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Policy stances, challenges and the way forward

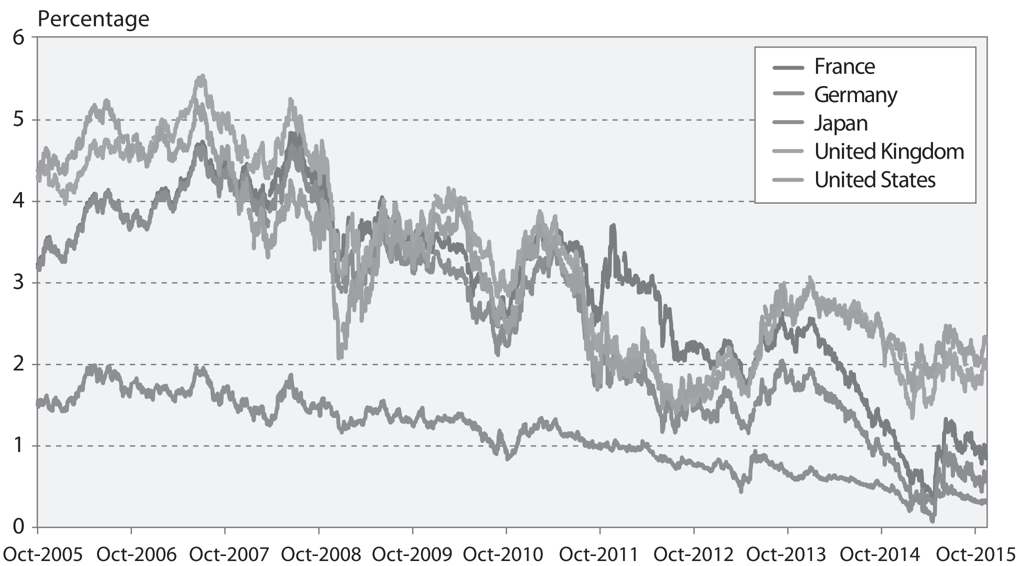
Policy stances

Monetary policy

Monetary easing prevented further worsening of the economic slowdown

Global monetary policy has remained generally accommodative in the face of weakening growth and subdued inflationary pressures in many parts of the world. In 2015, developed economies continued to rely on accommodative monetary policy—such as asset purchases in the euro area and Japan and near-zero (or negative) policy rates—to deliver growth. There is, however, a growing understanding among policymakers that monetary easing

Figure I.20
Ten-year government bond yields in selected developed economies, October 2005–October 2015



Source: UN/DESA, based on data from JPMorgan.

14 For example, it is estimated that, while holding other factors constant, the 20cm of sea level rise at the southern tip of Manhattan since the 1950s has increased insured losses from 2012 Superstorm Sandy by 30 per cent in New York. See Lloyd's (2014).

is not sufficient for stimulating real economic activity. While accommodative monetary policy stances helped avert a financial sector meltdown and prevent a prolonged recession, they have not been as effective as expected in stimulating investment and growth. The key monetary policy assumptions underlying the central forecast, and forecast sensitivities to these assumptions, are reported in the appendix to this chapter.

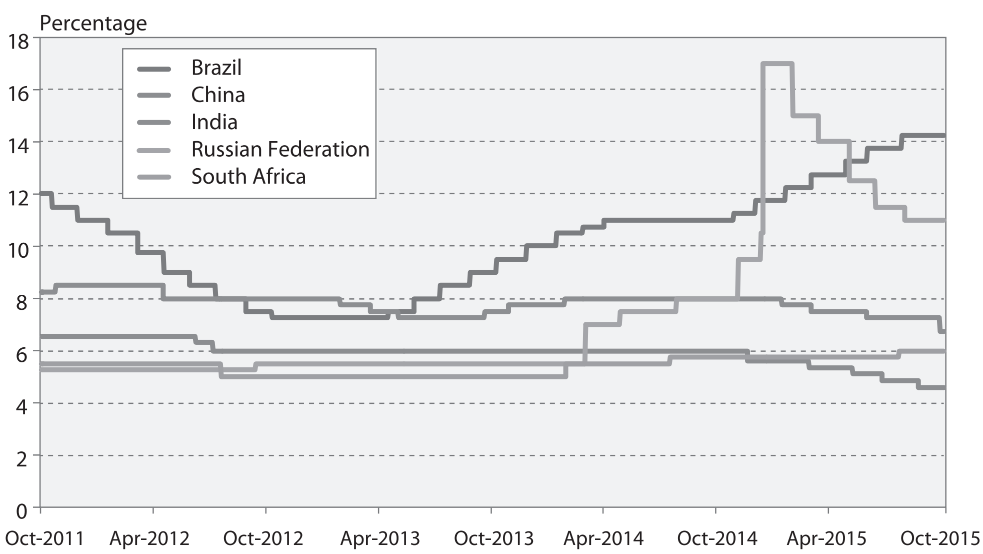
Monetary policy stances during the post-crisis period clearly kept the cost of borrowing at historically low levels. From a historical perspective, both short- and long-term interest rates in developed economies are still very low. Figure I.20 shows ten-year government bond yields since October 2005 for France, Germany, Japan, the United States and the United Kingdom.

Monetary policy stances of developed economies are expected to diverge

While monetary conditions in most developed economies remain loose, the policy stances of the Fed and other major central banks have diverged over the past year. The Fed has moved closer to its first interest-rate hike since 2006 as the labour market in the United States has continued to improve gradually. However, amid concerns over the impact of global economic weakness on domestic activity and inflation, the Fed rate rise is now expected to occur in December 2015, but could be pushed into 2016 in the case of a weaker-than-expected global economic outlook. After the initial lift-off, the pace of interest-rate normalization by the hike is likely to be slow and highly sensitive to inflation and job market developments.

Unlike the Fed, other developed-country central banks, including the ECB and the Bank of Japan, are still easing monetary policy. The ECB continues to implement its expanded asset purchase programme, which was launched in March 2015 in an attempt to steer inflation closer to the 2 per cent target. The monthly asset purchases of public and private sector securities amount to an average of €60 billion and are expected to be carried out through the end of March 2017. While the programme has supported the recovery of the euro area, a downgrading of the inflation forecast has opened the door for further stimulus. A first interest-rate increase by the ECB is not expected until late 2017 or 2018. The Bank

Figure I.21
Central bank policy rates in the BRICS, October 2011–October 2015



Source: UN/DESA, based on data from various National central banks.

of Japan has maintained the pace of asset purchases under its quantitative and qualitative monetary easing programme (QQME), targeting an increase in the monetary base at an annual pace of about 80 trillion yen. The authorities have not specified an end date for the programme, indicating that it will continue until inflation is stable at 2 per cent. The likelihood of a further expansion of the programme has increased in recent months as headline and core inflation once again declined and economic activity weakened.

Developing countries and economies in transition face new constraints in maintaining accommodative monetary policy stances

Against the backdrop of weakening growth, rising financial market volatility, sharp exchange-rate depreciations and increasing portfolio capital outflows, monetary policies in developing and transition economies have shown some divergence in 2015 (figure I.21). Many Asian central banks cut their policy rates in 2015, responding to declining inflation and seeking to support growth.

The People's Bank of China has reduced its one-year benchmark lending rate six times since November 2014, lowering the rate from 6 per cent to 4.35 per cent. The authorities have also used other measures, such as reserve requirement cuts and targeted lending facilities, to inject liquidity into the economy. The Reserve Bank of India cut its main policy rate four times in 2015, by a total of 125 basis points. For many developing economies, especially those with open capital accounts, the monetary policy stance over the next two years will not only depend on growth and inflation trends, but also on potential spillover effects of policy changes in the United States.

In several South American and African countries, including Brazil, Colombia, Kenya and South Africa, monetary policy has recently been tightened in a bid to halt rising inflation, significant capital outflows and large currency depreciations. For most of these countries, the monetary tightening is expected to further lower growth prospects, which have already been hit by the drop in commodity prices and a range of domestic factors.

Fiscal Policy

Most of the developed economies—whose fiscal deficits and public debt levels are averaging about 3 per cent and 100 per cent of GDP, respectively—have gradually transitioned since 2013 from post-crisis consolidation of public finances to a more neutral fiscal stance. With few exceptions, no significant fiscal drag is expected in 2015-2016 in developed countries. The key fiscal policy assumptions underlying the central forecast, and forecast sensitivities to these assumptions, are reported in the appendix to this chapter.

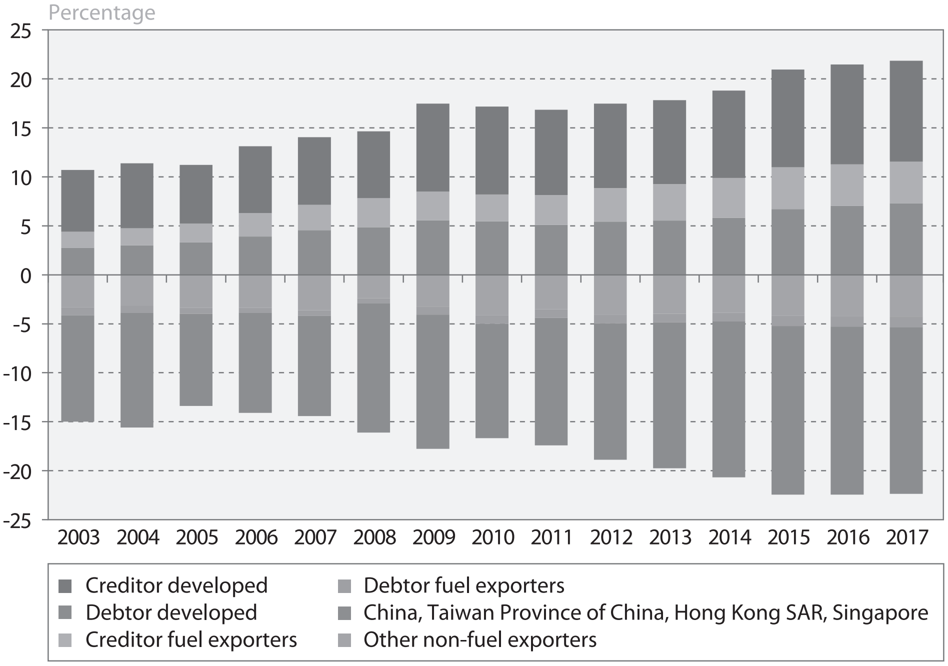
In the United States, the federal budget deficit has improved by 7 percentage points of GDP since 2009, supported by stronger economic growth in 2014-2015. Following several years of austerity, the fiscal policy stance has become more neutral, and this is expected to continue in the near term. Real federal government consumption expenditure is expected to remain at 2015 levels in both 2016 and 2017, but given the moderate improvement in the state and local government fiscal positions, real government expenditure at this level will grow by about 1 per cent in both 2016 and 2017.

Among the countries of the EU, fiscal policy stances diverge. Several EU members, including France, are running budget deficits exceeding 3 per cent of GDP and have to consolidate their public finances, complying with the Excessive Deficit Procedure of the EU. In Japan, the Government conducts a flexible fiscal policy, but is pursuing medium-term fiscal consolidation, aiming to achieve a primary budget surplus by 2020. However, the Government decided to postpone the planned consumption tax increase from October 2015 to April 2017 and to implement additional stimulus measures. The Government also intends to reduce the corporate tax rate in April 2016. The country's public debt-to-GDP ratio stands at over 220 per cent and may become unsustainable in the long run, but as most of this debt is held domestically, default risks are relatively small compared to countries that face large external and foreign-currency-denominated debt burdens.

Among the major developing countries, fiscal policy in China is expected to be moderately expansionary in the medium-term and the consolidated government deficit may reach historically high levels, mostly because of large and growing indebtedness of the regional governments. The central Government's support to the regions may increase in order to prevent the excessive reliance of local governments on commercial borrowing. The ongoing debt-restructuring programme is expected to reduce financial risks at the local level. In Brazil, by contrast, the Government is tightening its fiscal stance, in part by curbing subsidized public lending, in order to reduce public debt and to restore the country's investment grade.

Figure I.22

Net external asset positions as a percentage of world gross product, 2003–2017[a]



Source: UN/DESA, based on United Nations Statistics Division National Accounts Main Aggregates Database, International Monetary Fund, International Financial Statistics and updated and extended version of dataset constructed by Lane and Milesi-Ferretti (2007).

Note:

a Data for 2015-2017 are projections.

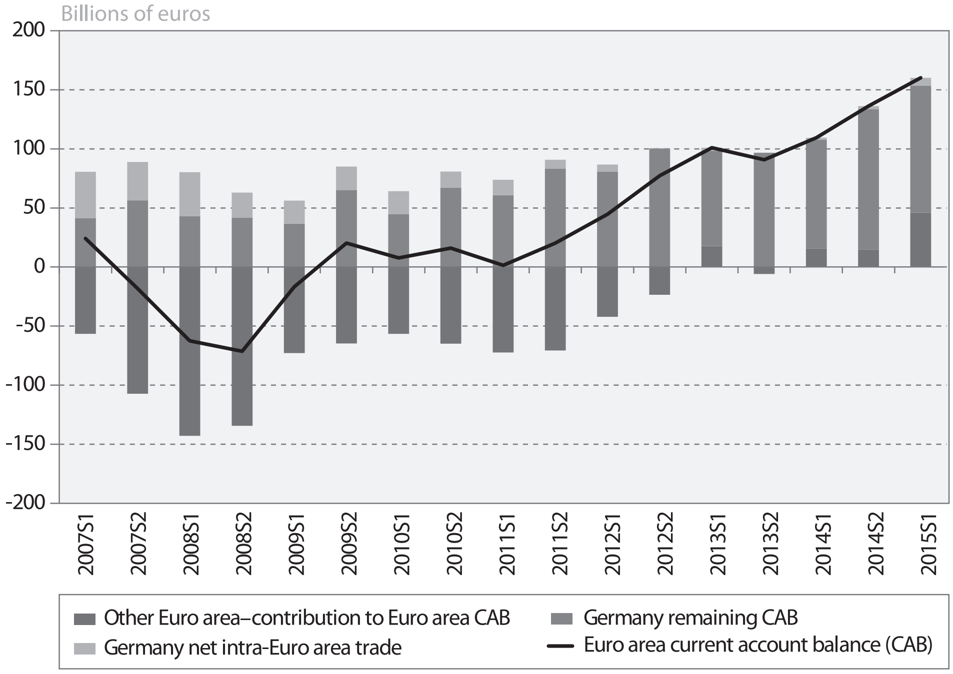
Fiscal tightening is likely in commodity-exporting economies

Among the economies in transition, the Government of the Russian Federation had to revise its 2015 budget against the backdrop of the fall in oil prices and weaker economy, and foresee a wider than initially anticipated budget deficit. However, fiscal tightening in the near-term will be somewhat mitigated by drawing from the Reserve Fund and expanding the tax base. Other commodity-exporting economies are also bracing for fiscal tightening during the forecast period.

Global imbalances continue to pose a potential risk to global financial stability

While the dispersion of global current-account deficits and surpluses has narrowed somewhat from the peaks leading up to the global financial crisis, a significant degree of imbalance still persists, posing a potential risk to global financial stability. Global imbalances in net external debt holdings have continued to widen since 2011, as illustrated in

Figure I.23
Euro area current account balance



Source: UN/DESA, based on data from Eurostat and ECB databases.

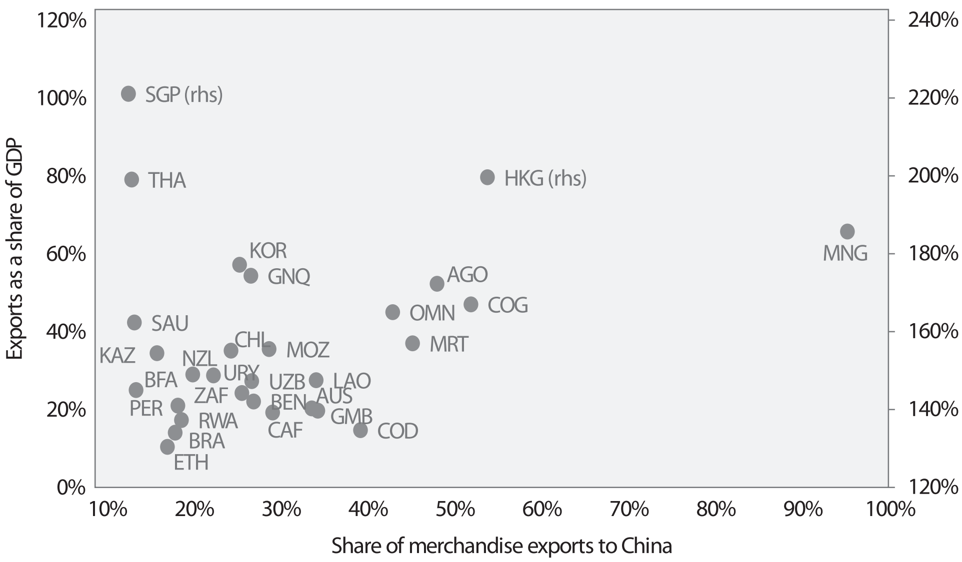
figure I.22. High levels of gross external debt leave a country exposed to a sudden withdrawal of foreign capital, and pose additional risks linked to exchange-rate fluctuations if the external debt is denominated in foreign currency. Without any additional narrowing of the global current-account imbalance, global imbalances in net external debt can be expected to continue to widen beyond the end of this decade, and global vulnerabilities related to external debt are unlikely to recede.

A strong dollar may reverse the trend in global imbalances, which has improved since the financial crisis

Two key factors interacting with the recent evolution and outlook for global imbalances are the sharp exchange-rate realignments and the deterioration of commodity prices, especially the oil price. The pace of global net debt accumulation has moderated significantly in recent years, largely associated with the US current-account deficit narrowing from 5.8 per cent of GDP in 2006 to 2.2 per cent in 2014, matched by a decline in China's current-account surplus from 8.5 per cent of GDP to 2.1 per cent over the same period. The real appreciation of the dollar highlighted above can be expected to unwind some of this improvement, although at the global level this deterioration may be partially offset by narrowing surpluses in creditor countries with currencies that are closely tied to the dollar, as well as the impact of commodity price declines on imbalances.

IMF (2006, chap. II) highlighted the role that rising oil prices played in exacerbating global imbalances in the lead-up to the financial crisis. By contrast, the recent drop in oil prices should help to improve imbalances at the global level. The vast majority of net debtor countries are fuel importers, while the majority of fuel exporters have historically run persistent current-account surpluses. The sharp deterioration of current-account balances in fuel-exporting economies will be partially financed by drawing down reserves in countries that have normally run large current-account surpluses.

Figure I.24
Share of exports to China



Source: UN/DESA, based on United Nations Statistics Division National Accounts Main Aggregates Database and IMF Direction of Trade Statistics.

As China's current-account surplus has narrowed, Germany is now the largest surplus country in the world. Germany's intra-euro area trade surplus has narrowed sharply since 2007, but its extra-euro area surplus has continued to widen, as illustrated in figure I.23. The growing external surplus of Germany partly explains the widening current-account surplus of the euro area as a whole, which also reflects the rapid adjustment of the external positions of Greece, Ireland, Italy, Portugal and Spain (figure I.23). Please see Chapter III for more details on global imbalances and reserves accumulation.

Vulnerabilities in developing economies increase

A number of economies are likely to be hard hit by a sharper-than-expected slowdown of the Chinese economy

A larger-than-expected slowdown in China, the second largest economy in the world, is likely to have substantial ripple effects on the rest of the global economy. The hardest hit would be China's immediate neighbours (Mongolia, Lao People's Democratic Republic, Republic of Korea) who have strong trade ties with China. Figure I.24 highlights 29 countries that are particularly exposed, as China is the number one export destination for these economies.[15] These include both commodity-exporting economies—such as Angola, Brazil, Chile, Mongolia—as well as a few high-income economies, including Australia, New Zealand and the Republic of Korea. Exports to China account for more than 25 per cent of total exports in the case of 11 of these economies, making them particularly vulnerable to the slowdown of the Chinese economy.

Lower commodity prices have already significantly worsened the fiscal position of many commodity-dependent developing economies and exacerbated their external debt burden. The risk of debt default, although still relatively low for small commodity-export-

15 Angola, Australia, Benin, Brazil, Burkina Faso, Central African Republic, Chile, Congo, Democratic Republic of the Congo, Equatorial Guinea, Ethiopia, Gambia, Hong Kong Special Administrative Region of China, Kazakhstan, Lao People's Democratic Republic, Mauritania, Mongolia, Mozambique, New Zealand, Oman, Peru, Republic of Korea, Rwanda, Saudi Arabia, South Africa, Thailand, Uruguay and Uzbekistan.

ing economies, can intensify if commodity prices decline further. The increased risk of debt unsustainability may compel investors to move both their equity and debt capital to a relatively safer investment environment, exacerbating capital outflows and further undermining the economic health of commodity-exporting economies. The vicious cycle of low growth, depressed revenue prospects, increased risk perceptions, capital outflows, reduced liquidity and increased borrowing costs may become mutually reinforcing, restraining growth further. This may have a cascading, contagious effect on a range of developing economies, both commodity exporters and others, leading to a broader debt crisis reminiscent of the debt crisis in the late 1980s.

Developing economies in general would need to find new sources of growth domestically or regionally to escape the potential downward spiral emanating from commodity-price- and exchange-rate-related shocks. This would require Governments to pursue comprehensive structural transformation and industrial policies that would mobilize domestic savings and investment, improve institutions and corporate governance and reduce transaction costs and increase competitiveness. Sustained and sustainable improvement in labour productivity would allow many developing countries to create more decent jobs, increase the labour share of income and reduce income inequality both within and between countries.

Geopolitical risks cloud regional economic prospects

The near-term global economic forecast remains susceptible to a number of geopolitical tensions and risks. These include the situations in Afghanistan, Iraq, the Syrian Arab Republic, Ukraine and Yemen and the refugee crisis that has engulfed various neighbouring countries of some of these crisis spots, as well as Europe.

The intermittent geopolitical crisis around Ukraine presents a risk to the economic outlook, at least at the regional level. Despite the ceasefire agreement reached in February 2015, the conflict in the East of Ukraine is not yet resolved. The mutual economic sanctions between the Russian Federation and many OECD economies, including the United States and the EU, were extended in July 2015. As a result, many leading Russian companies and banks remain cut off from the major international capital markets, and cooperation with a number of Russian enterprises is under embargo. The Government of the Russian Federation, on its side, implemented a one-year extension of the ban on imports of food products from those countries that are participating in the sanctions. Together with the fall in oil prices, the sanctions have taken a toll on the Russian economy, leading to outflows of capital and a contraction in investment. As many of the smaller CIS economies significantly depend on remittance inflows from the Russian Federation, the downturn in the Russian economy has had a negative spillover effect on the Russian Federation, which is set to continue in 2016. The weaker Russian import demand also had a knock-on effect on some countries in the EU-15, while the food import ban has had a sectoral impact on some of the new EU member States, in particular on the Baltic States, Hungary and Poland, and also has affected transit trade revenues for these economies. The sanctions were only one of the factors leading to the drastic depreciation of the Russian currency in 2014. A further escalation of the conflict may lead to interruption of the Russian natural gas flow through Ukraine, which would be especially damaging for Eastern Europe, while the increased defence expenditure in the EU-15 may weigh on the public finances.

Further spread of conflict would depress growth in some regions

Violent conflicts continue in Afghanistan, Iraq, Libya, the Syrian Arab Republic and Yemen, with significant spill over effects on the regional economies. The prolonged conflicts, particularly in the Syrian Arab Republic, aggravated the problem of refugees who already numbered in the millions in neighbouring countries. An increasing number of citizens have been fleeing from these countries, and also from North Africa, towards Europe. The presence of a large number of refugees is likely to increase political and financial strains in the host economies, with the potential for contagion of conflict spreading beyond the Syrian Arab Republic and reaching the door-step of Europe. There is also mounting pressure from refugees trying to enter Western Europe in search of a better livelihood. This has added new challenges for a number of transit and destination countries, both in logistical and financial terms. In addition, in a number of destination countries, issues regarding the integration of refugees into society and the labour market are likely to create additional policy challenges.

Policy challenges are expected to intensify

More than seven years after the global financial crisis, policymakers around the world still face enormous difficulties in restoring robust and balanced global growth. In developed countries, most of the burden of promoting growth has fallen on central banks, which have used a wide range of conventional and unconventional policy tools, including various large-scale QE programmes, forward guidance and negative nominal interest rates. These measures have led to an unprecedented degree of monetary accommodation in recent years, with monetary bases soaring and short- and long-term interest rates falling to historically low levels.

Accommodative monetary conditions and abundant supply of global liquidity have also given rise to wide swings in capital flows to emerging markets. Financial stability risks have increased amid concerns over the excessive build-up of financial assets, commensurate asset price bubbles and balance-sheet vulnerabilities, especially in emerging markets. Volatility in commodity, currency, bond and stock markets has moved up since mid-2014, partly as a result of monetary policy adjustments and uncertainties over future policy moves.

Against this backdrop, the monetary authorities in developed countries face the task of balancing the need for continued monetary accommodation with the goal of limiting real and nominal volatilities and minimize the risks to global financial stability. In this context, macroprudential policies have become increasingly important since the global financial crisis. The ultimate goal of macroprudential tools—such as capital requirements for banks and other financial institutions, limits on loan-to-value and debt-to-income ratios, and limits on banks' foreign-exchange exposure—is to temper the financial cycle and contain systemic risks (see Constancio, 2015). Macroprudential policies, when designed and applied effectively, can help mitigate financial sector volatility and redirect financial resources to more productive sectors of the economy.

Monetary policy normalization will need to strike a balance between sustaining growth and managing financial stability risks

For developed-country central banks, the main challenge over the coming years is how to normalize monetary policy without crushing asset prices, causing major financial volatility and potentially threatening the expected recovery. At present, the international focus is on the Fed, which is the first major central bank to start the monetary tightening cycle. While the Fed's decision-making is guided by its dual mandate—promoting maximum stable employment and price stability—it is taking into account the potential spillover effects of its policies on the world economy. By keeping the Fed fund rate at the zero lower bound, the Fed has also temporarily prevented a widening of the monetary policy gap with other central banks and a further strengthening of the dollar. Going forward, the challenge for the Fed is not only to get the timing of interest-rate hikes right, but also to adequately prepare financial markets for the moves via effective communication of its plans.

While the normalization of US interest rates is expected in late 2015, some uncertainties remain regarding both the anticipated path of interest rates and the reaction of global financial markets and the real economy to the shift in policy rates. A rise in debt-servicing costs will necessarily be associated with the US interest-rate normalization, both domestically and in the many developing economies and economies in transition that hold debt denominated in US dollars. In addition, as the rates of return on US assets normalize, a sudden change in risk appetite could trigger a collapse of capital flows to developing economies and economies in transition, or sharp exchange-rate realignments as experienced following the Fed's announcement in 2013 that it would soon begin tapering its QE programme. Significant levels of net capital outflows have already occurred in many developing economies in anticipation of the normalization of US policy rates (for more discussion, see the section on rising volatility in exchange rates and capital flows), and there is a risk that these withdrawals could increase further, drying up liquidity in many developing economies. This may lead to a depreciation of many developing-country exchange rates, or pressure them to raise interest rates to prevent capital outflows. Countries that hold a large stock of net external debt are particularly exposed to the associated rising costs of debt servicing. As a downside risk to the outlook, financial markets could overreact and overshoot the adjustment, or exhibit a sudden change in risk appetite, leading to heightened financial market volatility, an even sharper withdrawal of capital from developing markets, and a more significant slowdown in global growth.

In developing countries and economies in transition, the current global economic and financial environment poses major challenges for monetary and exchange-rate policies. Economic growth in most countries has slowed significantly over the past few years amid declining commodity prices and domestic weaknesses.[16] Although potential growth is likely to be lower than before the global financial crisis, sizeable negative output gaps have opened up in many countries. These gaps would call for considerable monetary loosening. However, the room for monetary easing is constrained for a number of developing-country and economies in transition central banks in CIS and South America that have encountered high inflationary pressures. Furthermore, in several cases, policy rates have not returned to pre-financial crisis levels, which limit the scope for interest rate cuts. These constraints are accompanied by concerns that rising US interest rates and a further strengthening of the dollar could trigger a wave of emerging-market corporate defaults over the coming years.

Going forward, fiscal policy will need to do the heavy lifting to stimulate investment and growth

Given that monetary policies have done most of the heavy lifting for supporting growth during the post-crisis period, both developed and developing countries will need to rely more on fiscal policy instruments to stimulate growth in the near term. Fiscal policies will need to primarily focus on boosting investment and productivity growth. Most of the EU countries enjoy low sovereign borrowing costs, supported by the ongoing sovereign bond purchases by the ECB. While this mitigates the costs of financing deficits, policymakers will continue to struggle to find a balance between supporting growth and employment

16 Average growth in developing countries for 2015 is estimated at 3.8 per cent. In the past 25 years, average annual growth has been lower only during acute crisis episodes: the Asian crisis in 1998, the financial crises in Argentina and Turkey in 2001 and the global financial crisis in 2009. Economies in transition are estimated to contract by an average rate of 2.8 per cent in 2015.

and adhering to their commitments under the Stability and Growth Pact. This may become more challenging if deflation in the euro area persists, which may inflate fiscal deficits and public debt-to-GDP ratios.

Compared with the developed economies, developing countries and economies in transition generally have smaller budget deficits and public debt levels. This should encourage developing countries to pursue expansionary fiscal policies, including well-timed and targeted fiscal stimuli, to boost domestic demand and growth. In oil-exporting economies, persistently low oil prices should eventually encourage public finance reforms, including discretionary spending, and support policies targeting economic diversification. Oil-importing developing countries, on the other hand, should take advantage of low oil prices to redirect their fiscal savings to productive investments.

Well-designed fiscal policies can play a central role in fostering employment creation and reducing both unemployment and underemployment. Furthermore, current income disparities and low wage growth can be addressed with social transfers as well as with effective training policies to advance workers' employability, and through stronger collective bargaining mechanisms that can improve income distribution. Additionally, considering that labour force participation is low and long-term unemployment extremely high, more active labour market policies may be considered as a complement to unemployment benefits to make labour markets more inclusive. Efforts to enhance access to credit for small and medium-sized enterprises can also play a significant role in investment recovery and job creation.

Progressive tax structures, including income tax relief for lower-income groups, are also effective in addressing working poverty and income inequalities, with potential benefits for growth and employment creation. Particularly in developing economies, where the informal sector is larger, well-designed tax systems can encourage formal employment creation in general, but they can also support more disadvantaged social groups and improve government revenue. In addition, since working poverty is also often associated with low-skilled labour, training policies targeting low-skilled workers may play a critical role in enhancing employment, productivity and output growth. They can help address income disparities between groups of workers, by increasing labour productivity and reducing working poverty. According to OECD (2015), wage inequality is lower in countries where skills are more equally distributed. At the same time, training programmes for low-skilled workers can also stimulate discouraged workers to re-enter the labour market and reduce long-term unemployment.

Increasing labour's share of income can help boost aggregate demand and revive global growth

Labour's declining share of total income has been identified as a key underlying factor limiting aggregate demand and, ultimately, output growth. This is in part the result of a long-term trend, which has led to a widening gap between wage growth and productivity growth (see United Nations, 2015a). In addition, as has been underscored by several international organizations (OECD, the International Labour Organization (ILO), IMF, UNCTAD, UN/DESA), the weakening of workers' bargaining power is another important factor underpinning the declining labour share of total income. Mandatory minimum wages, where they do not exist, can directly help those at the bottom of the income distribution, but they can also secure fair pay and increase tax revenues. As a complementary policy, collective bargaining mechanisms can be designed to realign wage growth with productivity growth, rendering economic growth more inclusive and equitable. Evidence shows that Governments that have introduced new measures to increase minimum wages, as well as collective bargaining, were able to curb working poverty and income inequality, while boosting aggregate demand.

Sustainable development will require more sustained policy coordination

Effective policy coordination is needed to boost investment, employment, productivity and growth

Stimulating inclusive growth in the near term and fostering long-term sustainable development will require more effective policy coordination—between monetary, exchange-rate and fiscal policies—to break the vicious cycle of weak aggregate demand, under-investment, low productivity and low growth performance in the global economy. Equally critical is the coordination of monetary and macroprudential policies to align the objectives of financial stability and growth, and to ensure that finance indeed supports the real economy and that the world economy does not lapse into yet another financial crisis. This would also be critical to ensuring a smooth adjustment in asset prices to minimize the negative spillover effects of the normalization of monetary policy stances worldwide. Furthermore, economic, social and environmental policies need to be coordinated to realize the comprehensive and universal 2030 Agenda for Sustainable Development. There also needs to be stronger international coordination of various domestic-level policies, taking into account the possible spillover effects on the rest of the economy.

Policy coordination will continue to face daunting challenges

Policy coordination, however, has become increasingly difficult against the backdrop of ever greater complexity in the financial market, persistent and growing disconnect between finance and the real economy, and the chronic misalignment and incentive incompatibility of various policy objectives pursued by different stakeholders at both national and international levels. At the domestic level, policies are often designed and implemented in compartments, with little integration and coordination of different policy objectives.

In the aftermath of the global financial crisis, the G20 undertook concrete measures to improve policy coordination at the global level. However, a quick but shallow recovery of global growth in 2011-2012 rendered the measures less of an imperative. Against the backdrop of a prolonged period of slow growth combined with the global commitment to the 2030 Agenda for Sustainable Development, the international community needs to renew its efforts to improve policy coordination at national, regional and international levels.

Agreements on trade and climate change will provide a much needed impetus to stimulate sustainable growth

International policy coordination is critically important for realizing the ambitious, comprehensive and universal 2030 Agenda for Sustainable Development and achieving its associated goals and targets. First and foremost, policy coordination is needed to revive global growth and put the world economy on a new path of equitable, sustained and sustainable growth. The Addis Ababa Action Agenda, agreed at the Third International Conference on Financing for Development in July 2015, provides the framework for policies and actions to align all financing flows and international and domestic policies with economic, social and environmental priorities (see chap. III, box III.1). A successful conclusion of the multilateral trade negotiations (i.e., reducing barriers to market access, especially for developing economies) will provide a much needed impetus to investment, stimulate productivity growth and output, facilitate redistribution of global income, reduce global imbalances and address both within- and between-country income inequalities. The imperative of international policy coordination is also most evident in the area of climate change and environment. The successful conclusion of UNFCCC COP 21 in Paris, leading to binding commitments to reduce emission levels, is expected to pave the way for more effective international policy coordination for sustainable development in all three dimensions: economic, social and environmental.