GROUP OF TWENTY

# GLOBAL PROSPECTS AND POLICY CHALLENGES

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Prepared by Staff of the

INTERNATIONAL MONETARY FUND*


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

# EXECUTIVE SUMMARY

**The global recovery remains on track, with some changes in its composition.** While the U.S. economy went through a soft patch early in the year, many European and Asian countries saw GDP expand faster than expected, supported by a cyclical upturn in global manufacturing and trade. Emerging market financial conditions have remained broadly supportive of growth even as U.S. monetary policy has gradually tightened. At the same time, several emerging and advanced economies are still operating below capacity, and underlying core inflation is still low generally. All in all, the global outlook remains broadly similar to the April WEO.

**This momentum comes, however, with rising vulnerabilities and continuing imbalances.** China's growth has been robust, but it is fueled in part by rapid credit and fiscal expansion that aggravates financial vulnerabilities—although measures are being taken to address the challenges. In some emerging markets, corporate leverage is high and bank balance sheets fragile. In many advanced economies, very low interest rates, high levels of non-performing loans related to weak corporate balance sheets, and business models continue to restrict financial sector profitability. At the same time, global current account excess imbalances persist, driving further divergence in countries' net international investment positions.

**Weak productivity growth and uneven distributions of economic gains limit growth going forward, especially in advanced economies.** The slow pace of economic reform and of private sector balance sheet repair continue to depress investment and productivity growth, reinforcing headwinds from longer-term trends such as aging populations, slowing innovation, and slow progress in raising female labor force participation. Combined with insufficient support for those who bear the burden of adjustment to technological change and global economic integration, these forces put a ceiling on future economic prospects as the current cyclical boost runs its course.

**While short-term risks have become more balanced, downside risks still dominate in the medium term.** The cyclical recovery could prove stronger and more durable than expected, but there is also negative risk, including from policy uncertainty in advanced economies, financial sector vulnerabilities, and a sudden sharp tightening in global financial conditions. A broad rollback of the strengthening of financial regulation and oversight achieved since the crisis could lead to lower capital and liquidity buffers or weakened supervisory stances, with negative repercussions for global financial stability. In the medium term, failure to lift potential growth and make it more inclusive could damage social cohesion, and—in a self-defeating feedback loop—make it even harder to find the political consensus for necessary reforms.

**There is no time for standing still—policymakers will have to take tangible policy action to strengthen and sustain the recovery while ensuring that it is resilient, well-balanced, and more inclusive:**

- *Strengthening the momentum*. With countries at present facing divergent cyclical conditions, differing stances of monetary and fiscal policy are likely to remain appropriate. In advanced economies where demand is still lacking and inflation too low, monetary and (where feasible) fiscal support should continue; elsewhere monetary policy should normalize gradually, in line with economic developments, and fiscal policy should focus on supporting reforms aimed at expanding the economy's supply potential. Emerging markets should continue to allow exchange rates to buffer shocks, wherever possible.
- *Making growth resilient and balanced.* Efforts to accelerate private sector balance sheet repair and ensure sustainability of public debt are critical foundations for a resilient recovery. So are efforts from surplus and deficit countries alike to reduce excess current account imbalances.
- *Sustaining high and inclusive growth in the long term.* This puts a priority on well-sequenced and tailored structural reforms to boost productivity and investment, measures to narrow gender participation gaps, and active support for those hurt by shifts in technology or trade.
- *Working together.* To maximize the benefits of global integration, a strong and rules-based multilateral trade framework remains essential. It will be most effective if countries engage in a dialogue with a view to modernizing and adapting the framework dynamically to the changing needs of the global economy. International cooperation also plays a crucial role in strengthening the global financial system, coordinating support for low-income countries, and tackling climate change and other collective challenges.

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# RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

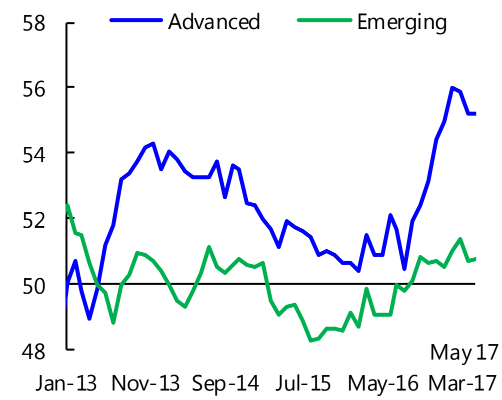
*The global growth momentum remains on track. However, some of the forces driving the recovery are adding to already high vulnerabilities and external imbalances. At the same time, weak productivity growth and a lack of inclusiveness limit the growth outlook going forward. While the cyclical forces could well be stronger than expected, they might also lose steam going forward—for example, if policy uncertainty were to rise further. Other downside risks include an abrupt adjustment of financial vulnerabilities and the risk of anti-globalization sentiment feeding into inward-looking policies.*

## A. THE CYCLICAL RECOVERY CONTINUES…

1. **The global recovery continues, even as the composition of growth is shifting among the large economies**. Growth outturns in the first quarter and high-frequency data generally confirmed a strengthening of global activity, supported by a cyclical upturn in manufacturing, investment, and stronger trade growth. Overall, this suggests a broadly similar outlook relative to the April WEO forecast, which foresaw global GDP grow by around 3½ percent in 2017 and 2018, after 3.1 percent in 2016. However, the aggregate picture masks some changes in composition among major economies, with expectations of slightly firmer growth in many European and Asian economies and a slightly slower pace in the United States.

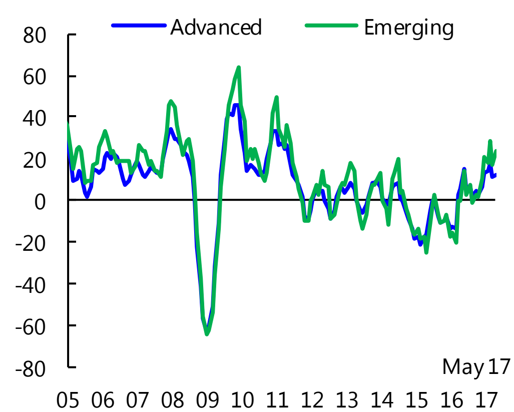
- In *advanced economies*, the upswing is projected to go on, even though cyclical positions still differ. Prospects in the *United States*—where the expansion is in its ninth year and the economy is at full employment—are for steady but somewhat weaker growth relative to the April WEO forecast, with significant uncertainty regarding the expected support from fiscal policy. At the same time, recent indicators point to a slightly improved near-term outlook for the *euro area*, helped by stronger domestic demand and continued monetary stimulus. There is still substantial slack, however, in *Italy* as well as *France*. While output also remains below potential in *Japan*, the size of the output gap has been steadily narrowing following generally strong growth in recent quarters, supported by a favorable external environment and fiscal stimulus.
- In *emerging economies*, the outlook remains for a pick-up in growth, as external demand recovers and

**Global manufacturing PMI**
*(index; >50 = expansion; sa)*




Sources: IMF, *Global Data Source;* and IMF staff calculations.

**Merchandise exports**
*(percent; 3 month moving avg annualized)*




Sources: IMF, *Global Data Source;* and IMF staff calculations.

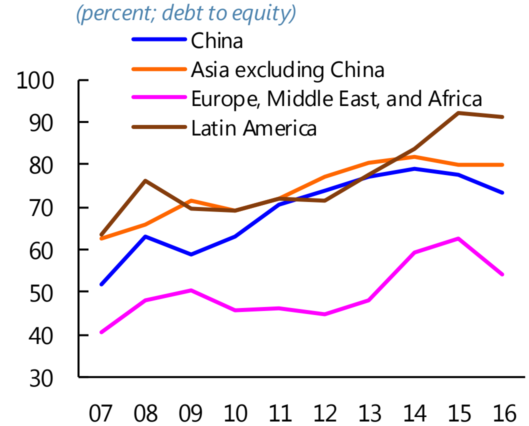
several stressed commodity-exporting economies (including *Russia* and *Brazil*) continue to stabilize. In *China*, policy support from expansionary credit and public investment as well as supply-side reforms have helped maintain strong growth. With recent supervisory and regulatory tightening, growth is expected to moderate in coming quarters, but remain at robust levels, in part reflecting the recovering global economy. In *India*, the outlook has improved as the impact of demonetization seems to be fading and recent key structural reforms continue to pay off.

## B. …BUT IT COMES WITH VULNERABILITIES

**2. However, the positive momentum comes with rising vulnerabilities**. Specifically:

- In *China*, the policies supporting current levels of growth are associated with potentially unsustainable private and public debt trajectories and asset price booms, although the authorities are taking measures to contain these financial risks. Among emerging economies elsewhere, reflecting the long period of favorable financing conditions, corporate leverage (e.g., in *India, Indonesia*, and *Turkey*) and bank vulnerabilities (e.g., in *India*) increased as well. Consequently, corporate defaults have risen, especially in sectors with large increases in leverage and adverse terms of trade developments.

**Emerging market economy corporate leverage**
*(percent; debt to equity)*




Source: IMF, *Global Financial Stability Report,* April 2017.

- In *advanced economies*, low interest rates have masked vulnerabilities, while high levels of liquidity, together with an expectation of continuing policy accommodation, have suppressed volatility and default risk. Investors have moved beyond traditional risk mandates in search for yield, while borrowers have built up leverage. In many economies, including the *euro area,* low interest rates and the flattening of the yield curve—combined with business model challenges and stubbornly high non-performing loan (NPL) stocks —continue to put pressure on bank profitability, making banks more prone to financial distress.

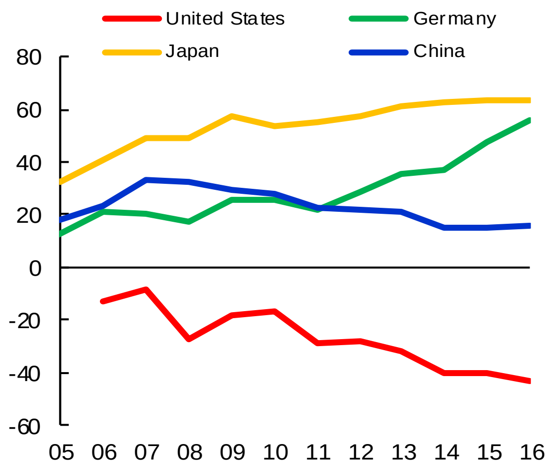
**3. Reducing excess external imbalances would make the recovery more resilient.** While current account imbalances can be healthy or even necessary—for example, as aging countries accumulate savings or fast-growing economies draw in foreign investment funding—excess imbalances can also be a symptom of undesirable policies or domestic distortions.[1] Progress in reducing such excess current account imbalances in systemic economies has stalled in recent years, with deficits in, for instance, the *United Kingdom* and the *United States*, and surpluses in *Germany*, *Korea*, *Japan,* and *China*. This configuration reflects multiple factors, including macroeconomic policies

[1] Excess imbalances are the difference between the actual current account and the level consistent with fundamentals and desirable policies as assessed by IMF staff (based on the IMF EBA methodology supplemented by staff judgement).

and structural distortions that constrain domestic demand or limit trade competition. For example, fiscal policy has contributed to excess imbalances in some countries. Reversing this constellation would contribute to more balanced and ultimately more resilient growth. In addition, it would help limit diverging net foreign investment positions of key economies and, thereby, the need for larger corrections in deficit economies through changes in flows and asset prices down the road. Large and persistent imbalances can also add to strains on the multilateral trading system.

**Net international investment position**

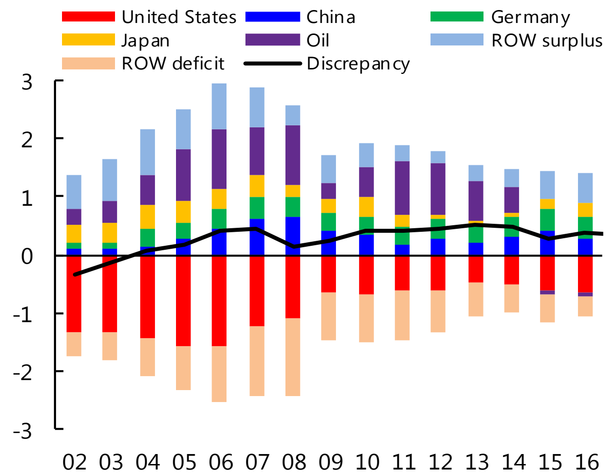
*(percent of GDP)*




Sources: IMF, *World Economic Outlook*, April 2017; and IMF staff calculations.

**Global current account imbalances**

*(percent of world GDP)*

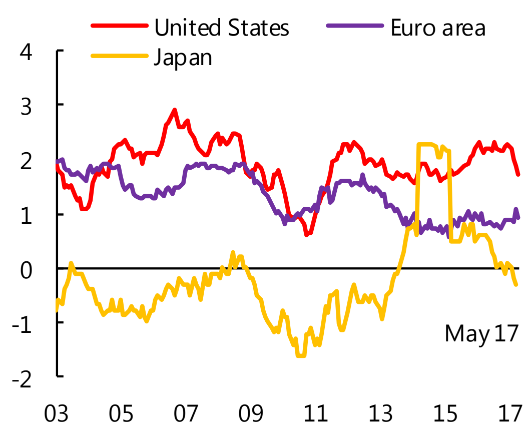



Sources: IMF, *World Economic Outlook*, April 2017; and IMF staff calculations.

**4. Despite the firming growth picture, core inflation remains subdued in many advanced economies.** The stabilization in commodity prices helped by the cyclical upswing and an OPEC agreement to cut back supply has underpinned a strong rebound in headline consumer price inflation—mainly in advanced economies—since late last year, although commodity prices have softened recently. However, measures of underlying inflation remain below central bank targets in many advanced countries, notably in *Japan* and the *euro area*. This reflects, among other factors, muted wage pressures since the crisis, linked to a reliance on part-time or other non-regular employment and still high unemployment in many European countries. In the United States, core inflation has recently slowed, reflecting temporary developments.

**Core consumer price index**

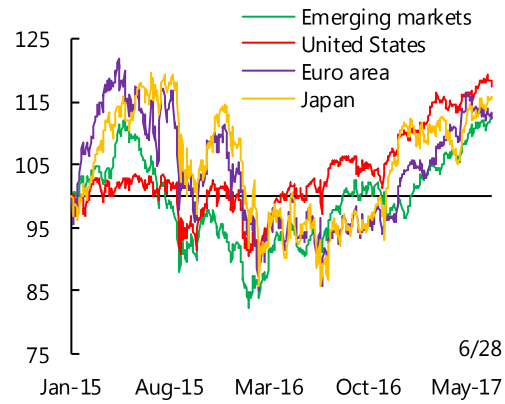
*(year on year; percent)*




Source: IMF, *Global Data Source*.

5. **Financial markets remain buoyant amid still accommodative monetary conditions.** Bond yields and term premia remain low by historical standards, in part reflecting the expectation that U.S. monetary conditions will tighten only gradually in line with economic developments. The European Central Bank (ECB) and Bank of Japan have signaled their commitment to maintain an accommodative monetary policy stance until inflation reaches a path consistent with their medium-term price stability objectives. Against this background and with good corporate profitability, equity markets around the world have registered significant gains since early this year, with historically low volatility. Non-resident portfolio inflows to emerging economies have been robust since the beginning of the year, as major emerging market currencies have reversed at least part of the depreciation vis-à-vis the U.S. dollar since the U.S. election.

**Equity performance**
*(January 1, 2015 = 100)*



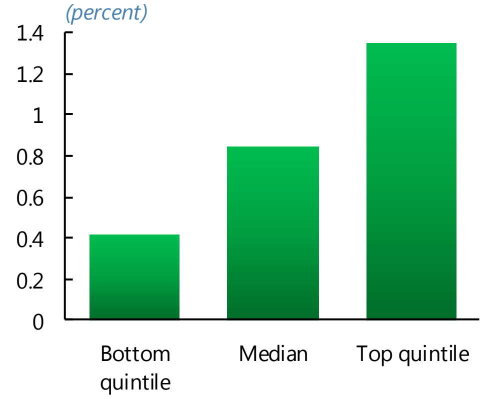

Source: Bloomberg, L.P.

## C. MEDIUM-TERM GROWTH PROSPECTS REMAIN LIMITED

6. **The prospects for a further acceleration of global growth are limited by lackluster potential growth—especially in advanced economies**. In part, the underlying slowdown in productivity growth reflects long-term trends, such as possible slowing innovation at the technological frontier, population aging, and decelerating global trade integration. But the global financial crisis added to the problem, as impaired corporate and bank balance sheets constrained investment.[2] In many countries, insufficient progress with structural reforms, slowing labor force growth, and further failure to close gender gaps in employment are another drag on potential growth.

7. **Medium-term prospects are further clouded by rising inequality and, in advanced economies, sluggish median real wages, which can undermine the sustainability of growth**. While some inequality is inevitable in dynamic and innovative market economies, excessively high and persistent inequality can undermine the sustainability of growth itself. Over the longer term, weak income growth and increasing inequality can fuel

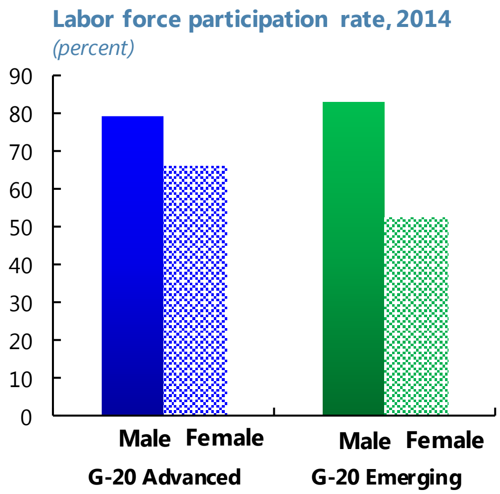
**Average annual growth of household real disposable income in advanced economies 1/, 1990-2010**
*(percent)*




Source: Luxembourg Income Survey, *Income Across the Distribution Database*.
1/ Includes selected advanced countries - Canada, France, Germany, Italy, United Kingdom, and United States.

[2] G. Adler, R. Duval, D. Furceri, S. Kilic Celik, K. Koloskova, and M. Poplawski-Ribeiro, 2017, "Gone with the Headwinds: Global Productivity," IMF Staff Discussion Note 17/04.

discontent and affect the willingness to reform. IMF research suggests that the share of labor income has been falling across advanced and emerging economies for over two decades. The causes are complex and differ across country groups, but in advanced economies, the decline is concentrated among low- and medium-skilled workers and is generally associated with higher income inequality.[3] The trends are driven predominantly by technological change and exposure to routinization for workers in advanced economies, while for emerging economies, global integration—specifically participation in global value chains, which have contributed to raising the capital intensity of production—plays an important role. Lack of inclusion also manifests in unequal opportunities to access markets, such as formal labor markets, and services, in particular health care and education.




Sources: World Bank, *World Development Indicators*; and IMF staff calculations.

**8. Gender gaps impact growth and inclusiveness**. In many parts of the world, large gender differences persist in terms of economic/social opportunities and earnings.[4] For example, despite some recent catch-up, gender gaps in labor force participation rates are still large—at around 13 percentage points on average among advanced G-20 economies, and significantly larger in emerging G-20 economies. Gender gaps not only limit inclusiveness, they also curtail labor supply and the potential for economic growth.

## D. RISKS ARE MORE BALANCED (ONLY) IN THE SHORT TERM

**9. Short-term risks are broadly balanced, but medium-term risks are still skewed to the downside.** While there is some potential for upside surprises to growth in the near term—for example, if some of the cyclical forces underpinning the momentum prove stronger or more durable than expected—the momentum could also falter. These downside risks include:

- *A more protracted period of policy uncertainty*. Despite a drop in election-related risks, policy uncertainty remains at a high level and could well rise further, reflecting—for example—difficult-to-predict U.S. regulatory and fiscal policies, negotiations of post-Brexit arrangements, or geopolitical risks. This could harm confidence, deter private investment, and weaken growth.
- *Financial tensions*. In *China*, failure to address financial stability risks and curb excessive credit growth could result in an unwanted, abrupt growth slowdown, with adverse spillovers to other countries through trade, commodity price, and confidence channels. A faster-than-expected monetary policy normalization in the *United States* could tighten global financial conditions and trigger reversals in capital flows to emerging economies, along with U.S. dollar appreciation. This

[3] IMF, 2017, *World Economic Outlook,* Chapter 3, "Understanding the Downward Trend in Labor Income Shares."

[4] IMF, 2017, "Fostering Inclusive Growth," Paper prepared for the G-20 Leaders' Summit.

would strain emerging economies with large leverage, U.S. dollar pegs, or balance sheet mismatches. In some *euro area* countries, weak bank balance sheets and an unfavorable profitability outlook could interact with higher political risks to reignite financial stability concerns. Finally, a broad rollback of the strengthening of financial regulation and oversight achieved since the crisis—both nationally and internationally—could lower capital and liquidity buffers or weaken supervisory effectiveness, with negative repercussions for global financial stability.

- *Inward-looking policies.* Over the longer term, failure to lift the growth potential and make it more inclusive could fuel protectionism and hinder market-friendly reforms. The results could include disrupted global supply chains, lower global output, and less affordable tradable consumer goods, which harm low-income households disproportionately.

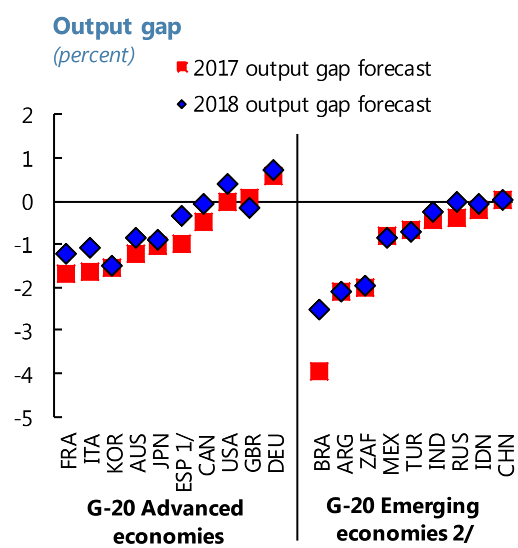
# POLICIES

*The policy challenge is to ensure strong, sustainable, and balanced growth that benefits all. This requires adjusting short-term tools to the changing macroeconomic landscape, while taking decisive steps to reduce vulnerabilities, including by accelerating balance sheet repair and making progress with external rebalancing. Beyond the short term, efforts should focus on lifting the growth potential and making sure growth is more broadly shared. Reinforcing multilateral cooperation is essential to maximize the gains from economic integration.*

## A. SUSTAINING THE CYCLICAL MOMENTUM

**10. Securing the cyclical recovery requires calibrating the policy mix to changing cyclical positions and carefully navigating the policy normalization process.** In particular:

- In the *United States*, monetary policy should continue to gradually normalize and remain data dependent, and plans for the Fed's balance sheet should be well-communicated; fiscal policy should ensure that the ratio of debt to GDP is on a downward path, while supporting the longer-term potential of the economy. In contrast, where inflation is still below central bank targets and output gaps remain negative, monetary policy should stay supportive (*Japan, euro area*) and available fiscal space should be used actively to provide further additional support. A more expansionary fiscal stance in *Germany* would not only allow a much-needed increase in public investment and raise potential output, it would also support external adjustment, while

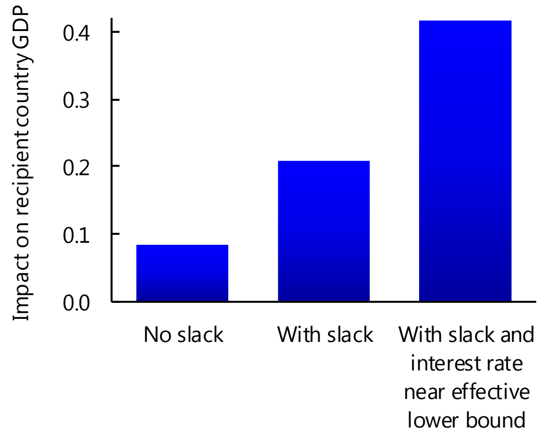



Sources: IMF, *World Economic Outlook*, April 2017; and IMF staff calculations.
1/ Spain is a permanent invitee.
2/ Saudi Arabia is not shown due to data limitations.

at the same time having positive spillovers to other *euro area* economies where there is still cyclical slack. In countries where fiscal adjustment is needed to avoid destabilizing debt dynamics and rebuild policy buffers, consolidation is appropriate and should be supported by growth-friendly measures (for example, in *Italy*).

- In *emerging markets*, wherever possible, policymakers should continue to let the exchange rate act as a buffer against shocks. Where public debt is elevated, fiscal space should be re-built through growth-friendly consolidation (*Brazil, India, Mexico*). A growth-friendly approach is particularly important where there are still significant output gaps, but the scope for monetary easing is constrained by above-target inflation.

**Cross-border spillover from fiscal policy**
*(percent)*




Sources: "Fiscal Spillovers--The Importance of Macroeconomic and Policy Conditions in Transmission," IMF Spillover Note, *forthcoming*; and IMF staff calculations.
Note: Average first-year impact of a 1 percent spending shock in an average major advanced economy on a sample of 55 economies 2000-16. Slack refers to a negative output gap.

## B. STRENGTHENING RESILIENCE AND REDUCING IMBALANCES

**11. To strengthen resilience, emerging economies must continue to manage vulnerabilities and rebuild policy buffers.** This will help against possible external pressures, including from tighter global financial conditions or policy uncertainty. Specifically:

- Many countries have room to address corporate and bank vulnerabilities—through the recognition of nonperforming assets, strengthening banks' capital buffers, and improving corporate debt-restructuring mechanisms. In *China*, recent policy efforts to contain financial stability risks through supervisory tightening are welcome and should continue, fast-growing nonfinancial sector debt should be tackled, and the move toward a healthier composition of growth should accelerate, taking advantage of current strong momentum and the still-sizable buffers to smooth the transition.
- Commodity exporters, such as *Saudi Arabia*, should continue to adjust to the lower price environment, including through adjusting fiscal policy as needed and making progress toward diversifying their economies.

**12. The *euro area* must continue to improve the resilience of its banks and overcome profitability challenges.** Only a comprehensive and proactive approach to reducing NPLs can adequately accelerate the repair of bank balance sheets and lift the drag on credit to the real economy. Measures that could help reduce NPLs more quickly include extending ECB guidance on NPL management to smaller banks, faster modernization and harmonization of insolvency regimes, and having the European Commission provide a blueprint for national asset management companies that could stimulate distressed debt markets. The recovery should help banks' profitability, but further business-model upgrading, cost rationalization, and consolidation, remain critical. Such steps should be incentivized by a proactive approach to bank resolution where necessary. Faster progress is needed to complete the Banking Union and advance the Capital Markets Union plan.

**13. Joint policy action by surplus and deficit economies would help address external imbalances in a growth-friendly way benefiting all**. For example, in the short term, some excess-surplus economies would benefit from using available fiscal space to boost public investment or domestic demand more broadly (including *Germany* and *Korea*) helping also to reduce their excessive current account surpluses. At the same time, excess-deficit economies such as the *United States and the United Kingdom* should embark on growth-friendly fiscal consolidation. To tackle structural imbalances, advanced excess-surplus economies should implement policies to reduce barriers to foreign competition and domestic investments in certain sectors, especially services, and to increase labor force participation of the elderly. Excess-surplus emerging markets should focus on expanding social safety nets and reducing direct and indirect obstacles to trade, including subsidies and other forms of state support, for example to state-owned enterprises. Excess-deficit economies, on the other hand, need to implement structural reforms to improve competitiveness, which may include wage moderation in line with productivity growth. More generally, where monetary policy is constrained, as in individual *euro area* members, fiscal and structural policies to facilitate relative price adjustments should take priority.

## C. LIFTING LONG-TERM GROWTH AND MAKING IT MORE INCLUSIVE

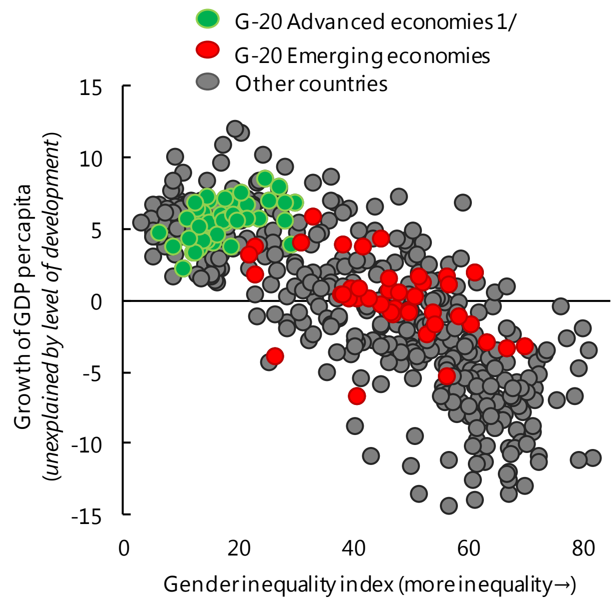
**14. Going forward, the key to a sustained recovery is to reinvigorate productivity and to broaden economic opportunities for all**. Weak productivity trends and a lack of inclusiveness put a ceiling on the growth outlook as the cyclical boost runs its course. There is significant scope, however, for progress along both dimensions. In many emerging and advanced economies (e.g., *China*, *Indonesia*, *United States*), higher investment in education including through better use of public funds would support growth in the longer term while opening opportunities and enabling both social mobility and adjustment to structural economic shifts, including those arising from technology and trade. In emerging markets, financial inclusion (*India*), fighting corruption (*Mexico*), and health care reforms can have similar effects. In advanced economies, policy can offset negative output effects of population aging by raising labor force participation (see below) and by boosting productive infrastructure (*Canada*, *Germany*, *United States*) and R&D investment (*Canada*). For example, empirical evidence suggests that an increase in public investment of 1 percent of GDP can lead to a medium-term increase in the level of output of about 1½ percent in advanced economies.[5]

**15. Increasing female labor force participation can help improve growth prospects while also making growth more inclusive.** For example, recent estimates suggest that closing the gender participation gap in the labor market by 25 percent by 2025—in line with the G-20 "25-25" target—

[5] Abiad, A., D. Furceri, and P. Topalova, 2015, "The Macroeconomic Effects of Public Investment: Evidence from Advanced Economies", IMF Working Paper 15/95.

could increase annual GDP per capita growth rates by 0.2 to 0.6 percentage points during the reform period in several countries.[6] Narrowing gender gaps is also vital to fostering inclusive growth and to providing households, and women in particular, with more income security. Policy measures to foster women's participation in economic activities and their income security include increased support for childcare (e.g., *Germany*, *Japan*, *United Kingdom*), parental leaves, and flexible work arrangements, removing tax provisions that discriminate against secondary earners, and improving the quality of women's earnings. In lower-income countries and emerging markets (e.g., *India*), priorities include eliminating legal hurdles that prevent women from working, improving infrastructure, and enhancing gender parity in access to health, education and skills training, and finance.

**Gender inequality index and growth, 1990-2010**




Sources: UNDP Human Development Report; World Bank, World Development Indicators; and IMF staff estimates.
1/ Includes Spain, a permanent invitee.
Note: Countries showing growth above zero are growing faster than can be explained by their per capita income, and those that exhibit growth lower than zero are growing more slowly.

**16. Where tradeoffs occur, fiscal policy can play a mitigating role**. Where fiscal space is available, fiscal policy can help foster innovation and structural change in labor, product, and services markets, including through demand support for certain reforms. Fiscal policy can also ease the adjustment of those adversely affected by technological change or increasing economic integration (for example, job counseling and retraining, apprenticeship programs for youth, support for life-long learning, measures in areas such as housing, credit, and infrastructure to increase mobility). It can protect the vulnerable through better-targeted social safety nets financed by well-designed progressive taxes. Countries with limited fiscal space can provide support in a budget-neutral manner (for example, by using savings from unemployment benefit reforms to improve job training programs). Ongoing IMF work and country experiences also suggest that the use of digital technology holds the potential for better targeted and efficient fiscal policy, ensuring a reduction in spending leakages and greater transparency.

## D. WORKING TOGETHER

**17. A well-functioning multilateral framework for international economic relations is another key ingredient of strong, sustainable, balanced, and inclusive growth**. Myopic pursuit of zero-sum policies can only end by hurting all countries, as history shows. Because national policies

[6] ILO, OECD, IMF, World Bank, *forthcoming*, "Women at Work in G20 Countries: A Background Paper," Paper for the G20 Labor and Employment Ministerial Meeting.

inevitably interact in a number of vital areas, creating strong spillovers across countries, the world economy works far better for all when policymakers engage in regular dialogue and work within agreed mechanisms to resolve disagreement.

**18. A rule-based and open world trading system is especially vital for global prosperity, but it must be supported by domestic policies to facilitate adjustment, not only to trade but also to a rapid pace of technological change**. Global trade integration has proven to be a crucial engine for enhancing productivity growth, living standards, and consumer choice, benefiting emerging and advanced economies alike. Like growth stemming from innovation and technological progress, however, gains from trade can create adjustment burdens that tend to fall disproportionally on some individuals and communities. The asymmetric distribution of benefits and costs calls for strong domestic policies to help adjustment.

**19. At the same time, the international community should continue to adapt the multilateral system to the changing global economy**. Active dialogue and cooperation will help to improve and modernize the rules, while addressing valid country concerns. This process will ensure continued mutual benefits and evenhandedness. Together with strong domestic policies, it will also help avoid a broad withdrawal from multilateralism either through widespread protectionism or a competitive race to the bottom in financial oversight, which would leave all countries worse off. Key reform areas include:

- *Promoting trade.* Further trade reforms in areas such as services and digital trade can make a particularly strong contribution to growth, and innovations from bilateral and regional agreements should eventually be brought to the global level. A global trading system anchored in the World Trade Organization—with strong, well-enforced rules that continue to adjust to promote competition and a level playing field—remains critical.[7] As discussed above, maintaining trade as a strong engine of growth, however, requires dedicated national efforts to help those affected most by greater economic integration or technology.
- *Strengthening the global financial system.* Maintaining robust financial regulatory regimes at the national level, including in the *United States, Europe,* and *China*, has positive spillovers for global financial stability. In addition, there is an urgent need for finalizing the international financial regulatory reform agenda by tackling outstanding challenges, such as improving the regulation and oversight of financial institutions, including non-banks; ensuring regulators have the capacity to resolve globally systemic financial institutions; and strengthening the resilience of central counterparty clearing for derivatives. Coordinated and collective action is also needed to manage risks to financial stability from cyberattacks, money-laundering and terrorism financing, and address the pressures that several countries have experienced in correspondent banking relationships, which play a key role in facilitating global trade, remittances and economic activity.[8]

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[7] IMF, World Bank, and WTO, 2017, "Making Trade an Engine of Growth for All: The Case for Trade and for Policies to Facilitate Adjustment."

[8] D. He, R. Leckow, V. Haksar, T. Mancini-Griffoli, N. Jenkinson, M. Kashima, T. Khiaonarong, C. Rochon, and H. Tourpe, 2017, "Fintech and Financial Services: Initial Considerations," IMF Staff Discussion Note 17/05; IMF, 2017, "Recent Trends in Correspondent Banking Relationships—Further Considerations."

Finally, the high degree of interconnectedness in the international financial system and the presence of vulnerabilities and excessive imbalances in some regions call for a more coordinated and adequately resourced global financial safety net, as well as stronger frameworks for the prevention and resolution of debt crises.

- *Continuing support for low-income countries*. These countries continue to face the greatest needs and a challenging economic environment, in some cases exacerbated by political uncertainty and security issues. Helping low-income countries, by supporting the implementation of the sustainable development goals and the 2030 development agenda, is not only an economic but also a humanitarian question. The G-20 Compact with Africa initiative provides a key framework for boosting private investment in the continent, helping foster higher income levels and resilience, diversify economic structures, and promote inclusiveness.
- *Responding to non-economic challenges*. The international community plays a crucial role in fostering and coordinating financial and other types of support for countries most affected by epidemics, natural disasters, famines, armed conflicts, and refugee flows. Climate change is a causal factor behind all of these, while also posing other severe economic threats, and multilateral cooperation to mitigate and adapt to its effects should be enhanced.

## Table 1. Real GDP Growth (World Economic Outlook, April 2017)

*(percent change)*

| | Year over Year | | | | | |
|---|---|---|---|---|---|---|
| | | | Projections (from Apr. 2017) | | Deviations (from Jan. 2017) | |
| | 2015 | 2016 | 2017 | 2018 | 2017 | 2018 |
| **World** | **3.4** | **3.1** | **3.5** | **3.6** | **0.1** | **0.0** |
| Advanced economies | 2.1 | 1.7 | 2.0 | 2.0 | 0.1 | 0.0 |
| Euro area | 2.0 | 1.7 | 1.7 | 1.6 | 0.1 | 0.0 |
| Emerging market and developing countries | 4.2 | 4.1 | 4.5 | 4.8 | 0.0 | 0.0 |
| G-20 1/ | 3.5 | 3.2 | 3.6 | 3.7 | 0.0 | 0.0 |
| Advanced G-20 2/ | 2.0 | 1.6 | 2.0 | 2.0 | 0.2 | 0.0 |
| Emerging G-20 3/ | 4.9 | 4.5 | 5.0 | 5.2 | 0.0 | 0.1 |
| Argentina | 2.6 | -2.3 | 2.2 | 2.3 | 0.0 | -0.5 |
| Australia | 2.4 | 2.5 | 3.1 | 3.0 | 0.5 | 0.0 |
| Brazil | -3.8 | -3.6 | 0.2 | 1.7 | 0.0 | 0.2 |
| Canada | 0.9 | 1.4 | 1.9 | 2.0 | 0.0 | 0.0 |
| China | 6.9 | 6.7 | 6.6 | 6.2 | 0.1 | 0.2 |
| France | 1.3 | 1.2 | 1.4 | 1.6 | 0.1 | 0.0 |
| Germany | 1.5 | 1.8 | 1.6 | 1.5 | 0.1 | 0.0 |
| India 4/ | 7.9 | 6.8 | 7.2 | 7.7 | 0.0 | 0.0 |
| Indonesia | 4.9 | 5.0 | 5.1 | 5.3 | 0.0 | 0.0 |
| Italy | 0.8 | 0.9 | 0.8 | 0.8 | 0.1 | 0.0 |
| Japan | 1.2 | 1.0 | 1.2 | 0.6 | 0.4 | 0.1 |
| Korea | 2.8 | 2.8 | 2.7 | 2.8 | 0.1 | 0.0 |
| Mexico | 2.6 | 2.3 | 1.7 | 2.0 | 0.0 | 0.0 |
| Russia | -2.8 | -0.2 | 1.4 | 1.4 | 0.3 | 0.2 |
| Saudi Arabia | 4.1 | 1.4 | 0.4 | 1.3 | 0.0 | -1.0 |
| South Africa | 1.3 | 0.3 | 0.8 | 1.6 | 0.0 | 0.0 |
| Spain 5/ | 3.2 | 3.2 | 2.6 | 2.1 | 0.3 | 0.0 |
| Turkey | 6.1 | 2.9 | 2.5 | 3.3 | -0.4 | 0.0 |
| United Kingdom | 2.2 | 1.8 | 2.0 | 1.5 | 0.5 | 0.1 |
| United States | 2.6 | 1.6 | 2.3 | 2.5 | 0.0 | 0.0 |
| European Union | 2.4 | 2.0 | 2.0 | 1.8 | 0.2 | 0.0 |

Source: IMF, *World Economic Outlook* April 2017.
Note: 2017 and 2018 numbers reflect projections at the time of the publication of the World Economic Outlook (WEO) in April 2017, and do not yet reflect recent data releases (e.g., 2017Q1 outturns) or recent revisions to forecasts. The next WEO Upda te will be published in late July.
1/ G-20 aggregations exclude European Union.
2/ Includes Australia, Canada, France, Germany, Italy, Japan, Korea, United Kingdom, and United States.
3/ Includes Argentina, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, and Turkey.
4/ For India, data and forecasts are presented on a fiscal year basis.
5/ Permanent invitee.