GROUP OF TWENTY

G20 REPORT ON STRONG, SUSTAINABLE, BALANCED, AND INCLUSIVE GROWTH

2025

Prepared by Staff of the

INTERNATIONAL MONETARY FUND*

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

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CONTENTS

FIGURES

TABLES

BOXES

EXECUTIVE SUMMARY

Progress towards G20 objectives of strong, sustainable, balanced, and inclusive growth are being tested by complex policy shifts and structural transformations. G20 growth has shown resilience but remains modest—projected at 3.2 percent for 2025—and is expected to moderate further amid headwinds including from protectionism and policy uncertainty: medium-term prospects—at just 2.9 percent—are the weakest since the global financial crisis. Disinflation continues but remains incomplete for many, with overall G20 headline inflation projected at 3.5 percent in 2025. Meanwhile, public finances are stretched thin, and excessive external balances are widening once again. Survey results point to some positive shifts over the past year toward stronger and more sustainable growth, but progress has been more muted towards more balanced and inclusive growth.

G20 economies cannot afford to ignore strains on public finances amid low-growth prospects, elevated public debt levels, and rising spending needs. For most, greater fiscal consolidation is recommended in the near and medium term to rebuild fiscal space and accommodate spending pressures, including those arising from aging populations. For most of the African Union (AU), this also includes providing opportunities for rapidly-growing populations. Although monetary policy remains broadly in line with recommendations, the disinflation process remains incomplete for many and central banks must remain focused on delivering price stability in line with mandates, supported by central bank independence. Where risks are posed by stretched asset valuations, fiscal-financial vulnerabilities, and rising bank exposure to NBFIs, tighter macrofinancial policies are recommended.

At the same time, structural reforms can help achieve domestic rebalancing and foster stronger growth. Fiscal reforms are widely recommended to aid gradual and credible consolidation and improve spending efficiency. To unlock growth, many G20 economies are encouraged to reform labor market institutions, education, and skills training. Governments should ensure that private entrepreneurs can innovate, thrive, and drive growth, with reforms to business regulation and the climate transition of high priority for G20 emerging market economies, and innovation and digitalization of importance for many G20 advanced economies. Foundational governance reforms remain critical in most AU economies. Implementing priority reforms can significantly improve medium- and long-term growth across the G20 and, together with recommended macroeconomic policies, can lower debt and support a reduction in excess external balances.

Policies need to restore confidence and predictability to improve growth prospects, and international cooperation has an important role to play. Policymakers should set out clear, transparent, and rules-based trade policy road maps to reduce uncertainty and support investment. Actions to address distortions—including industrial policies and tariffs—must be paired with macroeconomic adjustment to address excess external imbalances. Geopolitical tensions highlight the importance of adaptive and well-functioning international cooperation—including through the G20—to support growth objectives, and there remain many areas for cooperation.

Prepared under the guidance of Aqib Aslam by a team led by Neil Meads and comprising Nicolas Fernandez-Arias (co-lead), Eric Bang, Jared Bebee, Shushanik Hakobyan, Xiaomeng Mei, Johannes Rosenbusch. Paula Beltran Saavedra also contributed in the early stages. Camara Kidd and Ilse Peirtsegaele provided administrative support. Prepared based on information available as of November 3, 2025. The report does not necessarily reflect the views of G20 members. Past G20 SSBIG reports are available on IMF.org.

ASSESSING PROGRESS TOWARD STRONG, SUSTAINABLE, BALANCED, AND INCLUSIVE GROWTH[1]

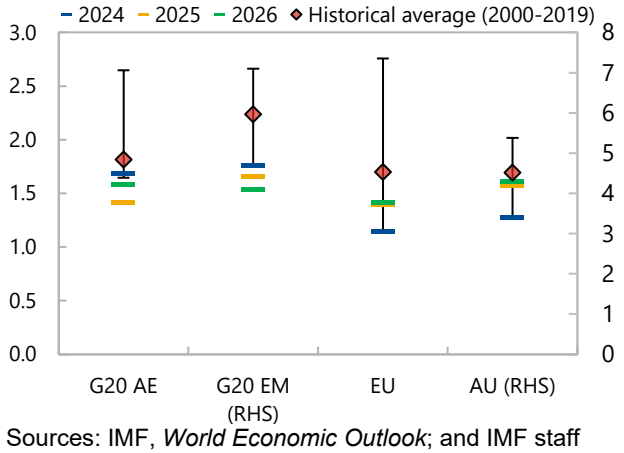
Trade-policy shifts and elevated uncertainty are adding headwinds and risk undermining growth without resolving structural imbalances. At the same time, demographic shifts are adding to pre-existing productivity challenges and fiscal pressures in many G20 economies, while economies in the African Union will need to undertake significant investments to leverage their demographic dividend.

A. The growth outlook remains mediocre and uncertain

1. A moderate growth slowdown is underway in the near term, with activity weighed down by higher tariffs and elevated uncertainty. G20 growth is projected to moderate to 3.2 percent in 2025 and 3.0 percent in 2026—cumulatively 0.2 percentage points lower than at the time of the 2024 G20 Report on Strong, Sustainable, Balanced, and Inclusive Growth (SSBIG).[2] For both G20 advanced economies and emerging market economies, near-term growth is expected to remain at levels that are significantly below historical averages. Meanwhile, near-term growth is expected to pick up slightly relative to 2024 growth outturns in the European Union (EU) and revert close to historical averages in the African Union (AU) (Figure 1). Prolonged policy uncertainty and increasing migration restrictions in several advanced economies could further dampen investment and consumption—adding further risks to the outlook, which are already tilted to the downside (see Chapter 1 of the October 2025 *World Economic Outlook*).[3]

Figure 1. Real GDP Growth

(percent)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Notes: Whiskers indicate the interquartile range of observations between 2000-2024.

2. Economic resilience witnessed in the first half of 2025 is starting to fade. Alongside stimulative fiscal policy in several major economies and easier global financial conditions from a

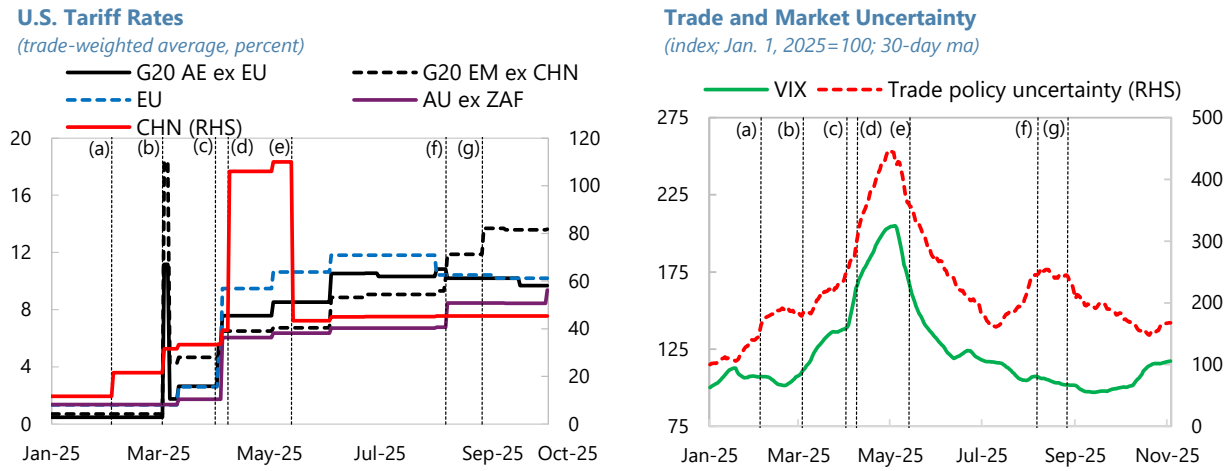
[1] For definitions of strong, sustainable, balanced, and inclusive growth used in this Report, see Annex I. In some instances, country group aggregates presented within this report mask significant between country heterogeneity—additional country-level information is provided within the accompanying SSBIG dashboard.

[2] On a year-end basis, growth at the end of 2025 is also 0.4 percentage points lower than projected at the time of the 2024 Report.

[3] Uncertainty effects could materialize through both real-options channels (Bernanke 1983)—wherein households and firms deter irreversible expenditures to avoid costly mistakes— and precautionary savings behavior (Bansal and Yaron 2004). Empirical estimates suggest that a one standard deviation in economic policy uncertainty leads to a 2 percent drop in investment, peaking around 2-years after the shock (Londono and others 2025).

weaker US dollar, better-than-expected growth outturns in the first half of 2025 were supported by temporary factors—such as front-loading of trade and investment and inventory management strategies—rather than fundamental economic strength. Indeed, investment slowed materially in the *United States* and the *euro area* in the second quarter of the year—despite growing technology investment related to artificial intelligence (AI)—alongside modest consumption growth relative to previous years and, in the former, weakening labor markets. Furthermore, while recent trade deals have tempered some extremes, effective tariff rates and measures of economic uncertainty remain elevated compared to the start of 2025 (Figure 2).[4]

Figure 2. Tariffs and Uncertainty



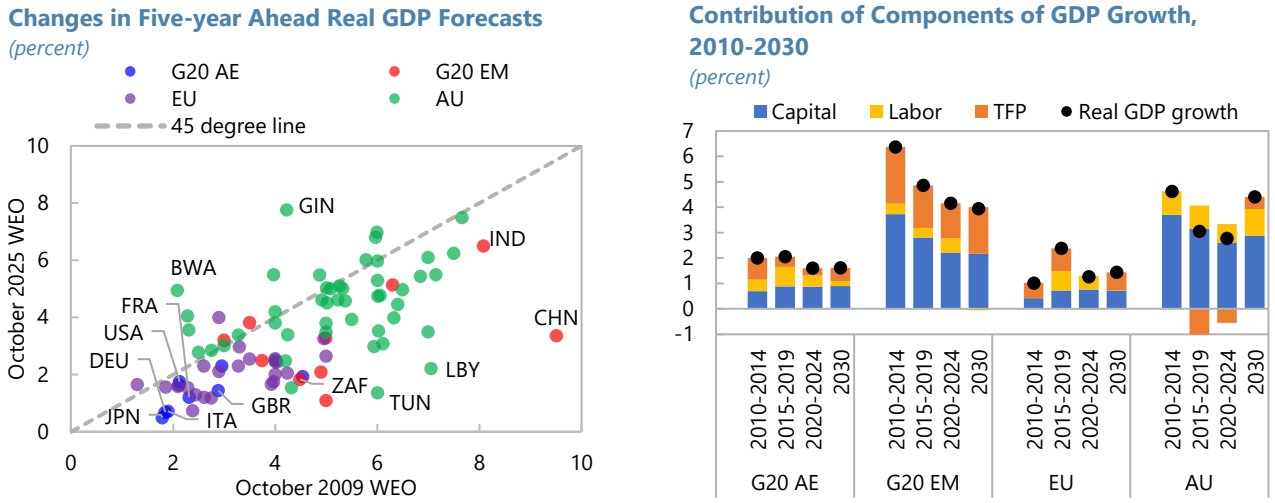
Sources: Bloomberg Finance; TPU index of Caldara and others (2020), matteoiacoviello.com/tpu.htm; WTO-IMF Tariff Tracker; and IMF staff calculations.
Notes: Vertical lines indicate key tariff dates. From left to right: (a) Additional 10 percent tariff on China (February 4); (b) Additional tariffs on *Canada*, *China*, *Mexico* (March 4, postponed on March 6); (c) Sweeping tariffs announced (April 2); (d) Implementation of baseline April 2 tariffs (April 9); (e) Reduction of higher tariffs on *China* (May 14); (f) Implementation of reciprocal April 2 tariffs (August 7) and additional 40 percent tariff on Brazil (August 6); (g) Additional tariffs imposed on *India* (August 27). Country labels in the figure use International Organization for Standardization (ISO) codes.

3. At just 2.9 percent, the medium-term G20 growth outlook is at its weakest since the G20 Pittsburgh Summit in 2009. The weakening in five-year ahead growth prospects has been broad-based across G20 advanced economies, G20 emerging market economies, EU, and AU members, with *China* seeing the largest slowdown among G20 economies following a period of rapid growth (Figure 3, LHS). Slowing medium-term growth prospects for some emerging market and developing economies (including *South Africa*) are setting-back the pace of income convergence with advanced economies, even after accounting for substantial declines in the growth outlook for several G20 advanced economies (e.g., *Japan*, *France*, *Germany*, *Italy, United Kingdom*). Declining labor supply growth is expected to keep medium term growth prospects muted in G20 advanced economies, and on a moderating path in G20 emerging market economies, despite a slight pickup in productivity

[4] Higher tariffs constitute a negative near-term supply shock in economies raising tariffs, given the importance of imported capital and intermediate inputs, and a negative demand shock in most tariffed economies.

growth (Figure 3, RHS). Only in AU economies is labor supply growth expected to make a significant contribution to growth in the medium-term.

Figure 3. Medium-Term Growth Prospects

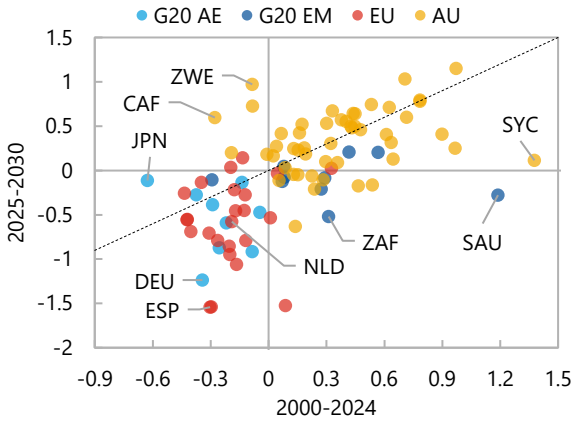


Sources: IMF, *World Economic Outlook;* Feenstra and others (2015), *Penn World Table*; UN, *World Population Prospects*; World Bank, *World Development Indicators*; and IMF staff calculations.
Notes: Left panel: dots correspond to individual G20 economies; the horizontal (vertical) access equal to medium-term (five-year ahead) growth projections from the IMF's October 2009 (October 2025) *World Economic Outlook*. Points below (above) the 45-degree line correspond to economies with deteriorating (improving) medium-term growth prospects. The chart excludes three outliers: Equatorial Guinea (increased from -1.9 to 2.1), Liberia (decreased from 12.9 to 5.6), Mozambique (increased from 6.5 to 11.3). Country labels in the figure use International Organization for Standardization (ISO) codes.

4. Population aging has been a key—and increasingly important—driver of moderating growth prospects. Since the turn of the century, population aging has placed downward pressure on potential growth in many G20 advanced economies—reducing growth in output per capita by up to 0.6 percent per year in Japan (Figure 4; also see G20 Background Note on the Implications of Aging and Migration on Growth and Productivity and Annex II of this Report).[5] Looking ahead, the headwinds from aging and declining populations are expected to accelerate in most G20 advanced economies. Moreover, lower immigration in several advanced economies—reflecting, among other factors, higher barriers to immigration—may also lower potential growth, particularly as immigrants tend to be of working age (see Chapter 3 of the April 2025 *World Economic Outlook*). At the same time, the demographic dividends which had been supporting growth in most G20 emerging market economies are expected to wane or even reverse. By contrast, medium-term growth prospects in most AU economies will continue to benefit from increases in the share of working-age population, as well as increases in the overall population itself, which will require a near-term increase in public spending to harness.

Figure 4. Change in Working Age Share of Population

(percent, annualized)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.

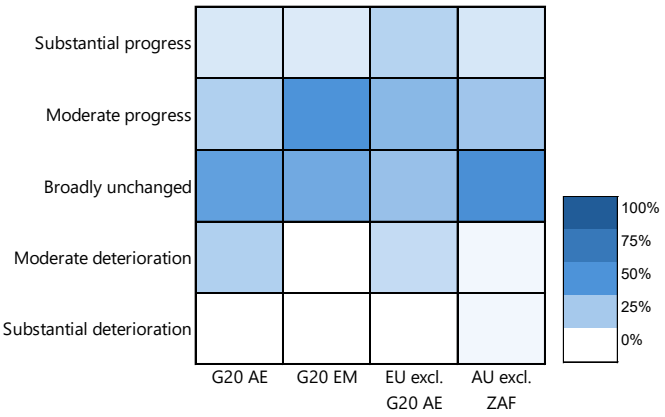
Notes: The dashed line has a slope of 1, with points below (above) the line corresponding to economies expected to see a higher (lower) rate of decrease in the share of population that is of working age in the next five years. Working age population share is computed as the share of the population of at least 15 years of age and with a higher life expectancy remaining than a 65-year-old in 2023 given historical and projected age-mortality rates in each economy. Country labels in the figure use International Organization for Standardization (ISO) codes.

[5] The decline in growth of output per capita in Japan has also occurred alongside a 2.5 percent decline in population. Changes in output per capita Y/N can be decomposed into changes in output per adult of working age Y/N^w and changes in the share of the population which is of working age N^w/N. The direct impact of demographics assessed here refers to the contribution of the second term N^w/N. See Fernández-Villaverde and others, 2023.

5. Despite the combination of near-term uncertainty and persistent medium-term headwinds, IMF staff assessments indicate some positive momentum toward securing Strong growth in many G20 economies (Figure 5). According to a new survey,[6] while progress in many G20 advanced economies was assessed as broadly unchanged (e.g., *Japan*, *United States*), substantial progress was assessed for *Germany*, supported by reforms to fiscal rules; moderate progress was assessed for *Canada* and the *United Kingdom*), and a moderate deterioration was assessed for *Australia*. Among G20 emerging market economies, there was moderate progress in *Brazil* and *Indonesia*, supported by stronger than anticipated growth outturns, as well as *China*, due to an increase in the retirement age, and *Saudi Arabia*, on account of structural reforms to diversify the economy. The assessments of EU economies ranged somewhat evenly from substantial progress to moderate deterioration, while AU economies' assessments were primarily of no progress or moderate progress.

Figure 5. Progress toward Strong Growth

(share of responses, percent)



Sources: IMF staff assessments and calculations.
Notes: The figure shows the percentage of economies within each group (column) assessed by IMF country teams to have made the corresponding degree of progress between reports (row). For definition of Strong Growth, see Annex I.

B. Sustainable growth faces challenges

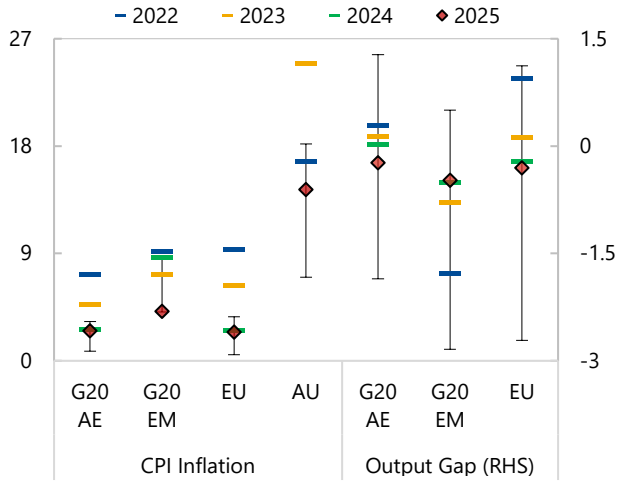
6. Inflation has been receding, and output gaps have largely closed, but tariff increases are starting to feed into price pressures. Inflation has continued its descent toward target-consistent levels in most G20 economies since the post-pandemic surge, alongside shrinking output gaps (Figure 6). Global inflation is expected to continue to decline in the near-term as demand cools and energy prices continue to fall, with projected global inflation of 4.2 in 2025 (down from 4.3 in the 2024 G20 Report on SSBIG). However, the increase in tariffs poses an upside risk to inflation in those economies implementing tariff hikes, which, when combined with cooling labor markets, can complicate the conduct of monetary policy. While initially consumer prices showed resilience to announced and implemented tariffs, high-frequency indicators point to rising producer prices—for the time being, absorbed by firm margins—and to rising core inflation in the *United States,* where inflation is now expected to return to target only in 2027 (from 2025 at the time of the 2024 G20 Report on SSBIG). Some measures of inflation expectations are also still proving fragile (e.g., among households in the *United States* and *Japan*). In *China*, by contrast, headline inflation is expected to remain low, due to weak domestic demand and subdued food and energy prices.

[6] This year's report draws from a new survey of IMF staff working on G20 economies to assess progress over the past year for each dimension of Strong, Sustainable, Balanced, and Inclusive growth. See Annex III for a description of the survey questions underlying the heatmaps in Figures 5, 9, 12, 13, 14, and 18.

7. Debt dynamics continue to constrain fiscal policy. For many G20 economies, public debt levels and interest rates are higher while growth prospects are weaker than observed prior to the COVID-19 pandemic—and weaker still than in 2009. Together these factors are placing strain on public finances and, absent fiscal consolidation, could result in potentially destabilizing debt dynamics. However, a significant portion of G20 economies, both advanced and emerging market, continue to maintain expansionary fiscal policy stances over the medium term despite these less favorable conditions (Figure 7, LHS). Uncertainty over the level of neutral interest rates also presents risks for public debt and inflation—continued borrowing could further increase global rates, particularly if investment in new technologies (e.g., Artificial Intelligence (AI)) also accelerates in the medium term.

Figure 6. Inflation Outturns and Output Gaps

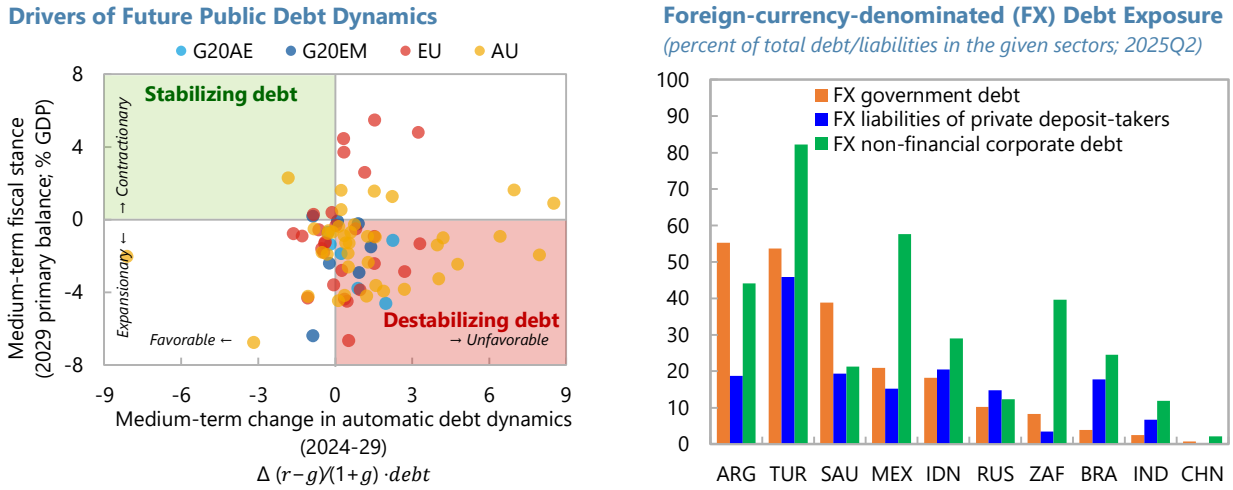
(percent)



Sources: IMF, *World Economic Outlook*; and IMF staff calculations.
Notes: Diamonds represent the PPP GDP-weighted average value in that year. Whiskers show the 10th to 90th percentile range over 2000–24. Results for 2025 refer to projections for 2025 in the October 2025 *World Economic Outlook*.

8. A marked depreciation of the U.S. dollar has the potential to moderate broader inflationary pressures and provide debt servicing respite. The US dollar has declined by nearly 10 percent against a trade-weighted basket of currencies since the start of 2025. That depreciation stands in stark contrast to appreciations during previous episodes of trade tensions and likely reflects increased hedging demand by non-US investors and a potential reassessment of the dollar's strength over the past decade (October 2025 IMF *Global Financial Stability Report*). A weaker U.S. dollar is providing some respite to G20 emerging market economies with elevated foreign currency denominated debt exposure—albeit potentially tempered by investor concerns over U.S. dollar volatility, which could raise yields (Figure 7, RHS). At the same time, with the U.S. dollar used widely for trade invoicing and settlement (see Chapter 1 of the 2025 *External Sector Report*), its depreciation has generated disinflationary pressures in other economies.

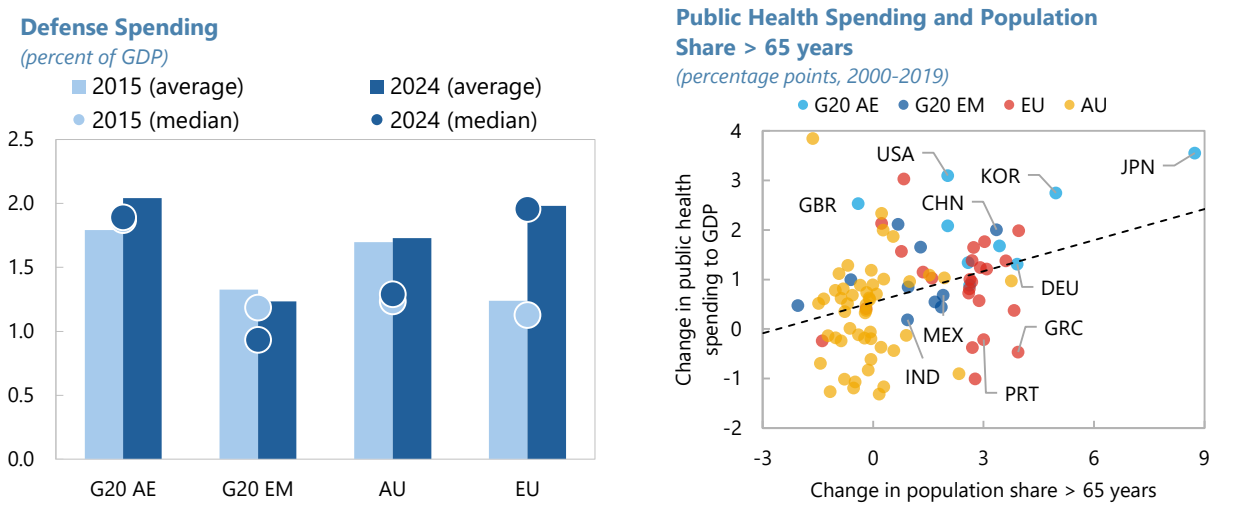
Figure 7. Public Debt and Foreign-currency-denominated Debt Exposure



Sources: Haver Analytics; IIF; IMF, *Financial Soundness Indicators*; IMF, *World Economic Outlook*; and IMF staff calculations.
Notes: Right panel: for FX liabilities of private deposit-takers, IDN, IND and TUR data as of 2025Q1. ZAF data as of 2024Q4. RUS data as of 2024Q1. ARG, BRA, and SAU data as of 2021Q3. MEX data as of 2021Q1. No data availability for CHN. Country labels in the figure use International Organization for Standardization (ISO) codes.

9. Rising spending needs are adding to fiscal challenges. Against a backdrop of rising geopolitical tensions, some G20 members have increased defense spending as a share of GDP in recent years. Increases have been particularly large within the EU and are set to continue as countries target NATO commitments of 5 percent of GDP by 2035 (Figure 8, LHS). For many G20 economies, spending pressures related to healthcare and public pension provision will likely also become more acute as populations age, even with the potential for healthy aging to help mitigate these costs (see Chapter 2 of the April 2025 *World Economic Outlook* and Chapter 2 of the April 2025 *Fiscal Monitor*). Some economies with more rapidly aging populations have already observed faster increases in public health expenditures (Figure 8, RHS). At the same time, aging and projected declines in population will also translate into lower fiscal revenues. By contrast, in economies with a large share of individuals below working age and growing populations—including many AU economies—spending on public education and infrastructure will need to increase to reap the demographic dividend. Many of these same economies will also need to sustainably mobilize domestic revenues to help finance broader development needs and mitigate the effects of natural disasters while contending with declining aid flows from developed economies (see G20 Background Note on Macroeconomic Vulnerabilities in Africa: Key Issues and Policy Lessons).

Figure 8. Defense Spending and Public Health Spending

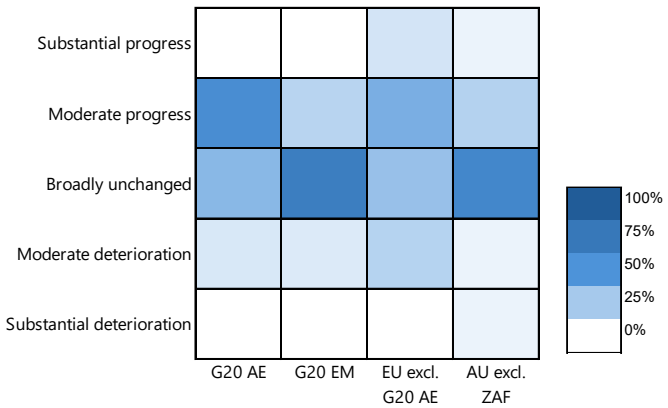


Sources: SIPRI; IMF, *World Economic Outlook*; World Bank, *World Development Indicators*; UN, *World Population Prospects*; and IMF Staff Calculations.
Notes: Left panel excludes data for Russia and Ukraine. Right panel excludes Saudi Arabia, Libya, and Zimbabwe due to data limitations. The dashed line comes from a linear regression with slope of 0.21 and statistical significance at the 1 percent level. The population share > 65 years is adjusted for time-varying country-specific age-mortality rates; it is computed as the share of the population with a lower share of life remaining than a 65-year-old in 2023 given historical and projected age-morality rates in each country. Country labels in the figure use International Organization for Standardization (ISO) codes.

10. IMF staff broadly assess that there has been some progress toward Sustainable growth for most economies amid significant challenges, but a few have witnessed a moderate deterioration (Figure 9). The majority of G20 advanced economies were assessed to have seen moderate progress toward sustainable growth (e.g., *Australia*, on falling inflation; *Italy*, on fiscal consolidation, and the *United Kingdom*, on broad fiscal and structural reforms), with deterioration assessed only in the *United States*, where recent fiscal policy actions are expected to increase public debt. For most G20 emerging markets sustainable growth prospects were broadly unchanged, though progress was assessed in *Argentina* and *Saudi Arabia*, and moderate deterioration in *Brazil*, on rebounding inflation and fiscal uncertainty. Many EU economies saw moderate progress, while AU economies' assessments varied more widely from substantial progress to substantial deterioration.

Figure 9. Progress toward Sustainable Growth

(share of responses, percent)



Sources: IMF staff assessments and calculations.
Notes: The figure shows the percentage of economies within each group (column) assessed by IMF country teams to have made the corresponding degree of progress between reports (row). For definition of Sustainable Growth, see Annex I.

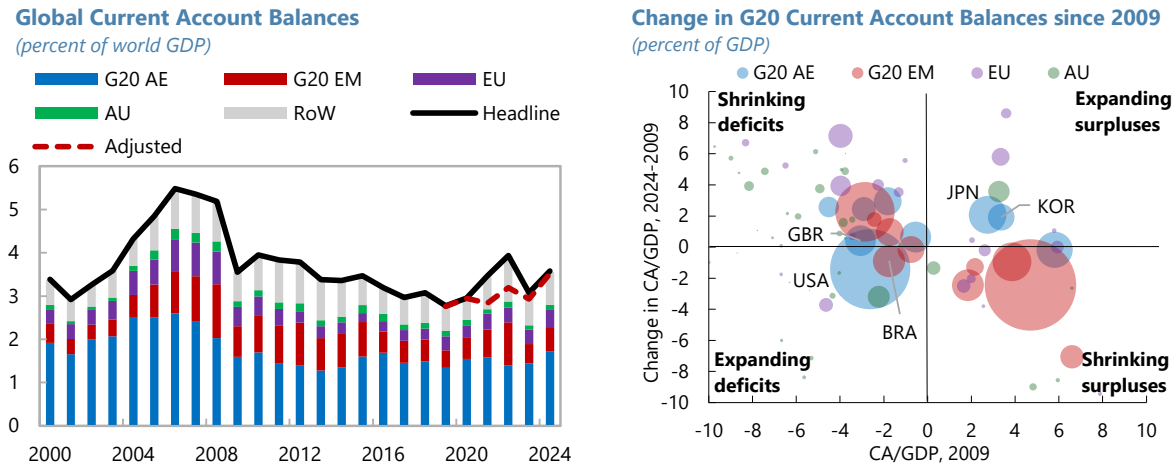
C. Imbalances persist

11. Prior to the COVID-19 pandemic, global current account balances had been on a downward trend since the Global Financial Crisis (GFC). After peaking at 5.5 percent of

world GDP in 2006 on the back of large deficits in the *United States* and surpluses in *China*, oil exporters, and some advanced economies, total global current account balances fell sharply during the GFC as trade and commodity prices fell. They continued to narrow gradually further as *China*'s surplus shrank, and oil revenues weakened (Figure 10, LHS). More recently, abstracting from volatility induced by the COVID-19 pandemic and Russia's war in Ukraine, global current account balances were broadly stable. Overall, within the G20, current account balances have narrowed since the GFC in most economies, although deficits (*Brazil*, *United Kingdom*, *United States*) and surpluses (*Japan*, *Korea*) have widened for some (Figure 10, RHS).

12. There may be good economic reasons for economies to run current account surpluses or deficits. For instance, due to economic fundamentals such as demographics (Annex II) or variations in desirable medium-term policies. However, large and persistent deficits—and associated cumulating net foreign liabilities—can expose economies to a sharp rise in risk premia, triggering a sudden loss of market access, and an abrupt and painful adjustment. If the country has a large weight in the global economy or is highly interconnected, the associated economic downturn may spill over to others (Blanchard and Milesi-Ferretti 2011; Gourinchas and Obstfeld 2012). Likewise, large and persistent surpluses—when reflecting domestic distortions—can depress global interest rates and induce other countries to borrow excessively. Surging surpluses in large economies can also cause severe sectoral dislocations in trading partners and fuel protectionist sentiment, with harmful effects for the global economy.

Figure 10. Current Account Balances



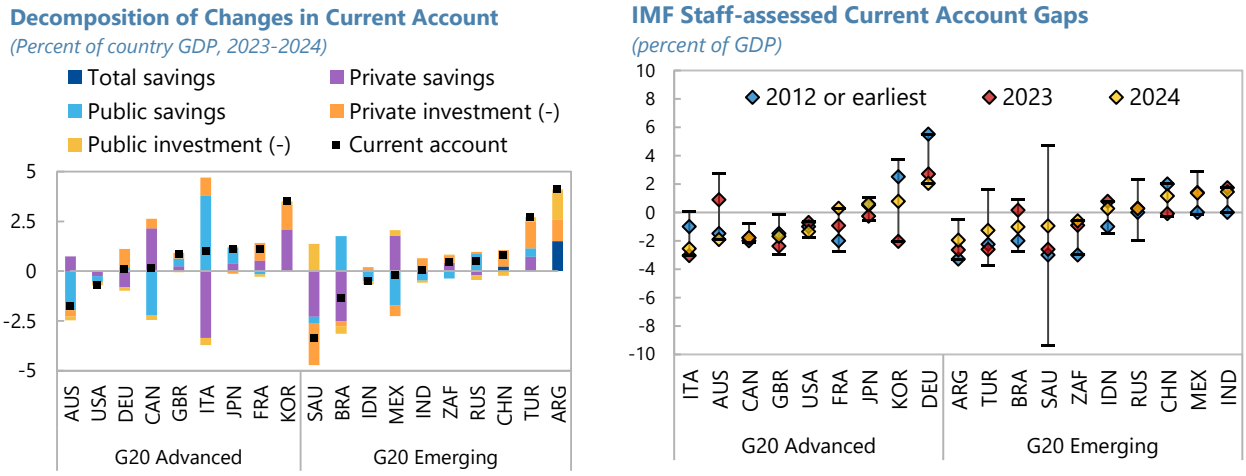
Sources: IMF, *External Sector Report*; IMF, *World Economic Outlook*; and IMF staff calculations.
Notes: Left panel: global current account balances are computed as the sum of the absolute values of current account balances in each economy globally. The "Adjusted" series removes from the 2020–24 headline global current account balance the impact of (1) COVID-19 pandemic factors as identified in Figure 1.3 of the 2024 IMF External Sector Report, and (2) commodity price fluctuations, identified by removing fluctuations in "oil exporters" group's current account balances relative to the group's average surplus over the preceding decade. Oil exporters comprise the IMF, World Economic Outlook definition, plus Norway. Country labels in the figure use International Organization for Standardization (ISO) codes.

13. Changes in current account balances in the past two decades reflect changes in structural saving-investment gaps. Surpluses in the *euro area*, *China*, *Japan*, and *Korea* remain underpinned by high savings relative to investment, with the *euro area* increasingly supported by fiscal consolidation, and *China* maintaining large savings given the fall in private investment over 2023–24 amid the protracted contraction in the property sector (Figure 11, LHS; SSBIG Dashboard). By contrast, deficits in the *United States* and *Australia* are largely explained by weak public savings, with fiscal deficits outweighing private savings. In many other economies, current account balances are small, though the underlying drivers differ—*Canada* and *Mexico* record strong private savings offset by weak public savings, while *Russia* posts modest surpluses on account of higher private savings.

14. Current account balances widened in 2024 due to an increase in excess balances. The downward trend in global current account balances halted in 2024, widening by 0.6 percentage points of world GDP, the largest increase since the pre–GFC period, as surpluses increased in *China* and some advanced economies and deficits increased in the *United States* (Figure 10, LHS, and 2025 IMF *External Sector Report*).[7] About two-thirds of the increase in global headline current account balances in 2024 is assessed to be driven by widening excess current account balances in (i) *China*, which shifted from a small excess deficit in 2023 to an excess surplus; (ii) the *United States*, where the excess deficit doubled, and (iii) the *euro area*, with a modest increase in its excess surplus (Figure 11, RHS). Excess current account balances in other economies remained broadly stable in absolute terms. The unwinding of excess current account imbalances will likely require significant domestic policy adjustments, even if they are smaller than in 2012.

[7] Oil-exporters contributed negatively to widening balances in 2024, unlike previous major widening episodes.

Figure 11. Drivers of Current Account Balances and Current Account Gaps



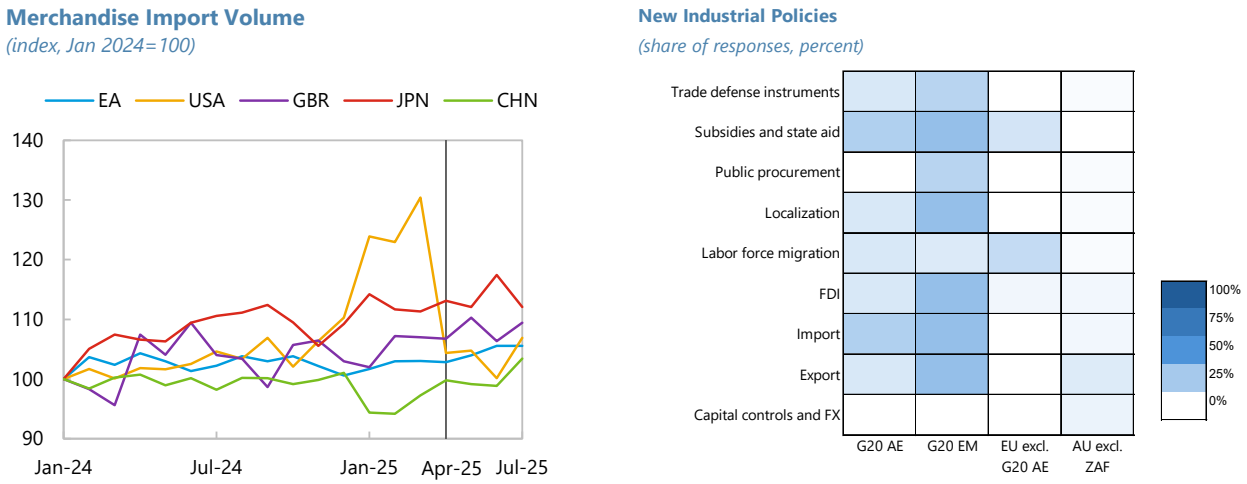
Sources: IMF, *Balance of Payments and International Investment Position*; IMF, *External Sector Report*; IMF, *World Economic Outlook*; and IMF staff calculations.
Notes: Left panel: investment is displayed as a negative value. The private saving rate is calculated as the residual from the current account balance, investment, and the public saving rate. Right panel: The assessment of 2024 current account gaps is taken from the July 2025 IMF *External Sector Report*. The whiskers show the range since 2012 except for ARG and SAU, the earliest available years for which are 2017 and 2014, respectively. Current account gaps are relative to IMF staff assessed current account norms. Country labels in the figure use International Organization for Standardization (ISO) codes.

15. The external outlook is highly uncertain amid shifting trade policies and the use of industrial policies. In the first quarter of 2025, *United States* bilateral goods trade balances vis-à-vis the other 18 G20 economies deteriorated as domestic firms frontloaded imports ahead of newly announced tariffs. The frontloading has since waned then (Figure 12, LHS), with world trade growth for 2025 expected to be slower than projected last year. While frontloading may temporarily widen current account imbalances relative to previous projections, global current account balances are projected to narrow over the medium term due to trade policy shifts, exchange rate movements, and fiscal policy changes in some major surplus economies. But there are risks—including from the growing use of industrial policies—often motivated by market failures or economic/national security considerations—that can exacerbate domestic imbalances, which in turn may feed through to external imbalances and generate spillovers across trading partners. While industrial policies have been a common feature across various economies for some time, the number of announced industrial policies—many of which are trade-distorting—has risen substantially in recent years.[8] Survey results indicate that half of the G20 emerging market economies (e.g., *Brazil*, *Indonesia*, *Saudi Arabia*) and two G20 advanced economies (*Canada*, *United States*) have introduced new industrial policies over the past 12 months (Figure 12, RHS). Geoeconomic fragmentation, trade tensions, and shifts toward interventionist trade and industrial policies may further erode global integration, dampen trade, and increase volatility in external positions.[9]

[8] See Global Trade Alert for information about the increase in recent years in new trade-distorting measures.

[9] Scenario analysis described in Box 1.3 of the July 2025 IMF *External Sector Report* finds limited effects of tariffs on global current account balances in the medium term.

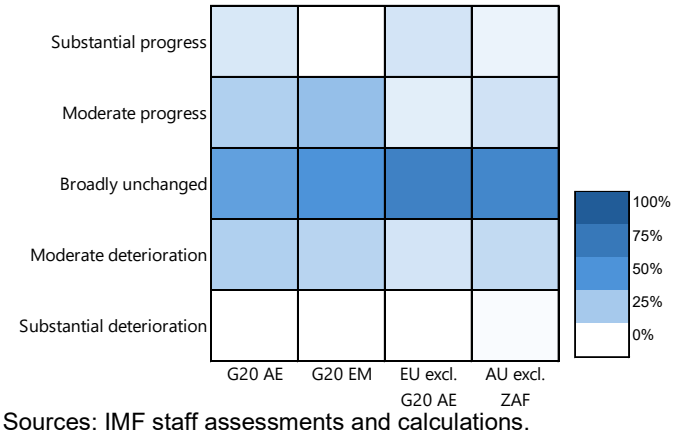
Figure 12. Import Frontloading and New Industrial Policies



Sources: CPB Netherlands World Trade Monitor; and IMF staff assessments and calculations.
Notes: Right panel: each cell displays the percentage of economies within each group (column) which have implemented new industrial policies in the corresponding policy area (row). Country labels in the figure use International Organization for Standardization (ISO) codes.

Figure 13. Progress toward Balanced Growth

(share of responses, percent)



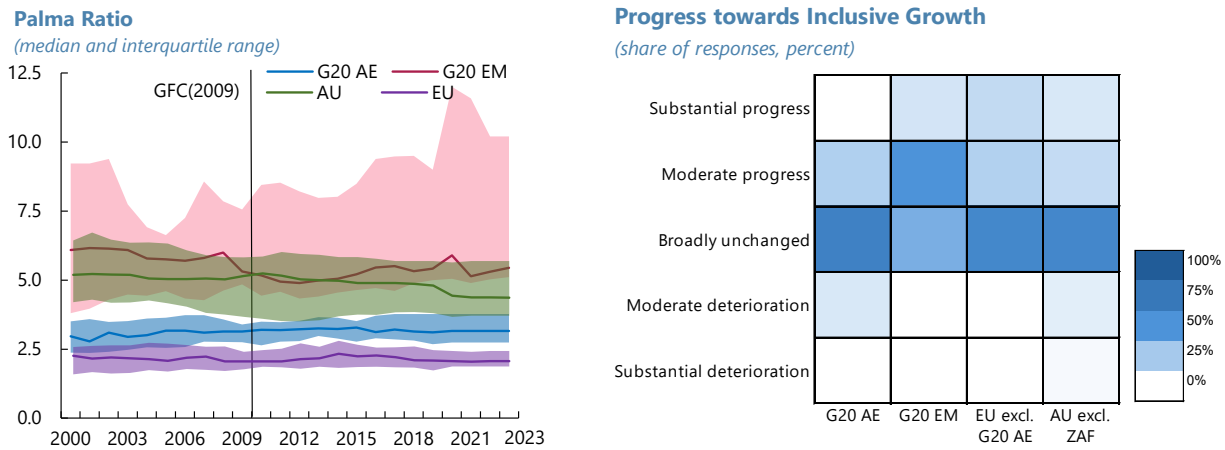
Sources: IMF staff assessments and calculations.
Notes: The figure shows the percentage of economies within each group (column) which were assessed by IMF country teams to have made the corresponding degree of progress between reports (row). For definition of Balanced Growth, see Annex I.

16. Assessments by IMF staff point to limited progress toward Balanced growth (Figure 13). Over the past year, most G20 advanced economies saw limited progress, although substantial progress was reported for *Germany*, as fiscal rule reforms are expected to boost domestic demand; moderate progress in *Canada* and the *United Kingdom,* where policy changes are expected to mitigate both internal and external imbalances for the latter; and moderate deterioration in *Australia* and the *United States*, on growing excessive current account deficits. Similarly, most G20 emerging markets saw limited progress, with moderate progress being reported in *Argentina* and *Indonesia*, as well as in *Saudi Arabia* due to an improvement in non-oil GDP growth; moderate deterioration was assessed in *Brazil*, due to strong demand and fiscal uncertainty, as well as in *China,* from an increasing reliance on external demand. Economies in the EU and AU were largely assessed to have remained broadly unchanged, with a slightly higher proportion of the latter seeing deterioration.

D. Attaining inclusive growth remains a challenge across country groups

17. Since the GFC, median within-country income inequality in the G20 has shown limited improvement. Inequality—as measured by the Palma ratio—has remained broadly constant in most G20 advanced economies since the GFC, although some have seen a decline (e.g., the *United Kingdom*), while others (e.g., *Italy* and the *United States*) have seen an increase (Figure 14 LHS and SSBIG Dashboard).[10] By contrast, Palma ratios have risen in most G20 emerging market economies since the GFC and, despite progress in recent years (e.g., *Brazil*, *India*, *Mexico*), remain elevated within many (e.g., *Brazil*, *South Africa*). This is consistent with findings linking income inequality to economic development—rising as economies rapidly develop before declining—although path also depends on economic policies such as investments in access to education and finance (see G20 Background Note on the *Impact of Growth on Inequality and Social Outcomes*). Within-country inequality has remained relatively low and stable in the EU, though with some heterogeneity reflecting a range of factors including structural economic changes (see Box 1). By contrast, income inequality in the median AU economy has declined since the GFC, though it remains elevated. [11]

Figure 14. Income Inequality and Progress toward Inclusive Growth



Sources: World Inequality Database; and IMF staff assessments and calculations.
Notes: Right panel shows the percentage of economies within each group (column) which were assessed by IMF country teams to have made the corresponding degree of progress between reports (row). For definition of Inclusive Growth, see Annex I.

18. Progress over the past year toward more Inclusive growth was limited in most G20 economies (Figure 14, RHS). For G20 advanced economies, progress was assessed as broadly unchanged, with the exception of moderate progress in *France* as well as in the *United Kingdom*, on increased health investments; and a moderate deterioration in the *United States*, in part reflecting the regressive nature of recent fiscal policy action. A greater proportion of G20 emerging market economies were assessed to have made progress, including substantial progress in *Saudi Arabia* (on

[10] The Palma ratio is the ratio between the income of the top 10 percent of earners in the population relative to that of the bottom 40 percent of earners, with changes often driven by changes in the income share of high earners.

[11] Inequality estimates for the African Union should be interpreted with caution, as data are in many cases incomplete or infrequently updated.

improvements in gender equality and female labor force participation), and moderate progress in *China* (due to reductions in barriers to internal migration). In the EU and AU, assessments were also broadly unchanged, although a few AU economies were assessed to have deteriorated.

POLICY CHALLENGES

The alignment of recommended monetary, fiscal, and macrofinancial policies with projections is similar to that documented in the 2024 G20 Report on SSBIG. While recommended monetary policies are broadly aligned with projections, additional fiscal consolidation is needed in about one-half of G20 economies and about one-quarter of AU and EU economies. Macrofinancial policies are broadly assessed to be in line with recommendations to safeguard financial stability, though additional tightening is recommended in some economies. Despite differences in structural reform priorities, a common need across most G20 and AU countries is to strengthen fiscal policy frameworks through either tighter spending limits and greater efficiency, greater revenue mobilization, or enhanced transparency. Simulations for the G20 suggest that following all policy recommendations and implementing priority reforms can lift medium-term growth significantly, improve the outlook for public debt, and reduce external imbalances. Collective action could reinvigorate medium-term growth prospects and help address global challenges, including growing trade barriers and other fragmentation pressures as well as debt restructuring efforts.

A. Macroeconomic policies must ensure price and financial stability while bringing down still-high debt levels

Monetary Policy

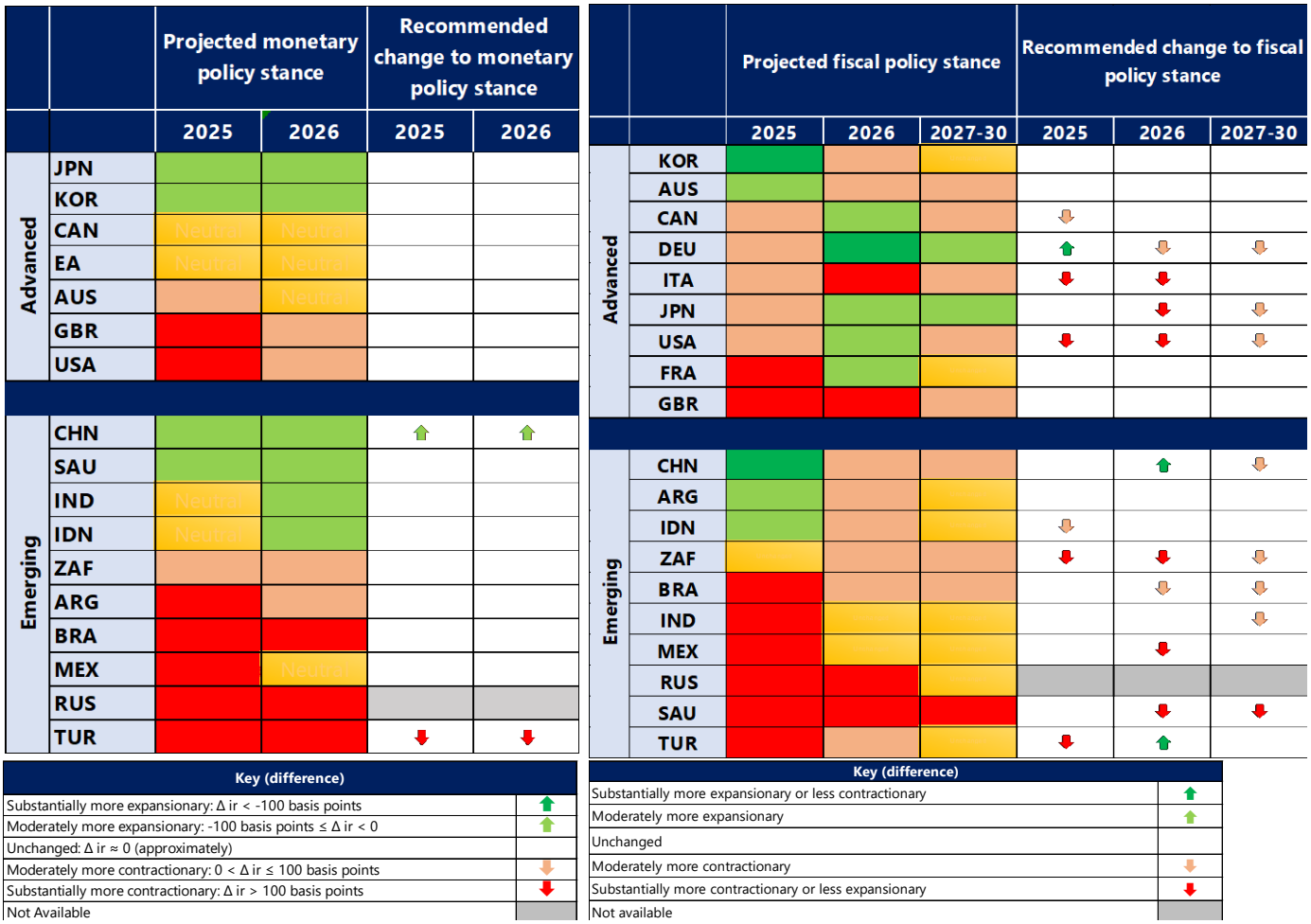
19. Amid elevated uncertainties and rising trade-offs, the projected stance of monetary policy is broadly aligned with recommendations (Figure 15, LHS)**.** Central banks will need to carefully calibrate monetary policies to country circumstances to balance price stability and growth risks in line with respective mandates, and to communicate carefully to boost predictability for market participants in a highly uncertain environment. Trade-offs, and so the conduct of monetary policy, will likely vary due to the potentially heterogeneous impact of higher tariffs and policy uncertainty. Economies imposing or retaliating with tariffs will likely see a negative supply shock, with a stronger inflation-output tradeoff as higher import costs raise inflationary pressures while dampening growth. Economies that have not imposed tariffs may see weaker demand, though policy rate cuts should be considered cautiously. Overall, policy should remain flexible and adjust based on the analysis of incoming data. Meanwhile, safeguarding central bank independence is essential for macrofinancial stability, with evidence that political interference can result in significant deviations from price stability (see Chapter 2 of the October 2025 IMF *World Economic Outlook*).

- In 2024, monetary policy in most G20 advanced economies was contractionary. By contrast, in 2025 most G20 advanced economies are expected to have neutral or moderately expansionary monetary policy as inflation and interest rates have continued their descent. This projected stance of monetary policy is expected to persist into 2026, although the *United States* is a notable exception—with still elevated core inflation, monetary policy is expected to remain substantially contractionary in 2025 and moderately contractionary in 2026 despite a recent reduction in the policy rate. The *United Kingdom* is another exception, with monetary policy only expected to gradually ease amid still elevated core and headline inflation.

- The picture for G20 emerging market economies is more mixed reflecting variations in inflation experiences and projections. In economies where inflation remains above target, policy is assessed as contractionary in 2025 (e.g., *Mexico*) or projected to remain contractionary through 2026 (*Brazil*, *Russia*, *Türkiye*). Elsewhere, monetary policy is expected to remain neutral (e.g., *Indonesia*) or moderately expansionary *(*e.g., *China)*. In *China*, amid still-low core inflation, the recommendation is to loosen monetary policy moderately more than projected.

- Monetary policy in AU economies is more aligned with recommendations than at the time of the 2024 Report on SSBIG, reflecting continued disinflation progress. Roughly half of AU economies are expected to have a contractionary monetary policy stance in 2025 (see SSBIG Dashboard). But for about one in five economies—mainly those where inflation remains elevated—recommendations are for a more contractionary stance (e.g., *Ethiopia* in 2025 and *Democratic Republic of the Congo* and *Burundi* in 2025 and 2026).

Figure 15. Monetary and Fiscal Policy



Sources: IMF staff estimates and recommendations.
Notes: Projections and recommendations are consistent with the October 2025 *World Economic Outlook*. Recommended changes (three rightmost columns in each panel) refer to the difference between the recommended policy stance and the projected policy stance in the indicated year. Euro area (EA): the European Central Bank conducts monetary policy for the euro area as a whole, including for DEU, FRA, and ITA. ARG: The fiscal stance and recommended changes are based on the cyclically adjusted primary balance of the central government. CHN: the fiscal stance is mainly based on the assessment of changes in cyclically adjusted primary balances. IDN: The assessment is based on the setting of Bank Indonesia's multi-instrument toolkit. RUS: policy recommendations are not available. SAU: has a fixed exchange rate; and the fiscal stance and recommended changes are based on the non-exported oil primary balance relative to non-exported oil GDP, not cyclically adjusted. Country labels in the figure use International Organization for Standardization (ISO) codes.

Fiscal Policy

20. Greater fiscal consolidation is needed in most G20 economies to restore fiscal space and put public debt on a sustainable path (Figure 15, RHS). Restoring fiscal buffers and safeguarding debt sustainability are essential as fiscal policy space has been eroded by recent global shocks and additional spending demands are anticipated due to aging populations and rising national and economic security needs. Overall, carefully calibrated credible fiscal consolidation—prioritizing efficiency-enhancing measures that broaden tax bases, strengthen revenue administration, and focus spending on high-multiplier uses such as infrastructure, skills development, and social protection—is critical in the medium-term to create fiscal space and ensure debt sustainability while supporting growth.[12] Robust institutional frameworks and, in particular, credible fiscal rules—together with well-resourced independent fiscal institutions, stronger fiscal governance, and greater debt transparency—are essential for effective fiscal adjustment (Acalin and others 2025). In emerging markets that are in, or at high risk of, debt distress—including some AU countries—fiscal adjustment should, where necessary, go hand-in-hand with debt restructuring to achieve debt sustainability.

- The fiscal policy stance in 2025 is expected to be contractionary in all G20 advanced economies, except *Australia* and *Korea*. In 2026, however, the projected fiscal policy stance is more evenly split, with some economies shifting into fiscal expansions (e.g., *Canada, Germany, Japan, United States*) while others consolidate (*Australia*, *Italy*, *Korea*, *United Kingdom*). The general recommendation is to implement more contractionary fiscal policy in the near and medium term than projected, including through the phase-out of energy subsidies (e.g., *Japan*). *Germany* is a notable exception with a recommendation for a more expansionary stance than currently projected in 2025. Recommendations for more frontloaded consolidation efforts reflect, among other factors, the need to put debt on a decisively downward trajectory (e.g., *Italy*, *United States*). In *Japan*, the call for an evenly paced consolidation reflects the need to expand fiscal space over time while offsetting a rising interest bill and age-related spending pressures. In *Germany*, there is a recommendation to backload consolidation efforts to ensure longer-term debt sustainability in the face of rising spending demands.

- Fiscal policy stances in G20 emerging market economies are expected to be contractionary in both 2025 and 2026 for some (e.g., *Brazil, Saudi Arabia* and *Türkiye*) and shifting from expansionary to contractionary for others (e.g., *Argentina, China*). Where recommendations deviate from projections, the call is for tighter policy, except for *China* and *Türkiye* in 2026, with a call in the former to provide property sector support and strengthen social safety nets to reduce precautionary savings and boost consumption. In *Brazil*, the recommendation is a sustained and more ambitious fiscal effort, including through the phase out of costly and inefficient tax expenditures and tackling spending rigidities. In *South Africa*, the call for a more

[12] In many economies there remains significant scope to improve public spending efficiency: Efficiency gaps—the difference between actual outcomes of public spending and the best outcomes achievable with the same resources—stand at 31 percent in advanced economies, 34 percent in emerging market economies, and 39 percent in low-income developing countries (see the October 2025 *Fiscal Monitor*.

ambitious consolidation reflects the need to create more fiscal space in the near term and ensure debt sustainability in the medium term. In *Mexico*, a more frontloaded and ambitious consolidation is recommended to enhance credibility of fiscal plans, prevent a further upward drift in the public debt and create valuable fiscal space in the event if external risks materialize. In *Saudi Arabia*, the recommendation to tighten further than projections is more backloaded, to ensure a stable net government financial asset ratio in the medium and long term.

- In the EU, for most economies an expansionary fiscal policy stance is projected in 2025, turning contractionary in 2026 and beyond. The general recommendation is to implement more contractionary fiscal policy in the near and/or medium term (see SSBIG Dashboard).

- The fiscal policy stance is projected to be contractionary for about two-thirds of AU members in the near term and for half of AU members in the medium term, reflecting the need to rebuild buffers, ensure debt sustainability and reduce the risk of debt distress. Fiscal policy stances in countries with a projected expansionary or neutral stance in 2025 are largely expected to shift to contractionary in the near or medium term (e.g., *Angola*, *Botswana*, *Nigeria*, *Rwanda*). The recommendations broadly align with projections (see SSBIG Dashboard). In cases where recommendations differ from projections (about one quarter of economies), the call is mostly for tighter fiscal policy, particularly in countries with no fiscal space or fiscal space at risk. At the same time, the pace of fiscal consolidation should be gradual and credibly anchored in medium-term fiscal frameworks, allowing room to support growth, protect priority spending, and limit negative spillovers from simultaneous tightening. For G20 emerging market economies and the AU that are at high risk of debt distress, fiscal consolidation might need to be accompanied with debt restructuring to restore sustainability.

Financial Sector Policy

21. Intensifying shifts in the global financial system require policymakers to remain vigilant and respond promptly to changing circumstances. Despite trade tensions and geopolitical uncertainties, asset markets appear complacent, having rebounded to high levels after the broad-based sell-off following the April 2 tariff announcement by the United States, with low volatility across asset classes (Figure 2, RHS). Elevated valuations risk disorderly corrections if, for example, returns from AI investments fall short, given historically high levels of equity index concentration particularly in AI-related firms. With sovereign debt at elevated levels, the continued growth of non-bank financial institutions (NBFIs) closely tied to the banking system, and the rise of stablecoins, global financial stability risks remain elevated. Policymakers should prioritize the implementation of internationally agreed-upon prudential standards, strengthen financial sector safety nets and NBFI oversight, and promote the effective regulation and supervision of stablecoins and other crypto assets (see Chapter 1 of the October 2025 IMF *Global Financial Stability Report*).

22. Macrofinancial policies are generally consistent with staff recommendations, with some exceptions. Caution is called for regarding the further easing of selected macroprudential measures in *China* (Figure 16). Policymakers should enhance coordination, develop robust governance structures, and consider building or utilizing macroprudential buffers to bolster systemwide resilience and maintain credit flow during economic downturns.

Figure 16. Macrofinancial Policy

		Projected macro-financial policy action	Recommended macro-financial policy action
		2025	2025
Advanced economies	AUS		
	CAN		
	EA		
	FRA		
	DEU		
	ITA		
	JPN		
	KOR		
	ESP		
	GBR		
	USA		
Emerging market economies	ARG		
	BRA		
	CHN		
	IND		
	IDN		
	MEX		
	RUS		
	SAU		
	ZAF		
	TUR		

Key (stance)	
Broad or deep loosening of financial settings	
Selected loosening of financial settings	
On hold	
Selected tightening of financial settings	
Broad or deep tightening of financial settings	
Not available	

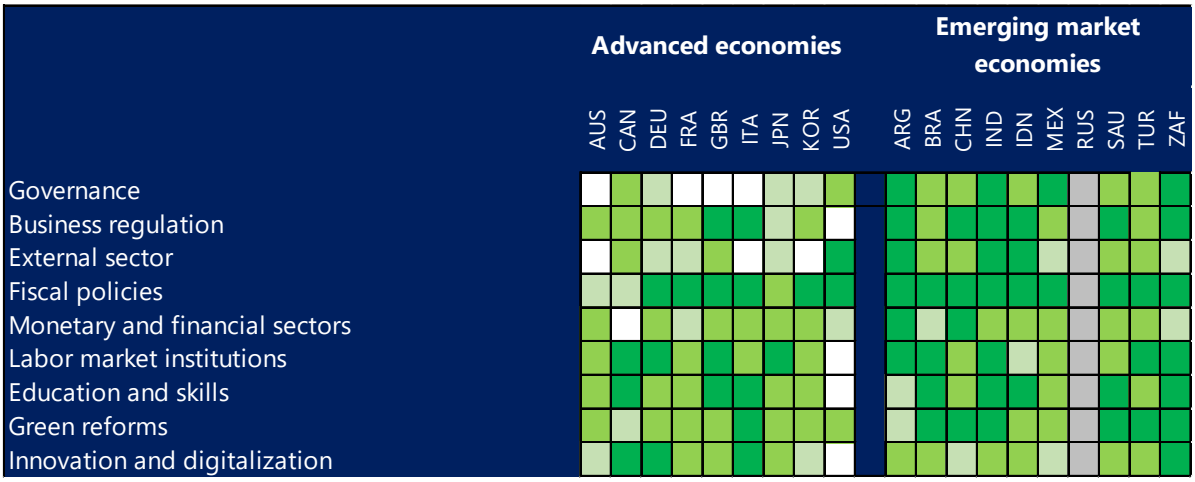
Sources: IMF staff estimates and recommendations.
Notes: ESP: permanent invitee. Euro area: the European Central Bank conducts monetary policy for the euro area as a whole, including for DEU, ESP, FRA, and ITA. RUS: policy recommendations are not available. SAU: has a fixed exchange rate. Country labels in the figure use International Organization for Standardization (ISO) codes.

B. Structural reforms are urgently needed to lift medium-term growth

23. Against economic shifts and mounting challenges, measures to sustainably lift medium-term growth prospects are critical (Figure 17).[13] Population aging, technological change, and shifting skill demands are reshaping labor markets and leading to labor shortages that require policies to increase labor utilization to boost economic growth. Effective strategies include modernized employment services, opportunities for education and retraining, support for workforce mobility, portable benefits, and targeted migration policies. Pension reforms and phased retirement can keep older workers engaged, while digitalization and AI, combined with investments in infrastructure, can drive productivity (see Chapter 1 of the October 2025 IMF *World Economic Outlook*).[14] Furthermore,

Figure 17. Structural Reform Recommendations

(Degree of priority according to IMF rating)



Sources: IMF staff assessments.
Notes: Priorities are country specific and not comparable across countries. RUS: policy recommendations are not available. For examples of structural reforms in each area, see Annex I of this report. Country labels in the figure use International Organization for Standardization (ISO) codes.

Key	
1	High
2	Medium
3	Low
4	Not a priority
	Not available

clear and predictable trade policies and cooperative negotiations to lower barriers can reduce uncertainty—thereby boosting growth—, as well as help address underlying external imbalances.

- **G20 advanced economies should prioritize structural fiscal reforms, as well as reforms to labor market institutions, education, and skills.** More than half of the G20 advanced economies need to give high priority to fiscal reforms to tighten limits of public spending and/or improve spending efficiency. In *Germany,* following the recent relaxation of fiscal rule, measures including undertaking spending reviews are recommended to support medium-

[13] Continued engagement with the G20 Data Gaps Initiative to strengthen statistical infrastructure and increase the availability of high-quality data will help to assess progress in the implementation of priority structural reforms.

[14] Structural reforms are classified within nine categories. For examples of specific reforms within each category see Annex I of this report.

term deficit reduction. For almost half of countries, high priority is also assigned to reforms of labor market institutions to narrow gender gaps in labor market outcomes (e.g., *Germany*, *Japan*) and enhance internal labor mobility (e.g., *Canada, Japan*). In the *United States*, external sector reforms—through nondiscriminatory reductions in trade barriers—are needed to constructively resolve trade tensions and promote a clear, stable, and predictable trade environment. Reforms aimed at improving education and skills are also assessed to be of high or moderate priority in almost all countries. Streamlining business regulation, which could help unlock investment and boost productivity, and reforms to boost innovation amid digital transformations are also priorities (to varying degrees) outside of the *United States*.

- **Reforms to fiscal policy frameworks remain a high priority in all G20 emerging market economies.** Strengthening domestic revenue mobilization, particularly through improved revenue administration, mentioned frequently as a major aim of these reforms, consistent with the presence of significant compliance gaps (G20 Note on Enhancing Domestic Revenue Mobilization through Strengthening Revenue Administration, October 2025). Business regulation and green transition reforms are also assigned high priority in about two-thirds of countries. Reforms to education and skills and labor market institutions are also identified as important in more than half of G20 emerging markets. External sector reforms to reduce trade barriers remain a key priority in some G20 emerging economies (e.g., *India*).

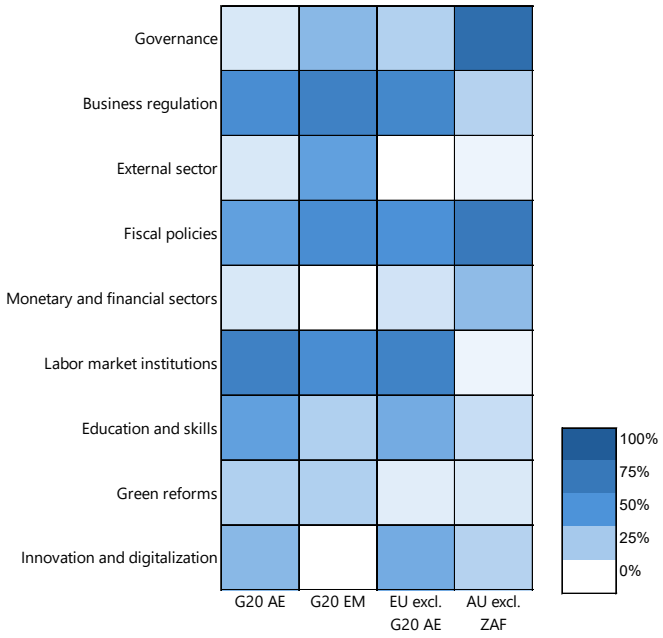
- **While fiscal policy reforms are given high priority in more than half of EU members, more than one-third also assign high priority to green transition reforms** (see SSBIG Dashboard). In particular, broadening carbon pricing (e.g., *Croatia*, *Denmark, Poland, Spain*), phasing out fossil fuel subsidies, and accelerating renewables permitting and grid investment (e.g., *Cyprus*, *Netherlands*). Other national-level reform priorities in the EU economies are broadly similar to those of G20 advanced economies.

- **Fiscal and governance reforms are also a high priority in most AU economies.** Almost 85 percent of AU economies require revenue-generating fiscal reforms in the areas of tax policy and revenue administration, as well as fiscal governance reforms in the areas of Public Financial Management (PFM), budget transparency, and expenditure control (see SSBIG Dashboard). Such reforms are key levers to mobilize domestic revenue, ensure fiscal sustainability and create space for growth-supporting and essential social spending. Broader governance reforms are a priority in around three-quarters of AU economies, with varied needs to enhance transparency, efficiency and accountability of government and state-owned enterprises; strengthen PFM and regulatory frameworks; improve compliance with Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT); and support anti-corruption and rule of law. For about half of AU countries high priority is also assigned to reforms aimed at improving education and skills by expanding access and quality while aligning better with labor market needs—efforts which could help economies take advantage of their demographic dividend.

24. IMF staff assessments of reforms with the highest growth impact can inform the sequencing and prioritization of reform efforts (Figure 18). In two-thirds of G20 advanced economies, reforms to labor market institutions are assessed to yield high growth impact (e.g., *Germany*), while reforms to business regulation and education and skills are also assessed as highly impactful in half of G20 advanced economies (e.g., *United Kingdom*). These assessments are broadly consistent with those of structural reform priorities, albeit placing moderately higher weight on business regulation and labor market institutions. The assessments of structural reforms with high growth impact in EU economies similarly placed more emphasis on business regulation and labor market institutions than structural reform prioritization, which was heavily weighted toward fiscal policy reforms. While reforms to improve business regulation and labor market institutions are similarly assessed to have high growth impact for almost two-thirds of G20 emerging market economies, fiscal policy framework reforms—also cited as the structural reforms with highest priority—stand out as having the highest growth impact for almost three-quarters of the group (e.g., *Brazil*, *Türkiye*). For the AU, reforms to fiscal policy frameworks are assessed to deliver the highest growth impact across all economies.

Figure 18. Structural Reforms with Highest Growth Impact

(share of responses, percent)



Sources: IMF staff assessments and calculations.
Notes: Each cell displays the percentage of economies in each group (column) in which the corresponding structural reform area (row) was assessed to be one of the three structural reform areas with the largest impact on output growth.

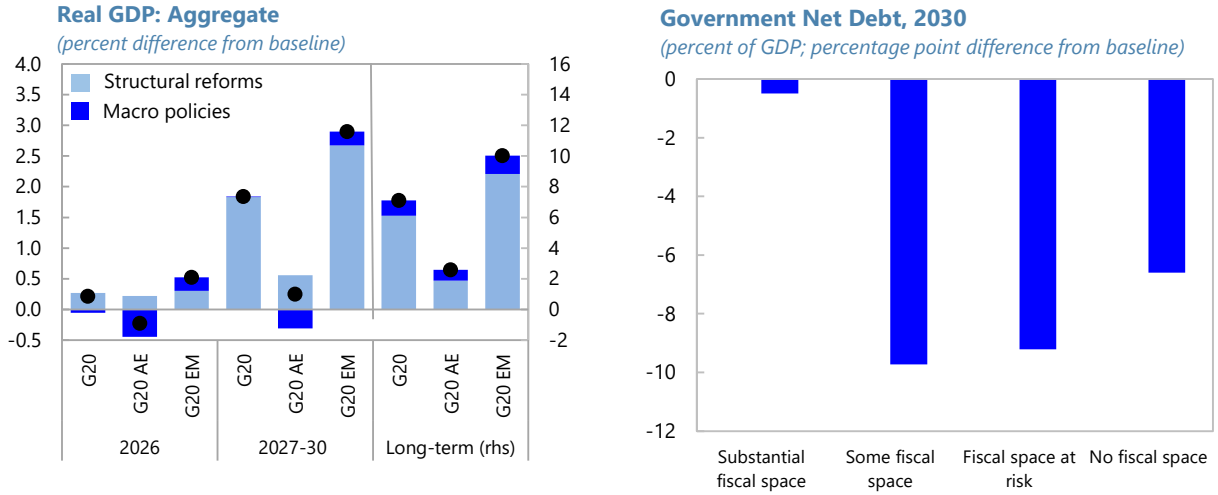
C. Recommended policies can drive strong and sustainable growth, with positive spillovers to lower external imbalances

25. Aligning macroeconomic policies with IMF staff recommendations while implementing priority reforms can significantly boost growth prospects over time.[15] Moreover, reducing tariffs and reduced trade policy uncertainty, together with faster AI adoption, could help unlock investment

[15] Quantitative analysis is undertaken using the IMF economic model for the G20. Due to model and data limitations, the model simulation, and the results appearing in Figures 19 and 20, do not consider policy recommendations for, or spillovers to, the African Union. For updates to the simulation methodology incorporated into this edition of the report, see Annex IV.

and boost productivity growth, leading to an increase in global GDP of about 2 percent in the long term (see Box 1.2 in October 2025 IMF *World Economic Outlook*).

Figure 19. Impact of Adjusting Policies to Recommendations: Output and Government Debt



Sources: IMF, G20 Model simulations; IMF, *World Economic Outlook;* and IMF staff calculations.
Notes: Results for different policies and income groups are derived from model simulations with all country's relevant policies applied simultaneously and thus include the effects of spillovers between economies. Left panel: Long-term refers to 2035. Right panel: countries with "substantial" fiscal space include AUS, DEU, KOR, RUS, SAU; "some" include BRA, CAN, CHN, FRA, GBR, IDN, IND, JPN, MEX, TUR, USA, ZAF; "at risk" include ITA; "none" include ARG. Categorization is based on latest published assessments. EU rules are not taken into account for EU member countries. For most countries, a decrease in government net debt corresponds to a reduction in gross debt in percent of GDP; for some, it corresponds to an increase in government assets in percent of GDP. RUS: policy recommendations are not available.

- **Macroeconomic policies.** Implementing monetary and fiscal policy recommendations would dampen growth in G20 advanced economies in the short-to-medium-term, largely reflecting recommended fiscal tightening that drives a decline in demand (particularly in the *United States*) (Figure 19, LHS). However, the growth impact turns positive over time as lower government debt encourages private investment, including through international spillovers via lower global interest rates (particularly in *Australia, Canada,* and *Korea*). In G20 emerging market economies, the impact is positive across all horizons, and large in the long term.[16] The short-term boost in growth is primarily driven by the recommendation of expansionary fiscal policy and monetary policy in *China*, while the long-term increase in growth reflects positive spillovers from fiscal tightening in advanced economies, again via lower global interest rates, as well as domestic policy changes (e.g., higher investment in *Indonesia* and *Mexico*). Stronger fiscal consolidation can also help reduce inflation in the near term, by dampening domestic demand (e.g., *Türkiye*, *United States*).

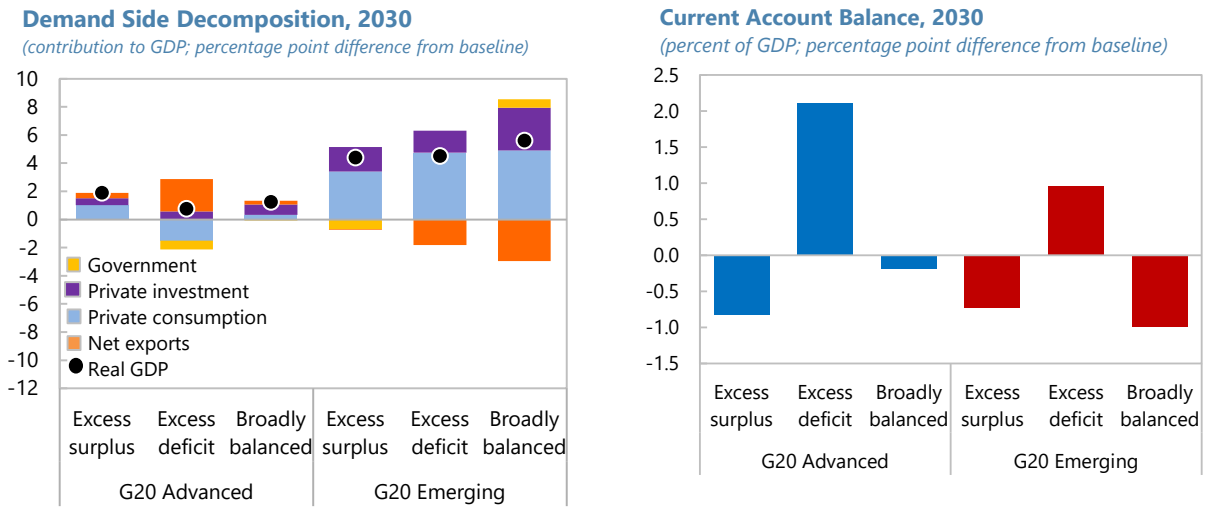
- **Structural Reforms.** Implementing priority structural reforms would boost growth in both G20 advanced and emerging market economies, with larger benefits materializing in the

[16] Long term refers to 2035.

medium and long term. Some advanced economies would in fact experience significant growth increases, reflecting productivity improvements from labor market reforms (e.g., *Germany*). The growth impact is larger in emerging market economies (e.g., *Argentina*, *China*, *South Africa*), given greater scope for progress in priority reforms areas, particularly in business regulation.

26. Implementing recommended policies would also help create fiscal headroom. The medium-term improvement in the public debt outlook is broad-based, reflecting the broad policy recommendation for additional fiscal consolidation—with *Germany* an exception—as well as stronger

Figure 20. Impact of Adjusting Policies to Recommendations: Demand and Current Account Balance



Sources: IMF, G20 Model simulations; IMF, *World Economic Outlook;* and IMF staff calculations.
Notes: Results for different policies and income groups are derived from model simulations with all country's relevant policies applied simultaneously and thus include the effects of spillovers between economies. Country groups are based on overall external balance assessments in IMF, 2025, External Sector Report as follows: DEU, CHN, IND, MEX: excess surpluses (i.e., "stronger" or "moderately stronger" external balances); ARG, AUS, CAN, GBR, ITA, TUR, USA: excess deficits (i.e., "weaker" or "moderately weaker" external balances); and BRA, FRA, IDN, JPN, KOR, RUS, SAU, ZAF: broadly balanced (i.e., external balances are "broadly in line").

growth in emerging market economies. Importantly, the reduction in public debt burdens is larger in countries with more limited fiscal space (e.g., *United States*, *Japan*, *South Africa*; Figure 19, RHS)—an encouraging sign, as a reduction in government debt burden is a higher priority in these countries.

27. Pursuing recommended policies at the national level would also reduce external imbalances.[17] The impact on external balances is largely driven by the adoption of recommended macroeconomic policies rather than from priority growth-enhancing structural reforms, with more

[17] The simulation is conducted based on recommended policies and priority reforms at the national level and thus does not capture broader international structural reform priorities—for instance, relating to the EU single market—which may also have implications for current account balances.

contractionary fiscal policy in countries with excess deficits playing a key role domestically and through spillovers to other countries—for example, via lower interest rates.[18]

- Countries with *excess current account surpluses* would see a decline in their current account balances (Figure 20, RHS), with *China* driving the bulk of the change among G20 emerging market economies. *India*, however, would see an increase in its current account balance, predominantly driven by international spillovers.

- Countries with *excess deficits*—particularly G20 advanced economies—would see a significant improvement in their current account balances. In G20 emerging market economies, this would be accompanied by a decline in net exports (Figure 20, LHS). This, however, masks considerable heterogeneity. Large improvements in *Türkiye* and *Australia*, and in the *United States* and *Italy* drive the bulk of the change, on account of international spillovers and fiscal consolidation, respectively. On the other hand, *Argentina* and *Canada* see a sizable deterioration due to spillovers, with fiscal contractions elsewhere reducing demand.

- *Broadly balanced* economies—particularly G20 emerging market economies—see a deterioration in current account balances, driven by *Russia*, due to international spillovers from both fiscal contractions and structural reforms elsewhere, partly offset by improvements in *South Africa* driven by domestic fiscal consolidation.

D. International cooperation is needed to improve economic outcomes

28. Bilateral, regional, and plurilateral negotiations are needed to lower trade barriers and reduce uncertainty while addressing persistent imbalances. Negotiations should aim to de-escalate tensions and prevent tariff hikes by recognizing that external imbalances are driven by aggregate saving-investment dynamics better addressed by aligning domestic macroeconomic adjustment with trade diplomacy. Such trade deals should avoid managed trade provisions—such as purchase commitments and quantitative restrictions—as well as discretionary elements that risk negative third-country spillovers and renewed tensions. Industrial policy should be handled with care, ensuring it addresses well-identified market failures and takes into account fiscal costs and other trade-offs (see Chapter 3 of the October 2025 IMF *World Economic Outlook*) while being mindful of possible negative spillovers to other sectors or countries. Rather, trade rules should be targeted to clearly identified cross-border spillovers and calibrated to respect legitimate prudential objectives. Alongside clear and transparent trade policy road maps and modernization of trade rules to reflect the evolving structure of commerce, such pragmatic cooperation is essential to mitigate policy uncertainty and promote sustainable and balanced growth across the G20.

29. Continued progress in further improving sovereign debt resolution mechanisms remains essential. While individual economies must take care to undertake needed fiscal adjustment to restore buffers and ensure debt sustainability, higher uncertainty can disrupt market access and/or

[18] Structural reforms to fiscal policies—such as scaling back industrial policies—can also play a role in reducing external imbalances.

render debt unsustainable. Greater international cooperation can help economies overcome temporary liquidity challenges and, when necessary, restructure debt in a timely manner. Efforts to further improve multilateral mechanisms, including the G20 Common Framework, and foster open discussions—such as the Global Sovereign Debt Roundtable—could help improve outcomes.

Table 1. Real GDP Growth

(percent)

	Year over Year								
			Projections (Oct. 2025)				Deviations (from Oct. 2024)		
	2023	2024	2025	2026	2029	2030	2025	2026	2029
World	**3.5**	**3.3**	**3.2**	**3.1**	**3.2**	**3.1**	**0.0**	**-0.2**	**0.1**
Advanced Economies	1.7	1.8	1.6	1.6	1.6	1.5	-0.2	-0.2	-0.1
Euro area	0.4	0.9	1.2	1.1	1.2	1.1	0.0	-0.4	0.0
Emerging Market and Developing Economies	4.7	4.3	4.2	4.0	4.1	4.0	0.0	-0.2	0.2
G20 1/	3.9	3.4	3.2	3.0	3.0	2.9	0.0	-0.1	0.0
Advanced G20 2/	1.8	1.7	1.4	1.6	1.5	1.4	-0.3	-0.1	-0.1
Emerging G20 3/	5.4	4.7	4.4	4.1	4.1	3.9	0.1	-0.1	0.2
Argentina	-1.9	-1.3	4.5	4.0	3.6	3.2	-0.5	-0.7	1.2
Australia	2.1	1.0	1.8	2.1	2.2	2.3	-0.3	-0.1	-0.1
Brazil	3.2	3.4	2.4	1.9	2.4	2.5	0.2	-0.4	-0.1
Canada	1.5	1.6	1.2	1.5	1.7	1.6	-1.2	-0.5	0.1
China	5.4	5.0	4.8	4.2	3.7	3.4	0.3	0.1	0.4
France	1.6	1.1	0.7	0.9	1.2	1.2	-0.4	-0.4	-0.1
Germany	-0.9	-0.5	0.2	0.9	1.0	0.7	-0.6	-0.5	0.3
India 4/	9.2	6.5	6.6	6.2	6.5	6.5	0.1	-0.3	0.0
Indonesia	5.0	5.0	4.9	4.9	5.1	5.1	-0.2	-0.2	0.0
Italy	0.7	0.7	0.5	0.8	0.7	0.7	-0.3	0.1	0.0
Japan	1.2	0.1	1.1	0.6	0.5	0.5	0.0	-0.2	0.0
Korea	1.6	2.0	0.9	1.8	2.0	1.9	-1.3	-0.4	0.0
Mexico	3.4	1.4	1.0	1.5	2.1	2.1	-0.3	-0.5	0.0
Russia	4.1	4.3	0.6	1.0	1.1	1.1	-0.7	-0.2	-0.1
Saudi Arabia	0.5	2.0	4.0	4.0	3.3	3.3	-0.6	-0.4	-0.2
South Africa	0.8	0.5	1.1	1.2	1.8	1.8	-0.4	-0.3	0.3
Spain 5/	2.5	3.5	2.9	2.0	1.6	1.6	0.8	0.2	0.0
Türkiye	5.0	3.3	3.5	3.7	3.8	3.8	0.8	0.5	-0.1
United Kingdom	0.4	1.1	1.3	1.3	1.4	1.4	-0.2	-0.2	0.1
United States	2.9	2.8	2.0	2.1	1.9	1.8	-0.2	0.1	-0.2
European Union	0.6	1.1	1.4	1.4	1.5	1.4	-0.2	-0.3	0.0
African Union	3.4	3.4	4.2	4.3	4.5	4.5	0.1	0.0	0.3

Sources: IMF, *World Economic Outlook*, October 2025 and October 2024.

1/ G20 aggregates exclude the European Union.

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

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

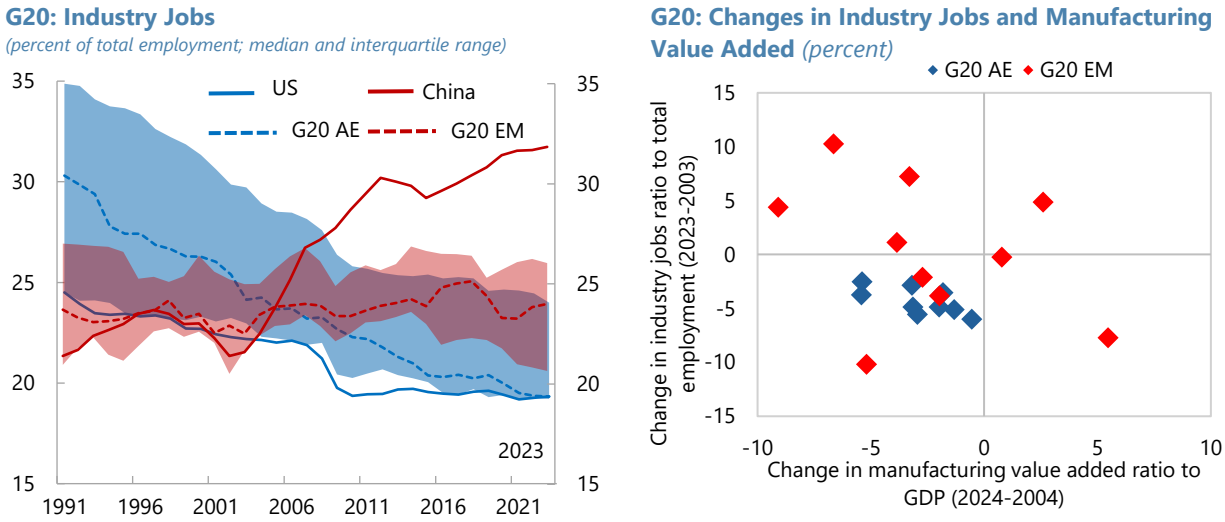
4/ For *India*, data and forecasts are presented on a fiscal year basis, with FY 2024/25 starting in April 2024.

5/ Spain is a permanent invitee.

Box 1: Manufacturing, Inequality, and Imbalances

The declining share of manufacturing jobs in overall employment has been an important source of concern for policymakers and the broader public. While manufacturing has played an important role as a catalyst for productivity growth and income convergence, the loss of jobs in the manufacturing sector is not necessarily linked to a rise in inequality or widening imbalances. Even though the displacement of workers from manufacturing to services in advanced economies has coincided with a rise in labor income inequality, this increase was mainly driven by larger disparities in earnings across all sectors (see Chapter 3 of the April 2018 IMF *World Economic Outlook*). Furthermore, the broader shift in employment from manufacturing to services need not hinder economy-wide productivity growth and the prospects for developing economies to gain ground toward advanced-economy income levels.

Figure B.1 Manufacturing Jobs and Value Added



Sources: World Bank, World Development Indicators; and IMF staff calculations.
Notes: The industry sector consists of mining and quarrying, manufacturing, construction, and public utilities.

The share of manufacturing jobs has been fading over time in most economies while changes in the share of manufacturing output have varied across G20 economies. For G20 advanced economies, the decline in manufacturing employment shares has not been matched by declines in manufacturing output. For the median G20 advanced economy, the share of manufacturing jobs in total employment fell from about 30 percent in the 1990s to about 20 percent in 2023 (Figure B1.1, LHS). Yet, for the median G20 advanced economy, manufacturing's contribution to nominal gross value added fell proportionately less from around 16 percent in the 1990s to 11 percent in 2023.[19] The experience for G20 emerging market economies has been more heterogenous. While the contribution of manufacturing to (nominal) gross value added has similarly trended down for most, the share of manufacturing jobs in total employment has been more varied (Figure B1.1, RHS), with some countries experiencing a steady increase (e.g., *China*, *India*, *Indonesia*, *Türkiye*), others a decline (e.g., *Argentina*, *Russia*, *South Africa*). This reflects a combination of structural transformation, globalization, and

[19] This fall is entirely due to the rapid fall in the quality-adjusted relative price of manufacturing output. The share of manufacturing in real value added has been relatively stable (Bailey and Bosworth 2014, Fort and others 2018).

technological change, but the mix varies between the typical development-driven shift toward services (e.g., *Argentina*, *Brazil*), relocation of production from advanced economies (e.g., *China*, *Mexico*), and automation (Ebenstein and others 2014). Overall, the resultant increase in manufacturing output per worker indicates the importance of productivity gains from technological progress such as automation in driving declining manufacturing employment shares alongside shifts in consumer demand toward services and the offshoring of labor-intensive manufacturing activities.

However, the decline in manufacturing sector employment has had only a modest impact on aggregate measures of inequality, even though effects can be significant for certain groups and regions. Historically, manufacturing provided relatively stable, well-paid jobs for workers without tertiary education. The reduction in these jobs raises concerns about wage polarization and social mobility in the face of skill-biased technological change. However, empirical evidence suggests that the decline in manufacturing employment explains only a small share of the rise in inequality across advanced economies since the 1980s, with the United States as an exception, where about one-quarter of the increase in inequality could be attributed to the loss of manufacturing jobs (Novta and Pugacheva 2019). However, this finding reflects a large initial gap between middle-skilled manufacturing sector wages and low-skilled service sector wages in the United States rather than an observed large initial manufacturing wage premium. At the regional level, the impact can be significant: regions with high exposure to import competition have experienced sizable job losses, lower labor force participation, and persistent wage pressures (Autor and others 2013, Dix-Carneiro and Kovak 2017). Nevertheless, evidence suggests that trade is not the main driver of within-country inequality (Helpman 2017). Jaumotte and others (2008) show that the combined contribution of trade and financial globalization to rising inequality has been much lower than that of technological change, both at a global level and especially in emerging markets.

At the same time, overall manufacturing goods trade balances have remained broadly unchanged since the global financial crisis (GFC). However, there has been some change in the composition over time. Prior to the GFC, large current account surpluses were concentrated in manufacturing-intensive economies (e.g., *Germany*, *China*), while deficits were concentrated in economies (e.g., *United States*, *United Kingdom*) that had undergone faster deindustrialization. Since the GFC, however, external positions have been driven by a range of factors in addition to manufacturing competitiveness (see 2025 IMF *External Sector Report*). For instance, the growth in services within global trade has moderated the direct link between manufacturing and external balances). And while the exports of manufactured goods remain important for many surplus economies—accounting for over 75 percent of China's and Germany's total exports—the growth of global value chains has blurred national specialization, with intermediate goods crossing borders multiple times.

ANNEX I. CONCEPTS, DEFINITIONS, AND MEASUREMENT

1. This annex presents measurement concepts and definitions for assessing the quality of growth and policies for the G20 Report on Strong, Sustainable, Balanced, and Inclusive Growth across the G20 membership (Tables AI.1, AI.2, and AI.3).

A. Strong, Sustainable, Balanced, and Inclusive Growth

2. This section describes how strong, sustainable, balanced, and inclusive growth is operationalized in the Report. Indicators for each of the four growth dimensions are listed below. However, it is important to note that there are areas of overlap between each dimension. For example, the sustainability of growth is closely linked to growth being balanced, and vice versa. Where benchmarks are unavailable, assessments are based on comparisons of (i) historical developments and average historical patterns and (ii) changes in projections for each country group.

- ***Strong growth***. This dimension captures recent and historical growth performance, as well short-term (cyclical) and medium-term growth forecasts. Indicators include GDP growth and its main components, e.g., on an expenditure basis and specific factors from a growth accounting framework (total factor productivity, labor input and capital input).
- ***Sustainable growth***. This dimension captures (i) near-term indicators of pressures and tradeoffs in the economy such as the output gap and inflation (in levels and in deviations from inflation targets, where applicable); and (ii) the longer-term capacity and means for growth in the economy, such as the level of potential growth and emissions intensity; and (iii) longer-term fiscal sustainability and domestic imbalances, such as public debt-to-GDP ratios.
- ***Balanced growth***. This dimension refers to the composition of growth (e.g., domestic versus external demand) and whether there is a build-up of domestic and/or external imbalances from a savings and investment perspective. Indicators of *domestic private imbalances* include expenditure components, value added sectoral components, and (non-financial) private sector debt. *Domestic public imbalances* are measured by the level of general government gross debt. *External imbalances* are taken from the IMF's External Sector Report, which provides estimates of the extent to which historical current account balances and real effective exchange rates differ from those warranted by fundamentals and desired policies, while taking into account reserve coverage and international investment positions.
- ***Inclusive growth***. This dimension refers to the degree of inequality in *outcomes* and *opportunities*.[20] The former focuses on measures of income inequality across the income distribution, while the latter uses measures of access to education and health (e.g., public expenditure on education and health can be an indicative measure of quality and access), indicators of gender inequality and migrant integration indicators.

[20] See IMF Staff Discussion Note 15/13.

B. Policies

3. This section discusses the indicators used for assessing monetary, fiscal, and macrofinancial policy stances and priority structural reform policy areas.

- ***Monetary policy***. The monetary policy stance is measured as the difference between the actual real policy interest rate and approximations/estimates of the (unobservable) natural real interest rate. A contractionary (expansionary) or tight (accommodative) monetary policy stance reflects an actual real policy rate above (below) the natural rate. Given the uncertainty surrounding these measures, the projected baseline path displayed in the heatmaps in the Report is based on IMF staff's assessments, and policy recommendations are expressed as deviations from this path.
- ***Fiscal policy***. Given the multidimensionality of fiscal policy, the fiscal stance is assessed in qualitative terms and considers various key indicators of fiscal policy. Among the indicators used are the change in the cyclically-adjusted primary balance (CAPB) in percent of potential GDP, the public debt-to-GDP ratio, and public infrastructure investment as a percent of GDP.
- ***Macrofinancial policy***. Macrofinancial policies target the financial cycle to increase the resilience of the financial system and contain the buildup of systemic risk using tools beyond those in the standard monetary policy toolkit. Indicators used to assess these policies include—but are not limited to—changes to cyclical capital buffers, the introduction/calibration of lending standards for mortgage and other products, and changes in the implementation of existing regulations.
- ***Structural reforms***. Structural reforms are evaluated using a set of qualitative and quantitative indicators across nine categories (Table AI.4). These categories include reforms that can be characterized as first-generation (business regulation, external sector, governance) and second-generation (credit market, green, and labor market).[21] While this set of indicators captures key structural reform needs, it does not provide a complete description of the structural reform agenda for every country. Structural reform recommendations are expressed in terms of reform priorities ("high", "medium", or "low").

[21] See IMF Staff Discussion Note 23/007.

Table AI.1. G20 economies

	AEs		EMs
1	Australia	10	Argentina
2	Canada	11	Brazil
3	France	12	China
4	Germany	13	India
5	Italy	14	Indonesia
6	Japan	15	Mexico
7	Korea	16	Russia
8	United Kingdom	17	Saudi Arabia
9	United States	18	South Africa
		19	Türkiye

Table AI.2. European Union

1	Austria	15	Italy
2	Belgium	16	Latvia
3	Bulgaria	17	Lithuania
4	Croatia	18	Luxembourg
5	Cyprus	19	Malta
6	Czech Republic	20	Netherlands
7	Denmark	21	Poland
8	Estonia	22	Portugal
9	Finland	23	Romania
10	France	24	Slovak Republic
11	Germany	25	Slovenia
12	Greece	26	Spain*
13	Hungary	27	Sweden
14	Ireland		

*Permanent guest invitee of the G20.

Table AI.3. African Union

1	Algeria	28	Liberia
2	Angola	29	Libya
3	Benin	30	Madagascar
4	Botswana	31	Malawi
5	Burkina Faso	32	Mali
6	Burundi	33	Mauritania
7	Cabo Verde	34	Mauritius
8	Cameroon	35	Morocco
9	Central African Republic	36	Mozambique
10	Chad	37	Namibia
11	Comoros	38	Niger
12	Democratic Republic of the Congo	39	Nigeria
13	Congo, Republic of	40	Rwanda
14	Côte d'Ivoire	41	São Tomé and Príncipe
15	Djibouti	42	Senegal
16	Egypt	43	Seychelles
17	Equatorial Guinea	44	Sierra Leone
18	Eritrea	45	Somalia
19	Eswatini	46	South Africa
20	Ethiopia	47	South Sudan
21	Gabon	48	Sudan
22	Gambia, The	49	Tanzania
23	Ghana	50	Togo
24	Guinea	51	Tunisia
25	Guinea-Bissau	52	Uganda
26	Kenya	53	Zambia
27	Lesotho	54	Zimbabwe

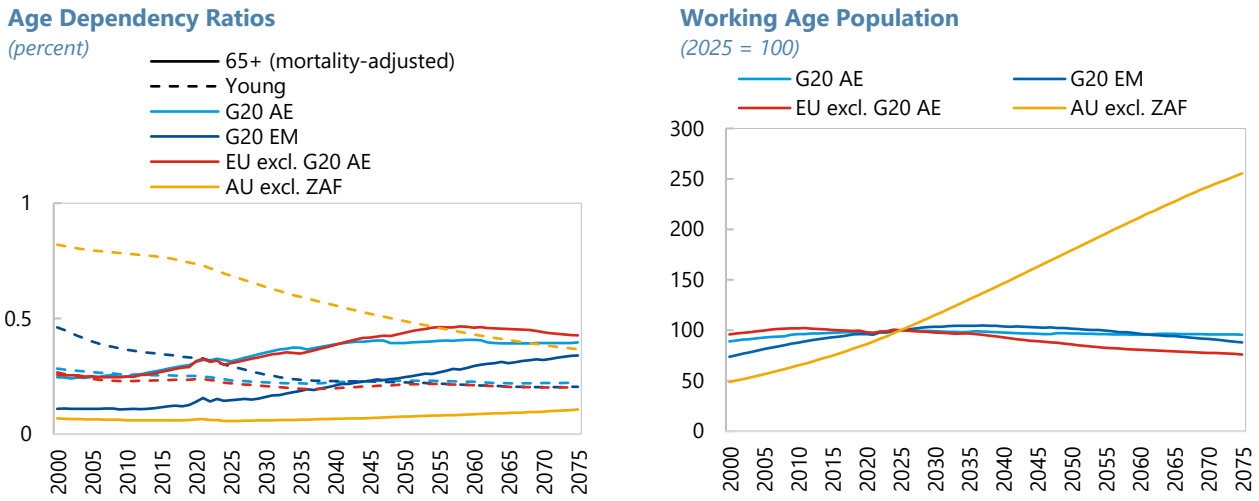
Table AI.4. Examples of Structural Reforms by Category

Governance	Regulatory quality, Voice and accountability, Government effectiveness (public sector efficiency); Enhance transparency; Adherence to the rule of law (judicial reforms); Anti- corruption practices; Staff capacity and institution building; Public sector wage reforms; public financial management reforms (budgeting; cash management, etc.).
Business regulation	Easing product market regulations, Administrative requirements, Impartial public administration, Bureaucracy costs
External sector	Trade liberalization/facilitation, Tariffs and Nontariffs barriers, Capital controls, Exchange rate controls, Financial openness, Freedom of foreigners to visit
Fiscal policies	Tax policy and revenue/customs administrations; balance between direct and indirect taxes; reducing the labor tax wedge; corporate income tax reforms to limit base erosion and profit shifting; pension reform; social insurance schemes;
Monetary and financial sectors	Private sector credit regulation, Interest rate controls, Ownership of banks; Bank and/or non- bank financial intermediary regulation and supervision; Measures to improve financial access and inclusion (e.g. collateral registries, credit bureaus); domestic bond market development; monetary policy frameworks; AML/CFT reforms
Labor market institutions	Hiring and firing regulations (strictness of employment protection); Centralized collective wage bargaining, Active labor market policies, Reducing gender gaps; policies to reduce informality; minimum wage reform; migration policies
Education and skills	Reducing skill-mismatches (e.g., education reforms, expansion of post-secondary and tertiary education, TVET); Migration assimilation policies; training/retraining
Green reforms	Energy taxation, Climate policy stringency
Innovation and digitalization	Research and Development, Reforms to promote investment in digital technologies, E-government

Source: IMF.

ANNEX II. DEMOGRAPHICS AND SSBIG[22]

Figure AII.1. Age Dependency Ratios and Working Age Population



Sources: UN, *World Population Prospects*; and IMF staff calculations.
Notes: The age dependency ratio (young, 65+ (mortality adjusted)) is the ratio of the relevant population to the working age population. Individuals are classified as young if they are under 15 years of age and as 65+ (mortality adjusted) if the percentage of their life remaining is less than that of a 65-year-old in their country in 2023 according to historical and projected mortality rates. The remainder of the population is classified as working age.

1. Many G20 economies face an increasing demographic drag. Both G20 advanced and emerging market economies are undergoing major demographic transitions, with the ratio of the population over the age of 65 to those of working age (15–64) increasing rapidly.[23] This is a trend that is set to continue in coming decades, primarily reflecting the cumulated impacts of a broad-based decline in fertility (Figure AII.1, LHS; and Bloom and others 2024). At the same time, the ratio of individuals under the age of 15 to that of the working age population is rapidly declining within G20 emerging market economies and is set to converge to the low young-age dependency ratios observed in many advanced economies by 2035. In parallel, the total working age population in these economies is expected to reach a turning point after which it will begin to gradually shrink, in contrast with the rapid expansion observed in the last two decades (Figure AII.1, RHS). EU economies have already reached that turning point, with total working age population expected to fall by 10 percent by 2040. In contrast, AU economies are expected to see rapid growth in their labor forces and in the share of their working age populations. Indeed, by 2030, 60 percent of all new entrants into the global labor force will come from Africa (see G20 Background Note on Macroeconomic Vulnerabilities in Africa: Key Issues and Policy Lessons), with the share increasing rapidly thereafter and the working age population of AU economies forecast to increase by nearly 50 percent by 2040 (to 1.2 billion, or 20 percent of the global working age population).

[22] For an in-depth discussion of the implications of demographic changes in G20 economies, see the G20 Background Note on *The Implications of Aging and Migration on Growth and Productivity*.

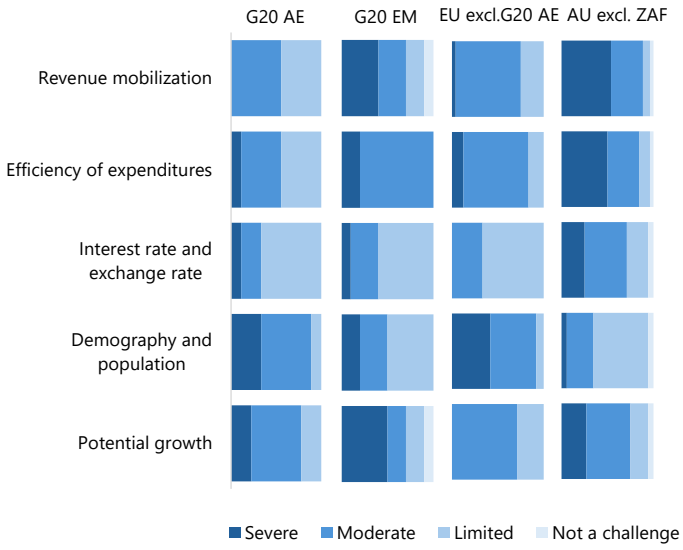
[23] Adjusted for mortality rates as described in Figure AII.1.

2. Demographic trends directly impact the strength of growth. G20 advanced and emerging economies expected to see a declining working age share and rising old age dependency ratio will face likely headwinds to aggregate and per capita growth due to falling labor supply and innovation (Liang and others 2018).[24] By contrast, AU countries stand to increase labor supply and can raise productivity through agglomeration effects on innovation and market size adding to growth dividends. However even these economies facing a demographic dividend will require substantial investments—in, e.g., education and infrastructure—to convert that dividend into strong growth (see G20 Background Note on Macroeconomic Vulnerabilities in Africa: Key Issues and Policy Lessons).

3. The fiscal impact of demographic shifts can impact the sustainability of growth. Increases in dependency ratios (young or above working age) can add to spending pressures (i.e., on education, healthcare, and pension provisions), with declining working-age populations also adversely impacting fiscal revenues through lower growth and a smaller working-age population share. Moreover, a decline in aggregate growth due to slowing growth or declines in the working age population worsens debt dynamics through lower government revenues. These factors are expected to contribute to an increasing differential between real interest rates and growth rates in most G20 advanced economies and EU economies, as well as in China, challenging public debt stabilization (see Chapter 2 of the April 2025 *World Economic Outlook*). Indeed, a survey of IMF staff highlights that demographic trends already form a key barrier to reducing the public debt levels for many G20 advanced economies and EU members (Figure AII.2). In the AU, harnessing a demographic dividend may require a near-term increase in public spending (see G20 Background Note Macroeconomic Vulnerabilities in Africa: Key Issues and Policy Lessons), although a larger working age population should help contain public debt pressures further out.

Figure AII.2. Challenges to Reducing Debt-to-GDP

(share of responses, percent)



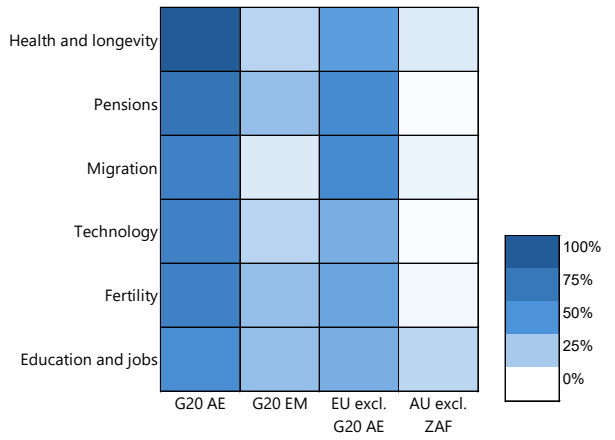
Sources: IMF staff assessments and calculations.
Notes: Each cell displays the percentage of economies in each group (column) which gave each of four possible assessments of the corresponding challenge (row) to reducing the economy's debt-to-GDP ratio.

4. By impacting private as well as public savings and investment balances, demographic shifts will have implications for balanced growth. Changes in demographics affect the demand for

[24] Liang and others (2018) find that not only do societies of higher median age see lower entrepreneurship in aggregate, they also see lower rates of entrepreneurship by younger individuals, due to diminishing opportunities to develop the requisite human capital on the job. See also Jones (2022) for a discussion of the impact of the total working age population (not only its share of total population) on economic growth.

Figure AII.3. Policies to Address Demographic Challenges

(share of responses, percent)



Sources: IMF staff assessments calculations.
Notes: Each cell displays the percentage of economies in each group (column) in which the corresponding policy (row) is being used to address demographic challenges.

assets through life-cycle savings profiles, with individuals saving more during peak earning years and borrowing or dissaving when young or retired. Demographic changes also affect the supply of assets, as investment tracks changes in the working age population. Estimates suggest that expected global demographic shifts are likely to have little impact on the real interest rate in the next 25 years, as demand and supply for assets offset each other, while in the long-term, real interest rates may fall by as much as 2 percentage points as investment falls relative to savings (see Chapter 2 of the April 2025 *World Economic Outlook*). At the same time, differences in savings and investment in economies experiencing different demographic transitions will affect the direction and extent of international flows of goods and capital, with implications for the composition of global balances.[25]

5. Aging populations could exacerbate inequalities. Even before recent AI innovations, aging societies have been associated with greater adoption of automation technologies, which can help substitute for increasingly scarce workers (Acemoglu and Restrepo 2021) (Figure AII.3).[26] Such adaptations could place downward pressure on the labor share of income and drive greater inequality in the labor market as some workers are more exposed to automation (Stähler 2021). Additionally, countries with weaker pension or healthcare systems may see an increase in inequality among older individuals (Dynan and others 2004) which may, in turn, place downward pressure on female labor force participation to the extent that women are more likely to care for older relatives (Moussa 2018).

6. Policy responses must be tailored to country-specific demographic patterns and their drivers. Survey evidence indicates that most G20 advanced economies are implementing various policies to address demographic challenges, such as health and longevity policies (all), pension reforms (all except *Australia* and *Germany*), fertility policies (all except *France* and *United States*) (Figure AII.4). In some about half of these economies—and in the EU—, migration policies are also being used mitigate demographic drag (e.g., *Sweden*). Within G20 emerging market economies, fertility policies—where populations are aging (e.g., *China*)—and reforms to boost education and create jobs—where working populations have grown rapidly (*China*) or are expected to continue to

[25] To the extent that these flows channel savings to economies with higher returns to investment (e.g., from aging economies to those with growing labor forces), the associated changes in global balances are warranted according to the IMF *External Balance Assessment*. See, e.g., Footnote 9 in the 2025 *External Sector Report*.

[26] Immigration can reduce the impact of population aging on automation (see the G20 Background Note on the Implications of Aging and Migration on Growth and Productivity), but carries its own set of challenges (see Chapter 3 of the April 2025 World Economic Outlook).

grow (e.g., *Saudi Arabia*)—are prominent. Consistent with needs to invest in their relatively youthful populations, reforms to boost access to education and jobs are most widespread in AU economies.

ANNEX III. INTRODUCING THE NEW SSBIG HEATMAPS

This edition of the SSBIG report presents results from eight new questions included in the annual survey of 96 IMF country teams for the G20 advanced economies (9), G20 emerging market economies (10), EU excluding France, Germany, and Italy (24), and AU excluding South Africa (53). The results of the survey are reported using heat maps in the main report and annexes. where each cell reports the share of country teams (based on a simple count) within each G20 subgroup (columns) for one of the possible set of responses (rows).

The questions have been designed to (i) help determine progress toward the goal of strong, sustainable, balanced, and inclusive growth (SSBIG), and (ii) rate policy priorities, policy changes, and challenges. Country teams are also able to provide optional additional context for their responses to each question alongside the rating provided. The questions are framed as follows:

- **Progress toward SSBIG:** Country teams are asked to assess progress along the four dimensions of Strong, Sustainable, Balanced, and Inclusive Growth over the past year, choosing from a list of five possible responses for each dimension: *substantial progress*, *moderate progress*, *broadly unchanged*, *moderate deterioration*, and *substantial deterioration*. Country teams are provided with descriptions of each dimension of SSBIG, including what indicators may be relevant, as described in Annex I.
- **Structural reforms with highest growth impact:** Country teams are asked to identify the three structural reform areas where recommended reforms would have the largest positive impact on economic growth. [27] Options include the following: *governance*, *business regulation*, *external sector*, *fiscal policies*, *monetary and financial sectors*, *labor market institutions*, *education and skills*, *green reforms*, *innovation and digitalization*.
- **New industrial policies:** Country teams are asked to document if any industrial policies that have been introduced over the past year and, if so, what types—consistent with the Global Trade Alert (GTA) taxonomy. Measures include the following: *trade defense instruments*, *subsidies and state aid*, *public procurement policies*, *localization policies*, *labor force migration policies*, *foreign investment policies*, *import and export policy instruments*, and *capital controls and exchange rate (FX) policies*.
- **Challenges to reducing debt-to-GDP:** Country teams are asked to document challenges to reducing debt-to-GDP ratios over the medium term. These can include: *domestic revenue mobilization*, *efficiency of expenditures*, *interest rate and exchange rate*, *demography and population*, and *potential growth*. For each of these, country teams select one of the following responses: *severe*, *moderate*, *limited*, *not a challenge*.
- **Policies to address demographic challenges:** Country teams are asked to document policies being used to address demographic challenges, by selecting any of the following: *health and longevity*, *pensions*, *migration*, *technology*, *fertility*, and *education and jobs*.

[27] For this question, responses from AU country teams (excluding South Africa) were optional, with 19 out of 53 country teams providing a response.

ANNEX IV. CHANGES TO SIMULATIONS OF IMPACTS OF STRUCTURAL REFORMS

In this edition of the SSBIG report, revisions to the simulation of impacts of structural reforms were made in order to improve the quality of the simulations. In prior editions, empirical estimates of the impacts of structural reforms in advanced and emerging market economies were used to calibrate shocks to total factor productivity (TFP) and labor force participation in a dynamic stochastic general equilibrium (DSGE) model encompassing G20 economies and the EU, with the rest of the global economy modeled as an aggregate due to data and computational constraints. While this approach has advantages, it does not take into account the specific nature of the structural reforms recommended by staff or the specific features of the economy where reforms might be implemented.

The approach taken in this edition of the SSBIG report instead draws directly from staff expertise on their assigned economies and on the nature of the policies they recommend. Building on the responses to the question underlying Figure 19 on the three structural reforms areas where recommendations would have the largest positive growth impact, the enhanced survey introduced in the 2025 SSBIG report asks IMF country teams to assess the impact on real economic output of the adoption of reforms in those three areas at three different horizons (1-year, 5-year, and 15-year). The specific question is: *What is your estimate of the total impact on economic output (in percentage points) of your recommended reforms in these three areas at each of the following horizons?* The implications for growth at all intermediate horizons (i.e., 2-4 years and 6-14 years) are imputed with the assumption that the impact on economic growth is the same in each year. The full implied time path of the deviation of output growth relative to a baseline where such reforms are not implemented is then fed into the same DSGE model as in previous editions one economy at a time, where a filtration algorithm is used to infer the implied shocks to TFP. Figures 19 and 20 document the results of a model simulation where all implied shocks to TFP are applied simultaneously.

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