

G20 International Financial Architecture Working Group

2017 Final Report

Introduction

In Hangzhou in September 2016, G20 Leaders endorsed the “G20 Agenda towards a More Stable and Resilient International Financial Architecture” pulling together 13 actions to strengthen the international financial architecture. There was also an agreement to extend the work of the International Financial Architecture Working Group into 2017, in order to follow up on the work done in 2016 in some areas and complete it in others.

The IFA WG has thus been working from December 2016 to June 2017 to fulfill this task. In addition, some of the issues related to the multilateral development banks (MDBs) which were previously dealt with within the Investment and Infrastructure Working Group (IIWG) were also included in the IFA agenda.

During this period of time, the IFA WG held four face-to-face meetings and two workshops (one on the OECD Code of Liberalisation of Capital Movements in Paris in February 2017 and one on the early detection of risks stemming from capital flows in Seoul in June 2017). The work was strongly enhanced by the active participation and key contributions of the international organizations (see the list of IOs contributions in Annex 1). The IFA WG focused its efforts on achieving concrete deliverables and operational proposals, recognizing that some areas included in the “G20 Agenda towards a More Stable and Resilient International Financial Architecture” will take more time to be analyzed or implemented.

The IFA WG focused its work under the German G20 Presidency on four main areas:

- (i) progressing the work aimed at improving the analysis and monitoring of capital flows and management of risks stemming from excessive capital flow volatility;
- (ii) developing the ongoing work to further strengthen the Global Financial Safety Net (GFSN), with a strong, quota-based and adequately resourced IMF at its center;
- (iii) advancing the work on improving debt sustainability and debt restructuring processes;
- (iv) increasing crowding-in private finance for the development agenda, continuing optimizing MDBs balance sheets, and enhancing cooperation among multilateral lenders.

This final report, endorsed by the members of the IFA WG, summarizes the Group’s progress achieved so far and presents potential next steps for consideration by the G20 summit in Hamburg.

1. Progress regarding the work aimed at improving the analysis and monitoring of capital flows and management of risks stemming from excessive capital flow volatility

1.1. Improve the analysis and monitoring of capital flows and risks

Conduct a clearer analysis of trends in capital flows and stocks, and of international exposures

In 2016, the IFA WG came to the conclusion that efforts to continue enhancing the provision of robust and timely data are necessary to provide the appropriate monitoring and anticipation of macroeconomic and financial stability risks, and to design proper policy responses to address them.

This year, members welcomed a note, jointly written by the IMF and FSB, on the current progress in the second phase of the Data Gaps Initiative (DGI-2), which was launched in September 2015, and is developed by the Inter-Agency Group on Economic and Financial Statistics (BIS, ECB, Eurostat, IMF, OECD, UN, World Bank, FSB). This note suggested some areas of potential interest to the members such as data collection on shadow banking and more detailed and timely data on debt securities. It also contained information on the 2017 thematic workshops, such as data sharing, data gaps on systemic risk in the insurance sector, institutional sector accounts, and financial soundness indicators. Many members agreed that DGI-2 recommendations could be useful in attaining a better understanding of capital flows and international exposures. The IFA WG has presented on its users' needs to the DGI-2 Global Conference in June 2017.

Enhance surveillance and monitoring of emerging cross border risks

Despite the significant improvements achieved in the global risk assessment framework since the global financial crisis, further progress needs to be made for the benefit of global financial stability. The IFA WG discussed ways to enhance early identification of emerging cross border risks, building on the existing early warning systems implemented by international organizations and national authorities. Last year, members agreed to support, on a voluntary basis, individual countries' efforts to create and improve their respective early warning system based on country experiences. In this context, members supported the holding of an early warning system workshop in Korea in June. During the workshop, several member countries and IOs shared their experiences and expertise, to help develop best practices to strengthen member countries' early warning systems. The workshop emphasized the importance of improving the early detection and management of vulnerabilities taking a multi-sectoral view, including those vulnerabilities stemming from large and volatile cross-border flows. In addition, participants discussed the early warning indicators that should be monitored for improved risk assessment.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 1:

The G20 supports the ongoing work towards enhancing the analysis and understanding of trends in capital flows and stocks, and of international exposures, and calls for continuing the work on surveillance and monitoring of emerging and cross-border risks. In this view:

(i) The G20 reasserts the importance of enhancing data collection and strongly supports the second phase of the Data Gaps Initiative (DGI-2) including its timely implementation. Since any enhancement in data collection will have cost implications, the DGI-2 progress report sets out targets that acknowledge that countries may be at different stages of statistical development and take into account national priorities and resource constraints.

(ii) The G20 looks forward to complementing the existing IMF-FSB bi-annual Early Warning Exercises and BIS Global Liquidity and Early Warning Indicators by continuing to have more regular thorough discussions among the G20 on emerging risks related to capital flows, global liquidity, spillover and

spillback effects, building on existing work¹ and on the IMF Surveillance Note.

(iii) G20 members reiterate their commitment to undergo Art. IV Consultations annually and FSAPs each five years and to publish the results of the staff consultation.

(iv) The G20 calls on all countries to participate in COFER.

1.2. Learn from country experiences to enhance policy responses to cope with capital flow volatility

In 2011, G20 Leaders adopted the “G20 Coherent Conclusions for the Management of Capital Flows Drawing on Country Experiences”. Building on this consensus as well as on previous Fund’s policy papers and Board discussions, the IMF adopted in 2012 its “Institutional View on the Liberalization and Management of Capital Flows”. As a good amount of time has passed since the adoption of the Coherent Conclusions and the Institutional View, the IFA WG has started discussing countries’ experiences in dealing with capital flows and how compliance with the Coherent Conclusions and the Institutional View can be assessed on a periodic basis. In its recent review, the IMF found that policy responses in managing capital flows have been generally along the lines envisioned in the Institutional View.

Relatedly, the IFA WG began discussing country experiences with regard to macroprudential measures (MPMs), in particular those measures that are designed to address systemic risks arising from capital flows. In tandem with this, members welcomed the IMF’s reports on the review of experience with the Institutional View and the role of macroprudential policies in increasing resilience to large and volatile capital flows. The OECD updated the IFA WG regularly about ongoing work on the review of the OECD Code of Liberalisation of Capital Movements and held a workshop on the Code in Paris in February 2017 to provide members with clarification on the rationale and functioning of the Code. A number of non-OECD G20 members declared their intention to join the OECD Code of Liberalisation of Capital Movements starting already the process of adherence this year. The IFA WG welcomed the current review of the Code, including work on appropriate flexibility, while maintaining the Code’s current strength and broad scope. Those G20 countries that have not yet adhered to the Code were encouraged by Finance Ministers and Central Bank Governors to participate voluntarily in the current review and to consider adhering to the Code, taking into consideration country-specific circumstances.

Members discussed the approaches of the IMF’s Institutional View and the OECD Code of Liberalisation of Capital Movements regarding the management of capital flows. Some members called for enhanced consistency in the two frameworks in order to provide a basis for consistent policy advice on capital flows, while others considered that the two have different purposes and mandates or do not show significant inconsistencies. Some members asked for enhanced flexibility of the Code especially regarding MPMs for financial stability and noted that enhanced flexibility would facilitate wider adherence from emerging countries to the Code. Other members stressed the need to maintain the high standards of the OECD Code. Some members underlined that the key issue was the transition period, and how to manage flexibility in the short term while ensuring convergence in the mid- to long-term.

There was broad support for further work by the IMF and OECD, working together and with other IOs as appropriate, to help members to safely harness the benefits of capital flows and to understand the interface between MPMs and capital flow management measures, notably in situations when capital flows are the source of systemic financial risks.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 2:

The G20 welcomes the review of country experiences with the IMF’s Institutional View on Capital Flows and the ongoing review of the OECD Code of Liberalisation of Capital Movements,

¹ IMF-FSB EWE, the Vulnerability Exercise (VE), the IMF Global Financial Stability Report, World Economic Outlook, Fiscal Monitor, SCAV report from the FSB, assessment of the global liquidity by the BIS, Article IV consultations etc.

including work on appropriate flexibility, while maintaining the Code's current strength and broad scope. It looks forward to the IMF's and other IOs' further work on capital flows, including on macroprudential policies. It encourages those G20 countries that have not yet adhered to the Code to participate voluntarily in the current review and to consider adhering to the Code, taking into consideration country-specific circumstances. It calls for continued information sharing among the FSB, BIS, and IMF of their work on the role of macroprudential measures, including with respect to managing risks stemming from capital flows. In this view:

(i) The G20 calls for regular updates by the OECD on its progress on the review of the Code and on further adherence.

(ii) The G20 supports the ongoing work of the IMF on the role of macroprudential policies which could also inform the discussions on the review of the Code. The G20 underlines the importance of coherent policy advice while respecting the scope, membership and objectives of the different institutional approaches, including with regard to capital flow management and macroprudential measures.

(iii) The G20 supports the work of the IMF, in consultation with the FSB and BIS, in compiling a granular database of country-reported macroprudential measures.

2. Support the ongoing work to further strengthen the Global Financial Safety Net (GFSN), with a strong, quota-based and adequately resourced IMF at its center

2.1. Further enhance the effectiveness of the IMF's lending tools to serve its global membership

Strengthen the GFSN with an adequately resourced IMF

The Global Financial Safety Net (GFSN) is composed of the IMF (at the global level), Regional Financing Arrangements (RFAs - regional level), currency swap arrangements (bilateral level), and foreign exchange reserves (individual country level). At the request of the G20 Finance Ministers and Central Bank Governors, the key areas of work undertaken last year were ensuring an adequately resourced IMF, reviewing IMF instruments, and reinforcing synergies between the different layers of the GFSN, especially enhancing cooperation between the IMF and RFAs. This year, the IFA WG reaffirmed the commitment to work towards further strengthening the GFSN and progress has been made in several areas to advance discussions on the GFSN.

The IMF Board of Governor adopted a Resolution on December 6, 2016 regarding the completion of the 15th General Review of Quotas (GRQ) no later than the Annual Meetings of 2019. As set out in the IMF Board's work program, the Board will start its discussions on the 15th GRQ, including a new quota formula, in the second half of 2017. Therefore, the IFA WG did not discuss quotas and quota formula during the period of time between December 2016 and June 2017.

Adapt IMF instruments to the challenges faced by members

Members of the IFA WG underlined the central role that the IMF plays in the GFSN, and discussed areas for further improvements in the IMF toolkit.

Many members pointed out that the precautionary lending facilities in the IMF lending toolkit were not used as widely as originally intended as effective crisis-prevention tool. Some members pointed out that the perceived stigma associated with the use of IMF lending facilities needed to be tackled, but it would be important to ensure that moral hazard is not encouraged in the process. Others pointed to the question of prolonged usage of these instruments, the need to improve exit strategies, and the necessity to take into account the impact on Fund resources.

There was a broad consensus among the members to support the efforts by the IMF to further enhance the effectiveness of its lending toolkit in line with its mandate, including considerations on a new short-term liquidity instrument as well as a new non-financial policy cooperation instrument. Members welcomed the discussions on the lending toolkit for it could possibly contribute to the strengthening of

the GFSN. Members pointed to the need for an adequate design of such instruments, also with a view to consistently integrate them in the broader IMF toolkit. Members also welcomed work on a possible policy cooperation instrument available to all IMF members as a monitoring and signaling tool without Fund financing.

Members also recognized the importance of an adequate financial safety net for low-income countries, including Sub-Saharan Africa, and welcomed the IMF note presenting the work done since the Summer 2016 on this issue. Members also recognized the importance of mobilizing a broad support for financing the Poverty Reduction and Growth Trust.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 3:

The G20 reaffirms its support for the ongoing work to further strengthen the GFSN, with a strong, quota-based and adequately resourced IMF at its center. In this view:

(i) The G20 remains committed to working towards the completion of the 15th General Review of Quotas, including a new quota formula, by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019.

(ii) The G20 supports the discussions on further enhancing the effectiveness of the IMF's lending toolkit in line with its mandate, with a view to further strengthening the GFSN, including considerations on a new short-term liquidity instrument as well as a new non-financial policy cooperation instrument.

(iii) The G20 welcomes the IMF paper ("Financing for Development: Enhancing the Financial Safety Net for Developing Countries - Further Considerations", November 2016) which clarifies the norms of access for Poverty Reduction and Growth Trust programs, an initiative of particular importance for low income countries.

2.2. Promote the interaction between the IMF and RFAs

The G20 has regularly emphasized the cooperation between the IMF and RFAs as an important component of the GFSN and G20 leaders agreed on the "Principles for Cooperation between the IMF and Regional Financing Arrangements" at the Cannes Summit in 2011. Members reaffirmed that these principles remained relevant. A few members suggested the implementation of regular joint test runs and welcomed the work by the IMF on avenues for further collaboration of the IMF and RFAs. Members encouraged work to further develop channels to share information and experiences in an effective and practical manner.

Members of the IFA WG also discussed the first results of the IMF-Chiang Mai Initiative Multilateralization (CMIM) joint test run and explored ways to further enhance effective cooperation between the IMF and RFAs. Last year, many countries stressed the importance of enhancing cooperation between the IMF and RFAs while respecting the different characteristics and mandates of each RFA. Several members proposed to focus on areas where actual progress could be made, such as information sharing through an annual conference. As part of this effort, three RFAs initiated a high-level seminar on 6 October 2016. At the end of this event, all existing RFAs, together with the IMF and the G20 IFA Working Group, agreed on an annual policy coordination meeting among RFAs and between RFAs and the IMF. The next high-level meeting will be held on 11 October 2017.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 4:

The G20 calls for continued efforts to improve cooperation between the IMF and RFAs, while respecting their mandates. The G20 welcomes the CMIM-IMF joint test run as well as the establishment of regular meetings and processes to share information and experience among RFAs and IMF and looks forward to updates on the deepening of this sharing of information,

experience and practices, subject to each RFA's and the institution's policies and procedures on such sharing.

3. Advance the work on improving debt sustainability and debt restructuring processes

3.1. Promote sound and sustainable financing practices

The G20 underlined in 2016 the risks posed by a possible buildup of sovereign debt in some countries, notably low-income countries, against the backdrop of economic and financial vulnerabilities such as a sharp drop in commodity prices and tightening in financial conditions, and emphasized the need to carefully monitor these risks.

Building on the Addis Ababa Action Agenda and responding to the call by G20 Leaders to discuss further ways to promote sound and sustainable financing practices, the IFA WG developed “**Operational Guidelines for Sustainable Financing**” in order to provide an operational implementation framework to the general orientations that are set out in the Addis Ababa Action Agenda. These Guidelines were welcomed by G20 Finance Ministers and Central Bank Governors at their meeting in Baden-Baden in March 2017.

Moreover, the ongoing review of the IMF-World Bank “**Debt Sustainability Framework for Low-Income Countries**” (LIC-DSF), expected to be completed by August 2017, was discussed by the IFA WG.

Finally, the IMF and the World Bank Group (WBG) produced a report reflecting progress made in response to the call of the Finance Ministers and Central Bank Governors in Chengdu in July 2016 for them to “explore further options for an enhanced and coordinated effort on technical assistance tailored to debtor countries and challenges to enhance their debt management capacities”. The IFA WG welcomed the capacity building efforts provided by the international financial institutions to developing countries through technical assistance.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 5 :

The G20 reaffirms the importance of further promoting sound and sustainable financing practices. In this view:

(i) The G20 welcomes the G20 Operational Guidelines for Sustainable Financing reflecting responsibilities of borrowers and lenders. It looks forward to regular updates on developments in this area.

(ii) The G20 supports the ongoing review of the Debt Sustainability Framework for Low-Income Countries and encourages the IMF and World Bank to provide further technical assistance to help implementing the new framework and build debt management capabilities.

3.2. Explore state-contingent debt instruments to enhance sustainability and stability

In 2016, the IFA WG agreed to further explore the use of state-contingent debt instruments (SCDIs), as well as to analyze the technicalities, opportunities, and challenges of such debt instruments, including GDP-linked bonds.

In 2017, the IFA WG discussed the IMF's work on SCDIs, notably the possibility and viability of state-contingent financial instruments, in particular GDP-linked bonds. IFA WG members investigated further the possible design, challenges and benefits of the use of such debt instruments, distinguishing, among others, possible different classes of issuers and investors and studying the different options for instrument design. The discussion benefited from initiatives such as the London Term Sheet for a GDP-

linked bond², and analytical work from the *Banque de France* including through a workshop on GDP-linked securities organized in March 2017. A “**Compass for GDP-linked bonds**” summarizing the IMF staff note on SCDIs and technical analyses discussed within the IFA WG was presented to G20 Finance Ministers and Central Bank Governors at their meeting and referred to in their communiqué in Baden-Baden.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 6:

The “Compass for GDP-linked bonds” provides an overview of important aspects of this instrument, including with regard to their benefits, challenges and potential mitigating factors. It serves as a good starting point for further work by interested sovereigns, including through engaging with debt managers and market participants, to address challenges for potential issuers and investors. The G20 supports the ongoing work on state-contingent debt instruments or features, such as with regard to natural disasters in low income countries.

3.3. Continue incorporating enhanced collective action and *pari passu* clauses into sovereign bonds

G20 Leaders underlined in Antalya in November in 2015, “the progress achieved on the implementation of strengthened collective action and *pari passu* clauses in international sovereign bond contracts, which will contribute to the orderliness and predictability of sovereign debt restructuring processes”. In 2016, the G20 “ask[ed] the IMF to explore and report on the cost and feasibility of the incorporation of the enhanced clauses in the existing stock of debt”.

In 2017, members of the IFA WG followed up on the state of implementation of the incorporation of the enhanced collective action and *pari passu* clauses into the existing stock and new issuances of international sovereign bonds. They supported the continuation of this effort, as well as further reflections on the issues surrounding the outstanding stock of debt that does not contain the enhanced clauses.

The IFA WG welcomed the substantial progress made in incorporating the enhanced clauses for new issuances, as stated in the IMF’s progress report. However, it noted that a remaining significant percentage of outstanding stock does not include enhanced clauses and called for a continued close monitoring by the IMF.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 7 :

The G20 will continue to promote the use of contractual features best suited to avoiding protracted debt restructuring negotiations with minority bond holders. In particular, it supports the continued efforts to incorporate the enhanced collective action and *pari passu* clauses into new issuances of international sovereign bonds and to explore options for incorporating those clauses into the existing stock where feasible.

² Published on the International Capital Market Association’s website, at <http://www.icmagroup.org/resources/Sovereign-Debt-Information/>

4. Mobilize resources from private sources, continue optimizing MDBs balance sheets and enhance cooperation among multilateral lenders

4.1. Increase crowding-in private finance and continue optimizing MDBs balance sheets

Boost the crowding-in of private resources and continue foster infrastructure investment

There was broad agreement within the IFA WG that mobilizing private capital alongside MDBs financing will be crucial for the sustainable development agenda.

Against this backdrop, MDBs first developed “**Principles of MDBs’ strategy for crowding-in Private Sector Finance for growth and sustainable development**”, which provide a common framework among MDBs based on: recognizing the primacy of country ownership ; creating an investment-friendly environment ; expanding and standardizing credit enhancement ; prioritizing commercial financing ; blending concessional resources and private capital; reviewing incentives for crowding-in private sector resources; reporting annually on the private financing they have mobilized and catalyzed using a standard methodology jointly developed for this purpose. These Principles were presented and discussed by the IFA WG, and then submitted to, and welcomed by, the G20 Finance Ministers and Central Bank Governors at their meeting in Washington DC in April 2017.

Building on those Principles, MDBs then developed “**Joint MDB Statement of Ambitions for Crowding-in Private Finance**” to be forwarded to the Leaders in July 2017. The Ambitions complement the Principles by providing more concrete proposals on how to operationalize the Principles. They set a quantitative objective at aggregate level across MDBs, and ambitions to improve the quality of private-financed projects, as well as MDB specific strategies to better mobilize private finance in the future.

In parallel, MDBs produced a progress report on the implementation of the **2016 “MDBs’ Joint Declaration of Aspirations on Actions to Support Infrastructure Investment”**, which will contribute to foster infrastructure investment, both through public and private finance. Along with that document, the IFA WG also received, in December 2016, the “Report to G20 on MDB Internal Incentives for Crowding-in Private Investment in Infrastructure”, prepared by the Global Infrastructure Hub (GI Hub).

As MDBs’ financing is demand-based, the implementation of the Principles and Ambitions for all asset classes and the Aspirations concerning infrastructure will depend on borrowing countries’ ownership and requests, as well as on each institution’s decision-making process and governance. The implementation will also have to remain consistent with past and future balance sheet optimization guidance provided by the G20 to MDBs.

Continue optimizing MDBs balance sheets

G20 Leaders in Antalya in November 2015 agreed on an “**Action Plan to encourage MDBs to optimize their balance sheets**”. Given MDBs’ value added in advancing the development agenda, the G20 committed to using these institutions to their full potential, including by optimizing their balance sheets, which means increasing their lending capacity without substantially increasing risks or damaging their credit ratings, maintaining shareholders' contributions unchanged. In particular, the 2015 Action Plan encouraged MDBs to explore ways to engage capital efficiency reviews in order to maintain their rating, reduce concentration penalties, leverage concessional windows resources, share non-sovereign risks and take net income measures.

Following the first progress report on the implementation of the Action Plan published in July 2016, the IFA WG continued to work on this issue and encouraged further progress by the MDBs in this area. MDBs produced a second progress report that was discussed by the IFA WG and finalized ahead of the Summit.

In July 2016 in Chengdu, G20 Finance Ministers and Central Bank Governors launched the Global Infrastructure Connectivity Alliance (GICA) to enhance the synergy and cooperation of infrastructure programs, including those at regional level. They “ask[ed] the WBG to serve as the secretariat of the Alliance, working closely with the Global Infrastructure Hub (GIH), OECD, other MDBs, and interested G20 members to support its activities”, and “reach out to potential members of the Global Infrastructure Connectivity Alliance to confirm their membership of the Alliance and expect[ed] the inaugural conference of the Alliance to be held within one year after our endorsement”. The World Bank presented to the IFA WG the **2017 GICA Work Plan** including a Memorandum of Understanding defining the mandate of the Alliance. The GICA Annual Event will be hosted on November 2 & 3 2017 at OECD in Paris, France.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 8 :

The G20 welcomes MDBs efforts to mobilize and catalyze private financing, boost investment in infrastructure and optimize their balance sheets, and looks forward to the continuation of this work in a streamlined process. More specifically:

- (i) The G20 welcomes MDBs’ efforts to identify and quantify their ability to mobilize private finance, notably the MDBs’ ambitions to increase private sector mobilization by 25-35% over the next 3 years on all asset classes. The G20 supports MDBs’ work to support high quality infrastructure investment in line with the 2016 MDBs Joint Declaration of Aspirations. It encourages MDBs to provide the G20 with an update of the measures they are taking and the state of implementation of their ambitions and aspirations by the G20 Summit in 2018. The G20 also looks forward to regular annual reporting on crowding-in, as specified in the Principles, while encouraging further work to better assess and foster additionality.
- (ii) The G20 welcomes the second MDB report on the G20 Action Plan to Optimize Balance Sheets and encourages further progress by the MDBs in this area, making full use of the whole menu of available instruments.
- (iii) The G20 looks forward to the future operational implementation of the GICA work program.

4.2. Enhance cooperation among multilateral lenders

MDBs frequently play an important role in helping to address countries’ financing requirements during periods of macroeconomic vulnerability. For this type of MDB financing to be most effective, it is necessary to ensure appropriate coordination between international financial institutions. Insufficient coordination between the IMF and MDBs may indeed undermine macroeconomic adjustments, with negative impacts on a country’s economic growth and stability.

To this end, the IFA WG developed “**G20 Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic instabilities**”, that were welcomed by G20 Finance Ministers and Central Bank Governors at their meeting in Baden-Baden in March 2017.

In order to enhance the decision-making process, the IMF and the MDBs are encouraged to engage in a regular dialogue and to ensure effective coordination when MDBs consider providing financing to address macroeconomic difficulties and more broadly when programmatic policy-based lending is envisaged, with differing degrees of coordination required based on the macroeconomic circumstances. These Principles also reaffirm that MDB financing should build on the countries’ engagement with the IMF, which is the institution with the expertise, experience, and capacity to assess macroeconomic conditions and advise countries on the appropriate actions to restore macroeconomic stability. However,

it is recognized that each institution remains responsible for its lending decisions and acts independently in reaching them.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 9:

The G20 welcomes the Principles for Effective Coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities and calls for periodic updates on efforts to further enhance coordination.

5. Other issues

Local currency bond and capital markets

In 2016, the G20 underlined that well developed local currency bond markets (LCBM) play an important role in improving the resilience of the domestic economy and financial system. It called on the World Bank and IMF, working with Regional Development Banks, OECD and other IOs as appropriate, to continue developing actions and policy recommendations in support of the development of local currency bond markets, taking into account country circumstances.

In 2017, the World Bank and the IMF updated the IFA WG with the work undertaken in that regard. The MDBs also shared their experience on developing local currency bond and capital markets. In this context the document “Good Practices in Developing Bond Market”, prepared under the Asian Bond Market Initiative of ASEAN+3, can be used as reference material.

The IFA WG proposes the following recommendations for consideration by the G20 summit in Hamburg.

Proposal 10 :

The G20 reaffirms the importance of the development of local currency bond and capital markets, along with the monitoring of associated risks (capital flow surges, currency switching) and appropriate supervision, to improve the resilience of the domestic economy and financial system. It looks forward to further annual updates on this issue by the World Bank and IMF, working with Regional Development Banks, OECD and other IOs as appropriate.

Special Drawing Rights (SDR)

In 2016, the G20 supported the examination of a possible broader use of the SDR, notably through publication of some international financial institutions’ and countries’ accounts and statistics in SDR and potential issuance of SDR denominated bonds.

In 2017, the IFA WG discussed the progress on this work at the June meeting. It looks forward to the IMF report on this issue.

Annex 1: List of IOs contributions

- On Capital flows

IMF, “Update on Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies”, November 2016

IMF, “Update on Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies”, April 2017

IMF, “Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies”, June 2017

OECD, “OECD Report to the G20 about the OECD Code of Liberalisation of Capital Movements”, February 2017

OECD, “The OECD Code of Liberalisation of capital movements: update on developments – OECD report to the G20 Finance Ministers and Central Bank Governors”, February 2017

OECD, “The OECD Code of Liberalisation of capital movements: update on developments – OECD report to the G20”, June 2017

Inter-Agency Group on Economic and Financial Statistics (IAG), “Update on the Data Gaps Initiative and the Outcome of the Workshop on Data Sharing”, March 2017

FSB-IMF, “Note on the current progress in the Data Gaps Initiative-2”, April 2017

- On GFSN

IMF, “Toward A More Resilient Global Financial Architecture”, November 2016

IMF, “Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations”, November 2016

IMF, “Staff Note on the GFSN for Low income countries”, June 2017

Regional Financial Arrangements, “Short Note on the RFAs Joint Work”, June 2017

- On Debt sustainability

IMF, “Second Progress Report on Inclusion of Enhanced Contractual Provisions in International Sovereign Bond Contracts”, December 2016

IMF, “Staff Note for the G20 on State-contingent Debt Instruments for Sovereigns”, February 2017

IMF, “State-contingent Debt Instruments for Sovereigns”, March 2017

IMF, “Review of the Debt Sustainability Framework for Low-Income Countries (LIC DSF) - Discussion Note for the G20 International Financial Architecture Working Group”, April 2017

IMF and World Bank, “Staff note for the G20: Medium-term Debt Management Strategies: recent capacity building efforts”, April 2017

- On MDBs issues

Global Infrastructure Hub, “Report to G20 Deputy Finance Ministers and Deputy Central and Governors on MDB Internal Incentives for Crowding-in Private Investment in Infrastructure”, December 2016

IMF (in consultation with staffs of the Multilateral Development Banks), “Coordination between the International Monetary Fund and Multilateral Development Banks on Policy-Based Lending: Current Practices”, February 2017

Multilateral Development Banks, “Principles of MDBs’ strategy for crowding-in Private Sector Finance for growth and sustainable development”, April 2017

World Bank, “G20 Global Infrastructure Connectivity Alliance 2017 Work Plan”, April 2017

Multilateral Development Banks, “Joint MDB Statement of Ambitions For Crowding in Private Finance”, June 2017

Multilateral Development Banks, “Second MDB Report on the G20 MDB Action Plan to Optimize Balance Sheets”, June 2017

Multilateral Development Banks, “Second MDB Report on the G20 MDB Joint Declaration on Aspirations to Support Infrastructure Investment”, June 2017

- *Other issues*

IMF-World Bank, “Staff Note for the G20 IFAWG: Recent Development on Local Currency Bond Markets in Emerging Economies”, June 2017

Annex 2: IFA WG internal documents

- Terms of Reference of the International Financial Architecture Working Group, December 2016
- Co-chairs' summary of the second meeting of the International Financial Architecture Working Group, March 2017

Annex 3: G20 2017 IFA deliverables

- G20 OECD workshop on the review of the Code (15th February 2017, Paris)
- G20 workshop on Early Warning Systems (2nd June 2017, Seoul)

- Progress report on the OECD Code of Liberalisation of capital movements, February 2017
- IMF Increasing Resilience to Large and Volatile Capital Flows: The Role of Macroprudential Policies, June 2017
- IMF Capital Flows—Review of Experience with the Institutional View, December 2016
- FSB-IMF note on the current progress in the Data Gaps Initiative-2, April 2017
- G20 Operational Guidelines for Sustainable Financing, March 2017
- G20 Compass for GDP-linked bonds, March 2017
- G20 Principles for effective coordination between the IMF and MDBs in case of countries requesting financing while facing macroeconomic vulnerabilities, March 2017
- Principles of MDBs' strategy for crowding-in Private Sector Finance for growth and sustainable development, April 2017
- Joint MDB Statement of Ambitions For Crowding in Private Finance, June 2017
- 2017 GICA Work Plan and Memorandum of Understanding, April 2017
- Second report to the G20 on the MDB Action Plan to Optimize Balance Sheets, June 2017
- MDB's Joint Declaration of Aspirations on Action to Support Infrastructure Investment – Follow up on Actions taken in 2016, June 2017