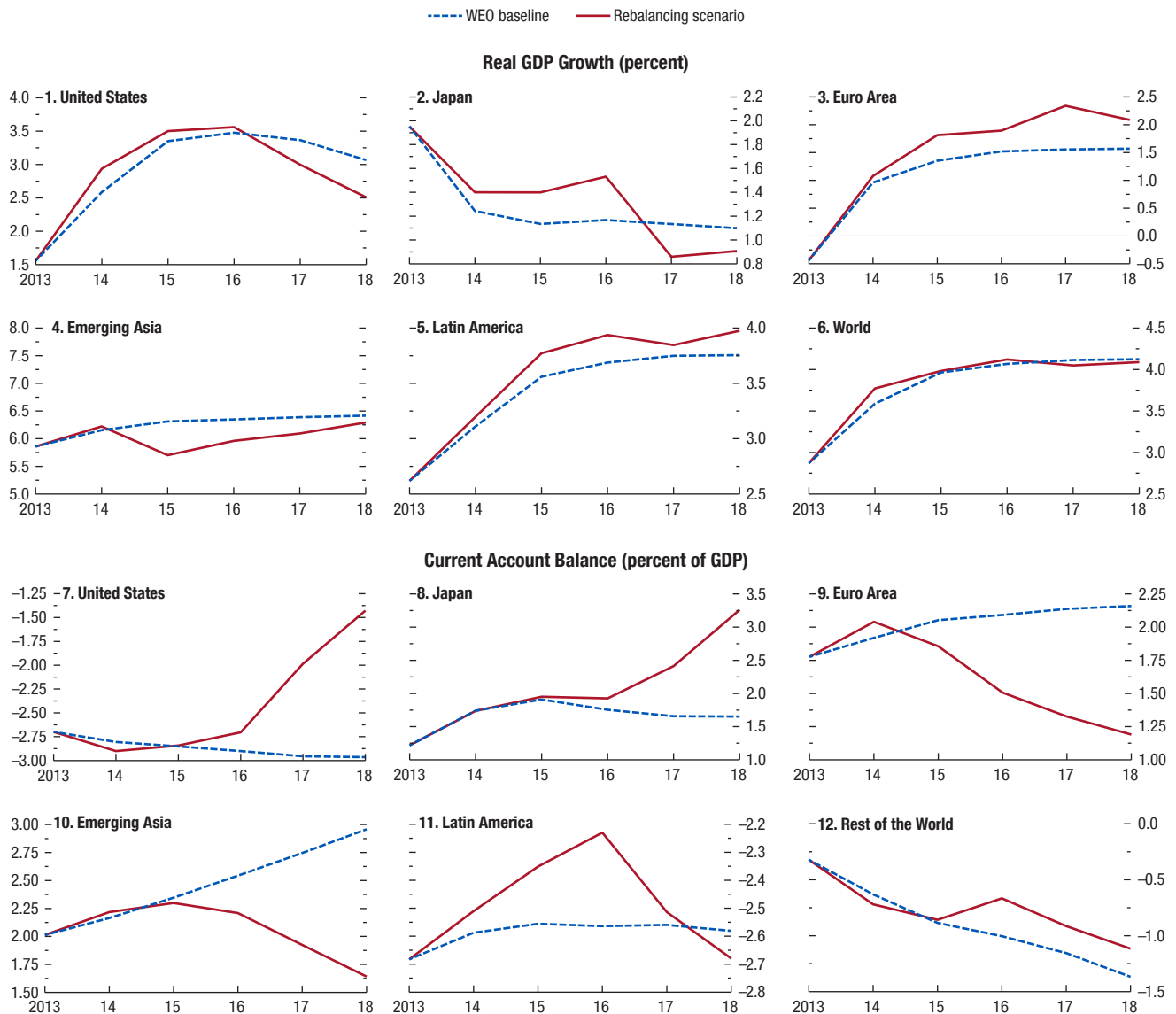


Figure 1.18. Rebalancing Scenario

This scenario uses the Euro Area Model (EUROMOD) and the G20 Model (G20MOD) to examine the global implications of major advanced and emerging market economies implementing policies aimed at strengthening their medium-term fundamentals while in some cases also supporting growth in the short term. In the near term, temporary stimulus measures in the UK (fiscal and monetary) and the US (fiscal) help support demand. In addition, measures by the ECB to reduce financial fragmentation and implement a banking union reduce the cost of funding for the private and public sectors, providing additional near-term support for activity. Looking to the medium term, increases in public savings occur in India, Japan, Russia, South Africa, and the US with tax reform in India increasing the incentives to work and invest. In addition, increased public investment in infrastructure in South Africa further stimulates private investment, increased efficiency in public spending in Russia allows for increased infrastructure investment, and pension reforms in Russia further stimulate labor supply.

Fiscal and financial reforms in China reduce both public and private savings and help rebalance demand toward consumption and away from investment. Structural reforms are undertaken in Brazil, the euro area, India, Japan, South Africa, and the UK that raise productivity and labor supply and stimulate investment.

At the global level, these reforms have little impact on growth as above-baseline growth in advanced economies and Latin America in the near term is roughly offset by lower growth in emerging Asia, primarily China. In the medium term, a return to baseline growth in China and emerging Asia is offset by below-baseline growth in the US and Japan. Although the impacts on global growth of these policy measures are negligible over the WEO horizon, they notably reduce external imbalances and set the stage for strong balanced growth in the long term.



Source: IMF staff estimates.
 Note: ECB = European Central Bank; UK = United Kingdom; US = United States.