GROUP OF TWENTY

G-20 SURVEILLANCE NOTE

G-20 Finance Ministers and Central Bank Governors' Meetings
July 17-18, 2023
Gandhinagar, India

Prepared by Staff of the

INTERNATIONAL MONETARY FUND*

***Does not necessarily reflect the views of the IMF Executive Board**

July 2023

EXECUTIVE SUMMARY

The global economy is navigating a challenging period. 2023Q1 surprised on the upside relative to the April 2023 WEO. Since then, high frequency indicators paint a mixed picture of activity, with persistent pockets of resilience alongside signals of slowing momentum. The pace of *China's* recovery is moderating after a sharp rebound in 2023Q1. Elsewhere, early signs that tighter monetary policy is transmitting to financial conditions are appearing. Inflation has eased somewhat but remains high, and disinflation efforts are likely to take time. The bout of financial turmoil in March has subsided, and declines in energy prices and some easing of external financial conditions have given emerging market and developing economies some respite from external pressures. However, both financial and external vulnerabilities remain elevated. Fiscal balances improved in 2022, but fiscal space remains limited and public debt burdens are expected to increase.

Risks are mostly tilted towards the downside. On the upside, a softer-than-projected landing for output and labor markets is possible, with activity remaining resilient, inflation falling faster than anticipated, and labor markets cooling through fewer vacancies rather than more unemployment. However, there are significant downside risks. *Russia*'s war in *Ukraine* could intensify, disrupting trade and investment flows, and reigniting the cost-of-living crisis. Disinflation may take longer than expected, requiring moderately tighter policies. Systemic financial sector stress in advanced economies could lead to a sharp tightening of global financial conditions, resulting in significant output losses and adverse external spillovers. An abrupt deterioration of investor sentiment could set off debt distress in and capital outflows from emerging market and developing economies. Geoeconomic fragmentation could undermine growth and cooperation on common challenges.

G-20 policymakers will need to continue the inflation fight while remaining considerate of risks. Where inflation is high, central banks should prioritize bringing it down to target. Financial policy tools can be deployed to contain stresses, allowing monetary policy to remain focused on fighting inflation. At the same time, financial sector supervisors will need to be vigilant in monitoring and addressing heightened risks (e.g., interest rate risk). Fiscal policy should rebuild buffers, and tighter policy will help the fight against inflation. However, with food prices still elevated, fiscal support may be needed to protect the vulnerable, but such support should be well-targeted and temporary. Structural reforms can boost growth, help to fight inflation, aid sovereign debt sustainability, and enable a cost-efficient green transition. Industrial policy can have significant costs and risks, and if used, should be carefully designed to limit distortions and adverse spillovers.

Multilateral efforts by G-20 policymakers are needed to tackle global challenges. G-20 leadership can help ensure the global financial safety net is available to help developing economies navigate multiple shocks and ensure that unsustainable debt burdens are promptly addressed. Governments should take steps to limit fragmentation, including resisting discriminatory policies and industrial policies with (potentially) protectionist provisions. Such steps will preserve important engines of global growth and support cooperation on common challenges, including climate change.

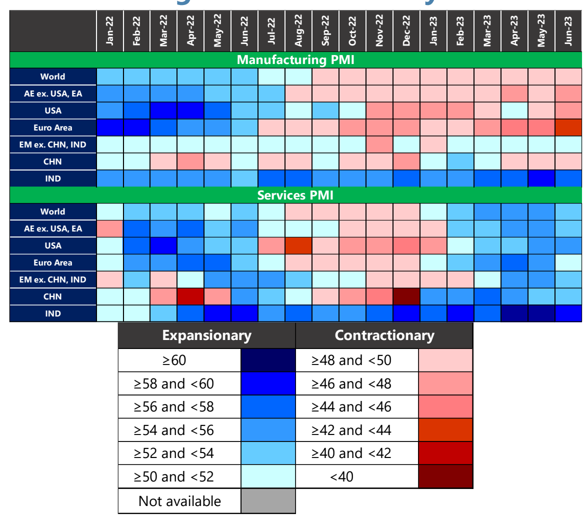
Prepared under the guidance of Hélène Poirson by a team led by Ashique Habib, comprising Nicolas Fernandez-Arias, Chanpheng Fizzarotti, Kyu Ho Lee, and Chao Wang. Andrea Presbitero also provided guidance in the early stages. Ilse Peirtsegaele and Nicole Jales provided administrative support.

THE GLOBAL ECONOMY IS FACING A CHALLENGING MOMENT

Inflation is now easing but remains high, with core inflation proving somewhat more persistent than earlier anticipated. Signals across G-20 economies paint a mixed picture, with some signs of surprising resilience alongside indications of slowing activity amidst the synchronized interest rate hiking cycle. Financial vulnerabilities are high, and emerging market and developing economies remain vulnerable to external pressures. Upside risks are increasingly plausible, but downside risks still dominate the outlook, including from financial sector risks and fragmentation.

1. **Recent signals paint a mixed picture of activity, with resilience in 2023Q1 but some signs of slowing momentum.** The April World Economic Outlook projected global growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023, with the slowdown driven by advanced economies (Table 1). 2023Q1 GDP surprised slightly on the upside, reflecting stronger-than-expected external demand amid the normalization of supply chains (*China*), investment (*India*), positive supply shocks (agriculture in *Brazil*), and robust services in many economies. Recent indicators paint a hazy picture for 2023Q2, with pockets of continuing strength alongside some signs that momentum may be slowing. Services remains strong across the G-20 (Figure 1), including where tourism continues to recover (*Indonesia, Italy*). However, the pace of growth for services appears to be moderating in *China*. Manufacturing is weak across G-20 economies, with PMIs in contractionary territory in many (with notable exceptions including *India* and *Indonesia*), amidst soft global goods demand. Global trade remains weak, with new goods export orders remaining in contraction in April. Indicators of consumer and business confidence are at subdued levels in the *United States* and the *European Union*, though pointing to post-pandemic optimism in *Japan*.

Figure 1. Real Activity



Sources: Haver Analytics; and IMF staff calculations.
Note: For CHN: National Bureau of Statistics PMI, all others S&P Global.

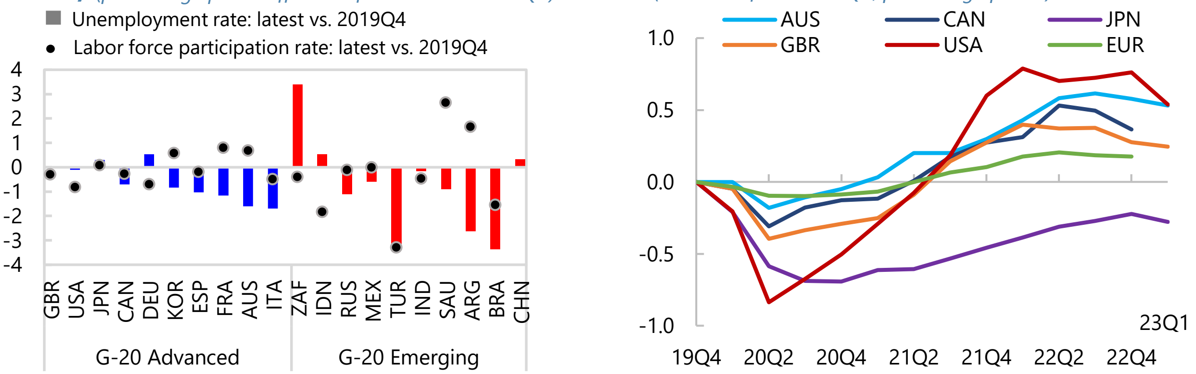
2. **Labor markets remain strong, particularly in advanced economies.** In many G-20 economies, unemployment is at or below pre-pandemic rates (e.g. *Australia*, *France*, *India*, *Italy*, *Mexico*) (Figure 2, left), and at an historic low in *Saudi Arabia*. In several economies, labor force participation rates exceed pre-pandemic levels (e.g., *France, Saudi Arabia*), but in others the recovery of participation has been partial, including due to early retirement by older workers (*United States*) and long-term sickness (*United Kingdom*). In *China*, youth unemployment remains high at 20.8 percent as of May 2023. In several G-20 advanced economies, labor markets have been exceptionally tight (Figure 2, right). The ratio of job openings to unemployment is near multi-decade highs in the *United States*. Real wage growth has been negative in many advanced economies, though nominal

wage growth has picked up. Labor productivity growth remains low in many G-20 advanced economies.

Figure 2. Labor Markets

Unemployment rate and labor force participation rate 1/ *(percentage point difference from level in 2019Q4)*

Vacancy-to-unemployment ratios *(deviation from 2019Q4; percentage points)*

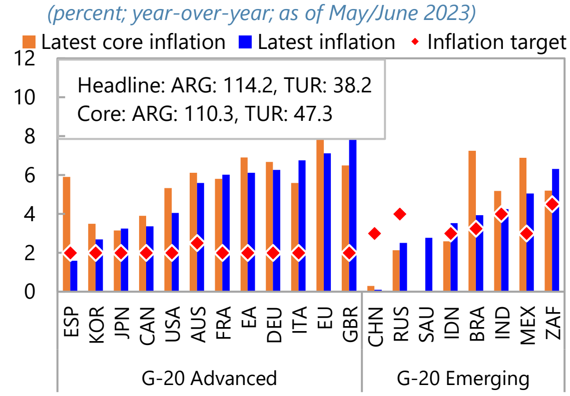


Sources: Haver Analytics; ILO; Global Data Source (GDS); Statistics South Africa; and IMF staff calculations.
1/ Unemployment rate: Latest data uses 2021Q4 for CHN; 2023Q1 for all the other countries. Labor force participation rate: Latest data uses 2023Q1 for AUS, CAN, JPN, USA, and ZAF; 2022Q4 for BRA, DEU, ESP, FRA, ITA, KOR, MEX, and SAU; 2022Q3 for ARG and IDN; 2022Q2 for IND; 2021Q4 for RUS; 2020Q4 for TUR; 2020Q3 for GBR. No data available for CHN. ESP: permanent invitee.

3. Inflation has repeatedly surprised on the upside in 2022, but may now be easing in line with projections. Global headline inflation seems to have peaked in 2022 with the retrenchment of energy prices. Core inflation remains high, and is above the targets of most inflation-targeting G-20 economies (exceptions include *China* and *Indonesia*) (Figure 3), though with some signs of gradual cooling in some economies (*euro area, India, Mexico*). Looking ahead, there are likely further disinflationary pressures from goods, as recent supply chain easing passes through to prices (Figure 4, left). However, services inflation—which is now the major driver of core inflation—is expected to take longer to decline (Figure 4, right). Price pressures for services are likely to remain high alongside consumer demand, buoyed by strong labor markets and the continuing post-pandemic reallocation of demand from goods to services (particularly so in emerging market economies).

Figure 3. Inflation

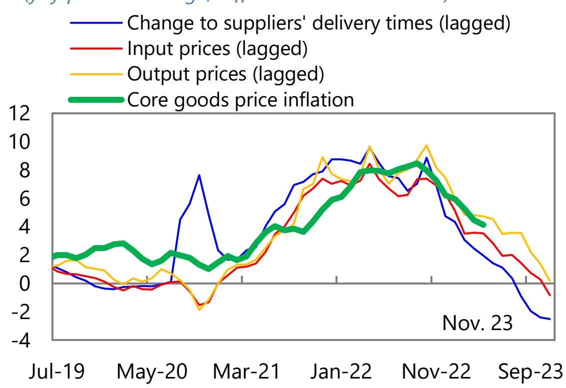
Headline and core inflation
(percent; year-over-year; as of May/June 2023)



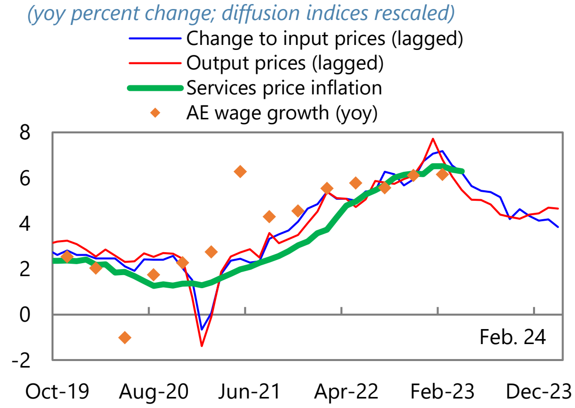
Sources: Haver Analytics; and IMF staff calculations.
Note: AUS: target reflects mid-point of target range (2-3 percent); IDN: target reflects the mid-point of the target range (2–4 percent); SAU: is not an inflation targeting economy; ZAF: target reflects the mid-point of the target range (3–6 percent). EU: no inflation target available as monetary policy is set at the euro area or individual country level. Latest data June 2023 for CHN, ESP, IDN, ITA, KOR, MEX, TUR; all others May 2023. ESP: permanent invitee.

Figure 4. Inflation Prospects

Goods inflation and global manufacturing PMIs
(yoy percent change; diffusion indices rescaled)



Services inflation and global services PMIs
(yoy percent change; diffusion indices rescaled)



Sources: Haver Analytics, S&P Global, and IMF staff calculations.
Notes: For left (right) chart, manufacturing (services) PMI components (suppliers' delivery time, input prices, output prices) are lagged six (nine) months and rescaled to match mean and standard deviation of global core goods (services) inflation. Suppliers' delivery times PMI measure inverted such that higher values denote increasing delivery times. Core goods and services price inflation based on 22 economies accounting for 70.8 percent of global GDP (PPP-weighted), including USA, EA, GBR, JPN, KOR, TWN, CAN, AUS, SWE, NOR, CZE, CHN, MYS, BRA, MEX, COL, CHL, RUS, ZAF, TUR, HUN, and POL; for China consumer goods inflation is used due to data limitations. AE wage growth based on USA, EA, GBR, and JPN.

4. Monetary policy transmission signs are appearing, but so are financial vulnerabilities. The majority of G-20 economies have tightened monetary policy (exceptions include *China* and *Japan*). In *China*, the seven-day reverse repo rate was cut in June to help support its economic recovery. Ex-ante real rates have turned positive in most tightening economies, and particularly sharply in early hikers (*Brazil*, *Mexico*) (Figure 5, top-left). Many G-20 economies have paused their hiking cycles, but rates are expected to remain elevated for some time. Meanwhile, central banks have begun to reduce the size of their balance sheets (*Canada, euro area, United States*).

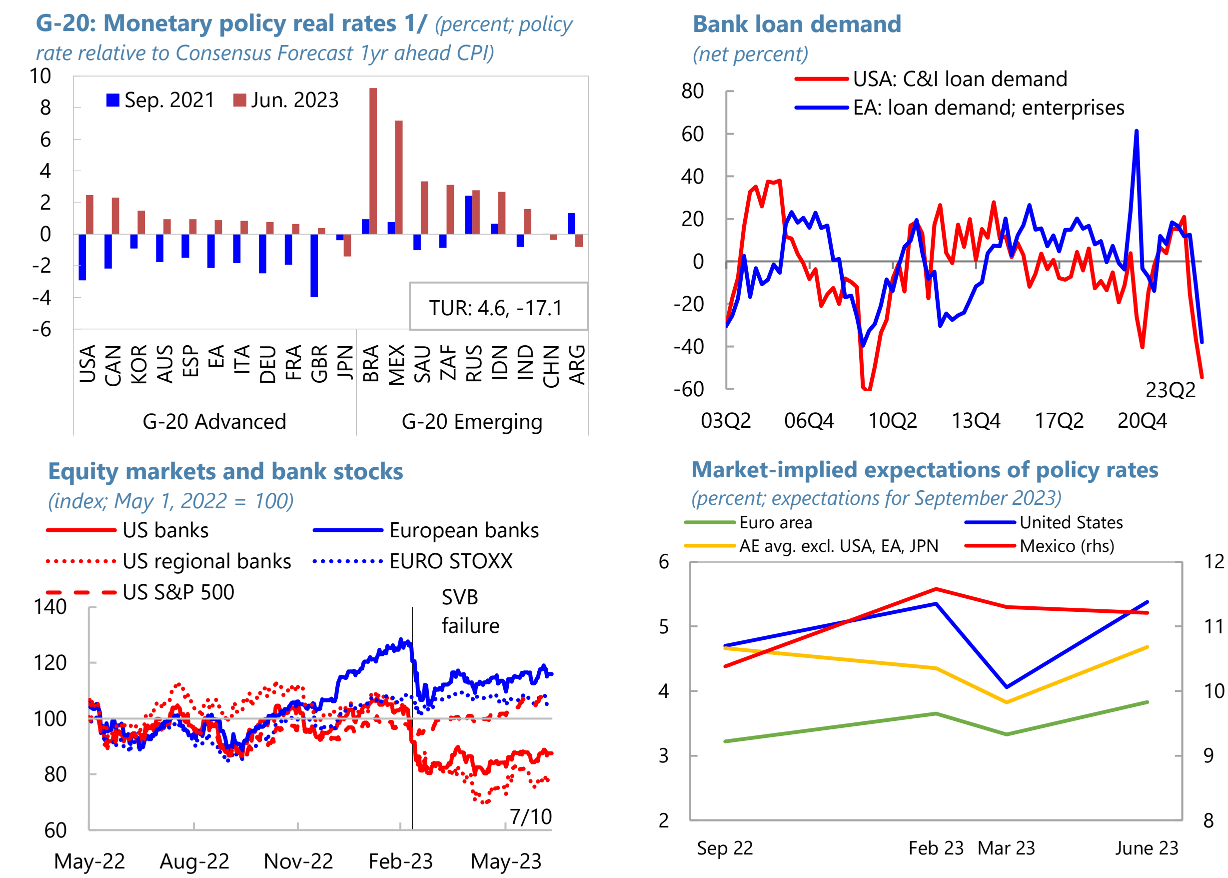
- *Some early signs of monetary policy transmitting to activity are emerging*. Bank lending standards have tightened in the *euro area* and the *United States*. Alongside, loan demand has fallen (Figure 5, top-right). Past experiences suggest that worsening credit conditions will transmit to the real economy with a lag.[1] However, both the commercial and residential real estate sectors in many G-20 economies are already being affected. Financing conditions for commercial real-estate from both banks and non-banks have tightened. Residential housing markets have cooled (*Canada, France, United States*), though so far avoiding a severe slump.
- *However, financial sector vulnerabilities have become apparent*. Swift action by *U.S.* policymakers contained the turmoil after the failure of two regional banks, and halted the sharp deposit outflow from smaller *U.S.* banks. However, many G-20 economies' financial systems entered the monetary policy tightening cycle with elevated exposures to credit, liquidity, and interest rate risks, and these underlying vulnerabilities remain. As such, and despite the respite from recent turmoil, bank equities continue to underperform other sectors (Figure 5, bottom-left), and banks' wholesale funding costs have risen. While such pressures in financial sectors could amplify the transmission

[1] Bassett and others, 2014, [Changes in Bank Lending Standards and the Macroeconomy.](#)

of monetary policy tightening to credit, significant signs of this are not yet apparent. Vulnerabilities exist from exposures to housing, particularly in economies with high household debt and a larger proportion of variable interest rate mortgages. Exposures to the commercial real estate sector—which is facing structural headwinds in addition to tightening financing conditions, also pose challenges in some economies.

- *Markets are grappling with the direction of the policy path, posing potential repricing risks from forecast uncertainty.* Market expectations for the policy rate have been volatile, particularly in the *United States*. For example, expected rates for September 2023 (Figure 5, bottom-right) have shifted several times in reaction to new developments (e.g. SVB failure). Markets have been trying to parse noisy and volatile signals of the prospects for inflation and activity, and attempting to assess how central banks will navigate difficult trade-offs, including potentially with financial stability. This uncertainty raises the potential for disruptive repricing that sharply tightens financial conditions. Such a shock could drive further dollar appreciation, and as suggested by forthcoming IMF research, adversely impact activity in emerging market economies.[2]

Figure 5. Monetary Policy and Financial Market Developments



Sources: Bloomberg Finance, L.P.; Central Bank of Argentina; Consensus Economics; Haver Analytics; and IMF staff calculations.
1/ ECB performs monetary policy for the euro area as a whole, incl. DEU, ESP, FRA, ITA. CHN: 7-day reverse repo rate; EA: Deposit facility rate. ESP: permanent invitee.

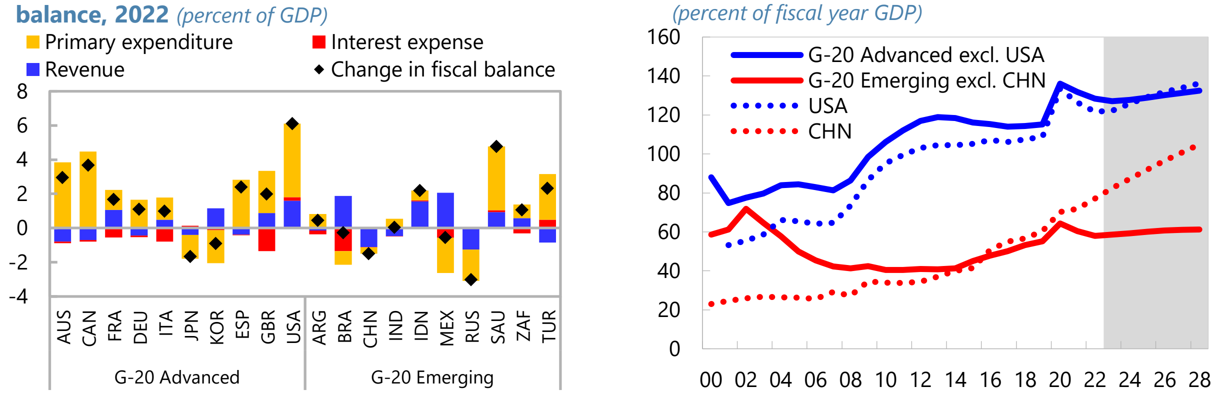
[2] IMF, 2023, External Sector Report (forthcoming).

5. Fiscal balances improved as the pandemic receded, but debt ratios remain elevated and are expected to keep rising amid longer-term pressures. Fiscal balances and debt ratios improved sharply in 2022 in most G-20 economies, particularly advanced economies (excepting *Japan*, *Korea*), buoyed by the post-pandemic normalization of activity, inflation surprises, and withdrawal of support measures (Figure 6, left). Positive terms of trade shocks boosted revenues in some commodity exporters (*Brazil*, *Saudi Arabia*). However, many economies deployed additional support to help households and firms cope with the cost-of-living shock after *Russia*'s invasion of *Ukraine* (e.g. *Brazil*, *France*, *Italy*, *Mexico*, *United Kingdom*), increasing expenditures or mitigating their reduction. In the medium term, higher interest rates and other factors—including from aging populations, climate investment needs, and recent industrial policies—are likely to put upward pressures on expenditures. As a result, debt ratios are expected to increase in the medium term, particularly in *China* and the *United States*, and remain above pre-pandemic levels (Figure 6, right).[3]

Figure 6. Fiscal Developments

G-20: Contributors to the changes in fiscal balance, 2022 *(percent of GDP)*

G-20: General government gross debt *(percent of fiscal year GDP)*

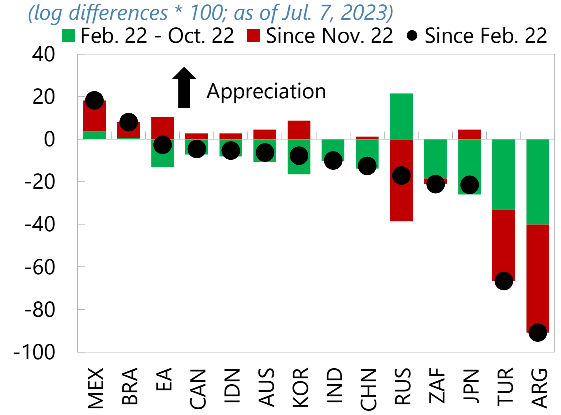


Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Note: The left chart shows annual changes in the fiscal balance (diamond) and contributions from revenues (blue), interest expenses (red), and primary expenditures (yellow). Positive (negative) values show improvement (deterioration) compared with the previous year. Positive values from primary expenditures, for instance, imply a reduction in primary expenditures as a share of GDP compared with the previous year.

6. External pressures have stabilized, but vulnerabilities remain high for many emerging market and developing economies. *Argentina* and *Türkiye* remain key exceptions to easing external pressures. While the *U.S.* dollar's appreciation in 2022 has somewhat retrenched, several G-20 currencies remain weaker (Figure 7). Net capital inflows to emerging market and developing economies have resumed in 2023, after the interruptions in 2022 coinciding with *Russia*'s war in *Ukraine* and tightening monetary policy in advanced economies (Figure 8, left).

Figure 7. Exchange Rates

Nominal exchange rates vis-a-vis the U.S. dollar *(log differences * 100; as of Jul. 7, 2023)*

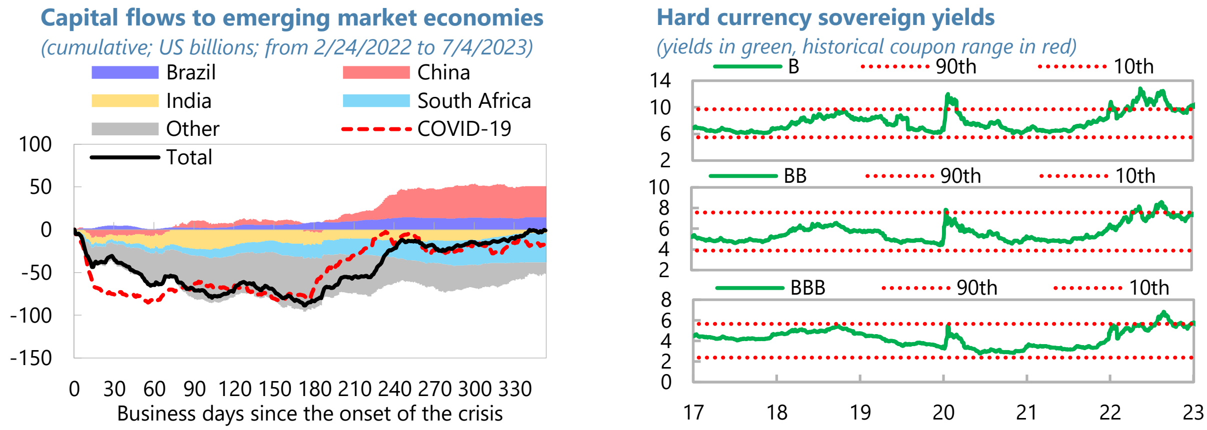


Sources: Haver Analytics; and IMF staff calculations.

[3] IMF, 2023, Fiscal Monitor, April.

Issuance of hard currency sovereign bonds has recovered, but frontier issuance remains low. While sovereign spreads for most investment grade emerging market issuers are near historical lows, for lower rated sovereigns, yields have risen to levels at which issuance has been challenging in the past (Figure 8, right). Earlier declines in energy prices have helped ease external pressures on oil importers, but pressures could re-emerge if supply reductions by major oil producers (e.g. *Russia*, *Saudi Arabia*) lead to significant rise in prices.[4] The number of countries in debt distress or at high risk of distress remains high. Elevated shares of *U.S.* dollar-denominated, short-term, or variable rate debt leave many emerging markets and developing economies particularly exposed to tightening financial conditions.

Figure 8. External Sector



Sources: Bloomberg Finance, L.P.; Haver Analytics; IIF; JPMorgan Emerging Market Bond Index; and IMF staff calculations.
Note: On the left chart, data cover economies tracked by the IIF regarding daily non-resident portfolio flows to a subset of emerging market economies (including *Brazil*, *China*, *India*, *South Africa* among G-20 emerging market economies) as well as *Korea* (G-20 advanced economy). Onset of the crisis dates for COVID-19: March 2, 2020 and Russia's war in Ukraine: Feb. 24, 2022. On the right chart, yields are from JPM EMBIGs and the coupons are from EM countries. The red dots correspond to percentiles.

7. The global economy faces the bleakest medium-term prospects in decades. The declining medium-term outlook reflects a variety of factors. Amongst benign factors, there is less scope for fast catch-up growth in several large economies (e.g. *China*, *Korea*) after significant progress in recent decades towards reaching higher standards of living. However, there are several adverse developments as well, including slower than previously anticipated pace of structural reforms, lower projections for labor force growth, and increasing pressures from geoeconomic fragmentation. Scars from the pandemic, including to students' learning and human capital formation, could weigh on economies for years to come.

8. The balance of risks is tilted to the downside. On the upside, the fight against inflation could be won with a softer landing for output and labor markets, with activity remaining resilient and inflation easing faster (e.g. due to faster pass-through of effects from supply chain normalization), and labor markets softening from falling vacancies rather than higher unemployment. However, adverse risks dominate the outlook, including:

[4] Oil prices did not significantly increase after the cuts announced on July 3rd, reflecting the relatively small size of the supply reduction as well as concerns for weaker global demand.

- *Disinflation could be slower than expected*. A variety of developments—such as greater than expected labor market strength, an upward shock to oil prices, or severe weather shocks that disrupt key food supplies—could prop up inflation. Monetary policy would need to tighten further, with adverse implications for growth and financial stability.
- *Systemic financial stress could emerge, sharply tightening financial conditions*. Such a shock in advanced economies would undermine confidence, leading households to cut consumption and businesses to defer investment. The impact would spill over externally through lower export demand and capital outflows. Contagion could spread to other asset classes, including emerging market debt. Global output losses could be severe.
- *In some economies, high private debt could result in unintended damage from monetary policy tightening*. In economies with elevated corporate and household debt, higher rates could lead to debt overhang weighing on consumption and investment, raise the rate of business failures, and lead to larger than expected output losses.
- *Weaker than expected growth in China*. Sharper-than-expected weaknesses in the real estate sector could hamper *China*'s recovery, with spillovers to trading partners from lower import demand.
- *Escalation of Russia's war in Ukraine*. An amplification of the conflict could reignite the energy crisis in Europe and exacerbate food insecurity in low-income countries.
- *Escalating fragmentation undermines growth and cooperation*. A weakening of trade, investment, technology, and migration links could significantly reduce global growth prospects. Recent IMF analyses document that the reconfiguration of capital flows along geopolitical lines could particularly damage the prospects for developing economies and raise financial stability risks.[5] Such developments could also make it more difficult to tackle global problems, including long-standing ones like climate change and sovereign debt restructurings, and emerging ones like the regulation of artificial intelligence.

RESTORING PRICE STABILITY REMAINS THE PRIORITY IN MANY ECONOMIES

Monetary policy should prioritize restoring price stability. Financial sector policies will need to be deployed nimbly to preserve financial stability. Fiscal policy will need to focus on bringing down debt ratios, while deploying targeted measures to protect the vulnerable if needed. Structural reforms can help strengthen growth.

9. In G-20 economies where inflation is high, the priority for monetary policy must be to bring it back to target and keep expectations anchored. In such economies, policymakers should proceed in a data-dependent manner. Historical experience suggests that episodes in which attempts at bringing down high inflation proved unsuccessful have been often preceded by `premature

[5] IMF, 2023, World Economic Outlook, April; IMF, 2023, Global Financial Stability Report, April; IMF, 2022, Regional Economic Outlook: Asia and the Pacific, October.

celebrations'.[6] Therefore, given the unclear signals in recent data, it will be essential to maintain real rates above neutral ones until tangible signs of inflation returning to target emerge. *Japan* is an exception to the need for restrictive monetary policy. Despite recent high inflation, an accommodative stance remains appropriate amidst structural tendencies towards lower inflation. More flexibility of longer-term yields would help manage the present two-sided inflation risk. In *China*, where inflation remains low, further monetary policy loosening via lower interest rates will help support activity.

10. Monetary policy will need to navigate possible tensions between price and financial stability. If financial strains remain modest, relatively standard central bank tools can be deployed to contain such strains and allow monetary policy to remain focused on inflation. In case of significant financial sector stress, credible central banks in economies with limited fiscal space to address intensifying financial strains could tolerate a somewhat slower return to target. Only in case of a systemic financial crisis should monetary policy prioritize financial stability, though such a scenario would be accompanied by disinflationary forces. Central banks will need to clearly communicate their views and objectives, including on how they intend to manage financial strains. This will help align market views and avoid the risk of disruptive repricing.[7]

11. Policymakers will need to be vigilant and nimble to contain financial sector risks.[8] Supervisors will need to continue to monitor risks across the financial sector (both banks and non-banks), including exposures to liquidity and interest rate risks and to stresses in real estate sectors, and continue conducting granular stress tests. It is essential to close supervisory and data gaps for non-bank financial institutions. Financial policy tools—appropriately calibrated to the intensity of financial strains and complemented by fiscal interventions to address insolvencies if needed—may need to be deployed to contain financial strains, allowing monetary policy to focus on inflation. Standard tools for liquidity support can help address modest strains. Such measures should be designed to avoid moral hazard and preserve monetary policy transmission. If more serious stresses emerge, aggressive interventions to support liquidity should be swiftly deployed to stop contagion. Macroprudential policies should be calibrated to balance resilience against avoiding procyclicality and a disorderly tightening of financial conditions.

12. Fiscal consolidation will be needed to enhance debt sustainability and support disinflation. In most G-20 economies with elevated debt and additional expected pressures on the horizon, additional fiscal efforts will be needed to rebuild buffers. Moreover, in many countries (e.g. *Germany*), tightening fiscal policy will support disinflation by reducing aggregate demand. Consolidation efforts should protect growth-enhancing investments where space allows. Targeted and temporary support can help the vulnerable cope with the cost-of-living crisis. The design of such measures should preserve price signals and be complemented by credible plans to increase revenues or lower expenditures going forward. Existing support measures should be withdrawn where the cost-of-living shock has receded. Similarly, exceptional support to firms should be reserved for severe situations. If financial stresses emerge, fiscal interventions may be needed (if fiscal space allows), but such measures should be designed to minimize moral hazard.

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[6] IMF, 2023, World Economic Outlook, April; Ari and others (forthcoming).

[7] Adrian, Gopinath, and Gourinchas, 2023, Central Banks Can Fend Off Financial Turmoil and Still Fight Inflation.

[8] IMF, 2023, Global Financial Stability Report, April.

13. Exchange rate adjustments, and in some circumstances foreign exchange (FX) interventions, can help respond to shifts in global financial conditions. Exchange rate adjustments can serve as an important absorber of external shocks (e.g. *Indonesia*, *South Africa).* In certain circumstances, temporary FX interventions can help. These include shocks triggering market illiquidity and sharply higher bid-ask spreads, shocks to investor sentiments triggering a surge in capital outflows in the context of shallow FX markets, and shocks triggering disorderly market conditions. However, in all cases such interventions should not substitute for needed macroeconomic adjustments.

14. Structural reforms can help strengthen growth. Infrastructure investments and structural reforms can boost medium-term growth, and include enhancing product-market competition (e.g. *South Africa*), and labor market reforms (*India, Indonesia, Japan, South Africa*). Supply boosting reforms can also help in the fight against inflation and help to restore debt sustainability by reducing debt burdens and sovereign spreads.[9] Investments in digitalization, along with investments in training, can help prepare workers for changing labor markets and enable the productivity gains of artificial intelligence to be equitably shared across the global landscape. Such investments can help build resilience against shocks, as seen during the COVID-19 pandemic.[10]

15. Industrial policies come with significant costs and risks, and if used, will need to be carefully designed to limit distortions. Industrial policy could be pursued if market failures can be clearly established or to support activities with significant positive externalities (e.g. basic research or innovation in low-carbon technologies). At the same time, their implementation challenges, potential for cross-border distortions, and fiscal costs will need to be carefully considered. For example, some estimates place the cost of subsidies, which are on the rise in several economies, at well over one percent of GDP for *China*.[11] Policies with protectionist provisions—for example, certain components of recent legislation in the *United States*, the *European Union's* Green Deal Industrial Plan, and export restrictions of minerals (*China*, *Indonesia*)—distort trade and investment. Such policies create the risk of fragmentation of production and of triggering retaliatory responses by trading partners. These could also hamper technological diffusion, both between major technological hubs and to developing economies, and slow the green transition.

CREATE THE CONDITIONS FOR A SHARED RECOVERY

Multilateral action by the G-20 can ensure that all economies can safely navigate the current challenging circumstances. Resisting fragmentation pressures is essential to resolve common challenges and repair the basis for shared prosperity.

16. Help developing economies navigate multiple shocks. G-20 members can ensure that the international financial safety net has adequate resources. Helpful measures include rechanneling special drawing rights for and closing the funding shortfalls of the IMF's Poverty Reduction and

[9] IMF, 2023, World Economic Outlook, April.

[10] Jaumotte and others, 2023, Digitalization During the COVID-19 Crisis: Implications for Productivity and Labor Markets in Advanced Economies.

[11] DiPippo and others, 2022, Red Ink: Estimating Chinese Industrial Policy Spending in Comparative Perspective.

Growth Trust (PRGT) and Resilience and Sustainability Trust (RST), and urgently replenishing the significantly underfunded Catastrophe Containment and Relief Trust (CCRT). The G-20 have an essential role to play in ensuring that unsustainable debt burdens do not hold back the prospects of developing economies. Recent achievements under the G-20 Common Framework should pave the way for further predictability and greater timeliness as well as clarification of key concepts, such as comparability of treatment. Additional efforts, including through the Global Sovereign Debt Roundtable, will help ensure all developing economies—including middle income ones—have access to a framework for effective, predictable, and timely debt resolution processes. Removing the remaining export barriers on food and fertilizers will enhance global food security.

17. Solving a host of global challenges will require resisting fragmentation through multilateral cooperation. Jointly working in areas of fundamental common interest will help rebuild trust. Strengthening the multilateral trading system—which is central to open, stable, and transparent trade policies, and avoiding fragmentation of investment links, can help boost growth and enhance resilience. Such a system will particularly help ensure that emerging market and developing economies can continue to converge to higher income levels and can fully share in the benefits of new technologies (e.g. artificial intelligence). To this end, the G-20 members should work with international partners to develop common perspectives on the appropriate use of subsidies, which can lead to improved multilateral rules. WTO rules in critical areas such as agricultural and industrial subsidies must be upgraded, new WTO-based agreements implemented, and the WTO dispute settlement system fully restored. When countries opt for unilateral actions, credible "guardrails" may be needed to mitigate global spillovers and protect the vulnerable.[12] Tackling the adverse macro-economic effects of transnational corruption requires resolute collective action.

18. Step up efforts to mitigate the existential threat from climate change. Recent progress in several G-20 economies are welcome—including the *European Union*'s Emissions Trading Scheme reform that is soon to come into force. International coordination on carbon pricing or equivalent policies will be critical to achieve decarbonization goals and to do so in a cost-effective way. A concerted boost to alternative clean energy investment can help ensure sufficient energy supplies. While there have been some recent encouraging signs of international cooperation on adaptation to climate change, more needs to be done, including channeling aid to vulnerable countries.

[12] Aiyar and others, 2023, Geoeconomic Fragmentation and the Future of Multilateralism.

Table 1. Real GDP Growth

(percent)

	Year over Year					
			Projections (Apr. 2023)		Deviations (from Jan. 2023)	
	2021	2022	2023	2024	2023	2024
World	**6.3**	**3.4**	**2.8**	**3.0**	**-0.1**	**-0.1**
Advanced Economies	5.4	2.7	1.3	1.4	0.1	0.0
Euro area	5.4	3.5	0.8	1.4	0.1	-0.2
Emerging Market and Developing Economies	6.9	4.0	3.9	4.2	-0.1	0.0
G-20 1/	6.6	3.1	2.9	2.9	0.0	0.0
Advanced G-20 2/	5.3	2.3	1.1	1.2	0.0	0.0
Emerging G-20 3/	7.7	3.8	4.3	4.2	0.0	-0.1
Argentina	10.4	5.2	0.2	2.0	-1.8	0.0
Australia	5.2	3.7	1.6	1.7	0.0	0.0
Brazil	5.0	2.9	0.9	1.5	-0.3	0.0
Canada	5.0	3.4	1.5	1.5	0.0	0.0
China	8.4	3.0	5.2	4.5	0.0	0.0
France	6.8	2.6	0.7	1.3	0.0	-0.3
Germany	2.6	1.8	-0.1	1.1	-0.2	-0.3
India 4/	9.1	6.8	5.9	6.3	-0.2	-0.5
Indonesia	3.7	5.3	5.0	5.1	0.2	0.0
Italy	7.0	3.7	0.7	0.8	0.1	-0.1
Japan	2.1	1.1	1.3	1.0	-0.5	0.1
Korea	4.1	2.6	1.5	2.4	-0.2	-0.2
Mexico	4.7	3.1	1.8	1.6	0.1	0.0
Russia	5.6	-2.1	0.7	1.3	0.4	-0.8
Saudi Arabia 5/	3.9	8.7	3.1	3.1	0.5	-0.3
South Africa	4.9	2.0	0.1	1.8	-1.1	0.5
Spain 6/	5.5	5.5	1.5	2.0	0.4	-0.4
Türkiye	11.4	5.6	2.7	3.6	-0.3	0.6
United Kingdom	7.6	4.0	-0.3	1.0	0.3	0.1
United States	5.9	2.1	1.6	1.1	0.2	0.1
European Union	5.6	3.7	0.7	1.6	0.0	-0.2

Sources: IMF, *World Economic Outlook*, January 2023 and April 2023 updates.
1/ G-20 aggregates exclude the 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 Türkiye*.
4/ For *India*, data and forecasts are presented on a fiscal year basis, with FY 2022/23 starting in April 2022.
5/ For *Saudi Arabia*, the data does not reflect the April and June 2023 OPEC+ production cuts.
6/ *Spain* is a permanent invitee.