



# GROUP OF TWENTY

## GLOBAL PROSPECTS AND POLICY CHALLENGES

G-20 Finance Ministers and Central Bank Governors' Meetings  
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Prepared by Staff of the  
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\*Does not necessarily reflect the views of the IMF Executive Board.

## EXECUTIVE SUMMARY

**The global economy is showing more positive momentum.** The WEO January update projects global growth at 3.4 in 2017 and 3.6 percent in 2018, up from 3.1 percent in 2016. While many advanced economies still experience demand shortfalls and core inflation below target, the outlook has generally improved, helped by a notable cyclical upturn in global manufacturing and trade, and the expectation of a more expansionary U.S. fiscal policy. The growth forecast has been slightly revised down for emerging economies, due to tighter financial conditions in the wake of a stronger U.S. dollar and higher global interest rates.

**The outlook could easily change depending on the policies that materialize.** The baseline forecast assumes that: U.S. fiscal policy unfolds broadly as anticipated while the Federal Reserve continues to normalize gradually in line with economic developments; China manages its transition well; and there are no major policy disruptions to trade and investment, including from Brexit negotiations. There are upside risks to the outlook in the near term—for example, if cyclical forces or growth support in the United States or China exceed expectations—but the opposite also holds.

**The balance of risks remains asymmetric and is skewed to the downside.** Concern has risen about adverse—and often neglected—side effects of global economic integration and technology change on jobs and income distribution in advanced economies. Political pressures to reverse these trends could lead to inward-looking policies that disrupt global trade, harming growth without materially aiding those harmed by structural economic transformations. Beyond this risk, a sharp tightening in financial conditions could trigger greater capital outflows from emerging markets; lingering financial and fiscal stability concerns in some advanced economies could become acute; and geopolitical problems could intensify.

**Longer-term prospects for advanced economies as well as commodity exporters remain subdued.** In several economies, high corporate debt still impedes investment, while high levels of non-performing loans and weak bank profitability constrain the credit supply. These legacies weaken economic resilience and exacerbate the impact of longer-term trends that hold back growth, especially in advanced economies, such as weak infrastructure and business investment, slowing innovation, and aging. The adjustment of commodity exporters to lower prices continues. The weakening of the commitment, in some countries, to a multilateral trade framework endangers a critical source of global productivity growth and resilience.

**Policymakers hold the key to a stronger, more resilient, and fairer global economy.** The right policies will support growth, safeguard economic integration, and ensure gains are broadly shared within countries:

- *Reinforcing the growth momentum.* In advanced economies with demand shortfalls, monetary support is still needed. For countries with fiscal space, fiscal policies should also play an active role in supporting growth, structural reforms, and balance sheet repair. In countries closer to capacity, fiscal policy should focus on raising longer-term growth potential, including through targeted infrastructure investment. Boosting demand would also help to reduce excess current account surpluses where these are present. Even where fiscal space is limited, public revenues and expenditures can be made more growth-friendly.
- *Sharing gains more equitably.* Longer-term growth comes from innovation, technological advances, and an efficient allocation of production factors through economic exchange. To ensure gains are shared widely within countries, more must be done to help those suffering adverse side effects—for example, through education and ensuring that the tax-benefit system is both equitable and growth-friendly.
- *Strengthening resilience and long-term growth.* Where still needed, balance sheet repair will support resilience and help sustain the recovery. Emerging markets should continue to allow exchange rates to buffer shocks while addressing vulnerabilities. Structural reforms, well-targeted to country needs, will raise potential growth, which could also help create much-needed future fiscal space.
- *Working together.* A strong, rules-oriented multilateral trade framework maximizes the benefits from global integration and safeguards against risks, including from distortive domestic policies that are collectively self-defeating. International cooperation will safeguard trade as an engine of growth and ensure its gains are broadly shared; help adjust policies to redress global imbalances; strengthen regulatory and resolution frameworks; and bolster the global financial safety net. It is also indispensable to implementing a level playing field in international taxation and tackling climate change. International cooperation should provide an adequate forum to discuss and resolve differences.

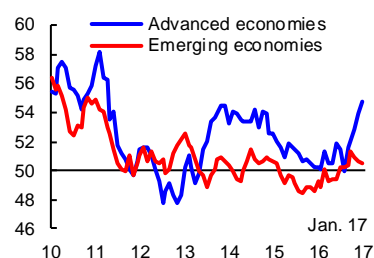
## RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

Near-term global growth is expected to pick up, reflecting a firming-up of activity in advanced economies, an anticipated shift in the macroeconomic policy mix in the United States, and stabilization in stressed emerging economies. The outlook is also surrounded by larger than usual uncertainty, with risks tilted to the downside, as the economic policy assumptions underpinning the outlook could easily change and contribute to significant financial market volatility. Notwithstanding the positive momentum, structural headwinds and persistent crisis legacies continue to hold back growth in the medium term, especially in advanced economies. There is also a threat that concerns in advanced economies about negative side effects of global economic integration and technology change, including impacts on jobs in some sectors and inequality, could lead to inward-looking policies that disrupt global economic integration and harm growth.

### SOLID NEAR-TERM GROWTH MOMENTUM

1. **High frequency indicators point to a pick-up in global growth.** Growth outturns in the second half of 2016 and manufacturing and confidence indicators suggest solid near-term momentum. The WEO January update projects global growth to increase from 3.1 percent in 2016 to 3.4 and 3.6 in 2017 and 2018, respectively. The pick-up is driven by a strengthening of activity in advanced economies—including from an expected stimulus in the United States—and a normalization of conditions in stressed emerging economies. Relative to the October WEO, the momentum in advanced economies has strengthened, while the outlook for emerging economies has marginally weakened, reflecting tighter financial conditions and idiosyncratic factors. There are signs that, along with the overall improvement in growth, global trade volumes are rising again.

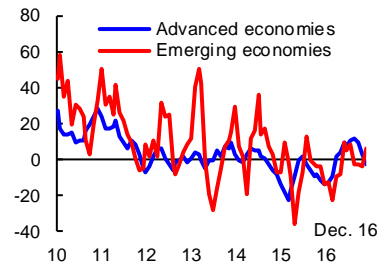
**G-20 Manufacturing PMI 1/**  
(index; >50 = expansion; sa)



Source: IMF, *Global Data Source*.  
1/ Does not include Argentina and Saudi Arabia.

- *The outlook has improved in advanced economies.* Growth prospects appear to be firming up in *Japan* and the *euro area*, on the back of a cyclical recovery in global manufacturing: growth was stronger than anticipated in the second half of 2016, and high-frequency indicators of manufacturing activity suggest continued growth momentum in 2017. The level of economic activity remains significantly below potential in a number of economies, however, including *France*, *Italy*, and *Korea*. Growth in the *United Kingdom* has also been stronger than expected in the aftermath of the Brexit vote—underpinned by solid private consumption.

**G-20 Merchandise exports 1/**  
(3 month mov. avg. annualized)



Source: IMF, *Global Data Source*.  
1/ Does not include Saudi Arabia.

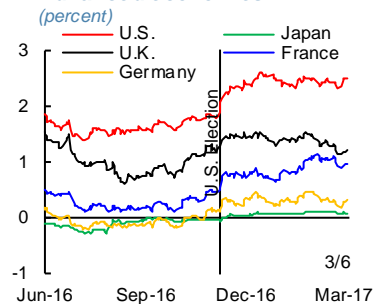
- In the *United States*, where the economy is approaching full employment, near-term growth prospects have further improved, in part reflecting an anticipated change in the macroeconomic

policy mix and an uptick in confidence. Fiscal policy under the new administration is expected to turn more expansionary—with the bulk of the impulse likely materializing in 2018 and through revenue side measures—while monetary policy is seen as continuing to normalize gradually in line with economic developments. Provided the tightening of global financial conditions associated with higher U.S. interest rates and a rising U.S. dollar remains contained, and depending on the balance of other policy initiatives in the United States, higher U.S. growth could have positive growth spillovers on much of the rest of the world. Emerging and developing economies with exchange rates pegged to the dollar or with large dollar liabilities could, however, face challenges.

- *Emerging economies remain the main driver of the strengthening global outlook, though growth prospects differ across countries.* In *China*, the near-term growth momentum has strengthened based on continued policy support and excessively fast credit growth. Looking ahead, the economy is expected to continue its transition to a slower and more sustainable growth path that is increasingly reoriented away from exports and investment toward consumption. In *India*, growth is expected to pick up once the effects of cash shortages linked to the currency exchange initiative fade. Growth in *Brazil* is expected to return to positive territory in 2017, even though impaired public and private sector balance sheets are slowing the pace of the recovery. In *Mexico*, the outlook has weakened as uncertainty about future trade relations with the United States weighs on confidence. *Russia* is expected to return to positive growth, in part helped by higher oil prices.

2. **Headline inflation has firmed along with many commodity prices.** Oil prices increased following the end-2016 agreement among OPEC members and several other major producers to limit supply. Metal prices have also firmed, mostly reflecting stronger real estate investment and supply reductions in China. While commodity price levels generally remain below past highs, these developments have lifted headline inflation for consumers, especially in advanced economies. Measures of core inflation that filter out energy price developments remain broadly unchanged, however, suggesting that underlying inflation remains below central bank targets in many advanced countries.

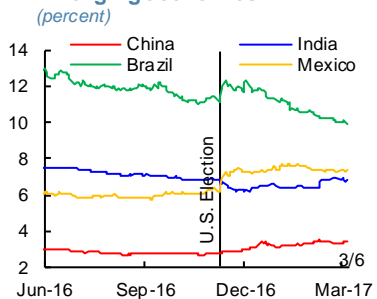
**Government 10-year bond yields: Advanced economies**



Source: Haver Analytics.

3. **Financial markets have been generally buoyant, but political risks are leaving their mark in specific countries.** The trend toward higher U.S. and global interest rates, rising stock market valuations in advanced economies, and a stronger U.S. dollar started in the summer and accelerated after the U.S. election, amid strengthening consumer confidence, positive macroeconomic data, and the expectation of a U.S. fiscal stimulus. In emerging economies, post-election non-resident portfolio outflows have mostly reversed and equity markets have recovered, but financial conditions remain tighter, especially in some vulnerable economies. At the same time, political risks continue to affect market sentiment in specific

**Government 10-year bond yields: Emerging economies**



Source: Haver Analytics.

countries. In *Mexico* concerns about future trade relations with the United States weigh on the currency and financing costs. The British pound has depreciated amid increased uncertainty regarding future trade relations between the *United Kingdom* and *European Union*. And more recently, the spread between German long-term government bond yields and some other parts of the euro area has increased notably, in part reflecting elevated political risks.

4. **Global imbalances moderated recently, but could widen again in the coming years.**

Preliminary data suggest a marginal narrowing of global external imbalances in 2016. For example, while Germany's current account surplus further widened slightly, current account balances declined in other creditor countries such as China and fuel exporters, and improved in some debtor countries, including in the euro area. However, imbalances could start widening again, as the projected fiscal expansion in the United States would boost domestic demand and lead to a higher current account deficit. Exchange rate movements also point in this direction, in particular the real effective appreciation of the U.S. dollar (by about five percent since August 2016) and the weakening of the euro and the Japanese yen. In emerging markets, recent currency developments have been mixed, with a sharp appreciation of the Russian ruble on the back of increasing oil prices and depreciations of the Mexican peso and the Turkish lira.

## UNDERLYING POLICY ASSUMPTIONS AND RISKS

5. **The outlook could easily change should policy outcomes depart from the paths that we assume.**

Specifically, the projected short-term growth momentum builds in near-term U.S. fiscal stimulus accompanied by a gradual, data-driven monetary policy normalization. While this policy expectation is broadly in line with market views, actual policies and their domestic and international impacts could differ widely based on the size, composition, and duration of the fiscal expansion. For example, with the U.S. economy operating near full employment, a focus on infrastructure spending and efficiency-enhancing corporate tax reform would gradually expand its underlying capacity along with demand. Anchored in a medium-term fiscal consolidation plan to bring down the rising sovereign debt-to-GDP ratio, this would result in a more sustained growth impact—as well as better debt dynamics—than an increase in non-productive spending. The outlook also assumes that China effects a well-managed transition toward slower and more sustainable growth by gradually reducing its reliance on credit stimulus while avoiding an abrupt adjustment of debt overhangs. Another key assumption is the absence of policy-induced significant disruptions to trade and investment.

6. **Unusually high policy uncertainty adds significant downside skew to an already negative risk balance.**

While there is some potential for upside surprises to near-term growth—for example, if the underlying cyclical forces surprised on the upside, or if policy action in the United States or China turns out to be more ambitious or effective than expected—the opposite holds as well. Overall, the downside bias of potential risks has risen, especially over the medium term, and a sharp rise in risk aversion remains a possibility.

- *Fragmentation of trade and capital flows.* The threat of inward-looking protectionist measures has increased. This development has been fueled by concerns in advanced economies about

disruptive side effects of trade on jobs and the income distribution; a perception that migration is having a negative impact on domestic populations; and increased refugee flows—even though there are indications that technology advances have had a greater impact on workers' dislocations and increases in income inequality than economic integration. Heightened restrictions on trade or capital movement would hamper international trade, disrupt the operation of global value chains, deter investment, and reduce productivity. The restrictions would not, however, give much help to those harmed by the advance of trade and technology. Instead, they would hurt overall income growth and raise the cost of living, hitting those in lower income brackets especially hard. Unilateral actions would likely trigger retaliation by others, leaving all countries worse off.

- *Severe capital outflows from emerging markets.* Global financial conditions could tighten faster than expected, for example, because of a faster rise in interest rates in the United States driven by inflationary pressures. In such a scenario, emerging economies with high public and/or private nonfinancial sector debt, weak bank balance sheets, and depleted policy buffers would be particularly vulnerable to capital flow reversals, tighter financial conditions, and sharp movements in major currencies. So would those with currency pegs to the U.S. dollar.
- *Balance sheet weaknesses in some euro area countries.* Failure to make sufficient progress in implementing the necessary reforms to address the overhang of non-performing loans would hold back growth, including by constraining the supply of credit. In addition, financial stability risks could rise, notably in countries where low profitability, high debt and poor asset quality continue to stress the banking sector. If unaddressed, these problems could interact with higher political risks to reignite financial stability concerns.
- *A sudden severe slowdown in China.* A failure to adjust macroeconomic policies from their current loose stance and a lack of decisive reform would increase vulnerabilities—given high and rapidly rising debt, impaired corporate balance sheets, and the increasingly large, opaque and interconnected financial sector. Delay of the necessary rebalancing could result in a more disruptive and sharper-than-expected slowdown. Such an abrupt downshift could have sizable spillovers to the rest of the world through trade, commodity price, and confidence channels.
- *Geopolitical risks and other noneconomic factors.* Heightened domestic and external political tensions; acts of terrorism; contagious diseases, such as the spread of the Zika virus; ongoing climate change; and refugee flows continue to weigh on the outlook in several regions. Intensified geopolitical tensions and terrorism could take an economic toll quickly by harming global economic confidence.

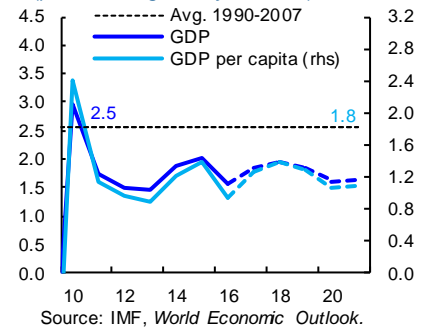
## A DIFFICULT LONGER-TERM OUTLOOK

7. **Notwithstanding the expected improvement in economic activity, growth prospects over the medium term remain subdued for advanced economies and commodity exporters.** In advanced economies, medium-term growth rates of GDP (per capita or in the aggregate) are expected to remain lower than their historical average by about  $\frac{3}{4}$  percentage points. In a number of emerging economies, especially those negatively affected by still low commodity price levels, medium-term

growth prospects are also weak. And while projected per capita growth rates for emerging Asia over the medium term are generally buoyant, they hinge crucially on the assumption that strong policies are being implemented, underlining the possibility of large downside risks.

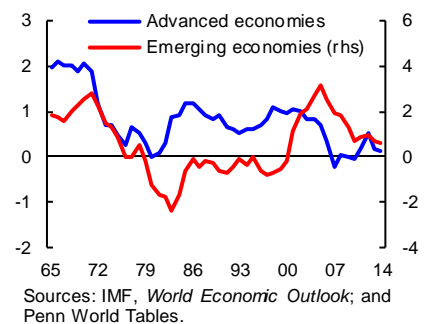
8. **Legacies from the crisis still cloud the outlook.** New IMF research points to the lasting effects of the crisis.<sup>1</sup> In some *advanced economies*, high corporate debts and non-performing loans on banks' balance sheets, notably in Europe, have hindered new investment. One result has been persistently lower total factor productivity growth, attributable in part to less capital-embodied technological change and less investment in intangible assets, especially in distressed firms. Weak balance sheets also limit the ability of these economies to cope with adverse shocks, such as a tightening of financial conditions. Some *emerging economies* are coping with the aftermath of the high post-crisis capital inflows and the more recent steep decline in commodity prices, and struggle with high corporate leverage and weaker bank balance sheets. These weaknesses have increased vulnerabilities to global financial conditions and could hold back investment growth.

**G-20 Advanced: Real GDP, GDP per capita**  
(percent change from year earlier)



9. **But tepid growth prospects also reflect unfavorable long-term trends, particularly in advanced economies.** The generalized slowdown in productivity growth can be tied to well-known secular headwinds, including: the waning effects of the boom in information and communication technologies and its associated international spillovers; indications of a more general slowdown in innovation; population aging; decelerating global trade integration; and slowing human capital accumulation. In *emerging economies*, the fading effects of earlier structural reforms and structural transformation—whereby resources are reallocated from low-productivity to high-productivity sectors and industries in transitioning economies—also seem to have played a role.

**G-20 Total factor productivity growth**  
(PPP-weighted; 5-yr moving average)



10. **The recent political backlash in advanced economies against the rules-oriented multilateral trade framework poses a threat to a critical source of global productivity growth.** Technology advances and trade are part of the engine that creates productivity growth and have resulted in significant improvements in global welfare. They interact in generating productivity improvements and spreading them: trade raises productivity by fostering efficient country specialization, giving access to more varied and higher quality inputs, spreading technological progress, and enhancing competition and technological innovation. In turn, technology advances—in particular in the area of communications and transports—have facilitated trade. Restrictions to trade would slow down technology advances and productivity growth more generally, hurting all.

<sup>1</sup> G. Adler, R. Duval, D. Furceri, S. Kiliç Çelik, K. Koloskova, and M. Poplawski-Ribeiro, *forthcoming*, "Gone with the headwinds: global productivity," *IMF Staff Discussion Note*.

## POLICIES

*Choosing the right economic policies is the key to sustaining stronger growth, improving economic resilience, and ensuring that the gains from growth are broadly shared. With demand shortfalls in many countries and a generalized weakness in productivity growth trends, policymakers need to provide the right combination of demand support and structural policies, while exploiting synergies between them. To make sure that the gains from growth are shared widely within each country, it remains critical to support those who have to adjust to technological progress and global economic integration. Structural reforms should aim at boosting productivity, strengthening the financial system, and capitalizing on the gains from economic integration. A strong, rules-oriented multilateral framework remains vital to maximize the benefits of global economic integration, avoid the inefficiencies of zero-sum national policy approaches, and safeguard against risks.*

### REINFORCING THE GROWTH MOMENTUM

11. **Reinforcing the growth momentum requires the right mix of demand support and supply reforms.** In those advanced economies where inflation remains below target, a supportive monetary policy stance should be maintained, relying on unconventional measures, as needed—for example in the *euro area* and *Japan*. In the *United States*, monetary policy normalization should continue to be gradual and data driven. In economies operating close to full capacity (such as the *United States* and *Germany*), any fiscal support should be oriented toward increasing potential output, for instance through investment in high-quality infrastructure, including social infrastructure such as education, health, or childcare. In *Germany*, higher public investment would also contribute to reducing the very high current account balance surplus. In economies with insufficient demand but available fiscal space, fiscal policy can support short-term growth while also focusing on boosting the supply potential of the economy. Emerging economies face starkly diverse cyclical positions, but the emphasis should generally be on enhancing resilience (as discussed below).

12. **Exploiting synergies between short-term support and structural reforms is even more crucial where fiscal space is limited and monetary policy operates close to the effective lower bound.** In such cases the combination of temporary macroeconomic support—well-anchored by credible medium-term policy frameworks—with growth-enhancing structural reforms can deliver more than the sum of its parts.<sup>2</sup> In countries where fiscal adjustment is needed, consolidation should be gradual and as growth-friendly as possible, while structural reforms should prioritize lower-cost measures that could have a beneficial impact on public finances over the medium term.

### SHARING THE GAINS FROM GROWTH

13. **Policies should ensure that the gains from growth are more broadly shared.** Some of the drivers of medium- and longer-term growth can also impact the distribution of income. For example,

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<sup>2</sup> V. Gaspar, M. Obstfeld, and R. Sahay, 2016, “[Macroeconomic management when policy space is constrained: a comprehensive, consistent, and coordinated approach to economic policy](#),” *IMF Staff Discussion Note* 16/09.



technological change or trade might let certain sectors grow while shrinking others, forcing the burden of adjustment predominantly on households that are—occupationally or geographically—less mobile. While global economic integration is but one of the forces at work, a combination of job losses for less adaptable workers, higher income inequality, and weak income growth—especially for low- and median-income earners—can feed a political climate that favors inward-looking policies. This creates a danger of responding to well-justified equity concerns with protectionist policies that ultimately hurt growth, welfare, and the economy’s flexibility and resilience. Against this backdrop, policies should be carefully designed to preserve the gains from economic integration while also supporting those who need to adjust to it. Important levers for policy action include:

- *Providing support to those adversely affected.* Short-run measures to help the adjustment of those affected comprise active labor market policies to ease mobility in the labor market and social safety nets, like unemployment insurance and other “passive” labor market policies. In the longer run, ensuring adequate education and skills training (including through lifelong learning), policies to facilitate mobility such as housing, credit access and infrastructure, and regional-based policies—for example, targeting low-skilled workers in geographic regions that are affected by automation and outsourcing—are also necessary.
- *Income policies and tax-benefit systems.* Income policies (such as in-work tax incentives and higher minimum wages where they are too low) and changes to tax-benefit systems (including more progressive income taxation) can, in addition to encouraging participation, also help ensure that the gains from growth are more widely shared at the national level. Effective social safety nets, including access to portable healthcare and pensions, will also support inclusiveness as well as worker mobility.
- *Ensuring a level playing field.* This set of policies can include an array of measures, such as fostering competition, lowering barriers to entrepreneurship, cracking down on tax evasion, promoting financial inclusion, and preventing business practices that shift profits to low-tax locations.
- *Facilitating the integration of immigrants.* Labor market integration is critical to enhance the contribution of migrants to host countries and promote social cohesion. While avoiding a possible overburdening of social systems, policymakers should deploy active policies such as language training and assistance in job search, better recognition of migrants’ skills through credential systems, and support for migrant entrepreneurship.

## STRENGTHENING RESILIENCE AND LONG-TERM GROWTH

14. **Corporate and bank balance sheet repair are a pre-condition for sustaining growth and increasing resilience.** Several advanced *European* economies, especially, need to accelerate banks’ balance sheet repair and the resolution of non-performing loans, including through a combination of greater supervisory encouragement, insolvency reform, and the development of secondary markets for distressed debt. This process would boost credit, investment, and ultimately productivity, including through improvements in business dynamism and efficiency gains in the allocation of capital across firms. Measures to safeguard banking sector stability and profitability in a context of persistent low

growth and interest rates are also a priority. In some *emerging economies*, reducing excessive corporate leverage and improving banks' balance sheets (for example in *China* and *India*), or adopting more prudent risk-management practices—including to reduce currency and maturity balance sheet mismatches—will help reduce vulnerabilities to global financial conditions, possible capital outflows, and sharp currency movements.

**15. In emerging economies, maintaining macroeconomic stability and rebuilding policy buffers will be important to reduce vulnerability to a tightening of global financial conditions.**

Where exchange rates are not pegged, they can act as a crucial buffer against economic and financial shocks, provided exposure from foreign-currency denominated debt is limited. *Commodity exporters* such as *Saudi Arabia*, despite the relief provided by the recent firming of commodity prices, need to adjust to the new lower price environment by continuing to adjust fiscal policy in as growth-friendly a way as possible and diversifying their economies. In *China*, macroeconomic policies should be adjusted to ensure the transition to a slower and more sustainable growth path, while efforts to contain financial stability risks should be intensified. This includes moving away from unsustainably high growth targets, efforts to address debt overhang and to slow credit expansion, switching from off-budget investment to more on-budget, pro-consumption measures, as well as strengthening transparency, especially in communicating policy objectives and enhancing data quality. In *India*, the fiscal deficit is expected to continue narrowing in the near-term; however, further subsidy reduction and tax reforms, including a robust design and full implementation of the goods and services tax, are necessary to attain medium-term fiscal consolidation plans. Delivering on fiscal consolidation and debt sustainability is essential to maintain market confidence in *Brazil* and *Mexico*, while *Argentina* should also continue with fiscal consolidation in line with the authorities' medium-term targets.

**16. In addition, structural reforms remain crucial to tackle the longer-term forces holding back growth.** With 2018 drawing closer, the G-20's Brisbane ambition to raise its collective GDP by 2 percent above baseline seems increasingly out of reach. Achieving the envisaged output boost will require quick implementation of the announced growth strategies. However, additional efforts to raise productivity are needed, especially in advanced economies.

**17. These reforms will be most effective when tailored to country conditions:**

- *One important factor is the level of development.* For example, *emerging economies* tend to have more room to improve the business environment, remove excessive regulations in services sectors, and discourage informality, as well as to increase education levels and foster the adoption of innovations. In *advanced economies*, the general priorities include strengthening innovation and addressing population aging through measures aimed at raising labor force participation. In this context, immigration can also play a role: migrants tend to be younger than natives, and notwithstanding transition costs, IMF research shows that their presence can significantly increase labor productivity and income per person in receiving economies in the longer term.<sup>3</sup> These

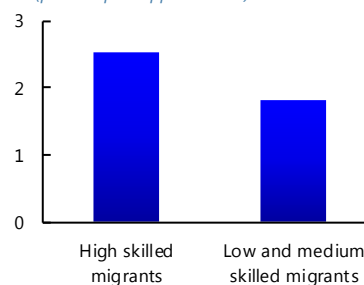
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<sup>3</sup> IMF, 2016, *World Economic Outlook*, Chapter 4, "Spillovers from China's transition and from migration"; F. Jaumotte, K. Koloskova and S. Saxena, 2016, "Impact of migration on income levels in advanced economies," IMF Spillover Note, Issue 8, October.

positive effects stem from high-skilled as well as from lower-skilled immigration. Low-skilled immigrants complement the capabilities of higher-skilled natives, filling up a whole range of occupations for which natives are in short supply, and allow natives to move to more complex occupations. Swift labor market integration accelerates these gains, while raising migrants' net fiscal contributions.

- *It is important, however, to consider macroeconomic conditions when implementing reforms.* Some reforms have more potential to boost demand in the short term, such as those that lower barriers for new firms to enter product and services markets. Other reforms, such as employment protection reform and unemployment benefit reform, are best implemented when demand is already strong, or when fiscal and monetary policies can provide support.

**Advanced economies: Effect on productivity of increase in migration share, by skill 1/**  
(percent per 1 ppt increase)



Source: IMF staff calculations.  
1/ Migrant share calculated as a percent of total adult population.

18. **Structural reforms can also help create fiscal space.** Recent IMF research suggests that most labor and product market reforms have the potential to strengthen the public finances by raising growth in the medium term. In addition, initial fiscal support tends to facilitate reforms and enhance their impact on output and tax revenue by helping to alleviate transition and social costs and improving demand conditions. This channel, in turn, can help reduce public debt burdens and create fiscal space to support more reforms going forward.<sup>4</sup>

## MULTILATERAL ACTION TO MAXIMIZE GAINS AND SAFEGUARD AGAINST RISKS

19. **The G-20 can promote multilateral solutions that maximize the gains from economic integration and safeguard against global risks.** A rules-oriented open multilateral trade framework has brought significant benefits. Technology and economic integration have boosted incomes, expanded access to tradable goods and services, and lifted hundreds of millions out of poverty. Multilateral solutions are necessary to promote global trade and protect a level playing field, address global imbalances, facilitate international regulatory reforms, and help strengthen the international financial architecture. International cooperation should provide a forum to discuss and resolve differences. Complemented by effective national policies to ensure that the gains from global economic integration are shared widely within countries, this strategy can deliver global economic integration that benefits all, while minimizing the risk of unilateral actions.

20. **Key elements of the global agenda include:**

- *Multilateral efforts to address global imbalances.* On the one hand, coordinated actions between countries to boost growth can exploit synergies and amplify each other. On the other hand, unsustainable policies in one country can spread easily to others through spillovers or contagion.

<sup>4</sup> A. Banerji, V. Crispolti, E. Dabla-Norris, R. Duval, C. Ebeke, D. Furceri, T. Komatsuzaki, and T. Poghosyan, 2017, "Labor and product market reforms in advanced economies: fiscal costs, gains, and support," *IMF Staff Discussion Note 17/03*.

This is why external surplus and deficit countries need to continue to work together within a multilateral setting to reduce global external imbalances. Strong commitment to a rules-oriented multilateral trade framework is vital in this regard, including avoiding protectionist measures as well as distortive national macroeconomic and microeconomic policies that give rise to competitive advantage. The IMF conducts a multilateral assessment of external imbalances in the context of its Article IV consultations and its External Sector Report, identifying “excessive” imbalances relative to a country-specific norm consistent with underlying fundamentals and desirable policies. This assessment is updated on an annual basis.

- *Strengthening trade as a strong engine of broadly shared growth.* Reducing trade costs and deploying measures to roll back the recent increase in temporary trade barriers would help support trade. The recent entry into force of the World Trade Organization (WTO) Trade Facilitation Agreement is a welcome development in this respect. Regional trade agreements help advance reforms in specific “frontier” areas, including services and digital trade, regulatory cooperation, and policies toward FDI. Without similar advances at the global level, however, their continued proliferation risks evolving into a system in which traditional trade matters are overseen in the multilateral trading system, and regulatory and other frontier matters are negotiated elsewhere.
- *Completing international financial regulatory reform.* Outstanding challenges across advanced and emerging economies include: finalizing global standards for banks; improving regulation and oversight of financial institutions, including non-banks; ensuring regulators have the capacity to resolve globally systemic financial institutions; and strengthening the resilience of central counterparty clearing for derivatives.
- *Strengthening the international financial architecture.* The highly interconnected international financial system and the presence of excessive imbalances in some regions call for a more coordinated and adequately resourced global financial safety net and stronger frameworks for the prevention and resolution of debt crises.
- *Continuing support for low-income countries.* Low income countries continue to face a challenging environment, reflecting still-depressed commodity prices, moderate global growth, and in some cases security issues and domestic political uncertainty. Strong policies and unwavering support from the international community are needed to foster resilience, diversify economic structures, and promote inclusiveness. These objectives have to be supported by steady progress in the implementation of the sustainable development goals and the 2030 development agenda. In this context, the G-20 Compact with Africa initiative provides a key framework for boosting private and public investment.
- *Coordinating the response to non-economic challenges.* The international community plays a crucial role in fostering financial and other types of support for countries most affected by epidemics, natural disasters, and armed conflicts. International cooperation to mitigate the effects of natural disasters and adapt to climate change should also be enhanced.

- *Enhancing international cooperation on migration issues.* Helpful progress could include better cooperation between source and recipient countries, for example, by facilitating remittance flows, better protecting labor rights, and promoting safer and more secure working environments for migrants. Cooperation is also important to address challenges from involuntary migration, including through effective assistance and resources for refugees wishing to return home.

**Table 1. Real GDP Growth***(percent change)*

	Year over Year						
	2015	Estimates		Projections (from Jan. 2017)		Deviations (from Oct. 2016)	
		2016	2017	2018	2017	2018	
<b>World</b>	<b>3.2</b>	<b>3.1</b>	<b>3.4</b>	<b>3.6</b>	<b>0.0</b>	<b>0.0</b>	
Advanced economies	2.1	1.6	1.9	2.0	0.1	0.2	
Euro area	2.0	1.7	1.6	1.6	0.1	0.0	
Emerging market and developing countries	4.1	4.1	4.5	4.8	-0.1	0.0	
G-20 1/	3.4	3.1	3.6	3.7	0.0	0.0	
Advanced G-20 2/	2.0	1.6	1.8	2.0	0.0	0.2	
Emerging G-20 3/	4.6	4.5	5.0	5.1	-0.1	-0.1	
Argentina 4/	2.5	-2.4	2.2	2.8	-0.5	0.0	
Australia	2.4	2.3	2.6	3.0	-0.1	0.1	
Brazil	-3.8	-3.5	0.2	1.5	-0.3	0.0	
Canada	0.9	1.3	1.9	2.0	0.0	0.1	
China	6.9	6.7	6.5	6.0	0.3	0.0	
France	1.3	1.3	1.3	1.6	0.0	0.0	
Germany	1.5	1.7	1.5	1.5	0.1	0.1	
India 5/	7.6	6.6	7.2	7.7	-0.4	0.0	
Indonesia	4.8	5.0	5.1	5.3	-0.2	-0.2	
Italy	0.7	0.9	0.7	0.8	-0.2	-0.3	
Japan	1.2	0.9	0.8	0.5	0.2	0.0	
Korea	2.6	2.6	2.6	2.8	-0.4	-0.3	
Mexico	2.6	2.2	1.7	2.0	-0.6	-0.6	
Russia	-3.7	-0.6	1.1	1.2	0.0	0.0	
Saudi Arabia	4.1	1.4	0.4	2.3	-1.6	-0.3	
South Africa	1.3	0.3	0.8	1.6	0.0	0.0	
Spain 6/	3.2	3.2	2.3	2.1	0.1	0.2	
Turkey	4.0	2.7	2.9	3.3	-0.1	0.1	
United Kingdom	2.2	2.0	1.5	1.4	0.4	-0.3	
United States	2.6	1.6	2.3	2.5	0.1	0.4	
European Union	2.3	2.0	1.8	1.8	0.1	0.0	

Source: IMF, *World Economic Outlook* January 2017 Update.

1/ G-20 aggregations exclude European Union.

2/ Includes Australia, Canada, France, Germany, Italy, Japan, Korea, United Kingdom, and United States.

3/ Includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.

4/ On February 1, 2013, the IMF issued a declaration of censure, and since then has called on Argentina to implement specified actions to address the quality of its official GDP data. The new government that took office in December 2015 released a revised GDP series on June 29, 2016. At the IMF Executive Board meeting that took place on August 31, 2016, the revised series was considered to be in line with international standards.

5/ For India, data and forecasts are presented on a fiscal year basis and GDP from 2011 onward is based on GDP at market prices with FY2011/12 as a base year.

6/ Permanent invitee.