

GROUP OF TWENTY

G-20 REPORT ON STRONG, SUSTAINABLE, BALANCED, AND INCLUSIVE GROWTH

2022



Prepared by Staff of the INTERNATIONAL MONETARY FUND*

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

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EXECUTIVE SUMMARY

The global economy has weakened amid a materializing of downside risks. Three key factors are weighing on the global growth outlook: (i) persistently high and broad-based inflation is necessitating a tightening of monetary policy in many major economies; (ii) the growth momentum in *China* remains weak amid intermittent pandemic lockdowns and the worsening property market crisis; and (iii) *Russia*'s invasion of *Ukraine* and associated sanctions have contributed to continued supply disruptions, rising food insecurity, and energy concerns—particularly in Europe amid a sharp reduction in *Russian* gas supply. At the same time, growing global fragmentation pressures are likely to destroy part of the gains from decades of increasing globalization. Add to this a confluence of downside risks. A worsening energy crisis in Europe would severely harm growth and raise inflation. Prolonged high inflation could require larger-than-anticipated policy interest hikes, further tightening of global financial conditions, and increasing risks of a sovereign debt crisis for vulnerable economies. Increasingly severe weather events would continue to harm growth across the globe.

Bringing down inflation is a key policy priority, as is addressing elevated debt levels while protecting the most vulnerable groups. The persistence of multiple global supply-side shocks also necessitates a tighter policy stance to facilitate adjustment to the new state of the world.

- Monetary policy is appropriately expected to continue to tighten in most G-20 countries, although
 the extent of tightening is country specific. Where inflation remains high and labor markets tight,
 higher interest rates are needed. In a few cases where inflationary pressures and signs of
 overheating are absent, central banks can be more cautious and allow a more expansionary stance.
 In all economies, careful communication is crucial, especially amid the highly uncertainty outlook.
- Fiscal policy will need to tighten in many economies to address debt vulnerabilities and avoid working against monetary policy efforts to reduce inflation. Targeted support for vulnerable groups struggling with the surge in inflation and energy prices should be offset by savings elsewhere.

A strong, sustainable, balanced, and inclusive recovery requires joint action by the G-20.

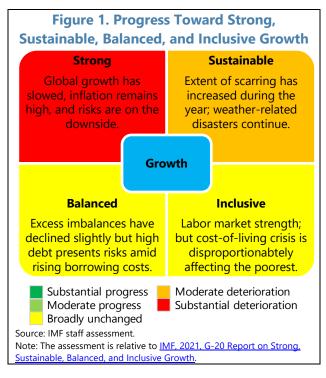
- The G-20 plays a crucial role in maintaining and improving global trade and investment linkages. Securing peace in *Ukraine* is essential. At the same time, the G-20 can take actions to address global challenges and help prevent further fragmentation. More open, stable, and transparent rules-based trade would help address global shortages of goods. Strengthening the resilience of global value chains would help protect against future shocks.
- A durable recovery requires multilateral action on climate, debt, taxation, and pandemic preparedness. An effective policy package is crucial to reach climate goals under the Paris Agreement. In addition, greater progress is needed on efforts to tackle elevated debt levels amid high borrowing costs in several vulnerable emerging market and low-income economies, including by strengthening the G-20 Common Framework for Debt Treatments. Implementation of the agreement on international taxation should be accelerated. Multilateral action should continue to build on the progress made on pandemic preparedness.

This report discusses the G-20's progress during the past year towards the goal of strong, sustainable, balanced, and inclusive growth and provides policy recommendations to help reach this goal. The report was prepared under the guidance of Shekhar Aiyar by a team led by Lone Christiansen and comprising Jared Bebee, Chanpheng Fizzarotti, Tryggvi Gudmundsson (co-lead), Ashique Habib, Jaden Kim, Kyuho Lee, Adil Mohommad, Chao Wang, and Bryan Zou. Ilse Peirtsegaele provided administrative support. Prepared based on information available as of November 3, 2022. The report does not necessarily reflect the views of G-20 members. Past G-20 SSBIG reports are available on IMF.org.

THE GLOBAL ECONOMY IS WEAKENING

Multiple shocks are weakening global growth while inflation remains elevated. Russia's invasion of Ukraine and associated sanctions have added fresh challenges to the continuing impact of the pandemic. Global fragmentation pressures are also darkening the outlook. Moreover, heightened inflation and debt levels are prompting policymakers to tighten monetary and fiscal policy, further weighing on growth.

1. Since the 2021 G-20 Report on Strong, Sustainable, Balanced, and Inclusive Growth, the global recovery has weakened and inflation pressures have intensified, with the most vulnerable groups facing the largest **impact**. Following an initial recovery phase from the pandemic which saw a robust increase in activity and strong gains in labor markets, growth moderated at the end of 2021 and inflation picked up. These trends have become even more pronounced this year amid Russia's invasion of *Ukraine* and associated sanctions as well as lingering supply-demand imbalances (Figure 1). The necessary withdrawal monetary and fiscal policy support to rein in inflation and rebuild fiscal buffers have further weighed on activity. Despite efforts to help shield the most vulnerable people, the poorest are yet again bearing a disproportionate share



of the burden from high food and energy prices. Moreover, as borrowing costs have risen, vulnerabilities from elevated public and private sector debt levels have increased. In addition, the war in *Ukraine*, combined with sanctions and the continuing pandemic have increased global fragmentation pressures, threatening multi-decade gains from increased globalization and adding to downside risks to global growth.

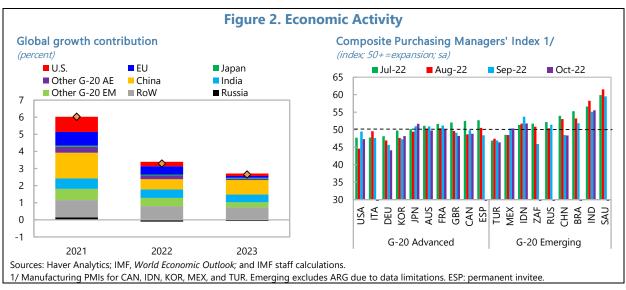
A. Multiple Shocks have Hurt Growth and Raised Inflation

2. While most economies continue to grow, the pace of growth has slowed, and some economies have fallen back into recession. Global growth is projected to slow to 3.2 percent this year and 2.7 percent in 2023 (from 6 percent in 2021) (Table 1). Notably, slower growth in the *United States* and *China* is having a large impact on global growth in 2022 (Figure 2, left-hand panel). Economic activity is also weakening in the *European Union* (after a strong second quarter). While some moderation of growth following the initial bounce-back from the deep pandemic recession was inevitable, three additional factors have weighed on global output this year and will continue to shape

¹ IMF, 2022, World Economic Outlook, October.

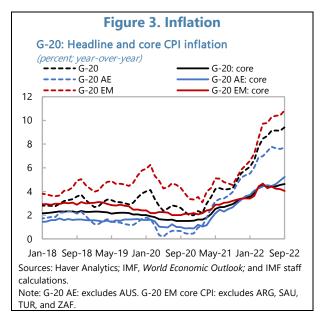
the outlook: (i) Russia's invasion of Ukraine and associated sanctions as well as reduced gas supply to Europe; (ii) necessary monetary policy tightening to bring down inflation and an accompanying tightening of global financial conditions; and (iii) the continuing impact of the pandemic, including lockdowns in China and supply disruptions, as well as troubles in the country's real estate sector. In addition, economic momentum has been negatively affected by the hit to real wages following the global spike in inflation. Following a contraction in global output during the second quarter of this year—when downturns in China and Russia weighed particularly heavily on global growth—some third-quarter GDP releases surprised on the upside. Nonetheless, recent monthly indicators of economic activity point to continued weakness in several economies.

- Economic activity in G-20 advanced economies is weakening. PMI data for recent months signal weakness, remaining in or falling into contractionary territory in most G-20 advanced economies (e.g., Germany, Korea, United States; Figure 2, right panel). While industrial production and retail sales in the United States have so far shown some resilience, interest-sensitive sectors (e.g., housing) have deteriorated sharply.
- G-20 emerging market economies have also seen a moderation in growth, although with some economies displaying relatively more resilience. In China, renewed COVID-19 outbreaks and subsequent lockdowns as well as ongoing challenges in the real estate sector contributed to a sizable slowdown in the second quarter, with investment, industrial production, and retail sales all disappointing. Data for August suggest that growth remains fragile, and trade has weakened, reflecting spillovers beyond China. Though PMIs have remained in expansionary territory in several economies (e.g., Brazil, India, Indonesia, Russia, Saudi Arabia), they have recently worsened in some economies (e.g., China, South Africa).



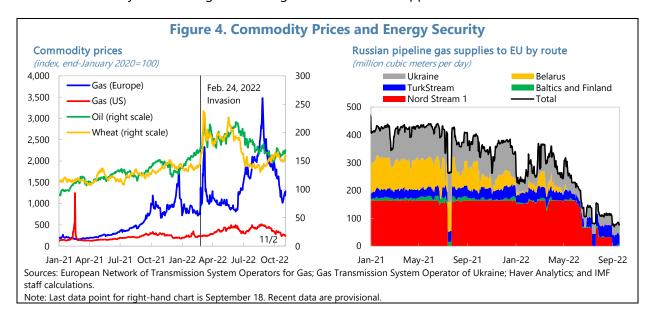
3. Inflation remains stubbornly high and has become more broad-based. The surge in consumer prices that started last year has gathered pace in 2022, resulting in rates of inflation that have exceeded central bank targets in most G-20 economies. With some notable exceptions, including *China* where inflation remains low, headline inflation has approached or surpassed double-digit levels in several economies. While a large part of the rise in inflation in the *euro area* continues to be

explained by food and energy price inflation, *euro* area inflation nonetheless rose to 9.9 percent in September—the highest rate in *euro* area history. Overall, in many economies, the rise in inflation has broadened beyond food and energy prices and led to elevated core goods and services inflation, and near-term inflation expectations have risen above central bank inflation targets (Figure 3). While wages have not kept pace with inflation, increased tightness in labor markets may be contributing to supply-demand imbalances and subsequently putting pressure on consumer prices (e.g., *Australia*, *Canada*, *United Kingdom*, *United States*).



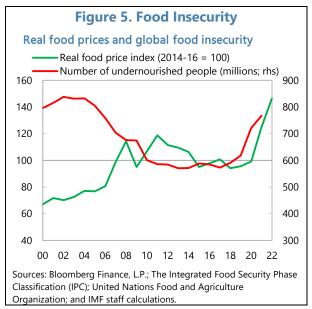
4. Despite recent declines in commodity

prices, energy concerns have become acute in some economies, in particular in Europe. The recent moderation in oil and other commodity prices has provided some relief to headline inflation. Yet, energy concerns have increased markedly. While gas prices, including in Europe, have recently declined markedly, significant concerns remain. The indefinite shutdown of the Nordstream pipeline as well as developments surrounding the G-7 proposal to cap the price of oil from Russia have added to uncertainty. As gas supplies to the *European Union* were significantly reduced, natural gas prices surged in the third quarter (Figure 4). While estimates of the effects of the reduced gas supply are inherently uncertain, work by the IMF points to a material growth impact, particularly for economies where the intensity of Russian gas use is high and alternative supplies are scarce.²



² IMF, 2022, "<u>How a Russian Natural Gas Cutoff Could Weigh on Europe's Economies</u>", IMF blog, July 19.

5. High food price inflation has prompted a cost-of-living crisis. As prices of many food staples touched record highs in 2022 amid supply shortages for global food commodities as well as fertilizers, food insecurity has risen markedly, in particular for the poorest people across the globe (Figure 5). While global wheat prices more recently have fallen back to levels seen prior to Russia's invasion of *Ukraine*, challenges nonetheless remain. The poorest economies are especially exposed, as food in low-income countries accounts for 44 percent of consumption on average, compared to 28 and 16 percent in emerging market and advanced economies, respectively.³ Moreover, some economies with



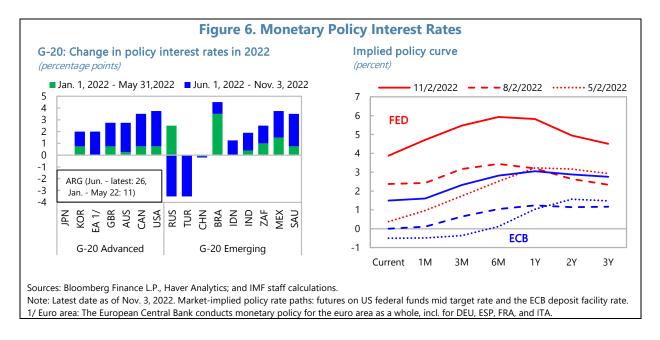
high risk of food insecurity also face high borrowing costs, highlighting the limited fiscal options for alleviating the pain to households. Trade restrictions on key food commodities in some economies are adding to the global challenges.

- **6. Monetary policy accommodation has been decisively scaled back to tackle persistent inflation**. Policy interest rates have been raised in most G-20 economies, with the notable exceptions of *China* and *Japan* (Figure 6, left-hand panel). Moreover, while the tightening cycle in emerging market economies was initiated earlier than in G-20 advanced economies on heightened inflation fears, the cycle has since become increasingly synchronized across economies. Six consecutive interest rate hikes in the *United States* have lifted the U.S. Federal Reserve's policy interest rate to a level not seen since before the Global Financial Crisis and has been accompanied by a sizeable strengthening of the US dollar. In July, the European Central Bank started hiking rates for the first time since 2011—and has raised its key interest rates by a total of 200 basis points so far—and ended its net asset purchases. Add to this that further monetary policy tightening is expected in major advanced economies over the coming months (Figure 6, right-hand panel), and some central banks (e.g., U.S. Federal Reserve, Bank of Canada) have started to reduce the size of their balance sheets.
- 7. In turn, global financial conditions have tightened. The monetary policy pivot has prompted reductions in equity prices in both advanced and emerging market economies and wider credit spreads—in particular for frontier markets and other lower-rated borrowers. Sectors deemed to have particularly high asset valuations prior to the price correction have seen the largest declines (e.g., information technology and consumer discretionary companies).⁴ In addition, the unusually high uncertainty regarding the global economic and inflation outlooks as well as forthcoming policy actions has contributed to continued heightened market volatility. At the same time, communications by central banks that price stability will be appropriately prioritized has pushed the path of expected

³ IMF, 2022, "Response to High Food, Energy Prices Should Focus on Most Vulnerable," IMF Blog, June 7.

⁴ IMF, 2022, Global Financial Stability Report, October.

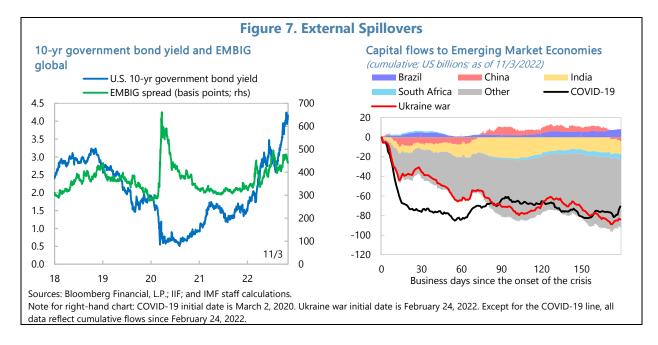
interest rates higher and further contributed to volatility as well as renewed concerns over financial fragilities. In the *United Kingdom*, recent uncertainty over the path of fiscal and monetary policy contributed to sizable moves in bond markets.



8. Tighter global financial conditions have highlighted debt vulnerabilities and prompted spillovers, including to emerging market economies. Despite some reduction in debt levels, GDPweighted government debt is projected at around 120 and 70 percent of GDP this year in G-20 advanced and emerging market economies, respectively. Global government debt is projected to remain about 7½ percentage points of GDP above pre-pandemic levels.⁵ Additionally, some G-20 emerging market economies rely substantially on foreign currency borrowing (e.g., Türkiye). Exchange rate depreciations have also taken place, as global financial conditions tightened (e.g., India, South Africa), and interest rate spreads for high-debt vulnerable economies have widened. At the same time, the sharp strengthening of the US dollar has had significant spillovers, including to emerging market economies given the US dollar's role as a global funding currency. In the private sector, corporate debt levels also remain high at a time when profit margins are declining, heightening challenges for emerging market and developing economies. In this respect, debt issuance among corporates and sovereigns in several emerging market economies has declined markedly, with primarily higher-rated issuers issuing new debt in recent months and at higher premiums and shorter maturities. Coupled with external pressures on capital flows, these developments have put high-risk sovereigns under pressure (Figure 7). Many frontier markets are facing potential loss of market access, and more than half of all low-income economies are assessed to be in, or have a high probability of entering, debt distress.6

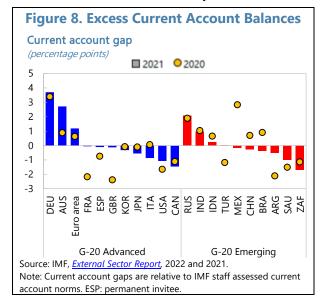
⁵ IMF, 2022, *Fiscal Monitor*, October.

⁶ IMF, 2022, Global Financial Stability Report, October.



9. Nonetheless, the worsening global outlook occurs on the back of somewhat smaller excess global imbalances last year. Global current account balances started widening in 2020 and continued to do so in 2021 on the back of the uneven impact of the pandemic, including shifts in consumption, effects on travel, transportation, and medical sectors, and differences in policy responses. Of course, wider global current account balances do not necessarily represent a negative trend if they are driven by developmental needs or deepening trade ties based on evolving fundamentals. By contrast, excessive widening, beyond what can be accounted for by fundaments, can

fuel trade tensions and increase the risk of disruptive currency and capital flow movements. In its latest analysis of economies' external positions and the appropriateness of current account balances, the IMF found that global excess current account balances narrowed in 2021 to 0.9 percent of world GDP (from 1.2 percent in 2020). Among G-20 economies, Canada, South Africa, and the United States recorded the largest excess current account deficits, while Australia, Germany, and Russia recorded the largest excess current account surpluses (Figure 8).7 At the same time, although external stock positions moderated from their peak in 2020, they remained elevated in 2021.



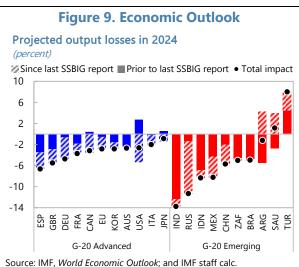
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⁷ IMF, 2022, <u>External Sector Report</u>.

B. Economic Scarring and Fragmentation Will Weigh on the Outlook

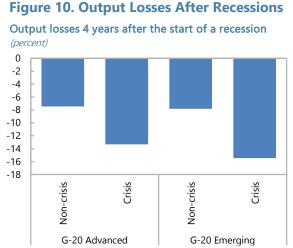
10. Permanent output losses are expected in many economies. G-20 economies, particularly emerging market ones, are projected to incur medium-term output losses from the pandemic (Figure 9). In addition, adverse developments since the 2021 G-20 Report on Strong, Sustainable, Balanced, and Inclusive Growth—not least the war in *Ukraine*—are expected to further reduce medium-term economic prospects. In this respect, IMF staff research highlights that medium-term output losses are common following recessions—with more severe losses following crisis episodes (Figure 10). Furthermore, even though economies often return to sustained medium-term positive output growth after a downturn, growth rates tend to be slower than what was projected prior to the recession.8

11. Both human capital losses and weaker balance sheets are likely to corporate contribute to scarring through productivity and capital stock. Notably, school closures during the pandemic can result in significant scarring. For example, IMF staff estimates have shown that in a representative G--20 advanced economy, learning losses from education disruptions during the pandemic, if left unaddressed, could reduce long-run output by 3 percent relative to the pre-pandemic baseline. 9 In addition, economies with lagging labor market recoveries and prolonged unemployment and low participation rates may see adverse impacts on human capital. Capital may also be held idle for an extended period in economies with weak insolvency regimes. Conversely, the pandemic induced a sharp acceleration in investments in digitalization. Past experience suggests that such



Source: IMF, *World Economic Outlook*; and IMF staff calc.

Note: "Prior to last SSBIG report": difference in proj. real GDP in 2024 between Oct. 2019 and Oct. 2021 WEOs; "Since last SSBIG report": difference in proj. real GDP in 2024 between Oct. 2021 and Oct. 2022 WEOs. ESP: permanent invitee.



Sources: IMF, World Economic Outlook; Laeven and Valencia (2018); and IMF staff calculations

Note: Based on G19+ESP. Captures 45 recessions (o/w 23 (23) in advanced (emerging market) economies, starting between 1991 and 2015; identified using Harding and Pagan (2002) algorithm. Output losses: difference between real GDP outturns and WEO projections from year prior to the recession, four years after the recession. Sample ends in 2015 to exclude COVID-19 recession. Recessions associated with crises are those where any of the following types of crises started within +/- two years of the beginning of the recession: banking, currency, and sovereign debt crises. Crisis commencement dates are from Laeven and Valencia (2018).

investment in intangible capital is associated with greater labor productivity growth than investment

⁸ Cerra and others, 2020, "<u>Hysteresis and Business Cycles</u>," IMF Working Paper No. WP/20/73, May.

⁹ IMF, 2022, G-20 Background Note on "Minimizing Scarring from the Pandemic," May.

in tangible forms of capital. Yet, whether this trend will continue is unclear, as investments in intangible capital is particularly sensitive to tightening financing conditions, and potential gains may not be broadly shared.¹⁰ The long-term productivity implications of a switch to greater use of remote work also remains unclear. Remote work also carries the potential for outsourcing of skilled labor.

- 12. The most vulnerable people and economies are likely to continue to be hit the hardest. More severe output and employment losses are often associated with greater increases in inequality, as the recession losses tend to fall disproportionately on the most vulnerable. This is consistent with only partial labor market recoveries from the pandemic in several emerging market economies (e.g., *Indonesia, South Africa*). The most vulnerable groups face adverse impacts from multiple additional shocks, both in the current context and over the medium term. The United Nations forecasts that 75 million more people than expected prior to the pandemic will be living in extreme poverty this year.¹¹
- The disruptions to education have often been more severe for children from poorer households. As evidenced by test scores, school closures have had a measurable impact on student performance, with the impact more severe among younger students and students from more vulnerable households. Little or no access to the internet for the most vulnerable students also means fewer options for substituting for in-person learning. ¹² If left unaddressed, this is likely to raise inequality.
- The effects of climate change are increasing, with the most vulnerable facing a relatively larger impact. Extreme temperatures and climate-related disasters (e.g., extreme precipitation, droughts) are increasing in intensity and frequency in many regions.¹³ While all economies are impacted, poorer countries are often more vulnerable given their relatively higher reliance on climate-sensitive sectors (e.g., agriculture), capacity constraints in responding to the impact of climate change¹⁴, and already high rates of food insecurity. 12 percent of Sub-Saharan Africa's population is projected to be acutely food insecure, and this will likely worsen with climate change.¹⁵
- **13.** Adding to challenges, the pandemic and the war in *Ukraine* are further straining multilateral cooperation and threatening the gains from globalization. Increasing globalization has provided numerous benefits for the world economy, as trade has allowed economies to leverage their comparative advantages. As such, global imports increased markedly in the decade up to the Global Financial Crisis (Figure 11). Yet, the pace of globalization has slowed in recent years, and trade tensions have risen. While global value chains (GVCs) proved relatively resilient during the pandemic (and were instrumental in the global efforts to fight the pandemic and in meeting pandemic-specific

¹⁰ IMF, 2021, G-20 Background Note on "Boosting Productivity in the Aftermath of Covid-19." June.

¹¹ UNSTAT, https://unstats.un.org/sdgs/report/2022/Goal-01/.

¹² IMF, 2022, G-20 Background Note on "Minimizing Scarring from the Pandemic," May.

¹³ Seneviratne and others, 2021, "Weather and Climate Extreme Events in a Changing Climate," <u>Chapter 11</u> in Climate Change 2021: The Physical Science Basis. Contribution of Working Group I to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). Cambridge University Press, pp. 1513–1766.

¹⁴ OECD, 2003, "Poverty and Climate Change."

¹⁵ Baptista and others, 2022, <u>"Climate Change and Chronic Food Insecurity in Sub-Saharan Africa,"</u> IMF Departmental Paper No. DP/2022/026, September.

demands for goods),¹⁶ pressures to implement policies aimed at "reshoring" production and reducing GVC exposures also gained ground. Such global fragmentation pressures have further intensified with the supply chain disruptions resulting from the war in *Ukraine* and associated sanctions—not least as *Russia* and *Ukraine* are important producers and exporters of certain metals, rare earths, and noble gases that are key inputs in global GVCs. Concerns have also arisen regarding several aspects of the international monetary system, such as cross-border payments systems.



C. Downside Risks Dominate and Imperil the Growth Outlook

- **14. Risks to the outlook are firmly on the downside, with the potential for several interrelated negative shocks**. While a timely resolution of current challenges is possible—including those related to high inflation, the war in *Ukraine* and associated sanctions, the lingering effects of the pandemic, and the slowdown in *China*—downside risks predominate.
- An intensification of the war in Ukraine would have severe negative implications across multiple dimensions. The ongoing humanitarian crisis would deepen, with attendant threats to energy and food supply. Further sanctions could also result in greater fragmentation (especially if applied to third-party economies) and a renewed increase in commodity prices. Disruptions to trade—most notably in fossil fuels, but also in manufacturing owing to persistent supply chain disruptions—would further damage growth. Examples include the production of semiconductors (given reliance on neon), automobiles (given reliance on palladium, platinum, and aluminum), batteries for electric vehicles (given reliance on nickel), as well as steel.
- Persistent, deep, and widespread energy shortages would involve large disruptions to everyday life.¹⁷ A further escalation of energy prices, including natural gas, could require drastic policy measures to ensure that households and businesses retain access to energy. Many European economies have already introduced substantial measures in response to the unfolding energy situation but face a challenging trade-off between supporting households and businesses on the one hand and avoiding a boost to demand that would further raise inflation. Should the shortfall in the energy supply intensify, strict rationing measures may become necessary, with large disruptions to everyday life—although there are significant uncertainties surrounding the impact on activity.
- Persistently high inflation, coupled with an upward drift of inflation expectations, would require painful policy measures. If inflation were to remain at the currently elevated levels for longer than projected, the hit to real incomes could become more pronounced (absent similarly large wage

¹⁶ IMF, 2022, World Economic Outlook, Chapter 4, April.

¹⁷ IMF, 2022, "How a Russian Natural Gas Cutoff Could Weigh on Europe's Economies," IMF blog, July 19.

increases), with an associated fall in consumption. A worsening cost-of-living crisis could also heighten the risk of unrest, and prolonged elevated inflation could necessitate larger-than-anticipated rises in interest rates. The typical lags between monetary policy action and its impact on output and inflation further complicate policymakers' tasks.

- Spillovers from tighter global financial conditions could lead to debt distress in a large set of economies. The rise in policy interest rates has contributed to a significant tightening of global financial conditions. A further tightening of financial conditions amid elevated public and private debt levels in many economies could mean that debt servicing costs and rollover risks rise to dangerous levels in many countries, potentially resulting in defaults. Should a larger-than-expected rise in US interest rates become necessary, borrowing costs would likely increase globally and the US dollar would further strengthen—with a concomitant impact on balance sheets in economies highly dependent on dollar funding. These adverse effects could be especially prominent in economies already trading at distressed levels.
- Renewed severe outbreaks of COVID-19 and a further tightening of mobility restrictions in China
 would have global ramifications. Larger Covid outbreaks could trigger renewed widespread
 lockdowns under the country's zero-Covid strategy, hampering activity. At the same time,
 vulnerabilities in the property sector could intensify and negatively impact both the real economy
 and the financial sector, with spillovers to trading partners.
- Further global fragmentation could lead to a reconfiguration of trade toward suboptimal outcomes. Increasing fragmentation could heighten policy uncertainty and result in a split of the global economy into geopolitical blocs where trade, technology, and financial systems become more regionalized and siloed. Several adverse consequences would ensue, impacting trade in both goods and services as well as in growing areas of trade. For instance, "technological decoupling" could hinder the growing trade in services, with negative effects on world GDP.¹⁸ Trade uncertainty would also directly weigh on investment. Heightened policy uncertainty would harm multilateral efforts to tackle global challenges, such as climate change and debt workouts.
- Climate change could cause increasingly severe disruptions. The World Meteorological Organization has estimated that one of the next five years is likely to experience the warmest temperature on record. There is now also a 50 percent chance that the annual global temperature will temporarily reach 1.5 degrees Celsius above the average pre-industrial level for at least one of the next five years—up from a 10 percent chance in the five years leading up to 2021. The result could be an intensification of extreme weather events (e.g., heat waves).

¹⁸ Cerdeiro and others, 2021, "Sizing Up the Effects of Technological Decoupling," IMF Working Paper No. WP/21/69.

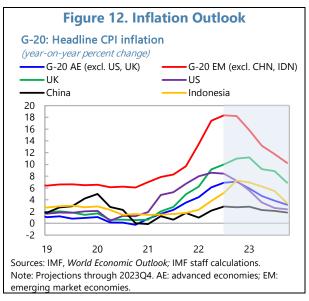
¹⁹ World Meteorological Organization (WMO) update, 05/09/2022: <u>50:50 chance of global temperature temporarily reaching 1.5°C threshold in next five years.</u>

PRIORITIZE DISINFLATION AND EQUITABLE GROWTH

The macroeconomic policy landscape has shifted rapidly during the past year, with policymakers facing an unusually uncertain environment. While monetary and fiscal policies have been tightened, more is likely to be needed to bring down inflation and debt vulnerabilities. At the same time, structural reforms are crucial to boost potential growth and to make growth more inclusive.

A. Macroeconomic Policies Must Focus on Bringing Down Inflation

15. The overarching priority for policymakers in most economies is to ensure price stability, while bringing down debt levels and protecting the most vulnerable. The current environment is particularly challenging amid slowing global growth and elevated inflation. Yet, while monetary policy tightening is under way in most economies and inflation is projected to moderate, further tightening gradually expected and likely to be needed if inflation pressures persist (Figure 12). At the same time, fiscal policy should be focused on addressing elevated debt levels, while protecting vulnerable groups with targeted, temporary measures.



16. It is essential that fiscal policy does not work against monetary policy objectives. Within a well-coordinated policy mix, fiscal policy tightening would not only bring down debt levels but also help to reduce the overall amount of monetary policy tightening that is required. This would reduce the need for outsized rises in interest rates that would further increase borrowing costs and could lead to excess volatility and endanger financial stability. Moreover, fiscal support for the vulnerable should be mindful that while many of the shocks that the global economy has faced recently can be broadly categorized as unprecedented supply shocks, their persistence and size mean that policies will have to tighten to facilitate adjustment to a new equilibrium. At the same time, financial sector policies can help reduce risks from elevated vulnerabilities amid tightening global financial conditions. In contrast, should fiscal policy become expansionary, the fight to bring down inflation would only be prolonged, further complicating the task of fiscal as well as monetary and financial authorities. Overall, given the unusually high uncertainty in the current environment, authorities must be ready to adjust policies depending on the evolving data and country characteristics, such as the availability of policy space and cyclical positions.

Monetary Policy

17. Monetary policy is projected to appropriately further tighten in most economies. Despite sizable policy interest rate hikes in several economies—with hikes in *Canada*, the *United Kingdom*, and

the *United States* representing the largest tightening moves in those economies in decades—the monetary policy stance in most G-20 economies remains accommodative this year (e.g., Australia, euro area, India, Korea, South Africa, United States; Figure 13). Some G-20 emerging market economies—which started the tightening cycle earlier than G-20 advanced economies and aggressively removed accommodation—currently have a tight monetary policy stance (e.g., Argentina, Brazil, Mexico). Nonetheless, real interest rates remain low in many economies, owing to elevated rates of inflation. As such, most G-20 central banks are expected to continue the current tightening cycle, in line with IMF staff recommendations (e.g., Australia, Canada, euro area, India, Indonesia, Korea, South Africa, United States).

18. However, the extent of additional tightening that would be appropriate differs across economies and depends on economic fundamentals and the macroeconomic outlook. In economies exhibiting elevated price pressures, tight labor markets, and signs of considerable and continued demand-supply imbalances, a larger-than-projected tightening is warranted already this year (e.g., *Türkiye*, *United Kingdom*; Figure 13). In several regions, central banks, including the European Central Bank and

| | igure 13 | . Moneta | ary Policy | 1 | | |
|------------------|----------------------------------|------------------|--|----------------|--|--|
| | Projected monetary policy stance | | Recommended change to monetary policy stance | | | |
| | 2022 | 2022 2023 | | 2023 | | |
| AUS | | | | | | |
| CAN | | | | | | |
| Euro area | | | | | | |
| JPN | | | | | | |
| KOR | | Neutral | | | | |
| USA | | | | | | |
| GBR | Neutral | | 1 | • | | |
| ZAF | | Neutral | | | | |
| TUR | | | • | • | | |
| CHN | | | · | • | | |
| IND | | Neutral | | _ | | |
| IDN | | Noutral | | | | |
| ARG | | | | | | |
| MEX | | | | | | |
| RUS | | | | | | |
| BRA | | | | | | |
| | | Key (stance) | | | | |
| | Substantially expansionary | | | | | |
| | Moderately ex | cpansionary | | | | |
| | Neutral | | | | | |
| Moderately co | | | | | | |
| | Substantially contractionary | | | | | |
| | Not availabl | e | | | | |
| | | Key (difference | | | | |
| Substantially mo | | | | 1 | | |
| | re expansionary | | nts ≤ ∆ir < 0 | 1 | | |
| | ≈ 0 (approxima | | | | | |
| Moderately mo | | | | • | | |
| | ore contractiona | ry: ∆ir > 100 ba | sis points | | | |
| Not Available | | | | | | |
| Sources: IMF s | | | | | | |
| Note: As of Sep | ot. 29, 2022. R | ecommended | change to the | policy stance: | | |

difference between the recommended and projected stance. Euro area:

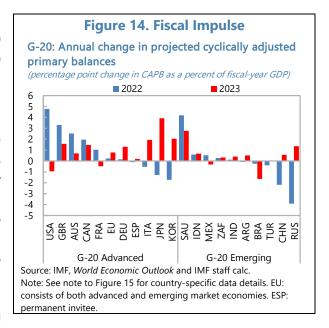
banks, including the European Central Bank and the U.S. Federal Reserve, have appropriately signaled that further tightening is likely. By contrast, where price stability is not under threat and signs of overheating are absent, central banks can allow for a somewhat more expansionary stance in the near term (e.g., *China* where continued monetary support is appropriate). In all economies, careful communication by central banks will be crucial to limit adverse spillovers and to safeguard stability. Notably, this applies to communication regarding

both guidance on the expected path of policy interest rates as well as the process for setting balance sheet policies, which can affect market liquidity and broader financial conditions.

Fiscal Policy

19. Fiscal policy has tightened but budgets continue to face spending pressures amid adverse shocks. After sizable policy support in response to the pandemic, fiscal balances improved in 2021, as the recovery took hold and support measures were gradually withdrawn (Figure 14).

Cyclically adjusted primary balances are expected to improve further this year in several G-20 advanced economies and to some degree in G-20 emerging market economies (e.g., Canada, France, Indonesia, United Kingdom, United States). That said, the rise in inflation—notably soaring food and energy prices—has prompted some governments to respond with support measures to help shield vulnerable groups, partially offsetting the general tightening. In Europe in particular, many economies have announced large policies to reduce energy costs for businesses and households—in some cases with extensive support and limited targeting.

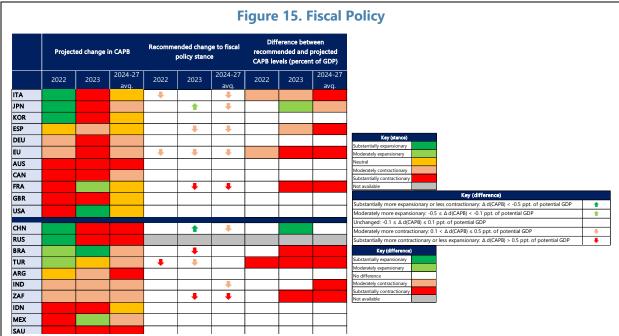


20. Fiscal policy should continue to bring

down debt-to-GDP ratios, while prioritizing essential support for vulnerable people. Despite the slowdown in growth and the role of inflation in helping to contain debt as a share of GDP, high debt levels and the increase in borrowing costs nonetheless necessitate actions to reduce debt and support the fight against inflation. Implementing such measures will also support policy credibility and thereby help anchor inflation expectations. Where it is essential to provide support measures for the most vulnerable people who are struggling to deal with the sharp cost-of-living increase, such measures would need to be targeted and temporary and should not result in an overall expansionary fiscal stance. Notably, the policy response to support households and firms amid sharply higher energy prices in Europe should not add significantly to demand, as this would exacerbate the energy shortage and fuel inflationary pressures. Support measures should be designed in a way that aims to preserve the price signal to encourage a reduction in energy use by end users. Targeted transfers through social safety nets can be helpful in this regard. Where this is not feasible, lump-sum bonuses for households—linked to past energy consumption—can be a useful alternative, while block pricing (e.g., subsidizing energy consumption below a threshold at a guaranteed price) is a viable but less preferable option. Notably, as a non-trivial part of the rise in wholesale energy prices will likely not be temporary, prices for end-consumers need to be allowed to rise. In turn, this amplifies the need to take steps to secure future energy supply with a focus on renewable sources. Meanwhile, commodity exporters have benefited from elevated commodity prices (e.g., Saudi Arabia) and should use the windfall gains to build buffers.

21. In several economies, larger-than-projected deficit reductions are warranted. A larger-than-projected fiscal consolidation would be warranted this year or next in economies where the public debt ratio needs to be put on a firmly downward path (e.g., *Italy, South Africa*; Figure 15). In contrast, in *China*, IMF staff recommends a looser-than-projected fiscal policy stance in 2023—allowing for a larger-than-projected cyclically-adjusted primary deficit—as inflation remains manageable and near-term support would put the recovery on a firmer footing and ease the hand-off from public to private investment. Over the medium term, more ambitious debt reduction plans

are desirable in several economies to rebuild fiscal buffers (e.g., *India, France, Italy, Japan, South Africa, Spain*). In all economies, credible medium-term policy frameworks can help create space for necessary, targeted support for vulnerable people today, while ensuring the debt-to-GDP ratio is steadily brought down.



Sources: IMF staff estimates and recommendations.

Note: CAPB: cyclically adjusted primary balance. Includes crisis-related support and expiration on current policy settings. The recommended change to the policy stance reflects the difference between the recommended and projected change in the CAPB. The recommended path assumes that recommendations are implemented in each year (e.g., recommended change in 2023 assumes that 2022 recommendations are implemented). Recommended changes are relative to projected changes as of September 29, 2022. CHN: augmented CAPB (incl. activity of local extra-budgetary units and government-guided investment funds). ESP (permanent invitee): primary structural balance (CAPB net of one-off spending). JPN: Projected path reflects staff's assessment of current policy settings; recommended path for 2024–27 entails that the zero primary balance target will be achieved later than FY2025, the government's target year. RUS: non-oil cyclically adjusted structural primary balance (percent of potential GDP). SAU: non-exported oil primary balance (percent of non-oil GDP; not cyclically adjusted). EU: The IMF does not prescribe recommendations for the EU-wide fiscal stance. Entries for the EU thus represent the GDP-weighted average of the projected change and the difference between the recommended and projected changes in the CAPB in each EU country (excluding Greece).

Financial Sector Policy

22. As part of a well-coordinated policy package, financial sector policies should play a supporting role in containing inflation and safeguarding financial stability. While the primary burden of achieving disinflation will inevitably fall on monetary policy, financial sector policies can support these efforts. That said, implementing policies to ensure financial stability may be particularly challenging in an environment of monetary policy tightening, as reflected in recent bouts of volatility. Looking ahead, financial sector policies should safeguard financial stability and tackle pockets of elevated vulnerabilities, including by adjusting selected macroprudential tools, as needed (e.g., China, where reversing COVID-related financial policy flexibility should commence; Germany where macroprudential tightening should go further). In general, it will be important to strike a balance between containing the buildup of vulnerabilities and avoiding procyclicality and a disorderly tightening of financial conditions. Developments in the housing market would also need to be carefully monitored on the back of sizable price increases in many economies. In the United Kingdom,

attention should be kept on stress testing in the housing sector, and macro-prudential settings should be adjusted if problems emerge. In addition to the financial stability benefits of such measures, they can help reduce supply-demand imbalances in sectors that have seen significant volatility since the onset of the pandemic and sharp price increases in many cases (e.g., *United Kingdom, United States*).

23. Regulatory improvements should be sought in the non-bank financial sector. while significant progress has been made in improving the regulatory environment of non-bank financial intermediaries (NBFI), further action by regulators is warranted in this area, including by developing tools that strike a balance between containing vulnerabilities and avoiding procyclicality. In some economies (e.g., *United Kingdom, United States*), increasing resilience (including for Central Counterparty Clearing houses) is a priority area, as is a reduction of data gaps and a strengthening of liquidity management tools.²⁰ Efforts to introduce common standards and oversight for crypto assets should also be intensified to ensure consumer protection and a level playing field while at the same time avoiding disruptive episodes.

External Sector Policy

24. External risks will need to be carefully monitored and addressed, as needed, in the context of tighter policies and cross-border spillovers. Amid an expected further tightening in global financial conditions, as monetary policy in major advanced economies continue to tighten, emerging market economies are likely to continue to face risks from higher yields, capital flow reversals, and debt distress. To reduce these risks and achieve more balanced growth, prudent policy settings will be essential. While policies will inevitably differ across economies depending on their external positions and economic fundamentals, for economies where excess current account deficits are a result of fiscal deficits that exceed desirable medium-term levels, growth-friendly fiscal consolidation is key to achieving a balanced medium-term position. Conversely, encouraging private and public sector investment and discouraging excessive savings will be required for economies where excess current account surpluses persist. In many cases, flexible exchange rates can be the first line of defense, helping to cushion against shocks and facilitating the required adjustment. This is particularly the case in response to the recent strengthening of the US dollar, which has to a large extent been driven by economic fundamentals, including the rapid rise in US interest rates and more favorable terms-of-trade for the *United States*.²¹ However, severe disruptions in shallow currency markets could trigger large changes in currency hedging premia and local currency financing premia, and, in such cases, temporary foreign exchange intervention may be appropriate. Temporary capital flow management measures on outflows may be useful to prevent a full-blown crisis. However, such measures should not substitute for needed macroeconomic policy adjustment.²² More broadly, it is

²⁰ Cuervo and others, 2022, "<u>Strengthening Capital Markets—National Progress and Gaps,</u>" IMF Departmental Paper No. DP/2022/012, June.

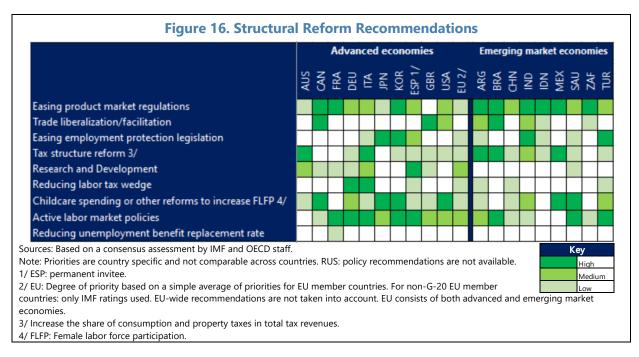
²¹ Gopinath and Gourinchas, 2022, "How Countries Should Respond to the Strong Dollar," IMF Blog, October 14.

²² See also the IMF's <u>Integrated Policy Framework</u> and the <u>Review of the Institutional View on The Liberalization and Management of Capital Flows—Background Note on Using the IPF Analytical Toolkit to Enhance Policy Assessments.</u>

essential that policy settings are internally consistent across fiscal, monetary, financial, and external sector policies.

B. Complementary Reforms Can Support Near- and Long-Term Growth

25. Amid a weak global economy, growth-enhancing structural reforms can help lift economic activity today in addition to boosting the medium-term growth potential. Structural reforms that help enhance confidence and investment would also help boost supply, thereby alleviating inflation pressures from supply-demand mismatches. The consensus assessment by IMF and OECD staff of structural reform needs highlights several areas of focus (Figure 16). In most G-20 economies, product market reforms remain the key structural policy priority, including to reduce inefficiencies associated with the sizable presence of state-owned enterprises (e.g., *China, South Africa*) and to lower regulatory barriers to entry (e.g., *China, France, Korea*). In addition, labor market reforms can help facilitate reskilling of workers and reduce skills mismatches (e.g., *France, Germany, Italy*). Support for high-quality, affordable childcare, parental leave, and other reforms to boost women's participation in the labor market would not only help support inclusion but would also increase the labor supply, thereby alleviating potential tightness in the labor market and supporting growth (e.g., *Germany, India, Japan, Korea, Mexico, Saudi Arabia, Türkiye*). In addition, it is important not to lose sight of the need to address learning losses from school closures during the pandemic.



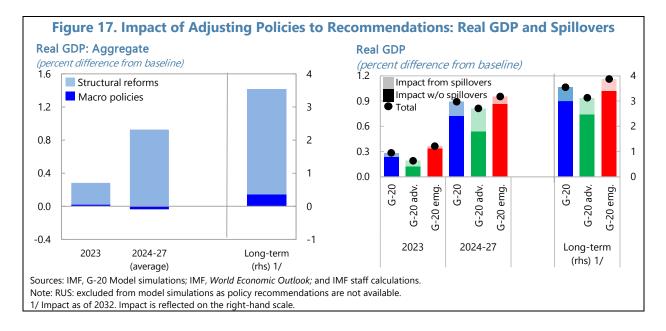
26. Strengthening trade policies and public investment can help prevent fragmentation and bolster growth. For a number of economies, trade policies—such as a reduction in tariffs (e.g., *Canada, India, United States*) and in non-tariff barriers (e.g., *Argentina, China*)—are key to facilitating international trade and alleviating global fragmentation pressures. Such policies could also support efforts to reduce inflation by reducing import costs. At the same time, streamlining and improving public investment processes can add impetus to green investment, accelerate the green transition,

and support growth. Helpful actions in this regard include (i) reducing burdensome administrative and legal hurdles; (ii) improving coordination across different levels of government; (iii) addressing limited planning capacity and labor and material shortages (e.g., *Germany*); and (iv) enhancing transparency and accountability of public procurement (e.g., *Italy*).

27. In addition, minimizing scarring from the pandemic is critical to ensure strong and inclusive growth. As financial conditions continue to tighten and support measures are withdrawn, elevated corporate debt and deteriorated balance sheets in the most impacted sectors could result in failures of otherwise-viable firms, as well as reduced investment. Boosting the capacity of insolvency regimes, including by ramping up the use of out-of-court restructuring mechanisms, would help address these challenges. Over the medium term, structural reforms and well-targeted fiscal measures can boost firms' incentives to invest and support reallocation of capital and labor towards their most efficient uses. Public investment, including in public R&D and workforce training, can boost private returns by providing necessary complementary inputs (e.g., Germany). At the same time, public investment in infrastructure, such as broadband, can help ensure widespread and equitable access to opportunities (e.g., Indonesia). In all economies, to minimize permanent learning losses from school closures during the pandemic, it is important to promptly assess the extent of learning losses and implement remedial measures to repair the damage incurred. These measures should include targeted tutoring for students, improved digital access and infrastructure (e.g., Indonesia), training for teachers (e.g., South Africa), and extended school years.

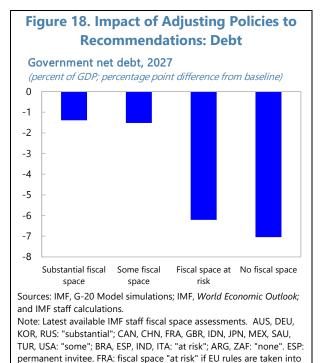
C. A Robust Policy Package Would Help Tackle Global Challenges

- 28. Over the near term, adjusting macroeconomic policies to align with IMF staff recommendations would help bring down near-term inflation in some economies and lift growth in others. Where price pressures warrant, a tighter-than-projected monetary policy stance would help bring down inflation faster than projected under current policy settings (e.g., *Türkiye*, *United Kingdom*). Moreover, fiscal policy can also support disinflation, such as in *France* and *Italy*, where a slightly tighter-than-projected near-term fiscal stance would not only support the build-up of fiscal buffers but also help contain inflation. In contrast, in the context of slowing growth and manageable inflationary pressures, additional macroeconomy policy support in *China*, beyond projections would increase growth by helping to boost domestic demand amid headwinds from the country's lockdown policies and real estate challenges (Figure 17). While the direct effects of policy support capture the majority of the impact, spillovers would also help support demand in trading partners.
- 29. Over the medium and long terms, the implementation of structural reforms would have a sizeable effect on output in the G-20 while fiscal consolidation is carried out. The need for a faster-than-projected reduction of inflation and debt ratios in some economies would weigh on growth in the years ahead. In this context, the growth-enhancing impact of implementing structural reform recommendations will be particularly helpful. Not only will they help lift output in individual economies, the increase in demand over time will also generate positive spillovers across the G-20.



30. Implementing the recommended policies would strengthen the outlook for public debt and reduce imbalances.

- The combination of tighter fiscal policy and structural reforms would serve to materially lower public debt burdens in the medium term. Notably, debt-to-GDP ratios in economies with no fiscal space or fiscal space at risk would be brought down markedly over the next years (e.g., India, Italy, South Africa, Spain; Figure 18). In addition to fiscal tightening, the growth benefits from structural reforms would also help reduce debt-to-GDP ratios. Moreover, stronger growth provides the opportunity to support more equitable outcomes.
- Adjusting the policy settings would also support rebalancing. Structural reform implementation and macroeconomic policy adjustment would serve to boost aggregate private demand, most notably private consumption—and in particular in economies exhibiting excess current account surpluses (Figure 19). In turn, this would rotate global demand, resulting in a reduction of current account surpluses and contributing to more balanced global growth.

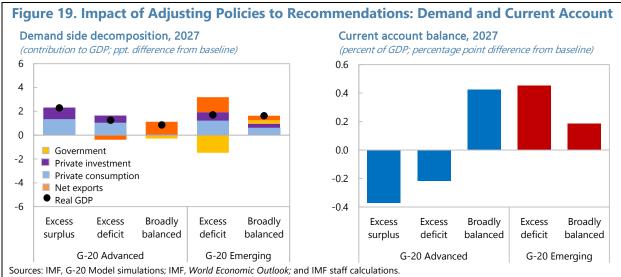


account. RUS: excluded from simulations as policy recommendations are not available. In most cases, lower government net debt

corresponds to lower gross debt to GDP; in some, it corresponds to

higher government assets to GDP.

21



Note: Country groups are based on overall external balance assessments in IMF, 2022, <u>External Sector Report</u> as follows: AUS, DEU, RUS: excess surpluses (i.e., "stronger" or "moderately stronger" external balances); ARG, CAN, ZAF, USA: excess deficits (i.e., "weaker" or "moderately weaker" external balances); BRA, FRA, CHN, IDN, IND, ITA, JPN, KOR, MEX, SAU, ESP, TUR, GBR: broadly balanced (i.e., external balances are "broadly in line"). RUS: excluded from model simulations as policy recommendations are not available; as such, no results for emerging market excess surplus countries are shown.

HALT FRAGMENTATION AND NURTURE INTEGRATION

Determined execution of sound multilateral policies is crucial to tackle common problems facing the global economy. The gains from closer trade and investment ties during the past decades must be protected and global economic fragmentation prevented. For sustainable and resilient growth, the gap between necessary and planned action on climate change must be reduced. Moreover, multilateral action is required to support the most vulnerable economies amid a period of significant stress.

A. It is Essential to Continue Reaping the Gains from Globalization

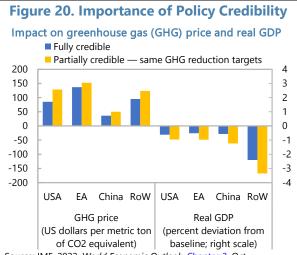
31. Maintaining and improving global trade and investment linkages are a shared responsibility.

- End the war in Ukraine. Lack of progress in ending the war would prolong human suffering, food and energy shortages, and demand-supply mismatches. A lasting peace between Ukraine and Russia would greatly improve the likelihood of preventing further geo-economic fragmentation and associated adverse global economic consequences.
- Remove recently imposed restrictions on food exports. While some economies have begun reversing these trade restrictions, further action is needed. Authorities should prioritize policies that support the international supply of food and ensure that it is able to reach those most in need, including by keeping transport corridors open. Where there are legitimate food security concerns, domestic policies can promote food access, including through the use of social safety nets, targeted food aid, and structural policies that enhance food supply.

• Build resilience in GVCs against future shocks. The pandemic and the war in Ukraine have exposed vulnerabilities in GVCs. In this regard, recent IMF research shows that protectionism does not improve GVC resilience. Instead, diversifying a country's sources of inputs internationally—reducing (rather than increasing) dependence on home-produced inputs—can protect countries against supply shocks that hit key world suppliers of intermediate inputs. In addition, it can help reduce economic volatility in the face of more wide-spread, correlated supply shocks. By contrast, actions to move production on-shore would increase concentration risks.²³ While private firms would be at the forefront of measures to build resilience, governments can assist by addressing information gaps in GVCs, lowering trade tensions, and providing a stable, rules-based trade policy regime. In particular, WTO reforms to restore effective dispute settlement and strengthen trade rules would make a major contribution to the global economy by encouraging countries to maintain more open, stable, and transparent trade policies.

B. Joint Action Can Support Both the Climate and Vulnerable Economies

Achieving the objectives of the Paris Agreement and effectively reducing carbon emissions require that the gap between ambition and action on climate change be **reduced**. A large gap persists between Nationally Determined Contributions to reduce greenhouse gas emissions and what is required to limit global warming to 1.5 degrees Celsius above preindustrial levels. An effective policy package to achieve long-term climate mitigation goals is essential. Carbon pricing should be the centerpiece of such a package, combined with green R&D incentives and investment in green infrastructure. As part of the package, redistribution of carbon pricing proceeds can help support vulnerable groups.²⁴ To coordinate a scaling up of global climate mitigation, the IMF has proposed an international carbon price floor arrangement, with a price floor of US\$25-US\$75, countries' differentiated by



Source: IMF, 2022, World Economic Outlook, Chapter 3, Oct.

Note: The chart shows the difference in outcomes under (i) full and (ii) partial credibility of climate policies aimed at reducing greenhouse gas (GHG) emissions by 25 percent relative to current levels by 2030. (i): the private sector (firms and households) takes current and future policies, including the price path, into account to adjust decisions. (ii): each increment of the GHG tax is expected to remain in place, but future increments come as a surprise. The policy package is based on benchmark elasticities and consists of a gradual GHG price increase from 2023 to 2030. 2/3 of revenues is used to reduce labor taxes; 1/3 is transferred to households.

development.²⁵ Such a policy would have the benefit of mitigating the need for border carbon adjustment policies, as it would limit competitiveness effects across countries in energy intensive

²³ IMF, 2022, World Economic Outlook, Chapter 4, April.

²⁴ IMF, 2020, World Economic Outlook, Chapter 3, October.

²⁵ Parry and others, 2021, "<u>Proposal for an International Carbon Price Floor among Large Emitters.</u>" IMF Staff Climate Notes.

industries.²⁶ While decarbonization of the world economy would entail some near-term costs—though higher for fossil-fuel rich and carbon-intensive economies—these should be manageable if action is not delayed.²⁷ Commitment to a credible climate policy path also substantially reduces the required carbon price to meet emission reduction targets as well as the GDP costs, relative to a policy in which future increases in the price of carbon are not fully anticipated (Figure 20). Moreover, given near-term energy concerns related to the war in *Ukraine*, it will be important to avoid setting back the green transition. Instead, governments should take the opportunity to invest in renewable energy rather than more fossil fuel-based sources and ensure that any interim measures, until sufficient green energy is on stream, remain temporary. Efforts are also needed to roll back fossil fuel subsidies and

to extend technological and financial support for developing economies to achieve climate mitigation and adaptation goals, including by mobilizing private finance.²⁸

Incorporating different types of climate

policy into the design of an international climate policy agreement can be helpful in reaching a joint agreement. Notably, where carbon pricing is not feasible, implementation of equivalent policies can in some cases be used to achieve mitigation at relatively modest economic cost. While a key strength of carbon pricing is that it optimally allocates mitigation to where abatement costs are lowest, in certain cases, regulations can be as effective as carbon pricing. For example, model simulations illustrate that in the electricity sector (a major source of carbon emissions), the availability of affordable substitutes to fossil fuel-based electricity implies

that the macroeconomic costs of carbon pricing

and regulation are broadly similar across key

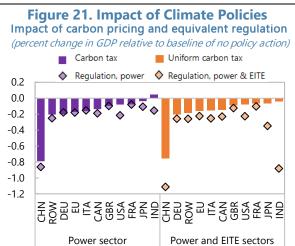
polluting economies (and relatively small)

(Figure 21). By contrast, regulations are costlier

than carbon pricing in terms of GDP losses in

sectors where abatement costs are more

heterogenous. This is because complying with a



Source: Chateau and others, forthcoming; IMF staff calc. Note: Impact of implementing climate policies relative to a baseline of no policy change. All policy actions are budget neutral. Simulations are from the IMF-ENV model. Climate policies are incorporated in (i) the power sector alone (purple section); or (ii) both the power and Energy Intensive and Trade Exposed (EITE) sectors (orange section). Purple diamonds: impact of regulatory policy requiring a 20 percent reduction in the share of fossil fuels-based power generation relative to 2030 (except for FRA and CAN, which have a high share of lowcarbon energy and are assumed to reduce the share of fossil fuelsbased power generation by 7 and 10 percentage points, respectively). Purple bars: impact of a carbon tax for the power sector that achieves the same CO₂ emission reduction as the aforementioned regulatory policy. Orange diamonds: impact of a regulatory policy scenario, implementing (i) the same regulatory policy for the power sector as above, and (ii) a regulation on the "direct" emissions for each EITE sector, by reducing the emission intensity of each EITE sector linearly from 2022 so as to decline by 20 percent below the 2030 baseline emission intensity level. Orange bars: impact of a uniform carbon tax for the power and EITE sectors such that the joint annual emissions are identical to those in the regulatory policy scenario for the power and EITE sectors. EU: consists of both advanced and emerging market economies

33.

²⁶ Chateau and others, 2022, "Economic and Environmental Benefits from International Cooperation on Climate Policies," IMF Departmental Paper No. DP/2022/007, March.

²⁷ IMF, 2022, World Economic Outlook, Chapter 3, October.

²⁸ Prasad and others, 2022, <u>"Mobilizing Private Climate Financing in Emerging Market and Developing Economies,"</u> IMF Staff Climate Notes.

common regulation is more difficult across heterogenous sectors (e.g., Energy Intensive and Trade Exposed sectors).²⁹

34. A joint approach is required to support vulnerable economies, implement international taxation, and enhance pandemic preparedness.

- Ensure support for the most vulnerable economies amid high debt and borrowing costs. While the global financial safety net (including central bank swap lines and IMF-supported arrangements) provides a critical safety net for countries during periods of heightened risk, liquidity support alone may be insufficient for the most vulnerable economies. The IMF's new Food Shock Window will help provide access to emergency financing to countries with urgent balance of payments needs that are suffering from acute food insecurity, a sharp food imports shock, or from a cereals export shock.³⁰ The operationalization of the IMF's Resilience and Sustainability Trust will help countries build resilience to external shocks and ensure sustainable growth.³¹ However, several emerging market and low-income economies face high borrowing costs. Some economies are in complex defaults that are yet to be resolved. Greater progress towards orderly debt restructuring is therefore essential, as is improved debt transparency. The G-20 Common Framework for Debt Treatments offers guidance for restructuring, but the framework needs strengthening, and implementation should be accelerated. Helpful actions would include greater clarity and agreement from official creditors on the different steps and timelines during the process, agreement on debt service standstills during the negotiation period, and an expansion of coordinated debt treatments to non-DSSI-eligible economies, including middle-income countries
- Advance progress on international taxation. Timely implementation of the historic agreement
 among members of the OECD-led Inclusive Framework on international corporate taxation is key,
 as implementing the G-20/OECD agreement would significantly improve international taxation and
 reduce both tax competition between economies and profit shifting by multinationals. In this
 respect, Pillar One of the agreement is on track for delivery by mid-2023, and technical work under
 Pillar Two is largely complete.³²
- Continue to strengthen pandemic preparedness. Closing the Act-A grant financing gap for vaccines, diagnostics, PPE, and oxygen remains vital to help protect against COVID-19 and end the pandemic. As the emphasis shifts from the COVID-19 emergency response to preparing for future pandemics, the establishment of the Financial Intermediary Fund for Pandemic Prevention, Preparedness, and Response is welcome. In addition, investing in R&D, genomic surveillance, and health systems would further help prepare for the emergence of future threats.

that also need debt treatment urgently.

²⁹ Chateau and others, forthcoming, "Climate Policy Options: A comparison of economic performance," IMF Working Paper.

³⁰ IMF, 2022, Press Release No. 22/327, September.

³¹ IMF's <u>Resilience and Sustainabilty Trust website</u>.

³² OECD press release, "International tax reform: Multilateral Convention to implement Pillar One on track for delivery by mid-2023," July 11, 2022.

Table 1. Real GDP Growth

(percent change)

| | | Y | ear over Ye | ar | | | | |
|---|-------------|------|-------------|------------------|------|------|------------|------|
| | | | Projection | S | | | Deviations | ; |
| | (Oct. 2022) | | | (from Jul. 2022) | | | | |
| | 2020 | 2021 | 2022 | 2023 | 2027 | 2022 | 2023 | 2027 |
| World | -3.0 | 6.0 | 3.2 | 2.7 | 3.2 | 0.0 | -0.2 | -0.1 |
| Advanced Economies | -4.4 | 5.2 | 2.4 | 1.1 | 1.7 | -0.1 | -0.3 | 0.1 |
| Euro area | -6.1 | 5.2 | 3.1 | 0.5 | 1.5 | 0.5 | -0.7 | 0.1 |
| Emerging Market and Developing Economies | -1.9 | 6.6 | 3.7 | 3.7 | 4.3 | 0.1 | -0.2 | 0.0 |
| G-20 1/ | -2.8 | 6.3 | 3.0 | 2.5 | 3.1 | 0.0 | -0.2 | -0.1 |
| Advanced G-20 2/ | -4.5 | 5.0 | 2.1 | 0.9 | 1.6 | -0.2 | -0.3 | 0.0 |
| Emerging G-20 3/ | -1.4 | 7.3 | 3.7 | 3.8 | 4.3 | 0.2 | -0.1 | -0.1 |
| Argentina | -9.9 | 10.4 | 4.0 | 2.0 | 2.0 | 0.0 | -1.0 | 0.0 |
| Australia | -2.1 | 4.9 | 3.8 | 1.9 | 2.3 | 0.0 | -0.3 | -0.3 |
| Brazil | -3.9 | 4.6 | 2.8 | 1.0 | 2.0 | 1.1 | -0.1 | 0.0 |
| Canada | -5.2 | 4.5 | 3.3 | 1.5 | 1.7 | -0.1 | -0.3 | 0.0 |
| China | 2.2 | 8.1 | 3.2 | 4.4 | 4.6 | -0.1 | -0.2 | -0.1 |
| France | -7.9 | 6.8 | 2.5 | 0.7 | 1.4 | 0.2 | -0.3 | 0.0 |
| Germany | -3.7 | 2.6 | 1.5 | -0.3 | 1.3 | 0.3 | -1.1 | 0.0 |
| India 4/ | -6.6 | 8.7 | 6.8 | 6.1 | 6.2 | -0.6 | 0.0 | 0.0 |
| Indonesia | -2.1 | 3.7 | 5.3 | 5.0 | 5.1 | 0.0 | -0.2 | -0.1 |
| Italy | -9.0 | 6.6 | 3.2 | -0.2 | 0.7 | 0.2 | -0.9 | 0.2 |
| Japan | -4.6 | 1.7 | 1.7 | 1.6 | 0.4 | 0.0 | -0.1 | 0.0 |
| Korea | -0.7 | 4.1 | 2.6 | 2.0 | 2.3 | 0.3 | -0.1 | 0.0 |
| Mexico | -8.1 | 4.8 | 2.1 | 1.2 | 2.1 | -0.3 | 0.0 | 0.0 |
| Russia | -2.7 | 4.7 | -3.4 | -2.3 | 0.7 | 2.6 | 1.2 | 0.0 |
| Saudi Arabia | -4.1 | 3.2 | 7.6 | 3.7 | 3.0 | 0.0 | 0.0 | 0.0 |
| South Africa | -6.3 | 4.9 | 2.1 | 1.1 | 1.4 | -0.2 | -0.3 | 0.0 |
| Spain 5/ | -10.8 | 5.1 | 4.3 | 1.2 | 1.7 | 0.3 | -0.8 | 0.0 |
| Türkiye | 1.9 | 11.4 | 5.0 | 3.0 | 3.0 | 1.0 | -0.5 | -0.3 |
| United Kingdom | -9.3 | 7.4 | 3.6 | 0.3 | 1.5 | 0.4 | -0.2 | 0.0 |
| United States | -3.4 | 5.7 | 1.6 | 1.0 | 1.9 | -0.7 | 0.0 | 0.0 |
| European Union | -5.6 | 5.4 | 3.2 | 0.7 | 1.7 | 0.4 | -0.9 | 0.0 |

Source: IMF, 2022, World Economic Outlook, October.

^{1/} G-20 aggregations 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/} India's real GDP growth rates are calculated as per national accounts: with base year 2011/12.

^{5/} Permanent invitee.