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GROUP OF TWENTY

G-20 SURVEILLANCE NOTE

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Prepared by Staff of the

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

February 2022

EXECUTIVE SUMMARY

The pace of the recovery has slowed. Since the January 2022 *WEO* Update projected growth of 4.4 this year, economic indicators point to continued weak growth momentum amid the spread of the virus. Supply-demand mismatches, increases in energy and food prices, and bottlenecks in transportation of goods have put upward pressure on inflation—which in some economies has broadened across consumption categories, prompting a shift toward a less accommodative monetary policy stance. Longer-term inflation expectations generally remain well-anchored in economies with strong policy frameworks. While economic activity is projected to return to pre-pandemic trends in many advanced economies, many emerging market and low-income economies continue to face significant headwinds. The most vulnerable people continue to struggle, with employment yet to fully recover and the danger of persistent learning losses from school closures.

Downside risks dominate. There remains high uncertainty around the evolution of the pandemic, and inflation continues to be a significant risk. High public and private sector debt levels add to vulnerabilities and expose emerging market economies to risks from a sudden tightening of global financial conditions. Climate change continues to pose a threat to livelihoods and economic activity.

Implementing the first best policy mix will be particularly challenging amid difficult trade-offs between containing inflation and supporting the recovery. Monetary policy will need to continue to flexibly adjust to incoming data. Where there are tangible risks that inflation pressures will become longer lasting, a tighter, well-communicated policy stance may be warranted. Where longer-term inflation expectations remain well anchored and wage pressures remain moderate, continued accommodation remains appropriate. In the event of sudden shifts in monetary policy in major advanced economies, exchange rates represent important shock absorbers against adverse spillovers, but foreign exchange interventions may be needed in some economies in the event of high volatility. Fiscal policy should prioritize healthcare and support for the most vulnerable and carefully manage tradeoffs between lifting growth and containing debt. Infrastructure investment should include green and digital projects to strengthen resilience and long-term growth. Anchoring measures in medium-term frameworks can help ease the adjustment. It will be important to facilitate the reallocation of resources to expanding sectors and target financial sector policies to address pockets of vulnerability.

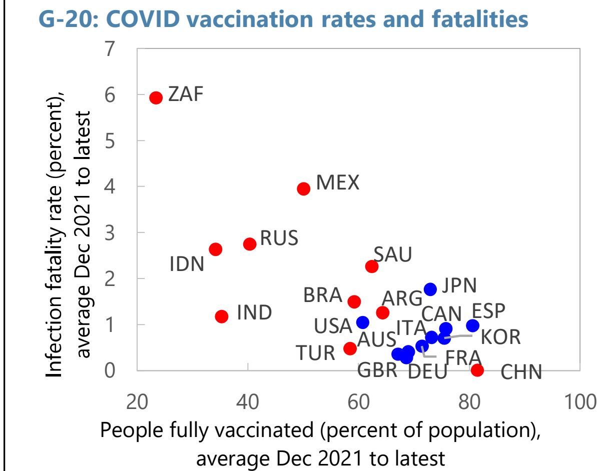
The G-20 must swiftly address the vaccine divide among countries and support a strong, resilient future for all. Action is needed to end the pandemic. This requires up-front financing for vaccines, testing, and treatments—along with the resources to deliver them to all people. In addition, greater ambition is needed on mitigating climate change, including through the implementation of an international carbon price floor, or equivalent regulations, and by supporting climate-vulnerable economies. At the same time, multilateral action is essential for helping weaker economies address scarring from the pandemic, including by resolving remaining implementation challenges regarding the G-20 Common Framework for Debt Treatments. Trade reform is essential to ensure that the benefits from trade are broadly shared.

Prepared under the guidance of Shekhar Aiyar by a team led by Lone Christiansen, comprising Eric Bang, Tryggvi Gudmundsson, Augustus Panton, and Chao Wang. Ilse Peirtsegaele provided administrative support. G-20 Surveillance Notes are available on IMF.org.

MATERIALIZATION OF RISKS WEIGHS ON GROWTH

1. **Large disparities in vaccination rates persist amid an intensification of the pandemic**. The goal of vaccinating 40 percent of the population in all economies by end-2021 was missed by a wide margin. While more than 70 percent of the population in advanced G-20 economies, on average, have been fully vaccinated, the corresponding share remains below 15 percent in many low-income developing economies. Meanwhile, the number of daily new infections surpassed previous pandemic peaks in several economies during the first weeks of the year. That said, within the G-20, deaths have generally been lower in many economies with high rates of vaccination (Figure 1).

Figure 1. COVID-19 Conditions



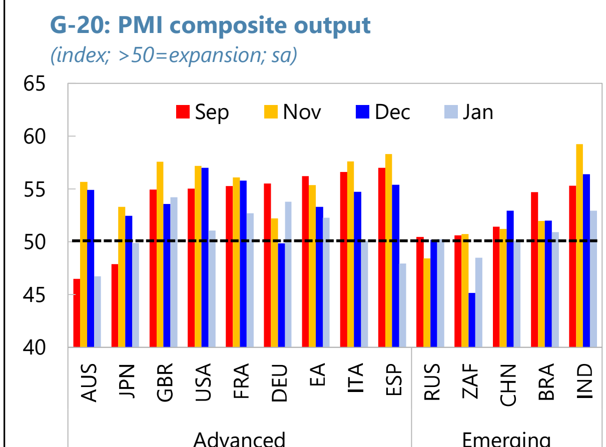
Sources: Our World in Data; and IMF staff calculations.
Note: Fully vaccinated: number of people who received all doses. ESP is a permanent invitee.

2. **As key downside risks have materialized, the outlook for the recovery has weakened**. The January 2022 *World Economic Outlook* (*WEO*) Update revised down growth to 4.4 percent this year (from 4.9 percent in the October *WEO*).[1] Beyond continued supply disruptions and the fight against the pandemic, key drivers of the revision relate to developments in the *United States* and *China*—with weaker growth in these economies putting a damper on growth also in trading partners. In the *United States*, prospects of a smaller-than-previously envisaged fiscal package and expectations of earlier withdrawal of monetary accommodation weigh on the outlook. In *China*, continued stress in the property market, a weaker outlook for private consumption, and strict pandemic-induced lockdown measures have reduced growth prospects. Nonetheless, despite mixed data in the second half of 2021, global goods trade has increased markedly since its pandemic trough.

3. **High-frequency indicators point to a weak growth momentum going into 2022**.

- *In advanced economies, the pandemic and supply-demand mismatches have continued to weigh on the recovery.* Renewed mobility restrictions in some economies have weakened service sector activity (e.g., *euro area*, *Japan*, *United Kingdom*), and the composite Purchasing Managers' Index points to some weakening in recent months, including amid continued supply disruptions

Figure 2. Purchasing Managers' Index



Sources: Haver Analytics; and IMF staff calculations.
Note: ESP is a permanent invitee.

[1] IMF, 2022, [World Economic Outlook Update](), January.

(e.g., *euro area*, *United Kingdom*) (Figure 2). While the recovery has been strong in the *United States*, the spread of the virus has put a dent in consumer sentiment.

- *In emerging market economies, pandemic restrictions and tighter domestic policies are putting a damper on activity*. Recent indicators point to lower industrial production in *Brazil*, and the composite Purchasing Managers' Index declined notably in some economies in December. In *China,* the need to tighten mobility restrictions has resulted in weaker-than-expected retail sales, while a decline in real estate investments and tighter travel restrictions have also weighed on activity.

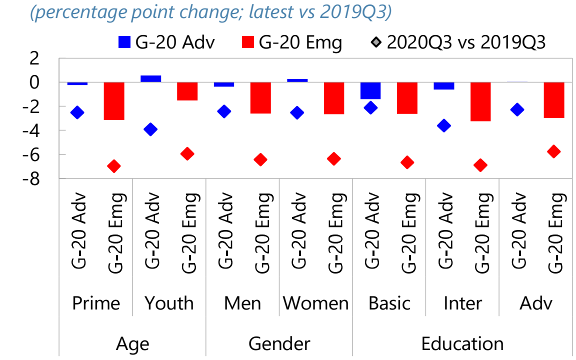
4. **The crisis is projected to result in notable scarring, with the most vulnerable people facing the largest shocks**. Though several advanced economies are on track to return to pre-pandemic output trends over the medium term, many lower-income economies could face sizable output losses. The labor market recovery is also incomplete.

- *The labor market recovery has been uneven*. Despite improvements in most economies, the recovery lags in G-20 emerging market economies (Figure 3). In contrast, labor market conditions have tightened considerably in some G-20 advanced economies (e.g., *Australia*, *United Kingdom*, *United States*), and wages in the *United States* have increased, particularly among the lowest paid. Nonetheless, adverse impacts of the pandemic persist on the labor force participation of older workers (e.g., *United Kingdom)*, on skill-mismatches, and on women's labor force participation (e.g., *United States*). In turn, prolonged unemployment or labor market absence (e.g., amid caretaking responsibilities) may have adverse impacts on skills and lasting effects on earnings.

- *Children's education has suffered a severe blow*. Globally, more than 50 million learners were impacted by full or partial school closures as of late January. Moreover, across countries, economies with the highest number of days with fully closed schools during the pandemic were often also those with pre-crisis learning outcomes at or below the cross-country average (Figure 4). In addition, within

Figure 3. Labor Market Developments

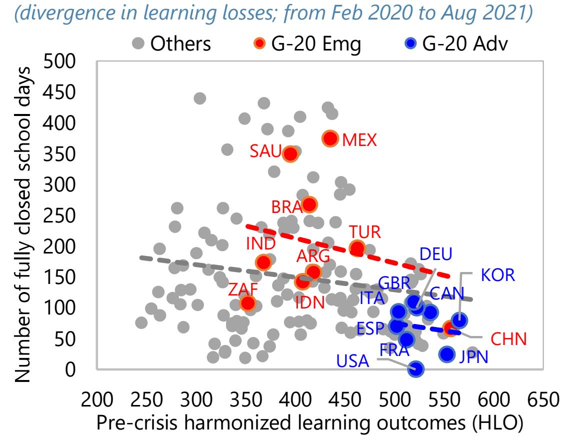
G-20: Change in employment-to-population ratio
(percentage point change; latest vs 2019Q3)



Sources: ILOSTAT; and IMF staff calculations.
Note: Prime: age 25-54; youth: age 15-24. Ages 15–64 for all other categories. For education: Basic: primary and lower secondary education; "inter" (i.e., intermediate): upper-secondary and post-secondary non-tertiary education; advanced: above post-secondary non-tertiary education. Aggregates for G-20 advanced (CAN, FRA, ITA, KOR, ESP, USA) and emerging market (ARG, BRA, MEX, ZAF) economies. Simple averages. Latest: 2021Q3; ARG: 2021Q2).

Figure 4. Education Losses

Human capital
(divergence in learning losses; from Feb 2020 to Aug 2021)

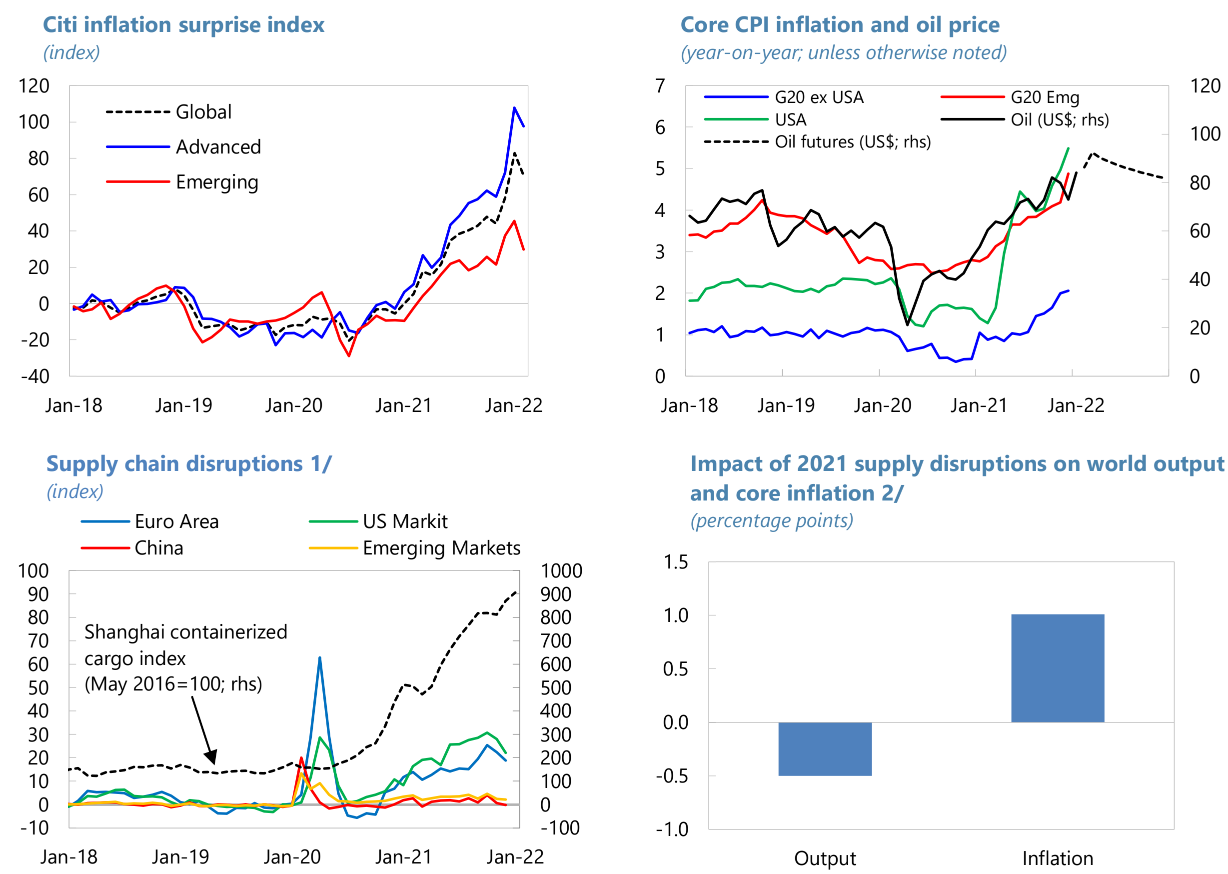


Sources: HLO (Angrist et al. 2021); UNESCO; IMF staff calc.
Note: Fully closed school days capture government-mandated closures affecting at least 80 percent of the student population. ESP is a permanent invitee.

countries, while children across all income levels were impacted by school closures, those from more vulnerable families were hardest hit—especially those with little or no access to remote learning. These developments suggest a further divergence in learning outcomes. Unless prompt policy action is taken to regain lost education, individual future earnings and productivity would likely suffer, and inequality rise.

5. **Despite weaker growth momentum, inflation has continued to surprise on the upside**. Headline inflation has moved above central bank targets in most G-20 economies (e.g., *Brazil*, *Canada*, *Mexico*, *United States*), with core inflation also picking up (Figure 5). In large part, this has been driven by (i) an increase in commodity prices during the past year, including global energy and food prices, which were 82 and 30 percent above end-2019 levels, respectively, as of December 2021; (ii) continued supply-demand mismatches—in particular in advanced economies—as producers of manufactured goods struggled to accommodate the rapid rise in demand that followed the sharp collapse in 2020 as well as a compositional shift in demand from services to goods; and (iii) bottlenecks in the transportation of intermediate and final goods, which strained supply chains and contributed to higher shipping costs. IMF staff estimate that supply disruptions have likely subtracted between ½ and 1 percentage point from global GDP growth in 2021 and lifted core inflation by 1 percentage

Figure 5. Inflation Developments and Drivers



Sources: The Baltic Exchange; Haver Analytics; and IMF staff calculations.
1/ Supply Chain Disruptions are calculated as the difference between the supply delivery times sub-index in the PMI and a counterfactual, cyclical measure of supply delivery times based on the manufacturing output sub-index in the PMI.
2/ Impact of global supply shocks as identified by the IMF staff global macro model, the Flexible System of Global Models.

point (Figure 5, bottom right panel). That said, inflation dynamics vary considerably across countries, with inflation having broadened beyond the increase in commodity prices in a few economies (e.g., *Brazil, India, United States*), while it remains more subdued in others (e.g., *China, Japan*) or largely driven by a few underlying components (e.g., *Italy*). In most economies, inflation is expected to gradually moderate this year, as commodity prices decline, supply-demand mismatches gradually wane, and supply chain disruptions ease.

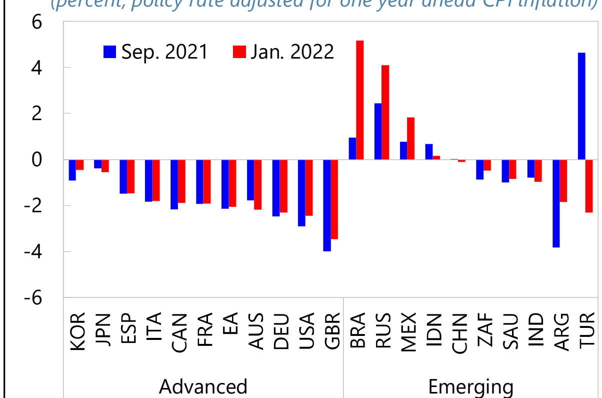
6. Inflationary pressures have prompted a tightening of monetary policy in several economies, while crisis-related fiscal support is also gradually being withdrawn.

- *Monetary policy has pivoted towards tightening in most economies*. Several factors have been at play, including (i) signs of more broad-based inflation, combined with low real interest rates (Figure 6); (ii) inflation expectations drifting above target in some economies; and (iii) tightening labor markets. In several emerging market economies, central banks initiated a tightening cycle (e.g., *Brazil*, *Mexico, Russia*), while many advanced economy central banks began tapering asset purchases (e.g., *Australia, Japan, United States*) and signaled that interest rate hikes may occur sooner than previously expected. In turn, this expected tightening by advanced economies has contributed to currency depreciation in several emerging market economies, despite increases in domestic policy interest rates. In contrast, *China* loosened its monetary policy stance amid the backdrop of low inflation and softening growth.

Figure 6. Monetary Policy

G-20: Monetary policy real rates

(percent; policy rate adjusted for one year ahead CPI inflation)



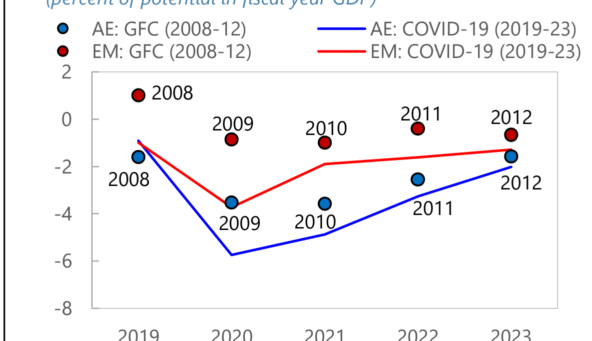
Sources: Consensus Economics; Bloomberg, L.P.; Haver Analytics; IMF staff calculations.
Note: The ECB performs monetary policy for the euro area as a whole, incl. DEU, ESP, FRA, ITA. CHN: 7-day reverse repo rate; EA: deposit facility rate. ESP is a permanent invitee.

- *Fiscal support has been reduced*. Public-sector debt levels have increased to historic levels and are estimated at an average of around 130 percent of GDP in G-20 advanced economies by end-2021, and close to 70 percent in G-20 emerging market economies. However, as growth has strengthened, the need for maintaining sizable support is reduced. In turn, policymakers have started to withdraw many of the pandemic-induced fiscal measures, including by ending the furlough scheme in the *United Kingdom* and letting extraordinary unemployment benefits expire in the *United States*. On average, withdrawal of fiscal support in G-20 advanced economies (Figure 7) is expected at a somewhat faster pace than

Figure 7. Fiscal Support

G-20: General government cyclically adjusted primary balance

(percent of potential in fiscal year GDP)



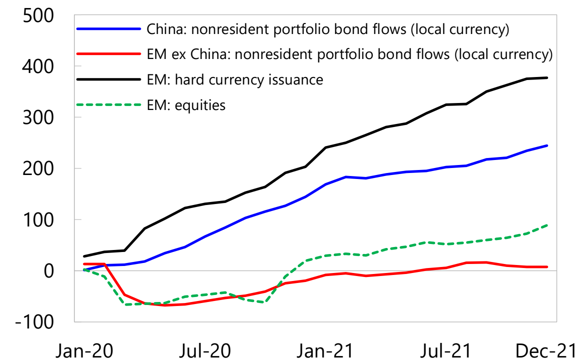
Sources: IMF *World Economic Outlook*; and IMF staff calc.
Note: SAU: Not included. Simple average across countries.

after the stimulus that was provided during the Global Financial Crisis (GFC)—but from a starting point of much larger fiscal stimulus than that provided during the GFC.

7. Despite some recent tightening, global financial conditions have stayed broadly accommodative, and vulnerabilities remain elevated. Asset valuations have remained stretched. Private and public sector debt levels remain high, and strong issuance of global corporate and government debt has continued—though with foreign currency debt issuance raising exposures to exchange rate risks (Figure 8). However, financial market volatility has increased, signaling challenging conditions for risky assets going forward. In January, global equities fell below their recent highs, including with a more pronounced sell-off in the technology sector. Real estate prices have risen rapidly (e.g., *Canada, Germany, Russia*), adding to vulnerabilities, especially amid rising mortgage rates.

Figure 8. Capital Flows

Cumulative emerging market capital flows
(in billion dollars)

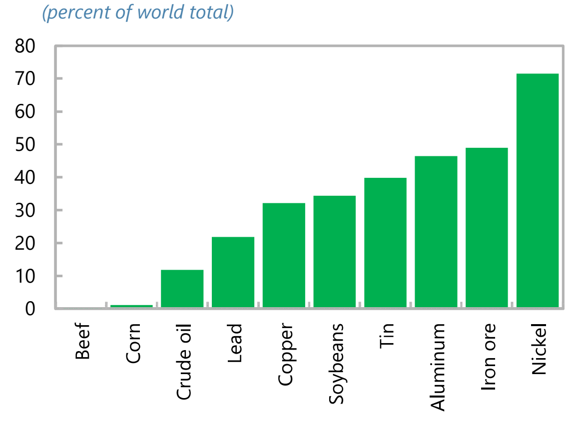


Sources: Bondradar; national sources; IIF; and IMF staff calculations.
Note: Based on data for a broad sample of emerging market economies.

8. Downside risks continue to dominate. The evolution of the pandemic remains highly uncertain. Until COVID-19 vaccinations become widespread in all economies, new and dangerous variants of the virus could continue to emerge and drag down economic activity. Supply-demand mismatches may also take longer to resolve than currently expected, weighing on output and putting upward pressure on inflation. Higher or more persistent increases in inflation than currently projected—for example from tight labor markets that drive up wages—could prompt an earlier-than-expected tightening of monetary policy in major advanced economies, especially in the *United States,* where the recovery is more advanced. This could dampen the global growth outlook, lead to a sudden tightening of financial conditions, and prompt capital outflows from emerging market economies—including against the potentially destabilizing backdrop of high debt levels. In *China*, vulnerabilities in the real estate market, a lagging recovery of private consumption, and the potential disruption from a widespread COVID-19 outbreak could all serve to intensify the current growth slowdown. This would in turn entail global spillovers through trade linkages as well as by reducing demand for major commodities (Figure 9). Geopolitical risks add further to uncertainty. Climate events continue to represent a key risk to growth and livelihoods.

Figure 9. China and Commodities

Chinese commodity imports
(percent of world total)



Sources: UN COMTRADE; and IMF staff calculations.

CAREFULLY NAVIGATE DIFFICULT POLICY TRADEOFFS

A. Monetary and Financial Sector Policy

9. Monetary policy must carefully balance the need to maintain well-anchored inflation expectations against the risk of holding back an incomplete recovery. Uncertainty about the evolution of the pandemic and, hence, its impact on inflation and economic activity means that policymakers will need to remain agile and flexibly adjust to incoming data. At the same time, policymakers will need to carefully communicate policy intentions, in particular by major advanced economies, to avoid adverse spillovers to more vulnerable economies from sudden policy changes.

10. Marked differences in inflation developments and in the speed of recovery call for carefully tailored policies.

- *In some economies, where labor markets are tight and inflation expectations are rising, a gradual withdrawal of monetary accommodation is warranted*. In the *United Kingdom* and the *United States*, where inflation is broadening beyond commodity prices, inflation is running above target, and labor market conditions have tightened, monetary policy accommodation should be gradually scaled back.
- *Where wage pressures remain moderate and inflation expectations are well anchored, central banks can afford to act more slowly*. Continued monetary accommodation remains appropriate in such economies, especially if the rise in inflation relates largely to energy prices (e.g., *euro area*, *Japan*). That said, central banks should carefully monitor data for any indications that inflation expectations are beginning to de-anchor and stand ready to tighten monetary policy as needed.
- *In some emerging market economies, where inflation is running well above target, further interest rate hikes may be warranted*. A continued relatively tight monetary policy setting or further increases in policy interest rates may be necessary in some economies to counter the rise in inflation (e.g., *Brazil, Mexico*). In contrast, in *China*, the presence of downside risks to economic activity and muted core inflation suggests the need for an accommodative monetary policy.

11. In addition to domestic challenges, central banks in emerging market economies must tackle the impact of external spillovers in the event of adverse shocks. For example, should inflation in major economies continue to surprise on the upside and inflation expectations begin to de-anchor, a steeper-than-expected path for policy interest rates could materialize. This would tighten global financial conditions, cause capital outflows from emerging market economies, and increase financial market volatility. Higher risk-premia in countries with high debt levels would add further to these challenges—especially for foreign-currency borrowers. Should this occur, a tighter monetary policy stance may be needed in some economies, even at the cost of raising the price of credit domestically. While the exchange rate represents an important shock absorber in most economies, policymakers should stand ready to use their full toolkits. In countries with sufficient reserves, this includes intervention in foreign exchange markets in the event of disorderly market conditions, although such intervention should not substitute for necessary macroeconomic adjustment. Use of macroprudential policies and capital flow management measures may also be beneficial, depending on country circumstances.

12. At the same time, targeted financial sector policies can help address pockets of vulnerabilities. Some economies have already taken actions to guard against risks (e.g., the decision to gradually restore counter cyclical buffers in the *United Kingdom*; an increase in the minimum loan serviceability buffer in *Australia*). Yet, some tightening of macroprudential tools is warranted, for example to ameliorate risks in the non-bank financial sector (e.g., *euro area*, *United States*). However, such measures should be carefully targeted to avoid a broad tightening of financial conditions. Early action would be beneficial given the lags between activation and impact of these tools, especially amid the risk that policy support needs to be prolonged in response to the pandemic. Where real estate prices continue to surge, tightening associated macro-prudential regulations (e.g., loan-to-value ratios) may be warranted to guard against financial stability risks (e.g., *Australia*, *Canada*, *United States*). In *China*, addressing financial and property sector risks in a coordinated fashion, including with improved risk monitoring, would help safeguard the recovery. Developments regarding digital currencies and other crypto assets should also be carefully monitored.

B. Fiscal Policy and Structural Reforms

13. Fiscal deficits in most countries will need to shrink, although the timing and extent of consolidation should depend on the pace of the recovery, the state of the pandemic, and fiscal space. In economies where the recovery continues to take hold, extraordinary crisis expenditures should be retired. If the pandemic worsens and mobility restrictions are reintroduced, consolidation can be slowed where fiscal space permits, and governments should provide well-targeted support for the most vulnerable segments of the population. In all economies, appropriate expenditure on public health should be ensured. In addition, embedding spending and revenue measures within credible medium-term frameworks would help strengthen confidence and support more gradual debt reduction.

- *In economies where the recovery is still fragile, fiscal policy faces the challenge of ensuring sufficient lifelines for the most vulnerable people while containing public debt levels (e.g., South Africa)*. Where high debt burdens and rising borrowing costs (e.g., from tighter global financial conditions) impose significant constraints on the budget, reallocation of spending toward priority areas—particularly healthcare and targeted support for households and firms—may be warranted. As such, reorientation of spending can also help ease the burden on the economy from lowering debt levels. Reducing poorly targeted subsidies (e.g., fuel subsidies) can add space for pressing spending needs. In anticipation of a possible further tightening of global financial conditions, economies would benefit from extending debt maturities where feasible, while containing the buildup of currency mismatches. Looking ahead, and as conditions allow, digital investments, including to broaden internet access (e.g., *India, Indonesia, South Africa*), will be important to minimize scarring and boost the growth potential.
- *In economies further ahead in the recovery (e.g., France, United Kingdom, United States), fiscal support should be scaled back and reoriented towards providing an enabling environment for strong, inclusive, and resilient growth*. As growth strengthens, the need for fiscal policy to support domestic demand is naturally reduced. Moreover, bringing forward fiscal consolidation can also help support monetary policy (e.g., *United Kingdom*). As such, any measures should be carefully targeted and shift towards lifting supply and trend growth, while financial support to the private

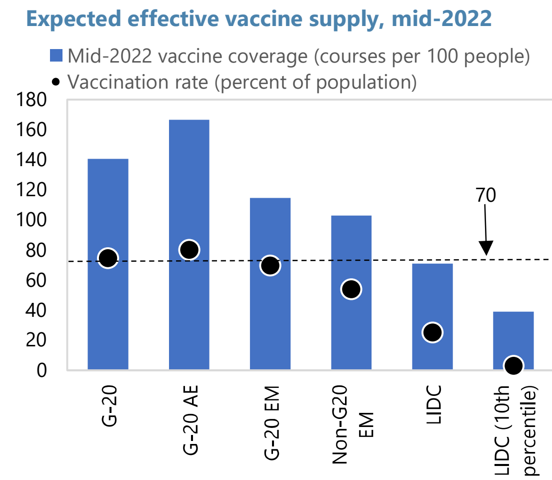
sector, extended during the pandemic, should be wound down. Job training and reskilling programs would help mitigate skill-mismatches and prepare workers for the demands of the post-pandemic economy. In addition to digital investments to raise the output potential, green investments (e.g., green R&D; technologies to enhance energy efficiency) can expand the supply of renewable energy. In *China*, fiscal policy should shift to neutral and prioritize spending that boosts private consumption to slow the drag on growth.

14. Growth-enhancing reforms can facilitate the reallocation of resources to expanding sectors and help strengthen the recovery. Embarking on longstanding reforms would help economies to reduce scarring from the pandemic. Policies to remedy learning losses from school closures (e.g., remedial training for teachers, tutoring for students, adjustment to school years) would help mitigate adverse impacts on human capital as well as the potential effects on future productivity and inequality. Further measures to boost female labor force participation (e.g., support for childcare) would help lift economic activity and enhance inclusion (e.g., *Canada, Japan, Saudi Arabia, United States*). Easing product market regulations (e.g., *Argentina*, *Brazil*, *France, Germany, South Africa, United States*), including to facilitate entry of new firms, and further facilitating trade (e.g., *Brazil, Canada, Russia*, *United Kingdom*) would enhance private sector competition and strengthen productivity. In all economies, effective corporate resolution mechanisms are essential to ensure that resources are not left idle in non-viable firms for extended periods.

TAKE JOINT ACTION ON GLOBAL CHALLENGES

15. Ending the pandemic remains the top priority for the global policy agenda. Pandemic-related support by the G-20—including dose donations and increased investment in vaccine production, delivery, and therapeutics—has helped expand access to vaccines in many low-income economies. However, additional support is needed to be able to vaccinate 70 percent of the population in all economies by mid-2022, scale up testing, and ensure equitable access to treatments (Figure 10). This requires up-front financing of about US$23 billion for the ACT Accelerator and greater focus on in-country health systems and resolving delivery obstacles for inoculations. Looking ahead, incentivizing global technology transfers would help speed up diversification of global production of vaccines and other critical life-saving medical tools, especially in Africa. Given the tremendous economic costs and human toll from a continuing pandemic, these are investments with enormous returns that the world must make.

Figure 10. Projected Vaccine Supply

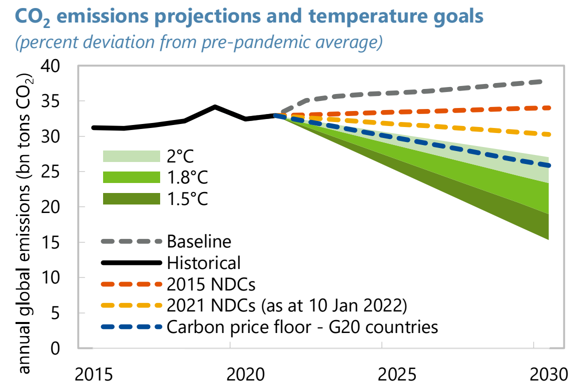


Source: IMF-WHO COVID-19 Vaccine Supply Tracker.
Note: Estimated total supply of vaccine courses by mid-2022 under business-as-usual assumptions (as of early Jan. 2022).

16. In addition, greater ambition and concrete actions are urgently needed to reach net zero emissions by mid-century and to ensure equitable burden sharing. The latest mitigation pledges made at COP26—covering more than three quarters of global emissions—to achieve carbon neutrality by the middle of this century are welcome steps in the right direction. Yet, current pledges fall short of what is required to achieve the Paris Agreement's temperature goals and to reach the goal of net zero emissions by 2050. Moreover, the pledges will still need to be converted into concrete actions.

- *Reinforce current pledges by implementing an international carbon price floor (or equivalent regulations), differentiated by country-specific levels of development, as the centerpiece of a comprehensive mitigation policy package*. This would help phase out coal and other fossil fuels and phase in green investments and low-carbon technologies. Measures equivalent to a global carbon price exceeding US$75 per ton of CO_2 by 2030 are needed to keep warming below 2°C (Figure 11).[2] Meanwhile, careful policy sequencing (e.g., frontloading investments in low-carbon energy) and clear communication can mitigate upward pressure on energy prices. Alongside, recycling a portion of carbon price revenues toward supporting those disproportionately affected by climate policy would help to preserve equity, while recycling through labor tax reductions or investments could boost growth. Amid increased demand for industrial metals (e.g., copper, nickel, cobalt, lithium) during the transition, establishing an international agency for metals—analogous to the International Energy Agency for energy or the Food and Agricultural Organization for agricultural goods—could be instrumental in enhancing transparency through data dissemination and analysis.[3]

Figure 11. Global CO_2 Projections



Sources: Parry and others (2021); and IMF staff updates.
Note: Energy-related CO_2 emissions (excluding international aviation and maritime). NDC: Nationally Determined Contributions.

- *Support climate-vulnerable countries in their efforts to finance adaptation measures and decarbonize their economies*. The G-20's support for the establishment of a new Resilience and Sustainability Trust (RST)—which would help finance policy reforms aimed at building economic resilience and sustainability—is welcome, as are pledges by advanced economies to help close the climate finance gap. It is now essential to fill the remaining gaps to meet the pledge of US$100 billion in financing per year from public and private sources and to rebalance the financing flows towards adaptation, as needed.

17. Additional efforts are essential to support weaker economies in addressing scarring from the pandemic. Following the expiration of the G-20 Debt Service Suspension Initiative at end-2021, many vulnerable economies will face increasing fiscal pressures, not least as global financial conditions may further tighten and borrowing costs increase. Some economies may need to restructure their debt to restore sustainability or address protracted liquidity needs. As such, resolving remaining implementation challenges to ensure that the G-20 Common Framework for Debt

[2] See Parry and others, 2021. "Proposal for an International Carbon Price Floor Among Large Emitters," June 18.

[3] Boer and others, 2021. "Energy Transition Metals."

Treatments is effective is essential. Improvement should include clear and timely processes, provision of a debt service standstill while negotiations with applicants are ongoing, and extension of the access to the Common Framework to other highly indebted countries. Additional support from the G-20 through voluntary channeling of SDRs (beyond the RST) to more vulnerable countries would also be welcome. The more quickly support for low-income and other vulnerable economies is provided, the lower will be the likely medium-term scarring.

18. Strong multilateral action on trade, taxation, and financial integrity can help secure the global recovery.

- *Address ongoing disruptions in global supply chains and reform the international trade system*. Amid continued demand-supply mismatches and delays in transportation, steps to streamline customs inspections can help reduce backlogs at ports and fast-track procedures for landside transport and licensing can help ease bottlenecks in transportation. With many of the tariff increases introduced during 2018–19 remaining in place, reducing tariffs can strengthen the recovery path. Reform of the international trade system, including specifically the WTO, would support a more open, stable, transparent, and rules-based trade system, while ensuring that the benefits from trade are shared globally.
- *Prepare for the implementation of the agreement on reforming the taxation of multinationals in 2023*. The agreement reached last year on global taxation is welcome. Once it is implemented, it will help limit tax competition among economies and will provide additional resources for minimizing economic scarring from the pandemic. Work, under the agreement, on simplifications and other relevant aspects for developing economies should be continued.
- *Strengthen financial integrity, governance, accountability, and transparency of government expenditure, and tackle illicit financial flows*. Measures to increase transparency of government expenditure can contribute to safeguarding public expenditure and reducing pressures on public sector debt levels. In this regard, effective implementation of global AML/CFT standards provides countries with critical tools. Tackling illicit financial flows, including from tax evasion, corruption, and environmental crimes, should remain a priority of the G-20 to ensure global, inclusive, and sustainable growth.

Table 1. Real GDP Growth
(percent)

	Year over Year					
			Projections (Jan. 2022)		Deviations (from Oct. 2021)	
		Est.				
	2020	2021	2022	2023	2022	2023
World	**-3.1**	**5.9**	**4.4**	**3.8**	**-0.5**	**0.2**
Advanced Economies	-4.5	5.0	3.9	2.6	-0.6	0.4
Euro area	-6.4	5.2	3.9	2.5	-0.4	0.5
Emerging Market and Developing Economies	-2.0	6.5	4.8	4.7	-0.3	0.1
G-20 1/	-2.9	6.2	4.5	3.7	-0.5	0.2
Advanced G-20 2/	-4.6	4.9	3.9	2.4	-0.7	0.4
Emerging G-20 3/	-1.4	7.3	5.0	4.8	-0.4	0.1
Argentina	-9.9	10.0	3.0	2.5	0.5	0.5
Australia	-2.2	4.2	4.1	2.5	0.0	-0.1
Brazil	-3.9	4.7	0.3	1.6	-1.2	-0.4
Canada	-5.2	4.7	4.1	2.8	-0.8	0.2
China	2.3	8.1	4.8	5.2	-0.8	-0.1
France	-8.0	6.7	3.5	1.8	-0.4	0.0
Germany	-4.6	2.7	3.8	2.5	-0.8	0.9
India 4/	-7.3	9.0	9.0	7.1	0.5	0.5
Indonesia	-2.1	3.3	5.6	6.0	-0.3	-0.4
Italy	-8.9	6.2	3.8	2.2	-0.4	0.6
Japan	-4.5	1.6	3.3	1.8	0.1	0.4
Korea	-0.9	4.0	3.0	2.9	-0.3	0.1
Mexico	-8.2	5.3	2.8	2.7	-1.2	0.5
Russia	-2.7	4.5	2.8	2.1	-0.1	0.1
Saudi Arabia	-4.1	2.9	4.8	2.8	0.0	0.0
South Africa	-6.4	4.6	1.9	1.4	-0.3	0.0
Spain 5/	-10.8	4.9	5.8	3.8	-0.6	1.2
Turkey	1.8	11.0	3.3	3.3	0.0	0.0
United Kingdom	-9.4	7.1	4.7	2.2	-0.3	0.3
United States	-3.4	5.6	4.0	2.6	-1.2	0.4
European Union	-5.9	5.2	4.0	2.8	-0.4	0.5

Sources: IMF *World Economic Outlook,* January 2022 Update and October 2021.
1/ G-20 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 *Turkey*.
4/ For *India*, data and forecasts are presented on a fiscal year basis, with FY 2021/22 starting in April 2021.
5/ *Spain* is a permanent invitee.