Quantifying the Implementation of G-20 Members' Growth Strategies

This note provides an estimate of G-20 members' progress towards implementing structural reform and public infrastructure investment commitments made at the Brisbane Summit to raise the level of their combined GDP by more than 2 percent by 2018. [1]

The estimate is based on the same IMF-OECD methodology as used for the Brisbane Action Plan to quantify the overall impact of the policy measures, taking into account productivity and labour supply effects, as well as demand and supply responses and international spillovers. In October 2015, the IMF, OECD and World Bank Group (WBG) jointly assessed whether commitments have been fully implemented, if implementation is in progress, or if there is no or limited progress on implementation.

This assessment suggests just under half of Key Commitment measures in the Comprehensive Growth Strategies included in the Brisbane Action have been fully implemented. These measures are estimated to raise G-20 GDP by around 0.8 percent by 2018, while recognizing the high degree of uncertainty entailed in quantifying the impact of members' policies. Most other measures are assessed as "in progress", but they are subject to a number of implementation risks.

Assessing Implementation of Growth Strategy Measures

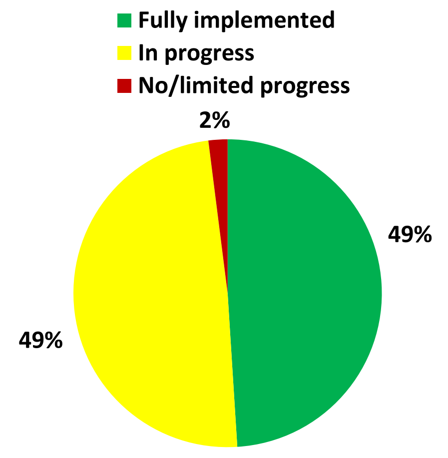
The IMF-OECD-WBG have jointly assessed progress on the implementation of G-20 members' key commitments from the Brisbane Growth Strategies, including in the areas of investment, employment, trade and competition. This covers over 350 individual structural policy commitments from the more than 1000 in the Brisbane Growth Strategies.

Measures have been assessed as either: fully implemented; in progress; or showing no/limited progress.[2] IMF country teams have separately assessed progress on infrastructure investment.

Implementation is measured in terms of the necessary legislation or administrative measures that are needed for carrying out the commitments. The measures that have been assessed as "in progress" remain subject to risks concerning implementation.

Implementation of Key Commitments

(Share by number of measures)



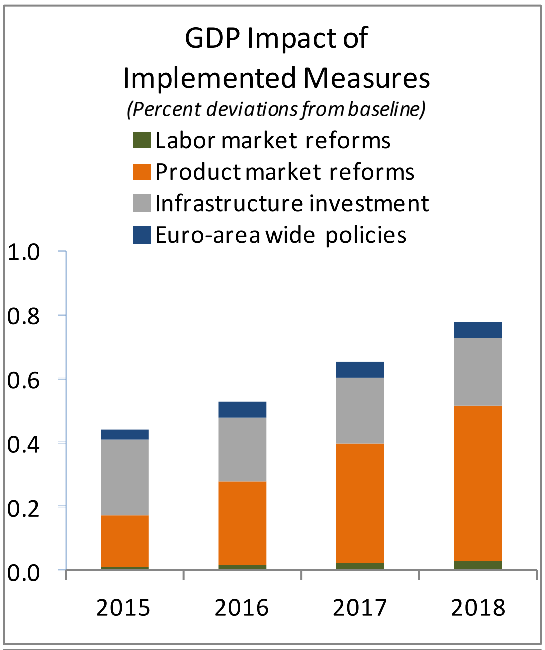
[1] Quantifying the Impact of G-20 Members' Growth Strategies Note

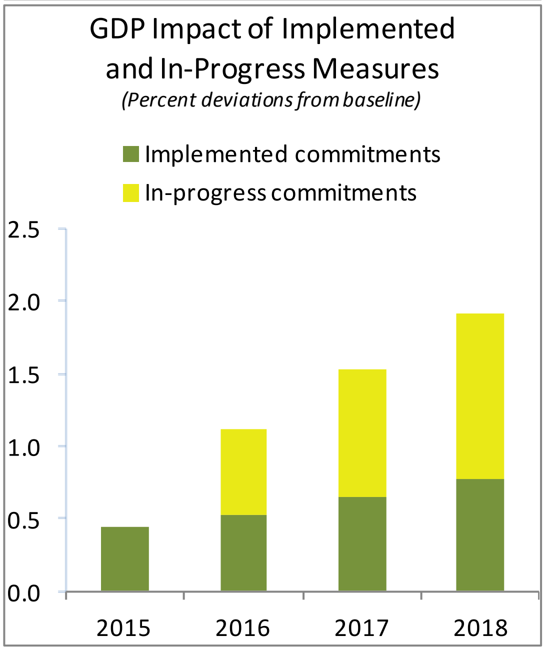
[2] G-20 members have provided feedback on the joint IMF-OECD-WBG implementation assessment.

Estimating the Impact of Implemented Measures on G-20 Output

The same methodology is used to estimate the GDP impact of implemented and in progress measures as was used to quantify the impact of the Brisbane Growth Strategies (see Annex for detail). OECD estimates of the impacts of the policy measures on productivity and labor supply are combined in the IMF's G-20 Model to estimate the overall increase in GDP, accounting for demand and supply responses as well as international spillovers.

While recognizing the high degree of uncertainty entailed in quantifying the impact of members' policies, the fully implemented policy commitments in members' Brisbane Growth Strategies are estimated to increase G-20 GDP by around 0.8 percent by 2018. The GDP impact of implemented measures is slightly above one-third of the 2.1 percent target even though by measure just under half have been assessed as fully implemented. This reflects two factors. First, several large countries have below average implementation. Second, many measures that have been implemented do not have a large GDP impact. The largest contribution to the estimated increase to G-20 GDP is from fully implemented product market and tax reforms to boost productivity as well as infrastructure investment, followed by labor market policies and the impact of the Single Supervisory Mechanism in the euro area.





Additional gains would be achieved by full and timely implementation of the measures currently in progress or where no or limited progress has been made so far. Since there have been some delays in implementation relative to the assumptions used when assessing the impact of Brisbane Growth Strategies, further measures will need to be implemented quickly to achieve the Brisbane objective by 2018.

Annex: Quantifying the GDP Impact of G-20 Members' Growth Strategies

The IMF-OECD approach to quantifying the impact of G-20 Members' Comprehensive Growth Strategies delivered to the Brisbane Summit covered only new measures since the St. Petersburg commitments, as assessed by the IMF and OECD. Commitments were assessed as new if they were neither explicitly included in the St. Petersburg commitments nor factored into the October 2013 WEO baseline projections nor well-advanced by September 2013.

Measure in countries' Growth Strategies were divided into five key areas:

- Product market reforms, including trade related measures;
- Labor market reforms;
- Expenditures on research and development;
- Tax reforms; and
- Expenditures on public infrastructure.

The impact of the new measures in the first four policy areas on either *productivity* or long-run *labor supply* were estimated using an OECD assessment of the impact of structural reform commitments, derived by assessing - where possible - the changes that commitments imply for policy indicators, such as the OECD's Product Market Regulation (PMR) indicator of the competition-friendly stance of market regulation. OECD estimates of the long-run supply-side impact of reforms were then used to derive initial impacts, allowing in some cases for reforms to be phased in.[3]

To fully capture the demand, supply and international spillovers affects, the estimated increases in *productivity* and long-run *labor supply* for each G-20 country were then introduced into the IMF's G-20 Model (G20MOD)[4] along with the increases in public expenditure on infrastructure. In the model, higher infrastructure spending raises the level of the public capital stock which in turn lifts the productivity of the private capital stock. Private investment in each individual country in the model then rises in response to the increases in productivity and labor supply. As a result, each country's long-run potential output rises owing to higher productivity, a larger employed labor force, and more private capital. In each individual G-20 country, household incomes rise owing to higher real wages and more employment and this, along with increased investment demand, leads to an increase in demand for exports from other countries. Higher demand for their exports further raises the return to capital in those countries, prompting even more investment and thereby further strengthening demand and adding to the increase in long-run supply potential.

[3] The basic OECD framework of indicators and empirical estimates is that used for the OECD's *Going for Growth* report (OECD, 2014). The key empirical relationships are based on papers by Bassanini and Duval (2006 and 2009) and Bourlès, Cette, Lopez, Mairesse and Nicoletti (2010).
[4] See IMF Working Paper No. 15/64 *The Flexible System of Global Models – FSGMA*, which documents the structure and properties of G20MOD.