which by its own nature has decade-long experience in economic policy coordination. Due to this and also to its important economic weight (see Fig. 1) it is well placed to provide constructive suggestions and proposals regarding economic policy cooperation and coordination even in situations where G20 members have different views and positions. Three examples taken from the work of the G20 Framework for Strong, Sustainable and Balanced Growth illustrate quite well the originality of the EU contribution.

Graph 1: **G20 GDP Shares, USD bln, current prices, 2016 projections**



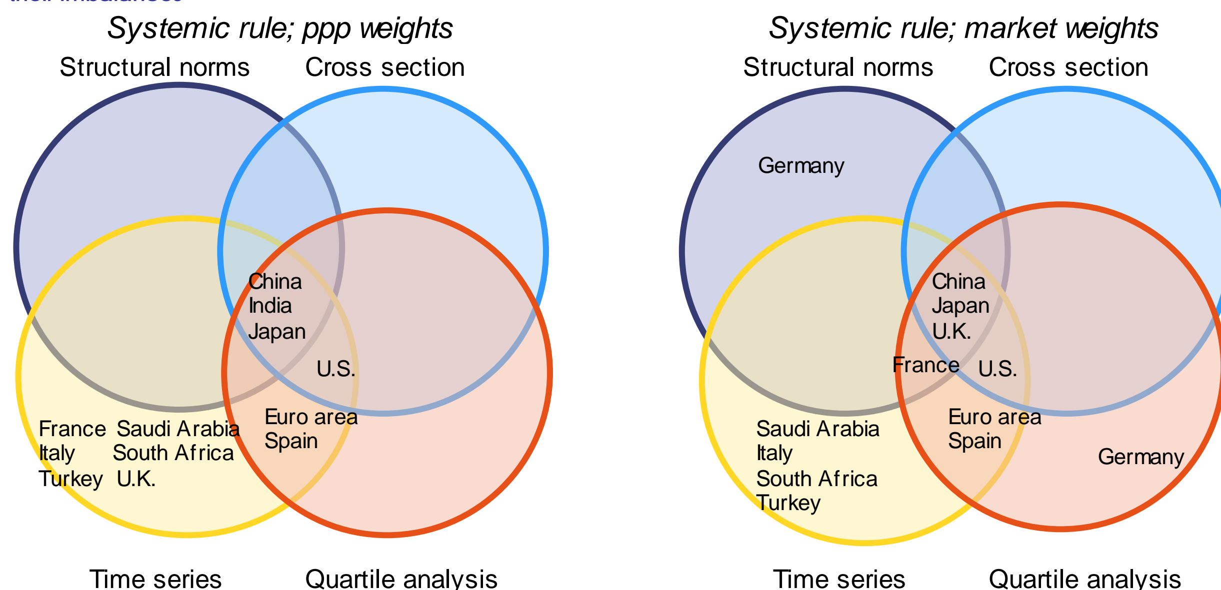
Source: IMF, WEO, October 2015

The first example concerns the correction of macro-economic imbalances. This issue has been at the heart of the G20 policy agenda since 2009, when the Framework for Strong Sustainable and Balanced Growth was launched. However, as of the beginning of 2011, there was still not an agreed approach on how to analytically identify and then tackle global imbalances. Because of an early unsuccessful attempt at reducing global imbalances through international cooperation within the IMF framework[5] and the impossibility to reach agreement within the G20 on "thresholds" above which imbalances would be considered as excessive, the issue seemed intractable. However, as it was considered a significant obstacle to achieve strong sustainable and balanced growth in the aftermath of

the crisis, the inability of the G20 in addressing the issue would have affected its credibility.

The G20 was not the only place that had to deal with imbalances. In the same period, the EU had started to deal with its own internal imbalances. In this respect, it was developing an imbalances procedure to identify EU internal macroeconomic imbalances and trigger remedial action. The European approach was to develop a two-step process. The first step was aimed at identifying, through an indicator-based filter, countries that may present excessive imbalances. In step two, the European Commission would carry out an in-depth analysis of the countries with indicators flashing red to understand whether the imbalances were potentially harmful for the country and the EU as a whole. If this was the case, the country would be asked to act so as to reduce its unbalanced position. This approach was shared with the G20, whose members agreed that it could be helpful to break the existing deadlock, which was in fact what happened. The two step approach was agreed at the February 2011 Finance Ministers' and Central Bank Governors' meeting in Paris and became (and still is) the heart of the G20 "indicative guidelines"[6]. (See figure 2: the G20 "indicative guidelines" approach to selecting G20 member economies for further analysis of their imbalances.)

Graph 2: **Illustration of the G20 "indicative guidelines" approach to selecting G20 member economies for further analysis of their imbalances**



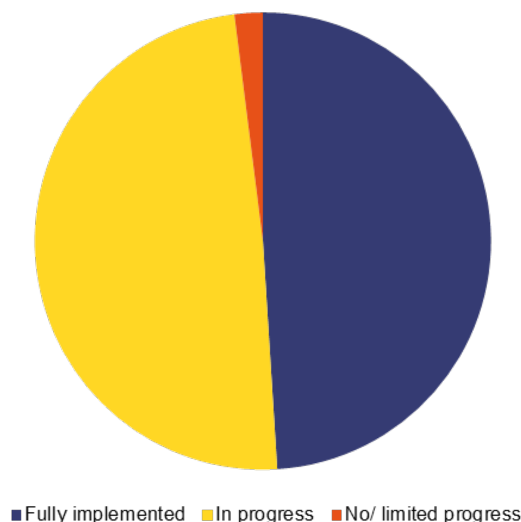
Note: G20 members are subject to further analysis of their imbalances if they are "flashed" through at least 2 of the 4 agreed methods (i) a structural one based on economic frameworks to calculate "norms"; (ii) a time series one to provide historical trends; (iii) a cross-section one to identify benchmarks based on averages of countries at similar development stages; and (iv) a quartile analysis to provide median values for the full G20 distribution in 2 or 3 sectors (external, fiscal, and private). For "systemic" members (i.e., whose share in the G-20 GDP is 5 percent or more), a "moderate" imbalance is used for selection in order to account for their systemically important roles. In the 2015 round of assessments, nine G20 members were selected for further analysis: China, the Euro area, France, Germany, India, Japan, Spain, the United Kingdom and the United States.
Source: IMF "Imbalances and Growth: "Update of Staff Sustainability Assessments for G-20 Mutual Assessment Process", October 2015

Another example where the EU experience with economic policy coordination proved valuable for the G20 was in the set-up of the G20 growth strategies process in 2014. At the G20 summit in September 2013, at the initiative of Australia G20 members agreed to develop comprehensive growth strategies to achieve stronger, more sustainable and balanced growth. In October 2013, during the preparatory stage of the growth strategies to which G20 members were asked to provide their views and ideas, the EU indicated that the success of the growth strategies' initiative would depend on the way the process was organised over the next year. The main lesson shared with the G20 was that a successful economic coordination process requires early agreement of common objectives and methods of assessment. In addition, a rigorous peer-review process of plans and actions needs to be put in place, which would lead to country-specific recommendations agreed among G20 members so that ownership could be ensured. The EU also stressed that, on the basis of the European experience with the so-called "European Semester", in the G20 context it was important to insert individual strategies/commitments in a global perspective based on shared priorities and objectives

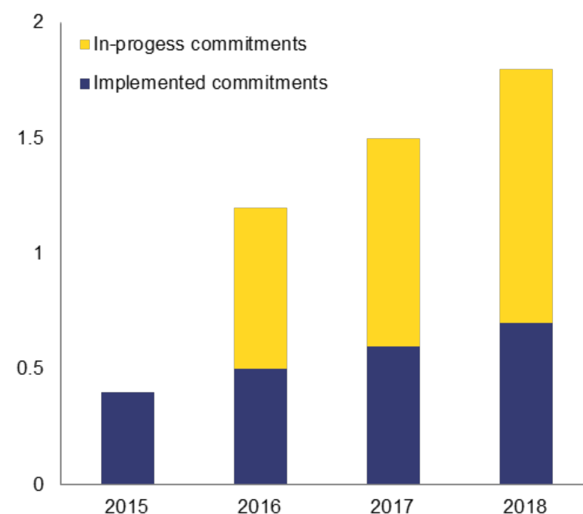
by G20 members, so as to ensure a certain degree of coherence. This would allow for an effective monitoring mechanism and peer review and therefore enhance the chances of putting in place meaningful growth strategies with a real impact on growth and employment. Many of these observations and ideas were taken up by the then Australian G20 Presidency. The IMF, OECD and World Bank worked together to identify gaps in G20 members' policies, and, on the basis of these gaps, suggested ambitious and realistic actions that could lift growth. In February 2014, the G20 Finance Ministers and Central Bank Governors agreed that this could be achieved through a top-down approach that would focus on four key reform priorities: investment, employment, trade and competition. A quantified growth objective for the G20 as a whole was also set: G20 Ministers and Governors agreed to develop policies to lift collective G20 GDP by more than 2 per cent above the trajectory implied by current policies cumulatively over the next five years (i.e. by 2018). They also agreed that this should not be understood as a target, but rather as the outcome that could be achieved by putting in place ambitious structural reform plans. Against this background, the sharing of the EU experience with the coordination of country-specific structural reforms has proven useful in putting in place the so-called Brisbane growth strategy, which has been a major pillar of the G20 economic coordination process in the last three years.

In 2015, G20 members were asked to update their growth strategies and a more rigorous accountability process was put in place. However, given the implementation delays (see Fig. 3), the accountability process would need to be further improved in 2016, and in that spirit the European Commission has put forward some ideas to strengthen the implementation of agreed reform commitments. As 2016 represents the last possibility for structural reforms to have an impact on growth by 2018 (and therefore for the achievement of the "2 in 5 growth ambition") as these reforms work with significant lags, it is important that the G20 provides new momentum to the implementation of the growth strategies under the Chinese Presidency. The EU proposal consists of frontloading the process of peer review of implementation, in order to identify reform gaps, which would then be followed by G20 Members updating their growth strategies to better specify their reforms and reform timelines. This will allow for a refocusing of the strategies towards those reforms that have a significant impact on growth. Last but not least, the G20 should provide a perspective for the G20 growth strategies that goes beyond 2018 so as to avoid the fading of interest for structural reforms in the coming years.

Graph 3: **Implementation of key commitments**
(share by number of measures)



Graph 4: **GDP impact of implemented and In-progress measures**
(percentage deviations from baseline)



Source: IMF-OECD "Quantifying the Implementation of G-20 Members' Growth Strategies", Antalya Summit, November 2015

Finally, in 2015, the EU tried to push forward the work on fiscal policy in the G20. While the first years were dominated by the so-called Toronto fiscal commitments[7] (as they were agreed at the Toronto Summit in 2010), it became clear as early as 2013 that the consensus on the fiscal stance that G20 countries should adopt had broken down. Most of 2013 was spent in searching for a new formula that would allow G20 members to make progress in this area, and an agreement was found around a text that

was quite general and not without ambiguities, i.e.: "*to implement our medium-term fiscal strategies flexibly to take into account near-term economic conditions, while putting government debt on a sustainable path*" (G20 Communiqué 10-11 October 2013, Washington). As a result all advanced economies, and some emerging market economies (on a voluntary basis), completed the so-called "St. Petersburg Fiscal Templates", setting out their medium-term fiscal strategies and how they intended achieving these goals. The G20 Finance Ministers' and Central Bank Governors' meetings that followed showed that there was no appetite to reopen the compromise.

Still, views on the appropriate fiscal stance continued to differ significantly. Against this background, the EU argued that the absence of a shared view on the fiscal policy stance should not impede the introduction of improvements that would make fiscal policies more growth friendly. In this respect, working on the composition of public finances could allow allocating resources more effectively and therefore support the attainment of the objectives set in the growth strategies. This approach found its way in the Brisbane Action Plan: "*We will consider how changes in the composition and quality of government expenditure and revenue may enhance the contribution of our fiscal strategies to growth.*" (Brisbane Action Plan, 2014).

In 2015, the EU developed further its proposal: G20 members should provide information on how national budgets support the key commitments in their growth strategies where appropriate. This could be done in a very light way, so that members can show they are reorienting their expenditures towards the priorities stated in the growth strategies. The EU also suggested that the G20 should agree on some principles that would allow achieving a growth friendly composition of public finances while taking into account differences between advanced and emerging countries. In this respect, some progress was made in 2015. G20 members were invited, on a voluntary basis, to complement their growth strategies with measures to improve the composition of public finances. The IMF and the OECD presented their analysis on this subject, confirming that the growth dividend from fiscal reforms targeting composition of public finances can be substantial. In particular, the International Organisations found that although there is no "one size fits all" solution, certain tax and expenditure policies could increase growth potential, especially through raising employment, private investment and productivity. The EU has argued for intensification of this work strand under the G20 Chinese Presidency in 2016. An encouraging step in this direction has been that G20 Leaders agreed to the EU proposal to insert in their Antalya Summit Communiqué the commitment to "*consider the composition of our budget expenditures and revenues to support productivity, inclusiveness and growth*" (G20 Leaders' Communiqué 2015).

Creating synergies between EU and G20 priorities

The EU has also been active in bridging gaps among G20 members' positions, and finding common ground on which to agree G20 objectives.

One example concerns the work on investment, which has become a top priority of the G20 the past two years. The EU considers that investment must play a key role in the recovery, as it raises demand and, on the supply side, enhances the growth potential. This is true for advanced economies (EU, US, and Japan) where investment has suffered most during the crisis, but is also relevant for emerging market economies. In order to escape the middle income trap, there has been a substantial need for investment, including investment in infrastructure, in countries such as Brazil, Russia, South Africa and Turkey. In countries like China, India and Indonesia, where the investment-to-GDP ratio has been high and increasing, there is instead the need of improving the quality of investment in order to avoid overcapacity, a rise in non-performing loans, and address bottlenecks and ensure improved environmental conditions. Overall, the EU is supportive of more and better quality investment, both in tangible (e.g. infrastructure) and intangible (e.g. human capital) assets. Work on investment gained traction in parallel at the G20 and EU level, creating welcome synergies. The composition of public finances could also be an effective tool to support demand in the short-term, especially for countries that face fiscal constraints.

The EU contributed actively to the group's work and its final report, which concluded that structural policies aimed at improving the investment climate should form the centrepiece of G20 members' efforts to foster long-term investment. From the EU's perspective, the G20's work on financing for investment in 2013 has provided a welcome opportunity not only to advance work on this important subject, but also to underpin the EU's own initiatives, such as the Investment Plan to support SMEs and boost the financing of the economy (endorsed by the June 2013 European Council), the Green Paper on Long-term Finance, the Project

Bond initiative and other risk-sharing instruments aimed at catalysing private sources of finance under the 2014-2020 EU budget (the Multiannual Financial Framework).

Under the 2014 Australian G20 Presidency, the study group was upgraded to a working group and work accelerated. In parallel, the EU launched its Investment Plan for Europe, which was meant to be a paradigm shift in how public money is used for strategic investments in Europe. At the 2014 Brisbane Summit, a specific reference to the then forthcoming investment initiative of President Juncker was included in the Brisbane Action Plan. This provided a useful peer support for the EU investment initiative. In 2015, while the EU took the steps needed to operationalise its investment plan, the G20 produced comprehensive country-specific investment strategies, which brought together concrete policy actions and commitments to improve national investment frameworks, foster efficient and quality infrastructure, and support SMEs. The EU managed to convince its G20 partners to include a specific reference to the G20 work on securitisation in the Leaders' Communiqué, which not only is important in view of Europe's priorities, but, looking forward, can become an important source of investment financing in many G20 countries. Going forward, it can be expected that the G20 investment strategies will be integrated into the G20 growth strategies. This is also very much in line with the EU approach, whereby the third pillar of the Investment Plan for Europe, i.e. to remove barriers to investment, is an integral part of the EU reform agenda.

Another example of synergies between the EU and the G20 concerns taxation issues. At the 2014 G20 Summit, the EU requested a specific reference to the work on the automatic exchange of information of taxpayer-specific rulings. The 2014 Summit already delivered on 7 out of the 15 actions set out in the OECD-G20 "Base Erosion and Profit Shifting (BEPS)" plan[8]. In addition, with the strong support by the EU, the G20 agreed to the following text: "*We welcome the significant progress on the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan to modernise international tax rules. We are committed to finalising this work in 2015, including transparency of taxpayer-specific rulings found to constitute harmful tax practices.*" Further substantial progress as regards fighting tax evasion and tax avoidance was made in 2015. G20 Leaders in Antalya endorsed the full package of measures developed under the ambitious BEPS project, agreeing on all 15 actions of the project. They stressed in particular that now implementation of their commitments on tax would be key to the effectiveness of their efforts, in particular as regards the exchange of information on cross-border tax rulings. Furthermore, G20 Leaders strengthened the commitment to start the automatic exchange of tax information. While in Brisbane in 2014 starting the automatic exchange of tax information was still made subject to the implementation of the necessary national legislation, this qualification was dropped from the 2015 Antalya Communiqué. Thus, progress on taxation issues in the G20 creates very welcome synergies with the work at the European Union level. In this respect, the G20 recognised the leading role played by the EU, in particular with the European Commission's adoption of the Tax Transparency Package on 18 March 2015, a key element of which was the proposal for a Directive on exchange of information between EU Member States on their tax rulings.

G20's support for EU reforms

If the EU has provided a meaningful contribution to the G20, the G20 in turn has influenced the decision-making process in Europe. In particular, the G20 has provided valuable support for wide-reaching reform efforts in the EU. This has been most visible during the sovereign debt crisis, but has also concerned the process of financial repair and improved regulation.

The G20 and the Euro area sovereign debt crisis

The euro-area (EA) sovereign debt crisis and the measures to break the negative feedback loop between sovereigns and banks have been at the heart of many G20 meetings over the past several years. EU representatives were regularly asked to be "lead speakers" at G20 meetings of the finance track, in order to inform G20 members on the measures the EU was taking to tackle the crisis. A number of references to EU actions were included in G20 Communiqués.

The Cannes Summit in November 2011 was largely overshadowed by the Greek crisis. At a crucial moment for the Euro area, the EU received a strong message of support by G20 Leaders: "*We welcome the decisions by European Leaders on October 26th, 2011 to restore debt sustainability in Greece, strengthen European banks, build firewalls to avoid contagion, and lay the foundations for robust economic governance reform in the Euro area and call for their swift implementation*".

After the Cannes Summit, the Euro area Heads of State and Government and the European Central Bank took a number of measures to deal with the worsening of the sovereign debt crisis. As a result, in February 2012, G20 Finance Ministers and Central Bank Governors welcomed "*the important progress made by Europe in recent months to strengthen their fiscal positions, adopt measures to reduce financial stress, build stronger institutions, implement growth enhancing structural reforms and to put Greece on a sustainable path. We also welcome the market improvement associated with the actions undertaken by the ECB.*" In April 2012, they welcomed "*the Euro area members' decisions in March to strengthen European firewalls as part of broader reform efforts and the availability of central bank swap lines.*"

The Euro area sovereign debt crisis also dominated the G20 Summit in Los Cabos on 18-19 June 2012. G20 leaders recognized the measures taken so far in Europe for crisis response and expressed strong support for its intention to move ahead with deeper economic and fiscal integration (see paragraph 11 of the Los Cabos declaration[9]). G20 Leaders' expectations for strong deliverables at the European Council on 28-29 June among G20 international partners were very high and were made explicit in the Leaders' discussion. This provided an important encouragement for EU Leaders to take decisive action at the June European Council, which indeed spelled out the building blocks and the timetable for deeper EMU integration, as well as the foundations for a banking union[10].

Finally, in November 2012, as the sovereign debt crisis abated after the announcement of the OMT by the ECB and the progress made on banking union, Finance Ministers and Central bank Governors recognised "*the substantive measures*" taken in Europe, "*including the launch of the European Stability Mechanism, the decision of the ECB on Outright Monetary Transactions, the agreement by European leaders to establish a single supervisory mechanism for banks, the adoption and ongoing implementation of the Compact for Growth and Jobs, and the reforms and fiscal consolidation carried out by a number of European countries.*" They also welcomed the "*decision by European leaders to agree on a legislative framework by January 1st 2013 on a single supervisory mechanism*", and looked forward to "*the operational implementation of the single supervisory mechanism in the course of 2013 and to the completion of the technical discussions on the future of the ESM direct bank recapitalization instrument…*" There is no doubt that, while in themselves G20 peer pressure and peer support did not determine the outcome of the course of policy action in the Euro area, they affected it positively. Euro area decision makers took into account the concerns of their G20 partners (for instance on the need to create rapidly a banking union) and, in the meantime, could draw comfort from their support for the strengthening the Euro area architecture.

The G20 St. Petersburg, Brisbane and Antalya Summits focused much less on the Euro area, as it showed it was delivering on its commitments.

The interplay between the G20 and the EU in financial regulatory reform

A strand of G20 work that has had a significant impact on EU legislation concerns financial regulation. The global financial crisis provided a strong impetus for international financial cooperation. The Financial Stability Board (FSB)[11] has become the international body that monitors and makes recommendations about the global financial system[12].

The EU has taken on board a wide range of FSB recommendations to reform its post-crisis financial system. Below we provide a few examples of EU-wide legislation directly referring to the work of the G20 in the area of financial regulation.

- Bank capital requirements and liquidity standards. In 2013, the EU adopted a Capital Requirements Regulation and Directive (CRR/CRD IV) which set stronger prudential requirements for banks, requiring them to keep sufficient capital reserves and liquidity transposing the Basel III framework into EU law. This is directly linked to the G20 call from 2009 for internationally consistent efforts that are aimed at strengthening transparency, accountability and regulation by improving the quantity and quality of capital in the banking system once the economic recovery is assured. That declaration also called for introduction of a supplementary non-risk based measure to contain the build-up of leverage in the banking system, and the development of a framework for stronger liquidity buffers.

- Hedge funds. In 2011, the EU adopted a Directive laying down the rules for the authorisation, ongoing operation and transparency of the managers of alternative investment funds (AIFMs) which manage and/or market alternative investment funds (AIFs) in the Union. The directive has a direct link with the 2009 G20 Leaders' agreement that hedge funds or their managers should be registered and should be

required to disclose appropriate information on an ongoing basis to supervisors or regulators.

- "Over-the-counter" (OTC) derivatives. In 2012, the EU adopted a Regulation laying down clearing and bilateral risk-management requirements for over-the-counter ('OTC') derivative contracts, reporting requirements for derivative contracts and uniform requirements for the performance of activities of central counterparties ('CCPs') and trade repositories. G20 work on OTC derivatives started in 2009, with the agreement that all standardised OTC derivative contracts should be cleared through a central counterparty (CCP) by the end of 2012 and that OTC derivative contracts should be reported to trade repositories. In June 2010, G20 Leaders in Toronto reaffirmed their commitment and also committed to accelerate the implementation of strong measures to improve transparency and regulatory oversight of OTC derivative contracts in an internationally consistent and non-discriminatory way.

- Credit Rating Agencies. In 2013, the EU adopted a Regulation (amending an existing one) laying down conditions for the issuing of credit ratings and rules on the organisation and conduct of credit rating agencies, including their shareholders and members, to promote credit rating agencies' independence, the avoidance of conflicts of interest, and the enhancement of consumer and investor protection. This work relates to the so-called "FSB-Principles" to reduce the reliance of authorities and of financial institutions on credit ratings endorsed by G20 Leaders in 2010.

- Markets in Financial Instruments. In 2014 the EU adopted a Directive and a Regulation on markets in financial instruments (MiFID II and MiFIR). This legislation is linked to the 2009 G20 agreement to improve the regulation, functioning and transparency of financial and commodity markets to address excessive commodity price volatility. To meet the G20 commitments, MiFID II provides for strengthened supervisory powers and a harmonised position-limits regime for commodity derivatives to improve transparency, support orderly pricing and prevent market abuse. Under this system competent authorities will impose limits on positions in accordance with a methodology for calculation set by the European Securities and Markets Authority (ESMA). It also introduces a position-reporting obligation by category of trader. This will help regulators and market participants to have better information on the functioning of these markets.

Conclusions

The G20 finance track has benefited from the particular presence of the EU among its members, as the EU, thanks to its long experience in the field of economic policy coordination, has been able to bring innovative proposals and solutions to improve and strengthen the G20 cooperation and coordination process. In the meantime, the EU has greatly benefited from the G20 peer pressure and support, in particular during the difficult period of the sovereign debt crisis. In addition, as we have shown, important synergies have developed between the G20 and the EU in various areas.

There is still untapped potential. From the EU side, the interaction between commitments taken in the growth strategies and the European Semester could be stronger and more coherent. Overall, the growth strategies of the EU G20 members are broadly consistent with their respective country specific recommendations under the European Semester, but there is still no direct link. However, in principle, each EU Member State is supposed to address a single set of challenges, be it within the EU or within the G20, and therefore should have and implement a single structural reform strategy. The exact specification can be different, but in our view there should be a more direct link between the EU country specific recommendations and the G20 growth strategies.

In addition, it will be important for the EU to continue to implement the recommendations that come from the G20 in fields such as financial regulatory reform or international cooperation on taxation. In both areas, the main challenge going forward is implementing existing commitments taken in the context of the G20. Some of the G20 success stories in these areas could be transferred in other fields for international economic cooperation (such as the green economy or climate finance). By leading by example on these topics (as it has done in recent years), the EU has provided a crucial contribution to the credibility of the G20, while strengthening its economic governance.

In the meantime, the G20 should continue to be receptive to the suggestions and proposals that come from the EU, as they are based on an unique experience (that however has some elements of contact and overlaps with the G20 process), from which, mutatis mutandis, the G20 Presidencies can draw some inspiration. In this respect, it is very positive that the Chinese Presidency has accepted to step up the focus on delivery of the growth strategies, as suggested by the EU, so as to provide

new momentum to a crucial pillar of the G20 work. The EU in this regard strongly supports the intention of the G20 Chinese Presidency to develop a set of guiding principles for structural reform and structural indicators that sends out a strong signal of the G20 collective commitment to strengthen its growth foundations and provide clearer guidance to the actions of G20 members in the future.

The EU is also open to further work on the reform of the international financial and monetary architecture, as it has a strong interest in a greater integration of emerging market economies into the global financial architecture. In recent years the EU has put in place important reforms to its architecture, and is ready to share its experience within the G20.

The EU and the G20 have shown that they have potential to further each other's agendas in a mutually beneficial way. So far it has been a "win-win" game. It is up to the EU and its international partners to ensure that this win-win situation will continue also in future.

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[1] Currently there are three working groups in the Finance track: the Framework for Strong, Sustainable and Balanced Growth Working Group (FWG), the International Financial Architecture working group (IFA), and the Investment and Infrastructure Working Group (IIWG). In addition, two study groups are also in place: climate change and green financing.

[2] For some positive examples of G20 Finance Ministers' and Central Bank Governors' agreements see (Bertoldi et al., 2013). However, other authors found that "*G20 summits have not had a strong, consistent and durable effect on any of the markets*

that we consider, suggesting that the information and decision content of G20 summits is of limited relevance for market participants." (Lo Duca and Stracca (2014) p. 1)

[3] At the Leaders Summits, the EU is represented by the President of the European Commission and the President of the European Council.

[4] With regard to Summits, the EU coordination process materialises in European Council conclusions defining the EU priorities for the G20 summit meeting.

[5] The IMF had long worried about growing global imbalances. From early 2004, the International Monetary and Financial Committee (IMFC) had set out in each of its Communiqués the policies needed to help facilitate an orderly adjustment of global imbalances. In June 2006, the Managing Director of the IMF announced the launch of the first multilateral consultation with the aim of addressing global imbalances while maintaining global growth. China, the Euro area, Japan, Saudi Arabia, and the United States agreed to participate in the consultation. Each participant put forward its own set of proposed policy adjustments, which were also discussed by their peers. The IMF's role was to provide the analytical background, to assess the consistency and effectiveness of the proposed policy plans and favour a coordinated policy action among the major global players. The first round of consultations ended in 2007. In its report the IMF concluded that while the plans presented by the participants to the consultation fell short of its recommendations, they went "in the right direction" and, if fully implemented, could lead to narrower imbalances and more balanced world growth. (IMF (2007a), IMF (2007b), Blanchard and Milesi-Ferretti (2009)). However, a second round of consultations to monitor the progress made and adopt new measures never took place, and the world economy entered into the global financial crisis with very large imbalances, which added complication to an already difficult picture.

[6] As it can be expected given the different nature of the G20 and the EU, there are important differences in the indicators used in the G20 and the EU scoreboard, in the methods setting the indicative benchmarks, the periods considered and the reading of the scoreboard results. In particular, two differences of the G20 process, if compared to the EU Macroeconomic Imbalances Procedure, are worth mentioning. First, the G20 external imbalances assessment is a consensus-based process, with no legal character, so that recommendations are issued but implementation relies mostly on peer pressure. Second, the G20 "selection" process relies on a high degree of automaticity, which was the only way to avoid prolonged discussions on which G20 members should move into the second step.

[7] Advanced economies (except Japan due to the tsunami disaster) committed to "*fiscal plans that will at least halve deficits by 2013 and stabilize or reduce government debt-to-GDP ratios by 2016*" (G20 Toronto Summit Declaration, 2010, p. 3).

[8] At the G20 request the OECD released an "Action Plan on Base Erosion and Profit Shifting" (BEPS) in July 2013. The Action Plan – fully endorsed by the G20 summit in October 2013 - proposes 15 actions to improve the international tax system (e.g. hybrid mismatch arrangements, treaty abuse, the transfer pricing aspects of intangibles, documentation requirements for transfer pricing purposes, a report identifying the issues raised by the digital economy and possible actions to address them, as well as part of the work on harmful tax practices).

[9] The G20 Leaders Declaration in particular mentions that: "*The adoption of the Fiscal Compact and its ongoing implementation, together with growth-enhancing policies and structural reform and financial stability measures, are important steps towards greater fiscal and economic integration that lead to sustainable borrowing costs. The imminent establishment of the European Stability Mechanism is a substantial strengthening of the European firewalls. We fully support the actions of the Euro area in moving forward with the completion of the Economic and Monetary Union. Towards that end, we support the intention to consider concrete steps towards a more integrated financial architecture, encompassing banking supervision, resolution and recapitalization, and deposit insurance. Euro area members will foster intra Euro area adjustment through structural reforms to strengthen competitiveness in deficit countries and to promote demand and growth in surplus countries. The European Union members of the G20 are determined to move forward expeditiously on measures to support growth including through completing the European Single Market and making better use of European financial means, such as the European Investment Bank (EIB), pilot project bonds, and structural and cohesion funds, for more targeted investment, employment, growth and competitiveness, while maintaining the firm commitment to implement fiscal consolidation to be assessed on a structural basis.*"

[10]Important decisions included the agreement that under certain circumstances and under certain conditions, the European Stability Mechanism (ESM) could recapitalise banks directly, and the Eurogroup agreement to ask the Council to consider proposals for a Single Supervisory Mechanism (SSM) as a matter of urgency by the end of 2012.

[11] The Financial Stability Board was established following the 2009 G20 London summit in April 2009 as a successor to the Financial Stability Forum. It includes all G20 major economies.

[12] A. Posen in his Testimony to a Senate Committee (8 July 2015) analyses the role of the FSB and found inter alia that "*Banking transparency, standards, and particularly capital requirements have been raised in the major financial institutions of a wide range of countries, including in some critical emerging markets and some financial centers outside of the United States and the European Union. Agreement on a set of G-SIFIs, globally systemically important financial institutions, and on capital surcharges for them as partial insurance for the public, has been mutual including all FSB member countries, and done on largely sound replicable criteria. Progress has been made on procedures and compelling conditional funding for safer expedited resolution of such important institutions when they run into trouble.*" (A. Posen, 2015 p. 7).

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