



**G20 Finance and Central Bank Deputies Meeting  
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**CONCEPT NOTE**

**INCORPORATING GREEN GROWTH WITHIN STRUCTURAL REFORMS**

The global economic outlook has deteriorated significantly. Resolute policy action is therefore needed to restore confidence and put the global economy back on a sustainable growth path. A subdued economic outlook underscores the need for G20 countries to advance their structural reform agenda to achieve their shared objective of strong, sustainable and balanced growth.

Green growth policies, which help foster economic growth and development while ensuring that natural assets continue to provide resources and services on which our well being relies, are an integral part of the structural reform agenda to promote growth. Such policies can help mobilise revenues in ways that do not discourage the recovery, while eliminating wasteful and environmentally harmful spending.

Green growth policies have the potential to unlock new sources of growth through several channels, in particular, by:

- *Enhancing productivity*, through incentives for greater efficiency in the use of natural resources, reducing waste and energy consumption, and allocating resources to the highest value use. It will also encourage technological progress and help economies advance to the technological frontier.
- *Stimulating innovation*, which can push the technological frontier further. Innovation-related investment has accounted for two-thirds to three-quarters of labour productivity growth in the advanced countries in the years before the crisis. *Green* innovation can play a critical role in jumpstarting economic growth in the advanced economies and putting it on a more sustainable path in the emerging-market economies, while also addressing critical environmental challenges.
- *Opening up new markets*, by stimulating demand for green technologies, goods and services, including through public procurement, and creating potential for new job opportunities. Getting price signals and regulatory frameworks right will enhance further investment on these issues.
- *Boosting investment and investor confidence*, through greater predictability and stability around how governments deal with major environmental issues.

- *Contributing to macroeconomic stability*, by helping reduce resource price volatility and supporting fiscal consolidation through, for example, increases in revenues through the pricing of pollution and natural resource use.

*Green growth policies can also reduce risks associated with negative shocks to growth.* Such shocks can come from resource bottlenecks, which make investments more costly, such as the need for capital-intensive infrastructure when water supplies or water quality decline. Adverse shocks can also result when environmental stresses cross critical thresholds, such as the collapse of fish stocks or through changes in the intensity and/or frequency of extreme events due to climate change.

Countries can foster synergies among green, innovation and other structural policies through “green structural policy packages”. In particular, incentives for greater efficiency in the use of natural resources, for reducing waste and energy consumption, and for allocating resources to the highest value use can help enhance productivity. At the same time, stimulating demand for green technologies, goods and services can open up new markets. Meanwhile, improvements in infrastructure could be oriented to support renewable energy, while R&D and innovation reforms could be directed to support “green technologies”. Appropriate carbon pricing and pro-competition regulatory reform could make innovation greener.

As in the case of traditional structural reforms, green structural policy packages need to be tailored to specific country conditions and level of development. Nevertheless, there are two broad components to such packages. The first element refers to framework policies that mutually reinforce economic growth and the conservation of natural capital, as well as policies specifically aimed at greening growth. Sound policies are needed to ensure the smooth functioning of labour and product markets and fiscal structures, which encourage both economic growth and environmental protection. The second element includes a mix of non-overlapping price-based and non-market instruments, including green taxes, tradable permits, information based measures and performance standards. A mix of price and direct support instruments can play a critical role in encouraging innovation that underpins green growth. Ultimately, what matters for the success of a green growth strategy is the need to stick to a well-defined set of economic and policy criteria. These crucially include cost effectiveness and the ability to spur innovation and investment, but also to what extent policies are likely to be implemented. The G20 can give a boost to this.

There are numerous examples of synergies between green and traditional structural reforms. National policy template submissions by the G20 countries already identify a number of structural policy reforms and commitments are also relevant to green growth. In addition, implementation of more pro-competition regulations in product markets and human capital investment can lead to stronger growth by fostering innovation. Reducing barriers to trade and investment can facilitate the diffusion of green technologies while avoiding green protectionism. Meanwhile, better labour market policies could remove obstacles to labour utilisation and facilitate the allocation of labour towards greener jobs.

Building on these concepts a tool kit could be developed to examine and share good practices based on country submissions.