



1st Finance and Central Bank Deputies (FCBD) Meeting

SESSION I: ADDRESSING INEQUALITIES AND SOCIAL RISKS: NAVIGATING ECONOMIC DIVERGENCE AND GROWTH THREATS (FWG)

KEY OBJECTIVES:

- discuss the proposed priorities for the FWG in 2024;
- discuss the threats to global growth and stability, the socioeconomic risks posed by current trends, and the distributional challenges associated with a sustainable transition; and
- seek Members' views on the proposed priorities.

Brasília, December 2023

I. OUTLOOK AND STRATEGIC VISION

The global economic landscape is being reshaped by shocks and growing risks to policy cooperation. These vexing new trends and emergencies are compounded by long-standing challenges, such as poverty and hunger, in addition to deepening income and wealth concentration. All these factors are contributing to rising threats to sustainable development while amplifying domestic shortcomings. Emerging markets and developing economies (EMDEs) are especially at risk and face increased convergence challenges.

It is critical that G20 members grapple with this daunting reality and seek viable collaborative solutions to reduce the potential for developmental setbacks. In this context, the Brazilian G20 Presidency, under the theme of “building a just world and a sustainable planet”, aims to bring the theme of reducing inequality in all its forms to the center of the international agenda.

According to the World Inequality Report 2022, the richest 10 percent of the global population currently takes 52 percent of global income, whereas the poorest half of the population earns 8.5 percent of it. Over the past two decades, inequalities have increased significantly within most countries. The gap between the average incomes of the top 10 percent and the bottom 50 percent has almost doubled. Global income inequality between countries remains high. The gap between the average incomes of the richest 10 percent of countries and the poorest 50 percent is approximately 40x. This gap has dropped from 50x to 40x over the past two decades, but current global economic trends could threaten further progress. Finally, carbon emission inequality is also significant. At the global level, the top 10 percent of emitters are responsible for nearly 50 percent of all emissions, while the bottom 50 percent produce only 12 percent of the total.

Against this backdrop, the Brazilian G20 Presidency will put forth a call for action and international collaboration to fight hunger, poverty, and inequality while promoting cooperative sustainable development policies. The Presidency will advocate for prioritizing the reduction in inequality as a central focus in the formulation of public policy and in international cooperation efforts, which will require identifying the key dimensions of inequality and the critical institutional features affecting policymaking.

The Framework Working Group (FWG) plays a pivotal role in this process. The FWG will develop a menu of policy recommendations, based on sound analytical inputs and shared membership experiences, to tackle the macroeconomic and distributive implications stemming from threats to growth and challenges in promoting a just energy transition. The group will also discuss how governments can generate fiscal space to pay for and—most importantly—crowd in the public investment needed to promote green and inclusive structural change and to face the impacts of climate change. In this context, the FWG will contribute to a wider discussion on international policy collaboration, aiming to foster strategies that effectively channel investments toward achieving sustainability goals in EMDEs. Domestically, the FWG will draw attention to the formulation of national public policies incorporating inequality concerns as a priority and considering country-specific concerns.

The FWG will continue to prioritize global risk monitoring in a shock-prone world, taking note of the limited policy buffers and potential for costly and disruptive turbulences.

In addition, the assessment of global risks should serve as a conduit for swift and coordinated policy responses if the need arises.

Three main priorities will be addressed in the FWG: (1) Putting inequality at the forefront: macroeconomic and distributive implications associated with current global and domestic trends; (2) Addressing distributional challenges in sustainable transition policies; and (3) Creating fiscal space to support public investment.

II. PRIORITIES FOR THE FRAMEWORK WORKING GROUP

Priority 1: Putting inequality at the forefront: macroeconomic and distributive implications associated with current global and domestic trends.

The world's progress towards Strong, Sustainable, Balanced, and Inclusive Growth (SSBIG) has been modest, with notably uneven pathways to this objective, exacerbating inequalities among countries. The EMDEs have been trying to reach high development status for decades, but global, regional, and domestic factors have, to different degrees, posed significant barriers. Some of these obstacles include difficulties in attracting and maintaining long-term foreign investment and barriers to productivity growth stemming from social conditions, such as poverty, inequality, and financial burdens—issues that have been worsened by the COVID-19 pandemic and recent armed conflicts.

Current global and domestic trends will impact macroeconomic outcomes. Beyond the aggregate impact, distributive implications should be brought to the fore as some groups and countries are more vulnerable. In particular, the risk of deepening geoeconomic fragmentation, including countries' policy responses such as those motivated by national security concerns, adds even more uncertainty to the economic outlook. This has the potential to constrain the development of some EMDEs and affect their social prospects. In this context, the Brazilian Presidency will propose a candid discussion about the impact of major global trends and risks on economic and distributive outlooks, as well as on associated causes and possible solutions. This debate will reinforce the need for a more inclusive growth model and frame inequality as a core FWG issue in support of the overarching G20 priorities.

Against this background, the core objective of FWG Priority 1 will be to develop a menu of policy recommendations aimed at addressing inequality pressures stemming from the macroeconomic impacts of external and domestic trends. These recommendations should be based on solid diagnostics, including the assessment of social perspectives amid the subdued medium-term global growth outlook, the uneven recoveries among advanced economies (AEs) and EMDEs, and the current state of global coordination. The Working Group will examine the repercussions of inequality on productivity, growth, and investment, discuss recommendations to promote international cooperation, and improve prospects for inclusive growth. The measurement of social cost across income groups will constitute a key input from the IOs and experts to the analysis, shedding light on contemporary rising social risks. The work will be implemented through analytical notes feeding from the diverse contributions of a broad spectrum of partners, complementing efforts across other Working Groups in the Finance Track and the Joint Task Force against Hunger and Poverty.

Priority 2: Addressing distributional challenges in sustainable transition policies.

The macroeconomic costs and risks arising from climate change and transition pathways are evident in many global regions. The rapidly escalating climate risks adversely affect economic growth, with significant repercussions on the living conditions of populations, financial stability, asset prices, and investments.

While essential, mitigation and adaptation policies have distributional consequences and thus also pose inequality challenges. For example, the more vulnerable segments of society may disproportionately bear the brunt of the adjustment costs during energy transitions, and EMDEs may face relatively larger costs than AEs. In addition, certain transition policies could leverage opportunities for improved redistribution by supporting inclusive green growth models. Ultimately, the distributional impact of transition policies depends on their design.

Building on the G20 Report on Macroeconomic Risks Stemming from Climate Change and Transition Pathways prepared under the 2023 Indian Presidency, the FWG Priority 2 will develop policy recommendations to support a just transition to sustainability, balancing environmental, social, and economic dimensions, while highlighting the distributional consequences of policy options. The Working Group will explore how transition risks and policies might affect different countries (e.g., commodity exporters, commodity importers, highly indebted nations, and creditors) and which policies could leverage the green growth potential that remains largely untapped worldwide. The work will complement a broader discussion on international coordination for inclusive growth, supporting the priorities of other G20 Working Groups in the Finance Track, such as the SFWG, the IWG, and the joint Task Force for Global Mobilization against Climate Change.

Priority 3. Creating fiscal space to support public investment.

The investment required to address policy challenges is massive, especially for EMDEs. Therefore, private financing must play a crucial role. Consequently, the G20 Brazilian Presidency considers the mobilization of private capital for development as a priority. It is also crucial to acknowledge that public investment plays an indispensable role, especially in catalyzing private investment. This is particularly true for EMDEs, where governments must take a more active stance in tackling market failures and externalities in the current context. This includes responding to urgent issues stemming from climate-related emergencies.

Against this background, governments are dealing with increasing spending pressures amid rising debt levels during a time of worsening financing conditions. Thus, FWG Priority 3 will discuss policy options for progressively expanding fiscal space to enhance and sustain public investment in medium-term frameworks. This is not only crucial for addressing the challenges outlined in Priorities 1 and 2, but also for tackling broader developmental issues. The deliverables will focus on the analytical underpinnings of medium-term fiscal strategies rather than on the operationalization of solutions covered in other Working Groups. The work will exploit the potential for public investment to unlock private capital, crowding in private initiatives that could support the achievement of socioeconomic goals. The topic is also linked with a broader discussion about financing flows featured more prominently in the IFAWG and the SFWG.

III. PLANNED DELIVERABLES

- Presentations on the Global Economic Outlook, G20 Surveillance Notes, and the SSBIG Report.
 - A Conference on the macroeconomic and distributive impacts of global trends and domestic policies.
 - A G20 document featuring a menu of policy recommendations for tackling inequality pressures based on a summary of analytical notes provided by IOs; the analytical notes will include diagnostics and assessments of inequality, as well as their interaction with global and domestic economic trends.
 - A side event and analytical notes on the distributional impact of energy transition, as well as policy recommendations towards a just transition.
 - Analytical notes on policy recommendations for creating fiscal space to fund impactful public investment and supporting transitions towards sustainability.
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IV. QUESTIONS FOR DISCUSSION

1. What are the major macroeconomic issues and risks faced by the global economy?
2. How will these issues and risks affect the outlook for inequality?
3. Do Finance and Central Bank Deputies support the proposed priorities for the Framework Working Group?

