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Policy paper – G7 Presidency in the Finance Track

I. Introduction

On 1 January 2022, the Federal Republic of Germany assumed the G7 presidency for the coming year. As the world's leading advanced economies and a community founded on shared values, the G7 has a special responsibility to shape a future defined by freedom, democracy and the rule of law, as well as prosperity, stability and solidarity. For the German government, the G7 presidency is a great opportunity to actively shape global issues right from the start of the new legislative term.

During Germany's presidency, we will reaffirm the G7's role in shaping the future, strengthening multilateralism and making progress on the major economic and financial policy issues of the coming years. Key priorities of the G7 Finance Track under the German presidency will be to define the path for a sustainable economic recovery from the Covid-19 pandemic, ensure economic and financial stability and resilience against future crises, and shape the transformation processes in the context of digitalisation and climate neutrality. Here we will be building on the achievements of previous presidencies.

Six meetings of the G7 finance ministers and central bank governors are planned during Germany's presidency, with the main meeting due to take place in Germany on 18–20 May 2022. Our joint decisions at this meeting will be set out in a communiqué. G7 meetings at the ministerial level will be supplemented by regular and confidential meetings of the G7 Finance Deputies and G7 Deputies' Deputies.

II. Key issues

1. Macroeconomic stability

To overcome the pandemic and its economic impact, the first priority for the G7 is to foster the economic recovery against the backdrop of supply shortages and differing monetary and fiscal policy paths. International cooperation is especially important at this juncture and could mitigate risks resulting from macroeconomic divergences. As such, we want to build on the successful coordination during the Covid-19 crisis. The pandemic-related support measures have played a key role in stabilising the global economy. At the same time, current inflation dynamics are a key challenge for policymakers, especially with regard to elevated energy prices. This is leading to a recalibration of monetary policy in some of the G7's major currency areas. In the G7 Finance Track, we will engage in depth on appropriate adjustment

paths in fiscal and monetary policy. Beyond the complex current economic context, we also want to lay the groundwork for stability- and growth-oriented economic and fiscal policies in the aftermath of the pandemic.

As the G7, we will stand up for sustainable public finances and a robust financial system. Fiscal buffers strengthen the resilience of our economies and ensure that a stability-oriented monetary policy is not called into question. As pandemic-related risks for financial markets recede, we need to increasingly turn our attention to medium-term challenges. The G7 has an especially important role to play as a global anchor of stability given the crisis-induced increases in public and private debt levels – both in the G7 and globally.

Furthermore, we want to make progress on the major digital and green transformations, ensuring that they enhance inclusion, resilience and economic growth. In the G7, we want to ensure that we rise to the challenge of these transformations collectively. We must use the opportunities they provide to boost growth and to ensure that no one is left behind. In light of the unequal impact of the pandemic, we want to discuss ways in which we can more effectively promote equal opportunities, gender equality and the role of women in the economy.

These transformation processes will require comprehensive private and public investment, including in the context of the stimulus packages already adopted across G7 countries. We want to emphasise the important role these investments play in creating economic opportunities and lasting prosperity and in boosting overall productivity in the long term.

Low and middle-income countries are facing particularly significant challenges as a result of the pandemic, including high levels of debt. It is the responsibility of the G7 countries, as the most important creditors, to ensure multilateral support. We will therefore continue to monitor the situation in the affected countries and to support the work of international organisations and multilateral development banks. As the G7, we are committed to an improved implementation of the international debt strategy – in particular of the G20 Common Framework for Debt Treatments – to achieve a sustainable debt treatment of the poorest countries.

2. Overcoming the global Covid-19 pandemic

Overcoming the pandemic is a critical prerequisite for a sustainable economic recovery and the best way of achieving this is through vaccinations. We want to strengthen the global response to the pandemic by boosting the momentum of the global vaccination campaign. In order to improve the global vaccine supply, we need to rapidly increase production capacities for effective vaccines, ensure sufficient funding for the COVAX vaccine alliance and, wherever possible, supply vaccines to third countries. We expect that vaccine availability will improve as of the first quarter 2022, including for poorer countries. An increasing priority will therefore be to establish effective vaccine distribution and logistics, including in poor

and remote parts of the world. Germany led by example in 2021 as the second-largest donor to the Access to Covid-19 Tools Accelerator (ACT-A), a multilateral initiative to combat the Covid-19 pandemic. We fully support all four pillars of this initiative in order to contribute to the global provision of vaccines, therapeutics and diagnostics and to strengthen healthcare systems. We will work together in the G7 to ensure sufficient financing. At the same time, we want to ensure we learn the lessons of this pandemic and achieve greater resilience. This includes expanding multilateral pandemic preparedness and ensuring a coherent and adequately financed global health architecture.

3. Digitalisation

Digitalisation is changing the way we do business, work and communicate. During Germany's G7 presidency, we want to focus on the opportunities presented by digitalisation and promote close cooperation between the G7 nations. The G7 will advance the concrete implementation of the historic agreement on the taxation of the digital economy (two-pillar project). This also requires further strengthening the international cooperation of tax administrations. The G7 needs to lead by example here.

In an increasingly digitalised world, there is growing demand for efficient and innovative payment methods, also enabling inexpensive and fast cross-border payments. Alongside private-sector solutions, central bank digital currencies could provide businesses and consumers with additional payment options and foster integration and innovation in an increasingly dynamic digital economy. Several countries are already testing the issuance of central bank digital currencies. In the G7 Finance Track, we will assess the potential and the challenges associated with central bank digital currencies. One thing is clear: central bank digital currencies – as an additional form of central bank money – will only supplement cash, not replace it. Last year, the G7 adopted comprehensive principles for the development of central bank digital currencies. Now, under the German G7 presidency, we want to explore the interoperability of central bank digital currencies in more depth and continue to analyse the implications of central bank digital currencies for financial stability. In addition, we want to consider competition concerns in the area of digital payment methods as a result of Big Techs making inroads into the payments space. We will continue to discuss the latest developments in the area of private-sector cryptoassets (including stablecoins) within the G7. We will not accept the market entry of global stablecoin projects as long as the far-reaching risks are not adequately addressed through appropriate regulation worldwide. In light of rapid developments in the area of digitalisation, we continue to advance our close G7 dialogue on cyber risks in the financial sector and we support key projects of the Financial Action Task Force on the digitalisation of anti-money laundering and counter-terrorist financing efforts.

4. Climate neutrality

Climate change is the greatest challenge of our time. As a result, the G7 Finance Track works on facilitating the net zero transition. We want to use the current momentum to integrate the global climate agenda into economic policymaking. All G7 countries have committed to achieving climate neutrality by 2050 at the latest (or, as in Germany, already by 2045). A central instrument for achieving the 1.5 degree target is carbon pricing. While a carbon pricing system already exists in Germany and the EU, many countries either have no carbon pricing in place or their carbon prices vary significantly – including among the G7 nations. These differences harbour the risk of carbon leakage and could put countries with ambitious climate policies at a competitive disadvantage internationally. An effective coordination of carbon pricing is therefore in our very own interest and falls predominantly within the remit of finance ministries.

During our G7 presidency, we will work towards a consensus in order to make different carbon pricing instruments comparable. We are pursuing the creation of an open and collaborative climate club as a medium-term multilateral solution for coordinated and ambitious climate action – including as a preventative measure to avoid possible trade disputes. Germany's G7 presidency can make an important contribution to towards this multilateral approach.

Furthermore, we will discuss the myriad economic effects of climate change and sharpen our analytical toolkit. A better understanding of the possible scenarios and costs associated with climate change is an important building block for making effective economic policy decisions on the path to net zero, for example in the context of possible distributional or inflationary effects of the transformation. In order to underscore the G7's commitment to climate neutrality, we will continue to pursue the goal of abolishing environmentally harmful subsidies and tax regulations and assess options for using taxes to promote more environmentally friendly behaviour.

Building on the results of the COP26 summit in Glasgow, we want to discuss within the G7 how we can make international climate financing more effective and fairer in the long term. We want to support a clear roadmap towards achieving the US\$100bn target. With a view to the COP15 biodiversity conference, we will discuss sustainable financing for biodiversity conservation and the role of fiscal policy in this context. Within the G7 context, we also want to commit to further strengthening sustainable finance to enable financial market players to incorporate sustainability criteria in their decision-making to an even greater extent. As the most important industrialised nations, the G7 must lead by example and develop ambitious, credible and practical global policy options. To this end, we stand behind the establishment of the International Sustainability Standard Board (ISSB) to support sustainability in corporate reporting and are working towards facilitating easy and centralised access to climate data. In order to strengthen the effectiveness of climate and environmental action,

we also support the fight against illicit finance relating to environmental crimes in accordance with the standards of the Financial Action Task Force.

III. Other topics that will see continuity during Germany's G7 presidency

In addition to the key issues outlined above, we will ensure continuity on other important topics on the G7 agenda. Given the central position of the G7 on the executive board of the International Monetary Fund, we will continue to coordinate closely within the G7 on issues relating to IMF business. Establishing the Resilience and Sustainability Trust and preparing the upcoming 2023 quota reform are high on the agenda in 2022. We will also continue to discuss the activities of the multilateral development banks and their governance. Building on the UK's G7 presidency, we also want to advance international efforts promoting transparency with regard to beneficial ownership.