GROUP OF TWENTY

G-20 ECONOMIC OUTLOOK: ANALYSIS AND PERSPECTIVES [1]

Prepared by Staff of the

INTERNATIONAL MONETARY FUND

[1] *Report 3 of 10.* At the request of the G-20, IMF staff has provided analyses and assessments of member's economies and policies in a *set* of reports for the Mutual Assessment Process (MAP). These reports serve as inputs for the Action Plan agreed by G-20 Leaders at the Cannes Summit. The 2011 Staff Reports for the 20 MAP consist of the following: (i) an Umbrella Report that provides an integrated summary of the component reports and an upside scenario for G-20 collective action; (ii) an Accountability Report that summarizes members' progress toward policy commitments since the Seoul Summit in 2010; (iii) a MAP Report providing analysis of members' medium-term macroeconomic and policy frameworks; and (iv) Sustainability Reports for seven members (China, France, Germany, India, Japan, United Kingdom, and United States)—indentified by G-20 indicative guidelines—to assess the root causes and policy implications of key imbalances.

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EXECUTIVE SUMMARY

Summary of the G-20 Outlook

- G-20 members project growth outcomes that are broadly consistent with the agreed objectives of *strong*, *sustainable*, and *balanced* growth.
- Unemployment is projected to decline in-line with strong growth, but is expected to remain high relative to pre-crisis trends.
- Fiscal balances are projected to improve, underpinned by strong growth, with G-20 fiscal projections broadly in line with the Toronto commitments.
- G-20 members expect a smooth handoff from public to private demand to sustain growth. However, progress toward rebalancing global demand is expected to be slow.

Comparative Perspectives and Risks

- Global growth prospects have deteriorated since the G-20 members submitted their projections in May, and downside risks have intensified. As such, G-20 growth projections appear highly optimistic relative to the October 2011 WEO and experiences following past financial crises, and are subject to significant downside risks.
- Accordingly, the projected marked improvement in fiscal positions faces significant risks. Moreover, the smooth handoff from public to private demand assumed by authorities appears increasingly unlikely, particularly in *advanced economies*.
- G-20 projections appear to rely on a rapid improvement in financial market conditions, which, without further policy action to reduce vulnerabilities in the global financial system, also seem unlikely.

Policy Implications

The downside risks identified in the G-20 baseline projections call for urgent collective policy actions to both achieve desired objectives and help guard against adverse growth outcomes.

- In key *advanced economies*, the most urgent task is to advance medium-term fiscal adjustment plans while, to the extent possible, supporting economic activity in the short run; and further reforms are needed to fully repair the financial system and make it more resilient to shocks.
- In *emerging surplus* and *advanced deficit economies*, policies aimed at changing long-term saving patterns to rebalance global demand are needed, facilitated by greater exchange rate flexibility in key emerging economies.
- Product and labor market reforms are needed across the membership to boost potential output, notably in *advanced surplus economies*.

I. G-20 Economic Outlook: Analysis and Perspectives[1]

G-20 members project growth outcomes that are broadly consistent with the agreed objectives of strong, sustainable, and balanced growth. But progress toward rebalancing global demand—essential to the durability of the recovery—continues to be slow. Moreover, global growth prospects have deteriorated since the G-20 members submitted their projections in May, and downside risks have intensified. As such, G-20 projections for growth, fiscal positions, and financial conditions appear highly optimistic.

A. Introduction

1. **At the November 2010 G-20 Summit in Seoul, Leaders launched the Seoul action plan**.The plan was designed with an overarching goal of ensuring an unwavering commitment to cooperation toward achieving *strong*, *sustainable*, and *balanced* growth.

2. **Against this backdrop, G-20 members, based on a template agreed among the membership, provided their macroeconomic projections for analysis**. Overall, the projections were submitted by the required deadline in May, but they generally contained significant data gaps. Specifically, projections for some variables were missing and some were incomplete. Following guidance from the G-20, Fund staff filled these data gaps in the "raw" submissions, based on its understanding of authorities' policy projections (see Appendix I: Summary of G-20 Inputs). This has helped construct the "baseline" for the analysis contained in this report.[2]

3. **This report assesses the macroeconomic outlook as seen by G-20 members following the launch of the Seoul action plan**.[3] Section II evaluates the G-20 projections against the agreed objectives of *strong*, *sustainable*, and *balanced* growth. Section III provides a comparative perspective of the G-20 projections relative to the October 2011 WEO and identifies potential risks to the outlook.[4] Section IV discusses policy implications.

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[1] Prepared by Troy Matheson under the guidance of Emil Stavrev with the support of Eric Bang, David Reichsfeld, and Anne Lalramnghakhleli Moses.

[2] See *Mutual Assessment Process—Analysis and Perspectives*, International Monetary Fund, 2010, and (continued) supporting appendices, for more details on the construction of the "baseline."

[3] Analysis in the report is based on country aggregates grouped along geographic and theme-based dimensions. *Advanced surplus countries* include Germany, Japan, and Korea; *advanced deficit countries* include Australia, Canada, United Kingdom, United States, and the euro area minus Germany; *emerging surplus countries* include Argentina, China, and Indonesia; *emerging deficit countries* include Brazil, India, Mexico, South Africa, Turkey, and other EU countries; and *major oil exporters* include Russia and Saudi Arabia.

[4] While, admittedly, the G-20 projections were submitted before the deterioration of global growth prospects, a comparison with the June 2011 WEO Update yields qualitatively similar results.

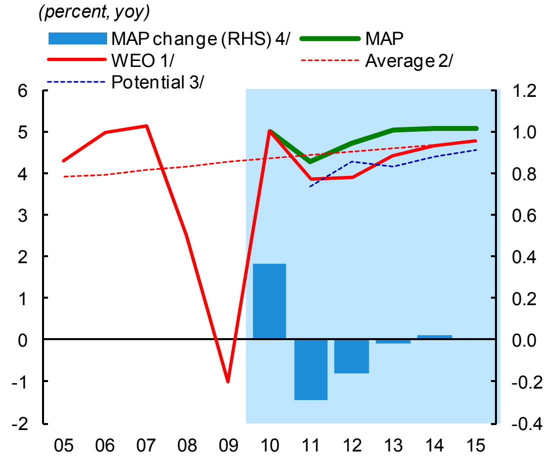
II. THE G-20 VIEWS ON THE OUTLOOK

The G-20 macroeconomic frameworks collectively indicate growth outcomes that are broadly consistent with the agreed objectives of strong, sustainable, and balanced growth. Growth is projected to be "strong" in the sense that it exceeds both potential growth and its pre-crisis average, translating into rapidly declining unemployment; it is "sustainable" in the sense that it is expected to be increasingly led by private demand; growth is also projected to be "balanced" in terms of being broad based across G-20 members. However, progress toward rebalancing global demand continues to be slow.

Growth is Projected to be "Strong"

4. **The G-20 baseline projects strong medium-term growth, notably in those *advanced economies* most affected by the financial crisis**. Collectively, the G-20 projects growth to exceed both potential growth and its long-term average over the medium term. Prospects are projected to improve most notably in *advanced economies*, with growth expected to exceed both potential and its long-term average beyond 2012. Growth is particularly strong in the advanced economies that were at the epicenter of the crisis, notably the United States. Growth in *emerging Asia* is projected to slow from the rapid pace set in 2010, to around 9 percent over the medium term. In *Latin America*, growth is projected to remain above potential, which itself is assumed to exceed average growth over the past decade by over 1 percentage point, while, growth in *EMEA economies* is expected to slow relative to its historical average, but will remain above potential over the medium term.[5]

G-20 MAP: Real GDP Growth 1/
(percent, yoy)



Sources: G-20 authorities and IMF staff estimates.
1/ 2005 - 2009 reflects historical data; 2010 - 2015 reflects projections.
2/ PPP weighted average annual growth for 1998 - 2007.
3/ G-20 authorities and IMF staff estimates.
4/ June 2011 vs. October 2010 MAP projections; 2010-2014.

5. **The G-20 baseline is less optimistic about near-term growth relative to previous submissions in October 2010, owing largely to tempering of optimism about prospects in *advanced economies***. G-20 growth surprised on the upside in 2010, but

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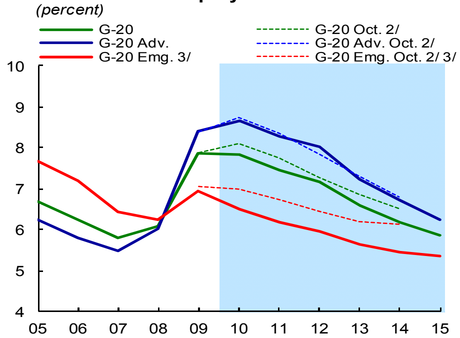
[5] *Advanced economies* comprise Australia, Canada, euro area, Japan, Korea, United Kingdom and United States. *Emerging Asia* comprises China, India and (continued) Indonesia. *Latin America* includes Argentina, Brazil and Mexico. *EMEA* denotes Europe, Middle East and Africa. The countries included in the group are Russia, Saudi Arabia, South Africa, Turkey and other EU (EU excluding euro area and the United Kingdom).

2011–12 projections have been revised down (Figure 1). The positive growth surprise for 2010 was largely due to better-than-expected outcomes in *emerging Asia* and *Latin America*. Downward revisions to growth over 2011–12 are mostly the result of less optimism amongst *advanced economies*, with the revisions driven by a slower-than-expected growth in early 2011 in the United States and the earthquake in Japan.

6. **Strong growth is accompanied by rapid declines in unemployment across the G-20**. In *advanced economies*, unemployment peaked at around 9 percent in 2010 and is projected to decline to just over 6 percent by 2015. Unemployment is also projected to decline rapidly in *emerging economies*, reaching about 5 percent in 2015, which is lower than pre-crisis levels. Relative to the October 2010 baseline, the outlook for unemployment has improved, largely as a result of a marked improvement of the outlook in *emerging economies*, notably in Russia, Brazil, and China.

G-20 MAP: Unemployment Rates 1/
(percent)



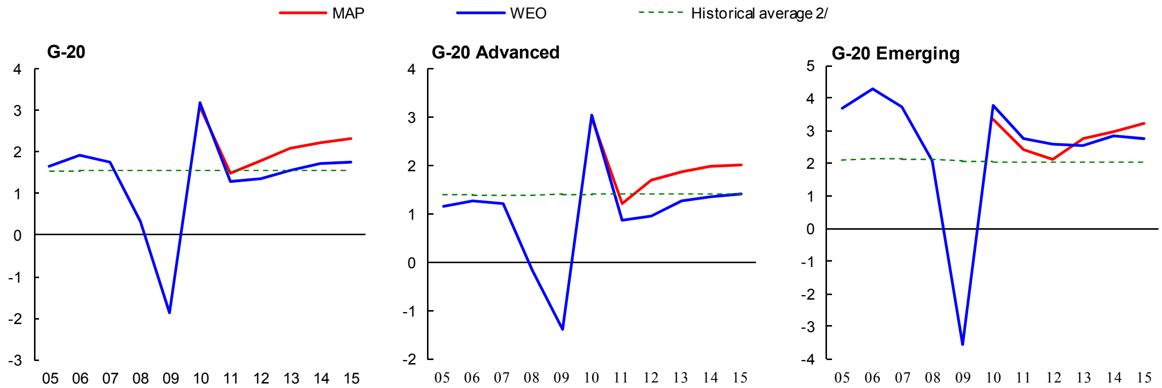
Sources: G-20 authorities and IMF staff estimates.
1/ 2005-2009 reflects WEO data; 2010-2015reflects MAP projections.
2/ Reflects October 2010 MAP projections.
3/ Excludes India due to data unavailability.

7. **Strong growth is underpinned by robust labor productivity growth across the G-20**. G-20 labor productivity growth is projected to be almost 1 percent higher than its historical average in 2015, with strong growth projected for both *advanced* and *emerging economies*, particulary in the United States and euro area. In *emerging economies*, labor productivity growth is projected to slow temporarily over 2011–12 before picking up to just over 3 percent by 2015. In contrast, after slowing in 2011, *advanced economies* expect labor productivity growth to rise to around 2 percent by 2015—around 1 percent lower than expected amongst *emerging economies*, reflecting long-term trends in income convergence.

Growth is Projected to be "Sustainable"

8. **Growth in the G-20 baseline is projected to be broadly sustainable, as it is expected to be increasingly underpinned by private demand** (Figure 2). A shift of the underlying sources of domestic demand away from the public sector toward the private sector is an important condition to ensuring the sustainability of growth and fiscal positions going forward. Fiscal consolidation efforts have begun across the G-20, and projections show increasing reliance on private sector demand over the medium term. Specifically, for the G-20 as a whole, private consumption and gross fixed capital formation are projected to account for an increasingly higher share of real GDP growth (over 4½ percentage points of the projected 5 percent growth in 2015). Moreover, in 2015, the contributions by both private consumption and gross fixed capital formation are expected to be higher than in any year over the past decade.

G-20 MAP: Labor Productivity Growth 1/
(percent)

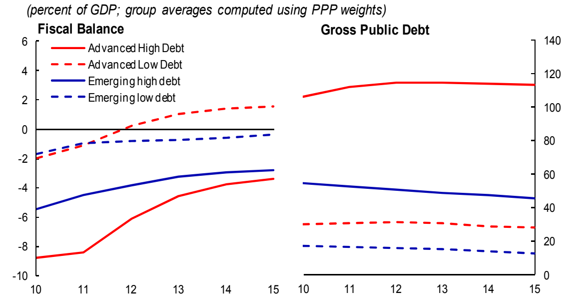


Sources: G-20 authorities and IMF staff estimates.
1/ Excludes China, India, Indonesia, and Saudi Arabia due to data unavailability.
2/ 1998 - 2007 PPP weighted average.

9. **The counterpart of strong growth led by private demand is a marked improvement in fiscal balances across the G-20, with the largest improvements planned in the United Kingdom and United States**. Overall, the G-20 fiscal projections are broadly in line with the Toronto commitment to halve 2010 deficits by 2013 and stabilize debt to GDP ratios by 2016 (Box—Where do G-20 Countries Stand Relative to the Toronto Commitment?). To achieve this, the G-20 foresees a narrowing of fiscal deficits and a reduction in public debt ratios of around 4 percentage points over 2010–15.

- Reflecting worse fiscal positions, *advanced economies* project a much larger improvement of fiscal balances than *emerging economies* over the medium term (5¼ and 2 percent of GDP, respectively). Nevertheless, the 2015 headline balances for both *advanced* and *emerging economies* are expected to be somewhat weaker than immediately before the crisis. And, while debt ratios are broadly stable by 2015—Russia and Japan are the only exceptions—debt levels are projected to remain very high in several *high-debt advanced economies*, particularly Japan, the United States, and the United Kingdom.

G-20 MAP Framework Projections of Overall Balances and Gross Public Debt
(percent of GDP; group averages computed using PPP weights)



Sources: G-20 authorities and IMF staff estimates.

10. **The medium-term fiscal outlook has generally deteriorated since October 2010**. Projections for overall balance and debt ratios have become less optimistic. Downward revisions to growth have likely contributed to the change in the outlook for *advanced economies*, with overall balances and debt deteriorating owing to both higher expenditures and lower

revenues. In contrast, fiscal outlook in *emerging economies* appears to have deteriorated largely due to higher-than-expected expenditures, with higher revenues driven by favorable revisions to growth projections.

G-20 MAP Projections of Key Fiscal Variables 1/

(percent of GDP; changes 2015 - 2010)

	Overall Balance	Government Expenditure	Government Revenue	Gross Debt	Cyclical Component 2/	Interest Payments
	MAP	MAP	MAP	MAP	MAP	MAP
G-20	4.0	-2.7	1.3	-4.1	1.3	0.4
Advanced	5.3	-2.9	2.3	6.4	1.5	1.2
High debt	5.4	-2.8	2.5	7.5	1.6	1.3
Low debt	3.6	-3.3	0.2	-2.1	0.1	0.0
Emerging	1.9	-0.2	1.7	-7.0	0.3	-0.4
High debt	2.6	-3.2	-0.6	-8.5	0.3	-0.9
Low debt	1.3	1.8	3.1	-4.6	0.4	0.0

Sources: G-20 authorities and IMF staff estimates.

1/ Country averages computed using rolling PPP weights. High (low) debt advanced economies are those with public debt-to-GDP ratios of more (less) than 60 percent in 2009 (based on WEO data from March 2010). High (low) debt emerging market economies are those with public debt-to-GDP ratios of more (less) than 40 percent in 2009 (based on WEO data from March 2010).

2/ In percent of potential GDP; computed as: Revenue-to-GDP ratio * ouput gap.

G-20 MAP Changes in Projections of Key Fiscal Variables (Jun 2011 vs. Oct 2010) 1/

(percent of GDP; changes 2014 - 2010)

	Overall Balance	Government Expenditure	Government Revenue	Gross Debt
	MAP	MAP	MAP	MAP
G-20	-0.4	0.7	0.2	-0.1
Advanced	-0.3	0.2	-0.1	2.0
High debt	-0.4	0.3	-0.1	2.1
Low debt	0.3	-0.5	-0.3	0.7
Emerging	-0.6	1.9	1.2	-1.2
High debt	-0.2	0.2	0.0	2.2
Low debt	-1.0	3.1	2.0	-2.6

Sources: G-20 authorities and IMF staff estimates.

1/ Country averages computed using rolling PPP weights. High (low) debt advanced economies are those with public debt-to-GDP ratios of more (less) than 60 percent in 2009 (based on WEO data from March 2010). High (low) debt emerging market economies are those with public debt-to-GDP ratios of more (less) than 40 percent in 2009 (based on WEO data from March 2010).

2/ In percent of potential GDP; computed as: Revenue-to-GDP ratio * ouput gap.

WHERE DO G-20 COUNTRIES STAND RELATIVE TO THE TORONTO COMMITMENT?

The declaration made by advanced economies at the Toronto summit was to halve deficits by 2013 and stabilize or reduce debt-to-GDP ratios by 2016. This box assesses the progress advanced economies have made towards meeting this commitment.

For the purposes of this analysis, the first part of the commitment (halving the deficit by 2013) is assumed to be satisfied if the overall deficit-to-GDP by 2013 is at least half the size of 2010 deficit ratio, according to each country's baseline submission. Because baseline submissions only contain projections up to 2015, the second part of the commitment (stabilizing debt-to-GDP by 2016) is assumed to be satisfied if authorities' debt ratios are not projected to rise over 2014–15.

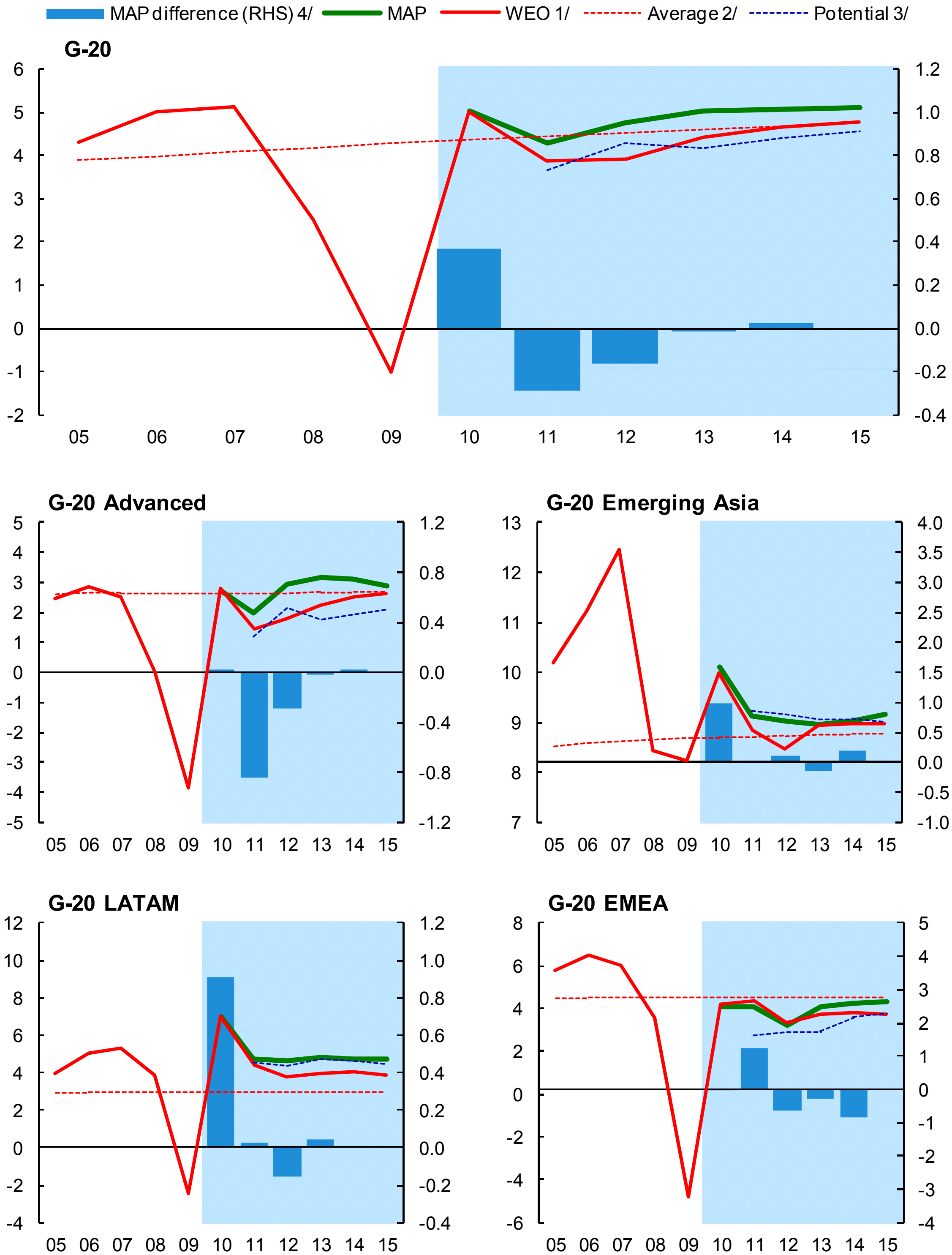
The Toronto commitment is broadly satisfied by G-20 *advanced economies*, based on authorities' submissions. Japan was exempt from the specifics of the Toronto commitment. Its progress toward fiscal sustainability has been adversely affected by the additional stimulus required following the tragic and unforeseen events surrounding the earthquake and tsunami in early 2011.

G-20 MAP Fiscal Projections versus Toronto Commitment
(percent of GDP)

	Halving deficit by 2013 1/	Stabilizing debt by 2015 2/	Satisfy Toronto Declaration?
Australia	✔	✔	✔
Canada	✔	✔	✔
Euro area	✔	✔	✔
Japan 3/	...	...	...
Korea	✔	✔	✔
United Kingdom	✔	✔	✔
United States	✔	✔	✔

Sources: G-20 authorities and IMF staff estimates.
1/ Toronto Declaration of at least halving the 2010 deficit by 2013; based on June 2011 MAP estimates.
2/ Stabilized debt defined to be debt ratio not rising over 2014-2015.
3/ Japan was exempt from the Toronto commitment.

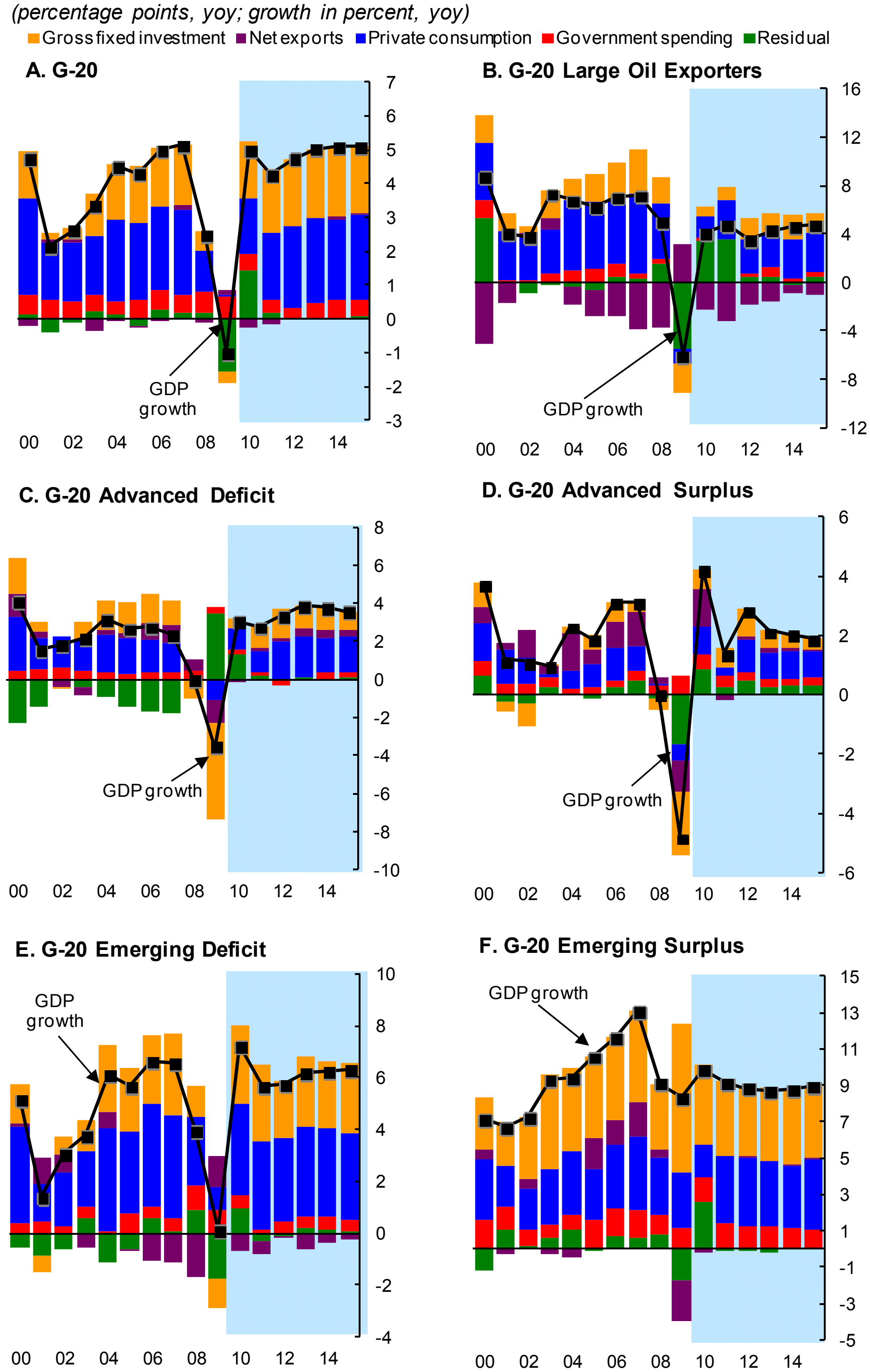
Figure 1. G-20 MAP Geographic Groups: Real GDP Growth
(percent, yoy)



Sources: G-20 authorities and IMF staff estimates.
1/ 2005 - 2009 reflects historical data; 2010 - 2015 reflects estimates and projections.
2/ PPP weighted average annual growth for 1998 - 2007.
3/ G-20 authorities and IMF staff estimates.
4/ June 2011 vs. October 2010 MAP projections; 2010-2014.

Figure 2. G-20 MAP Thematic Group: Contributions to Real GDP Growth 1/ 2/

(percentage points, yoy; growth in percent, yoy)

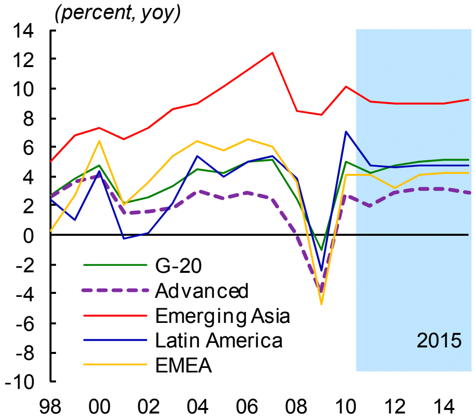


Sources: G-20 authorities and IMF staff estimates.
1/ 2000 - 2009 reflects WEO data; 2010 - 2015 reflects MAP estimates and projections.
2/ Residual includes inventories and statistical discrepancy.

Growth is Projected to be "Balanced"

11. **As in the October 2010 baseline, growth is projected to be balanced in terms of being broad-based across G-20 members**. Income convergence is projected to continue, with *emerging economies* growing more rapidly than *advanced economies* over the medium term. Growth is also projected to be broadly balanced in the sense that most G-20 economies are expected to be growing close to their potential growth rates in 2015.

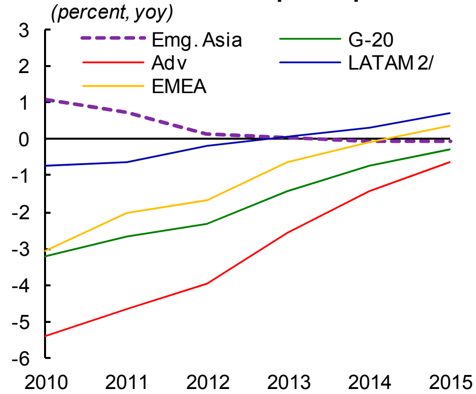
G-20 MAP: Real GDP Growth 1/
(percent, yoy)



Sources: G-20 authorities and IMF staff estimates.
1/ 1998 - 2009 reflects WEO data; 2010 - 2015 reflects MAP projections.

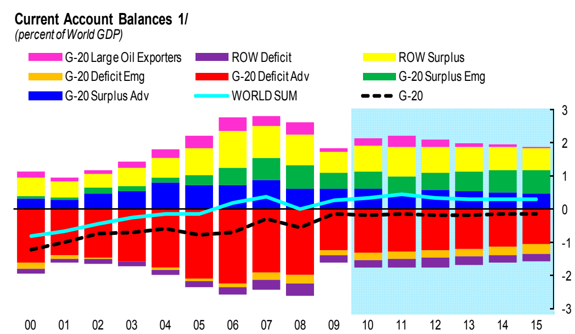
- Nevertheless, output gap projections reveal differing cyclical positions in 2010, with significant excess capacity amongst *advanced* and *EMEA economies*. Excess capacity is projected over the entire 2010-15 period for *advanced economies*, while *Latin America* collectively expects output gaps to close in 2013. In contrast, excess demand is prevalent in *emerging Asia* during the early part of the projection period.

G-20 MAP: Real Output Gap 1/
(percent, yoy)



Sources: G-20 authorities and IMF staff estimates.
1/ Data for Argentina, China, India, Saudi Arabia and Japan reflect IMF staff estimates of output gap.
2/ Excludes Argentina.

12. **Progress toward rebalancing global demand continues to be slow, with external imbalances expected to persist over the medium term.**[6] Global imbalances declined during the recession, but are projected to remain large over the medium term. This is because many of the underlying policy distortions that led to the build-up of imbalances before the crisis remain entrenched.

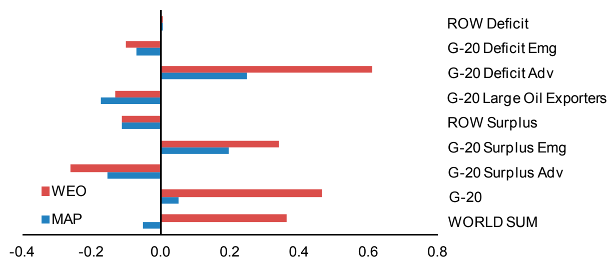


Sources: G-20 authorities and IMF staff estimates.
1/ 2000-2009 reflects WEO data; 2010-2015 reflects MAP estimates and projections for G-20 countries and WEO projections for ROW.

- Projected changes in current account balances over 2010-15 reveal slow progress toward rebalancing global demand. Current account deficits of *emerging deficit economies* are projected to widen, while deficits of *advanced deficit economies* are projected to narrow. At the same time, *emerging surplus economies* project their surpluses to expand, and both *advanced surplus economies* and *large oil exporters* expect a reduction in their surpluses.

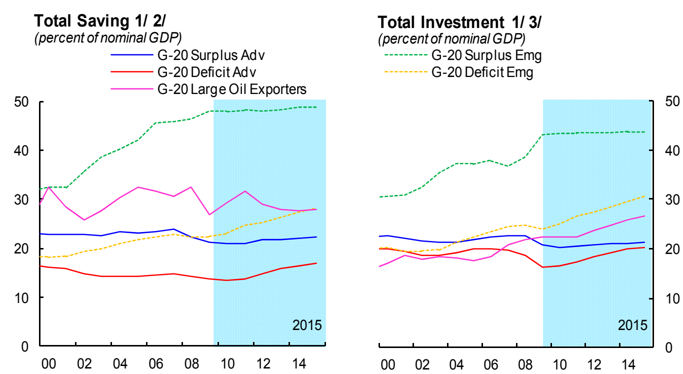
- The outlook for global imbalances has changed somewhat since October 2010, particularly for *emerging surplus economies*. These economies projected surpluses to shrink in the October baseline, albeit marginally, but they now expect them to expand.

2010 - 2015 Projected Change in Current Account Balances 1/
(percent of World GDP)



Sources: G-20 authorities and IMF staff estimates.
1/ Percentage points.

13. **Saving and investment patterns are expected to remain broadly unchanged, reflecting modest rebalancing of global demand**. Savings need to rise in *advanced deficit economies,* notably the United States, to bolster private and public sector balance sheets and facilitate external rebalancing. However, the projected rise in public saving is largely offset by lower private saving, leaving only modest increases in national saving over 2010-15. National saving is much higher in *emerging surplus economies,* notably China, reflecting limited rebalancing toward domestic demand, with saving rates projected to remain around 50 percent over the medium term. Projected saving patterns are broadly unchanged in *advanced surplus economies* and *large oil exporters*, while they are increasing amongst *emerging deficit economies*. Investment patterns broadly mirror those of saving, with a rise in investment rates amongst *large oil exporters* being the only notable exception.



Sources: G-20 authorities and IMF staff estimates.
1/ 2000-2009 reflects WEO data; 2010-2015 reflects MAP projections.
2/ Saving = fixed investment share + current account balance; both in percent of GDP.
3/ Fixed investment excluding change in inventories.

III. COMPARATIVE PERSPECTIVES AND RISKS

The G-20 growth and unemployment projections (admittedly based on submissions made in May, when the global outlook looked better) are highly optimistic relative to the WEO and past experiences following financial crises. Accordingly, the projected marked improvement in fiscal positions is at risk, and the smooth handoff from public to private demand hoped for in advanced economies appears increasingly unlikely. Growth projections for some advanced economies rely on favorable developments in financial markets, which, without further policy action to reduce vulnerabilities, also appear unlikely.

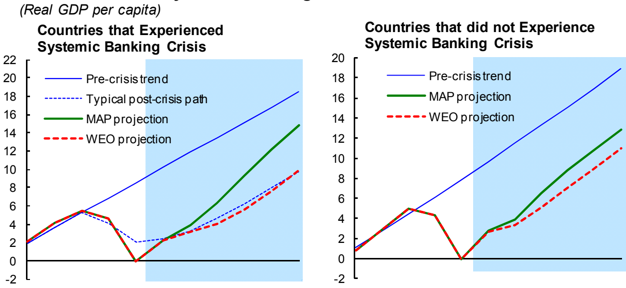
Growth and Unemployment Projections are too Optimistic

14. **Since the G-20 projections were submitted in May, global growth has slowed, and downside risks have intensified**. Growth in many *advanced economies* is still weak, and a smooth transition from public to private demand appears increasingly unlikely. Renewed financial volatility from concerns about the depth of fiscal challenges in the euro area periphery and market concerns about possible setbacks to the U.S. recovery have heightened downside risks to the global recovery. Downside risks also come from persistent fiscal and financial sector imbalances in large *advanced economies*, while some emerging economies are facing volatile capital flows and rapid credit growth. Also, a squeeze of wholesale funding for *advanced economies* banks could reverse the recent normalization of lending standards.

15. **Against this background, G-20 growth projections remain significantly higher than what is suggested by past recoveries following financial crises**. Growth is projected to be above both potential and the pre-crisis average, largely as a result of expected strong outcomes in *advanced economies*. However, historical evidence shows that recessions underpinned by financial crises typically result in significant output losses relative to pre-crisis trends, with output on average remaining about 9 percent lower seven years after the crisis.[7]

- For the group of advanced economies that experienced a banking crisis, output losses average only about 4 percent in 2015 relative to the pre-crisis trend. This compares to a projected loss of around 9 percent in the WEO. Interestingly, for advanced economies less affected by the crises, output losses are larger, though still

G-20 MAP Advanced Countries: Growth and Recovery from the Crisis with and without Systemic Banking Crisis
(Real GDP per capita)



Sources: G-20 authorities and IMF staff estimates.

[7] *World Economic Outlook*, International Monetary Fund, October 2009.

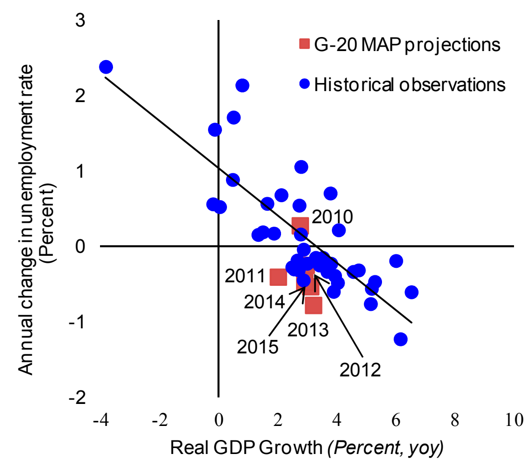
somewhat less than WEO projections (6 percent versus 8 percent in 2015).

- G-20 projections generally suggest that losses to potential output following the crisis are minimal, and will dissipate quickly. The large and persistent output gaps and the strong growth projected by some *advanced economies* suggest that authorities assume small, temporary losses of productive capacity relative to experiences following past financial crises.

- G-20 projections assume a strong private demand (consumption and investment) in the face of fiscal consolidation. However, historical evidence suggests that this would require highly credible and growth-friendly fiscal adjustment.[8] Moreover, the smooth transition from public to private demand generally suggests continued normalization of financial market conditions, which, without further policy action, currently seems unlikely.

16. **The projected rapid decline in unemployment is also optimistic, particularly for *advanced economies* close to the crisis**. At the aggregate level, G-20 growth and unemployment projections broadly reflect historical relationships (Okun's law). However, recent studies show that following recessions underpinned by financial crises, unemployment decreases by *less* for every percentage point increase in growth than in a typical business cycle.[9] In this context, the unemployment projections look particularly optimistic for *advanced economies*—where the effects of the crisis were larger—with unemployment rates projected to fall by *more* for every percentage point increase in growth than historical relationships suggest.

G-20 Advanced Growth and Unemployment
(units as indicated)



Sources: G-20 authorities and IMF staff estimates.

17. **There are downside risks to the G-20 projections for growth and unemployment, particularly for *advanced economies***. The G-20 growth and unemployment projections are subject to downside risks when compared with WEO projections and experiences following past financial crises. While downside risks appear to be more apparent for those *advanced economies* closest to the financial crisis, other *advanced* and *emerging*

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[8] *World Economic Outlook*, International Monetary Fund, April 2010.

[9] This reflects the persistent impact that financial sector strains have on employment-sensitive sectors of the economy. See *World Economic Outlook*, International Monetary Fund, April 2010.

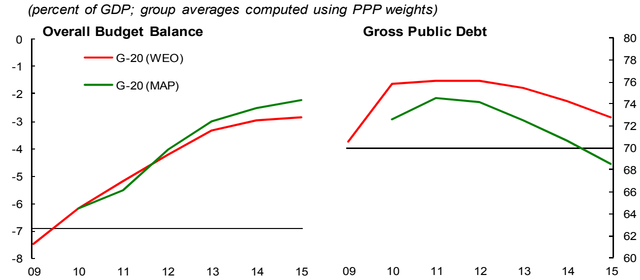
economies also face important downside risks. To the extent that G-20 projections are consistent across countries, weaker-than-expected growth in some countries will have adverse effects on growth prospects across the G-20 due to trade and financial linkages.

Fiscal Projections Are Relatively Optimistic

18. **G-20 fiscal plans are more optimistic than the WEO because of more favorable growth assumptions**. The G-20 projects an improvement in overall balances of around ¾ percentage point of GDP more than the WEO. For *advanced economies*, the improvement in overall balances is around 1 percentage point more than the WEO, while the difference is smaller *for emerging econ*omies (less than ½ a percentage point). The relatively-rapid fiscal consolidation in the G-20 projections is driven largely by declining expenditure shares in *advanced economies*, in line with the stronger growth projections.

19. **Consistent with a more optimistic outlook for growth and fiscal balances, G-20 debt projections are generally more optimistic than the WEO, particularly for high-debt economies**. Overall, the G-20 projects more favorable debt ratios (4 percentage points lower than the WEO by 2015). The divergence is largest amongst *high-debt economies*, with the WEO projecting higher debt in 2015 for both *advanced economies* (by about 4 percentage points of GDP) and *emerging economies* (by about 8 percentage points of GDP). These differences reflect lower growth and less favorable overall balances relative to the G-20 baseline.

G-20 MAP Framework and WEO Projections of Overall Balances and Gross Public Debt
(percent of GDP; group averages computed using PPP weights)



Sources: G-20 authorities and IMF staff estimates.

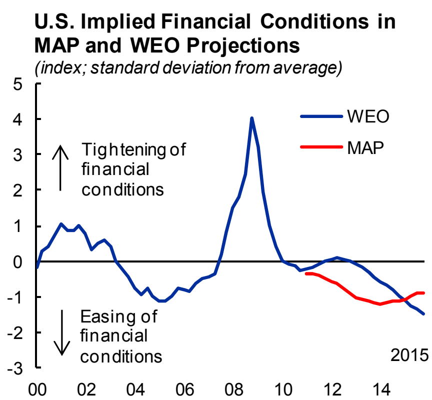
G-20 MAP and WEO Projections of Key Fiscal Variables 1/
(percent of GDP; changes 2015 - 2010)

	Overall Balance		Government Expenditure		Government Revenue		Gross Debt		Cyclical Component 2/		Interest Payments	
	MAP	WEO	MAP	WEO	MAP	WEO	MAP	WEO	MAP	WEO	MAP	WEO
G-20	4.0	3.3	-2.7	-2.6	1.3	0.7	-4.1	-3.0	1.3	0.5	0.4	0.3
Advanced	5.3	4.4	-2.9	-2.0	2.3	2.4	6.4	11.0	1.5	0.8	1.2	0.8
High debt	5.4	4.5	-2.8	-1.9	2.5	2.6	7.5	12.8	1.6	0.9	1.3	0.8
Low debt	3.6	2.6	-3.3	-1.9	0.2	0.7	-2.1	-6.0	0.1	0.1	0.0	-0.1
Emerging	1.9	1.6	-0.2	-1.4	1.7	0.2	-7.0	-11.8	0.3	0.0	-0.4	-0.2
High debt	2.6	1.2	-3.2	-1.9	-0.6	-0.7	-8.5	-4.9	0.3	0.0	-0.9	-0.3
Low debt	1.3	1.7	1.8	-0.9	3.1	0.8	-4.6	-14.6	0.4	0.0	0.0	0.0

Sources: G-20 authorities and IMF staff estimates.
1/ Country averages computed using rolling PPP weights. High (low) debt advanced economies are those with public debt-to-GDP ratios of more (less) than 60 percent in 2009 (based on WEO data from March 2010). High (low) debt emerging market economies are those with public debt-to-GDP ratios of more (less) than 40 percent in 2009 (based on WEO data from March 2010).
2/ In percent of potential GDP; computed as: Revenue-to-GDP ratio * ouput gap.

The Financial System may not be Able to Support G-20 Growth Objectives

20. **Overall, for *advanced economies*, the G-20 projections appear to rely on favorable developments in financial markets relative to the WEO, which seem unlikely**. For example, to support the projected strong growth, financial conditions are expected to continue normalizing rapidly in the United States. In contrast, the projected growth outcomes in the WEO reflect a much less optimistic view about financial conditions.[10]



Sources: G-20 authorities and IMF staff estimates.

21. **Accordingly, there are downside risks to medium-term growth and fiscal positions, should a rapid improvement in financial conditions fail to materialize**. In *advanced economies* hardest hit by the crisis, the health of financial institutions has not been fully restored and the global financial system remains vulnerable. This in turn implies that *emerging economies* will be subject to spillover effects and attendant downside risks. This underscores further the need for taking appropriate policy actions to put the global financial system on a more resilient footing, notably in Europe. Without further progress on financial sector reform, the financial system may not be able to adequately support the G-20 growth objectives.

[10] The financial conditions index used in the analysis comprises a wide range of financial indicators, including interest rate spreads, credit growth, and bank-lending surveys. See *World Economic Outlook*, International Monetary Fund, April 2011, for more details. The implied path for the financial conditions index is derived from its historical relationship with growth, inflation, and short-term interest rates.

IV. Policy Implications

The risks identified in the G-20 baseline projections call for urgent collective policy actions to both achieve the agreed growth objectives and to help guard against adverse growth outcomes. Specifically, in advanced economies, the most urgent task is to advance medium-term fiscal adjustment plans while, to the extent possible, supporting economic activity in the short run; in emerging surplus and advanced deficit economies, policies aimed at changing long-term saving patterns are needed to rebalance global demand, facilitated by greater exchange rate flexibility in key emerging economies; further reforms are also needed in advanced economies to fully repair the financial system and make it more resilient to shocks; product and labor market reforms are needed across the membership to boost potential output, notably in advanced surplus economies.

22. **For *key advanced economies*, the most urgent task is to advance medium-term fiscal adjustment plans while, to the extent possible, supporting economic activity in the short run.** In some countries, notably the *United States* and *Japan*, the immediate priority is for credible efforts to resolve unsustainable debt dynamics in the long run. The fragile state of financial market confidence makes the implementation and communication of credible and coherent plans even more pressing. The plans should include entitlement reforms, caps on discretionary spending, higher revenues through reforms of the tax system, and the establishment or strengthening of fiscal institutions. Plans should be appropriately timed and paced to reduce persistent deficits, create policy space in the short run, anchor sustainability, and restore confidence.

23. **In many *advanced economies*, long-term fiscal sustainability will also require fiscal consolidation to be accompanied by structural reforms to increase potential growth**. Reforms are needed in the areas of labor and product markets, particularly in *advanced surplus economies*, where potential output growth is relatively low. For instance, reforms aimed at supporting greater competition and lower markups, lowering hiring costs, and increasing labor force participation, can increase competitiveness, raise potential output growth, and support long-term fiscal solvency.

24. **There is an urgent need to put the global financial system on a firmer footing to ensure G-20 growth objectives**. While financial sector reform—critical to the normalization of financial conditions in many *advanced economies*—is more pressing in Europe due to risks related to sovereign debt and contagion, so far the pace of financial sector reform has been too slow, and the financial system remains vulnerable to shocks, jeopardizing growth objectives. In addition to larger capital buffers, more intensive oversight and scrutiny, enhanced transparency and disclosure requirements, and effective resolution mechanisms at the national and global level are urgently needed. *Emerging surplus economies* also need to strengthen

and deepen financial sectors to better channel savings to more productive use, and to more effectively manage capital flows.

25. **Further collective action is needed to reduce global imbalances**. Greater progress is required to reduce imbalances and put the global recovery on a firmer footing to ensure strong, sustainable, and balanced growth. Many of the distortions underlying the large pre-crisis imbalances remain entrenched, including high saving and undervalued exchange rates in some *emerging surplus economies*, and insufficient saving in *advanced deficit economies*. Thus, in *emerging surplus economies*, policies should aim to reduce reliance on external demand through, enhancing social safety nets, reforming corporate governance, reducing factor-market distortions, and developing better-functioning financial markets, supported by greater exchange rate flexibility. In *advanced deficit economies,* concrete measures should be developed to encourage and facilitate higher saving rates.

APPENDIX I: SUMMARY OF G-20 INPUTS

Summary of G-20 MAP Inputs

(as of July 15, 2011; Raw)

	Argentina	Australia	Brazil	Canada	China	India	Indonesia 1/	Japan	Korea	Mexico	Russia	Saudi Arabia	South Africa	Turkey	U.K.	U.S.	Euro area	European Union	France	Germany	Italy	Spain
Domestic Variables																						
Real GDP (% yoy)						2013					2014						2014	2014	2014		2014	2014
Nominal GDP (% yoy)						2013					2014						2014	2014	2014		2014	2014
Output Gap (% of GDP)																	2014	2014	2014		2014	2014
Private consumption (% yoy)						2013		2011			2014						2014	2014	2014		2014	2014
Government consumption (% yoy)						2013		2011			2014						2014	2014	2014		2014	2014
Gross fixed investment (% yoy)						2013					2014						2014	2014	2014		2014	2014
o/w private fixed investment (% yoy)		2013				2010			2010		2014						2012	2012	2014			
o/w government fixed investment (% yoy)		2013				2010		2011	2010		2014						2012	2012	2014			
Change in Inventory (% yoy)						2010		2011			2014						2012	2012	2014		2014	2014
Imports of goods and services (% yoy)						2013		2011			2014						2014	2014	2014		2014	2014
Exports of goods and services (% yoy)						2013		2011			2014						2014	2014	2014		2014	2014
Monetary and financial policy																						
Credit Growth (% yoy)				2010		2013					2014	2012				2010			2012	2010	2010	
Consumer price inflation (% yoy)						2010					2014						2014	2014	2014		2014	2014
Private savings (% of GDP)				2010		2013					2010						2012	2012	2012		2010	2014
Private debt (% of GDP)				2010												2010			2012		2010	2010
Fiscal policy (% of GDP)																						
Primary Balance		2013				2013	2014						2013				2014	2014	2014		2014	2014
General Government Balance		2013				2013	2014		2014		2014		2013				2014	2014	2014		2014	2014
Government revenue (general government)		2013				2010	2014		2014		2014		2013				2014	2014	2014		2014	2014
o/w tax revenue		2013				2010	2014		2014		2014		2013				2014	2014	2014		2014	2014
Government expenditure (general government)		2013				2010	2014		2014		2014		2013				2014	2014	2014		2014	2014
o/w interest payments		2013					2014		2014		2014		2013				2014	2014	2014		2014	2014
Gross government debt (general government)		2013				2013	2014		2014		2014		2013				2014	2014	2014		2014	2014
Net government debt (general government)		2013											2013									
Interest rate (short-term - 3 month T-bill) (%)					2010	2013	2014	2010				2010					2014	2014	2014	2013	2014	
Interest rate (long-term - 10 year T-bond) (%)					2010	2013	2014										2014	2014	2014	2013	2014	2014
Labor markets																						
Population growth (% yoy)						2013					2014	2010	2010				2012	2012			2014	
Employment Growth (% yoy)								2010			2014	2010					2014	2014	2014		2014	2014
Unemployment rate (%)											2014	2010					2014	2014			2014	2014
External development																						
Value of imports from developing countries (US$)				2010		2010		2010											2012			2010
Value of remittances to developing countries (US$)				2010		2010		2010														
Foreign direct investment to developing countries (US$)				2010		2010		2010			2014								2010	2010		2010
Official development assistance (US$)		2011		2010		2010	2010	2010			2014					2010			2012	2010		2011
External variables																						
Current account (external) balance (% of GDP)						2013					2014						2012	2012	2012	2012	2014	2014
Trade balance (Good and Services, % of GDP)						2013		2010			2014						2012	2012	2012	2012	2014	2014
Net income flows and current transfers (% of GDP)						2013		2010			2014						2012	2012	2012	2010	2014	2014
Financial account (excluding official reserves transactions, % of GDP)					2010	2013		2010			2014						2010	2010	2010	2010		
Net international investment position (% of GDP)					2010	2010			2010		2014			2010					2012	2010		2010
Trade weighted export market growth rate (%)																	2012	2012	2012		2014	2014
Nominal exchange rate assumption (currency unit/US$)					2010	2010	2011	2011			2014						2012		2014		2014	2014
Real exchange rate assumption (currency unit/US$)											2010								2012			
Real effective exchange rate assumption (currency unit/US$)						2010			2010		2014						2012	2012	2014			
Oil and other relevant commodity price assumptions (US$)						2013	2012	2011			2014						2014	2014	2014		2014	2014

Full Submission (20010:2015)
Partial Submission (last year available)
No submission

1/ Private and government fixed investment: partial submission (2011-2015).