PURSUING STRONG, SUSTAINABLE AND BALANCED GROWTH: A NOTE ON IMPLEMENTATION OF G20 STRUCTURAL REFORM COMMITMENTS

Organisation for Economic Co-operation and Development

June 2012

Summary

- G20 countries have undertaken commitments to structural reform over several rounds of reform pledges since the Toronto summit. Most recently a new iteration of structural reform commitments has been undertaken in the run-up to the Los Cabos summit (Appendix 1 to the note provides a preliminary assessment of these very recent commitments).

- The relative importance of different structural policy domains has remained broadly constant across different vintages of commitments. That said, the share of commitments related to human capital formation declined somewhat and those related to financial regulation increased in the two most recent commitment rounds, in the context of the Cannes Summit and pre-Los Cabos.

- Overall, there has been progress on implementation for over three quarters of all structural policy commitments in the recurrent commitment rounds/Action Plans.

- Progress on implementation of Action Plan commitments has been strongest for those concerned with human capital formation. There has also been comparatively good progress on reform commitments concerned with product market regulation and financial regulation. Implementation has been weaker for commitments on labour market reforms and, in particular, taxation, possibly reflecting political economy obstacles in these areas.

- The rate of implementation of G20 structural reform commitments varies according to the vintage of the commitments, being naturally lower for the commitments made in the most recent rounds. Implementation rates for earlier vintages of commitments are fairly similar, however. This may point to residual commitments losing economic or political relevance after some time. Evidence also suggests that in some policy areas the pace of implementation may have increased over time.

- The reform priorities identified in the OECD's *Going for Growth* may provide an input to identifying future commitments. *Going for Growth* priorities not matched by corresponding commitments by G20 countries fall predominately in the areas of product market regulation, labour market policies, tax reforms and human capital formation. While these may in some cases also be areas where political barriers are particularly strong, the gains from undertaking such reforms could extend beyond growth to, in many cases, reduction in international imbalances and, in a substantial numbers of cases, better budget outcomes.

1. Introduction

At the Pittsburgh Summit in September 2009, leaders of the Group of Twenty (G-20) industrialised and emerging market economies agreed to work together to promote an enduring recovery, and strong and sustainable medium-term growth. The Framework for Strong, Sustainable, and Balanced Growth was launched as the mechanism by which this would be achieved. The Framework constitutes a multilateral process through which G-20 countries: (i) identify objectives for the global economy, (ii) agree on the policies required to achieve these objectives; and (iii) assess progress towards meeting these shared objectives. This activity is called the Mutual Assessment Process (MAP). On the request of the G-20, the OECD, in co-operation with other international organisations, provides technical analysis to help evaluate the appropriateness of the reforms nominated by countries, and the progress towards implementing those reforms.

This note describes the structural reform commitments undertaken by G20 countries as part of the MAP and assesses their implementation. In addition, the framework offered by OECD's *Going for Growth* is used to highlight areas where additional structural reform commitments may enhance strong, sustainable and balanced growth.

2. Composition of G20 structural reform commitments

G20 countries have identified pro-growth structural policy commitments in successive Action Plans, including measures to boost productivity and to improve labour utilisation (**Table 1**). Productivity-enhancing measures include pro-competition reforms in product markets, initiatives to improve education systems and enhance educational attainment, and general support for innovation. In some cases, emphasis is also placed on infrastructure provision, tax reform and measures to promote openness to foreign trade and investment. Commitments to remove impediments to labour utilisation focus primarily on job creation for youth, and actions to strengthen labour training, encourage labour force participation for certain groups (especially women, the young and the elderly) and improve the matching of workers to jobs. Reform of employment protection legislation and tax-benefit systems also feature prominently among reform priorities. Structural policy commitments in other areas include a strengthening of legal systems, support for regional development, poverty reduction and initiatives to deal with the security of food and/or energy supply and to improve water resource management. Importantly, countries are committed to enhancing financial regulation and supervision systems, including by strengthening prudential regulation.

A large number of the reform commitments would assist, both directly and indirectly, with **fiscal consolidation and longer-term fiscal sustainability**. Reforms, such as those to disability, sickness and unemployment benefit schemes, along with old-age pension systems and *de facto* early retirement schemes, may directly contribute to improve fiscal balances, while also boosting employment and thereby raising tax revenues in the longer term and improving government debt dynamics. Such reforms include *inter alia* tighter eligibility criteria to disability benefits, increases in minimum retirement ages or a reduction in the level and/or duration of unemployment benefits. For example, phasing out crisis-related increases in benefit levels and/or duration as unemployment goes down would help raise labour utilization, with direct benefits for public budgets. However, increases in coverage of benefits decided in the context of the crisis may in many cases have merit on both social and efficiency grounds and deserve to stay in place.

Several pro-growth structural reforms that are prominent in the Action Plans also contribute to making growth more balanced. Structural measures to strengthen social safety nets, implement pro-competition reform in protected sectors and remove barriers to the development of non-tradable sectors, including services, can help rebalance growth towards domestic sources in countries with persistently large external surpluses. In deficit countries, reform commitments that would help rebalancing include measures to promote labour utilisation, as well as reforms to improve public sector efficiency and long-term fiscal sustainability.

Table 1. **Structural policy commitments in G20 countries**[1]

	Argentina	Australia	Brazil	Canada	China	Germany	European Union	France	India	Indonesia	Italy	Japan	Korea	Mexico	Russian Fed.	Saudi Arabia	South Africa	Spain	Turkey	United Kingdom	United States
Product market regulations																					
Strengthen competition in network industries		✓		●	✓	✓	✓	✓			●			✓			✓		✓		
Reform/simplify product market regulations		✓	✓	✓					✓		✓			✓				✓	✓		
Reduce barriers to competition in the services sector					✓	✓	✓	✓			✓		✓					✓			
Reduce barriers to foreign ownership/investment/trade	✓			✓	✓		✓	✓	✓	✓		✓		✓			✓				
Reduce regulatory barriers to competition		✓	✓	✓	✓	✓	✓	✓			✓		✓	✓			✓	✓		✓	
Strengthen private-sector participation in econ. activity													✓	✓				✓	✓		
Reform planning regulations																				✓	
Labour market regulations																					
Reform the unemployment insurance scheme					✓						●									✓	
Reduce restrictions on labour mobility				✓	✓	✓	✓								✓						
Reduce/moderate the minimum cost of labour																		✓			
Reduce/ease job protection						✓		✓			●								✓		
Reform the wage bargaining system								●			✓		✓	✓			✓	✓			
Strengthen policies to support female labour force participation						✓					✓	✓	✓						✓		
Improve incentives for (formal) labour force participation	✓	●		●			✓	✓	✓	✓	✓		●	●		✓	✓	✓	✓	✓	
Taxation																					
Reform/strengthen the structure of taxation	✓	✓	✓	✓	✓			✓	✓	✓	✓		✓	✓	✓		✓		✓		
Reduce implicit taxes on continued work at older ages								✓			✓	✓			✓						
Reduce the (average) tax wedge on labour income		✓	✓	✓										✓							
Shift toward indirect taxes									✓		✓										

1. Refers to the reform priorities identified in the G20 countries' national policy template submissions from before the Toronto Summit up to and including commitments made prior to the Los Cabos summit. Circled entries refer to commitments made prior to the Los Cabos Summit in domains where no commitment previously existed.

Source: OECD.

Table 1. Structural policy commitments in G20 countries[1] (cont'd)

	Argentina	Australia	Brazil	Canada	China	Germany	European Union	France	India	Indonesia	Italy	Japan	Korea	Mexico	Russian Fed.	Saudi Arabia	South Africa	Spain	Turkey	United Kingdom	United States
Human capital																					
Improve educational efficiency/outcomes/achievement	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓			✓		✓	✓	✓	●	✓	✓
Strengthen early education												✓									✓
Strengthen primary education									✓	✓											✓
Strengthen secondary education										✓	✓										✓
Reform tertiary education		✓	✓	✓		✓		✓		✓	✓	✓	✓					✓			✓
Financial regulation																					
Improve/streamline financial regulation	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Undertake wide-ranging financial reforms	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Other areas																					
Improve public sector efficiency							✓		✓	✓	✓							✓			
Improve health outcomes		✓			✓				✓	✓				✓			✓		✓		
Reduce health-care costs		✓			✓													✓			✓
Strengthen R&D and innovation incentives	✓	✓	✓	✓	✓	✓	✓	✓		✓	✓	✓	✓					✓	✓		✓
Strengthen the legal system			✓		✓						✓			✓	✓						
Improve the quality of infrastructure	✓	✓	✓	✓	✓	●			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

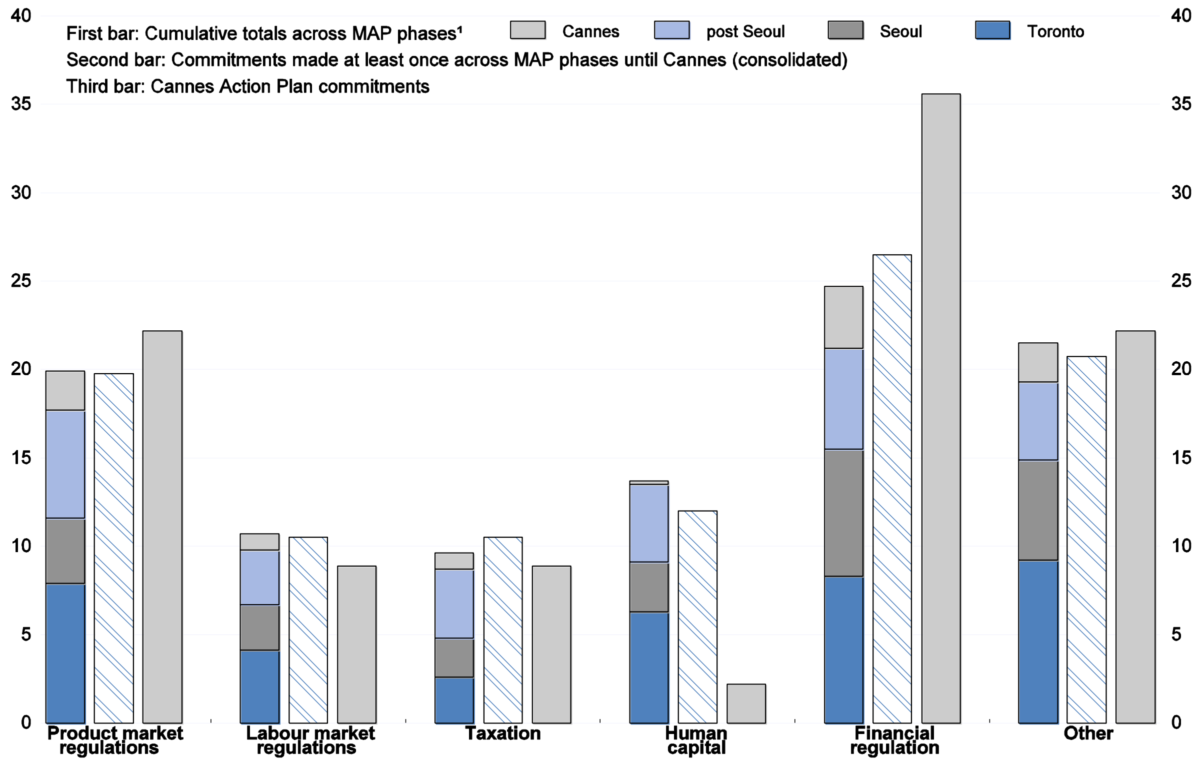
1. Refers to the reform priorities identified in the G20 countries' national policy template submissions from before the Toronto Summit up to and including commitments made prior to the Los Cabos summit. Circled entries refer to commitments made prior to the Los Cabos Summit in domains where no commitment previously existed.

Source: OECD.

The distribution across structural policy areas of commitments made by G20 countries has been fairly uniform from one Action Plan to the next, with financial regulation and product market regulations typically featuring most prominently (Figure 1). Hence, the distribution of commitments is broadly similar whether looked at cumulatively over the four Action Plan commitment rounds from Toronto to Cannes (first bars in Figure 1) or looked at from the perspective of counting a commitment only once even if it has been made by a country in several Action Plans (middle bars in Figure 1). Indeed, the commitments made in the context of the Cannes Summit and those made prior to the Los Cabos Summit (based on preliminary analysis, see Appendix 1) follow the previous pattern of commitments across domains. The exceptions are reforms aimed at human capital, which featured more lightly in the most recent rounds of commitments (in part because much progress was made on previous commitments in this area, see below), and those related to financial reform which figured more heavily (last bars in Figure 1 and Figure A1.1 in the Appendix). Labour market reform commitments have also gained in relative importance prior to Los Cabos.

Figure 1. Different perspectives on the distribution of policy commitments by structural policy domain

In per cent of relevant set of policy commitments



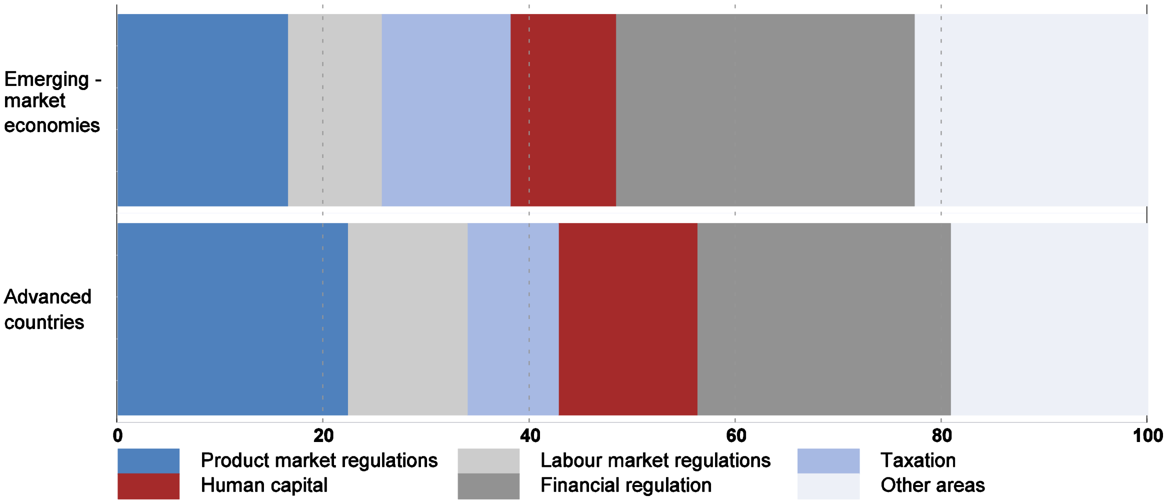
1. This aggregation includes every (non-consolidated) reform line item that countries have mentioned in their action plans over each of the four phases up to and including Cannes. As such, reform commitments can be double counted if countries repeat them across different action plans.

Source: OECD.

The distributions of commitments across policy area are similar between emerging market economies and advanced countries (Figure 2). Taking the perspective of commitments made at least once over the four phases of the MAP process up to Cannes (corresponding to the middle bars of Figure 1 and labelled 'consolidated' commitments in the figures), the distributions of commitments look remarkably similar across the country groups. The main differences are that product market regulation reforms feature slightly more prominently among commitments for advanced countries while financial regulation reforms appear relatively more commonly for emerging market economies.

Figure 2. Distribution of policy commitments within country groups

In per cent of all consolidated policy commitments[1]



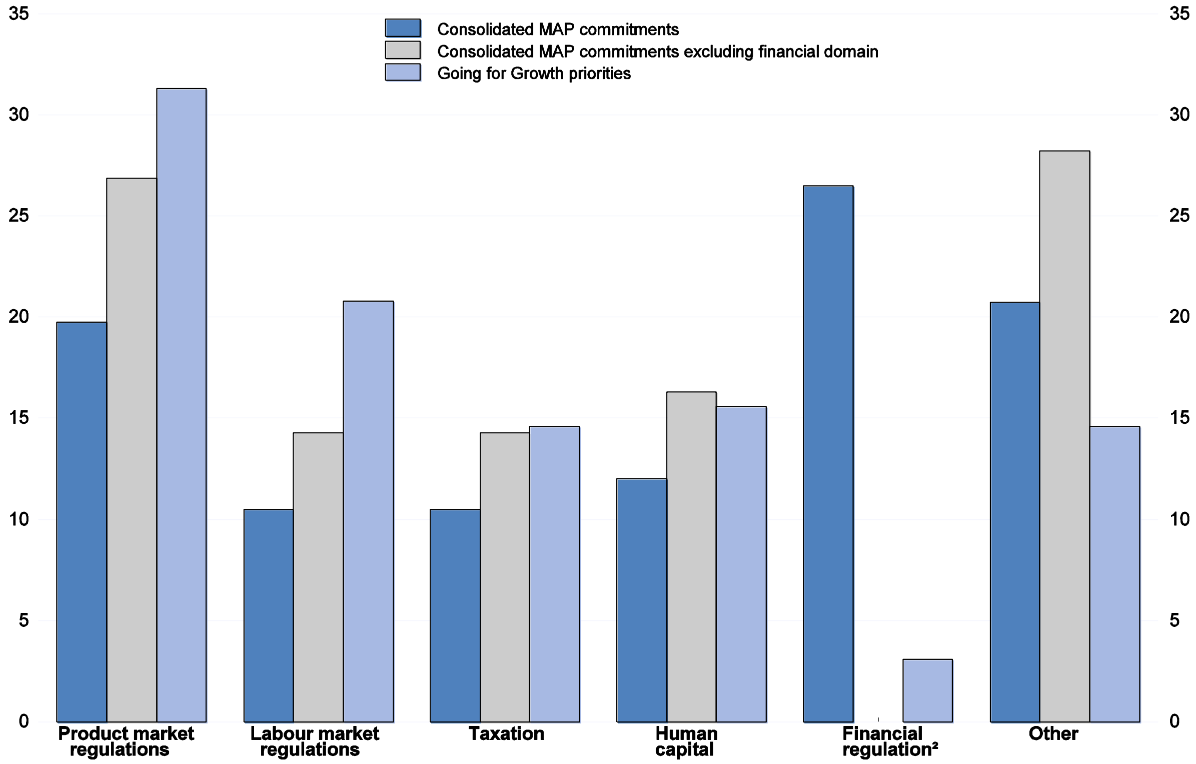
1. Consolidated commitments refer to commitments made at least once across the different MAP phases until Cannes. Hence, consolidated commitments consider country commitments only once, even if the same reform commitment is mentioned by a country over a number of action plan phases.

Source: OECD.

The distribution of the Action Plan commitments broadly mirrors the pattern of reforms identified as priorities in OECD's *Going for Growth 2011* (Figure 3). The relative emphasis given to product market regulation reform in *Going for Growth* is reflected in the Action Plan commitments made by countries over the four iterations until Cannes. The seemingly most prominent exception to the correspondence between country commitments and the *Going for* Growth priorities is in the financial regulation domain. However, this is due to financial market reform being treated separately in *Going for Growth*, as it is an urgent challenge in most countries covered and requires broad international co-ordination. The few country-specific financial-reform priorities in *Going for Growth* are primarily directed towards emerging market economies where more basic financial liberalisation needs to take place. There is a fairly close correspondence between the distribution of *Going for Growth* priorities across policy areas and that of country MAP commitments absent those related to financial reform (two last pair of bars for each policy domain in Figure 3).

Figure 3. The distribution of consolidated MAP commitments (until Cannes) and *Going for Growth* priorities[1]

In per cent of policy commitments/priorities



1. Consolidated commitments refer to commitments made at least once across the different MAP phases until Cannes. Hence, consolidated commitments consider country commitments only once, even if the same reform commitment is mentioned by a country over a number of action plan phases.

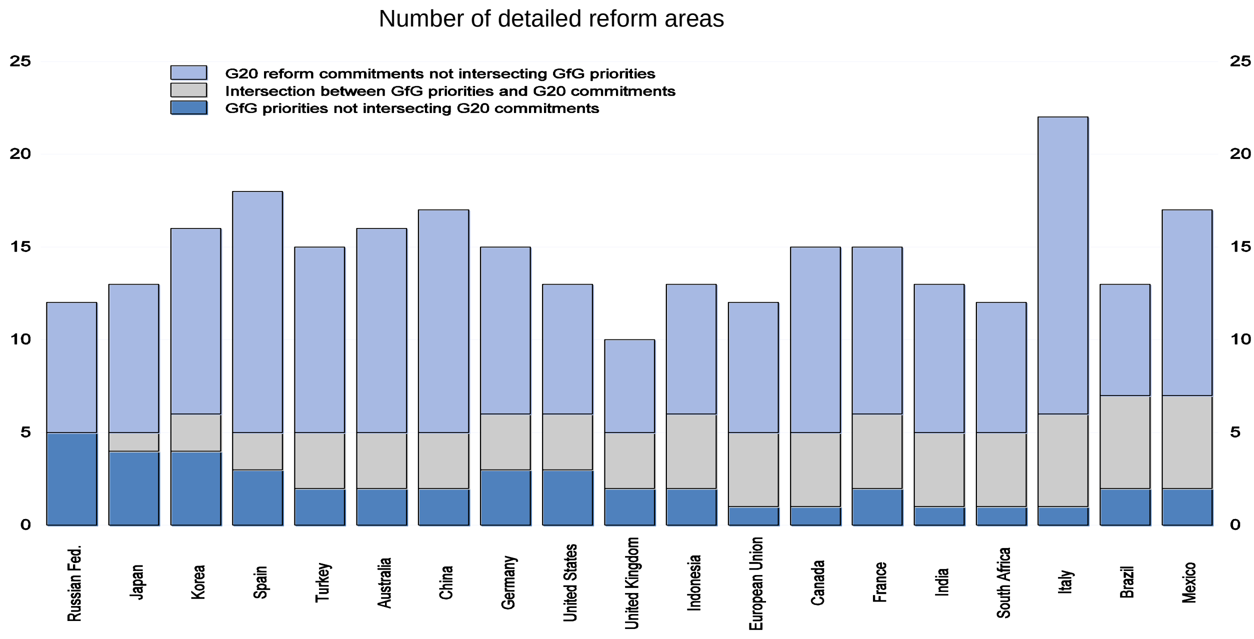
2. The small share of *Going for Growth* commitments in the financial regulation domain is due to the fact that financial market reform is in general not featured among the five priorities per country that is standard for that publication. It is treated separately, as it is an urgent challenge in almost all countries. Those few recommendations that are featured are primarily directed towards emerging market economies where more basic financial liberalisation needs to take place.

Source: OECD.

The degree of direct overlap between Going for Growth priorities and countries' MAP commitments is variable across countries. Reconciliation between G20 structural reform commitments and the *Going for Growth* priorities can be done at a finer level of policy detail than used in the above figures, allowing the identification of more direct overlaps between the two sets of structural policy orientations. Figure 4 shows the total number of *Going for Growth* priorities and MAP reform commitments. The central segment of each bar illustrates the overlap between the two at a detailed level of policy. For instance, in the case of Canada, the total number of (consolidated) policy commitments across all five iterations of the MAP process, up to and including pre-Los Cabos, is fourteen, while five *Going for Growth* priorities have been identified for Canada. As illustrated by the central segment of the bar, there are four reforms that intersect, meaning that one of Canada's *Going for Growth* priorities has not been nominated as a MAP structural reform commitment.[1]

No country records complete coverage of its *Going for Growth* priorities in the G20 structural reform commitments. However, there are five economies with only one priority lying outside the intersection and a further eight countries with two *Going for Growth* priorities outside the intersection. At the other end of the spectrum, there is very limited overlap between country commitments and *Going for Growth* priorities for a few countries. Overall, the broad correspondence between the two sets of policy orientations at the level of broad policy domains, as illustrated in Figure 3, suggest that diagnoses may be similar as to which policy fields are in need of reform to boost performance. However, when it comes to the identification of the more specific instruments to be used the degree of concordance varies across countries, as revealed in Figure 4.

Figure 4. Correspondence between G-20 reform commitments and *Going for Growth* priorities[1, 2]



1. The total number of reforms for each country (that is, the total length of each bar) is the sum of all *Going for Growth* priorities and MAP commitments across all sub-domains but excludes double counting of reforms. The intersection between *Going for Growth* priorities and G20 commitments is displayed as the central segment of each country's bar. This exposition differs from distributional analysis presented in Figure 2 due to: (i) it only looks at consolidated reforms (no double counting of reforms that are repeated across action plan phases); and (ii) the aggregation and intersection is examined at the detailed sub-domain level, rather that at the broader domain level.
2. This chart incorporates new reform commitments made by countries in the pre-Los Cabos round of commitments.
Source: OECD.

1. The categorisation of policies into detailed policy sub-domains used in this note does not mesh precisely with the *Going for Growth* framework. As a consequence, for some countries a *Going for Growth* priority may fit into two of the detailed sub-domains defined herein. In such as case, a country can be recorded as having more than five *Going for Growth* priorities.

3. Implementation of G20 structural reform commitments

Countries have made good progress on implementation of the structural policy commitments identified in the Action Plans. The OECD has assessed the progress towards implementation of commitments made up to and including the Cannes Action Plan (with a very preliminary assessment of the implementation status of pre-Los Cabos commitments in Appendix 1). This assessment was based on an evaluation of progress on each reform commitment by OECD country specialists. Implementation status has been segmented into three categories: completed, ongoing and pending (Figure 5, right-hand panel).

Overall, some degree of implementation has occurred for over three quarters of all structural reform commitments. In a third of the cases, action is judged by OECD country experts to represent full implementation of the commitments, with the remainder accounted for by partial or on-going implementation.

The implementation review shows that completed implementation has been greatest in the area of human capital. Indeed, there has been action of some sort (completed or ongoing) for over 90 per cent of commitments in the human capital domain. This is encouraging, not only in terms of longer-term growth, but in many cases also in respect of equity and inclusive growth.

The policy domains that record the lowest rates of completion are taxation and financial regulation. However, what distinguishes these two domains is the considerably higher ongoing implementation status in the financial regulation domain. This is likely due, in part, to the prominence of Basel III related reform commitments in the financial regulation domain.[2] Such reforms typically require long technical preparation and thus have long ongoing implementation processes. In the case of the taxation domain, but also for labour market reforms which rank second in terms of pending reform commitments, reforms are often difficult due to political-economy constraints.

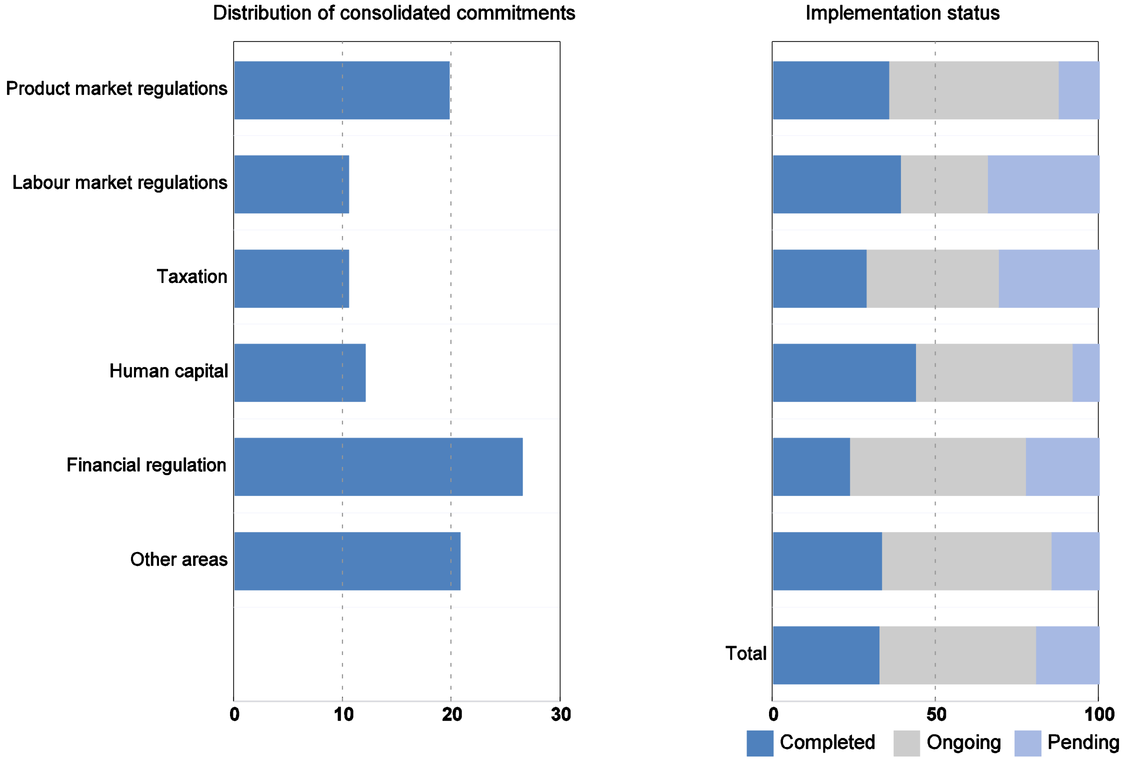
The overall picture is broadly similar for advanced and emerging-market economies, though the latter countries tend to have more commitments under implementation and fewer completed (Figures 6 and 7). In both groups of countries, labour market reforms and tax reforms are the two policy areas where the largest share of commitments has not yet been acted on.[3]

2. This review of implementation is based on country commitments that in some cases go beyond Basel III-related reforms and in other cases do not explicitly mention requirements as a consequence of internationally agreed policies. In this regards, this review differs from and complements reviews of policy implementation by the Financial Stability Board (FSB).

3. The total number of commitments in some policy areas is low when broken down by country group. This implies that distributions of implementation status can be fragile to the classification of individual commitments.

Figure 5. Distribution and implementation status of structural policy commitments[1]

Per cent of total

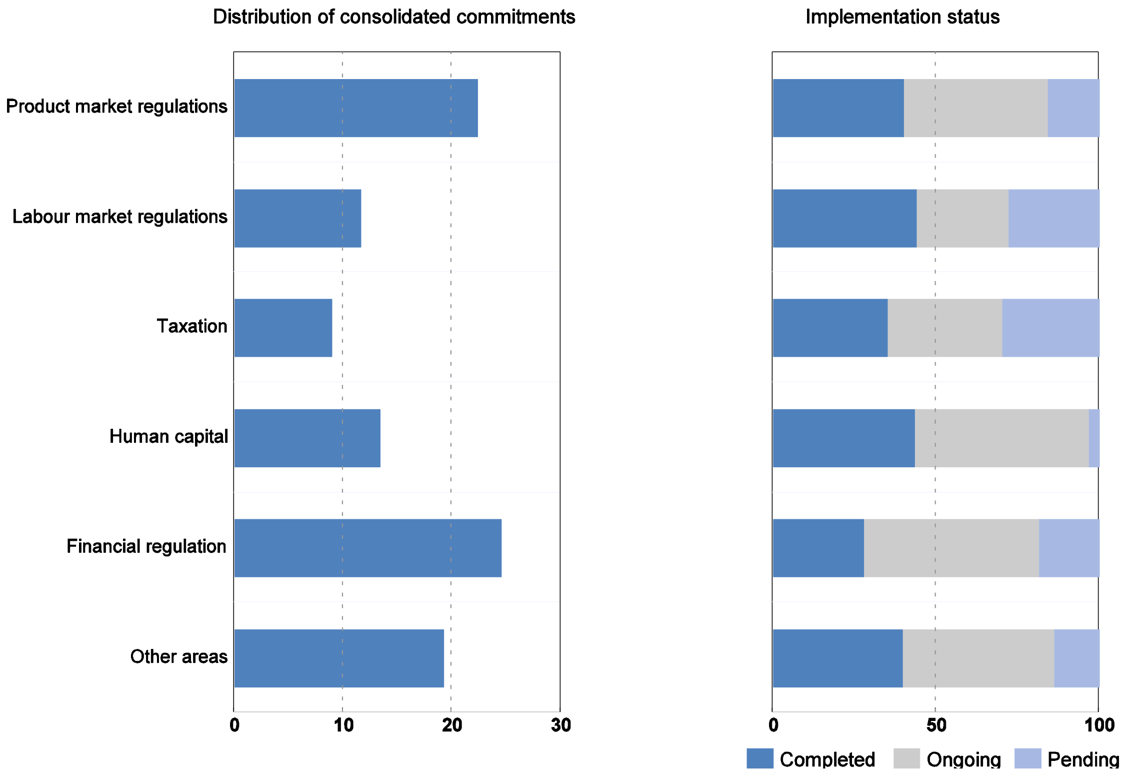


1. In the left-hand panel the bars represent the total number of consolidated commitments in each domain as a per cent of all consolidated commitments until Cannes. Consolidated commitments consider country commitments only once, even if that same reform commitment is mentioned by a country over a number of MAP phases. In the right-hand panel, the bars represent the share of all consolidated policy commitments within each of the six domains that have been completed, are ongoing and are pending.

Source: OECD.

Figure 6. Distribution and implementation status of structural policy commitments – advanced countries[1]

Per cent of total

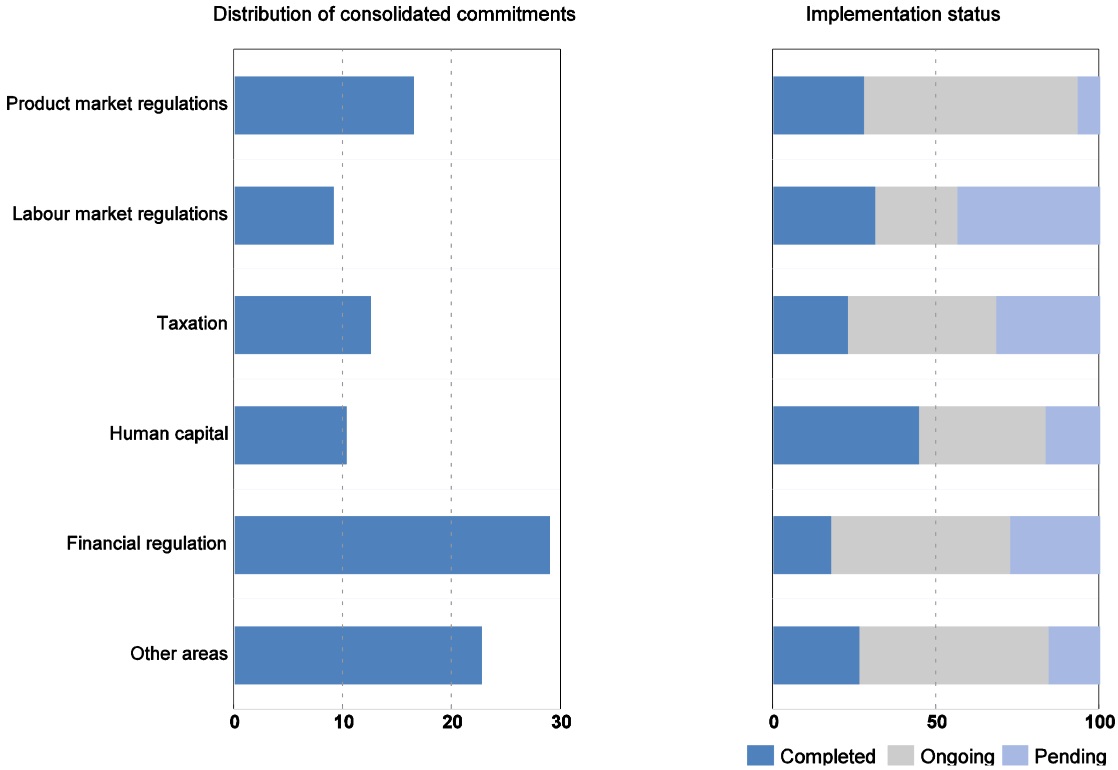


1. In the left-hand panel the bars represent the total number of consolidated commitments in each domain as a per cent of all consolidated commitments until Cannes. Consolidated commitments consider country commitments only once, even if that same reform commitment is mentioned by a country over a number of MAP phases. In the right-hand panel, the bars represent the share of all consolidated policy commitments within each of the six domains that have been completed, are ongoing and are pending.

Source: OECD.

Figure 7. Distribution and implementation status of structural policy commitments – emerging market economies[1]

Per cent of total



1. In the left-hand panel the bars represent the total number of consolidated commitments in each domain as a per cent of all consolidated commitments until Cannes. Consolidated commitments consider country commitments only once, even if that same reform commitment is mentioned by a country over a number of MAP phases. In the right-hand panel, the bars represent the share of all consolidated policy commitments within each of the six domains that have been completed, are ongoing and are pending.

Source: OECD.

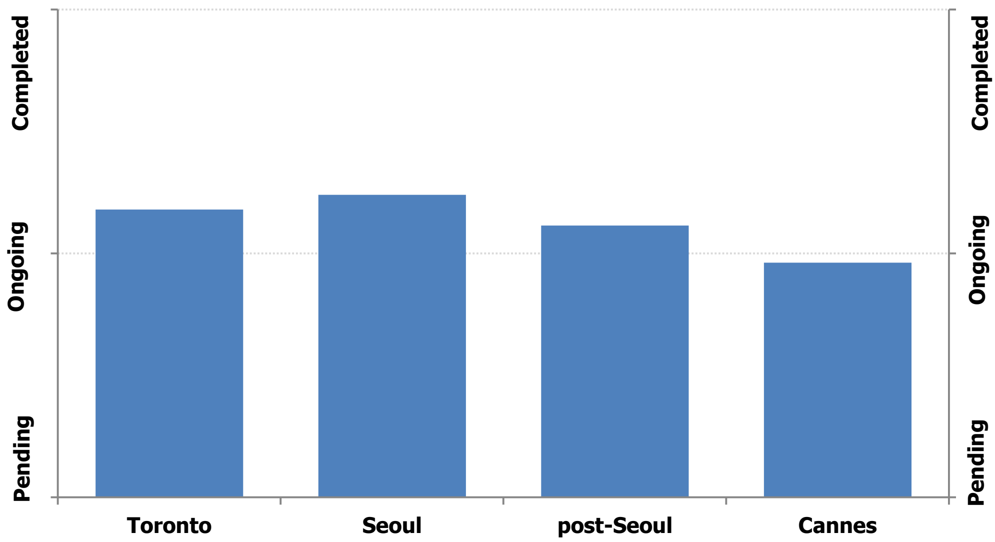
4. Reform implementation rates across MAP phases

The pace at which structural reforms are implemented is important in light of the urgency of reform in a number of countries and the pace of reforms is likely to reflect concerns about short-term negative effects. However, recent work by the OECD, published in the 2012 edition of *Going for Growth*, finds that most reforms have positive impacts on growth and employment already after a couple of years, even if it takes longer for their full effects to materialise. Moreover, there is little evidence of the often-feared short-term negative effects of reforms. An exception to this pattern concerns certain labour-market reforms when introduced in weak cyclical conditions. This exception may be of considerable relevance at the current juncture though it has to be set against political-economy considerations that may argue for reforming when the opportunity is there. Overall, there is little evidence from a review of countries' progress on implementing MAP commitments or *Going for Growth* priorities that weak activity has held back reforms – rather to the contrary (see further below).

The rate of implementation of G20 structural reform commitments varies according to the vintage of the commitments. In order to examine progress across this dimension, an "index of implementation" (1 for pending, 2 for ongoing and 3 for completed) can be assigned to each (consolidated) reform commitment and the latter can then be grouped according to the Action Plan in which that commitment was first included. An average of the implementation index for each Action Plan can then be calculated (Figure 8).

Figure 8. Implementation progress by Action Plan

Index[1]

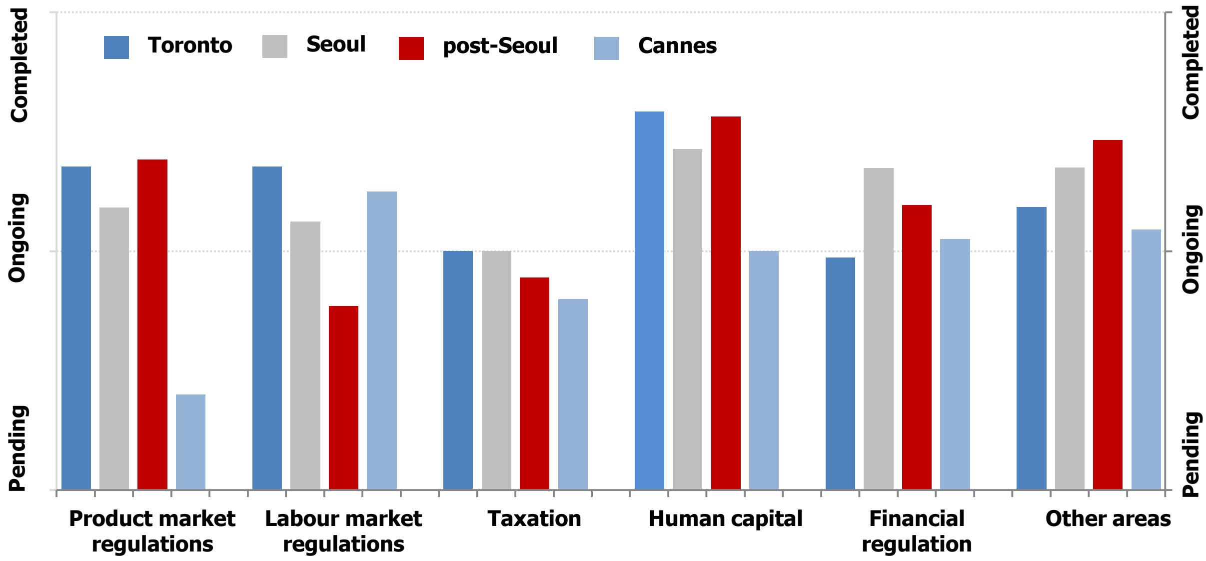


1. The index of implementation for reforms is set to 1 for pending, 2 for ongoing and 3 for completed. Averages are then calculated for reforms based on the Action Plan in which each reform first appeared.

Source: OECD.

Figure 9. Implementation progress by Action Plan within individual policy areas

Index[1]



1. The index of implementation for reforms is set to 1 for pending, 2 for ongoing and 3 for completed. Averages are then calculated for reforms based on the Action Plan in which each reform first appeared.

Source: OECD.

***Prima facie*, the longer the period of time elapsed since a reform was included as a G20 commitment, the more likely it should be that action has been taken.** This is borne out to some extent by Figure 8 in which reforms nominated in the Cannes Action Plan record the lowest average rate of implementation, whereas the highest implementation rates are recorded for the two earliest commitment rounds. The pattern whereby implementation rates rise gradually to reach a plateau is also found for some individual policy areas, including product market regulation, taxation, and human capital (Figure 9). This pattern may be suggestive of a "residual" set of commitments eventually remaining that have lost relevance over time, politically or economically, as conditions may have changed. In other areas, most notably labour market reforms, but also to some extent financial regulation, the evidence points to faster action to implement recent commitments so that these actually have an equal or even higher implementation rate than earlier commitments.

The notion that the pace of reform has varied significantly over time receives some support from a review of implementation of *Going for Growth* priorities through the crisis.[4] Overall, the crisis seems to have acted as a catalyst for structural reforms. The analysis examines the implementation of *Going for Growth* priorities over the period 2005 to 2011 and reveals that reform implementation slowed during the depth of the global financial crisis, only to accelerate in 2010-11 to rates even higher than those of the pre-crisis period. The mid-crisis slowdown is likely to have been related to a temporary shift in policy focus toward macroeconomic stabilisation.

4. The 2012 edition of *Going for Growth*, published in February 2012, updates the 2011 edition by taking stock of countries' progress in implementing previously identified priorities.

5. Options for an evolving structural reform agenda

The OECD *Going for Growth* exercise identifies structural reform priorities for G20 countries to boost growth. These priorities may help in supporting an evolving structural reform agenda. They are based on a rigorous analytical framework and empirical analysis that bears evidence on not just the primary effect of policy priorities in lifting output and employment but also any positive side-effects on other policy objectives such as strengthening public budget and achieving international rebalancing. While its analytical rigour is one of the strong points of *Going for Growth*, it also means that no consideration is given to political acceptability and constraints. In this regard, *Going for Growth* priorities may be seen as an ideal notion that may help to push the envelope of political acceptability over time, even if some priorities may seem out-of-bounds in the short term.

Table 2 lists **potential policy options for G20 countries in the form of those *Going for Growth* reform priorities that have *not* been identified as reform commitments by G20 countries**. In terms of Figure 4, these correspond to the bottom part of the bars. As with Figure 4, an attempt has been made to take into account commitments made prior to Los Cabos (though for reasons spelled out in Appendix 1 this adjustment may be approximate). Furthermore, where countries have embarked on significant reform programmes without undertaking a similar commitment, the corresponding *Going for Growth* priority has also been eliminated.[5] In addition to promoting growth and creating jobs, many of these potential commitments would also address medium-term fiscal sustainability issues and help reduce global current account imbalances. In particular:

- In the area of **product market regulations**, a number of advanced countries could take additional steps to remove restrictions to entry in network industries and professional services, which are areas where progress in implementing reform has been somewhat slower than desirable. Many emerging-market economies could reduce the state control over economic activity and focus on reducing barriers to trade and investment to make their regulatory environment in product markets more supportive of productivity-enhancing competition. By boosting growth, reforms in this policy domain may also have a positive fiscal impact, including via improved debt dynamics. Furthermore, pro-growth reforms in these areas could yield the additional dividend of unleashing opportunities for investment and, as a result, may contribute to external rebalancing in surplus countries.

- In the areas of **labour market regulation** and **taxation**, many countries would benefit from improvements in unemployment insurance systems, labour force participation, job protection, and the structure of their tax systems in a manner that further reduces impediments to labour utilisation and enhances labour productivity. By enhancing employment, these reforms can also have a direct positive impact on fiscal positions of countries. Some reforms in this area may also strengthen external imbalances of deficit countries, thus helping international rebalancing. Together with initiatives to bolster the **human capital** of low-skilled workers, which are among the *Going for Growth* priorities for several emerging-market economies, these reforms could contribute to growth sustainability by making it more socially inclusive.

5. For instance, in the assessment of OECD country experts, the United Kingdom has made progress in implementing reforms in the areas of improving public administration efficiency and reforming disability benefits, but because no Action Plan commitments have been made by the United Kingdom in these domains, they would have been listed in the table. On this basis these two items have been excluded from Table 2.

- As for the **other policy domains** that rank prominently among *Going for Growth* reform priorities, some countries would do well to reduce producer support for agriculture and energy subsidies, notwithstanding the political-economy constraints to swift action in these areas, which would in addition also facilitate easing of global external imbalances and release some pressure from strained government budgets.

New analysis has further suggested that some of the above potential commitments might have positive side-effects in terms of influencing **international capital flows** in ways that reduce susceptibility to contagion and financial crises (see Box 1).

Box 1. Which structural policies reduce financial fragility?

Recent work by the OECD (see for example *OECD Economic Outlook 89*) has found that a number of structural policies affect the financial fragility associated with capital inflows. These influences typically arise through the effects of structural policies on the financial account structure, and on vulnerability to contagion-induced financial shocks. For example, regulatory burdens on foreign direct investment, as well as more generally stricter product market regulations, have biased external liabilities away from FDI and towards (bank) debt. Similarly, tax systems that favour debt finance over equity finance have increased the share of debt, including external debt, in corporate financing.

Differentiated capital controls can also influence the structure of external liabilities, and therefore financial stability. For example, openness to FDI and equity flows has reduced external bank debt, whereas openness to inflows from credit operations has increased it. In addition, countries open to inflows from credit operations have been more strongly affected when hit by financial contagion.

Stricter financial regulation and oversight can also reduce financial fragility: better banking supervision, stricter information disclosure rules, or stricter capital requirements are all found to reduce countries' financial crisis risk. Further underlining the importance of strict financial regulation, countries where the banking sector is less leveraged and has a lower credit-to-deposits ratio have been less affected by financial contagion. At the same time, stricter domestic banking supervision has resulted in higher (short-term) borrowing from foreign banks, which may point to a need for greater harmonisation and international cooperation of supervision to prevent regulatory arbitrage.

Macro-prudential regulations that protect against excessive credit growth are likely to reduce the risk of financial crises. Similarly, housing policies that prevent housing bubbles seem to diminish the bias towards external debt.

Table 2. ***Going for Growth*** **policy priorities that have not been identified as reform commitments by countries**[1]

Country	Policy priority	Likely to reduce global imbalances[2]	Fiscal impact[3]
Australia	Reduce barriers to foreign ownership/investment/trade		+
	Strengthen early childhood education		-
Brazil	Improve incentives for (formal) labour force participation	✓	+
	Strengthen secondary education		-
Canada	Reform the unemployment insurance scheme	✓	++
China	Reform/simplify product market regulations	✓	+
	Strengthen private-sector participation in economic activity	✓	+
European Union	Reduce producer support to agriculture		++
France	Reduce/moderate the minimum cost of labour	✓	+
	Reduce the (average) tax wedge on labour income	✓	-
Germany	Reform/strengthen the structure of taxation		++
	Reduce the (average) tax wedge on labour income		-
	Strengthen tertiary education		-
India	Reduce/ease job protection	✓	+
Indonesia	Reform/simplify product market regulations	✓	+
	Reduce regulatory barriers to competition	✓	+
	Strengthen the legal system	✓	+
	Strengthen secondary education		-
Italy	Strengthen private-sector participation in economic activity		+
Japan	Strengthen competition in network industries	✓	+
	Reduce/ease job protection		+
	Reform/strengthen the structure of taxation		++
	Reduce producer support to agriculture	✓	++
Korea	Strengthen competition in network industries	✓	+
	Reduce/ease job protection		+
	Shift toward indirect taxes		+
	Reduce producer support to agriculture	✓	++
Mexico	Strengthen primary education		-
	Strengthen secondary education		-
Russian Federation	Reduce barriers to foreign ownership/investment/trade	✓	+
	Strengthen private-sector participation in economic activity	✓	+
	Improve health outcomes	✓	++
	Strengthen R&D and innovation incentives	✓	-
	Improve public sector efficiency		++
South Africa	Reduce/moderate the minimum cost of labour	✓	+
Spain	Reduce/ease job protection	✓	+
	Reduce implicit taxes on continued work at older ages	✓	-
	Strengthen secondary education		-
Turkey	Reduce implicit taxes on continued work at older ages	✓	-
	Reduce the minimum cost of labour	✓	+
United States	Reform/strengthen the structure of taxation	✓	++
	Promote social mobility		+
	Reduce producer support to agriculture		++

1. This table lists reforms that have been identified as priorities in *Going for Growth* but have not been nominated by countries as G20 reform commitments up to and including the pre-Los Cabos round. Reforms have been additionally excluded where OECD country experts agree that countries have made significant progress even if the reforms have not been listed as G20 reform commitments by the countries themselves.

2. Identifies structural reforms that are particularly suitable to help reduce global current account imbalances. List of suitable policies differ between external surplus and external deficit countries. External surplus countries: China, Germany, Indonesia, Japan, Mexico, Korea and Russian Federation. External deficit countries: Australia, Brazil, Canada, European Union, France, India, Italy, South Africa, Spain, Turkey, United Kingdom and United States.

3. Identifies fiscal impact of various types of structural reforms. ++ reforms that directly improve fiscal positions, + reforms that improve fiscal positions only indirectly, – reforms that are likely to weaken fiscal positions at least in the short run.

Source: OECD.

6. Summing up

The evidence presented above seems to suggest that the MAP process is finding traction in the area of structural reforms. Indeed, there are good reasons for G20 countries to continue along the path currently set out. Continued work is motivated not least by important international spillovers of structural reform.

- **Direct trade spillovers** as structural reforms influence openness as well as saving and investment patterns in ways that make them more sustainable.
- **Stability spillovers** as individual economies become more resilient to various shocks and therefore less at risk of propagating them internationally.
- **Growth spillovers** as partner countries reap gains associated with better productivity and stronger innovation in a reforming country and an improved division of labour is achieved.
- **Political economy and knowledge spillovers** as reforms in one country can both increase the knowledge base for others, as well as positively influence the political environment in partner countries seeking to implement similar reforms.

The OECD stands ready to assist G20 countries in their efforts to push the structural reform agenda forward.

APPENDIX 1

Pre-Los Cabos G20 structural reform commitments – an update

In May 2012 G20 countries submitted a pre-Los Cabos update of their MAP structural reform commitments. As part of the OECD's ongoing monitoring of country commitments, a preliminary analysis of this latest iteration is presented below.

The information available in countries' pre-Los Cabos submissions is somewhat truncated compared with previous iterations. This has made comparisons with and benchmarking against earlier iterations fragile. Even so, a preliminary identification of commitments that can be characterised as new allows for an update and extension of some of the analysis presented in the body of this note.

The composition of pre-Los Cabos commitments

As was the case with all four previous MAP iterations, financial sector reforms feature most prominently amongst the new reform commitments made in the pre-Los Cabos round, with around 40% of all new commitments relating to financial sector reform (Figure A1.1). The second most frequent reform domain is labour market regulation. This contrasts with previous rounds where labour market regulation typically featured less prominently than both product market regulation and the miscellaneous other category. This likely reflects a growing focus on dealing with the job market legacy of the recent recession, as well as a renewed focus on reforms in this domain in the euro area. Indeed, the preponderance of new labour market and product market reform commitments is significantly higher in euro area countries compared with countries outside the euro area - for euro area countries around half of new reform commitments fall into these two domains, while for non-euro area countries the share is less than one third. With regard to new pre-Los Cabos labour market reform commitments alone, they are almost twice as prominent among euro area country commitments as compared with non-euro area countries.

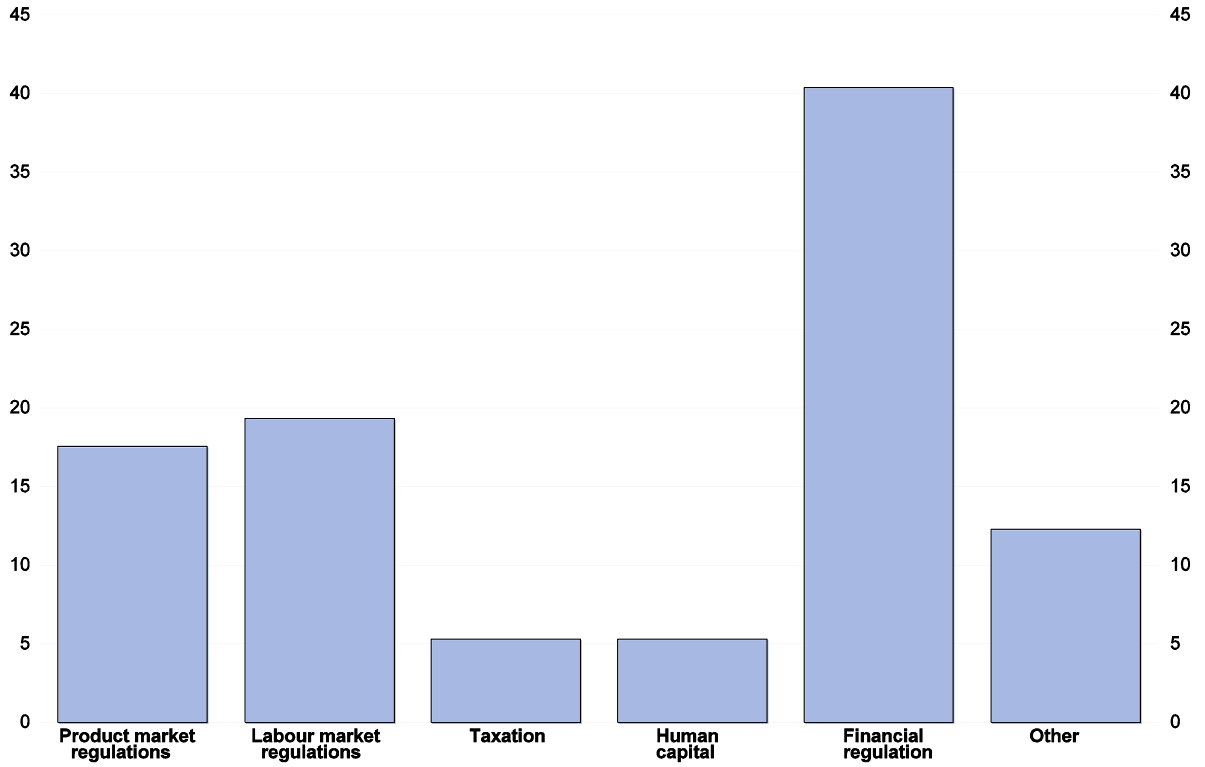
This greater prominence of new commitments to product market and labour market reforms and the continuing focus on financial sector reforms means that reforms in the taxation, human capital and other areas have declined in share.

Reform implementation status of new policy commitments

Given that the pre-Los Cabos commitments were submitted by countries only recently, an assessment of the commitments and their implementation may be premature. That said, OECD country experts estimate that no implementation action has yet been taken for around one third of the new commitments, while around 10 per cent of these commitments have already been fully implemented (Figure A1.2). The implementation status of the remaining 60 per cent of new reforms is "ongoing".

Figure A1.1. Distribution of new pre-Los Cabos reform commitments

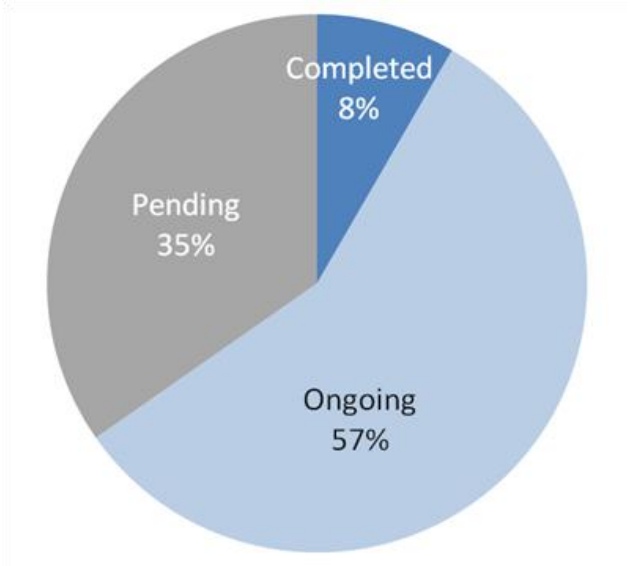
Per cent of new policy commitments



Source: OECD.

Figure A1.2. Implementation status of new pre-Los Cabos reform commitments

Per cent of all new policy commitments



Source: OECD.

APPENDIX 2

Table A2.1. ***Going for Growth* priorities for G20 countries**

Country		**Policy priority**	**Policy target**	**Policy sub-domain**
Australia	1	Enhance capacity and regulation in infrastructure	Productivity	Public infrastructure
	2	Relax barriers to foreign direct investment	Productivity	Product market regulation
	3	Improve the efficiency of the tax system	Productivity	Tax system
	4	Increase incentives for workforce participation	Labour utilisation	Labour taxation
	5	Improve the performance of early childhood education	Productivity	Human capital
Brazil	1	Increase the quality of education at all levels	Productivity	Human capital
	2	Improve the efficiency of financial markets	Productivity	Financial regulation
	3	Improve infrastructure provision	Productivity	Public infrastructure
	4	Reduce distortions in the tax system	Productivity	Tax system
	5	Improve incentives for formal labour force participation	Labour utilisation	Tax system
Canada	1	Reduce barriers to competition	Productivity	Product market regulation
	2	Reduce barriers to foreign direct investment	Productivity	Product market regulation
	3	Shift taxation towards consumption	Productivity	Tax system
	4	Improve R&D support policies	Productivity	Innovation policies
	5	Reform the unemployment insurance system	Labour utilisation	Unemployment benefits
China	1	Reduce the importance of the state-owned sector in the economy	Productivity	Product market regulation
	2	Improving educational attainment	Productivity	Human capital
	3	Reduce administrative burdens on companies	Productivity	Product market regulation
	4	Further enhance the rule of law	Productivity	Legal system
	5	Reduce barriers to urbanisation	Productivity	Labour mobility, Other policy areas

Table A2.1. ***Going for Growth*** **priorities for G20 countries** (cont'd)

Country		**Policy priority**	**Policy target**	**Policy sub-domain**
European Union	1	Increase competition in the services sector	Productivity	Product market regulation
	2	Raise competition in network industries	Productivity	Product market regulation
	3	Reduce producer support to agriculture	Productivity	Agriculture
	4	Reform financial regulation and deepen market integration	Productivity	Financial regulation
	5	Improve the functioning of the labour market	Labour utilisation	Labour mobility, Other policy areas
France	1	Continue to reduce disincentives to work at older ages	Labour utilisation	Implicit tax on continued work at older ages
	2	Reduce labour-market dualism	Productivity, Labour utilisation	Job protection
	3	Reduce the labour tax wedge and the minimum cost of labour	Labour utilisation	Labour taxation, Wage formation and minimum cost of labour
	4	Improve the quality and efficiency of the tertiary education system	Productivity	Human capital
	5	Reduce regulatory barriers to competition	Productivity	Product market regulation
Germany	1	Reduce barriers to competition in the services sector	Productivity	Product market regulation
	2	Improve tertiary education outcomes	Productivity	Human capital
	3	Reduce tax wedges on labour income and shift taxation to property and consumption taxes	Productivity, Labour utilisation	Tax system
	4	Reduce impediments to full-time female labour participation	Labour utilisation	Tax on second earners
	5	Ease job protection for regular workers	Productivity, Labour utilisation	Job protection
India	1	Reduce trade and FDI barriers as well as administrative burdens	Productivity	Product market regulation
	2	Improve education outcomes	Productivity	Human capital
	3	Ease job protection	Productivity, Labour utilisation	Job protection
	4	Enhance infrastructure provision	Productivity	Public infrastructure
	5	Undertake wide-ranging financial sector reforms	Productivity	Financial regulation

Table A2.1. ***Going for Growth* priorities for G20 countries** (cont'd)

Country		**Policy priority**	**Policy target**	**Policy sub-domain**
Indonesia	1	Strengthen resources for secondary education and improve the overall efficiency of the education system	Productivity	Human capital
	2	Improve the regulatory environment for infrastructure	Productivity	Product market regulation
	3	Reform labour regulation to address the problem of informality	Labour utilisation	Job protection
	4	Ease barriers to entrepreneurship and strengthen institutions to fight corruption	Productivity	Product market regulation, Legal system
	5	Phase out energy subsidies	Productivity	Tax system
Italy	1	Reduce regulatory and administrative barriers to competition	Productivity	Product market regulation
	2	Improve the efficiency of secondary and tertiary education	Productivity	Human capital
	3	Improve the efficiency of the tax structure	Productivity	Tax system
	4	Reduce public ownership	Productivity	Product market regulation
	5	Reduce labour market dualism	Productivity, Labour utilisation	Job protection
Japan	1	Reform regulation in network sectors	Productivity	Product market regulation
	2	Reduce producer support to agriculture	Productivity	Agriculture
	3	Reduce the dualism of job protection	Productivity, Labour utilisation	Job protection
	4	Lower restrictions on FDI	Productivity	Product market regulation
	5	Improve the efficiency of the tax system	Productivity	Tax system
Korea	1	Ease regulation of network sectors and services	Productivity	Product market regulation
	2	Reduce producer support to agriculture	Productivity	Agriculture
	3	Reform employment protection to reduce labour market dualism	Productivity, Labour utilisation	Job protection
	4	Improve the efficiency of the tax system by relying more on indirect taxes	Productivity	Tax system
	5	Strengthen policies to support female labour force participation	Labour utilisation	Other policy areas, Child care

Table A2.1. ***Going for Growth* priorities for G20 countries** (cont'd)

Country		**Policy priority**	**Policy target**	**Policy sub-domain**
Mexico	1	Raise achievement in primary and secondary education	Productivity	Human capital
	2	Reduce barriers to firm entry	Productivity	Product market regulation
	3	Reduce barriers to foreign ownership	Productivity	Product market regulation
	4	Improve the rule of law	Productivity	Legal system
	5	Reform the state-owned oil company	Productivity	Product market regulation
Russian Federation	1	Lower barriers to trade and foreign direct investment	Productivity	Product market regulation
	2	Reduce state control over economic activity	Productivity	Product market regulation
	3	Raise the effectiveness of innovation policy	Productivity	Innovation policies
	4	Raise the quality of public administration	Productivity	Public sector efficiency
	5	Reform the healthcare system	Productivity	Public sector efficiency
South Africa	1	Raise the quality of education and reduce inequalities in attainment	Productivity	Human capital
	2	Enhance competition in network industries	Productivity	Product market regulation
	3	Reform the wage bargaining system	Labour utilisation	Wage formation and minimum cost of labour
	4	Strengthen policies to tackle youth unemployment	Labour utilisation	Wage formation and minimum cost of labour, Other policy areas
	5	Reduce barriers to entrepreneurship	Productivity	Product market regulation
Spain	1	Improve educational attainment in secondary education	Productivity	Human capital
	2	Make wages more responsive to economic and firm-specific conditions	Labour utilisation	Wage formation and minimum cost of labour
	3	Ease employment protection legislation for permanent workers	Productivity, Labour utilisation	Job protection
	4	Reduce the disincentives for older workers to continue working	Labour utilisation	Implicit tax on continued work at older ages
	5	Ease regulation of retail outlets	Productivity	Product market regulation

Table A2.1. ***Going for Growth* priorities for G20 countries** (cont'd)

Country		**Policy priority**	**Policy target**	**Policy sub-domain**
Turkey	1	Reduce the minimum cost of labour	Labour utilisation	Wage formation and minimum cost of labour
	2	Improve educational achievement	Productivity	Human capital
	3	Reform employment protection legislation	Productivity, Labour utilisation	Job protection
	4	Simplify product market regulation	Productivity	Product market regulation
	5	Reduce incentives for early retirement	Labour utilisation	Implicit tax on continued work at older ages
United Kingdom	1	Improve the educational achievement of young people	Productivity	Human capital
	2	Improve public infrastructure, especially in transport	Productivity	Public infrastructure
	3	Further reform disability benefit schemes	Labour utilisation	Disability and sickness benefits
	4	Strengthen public sector efficiency	Productivity	Public sector efficiency
	5	Reform planning regulations	Productivity	Housing policies
United States	1	Improve primary and secondary education	Productivity	Human capital
	2	Improve the efficiency of the health care sector	Productivity	Other policy areas, Healthcare costs
	3	Improve the efficiency of the tax system	Productivity	Tax system
	4	Reduce agricultural subsidies	Productivity	Agriculture
	5	Strengthen policies to promote social mobility	Productivity	Human capital

1. The policy priorities are those included in the 2011 edition of *Going for Growth*, published in April 2011.

Source: OECD (*Going for Growth* database).

Table A2.2. ***Going for Growth* priorities by domain**

Policy domains and sub-domains	Current policy priorities[1]
Product market regulations	
Strengthen competition in network industries	European Union, Japan, Korea, South Africa
Reform/simplify product market regulations	China, Indonesia, Turkey
Reduce barriers to competition in the services sector	Germany, European Union, Korea
Reduce barriers to foreign ownership/investment/trade	Australia, Canada, India, Japan, Mexico, Russian Federation
Reduce regulatory barriers to competition	Canada, France, Indonesia, Italy, Mexico, South Africa, Spain
Strengthen private-sector participation in economic activity	China, Italy, Mexico, Russian Federation
Reform planning regulations	United Kingdom
Labour market regulations	
Reform (disability) benefit schemes	United Kingdom
Reform the unemployment insurance scheme	Canada
Reduce restrictions on labour mobility	China, European Union
Reduce/moderate the minimum cost of labour	France, South Africa, Turkey
Reduce/ease job protection	Germany, France, India, Italy, Japan, Korea, Spain, Turkey
Reform the wage bargaining system	South Africa, Spain
Strengthen policies to support female labour force participation	Korea
Improve incentives for (formal) labour force participation	Brazil, Indonesia
Taxation	
Reform/strengthen the structure of taxation	Australia, Brazil, Canada, Germany, Japan, United States
Reduce implicit taxes on continued work at older ages	France, Spain, Turkey
Reduce the (average) tax wedge on labour income	Australia, Brazil, Germany, France
Shift toward indirect taxes	Italy, Korea
Reduce impediments to full-time female participation	Germany
Phase out energy subsidies	Indonesia
Human capital	
Improve educational efficiency/outcomes/achievement	China, United Kingdom, India, Indonesia, Mexico, South Africa, Turkey
Strengthen early childhood education	Australia
Strengthen primary education	Mexico, United States
Strengthen secondary education	Brazil, Indonesia, Italy, Mexico, Spain, United States
Reform tertiary education	Brazil, Germany, France, Italy
Promote social mobility	United States
Financial regulation	
Improve/streamline financial regulation	Brazil, European Union
Undertake wide-ranging financial reforms	India
Other areas	
Reduce producer support to agriculture	European Union, Japan, Korea, United States
Improve public sector efficiency	United Kingdom, Russian Federation
Improve health outcomes	Russian Federation
Reduce health care costs	United States
Strengthen R&D and innovation incentives	Canada, Russian Federation
Strengthen the legal system	China, Indonesia, Mexico
Improve the quality/provision of infrastructure	Australia, Brazil, United Kingdom, India

1. These reform priorities were set in 2010 and reported in the 2011 edition of *Going for Growth*.

Note: The categorisation of policies into sub-domains used in this paper does not mesh precisely with the *Going for Growth* framework. As a consequence, some countries' *Going for Growth* priorities fit into two of the policy sub-domains defined herein and can therefore appear in this table in more than five times.

Source: OECD (*Going for Growth* database).

Table A2.3. **G-20 structural policy commitments by domain**

Policy domains and sub-domains	Policy priorities[1]
Product market regulations	
Strengthen competition in network industries	Australia, Canada, China, Germany, European Union, France, Italy, Mexico, South Africa, Turkey
Reform/simplify product market regulations	Australia, Brazil, Canada, India, Italy, Mexico, Spain, Turkey
Reduce barriers to competition in the services sector	China, Germany, European Union, France, Italy, Korea, Spain
Reduce barriers to foreign ownership/investment/trade	Argentina, Canada, China, European Union, France, India, Indonesia, Japan, Mexico, South Africa
Reduce regulatory barriers to competition	Australia, Brazil, Canada, China, Germany, European Union, France, Italy, Korea, Mexico, South Africa, Spain, United Kingdom
Strengthen private-sector participation in economic activity	Korea, Mexico, Spain, Turkey
Reform planning regulations	United Kingdom
Labour market regulations	
Reform the unemployment insurance scheme	China, Italy, United Kingdom
Reduce restrictions on labour mobility	Canada, China, Germany, European Union, Russian Federation
Reduce/moderate the minimum cost of labour	Spain
Reduce/ease job protection	Germany, France, Italy, Turkey
Reform the wage bargaining system	France, Italy, Korea, Mexico, South Africa, Spain
Strengthen policies to support female labour force participation	Germany, Italy, Japan, Korea, Turkey
Improve incentives for (formal) labour force participation	Argentina, Australia, Canada, European Union, France, India, Indonesia, Italy, Korea, Mexico, Saudi Arabia, South Africa, Spain, Turkey, United Kingdom
Taxation	
Reform/strengthen the structure of taxation	Argentina, Australia, Brazil, Canada, China, France, India, Indonesia, Italy, Korea, Mexico, Russian Federation, South Africa, Turkey
Reduce implicit taxes on continued work at older ages	France, Italy, Japan, Russian Federation
Reduce the (average) tax wedge on labour income	Australia, Brazil, Canada, Mexico
Shift toward indirect taxes	India, Italy
Phase out energy subsidies	Indonesia
Human capital	
Improve educational efficiency/outcomes/achievement	Argentina, Australia, Brazil, Canada, China, Germany, European Union, India, Indonesia, Italy, Mexico, Saudi-Arabia, South Africa, Turkey, Spain, United Kingdom, United States
Strengthen early education	Japan, United States
Strengthen primary education	India, Indonesia, United States
Strengthen secondary education	Indonesia, Italy, United States
Reform tertiary education	Australia, Brazil, Canada, Germany, France, Indonesia, Italy, Japan, Korea, Spain, United States
Financial regulation	
Improve/streamline financial regulation	Argentina, Australia, Brazil, Canada, China, Germany, European Union, France, India, Indonesia, Italy, Japan, Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Spain, Turkey, United Kingdom, United States
Undertake wide-ranging financial reforms	Argentina, Australia, Brazil, Canada, China, Germany, European Union, France, India, Indonesia, Italy, Japan, Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Spain, Turkey, United Kingdom, United States
Other areas	
Improve public sector efficiency	European Union, India, Indonesia, Italy, Spain
Improve health outcomes	Australia, China, India, Indonesia, Mexico, South Africa, Turkey
Reduce health care costs	Australia, China, Spain, United States
Strengthen R&D and innovation incentives	Argentina, Australia, Brazil, Canada, China, Germany, European Union, France, Indonesia, Italy, Japan, Korea, Spain, Turkey, United States
Strengthen the legal system	Brazil, China, Italy, Mexico, Russian Federation
Improve the quality of infrastructure	Argentina, Australia, Brazil, Canada, China, Germany, India, Indonesia, Italy, Japan, Korea, Mexico, Russian Federation, Saudi Arabia, South Africa, Spain, Turkey, United Kingdom, United States

1. Refers to the reform priorities identified in the G20 countries' national policy template submissions up to and including the pre-Los Cabos round of commitments.

Source: OECD.