GROUP OF THIRTY
Consultative Group on International
Economic & Monetary Affairs, Inc.

79th Plenary Meeting of the Group of Thirty
Hosted by the Central Bank of Argentina
Buenos Aires
Thursday, May 10 – Saturday, May 12, 2018

SUMMARY OF DISCUSSIONS

Thursday, May 10

Dinner Speech by Marcos Peña
Chief of Cabinet of Ministers, Argentina

Mr. Peña discussed the dynamics behind the creation of President Macri's political movement and platform. The speaker discussed the challenges that face the country, and the balance being sought between fundamentally needed policy reforms and economic gradualism.

Friday, May 11

Monetary Policy: Experience and Lessons

The Plenary discussed the key lessons which could be drawn from previous episodes and policy choices, and applied to the challenges in the years ahead.

Various policy lessons from the GFC were discussed including the need for central banks to act with force; the constraints of the zero lower bound; and broader questions on the effectiveness of monetary policy transmission during crisis and over the course of the recovery.

Participants discussed how central banks may best address a future recession. Some examined the utility of permitting some degree of inflation overshoot, possibly via an adjustment in how the inflation target was designed.

A key issue concerned reconciling price stability and financial stability. Some participants observed that there were unintended consequences of having very low interest rates over a long period, and the consequent search for yield. The Plenary also discussed the cyclical component of credit including household credit, and its role in boom-bust cycles. In total, an integrated policy framework for price and financial stability was still lacking.

The Plenary also observed that the right mix of monetary, fiscal and structural policies was important in dealing with both crises and recovery. Safeguarding the independence of central banks remained important. However, different mixes of policies aimed at achieving domestic objectives had implications for spill-overs to other economies.

US Fiscal Policies: Domestic and International Implications

The Plenary discussed the US fiscal position, including the CBO's projection of the deficit rising in the years ahead from 4 percent of the GDP to slightly over 5 percent. Debt was expected to rise from 78 percent to 96 percent of GDP. However, the projections had to take into account the fact that recent important tax changes were scheduled to sunset at a point in the future, and Congressional decisions would determine if they were renewed.

Participants noted the international implications of the long-term US fiscal and debt picture, including the effect on real interest rates and the USD exchange rate. Participants also discussed how a lax fiscal policy could have financial stability implications in the future. They also discussed possible tax and expenditure policy options for reducing the longer term fiscal deficit and debt position, and their political challenges.

Catalyzing Private Investment: New Roles for the Public Policy and Multilateral Institutions

The Plenary discussed the challenges of catalyzing private investment in the emerging and developing world, crucial factors for success, and possible solutions.

Participants noted that there was a large supply of global private capital that needed to be matched to needs in developing countries. Key risks had to be mitigated, including credit risk, political risk, and foreign exchange risk.

On infrastructure investment, participants emphasised the need to build domestic institutional capacity for public-private partnerships, and to leverage on technology. National authorities should also be willing to make fiscal commitments to projects. These should be augmented by credible governance and durable plans. There was also a key role for multilaterals to use their balance sheets to mitigate risk and help catalyse private investment, and shift their business model away from extending loans.

Participants observed that there was significant potential for institutional and longer-term investors to participate in financing projects in emerging economies. The longer-term cash flow of infrastructure projects was a good match for the needs of these investors. There was opportunity to create infrastructure as a standardised asset class. Participants also highlighted the importance of reviewing regulation which deterred institutional funds from investing in long-term infrastructure projects.

Policies for Disinflation: Experience and Lessons

The Plenary discussed disinflationary policies drawing from different country experiences, including experiences of hyper-inflation, and the lessons learnt.

Participants noted the need for a coherent macroeconomic policy, specifically that central bank independence should be paired with strong and credible fiscal commitments both upfront and to achieve long-term stability. These served to demonstrate resolve to markets and the public. It was also important to communicate honestly the short-term trade-offs, or economic pain, that the public would have to bear in exchange for the benefits that would come with medium- and long-term economic recovery. A functioning foreign exchange market and flexible exchange rate were also needed in most cases.

It was acknowledged that emerging economies faced greater uncertainty in conducting disinflationary policies. Some participants noted that each hyperinflationary crisis was unique, and emphasised the importance of identifying and addressing the exact causes of hyperinflation. The pace at which adjustments should take place and the role of external support also differed with each case.

Other issues discussed related to setting the right level of expectations regarding inflation, the choice of index for inflation targeting, the relationship between the exchange rate and inflation rate, and the appropriate inflation target when nearing the end of disinflationary policy. Some participants discussed the usefulness of a target band approach, which could give a central bank room to maneuver as the economic situation evolves, while buttressing central bank credibility.

Dinner Speech by Jaime Durán Barba
Professor, The George Washington University

Mr. Barba described the use of social media and polling technologies in Latin America, and the factors that permitted the political movement started by then-candidate Macri to overcome numerous hurdles before presidential electoral victory.

Saturday, May 12

Fair & Open Trade: Bilateral, Regional or Multilateral?

The Plenary observed that globalization and associated backlash were not new. Throughout the history of globalization, there had been periods of backsliding into protectionism and conflict. The period of what was now called hyper-globalization was a relatively recent creation, and reflected an amalgamation of factors. These ranged from new technologies to the collapse of socialism and subsequent liberalization in emerging markets.

Participants viewed the rise of a rules-based global trade system as having been a major benefit to states and citizens at large. However, the generally dispersed positive effects of globalization were accompanied by concentrated and localized negative effects which have tended to be overlooked. The impact in terms of rising inequality within countries had also tended to be overlooked.

Participants considered that sustaining support for free and fair trade would require different policy approaches in the future, including more proactive attention to the concentrated social and economic impacts of globalization. A strong focus on closing trade deficits risked overshadowing more crucial issues of securing fair market access, achieving domestic economic balance, and rethinking social policies. Some participants observed also that a focus on good balances tended to overlook trade in services. They noted also that there was some correlation between the service sectors that the US had a comparative advantage in and income inequality, as these sectors tended to require higher levels of education.

In addition, some were of the view that the design of trade agreements needed to be looked at critically. In other words, they had to be designed to achieve broad-based and shared goals, and to avoid narrower sectoral goals or those that may reflect regulatory capture by influential segments of the economy. Some participants were also of the view that, rather than a radical overhaul, it would suffice to introduce regular reviews of trade agreements.

Cryptocurrencies: Policy Implications

The Plenary discussed the policy implications arising from cryptocurrencies, central bank digital currencies (CBDC), and the potential applications of the underlying distributed ledger technology (DLT).

On cryptocurrencies, participants observed that they did not meet the basic properties of money and had no clear intrinsic value. The demand for cryptocurrencies was largely speculative in nature. Participants noted that the size of the cryptocurrency market remained relatively small, and the vast bulk of purchases of cryptocurrencies were so far being paid for using other crypto currencies. However, participants held that there were real concerns over the money laundering and terrorism financing risks. There were also cyber-security issues around cryptocurrencies.

Several participants distinguished between the case for cryptocurrencies and the potential uses of the underlying DLT. One possible use case for DLT was to enhance payment settlement systems including improving the finality of payments between counterparties. On CBDC, participants noted that allowing retail access to CBDC would have wider implications on the financial system, which would need to be considered carefully.

The Plenary concluded that it is important for central banks to preserve trust in the financial system. The official sector needed to be proactive in deepening understanding of the issues posed by digital token and currencies. It should also provide spaces within which the underlying technologies can be experimented with and assessed in a controlled environment. Regulators and central banks must take the lead and determine boundaries and regulation, so that firms are not left to decide and compete in an under-or unregulated space. Greater international coordination would also be needed to ensure appropriate policy responses to the risks posed.