Hangzhou Action Plan

September 5, 2016

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1. OVERVIEW

The global economy has made significant strides since the global financial crisis of 2008. However, the recovery remains fragile and has been subjected to numerous shocks. Further, the fruits of economic growth have been too limited to meet our citizens' expectations for a more prosperous future. We recognize that more must be done to raise rates of growth and job creation in a sustainable way and that we have an instrumental role to play in facilitating growth that is more inclusive and more resilient to downside risks emerging in the global economy. We also recognize that support for our efforts to foster further growth hinges on whether the benefits of such growth are shared broadly and reach the poor and more vulnerable segments of society.

The Hangzhou Action Plan sets out the strategy we will follow in order to foster robust and broader economic growth and generate the rewards that can be shared by all. Building on our past commitments, the new commitments contained herein aim to forge a clear path toward strong, sustainable and balanced growth. The plan includes a large number of policy actions that we will implement over the coming years. Some represent macroeconomic measures that we are using to boost growth and create jobs in the short term. Others involve structural reforms that we expect will raise economic productivity and living standards over the medium to long term. Still other policy actions aim to ensure the growth that we seek in both the short term and the medium term is more resilient in the face of unanticipated circumstances, more supportive of our natural environment, and more evenly shared.

2. IMPLEMENTATION OF PAST COMMMITMENTS

In 2014 in Brisbane, we pledged significant actions as set out in our growth strategies which, if implemented in a full and timely fashion, would increase G20 collective GDP by an additional 2 per cent by 2018 (collective growth ambition). In order to reach our ambition, in 2015 we developed a robust framework to closely monitor the implementation of our commitments. In Antalya, we adjusted our growth strategies, including new actions we are undertaking, to enhance their effectiveness in response to evolving economic challenges. 2016 is a significant year for our Brisbane ambition as it marks the mid-point of our collective growth ambition. Therefore, this year we have strengthened the peer reviews of our growth strategies to provide more thorough and detailed assessments of members' growth strategies and progress with the implementation of past commitments. We have also combined our investment strategies with our growth strategies in order to enhance the efficiency of our efforts.

Our monitoring of implementation, which has been supported by an IMF, OECD and the World Bank Group assessment, indicates that G20 members have implemented more than half of their multi-year Brisbane commitments and almost half of their Antalya commitments, with implementation of the remaining commitments largely in progress. The assessment of the international organizations also indicates that our implementation to date represents roughly half of our collective growth ambition. We recognize that we must do more and in particular make greater efforts to hasten the effective implementation of all our remaining commitments. Our progress with the implementation of our growth strategy commitments is reported in our 2016 Accountability Assessment.

3. A PATH TO STRONG, SUSTAINABLE AND BALANCED GROWTH

While actions taken to fulfill our past commitments are commendable, we acknowledge that more must be done if we are to stay the course toward strong, sustainable and balanced growth. We are determined to use all policy tools – monetary, fiscal and structural – individually and collectively to achieve this goal. As our individual country circumstances differ, we will each need to be vigilant in taking appropriate policy actions on many fronts. At the same time, our collective efforts will yield joint benefits in both the short term and the medium term and will lay solid foundations for global growth that is more resilient, sustainable and balanced.

A. Strengthening Short-term Growth and Stability

We remain concerned that the global economic recovery is weaker than is desirable. The global economic environment is challenging and downside risks persist, highlighted by fluctuating commodity prices, and low inflation in many advanced economies. Financial market volatility remains high, and economic reconfigurations, geopolitical conflicts, terrorism, and refugee flows continue to complicate the global economic environment. We are taking monetary and fiscal policy measures to foster confidence and boost growth and stability. We recognize the importance of demand-side measures in complementing our structural reforms. Therefore, in 2016, we have put forward a number of such measures:

– Central banks in Australia and Indonesia have cut policy rates in line with their respective mandates.

– The European Central Bank further expanded its asset-purchasing program to include corporate bonds as well as to increase the volume from €60 billion to €80 billion per month and cut the rate on its deposit facility to −0.4 per cent.

– The Bank of Japan introduced “Quantitative and Qualitative Monetary Easing with a Negative interest rate” in early 2016, and later enhanced monetary easing by increasing purchases of ETFs and by taking measures to ensure smooth funding in foreign currencies by Japanese firms and financial institutions.

– The Bank of England has cut its policy rate and also announced a term funding scheme to reinforce the pass-through of the rate cut, reduced the countercyclical capital buffer to support the provision of credit and expanded its asset-purchase program with £60 billion of additional purchases of government bonds and up to £10 billion of corporate bonds.

– The Central Bank of Turkey has taken measured steps to improve the effectiveness of monetary policy tools and narrowed interest rate corridor by reducing the marginal funding rate.

– Monetary policy continues to remain accommodative in Canada and the United States.

– Canada is making strategic investments totaling 2.5 per cent of GDP (around CAD 50.2 billion) over six years to provide immediate support for the economy as well as to raise potential output over the longer term.

– China will make a central government investment of 500 billion yuan in 2016 to support priority areas including government-subsidized housing, grain production and water conservancy, railway construction in the central and western regions, scientific and technological innovation, energy conservation and environmental protection, etc.

– India has increased the allocation for investment in infrastructure activities

– Japan has formulated an economic stimulus package with the total size of 28.1 (5.4% of GDP) trillion yen and the fiscal component of 13.5 trillion yen (2.6% of GDP).

– The United States raised federal budget spending authority by $111 billion for 2016 and 2017 to support near-term demand.

–Korea's additional fiscal spending in the 2nd half of 2016 will be more than KRW 28 trillion (1.9% of GDP), including the supplementary budget of KRW 11 trillion .

B. Boosting Actual and Potential Growth in the Medium Term

In order to boost our actual and potential growth over the medium term, we are undertaking further structural reforms, including by laying the groundwork for strategic investments in infrastructure and collaborating to build a fair and efficient international tax system.

i. Enhanced Structural Reform Agenda

We believe that structural reforms are an important driver of growth over the longer term, and can support confidence, demand, job creation and growth in the short term in conjunction with a strong macroeconomic framework. We have formulated an enhanced structural reform agenda that includes nine priority areas, guiding principles for each priority area, and an indicator system. (A paper entitled "G20 Enhanced Structural Reform Agenda" provides more details.) The specific priority areas making up the structural reform agenda will differ from country to country, and countries will focus on those priority areas that are of greatest relevance to their reform agendas. The priorities and guiding principles may be used by members to help guide future efforts at policy reform, including in the context of updating their growth strategies. The indicator system, which includes policy and outcome indicators, is intended to help assess and monitor the progress of structural reforms and their adequacy to address structural challenges, taking into account the diversity of country circumstances. We will look for opportunities to continue to improve the G20's enhanced structural reform agenda.

We have made new structural reform commitments in the following nine priority areas. Our commitments are well aligned with the guiding principles.

Promoting trade and investment openness

Measures are being taken to reduce barriers and restrictions to foreign direct investment, implement trade facilitation measures to reduce border costs and to reduce, as appropriate, behind the border restrictions on trade and investment and seek greater cross-border harmonisation.

Members' commitments to promote trade and investment openness include:

– China is continuing to open up and accelerate the trade in services.

– India is further relaxing its FDI norms. It is increasing the investment limit for foreign entities in Indian stock exchanges, insurance and pension sectors.

– Indonesia is removing barriers in its market in order to attract more foreign investment and using digital technology to simplify trade regulations by reforming government services and shifting the trade process from paper-based to online-based.

– Korea is reorganizing the support on foreign investment in high technology so that it provides more tax benefits to new industries.

Promoting competition and an enabling environment

Measures are being taken to reduce administrative and legal barriers to starting and expanding a business, promote a level playing field for market competition, and implement efficient bankruptcy procedures. Measures are also being taken to reduce restrictive regulations that impair competition, lessen the excess burden of regulatory compliance and apply sound oversight of regulatory policy, and enhance the rule of law, improve the efficiency of the judicial system and fight against corruption.

Members' commitments to promote competition and an enabling environment include:

– Brazil is providing technical assistance to help raise small and medium-sized enterprises' productivity by at least 20 percent.

– The European Union, in the context of its Single Market Strategy, is supporting start-ups and removing barriers to firms' growth and cross-border trade, facilitating access to finance, promoting innovation and reinforcing implementation of its Single Market rules.

– France is introducing measures to simplify the business environment for very small, small and medium-sized enterprises.

– Indonesia is de-bureaucatizing and deregulating by simplifying various licensing procedures, minimizing irrelevant requirements and eliminating unnecessary checking.

– Italy is adopting a new package of measures focusing on the need to inject capital into the Italian productive system and in particular to SMEs with the aim to stimulate, through access to the capital market, the growth of firms and reinforcing their competitive ability and managerial strength.

– Japan is promoting the use of robotics, Big data, IoT to R&D, diagnosis, examination, and nursery in the health industry, aiming for the expansion of its market.

– Mexico is improving the rule of law to lift potential growth by strengthening the legal framework to realize the reforms' full potential.

– Spain is eliminating burdens and barriers in the field of product markets and services, and strengthening the cooperation mechanisms among administrations.

Encouraging innovation

Measures are being taken to ensure and sustain research and development expenditures, strengthen collaboration between research institutions/universities and industry, and to improve international research cooperation as well as access to early-stage venture capital.

Members’ commitments to encourage innovation include:

– Australia is supporting a national innovation and science agenda which includes measures to make it easier for businesses to obtain capital, collaborate with researchers and attract talent from overseas.

– Canada is funding for infrastructure projects aimed at enhancing and modernizing research and commercialization facilities on post-secondary institutions, and projects that reduce greenhouse gas emissions and improve the environmental sustainability of these types of facilities.

– Japan is tripling the amount of investment from corporations to universities and research initiatives.

– Korea is reorganizing the current tax credit system on research and development to offer more support to new industries.

– Russia is establishing the Agency for technological development to help enterprises find innovative technological solutions by providing information, analytical and advisory assistance, transaction support and fund raising.

Improving infrastructure

Measures are being taken to raise the quality of public infrastructure investment while ensuring sufficient financing for infrastructure and infrastructure maintenance, and to promote private sector participation including through the use of Public-Private Partnerships (PPPs). Measures are also being taken to reduce institutional and regulatory barriers for long-term investment financing by institutional investors and promote new financial instruments while ensuring financial stability.

Members’ commitments to improve infrastructure include:

– Argentina is investing road, rail, aviation and river transport infrastructure (Belgrano Plan) to promote connectivity and intraregional trade within the country.

– China is accelerating the upgrading of power grids in rural areas.

– Germany is implementing a digital agenda that includes investments in telecommunication infrastructure.

– Indonesia is increasing early procurement for capital projects in the 2016 State Budget to reduce heavy back loading of capital spending and risks to implementation of projects in the budget year.

– Korea is providing tax credits for investment in infrastructure to commercialize new technologies in new industries.

– South Africa is developing alternative financing mechanisms to fund infrastructure investments.

– Turkey is accelerating the PPP transportation projects via using innovative financial mechanisms in line with its comprehensive National Transportation Master Plan (2015–2018).

– The United States has enacted a long-term surface transportation bill that provides $305 billion in funding over five years.

Improving and strengthening the financial system

Measures are being taken to ensure financial stability, support growth and enhance competition and innovation while maintaining prudential objectives. Measures are also being taken to ensure that the institutional framework is conducive to market finance, while ensuring investor protection, and to improve and strengthen access to both traditional bank financing and innovative sources of finance, all while maintaining financial stability.

Members' commitments to improve and strengthening their financial systems include:

– Argentina is promoting long run savings and credit in domestic currency and increasing mortgage loans.

– India is developing a complete information repository for corporate bonds covering both primary and secondary markets and is setting up an electronic platform for repo market in corporate bonds. Significant steps are being taken to establish a comprehensive resolution mechanism.

– Italy is further strengthening the resilience of its banking system by enhancing debt enforcement through expediting foreclosures on non-performing loans to corporate and small and medium-sized enterprises.

– Korea is promoting a performance-based wage system of the financial sector.

– Russia is preparing an action plan for the medium-term development of its financial market.

Advancing labour market reform, educational attainment and skills

Measures are being taken to reduce barriers to employment for groups with low labor force participation rates such as women, youth and older workers, and to expand and improve the effectiveness of active labour market policies. Measures are also being taken to rebalance social protection from jobs to workers and reduce labour market duality and informality, as well as to improve access to and the efficiency of vocational education and training, tertiary education, skilling and reskilling. Measures are being taken to promote quality job creation and enhance labour productivity.

Members’ commitments to advance labour market reform, educational attainment and skills include:

– Argentina is expanding its family allowance scheme to cover children whose parents have been excluded from the formal labour market.

– France is adopting a comprehensive labour reform including measures to increase flexibility for firms and protection for employees and is providing additional training courses for jobseekers, particularly those with few or no skills or whose skills are obsolete.

– Saudi Arabia is introducing a national program for occupational health and safety.

– The United Kingdom is abolishing employer national insurance contributions for apprentices under 25 on earnings under £827 a week.

Promoting fiscal reform

Measures are being taken to improve the efficiency of public administration and public service delivery, strengthen the role of fiscal frameworks, rules and institutions, improve the transparency and efficiency of tax collection and fight tax fraud and tax evasion. Measures are also being taken to prioritise growth-friendly expenditure, preserve productive public investment and improve efficiency in spending.

Members' commitments to promote fiscal reform include:

– Australia is lowering its company tax rate, starting with small and medium-size enterprises, and measures that expand the coverage of small business tax concessions.

– China is promoting tax reform by changing its turnover tax to a value added tax.

– The European Union is taking a stronger and more coordinated stance against companies that seek to avoid paying their fair share of taxes and implementing the international standards against base erosion and profit shifting.

– Mexico is implementing a multi-year public spending adjustment plan to secure fiscal sustainability and preserve macroeconomic stability in the current adverse environment.

– Saudi Arabia is establishing the National Project Management Agency to be responsible for ensuring the efficiency of public investment projects.

– South Africa is reprioritizing spending and reducing budgets for non-essential goods and services in national government departments.

– Spain is intensifying efforts to fight tax evasion and tax fraud.

The United Kingdom is reducing its corporate tax rate to support investment.

Enhancing environmental sustainability

Measures are being taken to extend the use of market-based mechanisms to mitigate pollution and increase resource efficiency, and to promote the development of clean and renewable energy and climate-resilient infrastructure. Measures will also be taken to promote the development and deployment of environment-related innovations, and to improve energy efficiency.

Members' commitments to enhance environmental sustainability include:

– Canada is providing strategic funding for clean technology, including in the forestry, fisheries, mining, energy and agriculture sectors, to support a clean growth economy.

– China is using savings from electricity price adjustments to support the transformation of coal-fired power plants to super-low emissions models as well as the development of renewable energy.

– India is establishing a national adaptation fund for climate change to assist in meeting the costs of national and state-level adaptation measures in communities and sectors that are particularly vulnerable to the adverse effects of climate change.

Promoting inclusive growth

Measures are being taken to improve equality of opportunity by reducing barriers to employment and improving outcomes in education and training. Measures will also be taken to provide social transfers and income redistribution programs that are well targeted and designed in a growth- and employment-friendly way. Measures will be adopted to ensure inclusiveness in our pursuit of economic growth.

Members' commitments to promote inclusive growth include:

– Canada is increasing the guaranteed income supplement for those senior citizens who are most at risk of experiencing financial difficulties.

– India is introducing a health insurance scheme which will protect one-third of the country's population against hospitalization expenditures.

– Mexico is increasing productivity, boosting employment and creating wealth in less-developed regions through the creation of Special Economic Zones.

– Turkey increased the minimum wage by 30 percent in January 2016 and is working on strengthening the link between social assistance and employment.

In future Accountability Assessment exercises, the indicator system of the G20 Enhanced Structural Reform Agenda will be used to inform our review of the progress of our structural reforms and their adequacy to address structural challenges.

ii. Lifting and Enhancing Infrastructure Investment

Infrastructure investment is critical to boosting aggregate demand and reducing volatility in short term, catalyzing structural reform on supply side and fueling the growth in mid and long term. We encourage the eleven Multilateral Development Banks (MDBs) to deliver their commitments from the "Joint Declaration of Aspirations on Actions to Support Infrastructure Investment". We support the MDBs to formulate quantitative ambition for high-quality infrastructure projects, maximize the quality of infrastructure projects, strengthen project pipelines, and enhance cooperation between existing and new MDBs as well as catalyze private resources. We stress the importance of quality infrastructure investment, which aims to ensure economic efficiency in view of life-cycle cost, safety, resilience against natural disaster, job creation, capacity building, and transfer of expertise and know-how, while addressing social and environmental impacts and aligning with economic and development strategies. We are committed to promoting global infrastructure connectivity and have launched the Global Infrastructure Connectivity Alliance Initiative earlier this year. Based on the G20/OECD Guidance Note on Diversification of Financial Instruments for Infrastructure and SMEs, we will further promote diversified financing instruments on a voluntary basis.

iii. Tax for Growth

Tax policy plays a critical role in achieving sustainable economic growth. We highlight the importance of effective tax policy tools in supply-side structural reforms and in the promoting innovation and inclusive growth. We also stress the need for increasing tax certainty to support cross-border trade and investment. We are committed to effectively coordinating our tax policies towards a fair and efficient international tax system that will diminish cross-border conflicts and contribute to our broader agenda on strong, sustainable and balanced growth. We ask the OECD and the IMF to produce reports on tax policies to promote innovation-driven and inclusive growth, and to improve tax certainty. In this connection, we take note that China would make its own contribution by establishing an international tax policy center for international tax policy design and research.

C. <u>Making Growth more Resilient, Sustainable and Balanced</u>

Our policy efforts to generate stronger growth over the short and medium term are being complemented by actions aimed at ensuring this growth promotes the resilience of the financial sector to shocks, encourages greater access of our citizens to a broad range of well-tailored financial services, facilitates more financing of environment-friendly projects and reduces persistent and excessive internal and external imbalances.

i. Building a Stable and Resilient International Financial Architecture

We are committed to taking further actions in strengthening the international financial architecture, which is a key element to foster strong, sustainable and balanced growth, as well as financial stability. We will continue to improve the analysis and monitoring of capital flows and management of risks stemming from excessive capital flow volatility. We welcome the upcoming CMIM-IMF joint test run and call on Regional Financing Arrangements (RFAs) whose cooperation capacity with the IMF has not been tested to consider organizing a test run with the IMF. We look forward to the IMF drawing lessons from these test runs and sharing them in the context of broader experiences of cooperation. We support further work regarding the IMF's lending toolkit. We look forward to the expected outcomes of the World Bank Group's shareholding review in line with the agreed principles and roadmap, including reaching an agreement on the Dynamic Formula by the 2016 Annual Meetings. We underline the importance of promoting sound and sustainable financing practices. We support the ongoing review of the Debt Sustainability Frameworks for low-income countries and call for an enhanced, tailored, coordinated effort on technical assistance to debtor countries. We support the efforts to explore the cost and feasibility of the inclusion of the enhanced contractual clauses in existing stock of sovereign debt, as well as examining and discussing additional measures to smooth the sovereign debt restructuring processes. We call for further analysis of the technicalities, opportunities, and challenges of state contingent debt instruments, including GDP-linked bonds. We look forward to further work by the IOs to support the development of local currency bond markets, including intensifying efforts to support low-income countries.

ii. Promoting Financial Inclusion

We recognize the critical importance of financial inclusion to empowering and transforming the lives of all our people, especially the poor. Based on the G20 High-level Principles for Digital Financial Inclusion, we will take concrete actions recommended by the Global Partnership for Financial Inclusion (GPFI) and tailored to the specific situation of each country to promote digital financial inclusion, and help low income developing countries (LIDCs) to reach the “last mile” of excluded and underserved groups. We ask the GPFI to update the G20 Financial Inclusion Indicators on a regular basis to reflect new trends and developments in financial inclusion and support IOs to collect high quality country-level data. We recognize the importance of improving the effectiveness of financial literacy and capability programs. We support the first country self-assessment about to take place within the G20 Action Plan on SME Financing Implementation Framework. We support the continued work of the GPFI to implement the G20 Financial Inclusion Action Plan (FIAP) and ask the GPFI to review the FIAP in 2017.

iii. Greening the Financial System

Achieving environmentally sustainable growth requires substantial amounts of green investment. We welcome the voluntary options developed by the G20 Green Finance Study Group on how to enhance the ability of the financial system to mobilize private capital for green investment. In particular, we believe that efforts could be made to provide clear strategic policy signals and frameworks, promote voluntary principles for green finance, expand learning networks for capacity building, support the development of local green bond markets, promote international collaboration to facilitate cross-border investment in green bonds, encourage and facilitate knowledge sharing on environmental and financial risks, and improve the measurement of green finance activities and their impacts.

iv. Promoting Efficient and Transparent Provision and Mobilization of Climate Finance

Recognizing the importance of climate finance for sustainable and climate-resilient development, we affirm our call for timely implementation of the Paris Agreement on Climate Change and the commitments made by the developed countries and international organizations and announcements made by other countries on climate finance.

v. Addressing Global Imbalances

We take note of the progress made in reducing excessive global imbalances since 2009. However, we are concerned that the adjustment process may be losing momentum. We cannot afford to see the gains made since 2009 in this regard disappear. We will study what further actions we can take to reinvigorate the adjustment process. We will continue to undertake an assessment of members every two years against the "Indicative Guidelines" to identify large and persistent imbalances. This assessment will benefit from the regular Sustainability Updates prepared by the IMF. In particular, it is important to ensure that the global adjustment process is functioning properly and symmetrically, and in a way that does not jeopardize global growth. We will continue to examine the process of global imbalance including from perspectives other than current account balances.

4. BUILDING A MORE PROSPEROUS FUTURE

Our action plan sets out the elements of our collective strategy to foster growth. As demonstrated in this plan, we reconfirm our determination to use all policy tools – monetary, fiscal and structural – individually and collectively to achieve our goal of strong, sustainable and balanced growth.

Global growth creates enormous benefits. Growth within the G20 will also have positive spillovers for developing and low-income countries. We also recognize the need to minimize the negative spillovers of domestic policies on other countries. Greater efforts are required to ensure that the future benefits of global growth are shared more broadly to promote inclusiveness within and among countries. We need to be able to show that our policies to strengthen growth actually benefit our broader populations – growth must be more inclusive if we are to ensure continued popular support for these policies. In particular, it is crucial that we as the G20 make the case that the virtues and gains from free trade, globalization, and greater world connectivity are larger than their costs.

We are reminded that the global economy will continue to be impacted by unforeseeable events which have the potential to deliver disappointing setbacks to the global economy as well as negative social impacts. We have a responsibility to protect the gains that have been made and to forestall further damage to our growth prospects. To this end, greater efforts will also be required to manage uncertainties by building more resilience into our economic growth objectives and policy tools.

Our credibility in this endeavor is linked to how well we deliver on our commitments. We will continue to hold ourselves collectively accountable for our commitments by demonstrating progress on their implementation. We will ensure that our efforts in this regard remain focused and effective. We will continue to welcome the strong analytical support of the international organizations in supporting our efforts in delivering stronger, more sustainable, and more balanced growth.