COMPREHENSIVE GROWTH STRATEGY

ARGENTINA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Argentina fully supports an increased degree of ambition regarding our objective of achieving strong, sustainable and balanced growth, but with an emphasis on the need to make sure that such growth is inclusive, so that its benefits can be shared widely, given that this kind of growth is the only one that has proved to be sustainable over time.

The country's growth strategy is focused on the reindustrialization process. Industrial development has significant increasing returns to scale in the long term and fosters quality employment and social inclusion. This, in turn, guarantees the expansion of aggregate demand, thus leading to a new round of expansion in aggregate supply and productivity. With this view, our reform priorities are concentrated in the areas of investment, especially infrastructure, industrialization, employment and social inclusion.

Regarding investment, Argentina will focus on significantly increasing the resources channeled to energy production and infrastructure, transport and logistics Although the investment rate has increased significantly as from 2003, and infrastructure investment has risen from negligible levels to new records in recent years (with more than half of the funds allocated to closing the energy gap), still higher levels of investment are required to sustain a rapid and sustainable rate of growth. In infrastructure investment, the public sector will maintain its leading role, but the objective is also to attract private and external funding/operation when rates of return demanded are deemed to be adequate.

With regard to employment and social inclusion, the generation of an increasing level of employment, but especially of quality jobs, is one of the pillars of the strategy of inclusive growth that Argentina has been pursuing and will continue to implement. Only a deliberate policy to achieve this aim can generate a sustained improvement in the population's living standards. In this regard, formal employment grew by 80% as from 2003. With the aim to continue to make progress on that front, Argentina needs to introduce additional measures to further consolidate the improvements achieved in the labor market and to, simultaneously, promote overall economic development with an emphasis in the reduction of inequality.

The policy measures identified below are designed to strengthen Argentina's economic potential by fostering strategic investments in the economy, particularly in infrastructure and energy, which are currently considered to be the main structural challenges the country must tackle to achieve a Strong, Sustainable and Balanced Growth (SSBG). The success of this strategy will lead to improved standards of living for the population, boost the growth in trade with the rest of the world and the mutually beneficial collaboration in the development of our country's resources with our partners from other nations, thus contributing to our SSBG objective at the global level. Moreover, the continuous improvement in financial regulation, as well as the control of money laundering and tax evasion, will allow Argentina to reach full compliance with the best international practices in those areas, with the consequent benefit for all our member countries.

Key Commitments

1. To increase the production of oil, gas (including non-conventional sources) and refined fuels taking advantage of the leading role to be played by YPF (mixed company with a majority public-sector share) and boost hydroelectric power by means of the construction of two large dams.

2. To continue increasing employment, improving its quality and the skills of the workforce, and fighting against informality and any form of precarious employment.

3. To continue raising pension coverage with the aim of augmenting it to benefit 100% of those people that have reached the retirement age.

4. To increase the capacity and improve the performance of the main freight railway in Argentina, as well as that of the metropolitan passenger railway system, in one of the most ambitious investment programs that have been undertaken in this area.

5. To reinforce Central Bank´s policies to increase the financing available for SMEs and less developed regions, by means of different mechanisms and incentives.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators**				
	2013	2014	2015	2016	2017
Real GDP (% yoy)	2.9%	0.5%	2.8%	2.9%	3.2%
Nominal GDP (% yoy)	21.8%	24.0%	19.7%	15.8%	12.6%
Inflation (%, yoy)*	n/a	n/a	15.6%	13.2%	9.9%
Fiscal Primary Balance (% of GDP)	-0.7%	-1.9%	1,0%	n/a	n/a
Unemployment (%)	7.1%	n/a	n/a	n/a	n/a
Savings (% of GDP)	16.8%	n/a	n/a	n/a	n/a
Investment (% of GDP)**	20.9%	21.0%	21.0%	21.0%	21.0%
Current Account Balance (% of GDP)	-0.8%	n/a	n/a	n/a	n/a
Trade Balance (% of GDP)	1.3%	1.5%	1.8%	1.8%	1.7%

* Inflation is not informed for 2013 due to the methodological changes made in the fourth quarter of 2013.
** Constant prices.

Key Drivers

Argentina’s growth strategy is mainly focused on the domestic components of aggregate demand. Since consumption is the largest component, it has a key role in stimulating the whole economy. Under this view private investment is primarily determined by demand pull from consumption and accelerator-type mechanisms, and so is the case with the level of employment. Moreover, the favorable evolution of employment in Argentina, together with the measures to support lower-income households, make it possible to continue improving the distribution of income, which can, in turn, contribute to boosting aggregate demand and achieving a virtuous and balanced growth process. The Government understands that this strategy has been very fruitful so far, deems the current relatively unfavorable conjuncture to be transitory, and intends to maintain this course.

Assessment of Obstacles and Challenges to Growth

The country grew very fast from 2003 to 2011, though growth has decelerated in recent years. While this was mainly due to a more adverse external environment, due to the deceleration of the global economy, particularly of Argentina´s main trading partners, Argentina needs to tackle some challenges to continue growing fast in the future.

In particular, the country needs to support the expansion in the economy’s productive capacity. This requires pursuing policies of a structural nature to remove supply-side bottlenecks and, in particular, it demands an increase in investment in infrastructure and energy. These efforts should also contribute to improving the economy’s overall competitiveness, the increase in productivity and the diversification of exports.

These efforts will be coupled with our policies focused on continuing to make progress regarding employment and the distribution of income. In this regard, the macro, labor and social polices implemented in the past ten years made it possible to increase the rate of growth in employment to an average of 3% per year. This process of job creation reduced the unemployment rate from over than 20% to almost 7% nowadays. Also the rate of informal employment fell approximately 15 percentage points, reaching a minimum of around 32%. Nonetheless, Argentina considers that employment creation and reducing informality remain as key challenges, and current policies continue to seek to address these issues.

Moreover, Argentina is currently facing the additional challenge posed by holdout vulture funds, which needs to be addressed in a way that it does not threaten the country´s growth and development potential, not only in the short run, but also in the medium- and long term. The erroneous interpretation of the *pari passu* clause by a US court together with the injunction which is preventing holders of exchange bonds to collect the payments duly made by Argentina, have generated an unprecedented situation. In particular, this precedent jeopardizes future sovereign debt restructurings, which severely limits the growth potential of overindebted countries and generates negative spillover effects that harm the stability of the global financial system and, as a consequence, global growth. Several international institutions, such as the United Nations, OAS and IMF, have publicly shared this concern.

In this context, we categorically reaffirm Argentina’s willingness and capacity to pay 100% of its creditors in a fair, equitable, sustainable and legal manner, and the crucial importance of preserving the right of holders of restructured debt to get payed. In fact, Argentina has been making significant efforts in the recent past to normalize its external economic relations: the signature of a payment agreement with the Paris Club last May, the cancellation of debts under ICSID litigation procedures and the agreement with Repsol at the beginning of this year to compensate the company for the increase in the public sector’s share in the company YPF.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Fiscal policy aims at maintaining the strategy followed in previous years, focused both on implementing a countercyclical policy (fiscal impulse was positive in the first quarter of 2014), while maintaining a low and manageable debt-to-GDP ratio.

The scope for countercyclical fiscal policy is supported by the increased tax collection, partly originating in an improvement in the efficiency. In addition, the tax structure has become more progressive by means of the increase in the share of the income tax. Export duties have a similar effect, to the extent that they make it possible to finance social expenditure on the basis of taxes on sectors with high profitability. On the expenditure side, there has been an expansion of public spending mainly on components with high multiplier effects, such as the social security net and investment in infrastructure, especially on those projects that aim to achieve energy self-sufficiency. The multiplier effects of this type of investment are twofold, because in addition to the direct impact on employment and the generation of value added, there is the savings from the reduction in energy imports.

Moreover, the Government is committed to a policy of improving the allocation of public spending, both in productive and social investment. Regarding the latter, it has a policy of gradually reducing subsidies on energy consumption and public transport. This policy was of fundamental importance in the past, given the need to protect significant sectors of the population from the hardships generated by the 2001-2002 crisis and the 2009 international crisis. However, current income levels allow for the reduction in subsidies in medium- and high-income sectors, which will be complemented by an improved targeting, so only lower-income households will benefit from them in the medium and long-term. Another expected outcome is a reduction in excessive consumption of energy by higher-income households, as a result of the price signals generated by the partial reduction in subsidies. Moreover, it is worth noting that all the policies to remove subsidies being implemented have as their main objective to encourage the rational use of energy, thus generating positive externalities on the environment as a result of greater care in the use of non-renewable sources of energy.

With respect to monetary and exchange-rate policy, by the end of 2013 the economy was facing a fall in international reserves and considerable pressures in the foreign exchange market, which led to a depreciation in the exchange rate in January 2014. After that, the government implemented a set of measures, including a gradual rise in interest rates and a flexibilization of the requirements for residents to access the foreign exchange market for portfolio investments, which were successful in stemming the drop in reserves and in reducing depreciation pressures in the exchange market. The market has positively reacted to the coordinated monetary-fiscal policy efforts as it was reflected in a turning point in the evolution of international reserves, which have been recovering since April 2014.

In June 2014, the Central Bank made some regulatory changes with the aim of fostering credit in more favorable conditions to households. A regime of benchmark interest rate for personal and auto pledge-backed loans was implemented. According to the regulation, financial institutions were divided into two groups, each of which has different reference rates. Interest rate caps for purchases of loan portfolios were also established. Simultaneously, taking into account the development of financing by non-bank credit providers, particularly in locations that lack the provision of services by financial institutions, the central bank has created a register to enrol them. This action is a fists step to strengthen the oversight and regulation of shadow banking in Argentina, in line with international trends in this area.

Moreover, the Central Bank of Argentina has also signed with the People's Bank of China an agreement for a peso-yuan swap on July 18, with the purpose of providing liquidity support for the bilateral economic and trade activities and maintaining financial market stability. The size of the swap facility is 70 billion yuan (equivalent to US$11.3 billion) and the agreement is valid for three years.

In order to support growth, it is of the utmost importance to guarantee financial stability. Therefore, Argentina implemented a macro-prudential and micro-prudential regulatory framework that has proved to be robust. Banks have withstood successfully several stress episodes, as the last international financial crisis and the tapering.

The macroprudential toolkit consists of a set of policies, regulations and governance arrangements. That toolkit seeks to prevent system wide risks by addressing specific potential imbalances, as well as limiting risk taking by financial institutions and borrowers. These macro-prudential approach aims to moderate the pro-cyclical nature of the banking sector, and of the financial sector in general, which has significant feedback effects on the real sector. Grounded in the experience of our own financial system, the macro-prudential approach has also promoted initiatives such as the restriction of unlimited speculative short-term capital inflows, limit to direct and indirect currency mismatching in the banking system and the reduction in the exposure of banks to public financing through prudential regulation.

Argentina is committed to completing the adoption of the three Pillars in Basel II and the new elements in Basel III. The Central Bank has taken measures that in fact exceed the initiatives on liquidity and solvency in the new Basel standards, and is the regional leader in this area. The adoption of international standards for asset and risk measurement reflects the continuity of BCRA´s efforts in its regulatory and supervisory activity designed to encourage credit for production and investment, accompanying a macroeconomic model intended to achieve growth and social inclusion.

Due to this robust macro-prudential and microprudential regulatory framework in line with international standards, the banking system remains well-capitalized, liquid and profitable. Moreover, the banks were not affected by the recent turbulence, in which the deposits have continued growing.

To sum up, fiscal, monetary and macroprudential policies are expected to improve the economic perspective and contribute to macroeconomic stability in the short term, while longer-term structural policies continue to be implemented. Therefore, macroeconomic policy will maintain in the near future a countercyclical expansionary stance in both the fiscal and monetary front.

New Structural Policy Responses

Investment and Infrastructure

The National Government with the understanding that investment in infrastructure is a key to support the country´s economic growth and encourage job creation, has undertaken since 2003 an aggressive public investment program to overcome the restrictions faced by the private sector to undertake investments in large-scale projects with very long maturities in the areas of production and distribution of energy, and in the transport sector.

Regarding **energy**, taking advantage of its majority shareholding position in the national state oil company YPF, and through agreements with several industry leaders under the Promotion of Investment Regime for the Exploitation of Hydrocarbons (sanctioned in July 2013), the government is giving a strong boost to production and investment in this strategic sector with multiple objectives. These are (i) promote growth and employment, (ii) increase the domestic supply of hydrocarbons, (iii) provide greater FX stability through reduced foreign exchange requirements for imports of these products, and (iv) develop new technologies that can benefit the economy´s overall technological capabilities.

According to YPF's strategic plans, the company **production of oil, gas and refined fuels** will increase by 29%, 23% and 37% respectively, in the period 2013-2017 vis-à-vis the period 2011-2012. It will also create 10,000 new jobs. This is a result of both a strong public sector effort as well as higher foreign private investment, largely through its participation in the important *Vaca Muerta* area, one of the largest reserves of non-conventional oil in the world. The latter will be key for achieving levels of production that will make it possible to significantly reduce dependence on external sources. Moreover, the nuclear plant "*Atucha II*" will start operating by late 2014/early 2015, and the Government has just signed a framework trade agreement with China for the supply of equipment, components, raw material and technical and engineering design services for the construction of the fourth nuclear plant in Argentina, Atucha III.

In mid-2013 the Government awarded the construction of **two hydroelectric dams** in the province of Santa Cruz with international funding of about US$4.5 billion. The objective of this project is the generation of electric energy with 1740Mw of installed power and an annual electric energy generation of 5000Gwh per year. Besides, the **Genren**, program of Renewable Energies, which aim is to develop electricity generation from renewable sources in a sustainable way, will continue. More than 200 MW of power has already been installed and the expectation is that these kind of energies will increase over time.

Regarding gas, the government has recently signed the contracts for the first stage of the **Northeast Gas Pipeline project**, with the objective of extending of the domestic gas network in 7 provinces. This initiative implies a budget expansion of $7.4 billion (US$895 million) in 2014 to finance the pipeline´s construction, which will extend the natural gas network to the provinces of Salta, Formosa, Chaco, Misiones, Corrientes, Santa Fe and

Entre Rios, thus reaching 1.3 million people. This project will be developed in two stages and involves a total investment of $16.9 billion (US$2.04 billion). The contracts for the first stage imply the construction of 798 km of pipeline that will cross 23 towns and reach 120,000 habitants, for a total investment of $4.9 billion (US$596 million).The works corresponding to the second stage were auctioned recently and will involve an investment of $11.9 billion (US$1.5 billion), with the construction of 2,242km of gas pipeline crossing through 80 towns and benefitting 1.1 million habitants.

In the area of **transport infrastructure**, with the aim of significantly reducing transport costs and improving logistics, especially in regional economies located far from the ports, the government created the ***Belgrano Cargas and Logistics S.A.*** company to boost the development and growth of provincial economies. Investment agreements were signed with foreign companies to modernize the equipment of the *Belgrano Cargas,* the country's most important freight railway, which will allow a higher frequency and an increase in total load capacity and, in general, will increase logistics efficiency and will improve market access for local producers. The investments will imply the renovation of more than one thousand kilometers of track, the acquisition of almost 100 new train engines and 3,500 wagons, and the repair of around 2,000 wagons, which will imply 3 years of work for local repair shops. The project involves private sector financing for most of the contract and a local public contribution.

Moreover, the government has undertaken the most ambitious **revamping of the metropolitan area passenger railway system** in 50 years. This will make it possible to reduce travelling times and costs for millions of workers in the metropolitan area and alleviate congestion and its associated costs. It involves the purchase of more than 25 formations of 9 train cars for the Sarmiento Railway, 300 electric train cars for the Roca Railway, 30 formations of 6 train cars for the Mitre railway, 96 diesel rail carts for the Mitre and Sarmiento Railways and 81 diesel rail carts for the Belgrano Sur Railways. Total investment costs amount to more than US$1 billion. Long-distance services between Buenos Aires capital and the province of Buenos Aires have been improved as well, through the purchase of train engines and train carts to revamp the service. Lastly, works on the railway line Buenos Aires-Rosario will start this year, with the aim of extending the lines that connect these two central cities of Argentina; the investment in this project will amount to around AR$5 billion (almost US$600 million). Of a more preliminary nature, the relaunching of the Maipú Agreement with Chile to connect both countries by means of a railway border crossing is also being evaluated.

Furthermore, the National Government is evaluating two other projects for the near future, like the extension of the **new electric transport lines** between Yaciretá-Resistencia, which is intended to give the system stability, security and reliability, and will also make it possible to improve the electric connection between the NOA (Northwestern electric system) and the NEA (Northeast electric system); and the **General Cerri-Mar del Plata project** that implies the construction of a thermoelectric plant that will help meet the country´s growing demand for electricity.

Therefore, total projects in the railway system involve more than US$12 billion and represent the most ambitious revamping of the national railway system that Argentina has undertaken in the last 50 years.

Finally, there have been significant efforts to improve the **airport infrastructure** with a relevant participation of the private sector. Nowadays, there are more than 33 commercial airports in the country successfully operated by private administrators under the regulation of the national government. With more than 20 million passengers in 2013, the demand for air transport has closed a decade of continuous growth, after rising by more than 80% between 2003 and 2013. According to the latest five-year forecast, the average annual growth should be around 5%.

The constant growth of the demand for air transport has generated the continuous development of this sector, with a direct impact on the more than 40,000 jobs that are contracted through the more than 2,400 companies that develop commercial aeronautical and non-aeronautical activities in the Argentine airport system. The majority of the investments are allocated to passenger terminals, installation of sleeves, construction of control towers, repair of tracks, signposting and electrical jobs. In 2013 they involved AR$600 million (US$73 million) and they are projected to reach AR$1.8 billion (US$222 million) in 2014.

In the area of **telecommunications**, the investment plan for 2014-2017 involves AR$14.2 billion (US$1.7 billion, 0.4% of GDP) in four main areas of the communication strategy: REFEFO (Optical Fiber Federal Network), Satellites, Digital TV and Datacenter stations. Considering the 2007-2017 period, the invested amount rises to more than AR$25 billion (US$3 billion), where 47% correspond to the REFEFO, 25% to Digital TV, 22 % to Satellites and 6% to Datacenter and others. In this regard, on October 16 Argentina launched its first, domestically designed geostationary satellite (Arsat-1), which will make it possible to reduce telecommunication costs and increase the coverage to service areas of the country where adequate communication links (including digital tv) were lacking.

On another area, the **Investment Plan for Science and Technology** contemplates the construction of laboratories which aim to strengthen the infrastructure of the national scientific and technological system and foster technological activities that lead to development, innovation and technology transfer. This plan envisages the construction of more than 60 laboratories in the whole country, 35 of which have already been inaugurated, representing a total surface of 49,381 square meters. Nowadays, there are 17 buildings in execution and 11 are projected for the upcoming future, covering a surface of 80,400 square meters. All these projects represent an investment of AR$614 million (US$75 million).

On the financing front, Argentina has been implementing measures to develop alternative means to **finance investment**, given the still modest level of development of domestic capital markets and the scarcity of traditional private funding for many priority sectors, as well as the existence of the usual bias toward consumption loans by the financial sector.

The Central Bank will implement these additional policies to spur investment by SMEs and less developed regions, with the aim of increasing funding for business investment and infrastructure projects.

The significance of these alternative mechanisms to traditional intermediation is planned to increase in the future. This involves two key credit programs: a) The **Credit Line for Productive Investment** (Línea de Créditos para la Inversión Productiva) of the Central Bank, which requires financial institutions to allocate a percentage of their deposits to finance capital expenditures by SMEs, with a tenor of at least three years and a cap on interest rates at 19.5%. Relatively large banks must allocate at least an amount equal to 5.5% of total private sector deposits to this line. The Central Bank is planning an allocation of AR$ 51.8 billion (the programme represents 1.8% of GDP) to the productive sector during 2014; b) the renewal of the **Bicentennial Productive Financing Program**, which provides loans to the private sector for investment projects that have a positive impact on job creation, increased production or import substitution through commercial banks at subsidized rates (funded by BCRA financing), of which around two thirds have been channelled to the industrial sector. The amount allocated reached AR$8.1 billion (0.2% of GDP).

In line with the aim of supporting productive investment projects, the **Law for the Insurance Sector** has been changed, and requires companies to allocate a percentage of their investment portfolio in production or infrastructure projects with a medium- to long-term maturity, with the objective of stimulating those productive sectors and providing greater stability to the investment portfolio of the insurance sector. Moreover, the **Pension System Law** requires the public pension fund to invest between 8% and 30% of its portfolio in production or infrastructure projects.

In addition, the **National Bank of Argentina (BNA)** and the **Investment and Foreign Trade Bank (BICE)**, both public banks, have an important role in the provision of funding to the private sector, especially SMEs. In this regard, the BNA has awarded 75% of the Bicentennial Productive Financing Program mentioned above. The BICE, which provides medium- and long-term loans for production investment and foreign trade, has channeled more than half of its loans to less developed regions, where traditional funding is limited and difficulties faced by business sector are higher than in the more advanced regions. These banks will continue in the next years focusing its financing to sectors with limited access to credit by private banks or capital markets.

In addition, the **PRO.CRE.AR Program** aims to increase access to housing finance by means of mortgage loans at subsidized rates, and has flexible eligibility criteria. The program not only attempts to reduce the housing gap, but naturally also creates employment and boosts demand in the construction sector, with an estimated impact on GDP and employment of 2 pp and 104,000 jobs in the period 2013-2015, respectively. The program was launched in 2012 but at the end of 2013 two new types of credit lines had been added to accelerate the impact on growth. This led to the undertaking of 72 new urban development projects, which will imply a commitment of AR$2.3 billion (US$300 million).

With a short-term countercyclical aim, the **PRO.CRE.Auto Program** has the objective of facilitating access to financing for the purchase of new and domestically-produced vehicles, by means of flexible credits from the National Bank of Argentina. This program aims to raise the production of vehicles up to 700,000 units, thus contributing to strengthening the sector and preventing the loss of jobs.

Finally, the **Fund for Argentine Economic Development (FONDEAR)** is a fiduciary fund recently created and with an estimated allocation of $10 billion (0.3% of GDP), whose objective is to expand the supply of credit channelled to strategic and technological projects and to the regional economies by different mechanisms, including loans, capital contributions, lower interest rates and non-refundable contributions.

Employment and Social Protection

I. Employment

Since 2003, labour institutions have been strengthened through a broad set of measures: (i) a new legal framework for both collective and individual labour rights; (ii) reinstitution of workplace inspections, (iii) promotion of collective bargaining and increases in the minimum wage; (iv) recovery of the Ministry of Labor's capacity to mediate in labour conflicts; v) reinforcement of commitments to improve training and education; and vi) improved matching between the supply and demand of labor through public employment services at the local level.

The performance of the past decade shows differences in the relationship between informality, overall economic performance and the domestic and the global policy context. This period can be divided in stages: before the international crisis, a stage characterized by a high rate of job creation, together with the predominant creation of formal jobs, especially between 2006 and 2008, when the rate of non-registered employees fell 7 percentage points. In 2009, the international crisis led to a slowdown in the rate of job creation, as a result of the impact of the collapse in international trade and finance on the domestic economy. After the crisis, between 2010 and 2011, a recovery stage started, characterized by a higher creation of formal jobs as compared to informal ones or others kind of employments. However, since 2012, and as a consequence of a slowdown in economic activity, both job creation and formalization decelerated, posing situation which requires for the implementation of a new set of policies.

The measures that are currently being implemented deal simultaneously, and in a coordinated way (within the framework of the "umbrella" Proemplear strategy), with the different challenges on the labor front: they include the Progresar Program, aimed at including most (low-income) youths in the social protection system, which was launched at the beginning of 2014; the regime for microfirms and that for the promotion of hiring by companies, which are in the implementation phase; the Repro Program, which aims to protect jobs in firms that are facing economic difficulties, and has recently been modified; and the policies that provide or support training or facilitate entrance to the job market, as well as the agreements of shared trade-union responsibility (both these policies are being modified). Those measures can be classified by their objective, as follow.

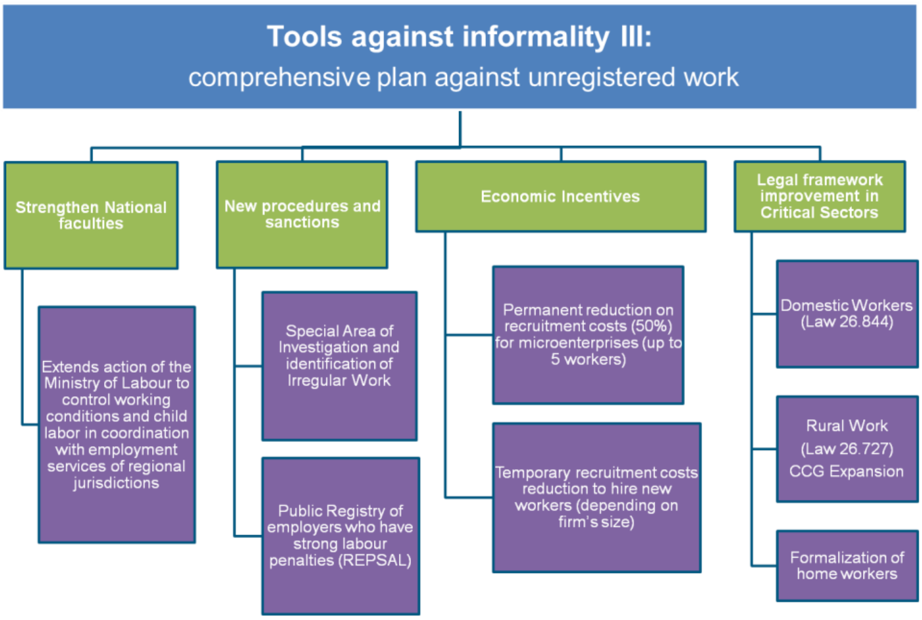
1. Employment creation and reducing informality

Reducing informality is an important challenge for Argentina because informality implies there is a lack of labor protection and workers' rights, which is associated with lower productivity and competitiveness across the whole economy, lower fiscal resources and unfair competition, which is detrimental to formal employment. The recently presented bill (**Law 26,940**) is the centrepiece of the strategy to fight informality, has as its main objective to significantly expand incentives in order to increase employment formalization by a combination of benefits for compliance and sanctions for those not complying with the law.

This comprehensive plan also extends actions of the Ministry of Labour, Employment and Social Security to control working conditions and child labor at the national level, in coordination with the employment services of the local jurisdictions. Among the new important systems and procedures is the creation of a special unit of Investigation and identification of Irregular Work inside the Ministry of Labour, and a public Registry of Employers with unregistered employees, child labor or a trafficking situation. Sanctioned employers remain in the Registry for a period of time during which they cannot access any benefits provided by public policy in the areas of financing, tax benefits and subsidies.

In order to improve economic incentives, these policies award a permanent 50% reduction in the rate of employer contributions on all workers of firms employing up to five workers, provided they do not exceed a certain annual turnover, and establishes a temporary reduction in employer contributions for the hiring of new workers that generate a net increase in total staff. The reduction in the tax rate varies according to company size: for employers of up to 15 employees, a 100% reduction in the first year and 75% in the second; for companies from 16 to 80 workers, it establishes a reduction of 50% for 24 months, and for companies with a payroll exceeding 80 employees, a reduction of 25% for 2 years.

With respect to the improvements in the legal labor frameworks in critical sectors, a **new system for rural work** (Law 26,727) was established to guarantee labor rights and social protection for workers in this sector. This law had not been updated since 1944. Moreover, the Law 26,844 put the rights of rural sector workers on the same level as those of workers in the other sectors of the economy. The same view led to a change in the regulation of domestic work, which aims to improve working conditions (decent jobs) in an activity that typically suffers from high rates of informality.



2. **Professional training for the youth**

In addition, as part of the efforts to reduce income inequality, promote social inclusion and improve the entrance of young people into the labor market, the Government recently launched the ***"Support Program for Argentine Students"***[1] (Progresar in spanish), aimed at including all young people in the social protection system. The program encourages beneficiaries (young people who do not work or work informally or who have a salary lower than the minimum wage) to complete their studies and/or their professional training, thus increasing their chances of productively joining the labor force.

This program, which requires the coordination of activities among different areas of the public sector, was launched in January 2014. Recent changes allow youths to work under internship schemes for six months, which provide a AR$2,000 payment. If the company eventually hires the youth after this period, the state commits to covering AR$2,700 of the wage costs for up to twelve months, depending on the scale of the hiring firm.

There are currently almost 450,000 young people enrolled. In particular, the professional training courses provided under the program, which is the responsibility of the Ministry of Labor, already benefit 130,000 young people.

3. **Sustain the social dialogue through collective bargaining and minimum wage policies**

In recent years, **collective bargaining** has been fully maintained even in periods of declining economic activity due to the impact of the global crisis. In this line, the government will continue to have as important objectives to increase the share of labor income in national income and to keep determining pay raises in a tripartite setting. Nowadays, this policy covers 85% of formal private employment, a high rate that is expected to be maintained.

4. **Preserving employment**

The **Repro Program** has been strengthened to maximize its impact in the short term, given the need to support employment in those firms that are facing a situation where, otherwise, they would tend to reduce their payroll. The main changes consist of: improvements in the diffusion of the program and technical advice, with a focus on SMEs; lengthening of the period during which the firms can receive the benefits; increase in the fixed annual amount given to the workers in the firms that have joined the program from AR$1,500 to AR$2,000; faster assessment of the application form and speedier approval process, so that the program has a faster response to employment needs.

II. Social Protection

Regarding social protection, the coverage of older workers has been broadened since 2006 to include over 94% of the age group, thus establishing a social protection floor. Moreover, as from 2009 there are two automatic increases in pensions per year, in order to sustain the

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[1] Program for youth aged between 18 to 24 to begin or complete their studies at any educational level, and who are not working, or have informal jobs, or salaries lower than the minimum wage and their families are in the same situation . The program provides professional training, counseling and job placement through the Ministry of Labor, Employment and Social Security.

real incomes of this population group. The future policy commitment consists of maintaining these benefits.

Regarding measures that are going to be put into effect in the near future, Argentina has recently approved the bill for the **second stage of the Retirement Inclusion Plan**. This initiative establishes a pension for all the citizens who have reached the retirement age but have not made the necessary pension contributions. Thus, 473,814 new citizens will be added to the pension system, which already benefits six million members, and aims to reach the 100% level of coverage. Moreover, to guarantee fiscal sustainability, the value of the contributions will be regularly updated.

Once the bill is completely approved, Argentina will have an important tool to achieve the goal of universal coverage. In this sense, the priority will be the most vulnerable sectors of society, taking into account the taxable capacity of the potential beneficiaries. This initiative goes in line with the reduction in income inequality, as well as in gender inequality, given that 73% of pensions in the previous moratorium were awarded to women.

This policy adds to the existing income measures, where the **Universal Child Allowance** (in Spanish AUH) stands out. The recent 40% increase will benefit 3.4 million children and will have a positive impact on income distribution.

Competition

Argentina considers that improving the competition can establish a valuable source of growth for the economy. In this sense, one of the main priorities of our country is to establish the appropriate regulatory framework that allows competition in predictable and clear conditions, in line with the objective of sustainable and inclusive growth.

In this sense, and to face the new challenges in this area, the government is launching by public tender the **adjudication of the bands of frequency of all communication services**. The objective of the measure is to expand the supply of bands of frequency, thus allowing the increase of mobile telephone operators in quality, quantity and diversity. Related to the expected impact on one hand, is to generate the entrance of new competitors, assuring competition in the market, and, on the other, to improve the quality of the existing services.

This new regulatory framework promotes the national competition, and given that the implementation considers a unique zone for the whole territory, a fair competition would be assured at a national level for all companies participating in the sector.

Moreover, the measure establishes that companies that already possess installed infrastructure in the sector must allow the utilization of this infrastructure by future successful bidders companies, diminishing entry barriers.

Another relevant policy to foster competition is the law 26,552 "**Audiovisual Communication Media Law**", which aims to increase the degree of competition in this sector, by preventing any economic group from having an excessive share of the total market, as used to be the case in Argentina (the main group had reached a 41% share). Moreover, the law is intended to foster the diversification of communication firms, and reserves a special role for the non-for-profit sector. Significantly licenses will be allocated by public tender and participation is limited of 35%.

In particular, the Law limits the total quantity of licenses by provider (24) and forbid to a same license holder to own audiovisual communication services in a number and combination different than the one expressed by the Law. This foster competition by setting a maximum level of firm size that is the same for all. On the other hand, the law fosters the vertical disintegration by preventing firms that have ownership of radio licenses to have licenses of free-to-air television (FTA) and vice versa.

Trade

Argentina considers that the most decisive and useful contribution that a country can make to boosting global trade is to strengthen its own growth process, its industrial sector, its domestic market and its employment levels. This, in turn, will result in an increase in its production scale and purchasing power, therefore raising exports and imports in a sustainable manner.

In this context, it is worth noting that the Argentine economy has experienced remarkable growth. The country´s GDP expanded at an average annual rate of 5.5% over the last decade. Over this period, for each percentage point of increase in its GDP, Argentine exports grew by 2.8% and its imports grew by 4.2%. It is important to point out that as a country with intermediate levels of industrialization, Argentina demands not only final goods from the rest of the world, but also intermediate and capital goods necessary for domestic production.

Concerning trade flows, Argentina has significantly contributed with the G20 pledge to increase trade and aggregate demand as a means to sustain the global economic recovery since 2008. Indeed, while global imports grew in the period 2008-2012 at an average rate of 2.6%, Argentina's import growth reached an annual average of 5% during that period, and rose from 57.4 billion dollars in 2008 to US$73.6 billion in 2013. It is worth highlighting the increase in the industrial manufactures component of imports, which grew at an annual average of 4% during the period 2008-2013, reaching that year a participation of 80% in total imports. And Argentina's exports also increased during the period, but at a lesser pace, from US$70 billion in 2008 to US$81 billion in 2013.

At national level, Argentina has been undertaking in the past years a range of actions aimed at strengthening its production matrix, enhance competitiveness, diversify its export pattern, add greater value and technology to the production process, and promote a dynamic insertion in global trade flows.

Argentina is also undertaking a varied range of programs in areas which offer a synergy potential to expand trade opportunities, for instance national initiatives to foster technological innovation, training programs for improving SMEs' exporting capacities, and programs to deepen the linkages between national universities and firms, among others. To complement these efforts, Argentina is also further extending its financing programs for development and technological innovation to raise SMEs' productivity and competitiveness, and also its programs to support technological transfer.

Within this vision, two ambitious programs that have been launched recently are:

- "**Program for Export's Growth and Diversification**" (PADEx, by its Spanish acronym): The overall goal of the program is to improve the quality and quantity of Argentine exports, strengthening Argentina´s integration to global trade. PADEx is aimed at promoting traditional exports, contributing to raise regional economies' export potential, increasing the number of exporting companies and diversifying exports in terms of products and their destinations. The program has identified a variety of priority products that will be subject to specific trade promotion actions. Implementation of PADEx in 2014, includes the participation of local companies in 252 international fairs; 70 sector-specific and multi-sector trade promotion missions; and 22 reverse trade missions of potential importers to Argentina.

- "**Country Value Plan**": Based on a broad agreement between the public sector and the representatives of the main value chains within the Argentine economy, the goal of this program is to increase production levels, value added, employment and exports over the 2014-2015 period. To this end, the program has developed specific tools for financing productive investments and special incentives for companies to hire workers that are being incorporated into the formal labor market. This program will also result in an increase in imports of raw materials, intermediate and capital goods that will be demanded by the different sectors of the economy to sustain growth.

Argentina also applies measures to facilitate trade through improved management of customs risk and customs cooperation with trading partners. In this sense, there are two important programs that are being implemented and constantly adapting to new circumstances:

- ***Customs Records Information Exchange*** **(INDIRA)**: It is a computerized system implemented among the member states of MERCOSUR. The Customs Administrations exchange international information through an online data base. This tool improves the analysis of risks and the controls along the international supply chain, thus creating an efficient control/facilitation equation.
- **Customs System of Reliable Operators (SAOC).** This program allows foreign trade operators to streamline their operations, optimize costs and work with Customs to fulfill their mission in the field of security, as established by the WCO (World Customs Organization) in the *Framework of Standards to Secure and Facilitate Global Trade* (SAFE Framework). Also, another goal of the program is the signature of Mutual Recognition Agreements (MRAs) of authorized economic operators with other customs administrations. This program is being strengthened in order to increase the amount of certified companies and negotiations to achieve underwriting future MRAs. Also, Argentina, Brazil and Uruguay are preparing a pilot MRA of Terrestrial Transit Project.

Within this context, Argentina aims at enhancing its insertion in global trade, including through active participation in both multilateral and regional organizations and fora, as well as in regional trade agreements.

As regards the multilateral trade system, Argentina has made a wide and deep contribution to services trade liberalization and to market openness in the Uruguay Round, despite reaching only modest progress in agricultural market access.

Besides, Argentina continues promoting enhanced transparency of the multilateral trade system, including through the notification mechanisms of WTO, its active participation in trade policy review and dispute settlement mechanisms, which constitute fundamental pillars to strengthen predictability in the multilateral trade system.

Also, Argentina has continued making progress in enhancing regional trade and trade among developing countries, which remain the engines of economic growth.

Foremost, Argentina is part of Mercosur, and is actively involved in the efforts to deepen the integration process and to achieve the objective of establishing a common market, as depicted by the Asunción Treaty. To further expand regional trade, Mercosur has promoted the integration of new countries; such is the case of Venezuela, who joined in 2012, and the ongoing process to complete Bolivia's full participation.

Some additional initiatives to increase economic cooperation and expand trade flows, especially among developing countries, include the following:

Regional trade agreements and other mechanisms negotiated or under negotiation by Mercosur:

- Free trade agreements (Israel, Egypt, Palestine)
- Agreements of fixed preferences: India, SACU.
- Frame agreements: Morocco, Jordan, Pakistan, GCC, Turkey, Syria.
- Dialogue mechanisms: Singapore, Korea, EFTA, Australia, New Zealand, Japan, China, ASEAN.
- Free trade agreements with ALADI members: Chile, Bolivia, Colombia, Ecuador, Cuba, Perú.
- Strategic association agreements: Guyana, Suriname.
- Economic complementation agreements: Cuba, Mexico.
- Ongoing negotiations: EU.
- Furthermore, Argentina continues to strive for trade liberalization within ALADI.
- Argentina's aid for trade initiatives targeted at LDCs include, among others, its participation in technical cooperation programs in Africa, supported by the African Development Bank and the World Bank.
- "GSTP" (Global System of Trade Preferences among Developing Countries), conceived as a framework for the exchange of trade preferences among developing countries members of the G77+China. At present 43 countries, including Argentina, are part of the agreement. Its Third Round of negotiations was concluded in 2010 at the margins of the Mercosur Summit in Foz de Iguazu and included an agreement of a linear cut of 20% in a universe of 70% of tariff lines, expanding trade diversification opportunities among developing countries, which at present are the main drivers of global trade.

Other measures

Financial regulation: As Argentina went through several episodes of financial stress in the past, which had long-persistent detrimental consequences, guaranteeing financial stability is of the utmost importance in itself, but also because of its impact on investment productivity and growth. In this context, Argentina is committed to completing the adoption of the three Pillars in Basel II and the new elements in Basel III. In particular, the Central Bank has made special efforts regarding the following issues:

- Announcing the higher capital requirement for D-SIBs during 2014, which will be introduced gradually between January 2016 and 2019
- Concerning the Liquidity Coverage Ratio (LCR), a supervisory reporting requirement was published in November 2013. The LCR will be adopted in January 2015.
- A reporting requirement for monitoring the Leverage Ratio (LR) will be published during 2014. As from January 2015 supervised financial entities will be required to publish their Leverage Ratio (LR). The LR will take effect as from January 2018, as established by the BCBS.

Moreover, we will continue to introduce regulatory changes to increase competition in the banking sector, and strengthen transparency and consumer protection, within a strategy that has, as one of its main objectives, to increase lending to the private sector and achieve a higher degree of financial depth in the economy.

ANNEX: NEW POLICY COMMITMENTS

Investment and Infrastructure

Vaca Muerta	YPF strategic plans to increase the Production of oil, gas and refined fuels
Implementation path and expected date of implementation	According to the latest 2013 EIA (U.S. Energy information Administration) report, the obtained results permitted to confirm that Vaca Muerta has an enormous potential to obtain gas (802 TCF) and that it counts with very important oil resources that can reach the amount of 27 billion barrels, making it one of the largest such basins in the world and the most promising anywhere outside of North America. This implies the multiplication by tenfold of the current reserves of Argentina. In 2013, the first cluster of shale oil development was launched in Loma Campana, in association with the company Chevron, as well as the first pilot program of shale gas in El Orejano block in Vaca Muerta, in association with the company Dow Chemical. On the other hand, the potential of Vaca Muerta continues to be evaluated in the Neuquén Basin. Investment of the pilot project of Loma Campana will reach U$S 1.5 Billion. It's estimated that once the pilot project is finalized, YPF and Chevron will continue with their investments, compromising investment in equal amounts. Investments in El Orejano reach U$S 188 million, from which the private sector will contribute with approximately two thirds. Moreover, the development of non conventional resources in the Vaca Muerta formation will demand significant capital resources. As the company progresses in the learning curve, economies of scale and productivity of wells will increase. It is estimated that for 2017, 100,000 bpd will be produced and 13 million of m3/d of gas coming from shale gas formations, which represents an increase of production of oil and gas of around 40%. Moreover, In late August this year, Malaysia's Petronas signed a Term Sheet with YPF to develop a shale oil pilot project in the 187-square kilometer La Amarga Chica block in Neuquén province, with a joint investment of up to US$550 million. Initially, during the pilot stage – expected to commence in the first quarter of 2015 – more than 30 horizontal and vertical wells will be drilled, and based on the results, it is estimated that the project, once in factory mode, will require an investment of over US$1 billion in the first five years. For YPF, this move represents its first collaboration with a national oil company in shale exploration.
What indicator(s) will be used to measure progress?	This project will not only have a direct impact on the production of oil, gas and refined fuels and explored wells, but it will also impact directly on job creation and boost investment in related projects.
Explanation of additionality (where relevant)	N/A

President Nestor Kirchner and Jorge Cepernic Dams	**This project consists of the construction of two dams for the hydroelectric use of river Santa Cruz. The main objective of this project is the generation of electric power with a 1740 Mw of installed power and an annual generation of 5000 Gwh per year.**
Implementation path and expected date of implementation	The investment will amount to nearly US$ 4.7 billion, in collaboration with the private sector. These projects will improve the energy matrix of our country and when it starts operating will generate an annual saving of more than US$1,000 million in fuel imports. The project will be finalized in five years and it is expected to generate 5,000 new jobs.
What indicator(s) will be used to measure progress?	Once finished the dams will generate electric power for the National electric System
Explanation of additionality (where relevant)	N/A

Revamping of the national railway system	The government has undertaken the most ambitious revamping of the national railway system in 50 years. Total projects in the railway system involve more than US$12 billion.
Implementation path and expected date of implementation	*Purchase of train cars and engines.* The investments involve the purchase of 76 train engines, and 1,166 train cars, and involve a total amount of US$1.5 billion. • Purchase of 24 train engines and 160 train cars for the San Martin railway. • Purchase of 20 train engines and 220 train cars for the long distance railway services. • Purchase of 225 train cars for the Sarmiento railway system and 180 train cars for the Mitre railway system. • Purchase of 300 train cars for the Roca railway system. • Purchase of 81 train cars for the Belgrano Sur railway system. • Purchase of 32 diesel train engines for the Mitre and Sarmiento railway systems. Depending on each Railway system, the purchases took place in 2013- 2014 and delivery will take between 24 and 30 month. *Belgrano Cargas*: Freight railway. The project consists of the renovation of more than1,000km of track, the purchase of 100 new train engines and 3,500 train cars, and the repair of 2,000 train cars which will imply 3 years of work for local repair shops. The project involves a total amount of around US$2.47 billion, financed by an external private and a local public contribution. The project also involves a second stage that will involve an additional investment of US$0.4 billion. *Revamping of the Buenos Aires - Mar del Plata railway system.* The project implies the recovery and modernization of the railway services of long distance. It involves a total amount of nearly US$1 billion. The implementation path starts in 2014 and will take 24 months. *Revamping of the Buenos Aires – Rosario railway system.* The project implies the recovery and modernization of the railway services of long distance. It involves a total amount of around US$2.5 billion. The implementation path starts in 2014 and will take 30 months. *Revamping of the metropolitan area passenger railway system* It involves a total amount of about US$4.3 billion for the recovery and modernization of the whole metropolitan railway services. Including the renovation of rails and stations, and the electrification of the Urquiza railway system. The implementation path of these projects varies, but on average this revamping projects will take 30 months.
What indicator(s) will be used to measure progress?	Since this is a very ambitious program, it will imply the construction and revamping of Kilometers of rails, impacting directly in the amount of passengers and loading capacity to the benefit of local economies. In this sense, these projects will be measured by these indicators: Kms revamped, number of passengers, local economies reached and expansion of loading capacity.
Explanation of additionality (where relevant)	N/A

Northeast Gas Pipeline	**The construction of the Northeast Gas Pipeline has the objective of expanding the network of natural gas to more than 1.3 million people in the provinces of Salta, Formosa, Chaco, Misiones, Corrientes, Santa Fe and Entre Ríos.**
Implementation path and expected date of implementation	Through an expansion in the 2014 Budget of AR$7.4 Billion (USD 895 Million), the government will finance the construction of Northeast Gas Pipeline (GNEA). The project consists of two stages: The First Stage was awarded on the 4th of August 2014 and will demand an investment of AR$ 4.9 billion (USD596Million). In its Santa Fe province tranche it will pass through 15 locations of this province. It will count of three tranches: the first through the province of Salta will be done by Vertúa S.A. company, the second tranche through Formosa will be in charge of Techint-Panedile and the third tranche trough Santa Fe will be executed by the consortium Helport-CPC-Rovella Carranza and Contreras Hnos. For the Second Stage, AR$ 11.9 Billion (US$ 1.5Billion) will be invested, where 2,242km of gas pipeline will be constructed, crossing through 80 towns and benefitting 1.1 million habitants The complete Project will account for an investment of about AR$ 17 Million and it is expected to generate around 10,000 new jobs, between direct and indirect new hirings. Moreover, it will implicate an extension of 3040 kilometers of gas pipelines and will provide gas to more than 1.3 million people. The core trunk of the Northeast Gas Pipeline will be practically concluded by the end of 2015, leaving only medium and fine distribution networks to be concluded with the support of the national state.
What indicator(s) will be used to measure progress?	The impact will be measured not only by the new jobs generated by the construction process but also by the extension covered in each stage of construction, people reached and municipalities through which the gas pipeline will go through.
Explanation of additionality (where relevant)	N/A

Electric transportation between General Cerri-Mar del Plata	This energy generating project accounts for a plan made by the company AES Argentina and the Government to meet the growing electricity demand of the country, using the latest technology available worldwide.
Implementation path and expected date of implementation	The Guillermo Brown thermoelectric plant is a project with an estimated total cost of investment of US$ 900 Million in an area comprising 150 hectares (located at the 704 kilómeter of route 3) and contemplates also the construction of a bridge in Puerto Galván. This Project counts with two stages. The first one consists of the installation of two turbines with the capacity to generate 600 Mv of energy (MV) and an investment of US$500 Million. Second stage will demand USD 400 Million and allow the addition of another 300 Mv, through the reutilization of steam/vapor generated by the turbines mentioned in the previous stage. This project also foresees complementary investments: The execution of a high voltage energy line of 500 MV, another similar line of 9 kilometers that will link the new thermoelectric plant with the Interconnected National System, and a gas pipeline of 2 kilometers intended to supply the plant from the Gas of the South transporter plant. The energy complex should be operative by April/May 2015.
What indicator(s) will be used to measure progress?	When completed, it is estimated that the power plant Guillermo Brown will feed the National Interconnected System (SIN) with power equivalent to the consumption of 1.8 million homes. The project´s impact will be measured by the amount of people reached and the power generated.
Explanation of additionality (where relevant)	N/A

Electric Transport between Yacyterá-Resistencia	The electric power line is intended to give the system stability, security, and reliability, allowing the enhancement of the electric connection between the NOA (Northwestern electric system) and the NEA (Northeast electric system).
Implementation path and expected date of implementation	The general objective is to satisfy the incremental need for electric transmission forecasted in the Federal Plan of Electric Transport. This project comprises a 270 km interconnection of an extra high tension line of 500 Kv, from Yacyretá dam located in Rincón Santa María (Ituzaingó) to Puerto Bastiani in Resistencia. The project of electric interconnection between Yacyretá and Resistencia implies an investment of USD 354 Million which involves an external funding of USD150 Million to be subscribed between Argentina and the Andean Development Corporation (CAF). For the execution of the Project, five (5) components will be developed: 1. Line of Extra High Tension of five hundred (500) kilovoltios (LEAT) between the Transformation Plant Rincón Santa María and Transformation Plant Resistencia; 2. Paraná river crossing; 3. Expansion of Transformation Plants of Rincón Santa María and of Resistencia; 4. Inspection and Environmental costs and; 5. External audit, financing commission and evaluation expenditures. This project is in execution since June 2014. And it is expected to be executed in 27 months.
What indicator(s) will be used to measure progress?	Since the objective of the program is to give the system stability, security, and reliability on the supply of electric power, the impact will be measured by the enhancement of the electric connection between the NOA and the NEA of the country.
Explanation of additionality (where relevant)	N/A

Atucha II	**Atucha II is a nuclear electric power plant that will provide the National interconnected system with 695 Mw. Atucha II will be the third nuclear power plant of the Argentine electricity system that is completed by Embalse (600MW) and Atucha I (335 MW)**
Implementation path and expected date of implementation	If we compare the power of a plant with the electricity consumed by an argentinean province, we can say that in a year Atucha II can feed the consumption that a province like Tucumán (22,000 km2) will need in a 3 years period, in 5 years for Salta (155,000 km2) and 9 years for Santiago del Estero (136,000 km2). The cornerstone of Atucha II was placed in 1982, and between 1994 and 2006 was paralyzed, until the relaunchment of the Argentine Nuclear Plan promoted by the national government. On May 29, 2014, the Nuclear Regulatory Authority granted Nucleoeléctrica Argentina SA the license to start Atucha II. In this sense, the nuclear plant started loading heavy water with boron neutron absorbing material, in the primary system and the moderator of the plant. In the short run, the boron will be extracted progressively till the point where a controlled nuclear reaction will be produced in the reactor. This important event is technically known as the fisrt criticality of the reactor and it will be the primary source of energy of the central. Once it becomes operational it will be the largest machine in unitary power in the system. Moreover, this nuclear plant will become fully operational by late 2014/2015.
What indicator(s) will be used to measure progress?	Impact of this nuclear power plant will be measured by the generated power that it will feed to the National interconnected system.
Explanation of additionality (where relevant)	N/A

PRO.CRE.AR. (Argentine Credit Program for the Bicentennial)	**The program aims to increase access to housing finance by means of mortgage loans at subsidized rates, and has flexible eligibility criteria. The program not only attempts to reduce the housing gap, but also creates employment and boosts demand in the construction sector**
Implementation path and expected date of implementation	The PROCREAR Program aims to facilitate access to home ownership, and stimulate economic activity and employment generation, by providing financing to the construction sector. It includes direct loans for construction as well as the development of urban projects, and takes advantage of the building sector's multiplier effect on economic activity and employment. The program was created by the Decree Nº902/12 and operates by means of a fiduciary fund, which is financed and managed by different public institutions (ANSES; MECON; AABE, MPFIPyS and the Banco Hipotecario, as the fiduciary). The problem of access to housing in Argentina requires multiple public-sector responses that take into account the heterogeneous housing needs of the population. Consequently, the PROCREAR includes several different credit lines: for construction, enlargement, repair and purchase of a new house. There is also a credit line to buy new houses constructed under the program in fiscal lands (urban developments). In order to facilitate access to loans, the program has flexibilized its requirements regarding the borrower's job and in terms of financial risk. Moreover, it is working with a scheme of tiered subsidized rates according to household income. The Program was launched in July 2012 and the expected implementation plan lasts for 4 years, with a target of around 400,000 loans. By September 2014 the program had started 93,000 projects under the individual-loan modality, which implies a commitment of AR$30 billion (US$3.8 billion). Of those projects, 88,000 are constructions already initiated (AR$28 billion; US$3.5 billion) and, of these, 55,400 are finished houses. Moreover, 72 new urban development projects are under construction in fiscal lands (urban developments modality), which implies a commitment of AR$2.3 billion (US$0.3 billion).
What indicator(s) will be used to measure progress?	Progress will be measured by the quantity of approved loans and the amounts disbursed, the level of employment thus generated, and the number of effectively completed housing projects.
Explanation of additionality (where relevant)	While the program was launched in 2012, the government has plans to continue increasing the number of houses built with these loans in 2014 and 2015. Those are new commitments and therefore will have an impact on growth.

Support Investment for SMEs and infrastructure pojects	Develop alternative means to finance investment, given the underdevelopment of domestic capital and financial markets
Implementation path and expected date of implementation	In order to Spur investment by SMEs and increase financing for business investment and infrastructure projects, the Central Bank has renewed the two key credit programs: a) A credit line for productive Investment provided by the Central Bank, which requires financial institutions to allocate a percentage of their deposits to finance capital expenditures by SMEs, with at least 3 years tenor and a cap on interest rates of 19.5%. Relatively large banks must allocate at least an amount equal to 5.5% of the private sector deposits to this line. This line was established in 2012 but there is a plan to allocate AR$51.8 billion (1.8% of GDP) to the productive sector during 2014. b) The Bicentennial Productive Financing Program, which provides loans to the private sector for investment projects that have a positive impact on job creation, increased production or import substitution through commercial banks at subsidized rates (funded by BCRA financing), of which around two thirds have been channelled to the industrial sector. The amount allocated reached AR $8.1 billion (0.2% of GDP). The program has been renewed this year in order to continue increasing the amount allocated.
What indicator(s) will be used to measure progress?	Every month information about these lines is available in the Monthly Monetary Report of the Central Bank
Explanation of additionality (where relevant)	While these programs were launched in 2011 and 2012, the Central Bank has plans to continue increasing the amount allocated in order to boost private investment and, consequently, the impact on employment and growth.

Employment

Law for the Promotion of Registered Employment and the Prevention of Labor Fraud (Law Nº 26,940)	Reduction in employment costs and improvement in control mechanisms to reduce informality and increase labor demand, with a focus on SMEs
Implementation path and expected date of implementation	The measures include: • Permanent 50% reduction in the rate of employer contributions on all workers of firms employing up to five workers. • Temporary reduction in employer contributions according to company size if the total staff increases in net terms: for employers of up to 15 employees, a 100% reduction in the first year and 75% in the second; for companies from 16 to 80 workers, a reduction of 50% for 24 months, and for companies with a payroll exceeding 80 employees, a reduction of 25% for two years. • The Repro Program, to preserve employment in companies that are facing a situation where, otherwise, they would have to reduce their payroll. There have been changes that have increased the amount of the subsidy, reduced the delay until the first disbursement and extended the period during which firms can obtain benefits. In addition, the program will be significantly front-loaded. • Strengthening of the Ministry of Labor´s rigths to control working conditions through the signing of agreements with the provinces and the exchange of relevant information; • Creation of a Special Unit to investigate and identify cases of irregular work with the joint efforts of the Ministry of Labor, the tax collection agency (AFIP) and the Ministry of Economy and Public Finance. Development of a public digital system to establish a Public Registry of Employers with unregistered employees, child labor or a trafficking situation; • Implementation of joint actions with relevant social actors to guarantee compliance with the new legal framework for critical sectors (rural and domestic workers). These measures will be implemented over the 2014-2015 period, with the exception of the Repro Program, which will record a peak impact in the rest of 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the unemployment rate, which is expected to reach a level below 7% at the end of 2015, and by the reduction in the rate of informality to around 30%.
Explanation of additionality (where relevant)	The new, recently put into effect, policy framework aims to strengthen the mutual coordination between the different (labor) programs. The reduction in employers´ contributions for those firms increasing employment in net terms are new (Law 26.940). The Repro Program was first implemented in 2009. However, its current design is sufficiently different to merit including it again. Moreover, the above-mentioned policies represent a significant tightening in the control of labor informality, and together with sanctions should increase the incentives in favor of formal employment.

Reform of Financial regulation	Completing the adoption of the three Pillars in Basel II and the new elements in Basel III in order to guarantee financial stability
Implementation path and expected date of implementation	The measures aim to continue in the process of fully adopting international regulatory standards, and consist of: • Announcing the higher capital requirement for D-SIBs during 2014, which will be introduced gradually between January 2016 and 2019. • Regarding the Liquidity Coverage Ratio (LCR), a supervisory reporting requirement was published in November 2013, and the LCR will be adopted in January 2015. • Publication during 2014 of a reporting requirement for monitoring the Leverage Ratio (LR). Moreover, as from January 2015 supervised financial entities will be required to publish their Leverage Ratio (LR). The LR will take effect as from January 2018, as established by the BCBS.
What indicator(s) will be used to measure progress?	Effective implementation of the different regulatory requirements and widespread adoption by supervised institutions.
Explanation of additionality (where relevant)	These are new requirements in accordance to the new international regulatory standards.

PROG.ES.AR. (Support Program for Argentine Students)	The program aims to include young people in the social protection system and encourages beneficiaries (young people who do not work or work informally or who have a salary lower than the minimum wage) to complete their studies and/or their professional training, thus increasing their chances of productively joining the labor force.
Implementation path and expected date of implementation	The program aims to create new opportunities for social and labor inclusion for vulnerable youth through integrated actions of professional training, counseling and job placement, as part of the government's efforts to reduce income inequality and promote social inclusion. It is directed to youths aged between 18 to 24 to begin or complete their studies at any educational level, provided they are not working, or have informal jobs, or salaries lower than the minimum wage, and their families are in the same situation . The program constitutes a new right for the youth and was launched in January 2014. It has currently around 450,000 young people between 18 and 24 years of age enrolled, who receive a monthly allowance of AR$600 in exchange for continuing their studies. In particular, the professional training courses provided under the program already benefit 130,000 young people. Recent changes allow youths to work under internship schemes for six months, which provide a AR$2,000 payment. If the company eventually hires the youth after this period, the state commits to covering AR$2,700 of the wage costs for up to twelve months.
What indicator(s) will be used to measure progress?	Progress will be measured by the number of young people enrolled. Moreover, beneficiaries hired under internship schemes will be evaluated.
Explanation of additionality (where relevant)	This is a new measure launched at the beginning of 2014 and recently reinforced, so that it is expected to have a stronger impact on growth and employment.

Social Inclusion

Second stage of the Retirement Inclusion Plan	The initiative establishes a pension for all the citizens who have reached the retirement age but have not made the required pension contributions
Implementation path and expected date of implementation	The initiative has a preliminarily approval by the Senate (the approval of the House of Deputies is pending) and it is expected to be put into effect this year (2014). The objective is to establish a payments plan (moratorium) for those people that have reached or exceed the retirement age but have not accumulated the required contribution years (30) in order to have the right to benefit from a pension. In particular, this Law will extend the legal period (working years) that allows for legal compliance with pending contributions from 1993 to 2003. Moreover, to guarantee fiscal sustainability, the value of the payments under the moratorium will be regularly updated. Also, the priority will be the most vulnerable sectors of society, taking into account the taxable capacity of the potential beneficiaries.
What indicator(s) will be used to measure progress?	Progress will be measured by the coverage level of the pension system. With the bill´s approval, Argentina will have another important legal tool to reach the objective of universal coverage of its population of pensionable age. In particular, 474,000 new citizens will be added to the pension system which already benefits 6 million members (80% of the age group).
Explanation of additionality (where relevant)	This Law is a new measure which intends to strengthen the initiatives aimed at decreasing not only income inequality but also gender inequality, given that 73% of the new pensions in the previous moratorium were awarded to women. In this regard, this Law, together with the measures to support lower-income households, makes it possible to continue improving the distribution of income, which can, in turn, contribute to boosting aggregate demand and achieving a virtuous growth process.

Competition

Audiovisual Communication Media Law. Law 26,552.	The new law 26,552 regulates the Audiovisual Communication Media Sector
Implementation path and expected date of implementation	The law 26,552 (Audiovisual Communication Media Law) aims to increase the degree of competition in the Audiovisual Communication sector, by preventing any economic group from having an excessive share of the total market. The law is intended to foster the diversification of communication firms, and reserves a special role for the not-for-profit sector. Significantly licenses will be allocated by public tender and participation is limited of 35%. This law differentiates between the public sector, the private sector and the not-for-profit private sector. For the private sector it requires any company to be dedicated only to the audiovisual media sector and the partnership cannot participate in a public services firm as a shareholder. The not-for-profit private sector has the exclusive ownership of 33% of the allocation of radio frequencies. In particular, the Law limits the total quantity of licenses by provider (24) and forbids any license holder from owning audiovisual communication services exceeding the number and combination established by the Law. This fosters competition by setting a maximum level of firm size that is the same for all. On the other hand, the law promotes vertical disintegration by preventing firms that have ownership of radio licenses to have licenses of free-to-air television (FTA) and vice versa. Moreover, the licenses will be awarded for 10 years with the possibility of an extension only once in order to foster competition in the media market, where the main economic group used to have 41% share of the total market. The law entered fully into force in October 2013 and media sector firms are currently presenting their plans to adapt to the provisions of the Law.
What indicator(s) will be used to measure progress?	Progress will be measured by the total share of the two main media holdings.
Explanation of additionality (where relevant)	*N/A*

Adjudication of the frequency bands for all communication services.	Public tender of frequency bands for communication services
Implementation path and expected date of implementation	Argentina considers that improving competition can establish a valuable source of growth for the economy. In this sense, one of the main priorities of our country is to establish the appropriate regulatory framework that allows competition under predictable and clear conditions, in line with the objective of sustainable and inclusive growth. To face the new challenges in this area, the governmentt is auctioning the frequency bands for all communication services. The objective of the measure is to expand the supply of frequency bands, thus allowing the increase of mobile telephone operators in quality, quantity and diversity. The expected impact is, first, to generate the entrance of new competitors, assuring competition in the market, and, second, to improve the quality of the existing services. This new regulatory framework promotes competition in the national market, and given that the implementation establishes a single zone for the whole territory, fair competition will be assured at the national level for all the companies participating in the sector. The measure establishes that companies that already possess installed infrastructure in the sector must allow the use of this infrastructure by future successful bidding companies, with the consequent reduction in entry barriers. The public auction will take place between this year and 2015.
What indicator(s) will be used to measure progress?	Progress will be measured by the number of mobile telephone operators
Explanation of additionality (where relevant)	N/A

Trade

PADEx (Program for Export´s Growth and Diversification)	Improving the quality and quantity of Argentine exports, strengthening Argentina´s integration into global trade
Implementation path and expected date of implementation	PADEx is aimed at strengthening the country´s export potential, contributing to developing regional economies, increasing the number of exporting companies and diversifying exports in terms of both their product range and number of foreign markets. For 2014, the aim is to conclude 344 actions. The program is currently programmed to last until the end of 2015.
What indicator(s) will be used to measure progress?	Progress will be measured by the numbers of actions carried out (participations in international fairs, sector-specific and multi-sector trade promotion missions; trade missions of potential importers to Argentina) as well as by the changes in the structure of exports and country´s export profile.
Explanation of additionality (where relevant)	*N/A*

Country Value Plan	Increasing employment, production levels, value added, and exports
Implementation path and expected date of implementation	The goal is to encourage companies to hire workers who are entering the formal labor market for the first time. This program will also result in an increase in imports of raw materials, intermediate and capital goods by different sectors of the economy to as to sustain growth. The program will be implemented in the period 2014-2015.
What indicator(s) will be used to measure progress?	Progress will be measured by specific changes in the evolution of the labor market, the productive matrix and the import/export structure of the different sector of the economy. The follow up will be specific to each sector.
Explanation of additionality (where relevant)	*N/A*

Trade Facilitation (I)	Prevent, investigate and punish illegal customs operations, allow better application of customs legislation, analyze risk on a more effective basis and improve controls along the international supply chain.
Implementation path and expected date of implementation	Implementation of Information Exchange Customs Records System (INDIRA) together with the states of the MERCOSUR. The goal is to strengthen the management of customs risk through the exchange of information. The system is in continuous revision, incorporating new data and consultations at the request of States Parties to MERCOSUR. The MERCOSUR States Parties are currently working on a project to improve the system, reviewing its structure and expanding the universe of possible statements to be consulted, as well as modifying the consultation methods.
What indicator(s) will be used to measure progress?	Progress will be measured through the monitoring and analysis of information obtained from online databases. Each MERCOSUR State Party makes available to other States Parties import and export data (by number of destination, tariff item, identification number of operator, etc.).
Explanation of additionality (where relevant)	*N/A*

Trade Facilitation (II)	Ensure the safety and fluidity of customs operations, providing greater competitiveness to operators and improving the allocation of customs resources.
Implementation path and expected date of implementation	Implementation of Authorized Economic Operator Program (AEO, in Argentina Customs System of Reliable Operators, SAOC) established by the WCO in 2005. The operators benefit from the streamlining of their operations and cost optimization. It is based on the concepts of collaboration and mutual assistance in order to improve the export/import performance and all aspects of international trade operations. Moreover, the program aims at signing Mutual Recognition Agreements (MRAs) of authorized economic operators with other customs administrations. This program is being strengthened in order to increase the amount of certified companies and negotiations to achieve underwriting future MRAs. Besides, Argentina, Brazil and Uruguay are working on a pilot MRA project for road transit (Venezuela and Paraguay participate as observers). This project is in the stage of implementation.
What indicator(s) will be used to measure progress?	Progress will be measured through monitoring and changes in signing Mutual Recognition Agreements with other customs administrations and monitoring of certified firms that result from these agreements.
Explanation of additionality (where relevant)	*N/A*

COMPREHENSIVE GROWTH STRATEGY:

AUSTRALIA

A. ECONOMIC OUTLOOK AND KEY POLICY COMMITMENTS

Economic Objective

The Australian Government has embarked on a comprehensive Economic Action Strategy to raise Australia's economic growth potential, create one million new jobs over the next five years, restore the structural integrity of government finances, and support continued improvements in national living standards. Central to this strategy is transforming the role of government in the economy and providing equality of opportunity for all Australians.

Raising Australia's economic growth potential through the pursuit of market-oriented policies that promote open trade and investment flows will contribute to the achievement of the G20's objectives of strong, sustainable and balanced growth.

Major structural reform measures to boost growth in Australia's growth strategy will include actions on:

- new investment and infrastructure;
- encouraging greater workforce participation;
- reducing regulation and the costs of doing business;
- ensuring the financial system continues to contribute to stability and growth;
- increasing openness and facilitating trade;
- reducing tax and government spending; and
- enhancing competition.

Macroeconomic policy settings will also support growth. Monetary policy accommodation is supporting demand and will help economic growth to strengthen over time. The 2014-15 Budget (released on 13 May 2014) lays out a credible path to surplus over the medium term, while the composition and timing of fiscal measures do not place further pressure on the economy's transition to non-resources drivers of growth in the near term. The Budget also outlined a number of measures that support growth, including redirecting government spending to new sources of growth.

Key Commitments

1. Infrastructure Growth Package (including the Asset Recycling Initiative)

2. Employment Welfare Reforms: Strengthening Participation Incentives and Activation Strategies

3. Cutting Red Tape

4. Contributing to Global Trade Liberalisation (Free Trade Agreements with Korea and Japan)

5. Creating Self-Reliant Industries

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The outlook for the Australian economy is dominated by the opposing effects of a sharp fall in resources investment, a declining terms of trade, and fiscal consolidation at all levels of government, against a recovery in non-resources sectors as they respond to historically low interest rates and a fall in the exchange rate.

In the 2014-15 Budget, the Australian economy was forecast to grow 2½ per cent in 2014-15 before accelerating to 3 per cent in 2015-16. This is below Australia's current potential growth rate of around 3-3¼ per cent. As a consequence, a negative output gap was expected to remain over the forecast period. Unemployment was forecast to rise modestly and inflation was expected to remain subdued.

The 2014-15 Budget projected above-trend real GDP growth in 2016-17 and 2017-18 based on technical assumptions that close the estimated output gap over the medium term. No allowance is made in these years for the growth benefits of the Australian Government's Economic Action Strategy.

	Key Indicators					
	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP (% yoy)	2¾	2½	3	3½	3½	3½
Nominal GDP (% yoy)	4	3	4¾	5	5	5¼
Output Gap (% of GDP)*	-1.1	-1.8	-2.1	-1.7	-1.4	-1.1
Inflation (%)+	3	2¼	2½	2½	2½	2½
Fiscal Balance (% of GDP)**	-2.8	-1.6	-0.7	-0.4	0.1	n.a
Unemployment (%)^	6	6¼	6¼	6	5¾	5½
Savings (% of GDP)	23¾	22½	21¾	21¼	20¾	20½
Investment (% of GDP)	27½	27	26	24¾	24¼	23¾
Current Account Balance (% of GDP)#	-3¼	-4	-3¾	-3½	-3½	-3½

***A positive (negative) gap indicates an economy above (below) its potential.**
****A positive (negative) balance indicates a fiscal surplus (deficit).**
+Through the year to the June quarters of 2013-14, 2014-15 and 2015-16. Figures are year average for 2016-17 and 2017-18.
^Rate for June quarters of 2013-14, 2014-15 and 2015-16. Figures are year average for 2016-17 and 2017-18.
 # May not equal the difference between savings and investment due to rounding.

Key Drivers

The Australian economy is facing a major transformation, moving from growth led by investment in resources projects to broader-based drivers of activity in non-resources sectors. This is occurring at a time when the economy has generally been growing below its trend rate and the unemployment rate has been rising. For incomes to grow and living standards to improve in the future, Australia will have to pursue new growth opportunities.

Over the past decade, investment in the resources sector has more than quadrupled as a share of GDP and its capital stock is now three times larger. However, declining resources investment is expected to detract significantly from growth through to at least 2015-16. As the resources sector continues its transition to the production phase, resources exports (particularly iron ore and LNG) will make up a greater share of real GDP growth. However, rising resources exports are expected to only partially offset the negative impact on growth caused by the transition. As a consequence, activity outside the resources sector will need to increase to fill the gap created by falling resources investment. Recovering global economic growth, low interest rates, a somewhat lower exchange rate and the Government's growth package outlined in the 2014-15 Budget will support this process.

The near-term outlook for the household sector has improved. Leading indicators of dwelling investment are consistent with rising activity, while retail trade and broader household consumption have improved recently, consistent with gains in household wealth. Confidence is also picking up in the business sector, although this is yet to be fully reflected in current levels of activity, with businesses in the non-resources sectors continuing to exercise caution in their investment and hiring decisions.

Macroeconomic Policy Settings

Under Australia's macroeconomic policy framework, monetary policy is usually the primary demand management tool, supported by automatic fiscal stabilisers. The independent Reserve Bank of Australia sets the cash rate and the exchange rate is freely floating. Fiscal policy is set in a medium-term framework that promotes the sustainability of government finances and supports strong and stable economic growth, while building the fiscal space to allow capacity to weather downturns and respond to exceptional circumstances.

Fiscal Policy

Australia's Commonwealth (federal) and State (sub-national) governments are deliberately undertaking fiscal consolidation at a measured pace, restoring the structural integrity of government finances over the medium term without undermining the economy's transition to broader-based growth in the near term. Consistent with this, the stance of fiscal policy in Australia is mildly contractionary, with the consolidated general government sector (federal and sub-national) cash balance forecast to improve from a deficit of 4.5 per cent of GDP in 2013-14 to a deficit of 0.9 per cent of GDP in 2016-17.

The fiscal contraction is largely driven by an expected reduction in the Australian Government's underlying cash deficit from $49.9 billion in 2013-14 (3.1 per cent of GDP) to $2.8 billion in 2017-18 (0.2 per cent of GDP). Australian Government net debt is expected to peak as a share of GDP at 14.6 per cent and gross debt at 25.1 per cent in 2016-17. In structural terms, the budget is expected to be in balance by around 2018-19, with strong structural surpluses projected to build beyond that. These projections are underpinned by announced policy changes (not assumptions) and provide for future tax relief by assuming tax receipts as a share of the economy are capped.

The composition and timing of the new policy decisions in the 2014-15 Budget mean that this additional fiscal consolidation will be achieved without a material impact on economic growth. The Government is significantly increasing investment in new infrastructure which has larger multipliers than payments to households and businesses where the bulk of the fiscal savings will be made. The fiscal consolidation measures are also weighted towards medium-term structural savings that build over time. The Government has ensured this steady pace of fiscal consolidation will continue from 2017-18.

Monetary Policy

Australia's current stance of monetary policy is accommodative, with the policy rate target set at the historically low level of 2.5 per cent. The policy rate target has remained unchanged since

August 2013, with this judged to be the appropriate policy to provide support to the economy while keeping inflation within the target range of 2-3 per cent over the medium term. There are signs that accommodative monetary policy is providing support to domestic activity, with improved indicators for consumption, housing investment and business conditions compared to mid-2013. Continued accommodative monetary policy should provide support to demand and help growth to strengthen over time, with inflation expected to remain consistent with the target. On present indications, the most prudent course is likely to be a period of stability in policy interest rates.

The low interest rate environment has contributed to a strong pick-up in growth in lending for housing, especially among investors, and housing prices have increased significantly over the past year. While this lending does not appear to have been imprudent and does not pose a near-term risk to financial stability, there is a broader macroeconomic risk that a large increase in speculative activity could increase the potential for prices to fall substantially later, with associated effects on household wealth and spending.

Exchange Rate Policy

Despite recent declines, the Australian dollar remains high by historical standards. Australia has a floating exchange rate, which acts as a shock absorber for some of the effects of global shocks on the economy and naturally adjusts in response to economic developments. Since the float of the Australian dollar exchange rate in 1983, intervention by the Reserve Bank has become less frequent as the market has developed, hedging foreign currency risk has become more efficient, and as awareness of the benefits of a floating exchange rate regime has grown. The last time the Reserve Bank intervened was in late 2008. Nonetheless, the Reserve Bank retains discretion to address dislocated markets and gross misalignments of the exchange rate.

Macroprudential Policy

The Council of Financial Regulators, the non-statutory coordinating body for Australia’s four main regulatory agencies, has proven to be an effective means of coordinating responses to potential threats to financial stability. The Australian Prudential Regulation Authority (APRA) is the primary regulator of financial institutions – it supervises a range of institutions including banks, sets prudential standards, and holds a wide range of directive and resolution powers. The RBA is the liquidity provider to the financial system, has regulatory powers in respect of clearing and settlement facilities and the payments system, and incorporates financial stability assessments in its monetary policy decision process. Both agencies have a mandate for macro financial stability, though APRA has the more specific mandate for risk management at the level of the individual institution, complemented by the macroprudential analysis and perspective of the RBA. Australia views macroprudential policy as subsumed within the broader and more comprehensive financial stability policy framework.

Given the rapid increase in house prices, APRA has increased the focus of its supervision on banks’ housing lending. In May 2014, it circulated draft new guidelines on residential mortgage lending, which outlined expectations for banks’ risk management frameworks, serviceability assessments, deposit criteria and residential property valuations. This has been accompanied by APRA intensifying its prudential scrutiny on an institution-by-institution basis. APRA is also discussing with the Reserve Bank, and other Council of Financial Regulators agencies, additional steps that might be taken to reinforce sound lending practices, particularly for lending to investors.

Assessment of Obstacles and Challenges to Growth

There are four key challenges for the Australian economy: reversing the deterioration in our productivity performance and competitiveness; stabilising the budget; managing the transition from resources led to non-resources led growth; and the ageing of our population. In addition, the state of the global economy continues to remain an important challenge to growth — while global growth is strengthening, the recovery remains uneven and fragilities remain. These challenges underline the importance of restoring the sustainability of government finances by repairing the structural integrity of the budget.

While government debt is low by advanced economy standards, it has risen rapidly in recent years and the structural position of the budget has deteriorated. The use of fiscal stimulus to offset the effects of the global recession and weaker revenue (associated with lower income growth) have put pressure on the budget. The Budget deals with the significant real growth in spending inherited from the former Government. The structural savings the Government has put in place reduce real growth in payments between 2016-17 and 2017-18 from 5.9 per cent at MYEFO to 2.6 per cent.

Prior to the 2014-15 Budget, the trajectory was for continued budget deficits and rising government debt. Budget repair remains a priority to arrest this trend. Unless Australia takes corrective action the recent growth in spending and debt will continue, eroding the Government's fiscal buffers, and increasing the economy's vulnerability to global shocks. Action is needed to prepare the budget structurally for the rising expenditure needs associated with an ageing population.

Australia's productivity growth has weakened over the past decade. With Australia's terms of trade declining and population ageing weighing on workforce participation, structural and regulatory reforms are required to increase productivity and competitiveness in the broader economy and to ensure increased living standards. Lifting national productivity depends on the improved performance of individual businesses and work places, which would be assisted by the policy and institutional environment that facilitates growth and rewards innovation. The Government is therefore embarking on a suite of reforms that will close the policy gaps on investment, employment, trade and competition, and lift the productive capacity of the Australian economy.

Investment: Investment in the non-resources sector has been lower than average, despite strong corporate balance sheets. Resources sector investment is expected to slow in the coming years as the resources boom transitions from an investment to a production phase. Investment growth in the non-resources sector will need to help fill the gap. This coincides with a need for increased investment in new and existing infrastructure to enhance Australia's productivity. Infrastructure investment is central to improving living standards and productivity in Australia.

Employment and Labour Force Participation: Australia's unemployment rate was 6.2 per cent in September 2014, around one percentage point higher than estimates of Australia's non-accelerating inflation rate of unemployment. Australia's unemployment rate is forecast to rise to 6¼ per cent by the June quarter of 2015. Employment will remain subdued and wages growth will remain modest. Australia's participation rate has also declined since 2010, limiting the rise in unemployment, and is projected to decline further as the population ages.

The rise in the unemployment rate has been limited by a fall in the participation rate due to structural and cyclical factors including: a 'discouraged worker' effect, especially amongst younger workers; a lower rate of participation among specific demographic groups (which includes younger workers), mature age people, the low-skilled and people with a disability; a lower rate of female participation than peer countries (which is around 12 percentage points below male participation); and demographic factors such as the first of the 'baby-boomer' generation reaching retirement age. The labour force participation rate for people aged 15 years and over in Australia is projected to fall from around 65 per cent at present to less than 61 per cent by 2049–50 due to population ageing. Lifting labour force participation is a high priority for Australia over the medium to long term, to improve labour supply and sustainable economic growth rates.

Trade: Australia is an open, trade-exposed economy, with a transparent trade and investment regime. While Australia's trade is growing (exports grew by 6 per cent in 2012-13), there is room to take additional steps to further focus on trade and investment as drivers of growth. The Government is committed to reduce the costs of trade, investment and business behind the border. This would help businesses to compete, both domestically and internationally in global value chains, encourage investment and boost two-way trade, leading to increased growth and job creation.

Competition and Regulation: After several periods of pro-competition reforms over a number of decades, market-based approaches dominate the Australian economy, from agriculture to utilities. Observed productivity and price changes in key infrastructure sectors in the 1990s—to which national competition and related reforms have directly contributed—are estimated to have permanently increased Australia's GDP by 2.5 per cent. However, in a rapidly evolving domestic and world market there is more to be done to enhance competition – particularly removing ineffective regulations that impede competition and participation in goods and services markets. Appropriate regulation is needed for efficient markets, but excessive red tape can detract from productivity and ultimately lower living standards. Past regulatory programmes have imposed unnecessary red and green tape cost burdens by creating new regulations without removing equivalent costs from the system. Australia's two million small businesses take on a disproportionate share of this burden, in comparison to large businesses that have greater resources to respond to regulatory change. Partly as a result of this, Australian businesses have experienced increasing costs and falling productivity growth, resulting in diminished international competitiveness and higher domestic prices, which discourage firms from doing business in Australia.

C. POLICY RESPONSES TO LIFT GROWTH

Since coming to office in September 2013, the Australian Government has embarked on a comprehensive economic growth strategy focussed on enhancing the conditions for the private sector to drive growth. This is fundamental to creating incentives for a more dynamic and competitive Australian economy. The strategy comprises two inter-related elements designed to restore fiscal sustainability and confidence in the management of public finances and to promote stronger private sector growth and employment.

New Macroeconomic Policy Responses

A New Fiscal Strategy and Budget Repair Strategy

The 2014-15 Budget released in May detailed the Australian Government's medium-term fiscal strategy, which is to achieve budget surpluses, on average, over the course of the economic cycle. The Government's medium-term fiscal strategy is underpinned by three policy elements: redirecting government spending to investments that boost productivity and participation; reducing the Government's share of the economy over time through a reduction in government payments as a share of GDP and paying down debt; and strengthening the Government's balance sheet by improving net financial worth over time. Consistent with this medium-term framework, the Government has also initiated a budget repair strategy that imposes additional disciplines until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low. The budget repair strategy also requires all new spending to be more than offset and all unexpected improvements in receipts and payments to be 'banked' (that is, to be used to directly improve the budget bottom line).

The Government's 2014-15 Budget is expected to reduce the underlying cash deficit from 3.1 per cent of GDP in 2013-14 to 0.2 per cent of GDP in 2017-18 and deliver budget surpluses exceeding 1 per cent of GDP by 2023-24. The projected fiscal consolidation is driven by announced policy measures, not assumptions, and allows for future tax cuts by capping tax revenues as a share of GDP. The average annual pace of fiscal consolidation is 0.6 per cent of GDP over the next four years (abstracting from a one-off grant to bolster the balance sheet of the Reserve Bank of Australia in 2013-14). This strikes the right balance between restoring the structural integrity of the budget and not placing excessive pressure on the economy as we transition to broader-based growth.

Returning the budget to surplus and strengthening the Government's balance sheet will support stronger and more sustainable economic growth in the medium term. By reducing the size of government, fiscal consolidation will help to keep interest rates lower over time, while rebuilding fiscal space and the flexibility to respond to future shocks. Government expenditure is being redirected to more productive uses, including greater infrastructure investment, and the Government has announced measures to encourage greater workforce participation. By getting government finances under control and laying out a credible plan for fiscal repair, the Government is also providing businesses and households with greater certainty to invest in the economy's future.

The Australian Government will **cut the company tax rate** by 1.5 percentage points from 1 July 2015. For large companies, the reduction will offset the cost of the Government's Paid Parental Leave

Scheme (see ‘Employment’). For up to 800,000 small and medium sized businesses it will provide a net boost to profitability.

New Structural Policy Responses

The Australian Government is in the early stages of delivering on a comprehensive structural reform agenda. The 2014-15 Budget contained a number of initiatives for raising Australia’s growth potential through measures that promote increased workforce participation and productivity.

In October 2014, the Government released its *Industry Innovation and Competitiveness Agenda* — an action plan for a stronger and more competitive economy. The Agenda sets out plans for more competitive markets, a more skilled labour force, better economic infrastructure and industry policy that fosters innovation and entrepreneurship. Some of the reforms outlined in the agenda are included in Australia’s comprehensive growth strategy.

The Government has also commissioned a number of major policy processes that seek to raise Australia’s growth potential through reforms to our competition policy frameworks, our financial system, our tax system, workplace relations laws and the relationship between the different layers of government in our federation. These reviews will provide guidance on the direction of future reform.

Investment and Infrastructure

The Government’s reforms are aimed at increasing investment in infrastructure, by both government and private investors. Several policy measures will add to infrastructure investment by: unlocking funds from State-owned assets and prioritising investment in new infrastructure; improving project prioritisation, selection and coordination; and removing ineffective regulation that is unduly hindering project delivery and private participation. These measures directly address Australia’s key challenges associated with the shift to non-resources led growth, expanding the supply capacity of the economy whilst supporting demand. By also encouraging greater private participation, they assist in easing fiscal pressures associated with infrastructure provision.

To boost infrastructure supply, the Government is investing $50 billion (which goes beyond 2019-20) including a new **Infrastructure Growth Package** announced in the 2014-15 Budget. The $11.6 billion Infrastructure Growth Package will be targeted at projects that grow the economy, boost productivity and create jobs. The Australian Government’s infrastructure investment will lead to additional investment from State and Territory governments and the private sector. In total, this will deliver $125 billion of infrastructure investment.

As part of the Infrastructure Growth Package, the Government is implementing an ‘**Asset Recycling Initiative**’, providing $5 billion in incentive payments to State and Territory (sub-national) governments to sell assets and reinvest both the proceeds from selling the assets and the incentive payment from the Government in new economic infrastructure. Incentive payments of 15 per cent of proceeds from the sale will be available for five years through to 30 June 2019, provided proceeds are reinvested in infrastructure. The initiative will increase the overall level of funding for productive infrastructure by unlocking government capital and enhancing private sector investment. The initiative has the potential to catalyse around $33 billion of additional infrastructure investment and contribute to the creation of a strong pipeline of projects.

This funding package builds on the Government’s existing commitment, to fund key infrastructure including road, rail and intermodal projects. When the associated construction projects are completed, they will be adding around 1 percentage point to the level of GDP.

The Government is also further streamlining approval processes for major projects, as well as seeking to achieve better project prioritisation, selection and coordination by providing greater transparency through cost benefit analysis of major projects and **improving the operation of Infrastructure Australia** (the body that assesses major infrastructure projects). Rigorous appraisal processes will help ensure that high-quality projects that create the most benefit will be prioritised.

Employment and Participation

The Australian Government's **employment welfare reforms** will increase labour force participation and improve labour productivity. These reforms are aimed at boosting labour supply, creating more jobs and making the Australian economy more flexible. They will directly address Australia's key challenges by targeting our productivity performance and supporting the workforce adjustment to structural changes occurring in the economy.

Reforms to participation include changes to welfare arrangements to encourage young Australians to either 'learn or earn' (broadly, they should be in study or employment), with jobseekers under 30 years of age required to participate in job search and employment service activities for up to six months before receiving income support. Eligibility for family payments and the disability support pension will be tightened, while incentives to work for those who are able to will be improved. In particular, the Government will tighten the eligibility for family tax benefits, reducing the primary earner income limit from $150,000 to $100,000 per year from July 2015. Payments will also be limited to families whose youngest child is younger than six years old, to increase workforce participation among parents.

Building on the previous government's reforms to increase the Age Pension age to 67, the Age Pension age will be gradually increased to 70 years by 2035, with an expanded wage subsidy scheme to boost employment opportunities for mature age jobseekers. A new **Paid Parental Leave Scheme** will be introduced from 1 July 2015 to support higher levels of participation by women by providing recipients with up to 26 weeks of replacement wage, capped at $50,000 plus superannuation contributions. A strong child care sector is also important to improving employment and participation. Regarding reforms to the childcare system, the Government is developing a response to the Productivity Commission Inquiry into Childcare and Early Childhood Education. The Government introduced the Restart wage subsidy from 1 July 2014 to encourage the employment of older Australians. Mature age job seekers aged 50 or over who have been receiving income support (including the Age Pension) for a minimum of six months are eligible. A subsidy of up to $10,000 over two years can be paid to employers who hire an eligible mature age job seeker on a full-time basis (30 hours or more per week). This is expected to assist 32,000 jobseekers each year. These measures respond to the challenges posed by an ageing population, encouraging greater labour force participation as well as helping to close the gaps in participation between different demographic groups.

To achieve improved labour productivity, the Government has introduced legislation to **improve the operation of Australia's workplace laws**. The Government will re-establish the Australian Building and Construction Commission to boost productivity in the construction industry; introduce reforms to improve bargaining over workplace agreements for new work sites; remove the ability for unions to take industrial action as a 'first resort' option; boost accessibility to individual flexibility arrangements between employees and employers; and improve the accountability and governance of unions and employer bodies.

The Government is also **reforming the higher education system** to expand opportunities for students, support more courses, ensure greater diversity and more skills for our workforce, and make Australia's higher education system more market-based and competitive with elite international universities. The reforms will ensure that the Government's contribution to higher education is better targeted. Currently, Australia's universities struggle to compete globally because they are not able to freely set courses and fees based on student demand. The Higher Education Reform Package will improve the flexibility, competitiveness and responsiveness of the sector by: allowing universities to set their own course fees so that education providers compete for students; providing demand-driven subsidised student places for diplomas, advanced diplomas, associate degrees and bachelor courses at all accredited higher education institutions (universities, TAFEs and private colleges); rebalancing the Government's contribution towards course fees for new students; and removing student loan fees and loan limits. Expanding the demand driven funding system, which is currently limited to bachelor courses at public universities, will see the Government supporting over 80,000 additional students in 2018 at an estimated cost of $820 million over 2014-15 to 2017-18. Strengthening price signals will facilitate greater investment in quality education, but access will still be supported by the retention of income-contingent student loan facilities. These reforms also aim to improve the human capital stock of Australians by improving the quality of tuition.

The Government is **reforming the Vocational Education and Training (VET) sector** to provide Australia with a skilled and flexible workforce which will contribute to maintaining and improving Australia's economic position in the face of increasing global competition. Key reforms already delivered include streamlined governance arrangements; improved industry engagement; the introduction of Trade Support Loans for apprentices; and a $476 million Industry Skills Fund. Further reforms will be implemented cooperatively with state and territory governments, including improving contingent loan support arrangements for VET students. These reforms will ensure that qualifications are streamlined and industry-defined; trade apprenticeships are appropriately valued and utilised as a career pathway; the regulatory system supports a competitive and well-functioning market; consumers are able to make well informed decisions; and government funding is targeted and efficient to improve qualification completion rates and employment outcomes. The Government will also invest $200 million each year as part of the Australian Apprenticeship Support Network to improve apprenticeship completion rates, which are currently around 50 per cent. The Network will commence on 1 July 2015, replacing the existing Australian Apprenticeship Centres system. It will shift apprenticeship services away from administration to outcomes-focused services such as mentoring and job-matching to better support business and apprentices.

Competition

The Australian Government's competition reforms are aimed at achieving competitive and productive markets throughout the economy. After several periods of pro-competition reforms over a number of decades, market-based approaches dominate the Australian economy. However, there is more to be done to promote competition. Much like actions to promote trade and reduce regulation, competition reforms will boost the competitiveness of the economy and the efficient allocation of resources.

In addition, the Government's wider regulation reforms are aimed at boosting productivity by **cutting red tape** for businesses, community organisations and individuals. To achieve this, the Government set a target to reduce the net regulatory burden by $1 billion every year. To date, the Government has repealed more than 10,000 redundant regulations and over 1,800 redundant Acts of Parliament. More importantly, it announced a range of new policy measures and introduced legislation which will result in over $2.1 billion in annual deregulatory savings across a range of areas. These included:

- The development of a one-stop-shop to eliminate duplication between Commonwealth and State and Territory environmental approvals. The proposed changes will provide businesses with access to a much speedier and more cost effective environmental assessment process while maintaining the existing high environmental standards.
- The implementation of the myTax initiative that will facilitate streamlined tax returns for approximately 1.4 million taxpayers. The Government will enable users to automatically pre-populate income and other data already provided to the Government, reducing the amount of information that individuals must separately enter into their tax returns.
- The introduction of legislation to reduce the compliance costs for small businesses, financial advisers, and the broader financial services industry, whilst maintaining the quality of advice for consumers accessing financial advice.

The Government has also removed impediments to investment by repealing the mining and carbon taxes. The repeal of the carbon tax alone is expected to reduce annual compliance costs by $85.3 million. Both these reforms will directly reduce compliance costs and will contribute to a more dynamic economy.

The Government is committed to **creating more self-reliant and competitive industries**. Rather than providing funding for a growing array of assistance programmes through the budget that serve to protect domestic firms, the Government's focus will be on strengthening the overall business environment, so that enterprises, large and small, can create more jobs in Australia. As part of this commitment to self–reliance, the Government is simplifying industry programmes and has given a clear signal to firms that they can no longer rely on government subsidies. Past industry assistance programmes have delivered rapid growth in annual assistance, but have not always been matched by changes in firm practices required to maintain viability and improved productivity. The Government has committed $1.4 billion to make Australian industry more productive and competitive. The focus on developing intangible firm capital will have a longer lasting impact on economic growth through sustained improved performance in the market sector.

This approach to industry policy will be implemented through:

- A $484 million Entrepreneurs' Infrastructure Programme, which will improve the capabilities of small to medium business and streamline the way businesses access industry information and services by reducing red tape and providing quality and consistent services at the lowest possible cost.
- A $155 million Growth Fund, which will create jobs for employees and supply-chain businesses affected by the upcoming closure of Australia's local automotive manufacturing industry. The Growth Fund includes transitional assistance for skills, training, career planning and for accelerating private sector investment in high-value manufacturing sectors and regional areas.
- Establishing, in consultation with industry, Industry Growth Centres to drive growth and job creation, initially for five promising industries at a cost of $188.5 million over four years.
- A Manufacturing Transition Programme to help businesses transition to competitive industries and drive new innovation and opportunities for growth.

The Government has announced that it will increase the international competitiveness of Australian businesses by **improving the taxation arrangements which apply to employee share schemes**. The previous taxation arrangements meant options provided under an employee share scheme were taxed when they were provided to the employee (if there was no risk that the employee would forfeit the options), rather than when they were converted to shares (exercised). This effectively ended the provision of options under an employee share scheme. The Government has announced that it will reverse, for all companies, the previous changes made to the taxing point for options, while retaining the integrity provisions that previously applied. This means that employees who are issued with options under deferred tax schemes will generally be able to defer tax until they exercise their options, rather than having to pay tax when they receive the options. A further concession will be made available to eligible start-ups, which will allow them to issue options or shares to their employees at a small discount and not be subject to upfront taxation, provided the shares or options are held by the employee for at least three years. Options that meet certain conditions will have taxation deferred until sale. Shares (issued at a small discount) will have their discount exempt from tax.

Trade

The Australian Government is focused on reducing the costs of doing business in Australia and providing stability for companies seeking to trade and invest in Australia. Our trade reforms are aimed at lowering the costs of trading across borders, reducing regulation behind the border, and further strengthening Australia's trade ties and investment relationships. Greater trade and investment will support robust, sustainable economic growth, greater competition and spur innovation. Robust growth in trade driven by the private sector will also support growth in jobs.

Behind the border, the Government is taking broad-ranging action to **reduce the regulatory burden** on businesses, domestic and foreign, operating in Australia. These include actions to reduce red and green tape, cut taxes imposed on businesses and increase competition. Trade-related initiatives under the wider regulatory reforms and competitiveness agenda include:

- measures to reduce costs associated with bidding for public private partnerships such as excessive information requirements and ill-suited accreditation and prequalification processes associated with the Federal Safety Commissioner Accreditation Scheme;
- reviewing restrictions on Australia's coastal shipping industry to increase competition and remove regulation adding to the cost of shipping; and
- actions to improve business access to highly skilled workers.

Trade will also benefit from reforms that are being undertaking in other thematic areas:

- Australia's Infrastructure Growth Package referred to in the investment section above includes a number of large projects with a focus on modernising transport infrastructure and intermodal connections. These will enhance access for exporters and importers to international markets by easing the passage of freight. The Perth Freight Link in Western Australia will provide a high standard freight connection that will significantly reduce transport costs for heavy vehicle users, boost freight efficiency and improve access to the Port of Fremantle. Other projects include upgrades to intermodal terminals and freight rail in several states with a focus on increasing freight capacity. Extension of the Hobart International Airport runway will foster air freight exports of high value-added agricultural products to Asian markets.
- In developing the Industry Skills Fund, also referred to in the employment and participation section above, Australia has studied closely the recommendations in the international organisations' reporting to the G20 on global value chains. Specifically, governments need to ensure appropriate skills training is available for firms wishing to enter into and upgrade in global value chains. Under the new Skills Fund, firms willing to co-invest with the Government can apply for funding to train, re-skill or up-skill their existing workforce. This will improve their capacity to diversify into new markets and reposition themselves in response to market-driven structural adjustment.

At the border, Australia will support the enhancement of supply chain efficiency and more seamless trade. Australia will establish a **Trusted Trader Programme** to foster legitimate trade. Under this programme, low-risk frequent traders and industry partners exporting to Australia will benefit from reduced border compliance costs.

Australia is also seeking to reduce unnecessary regulation and cut business costs internationally through trade agreements. Australia is pursuing more open markets and trade liberalisation in bilateral, regional plurilateral and multilateral forums. This includes sector-specific negotiations to reduce tariffs on environmental goods, liberalise services and expand the information technology agreement product list.

Australia is further opening trade as a result of concluding high-quality free trade agreements (FTAs) with Japan (April 2014) and Korea (December 2013) as detailed in Annex 2. Australia will eliminate all tariffs on $28.4 billion of imports from our second and fourth biggest trading partners, with around 85 per cent of the tariffs (accounting for $23.8 billion of imports) receiving duty-free treatment on entry into force. These types of agreements have become the key mechanism for liberalising global trade. They prompt important structural change and provide new opportunities for growth in trade, jobs and prosperity.

- On entry into force of the **Korea-Australia Free Trade Agreement**, 84 per cent of Australia's goods exports (by value) will enter Korea duty free; by full implementation, tariffs on 99.8 per cent of our exports to Korea will be eliminated. Australia will provide duty-free access on 86 per cent of current imports from Korea on entry into force of the Agreement, increasing to 100 per cent in eight years.
- More than 97 per cent of Australia's exports to Japan will receive preferential access or enter duty-free when the **Japan-Australia Economic Partnership Agreement** is fully implemented. Consistent with Australia's other trade agreements, Australia will remove all *ad valorem* tariffs on Japanese goods. Tariffs on 82.7 per cent of Australia's imports from Japan will be eliminated on entry into force of the Agreement, with the remaining tariffs on Australia's products phased out within eight years.

The two agreements also raise the threshold for investment screening into Australia, so that most investments by Korean and Japanese investors valued up to $1,078 million will not be reviewed by the Foreign Investment Review Board. As with Australia's previous FTAs, given that most Australian services measures are applied on a non-discriminatory basis in practice, all of Australia's trading partners will benefit from the binding of higher levels of services liberalisation. These two agreements, together with Australia's existing FTAs, now cover 44 per cent of Australia's total trade.

Australia's move towards accession to the **WTO Agreement on Government Procurement** (GPA), on completion of necessary domestic processes, is a tangible demonstration of Australia's commitment to further strengthening the multilateral trade system and to the principle of non-discrimination. It would further strengthen competitiveness in Australia and the central role of business in contributing to national prosperity. Australia already maintains a strong and modern government procurement framework built on the principle of openness and best value for money for the Australian taxpayer. Accession would deliver new export and investment opportunities for Australian firms, provide access to the $1.7 trillion government procurement market of GPA members and provide greater certainty to GPA member country firms.

To achieve lower trading costs and reduce the regulatory burden for business, Australia will lead by example by **implementing and ratifying the WTO Agreement on Trade Facilitation** as soon as possible. Australia completed an important first step in the ratification process when it tabled the Agreement in the Australian Parliament on 18 June 2014.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

The Australian Government's medium-term fiscal strategy is to achieve budget surpluses, on average, over the course of the economic cycle. The fiscal strategy underlines Australia's commitment to budget discipline and outlines how the Government will set medium-term fiscal policy while allowing for flexibility in response to changing economic conditions.

To deliver budget surpluses building to at least 1 per cent of GDP by 2023-24, the Budget Repair Strategy requires that new spending is more than offset by reduced spending, and positive variations in receipts and payments from favourable economic conditions are banked as improvements to the budget bottom-line.

This budget repair strategy will stay in place until the surplus goal is met, so long as economic growth prospects are sound and unemployment low.

2. Medium-term fiscal strategies:

a. Overall strategy for debt sustainability

The Australian Government's budget repair strategy is designed to deliver budget surpluses building to at least 1 per cent of GDP by 2023-24 consistent with the medium-term fiscal strategy. The strategy sets out that:

- new spending measures will be more than offset by reductions in spending elsewhere within the budget;
- the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive; and,
- a clear path back to surplus is underpinned by decisions that build over time.

The Budget repair strategy will stay in place until a strong surplus is achieved and so long as economic growth prospects are sound and unemployment remains low.

b. Debt-to-GDP ratio objective

The Australian Government's fiscal strategy includes a commitment to reduce the Government's share of the economy over time, including by stabilising and then reducing Commonwealth Government Securities on issue over time. Australian Government net debt is expected to peak as a share of GDP at 14.6 per cent and gross debt at 25.1 per cent in 2016-17, and then begin to decline.

c. Intermediate objectives

The Australian Government will achieve fiscal consolidation through medium-term structural savings to the budget. These savings decisions will help to improve the sustainability and efficiency of Government spending. The largest savings are through changes to welfare payments for young people with full working capacity; changes to the funding of Australia's foreign aid program, reforms to hospital funding and health expenditure; reforms to schools funding to drive efficient delivery of education services; changes to family tax benefits, including tightening of eligibility requirements; changes to the method of indexation of age and disability pensions; and reforms to higher education funding and student contributions.

d. Expenditure and revenue reforms

Expenditure Reforms

The Australian Government is ensuring fiscal discipline by implementing savings measures that strengthen its financial position and underpin fiscal credibility. The 2014-15 Budget has put in place structural savings that reduce the spiralling of payment growth and drives a significantly more sustainable budget position in the medium term. Additionally, the Government has made a commitment that all new spending measures will be more than offset by reductions in spending elsewhere within the budget.

Revenue Reforms

The Australian Government is introducing a Temporary Budget Repair Levy of 2 per cent on individuals' taxable income above $180,000 from 1 July 2014 until 30 June 2017 to help reduce the deficit. This measure will raise an estimated $3.1 billion over the forward estimates period.

The Government is also re-introducing biannual fuel indexation (by the CPI) generating $2.2 billion over the forward estimates for building new and upgrading existing infrastructure.

Additionally, the overall impact of shifts in receipts and payments due to changes in the economy will be banked as an improvement to the budget bottom line, if this impact is positive.

e. Reforms to strengthen the fiscal framework

In 2012 the Australian Government established the independent Parliamentary Budget Office (PBO). The PBO is a specialised office dedicated to providing the Parliament with high quality analysis and advice on Budget related matters. The establishment of a PBO is an important reform designed to enhance the credibility and transparency of Australia's fiscal and budgetary frameworks. It will prepare estimates of the costs of policies and provide information on budget matters to Members of Parliament. It will also prepare submissions to inquiries of Parliamentary committees and conduct research on and analysis of the budget and fiscal policy settings more broadly.

The Government will also be examining further reforms to strengthen the fiscal framework through forthcoming White Papers on The Reform of Federation and Australia's Tax System.

3. Medium-term projections, and change since last submission *(required for all members)*:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt	257.3	320.0	360.0	390.0	430.0	450.0	457.0
Net Debt ($bn)	153.0	197.9	226.4	246.4	261.2	264.2	266.4
Deficit ($bn)	-18.8	-49.9	-29.8	-17.1	-10.6	-2.8	0.6
Primary Balance	-13.4	-34.1	-14.5	0.1	6.6	14.4	n.a
CAPB	n.a	n.a	n.a	n.a	n.a	n.a	n.a

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

4. Economic Assumptions, and change since last submission (required for all *members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth	2.6	2¾	2½	3	3½	3½	3½
Nominal GDP growth	2½	4	3	4¾	5	5	5.3
ST interest rate	n.a	n.a	n.a	n.a	n.a	n.a	n.a
LT interest rate	n.a	n.a	n.a	n.a	n.a	n.a	n.a

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

ANNEX 2: NEW POLICY COMMITMENTS

Macroeconomic Policy Reforms

Cut to Company Taxes The Australian Government will cut the company tax rate.	
Implementation path and expected date of implementation	The Australian Government will cut the company tax rate by 1.5 percentage points from 1 July 2015.
What indicator(s) will be used to measure progress?	The measure will be implemented once the relevant legislation has passed both houses of Parliament.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Investment and Infrastructure

Infrastructure Growth Package The Australian Government is investing around $50 billion in vital road and rail projects (which goes beyond 2019-20) including the new $11.6 billion Infrastructure Growth Package announced in the 2014-15 Budget and its $38.8 billion Infrastructure Investment Programme confirmed in the 2013-14 Mid-Year Economic and Fiscal Outlook (announced in December 2013). These programmes are expected to catalyse an additional $76 billion in infrastructure investment by unlocking State and Territory government balance sheets and private sector funding – for a total of more than $125 billion in additional investment.	
Implementation path and expected date of implementation	Infrastructure projects are implemented in partnership with state, territory and local governments. Construction associated with the Western Sydney Infrastructure Plan is due to commence in 2014-15. The $11.6 billion Infrastructure Growth Package is expected to catalyse an additional $46.3 billion in new infrastructure investment, in particular by unlocking state government balance sheets. This is on top of the $38.8 billion Infrastructure Investment Programme confirmed in the 2013-14 Mid-Year Economic and Fiscal Outlook (announced in December 2013), which will generate $29.7 billion more in infrastructure investment when combined with state and private sector funding. The sum of these initiatives will catalyse additional infrastructure investment in excess of $125 billion. The *Land Transport Infrastructure Amendment Bill 2014* commenced on 10 October 2014.
What indicator(s) will be used to measure progress?	Each infrastructure project will have its own measures of progress including construction and operational timelines.
Explanation of additionality (where relevant)	The $11.6 Infrastructure Growth Package, and the associated $43.6 billion in additional catalysed infrastructure investment from the states and the private sector, is a new measure and builds on the $38.8 billion of existing funding.

Infrastructure Growth Package — Asset Recycling Initiative	
A new $5.0 billion pool of funds that will be used to give Australian State and Territory (sub-national) governments incentive payments to sell their government-owned assets and redirect the proceeds into significant productive infrastructure. This is part of the new $11.6 billion Infrastructure Growth Package.	
Implementation path and expected date of implementation	On 2 May 2014, all Australian governments signed a National Partnership Agreement on Asset Recycling at the Council of Australian Governments meeting. State and Territory governments that wish to participate in the Initiative will now seek to negotiate specific asset recycling deals to put the partnership into effect. These negotiations must be concluded by 30 June 2016. Incentive payments will only be available for five years through to 30 June 2019. The Asset Recycling Initiative has the potential to catalyse around $33.3 billion of new infrastructure investment by unlocking state government balance sheets, for a total of $38.3 billion of additional investment.
What indicator(s) will be used to measure progress?	The Government will measure the amount of additional investment catalysed by the Asset Recycling Initiative, currently estimated at around $33.3 billion.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Reform of Infrastructure Australia	
The Australian Government has introduced legislation to strengthen Infrastructure Australia and make it more effective and independent.	
Implementation path and expected date of implementation	The *Infrastructure Australia Amendment Bill 2013* was passed by the Australian Parliament on 26 June 2014. The legislation provides for the re-establishment of Infrastructure Australia as an entity under the *Commonwealth Authorities and Companies Act 1997* and provides for its functions and powers, as well as transitional arrangements.
What indicator(s) will be used to measure progress?	The measure will be implemented in the second half of 2014. Implementation will be complete once Infrastructure Australia has made the relevant operational changes to comply with the legislation.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Employment

Employment Welfare Reform: Strengthening Participation Incentives and Activation Strategies	
A range of welfare reforms will be made to strengthen work incentives and participation requirements, including: • Stronger participation incentives for jobseekers under 30 years of age, requiring young people to be earning, learning or participating in Work for the Dole. Other changes include a six-month waiting period before receipt of income support and moving young jobseekers under 25 years of age on to Youth Allowance (Other) rather than Newstart. • Changes to the eligibility for family tax benefits. • A phased approach to mandatory Work for the Dole. From 1 July 2014, Work for the Dole has been mandatory in selected areas for job seekers aged between 18 and 30 years. From 1 July 2015, young unemployed people under 30 will be required to participate in mandatory Work for the Dole for 25 hours per week, for six months in every year. • Concessional Trade Support Loans for apprentices, reducing the cost of undertaking an apprenticeship and helping them to focus on completing the trade qualification. • The Restart programme, providing an enhanced wage subsidy to encourage businesses to employ mature age jobseekers who have been on income support for at least six months. This is expected to assist 32,000 jobseekers each year. • A gradual increase in the Age Pension age to 70 years by 1 July 2035. • More targeted transfer payments, with rates or eligibility thresholds for various pensions, family and working age payments to remain at current levels for three years, and pensions (including the Age Pension and the Disability Support Pension) indexed to inflation rather than wages from September 2017. • Changes to work capacity assessments for Disability Support Pension recipients, with a compulsory (labour force) participation plan for recipients aged under 35 years.	
Implementation path and expected date of implementation	Various implementation dates apply. Most of these measures will be implemented from 1 July 2014. Other measures which have later implementation dates may also have behavioural effects in the near term.
What indicator(s) will be used to measure progress?	Relevant indicators include benefit receipt, participation and employment rates for young people, women and the mature aged; and the number of students enrolled in education and training.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Paid Parental Leave Scheme	
A new Paid Parental Leave scheme, which will provide recipients up to 26 weeks replacement wage subject to an income cap of $100,000 per annum, supporting mothers to remain engaged with their employer and lifting female labour force participation.	
Implementation path and expected date of implementation	The expected date of implementation of the Paid Parental Leave scheme is 1 July 2015, subject to Parliamentary approval.
What indicator(s) will be used to measure progress?	Relevant indicators include the progress of legislation through the Parliament; the take-up of the scheme, retention rates and female labour force participation rates. The measure will also improve the incentives for small businesses to employ women of child-bearing age.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Reforms to Improve the Operation of Australia’s Workplace Laws	
A range of improvements to labour market regulations will be implemented over the coming year including re-establishing the Australian Building and Construction Commission to boost productivity in the construction industry; reforms to improve bargaining over workplace agreements for new work sites; removing the ability for unions to take industrial action as a ‘first resort’ option; boosting accessibility to individual flexibility arrangements between employees and employers; and improving the accountability and governance of unions and employer bodies. The Government has also committed to initiate an independent review of the Fair Work laws (Australia’s national workplace law system), which will make recommendations on how the system can be further improved.	
Implementation path and expected date of implementation	The majority of these labour market reforms are currently before the Parliament and are contained in the Fair Work Amendment Bill 2014, the Building and Construction Industry (Improving Productivity) Bill 2013 and the Fair Work (Registered Organisations) Amendment Bill 2014. The reforms will be implemented from 2014-15, subject to Parliamentary approval. The remaining reforms will be implemented in due course. The Government will establish an independent review of the Fair Work laws in 2015, to be conducted by the Productivity Commission. This review will make recommendations on how the system can be further improved to support job creation and economic growth.
What indicator(s) will be used to measure progress?	Relevant indicators include progress of legislation through the Parliament; less industrial disputation, increased productivity and employment; take-up of flexible working arrangements; and progress concerning the independent review of the system of labour market regulation.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Higher Education Reform Package The Australian Government is strengthening the higher education system to make it more market-based and competitive.	
Implementation path and expected date of implementation	From 1 January 2016, universities and other higher education institutions will be able to set their own tuition fees for subsidised student places. Expanding the demand-driven funding system, which is currently limited to bachelor courses at public universities, will see the Government supporting over 80,000 additional students in 2018 at an estimated cost of $820 million over 2014-15 to 2017-18. As part of this package, from 1 January 2016 the Government will provide direct financial grants to all students studying towards diplomas, advanced diplomas, associate degrees and bachelor degrees at accredited institutions; remove the 25 per cent loan fee applied to loans for fee-paying undergraduate courses and the 20 per cent loan fee for vocational education and training; and remove the loan limits for full fee-paying higher education students and vocational education and training students. From 1 June 2016, the Government will change the interest rate for HELP loans to make the HELP scheme more financially sustainable and ensure the Government can continue to enable students to defer the cost of their study until they are earning. The level of income at which graduates will begin to repay their student loan debt will also be reduced from 1 July 2016.
What indicator(s) will be used to measure progress?	The measures will be implemented once the relevant legislation has passed both houses of Parliament. Relevant indicators include progress of legislation through the Parliament; the number of higher education students; and the number of higher education institutions offering subsidised places.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Vocational Education and Training Reform	
The Government is reforming the Vocational Education and Training (VET) sector to provide Australia with a skilled and flexible workforce which will contribute to maintaining and improving Australia's economic position in the face of increasing global competition.	
Implementation path and expected date of implementation	The Australian Government has already introduced key reforms including streamlined governance arrangements, improved industry engagement and Trade Support Loans for apprentices. The $476 million Industry Skills Fund will begin on 1 January 2015. Improved income contingent loan support arrangements for VET students (to begin 1 January 2016), are subject to passage of legislation as part of the Higher Education Reform Package. The Council of Australian Governments' Industry and Skills Council recently agreed to a series of further reforms that will require cooperative implementation. These initiatives will be implemented progressively. The Australian Apprenticeship Support Network will commence on 1 July 2015, replacing the existing Australian Apprenticeship Centres system.
What indicator(s) will be used to measure progress?	Relevant indicators include improved qualification completion rates and employment outcomes for students.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Competition

Cutting Red Tape The Australian Government is reducing red tape by $1 billion every year.	
Implementation path and expected date of implementation	The Government set a target to reduce the net regulatory burden by $1 billion every year. To date, the Government has removed more than 10,000 spent and redundant regulations and over 1,800 redundant Acts of Parliament. Moreover, regulatory reforms across a range of areas have delivered more than $2.1 billion in annual savings. Some of the key reforms include: · The development of a one-stop-shop to eliminate duplication between Commonwealth and State and Territory environmental approvals. The proposed changes will provide businesses with access to a much speedier and a more cost effective environmental assessment process while maintaining the existing high environmental standards. · The implementation of the myTax initiative that will facilitate streamlined tax returns for approximately 1.4 million taxpayers. The Government will enable users to automatically pre-populate income and other data already provided to the Government, reducing the amount of information that individuals must separately enter into their tax returns. · The introduction of legislation to reduce the compliance costs for small businesses, financial advisers, and the broader financial services industry, whilst maintaining the quality of advice for consumers accessing financial advice.
What indicator(s) will be used to measure progress?	The Government will update Parliament on progress against the red tape target in the Autumn and Spring parliamentary sessions each year, and table an annual report to Parliament outlining its achievements.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Creating Self-Reliant Industries The Australian Government has shifted its focus away from providing general industry assistance to firms, which may be non-competitive, to creating more self-reliant and competitive industries. The Government has committed $1.4 billion to make Australian industry more productive and competitive.	
Implementation path and expected date of implementation	The package of measures to create self-reliant industries was announced as part of the 2014-15 Budget. The $484 million Entrepreneurs Infrastructure Programme commenced on 1 July 2014, while the Manufacturing Transition Programme is expected to start later in 2014. The $476 million Industry Skills Fund will commence from 1 January 2015. A $155 million Growth Fund to provide targeted support for workers and regions affected by the wind down of vehicle manufacturing in Australia.
What indicator(s) will be used to measure progress?	Further design and implementation work needs to be completed by the Government. The indicators to measure progress will be developed during this process.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Employee Share Scheme The Australian Government will improve the taxation arrangements for employee share schemes.	
Implementation path and expected date of implementation	The measure was announced on 14 October 2014 as part of the *Industry Innovation and Competitiveness Agenda*. The amendment is estimated to cost around $200 million over four years and will commence on 1 July 2015. It will improve Australia's international competitiveness by providing innovative Australian start-ups and businesses with a way to attract and retain high-quality staff. Further consultation on the details of the changes will be undertaken by the Government.
What indicator(s) will be used to measure progress?	Legislation is required to enact the change. Progress can be measured by the passage of this legislation and the reaction of the business community to the announcement of the measure.
Explanation of additionality (where relevant)	This is an improvement to an existing tax concession.

Trade

Commitment to Further Strengthen Multilateral Trade Institutions and to the Principle of Non-Discrimination Australia will accede to the WTO Agreement on Government Procurement.	
Implementation path and expected date of implementation	Australia will move towards accession to the Agreement on Government Procurement through domestic consultations and other preparations for a negotiating mandate this year. We would expect to commence negotiations at the WTO in 2015.
What indicator(s) will be used to measure progress?	Progress will be measured by Australia's accession to the Agreement on Government Procurement.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Lowering the Cost of Trading Across Borders Australia will implement the Agreement on Trade Facilitation and design a Trusted Trader Programme.	
Implementation path and expected date of implementation	Australia will implement the Agreement on Trade Facilitation as soon as possible, subject to Australian treaty processes. Australian Customs will begin implementation of the Trusted Trader Programme in 2014-15.
What indicator(s) will be used to measure progress?	Progress will be measured by ratification of the Agreement on Trade Facilitation. Progress will be measured by completion of the design and implementation of the Trusted Trader Programme.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Contributing to Global Trade Liberalisation Australia has recently signed two major new free trade agreements.	
Implementation path and expected date of implementation	The Australia-Korea Free Trade Agreement has been signed and is expected to enter into force by the end of 2014. The Australia-Japan Free Trade Agreement has also been signed. It is expected to enter into force in early 2015.
What indicator(s) will be used to measure progress?	For both Free Trade Agreements, progress can be measured by the date of entry into force.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Cutting Red Tape Behind The Border	
Australia will implement a number of trade-related initiatives that have the effect of cutting red tape and reducing barriers to entry for all businesses but especially for small and medium enterprises.	
Implementation path and expected date of implementation	As part of its objective to reduce the regulatory burden on businesses, community organisations and individuals, the Government has announced trade-related initiatives that will have the effect of cutting red tape at and behind the border including: (a) An options paper on approaches to regulating coastal shipping in Australia was released on 8 April 2014. It is anticipated the Government will develop policy proposals towards the end of 2014. (b) Actions to ease the movement of business people across borders and improve access for highly skilled workers were announced in March 2014 and have already been implemented by administrative decision. (c) Legislation for simplifying Australia's intellectual property and system of classification has been introduced to Parliament.
What indicator(s) will be used to measure progress?	The Government will update Parliament on progress against the red tape target in the Autumn and Spring parliamentary sessions, and table an annual report to Parliament outlining its achievements.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

COMPREHENSIVE GROWTH STRATEGY: BRAZIL

OCTOBER 2014

1. ECONOMIC CONDITIONS AND MEDIUM TERM OUTLOOK

1.1. Economic Objective

Brazil´s real GDP grew by an annual average of 4.2% from 2003-2008 before the global financial crisis erupted. After solid 7.5% of growth rebound in 2010, real GDP growth moderated to 2.1% per year, in the last three years. This slowdown was induced by the weak global demand and internal factors, but Brazil is now ready to grow more and better in upcoming years.

The Brazilian economic fundamentals are solid: high international reserves (USD 376 billion or 16.6% of GDP); low external debt (5.0% of the total public debt); manageable current account deficit (-3.7% of GDP) and substantial FDI inflows of 4.4% of overall world FDI flows (USD 65 billion on average in the last three years). The public sector posted a primary balance of 1.9% of GDP in 2013, is estimated to reach 2.5% in 2015 and will be likely balanced in nominal terms by 2021.

The labour market has generated net 20.2 million new jobs from 2003-2013, reducing informality, increasing the number of people in the middle classes. Brazil is close to the full employment level (5.4% unemployment in 2013). This has brought sustained increases in wages and strengthened household´s income and thereby higher private consumption (which was 62.6% of GDP in 2013).

The Policy objective in Brazil is to induce GDP growth. Domestic demand will pick up with strengthened investment in infrastructure in the coming years and the maintenance of low unemployment and household´s income. In fact, the gross fixed capital formation rate grew by robust 5.2% in 2013. In 2014, however, the subdued recovery in the advanced economies and in international trade is bringing down GDP estimates worldwide, and Brazil is no exception. The Government responded to this challenging environment by adopting a set of measures aiming at boosting the economy which, together with the new PPP and concessions infrastructure investments, will bring about strong multipliers and a steady increase in the rate of investment over GDP.

Thus Brazil will lift GDP by around at least 0.4 pp. per year above the current trend trajectory by closing investment gaps and reinforcing its potential growth By means of the strategy of removing bottlenecks in infrastructure and increasing the education and innovation skills of its population Brazil aims to grow by 4% from 2016 to 2019, thus doubling its average trajectory growth of the 2011-2013 time span and thereby lifting the real living standards of its population.

Key Commitments

The Brazilian government is preparing the country for a new investment cycle that will spur growth. Brazil's proposed agenda is based on three basic ingredients: (i) the removal of regulatory obstacles to increase investment, especially in infrastructure; (ii) an articulated set of industrial policy measures for increasing competiveness in order to cope with the effects of subdued recovery in the advanced economies on the international trade; and (iii) concentrated efforts to improve the education and skills of our labor force and the innovation capacity of our enterprises so as to boost the productivity of the economy and lift the growth potential in the long term.

This set of measures has been planned specifically to address Brazil's policy gaps and challenges on the medium term and include:

1. Infrastructure Investment Package. Policy actions in this area aim at reducing the infrastructure gaps and to enhance competitiveness both at home and abroad. In the package, USD 44.47 billion are contracted in the form of concessions and PPPs, of which USD 32.37 billion are already under implementation.

2. Further Access to Technical Education and Employment, through measures aimed at providing vocational training at no cost to the students to 12 million persons until 2018;

3. Put in Place New Regulatory Frameworks to Small and Medium Enterprises (SMEs). The government is committed to reduce red tape costs for opening and operating businesses, improving the SMEs access to capital markets and to export credit;

4. Support to Trade Facilitation. The government is planning to implement a new single window system to integrate all the foreign trade procedures so as to assure greater transparency, reduction of time and costs for exporters and importers, process simplification, optimization of infrastructure and logistics as well as greater involvement of SMEs in foreign trade. In addition, there will be the implementation of a system of consultation of tariff preferences agreements, which includes information on rules of origin, services and margins of preference, and

5. Education and Innovation to Increase the Productivity of the Economy. The government will implement two major programs: i) the National Education Plan (NEP) which sets 20 targets to be met over the next ten years (eradication of illiteracy; increasing the number of places in childcare facilities, in high school, in vocational education and public universities; the availability of 100% of school care for children from 4 to 5 years; and the provision of full-time teaching for at least 25% of students in elementary education). Under the new NEP, the public sector expenditure in education will grow steadily until 2024, reaching the equivalent of 10% of GDP per year - nearly doubling the current level (6.1%); and ii) The National Platforms of Knowledge Program (PNPC), which aims to encourage research and innovation in 23 areas of knowledge for a period of 10 years, with focus on: health (particularly in medications, vaccines, equipment and services), energy, aeronautics, advanced manufacturing, information technology and communications, and development of the Amazon Rainforest.

Additional investments in infrastructure

In addition to the above mentioned investments in infrastructure, Brazil has 43 new projects in the pipeline. These projects cover the following areas: power generation, railways, ports, transmission lines, pipelines and highways. They amount altogether to an estimated investment of USD 50.51 billion (see chart below), and are to be auctioned for the private sector in the coming months. Adding these projects to the Brazilian Growth Strategy should impact growth estimates upwards, beyond the level calculated by the IOs, which was quantified to be 1.8% of additional growth for the Brazilian economy in the next five years above the implied trend at the St. Petersburg Summit.

Brazil: Infrastructure Investments Projects in the Pipeline (*)

Sector	Number of Projects*	Estimated Investment (BRL Billion)	Estimated Investment (USD billion)
Power Generation	8	27,57	12,53
Railways	4	22,62	10,28
Power Transmission (**)	1	14,53	6,60
Ports	21	13,75	6,25
Gas Pipeline	1	0,11	0,05
Highways	8	32,55	14,80
Total	43	111,13	50,51

Source: Ministry of Finance of Brazil (MF/SEAE). Average exchange rate of BRL 2.20 per USD 1.00.

(*) These projects are new and not included in the Growth Strategy version of August / 2014. Therefore they are not computed in the calculation of the impact made by the IOs.

(**) The number of lots is not defined. It is expected to auction 11.298 km of transmission lines and 29 substations.

1.2. Current and Future Growth Prospects

Brazil has robust financial and economic fundamentals which make the country resistant and resilient to external shocks as proved by the 2008 crisis. Brazil has huge international reserves, a strong financial system and low public debt. Brazil's response to the crisis has been (and intends to be) in a classic and robust manner. Thus, Brazil is well positioned for the transition of the global economy back to a post-crisis mode.

As members of G20 agreed to make reforms in order to accelerate economic growth in the next five years, the biggest challenge in Brazil is to improve investment. To fund these investment projects, long term savings must be increased through partnerships with institutional investors, pension funds and so on.

The Brazilian economy is going into a period of moderate consumption together with higher investment keeping the current level of absorption of labour force. Nowadays, Brazil is close to the full employment threshold and the lowest unemployment rate was reported in 2013.

Thus, the main challenge for Brazil in the long term will be to increase labour productivity and the capital stock as the country will not be able to add as many workers to the labour force as it did in the previous decade. However, as the country changes its economic policy direction again and pushes for reforms that improve the working of the economy, productivity growth (and potential GDP growth) could be boosted significantly.

Current and Future Growth Prospects

Describe current growth and projections based on your current policy framework. In particular, are growth projections above or below potential growth and to what extent?

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	2.5	0.9	3.0	4.0	4.0	
Nominal GDP (% yoy) (***)	10.3	7.5	9.2	9.6	9.1	
Output Gap (% of GDP)*	0.1	-1.4	-1.1	0.0	1.0	
Inflation (%, yoy)	5.9	6.2	5.0	4.5	4.5	
Fiscal Primary Balance (% of GDP)**	1.9	1.9	2.5	2.5	2.5	
Unemployment (%)	5.4	5.1	4.9	4.8	4.8	
Savings (% of GDP)	13.8	-	-	-	-	
Investment (% of GDP)	18.2	17.7	18.8	19.4	19.9	

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Current Account Balance (% of GDP)	- 3.6	- 3.7	-	-	-	

***A positive (negative) gap indicates an economy above (below) its potential. **A positive (negative) balance indicates a fiscal surplus (deficit). ** General Government including social security, and excluding state owned companies and Central Bank; compatible with numbers for the Consolidated Public Sector present at PLDO-2015 (Budget Guidelines Law).**

Note - IOs may be asked to provide output gap estimates to ensure consistency across members.

1.3. The Key Drivers

The Brazilian growth strategy followed so far has focused on the expansion of domestic consumption as a way to increase living standards and reduce historically high income inequality. As the middle class has grown and the number of poor Brazilians is shrinking, the Gini coefficient has fallen sharply. The focus now will be to make investment grow more than consumption. With the new regulatory measures put in place in 2013, private consumption grew 2.6% while investment increased by 5.2% in real terms.

With the new PPP and concessions model in infrastructure, Brazil will increase private investments in a sustainable way, build an integrated and modern infrastructure and address significant supply bottlenecks that hinder productivity and resources allocation efficiency. As fixed gross capital grows throughout the next years more than the GDP, investment will be the main driver of growth.

The net contribution of foreign trade is likely to reduce or stabilize compared to the last ten years to 2013, when Brazil's terms of trade improved by a 27% on the back of an unprecedented rise in commodity prices. But this is unlikely to continue as the Chinese economy, a key commodity importer, rebalances away from investment-led growth. Thus Brazil's terms of trade are expected to remain broadly stable in the next decade.

1.4. Macroeconomic Policy Settings

Fiscal policy in Brazil is guided by fiscal responsibility principles embedded in the Fiscal Responsibility Law (enacted in 2000) and aims at: i) fiscal consolidation, enabling economic growth sustainability and contributing to inflation control; ii) fiscal sustainability, with net debt reduction trajectory in relation to GDP, iii) rebalancing expenditures from concurrent expenses towards investment, thus fostering growth, and iv) expansion of social safety nets so as to reduce poverty and income inequality.

Brazil's monetary policy framework consists of an inflation targeting regime combined with a floating exchange rate. Monetary policy has been successful in keeping inflation within the target band at year-end over the last 10 years. In order to deal with domestic inflationary pressures and to secure the convergence of inflation to the target, the policy rate was hiked 400 basis points from March 2013 to October 2014.

The Monetary Policy Committee (Copom) believes that monetary policy should help to consolidate a favorable macroeconomic position over a longer time horizon. Therefore, given the inflation targeting regime in place, its decisions are based on the expected inflation and on the analysis of alternative scenarios for the evolution of the main variables responsible for price dynamics. Although the Copom understands that other macroeconomic policies also influence prices, it is ultimately up to the monetary policy to guarantee that short term pressures are not disseminated over longer time periods. Ensuring such degree of stability is key to enhance confidence of consumers and investors, and provide a more favourable environment for growth over the longer run.

The floating exchange regime remains a first line of defense to external shocks and a critical mechanism for macroeconomic adjustment. In spite of this, as a response to the bout of volatility that started last year, the Central Bank of Brazil committed to an exchange rate intervention program based on derivative instruments in order to provide hedge and liquidity to the domestic foreign exchange market, while safeguarding the international reserves. This approach proved very successful in curbing volatility in the second half of 2013 and was extended in June 2014 until the end of the year. Currently, the strategy is comprised of daily FX-Interest rate swap auctions of up to USD 200 million, as well as FX Repo auctions when needed. No spot interventions have been necessary.

With respect to the financial system, Brazil has proved to be resilient to external and domestic shocks; rigorous banking supervision and regulation has ensured that the system remained sound over the period of the crisis and its aftermath. The Brazilian financial system is among the most capitalized, liquid and with higher provision levels, having a low dependency on external resources and a low exposure to foreign currencies. In addition, there are buffers and instruments in place to cope with volatility and external shocks. International reserves are at USD 380 billion balance. Credit growth has decelerated and its quality has improved, as sectors with still relatively low level of credit and higher impact on the economy, such as housing, have gained space. Following this moderation in credit growth and in order to improve the distribution of liquidity in the economy, the Central Bank announced at the end of July 2014 a decrease in banks' reserve requirements that should inject up to R$ 45 billion (USD 20 billion) in credit in the economy. This increase in credit should be especially beneficial to small and medium enterprises (SMEs).

1.5. Assessment of Obstacles and Challenges to Growth

Challenges for fiscal policy remain broadly in line with the ones that guided the current fiscal framework design. These are: i) keeping the downward trend in net and gross debt to GDP ratios; ii) improving the balance between current expenditure and investment by making the latter increase more than GDP, fostering long term economic growth; and iii) maintaining and/or expanding the social safety nets, focusing on reducing poverty and social inequality.

To cope with the need for increasing investments, while maintaining debt sustainability, Brazilian law allows the Government to use extraordinary countercyclical fiscal policies and instruments (such as tax breaks/cuts, fiscal stimulus) to promote growth. These mechanisms have been successfully used, especially since the 2008 crisis. Along with that, the public concessions program will continue, contributing to private investment growth in infrastructure.

The inflation headline was hit by a temporary supply shock early this year; naturally, headline inflation impacts expectations. Inflation has been high and resistant; reflecting services inflation inertia and the realignment of administered prices. Brazil has acted to secure the convergence of inflation to the target starting very early at the beginning of 2013, since monetary policy effects on inflation are cumulative and take place with lags. In this sense, a significant part of prices response to the tightening cycle has yet to materialize.

Since Brazil is next to the full employment threshold, it is quite straightforward that in order to grow faster, there is the need to increase capital ratios and to increase productivity. More physical and human capital combined will yield higher total factor productivity.

2. POLICY RESPONSES TO LIFT GROWTH

2.1. New Macroeconomic Policy Responses

There are a number of investment projects in Brazil that are bankable, profitable with relatively low costs and high returns. When these initiatives are put together, this will make the Brazilian economy more competitive, produce positive externalities and induce higher private investment from both national and foreign sources.

Brazil is still catching-up with capital ratios similar to those of advanced economies and narrowing the differences of labour productivity among sectors. Brazil aims to improve the quality of its labour force through a series of initiatives, such as the *Sciences without Borders* program, which aims to grant one hundred thousand scholarships for university students to study abroad, and the *Pronatec* program which has provided eight million courses in technical schools. These are recent concrete examples that Brazil is implementing a set of textbook supply-side structural reforms that will certainly boost Brazilian productivity.

The Brazilian economy is at the onset of a new investment cycle. Brazil has a large program for PPPs and concessions which, since the second semester of 2013, awarded lots of concessions and contracts with high investments. It is part of the largest concession program in infrastructure in recent decades which are expected to result in significant multiplier effects throughout the economy.

2.2. New Structural Policy Responses

2.2.1. Investment and Infrastructure

There is a consensus in Brazil about the bottlenecks in logistics and the need to speed up implementation of investment packages in infrastructure. It is undoubtedly the main gap to be closed and it addresses other gaps in competition, employment and productivity.

In terms of concrete reforms, the Brazilian Federal Government´s top priority for the next five years is implementing an ambitious (and already started) infrastructure program by means of extensive use of PPPs and concessions to private sector.

The measures adopted for the infrastructure sector will reinforce one another to raise the potential output and improve the competitiveness of the Brazilian economy. The resulting higher GDP growth and job creation will close the gaps and create positive spillovers across G20 members through the channels of international trade.

Challenges

Given the fast pace in which demand grew in Brazil in the last years, infrastructure bottlenecks are increasingly impacting the country´s productivity, competition and trade performance, imposing a major impediment for higher rates of growth. Even though Brazil is one of the world's top destinations of foreign investments – including in infrastructure – it is clear that financing needs far exceed the actual supply of funding.

Besides putting in place massive investment programs and initiatives – which the Government already did through the Federal Government´s Acceleration Program, PPPs and concessions programs – there are also regulatory, risk and capacity issues to be addressed in order to leverage financing.

After decades of high inflation and economic volatility, restructuring the country´s long term planning capacity and reintroducing a culture of long term thinking became essential. In that sense, the Government sees the need for not only implementing the current investment program, but also building capacity to maintain a steady and systematically updated pipeline of projects, in order to keep the market active and help attract investors.

Identifying and proposing solutions for regulatory issues will be essential to channel private sector funds to infrastructure. Issues to be addressed may include long term hedging, credit enhancement instruments, structured finance, standardization and liquidity of capital markets instruments, development of secondary market, attraction of pension funds and insurance companies, reserve requirement exemptions, etc. Addressing risks that the market does not cover or covers partially, such as acts of God, political and regulatory risks will also be important to tap private funds.

2.2.2. Employment

The Brazilian economy has been showing a strong labor market performance. In April 2014, the unemployment rate hit a historical minimum (4.9%). In the first half of 2014, 493.118 net formal jobs were created according to the General Registry of Employed and Unemployed Workers of the Ministry of Labour and Employment (CAGED).

In 2013, the country hit a historical minimum (15.3%) in the Informal Economy Index, and also hit a minimum in the Informal Employment Rate (25.6% in metropolitan areas), the smallest value for this indicator in the past 20 years according to the Monthly Employment Survey (PME/IBGE). Furthermore, in April 2014, Brazil registered a historical maximum in average monthly real income (R$2,028.00 or USD 921.82) according to the Monthly Employment Survey (PME/IBGE).

Between 2011 and 2013, more than 5.6 million new formal jobs were created. The country had, according to the administrative register of the Ministry of Labour and Employment (*Relação Anual de Informações Sociais/* RAIS 2012), a stock of formal employees of 47.459 million workers, which represents relative growth of 2.49% in relation to 2011.

Special attention should be paid to the following characteristics of current economic growth process in Brazil: 1) Development - differently from the past, it has not been concentrated in the most developed areas. According to the administrative registers of the Ministry of Labour and Employment, in 2012, relative to 2011, most of the real gains in income were concentrated in small business (up to 19 employees), which showed an average real gain of 5.07% and was focused in less developed regions of the country such as the North (3.80%) and Northeast (3.65%). In addition, less educated workers, whose wages are determined by the minimum wage, had the largest real gains (5.02% on average for the workers with schooling complete up to elementary school, excluding the illiterate); 2) Most of the new jobs are concentrated at the base of the occupational pyramid (up to 1.5 minimum wages); 3) Informality has decreased every year since 2003 and has hit a historical minimum in 2014 (25% for Metropolitan Areas), according to IBGE; 4) Unemployment has been kept low and has reached 4.9% in April, a historical minimum for that month.

A set of policies should be taken into account when assessing the results exhibited by the Brazilian labour market indicators, such as the Minimum Wage Policy and the expansion of social benefits coverage. Both, combined with the expansion of credit and conditional transfers programs, have made the labour market a key element of inclusive growth. These policies were able to induce growth and job creation in virtually all the sectors of the economy, including in less developed areas, and also promoted a revival in industrial jobs, which have been showing a trajectory of formal job growth within this sector since 1998 (IPEA, 2013). The result of this set of policies has been a decline in informality, a severe reduction of the working poor population, the reversion of a spatially concentrated development pattern, along with better regional distribution of monetary income and a consistent fall in income inequality, through which workers at the base of the occupational pyramid have been seeing the largest real gains.

As regards the policies to increase productivity in Brazil, it is worth noting that investments in education in 2012 reached 6.1% of GDP. Still on this subject, it is worthwhile highlight the approval of the Federal law that sets aside 75% of the resources of oil royalties for investment in education and 25% to health; the same law also sets aside 50% of the Social Fund for education until the goals set in the National Education Plan are met. According to the Ministry of Mines and Energy (MME), considering only the proceeds of the new oil field of Libra, approximately R$ 638 billion (USD 290 billion) will be invested in education and health in the next 35 years, plus R$ 368 billion (USD 167.27 billion) which will be accrued in the Social Fund.

As a result of the efforts to improve the educational skills of population, the proportion of the people employed with 11 years or more of schooling jumped from 21.7 % to 36.1 % from 2001 to 2012, which means greater availability of skilled manpower in the labour market.

Moreover, it is noteworthy that the increase in per capita household income has allowed the postponement of the employability of the young so that they can focus on studying more, which is reflected by decreased activity rate among the age groups between 10 to 17 years, whose rate decreased from 23.3 % of the working age population, in 2001, to 15.7 % in 2012.

Thus, it is apparent that the increased schooling of the younger has allowed them access into jobs with greater possibilities for professional progress. According to data from the the Ministry of Labour and Employment, 17.2% of the people that entered the formal labour market had completed at least secondary level in 1996, while, this proportion reached 55.2% in 2013.

Until the end of 2014, the "Science Without Borders Program" is expected to grant 101,000 scholarships to young Brazilians to study in foreign universities with high academic standards. More than 83,000 scholarships were awarded until June 2014. The new target is to grant 100,000 additional scholarships for students and researchers to study abroad by the final of 2018.

Further, the Brazilian government has launched the national program for access to technical education and employment (Pronatec), through which access to vocational training has been made feasible in all regions of the country at no cost to the students, and has offered financial aid in order to reduce dropout rates and guarantee course completion by students with lower household income. In 2002, Brazil had 140 federal professional, vocational and technological educational centers; in the 2003-2010 period, that number more than doubled, reaching 354 and, by the end of 2014, there will be 562 federal professional, vocational and technological educational centers that will be able to admit 600 thousand students throughout the country. In 2014, the Pronatec Program was extended, aiming at benefiting 12 million students enrolled by the end of 2018.

2.2.3. Competition and Small and Medium Enterprises

The Brazilian Federal Government competition reforms are aimed at new regulatory frameworks to reduce bureaucratic costs, to facilitate access of small and medium enterprises (SMEs) to capital markets and establish a new facility to provide funding for SMEs engaged in export.

In addition, Brazil has just adopted (June 2014) a package of measures of microeconomic competition reforms in order to cope with the effects of the subdued recovery in the advanced economies and in international trade on the domestic economy. Among these measures, it is worth mentioning the following: permanent payroll tax exemptions; permanent tax devolution in exports; permanent tax exemptions in some sectors; tax debts payment in instalments; incentives for mid-sized companies´ IPOs; extension of tax incentives for issuance of infrastructure debentures; reduction of bureaucracy and so on.

Given the importance of the SMEs for employment and economic growth, it is really necessary to address the challenges for starting and operating a business. Small businesses suffer from the excess and bureaucratic requirements that must be satisfied before the registration and intricate regulations affecting operation. A large number of procedures elevates the cost to formalize the company and, consequently, leads many to informality. Accessing capital markets and credit (including export credit) is also challenging for SMEs, equally creating barriers to or preventing the start of new businesses.

2.2.4. Trade

Brazil's response to the global economic crisis was predicated on sustaining demand and maintaining sound macroeconomic policies. Economic growth and active income policies have allowed Brazil to make progress towards reducing poverty, unemployment, and income inequality. In this process, Brazil also gave a major contribution to global economic recovery by substantially increasing imports. Brazil will continue to play its part in the G20 growth strategy by actively pursuing policies that stimulate growth in all areas.

On trade, it is worth recalling, as the G20 ponders its collective strategy for growth, that, at the WTO Ministerial Conference last December, members reaffirmed their "commitment to the WTO as the pre-eminent global forum for trade, including negotiating and implementing trade rules, settling disputes and supporting development through the integration of developing countries into the global trading system". Strengthening the multilateral trading system must be an indispensable component of any G20 plan on trade. As pointed out by the Chair in its "Trade Guidance" document, credibility is of the essence if a document is to be endorsed by the Leaders in Brisbane. And credibility is currently staked on the definition of the Post-Bali Work Programme.

Brazil is fully committed to the implementation of all Bali outcomes within the agreed timeframes. Regarding the Trade Facilitation Agreement, Brazil has duly notified the Preparatory Committee, on July 25, of its Category A Commitments. With respect to the Post-Bali Work Program, Brazil is ready to take part in the efforts to design a roadmap that leads the WTO to a positive and balanced result by the end of the year, contemplating the three core negotiating areas (Agriculture, NAMA and Services), and preserving the importance of development objectives of the Doha mandate.

We are also engaged in bilateral and regional trade negotiations, including the bi-regional negotiations between Mercosur and the European Union. We firmly believe that those negotiations are complementary, and not a substitute for multilateral trade liberalization. Brazil has also launched negotiations on Cooperation and Facilitation Investment Agreements with selected countries in Africa, with a view to encouraging South-South investment flows.

The bulk of international trade remains concentrated in a relatively small number of large companies and one of our priorities is to increase the participation of SMEs. While this involves actions in many areas – improvements in the business environment, workforce training, innovation, infrastructure -, experience has shown that, in a large country, SMEs are reluctant to incorporate foreign trade as a central element of their business plans.

In addition to a wide range of regulatory and procedural changes, in the spirit of the recently concluded WTO Agreement on Trade Facilitation, a top priority for Brazil is the development of its Foreign Trade Single Window ("*Portal Único de Comércio Exterior*").

Brazil's current electronic trade processing system (Siscomex) was established in 1992 for exports and in 1997 for imports. It was designed to be the IT platform to allow the integration, in a single data flow, of all governmental procedures for registration and control of imports and exports. At the time, it was a major trade facilitation initiative, which replaced paper-based procedures and allowed data integration among the most important agencies involved in trade controls, including Customs.

A number of gradual improvements were made to Siscomex over time. Those improvements, however, did not keep pace with the increase in volume and complexity of Brazil's foreign trade. In particular, the growing participation of Agencies responsible for technical and scientific controls (health, safety, environment, nuclear, security, etc.) highlighted the limitations of the original system. In response, each agency developed its own in-house solutions, both in terms of independent IT systems and new paper-based procedures. Lack of harmonization generated inefficiencies and replication of data and document requirements. Over time, this situation led to increasing compliance costs and time delays. The Foreign Trade Single Window shall solve all the problems above mentioned.

Further, the experience, including that of the global financial crisis, has highlighted the need for well-functioning mechanisms to finance trade. Developing countries, in particular, have been hard hit in the past by reductions in liquidity in international markets. As monetary policies become less accommodating in the developed countries in the coming years, there will a need to preserve the amount of resources available for trade finance in developing countries.

Even under normal circumstances, firms in developing countries are hampered by the lack of long term finance, underdeveloped capital markets and by lack of access to export credit instruments. Addressing these issues will enable exploiting economies of scale and thereby promote trade and economic growth.

On the domestic front, Brazil is currently engaged across a range of trade actions to improve processes on trade, as detailed on Annex 2.

ANNEX 1: St. Petersburg Fiscal Template — Update

1. Medium-term projections, and change since last submission *(required for all members)*:

		Estimate	Projections[1]			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Gross Debt	56.7	57.7	56.4	53.4	51.5	n.a.
ppt change	0.0	+0.9	+1.2	0.0	0.0	n.a.
Deficit[2 3]	3.8	3.1	2.6	2.0	1.5	n.a.
ppt change	0.0	+0.4	+0.6	0.0	0.0	n.a.

1- **Figures based on PLDO 2015 and PLOA 2015.**

2- General government balance without social security funds ** General Government including social security, and excluding state owned companies and Central Bank; compatible with numbers for the Consolidated Public Sector present at PLDO-2015 (Budget Guidelines Law) and PLOA 2015.

3- These figure will be reviewed by end of November 2014.

2. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections*			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP growth	2.5	0.9	3.0	4.0	4.0	n.a.
ppt change	0.2	-0.9	0.0	0.0	0.0	n.a
Nominal GDP growth	10.3	7.5	9.2	9.6	9.1	n.a.
ppt change	0.2	-1.0	0.0	0.0	0.0	n.a
ST interest rate***	8.5	11.1	11.1	11.1	11.1	n.a.
ppt change	0.0	0.0	0.0	0.0	0.0	n.a
LT interest rate****	11.0	12.4	11.6	11.2	10.9	n.a.
ppt change	0.0	0.0	0.0	0.0	0.0	n.a

*** GDP figures based on the 3rd Revenues and Expenses Assessment Report.**
**** Figures based on PLDO 2015.**
***** Forecast for 3-month bill interest, considering official Selic projections and a risk premium.**
****** Forecast for 10-year bond interest, considering official Selic projections and a risk premium.**

ANNEX 2: NEW POLICY COMMITMENTS

1. Investment and infrastructure

The New Policy Action	Infrastructure Investment per Private Partnership with the Federal Government
Implementation path and expected date of implementation	The number of projects regarding concessions and permits with Federal Government participation awarded from November 2013 until October 2014 is 289, from which 283 are under implementation. However, the conclusion of each of those projects is variable, since they have different periods of maturation.
What indicator(s) will be used to measure progress?	Progress will be measured by the percentage of each project's financial budget disbursement that has been executed as well as the percentages of the physical units of the public works completed.
Explanation of additionality (where relevant)	Those 19 infrastructure projects under implementation, which started from November 2013 onwards, are additional capital expenditure (capex) and, as such, will impact significantly the investment rate in Brazil in the short and medium terms.

Contracted Infrastructure Investment Projects

Sector	Number of Projects*	Contracted Investments (BRL	Contracted Investments (USD
Railways	2	7,03	3,19
Ports	2	3,45	1,57
Highways	5	29,55	13,43
Power Generation	180	19,90	9,05
Power Transmission	20	6,88	3,13
Oil and Natural Gas Exploration and Production	73	1,11	0,50
Urban Transportation	4	18,06	8,21
Airports(***)	2	9,06	4,12
Telecom	1	2,80	1,27
Total	289	97,83	44,47
Projects under Implementation			
Railways	1	0,73	0,33
Ports	0	0,00	0,00
Highways	5	29,55	13,43
Power Generation	180	19,90	9,05
Power Transmission	20	6,88	3,13
Oil and Natural Gas Exploration and Production	73	1,00	0,45
Urban Transportation	1	1,30	0,59
Airports(***)	2	9,06	4,12
Telecom	1	2,80	1,27
Total	283	71,22	32,37

Source: Ministry of Finance of Brazil (MF/SEAE). Average exchange rate of BRL 2.20 per USD 1.00.

* Projects could be appropriately detailed as requested.

(**) 72 blocks werw auctioned in November 2013 (concessions) and the block of Libra (sharing contract) awarded in October 2013.

(***) bidders awarded on November/2013.

The New Policy Action	Infrastructure Working Group

Implementation path and expected date of implementation	The main regulatory authorities (BCB - Central Bank; CVM - Brazil Securities Commission; SUSEP - Superintendency of Private Insurance, and Previc - Superintendency of Complementary Pensions) are committed to **analysing potential regulatory issues that can hinder long-term financing and address them through new regulations**. Since some recommendations may require coordinated measures among the regulatory agencies, the Coremec (Committee of Regulation and Supervision of Financial, Securities, Insurance, and Complementary Pension) **created an infrastructure working group in order to study issues related to infrastructure financing and propose solutions through regulations.** Issues to be studied by the group may include: long term hedging, credit enhancement instruments, structured finance, standardization and liquidity of capital markets instruments, development of secondary market, attraction of pension funds and insurance companies, reserve requirement exemptions, and the role of development banks. The group was launched on May 7, 2014, with a term of one year to present final recommendations (May, 2015). The conclusions of this working group, subject to the approval of the Coremec, will be analysed by each regulatory agency in their respective field of responsibility and by other government institutions (Ministry of Finance and the National Development Bank-BNDES) in order to prepare specific measures to tackle the problems identified.
What indicator(s) will be used to measure progress?	(i) The progress can be tracked during **Coremec's quarterly meetings and by the final report and its recommendations**. (ii) Conditional on the conclusions of the report, each regulator will assess how to prioritize the recommendations and define indicators to track their implementation, according to its own mandate. (iii) Measures taken by the regulatory agencies to promote long term investments are also an important indicator.
Explanation of additionality (where relevant)	Each regulatory agency is individually committed with the improvement of the conditions for long term/infrastructure financing and may propose regulatory measures, and the Coremec's infrastructure working group is an additional effort in that direction. The Coremec invited the BNDES (National Bank for Economic and Social Development) and the Ministry of Finance to be part of the working group.

The New Policy Action	**National Plan of Integrated Logistics (PNLI - *Plano Nacional de Logística Integrada)***
Implementation path and expected date of implementation	The National Plan of Integrated Logistics (PNLI) is an innovative instrument that will put together a single, systematized transport planning framework for all transportation modes. This will promote intermodal efficiency and synergies that are possibly lost in the current model, in which three different agencies (the Ministry of Transportation, the Secretariat for Civil Aviation and the Secretariat for Ports) develop separately their own transport plans. The

	objectives of PNLI are: a) identifying bottlenecks and investment opportunities in the short, medium and long term, in order to provide an efficient transportation logistics matrix; and b) proposing key infrastructure and services projects (roads, rail roads, ports, airports, waterways and logistic platforms) to remove the current and projected logistic bottlenecks so as to conciliate public needs and private/commercial objectives. The PNLI will be prepared by the National Logistics Planning State-Owned Enterprise (EPL – *Empresa de Planejamento e Logística*) created on December 2012. The preparation pathway encompasses the following activities: (1) consolidation of a database composed by traffic volume, origin and destination matrix and service standards of the current and future infrastructure; (2) implementation of a simulation system; (3) identification of existing and projected bottlenecks; and the final product (4) ranking of projects that shall generate efficiencies in the system. Based on the first evaluation made for the PNLI, the portfolio includes 1,901 projects, adding up to R$ 660 billion (USD 300 billion) of investment budget. Of these 1,901 projects, 698 were already committed to the PAC and PIL plans. Therefore, 1,203 projects totaling R$ 370 billion (USD 168.18 billion), would be added to the projects pipeline already structured by the Government so as to eliminate current and future bottlenecks in the Brazilian transport infrastructure. The ranking of infrastructure and service projects selected by EPL will be submitted and validated by Transportation Ministry and CONIT (National Council of Transportation Policy Integration).
What indicator(s) will be used to measure progress?	The macro-simulation shall be implemented as a dynamic planning instrument to capture the constant changes of the relevant variables. Currently, the data is being collected across the entire country. Also, secondary data from existing governmental and non-governmental organizations is being collected to form an historical database. Inspired by tools used by developed economies, whose macro-simulation models evolved during long periods (ex.: GBMF – UK and SAMGODS - Sweden), EPL`s macro-simulation model shall be constantly perfected to incorporate state of the art simulation techniques.
Explanation of additionality (where relevant)	The PNLI has been in preparation during the year of 2014 and is scheduled to be ready on the first quarter of 2015, working out with a horizon of the next 20 years and producing a detailed and comprehensive Action Plan and a projects database for the modernization of the infrastructure in the country.

The New Policy Action	Implementation of the Infrastructure Guarantee Fund (FGIE) and of the Brazilian Agency for Management of Guarantee Funds (ABGF)
Implementation path and expected date of implementation	**ABGF was created in August 2013 with the purpose, among other things, to manage an Infrastructure Guarantee Fund (FGIE**). The Federal Government is authorized to buy quotas of FGIE up to the total value of R$ 11 billion (USD 5 billion).[1] **The main objective is to complement private insurance companies in order to directly offer guarantees to risks that are partially or totally uncovered by the market**, mostly non-manageable risks such as acts of God, political and regulatory risks. At the macro level, it also intends to promote the development of the insurance market. **The focus of the FGIE will be large scale projects** of the Growth Acceleration Program - PAC (a massive investment program that involve all three levels of the Federation), other strategic projects defined by the government and PPPs (including at the state level). With the full implementation of its operations, FGIE will be able to offer guarantees to structural projects, minimizing non-manageable risks accountable to the grantor authority in the construction phase. It will help structure the financial package for new projects and, consequently, an improvement of the national infrastructure and of the potential GDP. Furthermore, the FGIE is designed to foster Brazil´s output growth by supporting the implementation of projects that will improve the logistics infrastructure, reduce transportation costs and generate employment and income. **The establishment of the FGIE is scheduled to take place in the second half of 2014**. Presently, the internal statutes and regulations are being written. ABGF is holding discussions on the operational procedures. Also, a wide negotiation on the structure and guarantees is being held with banks and government officials.
What indicator(s) will be used to measure progress?	The main determinants of the success of FGIE's operations are the **level of exposure** to the provided guarantees and the total **value and number of projects**.
Explanation of additionality (where relevant)	The new Fund will cover risks that market and other existing funds do not cover or cover partially. **The entry into operation of the FGIE is estimated for the first half of 2015, when the fund should be ready to issue guarantees for contracted loans by banks**.

2. Employment

[1] The ABGF is designed to manage all guarantees previously in charge of the Export Guarantee Fund (EGF), Social Housing Guarantee Fund (Hab FG), Guarantee Fund (IGF), Operations Guarantee Fund (FGO), Guarantee Fund Public-Private Partnerships (FGP), Shipbuilding Guarantee Fund (FGCN) and Guarantee Fund Loan Education (FGEDUC), Rural Investment Guarantee Fund (FGIR- not deployed) and Guarantee Fund of the Electrical Energy Ventures (FGEE- not deployed).

The New Policy Action	National Program for Access to Technical Education and Employment - Pronatec [2]
Implementation path and expected date of implementation	Pronatec is a national program designed to provide access to technical education and employment, through which access to vocational training has been made feasible in all regions of the country at no cost to the students. It also offers financial aid in order to reduce dropout rates and guarantee course completion by students with lower household income. The Pronatec Program involves a total budget of R$ 14 billion (USD 6.36 billion) and its target is enrolling 8 million students by the end of 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the percentage of the program's financial budget that has been executed, as well as the number of enrolment in the professional education system. Both Ministries of Education and Labor and Employment will integrate their databases, in order to monitor the workers who completed the training courses and to make it easier for the trained workers to find a job through the Labour Intermediation System. The databases which will be integrated are the National Information System of Professional and Technical Education (SISTEC), of the Ministry of Education and the Labor Intermediation System of the Ministry of Labour and Employment (*Sistema Mais Emprego*).
Explanation of additionality (where relevant)	In 2014, the Pronatec Program was extended to the end of 2018, aiming at benefiting a total of 12 million students.

The New Policy Action	Pronatec Apprentice [3]
Implementation path and expected date of implementation	The definite timeline of implementation currently depends on the conclusion of an agreement with the Ministry of Education regarding the number of qualification openings to be offered. Its implementation is expected to begin in the second half of 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the number of apprentices enrolled and by the number of apprentices that stay on as full time workers after the apprenticeship period is over. This shall be compared to firms' potential for admitting apprentices, estimated using data from the General Registry of Employed and Unemployed Workers (CAGED).

[2] Pronatec Worker program provides professional training to unemployed workers and will be mandatory for all workers who have applied for the unemployment benefit more than twice in the past 10 years. The Ministry of Labour and Employment will shape the demand for the program so as to match the demands for professional training made by the local tripartite councils of labour and employment. The program will be carried out as a partnership between the Ministries of Labour and Education by the local tripartite councils of labour and employment. The policy will be carried out as a partnership between the Ministries of Labour and Employment and Education.

[3] Pronatec Apprentice ("*Pronatec Aprendiz*") is a supplement for the Pronatec program, aimed at improving the apprenticeship programs set out by the Apprenticeship Law of 2000. It provides federal funding so that micro and small firms, as well as public administration can also take on apprentices, despite not contributing into the professional education system (S System). The main difference with regards to Pronatec Worker is that it qualifies young workers who are already in employment.

Explanation of additionality (where relevant)	Pronatec funding allows for the expansion of previous apprenticeship programs to firms that would otherwise not be able to afford the cost of the qualification programs. Additionally, it focuses on vulnerable demographic groups such as young people, especially those in shelters, rescued from child labour. The goal of the program is to promote job for the youth through the Apprenticeship Law by which all the companies of medium and large size are required to contract apprentices aged between 14 and 24 years old through a special work contract by a limited period of time (maximum length of two years). The minimum share of apprentices is 5% of all the employees and up to 15%; the percentage is determined by the employer.

The New policy Action	**National Plan for Combating Informality**
Implementation path and expected date of implementation	The Plan supports current Active Labour Market policies by providing a new, integrated approach for labour inspections to tackle informality. The plan focuses on regions where the informality index is highest and will include the participation of the Ministries of Finance, Social Security and Human Rights. The plan will be launched on May 22nd 2014. The first activities shall begin to be implemented during the second semester of 2014 and major results are expected to be reached during 2015.
What indicator(s) will be used to measure progress?	Three main indicators will be used. The central indicator is the informality index as calculated by the Brazilian Institute for Geography and Statistics (IBGE). Secondly, the program shall take into account the number of workers formalized per labour inspection action, as registered by the Federal System of Labour Inspection (SFIT). Lastly, the Plan will measure the effect of formalization upon the area under inspection, by using econometric analysis based on the General Registry of Employed and Unemployed Workers (CAGED).
Explanation of additionality (where relevant)	The commitment provides a new framework for labour inspection by integrating different inspection policies, improving procedures and using new, precise mapping of the areas with highest informality. Stronger inspection will contribute to increase compliance and improve the effectiveness of current ALM policies for reducing informality. The program also breaks new ground by working more closely with relevant government Ministries and organizations.

The New Policy Action	**E-Social System.** [4]
Implementation path and expected date of implementation	The E-Social is a project of the federal government which will unify the conveyance of information by the employers in relation to their employees. When it is in full operation, E-Social will be extended to other employers, individuals and companies, bringing several advantages over the current

[4] E-social is an integrated information collection system which aims to simplify the compliance of labour and social security obligations by firms. It will create a single channel for relaying information to the federal government and will help guarantee worker rights as well as improve the quality of the information conveyed.

	system, such as: • Assistance to various government agencies with a single source of information for the fulfillment of several currently existing labor, social security and tax obligations; • Integration of computer systems of private companies with the TI environment of the government agencies, enabling automatic conveyance of information from the employers; • Standardization and integration of records of individuals and companies within the agencies involved in the project. The E-Social project is a joint effort of several agencies of the federal government. The Ministry of Planning advises other agencies and manages the operation of the program through its Office Project. The timeline for implementation is currently being finalized in consultations with the Ministry of Labour's social partners. Once concluded, there will be a six month period for testing the new system, and then another six months for the first group of firms to begin implementation. Implementation is expected to begin during 2015, starting with large sized firms.
What indicator(s) will be used to measure progress?	Progress with rollout of the system will be measured by the number of firms and workers included in e-social. Since the first group for implementation is expected to be firms with over 80 workers, it is estimated that up to 70% of workers may be included by the end of 2015.
Explanation of additionality (where relevant)	E-social eliminates redundancy in information collection. It also improves the quality of information by altering the registry in two ways: first, information is collected in a shorter time span; second, it is collected only once, reducing errors and streamlining the process.

3. Competition and Small and Medium Enterprises

The New policy action	**New Regulatory Frameworks to Small and Medium Enterprises (SMEs)**
Implementation path and expected date of implementation	**Bureaucratic costs**: the new regulatory framework will integrate tools in different levels of government (federal, state and municipal) and in different agencies in order to reduce bureaucratic costs for starting and operating a business, especially the cost of complying with tax regulations. The implementation will be in two steps, firstly, to pass a new legislation to unify nationally the process to start a business and to allow more enterprises to adopt the unified system of taxes (*SIMPLES*). Secondly, a new web based system will be created in order to facilitate the obtainment of permits and licenses to operate (*Portal Empresa Simples*). **Capital markets**: the new regulatory framework aims to improve the SMEs access to capital markets by: (i) removing some mandatory newspaper disclosures related to public offerings; (ii) creating a special stock investment fund named *Fundo de Investimento em Ações – Mercado de Acesso* (FIA-MA) allowed to buy higher risk and less liquid equities; and (iii) raising from 20% to 35% the threshold for private equity funds to invest in companies in which they don´t have

	managerial influence. The investees must be listed on a special segment that requires certain corporate governance criteria. The new regulation was released for public hearing to receive comments and suggestions. It is expected to be implemented by 2015. **Export credit**: the Ministry of Finance will implement a new product to guarantee financing to exports by SMEs with revenues up to R$ 90 million (USD 41 millions) and exports limited to USD 1 million per year.

The New Policy Action	Microeconomic Competition Reforms Package
Implementation path and expected date of implementation	The Brazilian Competition Reforms Package aims to strengthen manufacturing industrial sectors in the new cycle of development and foster Brazilian exports of manufactured goods. To attain these objectives, six pillars are going to be worked out: 1. Innovation (National Platforms of Knowledge Program). 2. Permanent payroll tax exemption for the enterprises of 56 sectors; 3. Cost reduction of capital invested. 4. New rules for government procurement. 5. Reimbursement of the tax paid on exported manufactured goods (Reintegra). 6. Provision of credit for investment, with reduced interest rates. Among the measures to be implemented it is worth mentioning: i) permanent tax exemptions in construction materials and capital goods sectors; ii) tax debts payment in instalments (New Refis); iii) extension of the Program of Investment Support (PSI)[5] until December 31, 2015; iv) incentives for mid-sized enterprises´ IPOs until 2015; v) extension of tax incentives for issuance of infrastructure debentures until December 31, 2020; and the Brazil Without Bureaucracy Program.
What indicator(s) will be used to measure progress?	Progress will be measured by indicators of gains in: productivity of the manufacturing industry; competitiveness of the exports of manufactured goods; innovation by the enterprises; the market share in the global exports of manufactured goods; and wages and employment in the manufacturing industry.
Explanation of additionality (where relevant)	. The measures contained herein were announced by the Brazilian government on last June, 18th, 2014. (source: http://www.fazenda.gov.br/divulgacao/apresentacoes/apresentacao-do-ministro-guido-mantega-sobre-as-medidas-de-politica-industrial-18.06.14).

4. Trade

[5] PSI is the program of the Brazilian Development Bank (BNDES), which aims to sustain the level of investment in the country.

The New Policy Action	National Export Culture Plan for Small and Middle Enterprises (SMEs)
Implementation path and expected date of implementation	The objective is to spread knowledge about the challenges and opportunities of foreign trade, as well as to improve the ability of SMEs to engage in trade by means of training courses, workshops, business consultancy and technical assistance throughout the country. For 2014, the aim is to conclude 498 actions.
What indicator(s) will be used to measure progress?	Progress will be measured by the number of actions carried out as well by the change in export earnings of the enterprises involved in the process.
Explanation of additionality (where relevant)	The Plan is currently programmed to operate until 2015.

The New Policy Action	Support to Trade Facilitation (I)
Implementation path and expected date of implementation	The new Single Window Model ("Portal Único") shall allow an integrated and comprehensive view of the importation, exportation and transit processes, from licensing, authorization and certifications to customs clearance. Documents will be available in digital form, leading to major reductions in the volume of paper documents and in physical documentation checks. The Single Window Model to be adopted is the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) Recommendation No. 33 on establishing a Single Window. Once the Single Window is fully operational, Brazil expects: • Greater transparency; • Reduction of time and costs for importers and exporters; • Elimination of information redundancies, • Process simplification through better risk management and coordination; • Optimization of infrastructure and logistics; • Greater participation of small and medium enterprises in foreign trade; • Improvement in statistical information. It is expected that, by 2017, the time required for export operations in Brazil will be reduced to 8 days for exports (in line with the best international practices) and to 10 days for imports. This amounts to an improvement of 40% over the current situation (today the average time for exports are 13 days, and for imports, 17 days). The New Single Window Model shall provide a contribution estimated in USD 25 billion/year from gains with time efficiency. In addition to the gains in the private sector, the Single Window would also enable more efficiency in the public sector by optimizing the use of human and physical resources in foreign trade operations.
What indicator(s) will be used to measure progress?	Based on information organized by the New Single Window Model, new indexes and performance indicators of foreign trade will be created to enable the system

	users to evaluate the performance of each agent involved in the process. Eventual bottlenecks will be revealed, allowing timely corrective actions. The Doing Business Project (World Bank) may be also used to monitor results that allow for the comparison of business regulations among different countries.
Explanation of additionality (where relevant)	The New Single Window Mode shall be fully operational during the next two years. With its implementation, it is expected that (by 2017) Brazil be ranked among the top 70 countries to undertake cross-border trade according to the Doing Business (today, Brazil is ranked in the 124th position).

The New Policy Action (II)	**Support to Trade Facilitation (II)** [6]
Implementation path and expected date of implementation	Implementation of the System for Consultation of Tariff Preferences Agreements tool (CAPTA), which includes information on rules of origin, services and margins of preference. The tool will be launched this year and should facilitate exports activity. The CAPTA aims to make available all the tariff preferences that Brazil receives or grants in the various trade agreements to all agents related to foreign trade. The system will enable the sharing of information, benefiting the performance of all the actors involved in trade since it will optimize the use of information and reduce time-associated costs in foreign trade operations. Brazilian authorities are also prepared to issue certificates of origin with digital signature (Digital Certification of Origin – DCO), according to Latin American Integration Association (LAIA) rules. In the coming months, the *modus operandi* to begin DCO exchange tests will be negotiated with Argentina, Chile and Colombia. The first stage of CAPTA was implemented in 2012 (http://capta.mdic.gov.br/) and displays information about margins of preference on tariffs in regional and extra-regional trade agreements.
What indicator(s) will be used to measure progress?	Progress will be measured by the change in export earnings of a sample of the enterprises involved in the process.
Explanation of additionality (where relevant)	The second stage of CAPTA will be implemented by the end of 2014 and will contain additional information concerning i) foreign trade topics such as rules of origin for regional and extra-regional agreements, as well as for the Generalized System of Preferences (GSP) and the Global System of Trade Preferences (GSTP); ii) applied tariffs of thirty-two trading partners and iii) services agreements related to the GATS, Montevideo Protocol (Mercosur) and Mercosur-Chile agreements.

[6] Brazil will develop public information systems related to foreign trade.

2.1.5. Other measures

Brazil has managed to increase the schooling rate from 5.8 years, in 1995, to 8.6 years in 2012. Public spending with education has increased from 4.7% of GDP, in 2000, to 6.1% of GDP in 2011 reaching the average levels of OECD countries.

In order to effectively face the challenge to improve the quality of education and to fully meet the country's needs for a better educated and more innovative workforce, education expenditures shall increase step by step in the next ten years. Together with the higher investment rate in infrastructure, those measures will reinforce the potential output and competitiveness, both inside and abroad, of the Brazilian economy.

The New Policy Action	**Education (NEP) and Innovation (PNPC) Programs to Increase the Productivity of the Economy**
Implementation path and expected date of implementation	The Brazilian Chamber of Deputies concluded on June 3rd, 2014, the passing of the National Education Plan (NEP). The plenary agreed that private institutions will benefit from public sector education´s gradual increase in expenditure over the next ten years up to reach the equivalent of 10% of Gross Domestic Product (GDP) by 2024. The bill now goes to presidential sanction and publication. The funds will be assured by earmarking part of the future pre-salt layer oil and gas exploration royalties. The NEP sets 20 targets to be met over the next ten years. Among the targets are the eradication of illiteracy; increasing the number of places in childcare facilities, in high school, in vocational education and public universities; the availability of 100% of school care for children from 4 to 5 years; and the provision of full-time teaching for at least 25% of students in elementary education. Under the new NEP, the public sector expenditure in education will grow steadily until 2024, reaching the equivalent of 10% of GDP per year - nearly double the currently practiced (6.1%). The National Platforms of Knowledge Program (PNPC) was announced on June 25, 2014, and aims to encourage research and innovation in 23 areas of knowledge for a period of 10 years. Sectors focused: Health (particularly in medications, vaccines, equipment and services), Energy, Aeronautics, Advanced Manufacturing, Information Technology and Communications, and development of the Amazon Rainforest. The PNPC is based on international experiences to develop key points of intersection between the production of knowledge and economic competitiveness, such as the European Technology Platforms and innovation hubs in the USA. The PNPC funding will come from the National Council for Scientific and Technological Development (CNPq), the Coordination for the Improvement of Higher Education Personnel (CAPES), the National Bank for Economic and Social Development (BNDES) and the Financier of Studies and Projects (FINEP). The set of companies and centers of public research, along with other private institutions to be selected, will aim to increase investments in research and development (R & D) up to 2% of GDP by 2020. The Program will include measures to attract skilled professionals from abroad and access to cutting-edge equipment, through special arrangements for procuring goods and hiring people.
What indicator(s) will be used to measure progress?	To evaluate the progress standard educational indicators will be reviewed on a regular basis and the results will be made open to the public. Each knowledge platform will bring together lead scientists to organize

	resources and develop products with the support of companies to launch them on the market. The framework of the platforms will be defined by public edicts, so that researchers and companies apply for project development.
Explanation of additionality (where relevant)	These are new policy measures to be started in 2015 and completed in 2024.

COMPREHENSIVE GROWTH STRATEGY:

CANADA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Over the short term, the economic objective of the Government of Canada is to close the output gap by creating stable and high quality jobs, fostering economic growth, and maintaining a low tax environment. This objective is underpinned by the Government's plan to return to a balanced budget in 2015.

Going forward, the Government of Canada's ultimate economic objective is to boost potential output growth and maximize living standards for Canadians through a policy framework that encourages education and skills development, innovation, openness to trade and investment, responsible resource management, economic diversification, and a strong financial sector. This policy framework is firmly anchored in a commitment to long-term fiscal sustainability. Through our St. Petersburg Fiscal Strategy, Canada has set the goal of achieving a federal debt-to-GDP ratio of 25 per cent by 2021.

The Government of Canada's economic objective of creating high quality jobs and pursing economic expansion in a balanced and fiscally responsible manner will ensure that growth is sustainable. A robust policy framework will help ensure that Canadian consumers and businesses are in the best position to respond to any future economic shocks.

Canada's approach will foster positive spillovers though an openness to global trade, productivity spillovers, and the shared benefits of research and innovation. Sustainable economic growth allows the rest of the world to continue to benefit from demand from Canadian businesses and individuals. Exports of Canada's natural resources, developed in a responsible and sustainable manner, will support jobs and growth in Canada and abroad.

Key Commitments

1. $1.3 BILLION INFRASTRUCTURE INVESTMENT

   Funding over 2 years to support additional strategic investments in public infrastructure and transportation services across Canada.

2. ENHANCED JOB MATCHING SERVICE AND MODERNIZED NATIONAL JOB BANK

   Initiative to provide job seekers with modern and reliable tools to find jobs that match their skills, and provide employers with better tools to look for qualified Canadians. Through a secure, authenticated process, registered job seekers and employers will be automatically matched on the basis of skills, knowledge and experience.

3. REDUCE BARRIERS TO ENTRY AND PROMOTE COMPETITION IN TELECOMMUNICATIONS SECTOR

Introduction of a legislated cap on wholesale domestic wireless roaming rates, amendments to provide telecommunications regulators with the power to impose administrative monetary penalties, and announcement of an additional auction of commercial mobile spectrum in early 2015.

4. $1.6 BILLION IN NEW FUNDING FOR RESEARCH AND INNOVATION

Including the creation of the Canada First Research Excellence Fund to help Canadian post-secondary institutions excel globally in research areas that create long-term economic advantages for Canada.

5. CANADA-EU COMPREHENSIVE ECONOMIC AND TRADE AGREEMENT AND THE CANADA-KOREA FREE TRADE AGREEMENT

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013* **	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP (% yoy)	2.0	2.4	2.6	2.4	2.3	2.2
Nominal GDP (% yoy)	3.4	4.4	4.3	4.4	4.4	4.2
Output Gap (% of GDP)*	n.a.	n.a.	n.a	n.a.	n.a.	n.a.
Inflation (%, yoy)	0.9	2.0	1.9	2.0	2.0	2.0
Fiscal Balance (% of GDP)**	-0.3	-0.1	0.1	0.2	0.2	0.3
Unemployment (%)	7.1	7.0	6.8	6.5	6.4	6.3
Savings (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Investment (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current Account Balance (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**

Key Drivers

Private domestic demand has been the main driver of the Canadian economy over the recovery, initially led by business non-residential investment, which has been broad-based across sectors, including manufacturing. However, continued global economic uncertainty has contributed to a slowing of business investment growth since early 2012. Residential investment has also played a key role over the recovery. On the other hand, the role of government spending continues to decline following a period of expansionary stimulus as the federal government is committed to returning to balanced budgets in 2015.

Going forward, real GDP growth in Canada is expected to remain modest but to pick up in 2014 and 2015, reflecting stronger global demand. The Canadian economy is expected to rotate toward exports, as the ongoing recovery in the U.S., the recent depreciation of the Canadian dollar, and new trade agreements coming into effect support export growth. With respect to domestic demand, business investment is expected to pick up after slowing since early 2012, while residential investment will moderate as recent actions taken by the federal government to ensure the long-term sustainability of the Canadian housing market have taken effect.

By sector, the services sector will continue to be the key driver of Canadian economic growth, particularly services that provide high-value such as health, education, and finance. Natural resources, especially crude oil, will also continue to be an important part of the Canadian economy, although their impact on growth will be strongly influenced by fluctuations in international prices.

Assessment of Obstacles and Challenges to Growth

Canada's macro economy is sound, although stronger export growth and a pick-up in business investment are needed to support more balanced and sustainable growth.

Canada has performed relatively well coming out of the Great Recession. However, some cyclical slack still persists. This can be observed, for example, in the unemployment rate, which remains above its pre-recession levels despite a decline since September 2009.

Prospects for global growth and the uncertainty over commodity prices remain the most important risk for the Canadian outlook. Further downward surprises on global growth could lead to further declines in lower commodity prices, particularly for crude oil. A decline in crude oil prices would reduce activity in the resource sector, but it also reduces costs for business and firms, providing a boost to growth elsewhere in the economy. However, lower crude oil prices would have a negative impact on Canada's terms of trade. This would dampen growth in economy-wide prices and the value of Canada's exports, which would in turn put downward pressure on nominal GDP.

Elevated levels of household debt are the main domestic risk to the outlook. In particular, household debt-to-income ratios remain at historically high levels despite a recent moderation in the growth of mortgage credit and continued low interest payments on mortgage debt. Moreover, elevated house prices and a build-up of supply in some segments of the housing market suggest imbalances in the housing sector. However, since 2008 the federal government has taken measured steps to improve the soundness of the mortgage market and to ensure the long-term stability of the Canadian housing market.

According to the gap analysis by International Organizations, relative to some large systemic economies, Canada is not a major contributor to global gaps. Nonetheless, Canada has a number of policy challenges, many of which have also been identified by International Organizations. While addressing many of these challenges will require significant collaboration among all levels of government, the federal government is continuing to do its share in strengthening its policy efforts in these areas.

Canada faces several challenges in the labour market. Imbalances between unemployment and job vacancies persist in certain regions and occupation groups, and while some unemployed are having difficulty finding work, some employers and businesses are expressing concerns about the challenges of finding skilled workers, which is acting as an important impediment to growth. Labour shortages are particularly acute in skilled trades as well as high-skilled professionals in science-based occupations. A number of more vulnerable groups, including less-skilled individuals, recent immigrants, Aboriginal peoples, persons with disabilities, and older Canadians, are also not participating to their full potential in the labour market. According to the International Organizations, gaps in labour-market information, barriers to increasing the supply of skills in demand through education and training, limited responsiveness of the immigration system to labour market conditions and regulatory barriers to inter-provincial labour mobility are factors that have been impeding Canada's effort in overcoming skills shortages.

Population aging and the associated weaker growth in labour supply could exacerbate existing labour shortages over the medium term. The employment rate will also inevitably fall in the long run as a result of population aging, meaning the positive impact of employment growth on incomes will wane in the coming years. While the continued development of emerging economies may keep upward pressure on commodity prices, Canada should not count on future gains in commodity prices to drive income growth. As a result, improving productivity will become even more important in sustaining income growth in the years ahead. However, productivity in Canada has lagged that of most peer countries since the 1990s. Canada must continue its efforts to set the right conditions for strong productivity growth. In this context, Canada agrees with the assessment of the International Organizations that Canada should strengthen its policies and support for research and development to spur innovation, reduce barriers to internal competition particularly in network industries, and lower barriers to foreign direct investment. Canada is also working to strengthen its venture capital market to support access to financing.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Canada is committed to returning to balanced budgets at the federal level by 2015 and, as announced at the September 2013 G-20 Summit in St. Petersburg, to achieving a federal debt-to-GDP ratio of 25 per cent of GDP by 2021 or earlier if economic growth is significantly stronger than expected. Furthermore, the Government of Canada pledged in its October 2013 Speech from the Throne to introduce **balanced budget legislation** that "will require balanced budgets during normal economic times, and concrete timelines for returning to balance in the event of an economic crisis". Work on this initiative is underway. Sustainable public finances help keep interest rates low, instil confidence among consumers and businesses and provide room for future tax reductions; all of which will in turn support economic growth and job creation.

With respect to monetary policy, Canada's monetary policy framework consists of two key components: a flexible exchange rate and an inflation-control target. A flexible exchange rate permits Canada to pursue an independent monetary policy suited to the needs of our own economy and acts as a 'shock absorber'. The inflation target provides a precise goal against which to measure the conduct of monetary policy, increasing the central bank's public accountability. Together with sound public finances, low and stable inflation will help maintain an attractive business environment for both domestic and foreign firms.

The 2007-09 global financial crisis underscored the importance of robust financial sector oversight—not only for the soundness of individual financial institutions, but also for the stability of the financial system as a whole. The G-20 has committed to an ambitious reform agenda focused on reducing the probability of crisis and enhancing the capacity to respond to crises. Canada continues to be a leader in terms of implementing international standards, as confirmed through the recent IMF Financial Sector Assessment Program for Canada. Canada's regulatory and supervisory framework was found to demonstrate strong compliance with international standards, and Canada was among the first advanced economies to adopt the Basel III capital standard and to establish a framework for Domestic Systemically Important Banks.

The Canadian financial sector regulatory framework involves five federal entities with distinct and complementary mandates, including the Bank of Canada, the Office of the Superintendent of Financial Institutions (OSFI) and the Canada Deposit Insurance Corporation (CDIC), and the Financial Consumer Agency of Canada (FCAC) as well as the Department of Finance. Well-established mechanisms exist to ensure collaboration, information sharing, and cooperation among financial sector regulatory bodies, including the Financial Institutions Supervisory Committee (FISC), tasked with exchanging information on matters relating to the supervision of financial institutions, and the Senior Advisory Committee, tasked with advising the Minister of Finance on important financial sector policy issues, including potential vulnerabilities to the financial system and appropriate policy responses to those risks.

New Structural Policy Responses

Investment and Infrastructure

Investment, especially in infrastructure, is an important policy theme for Canada as part of a broader set of initiatives to support growth through increased innovation, entrepreneurship, and productivity.

Infrastructure Investments

Canada is committed to developing the infrastructure necessary for strong and sustainable growth.

Canada's 2014 federal budget allocated a further **$1.3 billion over two years to support additional strategic investments in public infrastructure and transportation services** across Canada. This is in addition to the ten-year $53-billion new Building Canada Plan for provincial, territorial, and municipal infrastructure that was announced in early 2013, which was the largest long-term federal infrastructure commitment in Canadian history. The resulting enhancements to transportation networks will facilitate the efficient movement of people and goods (including in the natural resources sector) and enhance connectivity in urban areas, both of which have positive spillovers for growth. An example of new investments funded by the $1.3 billion allocated in the 2014 federal budget is the New Bridge for the St. Lawrence project, for which funding of $165 million over two years on a cash basis was announced. The Champlain Bridge between Montreal and the South Shore of the St. Lawrence River is one of the busiest in Canada—used annually by about 50 million vehicles—and is a key crossing for the Montreal area, supporting approximately $20 billion in international trade per year.

The New Bridge for the St. Lawrence project will be undertaken as a public-private partnership which will allow the federal government to leverage the expertise and innovation of the private sector. The Government of Canada is supporting innovative approaches to building infrastructure projects, including through public-private partnerships (P3s), which can provide better value for money for taxpayers' investments and improve project delivery.

Strengthening Capital Markets

Recognizing that a strong investment climate requires deeper, more resilient capital markets, the Government of Canada continues to take steps to improve the regulation of Canada's capital markets. Work is progressing towards establishment of a common regulator as part of a **Cooperative Capital Markets Regulatory System.** British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island and Canada signed a Memorandum of Agreement Regarding the Cooperative Capital Markets Regulatory System which formalizes the key features of the Cooperative System. All other provinces and territories are invited to participate in the implementation of the Cooperative System.

Strengthening Canada's Venture Capital Market

In general, Canada's SMEs have a relatively high level of access to financing. However, access to capital for young, innovative and high-growth potential firms has been identified as an area for improvement. Recognizing this, Canada created the Venture Capital Action Plan (VCAP) to help increase private sector investment in early-stage risk capital to support innovative high-growth firms. In 2014, the federal Government invested in a few high-performing funds and partnered with interested provinces, private sector investors and fund managers towards the creation of large-scale private sector-led fund of funds. The implementation of the VCAP is continuing.

Another component of the VCAP is the Canada Accelerator and Incubator Program (CAIP), which has the objective of providing support to enhance the services of outstanding and high-potential Canadian business accelerators and incubators that work with innovative, high-growth firms to help them develop into superior early-stage investment opportunities. Canada's 2014 federal budget provided **an additional $40 million to CAIP** (increasing the total program funding to $100 million over five years) to help entrepreneurs create new companies and realize the potential of their ideas through mentoring and other resources to develop their business. In June 2014, the Government of Canada announced the 15 best-in-class organizations chosen to advance in the selection process. The investment will support a sustainable private sector-led venture capital sector in Canada.

Employment

Canada continues to work toward developing a skilled, mobile, flexible and inclusive workforce in the face of population aging, continued globalization, and increased skill requirements resulting from technological advancements. In particular, in response to the gaps and imbalances identified, the Government of Canada is focusing its efforts on a number of priority areas.

Addressing Misalignment of Skills and Jobs

To address a misalignment between the skills of the unemployed and those required by employers, Canada will continue to improve the process of matching Canadians with available jobs. An important initiative in this area is the Canada Job Fund agreements between the federal government and provinces and territories. A key part of the agreements is the Canada Job Grant, which will be available to businesses planning to train unemployed and underemployed workers. This initiative will help increase employers' participation in skills training decisions, to ensure that the training provided to workers will be better aligned with job opportunities, particularly in sectors facing skills mismatches and labour shortages. The federal government is also finalizing the renegotiation of the Labour Market Development Agreements to reorient training toward labour market demand. Furthermore, the federal government will launch an **enhanced Job Matching Service** and a **modernized National Job Bank**. The enhanced Job Matching Service will automatically match registered job seekers and employers on the basis of skills, knowledge and experience, while the National Job Bank will provide job seekers and employers with timely access to job postings and consolidated labour market information. These initiatives will not only make it easier for job seekers to find jobs that match their skills but will also help employers look for qualified workers.

Training for Jobs in High-Demand Fields

It is important to ensure that the country's future workforce is preparing for job opportunities and receiving training in fields that will be in high demand in the future. To support this, the federal government is announcing initiatives to ensure federal investments in youth employment to provide young Canadians with real-life work experience in high-demand fields. In particular, it is dedicating $40 million toward **full-time internships for post-secondary graduates in high-demand fields** such as science, technology, engineering, mathematics and the skilled trades for 2014–2015 and 2015–2016. Up to $30 million of this amount will be committed to the National Research Council's Industrial Research Assistance Program to support youth internships in small- and medium-sized enterprises undertaking technical research and development projects.

As employers and various organizations have identified an acute need for skilled tradespeople, another key objective for Canada in the area of employment is to help apprentices complete their training and to encourage more individuals to consider a career in the skilled trades. The federal government is therefore creating the **Canada Apprentice Loan** by expanding the Canada Student Loans Program to provide apprentices registered in Red Seal trades with access to over $100 million in interest-free loans each year. In addition, the federal government will reduce non-financial barriers to completing apprenticeship training and obtaining certification by introducing **the Flexibility and Innovation in Apprenticeship Technical Training pilot project**. This project will expand the use of innovative approaches to apprentice technical training by testing the feasibility of using in-class simulators, e-learning modules, remote learning sites and video conferencing, to replace or supplement traditional in-class training, so that apprentices could continue to work and earn an income while fulfilling the technical training requirements of their programs, which have traditionally required block training across most of the country.

Encouraging Labour Market Participation of Under-Represented Groups

Canada will also focus its efforts on helping under-represented groups, including less-skilled individuals, youth, recent immigrants, Aboriginal peoples, women, persons with disabilities and older workers reach their full potential in the labour market. To achieve this, the federal government is introducing a new generation of Labour Market Agreements for Persons with Disabilities by providing $222 million annually to improve employment outcomes for persons with disabilities by enhancing their employability, increasing employment opportunities and generating the best possible results for Canadians through the investments. The Government of Canada is also **reallocating $15 million annually within the Youth Employment Strategy (YES) to support up to 1,000 full-time internships for recent post-secondary graduates in small and medium-sized enterprises**. In addition, it is undertaking a review of the YES to better align the program with the evolving realities of the job market. With respect to new immigrants, $14.0 million over two years and $4.7 million per year ongoing will be provided to launch the **Express Entry system**, a new recruitment model, to allow the federal government, provinces and territories, and employers to actively target highly skilled immigrants under key economic immigration programs. Previously, applicants for economic immigration to Canada would be assessed in the order in which they applied. Under Express Entry, more economic immigrants will be assessed more quickly where the labour market requires their skills. Given that women are key contributors to economic growth and prosperity, a number of measures have been taken to boost the labour market participation of women in Canada. Building on the Economic Action Plan 2013 commitment of $20 million over three years to help small and medium-sized enterprises provide women entrepreneurs with greater access to support, the federal government will provide support to increase mentorship among women entrepreneurs, while also conducting consultations to determine how best to support women to start and grow their businesses. Increasing labour market participation of under-represented groups is particularly crucial in the face of changing composition of the Canadian population.

Competition

The federal government is continuing efforts to intensify competitive pressures in the economy, to spur productivity improvements and innovation.

Increasing Competition in Telecommunications Sector

Canada is taking additional steps to **reduce barriers to entry and promote competition in the telecommunications sector**, an area identified as a priority by International Organizations. This includes introducing legislation to reduce wholesale roaming rates and enhancing consumer protection and regulatory compliance. In particular, the federal government has amended the Telecommunications Act to cap wholesale domestic wireless roaming rates to prevent wireless providers from charging other companies more than they charge their own customers for mobile voice, data and text services. Given that Canada's largest wireless companies have an incentive to use high mobile wireless roaming rates to ensure that new entrants are not, and do not become, fully effective competitors, new entrants are likely limited in their ability to bring attractive product offerings to market. This practice has led to reduced product choice, higher prices for consumers and less innovation in the Canadian mobile wireless market. In addition, the federal government has proposed amendments to the Telecommunications Act and the Radiocommunication Act to provide the Canadian Radio-television and Telecommunications Commission and Industry Canada with the power to impose administrative monetary penalties on companies that violate established rules such as the Wireless Code and rules related to the deployment of spectrum, services to rural areas and tower sharing.

In July 2014 the Government of Canada announced that an additional auction of commercial mobile spectrum (AWS-3) will take place in early 2015. In every region of the country, the majority of this spectrum will be set aside exclusively for operating new entrants, representing over half of the spectrum being made available and the largest single block ever reserved for new entrants in Canada. This approach will provide a clear pathway for companies looking to expand their wireless network and to deliver fast, reliable services to

Canadians.

The Government of Canada has also introduced reforms to **modernize Canada's intellectual property framework** to better align it with international practices and reduce the administrative burden for innovative Canadian businesses. Canada's existing framework for protecting intellectual property is not aligned with international practices, creating unnecessary costs for businesses. Harmonizing Canada's intellectual property regime with international norms will help Canada's businesses access international markets, lower costs and draw foreign investment to Canada by reducing the regulatory burden and red tape faced by businesses.

Increasing Competition in Financial Services

The federal government is also taking action to encourage more competition in financial services and will take a number of steps to improve the ability of new entrants and smaller banks to compete while preserving the current stability of the sector. First, the Government of Canada will **address the interests of smaller banks in relation to the regulatory framework**. The Office of the Superintendent of Financial Institutions (OSFI) has appointed an advisor to reach out to small banks and trusts and will address challenges faced by these institutions where feasible. OSFI will also review and, where appropriate, streamline the approval process for establishing a new bank. Second, the Government will seek to **ensure the ability of smaller banks to access funding**. Potential measures include requiring large banks to provide access to deposit products from small federally regulated banks and trusts through dealers. Third, the Government will **support the growth of credit unions on a national scale**, which improves choice and service coverage for consumers and also enhances the stability of the financial sector. The Government will continue to study and consult on other measures to encourage competitive financial services.

Removing Barriers to Internal Trade

More must be done within Canada's borders to ensure the free movement of goods and services across provincial and territorial boundaries. Barriers to internal trade can impede the creation of jobs and economic growth, particularly by preventing the most efficient allocation of resources and reducing competition.

In a recent report, Canada's Public Policy Forum indicated that a key challenge in strengthening internal trade is that governments and stakeholders are unable to gauge the economic impact of barriers due to a lack of data and research. To identify remaining barriers and plan for their removal, the Government announced in Economic Action Plan 2014 the development of an **Internal Trade Barriers index**, which will be modeled on the Services Trade Restrictiveness Index of the OECD. The index will help Canadian governments better identify and understand the impact of measures that are currently restricting trade, and prioritize their removal.

Given that many internal trade barriers fall under provincial and territorial governments, the types of actions that the federal government can unilaterally take to lower provincial and territorial trade barriers within Canada are very limited, and they will not be effective without cooperation of provinces and territories. In August 2014, provinces and territories agreed to undertake a **comprehensive renewal of the Agreement on Internal Trade**. Considering the desire to ensure more consistency with modern international trade agreements, parties will focus early efforts on initial priority areas: government procurement, goods, services, investment, technical barriers to trade, and regulatory cooperation.

Supporting Research and Innovation

In order to be able to make competitive gains and create high-quality, value-added jobs, Canadian businesses will also need to better harness innovation and translate knowledge into marketable products and services. Consistent with the federal government's commitment to supporting Canada's innovation system, Economic Action Plan 2014 announced **more than $1.6 billion over the next five years** in new funding for research and innovation. This includes the creation of the Canada First Research Excellence Fund, which will receive total funding of $1.5 billion over the next decade, to help Canadian post-secondary institutions excel globally in research areas that create long-term economic advantages for Canada. In addition, the federal government will provide an additional $46 million per year to the granting councils in support of advanced research and scientific discoveries.

Supporting Small Businesses

Given the important role small businesses play in the Canadian economy, the Government of Canada has introduced new tax relief to support the competitiveness of these businesses. T**he Small Business Job Credit** will effectively lower small businesses' Employment Insurance (EI) premiums from the current legislated rate of $1.88 to $1.60 per $100 of insurable earnings in 2015 and 2016. The credit will be available to any firm that pays employer EI premiums equal to or less than $15,000 in those years and is expected to benefit almost 90 per cent of all EI premium-paying businesses in Canada by reducing their EI payroll taxes by nearly 15 per cent.

Trade

The federal government is committed to maximizing trade as a driver for growth. Canada is pursuing trade liberalization multilaterally, regionally, bilaterally and unilaterally through domestic reforms.

Canada is a strong supporter of multilateral trade negotiations at the World Trade Organization (WTO). Canada has already implemented most of the requirements of the WTO's new Trade Facilitation Agreement (TFA), and is prepared to move forward on remaining **TFA requirements** in tandem with other trading partners. To help ensure the TFA contributes to global growth, Canada will be a **launch donor in support of new World Bank efforts** to help developing countries with TFA implementation. To further stimulate developing country imports into Canada, in November 2013 Canada provided $10.3M over five years to establish the **Canadian Market Access and Capacity Building Services**

Project, which will support 10,000 small and medium-sized enterprises (SMEs) and 500 trade supporting organisations in developing countries.

Building on our active participation in the multilateral trading system, Canada has an active network of Free Trade Agreement partners that it is working to expand. On August 5, 2014, **Canada and the European Union (EU) announced the completion of negotiations on the Comprehensive Economic and Trade Agreement (CETA)**. The CETA is broader in scope and deeper in ambition than Canada's previous trade agreements, covering virtually all aspects of Canada-EU trade. CETA will eliminate tariffs and guarantee market access for Canadian goods and services to the EU market of 500 million people with economic activity of almost $17 trillion. CETA will also cover the full range of elements that shape modern international trade areas such as intellectual property, government procurement, labour mobility, sustainable development and regulatory cooperation. A joint Canada-EU study that supported the launch of negotiations concluded that, such an agreement could bring a 20 per cent boost in bilateral trade and a $12 billion annual increase to Canada's economy. Canada and the EU are now proceeding with next steps, including legal review, translation and ratification.

On March 11, 2014, Canada and Korea announced the conclusion of the **Canada-Korea Free Trade Agreement** (CKFTA), Canada's first FTA in the fast-growing and dynamic Asia-Pacific region. The CKFTA is a state-of-the-art, comprehensive agreement covering virtually all sectors and aspects of Canada-South Korean trade, including trade in goods, services, investment, government procurement, intellectual property, labour and environment cooperation. The CKFTA is projected to boost Canada's GDP by $1.7 billion and increase Canada's exports to South Korea by 32 per cent.

Launched in November 2013, **Canada's Global Markets Action Plan** (GMAP), the government's strategy to support the pursuit of commercial success by Canadian companies in global markets, as well as two-way investment and innovation linkages, addresses domestic initiatives to help Canadian businesses, especially SMEs, better integrate into global value chains. The GMAP targets the markets that hold the greatest promise for Canadian businesses and ensures that all diplomatic assets are harnessed to support their commercial success. SMEs are key players in the Canadian economy and generate many new jobs, but these companies face higher challenges than others when they expand into new markets. Building on Canada's cuts to taxes and domestic red tape, the GMAP gives particular attention to SMEs by tailoring trade promotion and support services to their special needs. Of the Canadian SMEs currently exporting, only 29 per cent are present in emerging markets. The Global Markets Action Plan aims to increase this proportion to 50 per cent by 2018.

Building on efforts in recent years to lower barriers to import including the elimination of 1,800 tariffs on imported machinery, equipment and manufacturing inputs, providing more than $450 million in annual tariff relief to industrial manufacturers, and easing customs requirements for low-value shipments, in early 2015 Canada will further simplify its import processing by introducing a Single Window Initiative (SWI). The SWI, which will be fully implemented by mid-2016, will enable a "single window" approach to processing most goods that require an import licence, permit or certificate. Other elements of Canada's border modernization efforts include further improvements to paperless filing, account-based processing and electronic payment options. These measures will promote increased import volumes, stimulating competition and lowering prices. Simplified import processes will further ease the entry of manufacturing inputs, lower manufacturing production costs, and help build growth and jobs in the Canadian manufacturing sector.

Other measures

Given that the ultimate objective of the federal government is to maximize the standard of living and the quality of life of Canadians, the Government has also put forward new measures to help make life more affordable for Canadian families. The new measures include: the Family Tax Cut, which is a federal tax credit that will allow a higher-income spouse to notionally transfer up to $50,000 of taxable income to a spouse in a lower tax bracket and will provide a maximum amount of $2,000 in tax relief for couples with children under the age of 18 starting in the 2014 tax year; increasing the Universal Child Care Benefit (UCCB) for children under the age of six by $60 per month, as of January 1, 2015; expanding the UCCB to children aged six through 17 in the amount of $60 per month per child, as of January 1, 2015; and, increasing the Child Care Expense Deduction dollar limits by $1,000, effective for the 2015 tax year.

Overall, the policy initiatives included in Canada's growth strategy will result in higher economic output and employment in Canada both in the near and longer term. By supporting fiscal sustainability, strong productivity growth and international trade they will also contribute to global rebalancing through a reduction in Canada's current account deficit. Measures to increase the capital stock, such as investment in transportation infrastructure and policies to boost labour input by addressing skill mismatches and labour shortages and raising the participation of underrepresented groups, will increase the productive capacity of the Canadian economy and lead to higher potential output. These efforts will be complemented by policies to strengthen productivity through research and innovation, increased competition and removing barriers to both internal and international trade. Canada's policy agenda is designed to foster positive spillovers to the rest of the world through its openness to trade and investment, the transfer of knowledge through productivity enhancements and ensuring that underlying macroeconomic fundamentals are sound.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumption, or other factors (please specify), referring to the information provided.

   No change

2. Medium-term fiscal strategies (required for advanced economies – only if updated):

   a. Overall strategy for debt sustainability

   The Government of Canada's top priority is implementing policies focused on raising Canada's economic potential and creating stable, well-paying jobs. These efforts to support jobs and growth are underpinned by the Government's planned return to balanced budgets in 2015.

   The return to balanced budgets in 2015 will contribute to lowering the federal debt-to-GDP ratio to its pre-recession level by 2017 and puts the Government well on its way towards achieving the federal debt-to-GDP target of 25 per cent of GDP by 2021.

   b. Debt-to-GDP ratio objective

   As announced at the G-20 Summit in St. Petersburg, in September 2013, the Government of Canada is committed to achieving a federal debt-to-GDP ratio of 25 per cent by 2021. The Government may consider advancing the planned targets if Canada's economic growth is significantly stronger than expected.

   c. Intermediate objectives

   The Government of Canada is on track to balance its budget by 2015. Canada's provinces are also committed to returning to balanced budgets over the medium term and have taken actions to achieve this goal.

   d. Expenditure and revenue reforms

Expenditure Reforms:

The 2013 Fall Update of Economic and Fiscal Projections and Budget 2014 reaffirmed the Government of Canada's commitment to control the size and cost of government operations:

- The 2013 Fall Update of Economic and Fiscal Projections reintroduced a freeze on departmental operating budgets that will apply for two years beginning in 2014-15. The operating budget freeze will put increased focus on improving the efficiency of internal government operations and administration. *This measure is expected to generate savings of more than $1.6 billion over two years.*

- Budget 2014 announced the Government of Canada's intention to transition from currently paying 75 per cent of benefit costs to equal cost-sharing with retired federal employees participating in the Public Service Health Care Plan (except for low-income pensioners), and to increase from two to six years the length of service required for a person to be eligible to join the plan as a pensioner (except for current pensioners). *It is expected that the final package of changes approved in March 2014 will result in fiscal savings of roughly $6.7 billion over six years.*

Revenue Reforms:

- Budget 2014 announced a number of measures that reflect the Government of Canada's ongoing commitment to improving the fairness and integrity of the tax system, including, among others, actions to address international aggressive tax avoidance by multinational enterprises. *These measures are expected to generate over $1.7 billion in additional revenue in 2013-14 and the following five years.*

- Budget 2014 also proposed restoring the effectiveness of the excise duty on tobacco products by adjusting the domestic rate of excise duty on such products to account for inflation, and eliminating the preferential excise duty treatment of tobacco. *These measures are expected to generate additional revenues of about $3.3 billion in 2013-14 and the following five years.*

e. Reforms to strengthen the fiscal framework

In its October 2013 Speech from the Throne, the Government of Canada pledged to introduce balanced budget legislation that "will require balanced budgets during normal economic times, and concrete timelines for returning to balance in the event of an economic crisis".

3. Medium-term projections, and change since last submission *(required for all members)*:

		Estimate	Projections				
	2012-13*	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Gross Debt							
ppt change							
Net Debt (per cent of GDP)	33.3	32.3	31.5	30.3	28.8	27.3	25.9
ppt change *(- indicates improvement)*	*-0.3*	*-1.0*	*-0.8*	*-1.2*	*-1.5*	*-1.5*	*-1.4*
Budgetary Balance[1] (per cent of GDP)	-1.0	-0.3	-0.1	0.1	0.2	0.2	0.3
ppt change *(+ indicates improvement)*	*0.6*	*-0.7*	*0.2*	*0.2*	*0.1*	*0.0*	*0.1.*
Primary Balance (per cent of GDP)	0.6	1.2	1.3	1.5	1.6	1.7	1.8
ppt change *(+ indicates improvement)*	*0.3*	*0.6*	*0.1*	*0.2*	*0.1*	*0.1*	*0.1*
CAPB							
ppt change							
1. Negative value signifies a budgetary deficit; positive value signifies budgetary surplus							

4. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections			
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP growth	2.0	2.4	2.6	2.4	2.3	2.2
ppt change (+ indicates improvement)	*0.4*	*-0.1*	-	-	-	*n.a.*
Nominal GDP growth	3.4	4.4	4.3	4.4	4.4	4.2
ppt change (+ indicates improvement)	*0.3*	*-0.3*	*-0.4*	-	*0.1*	*n.a.*
ST interest rate	1.0	0.9	1.2	2.1	2.9	3.4
ppt change	-	*-0.1*	*-0.3*	*-0.4*	*-0.6*	*n.a.*
LT interest rate	2.3	2.3	3.0	3.6	4.1	4.3
ppt change	*0.5*	-	-	*-0.1*	*-0.1*	*n.a.*

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

Balanced Budget Legislation	**A pledge to introduce balanced budget legislation**
Implementation path and expected date of implementation	Work is currently underway on this initiative. Parliamentary approval is required.
What indicator(s) will be used to measure progress?	The federal government will be required to have balanced budgets during normal economic times.
Explanation of additionality (where relevant)	The legislation will enshrine the Government's current approach to fiscal policy in law to help ensure continued prudent fiscal management.

2. Investment and Infrastructure

$1.3 billion in additional strategic investments in public infrastructure and transportation services	**A further $1.3 billion over two years to support additional strategic investments in public infrastructure and transportation services across Canada, including funding for the New Bridge for the St. Lawrence project and funding for highways, bridges and dams located in national parks and along historic canals**
Implementation path and expected date of implementation	Funding for the new infrastructure projects will be allocated over the coming two years. The timing of development and construction will vary by project.
What indicator(s) will be used to measure progress?	The websites for relevant Government of Canada departments and agencies (e.g. Infrastructure Canada, Transport Canada, Parks Canada Agency, etc.) are a useful source of information regarding project updates.
Explanation of additionality (where relevant)	This commitment builds on investments announced in early 2013 as part of the new Building Canada Plan, Canada's long-term plan for infrastructure.

Cooperative Capital Markets Regulatory System	
Implementation path and expected date of implementation	The Memorandum of Agreement Regarding the Cooperative Capital Markets Regulatory System contemplates a phased approach to implementing the Cooperative System. Based on the implementation milestones set out in the Memorandum of Agreement, the Parties are targeting the cooperative capital markets regulator to be operational in the fall of 2015.
What indicator(s) will be used to measure progress?	Progress may be measured against the implementation milestones set out in the Memorandum of Agreement that was announced in September 2014.

Explanation of additionality (where relevant)	British Columbia, Ontario, Saskatchewan, New Brunswick, Prince Edward Island and Canada signed a Memorandum of Agreement Regarding the Cooperative Capital Markets Regulatory System which formalizes the key features of the Cooperative System. Consultation drafts of the proposed uniform provincial and complementary federal legislation were released in September 2014 for public comment.

Supporting Entrepreneurs through Intensive Mentoring	An additional $40 million to CAIP
Implementation path and expected date of implementation	Proposals for CAIP were accepted until October 30, 2013. On June 20, 2014, the Prime Minister announced 15 best-in-class organizations chosen to advance in the selection process. Final announcements on funding are being made at the conclusion of the respective due diligence processes.
What indicator(s) will be used to measure progress?	Successful candidates will receive funding over a five-year period. The National Research Council of Canada will administer contribution agreements with each recipient that include performance milestones and reporting requirements that must be met over the term of the agreement.
Explanation of additionality (where relevant)	The Request for Proposals under CAIP, launched in September 2013, attracted a significant number of high-quality applications from organizations across the country. To increase the impact of CAIP in helping entrepreneurs realize the business potential of their ideas, an additional $40 million has been provided to the program over four years, starting in 2015–16, increasing its total funding to $100 million.

3. Employment

Enhanced Job Matching Service and Modernized National Job Bank	Investing $11.8 million over two years and $3.3 million per year ongoing to launch an enhanced Job Matching Service (JMS) to provide job seekers with modern and reliable tools to find jobs that match their skills, and provide employers with better tools to look for qualified Canadians. Through a secure, authenticated process, registered job seekers and employers will be automatically matched on the basis of skills, knowledge and experience.
Implementation path and expected date of implementation	The Government of Canada is collaborating with the provinces and territories to coordinate systems across all jurisdictions to facilitate implementation. Additionally, as employers applying for temporary foreign workers must post their jobs on the Job Bank website, the new JMS will be able to match unemployed Canadians with employers offering available jobs that match their skills in their region. The enhanced JMS is expected to be launched by fall late 2014-early 2015.
What indicator(s) will be used to measure progress?	Successful launch of the new JMS.
Explanation of additionality (where relevant)	N/A

Internships for post-secondary graduates in high demand and support for youth internships in small and medium sized enterprises	Dedicating $40 million toward supporting up to 3,000 full-time internships for post-secondary graduates in high-demand fields such as science, technology, engineering, mathematics and the skilled trades for 2014–15 and 2015–16. **Providing $30 million of this amount to the National Research Council's Industrial Research Assistance Program (IRAP) to support youth internships in small- and medium-sized enterprises (SMEs) undertaking technical research and development projects.**
Implementation path and expected date of implementation	$10M: The Government of Canada will solicit and fund projects to support internships for post-secondary graduates in high demand fields such as science, technology, engineering, mathematics and the skilled trades. This new initiative is being implemented in fiscal year 2014 -15. $30M: IRAP is delivering incremental funding through its normal Youth Employment Program (YEP) delivery. Incremental to IRAP, the YEP is currently available in fiscal year 2014-15.
What indicator(s) will be used to measure progress?	$10M: The following key performance measures will be used to measure progress: • Number of clients served • Number of clients employed or self-employed • Number of clients who returned to school $30M: The following key performance measures will be used to measure progress: • Number of SMEs served • Number of jobs supported within a SME • Number of youth projects Number of graduates supported through youth projects
Explanation of additionality (where relevant)	N/A

Creating the Canada Apprentice Loan	**The Canada Apprentice Loan will allow eligible registered apprentices in their first Red Seal trade apprenticeship to apply for interest-free loans of up to $4,000 per period of technical training. Interest charges and repayment of Canada Apprentice Loans will not begin until after loan recipients complete or terminate their apprenticeship training program.**
Implementation path and expected date of implementation	The Canada Apprentice Loan will be available to apprentices in January 2015.
What indicator(s) will be used to measure progress?	It is expected that upwards of 26,000 apprentices per year will apply for over $100 million in Canada Apprentice Loans.
Explanation of additionality (where relevant)	N/A

Flexibility and innovation in Apprenticeship Technical Training pilot project	Expand innovative approaches to the delivery of apprentice technical training aimed at reducing non-financial barriers to completing training and obtaining certification.
Implementation path and expected date of implementation	The Government of Canada is developing an implementation approach, informed by consultations with stakeholders with the objective to start pilot projects in late 2014-early 2015.
What indicator(s) will be used to measure progress?	This is a research-oriented initiative and an evaluation framework will be developed, with indicators to be included in pilot project agreements. The number of pilot projects implemented from 2015 will be an initial indicator to measure project progress.
Explanation of additionality (where relevant)	N/A

Reallocate $15 million annually within the Youth Employment Strategy	To facilitate the linkages between SME employers and youth, $15 million annually within the YES will support up to 1,000 full-time paid internships per year for post-secondary graduates in small and medium-sized enterprises (SMEs)
Implementation path and expected date of implementation	The initiative will be implemented through a national call for proposals for projects expected to be two years in length, beginning in fiscal year 2014-2015.
What indicator(s) will be used to measure progress?	The following indicators will be used to measure performance: • Number of clients served • Number of clients employed or self-employed • Number of clients who returned to school
Explanation of additionality (where relevant)	N/A

Express Entry system	Providing $14.0 million over two years and $4.7 million per year ongoing to launch Express Entry, a new application management system that will allow the Government of Canada, provinces and territories, and employers to actively target skilled immigrants under key economic immigration programs.
Implementation path and expected date of implementation	Starting January 2015, skilled foreign workers will indicate their interest in immigrating to Canada by providing information electronically about their skills and work experience. Candidates who are most likely to succeed in Canada's labour market, based on human capital characteristics, job offer or nomination by a Province or Territory, will receive an Invitation to Apply for permanent residence.

What indicator(s) will be used to measure progress?	A performance measurement strategy (PMS) is under development and will be implemented before Express Entry launch in January 2015. This PMS will utilize a combination of new and existing performance indicators and measures, including: • volume and inventory of applications and processing times for Express Entry applicants; • the skill profile and attributes of candidates issued an Invitation to Apply (ITA); • the number and percentage of Express Entry candidates issued an ITA who have a job offer from a Canadian employer; and, • economic outcomes for skilled immigrants selected through Express Entry. The results from these indicators will be monitored regularly.
Explanation of additionality (where relevant)	N/A

4. Competition

Encouraging competition in the telecom sector	**Introduction of a legislated cap on wholesale domestic wireless roaming rates, amendments to provide telecommunications regulators with the power to impose administrative monetary penalties, and additional auction of commercial mobile spectrum in early 2015.**
Implementation path and expected date of implementation	Legislative cap on wholesale wireless roaming rates were included in the *Economic Action Plan 2014 Act, No.1,* which received Royal Assent on June 20, 2014. Amendments to provide for an administrative monetary penalties regime were included in the Economic Action Plan 2014 Act, No.2, tabled on October 23, 2014. Parliamentary approval is required.
What indicator(s) will be used to measure progress?	Indicators include pricing, usage and investment in the telecom sector.
Explanation of additionality (where relevant)	N/A

Modernize Canada's Intellectual Property Framework	**Legislative amendments required to ratify or accede to the following widely recognized international treaties: the Madrid Protocol, the Singapore Treaty, the Nice Agreement, the Patent Law Treaty and the Hague Agreement.**
Implementation path and expected date of implementation	Legislative amendments pertaining to trademarks were included in the *Economic Action Plan 2014 Act, No.1,* which received Royal Assent on June 20, 2014. Amendments pertaining to patents and industrial designs were included in the Economic Action Plan 2014 Act, No.2, tabled on October 23, 2014. Parliamentary approval is required.

What indicator(s) will be used to measure progress?	The Government has tabled the above treaties in Parliament. Accession is dependent upon the passage of indicated legislation.
Explanation of additionality (where relevant)	N/A

The Government will address the regulatory framework interests of smaller banks	
Implementation path and expected date of implementation	OSFI appointed an advisor to reach out to small banks and trusts and identify and then address challenges faced by these institutions, where appropriate. The advisor's work is ongoing. Following a review of the OSFI approval process, appropriate changes to streamline the process may be implemented on an incremental basis.
What indicator(s) will be used to measure progress?	Indicators may include the appointment of the advisor, updated public guidance and supervisory approaches that are proportionate to banks' systemic importance, and the potential streamlining of the approval process for establishing new banks.
Explanation of additionality (where relevant)	N/A

Seek to ensure the ability of smaller banks to access funding	
Implementation path and expected date of implementation	The Government continues to consider further flexible funding options for smaller banks. This process is ongoing.
What indicator(s) will be used to measure progress?	Indicators may include consultations on funding options for smaller banks.
Explanation of additionality (where relevant)	N/A

Support the growth of credit unions on a national scale	
Implementation path and expected date of implementation	Ongoing consultations with credit union system and provincial authorities on facilitating entry of interested credit unions into the federal framework.

What indicator(s) will be used to measure progress?	Indicators include finalization of consultations.
Explanation of additionality (where relevant)	N/A

Reducing barriers to internal trade	**Development of an Internal Trade Barriers Index to identify measures currently restricting trade between provinces and territories, to help all jurisdictions in focusing reforms on priority areas.**
Implementation path and expected date of implementation	This initiative was announced by the federal government in February 2014 and is currently in its design phase. The government will work with sub-national governments to populate the Index as quickly as possible. Cooperation of sub-national governments is required to create the Index, as well as to undertake priority reforms.
What indicator(s) will be used to measure progress?	Indicators of progress include the number of industry sectors covered by the Index and its geographic scope.
Explanation of additionality (where relevant)	N/A

$1.6 billion new support for research and innovation	**A key component of the initiative is the creation of the Canada First Research Excellence Fund, which supports the global leadership of Canadian post-secondary institutions in research areas that create long-term economic advantages for Canada.**
Implementation path and expected date of implementation	The details of the Canada First Research Excellence Fund are being finalized with the expectation that funding of $50 million in 2015–16, $100 million in 2016–17, $150 million in 2017–18, and $200 million annually in 2018–19 and beyond will be disbursed through an open and competitive process based on peer review. The other components of the $1.6 billion new funding will be distributed over the coming years.
What indicator(s) will be used to measure progress?	Grants awarded to post-secondary institutions under the Canada First Research Excellence Fund will be reported publicly. The overall program relevance and performance will be evaluated periodically after implementation, per government policy. The status of other components will be published in departmental reports of leading organizations.
Explanation of additionality (where relevant)	N/A

Small Business Job Credit	**Small businesses' Employment Insurance (EI) premiums will be reduced from the current legislated rate of $1.88 to $1.60 per $100 of insurable earnings in 2015 and 2016**
Implementation path and expected date of implementation	The Small Business Job Credit will apply to Employment Insurance (EI) premiums paid by small businesses in 2015 and 2016. It will be automatically administered by the Canada Revenue Agency, which will determine eligibility and calculate the amount of the credit. Once calculated, the credit will be applied against any outstanding debt and then the remaining amount, if any, will be refunded to the small business.
What indicator(s) will be used to measure progress?	Automatically administered by the Canada Revenue Agency.
Explanation of additionality (where relevant)	N/A

5. Trade

Fully implement all TFA requirements in tandem with trading partners	
Implementation path and expected date of implementation	Canada already meets most of the requirements of the TFA. Canada will work to implement the remaining procedural provisions of the TFA in tandem with trading partners.
What indicator(s) will be used to measure progress?	Canada will have implemented the great majority of the provisions of the TFA by November 2014.
Explanation of additionality (where relevant)	N/A

Canadian Market Access and Capacity Building Services Project	
Implementation path and expected date of implementation	To further stimulate developing country imports into Canada, in November 2013 Canada provided $10.3M over five years to establish the Canadian Market Access and Capacity Building Services Project, implemented by the Trade Facilitation Office of Canada. This project will assist small and medium-sized companies in more than 40 developing countries to develop their capacity to export to the Canadian market.
What indicator(s) will be used to measure progress?	The target for the Canadian Market Access and Capacity Building Services Project is to support 10,000 small and medium-sized enterprises (SMEs) and 500 trade supporting organisations in developing countries over five years.
Explanation of additionality (where relevant)	N/A

Canada and EU CETA	On August 5, 2014, Canada and the EU announced completion of negotiations on CETA, which covers all aspects of Canada-EU trade, including goods, services, investment, government procurement, and many others.
Implementation path and expected date of implementation	A legal review of the CETA text is ongoing, followed by translation. The CETA text must be made official in 23 official EU languages. This will be followed by the process required to approve the agreement in Canada and the EU along with the steps necessary to bring policies, regulations and legislation into conformity with the obligations under CETA. CETA will enter into force once both Parties have completed their implementation procedures and ratified the agreement. The overall process starting from the conclusion of the negotiations through the legal review, translation, and approval process is expected to take approximately two years.
What indicator(s) will be used to measure progress?	CETA is signed, ratified, and entered into force.
Explanation of additionality (where relevant)	N/A.

Canada Korea Free Trade Agreement	On March 11, 2014, in Seoul, Prime Minister Stephen Harper and President Park Geun-hye of South Korea announced the conclusion of the Canada-Korea Free Trade Agreement (CKFTA) negotiations, Canada's first FTA in Asia.
Implementation path and expected date of implementation	Canada and South Korea are working on their respective domestic implementation processes with a view to having the CKFTA enter into force as soon as possible.
What indicator(s) will be used to measure progress?	The CKFTA is signed, ratified, and entered into force.
Explanation of additionality (where relevant)	N/A

Canada's Global Market Action Plan	Under the Global Markets Action Plan, the Government of Canada is concentrating on the markets that hold the greatest promise for Canadian business through vigorous trade promotion and ambitious trade policy. The Global Markets Action Plan will ensure that all Government of Canada assets are harnessed to support the pursuit of commercial success by Canadian companies and investors in key foreign markets, to generate new jobs and new opportunities for workers and families.
Implementation path and expected date of implementation	The *Global Markets Action Plan* was officially launched on November 27, 2013, and will be implemented over the next 5 years.
What indicator(s) will be used to measure progress?	The *Global Markets Action Plan* sets targets to grow Canada's SME footprint in emerging markets and create new jobs for Canadians. The targets under the plan are as follows: **Five-Year Target to Increase SMEs Exporting to Emerging Markets** • Grow Canada's SME export presence in emerging markets from 29 percent to 50 percent by 2018. ○ This would grow Canada's SME footprint in emerging markets from 11,000 to 21,000 companies. ○ This growth would create more than 40,000 net new jobs. The following tools will be used to track the specific five-year SME target as well as progress on implementing the Global Markets Access Plan more generally: • Data from Statistics Canada, in particular the Exporter Register, to track the international footprint of Canadian SMEs in emerging markets, as well as employment changes. • TRIO, the Client Relationship Management System for the Canadian Trade Commissioner Service, to track the growth of its SME client base and monitor sectors and markets of interest, in particular to SMEs. • TRIO to track how the services we give to Canadian clients lead to their success in pursuing opportunities that range from sales to innovation partnerships to investments. • Client Service Surveys to measure satisfaction with the services provided by the Canadian Trade Commissioner Service. • Updated study on the Canadian Trade Commissioner Service identifying how Canadian companies benefit from its services. • Ongoing tracking of the implementation of various initiatives announced in the *Global Markets Action Plan*, including the development of Market Access Plans, the creation of a new advisory council, the opening of new Trade offices, the launch of sector strategies, etc.
Explanation of additionality (where relevant)	N/A

COMPREHENSIVE GROWTH STRATEGY:

CHINA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

China’s medium and long-term development goal is to maintain the sustainable and healthy development of the economy, transform the economic development pattern, double its GDP and per capita income for urban and rural residents by 2020 from its 2010 level based on much more balanced, coordinated and sustainable development; build an innovative economy with considerable increase of scientific and technology's contribution to economic growth; basically accomplish industrialization, significantly expand IT application, markedly improve the quality of urbanization, notablely modernize the agriculture industry and effectively construct new rural communities, put in place a mechanism for balanced development among regions; further open up the economy, significantly enhance international competitiveness. China will keep household incomes growing in line with the economic development, and achieve overall balance of the major policy targets, including economic growth, employment, inflation and balance of payments.

China 's economic and social development in 2014 is anticipated as follows:

-**Keep economic growth within a proper range.** GDP is projected to grow by around 7.5%. Efforts to comprehensively deepen reform will further boost the impetus and vitality of the economy. Policies and measures introduced earlier to stabilize the growth will continue to take effects, to which consumption, investment and external demand all contribute. Whereas, China has entered a crucial stage of transforming its growth pattern. The anticipated growth rate of around 7.5% is flexible and indicative.

-**Focus on quality improving and upgrading of the economy.** China will accelerate development of modern service industries, to continuously raise the share of value-added by the service sector in GDP. China will increase the ratio of the R&D spending in GDP, accelerate the transformation and upgrading of traditional industries, facilitate the healthy development of emerging strategic industries, orderly promote the new urbanization and more balanced development among regions. Energy consumption per unit of GDP will decline by more than 3.9%.

-Maintain price stability. CPI growth will stabilize around 3.5%. The basically balanced aggregate supply and demand, continuous increases of grain output and the amply supply of almost all products lay a solid foundation and provide favorable conditions for stable prices.

-Giving high priority to improving people’s wellbeing. More than ten million new jobs will be created in urban area this year, with registered urban unemployment rate below 4.6%. Urban and rural household incomes will increase basically in line with economic growth. China will further improve the social security system and ensure equal access to basic public services. Construction of 4.8 million government-subsidized housing units will be basically completed in urban areas, and another over 7 million units will start constructing.

-Maintaining basic balance of international payments. Total imports and exports will grow by 7.5% or so, with more rapid development of trade in services. Investment overseas will continue to grow, while FDI will remain stable with improved structure.

China's economic adjustment and reform could contribute to continuously releasing and increasing the growth potential, maintaining stability and sustainability of the growth and improving its quality, achieving full employment and reducing income gaps, therefore, steadily increase household income and consumption capacity, so as to increase global demand on a sustainable basis. China's adherence to reform and opening up, especially by promoting trade and investment liberalization and facilitation, will contribute to sharing growth bonus with other members, and achieving the G20's aggregate growth ambition.

Key Commitments

China's top five key reform areas are: (1) the "new macroeconomic policy responses" to stabilize near-term growth, (2) "transform the economic growth pattern" to further boost consumption, (3) improve "competition" to allow the market to play the basic role and promote private sector involvement, (4) promote "urbanization" to support growth and employment, (5) reform the fiscal and financial sector.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Key Drivers

Domestic demand continued to be the key drivers of growth, with consumption as the basis and investment as the key. Domestic demand contributes 104.4% to growth in 2013.

Consumption is the main focus of boosting domestic demand. In 2013, total retail sales of consumer goods amounted to 23.78 trillion yuan, growing by 13.1% year-on-year. In particular, housing decoration, sales of furniture, and sales of household appliances and audio & video equipments grew by 22.1%, 21% and 14.5%, respectively, vehicle sales grew by 13.9% to 21.98 million. Enormous potential arose in new patterns and new areas of consumption. Consumption on IT products grew by 28% to 2.2 trillion yuan, revenue of domestic tourism grew by 15.7% to 2.6 trillion yuan, and the turnover of e-commerce grew by 25% to 10 trillion yuan.

Investment is crucial to keep growth stable. In 2013, total investment in fixed assets grew by 19.1% to 44.63 trillion yuan, in particular, private investment grew by 23.1%, accounting for 63% of the total (excluding investment by rural households), 1.8 percentage points higher than the previous year.

Macroeconomic Policy Settings

China will implement a proactive fiscal policy and increase the deficit by an appropriate amount to ensure a proper stimulus in 2014. At the same time, the deficit-to-GDP ratio will remain unchanged. Fiscal deficit of China is estimated at 1.35 trillion Yuan, 150 billion Yuan more than that of 2013. The deficit is equivalent to about 2.1% of GDP.

China will continue to implement a sound and prudent monetary policy, based on balanced consideration of the need to stabilize growth, implement reform, promote adjustment, improve people's wellbeing, and guard against risks, aimed at stable monetary and financial conditions for structural adjustment, transformation and upgrading. M2 is forecast to grow at around 13% in 2014.

Assessment of Obstacles and Challenges to Growth

China is facing both favourable and unfavourable factors. China is still in an crucial strategic period of development, during which great progress can be achieved, given the ongoing industrialization and urbanization and the considerable potential for regional development, which provide solid foundation and favorable conditions for maintaining a medium and high growth rate for a period to come. However, the foundation for sustaining a steady growth is yet to be reinforced, and the inherent driving forces need to be strengthened. There are potential risks in public finance and financial sector. Some industries are heavily burdened by excess capacity, and macro-management is facing increasing difficulties. Capital market is still not mature. Rising cost of production and operation of enterprises coexists with the lack of innovation capability. Economic development is still to be reconciled with resource and environment, as conserving energy and reducing emissions remain an arduous task. Employment remains a great challenge overall, with increasing structural mismatches.

At the same time, the global recovery is facing instability and uncertainties. Adjustment of macroeconomic policies by some countries introduced new uncertainties, and emerging economies are facing new difficulties and challenges. The global economy is undergoing profound adjustment and international competition is intensified.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

New Fiscal Policy Commitments

China will continue to implement a proactive fiscal policy, optimize the structure of government expenditures and use government funds more efficiently, improve tax policies that encourage structural adjustments, strengthen local government debt management;

promote sustainable agricultural development and advance urbanization; refine the medical and health care and social security systems; give impetus to the reform and development of education, science and technology, and culture; improve the structure of central government investment in capital construction; continue to review and regulate charges and fees to reduce the burden on businesses; establish the Railway Development Fund, attracting social capital into the railway construction, especially in central and western regions; support the pilot and demonstration projects to build a new type of urbanization; promote the use of Public and Private Partnership (PPP) model, and encourage the involvement of nongovernmental capital in investing and operating urban infrastructure by means of franchises and other ways; leverage the role of development finance and accelerate redevelopment of shanty towns; explore ways to set up national guidance fund for venture capital in emerging industries; encourage and guide the development of production-oriented service industries; promote the development of the green industry and provide more support to new energy, energy-saving and environmental friendly technologies and products; actively carry forward pilot projects on the using and trading of emission rights, encourage energy saving and emission reduction, and promote the development of the circular economy.

New Monetary Policy Commitments

The People's Bank of China will comprehensively use a combination of monetary policy tools on both quantity and price basis, improve macroprudential policy framework, maintain liquidity at an appropriate level , achieve appropriate growth of monetary supply, credit and aggregate social financing, and improve the structure of financing and credit. Moreover, monetary policy is to be closely linked with the deepening reform, and the market is to play a decisive role in resource allocation. The macro-management shall be further improved in light of the financial deepening and innovation, and the transmission shall be complete. Financial services are to be enhanced by increased supply and competition, higher efficiency of financial transactions and greater capability of serving the real economy.

• The New policy action:	Strengthen financial support to the real economy
Implementation path and expected date of implementation	Lower reserve requirement ratio (RRR) for targeted financial institutions, maintain the appropriate growth of monetary credit and social financing aggregate. From April 25, 2014, the People's Bank of China has lowered renminbi RRR by 2 percentage points for county-level rural commercial banks, and by 0.5 percentage points for the county-level rural cooperation banks. From June 16, 2014, the People's Bank of China has lowered RRR by 0.5 percentage points for the commercial banks having met the prudential requirements and allocated certain percent of their credit to small and micro enterprises, but not applicable to the financial institutions already having their RRR lowered on April 25, 2014. In addition, the RRR for the finance companies, financial leasing companies and auto financing companies has been lowered by 0.5 percentage points to encourage them to further increase capital efficiency and promote consumptions. Effective on July 1, 2014, adjust calculation method of the loan to deposit ratio (LDR) for commercial banks, to mitigate pressure on some banks' LDR. By doing so, on the assets side, encourage more support to the real economy and increase of credit to rural and small and micro companies; on the liabilities side, encourage more sources of stable funds; furthermore, effectively control financial risks and promote more development and deepening of financial products. 6 items are to be deducted when aggregating the loans of the LDR: (1) credit derived from funds of central bank's re-lending to support rural sector, and small and micro companies; (2) credit derived from proceeds of special financial bond issues to support agriculture, rural and peasants; (3) credit derived from proceeds of special financial bond issues to support small and micro companies; (4) credit derived from proceeds of commercial banks' bond issues which will mature in more than a year with no permit for early redemption. (5) credit derived from funds from international financial organizations or overseas governments onlent to commercial banks; (6) credit issued by village banks to rural households and small and micro companies using deposits of primary sponsor banks. 2 items are to be added when aggregating the deposits of the LDR: (1) banks' large negotiable deposit certificate issued to the enterprises or households; (2) net deposits of foreign banks from their overseas parent banks with the maturity of more than a year. Strengthen the financial support to small and micro companies by enlarging the size of re-lending to them and their quota of special financial bond issues, reducing the guarantee costs of small and micro companies, increasing the efficiency of credit approval, minimizing the financing costs, streamlining unnecessary charges, and enhancing the risk monitoring and supervision. Formulate measures to enhance the financial services to agriculture, rural areas and farmers. Develop village banks, implement policies of using certain percent deposits of county-level banks to support local development, improve subsidized lending policies to support poverty alleviation. Ensure the full coverage of basic financial services in remote villages, improve the policy of subsidizing the premium in agricultural insurance, foster the rural financial markets, and refine policies on fiscal incentives to agricultural related lending, tax preferences for rural household microfinance, and compensation for the rural credit loss.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

New Structural Policy Responses

Transformation of Economic Growth Pattern

Boosting domestic demand is both a major force driving economic growth and an important structural adjustment. China will fully leverage the basic role of consumption and the key role of investment, focus on boosting consumption, stimulate both supply and demand, and establish a permanent mechanism for increasing domestic demand. Take investment as the key to maintaining stable economic growth.

• The New policy action:	Strengthen the household consumption capability
Implementation path and expected date of implementation	Promote actively and steadily the collective negotiations of wages in enterprises, adjust appropriately the minimum wage standards, and promote the reasonable increase of wages for normal employees. Increase the income for farmers, by continuing to increase spending on “agriculture, rural areas and farmers”, improving the subsidy policy for agriculture, and environment for farmers to go out to work elsewhere. Accelerate the construction of urban and rural social security system, expand the coverage of insurances, and gradually raise the level of social insurance.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Tap new sources of consumption growth
Implementation path and expected date of implementation	Implement China's broadband strategy, speed up efforts to build 4G mobile communications networks and develop 4G businesses, build 100M fiber optic networks in cities and household access, significantly increase the speed of the internet, and advance the delivery of telecommunications, radio and television, and internet access over a single broadband connection. Strengthen services of elderly care, and encourage participation of private sector in establishing large and chain elderly care facilities. Support nongovernmental capital to establish non-profitable medical service institutions, and expand gradually the pilot scope for qualified foreign capital to set up the wholly-owned medical institutions. Establish and improve modern market for cultural products, and promote cultural creativity as well as relevant industries. Strengthen tourism infrastructure, introduce the system of annual leaves with pay for employees, encourage the development of tourism in rural areas and recreational tourism. Continue to support the consumption of energy-saving and environmental-friendly products including energy-saving lamps and cars.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Build good consumption environment
Implementation path and expected date of implementation	Improve urban and rural circulation networks, speed up the development of urban joint distribution and rural distribution network, and promote the coordinated development of express delivery service and online retail industry. Strengthen the regulation on food and drugs' quality, and advance the project of "trusted food". Effectively strengthen the market discipline, crack down violations of consumers' rights. Establish and improve social credit information collection system, and promote credit information sharing. Develop modern circulation by means of informatization, to promote convenient and value-for-money consumption. Use information technologies to develop modern circulation, standardize development of e-commerce, encourage transformation and upgrading of traditional retail enterprises, and promote the deep integration of online and offline business modes. Encourage the development of chain operation, and accelerate the development of logistics and distribution. Strengthen planning and guidance, to enhance the construction of circulation infrastructure, and support the construction and upgrading of public facilities including wholesale markets of agricultural products Develop basic living service industries with the purpose to benefit the people and boost service consumption. Implement *the State Council's Guideline on Promoting Elderly Care and Medical Care*, and prop up the formulation of guideline on development of basic life service, to promote the development of services for family, communities and villages. Strengthen market regulation by securing market discipline, and promote safe and worry-free consumption. Strengthen the legislation and rules setting in the circulation area, improve credit information system in commerce area, upgrade market regulation, and promote the coordinated law enforcement. Refrain from all forms of regional blockades and trade monopolies, and conduct joint campaigns targeting irregularities. Strengthen the education of professional ethics, and create a social environment of encouraging honesty and punishing dishonesty. Increase effective supply and promote new hot spots of consumption by enhancing information provision and sharing. China will accelerate the integration of market information service system to form a public information service platform, which shall cover both domestic and international markets and be based on data from government's monitoring and complemented by private sector sources. Highlight the role of brand in consumption, promote the development of new business modes such as factory stores and outlets, and encourage the development of consumption credit. Promote consumption of the green and recycling products. Implement *the State Council's Guideline on Promoting Energy-saving and Environment-friendly Industries* , foster procurement, circulation and markets for green products, accelerate the exit of cars too old or with high emission, promoting trade-in of the old for new. Develop the markets for used car and goods.
What indicator(s) will be used to measure progress?	Aggregate social retail sales
Explanation of additionality (where relevant)	Strengthen the traction and contribution of consumption in the economic development.

Fiscal and Tax Institution Reform

The State Council executive meeting reviewed and approved the Overall Plan of Deepening Fiscal and Tax Institution Reform on June 30, 2014. The goal of the reform is to set up a unified, comprehensive, law-based, well-regulated, open, transparent, sustainable and efficient modern fiscal system that is conducive to better resources allocation, market unification, social equality and national stability. The reform focuses on 3 areas: improving budget management system, strengthening budget constraints, regulating government behaviours, exercising effective supervision, and speeding up the establishment of a comprehensive, well-regulated, open and transparent modern budgetary system; deepening tax reform, optimizing tax structure, improving tax functions, stabilizing macro tax burden, advancing law-based tax administration, building a tax system that is conducive to scientific development, social equality, and market unification, giving full play to the tax functions in raising fiscal revenue, adjusting distribution, and optimizing economic structure; adjusting fiscal relations between the central and local governments while keeping the distribution of revenues stable, dividing power and spending responsibilities between central and local governments in a rational manner, establishing a system whereby power matches spending responsibilities. The new round of fiscal and tax institution reform will be completed by 2016, and a modern fiscal system will be built by 2020.

• The New policy action:	Reform and improve the excise tax system
Implementation path and expected date of implementation	It is aimed to do the following before 2016: further enhance the role of excise tax in promoting energy saving and emission reduction, and adjustment of income distribution. Meanwhile, support will be given to building local tax system after the reform of replacing business tax with VAT, increase local fiscal revenue, and adjust the scope and mechanisms for the excise tax collection and the rate of duty.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	Compared with current policy, the post-reform excise tax will i. Include some energy intensive and highly polluting products and luxuries into the scope of collection, and improve the regulatory role of excise tax. ii. Connect with the reform of replacing business tax with VAT, and include some high end service into the scope of collection. iii. Adjust to the changes in production and consumption by removing some products that are no longer suitable for excise tax collection from the scope of collection.

• The New policy action:	Legislation on the real estate tax
Implementation path and expected date of implementation	The National People's Congress (NPC) will formulate and promulgate the *Real Estate Tax Law*. At present, Ministry of Finance is accelerating legislation on the Real Estate Tax under coordination of the NPC, and the promulgation date will depend on the reviewing progress of the NPC.

What indicator(s) will be used to measure progress?	i. When the NPC start to review *the Real Estate Tax Law* ii. When the NPC promulgate *the Real Estate Tax Law*
Explanation of additionality (where relevant)	The NPC legislation process of the Real Estate Tax Law will help improve the social acceptability to *the Real Estate Tax* and lay the foundation for its smooth implementation.

• The New policy action:	Advance the reform of replacing business tax with VAT
Implementation path and expected date of implementation	China has already started the reform on a trial basis on railway transport and postal services on January 1, 2014. Pilot reform on telecommunications services has started since June 1 this year.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

• The New policy action:	Implement a preferential policy of deferred payment of individual income tax to encourage the development of annuity plans in enterprises and public institutions
Implementation path and expected date of implementation	Since January 1, 2014, employers and individuals' contributions to enterprise annuity or occupational annuity within the limit are deductible for individual income tax purpose; i investment income from enterprise annuity or occupational annuity funds is exempt from individual income tax; benefits payments of enterprise annuity or occupational annuity actually received by individuals will be subject to individual income tax.
What indicator(s) will be used to measure progress?	In December, 2013, Ministry of Finance, State Administration of Taxation, Ministry of Human Resources and Social Security jointly issued a document to introduce this policy.
Explanation of additionality (where relevant)	

• The New policy action:	Further expand the preferential tax policy for small businesses with low profits
Implementation path and expected date of implementation	From January 1, 2014 to December 31, 2016, should the income of small low-profit enterprises whose annual taxable income not exceeding CNY100,000 (inclusive) shall be subject to corporate income tax at the rate of 20% on only 50% of the taxable income.

What indicator(s) will be used to measure progress?	In April, 2014, Ministry of Finance and State Administration of Taxation jointly issued a document to introduce this policy.
Explanation of additionality (where relevant)	

• The New policy action:	Advance coal resource tax reform from volume-based collection to ad valorem based collection
Implementation path and expected date of implementation	At present, apart from petroleum and natural gas, resource tax on coal, iron ore and other items remains volume-based. Going forward, China will gradually review and cancel the fees and charges related to coal resources, and deepen the reform of levying price-based resource tax on coal.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

• The New policy action:	Speed up legislation on environmental protection tax
Implementation path and expected date of implementation	To improve the role of tax in environmental preservation, China is actively reforming the current environmental protection fees into environmental protection tax. In line with the principle of leveraging regulatory role, using tax to replace fees, gradualism, proper burden, and efficient collection, China will implement a tax reform to change the current pollutant discharge fees into environmental protection tax, which will begin to levy when the NPC pass the law.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

• The New policy action:	Adjust tariff rates of certain goods
Implementation path and expected date of implementation	China implemented provisional tax rates on over 760 kinds of imported commodities including advanced technology and equipment, key parts, and energy raw materials. Those provisional tax rates are lower than the MFN rates with an average discount rate of 60%.
What indicator(s) will be used to measure progress?	The policy is implemented on January 1, 2014.

Explanation of additionality (where relevant)	

• **The New policy action:**	**Implement a comprehensive government financial reporting system**
Implementation path and expected date of implementation	China will establish government accounting standards system, formulate government financial reports system, and prepare accrual basis government financial report in order to reflect the government financial situation in an accurate and comprehensive way, and provide effective information for fiscal risk prevention, government credit rating as well as performance supervision and assessment to promote sustainable development of finance and economy.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

• **The New policy action:**	**Launch a trial program allowing local governments to issue bonds and repay debt on their own**
Implementation path and expected date of implementation	A trial program has been launched in 10 local governments, which permits them to issue bonds and repay debt by themselves in 2014 under the precondition that the State Council controls the volume and durations of such bonds. In the following years, the trial will be gradually expanded based on the experience of these trials.
What indicator(s) will be used to measure progress?	The number of regions that launch the trial.
Explanation of additionality (where relevant)	According to regulations of the trial program, the pilot provinces are required to conduct credit rating and information disclosure, which is conducive to open and transparent local government budget.

• The New policy action:	Fiscal system reform
Implementation path and expected date of implementation	China will accelerate the pace in adjusting duties and payment responsibilities of the central and local governments. We will appropriately strengthen the duties and payment responsibilities on the basis of transforming government functions and properly dividing defining the boundary between government and the market. While maintain overall stability of current financial structure between central and local governments, China will further rationalize the revenue allocation between central and local governments in line with the tax reform and nature of tax items.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

• The New policy action:	Simplify and consolidate VAT rate for particular general taxpayers to reduce businesses' burden
Implementation path and expected date of implementation	A 3 % VAT rate will replace the former 6% and 4% rate on particular general taxpayers such as tap water supply and small hydropower plants from July 1, 2014, reducing tax load on related businesses by 24 billion Yuan per year.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

Financial Reform

Deepen the reform of financial sector. Continue to liberalize interest rates by granting financial institutions more discretion to set interest rates. In line with development of market and economic and financial conditions, allow the exchange rate basically stable around the appropriate equilibrium level, with greater two-way floating flexibility and greater role of market. The central bank basically withholds the foreign exchange intervention except for abnormal circumstances, aimed at a managed floating arrangement based on market supply and demand.. Enlarge the cross-border use of renminbi and move gradually toward convertibility under capital account. Establish a macroprudential policy framework targeting external debt and capital flows, and improve risk management in an increasingly open capital account. Qualified private capital is allowed to set up financial institutions such as small or medium-sized banks, conditioned on strengthened supervision. Attract qualified private capital to participate and invest in financial institutions and financing intermediaries. Establish a deposit insurance system and improve the risk disposal of financial institutions.Accelerate the development of multi-layered capital markets, promote the reform of stock issuance registration, encourage equity financing through diversified channels, raise the proportion of direct financing, develop and standardize the bond market, promote the two-way opening-up of capital markets. Standardize the development of agriculture insurance, explore catastrophe insurance, encourage the expansion of commercial pension and health insurance, and deepen the development of liability insurance. Promote the healthy development of Internet banking, improve the coordination of financial oversight, and closely monitor the cross-border capital flows. Ensure the financial sector play an active role in serving the real economy, including small and micro businesses, agriculture, rural areas, and farmers.

• The New policy action:	Interest rate liberalization reform
Implementation path and expected date of implementation	Fully liberalize the lending rate, by removing the floor on lending rates for financial institutions, liberalizing the discount rates, and removing the ceiling on lending rates for rural credit cooperative. In September 2013, adopt a market pricing self-discipline mechanism, as an institutional basis for the interest rate liberalization. In October 2013, establish the central quotation and release mechanism for benchmark lending rate, providing important reference for financial institutions to price the lending, helping to improve interest rate benchmark for financial markets. In December 2013, promote the first issuance and trade of interbank deposit certificates, further expand the scope for financial institutions' liability products to be priced by the market, to provide experiences for future consideration of issuance of large size deposit certificates for enterprises and individuals. In March 2014, remove the ceiling on deposit rates for small deposits in foreign currencies in the Pilot China (Shanghai) Free Trade Area, as an attempt to promote deposit rate liberalization in foreign currencies. Looking forward, the People's Bank of China will adhere to the general direction toward an interest rate formation mechanism decided by market supply and demand, focusing on completing the market rate series and interest rate transmission mechanism, enhance the macro-management of the central bank and advance the interest rate liberalization reform.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	**Market-based renminbi exchange rate formation mechanism**
Implementation path and expected date of implementation	On March 15, 2014, the People's Bank of China announced to broaden the floating band of interbank spot exchange rate of renminbi against USD to 2% from 1%, effective March 17. The foreign currency market will be further developed, with more foreign currency products, broader and deeper market, to better meet the demand of enterprises and individuals.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	**Renminbi capital account convertibility**
Implementation path and expected date of implementation	Further transform the foreign exchange management, facilitate overseas investment, and shift the focus from administrative approval to monitoring and analysis, from micro-control to macroprudential management, from "positive list" to "negative list". Gradually facilitate domestic enterprises' extension of credit and financing guarantee in renminbi or foreign currencies to external counterparts. Promote the two-way opening up of capital market, and increase in an orderly way the convertibility of cross-border capital and financial transactions. When conditions allow, eliminate the approval of qualification and quotas for QDII and QFII, and expand the relevant investment facilitation policies to all domestic and foreign legal institutions. Promote the interconnection between domestic and international exchange markets, and relieve gradually the restraints for foreign institutions to issue or place renminbi bonds in domestic market. Take into full consideration of the currency, duration matching in assets and liabilities, adjust appropriately the size of external liabilities, optimize the structure, and guard against related risks. Strengthen oversight of short-term speculative capital flows, especially transactions of financial derivatives. In extreme cases, adopt macro- and micro-prudential policies to restrain the large short-term capital inflows and outflows. Establish and improve relevant monitoring system, to facilitate cross-border capital flows as well as effectively information collection.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Macroprudential policies
Implementation path and expected date of implementation	Continue to implement and improve differentiated reserve requirement dynamic adjustment mechanism, with timely adjustment of related policy parameters, and continue to leverage on its role of counter-cyclical adjustment. Strengthen the monitoring and assessment of systemic risks. Continue to conduct stress test on financial stability, improve the daily monitoring and risk assessment system for banking, securities, and insurance sector. Deepen the onsite evaluation of financial institutions' soundness. Study and establish the identification standards and assessment framework for domestic systematically important financial institutions, strengthen appropriately the supervision and regulation requirements, establish the orderly resolution and liquidation arrangement, and promote the establishment of crisis management group of ICBC and China Pingan Group.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Pilot projects of private capital setting up private banks
Implementation path and expected date of implementation	The pilot work has been launched, with the first group of 5 pilot banks publicly announced in March 2014. The China Banking Regulatory Commission will approve the applications on a piecemeal basis, in accordance with laws and regulations.
What indicator(s) will be used to measure progress?	The establishment of the first pilot bank
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Support private capital to participate in setting up of village and town banks (VTB)
Implementation path and expected date of implementation	Publish *The Operational Rules on the Implementation of Administrative Licensing of Medium- and and Small-sized Rural Financial Institutions*, reduce the requirement of minimum share holding by VTB principal sponsors, and encourage the participation of private capital.
What indicator(s) will be used to measure progress?	Equity proportion of private capital of VTB

Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• **The New policy action:**	**Allow the qualified private capital to set up financial leasing companies and consumer financing companies**
Implementation path and expected date of implementation	In November 2013, the newly revised *Administrative Rules of Pilot Projects of Consumer Financing Companies* was published, on updating the eligibility of main fund contributor, increasing the types of participating institutions, removing regional constraints, encouraging entry of more private capital that could provide more resources to consumer financing. The list of pilot cities for establishing consumer financing companies will be further expanded, to encourage and guide eligible private capital to set up consumer financing companies according to market principles. In March 2014, the revised A*dministrative Rules of Financial Leasing Companies* was published, which shifted from principal contributor-based to sponsor-based, and no longer distinguish principal contributors from other contributors. All qualified institutions are allowed to set up financial leasing companies as sponsors, and all kinds of private capital are granted the access to the financial leasing industry, enriching types of shareholders of financial leasing companies, optimizing the corporate governance, steadily and continuously facilitating the access of newly set financial leasing companies.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Improve the multi-layer capital market system
Implementation path and expected date of implementation	Develop multi-layer equity market, steadily promote stock issuance registration reform, and encourage the market-based Merge & Acquisition. Standardize the development of bond market, and provide diversified bond products for varied investor group. Further the development of the futures market, launch major resource commodities futures, build the financial futures market, and gradually develop future market for government bond. Cultivate the private equity market, regulate and develop investment funds, and encourage venture capital funds to support the growth of small and medium-sized and micro enterprises. Encourage innovation by intermediaries, broaden market entry, support the growth of professional institutional investors, and promote the healthy development of internet finance. Further the opening-up of capital markets, establish and improve Connection between Shanghai and Hong Kong Stock Markets, facilitate the cross-border investment and financing for domestic and overseas entities, and encourage dealers of securities and futures to develop cross-border business.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Deepen the insurance reform
Implementation path and expected date of implementation	Establish a sound, standardized, and well functioning modern insurance sector with high capability of service provision, innovation and global competition worldwide, covering both urban and rural areas and reflecting the economic and social development needs of China. Promote the innovation in insurance services, explore catastrophe insurance, orderly develop agriculture insurance, expand commercial pension and health insurance, and deepen the development of liability insurance. Promote the innovation in insurance market system, deepen the reform of pricing formation mechanism, and promote the reform of asset management and market entry/exit mechanism. Promote the innovation in insurance regulation, speed up the establishment of law and regulation in key regulatory areas, explore new supervisory method with negative list, and strengthen the information disclosure of insurance operation and service.
What indicator(s) will be used to measure progress?	

Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

Urbanization

Steadily advance urbanization. (1) Facilitate in an orderly manner the transition of migrant rural population into urban residents. Develop supporting policies concerning urban residence registration, land, capital, housing and basic public services to facilitate the unregistered residents who are able to have stable jobs and reside in urban areas to become urban residents. Work out measures to narrow disparity within cities. Promote the equalization of basic public services in urban and rural areas. (2) Improving the structure and form of urbanization. The central government will formulate and implement plans for developing major city clusters, while local governments will work out and implement their own plans for urbanization in light of local specifics, in order to develop cities of all sizes and small towns in a coordinated manner, while rationalize the development of new cities or districts. (3) Making the development of cities more sustainable by enhancing the underpinning industries and employment, ensuring financing through diversified and sustained sources, and providing better public facilities and services to sustain greater population concentrations. (4) Improving the institutions and mechanisms of urbanization. Carry out pilot programs of different types in different regions and at different levels on the establishment of burden sharing of the cost arising from the transformation of rural residents to urban residents, and the diversified financing to support investment in urban construction, to foster an institutional environment conducive to the sound development of urbanization more quickly.

• The New policy action:	Push forward Human-centered urbanization
Implementation path and expected date of implementation	Advance coordinated development amongst big, middle, small cities and towns and the integrated development of industries and towns, promoting the synchronous development of urbanization and construction of new rural communities. Focus on the capacity building of providing basic urban public services, increasing spending on compulsory education, employment, basic pension insurance, basic health care, Shanty towns redevelopment, affordable housing construction, and ensure the complete coverage of basic public services for urban residents. Coordinate the allocation of transportation infrastructure and information network in the Metropolitan Area, strengthening regional environmental improvement, promoting inter-regional connection and sharing of infrastructure and public service, and advancing the integration of the Metropolitan Area. Strengthen the construction of public transportation, energy and communications, water supply and drainage, waste disposal, underground pipeline network, logistics and other municipal utilities, coordinating the construction of schools, hospitals, cultural, sports, employment services, social security and other public facilities, enhancing services supporting concentrated population, and increasing investment in the construction of green cities, smart cities, and cultural cities. Strengthen development of modern agriculture and construction of rural communities, increasing investment in irrigation, innovation of agricultural science and technology, agricultural facilities and equipment, and circulation of agricultural products, and coordinating the construction of urban and rural infrastructure and public facilities as a whole.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Provide further support of development financing to shanty town redevelopment
Implementation path and expected date of implementation	Effectively combine the policy support and market mechanism, especially leverage the role of development financing that rely on state credibility, serve the state strategy, and seek little or no profit, provide finance channel for the acceleration of shanty town redevelopment, to ensure its financing needs, and strive to lower the cost of funds. Establish a special institution by China Development Bank, with separate book entry to issue special financial bonds for housing on market terms, raising funds from financial institutions, including postal savings, and other investors, encourage the active participation of commercial banks, social security funds, insurance institutions, with the focus on supporting the shanty town redevelopment and related construction of urban infrastructure.
What indicator(s) will be used to measure progress?	

Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	**Further promote the reform of urban residency registration system**
Implementation path and expected date of implementation	Strive to help the unregistered residents that are capable to work and reside in the urban areas to orderly become urban residents, and steadily promote the full coverage of basic urban public services for these residents. Give priority to settling down those who have migrated to the urban areas early, with strong capabilities of finding jobs and adapting to the urban conditions and market competition, encourage them and their families to settle down in the urban areas, and orderly guide the population flows. Actively extend the basic urban public service from the local registered population to unregistered population, and gradually ensure that those rural migrant population who have resided and worked in the urban areas but did not register in the urban system could access basic urban public service. Improve the property rights system in rural areas, secure the rights of the contractual operation of land, on the use of homestead land and the distribution of collective income. Implement differentiated registration policies in light of local specifics. Promote the appropriate layout of big, medium, small cities and towns, reconciling their functions; strengthen the medium, small cities and towns' capability of agglomeration economy to facilitate rural migrants' settling down in urban areas.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

Investment and Infrastructure

Accelerate reform of the investment and financing system, encourage diversification of investor base, launch more demonstration projects involving private investment. Deepen the reform of overseas investment management mechanism, replacing approvals with reporting for record, to minimize the scope of review and approval; Simplify the procedures, and promote the formulation of specific laws and regulations regarding the overseas investment.

Improve the investment structure, and maintain appropriate growth in fixed-asset investment. Budgetary investment of the central government will rise to 457.6 billion yuan, mainly in government-subsidized housing, agriculture, major water conservancy projects, railways in the central and western regions, energy conservation, environmental protection and social programs. The government investment will play a catalytical role to attract more investment in these areas from other sources. Environmental protection, energy consumption, and technology standards in industries with severe overcapacity will be strengthened, to absorb existing excess capacity and strictly control increases of new capacity. Strong measures will be taken to strengthen pollution prevention and control, change the way energy being produced and consumed, strengthen energy conservation and emission reduction, continue to raise the proportion of electricity generated by non-fossil fuel, develop clean production, green and low-carbon technologies and the cycling economy, speed up the development and use of energy-efficient and environmentally friendly technologies and products. Carry out a new type of human-centered urbanization, with focus on improving the quality of urbanization.

Improve business climate to encourage foreign investment in China, exploring the new management model of pre-establishment national treatment and negative list, facilitating business registration, and broaden the market entry.

• The New policy action:	Facilitating reforms of investment financing system
Implementation path and expected date of implementation	Improve the approval system for corporate investment projects, revising and publishing approaches on management of corporate investment projects, foreign investment projects, overseas investment projects, standardizing approval of corporate investment projects by government, as well as revising and developing relevant documents. Carry out research on reforming the approval system of investment projects by innovative corporate, putting forward measures for improving and standardizing approval, suggesting approvals or services to be remained based on a thorough review of existing procedure. The results of the research will be incorporated in Regulations on Approval and Recording of Corporate Investment Projects. Propose the amendment to the Catalog of Government Approved Investment Projects (2015 edition) in appropriate time, further narrow the scope requiring approval and decentralizing approval authority. Continue the third-party assessment of the 36 Operational Rules on Encouraging and Guiding the Sound Development of Private Investment, and recommend projects in the fields of infrastructure and service that encourage private investment. The list of first 80 projects was published on May 21.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Government investment should play a leading role
Implementation path and expected date of implementation	In 2014, investment by central government budget intends to increase to 457.6 billion RMB, focusing on key areas and weakness spots where resources cannot be effectively allocated by market mechanism, and supporting systemic, fundamental and strategic projects. Enhance the support to redevelopment of Shanty towns and the building of supporting infrastructure, and focusing on the construction of supporting infrastructure for affordable housing. Support the construction of high quality farmland, promoting the construction of grain storage facilities, and improving self-supply capacity. Increase investment in railway construction, support the construction of incomplete national expressways, bottleneck sections of national and provincial highways, high-class inland waterways such as Yangtze River, feeder airports for the Central and West and trunkline airports for the West, and promote the coordinated regional development of Yangtze River economic belt. Increase investment in environmental improvement, enhancing air pollution control, implementing soil protection engineering, promoting water pollution control in key river valleys, and reinforcing environmental improvement of key industries. Strengthen the construction of social service and management system, advancing the construction of social welfare facilities such as nursery of the elder and rehabilitation of the disabled, improving food safety inspecting ability, and promoting construction of quality inspection system of agricultural products. Increase significantly national guidance fund for venture capital in emerging industries. Speed up the construction of large hydraulic projects of water saving and water supply, particularly the 172 planned large hydraulic projects by steps in 2013, 2014, and the thirteenth five year plan period.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Resolving production overcapacity through market mechanism
Implementation path and expected date of implementation	Digest, transfer, integrate and eliminate excess production capacity, as well as gradually introduce long-term solution. In the next steps, Chinese government will continue to regard resolving production overcapacity as the key of industrial structure adjustment, strengthen entry standards of energy-saving, land -saving, water saving, environment, technology and security.

What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Deepen reforms of administration system of overseas investment
Implementation path and expected date of implementation	In the context of transforming government functions, the approval process of overseas investment will be reformed and improved to facilitate overseas investment, the Ministry of Commerce has published the *revised Administrative Rules on Administration of Overseas Investment* on September 6, 2014. *The revised Administrative Rules on Overseas Investment* will adopt a new system focused on recording and supplemented by approval, significantly cutting issues requiring approval for overseas investment, simplifying the application procedure and save time.
What indicator(s) will be used to measure progress?	Increase of numbers of overseas corporations.
Explanation of additionality (where relevant)	The future implementation of revised Administrative Rules on Overseas Investment will effectively promote Chinese corporations' investment in other countries including G20 members, contributing to job creation and economic growth of host countries.

• The New policy action:	Create favourable investment environment
Implementation path and expected date of implementation	In the new round of opening-up and reform, Chinese government will create more favorable investment climate to further encourage foreign investment in China. It will explore the management model of pre–establishment national treatment and negative list , further facilitate business registration, and broaden market entry; unify laws and regulations governing foreign as well as domestic investment, maintain the stability, transparency and predicability of investment policy; improve market opening in sectors such as finance, education, culture, health care services in a orderly manner, lift market access restrictions in sectors such as nursery of the new born and the elders, architectural design, accounting and auditing, commerce and logistics, e-commerce, and further open up the area of the general manufacturing sector.
What indicator(s) will be used to measure progress?	

Explanation of additionality (where relevant)	

Employment

Steadfastly implement the strategy of “employment first”, with more energetic employment policy, aimed at full employment and more rewarding and higher quality jobs. Improve the employment and business startup environment, and foster business startups in an innovative way to create more jobs. Provide non-stop employment and business startup services, increase the rate of employment and business startup for college graduates. Increase support for urban residents difficult to find jobs, ensure that at least one member in every zero-employment family gets a job. Carefully manage reemployment to workers laid off due to the business merge and acquisitions, disposal of the overcapacity, shutdown of outdated production facilities. Provide coordinated employment services to rural migrant workers.

• The New policy action:	Continue to adopt a pro-employment strategy
Implementation path and expected date of implementation	Improve and fully implement the preferential policies for promoting job creation, keep the job promotion as a priority objective of economic and social development, set the lower limit of the range for growth rate on the basis of the need for stabilizing growth and securing employment, creating more sufficient employment with higher quality through development. Build and reinforce links between investment and employment, interaction between industrial development and employment structure improvement, coordination between urbanization and integration of migrant workers into urban residents. Strike a balance between growth, structural reform and employment, enhance coordination between fiscal, monetary, industrial and employment policies. Encourage development through innovation, introducing support for high-tech SMEs, fully exploring job creation potentials of hi-tech development zone, economic development zone and SMEs. Support development of strategic new industries, advanced manufacturing, modern services, modern agriculture, to create more jobs.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Encourage employment through starting new businesses
Implementation path and expected date of implementation	Support the development of medium, small and micro-enterprises, and encourage employment through starting new businesses. Improve and fully implement the preferential policies for starting new business, and relevant public services. Enhance training for starting new business and ensure equal opportunities for all that have the ambition for starting a new business and therefore the demand for the training. Improve climate for new business, including fast lane for registration and opening accounts, to alleviate the burden of new starters. Intensify supports of college graduates starting new business via mini collateralised loans, exploring multi approaches to supporting new businesses via better use of the Guiding Funds for investing in new business and relevant tax preferential policies. Construct special industrial zones for college graduates to start new businesses. Double the size of central budget's fund on the startup and investment in emerging industries, accelerate the establishment of national guidance funds for venture capital in emerging industries. Improve the long-term effective mechanism of marketization, guide the effective recycling and repeated use of capital, and address the financing difficulties for the innovative medium and small enterprises.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Continue implementing and improving the tax policies that could support and promote start-up and employment
Implementation path and expected date of implementation	Extend the maturity of tax policies that support and promote start-up and employment, for priority groups from the end-2013 to the end-2016. Remove the eligibility restrictions for sectors and people to enjoy relevant preferential policies. The tax preferential policy would be extended to companies that employed those who have been listed in the registered unemployment for more than a year. Raise the upper limits of tax deductable. Those who have self-employed or attracted employment, can access greater preferential tax policies by local governments, in addition to the existing state fixed-sum tax deduction. Expand the scope of tax deduction to more taxes, including the local education supplementary tax. Simplify procedures. Shift the preferential tax management policies from approval-based to registration-based, to create a better environment for the start-up and employment.

What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Making coordinating efforts to facilitate employment of priority groups, particularly college graduates
Implementation path and expected date of implementation	Pay greater attention to employment of young people, particularly college graduate, developing more jobs suitable for them and promote the college to strengthen employment guidance, in the context of economic development and industrial upgrading. Introduce the plan to facilitate employment of unemployed graduates and a new round of guiding strategy of college graduates to start new businesses, aimed at enhance their working skills and exploring multiple approaches to find the job or start new businesses.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Improve the employment assistance
Implementation path and expected date of implementation	Support and assist residents who have difficulties finding jobs, and ensure accountability of assisting agencies. Carefully manage reemployment of workers laid off due to the merge and acquisitions, disposal of overcapacity, and shutdown of outdated production facilities. Guide local government to implement the specific employment assistance plan, strengthen fact finding, safeguard the employees' rights, and help the relocated to find jobs. Ensure that at least one member in every zero-employment family gets a job, and promote the orderly migration and employment for rural labor forces.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Strengthen the vocational training
Implementation path and expected date of implementation	Promote the construction of public centers for vocational training and enhance training capability, in line with the need of structural adjustment and enterprises' transformation and upgrading. Conduct 1-2 semester vocational training focusing on the new grown labor forces such as junior or high school graduates that fail to pass the entry exam for higher education. Conduct training on practical skill for migrating workers and urban residents who have difficulties finding jobs. Encourage enterprises to appropriately use the education and training spending for employees, and spend more on the skill training for workers at the production line.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Strengthen employment service
Implementation path and expected date of implementation	Improve equalized public employment services in urban and rural areas, providing more standardized, professional services. Improve employment and unemployment registration system, and update the national employment information service platform to enhance the quality and efficiency of employment services. Build an integrated, well-regulated and flexible human resource market, and put the market forces in full play in human resource allocation.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

Competition

Deepen reform of the administrative system, further streamline administration and delegate more power to lower-level governments, by cancelling or delegating to lower-level governments an additional 200 plus items requiring State Council review and approval. Foster a new open-economy system and advance a new round of opening up to embrace the international market, to enhance China's ability to compete internationally. Enhance the vitality of economic entities under all forms of ownership, improve the distribution and structure of the state-owned sector of the economy and accelerate the development of mixed-ownership economic entities, open access to competitive operations in more areas so as to create a platform for the full participation of private capital, and establish a sound modern corporate structure and corporate governance. Use innovation to support and lead economic structural improvement and upgrading, elevate China's industries to the high end of the global value chain, promote full integration of IT application with industrialization, encourage businesses to accelerate technological upgrading, make traditional industries more competitive, build a platform for supporting business start-ups and innovation in emerging industries to guide their development, let market competition determine which businesses survive, and encourage acquisitions and restructurings.

• The New policy action:	Further reforms on administrative system
Implementation path and expected date of implementation	Further streamline and decentralize the approval process, cancelling or delegating to local governments' approval requirements on more than 200 administrative issues this year. Deepen reforms on approval of investment, cancelling or simplifying ex ante approval, to ensure enterprises' discretion on investment and facilitate business starting. Formulate and disclose the list of issues that do require approval, any issue not on the list will not be required for approval. Streamline approvals on non-administrative issues, completing reform of governments on provincial, municipal and county level, advancing reforms of non-profitable public institutions. Implement reform of business registration system nationwide， adopting registration by paid-in capital， transit the annual review of enterprises into regular disclosure of annual reports, to encourage dynamics of market entities.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Natural selection through competition and under appropriate regulation
Implementation path and expected date of implementation	Encourage merging and restructuring of enterprises. Apply anti-monopoly measures in accordance with the "Anti-Monopoly Law" and the principle of "strengthening market regulation, containing monopoly and inappropriate competition", effectively maintain the order of market competition, while allowing market entities to concentrate their businesses according to laws and regulations on the basis of fair competition, therefore increase the business scale and enhance competitiveness.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Increase dynamics of businesses of all ownership
Implementation path and expected date of implementation	Allow more state owned enterprises to establish mixed ownership with entities of other ownership. Investment projects sponsored by state sector are allowed to co-finance with non-state sector. Improve allocation of state owned assets, reduce the holding of state owned shares in share holding companies with large state owned proportion, allow participation of non state sector, transfer some state owed assets to support the finance of social security fund. Enhance supervision of state owned assets through capital management, reform the authorized operation of state owned assets. Clearly define the mandates of the state owned asset. In light of the nature of state owned sector and the mandates of the state owned enterprises, pursuant to the nature of enterprises' main operations, the features of the development of the correspondent industries, the need of national strategy, and on the basis of thorough stocktaking and standard setting, categorize the nonfinancial state owned enterprises into non-profitable public service, natural monopoly, and general competitive. Establish a number of state owned assets management companies, and support the conditional transformation of state owned enterprises into state owned asset investment companies with differentiated capital structure, operational objectives and performance assessment. Improve budgeting of operations of state owned assets, raise the ratio of profits surrendered to public budget to secure and improve social welfare.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

Trade

Upgrade exports and promote balanced growth of foreign trade from a strategic perspective. Keep export policies stable and improve them, accelerate reform to facilitate customs clearance, and extend trials of cross-border e-commerce. Implement policies to encourage imports, and import more products in short supply in China. Guide the transformation and upgrading of processing trade, develop service trade and outsourcing. Continue to promote trade liberalization and facilitation, actively participate in developing high-standard free trade areas, and strive for mutual benefit with other countries.

• The New policy action:	Accelerate to develop new competitive advantages for exports
Implementation path and expected date of implementation	Upgrade labour-intensive exports, expand the exports of mechanic and electric products, high-tech products and large complete-set equipments such as telecommunication, railways and power plants， rigorously control the exports of products with high energy-consumption and pollution. Encourage enterprises to establish international marketing network, and enhance their ability to explore international markets. Actively explore emerging markets, and further diversify export markets.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Promote reform of customs clearance facilitation
Implementation path and expected date of implementation	Further streamline non-tariff measures, loosen import management measures, simplifying import procedures, and lower the import fees and costs. Continue to streamline the procedure of customs clearance by introducing a pilot program of integration of cross- region customs clearance and extend the implementation of paperless customs clearance reform. Enhance the custom coordination between inland and coastal and border custom regions, and establish the information exchange, regulation deference and enforcement assistance between port management agencies. Improve the coordination mechanism of custom clearance between inland, coastal and border areas, promote the building of the e-port, extend the pilot program of “Jurisdiction declaration and port clearance”. As a result, the export and import of inland goods has gradually realized “declare once, inspect once and clear once”, enhancing the efficiency of port clearance and lowering the costs of customs clearance.
What indicator(s) will be used to measure progress?	Import volume and import commodity structure
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Support the innovative developments of foreign trade
Implementation path and expected date of implementation	Research is made to expand pilots for market procurement in eligible areas, facilitating the export of small and micro-enterprises. Expand the pilots of cross-border e-commerce, and research on measures promoting the retail exports of cross-border e-commerce. Research is made to adopt measures in support of imports of cross-border e-commerce and cultivating a batch of large e-commerce enterprises. Research is made to introduce policy measures to promote the development of enterprises engaged in comprehensive services for foreign trade, facilitating customs clearance, financing, logistics and tax rebate for small and medium-sized foreign trade enterprises.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Enhance the comprehensive effects of imports
Implementation path and expected date of implementation	Stabilize and encourage the imports of commodities, actively expand the imports of advanced technology and equipment and key components as well as products conducive to energy reservation and environmental protection, reasonably raise imports of consumer goods, and highlight the role of import in promoting macroeconomic rebalancing and structural adjustment. Optimize the structure of trade balance, promote the diversification of import origins, and improve the management mechanism of import and export of key agricultural products. Continue to improve the import promotion system. Support commodities exhibition and merchandise show to expand imports. Encourage and organize investment and trade promotion delegations to explore markets overseas. Steadily expand the pilots of innovation demonstration areas for boosting imports.
What indicator(s) will be used to measure progress?	Import volume and import commodity structure
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Innovate the processing trade pattern
Implementation path and expected date of implementation	Innovate the pattern of processing trade and guide the inland regions to utilize their local advantages to enhance their attractiveness as the destination of industrial relocation both from abroad and at home. Promote the integrated and clustered development of assembly, supply of parts and raw materials, R&D and settlement in the inland regions, to make them new destinations of the processing trade chain previously located in the coastal areas. Improve policy measures to upgrade the processing trade and its supporting system to areas of R&D, designing, key parts manufacturing and logistics.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Accelerate the development of trade in services and service outsourcing
Implementation path and expected date of implementation	Increase the share of service sector in the economy, optimize industrial structure, overcoming the environmental and resources restrains, enhance the quality and benefits of economic growth, transform the development mode of foreign trade, improve the foreign trade structure, and transform and upgrade the trade of goods. Stabilize and promote exports of traditional services such as tourism, transportation and construction services, and endeavour to increase exports of emerging services including cultural services, Chinese traditional medicines, software and information services, commerce and logistics, finance and insurance services. Promote the development of service outsourcing, actively participate in the global services transfer across countries, and proactively cultivate the new service trade pattern such as technological design, consulting services and software services.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

• The New policy action:	Firmly promote trade liberalization and facilitation
Implementation path and expected date of implementation	Proactively participate in the WTO Doha Round negotiations, promote the faithful implementation of the Bali Package by all members, expedite the formulation of a pragmatic, feasible and balanced “post-Bali” work plan possibly by the end of 2014, and fully conclude the Doha Round negotiations on the basis of respecting the Doha mandate and its development dimension, and the result achieved so far. While recognizing the multilateral trade system as the main channel, accelerate applying the free trade areas (FTA) strategy with the focus on neighbouring countries and regions. Speed up FTA talks with the Republic of Korea, Australia and the Gulf Cooperation Council. In the ongoing and future FTA talks, adopt an open attitude towards issues such as environmental protection and e-commerce. Expedite the formation of high-standard free trade zone networks opening to the whole world. Expand the common interests between China and its counterparts, and strive for mutual benefits and win-win results.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New policies since the Saint Petersburg Summit

Australia 2014

COMPREHENSIVE GROWTH STRATEGY: EUROPEAN UNION

OCTOBER 2014

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

The purpose of this section is to state your country's economic objective and to set out the five key policy commitments that will contribute meaningfully to that objective.

Economic Objective

Describe your country's short- and medium-term economic objectives.

Discuss how your growth strategy will contribute to your country's economic objectives and the G-20's objectives of strong, sustainable, and balanced growth.

Short-term objectives (for 2014)

The EU keeps the momentum on structural reforms to foster competitiveness, employment, and domestic sources of growth, while tackling the social consequences of the crisis. On 18 February 2014, EU Finance Ministers agreed on the five broad policy priority areas outlined by the European Commission on which national and EU level economic reform efforts should concentrate in 2014:

(i) Pursuing differentiated, growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances; (ii) Restoring lending to the economy; (iii) Promoting growth and competitiveness for today and tomorrow; (iv) Tackling unemployment and the social consequences of the crisis; and (v) Modernizing public administration.

On 26-27 June 2014 the European Council endorsed country-specific recommendations (CSRs) based on the priorities described above and on the information EU Member States submitted in April 2014 in their medium-term budgetary plans and economic reform programmes in the context of the European Semester[1]. The main challenges facing EU Member States in 2014-2015 set out by the European Council can be summarised as follows: (i) Tackling unemployment and the social consequences of the crisis; (ii) Reducing debt; (iii) Shifting to growth-friendlier taxation; (iv) Boosting private investment; and (v) Making EU economies more competitive (in particular in the areas of services sector, energy and transport infrastructure, R&D systems and competition law).

Implementation of the CSRs is key to accelerate growth. Based on the principles of national ownership and social dialogue, EU Member States should implement the recommendations in their forthcoming decisions on budgets, structural reforms and employment and social policies. The EU Council and the European Commission will further monitor CSR implementation and take action as required.

Medium-term objectives (next five years)

On 26-27 June 2014, the European Council agreed on the strategic agenda of key priorities for the next five years. It recalled its commitment to the rules of the Stability and Growth Pact and the need to continue to pursue structural reforms. In the field of jobs, growth and competitiveness the priorities for the next five years are to:

- fully exploit the potential of the single market in all its dimensions: by completing the internal market in products and services; and by completing the digital single market by 2015;
- promote a climate of entrepreneurship and job creation, not least for SMEs: by facilitating access to finance and investment; by ensuring more resilient financial regulation; by improving the functioning

[1] The European Semester is the first phase of the EU's annual cycle of economic policy guidance and surveillance. Each European Semester, the European Commission **analyses** the fiscal and structural reform policies of every Member State, **provides recommendations**, and **monitors their implementation**. http://ec.europa.eu/economy_finance/economic_governance/the_european_semester/index_en.htm

of labour markets and by shifting taxes away from labour; by reducing unnecessary administrative burdens and compliance costs in a targeted manner, respecting consumer and employees protection as well as health and environment concerns;

- invest and prepare the EU economies for the future: by addressing overdue investment needs in transport, energy and telecom infrastructure as well as in energy efficiency, innovation and research, skills, education and innovation; by making full use of EU structural funds; by mobilising the right mix of private and public funding and facilitating long-term investments; by using and developing financial instruments, such as those of the European Investment Bank, in particular for long-term projects; and by providing the right regulatory framework for long-term investments;
- reinforce the global attractiveness of the European Union as a place of production and investment with a strong and competitive industrial base and a thriving agriculture, and complete negotiations on international trade agreements, in a spirit of mutual and reciprocal benefit and transparency, including the Transatlantic Trade and Investment Partnership (TTIP), by 2015;
- make the Economic and Monetary Union a more solid and resilient factor of stability and growth: with stronger euro area governance and stronger economic policy coordination, convergence and solidarity, while respecting the integrity of the internal market and preserving transparency and openness towards non-euro EU countries.

Contribution to the G-20 objective of strong, sustainable, and balanced growth

Higher growth in the EU will boost exports demand for non-EU G20 members and so spill over to the rest of the G20. At the same time there could also be offsetting negative spillovers due to competitiveness enhancing effects. Therefore, the net spillover effects are likely to be limited. Nevertheless, model simulations suggest that they are positive and could amount to up to 10-20% of the home (i.e. EU) effect. Likewise, the EU could benefit from growth raising measures in other G20 countries to a similar order of magnitude.

Key Commitments

List top 5 commitments from the Growth Strategy here. Selection should be based on relevance to key gaps, impact on growth, ability to generate positive spillovers and facilitate domestic and external rebalancing).

In line with the EU growth and jobs objectives presented above and the need to continue growth-friendly fiscal consolidation in some member states, the agreed priorities in the G20, and taking into account the expected significant impact of structural reforms on achieving strong, sustainable and balanced growth in the EU and beyond, the five top commitments from the EU Growth Strategy are:

1. FINALISATION AND IMPLEMENTATION OF A GENUINE BANKING UNION, BASED ON A SINGLE RULEBOOK, A SINGLE SUPERVISORY MECHANISM AND SINGLE RESOLUTION MECHANISM WITH A CENTRAL DECISION – MAKING BOARD AND A SINGLE RESOLUTION FUND;

2. IMPROVING ACCESS TO LONG-TERM INVESTMENT FINANCE IN THE EU AS PART OF DEEPENING OF CAPITAL MARKETS AND ENSURING MORE AND BETTER FUNDING FOR RESEARCH AND INNOVATION;

3. ADDRESSING HIGH UNEMPLOYMENT, IN PARTICULAR YOUTH UNEMPLOYMENT AND FACILITATING LABOUR MOBILITY;

4. FURTHER INTEGRATING THE SINGLE MARKET, INCLUDING IN THE SERVICES, ENERGY, TRANSPORT AND DIGITAL MARKETS, WHILE REDUCING ADMINISTRATIVE BURDEN FOR COMPANIES;

5. ADVANCING THE MULTILATERAL AND BILATERAL TRADE AGENDA, INCLUDING THE FULL AND TIMELY IMPLEMENTATION OF THE TRADE FACILITATION AGREEMENT AND PROGRESS IN CONCLUDING FREE TRADE AGREEMENTS.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

The goal of this section is to outline the current state of growth in the economy, relative to potential growth (Indicative length – 2 pages).

Current and Future Growth Prospects

Describe current growth and projections based on your current policy framework. In particular, are growth projections above or below potential growth and to what extent? Please use national projections.

	Key Indicators for the EU					
	2013* **	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP (% yoy)	0.1	1.6	2.0	2.1	2.2	1.9
Nominal GDP (% yoy)	1.6	2.9	3.5	3.7	3.9	3.6
Output Gap (% of GDP)*	-3.1	-2.4	-1.5	-0.9	-0.3	0.1
Inflation (%, yoy)	1.5	1.0	1.5	1.7	1.8	1.8
Fiscal Balance (% of GDP)**	-3.3	-2.6	-2.5	-1.3	-0.6	0.1
Unemployment (%)	10.8	10.5	10.1	9.5	8.8	7.1
Savings (% of GDP)	18.9	19.4	19.8			
Investment (% of GDP)	17.5	17.7	18.2			
Current Account Balance (% of GDP)	1.6	1.8	1.8			

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**

Note: The data for 2013-2015 are taken from the European Commission Spring 2014 Forecast[2], whereas the data for 2016-2018 are the weighted averages calculated on the basis of the figures reported by the EU Member States (except for Greece and Cyprus) in their Stability and Convergence Programmes. For 2018, Belgium, Greece, Spain, France, Cyprus, Malta, the Netherlands, Slovakia and all but one (UK) non-euro area Member State have not reported their figures.

Europe's economy began to recover in the second quarter of 2013 and is expected to gain strength in 2014 and 2015. Potential GDP growth projections for the EU are: 0.7% in 2013, 0.9% in 2014 and 1.0% in 2015. Thus, according to the European Commission Spring 2014 Forecast real GDP growth would be above potential GDP growth in 2014 and 2015.

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[2] http://ec.europa.eu/economy_finance/eu/forecasts/2014_spring_forecast_en.htm

Key Drivers

Identify the industries and the expenditure components (e.g. consumption, investment) that are major drivers of growth and explain whether the composition of growth is expected to change.

The recovery is expected to become increasingly driven by domestic demand and to spread across EU Member States. Differences in the expected rates of growth across the EU should narrow, particularly as the recovery has now reached the large majority of Member States, including those most affected by the crisis. Domestic demand is set to continue firming this year and next, replacing net exports as the main driver of growth. After two years of contraction, domestic demand has started firming and business and consumer confidence continues improving. In the meantime, the legacy of excessive debt, financial fragmentation, uncertainty and the acute need for fiscal consolidation are fading. The fiscal stance of the EU and that of the euro area this year are expected to be broadly neutral.

This strengthening of domestic demand, though still expected to be modest in 2014, will be fuelled by all components, both private and public. Investment growth, in particular investment in equipment, is projected to strengthen significantly, (total investment growth in the EU is projected to be 3.1% in 2014 and 4.7% in 2015, while investment in equipment growth is projected to be 4.9% and 6.5% respectively) as the main impediments to firms' demand and profits are slowly receding, and the improvement in the economic outlook is confirmed. Uncertainty has significantly receded over the past year and a half and should continue to do so under the assumption of smooth policy implementation at the EU and Member-State levels. Financing conditions are also expected to improve and to support further investment spending. Private consumption showed only marginal growth at the onset of the recovery but is expected to gain momentum over 2014-2015 (private consumption expenditure growth in the EU is projected at 1.2% in 2014 and 1.6% in 2015), as the labour market improves, real disposable incomes benefit from low consumer price inflation, and the drag of fiscal consolidation diminishes. In line with improved confidence and lower precautionary savings, households are expected to spend most of the increase in real income.

Assessment of Obstacles and Challenges to Growth

Describe the key challenges, vulnerabilities, and policy gaps facing the economy (both near and medium term), which could include those highlighted by International Organisations and peers. In addition to conjunctural gaps, the focus should be on the themes agreed by Ministers (investment, employment, competition, trade), but other key issues can be discussed if they are particularly relevant in your country.

Infrastructure and SMEs are key contributors to sustainable growth in the European Union, as well as in other G20 members. High quality infrastructure enhances the productivity across economic sectors, supporting growth, and facilitating the integration of the internal market. Investment needs for infrastructure and SMEs, in particular, are both pressing and have significant potential to contribute to lifting output. SMEs represent some two thirds of employment and nearly 60% of the value-added in the EU. They contribute significantly to GDP growth through their overall importance as well as their ability to innovate, grow and create employment. Significant long-term investment will be needed in human capital and in research and development.

The climate of uncertainty and risk aversion created by the financial and economic crisis has affected both the demand and the supply of financing. On the demand side, this has been evidenced by reduced demand from SMEs, Public-Private Partnerships and other investment projects requiring long-term financing, resulting in a suboptimal level of long-term investment and financing. On the supply side, the crisis has increased risk aversion, leading to a preference for liquidity which, together with bank deleveraging, has affected the economy's ability to finance itself at long maturities. In addition, the sub-optimal levels of long-term financing also reflect market failures and inefficiencies in the intermediation chain.

The **employment and social impact of the crisis** is still being heavily felt. With 25.18 million unemployed in the EU (18.55 million in the euro area), or a EU28 seasonally-adjusted unemployment rate of 10.3% in May 2014, unemployment remains very high, despite the slight drop registered in the recent months in the EU (and the euro area) as a whole. Young people under 25 continue to be the hardest hit by the job crisis, with a seasonally adjusted unemployment rate standing at 22.9 % in February 2014 for the EU. Compared to unemployment in general, youth unemployment is more sensitive to the economic cycle. This implies that the economic recovery, if sufficiently strong, might be accompanied by a stronger decline of youth unemployment. However, in several Member States high youth unemployment is associated with a high share of young who are neither employed, nor in education or training (NEET), which may have effects on their employability as the recovery gains momentum. Besides youngsters, the crisis confirms to have had an impact especially on the low-skilled, mostly male workers. Furthermore, the share of people at risk of poverty or social exclusion has risen to 24.8% in the EU in 2012.

The activity rate has remained high throughout the crisis in the EU, over 70%. This strong resilience is mostly explained by older workers remaining longer in employment due to changes in both pension regulations and early withdrawal schemes, as well as by an increased participation of women, also reflecting the "added worker effect" (increase in the labour supply of women when their partners become unemployed). On the other hand, the share of long-term unemployed has continued to rise. Persistently low rates of job creation have in fact increased the average duration of unemployment, with consequent risks of unemployment becoming increasingly entrenched and difficult to eliminate. People without a job for long periods of time may become discouraged, lose skills, and suffer from stigma, thereby having difficulties in finding a job again. This ultimately would lead to a reduction in the labour force, with significantly negative effects on EU growth potential. The risk persists that unemployment becomes less responsive to wage dynamics, thus calling for additional measures, such as higher incentives for jobseekers to take up work and increased matching efficiency.

Rigidities in **labour and product markets** have hindered competitiveness adjustment, efficient resource allocation and productivity growth and partly explain the divergence in potential growth rates across Member States. Areas for enhanced implementation of existing EU internal market rules have been identified (those with the largest potential): services, financial services, transport, digital market and energy. Services account for more than 70% of GDP on average in all EU Member States. Services generate employment and have a significant growth potential. The EU Services Directive is a key instrument in making the Single Market work both for companies and consumers. It enables companies to establish subsidiaries or branches in other Member States or to provide cross-border services from their home Member State. The Services Directive covers a wide variety of economic activities representing 46 % of EU GDP[3]. Many other services sectors are covered by specific EU legislation, including energy, financial services, postal services, telecommunication, tourism and transport. But the initial implementation of the Services Directive has released only about a third of its estimated full economic potential[4]. A more ambitious implementation of the Services Directive could lead to an additional total economic gain of about 2.6% EU GDP, which would in turn have a positive impact on employment.

The international **trade** system has to be strengthened and the EU is at the forefront of this effort. The EU already has a very open trade and investment regime on a Most Favoured Nation (MFN) basis, and also based on the General System of Preference (GSP) scheme for developing countries and preferential Free Trade Agreements (FTAs). The main needs relate to improved and reliable access to EU export markets as well as to raw materials. Remaining tariffs and barriers are being reduced through reciprocal trade negotiations. Long-term evidence from EU countries shows that a 1% increase in the openness of the economy leads to an increase of 0.6% in labour productivity. Successfully completing the bilateral trade agenda could boost EU GDP by more than 2% and support an increase of more than 2 million jobs across the EU[5].

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[3] The Services Directive covers the following sectors: tourism (3,2% EU GDP), cultural and sport activities (1,4% EU GDP), wholesale and retail (11,1% EU GDP), construction (6% EU GDP), real estate (10,9% EU GDP), business services (11,7% EU GDP), other services (e.g. repair) (1,6% EU GDP).

[4] See the European Commission contribution to the European Council of 20-21 March 2014: http://ec.europa.eu/commission_2010-2014/president/news/archives/2014/03/pdf/services_en.pdf

[5] See the European Commission contribution to the European Council of 7-8 February 2013: http://ec.europa.eu/commission_2010-2014/president/news/archives/2013/02/pdf/20130205_2_en.pdf

C. POLICY RESPONSES TO LIFT GROWTH

The objective of this section is to discuss new policy actions that will be taken to contribute to our collective ambition to lift G-20 output by at least 2 per cent above the trajectory implied by current policies by 2018.

Policies are considered new when they are in addition to any commitments made at or prior to the Saint Petersburg Leaders' Summit. (Indicative length – as needed, but approximately 1 page per theme.)

This section should be a high level, narrative discussion of the key new policy commitments and their link to issues identified in section A as well as their intended impact on growth, employment and rebalancing.

For each policy area (macroeconomic policy and each structural policy thematic area), countries should:

- *Identify the key policy actions;*
- *Explain the rationale for policy actions and how they will address key challenges and policy gaps identified in section A;*
- *Discuss the intended impact of policy actions, individually or collectively, on growth and employment;*
- *Discuss how policy actions will facilitate adjustment and global relancing as well as create positive spillovers, where relevant.*

Details of the each new policy commitment should be included in tables in Annex 2. A table should be completed for each new policy commitment.

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Discuss the calibration of policy and how fiscal, monetary, exchange rate and macroprudential policy actions will support growth. New fiscal, monetary policy and exchange rate commitments, if any, as well as improvements in policy frameworks such as macro-prudential settings and/or capital controls should be set out here. An updated St. Petersburg fiscal template should be completed (see Annex 1).

Discuss policy actions that will be taken in this area.

EU's fiscal policy framework: Growth-friendly fiscal consolidation and better fiscal governance for growth

European fiscal rules promote similar discipline but allow differentiated fiscal consolidation paths, according to each Member State's fiscal situation. They focus on progress achieved in structural terms, allowing automatic stabilizers to function along the adjustment path, while also providing room for manoeuvre in countries with greater fiscal space, provided deficit and debt limits are respected. These include an adequate mix of growth-friendly expenditure cuts and revenue measures, accompanied by structural reforms to enhance economic growth potential. On the expenditure side, attention should be devoted to increasing efficiency of public expenditure and maintaining an adequate level of productive public investment. On the revenue side, undertaking tax reforms to make the tax system more fair and efficient should be high on the policy agenda.

The possibilities offered by the EU's existing fiscal framework to balance fiscal discipline with the need to support growth should be used. Given the persistently high debt and unemployment levels and low nominal GDP growth, as well as the challenges of an ageing society and of supporting job-creation, particularly for the young, fiscal consolidation must continue in a growth-friendly and differentiated manner. Structural reforms that enhance growth and improve fiscal sustainability should be given particular attention, including through an appropriate assessment of fiscal measures and structural reforms, while making best use of the flexibility that is built into the existing Stability and Growth Pact rules. In this context, the European Commission will report to the European Parliament and to the Council on the application of the EU governance framework by 14 December 2014, as foreseen in EU law ('6-Pack' and '2-Pack'). Moreover, the Eurogroup has committed to coordinate the fiscal policies of the euro area Member States, in close cooperation with the Commission, in particular when assessing draft budgetary plans to ensure a coherent and growth friendly fiscal stance across the euro area.

Euro-area's monetary policy

The euro is a floating currency and its exchange rate is determined by market forces. The ECB's monetary policy is geared towards the achievement of medium-term price stability in the euro area (i.e. inflation rates below, but close to, 2% over the medium term). Price stability is a necessary condition for strong, sustainable and balanced growth.

Over the recent period, the ECB's Governing Council has firmly reiterated its determination to maintain a high degree of monetary accommodation and to act swiftly if required in the pursuit of the Governing Council's mandate of maintaining price stability over the medium term. In this regard, the Governing Council has indicated that it continued to expect the key ECB interest rates to remain at present levels for an extended period of time in view of the current outlook for inflation.

In pursuing its price stability mandate, the ECB's Governing Council decided on 5 June on a combination of measures to provide additional monetary policy accommodation and to support lending to the real economy. This package included a reduction in the key interest rates to a level that is effectively the zero lower band, a programme of targeted LTROs running until mid-2016, preparatory work related to outright purchases of asset-backed securities and a prolongation of fixed rate, full allotment tender procedures until at least end-2016. In addition, the ECB's Governing Council decided to suspend the weekly fine-tuning operation sterilising the liquidity injected under the Securities Markets Programme.

Moreover, on 4 September the ECB's Governing Council decided on an asset-backed securities purchase programme and a new covered bond purchase programme. Both programmes will start in the fourth quarter of 2014 and are intended to have a sizable expansionary impact on the ECB's balance sheet. Both programmes will run for at least 2 years. Together with the monetary accommodation already in place, the determined implementation of the new measures will underpin the firm anchoring of medium to long-term inflation expectations.

Should it become necessary to further address risks of too prolonged a period of low inflation, the ECB's Governing Council is fully committed to using additional unconventional instruments within its mandate.

As is the case for other G20 central banks, the ECB's monetary policy settings will continue to be carefully calibrated and clearly communicated.

EU's policy to reduce intra-euro-area/EU imbalances

The efforts on economic rebalancing in the EU and the euro area will continue, building on the substantial progress made over the past years. In particular significant progress has been made in the countries with previously high current account deficits. A notable part of the adjustment should be structural in nature, thanks to efforts in terms of structural reforms and to a reorientation of resources towards internationally tradable sectors that has to be intensified. As such, the adjustment is not expected to go away once the overall economic situation improves. Although there has also been progress in rebalancing in countries with persistent current account surpluses, it has so far proceeded at a slower pace.

The EU Macroeconomic Imbalance Procedure (MIP) is the surveillance mechanism that aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place. In line with this procedure, in November 2013 the European Commission published the Alert Mechanism Report (AMR) that screened the EU Member States for possible macroeconomic imbalances and identified 16 countries where an in-depth review (IDR) was warranted.

The IDRs illustrate that the challenges faced by the economies under review have been changing. When the MIP Regulation was put forward by the European Commission and later adopted, and during the first two rounds of its implementation, the main challenges were related to unsustainable current account deficits, losses in competitiveness linked to previously very dynamic labour costs, private debts and high housing prices. While many 'flow' imbalances, like the current account deficits, have been addressed, this is not yet the case of 'stock' imbalances, like the external liabilities. The main challenges of a cross-country nature now concern the lingering impact that deleveraging pressures in many countries have on medium-term growth; the sustainability of private debts and of the external liabilities in a context of very low inflation and slow growth; the implications of the euro area shifting to a current account surplus; and the need to provide credit to viable investments in the vulnerable economies, under a fragmented financial system. Moreover, the very high level of unemployment in many economies represents a major policy and social challenge.

This analysis has fed into the country-specific recommendations adopted by the European Council in June 2014. The recommendations address the specific situation in each Member State. They are not one-size-fits-all. The recommendations take into account the challenges and the need to pursue reforms in a number of Member States. There will be a specific monitoring of policy implementation in the cases of excessive imbalances (Italy, Slovenia and Croatia) and for the euro area Member states with imbalances requiring decisive policy action (France, as well as the countries under post-programme surveillance (PPS): Spain, Ireland and Portugal, where the specific monitoring of policy implementation will rely on the PPS framework to avoid overlaps in procedures). It was also concluded that although the current account surpluses do not raise risks similar to large deficits, the size and persistence of the current account surplus in some member states, notably Germany, deserve close attention and point to the need to further support domestic demand.

The detailed recommendations will help to effectively measure progress. By end 2014, the European Commission will undertake an overall assessment of the application of the Macroeconomic Imbalances Procedure (MIP) in the context of the '6-Pack' and '2-Pack' review.

New Structural Policy Responses

Structural reforms are crucial for restarting sustainable and inclusive growth and for stimulating employment. They can support the rebalancing process, by facilitating the reallocation of resources between sectors, raising external competitiveness and boosting productivity, and contribute to a more symmetric adjustment. European Commission analysis shows large potential gains could be reaped from structural reforms in product and labour markets. According to model simulations, EU GDP could be up to 6% higher after 10 years if Member States adopt measures that move towards halving the gap vis-à-vis the average 3 best performing EU Member States in each of the different reform areas considered. Reforms improving competition in product markets, and measures that raise participation in the labour force, in particular for women and older age workers, can boost growth and also raise employment significantly. In debtor countries, labour markets reforms are contributing to wage moderation and will over time help raising productivity. However, the adverse impact on real wages and domestic demand would be mitigated by more effective product-market reforms to reduce prices – which, at the same time, would also boost exports. In some other Member States, including some with large current-account surpluses, product market reforms aimed at strengthening the role of domestic demand, especially private investment, would boost future growth prospects and facilitate internal rebalancing in the euro area, by making the necessary adjustment more symmetric. The overall effects of these measures for the G20 as a whole could be enhanced by cross country spillovers.

Investment and Infrastructure

This section should closely reflect policy actions identified by the Investment and Infrastructure Working Group (IIWG). The IIWG will issue a guidance note on how to complete this section of the template. Please refer to this guidance note when completing this section.

Discuss policy actions that will be taken in this area.

a) Restoring lending to the economy and establishment of a genuine Banking Union

The creation of the Banking Union is a major achievement in Europe. Making sure the banking sector functions correctly in providing finance for productive activity is essential to increasing investment and sustaining the economic recovery.

The new regulatory framework with common rules for banks in all 28 Member States, set out in a single rulebook, is the foundation of the banking union. Common rules on bank capital and liquidity[6] will help to prevent bank crises in the future and, if some institutions do end up in difficulty, a common resolution framework will ensure efficient management of this process, including a means to wind them down in an orderly way[7].

First, as of November 2014, the European Central Bank (ECB) will directly supervise all significant banks and, in co-operation with national competent authorities, all 6000 banks in the euro area in the framework of the Single Supervisory Mechanism (SSM)[8]. In order to ensure that it has a clear view of the situation of directly-supervised banks from the outset, the ECB is undertaking (i) **a comprehensive assessment of their balance sheets including an asset quality review and a stress test that** will take 12 months to complete, with results expected to be published in October 2014.

Second, in the rare cases when banks fail despite stronger supervision, (ii) the **Single Resolution Mechanism (SRM)** will allow bank resolution to be managed more effectively through a **Single Resolution Board (SRB) and a Single Resolution Fund (SRF)**. The SRM was adopted by the EP on 15 April 2014. The Council formally adopted the SRM on 14 July 2014. On 21 May 2014, member states participating in the SSM and the SRM also signed an Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF. Under this agreement, contributions by banks raised at national level will be transferred to the SRF, which will initially consist of national compartments. These will be gradually merged over an eight-year transitional phase. This mutualisation of paid-in funds will be front-loaded, starting with 40% in the first year and a further 20% in the second year, and continuously increasing by equal amounts over the subsequent six years until the SRF is fully mutualised.

In line with the agreement, the SRB shall contract financial arrangements, including where possible public ones, for the SRF, in cases where the amounts raised or available are not sufficient to meet the Fund's obligations.

The SSM and the SRM will both apply in the 18 euro area Member States and any other EU Member State on a voluntary basis.

A statement accompanied the Intergovernmental Agreement, confirming the commitment of the contracting parties to be bound by bail-in rules and principles as outlined in the Bank Recovery and Resolution Directive. This will be a precondition for accessing the fund, given political agreement that the cost of bank failures should be borne first and foremost by the financial industry and no longer by taxpayers. This is to ensure that the nexus between the solvency of banks and sovereign states is substantially weakened. The Intergovernmental Agreement will enter into force once ratified by member states participating in the SSM/SRM that represent 90% of the aggregate of the weighted votes of all participating member states.

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6 In particular, the Capital Requirements Regulation and Directive (CRR/CRD IV) which entered into force in the summer of 2013 and are applied as of 1 January 2014.

7 The Bank Recovery and Resolution Directive (BRRD) was agreed upon by EU finance ministers on 27 June 2013, politically agreed between the European Parliament (EP), EU Member States and the European Commission in December 2013, and published in the Official Journal of the EU on 12 June 2014. EU Member States shall adopt and publish by 31 December 2014 the laws, regulations and administrative provisions necessary to comply with this Directive, so that most of its provisions can be implemented as of January 2015. Common rules, through the Directive on Deposit Guarantee Scheme (DGS), will also ensure that all EU savers are guaranteed that their deposits up to €100 000 (per depositor/ per bank) are protected at all times and everywhere in the EU. The DGS was agreed provisionally between the Council and the EP in December 2013. It was adopted by the EP on 15 April 2014 and published in the Official Journal of the EU on 12 June 2014. Member states should transpose most of the provisions of the Directive into national legislation by July 2015, so that they apply from 4 July 2015.

8 A political agreement on the SSM package was reached by the EP and the Council on 19 March 2013. Following the EP vote on 12 September 2013, the EU formally adopted the creation of the SSM in October 2013 with the relevant Regulations being published on 29 October 2013 in the Official Journal of the EU and being directly applicable.

The SRM will be applicable as follows:

- Provisions on the preparation of resolution planning, the collection of information and cooperation with national resolution authorities will apply from 1 January 2015.
- Provisions relating to resolution planning, early intervention, resolution actions and resolution instruments, including the bail-in of shareholders and creditors, as well as provisions related to the build-up and use of the SRF will apply from 1 January 2016, provided that the conditions for the transfer of contributions to the SRF have been met.

Together with the new EU-wide regulatory framework for the financial sector, the completed banking union is an important step towards further economic and financial integration in the EU. It will ensure that the cost of bank failure is first and foremost borne by the private sector, reducing the need for public funds to the maximum extent, and will help restore financial stability. This, in turn, creates the right conditions for the financial sector to lend to the real economy, spurring economic recovery and job creation.

b) Improving access to long-term investment finance in the EU as part of deepening of capital markets

On 27 March 2014, the European Commission published a Communication on the long-term financing of the European economy which sets out policy actions to support Europe's return to sustainable economic growth[9]. It builds on the responses to a public consultation and on the debate in international fora such as the G20 and the OECD, and identifies specific measures which the EU can take to promote long-term finance. To feed into the Communication, the Ecofin Council in 2013 set up a High Level Expert Group (HLEG) which provided a report on increasing access to capital markets for SME and long term infrastructure financing in Europe. [10]

(i) Improving the regulatory framework

The European Commission is working on several legislative initiatives to improve the regulatory framework for long term investment. Most of the actions, to be undertaken by the European Commission and described below, will be carried out by 2014 and 2015. Accounting standards should also evolve in a way that is not damaging to long-term investment.

Corporate governance: In addition to a recently proposed Directive on the rights of shareholders and a Recommendation to improve the quality of corporate governance reporting, work will be undertaken to study employee share ownership and financial participation more broadly.

SMEs: Legislation will include working on the delegated acts provided by MiFID (Markets in Financial Instruments Directive) on SME growth markets, ensuring that the administrative burden for SME issuers is minimised whilst maintaining high levels of investor protection. In addition, the European Commission will examine whether the eligibility criteria of certain types of investment funds could be extended to securities listed on SME growth markets and/or unlisted securities. Finally, the Commission will analyse the feasibility of harmonising the comparability of SME data across the EU and will consider approaches to foster credit scoring.

Securitisation: The European Commission will work in close cooperation with the international standard setters, in particular with the Basel Committee and IOSCO to define and differentiate "high" quality securitisation products. On that basis it will explore possible preferential regulatory treatment under Solvency II and CRD IV in full compliance with prudential principles with the objective to increase the volume of such securitisation products while avoiding the emergence of systemic risks and decreasing dependence on credit ratings.

Covered bonds: The European Commission will review the regulatory treatment of covered bonds by the end of 2014 with a view to assessing the stability of the respective markets with a view to building the basis for an integrated European covered bond market. Taking into account the findings of this

[9] More information on these can be found at: http://ec.europa.eu/internal_market/finances/financing-growth/long-term/index_en.htm

[10] High Level Expert Group on SME and infrastructure financing: http://ec.europa.eu/economy_finance/financial_operations/investment/long_term_financing/index_en.htm

review, the European Commission will launch a study on the merits of introducing an EU framework for covered bonds.

Infrastructure: The European Commission will promote the emergence of infrastructure as an asset class for institutional investors including through European Long-term Investment Funds (ELTIFs). Studies are being undertaken in order to evaluate in 2014 the feasibility of making available pipeline information on infrastructure investment plans and projects by European national, regional and municipal authorities with a single access point. Similar initiatives will be undertaken on the feasibility of collecting and making available comprehensive and standardised credit statistics on infrastructure debt. Making available such data would help to widen the institutional investor base but would also help regulators explore the merits of a customised prudential regime for infrastructure investments. In particular the European Commission intends to include appropriate incentives to stimulate long-term investment by insurers in 2014 (Delegated Act for Solvency II).

(ii) Developing capital markets-based sources of long-term finance

EU economies had historically a heavy dependence on bank intermediation for the financing of SMEs and infrastructure investment. As banking sector deleveraging is not yet completed in all EU Member States, a more diversified system with significantly higher shares of direct capital market financing and greater involvement of institutional investors and alternative financial markets is needed. Developing capital markets-based sources of financing would also have a positive effect on restoring the bank credit channel as it could help freeing regulatory capital and open space for new bank lending.

The European Commission has been very active in facilitating private sector investors' involvement in the financing of European infrastructure, through the promotion of risk sharing financial instruments to complement the legislative actions proposed above. In particular, the Connecting Europe Facility (CEF)[11] is the EU's new funding mechanism for infrastructure projects of common interest. Capital markets financing will be supported through risk-sharing and credit enhancement instruments including the project bond initiative). Similar risk-sharing instruments are being pursued at the level of regional/ structural fund actions supporting both infrastructure financing and SME securitisation.

The European Investment bank (EIB), national public investment banks and multilateral development banks (MDBs) play a supporting role in fostering long-term investment in the EU. The European Union will ensure that existing resources are deployed efficiently; targeting clearly identified market gaps and avoiding crowding-out of commercial finance. Moreover, those institutions should direct part of their resources away from traditional lending towards targeted support for capital markets-based finance, leveraging institutional investor funds and thus complementing the regulatory policy actions set out above. This could take the shape co-investment in bonds, credit enhancement and other instruments designed to develop capital markets-based financial instruments.

An increased use of technical assistance and blending can improve conditions for the development of projects, relevant market structures and improvements to conditions for private investors. Moreover, the EU has set up a platform for regular exchanges between MDBs on project pipelines as well as establishing best practices for these types of blending operations in the EU and in support of EU's worldwide assistance.

c) More and better funding for research and innovation

Horizon 2020 is the biggest EU Research and Innovation programme ever with nearly EUR 80 billion of funding available over 7 years (2014 to 2020) – in addition to the private investment that this money will attract. Horizon 2020 is established for the period from 1 January 2014 to 31 December 2020 with an EU Regulation from 11 December 2013 published in the Official Journal of the EU on 20 December 2013. The Multiannual Financial Framework, adopted by the Council on 2 December 2013, provides the EU-wide financial backing for this programme.

Horizon 2020 provides support through streamlined funding instruments and simpler programme architecture and rules for participation, also facilitating SMEs access. It focuses on turning scientific breakthroughs into innovative products and services that provide business opportunities and put emphasis on public-private partnerships.

[11] The CEF will have a budget of EUR 33.3bn for the period of 2014-2020 to improve Europe's transport, energy and digital networks through targeted investments in key infrastructures with demonstrated EU added-value.

The European Commission adopted on 10 June 2014 a new Communication on "Research and Innovation as sources of renewed growth". This Communication makes proposals to help EU Member States maximise the impact of their budgets at a time when many countries still face spending constraints, notably in pursuing reforms to improve the quality of research and innovation (R&I) programmes and institutions.

Employment

This section should closely reference the growth aspects of the employment plans that are being developed within the Taskforce for Employment.

Discuss policy actions that will be taken in this area.

Europe's labour market and social fabric will take time to recover and needs reinvigorating as the economy emerges from the crisis. Policy priority should be given to enhancing competitiveness, supporting job creation and fighting unemployment, particularly youth unemployment and long-term unemployment, and to the follow up of reforms regarding the functioning of the labour market.

a) Addressing high unemployment, in particular youth unemployment

The emergence of high youth unemployment led the EU to agree on a Youth Guarantee (YG) to ensure that all young people receive an offer of employment, further education or apprenticeship at an early stage. The YG is an outcome focused approach: all young people under 25 should receive a good quality offer of employment, continued education, andan apprenticeship or traineeship within four months of leaving formal education or becoming unemployed.

Providing comprehensive Youth Guarantee schemes —not just as a set of temporary ad hoc measures — where necessary aims at major structural reforms setting the conditions to facilitate young people's transition from education to the labour market. Member States' public employment services are key to the success of the Youth Guarantee. All Member States endorsed the principle of the Youth Guarantee in April 2013, and every country has since submitted a plan outlining how this will happen in practice. Member States are making significant efforts to implement their plans but some countries still face particular challenges, which are being closely followed in the framework of the European Semester.

In terms of financial contribution this is a forward-looking commitment, since its funding depends on the Multiannual Financial Framework (MFF) for 2014-2020 adopted by the Council on 2 December 2013. The most significant source of EU money to help Member States to implement the Youth Guarantee is the European Social Fund, with a budget of over EUR 10 billion a year from 2014-20. This comes on top of the EUR 6 billion Youth Employment Initiative for Member States with regions where youth unemployment rates exceed 25% (in 2012) agreed in February 2013. Currently Member States are preparing Operational Programmes through which these funds will be committed over the 2014-2015 period.

b) Facilitating labour mobility

Labour mobility within countries and across Europe will benefit from the reinforced cooperation and from a modernised EURES-network (job search network of 32 employment services in Europe), that will be in place by 2015 and will help firms and job-seekers alike by facilitating the exchange of vacancies, improving on-line service tools and optimising matching practices. Moreover, in April 2014, the EU adopted a new Directive to ensure the better application at national level of EU citizens' right to work in another Member State. The new rules aim to remove existing obstacles to the free movement of workers, such as the lack of awareness of EU rules among public and private employers and the difficulties faced by mobile citizens to get information and assistance in the host Member States. In addition, two other Directives adopted in April and May 2014 will contribute to labour mobility facilitation. The first Directive improves the acquisition and preservation of supplementary pension rights for mobile workers. The second Directive enforces better EU rules on the posting of workers. It will safeguard respect for posted workers' rights in practice and strengthen the legal framework for service providers. EU Member States have now two years to implement the Directives at the national level.

c) Improving education and skill performance, addressing inequalities and improving the performance of social protection systems

The EU strategic framework for European cooperation in education and training for the period up to 2020 intends to address four strategic objectives: making lifelong learning and mobility a reality; improving the quality and efficiency of education and training; promoting equity, social cohesion and active citizenship; and enhancing creativity and innovation, including entrepreneurship, at all levels of education and training.

The EU has also launched the EU Skills Panorama, which provides a comprehensive overview of national intelligence sources on trend developments and skills and jobs across Europe. The creation of a multilingual classification of European Skills, Competences, Qualifications and Occupations (ESCO) is well underway and will help identify and categorise skills, competences, qualifications and occupations relevant for the EU labour market and education and training, in 22 European languages. This will allow for more targeted education curricula to be developed in line with employers needs and for easier recruitment between countries.

The MFF adopted in December 2013 increased the EU financial support to youth mobility. In particular, the budget for Erasmus+, the new single programme for EU cooperation and mobility in education, training, youth and sports for 2014-2020 will increase by approximately 40%, compared with 2007-2013, to EUR 14.7 billion. More than 4 million people will receive support to study, train, work or volunteer abroad. Up to 200 000 students planning a full Master's degree abroad, for which national grants or loans are seldom available, will benefit from a new loan guarantee scheme run by the European Investment Fund.

Well-designed employment and social policies (including child care for a better access of women to the labour market) can support aggregate demand, contribute to sustainable and balanced growth and reduce inequalities. Such policies are also supported through the EU's financial instruments, such as the European Social Fund and the Programme for Employment and Social Innovation. Through the MFF adopted in December 2013, the EU has committed itself to use at least EUR 80 billion for the European Social Fund (2014-2020). 20% of this amount, which is at least EUR 16 billion, will be specifically allocated to social inclusion measures.

Competition

Discuss policy actions that will be taken in this area that boost competition and reduce red-tape and unnecessary regulation. Both product market and service industry reforms should be considered.

The completion of the Single Market is a central element of the European growth agenda. The priority areas for reform in this field are: the **services markets** (including financial services) and **network industries** (including the **energy markets**; the **transport markets** and the **digital markets)**. Single Market rules also lead to a **reduction of administrative burden** for companies as they replace the complex and different national laws of EU Member States. This reduces compliance costs for businesses. Companies also have access to public procurement markets in other EU Member States increasing their business opportunities.

A significant source of potential gains from the completion of the Single market lies in the **services** sector and a more ambitious implementation of the EU Services Directive, both due to the sheer size of services as well as to the increasing inter-linkages between industrial products and services. The Commission will continue to closely monitor Member States' reforms in specific services sectors, in particular in the context of the Europe 2020 strategy and through its framework for economic policy coordination. It will further reinforce its monitoring tools through more in-depth quantitative and qualitative reporting on sectoral and national reforms concerning services.

A second promising policy strand is to improve the market functioning in **network industries**, given its importance for attracting private investors in energy, communication and transport infrastructures. (i) In the energy sector the priority for the coming years should be the completion of the energy internal market through the transposition and implementation of the Third Energy Package, which should be achieved by the end of 2014. Its major elements concern the unbundling of networks, the strengthening of the independence and power of national regulators, and the improvement of the functioning of retail markets. (ii) In transport, the main priority is the opening of the railway market for competition through, among other things, the separation between infrastructure and services and open procedures for public service obligations. These issues are addressed by the Fourth Railway package proposed by the European Commission. In June 2014, the Council reached political agreement on the draft directives on the interoperability and safety of European railways and the draft regulation on the European Railway Agency. Together, these three legislative acts make up the technical pillar of the Fourth Railway package. (iii) Also the telecommunications markets develop fast and offer important benefits of reforms. A legislative package for the completion of the European Telecom Single Market was voted by the European Parliament in April 2014 and has to be approved by the EU Council. The proposed package would strengthen network neutrality rules across borders and cut international roaming charges in the EU. Following an agreement reached with the EP in February 2014, the Council adopted the Directive on broadband cost reduction on 8 May. EU Member States must now adopt national provisions to comply with the new Directive by 1 January 2016 and they must apply the new measures from 1 July 2016.

The results of the Commission's analysis are reflected in a yearly progress report on national reforms on services and network industries as part of the annual Single Market Integration Reports.

As one of the instruments of competition policy, state aid control plays a fundamental role in defending and strengthening the single market. In this perspective, the Commission has launched an ambitious State aid modernisation program aimed at fostering growth and competitiveness in the EU. As part of this package, the Commission has already reformed its state aid procedures, and adopted new guidelines on state aid for broadband, regional development, cinema, airports and airlines, risk finance, energy and environment, R&D and innovation, as well as the rules on state aid to important projects of common European interest and the rules for assessing Member States' support measures to rescue and restructure companies in difficulty.

Further actions are also taking place to improve the **regulatory environment** in which EU industry and enterprises operate, thus improving their competitiveness and their ability to grow and create jobs. To this end, the Commission is strengthening its various smart regulation tools (impact assessment, evaluation, stakeholder consultation) and launched the Regulatory Fitness and Performance Programme (REFIT) in December 2012. A Commission Communication was adopted in October 2013 reviewing and setting out the next steps in REFIT and envisaging follow up actions wherever appropriate. These actions will complement the intensive work already underway to reduce barriers and costs for SMEs in a number of areas.

Trade

Discuss policy actions that will be taken to increase trade flows by reducing impediments to trade at or behind borders (e.g. reduce the cost of doing business and help business participate in the global economy).

In the euro-area, a number of countries with large macroeconomic imbalances are passing through a process of comprehensive structural reforms aimed, *inter alia*, at increasing trade flows and securing a better trade performance and rebalancing growth.

a) Post-Bali work at the WTO and plurilateral initiatives

At the multilateral level, the EU's first priority is full and timely implementation of the Trade Facilitation Agreement. In this regard, the EU has adopted a modernised Union Customs Code which entered into force on 30 October 2013. The modernised Code streamlines customs rules and provides for a move towards a paperless customs environment, which will be progressively implemented over the coming years.

Moreover, the EU will be actively engaged to formulate a balanced post-Bali work programme with a view to advancing multilateral trade liberalisation under the Doha Development Agenda.

The EU is also committed to continued progress in plurilateral negotiations to expand the product list of the Information Technology Agreement, liberalise services, and working towards the launch of negotiations to remove barriers to trade in environmental goods.

b) Ambitious bilateral trade agenda

The EU is pursuing one of the most ambitious bilateral trade opening agendas in the world. We have recently signed Deep and Comprehensive FTAs with Ukraine, Georgia and Moldova, which are expected to be (provisionally) applied later in 2014, as well as concluding negotiations with Ecuador who will join the existing FTAs between the EU and Colombia and Peru. We are currently finalising FTAs with Singapore and Canada. On-going negotiations include the Transatlantic Trade and Investment Partnership with the US, FTAs with Japan, India and Mercosur, an Investment Agreement with China, as well as FTA negotiations with non-G20 countries in the ASEAN (Vietnam) and the Mediterranean region (Morocco) The completion of this agenda would increase the share of EU external trade covered by FTAs to two thirds. Given the broad scope of FTAs negotiated by the EU, these agreements will enhance trade not only by eliminating tariffs but also by addressing various regulatory hindrances affecting trade in goods and services. The *erga omnes* nature of many commitments in the services, investment and regulatory areas also mean that direct benefits accrue not only for trade between parties but also with non-parties.

Other measures

Discuss policy actions that fall outside of the areas of investment and infrastructure, employment, competition, and trade but will facilitate transition and contribute to the G-20's ambition.

External Development Policies

The EU's development cooperation policy and that of the Member States complement and reinforce each other. The EU has maintained its position as the biggest global donor, accounting for over half of the total Official Development Assistance (ODA) to developing countries as reported to the OECD Development Assistance Committee (DAC). In 2013 the collective ODA of the EU and its Member States increased to EUR 56.5 billion despite continued budgetary constraints owing to the economic and financial crises, and reached 0.43% of EU Gross National Income (GNI). On 19 May 2014, the EU and its Member States reaffirmed all their individual and collective ODA commitments, taking into account the exceptional budgetary circumstances. Collective EU ODA is forecast to reach EUR 59.8 billion in 2014 and EUR 61.96 billion in 2015 (Council Conclusions on the Annual Report 2014 to the European Council on EU Development Aid Targets).

The EU has also committed to increase development assistance in Sub-Saharan Africa and to channel at least half of the collective aid increase to Africa. The fourth EU-Africa Summit (2-3 April 2014) acknowledged that it is time for a fundamental shift from aid to trade and investment as agents of growth, jobs and poverty reduction. The Agenda for Change defines the current framework for EU development policy, encouraging inter alia regional integration, sustainable agriculture and energy as well as new ways of engaging with the private sector. During the Multiannual Financial Framework (2014-2020), the EU will build on its successful experiences such as the European Investment Facilities and the EU-Africa Trust Fund for Infrastructure. Blending EU grants with loans and other risk-sharing mechanisms are favoured to leverage further public and private resources so as to increase impact on growth and jobs.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy

The public debt ratio is expected to finally stabilize this year, at the level of 90% and 96% of GDP in the EU and the euro area (EA) respectively, after a continuously growing trend in past years. Large consolidation efforts implemented in difficult economic conditions in recent years are now bearing fruit, as also the **nominal deficit** is expected to fall below 3% of GDP in 2014 for the first time since 2008, both in the EU and in the EA.

The **pace of fiscal consolidation is expected to slow down** in 2014 with respect to previous years. In a context of still negative but already narrowing output gaps, this would amount to a broadly neutral fiscal stance in the EU and the EA. EU member states' fiscal strategies going forward should include an adequate mix of growth-friendly expenditure cuts and revenue measures, accompanied by structural reforms to enhance economic growth potential. On the expenditure side, attention should be devoted to increasing efficiency of public expenditure and maintaining an adequate level of productive public investment. On the revenue side, undertaking tax reforms to make the tax system more fair and efficient should be high on the policy agenda. Following a mandate given by EU Finance Ministers the European Commission is looking at options to support the improvement of expenditure performance, in particular by encouraging Member States to carry out spending reviews on a regular basis.

This should contribute to the recovery. The Eurogroup has committed to a regular monitoring of the euro area aggregate fiscal stance to ensure that it remains appropriate.

However, **overall debt levels are still high in the EA and the EU**. Therefore, a medium-term strategy aiming at a lasting correction of public deficit and debt reduction should continue to be pursued[12].

2. Medium-term fiscal strategies (*required for advanced economies – only if updated*):

a. Overall strategy for debt sustainability

EU Member States under the so-called **preventive arm** of the Stability and Growth Pact (SGP) should pursue a fiscal policy that brings the structural budget balance towards a country-specific medium-term objective (MTO) set so as to ensure sustainability of the debt ratio or rapid progress towards sustainability. A significant deviation from the MTO or the adjustment path towards it requires corrective policy measures to reverse such deviations.

In any case, the general government deficit should not exceed 3% of GDP and the general government gross debt should either not exceed 60% of GDP or diminish sufficiently at a satisfactory pace. Otherwise, an **excessive deficit procedure** setting an adjustment path to correct this situation will be launched.

Finally, fiscal policies of EU Member States should be coordinated to ensure the achievement of agreed medium-term objectives and that the pace of fiscal consolidation is differentiated according to their fiscal and economic situation. The budgetary adjustments are defined in structural terms in order to allow automatic stabilisers to function along the adjustment path. In view of reinforcing the credibility of fiscal policy over the medium term, Member States are further recommended to support their fiscal strategies by an efficient and growth-friendly mix of expenditure and revenue measures.

[12] For more information on the EU fiscal policy framework please see the main text of the EU Growth Strategy, pp. 6-7

b. Debt-to-GDP ratio objective

According to the European fiscal rules, the general government gross debt must not exceed 60% of GDP or must, at least, diminish sufficiently at an appropriate pace towards the 60% threshold. The latter is fulfilled if the differential of the debt with respect to the 60% reference value decreases over three years at an average rate of $1/20^{th}$ per year as a benchmark.

c. Intermediate objectives

For all Member States that have not yet reached their MTO, each Member State is set a yearly target for its structural balance that will either ensure the correction of an excessive deficit or ensure progress towards its MTO.

d. Expenditure and revenue reforms

According to the subsidiarity principle, it is for Member States to decide their expenditure and revenue reforms. Nevertheless, the European Commission and the European Council provide policy guidance in this respect in the annual country specific recommendations. In this context, Member States are encouraged to undertake policy measures enhancing the quality and soundness of their public finances. Finally, EU Member States are also encouraged to focus on the quality and composition of the fiscal adjustment to ensure that policies are as growth- and equity - friendly as possible.

e. Reforms to strengthen the fiscal framework

Several reforms have considerably strengthened the European Fiscal Framework:

- The reinforced Stability and Growth Pact includes a new framework for imposing financial sanctions on euro area Member States in case of non-compliance with the EU fiscal rules. In addition, any EU Member State that is a recipient of EU funds could face a temporary suspension of financing if the Council establishes that it has failed to take effective action in response to the recommendations under the Excessive Deficit Procedure.

- The so called Two-Pack introduces new common provisions for monitoring and assessing draft budgetary plans of euro area Member States and ensuring the correction of excessive deficits.

- A new Directive on budgetary frameworks harmonizes certain aspects of domestic budgetary procedures, rules and institutions in the EU, so as to better ensure that national budgetary positions are in line with the EU fiscal framework.

- Finally, the Treaty on Stability, Coordination, and Governance in the European Monetary Union introduces a structural balanced budget rule in the national fiscal frameworks (with a maximum structural deficit of 0.5% of GDP or 1% for those Member States with low public debt and no sustainability concerns), coupled with an automatic correction mechanism in case of significant deviation.

3. Medium-term projections, and change since last submission *(required for all members)*[13]:

		Estimate	Projections		
	2013	2014	2015	2016	2017
Gross Debt	88.9%	89.5%	89.2%	85.5%	82.9%
ppt change	2.1	0.6	-0.3	-3.7	-2.6
Deficit	-3.3%	-2.6%	-2.5%	-1.3%	-0.6%
ppt change	0.6	0.7	0.1	1.2	0.6
CAPB	1.0%	1.4%	1.0%	2.1%	2.4%
ppt change	0.8	0.4	-0.4	1.1	0.3

4. Economic Assumptions, and change since last submission *(required for all members)*[14]:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections		
	2013	2014	2015	2016	2017
Real GDP growth	0.1%	1.6%	2.0%	2.1%	2.2%
ppt change	0.5	1.5	0.5	0.1	0.1
Nominal GDP growth	1.6%	2.9%	3.5%	3.7%	3.9%
ppt change	-1.1	2.3	0.6	0.2	0.2
ST interest rate (*)	0.5%	0.5%	0.7%	1.2%	1.4%
ppt change	-0.4	0.0	0.2	0.4	0.3
LT interest rate (*)	2.8%	2.3%	2.5%	2.7%	2.8%
ppt change	-0.6	-0.5	0.2	0.2	0.1

[13] Data for 2013, 2014 and 2015 are based on the European Commission's 2014 Spring forecast and Commission service's computations. Data for 2016 and 2017 are based on the 2014 Stability and Convergence Programmes provided by EU Member States (except for Greece and Cyprus) in April 2014.

[14] Data for 2013, 2014, and 2015 are based on the European Commission's 2014 Spring Forecast and Commission services' computations. Data for 2016 and 2017 are based on the 2014 Stability and Convergence Programmes provided by EU Member States in April 2014.

(*) In the case of short term and long term interest rates, data for 2014-2017 are based on the 2014 Stability and Convergence Programmes provided by EU Member States. Cyprus, Greece, Croatia, Ireland, Romania and Slovenia have not submitted their assumptions on both short- and long-term interest rates, while Germany and Malta have submitted information on short-term interest rates only.

ANNEX 2: NEW POLICY COMMITMENTS

[Policy Commitment Table]

• The New policy action:	Please describe the new policy being agreed to
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented.
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

A separate Policy Commitment Table should be included for each new commitment within each reform area, with the tables clearly identified as belonging to the relevant reform area.

These areas include:

1. Macroeconomic Policy Responses (including Reforms to Frameworks)
2. Investment and Infrastructure
3. Employment
4. Competition
5. Trade
6. Any other structural policy

Under each of these six categories, we would expect G20 members to provide several major policy commitments with each policy commitment table being no longer than 1 page.

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

A- Fiscal policy

• **Implement growth-friendly fiscal consolidation and a strengthened governance for growth**	**Economic and fiscal governance in the EU and the euro area has been fundamentally strengthened. The Stability and Growth Pact (SGP) is a rule-based framework for the coordination of national fiscal policies in the European Union, established to safeguard sound public finances. It is based on the principle that economic policies are a matter of common concern for all Member States.**
Implementation path and expected date of implementation	According to the reinforced Stability and Growth Pact (SGP), the structural budgetary balance of EU Member States under the so-called preventive arm shall converge towards the country-specific medium-term objective (MTO) while the general government headline deficit must not exceed 3% of GDP and public debt must not exceed 60% of GDP (or at least it must diminish sufficiently towards the 60% of GDP threshold). In turn, EU Member States with deficit and debt levels above the aforementioned thresholds will continue pursuing a fiscal strategy aiming at debt reduction and a lasting correction of public deficits, under the so-called Excessive Deficit Procedure (EDP) in the corrective arm. A quantitative definition of "diminish sufficiently towards the 60% of GDP threshold" has been introduced – the debt criterion – so that an EDP may also be launched on the basis of a debt ratio above 60% of GDP which would not diminish towards the Treaty reference value at a satisfactory pace. Reforms to the EU Fiscal Framework have been considerably strengthened, including the possibility to impose financial sanctions on euro area Member States in case of non-compliance with their fiscal obligations. Implementation is on a continuous basis. Member States report Excessive Deficit Procedure-related data to Eurostat twice per year – at end-March and end-September. In spring EU Member States are required to submit their medium-term budgetary strategy by the end of April at the latest. The European Commission evaluates these national budgetary plans and presents country-specific recommendations that are then discussed (and adopted) by the Council of the EU. In autumn euro area member states are required to submit their draft budgetary plans to the Commission, prior to the adoption of the budget. The Commission then issues an opinion on each Member State's plan, assessing compliance with the requirements under the European Fiscal Framework.
What indicator(s) will be used to measure progress?	According to European fiscal rules, required budgetary adjustments are defined in structural terms, both under the preventive and corrective arm of the SGP, in order to allow automatic stabilisers to function along the path. Medium-term fiscal policies are underpinned by intermediate objectives, in the form of yearly targets for the deficit and structural balance, while adjusted primary expenditure growth must not exceed potential medium-term GDP growth for Member States under the preventive arm of the Pact.

Explanation of additionality (where relevant)	At the latest European Council from 26-27 June it was decided that the possibilities offered by the EU's existing fiscal framework to balance fiscal discipline with the need to support growth should be used. Given the persistently high debt and unemployment levels and low nominal GDP growth, as well as the challenges of an ageing society and of supporting job-creation, particularly for the young, fiscal consolidation must continue in a growth-friendly and differentiated manner. Structural reforms that enhance growth and improve fiscal sustainability should be given particular attention, including through an appropriate assessment of fiscal measures and structural reforms, while making best use of the flexibility that is built into the existing Stability and Growth Pact rules. In this context, the European Commission will report to the European Parliament and to the Council on the application of the EU governance framework by 14 December 2014, as foreseen in EU law ('6-Pack' and '2-Pack').

B. Monetary Policy

• Euro area's monetary policy	The primary objective of monetary policy in the euro area focuses on maintaining price stability in the medium term for the euro area as a whole. The euro is a floating currency and its exchange rate is determined by market forces.
Implementation path and expected date of implementation	
What indicator(s) will be used to measure progress?	The ECB’s monetary policy is geared towards the achievement of medium-term price stability (i.e. annual HICP inflation below, but close to, 2 % over the medium term).
Explanation of additionality (where relevant)	Over the recent period, the ECB’s Governing Council has firmly reiterated its determination to maintain a high degree of monetary accommodation and to act swiftly if required in the pursuit of the Governing Council’s mandate of maintaining price stability over the medium term. In this regard, the Governing Council has indicated that it continued to expect the key ECB interest rates to remain at present levels for an extended period of time in view of the current outlook for inflation. In pursuing its price stability mandate, the ECB’s Governing Council decided on 5 June on a combination of measures to provide additional monetary policy accommodation and to support lending to the real economy. This package included a reduction in the key interest rates to a level that is effectively the zero lower band, a programme of targeted LTROs running until mid-2016, preparatory work related to outright purchases of asset-backed securities and a prolongation of fixed rate, full allotment tender procedures until at least end-2016. In addition, the ECB’s Governing Council decided to suspend the weekly fine-tuning operation sterilising the liquidity injected under the Securities Markets Programme. Moreover, on 4 September the ECB's Governing Council decided on an asset-backed securities purchase programme and a new covered bond purchase programme. Both programmes will start in the fourth quarter of 2014 and are intended to have a sizable expansionary impact on the ECB's balance sheet. Both programmes will run for at least 2 years. Together with the monetary accommodation already in place, the determined implementation of the new measures will underpin the firm anchoring of medium to long-term inflation expectations. As is the case for other G20 central banks, the ECB's monetary policy settings will continue to be carefully calibrated and clearly communicated.

C. Macroeconomic Imbalances

• **EU's policy to reduce intra-euro area/EU imbalances**	**The EU Macroeconomic Imbalance Procedure is a surveillance mechanism that aims to identify potential risks early on, prevent the emergence of harmful macroeconomic imbalances and correct the imbalances that are already in place.** **The Macroeconomic Imbalances Procedure operates alongside the Stability and Growth Pact to identify and correct macroeconomic imbalances and monitor competitiveness developments.**
Implementation path and expected date of implementation	Continue monitoring developments in EU macroeconomic imbalances, provide the appropriate macroeconomic policy recommendation and monitor their implementation. In the case where imbalances are deemed to be excessive, (i.e. those that could jeopardise the proper functioning of the economic and monetary union), the EU institutions will provide the appropriate policy recommendation and if necessary, trigger the enforcement tools (corrective arm) that exist in the context of the Macroeconomic Imbalances Procedure (MIP). On the basis of the In-Depth Reviews (IDRs) released on March 5, 2014, the Commission has identified EU Member States experiencing imbalances or excessive imbalances. In June 2014, the EU Council decided on the appropriate policy recommendations, necessary corrections and/or specific monitoring. Moreover, there will be a specific monitoring of policy implementation in the cases of excessive imbalances (Italy, Slovenia and Croatia) and for the euro area Member states with imbalances requiring decisive policy action (France, as well as the countries under post-programme surveillance (PPS): Spain, Ireland and Portugal, where the specific monitoring of policy implementation will rely on the PPS framework to avoid overlaps in procedures).
What indicator(s) will be used to measure progress?	The monitoring of potential risks to stability through the persistence of macroeconomic imbalances is done via the EU Macroeconomic Imbalance Procedure. Each November the EU Commission publishes the Alert Mechanism Report (AMR) to screen for Member States' potential imbalances to be further analysed in In-Depth Reviews.
Explanation of additionality (where relevant)	This process strengthens the EU St Petersburg commitment to reduce intra EU/euro area imbalances.

2. Investment and Infrastructure

Restoring lending to the economy and establishment of a genuine Banking Union: (i) conduct of a comprehensive assessment of banks	As part of the entry into force of the Single Supervisory Mechanism (SSM), the ECB is currently conducting a comprehensive assessment of the banks that will pass under its supervision, including an asset quality review (AQR) and an EU-wide stress test in liaison with the European Banking Authority (EBA).
Implementation path and expected date of implementation	As of November 2014, the European Central Bank (ECB) will be the supervisor of all 6000 banks in the euro area in the framework of the Single Supervisory Mechanism (SSM). The comprehensive assessment of banks' financial health has started in November 2013 and will take 12 months to complete, with results expected to be published in October 2014.
What indicator(s) will be used to measure progress?	The results of the EU-wide stress test are expected to be published in October, and the SSM will enter into force on 4 November 2014. In the interim, specific milestones forming part of the work on the AQR and stress test, as communicated by the ECB and the EBA, will be undertaken.
Explanation of additionality (where relevant)	The measure described presents an important step towards the building-up of the euro-area Banking Union that was made concrete after the St. Petersburg Summit.

Restoring lending to the economy and establishment of a genuine Banking Union: (ii) Implement the Single Resolution Mechanism	The EU will put in place provisions for the implementation of the Single Resolution Mechanism (SRM), which will allow bank resolution to be managed more effectively through a Single Resolution Board (SRB) and a Single Resolution Fund (SRF).
Implementation path and expected date of implementation	The SRM will be applicable as follows: • Provisions on the preparation of resolution planning, the collection of information and cooperation with national resolution authorities will apply from 1 January 2015. • Provisions relating to resolution planning, early intervention, resolution actions and resolution instruments, including the bail-in of shareholders and creditors, as well as provisions related to the build-up and use of the SRF will apply from 1 January 2016, provided that the conditions for the transfer of contributions to the SRF have been met. The intergovernmental agreement on the SRM will enter into force once ratified by member states participating in the SSM/SRM that represent 90% of the aggregate of the weighted votes of all participating member states.
What indicator(s) will be used to measure progress?	Respect of the above-mentioned timelines.
Explanation of additionality (where relevant)	The agreements on the SRM and the SRF which were reached in 2014 make possible the full implementation of the Banking Union.

Improving access to long-term finance in the EU: (i) Improving the regulatory framework	Assess the current status and propose legislation where appropriate in a range of fields affecting the environment for long-term investment.
Implementation path and expected date of implementation	Proposals are made in the fields of corporate governance, SMEs, securitisation, covered bonds and infrastructure finance.[15] Most actions are to be completed by the end of 2014 or 2015. Some of the actions are exploratory and some of the assessments might conclude that certain paths will not be pursued.
What indicator(s) will be used to measure progress?	The European Commission will periodically provide updates on progress of the implementation.
Explanation of additionality (where relevant)	New commitment.

Improving access to long-term finance in the EU: (ii) Developing capital markets-based sources of long-term finance	Complementing the regulatory actions set out above, the EU will promote the use of financial instruments and blending, as opposed to traditional lending.
Implementation path and expected date of implementation	Over the period 2014-2020 for EU budget instruments (corresponding to the EU's multi-annual financial framework (MFF).
What indicator(s) will be used to measure progress?	Increased volume of capital markets-based finance in the EU.
Explanation of additionality (where relevant)	New commitment.

[15]. A complete table with the actions and horizon for completion is available under: http://europa.eu/rapid/press-release_MEMO-14-238_en.htm?locale=en

More and better funding for research and innovation	Horizon 2020 is the biggest EU Research and Innovation programme ever with nearly €80 billion of funding available over 7 years (2014 to 2020) – in addition to the private investment that this money will attract. Horizon 2020 is established for the period from 1 January 2014 to 31 December 2020 with an EU Regulation from 11 December 2013. The Multiannual Financial Framework, adopted by the Council on 2 December 2013, provides the EU-wide financial backing for this programme.
Implementation path and expected date of implementation	The European Commission will periodically provide updates on progress of the implementation. The Horizon 2020 programme is to be implemented during the multiannual financial framework 2014-2020. Progress concerning public-private partnerships, in particular the Joint Technology Initiatives (JTIs) and the contractual public-private partnerships, will also be closely monitored.
What indicator(s) will be used to measure progress?	Investment in research and innovation. The indicators of the Innovation Union Scoreboard monitor the research and innovation performance of Europe. The Science, Technology and Competitiveness Report [STC] on R&D activities in Europe monitors the progress towards the EU objective of investing 3% of GDP on research and innovation and the progress towards the achievement of an efficient European Research Area.
Explanation of additionality (where relevant)	New commitment.

3. Employment

Addressing youth unemployment	**The EU adopted a Youth Guarantee (YG) which is an outcome focused approach: all young people under 25 should receive a good quality offer of employment, continued education, an apprenticeship or traineeship within four months of leaving formal education or becoming unemployed. At the EU level, the YG is supported by EU Structural Funds and, in particular, the European Social Fund.**
Implementation path and expected date of implementation	YG implementation started in 2014, the rate and modalities of implementation depending on national circumstances. All EU Member States are developing Youth Guarantee Implementation Plans. By early May 2014, 25 Member States have already submitted their plans, specifying the envisaged priority actions conducive to YG (e.g., strengthening of Public Employment Services infrastructure, improving counselling and activation framework, developing an apprenticeship system, etc.). The Youth Employment Initiative support will be available for programming in 2014 and 2015, implementation until 2018. The European Social Fund (ESF) support will be available for programming from 2014 to 2020 (implementation until 2023).
What indicator(s) will be used to measure progress?	The ESF Regulations contain a list of common indicators which all Member States and operational programmes shall use. Annex II of the ESF Regulation sets out specific indicators for those Member States and regions which benefit from the YEI. The Regulation requires Member States to report on all indicators, broken down by investment priority and by gender. Member States will submit the data for these indicators as part of the Annual Implementation Report in 2016 or in 2015 for the YEI. In addition, the Employment Performance Monitor (EPM) will be used. This is a monitoring tool for the Europe 2020 Strategy, which is used to assess the employment situation in the EU and is published twice a year, in June and in December.
Explanation of additionality (where relevant)	In terms of financial contribution this is a forward-looking commitment, since its funding depends on the Multiannual Financial Framework (MFF) for 2014-2020 adopted by the Council on 2 December 2013. The most significant source of EU money to help Member States to implement the Youth Guarantee is the European Social Fund, with over €10 billion a year from 2014-20. This comes on top of the €6 billion Youth Employment Initiative for Member States with regions where youth unemployment rates exceed 25% (in 2012) agreed in February 2013. Currently Member States are preparing Operational Programmes through which these funds will be committed over the 2014-2015 period.

Facilitating labour mobility	**A modernised EURES-network (a job search network of 32 employment services in Europe) will help firms and job-seekers by facilitating the exchange of vacancies, improving on-line service tools and optimising matching practices.** **In April 2014, the EU adopted a new Directive to ensure the better application at national level of EU citizens' right to work in another Member State.** **Two other Directives adopted in April and May 2014 will contribute to labour mobility facilitation. The first Directive improves the acquisition and preservation of supplementary pension rights for mobile workers. The second Directive enforces better EU rules on the posting of workers. It will safeguard respect for posted workers' rights in practice and strengthen the legal framework for service providers.**
Implementation path and expected date of implementation	The modernised EURES-network will be in place by 2015. EU Member States now have two years to implement the abovementioned Directive at national level.
What indicator(s) will be used to measure progress?	Indicators for information activities (e.g. number of individual contacts with jobseekers/employers) and placements (number of individuals employed in another Member State as a result of EURES activity). Progress with implementation of the provisions of the Directives in national legal frameworks.
Explanation of additionality (where relevant)	New commitment.

Improving education and skill performance, addressing inequalities and improving the performance of social protection systems	**Make lifelong learning and mobility a reality, improve the quality and efficiency of education and training, and enhance creativity and innovation, at all levels of education and training.** **Create a multilingual classification of European Skills, Competences, Qualifications and Occupations (ESCO).** **As decided with the new Multiannual Financial Framework (MFF) in December 2013, the EU financial support to youth mobility for 2014-2020 will increase by approximately 40%, compared with 2007-2013, to EUR 14.7 billion.** **Well-designed employment and social policies get support from EU's financial instruments. Through the MFF adopted in December 2013, the EU has committed itself to use at least 80 billion euros for the European Social Fund (ESF). 20% of this amount (at least 16 billion euros) will be specifically allocated to social inclusion measures.**
Implementation path and expected date of implementation	To be implemented during the multiannual financial framework 2014-2020 and in the framework of the Europe 2020 Strategy and the "Education and Training 2020" strategic framework for European cooperation in education and training. ESF funding will be implemented during the period 2014-2020.
What indicator(s) will be used to measure progress?	Europe 2020 headline targets: - Early leavers from education and training: less than 10% - Tertiary education attainment: at least 40% Education and training 2020 benchmarks and other Education and training 2020 indicators. Acceptance and use of the ESCO classification by actors in the labour market and in the education and training sector. Monitoring progress in the employment and social situation is conducted using a Joint Assessment Framework (JAF), which is an indicator-based assessment system. It uses a series of indicators to measure the current situation and trends through time in Member States. The Social Protection Performance Monitor (SPPM) is a monitoring tool which identifies annual key social trends to watch in the EU.
Explanation of additionality (where relevant)	New commitment.

4. Competition

Further integrating the Single Market	**The priority areas for reform are: the services markets (including financial services) and network industries (including the energy markets; the transport markets and the digital markets). Single Market rules also lead to a reduction of administrative burden for companies as they replace the complex and different national laws of EU Member States. This reduces compliance costs for businesses. Companies also have access to public procurement markets in other EU Member States increasing their business opportunities.**
Implementation path and expected date of implementation	The European Commission will provide updates on progress of the implementation of the actions undertaken for completing the Single Market.
What indicator(s) will be used to measure progress?	Progress on this commitment could be measured by following the state of agreement on the key proposals set in the Single Market Act (SMA) I and II as well as the implementation of the legislation at the Member State level. A performance overview of the Single market for all Member States is provided by the Single Market Scoreboard[16]. An update of the study published in February 2013 by the Commission to assess the state of play of market opening in electronic communications, energy, and transport at the EU level will be released in September 2014. The assessment of sector-specific market functioning in a context of regulatory reforms over the past two decades is based on a set of indicators about the degree of competition and market conditions in the various countries and network industries. Progress as regards the Digital Single Market can be measured, among other indicators, thanks to the European Commission Services' annual Digital Agenda Scoreboard.
Explanation of additionality (where relevant)	The completion of the Single Market is a continuous exercise and is a central element of the European growth agenda. The objective of these initiatives is to tap the full potential of the Single Market.

[16] http://ec.europa.eu/internal_market/scoreboard/

5. Trade

Advance post-Bali work at the WTO and plurilateral initiatives	**At the multilateral level, the EU's first priority is full and timely implementation of the Trade Facilitation Agreement.** **Moreover, the EU will be actively engaged to formulate a balanced post-Bali work programme with a view to advancing multilateral trade liberalisation under the Doha Development Agenda.** **The EU is also committed to continued progress in plurilateral negotiations to expand the product list of the Information Technology Agreement, liberalise services, and working towards the launch of negotiations to remove barriers to trade in environmental goods.**
Implementation path and expected date of implementation	Work is ongoing.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	New commitment.

• **Advance the EU bilateral trade agenda.**	**The EU is pursuing one of the most ambitious bilateral trade opening agendas in the world. The completion of this agenda would increase the share of EU external trade covered by Free Trade Agreements (FTAs) to two thirds. Given the broad scope of FTAs negotiated by the EU, these agreements will enhance trade not only by eliminating tariffs but also by addressing various regulatory hindrances affecting trade in goods and services. The *erga omnes* nature of many commitments in the services, investment and regulatory areas also mean that direct benefits accrue not only for trade between parties but also with non-parties**
Implementation path and expected date of implementation	The EU is currently finalising FTAs with Singapore and Canada. On-going negotiations include, *inter alia*, the Transatlantic Trade and Investment Partnership, FTAs with Japan, India and Mercosur, and an Investment Agreement with China.
What indicator(s) will be used to measure progress?	As regards the EU FTAs, completing our current agenda would enhance the coverage of our trade by FTAs to two thirds of EU external trade. (*Note: Given the nature of trade negotiations this objective cannot be committed to within the five-year reporting period.)*
Explanation of additionality (where relevant)	New commitment.

6. Other measures

External Development Policies

External Development Policies	The EU and its Member States have collectively increased their Official Development Assistance (ODA) despite continued budgetary constraints and have reaffirmed all their individual and collective ODA commitments (Council Conclusions of 19 May 2014). EU development assistance is geared to leverage further public and private resources through blending and risk-sharing mechanisms to increase the impact on growth and jobs.
Implementation path and expected date of implementation	Annual decisions within the Multiannual Financial Framework (2014-2020).
What indicator(s) will be used to measure progress?	Annual Reports to the European Council on EU Development Aid Targets, EU Accountability Reports on Financing for Development
Explanation of additionality (where relevant)	New commitment.

Australia 2014

COMPREHENSIVE GROWTH STRATEGY: FRANCE

NOVEMBER 14, 2014

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Starting in 2012, France's economic policy has been geared towards the recovery of the economy. At the end of 2011, public finances were in poor shape – the debt had soared by almost €900bn since early 2002 and the government deficit stood at more than 5% of GDP – unemployment was rising sharply and there were confirmed structural weaknesses. The competitiveness of businesses had been in constant decline as had the balance of trade.

The strategy is based on: i) deficit reduction efforts and ii) reforms to restore the economy's competitiveness and improve its potential to promote growth employment in a sustainable fashion.

The Government's two-pronged strategy is designed (i) to strengthen our economy and its capacity to create jobs and to enhance our competitiveness, while making targeted efforts to increase the purchasing power of the least well-off and (ii) to further consolidate our public finances in order to regain fiscal room for manoeuvre and decrease government debt so as to assure our sovereignty while financing our priorities - education, justice and security. This strategy will therefore address the French economy's three primary gaps: an employment gap, a competitiveness gap and a public finances sustainability gap.

Our strategy hinges first on direct measures intended to lower production and employment costs as well as financing costs, one of the main measures being the implementation of the Responsibility and Solidarity Pact. The cost of labour has already been lowered as a result of the Competitiveness and Employment Tax Credit (CICE) and it will be cut further for a total reduction of €30bn. In addition, business taxes will be streamlined and reduced by €10bn. By restoring companies' profits, bolstering their competitiveness and creating a positive confidence shock, it will enable businesses to export more, invest more and hire more. It will also enable households to spend more and support the economy through a decrease of the tax burden for households.

Our strategy also aims at increasing the labour market's efficiency and at improving competition on the markets for goods and services. Such strategy is designed to modernize those markets in order to lower production costs and consumption prices. With respect to the markets for goods and services, the strategy will contribute to businesses' competitiveness by reducing their costs and stimulating innovation while boosting households' purchasing power. On the labour market side, several measures will make labour market institutions more job-friendly, providing those who have been out of work the longest with sustainable access to employment and reduce market segmentation while improving career security.

Lastly, as regards public finances, although in nominal terms, the improvement in the deficit has been slowed by flat growth and very low inflation - 4.4% in 2014 -, the structural (i.e. cyclically-adjusted) balance has been almost halved since 2011 and is now at its lowest level since the early 2000s, namely 2.4% of GDP. The public finances sustainability gap will be addressed with an unprecedented savings effort, achieved through a sweeping reform of government action combined with ambitious streamlining. Meanwhile, public support for public investment and innovation favourable to firms' competitiveness will be maintained. Compared to the natural growth rate of expenditure, €50bn in savings will be needed between 2015 and 2017 to bring government expenditure growth back into line with inflation. This effort will lead to further deficit reduction without raising taxes.

The 2014 GDP growth forecast rate was trimmed back to 0.4% in the most recent 2015 Budget Bill (compared with 1.0% in April 2014) to take into account the weaker-than-expected economic climate in Europe. The government's prospects for a gradual acceleration of activity (+1.0% in 2015) is consistent with the latest forecasts by the OECD, the Consensus Forecasts and the IMF. Growth should rise to 1.7% in 2016, 1.9% in 2017 and 2% in 2018-2019. This objective is higher than potential growth, reflecting a cyclical upswing and the expected results of our growth strategy.

Overall, these reforms will yield positive spill-overs for other countries by various channels. The French current account balance is expected to shrink. Efforts to reduce the public deficit and improve competition will narrow both internal and external imbalances. Moreover, even if France does not present an investment gap, improving investment quality with a strong focus on ecological transition will provide additional impetus for stronger, more sustainable and more balanced growth. The global economy will benefit from this momentum, which will be supplemented by significant measures in favour of employment.

Key Commitments

List top 5 commitments from the Growth Strategy here. Selection should be based on relevance to key gaps, impact on growth, ability to generate positive spillovers and facilitate domestic and external rebalancing).

Our strategy includes five key commitments:

(i) Lowering the cost of factors of production to stimulate employment and improve businesses' competitiveness

(ii) Lightening the tax burden of low-income households to boost purchasing power and increase incentives to take up a job

(iii) Modernising markets to allow for productivity gains, lower prices for consumers and boost companies' competitiveness gains

(iv) Supporting productive investment to increase long term growth

(v) Reducing red tape, which will in turn reduce production costs and help rein in public expenditures.

The stepping up of the competitiveness and employment tax credit in 2014, the Responsibility and Solidarity Pact, the streamlining agenda, together with new or recently-adopted pro-competition reforms are expected to add at least 1.5% to activity in the next five years. This assessment does not factor in (i) the reduction of red tape (ii) the territorial reforms (iii) lessening regulatory constraints on the housing supply or (iv) the upswing in confidence these reforms are expected to bring with them, and that should to expand the economic gains related to them.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators (October 2014 forecasts)						
	2013***	2014	2015	2016	2017	2018	2019
Real GDP (% yoy)	0,3	0,4	1,0	1,7	1,9	2.0	2.0
Nominal GDP (% yoy)	1,1	1,2	1,9	3,1	3,6	NA	NA
Output Gap (% of GDP)*	-2.7	-3.3	-3.4	-3.1	-2.5	-1.7	-0.9
Inflation (%, yoy)	0,9	0,6	0,9	1,4	1,75	NA	NA
Fiscal Balance (% of GDP)**	-4,1	--4,4	--4,3	-3,8	-2,8	NA	NA
Unemployment (%)	9,8	NA	NA	NA	NA	NA	NA
Savings (% of GDP)	20.0	20.1	19.9	NA	NA	NA	NA
Investment (% of GDP)*****	22,0	21.7	21.3	NA	NA	NA	NA
Net lending (+) / borrowing (-) (% of GDP) *****	-2,0	-1,6	-1,4	NA	NA	NA	N.A.
Current account balance (BPM6) **(% of GDP)**	-1,4	-1,0	-0,8	NA	NA	NA	NA

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**
****** Gross fixed capital formation + Net capital transfers + Stock variations**
*******National accounts definition**

Key Drivers (based on September 2014 forecasts)

France's GDP grew by 0.3% in 2013 although activity was quite sluggish in the euro area as a whole. After a strong rebound in the second quarter (+0.6%), GDP growth decreased slightly in the third quarter (-0.1%), rising again by 0.2% in the fourth quarter.

GDP was unchanged in the first quarter of 2014, thanks to temporary effects (such as low energy consumption due to mild winter temperatures), and remained flat in the second quarter. Growth is expected to be around 0.4% in 2014 and should increase gradually to 1.0% in 2015 and reaching 2.0% by 2019. Inflation should rise very slowly, topping potential growth (1.2% on average in 2017-2019). These prospects for gradual ramping up of activity are consistent with the latest forecasts by the OECD and Consensus Forecasts. Business investment should recover thanks to rising demand prospects in a context of favourable financing conditions. Both the Competitiveness and Employment Tax Credit and the Responsibility and Solidarity Pact will scale up, lightening labour costs by €30bn and lowering corporation taxes by €10bn by 2017, which should encourage investment. Financing conditions will remain quite favourable, as fiscal consolidation continues in the medium term.

Household consumption should increase more markedly. Real disposable income should rise as the in line with the improvement in the labour market and the provisions of the Responsibility and Solidarity Pact. Precautionary saving should decrease as household confidence rebounds, in line with the labour market improvements.

Foreign trade should also contribute to growth, and foreign demand should ramp up gradually. Exports should increase as competitiveness policies roll out and in line with the recent depreciation of the euro. This should be moderate in the short term due to the effects of the euro’s appreciation between 2012 and spring 2014 (+7% in nominal effective terms / +5 in real effective terms).

The planned reforms are expected to benefit both exports and consumption, mostly through pro-competition measures and lower production costs. Fiscal alleviation will also benefit investment.

The risks on future outlook seem to be balanced. The momentum of French exports will depend on our trading partners’ growth, which in turn may be affected by several factors. These include the EU policy mix, particularly the effectiveness of monetary support and pace of fiscal consolidation, changes in lending terms for euro area businesses, the depreciation of the euro following the ECB’s policy announcements in June and September, which could boost exports, as well as the recent fall in oil prices and the geopolitical situation.

With growth being unexpectedly weak recently in the euro area, both structural reforms and macroeconomic policy support are crucial.

Assessment of Obstacles and Challenges to Growth

France has identified three major gaps in line with the principal international organizations' diagnoses:

(i) **A large output gap** (around 3% in 2014). Low inflation (about 0.6% in 2014) and an unemployment rate (around 10%) that is higher than the NAIRU are clear signals of a **cyclical gap**. Unemployment has generally stabilised in recent quarters. This is primarily due to the reduction of youth unemployment that began in early 2013. Both trends are encouraging but as yet there has been no dramatic upturn. In this context, fiscal consolidation has to be carefully calibrated so as not to hamper recovery while restoring financial sustainability and bolstering confidence. Measures to increase the employment intensity of growth are also necessary. A close monitoring of the appropriateness of our policy mix is all the more important given that the current low rate of inflation makes fiscal consolidation more difficult and hampers structural adjustment.

(ii) **A competitiveness gap,** which resulted in a sharp loss of export market share prior to the 2008-2009 crisis and a negative current account balance. Between 2002 and 2011, France's trade deficit was trending upward, with a widening gap between imports and exports of goods since 2005. Nevertheless, the deterioration in both trade and the current account has reversed over the past two to three years. The trade deficit has narrowed continuously since 2011 – by nearly 20% thus far. It still stands at €61.4bn in 2013 but the energy deficit represents more than 80% of that figure. The non-energy deficit has been more than halved since 2011 (€13.0bn in 2013 vs. €29.3bn). France's share in world trade has been stabilizing since 2011. Several measures, such as the Competitiveness and Employment Tax Credit launched in 2013, the Research Tax Credit (CIR) and the Invest for the Future plan initiated in 2010, have played a role in this stabilisation. In 2013 the current deficit ceased to worsen; it has also been sharply revised downwards for the years 2011 to 2013 and now stands at –€30bn in 2013 (–1.4% of GDP), against €–32bn in 2012 (–1.5% of GDP, compared to an initial forecast of €-44bn or –2.2% of GDP). Further adjustments and a scaling-up of pro-competitive measures are required to address our remaining competitiveness gap. Therefore, efforts to reduce labour costs initiated in 2013 will be pursued through the Responsibility and Solidarity Pact.

(iii) France has also to address an **employment gap,** especially among young (15-24 years old) and senior (55-64 years old) workers, whose participation rates are too low (36.5% and 50.7% respectively, in September 2014). First steps toward the development of flexicurity have been made in close cooperation with social partners. Specific schemes to boost employment among these two groups (jobs for the future, generation contracts) initiated in recent years have been ramped up in 2014. Further measures to prevent human capital depreciation and avoiding hysteresis effects on the labour market are currently being designed and will be implemented to reduce the employment gap (vocational training reform, Youth Guarantee, agreement on unemployment insurance to further facilitate the return to the job market).

Investment rates have been stable in recent years and there is no sign of a global investment gap in France beyond what is explained by the cyclical output gap. Despite this commonly-agreed analysis, targeted measures are needed to foster investment in specific sectors where market failures exist (e.g. housing, R&D). French R&D expenditure have increased steadily since 2007 (+0.18 points over 5 years), reaching 2.26% of GDP in 2012 (13th among OECD countries) and gradually approaching the EU objective of 3%. Despite this upward dynamic, **business R&D expenditure** still trails those of R&D leaders among OECD countries. This is due to French sectoral specialisation: manufacturing firms that concentrate the majority of R&D account for a mere 10% of total value-added in France. If we factor this in, French firms appear to be just as R&D intensive as their foreign competitors, if not more. The French government therefore is attempting to foster industrial renewal and the development of new manufacturing firms in equal measure to boost R&D intensity among existing firms. France's investment strategy is designed to make the best use of public money to benefit future growth. Support for innovation and R&D has been maintained thanks to the extension and adjustment of the Competitiveness Cluster Program, the Innovation Tax Credit and subsidies for innovative start-ups (*Jeunes entreprises innovantes*). Maintaining a high-quality infrastructure, for which France is ranked fourth in the world by the World Economic Forum (see "The Global Competitiveness report 2013-2014"), is one of the government's top priorities. This requires selecting projects (development, modernisation or renewal) that deliver the best value for money. The decision-making process for **public investment projects** has been reformed: the procedure is better structured, the role of ex-ante socio-economic assessment has been strengthened and the process has been harmonised across government departments and agencies. In December 2012, a law was enacted to make these socio-economic assessments compulsory for public investment projects and to compel public bodies to use a second, independent expert opinion of these assessments for the largest projects. A decree published in December 2013 confirmed this process.

France is open to **international trade** as shown by (i) a degree of openness (29%) similar to that of other developed countries of comparable size and (ii) Foreign Direct Investment (FDI) inward stocks significantly higher than the OECD average (38.2% of GDP vs 32.1% in 2013). Moreover, global indices of FDI restrictiveness rank France as one of the most open countries in the world, while the OECD considers that France is the third least restrictive G20 country in terms of non-tariff barriers to trade in goods and services. Consequently, France does not exhibit a major trade or openness gap. Nevertheless, the aforementioned disappointing export performances call for further easing French companies' access to international markets.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Policy mix and Framework Reforms)

Given a negative output gap in the euro area that is putting a damper on the inflation rate, the ECB monetary policy remains accommodative: the main refinancing operations are conducted at fixed rate with full allotment, and the ECB introduced strong measures over the summer, including negative deposit rates, liquidity measures and transmission channel improvement. More conventionally, the refinancing rate was lowered to a record 0.05%, and a deposit rate in negative territory at -0.2%. In order to reach the longer end of the curve and make sure bank lending to the real economy is not squeezed, a series of Targeted Longer-Term Refinancing Operations (TLTROs) have been introduced. The ECB decided to stop SMP sterilisation, and announced asset purchases, which will support liquidity conditions. Finally, the announcement of ABS purchases will provide strong impetus for this market which can help restore credit transmission. The recent depreciation of the euro is partially due to these ECB announcements at a time when monetary policy discussions in other areas are more focused on tightening, reflecting the growing cyclical divide between the euro area and its partners. The risk of deflation seems to be limited from now on, but a prolonged period of low inflation makes macroeconomic and fiscal adjustments more difficult and could have long-lasting consequences. The ECB is closely monitoring prices developments and has clearly communicated its ability and readiness to act should the risk of an extensive period of low inflation warrant it. Other policy levers have to be mobilised in a coordinated fashion at the euro area level so as to strengthen investment, job creation and potential growth.

Moreover, strong oversight of the entire financial system is the key to strengthening financial stability. In France, domestic developments are monitored by the *Haut Conseil de Stabilité Financière* (HCSF - High Council for Financial Stability), whose powers of intervention have been reinforced, and now include binding recommendations.

On the budgetary side, the Government is committed to pursuing its efforts to balancing the public accounts in structural terms. The government deficit needs to be reduced to stabilise and then decrease the debt ratio. This is also a prerequisite for growth. Consolidation of our finances started in 2011[1] and will continue beyond the end of the five-year presidential term in 2017: the pace of rebalancing of our structural deficit will accelerate in 2015-2017, starting at 0.25pt reduction in 2015 and 2016 and 0.5 from 2017 onward. This effort should bring the deficit below the 3% target in 2017, a two-year postponement due to lower-than-expected growth and inflation. Thanks to an unprecedented €50bn savings plan between 2015 and 2017, growth in government expenditure will be at historically low rates. This will enable us to continue reducing the deficit while cutting taxes.

All efforts will be focused on reducing public spending from 2015, with at least €50bn of expenditure cuts, bringing the average growth rate of public expenditures down to 0.2% in volume over the period 2015-2017. This amount – unprecedented in France – will be reached thanks to the setting up of the Strategic Council on Public Expenditure in 2014 and the involvement of every public administration body. The Council is currently reviewing all fields of public expenditure – central government, local authorities and social security administration - to identify the least efficient expenditures and propose structural measures for public savings, while factoring in the impact on fairness, growth and employment. Chaired by the President, the Council will be able to make strategic decisions regarding public expenditure and to enforce them steadily.

With its policy framework reforms, the government is seeking to lower production costs for both public and private entities. The budgetary framework will be streamlined to reduce fiscal optimisation opportunities and increase efficiency. The territorial reform will improve public

[1] In 2012 and 2013, the French Government cut the structural deficit by 2.2 points. Due to an adverse economic environment (low growth and disappointing tax receipts), the massive efforts resulted however in a lower reduction of the public deficit, of 1.0 point of GDP.

spending by increasing inter-municipality and eliminating redundant hierarchies. The first local government reform bill was passed after a first reading by the National Assembly on 23 July. It reduces the number of metropolitan regions from 22 to 13 and introduces a new map that has already achieved parliamentary consensus and takes account of cooperative efforts by the regions. The second bill, which redraws France’s regional boundaries, grants regions new powers. The reform means that local governments will be managed more efficiently; it goes hand-in-hand with a decentralised, legitimate and consistent government at regional level.

Enhancing tax efficiency is also part of the government fiscal consolidation strategy. In the 2014 Initial Budget Act, the government has committed to assessing the effectiveness and efficiency of fiscal expenditures in order to suggest reforms to reduce them. Recent reforms that contribute to this objective include:

- A reduction in the gap between the intermediate (raised from 7% to 10%) and standard (raised from 19.6% to 20%) VAT rates. The focus of some lower VAT rates, such as for personal services, is now placed on activities that help the most vulnerable individuals.
- Several tax and social security expenditure schemes have been changed or eliminated to make the system fairer, more straightforward and more efficient. In keeping with the recommendations of the Fragonard Report on family benefits, the 2014 Initial Budget Act capped the family deduction at €1,500 instead of €2,000 for each child in. Income tax exemptions for pension bonuses for parents with three or more children has been eliminated, along with a tax exemption on the share of supplementary group health insurance premiums paid by employers.

In addition, a carbon content was introduced in energy taxes introducing a three-year increase in the value of carbon (7€/ton in 2014, 14.5€/t in 2015 and 22€/t in 2016) which could eventually lead to an increase in energy taxes of about €4bn by 2016. In parallel, some non-ecological tax expenditures will also be reduced.

To narrow the output gap more quickly, the government has included in the Responsibility and Solidarity Pact measures to support the purchasing power of low-income households. One of these measures, an income tax reduction for households near the minimum wage, will be implemented in 2014, thus alleviating the tax burden for more than 3 million low-income households, which represents over €1bnbn in purchasing power gains this year. This tax cut will be extended in 2015, bringing the number of households affected to 9 million, and triggering substantial effects on consumption and employment (making the work pay better through a lower labour tax wedge)thus reducing the output gap.

Despite of tight expenditure control, France's public deficit will exceed the target set for 2014 due to lower-than-expected economic growth and inflation and changes to accounting standards. The public deficit will be above 4% (4.4 %) in 2014 and 2015 (4.3 %). *Reducing the deficit reduction is a prerequisite for stabilising and then reducing the share of the public debt in GDP. It will ensure ongoing favourable financing conditions for France, and therefore for businesses and households. Such efforts are also expected to trigger a positive confidence shock that will benefit the whole economy. Special attention will be paid to ensure that fiscal consolidation efforts do not hamper economic recovery. Our fiscal strategy is designed to restore the leeway needed to implement the structural reforms described below. Consequently,* *the French government remains strongly committed to restoring public finances. France will keep cutting public deficits at an appropriate pace and without resorting to tax hikes. Our objective is to get back below the 3% deficit threshold in 2017.) Further details are available in Appendix 1.*

New Structural Policy Responses

Investment and Infrastructure

Financing the French economy relies mainly on abundant and strong domestic (household) savings. These savings are largely intermediated through financial institutions (banks, life insurers, asset managers, etc.) with only 20% of households' financial assets being held directly.

Against this backdrop, financing long-term investment depends on the capacity of the financial system to effectively and efficiently channel household savings to the right investments. This can be carried out both by intermediaries (banks or insurers) and capital markets (in conjunction with insurers and asset managers). As such, French initiatives mainly focus on fostering private long-term financing and improving intermediation channels.

Investment in infrastructure will drive growth in the next decade in France, especially for the transport sector where new infrastructure projects as well as renewal and modernisation projects are currently on the table, the energy sector in order to meet the targets defined in the energy transition bill (renewables to represent 32% of energy consumption in 2030, 40% reduction in greenhouse gas emissions and 30% reduction in fossil energy consumption by 2030), and the ICT sector with the rollout of fibre optic networks.

France has taken tangible steps to encourage increased **private financing for long-term investment.** The economic environment will also benefit from EU initiatives, be it on long-term financing issues or the upcoming EU investment plan.

SME financing

Overall, French businesses report fairly good access to investment financing with over 90% of credit demand being satisfied. The main focus has been on facilitating SMEs' access to finance and fostering increased private financing for long-term investments.

As regards debt, we intend to think up and implement several initiatives aimed at:

(i) Revitalising mid-caps' access to debt markets, by providing a clear framework for private placement transactions between mid-caps and a small number of institutional investors (Euro PP), while enabling insurers to earmark more of their assets for loans to (unlisted) mid-caps (either directly provided they show that they can manage this credit exposure or through dedicated funds).

(ii) Enhancing financial intermediation through securitisation within a sound regulatory framework. SME securitisation could benefit from Banque de France's expertise and data. In addition, in September 2014, Bpifrance (public investment bank dedicated to SME financing) announced a pilot scheme through which its usual guarantees could be recognised in a securitization, enabling banks to securitise portfolios of loans originated under a risk sharing scheme.

(iii) Ensuring that the rule of law is effectively applied in intercompany (trade) credit, making it easier to control and levy fines on firms imposing excessively long payment terms on their suppliers.

As regards equity, providing a clear framework for crowdfunding, improving the schemes supporting venture capital and private equity, and launching EnterNext are examples of initiatives that are being implemented in order to improve mid-caps' access to equity markets. To this end, specific measures were announced last September:

(i) the framework governing pension funds' asset allocation will be reviewed – the revision could contribute to an extra €5bn being allocated to SME and mid-cap equity – and other similar reforms are under consideration

(ii) life insurance reform has now been fully implemented, and could increase funds dedicated to the financing of the economy by up to €200bn owing to the creation of new financial products

Government intervention is required when there is market failure, for instance when private returns are less than social returns or when there are asymmetric information problems. France has therefore introduced targeted public schemes to address these identified market failures and unlock private financing. Following the setting-up of Bpifrance in 2012, a range of new products has been developed to support and bolster policies aimed at increasing firms' competitiveness (National Pact for Growth, Competitiveness and Employment) and addressing possible tensions on short-term credit (in line with the renewed focus on trade credit). Examples include a scheme to finance the digital modernisation of SMEs or a scheme to prefund the Competitiveness and Employment Tax Credit (CICE) for SMEs facing cash constraints. Bpifrance will maintain its support to SMEs (€5bn of cash-flow support in 2015, guarantee for cash advances up to €50,000).

At the same time, complementary measures are being implemented in Europe in line with the Compact for Growth and Jobs, launched in June 2012. France actively supports these initiatives, in particular the measure to increase the capacity of the EIF, the EIB Group's specialist provider of risk finance to benefit SMEs across Europe. Recent partnership agreements between the EIB Group, on one hand, and the CDC and Bpifrance, on the other, are now bearing fruit, with the goal being to renew and broaden joint financing methods.

Infrastructure and innovation financing

The government is also working tirelessly to establish a pro-innovation economic framework:

(i) The Research Tax Credit has been maintained until 2017 and its framework will be simplified. This financing scheme has also been expanded through the introduction of the Innovation Tax Credit (CII). 20% of expenses for prototypes and for the introduction of new products by SMEs can now be deducted from taxes, up to €400,000. The aim is to encourage firms to industrialise their innovations by incorporating elements such as design or eco-design. This €300m effort is maintained in our fiscal consolidation strategy.

(ii) The Invest for the Future programme will be scaled up by €12bn over the next five years (for a total amount of €47bn), will target innovative projects by 2025 and will mostly focus on ecological transition. These new sources of funding will contribute to financing the winners of the Worldwide Innovation Challenge 2030, launched by the Innovation Commission chaired by Anne Lauvergeon and which awards prizes to projects that represent the future face of industry, with some winners having been chosen last summer. They will also contribute to financing a national fund for innovation to support global structural measures for the French innovation system.

(iii) The Competitiveness Cluster Programme enters phase 3 (2013-2018) and will focus on the economic spinoffs of clusters, while supporting mostly innovation-oriented crowdfunding, with the creation of new products and processes with significant market potential. Each cluster will have to set performance targets for technological transfers, helping SMEs access funding, internationalisation and access to skills. The government has also earmarked a total allocation of €100m of subsidised loans to help finance the industrialisation and marketing of R&D output.

(iv) The 2014 Budget Act provides for the reform of the innovative start-up programme which is intended to provide support for these firms and to extend the tax exemption for employers' social contributions to include those on the wages of employees working on innovative projects.

(v) The digital switchover will be ramped up with substantial investments to roll out very-high-speed broadband (€20bn of public and private investments in infrastructure), to support firms going digital (€30 m in loans) and to help high potential start-ups expand (French Tech Initiative).

(vi) Public investment has been maintained despite the fiscal consolidation efforts with large infrastructure projects being initiated. The Grand Paris Express is a flagship project in this respect. The project will build 200km of automatic metro lines to better connect the main business centres of the Paris area and it has been thoroughly reviewed. The Net Present Value of this €25bn investment has been estimated at €29bn which led the Prime Minister to launch this bold project in March 2013.

The French government has established a proactive and global policy framework in favour of innovation. Many governmental initiatives have been launched to establish a new systemic approach to the culture of innovation. The Entrepreneurship Conference (*Assises de l'entreprenariat*), the plan called "a New Deal for Innovation" ("*une nouvelle donne pour l'innovation*"), launched on 4 November 2013 and the French Tech Initiative are part of this strategy. These initiatives supplement the sector-based approach of t**he National Council for Industry** (*Conseil national de l'industrie*), which was set up on 5 February 2013, and which has enabled priorities for French industry to be set through 34 industrial plans (*Nouvelle France Industrielle*).

Housing

France is committed to increasing the supply of housing and has taken several measures to release public and private land (transferring local town planning schemes to inter-municipal structures, increasing the "cadastral rental value" for building land), reduce regulatory constraints on the housing supply (reducing timelines for obtaining building permits, easing town planning regulations, etc.), develop social housing and middle income public housing (*logement intermédiaire*) through reduced rates of VAT and the housing plan (construction of 25,000 new units of middle income public housing over five-years in densely-populated areas as announced last September) - and provide financial help to first-time buyers, targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy.

Employment

The measures targeting the unemployment gap have various goals. These include reducing labour costs to create jobs, especially low paid jobs, making it easier for workers to return to, or join, the labour market, increasing the participation rate for older workers and reducing the gender gap.

- The measures intended to reduce labour costs and foster competitiveness will boost employment (see below).
- Second, the specific initiatives providing those who have been out of work the longest with **easier access to employment** – Jobs for the Future, Generation Contracts – have been maintained and bolstered in 2014. 80,000 additional subsidised contracts (*Contrats initiative emploi*) will be rolled out in 2015 targeting older workers, people with disabilities and long-term unemployed. As regards tackling youth unemployment, France is taking the lead in implementation of the EU's Youth Guarantee. This is a new approach to tackling youth unemployment ensuring that all young people under 25 – whether registered with employment services or not – get a good-quality, concrete offer within 4 months of them leaving formal education or becoming unemployed. The good-quality offer should be for a job, apprenticeship, traineeship, or continued education and be adapted to each individual need and situation. Funds dedicated to vocational training will be increased by €0.2m as decided during the Social Conference for Employment last July. The goal is for 500,000 apprenticeship contracts to have been signed by 2017 by improving communication on the advantages of these contracts and their overhaul. In June 2014, the European Commission adopted the French national Operational Programme for the implementation of the Youth Employment Initiative (YEI). This was the first Operational Programme to be adopted as part of the €6bn YEI, with **resources totalling €620m being available to France**. The Youth Employment Initiative in France will support the implementation of the national Youth Guarantee to help those young people with worse chances in the labour market.

  Regarding unemployment benefits, the agreement reached in March provides the unemployed with more incentives in returning to the labour market. With this new agreement, unemployment benefits will become rechargeable (when workers return to work after a period of unemployment, their remaining unemployment benefit rights will not be cancelled). These measures will supplement the already wide range of measures implemented in the past years, notably with the Job Security Act. Reforms aimed at improving the vocational training system (adopted in March 2014) and heightening the effectiveness of the public service for unemployment will prevent human capital depreciation and hysteresis effects on the labour market. Overall, these reforms should contribute to reducing long-term unemployment and should therefore improve the growth potential of the French economy.

- Lastly, the recently adopted pension reform is designed to ensure the **sustainability of our pension system through** a short-term raising of the pension contribution rate – offset by a reduction of other social security contributions so that its impact on labour costs is zero – and, beginning in 2020, an increase in the effective retirement age with the extension of the contribution period (43 years' contributions for a full pension in 2035).This last aspect of the reform should have substantial positive impact on the participation rate for older workers and thus on growth, in addition to meaning that the government will not have to raise the pension contribution rate any further.
- The French government is committed to closing the employment gender gap by 2025. To achieve this objective, a comprehensive strategy has been introduced based on the early childhood services development plan, parental leave reform, pension reform and a thorough taxation review. In particular:
  - As part of pension reform, there are measures to narrow the pension gender gap by reducing the impact of part-time employment on pension levels, and by taking better account of maternity leave when calculating the number of quarters required for entitlement to a full pension.
  - A female entrepreneurship plan has been launched to foster female entrepreneurs' access to credit and support.
  - 275,000 additional childcare places including 100,000 in crèches are to be established by 2017 according to a government plan.
  - The act on real equality between men and women has come into force. It introduces more incentives for men to take paternity leave, grants access to public procurement only to firms respecting gender equality and contains measures to help single mothers who have not been paid child support.

As part of measures to help the most vulnerable population groups in the labour market, the government has included in the Responsibility and Solidarity Pact measures to support the purchasing power of the poorest workers, therefore increasing the benefits of returning to the labour market. The government has reduced income tax for low-wage workers in 2014. This tax cut will be extended in 2015, and 9 m households will be concerned. This measure will reduce the tax burden on the lowest income households, notably unskilled workers and thus contribute to making work pay more than inactivity. These tax cuts will be supplemented by a reform of both the in-work income supplement (*RSA activité*) and the earned income tax credit (*Prime pour l'emploi, PPE*) to make this system of working incentives more effective and to provide financial assistance to the working poor.

A strong boost for employment will come from measures to reduce labour costs for employers (see below). Moreover, the recent agreements on unemployment benefits and vocational training will have positive macroeconomic effects but are difficult to assess quantitatively. The *pension system reform should have a long-term effect with an increase in the working population (+1.2%) resulting in an equivalent rise in potential production, labour and capital stock. The "Solidarity" measures set out in the Pact encourage consumption as they will lead to an increase in gross disposable income for "low income-high propensity to consume" households. This will mean that GDP should rise by 0.1% with almost 20,000 jobs being created by 2019. This assessment does not factor in the effect of the reform of the "RSA Activité" and the "PPE", the conditions of which have not yet been determined, but which could have a significant impact on employment.*

Competitiveness and competition

Improving both cost and non-cost competitiveness is a top priority for the French government. The Responsibility and Solidarity Pact is designed to address this issue and will have a substantial positive impact on cost competitiveness.

The Pact will be rolled out in stages up until 2019. It will add about one percentage point to growth and create nearly 200,000 additional jobs. **Labour costs for businesses**, which have already fallen owing to the Competitiveness and Employment Tax Credit (CICE), will be cut further for a total reduction of €30bn. By 2016, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. Family allowance contributions will be reduced on jobs paying up to three and a half times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment.

The Pact also includes corporate tax measures that will allow business taxes to be streamlined and reduced. The corporate social solidarity contribution (C3S), which is based on turnover and not on income, will be reduced starting in 2015 and phased out by 2017, the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017, bringing it down to 28% by 2020.

In addition, a wide-reaching programme to **cut red tape** was launched in July 2013. More than 200 measures were put forward, more than half of which are directly linked to daily business life. To increase the impact of the programme, the government has been authorised to speed up the process and has created an Administrative Streamlining Board, which set out 50 new measures in January 2014. The government has already presented an act containing 14 of the 50 measures (development of the advance tax ruling procedure, reduction of filing obligations, particularly for SMEs, etc.) that was adopted by the National Assembly last July. The remaining measures do not need to be written into law and are already being implemented (publication of tax rules on a particular day, non-retroactivity in tax matters, etc.). The Board is due to present a set of 50 new measures. Alongside these streamlining measures, the government has put special focus on the need to review staff thresholds in firms, which are thought to hamper their growth. Discussions between labour and management on this matter should produce results by the end of 2014. The Responsibility and Solidarity pact has paved the way for this threshold reduction process with the alignment of the employers' social contribution exemption for all companies, regardless of size.

A reform of local government, aimed at streamlining its organisation and thus generating financial leeway, has been launched. This reform includes halving the number of regions (from 22 to 13), strengthening inter-municipal structures and clarifying the division of powers by eliminating the *clause générale de compétence* (principle by which local authorities can act in areas for which they are not responsible as of right). Besides reducing public expenditure, this territorial reform is intended to foster coordination between local authorities and thus improve the effectiveness of public actions in favour of businesses. The new regions should be designed on the basis of the average size of European regions and therefore be capable of building regional strategies. They will be given new responsibilities and instruments to help local businesses grow. The first bill, outlining the new local government map, was adopted at the end of July 2014.

The second bill (to be presented to parliament by the end of the year), which redraws France's regional boundaries, grants regions new areas of competence that will help promote economic growth, boost their appeal and ensure balanced regional growth. New resources will be provided to support business growth. The regions will take over the running of certain services previously managed by the *départements* (secondary schools, intercity and school transport, and roads). In addition, they will be able to outline specifications for projects to ensure the consistency of the steps taken by the various layers of local government to stimulate economic growth and regional development. At the same time, the reform will strengthen inter-municipal structures that will be required to reach critical mass – 20,000 inhabitants by 1 January 2017 – and be based on community catchment areas to avoid duplicating or overlapping initiatives and to offer new local services.

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Fostering competition could enhance firms' competitiveness by reducing input prices, lowering barriers to entry, thus making it easier to set up SMEs, and increasing incentives for businesses to innovate. For these reasons, pro-competitive reforms are being implemented in the service sector and further reforms are being considered in the rail, coach travel, energy, regulated professions and financial services sectors. France's new commitments in favour of competition are intended to modernise markets and lift barriers to businesses' development through a large range of targeted measures. Ultimately, competitiveness will be boosted by improving effectiveness and reducing businesses' costs:

(i) In the legal and accounting regulated professions

The constraints regarding access to the profession of notary and the status of lawyer to the *Conseil d'Etat* (French Supreme Administrative Court) and the *Cour de Cassation* (French Supreme Court of Appeal) were eased by the Act of 2 January 2014. The rules surrounding access to accounting firms' capital were simplified. A new cost-based method to calculate the fees of regulated professions in the legal and accounting sector will be developed in the context of the Business Bill. More broadly, this new legislation will focus on modernising goods and services markets by lifting the barriers holding back development. These changes will make it easier to set up new businesses and reduce constraints on capital holding, especially in the regulated legal professions. Moreover, the "implementers of the law" professions, such as bailiff or legal auctioneer, are set to be merged into a single profession.

(ii) In the energy market

In addition to eliminating regulated gas tariffs for businesses and electricity tariffs for everyone except small users, hydroelectric infrastructure will be progressively renewed through the awarding of concession contracts. This renewal will increase competition in the sector.

(iii) Regarding land use and town planning

An act relating to crafts, trade and very small businesses makes it easier to open new shops by reducing the period between two applications when the first one was rejected. In addition, estate agencies will have to increase transparency regarding their activity in compliance with the "ALUR" Act (on access to housing and reformed town planning). Other changes are being studied in the context of the Business Bill. The aim is to reduce regulatory constraints on the housing supply in order to boost construction and free-up land.

(iv) In the pharmaceutical market

Pregnancy tests and cleansing products for contact lenses may now be sold outside pharmacies. This measure will be extended to other "fringe drugs". Prescriptions for glasses will now mention the interpupillary distance to facilitate online sales.

(v) In the transport market

The purpose of rail system reform is to bolster current governance by establishing a sole operator for infrastructure management, in a manner that is compatible with the deregulation of passenger transport. Competition should also be increased in the transport sector with the development of coach travel, thus allowing young people to be more mobile.

(vi) Other monopoly rents

French consumers are now allowed to bring class actions, particularly against anti-competitive practices under the Consumer Act adopted in March 2014. Insurance policies can now be terminated at any date.

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The pro-competition measures and tax cuts introduced will reduce the cost of factors of production and increase competitiveness.

The elasticity between labour demand and wages is particularly high for low salaries. The reduction in labour costs implemented by the Responsibility and Solidarity Pact, partially targeting low paid jobs, should therefore have a massive effect on employment. Labour cost reductions and business tax cuts introduced by the Pact will add 0.8% to GDP and create 200,000 jobs by 2019. This effect will be increased by the ramp-up of the CICE in 2014 (labour *cost reductions financed by public expenditure cuts, VAT and a carbon tax). In total, the medium-term macroeconomic impact of the CICE is expected to add 0.8% to GDP and create more than 300,000 jobs.*

The impact on growth and jobs of comprehensive measures such as administrative streamlining or the introduction of class actions is difficult to assess precisely. Nevertheless, these measures, together with the reforms designed to both improve the functioning of goods and services markets and reduce monopoly rents, could result in an increase in French GDP of several tenths of a percentage point. For example, pro-competition measures introduced by the Consumer Act passed in early 2014 targeting the optical goods, eyecare and insurance markets, two of the many being deregulated, will increase GDP by 0.05% and employment by 11,000 jobs during a five-year period, bringing about an improvement in purchasing power of some €1.5bn. The French Minister for the Economy and Finance announced on July 10 2014 that a new bill was in the pipeline. It would focus on growth and, more specifically, would aim to reduce prices, modernise regulated professions (including bailiffs, clerks of commercial courts, lawyers and some medical professions) and streamline regulations for Sunday trading and coach travel. The bill is set to include various proposals, but the draft has yet to be published. It is scheduled to be presented before the end of the year.

In the meantime, all of the other measures aimed at accelerating the capitalisation of new R&D output (see above) will also help to boost our non-cost competitiveness.

An increase in revenues and demand will have a positive spillover effect on our economic partners.

Table: Assessment of the overall impact of the Responsibility and Solidarity Pact (including solidarity measures)

	2015	2016	2017	2018	2019
GDP (%)	+0.2	+0.4	+0.6	+0.8	+0.9
Employment	50 000	130 000	190 000	210 000	210 000

Trade

France's new commitments to boost trade, especially SME exports, are designed to:

(i) Promote an ambitious multilateral agenda

France considers that a rule-based, reciprocal market access is a policy objective with a substantial positive spillover effect on trade and growth.

The WTO Agreement on Trade Facilitation will make it easier for French companies, especially SMEs, to export. It will also reduce the cost of export operations and give wider access to export and import markets. To this end, France is implementing the EU Union Customs Code that entered into force on 30 October 2013.

Making progress in plurilateral negotiations on the Trade in Services Agreement, and launching negotiations on environmental goods, would help to increase the positive growth impact of trade.

Making progress in negotiations in relation to the Doha Development Agenda through a balanced post-Bali work programme is obviously a priority for France, although the benefit of doing so will only be visible in the medium term.

(ii) Finalise bilateral trade agreements

Finalising bilateral trade and/or investment agreements should help make it safer and easier for French companies, especially SMEs, to trade with partners with whom the EU has signed a free-trade agreement (FTA).

Bilateral agreements will bring about the deepest cuts in non-tariff barriers to trade, which in turn should help to substantially improve market access, and enable progress on sustainable development, export finance and competition, all key to promoting a credible rule-based multilateral trading system.

As a Member of the EU, France is committed to an ambitious timetable of bilateral negotiations. We recently concluded a FTA with Singapore. The Comprehensive Economic and Trade Agreement (CETA) was recently signed between Canada and EU leaders (September 2014). Once approved by the EU Council and the European Parliament, it should come into effect in 2016.

(iii) Carry out structural reforms

The government is working on helping French firms export by streamlining its export support system, including: (i) merging the Invest in France Agency (AFII) and Ubifrance, and; (ii) introducing a new export support system more in line with SMEs' needs.

In addition, structural reforms described in this document will have a positive impact on competitiveness and growth. Positive spillover effects on trade from these reforms are also expected.

(iv) Simplify trade & attract investors to France

The EU already has a very open trade and investment regime on a Most Favoured Nation (MFN) basis, and also based on the General Scheme of Preferences (GSP) for developing countries, and preferential Free Trade Agreements (FTAs).

The policy for attracting investors to France has been reinforced recently by measures aimed at streamlining administrative formalities for young professionals or supporting the development in France of foreign startups.

Domestic measures aimed at simplifying the customs procedures through the introduction of "Authorised Economic Operator (AEO)" status, the development of dedicated customs structures supporting SMEs and major groups, or the implementation of a single administrative window should also contribute towards improving the business environment in France.

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The economic impact of measures devoted to improving French companies' access to international markets is difficult to assess accurately. In contrast, the EU has produced estimates of the impact bilateral trade agreements have on growth and jobs. According to these estimates, the successful completion of the bilateral trade agenda could add 2.2% to the EU's GDP, or €275bn. In terms of employment, these agreements could generate 2.2 million new jobs or an additional 1% of the EU total workforce. On the whole, completing the current EU bilateral trade agenda could more than double the share of EU exports and imports which benefit from preferential trade.

APPENDIX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumptions, or other factors (please specify), referring to the information provided.

Our previous deficit targets had to be adjusted due to changes in our growth and inflation forecasts for 2014 onwards. Despite this setback, our long-term commitment to our strategy has been reaffirmed by the new government. We consider deficit reduction a prerequisite for growth and a way to ensure that the central government continues to enjoy favourable financing terms, which, in turn, means better terms for businesses that want to invest and create jobs, and for households.

The consolidation of public finances started two years ago and will continue beyond the end of the President's term in 2017: the pace of reducing our structural deficit will accelerate between 2015 and 2017. In 2015, it is expected to stand at 4.3% of GDP; low inflation and weak growth will stop it from falling further. As of 2016, an improvement is expected as a result of a more favourable macroeconomic climate: after contracting to 3.8% in 2016, it is forecast to fall to 2.8% in 2017. Government expenditure will grow by an average of only 1.6% a year in nominal terms compared to around 3% in nominal terms if the fiscal consolidation measures had not been taken. This represents an unprecedented effort (+3.7% a year between 2002 and 2011). It will enable us to continue reducing deficits while cutting taxes.

With the implementation of the Responsibility and Solidarity Pact, and the €50bn in savings, the share of public expenditure, taxes and social security contributions in GDP will diminish over 2014 -2017.

Thanks to the decisions made to support growth and jobs on the one hand, and to reduce the deficit on the other hand, the debt ratio, which should stand at 95.3% of GDP in 2014 (based on ESA 2010 standards, which means that figures are not comparable to our previous official forecasts), will start decreasing by the end of 2016.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):
France's fiscal policy is framed within the European fiscal framework containing targets and budget rules that have now been incorporated into the domestic legal framework.

a. Debt-to-GDP ratio objective

Consistent with the European fiscal framework, France is aiming for a debt-to-GDP ratio below 60% over the long run.

b. Intermediate objectives

France has committed to reach a near zero-growth rate for public expenditure by 2017 and a budget in structural terms below 1% of GDP by 2018, ensuring that the debt-to-GDP ratio will start decreasing by 2017 and return below the 60% ceiling in less than 20 years.

c. Expenditure and revenue reforms

Thanks to expenditure savings of €50bn over 2015–2017, government expenditure growth will hit historically low rates, reducing public expenditure to 54.5% of GDP in 2017, which was the average level before the crisis. This choice is bold and unprecedented.

This effort will be shared equitably by all general government sectors, in proportion to their share of total government expenditure: this will enable us to continue reducing deficits without raising taxes.

- Central government and central government agencies' share of the savings (€19bn over three years) will be achieved by increasing efficiency, freezing the wage-index for civil servants and improving cost controls even more.
- Local governments will contribute savings of €11bn through organisational reform and cuts in central government transfers.
- The health insurance system will achieve savings of €10bn by deploying a national health strategy that ensures the quality of care and the level of coverage.
- The social protection system will achieve savings of €10bn (€6bn as early as 2015) through reforms that have already been adopted regarding pensions and family policy, and through future measures, such as efficiency gains and a one-year freeze on benefits in nominal terms, except for minimum social benefits.

The Responsibility and Solidarity Pact will boost the recovery and purchasing power, while pushing down the tax rate.

As part of the Pact, taxes will gradually be reduced up until 2017. This will add half a percentage point to growth and create nearly 200,000 additional jobs.

The cost of labour has already fallen as a result of the Competitiveness and Employment Tax Credit (CICE) and will be cut further, bringing the total reduction to €30bn. By 2016, there will no longer be any social security payroll contributions on minimum-wage jobs, other than unemployment insurance contributions. Family allowance contributions will be reduced on jobs paying up to three and a half times the minimum wage. Such jobs, paying up to €5,000 per month before deductions, represent 90% of payroll employment.

In addition, business taxes will be streamlined and reduced: the corporate social solidarity contribution (C3S), which is based on turnover and not income, will be reduced starting in 2015 and phased out by 2017; the exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will decrease starting in 2017, bringing it down to 28% by 2020.

The government has reduced income tax on low-wage workers in 2014. This tax cut will be extended in 2015, reaching 9m households in total. It will be complemented by the reform of both the in-work income supplement (*RSA activité*) and the income premium (*Prime pour l'emploi, PPE*) to make the system of working incentives more efficient.

d. Reforms to strengthen the fiscal framework

France’s fiscal governance framework is consistent with the European Fiscal Compact. It boasts:

- a structural medium-term fiscal objective enshrined in national legislation.
- an independent High Council on Public Finances, which gives a public opinion on the Government’s growth forecasts and the compliance of the adjustment path with the medium term objective in structural terms.
- a fiscal correction mechanism in case of deviation from the structural adjustment path voted in the multiannual budget act.

3. Medium-term projections, and changes since last submission *(required for all members)*:

All the figures below are taken from the October 2014 forecast. They will be updated in April 2015.

		Estimate	Projections				
	2013	2014	2015	2016	2017	2018	2019
Gross Debt	92.2	95.3	97.2	98.0	97.3	95.6	92.9
ppt change compared to 2013 projection*	1.2	1	4.3	7.3	9.1	N.A.	N.A.
Net Debt	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change compared to 2013 projection*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Deficit	-4.1	-4.4	-4.3	-3.8	-2.8	-1.8	-0.8
ppt change compared to 2013 projection*	-0.4	-1.5	-2.3	-2.6	-2.1	N.A.	N.A.
Primary Balance	-1.9	-2.2	-2.0	-1.4	-0.3	N.A.	N.A.
ppt change compared to 2013 projection*	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

		Estimate	Projections				
	2013	2014	2015	2016	2017	2018	2019
CAPB	-0.3	-0.3	0.0	0.3	1.0	N.A.	N.A.
ppt change compared to 2013 projection	-0.6	-1.7	-2.3	-2.7	-2.3	N.A.	N.A.

* Figures can be presented on a fiscal year basis should they be unavailable for the calendar year.

**: Comparison with 2013 projection might lead to inconsistencies as many methodological changes have been made since then

4. Economic assumptions, and changes since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth: *all the figures below are taken from the October 2014 forecast. They will be updated in April 2015.*

	Estimate (October 2014)	Projections (October 2014)					
	2013	2014	2015	2016	2017	2018	2019
Real GDP growth	0.3	0.4	1.0	1.7	1.9	2.0	2.0
ppt change*	+0.2	-0.5	-0.7	-0.3	-0.1.	N.A.	N.A.
Nominal GDP growth	1.1	1.2	1.9	3.1	3.6	3.7	3.7
ppt change*	-0.1	-0.9	-1.1	-0.6	-0.1	N.A.	N.A.
ST interest rate	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
LT interest rate	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
ppt change	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.

* Figures can be presented on a fiscal year basis should they be unavailable for the calendar year.

**: Comparison with 2013 projection might lead to inconsistencies as many methodological changes have been made since then

APPENDIX 2: NEW POLICY COMMITMENTS

	Reduction in the cost of factors of production
Implementation path and expected date of implementation	Our commitment to reduce production costs is threefold: • The ramp-up of the Competitiveness and Employment Tax Credit (CICE), which has increased from 4% to 6% of the total payroll in 2014 on wages up to 2.5 times the minimum wage, will reduce labour costs by up to €20bn from 2014 onwards. • Reduction of employer's social contributions on low and medium wages starting in 2015. The cost of minimum-wage labour will be cut by eliminating employers' social security contributions, other than unemployment insurance premiums, and by a review of the existing exemptions on jobs paying up to 1.6 times the minimum wage. Family allowance contributions on jobs paying between 1.6 times and 3.5 times the minimum wage will be cut by 1.8 percentage points. All in all, the new reductions in 2016 for jobs paying up to 1.6 times the minimum wage will come to €4.5bn, as will the reductions for jobs paying between 1.6 times and 3.5 times the minimum wage. Self-employed workers will see their family allowance contributions cut by €1bn as well. All in all, 90% of payroll employees will be affected by the measures, with a special focus on the lowest paid. • The streamlining and cutting of business taxes. The corporate social solidarity contribution (*contribution sociale de solidarité des sociétés* - C3S), which is paid by some 300,000 companies, will be cut by €1bn in the form of a deduction in 2015 and phased out entirely by 2017. Two-thirds of the companies currently paying this tax will be exempt in the first year. Abolishing this tax will save companies more than €6bn in gross terms. The exceptional corporate income tax payment for large corporations will be phased out in 2016 and the standard rate of corporate income tax will be lowered from the current 33.33% to 28% in 2020, with a preliminary cut in 2017. Lastly, the tax system will be streamlined by the elimination of dozens of complicated low-yield taxes.
What indicator(s) will be used to measure progress?	*Changes in labour costs, the tax wedge, and average business taxes will be good indicators for measuring progress in this area.*
Explanation of additionality (where relevant)	

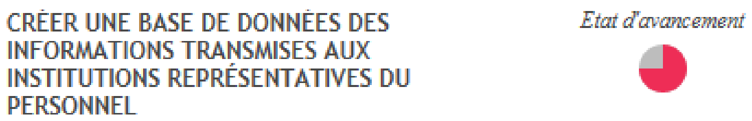
	Reduction in the tax burden on low-income households to support purchasing power
Implementation path and expected date of implementation	• A reduction in income taxes on low income households as early as September 2014, with the abolition of the first income tax bracket, meaning that households earning between €6,011 and €9,690 per year (around three million households) will no longer pay income tax. The purchasing power gain should represent over €1bn in 2014. The scheme will be extended in 2015. All in all, around 9 m households should benefit from this tax rebate. • An increase in social benefits for the lowest income households: the minimum income benefit (+2% in September 2014), specific benefits for isolated parents (+€60/year in April 2014) and poor and large families (+€216/year in April 2014). • This assessment does not take into account the impact of the “RSA Activité” and “PPE” reform, the outline of which has not been defined yet, but which could have a significant impact on employment.
What indicator(s) will be used to measure progress?	*Tax wedge on low-wage earners, inequality or poverty indicators.*
Explanation of additionality (where relevant)	

	The modernisation of markets to allow for productivity gains, lower prices for consumers and more competitive businesses

Implementation path and expected date of implementation	The French government is currently working on a comprehensive strategy aimed at creating a more pro-competition economic environment:
	• The Consumer Act of 13 February 2014 contains measures that promote competition and consumers' interests. It creates a class action procedure for consumer disputes under French law, particularly in the case of anti-competitive practices in services. The Act also reinforces the Directorate General for Competition Policy, Consumer Affairs and Fraud Control (DGCCRF) and the Competition Authority. The provisions of the Act enhance competition in services, particularly in the healthcare sector (opticians, chemists) and in the financial sector (banking and insurance). The measures under this Act will have a major impact on households' purchasing power, estimated at €1.5bn in all. These measures are likely to be enhanced, particularly in the healthcare sector, with further reform of the market for certain so-called “borderline” products, which are currently sold exclusively by chemists, and greater price transparency in the distribution of certain medical devices, such as prostheses and optical products.
	• Other measures will increase competition in services. The Act of 2 January 2014 eliminated restrictions in the legal and accounting professions in order to develop the business of notaries, lawyers and accountants. Other changes to legislation are being considered, such as a more cost-based approach to pricing in some of these professions. Consultations will be held with professionals that may also cover the organisation of certain services with a view to greater economic efficiency.
	• On October 15 2014, the French Minister for the Economy and Finance outlined the details of a new Economic Activity Bill that will focus on three areas:
	  o Modernising the goods and services markets by removing barriers that are stifling growth. This modernisation will come through facilitating the creation of new businesses, the reduction of constraints on shareholding and the development of a new cost-based fee structure for the legal regulated professions. Increasing the mobility of workers through reforms to coach travel (by reducing the regulations that govern the segment) and the freeing up of housing market, will help to remove the aforementioned barriers.
	  o Stimulating investment by reducing the red tape for industrial projects, and streamlining their legal framework and processes. Recent announcements regarding the channelling of household savings toward investment will also be developed as part of this bill.
	  o Higher employment and improved industrial relations by improving the functioning of the labour market. Legislation regarding Sunday trading will also be reviewed and the framework for industrial relations will be simplified.

What indicator(s) will be used to measure progress?	*Number of measures passed* *Mark-ups and Product Market Regulation Index (this last indicator could underestimate the impact because of the qualitative nature of the indicator that induces threshold effects)* *STRI (Services Trade Restrictiveness Index)*
Explanation of additionality (where relevant)	.

	Supporting productive investment
Implementation path and expected date of implementation	We intend to support productive investment through: • The Invest for the Future Programme, which will be scaled up by €12bn over the next five years (for a total of €47bn), • Implementation of the third phase of the clusters programme (2013-2018). It will help innovative ecosystems emerge and facilitate the link between scientific research and market applications • The expansion of tax incentives for R&D expenditure: The research tax credit (crédit d'impôt recherche - CIR) has been maintained for the rest of the President's term and the scope of eligible expenditure has been broadened with the innovation tax credit (crédit d'impôt innovation - CII), especially for SMEs. • The digital switchover will be accelerated with substantial investments to spread very high speed internet (€20bn of public and private investment in infrastructures), to help firms going digital (€30m of loans) and to help startups with strong growth potential develop their business (French Tech Initiative). • Public investment has been maintained despite the fiscal consolidation efforts, with large infrastructure projects being assessed. The Grand Paris Express is a flagship project. It aims to develop 200km of automatic subway lines to better connect the main business centres in the Paris area and has been thoroughly reviewed. The Net Present Value of this €25bn investment has been estimated at €29bn, leading the Prime Minister to launch this ambitious programme in March 2013. • Easing SMEs' access to finance and fostering greater private financing for long term investment (development of SME securitisation, ensuring the rule of law is applied to intercompany trade credit, increase in the capacity of insurers and pension funds to invest, life insurance reform). • As part of the housing stimulus plan unveiled by the Prime Minister on 29 August 2014, all of the policy levers available to government have been marshalled to boost the building of new homes. These levers include: (i) greater tax incentives to free up land for construction purposes; (ii) financial help for first-time buyers targeting particular areas and sections of the population for whom such measures will act as a real incentive to buy; (iii) development of social and mid-range housing; (iv) greater support for the energy renovation of existing homes; and (v) easing of regulatory constraints.
What indicator(s) will be used to measure progress?	*Investment spending , use of research tax credit (CIR) by SMEs*
Explanation of additionality (where relevant)	

	Reduction of the administrative burden and red tape
Implementation path and expected date of implementation	Parliament passed an enabling act on 2 January 2014 to empower the Government to use a fast-track procedure to cut red tape under this programme. At the same time, President Hollande acted to step up streamlining efforts by creating an Administrative Streamlining Board (*Conseil de la simplification pour les entreprises*) which outlined 50 new measures in January 2014. The Government has already presented a draft bill containing 14 of the 50 measures (development of the advance tax ruling procedure, reduction in tax filing requirements, particularly for SMEs, etc.). The act was recently passed by the Senate. Some of the remaining measures do not require legislation and are already being implemented (publication of tax rules on a particular day, non-retroactivity in tax matters, etc.). A new set of 50 measures is due to be presented by the Board in October 2014. The other task assigned to the Board, which is co-chaired by a Member of Parliament (Thierry Mandon) and a business executive (Guillaume Poitrinal), will be to monitor progress on the programme to cut red tape for businesses and to assess the results. In addition to these streamlining measures, the government has placed particular importance on the need to review staffing thresholds in firms, which are thought to have a negative impact on employment. This issue will be debated with labour and management representatives. The Responsibility and Solidarity Pact has launched the process for reducing these thresholds by granting all companies, regardless of their size, the same exemption from employers' social contributions.
What indicator(s) will be used to measure progress?	*PMR* *The website http://simplification.modernisation.gouv.fr/ladministration-se-simplifie-pour-tous/ gives an update on the status of each streamlining measure.* *For instance:*  *Means: "implementation of the measure is underway"* 

COMPREHENSIVE GROWTH STRATEGY: GERMANY

NOVEMBER 10, 2014

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

Germany is committed to the G20 Framework for Strong, Sustainable and Balanced Growth and the collective objectives of the G20. Apart from the stabilization and deepening of the economic and monetary union in Europe and the ongoing financial market reforms, the priorities for the Federal Government are: maintaining a sound fiscal position, improving framework conditions for investment and innovation especially for small and medium-sized firms, strengthening targeted investment and innovation policies, fostering competition, improving labour market policies, and continuing with successful energy reforms. Moreover, the Federal Government is committed to reach balanced and ambitious free-trade agreements between the EU and leading third countries and a successful conclusion of the Doha round. The German economy has been and strives to remain an anchor of stability in the Euro Area by pursuing these policies.

All measures will contribute to stronger, sustainable and balanced growth in Germany and the G20. Fostering innovation and competition will support productivity growth and will thus make overall growth stronger. Maintaining a sound fiscal position and energy reforms will make growth sustainable. Robust domestic demand on the back of high employment and stronger investment as well as expanded trade will support growth in Europe and worldwide. Moreover, increasing foreign investment by German firms will foster Europe's economic recovery and contribute to growth in G20 countries. High technology exports will contribute to increase productivity in importing countries and help technological transfer, including to developing countries.

Specific estimates besides these qualitative considerations and how much they contribute to the 2 percent ambition of the G20 are not available from national sources.

Key Commitments

1. Investing in public infrastructure. A total of €5 billion of additional money provided for investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. In November, the Minister of Finance has announced the objective to further boost public investment by an additional €10 billion in 2016-2018; details will be agreed in the budget negotiations.

2. Investing in research and education and expanding the "High Tech Strategy". Additional €3 billion for research and development will be made available by the Federal Government. The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Government will implement the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany.

3. Boosting female labour force participation by further promoting the return to work for women after a family-related break of employment.

4. Tackling long-term unemployment. The Federal Government is planning a European Social Fund (ESF) – co-financed program to create employment prospects for long-term unemployed on benefits (Unemployment Benefit II) for a total funding of €885 million.

5. Transforming the energy sector, in particular to increase the share of renewable energies and to enhance energy efficiency. Germany has set various targets to implement its "Energiewende" (energy transition). These include increasing the share of renewable energies (RE) of electricity production to 40-45 % in 2025 and 80 % in 2050 and reducing primary energy consumption by 50 % compared to 2008, as well as ambitious targets for the mitigation of greenhouse gas emissions.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The German economy is growing moderately faster in 2014 than last year. But the unfavourable development of the "hard" industrial indicators and the decline of the business climate are currently indicating a temporary pause in growth in the middle of the year. Some economic indicators were influenced by special effects such as the time of the summer holidays. Furthermore, losses of confidence as a result of geopolitical crises and the weakness of global economy had damping effects. National and international institutions' growth forecasts for Germany currently range from 1.3 % to 1.7 % in 2014 and 1.2 % to 2.0 % in 2015. The Federal Government's projection from October 2014 is 1.2 % for 2014 and 1.3 % for 2015.

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	0.1	1.2	1.3	1.3	1.3	1.3
Nominal GDP (% yoy)	2.2	3.2	3.2	3.1	3.1	3.1
Output Gap (% of GDP)*	-0.8	-0.8	-0.8	-0.6	-0.4	0.2
Inflation (%, yoy)	1.5	1.1	1.6			
Fiscal Balance (% of GDP)**	0.1	0	0	1/2	1/2	1/2
Unemployment (%, ILO)	5.1	4.8	4.7	4.6	4.5	4.4
Savings (% of GDP)***	25.9	26.1	25.9			
Investment (% of GDP)***	19.0	19.1	19.4	19.6	19.7	19.9
Current Account Balance (% of GDP)	6.8	7.0	6.6			

The figures are the Federal Government's autumn projection as of October 14, 2014.
*A positive (negative) gap indicates an economy above (below) its potential.
**A positive (negative) balance indicates a general government fiscal surplus (deficit).
***Gross Capital Formation.

Key Drivers

German GDP growth will be driven by domestic demand over the forecast horizon (1.4 % in 2014; 1.7 % in 2015). The good labour-market situation, with employment reaching new record highs (42.8 million in 2015) and unemployment further decreasing (ILO rate 4.8 % in 2014; 4.7 % in 2015), will result in increasing gross wages and salaries (3.8 % in 2014; 3.7 % in 2015), disposable income (2.2 % in 2014; 2.9 % in 2015) and real private households consumption (1.0 % in 2014; 1.4 % in 2015). Moreover, after a lengthy period of weakness, positive impulses are also coming from investment. The expansion of investment in machinery and equipment (3.0 % in 2014 and 4.1 % in 2015) and increasing exports (3.4 % in 2014; 4.1 % in 2015) will – due to the high import content – also stimulate the level of German imports (4.0 % in 2014; 5.5 % in 2015). Public investment is projected to increase by 5-9 % in 2014 according to economic research institutes. The current account surplus will decrease to 6.6 % in 2015.

Assessment of Obstacles and Challenges to Growth

According to the St. Petersburg Accountability Assessment, "Germany has fulfilled many of its structural reform commitments. Of particular note was progress towards facilitating immigration of skilled workers, enhancing labour market competition, and boosting R&D and education spending. Further progress is still needed to increase domestic demand, notably by boosting private investment and service sector competition, and further increasing female labour force participation."

Risks to the outlook for the German economy include a more moderate growth in emerging markets, geopolitical uncertainties and a resurgence of excessive volatility in financial markets of the Eurozone periphery.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Sound public finances are an essential prerequisite for confidence of market participants, private investment and economic growth. Hence, the Federal Government aims at a balanced federal budget in structural terms in 2014. Next year, the federal budget will also be balanced in nominal terms. The general government budget will be balanced in nominal terms with a small structural surplus in 2014 and 2015. Germany's debt ratio (76.9 % of GDP in 2013) will decrease to below 65 % by 2018 and to below 60 % within ten years. Thus, Germany will comply with all international fiscal commitments – both at the EU and G20 level ("Toronto commitments"). It will do so with a growth-friendly fiscal policy: preserve a balanced budget while stepping up infrastructure investment.

For other than fiscal commitments, particularly regarding monetary and exchange rate policy frameworks and the reduction of EU imbalances, please refer to the EU-Template.

New Structural Policy Responses

Investment and Infrastructure

The Federal Government will provide a total of €5 billion of additional funding for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. The Government also decided to extend the truck-toll to all roads under national responsibility and to introduce a road fee for cars. The revenue will be used for investments in motorways. In addition, measures will be taken to improve efficiency and to set the right priorities for infrastructure investment.

The Federal Government pursues a targeted investment and innovation policy. This mainly involves the modernization of the infrastructure base in Germany. Investment in infrastructure will both strengthen the dynamism of the domestic economy and create an additional growth impulse in Germany and Europe alongside Germany’s strength in exports. Also, efficient infrastructure improves the framework for private investment.

For identifying further action to improve the investment climate and to mobilize more private capital for infrastructure investment, the Federal Minister for Economic Affairs and Energy has set up the high-level working group “Strengthening investment in Germany”. The group started its work at the end of August, 2014 and includes experts from the public and private sector as well as academia. A final report is expected in spring 2015.

Total capital expenditure of local authorities, which are responsible for the maintenance and expansion of local infrastructure, is increasing markedly (+9 % in 2013, similar expectations for 2014), also promoted by measures of the Federation. In the years 2014-2017 the Federal Government intends a further support of municipalities by a total of €3 billion.

To improve the framework in which investment and innovation can take place, the energy reforms, oriented equally to the objectives of climate and environmental compatibility, security of supply and economic viability will be continued. Electricity prices should remain affordable for commercial, industrial and private consumers.

The Federal Government has adopted the “Digital Agenda” in August. This government strategy will strengthen growth and employment in the digital sector, in particular in telecommunication infrastructure. Key objectives are to make better use of the innovation potential, to support the development of extensive high speed networks, to enhance the security of IT systems and providers, and to promote media literacy of all generations. Regulation that promotes investment and fosters innovation should allow for optimal incentives for private telecommunication providers to expand the broadband network. From 2015 onwards, revenues from allocations of broadcast frequencies will be used to give additional incentives to invest in those regions where broadband deployment is not profitable yet. The aim of the new R&D technology programme “Smart Service World” with governmental funding of €50 million from 2015-2019 is to mobilize the same funding from the private sector to enhance the topic Industry 4.0, which promotes the computerization of the manufacturing industry, with intelligent "Smart Services".

Regarding private investment, Germany's general conditions for investment are very favourable. Institutions, infrastructure, the macroeconomic environment and educational standards are high. Financing for investment is abundant but barriers impeding the financing of small and medium-sized enterprises must be reduced. One important aspect will be to ensure traditional financing for small and medium-sized enterprises via savings banks, co-operative banks, private banks, business promotion banks and guarantee banks. The introduction of the new rules on equity and liquidity requirements (Basel III) must be taken into account in this regard. Access to traditional bank financing is often difficult for innovative start-ups and young companies. For this reason, the Federal Government will increase the international competitiveness of the German venture capital market by more efficient legal and tax rules. This will help attract more resources for investment in innovative firms in Germany.

With regard to infrastructure investment, there is scope for increasing the use of private capital for such projects, e.g. through Public Private Partnerships (PPP). PPP can play an important role in providing infrastructure in a cost effective way. Therefore, PPP will be further developed with the goal to make PPP more SME-friendly and to improve the method for calculating efficiency of projects.

The Federal Government aims to keep the R&D quota at 3% of GDP – well above EU average. It has adopted the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany. The Strategy covers both technological and societal innovations with the aim to transform research results better and faster into practice.

The Federal Government will also invest more into education and research: The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Federal Government will continue to finance research facilities. Additional €3 billion for research and development will be made available by the Federal Government. Hence €9 billion of the €23 billion in additional spending on policy priorities over the next four years will be invested in education, science and research.

In November, the Minister of Finance has announced the objective to further boost public investment by an additional €10 billion in 2016-2018; details will be agreed in the budget negotiations.

For a detailed description of additional investment measures on the EU level, please refer to the EU-Template.

Employment

Germany has made substantial labour market progress. In particular, female labor force participation is in the upper third of G20 counties, long-term unemployment has fallen, the number of employees subject to social security contributions has risen and youth unemployment is low compared to other countries.

However, not all concerned have benefitted from the positive development of the German labour market. Full-time or nearly full-time labour force participation of women still has to be enhanced, the number of women in top positions has to increase and the gender pay gap between women and men needs to be reduced. Currently more than one million people have been unemployed for more than one year. Long-term unemployed only benefit below-average from the positive labour market developments although the absolute figure of long-term unemployed has decreased by one third over the last five years (about 490,000 people). The framework conditions for the employment of young people have to be further improved to ensure a constant high level of youth employment in future.

Against this background, the Federal Government´s main focus is on ”boosting female labour force participation“, ”tackling long-term unemployment“, ”promoting youth employment“ and “increasing flexibility for a longer working life”.

The contribution of women to the labour force can be improved through higher participation rates, enhancing working hours in part-time employment, better paid and higher quality jobs and a successful re-entry to the labour market after a family related break of several years. The OECD has estimated that full convergence of female labour force participation to the participation rate of men by 2030 would boost the annual GDP per capita growth rate across the OECD by 0.6 percentage points on average.

Since a good reconciliation of family and work life is crucial for a high and continuous labour force participation of women, the Federal Government envisages to further improve the availability of appropriate, affordable and high-quality daycare for children and to gradually expand all-day care in childcare facilities. While progress has been made, improving the quantity of childcare remains on the agenda, since demand for childcare for children aged 0-3 years still exceeds supply. Additional funds will be made available from the Federal Government to expand the childcare offer for this age group. Quality issues have been put forward by the present government and will be subject to debate between all relevant policy levels and stakeholders. Moreover, the Federal Government will further develop the law on part-time work and parental leave policies and will continue its programs and awareness raising activities together with the social partners in order to promote family-friendly working conditions.

Furthermore, the Federal Government envisages legal measures in order to, on the one hand, increase the representation of women in leadership positions in private companies and the public sector and on the other hand to eliminate unjustified pay inequities between women and men.

According to the World Bank, economic growth is often not enough to reabsorb the long-term unemployed in the labour market. Most effective policies need to combine measures to stimulate growth and to promote employability of the long-term unemployed. The Federal Government is planning a European Social Fund (ESF) co-financed program to improve the employment prospects for long-term unemployed persons, comprising the acquisition of jobs, coaching of employees after starting work and a temporary financial compensation for employers during the period in which the productivity of the former unemployed is reduced.

With respect to the demographic change, Germany has to ensure that all young people take advantage of their opportunities and start successfully into working life. The mentoring for the school to work transition will be expanded. It aims at guiding young persons with difficulties from their last year at school until they start a vocational training. To support young persons who are not in education, employment or training, a new federal program will be implemented to support young persons who are socially disadvantaged with suitable training or employment measures including social and educational support. Together with social partners and the Länder, the Federal Government will launch a new alliance for vocational and further training with the aim to strengthen the dual system of vocational education and training and further training. The Federal Government will press hard to ensure that the "Compact for Growth and Jobs" adopted by the European Council in June 2012 is properly implemented.

The German parliament has launched a high level working group for exploring ways to a more flexible retirement-regime. This includes incentives for a longer working life and improved flexibility in the transition from working life to retirement. The group was set up in June 2014 and is expected to present results by the end of this year.

For a detailed description of additional employment measures on the EU level, please refer to the EU-Template.

Competition

The Federal Government will consider further steps to improve the administrative and court procedures for antitrust violations and will aim to strengthen the enforcement of cartel law by authorities and private parties.

For a detailed description of additional competition measures on the EU level, please refer to the EU-Template.

Trade

Germany strongly supports the views expressed by the Presidency: Trade facilitation, efficient services sectors, rolling back trade restrictive measures, reducing barriers to trade and creating a favourable business environment are actions that all countries should pay particular attention to. This is true for Germany as well.

In institutional terms it should be noted that the trade policy of EU Member States is embedded in the Common Commercial Policy of the EU. With this in mind, a few comments to the trade actions referred to by the Presidency:

Trade Facilitation:

Germany strongly supports a rapid ratification and implementation of the Trade Facilitation Agreement (TFA). All G20 Members should adhere to the obligations accepted in Bali in December 2013 in this regard. The TFA would substantially speed up the removal of red tape in customs procedures on a global scale and enhance opportunities for participation in global value chains (GVCs), especially by SMEs and developing countries.

At the same time, Germany stands ready to continue offering help and support to smaller developing countries and especially to LDCs to overcome country-specific difficulties in the modernization of their customs procedures. In this regard, Germany also cooperates with International Organizations such as the World Customs Organization that considers the implementation of the TFA and resulting Customs Capacity activities as a key priority.

In terms of customs clearance, Germany applies simplified procedures for “authorized operators” in accordance with EU law and offers economic operators the possibility of using an automated clearance system (ATLAS) as well as the internet.

As pointed out by the Presidency, facilitating trade also includes the upgrading of transport infrastructure. Over the next four years, the Federal Government will provide a total of €5 billion in additional funding for further investment in public transport infrastructure, to be used primarily for maintenance purposes (see *Investment and Infrastructure*).

Reducing tariffs and quotas:

The negotiations in the WTO on NAMA, the initiative on environmental goods and the review of the Agreement on Information Technology are core elements for progress and a successful outcome in this regard. The level of ambition should reflect today´s weight of the major players in the world economy, including the increased responsibility of the emerging countries.

Environmental Goods:

Earlier this year, the representatives of Australia, Canada, China, Costa Rica, the European Union, Hong Kong, China, Japan, Korea, New Zealand, Norway, Singapore, Switzerland, Chinese Taipei, and the United States, committed to begin preparations for negotiations to liberalise trade in environmental goods, building on the APEC List of Environmental Goods. The global challenges we face, including environmental protection and climate change, require urgent action. The negotiations on the Environmental Goods Agreement (EGA) were launched in July 2014. Germany supports the aim to achieve global free trade in environmental goods.

Services:

Services and trade in services have gained importance during recent years due to new technologies and a higher integration of global value chains. According to the research of the OECD regarding trade in value added in global value chains, services account for almost 50 % of Germany’s total value added exports. This means that Germany relies significantly on services inputs.

In Germany the services sectors are comparably open and efficient. Over the last few years Germany has made further efforts to de-regulate the services sector, for example regarding the rules governing the liberal professions or the provision of long-distance coach services. Against this background, we are continuously examining the regulatory environment for services. However, in order to further enable and facilitate trade in goods and services, Germany welcomes the efforts being undertaken worldwide to foster more open and transparent services sectors.

Against this background Germany supports an ambitious approach towards trade negotiations in the services sector and we welcome the high dynamism of the plurilateral Trade in Services Agreement (TiSA). We believe that this Agreement is a good opportunity to boost the high potential of a very relevant sector. The negotiations could also have a positive impact on the services negotiations within the WTO. This is why Germany supports the approach to negotiate this plurilateral initiative with the aim to subsequently multilateralize the results.

Rolling back restrictive measures:

The G-20 should continue sending strong signals about the need to keep markets open and to resist protectionism. Germany explicitly supports the Presidency’s argument that protectionist measures that have arisen should be rolled back.

The monitoring by the WTO and OECD of measures that restrict trade and investment should continue. Measures to further strengthen the “peer review” process in the WTO could be actively supported by the G-20 and its Member States.

Reducing barriers to trade – creating new trade opportunities:

Germany actively supports the Common Commercial Policy of the EU, which is aimed at reducing barriers to trade and creating new trade opportunities. Market liberalisation should preferably take place at multilateral level or – in the absence of multilateral solutions – by way of plurilateral or bilateral talks.

Two key ongoing FTA negotiations of the EU are TTIP and the FTA talks with Japan. The Federal Government is actively contributing to these negotiations, not least by informing and discussing with the business community, the press and NGOs about the challenges and opportunities of these trade talks.

The overall objective is to gain and secure public support for trade talks which may have their challenges but will create enormous opportunities.

Creating a favourable business environment to help SMEs grow:

Success on domestic and international markets is significantly determined by favourable business conditions at home and sufficient access to resources. Government programs provide a stimulus in the fields of financing, skills, innovation and market opportunities abroad:

- The promotional activities of the KfW SME Bank include granting long-term credits for capital expenditure and working capital with more favourable interest rates than for conventional bank loans.

- Federal Ministries cooperate closely with business associations and trade unions to recruit young talents for the dual vocational training system that breeds skilled professionals.

- The Central Innovation Program for SMEs (ZIM) promotes research, development and innovation and is open to all technologies and sectors.

- Foreign trade promotion instruments pave the way even for small businesses to become active in international markets.

- In addition, the German accelerator program provides young startups with hands-on mentoring at our locations in Silicon Valley, San Francisco and New York City to enter the US market.

These are just a few examples of measures that foster a continuous growth of SMEs in Germany and allow them to expand and to pursue activities abroad.

Other measures

Energy

Germany will base its energy supply predominantly on renewable sources and, in a step-by-step process up to the end of 2022, cease the generation of energy in German nuclear power stations entirely. Germany aims to become less dependent on international oil and gas imports, to attain its climate mitigation targets, and to create new growth sectors and new jobs by developing new technologies.

To tackle the clear rise in costs seen recently, a reform of the Renewable Energy Sources Act (EEG) has come into force in August. That includes focusing on the least expensive technologies of onshore wind power and photovoltaics; and to reduce excessive subsidies. Further to this, a binding deployment corridor for renewables will make it easier for all stakeholders to plan their next steps. The promotion of renewables will be made more market-oriented (direct marketing). In addition, the level of financial subsidies for renewables will be set via competition in the form of technology-specific auctions by 2017 at the latest. Besides the reform of the EEG, Germany has addressed further key projects for the transformation of its energy system. These include the synchronisation of the expansion of the grid with the expansion of generation (especially from renewable sources) and the further development of the electricity market design in order to ensure the security of power supply.

In addition to expanding renewable energy production, Germany will enhance energy efficiency as the second pillar of the energy transition. Therefore, Germany is rolling out a broad mix of instruments consisting of giving advice, pressing for action, and giving incentives for more private-sector investment in energy conservation and energy efficiency. This includes inter alia measures such as tried-and-trusted incentives for efficiency and renewables-based heat in the building sector, which will be improved and expanded. A

National Action Plan on Energy Efficiency is to be adopted by the end of 2014.

Development Cooperation

Germany will increase its engagement in development cooperation with the aim to foster widespread, inclusive, resource-efficient and low-carbon growth also in developing countries. The Federal Government will provide an additional amount of 2 billion euro over the period 2014-2017 in order to increase the official development aid (ODA) quota towards the international target of 0.7% GNP. Germany supports its cooperation countries to implement the principles of a social and ecological market economy and places a particular emphasis on promoting a transformation towards a low-carbon, resource-efficient and socially inclusive economy. This includes strengthening capacities and framework conditions for innovation and the development of appropriate technologies as well as increasing private investment into green technologies and infrastructure. Germany also supports the development of its cooperation countries' financial systems in order to leverage public and private investments. A further focus lies on improving framework conditions for the private sector and its ability to create jobs by supporting cooperation countries to develop labour market policies and vocational training opportunities that answer to the changing demands of an increasingly ecologically sustainable growth path. The support for transparent and efficient public finance systems and a comprehensive fight against corruption is equally crucial.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy

Changes to the previous projections for the debt-to-GDP ratio predominantly are based on an update of the database for the reporting year 2013 and the projection of these data up to the year 2018, under the new European System of National and Regional Accounts (ESA 2010). Besides updating the projection of the development of the budget deficits at central, state and local level there are also new assumptions concerning the continued reduction of the portfolios of the resolution institutions that were established to deal with the consequences of the financial crisis.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):

a. Overall strategy for debt sustainability
no changes

b. Debt-to-GDP ratio objective
In the German Draft Budgetary Plan 2015, adopted by the cabinet in October 2014, the debt-to-GDP ratio is projected to decline to 74% in 2014 and will continue to decline to approximately 63 ½% in 2018.

c. Intermediate objectives
no changes

d. Expenditure and revenue reforms
no changes

e. Reforms to strengthen the fiscal framework
no changes

3. Medium-term projections, and change since last submission*:

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Gross Debt	79.0	76.9	74	70 ½	68	65 ½	63 ½
ppt change	-2.0	-1.5	-2	-2	-2	-2	-1 ½
Net Debt							
ppt change							
Fiscal balance**	0.1	0.1	0	0	½	½	½
ppt change	0	0	0	0	½	0	0
Primary Balance		2.2	2	2	2	2	2
ppt change							
CAPB		2.6	2 ½	2	2	2	2
ppt change		-0,2	0	0	0	0	0

* Last submission based on spring projection as of April, 2014.
** Negative value signifies a budgetary deficit; positive value signifies budgetary surplus

4. Economic Assumptions, and change since last submission*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions:

		Estimate	Projections				
	2012**	2013**	2014	2015	2016	2017	2018
Real GDP growth	0.4	0.1	1.2	1.3	1.3	1.3	1.3
ppt change	-0.3	-0.3	0.6	0.7	0.1	0.1	-0.1
Nominal GDP growth	1.9	2.2	3.2	3.2	3.1	3.1	3.1
ppt change	0.3	0.5	0.3	0.6	0	0	0
ST interest rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ppt change							
LT interest rate	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ppt change							

* Last submission based on spring projection as of April, 2014.
** Changes based on national accounts revision.

ANNEX 2: NEW POLICY COMMITMENTS

1. Investment and Infrastructure[1]

• The New policy action:	Additional investment in public infrastructure
Implementation path and expected date of implementation	Already in 2014, €500 million are earmarked for investment in federal highways. According to the key figures for the 2015 budget and the financial plan, the allocation over time is as follows: €1 billion in 2015, €1.4 billion in 2016 and €2.1 billion in 2017. Total capital expenditure of local authorities, which are responsible for the maintenance and expansion of local infrastructure, is increasing, also promoted by relieving measures of the Federation. In the years 2014-2017 the Federal Government intends a further relief of municipalities by a total of €3 billion.
What indicator(s) will be used to measure progress?	Expenditure for public transport infrastructure can be used as an output indicator.
Explanation of additionality (where relevant)	A total of €5 billion of additional money is to be provided for urgently needed investment in public transport infrastructure over the next four years, primarily for maintenance and modernization purposes. Public investment of the federal level will increase accordingly. The funds will be used for federal trunk roads, waterways and railways. High quality public infrastructure is a prerequisite for growth. Domestic economic dynamism and employment are likely to benefit from this measure. However direct and indirect effects are difficult to quantify.

[1] Tables will be updated as soon as details on the additional investment program announced in November are available.

• The New policy action:	Invest in research and education and implement the “High Tech Strategy”
Implementation path and expected date of implementation	The federal states (Länder) and municipalities will be supported in financing child care, schools and universities by €6 billion over the next four years. The Federal Government will continue to finance research facilities. Additional €3 billion for research and development will be made available by the Federal Government. The Federal Government implements the new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy for Germany.
What indicator(s) will be used to measure progress?	The following indicators are among others used to measure progress: gross domestic expenditure on R&D (“GERD”) and higher education spending on R&D (“HERD”) as percentages of GDP, public R&D spending, private R&D spending, R&D intensive employment. It is one major achievement that Germany was able to expand public R&D spending continuously. One major result was that it achieved the 3 percent target of the Lisbon Strategy in 2012. Public R&D spending of the German government increased by about 60 percent since 2005 to €14.5 billion in 2013. With €53.8 billion the private sector in 2012 invests more than ever in research and development. The overall R&D intensive employment reached the highest share ever, with a level of about 591,000 in 2012.
Explanation of additionality (where relevant)	Germany's economic growth is based on an internationally competitive industry with highly innovative products. Investment into research and education are fundamental parts of Germany’s growth strategy. Germany implements its new High-Tech Strategy as a comprehensive, interdepartmental innovation strategy. The new Strategy covers both technological and societal innovations to direct research results better and faster into practice. The overall aim is to foster innovation and generate economic growth.

2. Employment

• The New policy action:	Boosting female labour force participation
Implementation path and expected date of implementation	Key elements are: Further promoting the return to work for women after a family-related break of employment. Introducing the entitlement to temporary part-time work with the right to return to former amount of working hours. Further development of the Parental Allowance Act and the Parental Leave Act by introducing the Parental Allowance Plus and the partnership bonus. The Parental Allowance Plus complements better than currently the income from a part-time job after the birth of a child, and thus enhances the incentive for mothers to return to work. Improving the quantity and quality of childcare, especially for children aged 0 to 3 years, and enhancing the quality of services for all children. Cooperating with social partners on the dissemination of innovative models of work organisation and flexible working time in local and nationwide networks. Facilitating the use of household related and family supporting services e.g. national services platform. Introducing a compulsory quota of 30 % for women in boards of directors of fully co-determined and stock-market listed enterprises and binding targets for boards of directors, managing boards and top management levels. Introducing a new equal pay legislation to ensure equal pay for equal work and work of equal value. Implementation during the course of the legislative period (by 2017).
What indicator(s) will be used to measure progress?	More and better employment for women Gender Pay Gap
Explanation of additionality (where relevant)	While progress has been made, improving the quantity of childcare remains on the agenda, since demand for childcare for children aged 0-3 years still exceeds supply. Additional funds will be made available from Federal Government to expand the childcare offer for this age group. Moreover, quality issues have been put forward by the present government and will be subject to debate between all relevant policy levels and stakeholders.

• The New policy action:	Tackling long-term unemployment
Implementation path and expected date of implementation	The Federal Government is planning a European Social Fund (ESF) – co-financed program to create employment prospects for long-term unemployed on benefits (Unemployment Benefit II). Activities will include: acquisition of jobs and consultancy of employers concerning the modalities of the programme, providing a contact person for employers in case of difficulties with the employee, individually tailored coaching of employees after starting work and a temporary financial compensation for employers during the period of reduced productivity of the former unemployed (total volume of funding €885 million). Implementation during the course of the legislative period (by 2017) will start after approval of the federal ESF operational programme.
What indicator(s) will be used to measure progress?	Reduction of long-term unemployment
Explanation of additionality (where relevant)	

• The New policy action:	Promoting youth employment
Implementation path and expected date of implementation	Key elements are: Even more emphasis will be placed on job guidance, vocational orientation and counselling for young persons. Young persons with difficulties manage more successfully the school to work transition when they are supported by preventive measures and guidance at the beginning of the career. Young persons will receive matching offers addressing their individual needs to avoid that they become "NEETs" (young people neither in employment, nor in education or training). Locally created models of cooperation between different organizations will be disseminated nationwide. Fields of actions are: transparency, exchange of information, harmonized procedures and the principle of a One-Stop-Shop where possible. The mentoring for the school to work transition shall be expanded as far as possible. Career entry mentors assist lower-attaining pupils at schools offering general education. The mentors provide individual, ongoing support from the penultimate school year through to the first half of the vocational training year to help pupils' transition from school to vocational training. Therefore the Federal Government is planning an ESF-co-financed programme. To support young people neither in employment nor in education or training („NEETs"), a new federal program „Strengthening Youth in Districts" will be implemented in the framework of the federal ESF operational programme. Young persons who are socially disadvantaged or with individual difficulties will be offered suitable training or employment measures including social and educational support. This programme opens funding opportunities to support young people with a migrant background. Together with the social partners and the Länder, the Federal Government will launch a new alliance for vocational training and further training. The successful completion of the school-to-work-transition is a main task for the Federal Government. To this end, the federal cabinet concluded the national implementation plan to implement the EU Youth Guarantee in Germany. The EU Youth Guarantee should ensure that all young persons under the age of 25 receive a good quality offer of employment, further education, an apprenticeship or a traineeship within four months after leaving school or becoming unemployed. Implementation during the course of the legislative period (by 2018) and partly after the start of the federal ESF operational programme.
What indicator(s) will be used to measure progress?	More young persons in education, vocational training, employment or training.
Explanation of additionality (where relevant)	

• The New policy action:	Increasing flexibility for a longer working life and improved flexibility in the transition from working life to retirement
Implementation path and expected date of implementation	The German Parliament has launched a high level working group for exploring ways to a more flexible retirement-regime. This includes incentives for a longer working life and improved flexibility in the transition from working life to retirement. The group was constituted in June 2014 and is expected to present results by the end of this year.
What indicator(s) will be used to measure progress?	Measurement of progress is not defined yet and will be a result of current discussion of the working group.
Explanation of additionality (where relevant)	

3. Competition

• The New policy action:	Increase competition environment (antitrust, cartel law etc.)
Implementation path and expected date of implementation	Evaluation of Eighth Amendment to the Act Against Restraints of Competition (in force since 30.06.2013). The Federal Government will consider further steps to improve the administrative and court procedures for antitrust violations and will aim to strengthen the enforcement of cartel law by authorities and private parties.
What indicator(s) will be used to measure progress?	Evaluation can only be based on decisions of the national cartel authority and (following) court decisions. As antitrust proceedings take several years regularly, the current available facts are not sufficient to evaluate.
Explanation of additionality (where relevant)	Improvement of competition law framework; less differences between European and German merger control; better enforcement of cartel law by consumer organisations.

4. Trade

Please refer to the EU/ECB-Template.

5. Other structural policies

• The New policy action:	“Energiewende”: transforming the energy sector in particular to increase the share of renewable energies and to enhance enerby efficiency
Implementation path and expected date of implementation	Transforming the energy sector and increase the share of renewable energies will create new income flows and jobs. Germany has set various targets to implement its “Energiewende” (energy transition). These include increasing the share of renewable energies (RE) of electricity production to 40-45 % in 2025 and 80 % in 2050. In 2013 Germany reached 25.4 %.
What indicator(s) will be used to measure progress?	The effects of the “Energiewende” will be measured continuously. Therefore Germany has launched the “Energy of the future” monitoring process which closely monitors the implementation of the energy transition, with annual reports as well as a strategic progress report in December 2014. The overall monitoring e.g. measures the overall economic effects like investments through RE (2013: ca. €16 bn), gross saved fossil fuels imports (ca. €9 bn through RE) or jobs created through RE (ca. 370.000, gross). This monitoring process includes reporting on the National Action Plan on Energy Efficiency. In addition, there are evaluation reports for specific targets, which include a periodic evaluation of the Renewable Energy Source Act and the energy security report (every 2 years).
Explanation of additionality (where relevant)	Increased engagement in RE or energy efficiency offers opportunities for increased private sector activity both in Germany and internationally (e.g. technology export, knowledge transfer).

• The New policy action:	Increase engagement in development cooperation
Implementation path and expected date of implementation	Increased engagement in development cooperation is a continuous process that is expected to generate long-term, sustainable impact. The Federal Government will provide an additional amount of €2 billion over the period 2014-2017 in order to increase the official development aid (ODA) quota towards the international target of 0.7% GNP.
What indicator(s) will be used to measure progress?	Germany annually reports on its ODA to the OECD-DAC. These reports cover a variety of indicators, including in the area of sustainable economic development, which allow for a comparative assessment of the progress made in development cooperation.
Explanation of additionality (where relevant)	Increased engagement in development cooperation with the aim to promote inclusive and sustainable economic development in developing countries and emerging economies offers opportunities for increased private sector activity both in cooperation countries and in Germany. By supporting the economic development of cooperation countries, the German economy may benefit directly via increased exports and new business opportunities but also indirectly via improved stability of the global economy and the global financial system. Positive effects on employment are expected – not only in our cooperation countries but also indirectly in Germany through enhanced business opportunities for the German private sector.

COMPREHENSIVE GROWTH STRATEGY:

INDIA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Meeting cyclical and structural constrains to strong, sustainable and balanced growth. Higher growth, lower inflation, sustained level of external sector balance and a prudent policy stance for macroeconomic stability.

To address the cyclical and structural gaps to a strong, sustainable and balanced growth, it proposes structural reforms along with macroeconomic stabilisation. It seeks to suitably address macroeconomic objectives by policies across fiscal, monetary and macro-prudential spaces. Structural policy initiatives across thematic areas of infrastructure investment, employment, competition and trade are expected to ensure jobs creation and productivity enhancing growth process.

The strategy intends to make infrastructure development the lynchpin of economic growth as it can be a vector of change in addressing the other key areas including employment, competitiveness and trade. This is further substantiated by World Bank gaps analysis which suggested infrastructure as most important obstacle to business/competition in India. Various independent studies confirmed employment enhancing potential of infrastructure investment and its impact on trade facilitation and spillover on productivity and efficiency. In addition, due to young work force with a median age well below most other G20 countries, India also has a unique 20-25 years window of opportunity called the 'demographic dividend'. Strategy aspires to gainfully seize this demographic dividend by skills development and employment generating policies.

The strategy also suitably seeks to enhance trade and promote competition to meet the objectives of quality jobs creation and productivity enhancement. Further, though India is the 10th largest economy in the world measured in nominal terms and the third largest economy in terms of purchasing power parity, being a deficit country it does not contribute to global trade imbalance. In fact, by addressing the external trade gap the strategy seeks to contribute to the G20's objective of global demand rebalancing. It will make the Indian growth process a catalyst for achieving G20 objectives through effective contributions.

Key Commitments

1. **Macroeconomic Policy Response:** Fiscal sustainability by ensuring predictable and stable tax regime (with measures for reduced litigation and dispute resolution) and expenditure reforms (updating urea subsidy and setting expenditure management commission), and financial stability by formulating appropriate monetary policy framework.

2. **Infrastructure Investment:** Innovative financing and mainstreaming PPP by setting up 3P institute

3. **Employment:** Reducing informality by increasing the share of employment in manufacturing sector through promoting Industrial Corridor (manufacturing) and taking MSME initiatives

4. **Competition:** Improving competition and integrating markets through Agriculture market reforms, and encouraging FDI in selected sectors (defense, insurance, housing including smart cities)

5. **Trade:** Trade facilitation measures including initiatives for faster clearance of import and export cargo, implement an 'Indian Customs Single Window Project' to facilitate trade, and export promotion Mission. **[Government is working on a new Trade Policy, accordingly Trade portion will be revised.]**

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

The goal of this section is to outline the current state of growth in the economy, relative to potential growth (Indicative length . 2 pages).

Current and Future Growth Prospects

	Key Indicators					
	2013*	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP[1] (% yoy)	4.6	6.5	6.5	7.0	7.5	8.0
Nominal GDP (% yoy)	11.9	13.4	13.4	13.4	14.0	14.5
Output Gap (% of GDP)*	NA	NA	NA	NA	NA	NA
Inflation[2] (%, yoy)	7.0	6.5	6.5	6.0	6.0	6.0
Fiscal Balance (% of GDP)	-4.5	-4.1	-3.6	-3.0	NA	NA
Unemployment (%)	NA	NA	NA	NA	NA	NA
Savings (% of GDP)	31.2	31.3	32.2	33.1	34.1	35.0
Investment (% of GDP)	33.0	33.8	34.6	35.5	36.4	37.3
Current Account Balance (% of GDP)	-1.8	-2.5	-2.4	-2.3	-2.3	-2.3

1. GDP at constant (2004-05) market prices
2. Projections based on the GDP deflator.

*Year corresponds to Indian Fiscal Year. Eg. 2013 refers to April 2013 - March 2014

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**

Key Drivers

***Sectoral Growth and Share in GDP*:** The annual growth figures for agriculture, mining and manufacturing were 4.7 %, -1.4 % and -0.7 % respectively for 2013-14 (Provisional). The share of the agriculture and allied sectors in GDP has been consistently declining. During the eight years between 1999-2000 and 2007-08, the share of agriculture and allied sectors in GDP declined by 6.4 percentage points, while that of industry and services increased by 1.9 and 4.4 percentage points respectively. The mining and quarrying sector witnessed continuous decline in GDP share for several years. In the case of manufacturing, most of the gain in share occurred during 2004-05 to 2007-08, when the sector was growing at an annual average rate exceeding 10 per cent. During 2008-09 to 2012-13, the share of manufacturing remained roughly constant. The share of services has been consistently rising; from 50 % in

1999-2000 to 54.4 % in 2007-08 to 59.9 % in 2013-14. However, the pace of expansion was not balanced. The biggest drivers of the service sector expansion since 2004-05 were communications and banking and insurance. Robust growth in these sectors primarily drove the expansion of the services sector even after 2010-11. Real estate and business services also gained share. The services that witnessed stagnation/decline in share after 2010-11 include domestic trade, hotels, and storage.

***Trend in Aggregate Demand*:** The growth in private final consumption, which averaged at 7.8 per cent during 2003-04 to 2011-12, declined to 5.0 per cent in 2012-13 and further to 4.8 per cent in 2013-14. In real terms, fixed investment hardly increased between 2011-12 and 2013-14. In terms of share of GDP, the most striking change on the demand side during 2012-13 and 2013-14 was the precipitous decline in the gross fixed capital formation to GDP ratio by 2.1 percentage points. While increase in the private corporate investment explained the bulk of the increase in overall investment during the upswing phase between 2004-05 and 2007-08, the same sector contributed the most to the current decline in investment rate. Thus, the increase in the growth rate of aggregate demand in 2013-14 mainly owes to higher level of net exports (reflected by a reduction in the gap between exports and imports).

***Domestic Savings*:** The savings rate increased from 29.0 per cent in 2003-04, the highest achieved till then, to 36.8 per cent in 2007-08, which still remains the historic peak. From a high of 36.8 per cent, the gross savings rate fell by 6.7 percentage points of the GDP in 2012-13. The bulk of the decline can be attributed to the private corporate and public sectors. The household savings rate had stabilized around an average of 23 per cent of the GDP between 2000-01 and 2006-07 and started fluctuating thereafter. It witnessed strong compositional shifts from financial to physical savings during the period 2007-08 to 2011-12. However, with a significant reduction in the growth of construction activity in 2012-13, physical savings rates by households also declined with indications of muting for year 2013-14 as well.

Assessment of Obstacles and Challenges to Growth

After achieving unprecedented growth of over 9 per cent for three successive years between 2005-06 and 2007-08 and recovering swiftly from the global financial crisis of 2008-09, the Indian economy has been going through challenging times that culminated in lower than 5 per cent growth of GDP at factor cost at constant prices for two consecutive years, i.e. 2012-13 and 2013- 14. Persistent uncertainty in the global outlook, caused by slowdown in the global economy, compounded by domestic structural constraints and inflationary pressures, resulted in a protracted slowdown. The slowdown is broadly in sync with trends in other emerging economies. What is particularly worrisome is the slowdown in manufacturing growth that averaged 0.2 per cent per annum in 2012-13 and 2013-14. Mining and quarrying activities have also decelerated since 2011-12. While the slowdown in services, in particular the internal trade, transport, and storage sectors, could be attributed to the loss of momentum in commodity-producing sectors, it needs to be remembered that in the absence of sufficiently high growth in agriculture and
industry, services would be seriously constrained to sustain growth acceleration on auto-pilot mode since many of the services are dependent on buoyancy in the commodity-producing sectors, especially industry. Further, the precipitous decline in the gross fixed capital formation to GDP ratio by 2.1 percentage points during 2012-13 and 2013-14 has been the most striking change on the demand side

In addition to the growth slowdown, inflation continued to pose significant challenges. Although average wholesale price index (WPI) inflation declined in 2013-14 to 6.0 per cent visà-vis 8.9 per cent in 2011-12 and 7.4 per cent in 2012-13, it is still above comfort levels. Moreover, WPI inflation in food articles that averaged 12.2 per cent annually in the five years ending 2013-14, was significantly higher than non-food inflation. Fortunately, the upward trend of inflation that played a part in slowdown in growth, savings, investment, and consumption, appears to have subsided.

Some of salient structural constrains includes: (i) Delays in project implementation and insufficient complementary investments; (ii) Inefficient subsidies; (iii) Low manufacturing base, especially of capital goods, and low value addition in manufacturing; (iv) Presence of a large informal sector and inadequate labour absorption in the formal sector due to lack of required skills; (v) Structural factors engendering continued high food inflation including issues related to significant presence of intermediaries in the different tiers of marketing, shortage of storage and processing infrastructure, inter-state movement of agricultural produce, etc.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses

Fiscal Policy: Fiscal prudence is of paramount importance. It seeks to carry forward the medium term fiscal consolidation goal with fiscal deficit targets of 4.1 %, 3.6 % and 3 % for 2014-15, 2015- 16 and 2016-17 respectively. Fiscal consolidation will be ensured by enhanced revenue mobilisation and rationalised expenditure. Predictable and stable tax regime with measures for reduced litigation and dispute resolution will be ensured. On expenditure front, the government intends to overhaul the subsidy regime, including food and petroleum subsidies, and make it more targeted while providing full protection to the marginalized, and poor. On subsidy, while diesel prices have been partially deregulated, new urea policy would also be formulated. Government will also set up an Expenditure Management Commission to review the allocation and operational efficiencies of the Government expenditure.

Monetary Policy: The Monetary policy stance has been driven by the imperatives of keeping inflation in check and supporting growth revival while managing a complex external economic situation. The government is also fully aware about need to have a modern monetary policy framework to meet the challenge of an increasingly complex economy. Government will, in close consultation with the RBI, put in place such a framework.

Financial Sector Reforms: Policy measures will span across Capital Markets, Banking and Insurance sector and will seek to promote savings. The government will endeavor to complete the ongoing process of consultations with all the stakeholders expeditiously on the Indian Financial Code suggested by FSLRC and fill gaps among certain existing laws to protect the poor and vulnerable people from being duped. Energising capital markets through measures related to KYC norms and demat accounts and convergence of accounting standards with international standards will be some other initiatives. In banking, policies for infusion of capital, financial inclusion, long term innovative infrastructure financing and framework for continuous authorisation of private banks will be put in place. A framework for licensing small and other differentiated banks will also be created by RBI and new debt recovery tribunals to check Non Performing Assets will be established. Pending insurance amendment will be taken up for consideration by the parliament and incentives will be provided for promoting small saving by with a special focus on girls and farmers.

New Structural Policy

Responses ***Investment and***

Infrastructure

The strategy for investment and infrastructure seeks to promote private participation in infrastructure by mainstreaming PPPs, devising innovative infrastructure financing instruments and promoting employment generating FDI. Focusing on rural and urban infrastructure, the strategy will ensure an inclusive growth process with added emphasis on the development of the industrial corridors and the shipping and ports infrastructure. Details at Annex 2.

Employment

The strategy will address the challenges of employment and skill enhancement by focusing on developing a national multi-skill programme, human capital investment (education), progressing on National Manufacturing Policy by identifying new industrial corridors and ensuring steady progress on ongoing corridors, encouraging development of MSMEs, promoting entrepreneurship skills , promoting traditional labour intensive sectors like textiles, tourism etc , suitably amending labour laws related to apprenticeship etc, reducing informality, promoting safe and conducive work environment for females etc. Details at Annex 2.

Competition

Promoting FDI selectively in sectors where it serves larger interest of the economy including promoting manufacturing and job creation, leveraging technology by launching ebiz platforms, updating Competition Act, disinvestment of CPSEs, encouraging development of national market in agriculture and continuing efforts for improving business and investment climate via suitable measures across mining, finance, banking , taxation etc will be driving forces for enhancing competition and productivity. Details at Annex 2.

Trade

India will continue to work towards achieving the goals of reducing costs and lifting trade. The Strategy seeks to boost tourism sector, promote shipping industry, improve port infrastructure, promote trade facilitation, revive SEZ and launching export mission to take exports on higher growth trajectory among others. Details at Annex 2.

Other measures

Additional measures having considerable spillovers on other sectors of the economy and forming integral part of the strategy includes improving rural credit and agriculture risk measures, promoting financial inclusion, facilitating remittances receipt, women empowerment and gender mainstreaming, fighting corruption and tackling black money. Details at Annex 2.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE – UPDATE

1 **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumption, or other factors (please specify), referring to the information provided.

Fiscal consolidation over medium-term is prime objective of India's Fiscal Strategy. Fiscal Consolidation roadmap is designed with a conscious effort to bring down total expenditure of the Government as a percentage of GDP with prioritization of expenditure towards developmental side and curtailing growth in non-developmental expenditure, on one hand and raising tax-to-GDP ratio by mobilizing higher amount of resources through tax administration reforms on the other. In the view of Macroeconomic Framework and objective of Fiscal Consolidation as above, estimates of total liabilities of the Government as a percentage of GDP is 46.0% (RE 2013-14) & 45.4% (2014-15). Projections for next two years are 43.6% (2015-16) & 41.5% (2016-17).

Better fiscal management and control of expenditure led to an improvement in the fiscal deficit at 4.5 per cent against target of 4.8 per cent in 2013-14 in spite of the shortfall in revenue against estimated amount. Gross debt of the Government, as a percentage to GDP, has also see a decline continuing with the trend in the recent past.

2 Medium-term fiscal strategies:

a. Overall strategy for debt sustainability
(...)

b. Debt-to-GDP ratio objective
(...)

c. Intermediate objectives
(...)

d. Expenditure and revenue reforms
(...)

e. Reforms to strengthen the fiscal framework
(...)

3 Medium-term projections, and change since last submission:

	2012-13* Provisional	2013-14 Revised Estimate (RE)	2014-15 Budget Estimate (BE)	2015-16 Projection	2016-17 Projection	2017-18	2018-19
Gross Debt / Total Outstanding liabilities	45.9	46.0	44.8	43.1	41.0	NA	NA
ppt change	-	-	-	-	-	-	-
Net Debt	NA	NA	NA	NA	NA	NA	NA
ppt change							

	2012-13* Provisional	2013-14 Revised Estimate (RE)	2014-15 Budget Estimate (BE)	2015-16 Projection	2016-17 Projection	2017-18	2018-19
Fiscal Deficit	5.2	4.5	4.1	3.6	3.0	NA	NA
ppt change	Nil	0.2	0.1	Nil	N.A.		
Primary Balance	NA	NA	NA	NA	NA	NA	NA
ppt change							
CAPB	N.A.	N.A.	N.A.	N.A.	N.A.	NA	NA
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

Note:

1.“GDP” is taken at current market prices as per new series from 2004-05

2. Regarding ppt change, fig. in bracket indicates increase in estimate/projection over last submission and fig. without bracket indicates decrease in estimates/projection over last submission.

3. Estimates/projection are as included in Interim Budget 2014-15.

4. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth[1,2]	4.6	6.5	6.5	7.0	7.5	8.0	NA
ppt change							
Nominal GDP growth[1]	11.9	13.4	13.4	13.4	14.0	14.5	NA
ppt change							
ST interest rate	8.15	8.83	NA	NA	NA	NA	NA
ppt change							
LT interest rate	8.05	8.80	NA	NA	NA	NA	NA
ppt change							

1. Projection by Department of Economic Affairs (DEA), Ministry of Finance
2. GDP at constant (2004-05) market prices

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

ANNEX 2: New POLICY COMMITMENTS

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	**Please describe the new policy being agreed to** **Extremely cautious and judicious use of sovereign right to retrospective taxation legislation**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Sovereign right of the Government to undertake retrospective legislation to be exercised with extreme caution and judiciousness keeping in mind the impact of each such measure on the economy and the overall investment climate. Government will not ordinarily bring about any change retrospectively which creates a fresh liability. All fresh cases arising out of the retrospective amendments of 2012 in respect of indirect transfers and coming to the notice of the Assessing Officers will be scrutinized by a High Level Committee to be constituted by the CBDT before any action is initiated in such cases.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/ notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	**Please describe the new policy being agreed to** **Administrative and legislative changes for reduced taxation litigation**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **High level committee will be set up to interact with trade and industry on regular basis to ascertain areas requiring clarity in tax laws. Resident tax payers will be enabled to obtain on advance ruling in respect of their income-tax liability above a defined threshold. Authority for Advance Rulings will be strengthened by constituting additional benches and scope of Income-tax Settlement Commission will be enlarged so that taxpayers may approach the Commission for settlement of dispute** **Transfer Pricing related reduced litigation measures: i) Introduction of a "Roll Back" provision in the Advanced Pricing Agreement (APA) scheme so that an APA entered into for future transactions is also applicable to international transactions undertaken in previous four years in specified circumstances. ii) Introduction of range concept for determination of arm's length price in transfer pricing regulations. iii) Allow use of multiple year data for comparability analysis under transfer pricing regulations.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	Please describe the new policy being agreed to **Expenditure reforms**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **To review allocation and operational efficiencies of the Government expenditure to achieve maximum output an Expenditure Management Commission will be constituted. The Commission will look into various aspects of expenditure reforms to be undertaken by the Government and give its interim report within 2014-15 financial year.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments / notifications/press releases etc depending on the issue**.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	Please describe the new policy being agreed to **Subsidy reforms**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. To reduce key fiscal risks, diesel prices have been partially deregulated and Oil Marketing Companies (OMC) has been given freedom to increase prices in small measures periodically. The diesel prices now stand deregulated with effect from midnight of 18th-19th October 2014** **2. A new urea policy would be formulated**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments / notifications/press releases etc depending on the issue**.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	Please describe the new policy being agreed to **Formulate monetary policy framework**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The government will put in place, in consultation of Central Bank, monetary policy framework to meet the challenge of an increasingly complex economy.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

The New policy action:	Please describe the new policy being agreed to **Financial Sector Reforms: Capital Markets Initiative**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Government will endeavor to complete the ongoing process of consultations with all the stakeholders on expeditiously on important recommendations of the Financial Sector Legislative Reforms Commission like the enactment of the Indian Financial Code** **2. As part of the legislative initiatives under financial sector reforms, it is proposed to bridge the regulatory gap under the Prize Chits and Money Circulation Scheme (Banning) Act, 1978. This step is expected to facilitate effective regulation of companies and entities which have duped a large number of poor and vulnerable people in this country.** **3. Government seeks to (i) advise financial sector regulators to take early steps for a vibrant, deep and liquid corporate bond market and deepen the currency derivatives market by eliminating unnecessary restrictions; (ii) Extended a liberalized facility of 5% withholding tax o all bonds issued by Indian corporate abroad for all sectors and extend the validity of the scheme to 30.06.2017; (iii) Liberalize the ADR/GDR regime to allow issuance of depository receipts on all permissible securities; (iv) Allow international settlement of Indian debt securities; (v) Completely revamp the Indian Depository Receipt (IDR) and introduce a much more liberal and ambitious Bharat Depository Receipt (BhDR); (vi) Clarify the tax treatment on income of foreign fund whose fund managers are located in India.** **4. To further energize capital market government will i) Introduce uniform KYC norms and inter-usability of the KYC records across the entire financial sector. ii) Introduce one single operating demat account so that Indian financial sector consumers can access and transact all financial assets through this one account.** **5. Adoption of the new Indian Accounting Standards (Ind AS) by the Indian companies from the financial year 2015-16 voluntarily and from the financial year 2016-17 on a mandatory basis.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue**.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Macroeconomic Policy Response (Including Reforms to Frameworks)

• The New policy action:	Please describe the new policy being agreed to **Financial Sector Reforms: Banking Sector Initiative**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Bank Capitalization: To be in line with Basel-III norms there is a requirement to infuse Rs 2400 billion as equity by 2018 in banks. While preserving the public ownership, the capital of these banks will be raised by increasing the shareholding of the people in a phased manner through the sale of shares largely through retail to common citizens of this country.** **2. Government, in principle, has agreed to consider the suggestions for consolidation of Public Sector Banks** **3.To provide all households in the country with banking services, a time bound programme would be launched as Financial Inclusion Mission on 15 August this year** **4. Long term financing for infrastructure has been a major constraint in encouraging larger private sector participation in this sector. On the asset side, banks will be encouraged to extend long term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies, sometimes known as the 5/25 structure. On the liability side, banks will be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory preemption such as CRR, SLR and Priority Sector Lending (PSL).** **5. After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks6. The rising Non Performing Assets of Public Sector Banks is a matter of concern for the Government. Six new Debt Recovery Tribunals would be set up to address this.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Promoting private participation in Infrastructure by mainstreaming PPP**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. An institution to provide support to mainstreaming PPPs, called 3P India, will be set up with a corpus of Rs 5 billion.** **2. In order to complete the gas grid across the country, an additional 15,000 km of pipelines are required. It is proposed to develop these pipelines using appropriate PPP models.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned scheme / institution. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Devising innovative infrastructure financing instruments**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Adding to the 6 existing Infrastructure Debt funds (IDF), the 4 new IDF in pipeline are further expected to accelerate the commitment** **2. The Real Estate Investment Trust (REITS) and a new innovative Infrastructure Investment Trusts (InvITs), would have a tax efficient pass through status. These structures would reduce the pressure on the banking system while also making available fresh equity** **3. Guidelines or framework for issuance of municipal bonds in India will be prepared. To promote and fund urban infrastructure on risk sharing basis government has enlarged the present corpus of Pooled Municipal Debt Obligation Facility by ten times form Rs 50 billion to Rs 500 billion.** **4. Credit enhancement of projects through instruments back-stopped by the multilateral financial institutions.** **5. Banks are the traditional and most important source of infrastructure financing. To be in line with Basel-III norms, the capital of these banks will be raised by increasing the shareholding of the people in a phased manner through the sale of shares largely through retail to common citizens of this country. Further, Long term financing for infrastructure has been a major constraint in encouraging larger private sector participation in this sector. On the asset side, banks will be encouraged to extend long term loans to infrastructure sector with flexible structuring to absorb potential adverse contingencies, sometimes known as the 5/25 structure. On the liability side, banks will be permitted to raise long term funds for lending to infrastructure sector with minimum regulatory preemption such as CRR, SLR and Priority Sector Lending (PSL).** **6. IFC offshore bond programme: International Finance Corporation [IFC(W)], a member of the World Bank Group, launched a US$1 billion offshore bond programme—the largest of its kind in the offshore rupee market— to strengthen India's capital markets. Under the programme, the IFC will issue rupee-linked bonds and use the proceeds to finance private-sector investment in the country. The IFC's offshore bond programme will help bring depth and diversity to the offshore rupee market and pave the way for an alternative source of funding for Indian companies.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned scheme / institutions/ corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Promoting employment generating FDI**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The new government intends to promote FDI selectively in sectors where it serves larger interest of the economy including promoting manufacturing and job creation.** **1) The composite cap of foreign investment in defence will be raised to 49 per cent (from 26 %) with full Indian management and control through the FIPB route.** **2) The composite cap in the insurance sector will be increased up to 49 per cent from 26 per cent with full Indian management and control through the FIPB route.** **3) Further to encourage development of "Smart Cities", which will also provide habitation for the neo-middle class, requirement of the built up area and capital conditions for FDI will be reduced from 50,000 square metres to 20,000 square metres and from USD 10 million to USD 5 million respectively with a three year post completion lock in. To further encourage this, projects which commit at least 30 per cent of the total project cost for low cost affordable housing will be exempted from minimum built up area and capitalisation requirements, with the condition of three year lock-in.** **4) The manufacturing units will be allowed to sell its products through retail including E commerce platforms without any additional approval.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Rural Infrastructure Initiatives**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. To improve access to irrigation government has proposed to initiate the "Pradhan Mantri Krishi Sinchayee Yojan" with an outlay of Rs 10 billion.** **2. Shyama Prasad Mukherji Rurban Mission will be launched to deliver integrated project based infrastructure in the rural areas, which will also include development of economic activities and skill development. The preferred mode of delivery would be through PPPs while using various scheme funds for financing.** **3. "Deen Dayal Upadhyaya Gram Jyoti Yojan" for feeder separation will be launched with an outlay of Rs 5 billion to augment power supply to the rural areas and for strengthening sub-transmission and distribution systems.** **4. Digital India: To bridge the divide between digital "have" and "have-not" it is proposed to launch a pan India programme "Digital Indi" with an outlay of Rs 5 billion.** **5. A National Rural Internet and Technology Mission for services in villages and schools, training in IT skills and E-Kranti for government service delivery and governance scheme is also proposed.** **6. New programme "Neerancha" to give impetus to watershed development in the country will be launched with an initial outlay of Rs 21.42 billion.** **7. For developing community radio stations Rs 1 billion earmarked in 2014-15.**

What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. Tracking budget allocation for mentioned schemes/institutions/ corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.
Explanation of additionally (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Urban Infrastructure Initiatives**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Government will set up a Mission on Low Cost Affordable Housing which will be anchored in the National Housing Bank. Schemes will be evolved to incentivize the development of low cost affordable housing. Other incentives include easier flow of FDI in this sector. A sum of Rs 40 billion for NHB with a view to increase the flow of cheaper credit for affordable housing to the urban poor/EWS/LIG segment has been earmarked in 2014-15 fiscal year.** **2. Smart Cities: Developing 100 Smart Cities, as satellite towns of larger cities and by modernizing the existing mid-sized cities, Rs 70.6 billion has been earmarked for 2014-15 fiscal year.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes/institutions/ corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **National Industrial Corridor Authority**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **A National Industrial Corridor Authority will be set up to coordinate the development of the industrial corridors, with smart cities linked to transport connectivity, which will be the cornerstone of the strategy to drive India's growth in manufacturing and urbanization.** **Government will initiate work on select expressways in parallel to the development of the Industrial Corridors**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions / corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Developing shipping industry and ports infrastructure**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1.A comprehensive policy will be announced to promote Indian ship building industry in the current financial year.** **2.To strengthen ports infrastructure, sixteen new port projects are proposed to be awarded this year with a focus on port connectivity.** **3.Development of inland waterways can improve vastly the capacity for the transportation of goods. A project on the river Ganga called 'Jal Marg Vikas' (National Waterways-I) will be developed between Allahabad and Haldia to cover a distance of 1620 kms, which will enable commercial navigation of at least 1500 tonne vessels. The project will be completed over a period of six years at an estimated cost of Rs 42 billion.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes /institutions / corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **Improving Warehouse Infrastructure**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Increasing warehousing capacity for increasing the shelf life of agriculture produces and thereby the earning capacity of the farmers is of utmost importance. Keeping in view the urgent need for availability of scientific warehousing infrastructure in the country, Rs 50 billion has been earmarked for the year 2014-15.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes /institutions / corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to **To promote clean and efficient energy**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. To promote cleaner and more efficient thermal power, an initial sum of Rs 1 billion for preparatory work for a new scheme "Ultra- Modern Super Critical Coal Based Thermal Power Technology"** **2. New and Renewable energy: Ultra Mega Solar Power Projects in Rajasthan, Gujarat, Tamil Nadu, and Laddakh in J&K is proposed. Rs 5 billion has been earmarked for this.**

What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes /institutions / corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

• The New policy action:	Please describe the new policy being agreed to Make in India Initiative to improve Ease of Doing Business
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Mission aims to chart out a new path wherein business entities are extended red carpet welcome in a spirit of active cooperation. Invest India will act as the first reference point for guiding foreign investors on all aspects of regulatory and policy issues and to assist them in obtaining regulatory clearances. The Government is closely looking into all regulatory processes with a view to making them simple and reducing the burden of compliance on investors.** **A dedicated cell has been created to answer queries from business entities through a newly created web portal (www.makeinindia.com). While an exhaustive set of FAQs on this portal will help the investor find instant answers to their general queries, the back-end support team of the cell would be answering specific queries within 72 hours. A pro-active approach will be deployed to track visitors for their geographical location, interest and real time user behaviour. Subsequent visits will be customised for the visitor based on the information collected. Visitors registered on the website or raising queries will be followed up with relevant information and newsletter. Investor facilitation cell will provide assistance to the foreign investors from the time of their arrival in the country to the time of their departure. The initiative will also target top companies across sectors in identified countries.** **The 'Make in India' initiative also aims at identifying select domestic companies having leadership in innovation and new technology for turning them into global champions. The focus will be on promoting green and advanced manufacturing and helping these companies to become an important part of the global value chain.** **The Government has identified 25 key sectors in which our country has the potential of becoming a world leader.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• The New policy action:	Please describe the new policy being agreed to **Developing a national multi-skill programme**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **A national multi-skill programme called Skill India is proposed to be launched. It would skill the youth with an emphasis on employability and entrepreneur skills.** **It will also provide training and support for traditional professions like welders, carpenters, cobblers, masons, blacksmiths, weavers etc.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **Skill India is a new policy announcement. It might converge the existing Skill Development schemes or might give a new framework if required.**

Employment

• The New policy action:	Please describe the new policy being agreed to **Human capital investment**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **School Education** **1. There is a residual gap in providing minimal school infrastructure facilities. Government would strive to provide toilets and drinking water in all the girls school in first phase.** **2. A School Assessment Programme is being initiated at a cost of Rs 0.3 billion.** **3. To infuse new training tools and motivate teachers, "Pandit Madan Mohan Malviya New Teachers Training Programm" is being launched.** **4. To take advantage of the reach of the IT, propose to set up virtual classrooms as Communication Linked Interface for Cultivating Knowledge (CLICK) and online courses.** **Higher Education** **1. Propose to set up Jai Prakash Narayan National Centre for Excellence in Humanities. Also intend to set up five more Indian Institute of Technology's(IITs) and Five Indian Institute of Management's (IIMs)** **2. Propose to ease and simplify norms to facilitate education loans for higher studies**

What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications /press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• The New policy action:	Please describe the new policy being agreed to **Progressing with National Manufacturing Policy by identifying new industrial corridors and ensuring steady progress on ongoing corridors**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Additionally to The National Manufacturing Policy (NMP) 2011: Till 2013-14, 16 NIMZs had been announced. Of these, eight are along the Delhi-Mumbai Industrial Corridor (DMIC). Eight other NIMZs have been given in-principle approval: (i) Nagpur in Maharashtra, (ii) Chittoor in Andhra Pradesh, (iii) Medak in Andhra Pradesh (now Telengana), (iv) Prakasam in Andhra Pradesh, (v) Tumkur in Karnataka, (vi) Kolar in Karnataka, (vii) Bidar in Karnataka, and (viii) Gulbarga in Karnataka.** **2. The Amritsar Kolkata Industrial master planning will be completed expeditiously for the establishment of industrial smart cities in seven States of India. The master planning of three new smart cities in the Chennai-Bengaluru Industrial Corridor region, viz., Ponneri in Tamil Nadu, Krishnapatnam in Andhra Pradesh and Tumkur in Karnataka will also be completed. The perspective plan for the Bengaluru Mumbai Economic corridor (BMEC) and Vizag-Chennai corridor would be completed with the provision for 20 new industrial clusters. Kakinada, its adjoining area and the port will be developed as the key drivers of economic growth in the region with a special focus on hardware manufacturing. DMIC** **3. Delhi Mumbai Industrial Corridor (DMIC): The Master plans for all the nodes except the Dadri-Noida-Ghaziabad Investment Region in Uttar Pradesh have been completed and approved by the state governments. Delhi Mumbai Industrial Corridor (DMIC) Trust recently approved nine projects with an investment of Rs. 1200 billion from Central, State Governments and the private sectors. The projects will generate 2,15,000 direct jobs and 6,18,000 indirect jobs to the Indian economy.** ***4.* Semiconductor Wafer Fabrication (FAB) Manufacturing Facilities will be set up. The proposed FABs will create direct employment of about 22,000 and indirect employment of about one lakh.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **The National Manufacturing Policy 2011 is a flagship policy initiative with 10 year horizon period. Mentioned initiatives have been presented to give a sense of acceleration on the commitment and addition of new components, including new industrial corridors, to the policy.**

Employment

• The New policy action:	Please describe the new policy being agreed to **Encouraging development of MSMEs**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Government will encourage MSMEs to avail of the benefits of intended reformed Apprenticeship Act scheme.** **2. Government will appoint a committee with representatives from the Finance Ministry, Ministry of MSME, RBI to examine the financial architecture for MSME sector. Committee will give concrete suggestions in three months.** **3. In order to create a conducive eco-system for the venture capital in the MSME sector it is proposed to establish a Rs10,000 crore fund to act as a catalyst to attract private Capital by way of providing equity, quasi equity, soft loans and other risk capital for start-up companies.** **4.The definition of MSME will be reviewed to provide for a higher capital ceiling. A programme to facilitate forward and backward linkages with multiple value chain of manufacturing and service delivery will also be put in place.** **5. Entrepreneur friendly legal bankruptcy framework will also be developed for SMEs to enable easy exit.** **6. Virtual Cluster Approach for MSME: On 19 Feb 2014 the Virtual Cluster Approach as against the Physical Cluster Approach was unveiled. Marking a paradigm shift in the Approach adopted so far with regard to Cluster Development, the Virtual Cluster Approach, overcomes the limitations of the Physical Approach requiring the location of the units in one geographical area besides substantial resources for creation of infrastructure etc.** **7. Technology centre network to promote innovation, entrepreneurship and agro-industry will be established.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue**.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **MSME is a labour intensive sector and forms crucial part of India's jobs creating strategy. While encouraging MSMEs is an ongoing initiative, the policy efforts discussed above are new efforts which differ significantly from earlier efforts.**

Employment

• The New policy action:	Please describe the new policy being agreed to **Promoting entrepreneurship skills**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. A nationwide "District level Incubation and Accelerator Programm" would be taken up for incubation of new ideas and providing necessary support for accelerating entrepreneurship** **2. To provide credit enhancement facility for young start up entrepreneurs from Scheduled Castes, who aspire to be part of the neo-middle class, government will set aside a sum of Rs 200 crore which will be operationalised through a scheme by IFCI.** **3. To incentivize smaller entrepreneurs, government will provide investment allowance at the rate of 15 percent to a manufacturing company that invests more than Rs 0.25 billion in any year in new plant and machinery. This benefit will be available for three years i.e. for investments upto 31.03.2017. Further this investment linked deduction will be extended to two new sectors, namely, slurry pipelines for the transportation of iron ore, and semiconductor wafer fabrication manufacturing units. This will boost investment in these two critical sectors.** **4. Initial sum of Rs 1 billion for "Start Up Village Entrepreneurship Programm" for encouraging rural youth to take up local entrepreneurship programs will be released.** **5. To promote leadership skills among youth, government will set up "A Young Leaders Programme" with an initial allocation of Rs 1 billion.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **Promoting entrepreneurship skills is an ongoing process. The mentioned policy initiatives are new and will considerably enhance the existing endeavours for promoting jobs and entrepreneurship**.

Employment

• The New policy action:	Please describe the new policy being agreed to **Promoting job creating sectors like textiles, tourism etc**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Given the employment potential of textile sector, in addition to Varanasi, government has proposed to set up six more Textile mega-clusters at Bareily, Lucknow, Surat, Kuttch, Bhagalpur, Mysore and one in Tamil Nadu.** ***2.* Tourism is one of the larger job creators globally. In order to give a major boost to tourism in India, the facility of Electronic Travel Authorization (e-Visa) would be introduced in a phased manner at nine airports in India where necessary infrastructure would be put in place within the next six months. Further, given huge potential for the development of tourism and job creation as an Industry government will create 5 tourist circuits around specific themes.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**

Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• **The New policy action:**	**Please describe the new policy being agreed to** **Suitably amending labour laws**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Apprenticeship Act will be suitably amended to make it more responsive to industry and youth. Apprenticeships are currently stifled under an outdated and burdensome 1961 Act. The government also intends to suitably amend the Factories Act 1948 and the Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 to meet the challenges of growing economy** **Labour laws in India are concurrent list subjects coming under domain of centre and state. Some states have taken initiatives for liberalizing labour laws.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• **The New policy action:**	**Please describe the new policy being agreed to** **Pandit Deendayal Upadhyay Shramev Jayate Karyakram**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Five new initiatives have been launched as part of Pandit Deendayal Upadhyay Shramev Jayate Karyakram** **1. Unified Labour Portal (named as Shram Suvidha) and a Transparent & Accountable Labour Inspection Scheme to facilitate ease of labour laws compliance** **2. Portability through Universal Account Number (UAN) for Employees Provident Fund** **3. Demand Responsive Vocational Training** **4. Apprentice Protsahan Yojana** **5. Implementation of revamped Rashtriya Swasthya Bima Yojana (RSBY) for the workers in the unorganized sector** **This simultaneous launching of series of schemes by the Ministry of Labour and Employment takes into account the interests of workers, as well as the employers. The "Shramev Jayate" initiatives are an essential element of the "Make in India" vision, as they would pave the way for skill development of youth in a big way, and even create an opportunity for India to meet the global requirement of skilled labour workforce in the years ahead.**

What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• The New policy action:	Please describe the new policy being agreed to **Reducing informality**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Recent Street Vendors (Protection of Livelihood and Regulation of Street Vending) Act, 2014 provides for protection of livelihoods rights, social security of street vendors, regulation of urban street vending in the country and for matters connected therewith or incidental thereto** **2. Employment exchanges will be transformed into career centres and in addition for providing information about job availability. These centers will also extend counseling facilities to the youth for selecting the jobs best suited to their ability and aptitude.** **3. More productive and asset creating employment with linkages to agriculture and allied activities will be provided under MGNREGA**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **MGNREGA is an existing scheme, but from current fiscal its structure will be changed with more focus on productive and asset creating employment**

Employment

• The New policy action:	Please describe the new policy being agreed to **Encouraging organised sector employment**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Employees Provident Fund Organisation (EPFO) will launch uniform account number service for contributing members to facilitate portability of Provident Fund Account.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**

Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• The New policy action:	Please describe the new policy being agreed to **Encouraging Female Participation**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Recent measures for enhancing female labour force participation include** **1) The Companies Act, 2013 read with Rule 3 of the Companies (Appointment and Qualification of Directors) Rules, 2014 makes it mandatory for every listed company and every public company having paid-up share capital of not less than Rupees one hundred crore or turnover of Rupees three hundred crore or more to appoint at least one woman Director** **2) The Factories (Amendment) Bill, 2014 introduced recently in parliament seeks to allow women to work at night, provided their work places have sufficient amenities and ensure their safety** **3) Toilet in all schools of India and a separate toilet for girls to prevent girls from dropping out of schools. Members of Parliament have been urged to use their MPLAD fund for construction of toilets in the schools for one year.** **4) The newly formed Bhartiya Mahila Bank under the companies Act, 1956 is the first of its kind in the banking industry in India. Formed with a vision of economic empowerment for women, the bank provides women better access to financial services thereby encouraging female entrepreneurship, promoting equity in asset ownership and ensuring greater women participation in economic activities**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Employment

• The New policy action:	Please describe the new policy being agreed to **Capacity building and safe and conducive work environment for females.**

Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 seeks to cover all women, irrespective of their age or employment status and protect them against sexual harassment at all workplaces both in public and private sector, whether organized or unorganized. The act came in force on 9 December 2013** **2. An outlay of Rs 0.5 billion will be spent by Ministry of Road Transport & Highways on pilot testing a scheme on "Safety for Women on Public Road Transport". A sum of Rs 1.5 billion will also be spent by Ministry of Home Affairs on a scheme to increase the safety of women in large cities. It is also proposed to set up "Crisis Management Centre" in all the districts of NCT of Delhi this year in all government and private hospitals. The funding will be provided from the Nirbhaya Fund.** **3. It is proposed to extend the Ajeevika scheme provision of bank loan for women SHGs at 4% in another 100 districts.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **Ajeevika is existing scheme in 150 districts only. It is proposed to extend same to 100 more districts hence giving an element of additionally.**

Competition

• The New policy action:	Please describe the new policy being agreed to **Leveraging technology by launching ebiz platforms,**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The eBiz platform aims to create a business and investor friendly ecosystem in India by making all business and investment related clearances and compliances available on a 24x7 single portal, with an integrated payment gateway. eBiz platform was launched on 20 January 2014 by Department of Industrial Policy and Promotion (DIPP and all Central Government Departments and Ministries will integrate their services with the eBiz platform on priority by 31 December this year.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Competition

• The New policy action:	Please describe the new policy being agreed to **Updating Competition Act**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **To simplify and provide greater clarity on the application of the combination provisions of the Competition Act and the Combination Regulations, amendment of the Combination Regulations has been initiated on 28th March 2014. It seeks to relax filing requirements in respect of transactions not likely to raise competition concerns, provide certainty, reduce compliance requirements and make filings simpler.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **Since the introduction of new Companies Act in October 2013, the regular clarifications and notifications regarding applicability of the same has been an accelerating force in ensuring the desired objectives**

Competition

• The New policy action:	Please describe the new policy being agreed to **Reform of Starting a Business**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. The concept of one person company has been introduced and the fee for incorporation/registration will be reduced. One Person Company and small companies (with nominal share capital not exceeding Rs 50,00,00/-) reduced upto 90%. And for companies upto a nominal capital of RS 10,00,000/- a flat fee of Rs 2,000/-.** **2. Mandatory requirement of obtaining a certificate for commencement of business will be dispensed with and replaced with online filing of a declaration.** **3. Simplification and rationalization of existing rules especially in context of industrial licensing and introduction of information technology to make governance more efficient , effective , simple and user-friendly.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Competition

• The New policy action:	Please describe the new policy being agreed to **Disinvestment of CPSEs**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **In order to ensure better corporate governance, promote peoples ownership and to unlock true value of Central Public Sector Enterprises (CPSE) for investors, employees, company and Government India is embarking on disinvestment initiatives of CPSEs. The Cabinet Committee on Economic Affairs has recently approved significant disinvestment of 7 CPSEs including Metals and Minerals Trading Corporation of India, Oil India Ltd, National Aluminium Company Ltd, Hindustan Copper Ltd, National Thermal Power Corporation Ltd, HCL, and Indian Tourism Development Corporation.**

	Government has created a separate Fund for disinvestment with the intent that proceeds from disinvestment will only be deployed for specific authorised purposes. This ensures that only the nature of capital assets owned changes without depleting the asset base.
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Competition

• The New policy action:	Please describe the new policy being agreed to **Encouraging development of national market in agriculture**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The farmers and consumers interest will be served by increasing competition and integrating markets across the country. To accelerate setting up of a National Market, the Central Government will work closely with the State Governments to re-orient their respective Agriculture Produce Market Committee (APMC) Acts., to provide for establishment of private market yards/ private markets. The state governments will also be encouraged to develop Farmers' Markets in town areas to enable the farmers to sell their produce directly**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionally (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Competition

• The New policy action:	Please describe the new policy being agreed to **Continuing efforts for improving business and investment climate via suitable measures across mining, finance, banking, taxation etc**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1) The current impasse in mining sector, including, iron ore mining, will be resolved expeditiously. Changes, if necessary, in the MMDR (Mines and Mineral Development and Regulation) Act, 1957 would be introduced to facilitate this.** **2) Government will continue to take initiatives across capital markets, banking sector, insurance sector, taxation policy etc to maintain and improve business and investment climate (Discussed under macroeconomic policy measures)**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Competition

• The New policy action:	Please describe the new policy being agreed to **Market Determined Diesel Prices**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The price of Diesel has been market determined with effect from midnight of 18th-19th October 2014. The price of Diesel is now market determined at both Retail and Refinery Gate level for all consumers thereafter. This will facilitate greater competition in the Auto Fuels Retail segment and enhanced efficiency in service delivery of the oil companies. This is expected to benefit consumers due to greater competition among oil companies and more choices. The competition is also expected to foster greater efficiency in oil companies benefitting the consumers.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

NOTE: Government is currently working on a new Trade Policy,

Trade

• The New policy action:	Please describe the new policy being agreed to **New Foreign Trade Policy (FTP) (2014-19)**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The New Foreign Trade Policy (FTP) (2014-19) is on the anvil, which would include strategy, goals, road maps and timeframe for increasing exports. This would be comprehensive and composite, focussing on: products which are winners and potential winners, targeted global engagements, branding and packaging measures etc.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Trade

• The New policy action:	Please describe the new policy being agreed to **<u>Boosting tourism sector</u>**
Implementation path and expected date of	Please describe when and how the policy will be implemented. **1. To give a major boost to tourism in India, the facility of Electronic**

implementation	**Travel Authorization (e-Visa) would be introduced in a phased manner at nine airports in India where necessary infrastructure would be put in place within the next six months.** **2. Other initiatives to promote tourism include 1) Developing 5 tourist circuits around specific themes 2) National Mission on Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD) 3) National Heritage City Development and Augmentation Yojana (HRIDAY) 4) Archaeological sites preservation 5) Development of Sarnath-Gaya-Varanasi Buddhist circuit with world class tourist amenities**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Trade

• The New policy action:	Please describe the new policy being agreed to **Promote trade facilitation**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Faster clearance of import and export cargo reduces transaction costs and improves business competitiveness. To help achieve these objectives, measures are being initiated to extend the existing 24x7 customs clearance facility to 13 more airports in respect of all export goods and to 14 more sea ports in respect of specified import and export goods.** **2. It is also proposed to implement an 'Indian Customs Single Window Project' to facilitate trade. Under this, importers and exporters would lodge their clearance documents at a single point only. Required permissions, if any, from other regulatory agencies would be obtained online without the trader having to approach these agencies. This would reduce interface with Governmental agencies, dwell time and the cost of doing business.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Trade

• The New policy action:	Please describe the new policy being agreed to **Revive Special Economic Zones**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The Government is committed to revive the Special Economic Zones (SEZs) and make them effective instruments of industrial production, economic growth, export promotion and employment generation.**

What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **SEZ is an existing policy initiative. However, the proposed policy efforts seeks to give thrust to same by taking effective steps to operationalize the Special Economic Zones, to revive the investors' interest to develop better infrastructure and to effectively and efficiently use the available unutilized land.**

Trade

• **The New policy action:**	**Please describe the new policy being agreed to** **Launching an export mission to take exports to higher growth trajectory.**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **An Export promotion Mission will be established to bring all stakeholders under one umbrella. It will be government endeavor to engage with the states to take India's exports to a higher growth trajectory.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Improving rural credit and risk measures**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. On 10 January 2014, National Bank for Agriculture and Rural Development (NABARD) announced initiation of three crop specific Pilot Projects with production and post-production interventions to be implemented through Primary Agriculture Co-operative Society (PACS). The Projects will provide for productivity enhancing measures and post-harvest interventions.** **2. Government has proposed setting up of "Long Term Rural Credit Fund" in NABARD for the purpose of providing refinance support to Cooperative Banks and Regional Rural Banks with an initial corpus of Rs 50 billion.** **3. It is proposed to provide finance to 0.5 million joint farming groups of "Bhoomi Heen Kisan" (landless farmers) through NABARD in the current financial year.** **4. Price volatility in the agriculture produce creates uncertainties and hardship for the farmers. To mitigate this government seeks to establish a Price Stabilization Fund.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/ press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment. **Being announced on 10 January 2014, the NABARD policy initiative for production and post-production interventions is new policy initiative.**

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Promoting financial inclusion**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1) The objective of Financial Inclusion is to extend financial services to the large hitherto un-served population of the country to unlock its growth potential. In addition, it strives towards a more inclusive growth by making financing available to the poor in particular. A structured and planned approach has been followed under financial inclusion. The initial goal of providing access to banking services to all villages with population more than 2000 has been successfully met and the focus now has shifted to providing banking services for all the other villages in a time bound manner. The focus is also now more on the volume of transactions in new accounts opened as a part of the financial inclusion drive. Government and Reserve Bank of India (RBI) are taking various initiatives including; (i) opening of Bank branches in all habitations of 5,000 or more population in under-banked districts and 10,000 or more population in other districts; (ii) Each household to have at least one bank account; (iii) Encouraging Business Correspondent Model where banks were permitted to use the services of intermediaries in providing financial and banking services through the use of Business Facilitators (BFs) and Business Correspondents (BCs); (iv) "Swabhimaan" – ot the Financial Inclusion Campaign; (v) Setting up of Ultra Small Branches (USBs); (vi) Banking Facilities in Unbanked Blocks; (vii) USSD Based Mobile Banking; (viii) Roll out of Direct Benefit Transfer; (ix) Expansion of ATM network; (x) Insurance Office in all towns etc.** **2) To provide all households in the country with banking services, a time bound programme would be launched as Financial Inclusion Mission on 15 August 2014. Accordingly Prahan Mantri Jan Dhan Yojana (PMJDY) has been launched.** **3) After making suitable changes to current framework, a structure will be put in place for continuous authorization of universal banks in the private sector in the current financial year. RBI will create a framework for licensing small banks and other differentiated banks.** **4) The RBI set up the Committee on Comprehensive Financial Services for Small Businesses and Low-Income Households (CCFS) in September 2013 whose report was released on 7 January 2014. Recommendations included need to move away from an exclusive focus on any one model to an approach where multiple models and partnerships are allowed to thrive, particularly between national full-service banks, regional banks of various types, NBFCs, and financial markets.** **4) The RBI, on 2 April 2014, granted 'in-principle' approval to two applicants, namely IDFC Limited and Bandhan Financial Services Private Limited, to set up banks under the Guidelines for Licenses of New Banks in the Private Sector**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Facilitating remittances receipt**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Money Transfer Service Scheme (MTSS) aimed at a quick and easy way of transferring personal remittances from abroad to beneficiaries in India has been initiated. To facilitate receipt of foreign inward remittances directly into bank account of the beneficiary, RBI recently decided to allow foreign inward remittances received under MTSS to be transferred to the KYC compliant beneficiary bank account through electronic mode, such as national electronic funds transfer(NEFT)) and immediate payment service (IMPS).**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ordinances/ / amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how thenew w commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Encouraging Women Participation - Women Empowerment and Gender Mainstreaming**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **1. Launching a girl child focused scheme "Betii Bachao, Beti Padhao Yojana" which would help in generating awareness and also help in improving the efficiency of delivery of welfare services meant for women** ***2.* Gender Mainstreaming: Government would focus on campaigns to sensitize people of this country towards the concerns of the girl child and women. The process of sensitization must begin early, therefore, the school curriculum must have a separate chapter on gender mainstreaming.** **3. Elementary education is one of the major priorities of the Government. There is a residual gap in providing minimal school infrastructure facilities. Government would strive to provide toilets and drinking water in all the girls school in first phase.** **4. Small saving: A special small savings instrument to cater to the requirements of educating and marriage of the Girl Child will be introduced.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Tracking budget allocation for mentioned schemes / institutions /corpus. Policy efforts can take form of legislation /circulars /bills/ / ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how thenew w commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Corruption and tackling black money**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **The problem of black money need to be addressed. The Special Investigating Team (SIT) will be constituted to prepare a comprehensive action plan including creation of necessary institutional structure that could enable the country to fight the battle against unaccounted money.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other measures

• The New policy action:	Please describe the new policy being agreed to **Encourage savings and rebalancing**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **Measures to increase savings will help promote rebalancing** **1) A special small savings instrument to cater to the requirements of educating and marriage of the Girl Child will be introduced.** **2) A National Savings Certificate with insurance cover will also be launched to provide additional benefits for the small saver.** **3) In the PPF Scheme, annual ceiling will be enhanced to Rs 0.15 million p.a. from Rs 0.1 million at present.** **4) Kissan Vikas Patra (KVP) was a very popular instrument among small savers. Government will reintroduce the instrument to encourage people, who may have banked and unbanked savings to invest in this instrument**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other measures

• The New policy action:	Please describe the new policy being agreed to **Promoting Good Governance**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **A programme for promoting good governance would be launched and a sum of Rs 1000 million will be allocated for this purpose.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Deleting Obsolete Laws**
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented. **For improved governance government is taking measures to get rid of obsolete laws choking the statute books** **1.The government has tabled The Repealing and Amending Bill (2014) in the Lok Sabha, recommending revisions of 36 obsolete laws.** **2. Prime Minister has appointed a committee to identify obsolete laws.** **3. The Law Commission of India has submitted its report to the ministry of law & justice in September, identifying 72 such obsolete laws that warrant immediate repeal.**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Other Measures

• The New policy action:	Please describe the new policy being agreed to **Improving sanitation**
Implementation path and expected date of implementation	**The Government intends to cover every household by total sanitation by the year 2019, the 150th year of the Birth anniversary of Mahatma Gandhi through Swachh Bharat Abhiyan. The mission has been launched since October 2 , 2014**
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation. **Policy efforts can take form of legislation /circulars / bills/ ordinances/ amendments/notifications/press release etc depending on the issue.**
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

COMPREHENSIVE GROWTH STRATEGY: INDONESIA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

The purpose of this section is to state your country's economic objective and to set out the five key policy commitments that will contribute meaningfully to that objective.

Economic Objective

Describe your country's short- and medium-term economic objectives.

Since 2013, considering increasing uncertainties in the global economy, the Government's short-term focus is to promote economic stability. Specifically, it is acknowledged on the need to manage current account deficit to a sustainable level supported by adequate financing.

At the same time, the Government is also improving interconnectivity across regions within the country to help reduce logistic costs to support domestic supply chain. This will be conducted through accelerating investments in infrastructure projects. Fostering Infrastructure development will also enhance the production capacity of the economy to meet the growing domestic demand so that could ease pressures in the external balance.

In the medium term, fiscal policy will be directed towards maintaining sustainability and enhancing government capabilities to support sustained growth acceleration and coping with inequality. Maintaining fiscal sustainability is important as it becomes an anchor of macroeconomic stability which will give a solid ground for sustainable growth. Enhancing fiscal capability will be conducted through creating larger fiscal space and improving spending quality. This will require energy subsidy reform to take place as it has created mounting burden to the government budget. Optimizing government revenue is also required through broadening tax base and modernizing tax administration. In coping with inequality, anti-poverty programs are strengthened and even combined with the enhancement of social protection programs. Fostering human capital development through varies education programs is also another focus of fiscal policy in the medium to longer term.

In short, fiscal policy will be focused towards addressing the medium-term challenges to achieve sustained growth acceleration through supporting long-term key drivers of growth such as infrastructure development, technology advancement, human capital development as well as institutional improvement. These all are aimed at supporting government's medium term target of avoiding the middle income trap. Accordingly, the government will continue poverty alleviation and income distribution programs and also improve access to education, health care and social protection. Improving good governance to improve Government capabilities to support growth acceleration is also included in the medium term policy.

On the monetary side, taking into account the prevailing prospects and risk factors, Bank Indonesia will remain focused on maintaining macroeconomic and financial system stability. Monetary policy will remain directed towards controlling the rate of inflation in harmony with the inflation target. In the current situation, Bank Indonesia also support government's effort to bring down current account balance to a more sustainable level. Such policy will be implemented through interest rate policy and exchange rate policy in line with its fundamental. In this regard, the exchange rate is expected to play *the role of shock absorber rather than shock amplifier in the economy. Bank Indonesia will also continue to strengthen monetary operations, manage the flow of foreign exchange and persist with financial market deepening to support the effectiveness of policy transmission, while at the same time reinforcing the structure and capacity of the financial system in providing financing for the economy. In addition, to mitigate uncertainty from the global economy, Bank Indonesia continues to take measures to buttress the second line of defence through cooperation between the central bank and financial authorities in the region.*

In addition to monetary policy, macro-prudential policy will remain directed towards maintaining financial system stability and fostering banking system resilience by prioritising prudential principles. Bank Indonesia will also reinforce the implementation of its new function and jurisdiction as the macro-prudential authority. To this end, macro-prudential policy will be directed towards managing systemic risk and ensure financial system remain sound.

Government and Bank Indonesia work in synergy to pursue a policy mix to bring economic stability and maintain balance economic growth. The policy mix consist of three major areas that involves (i) a synergy between monetary policy and macroprudential policy to enable policy objectives to be pursued with optimum results; (ii) fiscal policies designed to curb the current account deficit in synergy with monetary policy to manage domestic demand in order to curb excessive import; and (iii) structural policies, such as policy to improve investment climate and to promote economic self-sufficiency.

Over the medium term, the domestic economy is expected to expand at a progressively rapid pace, with inflation tamed at a low rate and current account outturn improved. This prognosis, however, rests upon the implementation of reform to overcome impediments to sustained economic growth. Key impediments that have raised concerns relate to the structure of development financing, weaknesses in the production side, including in food and energy, the fallout of energy subsidy on the State budget, and the inadequacy of basic enablers to support sustained high economic growth.

An array of reforms has already been introduced by the Government and Bank Indonesia to overcome the aforementioned impediments. Irrespective of the achievements already accomplished, expediting the implementation of remaining initiatives is imperative. Among the main reform agendas that will be expedited are promoting deep and liquid domestic financial markets, strengthening the capability of domestic manufacturing sector and facilitating its further integration to the global value chains, and improving fiscal space for a strengthened development financing. Advancement of these economic reform agendas is expected to prevent Indonesia from falling into the so called middle-income trap.

On the real sector side, the implementation of policies aimed at ensuring adequate provision of basic enablers to support the development of a more globally competitive domestic manufacturing industry are expected to continue and be expedited. These include the development of (a) seamless physical and digital connectivity, (b) skilled and globally competitive labour force (human capital), and (c) favourable institutions and business climate conducive to broader private sector participation. Through these measures, the domestic manufacturing sector is projected to become more competitive and integrated to the global value chains. Furthermore, stronger implementation of policies to promote adequate supply of food and energy, as vital production inputs for industrialisation, is also anticipated. In addition, increased fiscal space on the back of a more rational *policy on fuel subsidies is envisaged. This is projected to contribute to the development of adequate basic enablers to facilitate the emergence of a more competitive domestic manufacturing sector.*

In addition, financial deepening and financial inclusion will also be developed to improve financial intermediaries and to strengthen the domestic economy in the long-term. Financial deepening is pursued through increasing domestic investor base and the number of companies doing IPO. Conducting public education and strengthening domestic investor with long-term investments will also add to efforts. Additionally, financial inclusion policy will be adopted by expanding banking access for people in rural areas, small medium and micro enterprises and low-income communities.

Discuss how your growth strategy will contribute to your country's economic objectives and the G-20's objectives of strong, sustainable, and balanced growth.

We believe that all measures aforementioned will contribute to our stronger, more sustainable, and more balanced growth collectively. Sound fiscal framework will foster and promote key policy measures in the operational level. Those areas of investment, employment, trade and competition believed to be the significant components to achieve our objectives for high quality growth. Stronger investments particularly in infrastructure will boost high productivity and create high employment. Expanded exports and trade achieved through more supportive competition climate will make growth more balanced and further support growth in worldwide.

Key Commitments

List top 5 commitments from the Growth Strategy here. Selection should be based on relevance to key gaps, impact on growth, ability to generate positive spillovers and facilitate domestic and external rebalancing.

1. *Macroeconomic policy packages*

   The authorities will implement policy packages to bring economic stability and maintain balance economic growth. On the fiscal side, the government will maintain sound and effective fiscal policy by optimizing revenue sources and improving spending. On the monetary side, Bank Indonesia will remain focus on maintaining macroeconomic and financial stability by implementing policy mix, including deepening financial market.

2. *Infrastructure investment policy framework (establishment of infrastructure body and PPP center)*

   It improves the business environment, encourages good decision making, and creates opportunities for private investors to increase their involvement in the sector.

3. *Employment policy reform (entrepreneurship program)*

   The national entrepreneurship movement program, which is collaborated with universities, banks, and businesses, is focused on agribusiness sector and export-oriented commodities (2014); focus to cover women entrepreneurship in 2015; and other sectors for the period after.

4. *Energy efficiency and sustainability policy (including reducing fuel subsidy and renewable energy)*

   This policy is a part of comprehensive structural reform that will free up some fiscal space *and create a stronger as well as sustainable growth.*

5. *Promoting SMEs*

   Fiscal and monetary policy both are supporting SMEs to get financial access easier through simplifying taxpayers obligation and digital financial services.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

The goal of this section is to outline the current state of growth in the economy, relative to potential growth (Indicative length – 2 pages).

Current and Future Growth Prospects

Describe current growth and projections based on your current policy framework. In particular, are growth projections above or below potential growth and to what extent? Please use national projections.

	Key Indicators					
	2013* **	**2014**	**2015**	**2016**	**2017**	**2018**
Real GDP (% yoy)	5.8	5.3	5.6	5.9 – 6.5	6.2 – 7.0	6.5 – 7.4
Nominal GDP (% yoy)	n/a	n/a	n/a	n/a	n/a	n/a
Output Gap (% of GDP)*	n/a	n/a	n/a	n/a	n/a	n/a
Inflation (%, yoy)	8.4	5.3	4.4	3.0 – 5.0	3.0 – 5.0	2.5 – 4.5
Fiscal Balance (% of GDP)**	-1.84%	-2.38%	-1.69%	n/a	n/a	n/a
Unemployment (%)	5.7	5.5 – 5.9	n/a	n/a	n/a	n/a
Savings (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a
Investment (% of GDP)	n/a	n/a	n/a	n/a	n/a	n/a
Current Account Balance (% of GDP)	- 3.3%	n/a	n/a	n/a	n/a	n/a

***A positive (negative) gap indicates an economy above (below) its potential.**

****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**

Key Drivers

Identify the industries and the expenditure components (e.g. consumption, investment) that are major drivers of growth and explain whether the composition of growth is expected to change.

Based on recent history, Indonesia's domestic private consumption has always been the key driver of the country's growth. Indonesia's economy is currently endowed with the so-called demographic dividend, a situation in which the working-age population dominates the age structure of the population. Private consumption contributes dominantly on the expenditure side. Strong household *consumption was supported by the well-maintained, increasingly robust consumer confidence and purchasing power. High purchasing power was in line with consumers' rising incomes and lower levels of inflation. Latest figure from the Statistic Bureau (BPS) showed a 5,2% growth in Q1-2014, a slight decrease from Q4-2013. Nevertheless, the portions of investment have been increasing significantly. On the sectoral side, manufacturing was still the largest contributors on the economic growth followed by agriculture, mining and trade. In term of growth, transportation and communication sector was the fastest growing sector in Indonesian economy.*

The demographic dividend is a key factor in our national economy and has the potential to become the futures growth engine. This potential should be unleashed to accelerate Indonesia's economic development. Therefore, the economic development strategy would be to encourage contribution of the larger part of the Indonesian people in the long run.

As Indonesia's investment ranking has continuously improved, investment is forecasted to pick up in line with measures that have been taken to improve the investment climate such as relaxing the investment negative list and bureaucracy reform. Export will also improve benefiting rupiah depreciation whilst improving the trade balance.

Assessment of Obstacles and Challenges to Growth

Describe the key challenges, vulnerabilities, and policy gaps facing the economy (both near and medium term), which could include those highlighted by International Organisations and peers. In addition to conjunctural gaps, the focus should be on the themes agreed by Ministers (investment, employment, competition, trade), but other key issues can be discussed if they are particularly relevant in your country.

The short term focus on stability poses trade off on growth which is stability. With Indonesia's current structural profile, a high economic growth leads to a high demand towards imported goods and services. It is because our supply side is still very weak and can't fulfil the strong demand.

One of the main hurdles for the Indonesian economy to grow at its potential level is inadequate infrastructures. Demand pressures for infrastructure is mounting as the economy and population as well as the middle-income class grow.In particular, interconnectivity across regions has yet to be strengthened so as to decrease the logistic cost, thus production capacity and competitiveness. Infrastructure spending in Indonesia is still lower than the global G20 average. The limited funding to public infrastructure investment is related to the narrow fiscal space. Private investors can potentially play an important role to help fill the gap for infrastructure development. However, international surveys on Indonesian businesses, still gives less favor to the Indonesian economy. In order to make progress in this area, the Indonesian government will implement a number of structural reforms.

In addition, demographic dividend will not last forever. In other words, we have a time-limited opportunity to capitalize on the demographic dividend. Technological leap, extra efforts, and perhaps, "out of the box" approaches are some ways to accelerate economic development. To further strengthen the Indonesia's economic resilience, we have issued a number of fiscal measures to improve productivity and domestic products competitiveness in global market, especially in human capital investment.

C. POLICY RESPONSES TO LIFT GROWTH

The objective of this section is to discuss new policy actions that will be taken to contribute to our collective ambition to lift G-20 output by at least 2 per cent above the trajectory implied by current policies by 2018.

Policies are considered new when they are in addition to any commitments made at or prior to the Saint Petersburg Leaders' Summit. (Indicative length – as needed, but approximately 1 page per theme.)

This section should be a high level, narrative discussion of the key new policy commitments and their link to issues identified in section A as well as their intended impact on growth, employment and rebalancing.

For each policy area (macroeconomic policy and each structural policy thematic area), countries should:

- *Identify the key policy actions;*
- *Explain the rationale for policy actions and how they will address key challenges and policy gaps identified in section A;*
- *Discuss the intended impact of policy actions, individually or collectively, on growth and employment;*
- *Discuss how policy actions will facilitate adjustment and global relancing as well as create positive spillovers, where relevant.*

Details of the each new policy commitment should be included in tables in Annex 2. A table should be completed for each new policy commitment.

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Discuss the calibration of policy and how fiscal, monetary, exchange rate and macroprudential policy actions will support growth. New fiscal, monetary policy and exchange rate commitments, if any, as well as improvements in policy frameworks such as macro-prudential settings and/or capital controls should be set out here. An updated St. Petersburg fiscal template should be completed (see Annex 1).

Discuss policy actions that will be taken in this area.

In recent years, the government has conducted significant reforms to accelerate economic growth through structural reform. These efforts are reflected in its efforts to promote infrastructure investment through better regulatory framework, improve investment climate, facilitate job creations and create better employment.

In order to realize the national policy agendas, the Government will implement sound and effective fiscal policy in an effort to achieve strong, sustainable, and inclusive economic growth. The government will also maintain the strict requirements on deficit (of maximum 3 percent of GDP) through optimizing revenue sources and improve spending.

To improve the quality of government expenditure, measures will be taken to increase the efficiency and effectiveness of spending. Necessary cut on less-productive expenditure, such as business trips, government vehicle spending, and outside office meetings for government meetings, will be continued in the future. On the other hand, the government is also committed to increasing the allocation of productive infrastructure spending to improve competitiveness and production capacity. Through increasing productivity, Indonesia expects to create higher value added, increase the economic capacity, and expand employment opportunities, which in turn will lead to higher prosperity for the whole society.

At the same time, monetary policy will remain focused on anchoring inflation expectations and reducing balance of payments pressures. Regarding to the stability of the economy and the financial system, Indonesia will strive to do its best in the implementation of policy mix, macro-prudential development, management of capital flow, initiative policies for the creation of Regional Financial Safety Net, financial inclusion and SMEs, and the development of digital financial services. In order to improve the external resiliency, Indonesia will strengthen the second line of defense through financial cooperation with other central banks and financial authorities in the region.

New Structural Policy Responses

Investment and Infrastructure

This section should closely reflect policy actions identified by the Investment and Infrastructure Working Group (IIWG). The IIWG will issue a guidance note on how to complete this section of the template. Please refer to this guidance note when completing this section.

Discuss policy actions that will be taken in this area.

A. Assessment of obstacles and challenges to growth

In general, Infrastructure spending in Indonesia is still lower than the global G20 average. The limited funding to public infrastructure investment is related to the narrow fiscal space. The private investors can potentially play an important role to help fill the gap for infrastructure development in particular as Indonesia is a large and growing market with significant possibilities for high rates of return for investors. International surveys on Indonesian businesses, however, still gives less favor to the Indonesian economy. In order to make progress in this area, the Indonesian government will to implement a number of reforms.

The government made an important policy decision last year to reduce the size of the existing fuel subsidy, which has created additional fiscal space to increase capital expenditure on infrastructure. Increasing the level of infrastructure expenditure reflects the Government's commitment to address head on Indonesia's infrastructure challenges and provide further opportunities for private sector involvement. The longer term objective is to lift the productive capacity of the Indonesian economy so that high growth can be maintained and jobs created.

Streamlined and transparent regulatory systems are generally associated with investor's expectation. In those surveys, Investors have highlighted the lack of coordination and policy coherences among various infrastructure related institutions in Indonesia. To improve this field, the government will conduct reforms to underpin investor certainty and lower the cost of doing business in Indonesia.

Improving the operation of infrastructure markets by supporting so-called economic infrastructure (with clear cash flows) is another way to attract increased private sector involvement in infrastructure projects. A shift towards government support for more of these kinds of 'bankable' projects can lead to an increase in the size of the infrastructure investment pipeline. This not only delivers a greater degree of certainty for investors but can also create more opportunities to develop related long term financing vehicles and products, which facilitates the further development of financial sector. Better operating infrastructure markets also assist to make meaningful progress in addressing infrastructure deficits.

An additional challenge for the Indonesian economy is that it is vulnerable to external shocks beyond *its control, which can destabilise macroeconomic indicators and impact negatively on investor perceptions more generally. Implementing reforms to address the challenges identified above can contribute to improving the investment environment and boosting growth – and thus helping the economy to become more resilient to these external shocks.*

To maintain the momentum of Indonesia economic growth, in 2014 Indonesia has implemented policy packages in improving ease of doing business. The purpose is to make faster and easier people who want to start-up a business activities, especially would give great benefit for small and medium enterprises (SMEs). Indonesia sets target of eight areas of improvement to increase the ease of doing business, namely: starting a business, getting electricity, paying taxes and insurances, enforcing contract, resolving insolvency, registering property, dealing with construction permits, getting credits. In each areas, Indonesia sets totaling 17 action plans which covers one or more action plans for each area.

To ensure the implementation of this policy, any action plans has a clear Ministry or Agency in-charge. In addition, there would be a joint monitoring team consisting of the Presidential Working Unit for Control and Supervision on Development (UKP4), Ministry of Administrative and Bureaucratic Reform, Financial and Development Supervisory Agency (BPKP), and Investment Coordinating Board (BKPM).

To anticipate future challenges that are increasingly complex, it is necessary to have a comprehensive and systematic efforts to combat corruption. Corruption Eradication Commission (KPK) has launched "Road Map KPK" 2011-2023. The purpose is to maintain continuity between periods to realize the goals in eradicated corruption in Indonesia. KPK as an independent institution and trigger mechanism take a role as pioneer in the development of the National Integrity System (SIN) and then the proceed will continue with the next step of building a core of competence through the development of Fraud Control. The National Integrity System (SIN) is a nationally accepted system in order to eradicate corruption in an integrated manner involving all the important pillars of the nation. Corruption can be reduced because each pillar has a horizontal accountability, which distributes power so that there is no monopoly and policies that can not be accounted for.

B. Current policy settings and new commitment

1. *Establishment of Infrastructure Prioritizing Body*

The Indonesian Government is in the process of establishing a new infrastructure prioritizing body (the KP2IP). The body will assess and prioritise project proposals, and allocate them for implementation to line agencies, state owned enterprises or the PPP centre in the Ministry of Finance. It will also provide guidance on how each project can be appropriately financed. A key element of the new body is to ensure that its deliberations and decisions are transparent, which improves the business environment and encourages good decision making. It is also designed to improve coordination among infrastructure related governmental bodies.

This body is to improve an increase in the number 'bankable' infrastructure projects that will boost investment which should boost economic growth and employment. It will also make investors more confident in the Indonesian market and should encourage further financial market development to meet the financing needs of these projects.

2. *Establishment of PPP Center*

The PPP centre in the Ministry of Finance will focus on developing a pipeline of bankable infrastructure projects that can be supported by the Indonesian Government. Its particular focus on economic infrastructure will improve the operation of infrastructure markets in Indonesia and create opportunities for private investors to increase their involvement in the sector. Through the creation of an infrastructure pipeline, more opportunities will be created to develop related long term financing vehicles and products, which can facilitate the further development of financial sector.

This institution to improve the operation of infrastructure markets, to take pressure off the budget by leveraging private sector investment in infrastructure; and to support economic activity by expanding investment in critical sectors, which can also underpin growth and employment.

3. *Regional Investment Relation Unit*

   Regional Investment Relation Unit (RIRU) is tripartite cooperation between Bank Indonesia, Provincial/Regional Government, and the Chamber of Commerce to promote investment activity, trade, and financing in order to enhance regional competitiveness and to accelerate regional development. The RIRU is essentially a coordination function across institution to promote sound investment climate, as well as to advocate government policy and services that is line with international best practice. This program is expected to be launched at the end of 2014.

4. *The Improvement of Business Environment and Investment Climate*

   Coordinated action to improve the investment climate is aimed at improving ease of doing business in Indonesia. One important initiation of this action is establishment of the One-Stop Services (OSS) which organize the complete Licensing and Non-licensing procedure of investment in single office that has the authority from related technical institutions or ministries to issue the Licensing and Non-Licensing document on particular sectors. This has been governed by the Regulation of the Chairman of the Investment Coordinating Board No 7 of 2013 Regarding Implementation of One Stop Service for Investment.

   A sound and stable policy environment without onerous regulation will make Indonesia a more attractive investment destination. Higher investor confidence in Indonesia will see more investors viewing Indonesia as an attractive opportunity. Greater investment will in turn improve the efficiency of production in the economy while generating more employment and stimulating economic growth.

5. *Increasing Domestic Saving by "My Savings" ("TabunganKu") Program*

   As found in many developing economies, Indonesian population is just about half of its population that has such access to financial services. This situation is only marginally than China, Pakistan, and Philippine, but it is worse than countries such as Thailand, Malaysia and Sri Lanka (close to 60% of population)[1]. To provide access to financing for greater share of population that is important for reducing income inequality as well as enabling more rapid economic growth, Bank Indonesia launched TabunganKu (My Savings) program. This program is also aimed at improving the culture of saving and financial planning, in particular in middle to low income

[1] According World Bank Survey in 2008.

society. TabunganKu is a savings scheme with more affordable requirements, - no charge for administrative costs, low minimum deposit, low minimum required balance. The administrative cost has been concern in particular for low income society as the cost is relatively high for them and will only dilute their saving account balance when they can not afford the required minimum balance.

6. *Energy Efficiency and Sustainability*

   Indonesia has initiative to issue Standards and Labels of Energy Efficiency on 7 (seven) products of electronic appliances and has been implemented the Public Awareness Campaign in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient. The targets of appliances are: Compact Fluorescent Lamp, Refrigerator, Room Air Conditioner, Electronic Ballast, Electric Fans, Rice Cooker, Motor. CFL was already issued the label of energy efficiency. The program will be implemented mostly in the household sector and it is expected to contribute 36% energy saving of the total energy use of electronic appliances in the household, business/commercial, and industrial sectors. The program is being implemented. CFL is started in 2013. There is also The Public Awareness Campaign implemented in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient.

   The signing of the cooperation between the Ministry of Energy and Mineral Resources and the Ministry of Forestry in implementing Bioenergy Development Program Based on Energy Forests.

   Government is also supporting the development of new and renewable energy through the conversion of biofuels and gas with some programs such as development of biomass power plan which utilize corn barges as the main energy source and simplify the licensing procedure on electricity of water supply.

   The government has committed to continue gradually reducing subsidy over the next few years and reallocate the funds to more productive spending such as infrastructure. Capital expenditure of state budget policy in the period 2015-2017, is dedicated to, among others: (1) to support national investment, through construction of basic infrastructure funding including energy infrastructure; and 2) increasing the capacity of mitigation and adaptation to the adverse impacts of climate change. The cut fuel subsidy program is a part of comprehensive structural reform that will free up some fiscal space and create a stronger as well as sustainable growth. Accelerating the use of Biodiesel by 20% on motor vehicles in 2016.

Employment

This section should closely reference the growth aspects of the employment plans that are being developed within the Taskforce for Employment.

Discuss policy actions that will be taken in this area.

Future growth strategy should be reflected in the linkages of poverty alleviation and unemployment rate reduction. In terms of employment programs, building a strong economic capacity and competitiveness are some long term challenges that will be the main factors. To support this program, several plans will be implemented, such as:

1. *Infrastructure development of roads, harbours/airports, telecommunication, railways, etc. in the rural and outskirts areas to help local resources create jobs and improve local economic activities.*

2. *Develop open market should be developed by providing facilities, incentive policies and conducive environment for private sector running its business. Indonesia supports SMEs financing as they are an important factor in fostering high economic growth and employment, especially labour absorption.*

3. *Promote entrepreneurship to empower labour force to create job. This endavour is conducted through entrepreneurships program for university graduates who have entrepreneurial passion and productivity orientation. Training and support, in both technical and managerial skills, will be given to help new entrepreneur to run their small/medium business by utilizing available natural and human resources. In this program, the government (MoMT) will also provide business assistance in the form equipment, depending on the type of business they are going to run. This program, collaborated with universities, banks, and businesses has a purpose to educate and encourage university graduates to become young entrepreneurs.*

   Bank Indonesia (BI) also contributed by launching entrepreneurship program in 2012 as a part of the national Entrepreneurship Movement program to promote entrepreneurship and to increase employment. This program (in 2014) is focused on agribusiness sector and export-oriented commodities. BI will continue to support the program and will enhance the focus to cover women entrepreneurship in 2015 and other sectors for the period after.

4. *The empowerment and optimalization of public vocational training centres, aimed to improve the quality and productivity of labour force, will be continued in the near future. Additionally, as ~~a~~ part of "smart industrial policies", the government will also encourage the private sector to provide training for those seeking jobs so that it can avoid the so called "labor mismatch". This strategy will be accomplished through tax scheme by treating cost of training spent by companies as deductible for income tax*.

5. *To further strengthen Indonesia's economic resilience, fiscal measures in human capital investment development will be continued. The government will still maintain the constitutional requirement of 20% allocation of our state budget for education. Moreover, to provide incentives for innovation and to encourage technological development, the plan of providing tax incentives for companies who relocate their Research and Development process in Indonesia will be developed.*

6. *To encourage job creations, the government have provided a variety of tax-related incentives such as tax incentives for labor-intensive businesses, and an increase in non-taxable income. These policies will be continued in the future to further spur economic gwoth and create emloyment. In addition, new simplified tax policy for small and medium businesses is targetted to improve SMEs' business operations and management while promoting better access to investment and banking services.*

7. *Female Participation*

   a. *Indonesia correlates some aspects that still need to be improved in order to support the improvement of living standard and sustainable development programs, as well as program implementation of Millennium Development Goals (MDGs) which will be done in 2015 of 8 indicators, there are four of 2015 MDG targets have been achieved, namely improvement of primary education, gender equality and the empowerment of women, reduction in child mortality, and to build a global partnership for development.*

b. *Two Goals to be achieved by budget allocation on other priorities in the field of welfare of the people in 2014, one of which is the completion of the implementation of gender mainstreaming policy (PUG) field of labor. Therefore, government increase the 2014 budget for the sub-function for the empowerment of women riding around Rp192,7 billion or 2.8 percent.*

c. *Indonesia has advanced its efforts to boost female labour force in high level political system. The Law No. 2/2011 regarding Political Party states in article 2 (5) that Political Party Management at central level must include at least 30% of female representation. Also article 29 (1a) states that in the recruitment process, political party should consider at least 30% of female representation to become member of parliament candidate.*

d. *Indonesia has a ministry with a vision of addressing female participation issues, gender equality and the fulfilment of children's rights, namely: Ministry of Women's Empowerment & Children Protection.*

   The main purpose of the Ministry of Women Empowerment and Child Protection are: 1) To provide programs and gender-responsive government policies; 2) Ensure improvement and fulfilment of women's rights; 3) Ensure improvement and fulfilment of children's rights; 4) To ensure the realization of the policy on gender responsive data system and in accordance with the interests of the child; 4) Making management accountable.

   Action plan in 2014-2015:

   a. *Increase the number of policies / programs / activities in the field of gender responsive to Political, Social and Legal, implemented by ministries, Institutions and Local Government (with the main target to 11 line ministries and 26 provinces).*

   b. *Improving the equality of women participation in SMEs, industry, and trade activities with the main area target in 3 provinces;*

   c. *Increase fulfilment of women in agriculture, forestry, fisheries, marine, food security and agribusiness, coordinating with 3 line ministries and 3 provincial governments.*

8. *Administrative reforms and funding are needed to improve educational outcomes*
   1. *According to Law no. 20/2003 regarding National Education System, the Government shall allocate 20% of its annual budget to education sector through: providing scholarships to fresh graduates of senior high schools to pursue their higher education; allocating vocational training and to develop school and university curriculums that support entrepreneurship.*
   2. *Developing employment competency standards by increasing Number of guideline administration and management development Vocational Training Institution (LPK) and Number of formulated and established Indonesia National Skill Competency Standards*
   3. *Competency based training and apprenticeship by increasing Number of licensed Professional Certification Institutions (LSP) ($1^{st}/2^{nd}/3^{rd}$ party) ; people in the labor workforce that have competency based training; Number of Competency Test Assessor that have capacity improvement; Number of trainers that have competence improvement*

Competition

Discuss policy actions that will be taken in this area that boost competition and reduce red-tape and unnecessary regulation. Both product market and service industry reforms should be considered.

Competition policy is designed to create a competitive environment in order economic growth is not *only efficient but also directed for encouraging welfare. Therefore, government is responsible for the fate of his people through managing the main authority as far as not to damage the dynamics of competition itself.*

IMF states several important factors supporting the growth such as by the accumulation of capital (human resources), institutional empowerment, openness of trade, technology and information, and investment. Referring to these factors and considering the appropriate competition policy, Indonesia programs as follows:

1. *Human Resources*

   The targeted human resource aspects need to be optimized in order to support the improvement of the living standards and sustainable development programs, as well as the consistency of Millennium Development Goals (MDGs) implementation. The aspects are included increasing the level of education and skills, women empowerment, and to build a global partnership for development. In addition, Indonesia believes that increasing the ratio of Indonesia's productive age with the availability of adequate employment will decrease dependency rate and future purchasing power for strengthening growth.

2. *Strengthening institutional aspect*

   Indonesia has set the Master Plan for the Acceleration and Expansion of Indonesian Poverty Reduction (MP3KI) 2012-2025 which is a comprehensive effort to continue, improve, and integrate a wide range of programs and policies to reduce poverty. It is indubitably accompanied by a more effectiveness of institutional aspect arrangements.

   Strengthening the national economy is also done through the economic connectivity that driven by strengthening institutional aspect in the main several sectors. For this, Indonesia recently focus on enhancement of institutional sectors in the industrial relation; trade, agriculture; and science and technology by improvement the quality of professional services management, human integrity, implementation of minimum service standards, and comprehensive demographic data.

   Regarding these matters, the program is being carried out and will be sustained, such as:

   1) *Improving Institutional Exports through: (a) the development and strengthening of overseas marketing/representative such as: ITPC (Indonesian Trade Promotion Centre), Commercial Attaché, and Indonesia's Overseas Representatives (KDEI); (b) Improving marketing agencies/management representatives through Key Performance Indicator (KPI) of each institution, service standards, standards promotion and promotional materials .*

   2) *Strengthening consumer protection institution through facilitation of BPSK (Badan Penyelesaian Sengketa Konsumen) or Settlement Body of Consumers Dispute; Strengthening LPKSM (Lembaga Perlindungan Konsumen Swadaya Masyarakat or Institute for Consumer Self Protection; Facilitation of BPKN (Badan Perlindungan Konsumen Nasional) National Consumer Protection Agency.*

3. *Openness of Trade*

   The global economy is expected to improve, followed by the increasing volume of world trade especially in terms of exports and imports to meet growing world demand. Domestic demand is *also expected to continue to sustain Indonesia economic growth, supported by the increasing purchasing power of society. Several programs are being forward and continue to do are:*

a. *Development of distribution facilities through synergy market development, revitalization of traditional markets facilitation in order to improve the competitiveness of traditional market, development of distribution facilities particularly for border regions and remote areas in order to accelerate economic activities and trade growth.*

b. *Improvement and diversification of export markets, destinations through: (a) improving and strengthening the prime/traditional market (European Union, United States, Japan, South Korea, and Singapore); (b) Development of potential/non- traditional market, among others: the PRC and the Asian region, Africa, the Middle East, Eastern Europe, and Latin America.*

c. *Commitment in ASEAN Economy Community (AEC) will be implemented from 2015 according to AEC timeline and score card. The AEC aims to bring the ASEAN countries toward ASEAN single market and production base, comprising five core elements. Those are: (i) free flow of goods; (ii) free flow of services; (iii) free flow of investment; (iv) free flow of capital; and (v) free flow of skilled labour. In addition, the single market and production base also include two important components, namely, the priority integration sectors, and food, agriculture and forestry.*

4. *Technologies and Information*

One of the Indonesian national development priorities is the implementation of appropriate technology in various sectors. It is related to the relevance and productivity for increased economic competitiveness and prosperity. Some ongoing programs include the use of appropriate technology in food production; intermediation technology area of Natural Resources for public service and government agencies in disaster technology to improve the industry competitiveness by the Agency for the Assessment and Application of Technology (BPPT); realization of efficient – effective - clean management system through rigorous monitoring based on information technology by the Central Statistics Agency (BPS); and the development of technology for the infrastructure projects such as roads and bridges sub fields.

In the trade sector, Indonesia will consistently implement the Export information service through: (a) increasing in collection of information/data from a trade representative office, TPO (Trade Promotion Office); (b) Systematic dissemination of updated information; (c) increasing inquiry services; (d) periodical maintaining and updating the website; (e) increasing the activities of public relations and publications; (f) increasing business consulting for SMEs.

5. *Investment*

The increase of competition to attract global liquidity for developing countries is closely related to the investment climate. Indonesia has enjoyed an increase in direct investment is being made in the form of FDI and domestic investment. The increase in direct investment activities, among others, are influenced by stable and robust economic fundamentals, and relatively better when compared to the countries affected by the global crisis. Some other things are also being contributing factors for the attractiveness of investment in Indonesia, among others, fiscal sustainability, investment ratings by international agencies, and large domestic market.

However, with the economic recovery that will occur in the future, it is not enough to ensure whether investor interest remains high. In order to support the achievement of various targets in the priority investment climate and business climate, the policy priorities of investment climate and the business climate will be directed on: (1) simplification, acceleration, and transparency of investment and business procedures, as well as providing information assurance costs; (2) an increase in the harmonization and simplification of regulations related to investment and economic efforts to reduce the high cost and uncertainty of business; (3) accelerating the development and implementation of the functions of special economic zones (KEK/Kawasan Ekonomi Khusus) in the economic corridor that has been established in MP3EI; (4) the development and improvement of license and online facilities for export and import activities as well as investment and business licenses; and (5) implementation of wage policy toward a system that can accept flexibility in order to improve the labour market efficiency.

6. *Digital Financial Services*

To help lower cost of transaction, Bank Indonesia promotes Digital Financial Service (DFS). The DFS is a payment system service conducted by 3rd parties and mobile and web basis media and instrument. Use of DFS is expected to expand financial access and facilitate secured and affordable transaction payment. This program is promoted as part of move toward less cash society and is very relevant in particular for MSMEs (micro, small and medium enterprises. The lower cost of transaction is expected to bring competitiveness to MSMEs and help micro, small and medium enterprises to grow.

Access to formal financial system at present covers only about 49% of the population (World Bank Survey 2011). The main constraints for unbanked people to get financial access are asymmetric information, limited capability to access financial services and geographical aspect. Thereby broadening access to financial service for all segments of the population including MSME (micro, small and medium enterprises) is warranted. Thus the authority takes advantage of information and communication technology to expand the financial services and provide greater access for people in remote areas. In that regard, the authority will also revisit (adding and modifying) regulation or policy in order to increase access to financial services such as regulation or policy that concerns on digital financial services, the platform to support the interoperability among related parties and product that suitable for the poor segment (quick, reliable, save and low cost).

In 2014, Bank Indonesia issued Bank Indonesia Regulation regarding e-money as it is the main instrument for supporting DFS Program. Furthermore, financial education regarding DFS and consumer protection has been done as a part of policy for supporting DFS Program. This program will continue to next five years.

7. *Financial Deepening*

Despite strong macroeconomic performance over the past decade, Indonesia lags behind its peers in financial market development. Financial intermediation is still dominated by the banking system while Rupiah money market consists mainly of direct bank dealing with the central bank, the majority of which are uncollateralized transactions, with collateralized loan transactions still substantially underdeveloped. Deepening financial markets in Indonesia is the key to mobilizing domestic savings to fund both private and public investment, as well as key to providing a *greater range of financial products. Developing the non-bank sector and other financial markets, as well as domestic money and foreign exchange markets can help Indonesia achieve its desired level of growth and financial stability. The development of the money market and deepening secondary market liquidity of the government bond market, for example, would provide better benchmarks for long-term financing while enhancing the role of the capital market—by increasing transaction volumes and diversifying the market—can enhance capacity to intermediate capital flows without large swings in asset prices and exchange rates. It can also lower reliance on foreign savings by increasing the scope to raise domestic funds at longer maturities and providing alternative sources of funding during times of international stress.*

The shallowness of the financial markets in Indonesia is militating against the financial sector performing its expected role in fostering economic growth and financial stability. Accordingly, Bank Indonesia has implemented an initiative program to accelerate financial market deepening since 2012 by inaugurating Indonesia Foreign Exchange Market Committee (Indonesia FEMC) in Jakarta as a forum for market players and a strategic partner of Task Force for Financial Market Deepening of Bank Indonesia and Financial Services Authority (OJK). This initiative has asset up priority programs

A. FX Market:

Focus will be to relax some regulation in order to support efficiency in FX transactions, increase market volume, and develop derivative transactions and instruments; this regulation is in the pipeline to be amended.

B. Rupiah Money Market

Focus will be looking at the possibilities to develop instruments to provide market with alternative source of fund and liquidity instrument, looking at the possibilities to implement FX special deposit accounts, with special rate to attract export proceeds to be placed in domestic accounts.

C. **Sharia Money Market**

Focus will be on enriching sharia money market instruments by developing interbank repo market with coordination of national Sharia Board.

8. *Government has undertaken to promote small-medium enterprises' access to financing through Government Regulation number 46 year 2013. The purpose is to simplify the taxpayers pay their income tax both personal and company taxpayers, which have the sales turnover not more than IDR 4,800,000 (approx. USD 400,000) to comply their obligation with single tariff of 1% income tax per year. The obligation to register the business and pay income tax in single tariff will obviously encourage huge number of business to move from informal sector to formal sector. This is because having taxpayer register number will make access to financial services much easier.*

Trade

Discuss policy actions that will be taken to increase trade flows by reducing impediments to trade at or behind borders (e.g. reduce the cost of doing business and help business participate in the global economy).

1. *Elements of Trade Action Plans*

   Trade has been a driving force of Indonesian economy. While the country is less dependent upon foreign markets in recent years due to growing domestic consumption, export continues to be an important factor in fueling the economy. In this regard, the aspiration has been for Indonesia to participate more in the global value chains. In this regard, and to contribute to the growth strategy from the perspective of trade, Indonesia's plan could be grouped into three main areas as follows:

   a. *Across the Border:*

      - *Continue working with other ASEAN countries to realize the ASEAN Economic Community by 2015 and ensure that the Community is functioning well.*
      - *Promote the participation of SMEs in regional and global trade by inter alia assisting SMEs participation in trade fairs, expo and exhibitions in targeted countries.*

   b. *At the Border:*

      - *Implement the WTO Trade Facilitation Agreement on "at the border" issues.*
      - *Improve the hard infrastructure, including sea and airports.*
      - *Make effective the application of the National Single Window, including by expanding the regime to other regional ports across the archipelago.*
      - *Expand the implementation of e-certification of origin, including its socialization amongst the SMEs.*

   c. *Behind the Border:*

      - *Trade Facilitation and implementation of the WTO Trade Facilitation Agreement with regard "behind the border" issues.*
      - *Promote the use of e-commerce, and in parallel putting in place the necessary measures to protect the rights of users and consumers.*
      - *Mainstream the development of services sectors deemed to function as lubricants for other sectors to grow faster in support of Global Value Chain narratives.*
      - *Deepen and expand work on financial inclusion, especially in support of SMEs, and women and young entrepreneurs.*
      - *Promote investment in infrastructure to develop and improve the domestic connectivity (to narrow price differences between regions, and open up more links between regional entry points and international markets)*

2. *Elaboration of the Trade Action Plans*

   MP3EI is the measures to encourage acceleration of growth for Indonesian economy into a developed country through an inclusive higher economic growth equitable and sustainable. MP3EI successful implementation is highly dependent on the degree of connectivity strength of the national economy (intra-region and inter-region) as well as international connectivity Indonesian economy with the world market. Direct implication that should be anticipated is the growing need for reliable support infrastructure to promote the distribution of goods and services. The challenge of a large country like Indonesia is the provision of infrastructure to support economic activity. Provision of infrastructure that encourages connectivity will reduce transportation costs and logistics costs in order to improve product competitiveness and accelerating the economic motion. In addition, to reduced transportation costs and logistics costs to improve product competitiveness, several major programs related to the development *of the services sector became the focus of major programs such as transportation, ICT, tourism sector and other services that support the program.*

Blueprint for Development of Sislognas serves as a reference for ministers, leaders of non-ministerial agencies, governors, and regents/mayors in policy development and action plans related to the development of Sislognas in their respective duties, as outlined in their strategic plan document each ministry/non-ministerial government agencies and local government as part of a development plan document. Blueprint of Sislognas instrumental in achieving RPJMN, support the implementation of MP3EI, and actualize the vision of the Indonesian economy in 2025. Logistics actors action plan and logistics service providers 2011-2015 include empowerment and strengthening actors and logistics service providers, increasing the capacity of actors and service providers logistics, creation of conducive business climate for actors and logistics service providers, and improve the effectiveness of services, and the strengthening and expansion of the network of international cooperation.

The role trade in Indonesia is very important in improving economic development, but the development is not comply with the needs for national development challenges as of formed therein Trade Laws. Government may establish trade with other countries and/or institutions/international organizations to improve market access and to protect and safeguard of national interest. Harmonization of regulations within the framework of national unity is necessary to address the economic development of the globalization of trade situation in the present and the future. Implementation of economic democracy made through trade, is a major driver in the development of the national economy that can deliver power to increase production capacity and equalize incomes and strengthen competitiveness in the country.

In international forums, Indonesia also plays an active role in trade negotiations and cooperation, such as in the WTO, ASEAN (has arrived at AFAS package 9), Bilateral (IJ EPA, IK CEPA and IE CEPA), ASEAN Plus (ACFTA, AANZ FTA, AK FTA, AJCEP and ASEAN - India CECA). Expected from the results of international trade cooperation in addition to open market access can also secure national trade policies and obtain technical assistance and capacity building appropriate national interests. Trade policies made by Indonesia should be maintained in various international fora as not to violate the terms of international trade. The establishment of international trade cooperation with trading partners, Indonesia can negotiate capacity building and technical assistance from the state as one of cooperation agreed upon.
As a developing country, Indonesia has been struggling to improve its business environment such as licensing or simplifying the processes for business to start up and recognition of qualifications or to easing licensing requirements. Therefore, at the G20 forum it is expected to have cooperation on the development of capacity building activities in order to support trade performance of its members. Indonesia realizes that the big problems of unemployment and economic stagnation threatening the realization of prosperity Indonesian society shall be coped with certain breakthrough policies. It is believed that breakthrough policies can speed up the realization of wealth distribution. The breakthrough policies of Indonesia are the issuance of Trade Law and action plan of Trade Facilitation Agreement.

Trade law which established based on Law no. 7 of the year 2014 provides legal certainty for business activities in Indonesia. There are many important issues on the new trade law; two of which that are considered most important are E-commerce regulation and Trade Information System. Currently, Indonesia is now drafting the regulation of E-commerce and Trade Information System and Indonesia opens for input from other countries in formulating those issues.

Moreover, trade facilitation and business development are among Indonesian focus on trade reform. The focus is to close the development gap both domestically and regionally. In this regards, Indonesia will always encourage business sector, especially Small and Medium *business, to have a strong capability and competitiveness to enter the world market. As we may be aware, In Indonesia, SMEs have historically been main player in domestic economic activities, especially as a large provider of employment opportunities, and hence a generator or primary or secondary source of income for many households. Being a GDP earner, SMEs are instrumental in achieving inclusive growth which touches the lives of the most vulnerable and marginalized sections of society, including women, minorities, and other disadvantages groups. Indonesia therefore consistently supports its SME to drive SMEs empowerment by giving facilitation both on capacity building programs and facilitation on rolling fund management for micro business.*

Another breakthrough is implementation of the Trade Facilitation Agreement. Indonesia is fully aware that Trade Facilitation Agreement is very important as it will accelerate the flow of goods and it will reduce economic costs so high that a good implementation of TFA will generate targeted economic development. Indonesia is very serious in implementing the TF agreement so that the president's office needs directly to monitor the implementation of TA agreement. To close the development gap both domestically and regionally, Indonesia develop concrete and realistic steps:

a. *Reducing the Tariff Measures. Indonesia has implemented a tariff system based on HS 2012 which covers 10,025 tariff lines (previously it covered 8,755 tariff lines). The implementation is based on Minister of Finance Regulation (PMK) No. 213/PMK.011/2011 and amended by Minister of Finance Regulation No. 133/PMK.011/2013 FMD. The tariff commitments in several free trade agreements have been converted from HS 2010 to HS 2012.*

b. *Reducing Non-Tariff Measures to improve the importing process of certain products, to support the implementation of ASEAN Harmonized Tariffs Nomenclature, to provide business certainty, to create conclusive business climate and increase effective implementation of the international trade provisions, through the implementation of the Minister of Trade Regulation.*

c. *Improving services sector to support logistic performance, especially for the distribution for trade, through the implementation Minister of Trade Regulation.*

Other measures

Discuss policy actions that fall outside of the areas of investment and infrastructure, employment, competition, and trade but will facilitate transition and contribute to the G-20's ambition.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE —UPDATE

1. **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumption, or other factors (please specify), referring to the information provided.

   Gradual budget (energy subsidy) reform is essential and will be the top priority for GoI to provide the necessary budget capacity for government provision of infrastructure and social welfare and to create the right incentives for further development.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):

   a. Overall strategy for debt sustainability

   Our law on state finance explicitely stipulase that budget deficit can not go beyond 3% of GDP (in practice, we allocate 0.5% of GDP for local government budget deficit and 2.5% of GDP for central government budget deficit). Therefore, the state budget deficit is always set maximum at 2.5% of GDP.

   The financing strategies include issuing more bonds, or through private placement, or getting some loan from development partners, or the combination of those.

   b. Debt-to-GDP ratio objective

   (…)

   c. Intermediate objectives

   Healthier fiscal policy will be achieved by creating adequate fiscal space. This fiscal space is needed not only as fiscal buffer for precautionary purposes in term of any adverse shocks but also to provide stimulus to support economic growth both through spending and taxation policies.

   d. Expenditure and revenue reforms

   We understand that we continue to face challenges. From our revenue structure, for example, our challeges is related to the administration of income and value added tax. We will develop our revenue and by expanding tax base and improve tax administration. Our tax base expansion, especially personal tax, has been the key area of improvement for Indonesia's revenue policy

   From expenditure side, the issue that was often raised relates to subsidy policy, specifically energy subsidy. In this regards, the government subsidy policy will designed to protect purchasing power of the poor and support economic activity.

   e. Reforms to strengthen the fiscal framework

   In order to deliver fiscal headroom, efficient expenditure policy measure is needed. Importantly, more fiscal space will provide us with the capacity to improve overall welfare.

3. Medium-term projections, and change since last submission *(required for all members)*:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt	24.0%	26.1%	24.6%	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Net Debt	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change							
Deficit	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change							
Primary Balance	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change							
CAPB	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

4. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth							
ppt change							
Nominal GDP growth							
ppt change							
ST interest rate							
ppt change							
LT interest rate							
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

ANNEX 2: New POLICY COMMITMENTS

[Policy Commitment Table]

• The New policy action:	Please describe the new policy being agreed to
Implementation path and expected date of implementation	Please describe when and how the policy will be implemented.
What indicator(s) will be used to measure progress?	Please indicate how the membership can check implementation.
Explanation of additionality (where relevant)	If the commitment relates to policies for which past commitments (up to the Saint Petersburg Summit) have covered, clearly explain how the new commitment differs from, strengthens or accelerates the past commitment.

Investment and Infrastructure

Establishment of Infrastructure Prioritizing Body	
The Indonesian Government is in the process of establishing a new infrastructure prioritizing body (the KP2IP). The body will assess and prioritise project proposals, and allocate them for implementation to line agencies, state owned enterprises or the PPP centre in the Ministry of Finance. It will also provide guidance on how each project can be appropriately financed. A key element of the new body is to ensure that its deliberations and decisions are transparent, which improves the business environment and encourages good decision making. It is also designed to improve coordination among infrastructure related governmental bodies. Improved coordination among infrastructure related governmental bodies should lead to an increase in the infrastructure project investment pipeline – which should be welcomed by private sector investors. Investors will also benefit from increased clarity and certainty about the nature of government supported projects. An increase in the number 'bankable' infrastructure projects will boost investment which should boost economic growth and employment. It will also make investors more confident in the Indonesian market and should encourage further financial market development to meet the financing needs of these projects.	
Implementation path and expected date of implementation	The infrastructure prioritizing body will be formally established in Q2-2014 and will release an infrastructure priority project list in Q4-2014.
What indicator(s) will be used to measure progress?	• Establishment of infrastructure prioritizing body • Publishing a list of priority projects

Explanation of additionality (where relevant)	The infrastructure prioritizing body complements the recent decision by the Government to establish a PPP centre in the Ministry of Finance which will focus on developing bankable infrastructure projects.

Establishment of PPP Center

The PPP centre in the Ministry of Finance will focus on developing a pipeline of bankable infrastructure projects that can be supported by the Indonesian Government. Its particular focus on economic infrastructure will improve the operation of infrastructure markets in Indonesia and create opportunities for private investors to increase their involvement in the sector. Through the creation of an infrastructure pipeline, more opportunities will be created to develop related long term financing vehicles and products, which can facilitate the further development of financial sector.

The decision by the Indonesian Government to establish the PPP centre in the Ministry of Finance was made with a view to generating a pipeline of bankable infrastructure projects which will:

1. Improve the operation of infrastructure markets
2. Take pressure off the budget by leveraging private sector investment in infrastructure; and
3. Support economic activity by expanding investment in critical sectors, which can also underpin growth and employment.

Using government funds to – in effect – seed projects rather than fully fund them, will create room for the government to increase its support of critical areas of expenditure such as health, education and other direct measures to address poverty – which can also underpin growth and employment.

Implementation path and expected date of implementation	*2014-2015*
What indicator(s) will be used to measure progress?	• *Establishment of the PPP center* • *Publishing a PPP projects list*
Explanation of additionality (where relevant)	*In developing the PPP centre, the Indonesian Government has asked Ministry of Finance officials to work closely with an APEC PPP Experts Advisory Panel.*

Regional Investment Relation Unit	
Regional Investment Relation Unit (RIRU) is tripartite cooperation between Bank Indonesia, Provincial/Regional Government, and the Chamber of Commerce to promote investment activity, trade, and financing in order to enhance regional competitiveness and to accelerate regional development. The RIRU is essentially a coordination function across institution to promote sound investment climate, as well as to advocate government policy and services that is line with international best practice. This program is expected to be launched at the end of 2014.	
Implementation path and expected date of implementation	Some work programs to be implemented in 2015 includes discussion forum with potential investors, Focus Group Discussion, Round Table Discussions, and coordination meetings among related institution.
What indicator(s) will be used to measure progress?	Establishment of Regional Investment Relation Unit in Indonesia
Explanation of additionality (where relevant)	n.a.

The Improvement of Business Environment and Investment Climate

Increasing evidence supports the fundamental role that an improved investment climate has in encouraging growth and alleviating poverty. With macroeconomic and political stability earned through reform efforts, investor confidence in Indonesia has picked up in recent years.

Coordinated action to improve the investment climate is aimed at improving ease of doing business in Indonesia. One important initiation of this action is establishment of the One-Stop Services (OSS) which organize the complete Licensing and Non-licensing procedure of investment in single office that has the authority from related technical institutions or ministries to issue the Licensing and Non-Licensing document on particular sectors. This has been governed by the Regulation of the Chairman of the Investment Coordinating Board No 7 of 2013 Regarding Implementation of One Stop Service for Investment.

The Indonesian Foreign Investment Review Board recently announced the intention to reduce the time involved for foreign entities to establish a business in Indonesia by providing for applications for business and investment licences to be made online.

A sound and stable policy environment without onerous regulation will make Indonesia a more attractive investment destination. Higher investor confidence in Indonesia will see more investors viewing Indonesia as an attractive opportunity. Greater investment will in turn improve the efficiency of production in the economy while generating more employment and stimulating economic growth.

Implementation path and expected date of implementation	*To be determined by GoI*
What indicator(s) will be used to measure progress?	• *Policy Certainty* • *Macroeconomic stability* • *Tax rate* • *Corruption level* • *Access to finance* • *Crime* • *Regulations and tax administration* • *Improved courts and legal system* • *Labor regulation* • *Level of FDI*
Explanation of additionality (where relevant)	*n.a*

Increasing Domestic Saving by "My Savings" ("TabunganKu") Program

As found in many developing economies, Indonesian population is just about half of its population that has such access to financial services. This situation is only marginally than China, Pakistan, and Philippine, but it is worse than countries such as Thailand, Malaysia and Sri Lanka (close to 60% of population)[2]. To provide access to financing for greater share of population that is important for reducing income inequality as well as enabling more rapid economic growth, Bank Indonesia launched TabunganKu (My Savings) program. This program is also aimed at improving the culture of saving and financial planning, in particular in middle to low income society. TabunganKu is a savings scheme with more affordable requirements, -no charge for administrative costs, low minimum deposit, low minimum required balance. The administrative cost has been concern in particular for low income society as the cost is relatively high for them and will only dilute their saving account balance when they can not afford the required minimum balance.

It is expected that the TabunganKu will encourage saving habit and financial planning. In the long run, this will encourage domestic financing sources for investment.

Implementation path and expected date of implementation	Bank Indonesia has started TabunganKu program since 2012 and will continue to improve the program by establishing some working group on financial education in regional area to accelerate the program until 2015.
What indicator(s) will be used to measure progress?	- Increasing number of savings account - Numbers of working group on financial education in regional area http://www.bi.go.id/en/statistik/seki/terkini/moneter/Contents/Default.asp

2 According World Bank Survey in 2008.

Explanation of additionality (where relevant)	n.a.

Energy Efficiency and Sustainability

Indonesia has initiative to issue Standards and Labels of Energy Efficiency on 7 (seven) products of electronic appliances and has been implemented the Public Awareness Campaign in many kind of socialization activities in order to increase awareness of energy efficiency and change behaviour and culture become energy efficient.

The signing of the cooperation between the Ministry of Energy and Mineral Resources and the Ministry of Forestry in implementing Bioenergy Development Program Based on Energy Forests.

The government has committed to slowly reduce the subsidy over the next few years and reallocate the funds to more productive spending such as infrastructure. The cut fuel subsidy program is a part of comprehensive structural reform that will free up some fiscal space and create a stronger as well as sustainable growth. Accelerating the use of Biodiesel by 20% on motor vehicles in 2016.

Government is also supporting the development of new and renewable energy through the conversion of biofuels and gas with some programs such as development of biomass power plan which utilize corn barges as the main energy source and simplify the licensing procedure on electricity of water supply.

It is expected to:

1. Contribute 36% energy saving of the total energy use of electronic appliances in the household, business/commercial, and industrial sectors.
2. Provide more fiscal policy space and more budget allocation to the other more sectors that have significant public interest.
3. Encourages planning efforts and funding development of forest-based bioenergy energy.
4. Have more infrastructure development will attract more investments which lead to more employment and productivity.

Implementation path and expected date of implementation	2014-2019
What indicator(s) will be used to measure progress?	• Cutting the state budget for fuel subsidies • Re-alocate the funds to finance the infrastructure development and social welfare improvemnet programs

Explanation of additional (where relevant)	n.a

Employment

Competition

Trade

Any other structural policy

Under each of these six categories, we would expect G20 members to provide several major policy commitments with each policy commitment table being no longer than 1 page.

Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

ITALY

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

The government's key economic objectives are: (1) buttressing the recovery that has begun but remains fragile and jobless; and (2) raising Italy's potential growth rate which was modest pre-crisis and was further hit by the financial crisis, while (3) continuing to comply with European budgetary framework and maintain Italy's long-run fiscal sustainability.

As a member of the Euro Area and the European Union, Italy's monetary, fiscal and macro prudential policies are in line with those implied by the Area's policy framework and embedded in the EU system of budgetary rules as well as in the mandate and operating procedures of the European Central Bank. These policies are all geared to long-run stable growth, with Euro Area monetary policy still providing considerable stimulus to growth by virtue of historically low interest rates and direct liquidity injections through the ECB's programs.

In the case of fiscal policy, through the 2015 Stability Law, the government has put particular weight on measures to make consolidation growth- and employment-friendly, mainly via a sizeable cut of the tax burden on labor to boost business competitiveness and raise disposable income. Stronger growth is not only key for a successful fiscal adjustment that needs to be sustained over time, but it is also a necessary precondition to reap the full benefits of supply side policies. However, while this fiscal strategy is consistent with the European budgetary rules, the room of maneuver to stimulate aggregate demand through fiscal means under those rules is small. Against this background, the main discretionary tool to achieve the government's objectives is a rich and ambitious program of structural reforms designed in the context of a multi-year strategy pursuing clear and monitorable reform targets. The key reform measures, listed below, aim on one hand at enhancing economic and political stability, and on the other hand at improving the economic climate by facilitating business activities and employment opportunities through a reduction of the private sector's administrative and tax burden. In addition to these objectives, and by virtue of the fact that it is holding the presidency of the European Union since July 1 of this year for a semester, Italy is working with the European partners and institutions to put growth at the center of the European agenda.

The government reforms, combined with a growth- and employment-friendly fiscal consolidation, are expected to have important consequences for the dynamics of short and medium-term economic activity. In Italy, GDP has slowed significantly in the aftermath of the global financial crisis and has struggled to gain momentum during the recovery, contributing – together with other countries – to generate a phenomenon of multi-speed recovery in Europe. The reform agenda and the reforms already approved by Parliament but pending implementation are expected to steer the economy durably into a higher growth equilibrium by removing economic bottlenecks, fostering incentives to work and produce as well as by raising businesses and household expectations with respect not just to the current recovery but to Italy's economic potential more generally.

According to government estimates – upon full implementation – the reforms already undertaken between 2012 and 2014 will add to Italy's GDP 0.4 percentage points in 2015, 3.4 percentage points by 2020 and 8.1 percentage points in the longer run (see Table 1). These estimates are comparable to calculations by the IMF on the impact on Italian GDP of labor and product market reforms 5-10 years out. Stronger and more stable growth in Italy will in turn contribute to stronger, more sustainable and balanced growth in Europe and in the rest of the G20.

Key Commitments

The Italian government has launched a new policy agenda both domestically and at the European level, by virtue of its role of President of the European Council for the current semester. Italy's proposed agenda is based on three, mutually reinforcing pillars that include: (i) the review of the EU2020 strategy for growth and employment in order to refocus policy objectives and instruments on the true drivers of growth and on the investment and structural reforms that best serve this purpose; (ii) an array of direct initiatives aimed at financing growth to boost investment, thus complementing and reinforcing the impact of reforms; (iii) work on incentives to keep the reform momentum, notably to find ways to better align the costs and benefits of structural reforms in an environment of generalized tight budget constraints.

At the national level, these pillars have been translated into a vast and synergic set of concrete reform proposals. While these are all important, and have been designed to reinforce each other over time, it is possible to identify a subset of key commitments at the core of the government's national strategy that are expected to generate the most sizeable growth impact domestically and abroad. These have been planned specifically to address Italy's policy gaps and challenges, both near- and medium-term and include:

1. **Changes to the tax code to make it more transparent and growth-friendly**. Policy actions in this area aim at reducing the tax gap between Italian and foreign firms to enhance their competitiveness;

2. **The reform of the public administration and of the justice system**, through measures aimed at simplifying procedures, increasing efficiency and reducing costs. Restructuring the administrative apparatus, strengthening the conditions of legality – including through the promotion of a swift and affordable justice system – ensuring greater efficiency and transparency, without losing sight of the quality of services offered to citizens and businesses, are all preconditions for the proper functioning of the economic system and the resumption of investment, both by domestic and foreign companies;

3. **Measures to reduce labor costs and make the labor market more efficient.** The government is committed to increase labor market flexibility and security, as well as raising labor participation to bolster labor supply over the medium term. A number of specific commitments have been formulated in this direction aimed at making hiring and firing cheaper to reduce overall unit labor costs that remain elevated relative to international peers. Measures to strengthen women and youth participation shall boost Italy's long-run potential and reduce inequality. A reform of unemployment benefits will also enhance the efficiency of public spending;

4. **A better business environment.** The government is planning a thorough simplification of the relationship between businesses and the public administration. In addition to the reform of the civil, criminal and administrative justice systems already mentioned in item 1. above, key areas of the

reform include changes to the system of business authorizations and fostering the provision of alternative forms of financing to businesses, particularly for SMEs. These measures have the potential to lift durably capital accumulation at home, while stimulating FDIs;

5. **Measures to enhance the sustainability of public finances**. While, clearly, buttressing potential growth through the previously mentioned commitments is the best possible strategy to ensure long-run fiscal sustainability, the government is actively working to reshape discretionary and mandatory expenditure so as to free and/or redirect economic resources toward most productive uses. A more parsimonious and better targeted public expenditure allows private investment to be crowded in and exert a stimulative effect on domestic demand, strengthening overall economic growth. Here, the government's action includes primarily the introduction of a permanent spending review process involving a significant improvement in the allocation of public spending.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013***	2014	2015	2016	2017	2018
Real GDP (percent yoy)	-1.9	-0.3	0.6	1.0	1.3	1.4
Nominal GDP (percent yoy)	-0.6	0.5	1.2	2.6	3.1	3.3
Output Gap (percent of GDP)*	-4.3	-4.3	-3.5	-2.6	-1.4	-0.4
Inflation (percent, yoy)	1.2	0.4	0.5	1.8	2.0	1.9
Fiscal Balance (percent of GDP)**	-0.7	-0.9	-0.6	-0.4	0.0	0.0
Unemployment (percent)	12.2	12.6	12.5	12.1	11.6	11.2
Savings (percent of GDP)	18.7	19.1	19.3	19.5	19.8	20.0
Investment (percent of GDP)	17.8	17.4	17.6	17.8	17.9	18.0
Current Account Balance (percent of GDP)	1.0	1.1	0.9	0.9	0.9	1.1

- *A positive (negative) gap indicates an economy above (below) its potential.
- **A positive (negative) balance indicates a fiscal surplus (deficit). The figures refer to the net structural fiscal balance under current policies.
- *** Calendar years.

Key Drivers

After nine consecutive quarters of economic contraction began in the second half of 2011, the Italian economy briefly returned to grow at the end of 2013, but seems to have now reentered a period of negative growth, albeit not severe. In 2013, GDP fell by 1.9 per cent as domestic demand continued to provide a negative contribution to growth reflecting the reduced access to credit by Italian companies and the weak labor market, which have depressed both consumption and investment. Real public consumption also fell as a result of discretionary fiscal policy aimed at curbing public spending. During 2013, however, investment in machinery and transport equipment has started to grow and capacity utilization increased. In particular, in the second half of the year there were signs of recovery in industrial activity, the drop in in industrial production was partly reversed, giving way to an expansion in the last quarter after ten straight quarters of contraction.

Over 2013, the contribution of net exports to GDP was positive but smaller than in 2012. Exports growth accelerated over the year supported by favorable global demand. In the second half of 2013 imports began to grow again as well after ten consecutive quarters of declines, albeit at a slower pace compared to exports. The trade surplus (+2.4 per cent of GDP) has brought the current account to a surplus (+1.0 per cent of GDP) after several years.

The outlook for the Italian economy is based on a gradual recovery of world trade and a strengthening of growth in advanced and emerging economies. Recent economic indicators foreshadow more weakness for the rest of 2014 followed in 2015 by a recovery of the expansionary phase of the cycle. Based on available information, in 2014 GDP is expected to fall moderately , with a yearly growth rate estimated at -0.3 percent. Growth is expected to recover and reach 0.6 percent in 2015 to then reach gradually a rate of around 1.2 percent on average over the period 2016-2018.

Growth will be broad-based, with private consumption closing most of the gap relative to trend; investment in machinery should increase significantly as a result of the favorable demand prospects, and the improved liquidity from the payment of debt arrears of the public administration already planned; and investment in construction will pick up slowly by the end of 2014, but strongly thereafter. Exports will be supported by the positive trend of global demand; the recovery of domestic demand will stop the contraction in imports, implying that the contribution of net foreign demand will be only marginally positive at the end of the forecast period. The current account will remain in surplus throughout the forecast period thanks to a strong trade surplus.

The recovery in employment will begin in 2015 and is expected to strengthen in 2016, although at a growth rate below GDP’s. The unemployment rate will begin to fall more rapidly only by 2018, when it is expected to fall to 11.2 percent. Productivity growth, combined with the continuation of wage moderation will support a slowdown in unit labor costs. The increase in consumer prices should remain modest throughout the forecast period.

Assessment of Obstacles and Challenges to Growth

Italy’s cyclical conditions in 2012 and 2013 triggered a sizeable negative output gap which should persist in 2014, despite the now evident signs of recovery. The table below presents the European Commission's Autumn Forecast estimates of the output gap, published in November 2014. The output gap for 2014 is estimated at around -4.5 per cent, and is thus well below the level considered representative, i.e. the value that should prevail during a recession of a 'normal economic cycle', based on the methodology agreed at a European level.

ITALY'S OUTPUT GAP

2013	2014	2015	Average	Minimum	Maximum	Standard Deviation	Representative Output Gap (1)
-4.2	-4.5	-3.4	0.1	-4.4	3.3	2.0	-2.7

(1) Computed on the basis of the methodology agreed at a European level and described in *Public Finance in EMU 2013, European Economy No. 4/2013, Table II.3.1, Section 3.1.* The distribution statistics are calculated on Italy's data by considering the time interval from 1965 to 2018.

Source: European Commission, 2014 Autumn Forecast.

Apart from conjunctural gaps, Italy faces a series of other key challenges to growth clustered in the areas of investment, employment and competition. More specifically:

Investment. In order for Italy to return to grow there is an urgent need to raise total investment. During the crisis' years investment spending collapsed. The government's strategy to relaunch investment is based on four pillars: a) a better business environment, with a broad range of structural reforms; b) actions to facilitate financing to businesses, including by launching a new "Finance for Growth" initiative; c) measures to unlock the development of major public works through bureaucratic simplification, including digitalization; d) more and better infrastructure, also thanks to the launch of a framework for public-private partnerships (PPPs).

In particular, as far as public investment is concerned, both tangible and intangible (and a higher quality and effectiveness of expenditure) investment, higher productivity, more research and development and more innovation are needed. Consistent with European budgetary rules, it is thus necessary to open new areas of action for the local authorities by reforming the functioning of the Internal Stability Pact, making an intelligent and effective use of European structural funds, increase resources for infrastructure, continuing the interventions already decided in connection with EXPO 2015 and kick-starting small and medium-sized projects, with particular attention to the southern regions.

Both in 2013 and 2014, the use of European Structural Funds for the previous programming cycle has improved. Over the next seven years, the European Union and Italy will provide new resources amounting to more than 100 billion (using both EU funds and national co-financing). These resources are critical to the country's development, particularly to Southern Italy. The next few months are therefore crucial to quickly complete the definition of priorities and allocate resources to programming through the European Partnership Agreement and the Operational Programmes. The spending of EU funds will help boost the country's competitiveness, particularly through more innovation and internationalization for SMEs, and to support employment and alleviate the challenges posed by low growth to social cohesion.

Employment. As a result of the crisis, the employment rate in Italy dropped from 58.7 percent to 55.6 percent between 2007 and 2013. Among young people (i.e. the 15-34 age group), however, it plummeted from 50.8 percent to 40.2 percent. Accordingly, the overall unemployment rate doubled from 6.1 percent to 12.2 percent in the same period, bringing the total number of people without a job from 1.5 million to 3.1 million. Among the young, the unemployment rate almost doubled nearing 40 percent in 2013 (from 21.3 percent by end 2007), raising beyond that on latest data. This dramatic situation needs to be reversed rapidly, fostering the creation of new jobs, giving to all a better chance of employment, and improving welfare support for people who have lost their job and are actively seeking work.

Competition. The Italian business sector is burdened with particularly high tax and energy costs, as well as hiring and firing costs. Italy also lags relative to international peers when it comes to the more general business environment, in large part due to complex and time-consuming interactions between the public administrators and the private sector. To eliminate these lags and gaps Italy must remove the sources of cost misalignments by reducing the tax wedge on labor, corporate taxes and also, crucially, the cost imposed onto businesses and individuals for complying with the many regulatory systems in place. Progress must be made toward restructuring the public administration, strengthening the conditions of legality, and ensuring efficiency and transparency, without losing sight of the quality of services offered to citizens and businesses. In this context, the review of public spending has become an opportunity not only to cut unnecessary spending but also to have an impact on the country's competitiveness and on its attractiveness to foreign investors.

Trade. While export is one of the main engines of the Italian economy, the number of Italian companies operating abroad is still modest. The potential of international propensity of companies offers room for growth, even more so at this stage where the world trade presents favorable opportunities for our businesses. The decision of companies to enter international markets suffers also from excessive constraints as regards cross-border activities. In accordance with the EU law and legal guidelines issued under the Union itself, will therefore be necessary to review the rules of taxation on cross-border transactions.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Italy has taken unprecedented fiscal measures to face the crisis. While the exit from the EU Excessive Deficit Procedure is one of the most visible accomplishments in this regard, the overall reform effort is bringing Italy back onto a stable growth path. Italy continues to run sound fiscal policies and has the second highest primary surplus in the EU.

Largely as a result of its frontloaded and ambitious fiscal consolidation, Italy's output gap has been sizeably negative during 2012 and 2013 and should remain so in 2014, despite recent signs of recovery. The magnitude and persistence of economic slack post-crisis constitutes an exceptional circumstance for two reasons. First, it generates a very real risk that the weakness of economic activity becomes a permanent phenomenon. Second it makes frontloaded contractionary fiscal policy less effective if not counterproductive.

In light of such considerations, the government considered inappropriate to move ahead in 2015 with a structural balance adjustment of 0.7 percentage points of GDP (as required under European regulations and national legislation), and has opted instead to deviate temporarily from the path toward achievement of the MTO planning a more limited adjustment equivalent to a structural deficit reduction of 0.3 percentage points of GDP in 2015. The option of deviation is available to Member States under Article 5 of the EU Regulation no. 1175/2011 (ratified by Italy with Article 6 of Law no. 243/2012) and as such, Member States can temporarily diverge from the path of achieving the MTO during periods of serious economic recession, provided that the sustainability of their public finances is not compromised. The government remains committed to achieving the MTO during the EFD planning horizon.

A smoother adjustment toward the MTO now planned to be met by 2017 should facilitate the return of the economy to its potential path, by reducing the pro-cyclical nature of the fiscal adjustment under the EU budgetary rules. Taken together with the government reform agenda, this slight easing in the pace of fiscal adjustment should generate sufficient momentum for Italy to resume growth.

New Structural Policy Responses

Italy's old and new macroeconomic policy responses have been complemented by a comprehensive and multiannual strategy in line with the specific recommendations made by the European Commission in June 2013 (and validated in its June 2014 assessment and endorsed by the Council of the European Union in July 2014) to restore Italy's competitiveness and ensure strong, sustainable and job-rich growth. More specifically, the main reform avenues contemplated by Italy over the period 2012-2013 aimed at ensuring deficit and debt reduction, strengthening public finances structurally, including through an intensification of the fight against tax evasion and tax avoidance, modernizing the institutional framework; and by fostering a business environment more conducive to strong growth and employment.

Along these lines, the current government's economic strategy centres on interventions that will affect competitiveness so as to impart a strong impetus to growth, while taking account of budgetary constraints and the objective of a balanced budget in structural terms. The consolidation of public finances is evidenced by the good performance of the primary surplus, which in 2014 will rate among the highest in the European Union.

As part of an organic program of economic reforms the main new measures with a strong short-term and medium-term impact are listed below and include actions to buttress investment, employment, competition and trade (specific examples of these measures are detailed in Annex II together with their individual motivation and chronogram of implementation).

Investment and Infrastructure

Reforms in the area of investment and infrastructure have the primary objective of reducing the costs and uncertainties of investing in Italy, while raising the associated returns. Key ones are:

- **A better business environment.** The government is implementing a thorough simplification of the relationship between businesses and the public administration. Key areas of the reform include the reform of the public administration, changes to the system of business authorizations and the reform of the justice system. These measures have the potential to lift durably capital accumulation at home, while stimulating FDIs;
- **Promoting financing to businesses.** The government's objective is to facilitate the flow of financing to companies, particularly the SMEs, by promoting the role of institutional investors, broadening the range and scope of the different forms of corporate finance and strengthening corporates' capital base ("Finance for Growth Initiative"). Key measures include the development of credit funds, the expansion of bond issuance by SMEs, the enhancement of the Allowance for Corporate Equity in business taxation, and the increase of public funds earmarked to back and leverage private financing initiatives;
- **Infrastructure and the private sector.** The government's objective is to involve the private sector in large infrastructure projects, by developing an efficient and modern regulatory framework for PPPs. Key measures also include resources for projects planning, identification and preparation and a more effective and transparent flow of information to the private sector, as well as bureaucratic simplification of the processes leading to capital accumulation;
- **Sustainable public finances.** The government's objective is to build on the significant consolidation effort made over the past years to ensure sustainable and growth-friendly public finances. This involves: 1) a thorough spending review, which has become an integral part of the budgetary process, so as to allow crowding in of private investment and create room for public investment, thereby stimulating domestic demand and strengthening overall economic growth; 2) full payment of public commercial arrears, accompanied by the introduction of a new system of regulation and monitoring as required by the EU regulations, with beneficial effects on economic uncertainty for firms and, in turn, their investment decisions; 3) a comprehensive reform agenda, in order to enhance the competitiveness of the Italian economy and its long-term growth prospects.

Employment

Italy's employment policy responses are centered onto two pillars: giving workers more opportunities and streamlining red tape for businesses in the area of labor market regulation. Government action thus focuses on measures aimed at immediately facilitating the hiring of employees and reducing the administrative burden on businesses; and a series of action plans, to be implemented in the forthcoming months, to reorganize and strengthen the welfare benefit schemes, improve active labor policies, streamline the process for concluding and managing employment relationships, review and simplify the array of existing employment contracts, as well as better integrate work and family life. To this end the government's immediate key policy actions (all of which have begun their parliamentary course to become laws) are:

1) **Streamlining fixed-term employment contracts**, simplifying the rules governing the settling of disputes between employees and employers. Fixed-term contracts are, today, the most widespread form of employment contract entered into when hiring new employees;

2) **Simplification of the apprenticeship contract** which has also been made more attractive for employers. This is the form of contract primarily targeted at young people (it provides for periods of on-the-job training, also in partnership with schools), but, as it stands before reforms, it is not used much in practice due to its limitations and complexity;

3) **Simplification of employment contracts and duties**. This includes, for example the streamlining of the procedure to obtain a certificate of compliance with social security obligations by employers (DURC).

Key additional actions to be deployed over coming months are:

a) **Universal coverage**. This reform aims at overhauling, rationalizing and/or extending the coverage of social welfare benefit schemes to all workers, in the case of both temporary layoffs and involuntary unemployment. Today the differences between the various types of workers and businesses are deep. The government aims to reduce the amount of contributions paid by all enterprises and increase them for enterprises requesting the payment of benefits under the welfare schemes;

b) **Actions to improve the effectiveness of active labor policies** by rationalizing the employment incentive schemes, and reinforcing the partnership between public services and private agencies. To better coordinate the active policy projects the government wishes to establish a National Employment Agency, jointly with the regional governments, also involving the social partners;

c) **Simpler employment relations.** The government intends to make it easier to set up and manage employment relationships, cutting the associated red tape by half and making online transactions the norm;

d) **Rationalization of the number and typology of job contracts.** The government shall review the range of employment contracts, in order to adapt the system more closely to the present economic and employment situation. The idea is to develop a concise basic text governing all different types of work (the excessive amount of rules being one of the weak points of Italian labor law);

e) **Achieving effective gender equality at work**. This is one of the priority objectives of the Italian government. A key aspect of this policy is to increase the employment rate among women. Therefore, the government shall improve and strengthen the measures aimed at better integrating work and family life, by extending maternity allowances to all working women and improving access and affordability of childcare;

f) **Youth Guarantee Scheme** (YGS). In June 2013 the Mission Structure was set up for developing and monitoring the national Youth Guarantee Scheme. The central and regional governments have agreed to a single national scheme with a financial endowment of 1.513 bn euros. The EU scheme targets young people aged between 15 and 25, but the Italian government decided to extend the upper age limit to 29 years. A second step under the YGS provides the introduction of incentives for employment/apprenticeship contracts, civilian service contracts, training, self-employment and self-entrepreneurship.

Competition & Trade

Italy's competition and trade policies responses are multi-faceted, but aim fundamentally at restoring Italy's competitive advantage in specific sectors, while alleviating the cost of doing business in all goods and service sectors. The pillars of the policy response strategy rest on five key sets of actions:

a) **Changes to the tax code to make it more growth-friendly and reduction in labor and energy costs**. Policy actions in this area aim at reducing the tax gap between Italian and foreign firms to enhance competitiveness, levelling energy costs for firms as well as making hiring and firing cheaper to reduce overall unit labor costs that remain elevated relative to international peers;

b) **Direct measures to increase competition and further liberalize markets**. These measures include a process to foster the opening up of sectors involved in the provision of public utilities to private competition (waste, urban transport, and water) as a function of a greater market opening and aggregation of the same in larger geographical areas;

c) **Measures aimed at energizing the opening up and internationalization of Italian companies**. These policies have the intent to raise the share of firms involved in international trade, particularly those producing niche brands;

d) **Simplification**. Measures to simplify the regulatory framework, to reduce the burden of red tape will be deployed to facilitate the growth of the productive system and make it possible for smaller firms to access markets where large economies of scale have traditionally been a prerequisite to deal with regulatory requirements. These measures will also encourage the entry into the Italian market of foreign firms eliminating many of the disincentives of doing business in Italy related to red tape, regulatory lags and uncertainty more generally;

e) **Privatizations and dismissal of state-owned real estate**. These measures will, as a by-product, lead to a reduction of the country's stock of public debt, bring fresh private capital into state-companies, leading to greater efficiency and competitiveness in the productive system, and promote the development of the capital market, thereby strengthening equity markets and accelerating the internationalization of enterprises. Dismissal of state owned real estate will contribute to lowering costs to public administrations and to reducing public debt.

Table 1 below quantifies the economic impact of policy measures of previous governments (over the period 2012-2013) as well as new measures contained in the 2014 Budget. Estimates generated using a suite of macro and micro-econometric general equilibrium models (including QUEST III, IGEM, ITAC-SIM and ITEM), for example, show that – upon full implementation – the reforms undertaken by Italy in 2012 and 2013 *alone* will add to Italy's GDP some 0.8 percentage points in 2015, 2.7 percentage points in 2020 and 7.1 percentage points in the longer run (table 1).

The batch of additional reforms announced by the new government are expected to double these estimates (table 2). These estimates are on the lower side of calculations of the impact on Italian GDP of labor market and product market reforms 5-10 years out by the IMF. Stronger and more stable growth in Italy will in turn contribute stronger, more sustainable and balanced growth in Europe and in the G20.

The international spillovers of policies listed in Table 1 are hard to quantify given the constant evolution of trade shares and elasticities in the lengthy period of time over which the reforms will have an economic impact domestically. Based on the 2011 IMF Spillover Report for the EA estimates it can be inferred that if the EA was collectively to enact reforms as ambitious as Italy's (thereby raising the entire EA's GDP by 8 percent over the medium term; Italy's GDP is around 17 percent of the EA's GDP) real growth in the United States, Japan and Asia would increase by approximately 0.8, 1.5 and 3 percentage points, respectively, over that horizon. By themselves, Italy's reforms have the potential to raise the EA's GDP by over 1 percentage point in the long run, with positive ripple effects onto other G20 regions, and important benefits to Italy's largest trading partners within the EA.

Table 1: Macroeconomic effects of Italy's 2012-2014 Reforms (GDP deviations in percent from baseline)

	2015	2020	Long Run
Administrative Reforms	0.1	1.0	2.3
Competitiveness Reforms	0.1	1.1	3.2
Labor Market Reform	0.1	0.9	1.6
Reform of the Justice System	0.1	0.4	1.0
Total	**0.4**	**3.4**	**8.1**

Source: MEF analysis with ITEM, QUEST III-Italia (European Commission) and IGEM models.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

g) 1. Update on Fiscal Strategy

Italy's fiscal strategy for achieving a sustainable debt-to-GDP has not changed since the last submission. It continues to be governed by EU budgetary rules as contained in the Stability and Growth Pact.

With regard to projections for the debt-to-GDP ratio, changes have occurred however since the last submission. For the year 2013, the debt/GDP ratio reached 127.9 per cent, 1.2 percentage points below what expected in the Update to the 2013 Budget. The increase by 5.7 percentage points between 2012 and 2013 is due, as already explained in the Update, to high level of the *snowball* effect, in turn affected by the difference between the cost of servicing the debt and nominal income growth, as well as of the stock-flow adjustment. This grew during 2013 as a result of the need to repay part of the debt arrears accumulated by the (primary local) public administration because of the procyclical way in which the internal Stability and Growth Pact works during recessionary phases.

For 2014 the debt-to-GDP ratio is expected to grow further reaching 131.6 per cent, about 1.1 percentage points lower than what originally indicated in the previous submission (and the Update to the 2013 Budget). This decrease is explained by a recalculation of Italian GDP which more than makes up the more modest increase in nominal income than what previously anticipated but also to the expectation of a slightly higher debt stock. In turn this reflects the repayment of debt arrears, that was however in part compensated by favorable valuation effects on the debt as well as higher estimates of proceedings of privatizations .

2. Medium-term Fiscal Strategies

h) Not updated apart from a shift of the target date of a structural balance which is now scheduled for 2015 instead of 2014.

i)
j)
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3. Medium-term projections and changes since last submission[1]

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Gross Debt	122.2	127.9	131.6	133.1	131.6	128.4	124.3
ppt change	*0*	*-1.2*	*+4.4*	*+6.1*	*+6.9*	*+7.6*	-
Net Debt*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ppt change	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	-
Deficit	-3.0	-2.8	-3.0	-2.6	-1.8	-0.8	-0.2
ppt change	*0*	*+0.1*	*-1.4*	*0.0*	*-0.9*	*-0.6*	-
Primary Balance	2.5	2.0	1.7	1.9	2.7	3.4	3.9
ppt change	*0*	*-0.4*	*-2.1*	*-2.4*	*-2.4*	*-2.7*	-
CAPB	3.7	4.2	4.1	3.8	4.1	4.2	4.1
ppt change	*-0.8*	*-1.0*	*-1.8*	*-1.9*	*-2.0*	*-1.9*	-

- (*) Data on net debt are available only for 2012 and remain very preliminary. While in fact intangible assets and public assets managed by the private sector are more easily evaluated, a comprehensive evaluation of Italy's tangible assets is complex due to the richness of Italy's archaeological and historical heritage on which work has begun but it is not readily available.

v)

4. Economic assumptions and changes since last submission

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Real GDP growth	-2.4	-1.9	-0.3	0.6	1.0	1.3	1.4
ppt change	-	*-0.6*	*-1.6*	*-0.9*	*-0.3*	*-0.1*	-
Nom. GDP growth	-0.8	-0.6	0.5	1.2	2.6	3.1	3.3
ppt change	-	*-1.1*	*-2.7*	*-2.1*	*-0.6*	*-0.1*	-
ST interest rate	0.8	0,2	0,2	0,4	0,6	0,8	1,2
ppt change	-	*-1,0*	*-2,5*	*-3,3*	*-3,8*	*-4,1*	-

[1] Change shown is relative to Budget 2013 which was the base for the past submission.

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
LT interest rate	5.7	4,4	3,0	2,7	3,7	4,7	5,7
ppt change	-	*-0,4*	*-2,3*	*-3,0*	*-2,3*	*-1,5*	-

-

ANNEX 2: NEW POLICY COMMITMENTS

1. Investment and Infrastructure
2. Employment
3. Trade and Competition

1.1. Investment and Infrastructure

The New policy action:	Attraction of Foreign Investment
Implementation path and expected date of implementation	*Measure*: Simplifying and improving governance to strengthen attraction of FDI. Reducing the administrative burden through the creation of a single access point to facilitate entry of foreign investors. Facilitating the dialogue with the public administration in the preparation of investment solutions. Guaranteeing the legality of investment-related regulatory practices at all stages of the investment process and the stability of contracts. A fast-paced justice system that is accessible and produces high-quality and reasonably foreseeable outcomes is a prerequisite for attracting FDIs. *Rationale*: To reduce the administrative burden to attract foreign investment. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	This new commitment accelerates and improves on a past commitment in this area associated with the launch of Italy's Expo 2015. The government's objective is to reorganise this line of activity, also by establishing a dedicated unit in cooperation with the network of embassies and consulates.

1.2. Investment and Infrastructure

The New policy action:	**Reform of the Public Administration**
Implementation path and expected date of implementation	*Measure*: Progressive lowering of the mean working age of civil servants, through a generational exchange that allows to acquire new skills, raising the professionalism and reducing spending. Launch of a new system for public management that also allows a virtuous osmosis with the private sector. Launch of a national plan for workers' mobility to secure a more rational distribution of human resources in the various administrations. Containment of salaries and introduction of bonuses linked to obtained results, based on reliable assessment systems. Adoption of effective measures to enhance integrity in the public administration by strengthening the prevention of corruption and the powers of the Anti-Corruption Authority. *Rationale*: Enhancement and upgrading of skills. Efficient reorganization of office work. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Changes in public sector productivity and public expenditure for the provision of public services. Surveys of citizens' satisfaction.
Explanation of additionality (where relevant)	The government's objective is to build on the positive results already achieved in terms of efficiency as a consequence of the past reforms. The new measures that the government intends to implement are aimed at completing the reform process, so as to definitively address key bottlenecks to secure enhancements in public sector productivity and affordability of services.

1.3. Investment and Infrastructure

The New policy action:	Reform of the Justice System
Implementation path and expected date of implementation	*Measure*: Reviewing the administrative justice system to simplify the implementation of the decisions taken by the central and local public administration. Simplifying the public procurement process, and increasing its transparency, to reduce appeals to the administrative courts. Improving the efficiency of the civil justice system, including by strengthening the mechanism of alternative dispute resolution (other than mandatory mediation). Extending the implementation of Electronic Civil Trial (ECT) to all judicial offices, digitalizing all procedural phases of the civil justice trial, and introducing information technologies also in the field of criminal law. *Rationale*: To ensure a swift and affordable justice system as a precondition for the proper functioning of the economic system and the resumption of productive investment, both by domestic and foreign companies. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	The government's objective is to build on the positive results already achieved in terms of efficiency as a consequence of the past reforms. The new measures that the government intends to implement are aimed at completing the reform process, so as to definitively address a key bottleneck to investment.

1.4. Investment and Infrastructure

The New policy action:	Boosting Investment and Promoting Financing to Businesses
Implementation path and expected date of implementation	*Measure*: Incentives to business investment, particularly in R&D and innovation, also by strengthening the tax credits for R&D expenditure and for hiring highly qualified researchers. Measures to facilitate the renewal of production equipment. Additional transfers to the Central Guarantee Fund for lending to small and medium-sized enterprises (SMEs) (equal to 670 million euro in 2014 and over 2 billion euro in the next three years) and a full implementation of the measures already approved to facilitate the access of SMEs to this instrument. *Rationale*: To boost investment, particularly in innovation, and promote financing to businesses. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Lending to firms (stocks and flows).
Explanation of additionality (where relevant)	These new measures will broaden the number of long-term professional investors operating in private debt markets and increase the resources channelled into it and are thus expected to exert a strongly positive impact on private investment and domestic demand more generally.

1.5. Investment and Infrastructure

The New policy action:	A New Finance for Growth Initiative
Implementation path and expected date of implementation	*Measure*: Promotion of the role of institutional investors in the financing of the corporate sector, also through the development of credit funds and the expansion of bond issuance by SMEs (*minibond*). Enhancement and refinancing of the Allowance for Corporate Equity (ACE) in business taxation, in order to reduce the bias for debt financing and strengthen corporations' capital base. Refinancing of the fund dedicated to the Enterprises' Network (200 million euro), increase in the limit of earmarkable profits and simplification of companies' financial statements. Incentives to invest in units or shares of listed SMEs or SMEs about to be listed and/or in investment vehicles specialized in listed SMEs. Other measures include simplification and are aimed at revitalizing the stock market and encourage Italian companies to be listed. Support for *seed* and *venture capital* and for start-ups. *Rationale*: To broaden the range and scope of the different forms of corporate finance, and strengthen corporates' capital base of businesses. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Stock and flow data on the financing of businesses, particularly SMEs. Net inflows into savings instruments, with a breakdown by main investment objective (e.g. money, bond, equity).
Explanation of additionality (where relevant)	This new initiative aims at developing non-bank financing, thereby addressing a key weakness of the corporate sector.

1.6. Investment and Infrastructure

The New policy action:	Faster Payment of Commercial Debts by the Public Administration
Implementation path and expected date of implementation	*Measure*: electronic invoicing; creditors and the public administrations will use the electronic platform on notifications to report data on invoices, so as to allow the monitoring of public sector commercial liabilities. Introduction of sanctions for lack of compliance with payment deadlines and terms. Provision of a state guarantee on debts related to current expenditure in order to facilitate the transfer of receivables. Provision of cash advances to local authorities. *Rationale*: To ensure a full implementation of the European Directive on payments by the public administration. To facilitate the transfer of receivables to the banking system. Appropriation of 13 billion euro to accelerate the payment of arrears, on top of 47 billion already appropriated for 2013/2014. *Implementation date*: this set of measures is under implementation .
What indicator(s) will be used to measure progress?	Timing of payment by the public administration (change in); cumulative commercial debt in arrears of the public administration (change in stock). Number of electronic invoices submitted through the dedicated system (*Sistema di Interscambio dell'Agenzia delle Entrate*).
Explanation of additionality (where relevant)	These new measures accelerate and improve on a past commitment in this area, by providing additional resources and instruments and improving the regulatory framework.

1.7. Investment and Infrastructure

The New policy action:	Involving the Private Sector in Large Infrastructure Projects
Implementation path and expected date of implementation	*Measure*: The reform aims to achieve the: i) development of a specific regulatory framework for Private-Public Partnerships (PPPs); ii) appropriation of resources to finance feasibility studies and definition of their requirements and key content; iii) definition of a single standard on tenders, procedures and contracts the basis of the international standards; iv) fostering the participation of foreign investors in on-going PPP projects; v) establishment of a national fund for PPPs' planning (equity fund for greenfield projects); vi) ensuring certainty of rules and time schedules in PPPs. *Rationale*: To involve the private sector in large infrastructure projects by developing an efficient and modern framework for PPPs. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Investment flows (changes in) including FDIs.
Explanation of additionality (where relevant)	These new measures aimed at filling the gap with the international best practices will allow to attract private investors and accelerate the implementation in Italy of the Italian portion of Europe's major network infrastructure programmes that have been underway in Italy for the past few years.

1.8. Investment and Infrastructure

The New policy action:	Improving the Effectiveness of Investment Spending
Implementation path and expected date of implementation	*Measure*: Completing the spending programs co-financed by the Structural Funds for 2007-2013. Adopting the Partnership Agreement for 2014-2020, to ensure the early start of the implementation phase. Implementing the National Strategy for the inland areas. Making the National Agency for Territorial Cohesion fully operational to better monitor the use of funds and assist the relevant administrations in implementing their programs. Improving the planning capacity of public administrations. Facilitating investment in small and medium-sized projects to promote the involvement of SMEs in municipal infrastructure financing. *Rationale*: To improve the effectiveness of investment spending. *Implementation date*: 2014-2017.
What indicator(s) will be used to measure progress?	Change in the use of the European Structural Funds.
Explanation of additionality (where relevant)	These measures are new aim primarily at ensuring a better management of EU funds, which are a key component of investment spending. Once implemented, they will have a remarkable impact on demand, growth and job creation. They support and complement other measures already adopted pre St. Petersburg, such as the creation of the National Agency for Territorial Cohesion.

1.9. Investment and Infrastructure

The New policy action:	Accelerating the completion of existing projects and the realization of new emergency projects
Implementation path and expected date of implementation	*Measure*: These measures aim to accelerate and simplify the realization of strategic investment and investment related to emergency needs that have been delayed or postponed due to bureaucratic hurdles. The measures also encourage the development of road and telecommunications networks and aim to improve the functionality of airports and ports. By the same token they are intended to foster progress in infrastructure projects meant to mitigate hydrogeological risks, protect ecosystems, adapt water infrastructure, and provide fast and simplified tools to overcome exceptional circumstances that may have come into being in relation to activities from waste management. The measures also deal with infrastructure necessary to ensure energy supply and promote the development of domestic energy resources. Finally, the measures provide further simplification to existing bureaucratic procedures so as to give new impetus to the construction and real estate sectors and to production in depressed areas. *Rationale*: To address emergency needs in infrastructure. *Implementation date*: a decree-law (so called "Unlock Italy") has been approved by the Government. Following its conversion into law by the Parliament, its provisions will be implemented during 2014-2017.
What indicator(s) will be used to measure progress?	Pace of capital accumulation (public).
Explanation of additionality (where relevant)	These measures are new. They focus on key investment projects that urgently need to be put in place or need to be completed but are being been delayed by bureaucratic obstacles.

2.1. Employment

The New policy action:	A New Time-Contract and Apprenticeship Contract
Implementation path and expected date of implementation	*Measure*: For fixed-term contracts lasting up to 3 years (instead of 1 year before the reform), employers will no longer be required to specify the reason of the termination of the contract. For businesses employing more than a certain number of employees, the maximum share of the total workforce that can be subject to this contract is 20 per cent; for businesses employing less than a certain number of employees there will be no limit to the use of this contract typology. It is also left to collective bargaining the ability to modify the quantitative limit of 20 per cent and the possibility of deviating from the 20 per cent threshold for reasons connected with replacement and seasonality. It is also extended from one to eight times the possibility to extend the duration of the contract period within the limit of 36 months. With respect to the apprenticeship contract, the obligation to specify a training plan for the apprentice will be eliminated. Apprenticeship will no longer imply a ratification of the job on more durable terms. Pay will also reflect hours spent in training. *Rationale*: To reduce labor market rigidities, and encourage the employment of young people. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	Part of these new measures were aimed at addressing some problem issues of the 2012 labour reform, in particular clarify the nature of contracts or simplify previous regulations. This is the case of the new apprenticeship contract, that before the reform involved burdensome procedures. From now on the trainee's compensation for the part related to the hours spent in training will be equal to 35 percent of the level of compensation envisaged in the national labour agreement.

2.2. Employment

The New policy action:	Reorganization of the Labor Contracts
Implementation path and expected date of implementation	*Measure*: The draft law on contractual forms aims at: a) identifying and analysing all existing forms of contract to assess the actual consistency with the national and international context, so as to better identify areas for reform; b) drafting a code of all labor contracts; c) exploring, in consultation with the social partners, the possibility of introducing the minimum wage; d) the provision, for newly-employed workers, of a contract entailing growing protections proportionally to the duration of the job itself. *Rationale*: To create job opportunities, particularly for the young, and to revise the institutional design of Italian contracts. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The change in the labor contract and the introduction of a code of all contracts are new and will ensure that national and international labor frameworks are broadly consistent. Monitoring of firm-level contracts through mandatory registration with the local employment offices is aimed at strengthening transparency in the labor market.

2.3. Employment

The New policy action:	Labor Services and Active Labor Market Policies
Implementation path and expected date of implementation	*Measure*: The draft law on employment services and active policies aims at: a) rationalizing the existing recruitment incentives for self-employment and self-employment; b) establishing a National Labor Agency for the integrated management of active and passive labor policies; c) streamlining the institutions and structures that operate in the fields of social safety nets, active policies and employment services, in order to increase efficiency; d) strengthening and enhancing public-private partnerships; e) ensuring a proper division of labor between the national level, in charge of defining the basic level of assistance, and the local authorities, in charge of planning active labor market policies; f) encouraging the active involvement of job seekers; g) improving the IT system for managing and monitoring purposes. *Rationale*: To ensure the uniform provision of basic services throughout the country and a coordinated administrative action. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The interventions planned in the management of active and passive labor policies are new and the reform of labor services will close a long overdue gap in the Italian system of recruitment. Moreover it will help to overcome the dispersion of competences between central and local administrative levels (State, Regions, Provinces), that has so far negatively impacted on the efficiency of the recruitment services. These measures will also contribute to improve the connection between education and the labor market.

2.4. Employment

The New policy action:	Flexible Employment Procedures and Requirements
Implementation path and expected date of implementation	*Measure*: The draft law on simplification of procedures and requirements aims at: a) streamlining and simplifying procedures and requirements associated with the establishment and management of the employment relationship, with the aim of halving the number of requested acts; b) eliminating and simplifying the regulations involved in interpretation or legal cases; c) streamlining and simplifying notification requirements to public administrations, also through ICT systems, and reviewing the regime of sanctions associated with violations of the regulation on employment . *Rationale*: To reduce the burden on citizens and businesses implied by current legislation when engaging in the labor market. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The simplification of procedures is new and it is necessary to strengthen the coherence between the procedures and the legislative requirements to manage a labor contract and the current needs of productive sector.

2.5. Employment

The New policy action:	Unemployment-Related Social Safety Nets
Implementation path and expected date of implementation	*Measure*: The draft law in this area aims at: a) revising the criteria for granting wage subsidies; b) simplifying the related administrative procedures, also by introducing automatic mechanisms; c) reviewing the time limits for unemployment allowances and ensuring a cost-sharing with the companies; e) reducing social security contributions and ensuring a differentiation by sector on the basis of the actual use; f) reforming the Social Insurance for Employment (ASPI), also exploring the possibility to include some non-standard contracts in its scope of application; h) eliminating unemployment as a prerequisite for accessing social benefits; i) ensuring the participation of the beneficiaries of wage subsidies or unemployment assistance in activities that that are beneficial to local communities. *Rationale*: To establish a system of universal guarantee for all workers, ensuring, in case of involuntary unemployment, uniform protection linked to contributions, and to streamline the rules on wage subsidies. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	Structural changes in the productive chain and the labor market have affected the safety of workers in terms of job stability, requiring a revision of the safety nets to extend them to a greater number of workers. Moreover the high unemployment rate requires an increasing attention to income support for laid-off workers, while the previous approach of safety nets was essentially based on preserving the jobs. These new measures will address these challenges effectively.

2.6. Employment

The New policy action:	A Better Work-Life Balance for Working Parents
Implementation path and expected date of implementation	*Measure*: The draft law in this area aims at: a) introducing a universal maternity allowance; b) guaranteeing the right to mothers working under a non-standard contract to benefit from a maternity allowance even in the event of non-payment of contributions by the employer; c) introducing a tax credit to create job opportunities for mothers with minors and an income that is below a threshold to be determined and harmonizing the tax expenditures in this area; d) supporting collective agreements designed to facilitate flexible working conditions; e) facilitating an integrated provision of services to childhood by companies within the public-private system of personal care services. *Rationale*: To reconcile work and family life, in order to facilitate the participation of women in the labor market. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	In Italy, women's opportunities in the labor market are hampered by structural problems, something that these policy actions will address, by at the same time improving the productivity of public and private companies through the enhancement of workers' work-life balance. The measures in the pipeline aim at introducing new standards of protection, but also at giving practical effect to those already in existence.

2.7. Employment

The New policy action:	Creating Business and Labor-friendly Education and Research Systems
Implementation path and expected date of implementation	*Measure*: The reform aims at: a) supporting apprenticeships and internships in private companies and learning and working schemes, by sharing best practices, increasing the number of hours that young people spend working or training in companies during school and university years and by certifying the competences acquired during such time; b) as part of the Youth Guarantee Plan, implementing guidance programs for students; c) strengthening technical education and schools (ITS/Technical High Schools); d) promoting the employment of researchers in private companies and making Italy more attractive for foreign researchers; e) strengthening the tax credit to facilitate the employment of high-level human capital in private companies, the so called industrial doctorates; f) extending the tax credit for investments in R&D. *Rationale*: To provide the most effective response to NEETs, by offering students an opportunity to work during the school and university years, and to increase productivity through training, innovation and research. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	R&D investment, scores in tests assessing students skills, employment flows (change in)
Explanation of additionality (where relevant)	Implement effective information activities and guidance, in light of changes in society and the labor market, is essential to reduce school drop-put and the excessive duration of university studies. These new measures are expected to foster the achievement of these goals.

2.8. Employment

The New policy action:	Improving female labor force participation
Implementation path and expected date of implementation	*Measure*: As part of the reform of the labor market, the government plans measures aimed at fostering higher participation, particularly of women and young people, by reducing disincentives to work. The first main instrument to this end are measures to promote the use of open-ended contracts, in particular for young people and women, complemented with measures to increase labor security: a government's draft law, submitted in March 2014, reforms social welfare, services for work and active policies to provide better support by those out of, but willing to work. A second key instrument involves actions to enhance family support for women at work by increasing socio-educational facilities for children, particularly in the pre-school age band. In August 2013, an agreement was signed between the central and local governments to upgrade the existing range of educational services for small children, smoothen the transition between nursery and kindergarten, and complete the development of social and educational services dedicated to children of age 0-6 years. *Rationale:* Increase labor market participation and reduce inequality. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Labor participation with a breakdown on female and youth participation
Explanation of additionality (where relevant)	These measures are new.

3.1. Trade and Competition

The New policy action:	**Reform of the tax system**
Implementation path and expected date of implementation	*Measure*: the 2015 Stability Law will build on measures recently taken to further increase disposable income and reduce the tax wedge. In particular, the Stability Law will: a) make permanent the reduction of the personal income tax of permanent employees with a gross income lower than 26,000 euro (about 10 billion euro for 10 million people), which was originally approved before the Summer for the current year only; b) allow private sector employees to receive severance pay (so-called TFR) cash advances upon request; c) further reduce the tax wedge on labor, by allowing a full deduction of the labor component from the IRAP (the tax on productive activities) base (IRAP was reduced by 10 per cent before the Summer) and a full exemption for 36 months from pension contributions for new open-ended contracts entering into force or signed in 2015. In addition, the Government will implement a tax reform to define a more equitable, transparent, simplified and growth-oriented tax system, including by reforming the cadastre and taxation on corporate income, reviewing environmental taxation, simplifying taxation for individual firms and professional activities, strengthening regulations to curb tax abuse and increase tax compliance, enhancing tutoring and tax simplification, reforming the sanction, check and inspection system and reviewing local collection procedures,. *Rationale*: To increase the income of the lowest income groups and reduce the tax wedge, in order to boost consumption and enhance competitiveness. *Implementation date*: 2014/2015.
What indicator(s) will be used to measure progress?	Market entry indicators, concentration, PIL (changes in), share of tradables in total GVA.
Explanation of additionality (where relevant)	All these measures are new.

3.2. Trade and Competition

The New policy action:	Reduction of Energy Costs for Businesses
Implementation path and expected date of implementation	*Measure*: Reduction of at least 10 percent of the energy costs of SMEs through relative changes in the energy bill, greater diversification of supply and further liberalization of the electricity and gas markets, including by removing barriers to the development of regasification capacity. *Rationale*: To promote SMEs development by reducing energy costs. *Implementation date:* 2014.
What indicator(s) will be used to measure progress?	Productivity and utility costs indicators (change in).
Explanation of additionality (where relevant)	These new measures complement other measures aimed at opening network and other markets to competition. For the energy sector, Italy does not lag behind other European Countries. As a matter of fact, the market liberalization was completed with the ownership unbundling of the gas network operator (SNAM) from the incumbent gas operator (ENI). At present, liberalizing allocation and access to gas storage capacity for all operators is one of the main areas of policy intervention.

3.3. Trade and Competition

The New policy action:	**Competition and Liberalization**
Implementation path and expected date of implementation	*Measure*: Review of the legislation on local public services to ensure more open markets. Full implementation of the existing rules, including through the launch of a competition code and the annual law on competition. *Rationale*: Unleashing the potential of goods and services markets. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Market concentration and mark up indicators (change in).
Explanation of additionality (where relevant)	The local public services sector has been the object of many changes in laws and regulations over the past few years, as well as recent judicial interventions. The new decree law 150/2013 ('Milleproroghe') underlying the measures described above dictates the termination by December 31, 2014 of any public service awarded without compliance with EU law.

3.4. Trade and Competition

The New policy action:	Internationalization of Italian Companies
Implementation path and expected date of implementation	*Measure*: The reform aims at promoting products branded '*Made in Italy'* through an extraordinary plan aimed at increasing the number of exporters, by strengthening the financial and non-financial instruments to support Italian companies abroad, particularly SMEs. The reform also aims at implementing the "Destination Italy" program to facilitate incoming FDIs. *Rationale*: To support the internationalization of Italian companies. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Export flows (change in); FDIs incoming flows (changes in).
Explanation of additionality (where relevant)	The plan "*Destination Italy*" has been submitted to a public consultation which stressed the importance of 10 priorities, partially introduced by the *Destination Italy* decree law. This new reform complements measures already implemented to support SMEs activities (guarantee to credit, 'Sabatini law' etc.). Following the orientation of the Industrial Compact, this policy aims to propel the share of manufacturing to total GDP above 20 % by 2020.

3.5. Trade and Competition

The New policy action:	Open Data, Digitalization and Simplification
Implementation path and expected date of implementation	*Measure*: This reform aims to achieve a full interoperability and integration of databases as well as develop a national platform for open data. It also aims to complete the digitization of public administration beginning from the creation of the new national register of Italian citizens, digital identity and implementation of the rules on e-invoicing. The reform will also pursue a reduction of regulatory costs, particularly for the creation of new businesses. *Rationale*: To increase transparency and efficiency of public administrations, reduce costs for citizens and businesses, and enhance the quality of public services. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Indicators of business environment, digitalization, IT usage.
Explanation of additionality (where relevant)	These new measures shall foster the implementation of the administrative simplification agenda adopted until now.

3.6. Trade and Competition

The New policy action:	Simplifications for Businesses
Implementation path and expected date of implementation	*Measure*: This reform launches a regulatory review to simplify the regulatory framework, particularly with regard to administrative requirements to carry out public works. It fosters a simpler and faster resolution process for commercial disputes, including through the strengthening of the conciliation process, and by creating a one-stop shop for companies within which to deal with all administrative requirements related to job regulation. *Rationale*: To simplify the regulatory framework to reduce the administrative burden on businesses. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Market entry indicators, concentration, PIL (changes in), share of tradables in total GVA.
Explanation of additionality (where relevant)	These new measures shall foster the implementation of the administrative simplification agenda adopted until now.

3.7. Trade and Competition

The New policy action:	Privatization
Implementation path and expected date of implementation	*Measure*: This reform will involve the sale of shares in companies directly or indirectly controlled by the state for about 0.7 percent of GDP per year through annual privatization plans for the 2014-2017 period. Facilitation of the privatization process at the subnational level. *Rationale*: To pursue greater market efficiency and competitiveness, promote the development of the capital market with the strengthening of the equity markets and the internationalization of enterprises. To reduce public debt and recover unproductive expenditures. *Implementation date*: 2015-2017.
What indicator(s) will be used to measure progress?	Changes in debt-to-GDP ratio; changes in stock-flow adjustments.
Explanation of additionality (where relevant)	These new measures accelerate existing plans and increase them by a factor of about 2. On May, 16 2014 the Government approved two decrees setting the rules for the divestment of an initial tranche of ENAV (49 per cent) and Poste Italiane (40 per cent). The public offering is open to Italian savers, public employees of the same company, national and international institutional investors. For ENAV, the State maintains the control over the company (i.e., 51 per cent of shares). The new wave of privatizations will affect several other companies where the State still has a direct stake (i.e. ENI, STM), and companies where the State has a stake through CDP (i.e. SACE, Fincantieri, CDP Reti, TAG) or through FS (i.e.,Grandi Stazioni).

3.8. Trade and Competition

The New policy action:	Divesting State-owned Real Estate
Implementation path and expected date of implementation	*Measure*: This reform aims at strengthening the existing instruments, such as the National Agency and the state-owned company INVIMIT, to enhance the value of and/or partly divest state-owned real estate, making federalism fully effective, and facilitating the divestment process at subnational level. *Rationale:* To reduce public debt and unproductive expenditure. *Implementation date*: 2015-2016.
What indicator(s) will be used to measure progress?	Changes in debt-to-GDP ratio; changes in stock-flow adjustments.
Explanation of additionality (where relevant)	These new measures enhance the implementation of previously introduced measures aimed at facilitating the divestment of public physical assets.

3.9. Trade and Competition

The New policy action:	Improve competition within network industries
Implementation path and expected date of implementation	*Measure*: The government has announced measures to enhance competition in the context of network industries that should improve competitiveness and benefit consumers through lower retail prices. More specifically, the rules regarding the fees for access to the railway network have changed so as to guarantee to all competitors non-discriminatory access to the market. Fees for the purchase of natural gas have also been made more competitive, and the Electronic Markets Operator (GME) is developing a platform for the logistics market for oil and mineral oils to bolster competition in the oil industry. Finally, the Communications Authority (AGCOM) approved the break-up of the fixed telecommunications infrastructure owned by Telecom, in order to ensure to all operators access to the network at non-discriminatory rates. *Rationale*: Remove regulatory barriers in markets, with the aim of enhancing competition, encouraging new entrants, and lowering the cost of services. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Gas, oil and communication retail prices (trends).
Explanation of additionality (where relevant)	These measures are new and add on to measures launched in 2012-13.

3.10 Trade and Competition

The New policy action:	Fighting corruption and improving the business environment
Implementation path and expected date of implementation	*Measure:* After the implementation of anti-corruption law of 2012, the government has recently reorganized the institutions in charge of ensuring transparency and anti-corruption monitoring, as well as evaluating performance assessments in the public sector. After being granted greater powers, the National Anti-Corruption Authority (ANAC) has finally approved the Anti-Corruption National Plan (PNA) required for implementing the policies of prevention and exercising its supervisory activities. At the same time, the government committed to approve measures for the prevention and repression of corruption and other potential illegal conducts in the public administration, in particular by providing more severe penalties for crimes that may indirectly foster corruption, notably false accounting. *Rationale*: Fight corruption to improve the business environment and foster growth. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	These measures are new and add on to measures launched in 2012-13.

COMPREHENSIVE GROWTH STRATEGY: JAPAN

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

The “three-arrow” strategy, namely (i) aggressive monetary policy, (ii) flexible fiscal policy, and (iii) a growth strategy that promotes private investment, increased robustness of the Japanese economy. The government will continue to support the sustained demand growth as part of its efforts to ensure an exit from deflation. At the same time, as the gap between supply and demand is closing, further progress of the growth strategy, including through creating new jobs, increasing investments, and expanding business frontiers, has become even more important.

The government addresses challenges to (i) adequately cope with a consumption fall after a last-minute rise in demand before a consumption tax increase, (ii) strengthen and deepen the growth strategy to further accelerate virtuous cycle of the economy, thereby achieving economic growth driven by private demand, (iii) implement institutional and system reforms toward a promising future for Japan, and (iv) achieve fiscal consolidation, compatible with economic revitalization. These efforts will contribute to the G20’s objectives of strong, sustainable, and balanced growth.

In the medium-term, the Japanese government has already set the target of achieving average GDP growth rate of 3 percent in nominal terms and 2 percent in real terms over the ten-year horizon (FY2013-FY2022). This target is significantly more ambitious compared with the IMF’s October 2013 WEO baseline, which projects Japan’s average real growth rate between CY2013 and CY2018 at 1.3 percent. Therefore, achieving Japan’s growth target would clearly contribute to meeting the G20’s growth ambition to lift our collective GDP by more than 2 percent by 2018.

Key Commitments

Last year, the Japanese government announced “Japan Revitalization Strategy.” It has led to bold structural reforms at an unprecedented pace. For instance, the government has been promoting the Electricity System Reform that was the first drastic reform in 60 years. The government also enacted nearly 40 laws in order to implement the strategy since June 2013. Furthermore, the government has decided on an agricultural policy reform, including a revision to the rice production regulations that had lasted for more than 40 years (decided in December, 2013).

In order to further accelerate its structural reforms, the government revised its growth strategy in June 2014[1]. This revised strategy aims at establishing world-leading business environment and reinforcing workforce as well as promoting private sector's innovations. The followings are five key commitments from this revised growth strategy, which we believe make significant contributions to meet the G20 commitment. Description on each commitment will be also made in "C. POLICY RESPONSES TO LIFT GROWTH" section.

1. ENHANCING CORPORATE GOVERNANCE, PROVISION OF RISK MONEY, AND PROMOTION OF VENTURES

One of the major challenges for Japanese economy is to raise profitability and productivity of Japanese companies to globally compatible level. In this respect, enhancing corporate governance is key and the government has already implemented various initiatives for pro-growth corporate decisions and for promoting constructive engagement with institutional investors, including legislation for encouraging outside Board of Directors, formulation of the Stewardship Code, and introduction of the JPX-Nikkei Index 400.

Furthermore, The Tokyo Stock Exchange (TSE) will draft the Corporate Governance Code, which outlines the principles of corporate governance. A council of experts of which FSA and TSE will jointly act as a secretariat, will aim to prepare key elements of the Code by around this fall so that TSE can newly draft the Code in time for the season of general shareholders' meetings in June, 2015. The Code and enhanced corporate governance are expected to contribute to realize globally-compatible level of RoE for Japanese companies, and to promote new capital investment, where appropriate. Through enhanced corporate governance and other relevant efforts, Japan aims to restore the annual level of business investment at pre-Leman shock (70 trillion yen) by FY2016 (64.6 trillion yen in FY2012).

Relevant government ministries established a forum in September and have held several meetings already in order to discuss how to promote the provision of funds for growth including equity and mezzanine finance and medium to long-term loans to enhance growth-oriented business innovation and other medium to long-term measures for improving productivity.

In addition, in order to encourage active interactions between start-ups and larger firm, the government established "Venture Business Creation Council" in September 2014. The government will also review current government procurement laws to promote procurements from recently launched SME start-ups. Related bill will be presented at the next ordinary Diet session.

Through these reforms and other measures, Japan aims for entry rates to exceed exit rates of corporations, and to increase entry/exit rates close to 10% (currently at about 5%).

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1 For the official growth strategy updated by the Japanese government in June 2014, please refer to . http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/honbun2JP.pdf

2. REINVIGORATING FINANCIAL AND CAPITAL MARKET AND REFORMING MANAGEMENT OF PUBLIC AND QUASI-PUBILC FUNDS

The government will aim to build the best financial and capital market in Asia through various reforms. To respond to the long-term changes in the economic and investment environment and secure sound pension finance over an extended period of time, the Government Pension Investment Fund (GPIF) will appropriately revise its policy asset mix as quickly as possible, based on this year's revaluation of pension finance. In addition, initiatives for strengthening the governance structure of the GPIF will be immediately promoted.

3. PRO-GROWTH CORPORATE TAX REFORM

The government will strengthen Japan's locational attractiveness and enhance competitiveness of Japanese companies. In this context, the government aims to reduce the effective corporate tax rate to the internationally-comparable level and embarks on corporate tax reform to be more growth-oriented. To that end, the government aims to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. The government will start the first phase reduction from the next fiscal year.

As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. The government will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.

4. REINFORCING WORKFORCE

The government will implement following measures in order to enhance women's participation and advancement in job market.

- introducing over 10,000 integrated after-school childcare services/programs and securing the capacity of after-school childcare centers for about 300,000 children by the end of March 2020
- obliging listed companies to disclose the number of women in executive positions in their financial reports before by March 2015
- reviewing tax and social security system to be neutral with regard to how women choose to work by the end of 2014

Together with other measures to facilitate women-friendly work places such as disseminating good practices and promoting disclosure of company information on female participation, the government aims to raise the employment rate of women (aged 25-44) from

68 percent (in 2012) to 73 percent in 2020 and to increase women occupying leading positions to 30 percent in 2020.

The government will also implement following reforms to utilize foreign human resources.

- reviewing current Technical Intern Training Systems, which invite trainees from abroad with the aim to support technology transfer, by expanding job categories and extending training period from 3 years to 5 years, possibly starting from FY2015, while drastically strengthening management and supervision schemes

- considering schemes by the end of FY 2014 to accept foreign workers at overseas subsidiaries of Japanese corporations in manufacturing sector

- designing a system by the end of this year to enable foreign nationals, who obtained the national qualifications such as “certified care worker” by learning at Japanese higher education institutions,, to work in the field of nursing care after graduation

- accepting foreign housekeeping support workers in National Strategic Special Economic Zones

In terms of improving non-regular workers’ careers and their working conditions and promoting workers’ work-life balance, it will also consider support measures in FY2014 and implement them in FY2015 in order to spread and promote “diversified regular worker”, who is different from usual regular workers in terms of definition for his or her duty, working place or working hours.

In order to realize flexible and diversified ways of working, the government will also pursue following initiatives.

- In order to meet the needs of workers who would like to be evaluated not based on working hours but on performance, a new working hour system to break the link between wages and the length of time spent at work will be created, while protecting workers’ health and achieving a better work-life balance for workers who have a specific scope of duties and advanced professional skills, and meet a certain annual income requirement (e.g., a minimum of ¥10 million). After the Labor Policy Council has completed its deliberations and reached a conclusion on the system, the Government will take the necessary legislative measures during the next ordinary Diet session.

- Given that major industrial countries have developed mechanisms for pecuniary remedies provided to workers through court decisions in line with their respective employment systems, the government will survey relevant systems and their operation at home and abroad. Base on the finding of the survey, the government will widely study the shape of globally accepted, transparent, fair and objective labor dispute resolutions systems in 2015.

5. DEVELOPING INDUSTRIES TO BECOME NEW GROWTH ENGINES

With regard to agricultural industries, the government will also encourage diversification of distribution channels for dairy farmers through establishing a system where farmers can select and sell their products not only to the conventional designated vendors but others from 2015. Furthermore, it would promote the "AFFrinnovation (sixth industry)"[2] and exports through reviewing the current capital contribution percentage rule to A-FIVE[3] recipients by December 2015 and creating export promotion groups respectively for such products as beef, Japanese tea and fishery products from FY2015. Through these measures, the government aims to expand the size of "AFFrinnovation" market from 1 trillion yen to ten trillion yen in 2020, and increase the size of export of agricultural and food products up to one trillion yen in 2020 (about 0.45 trillion yen in 2012).

In the area of health care sector, the government aims for establishing non-profit holding company system in 2015. It would allow multiple medical and social welfare corporations to be managed integrally. It will also design a system, required to allow university hospitals to be spun off as separate entities in order to be managed in an integrated manner with other hospitals under the new holding company system. In addition, the government will significantly expand the system for mixed use of medical treatments covered and uncovered by public insurance (the mixed medical treatment system).

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2 AFFrinnovation: Agrinnovation, Forestrinnovation, and Fisherinnovation. Adding value to agricultural, forestry, and fishery products in innovative ways, by making new combinations, and creating a value chain.

3 A-FIVE is a fund, managed by Agriculture, Forestry and Fisheries Fund Corporation for Innovation, Value-chain and Expansion Japan. It provides funds, including equity, for initiatives to promote AFFrinnovation (sixth industry) and regional revitalization.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The Japanese economy is on a moderate recovery. Recent price developments indicate that Japanese economy is making steady steps forward to break free from deflation, as inflation expectations are rising and the CPI (excluding fresh food) recorded a 3.0 percent increase (1.0%, if effects from consumption tax hike were excluded) in September this year.

Concerning short-term prospects, although weakness remains for the time being, the economy is expected to recover, supported by the effects of the policies, while employment and income situation improve. However, attention should be given to the downside risks of the Japanese economy such as lengthening of the reaction after a last-minute rise in demand and slowing down of overseas economies.

In the medium-term, the government is determined to implement the “three-arrow” strategy with a decisive manner, which would be instrumental in reaching the target of average GDP growth rate of 3 percent in nominal terms and 2 percent in real terms over the ten-year horizon (FY2013-FY2022).

	Key Indicators					
	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Real GDP (% yoy)	2.3	1.2	1.4	1.8	1.9	2.1
Nominal GDP (% yoy)	1.9	3.3	2.8	3.6	3.4	3.5
Output Gap (% of GDP)	-1.3	-0.9	-0.4	0.1	0.4	0.7
Inflation (%, yoy) (CPI) (Consumer Price Index (all items))	0.9	3.2	2.5	2.7	2.0	2.0
Fiscal Balance (% of GDP)	-7.9	-7.0	-5.1	-4.4	-4.4	-4.6
Unemployment (%)	3.9	3.5	3.5	3.4	3.3	3.3
Savings (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A
Investment (% of GDP)	N/A	N/A	N/A	N/A	N/A	N/A
Current Account Balance (% of GDP) (FY2014～, Balance by Sector, Overseas)	0.2	0.1	0.3	0.6	0.9	1.1

Note: Figures of Fiscal Balance refer to those of the national and local governments combined. They exclude the expenditures and revenues related to the recovery and reconstruction from the Great East Japan Earthquake.

Source: “Economic and Fiscal Projections for Medium to Long Term Analysis” (Cabinet Office, July 2014) and “Mid-Year Economic Projection for FY 2014” (Cabinet Office, July2014)

Key Drivers

The revised growth strategy aims at establishing world-leading business environment and reinforcing workforce as well as promoting private sector's innovations, which would contribute to increase in domestic investment as well as inward FDIs. With regard to specific industries, sectors such as healthcare, agriculture, energy, and infrastructure investment are expected to have significant potential for future growth, as private sector dynamism has not been fully utilized due primarily to regulatory constraints. A variety of regulatory reform measures included in the government's growth strategies are expected to unleash the potential of the private sector in these sectors.

Also, as female labor force in Japan is relatively underutilized, promoting women's labor force participation is another important source of growth for the Japanese economy. Further utilization of foreign human resources would also help.

Assessment of Obstacles and Challenges to Growth

Our assessment of major challenges facing Japan in the four priority areas are as follows.

<Investment>

- To promote private investment in order to improve productivity and strengthen growth potential.
- To increase inward FDI and to attract expertise and technologies from abroad, thereby creating employment opportunities and promoting innovation in Japan.
- To make more use of private funds and private expertise through PPP/PFI in developing, rehabilitating, operating or managing infrastructure.

<Employment>

- To promote women's labor participation and to utilize foreign human resources to revitalize Japanese society.
- To facilitate the movement of labor force into growth sectors without causing unemployment
- To reduce labor market duality.

<Competition>

- To implement regulatory reforms which will promote competition in areas such as energy and agriculture, which have been subject to heavy regulation.

<Trade>

- To benefit more from growing markets abroad through promoting economic partnership negotiations and taking trade facilitating measures.
- To promote free trade through resisting protectionism in all its forms.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

<Fiscal Policy>

Given the very high level of public debt, ensuring fiscal sustainability is essential to achieve a sustainable growth. In this regard, Japan remains fully committed to the fiscal targets included in the Medium-term Fiscal Plan (approved by the Cabinet August 2013), key component of which was included in the St. Petersburg Fiscal Template[4].

On April 1st this year, the government raised the consumption tax rate from 5% to 8%. This was an important step toward achieving our fiscal targets. At the same time, the government has implemented fiscal stimulus measures in FY2013 supplementary budget (amounting to 1.1% of GDP (5.5 trillion yen)) and this year's budget in a front-loaded manner in order to mitigate negative impacts of the consumption tax rate increase and to swiftly restore stronger growth trajectory.

The government will determine by the end of this year whether to raise the consumption tax rate from 8% to 10% in October 2015, taking into account the economic conditions and other factors in a comprehensive manner.

With regard to FY2015 budget, the government aims for steadfastly reaching its target, which is to halve the primary deficit to GDP ratio by FY2015 from the ratio in FY2010. In order to achieve the target of a primary surplus by FY2020, the government will advance the consideration of a clear trajectory without delay while taking into account the compilation of the national budget for FY2015, etc.

<Monetary Policy>

The Bank of Japan introduced Quantitative and Qualitative Monetary Easing (QQME) in April 2013 with the aim of overcoming deflation. Since the introduction, it has been working well and Japan has made a steady progress toward achieving the 2 percent price stability target. In October 2014, in the light of increased downward risk on inflation, the Bank of Japan pre-emptively expanded its monetary easing so as to achieve the 2 percent price target.

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4 In this Medium-term Fiscal Plan, the government set out objectives to halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010 and to achieve a primary surplus by FY2020, and thereafter to steadily reduce the public debt to GDP ratio.

The government also presented intermediate objectives to improve the primary balance of the National Government's General Account at least by approximately 4 trillion yen in FY2014 and in FY2015 respectively. Also, the government set out its intention to make its utmost efforts to keep the amount of newly issued National Government bonds below that of a preceding fiscal year for the FY2014 and FY2015 budgets.

Achieving 2 percent inflation and anchoring inflation expectations at that level will elicit proactive behavior from firms and households, and will contribute to raising the growth potential of the economy.

New Structural Policy Responses

As discussed earlier, the Japanese government announced “Japan Revitalization Strategy” last year, and revised the strategy in June 2014 in order to further accelerate its structural reforms. In this section, the new reform measures, announced in the revised growth strategy, are shown with asterisk “*”.

Investment and Infrastructure

<Enhancing corporate governance, provision of risk money, and promotion of ventures *>

One of the major challenges for Japanese economy is to raise profitability and productivity of Japanese companies to globally compatible level. In this respect, enhancing corporate governance is key and the government has already implemented various initiatives for pro-growth corporate decisions and for promoting constructive engagement with institutional investors, including legislation for encouraging outside Board of Directors, formulation of the Stewardship Code, and introduction of the JPX-Nikkei Index 400.

Furthermore, the Tokyo Stock Exchange (TSE) will draft the Corporate Governance Code, which outlines the principles of corporate governance. A council of experts of which FSA and TSE will jointly act as a secretariat, will aim to prepare key elements of the Code by around this fall so that TSE can newly draft the Code in time for the season of general shareholders’ meetings in (June,) 2015.

The Code is expected to promote corporate managers to make proactive business decisions, thus contributing to realize globally-compatible level of RoE. Enhanced corporate governance is also expected to promote Japanese companies, where appropriate, to proactively use their earnings for new capital investment, instead of accumulating internal reserves. In addition, the government promotes the Stewardship Code published in February 2014 in order for institutional investors to fulfill their fiduciary duties.

Through enhanced corporate governance and other relevant efforts, Japan aims to restore the annual level of business investment at pre-Leman shock (70 trillion yen) by FY2016 (64.6 trillion yen in FY2012).

Relevant government ministries established a forum in September and have held several meetings already in order to discuss how to promote the provision of funds for growth, including equity and mezzanine finance and medium to long-term loans, to enhance growth-oriented business innovation and other medium to long-term measures for improving productivity. The forum will publish a mid-report proposing certain measures by the end of this year and the full report will be published by mid-next year.   It is necessary to mobilize private funds supply from banks, quasi-public funds valid for a specified period of time and others are not sufficient at this moment.

In order to encourage active interactions between start-ups and larger firm, the government established “Venture Business Creation Council” in September 2014. It would enhance better matching between start-ups and larger firms as well as serve a platform to develop business seeds into concrete business. The government will also review current government procurement laws to promote procurements from recently launched SME start-ups. Related bill will be presented at the next ordinary Diet session.

Through these reforms and other measures, Japan aims for entry rates of corporations to exceed exit rates of corporations, and to increase entry/exit rates close to 10% (currently at about 5%).

<Reinvigorating financial and capital market and reforming management of public and quasi-public funds*>

The government aims for building the best financial and capital market in Asia, including through promotion of infrastructure fund and healthcare REIT, improvement in securities and fund settlement, enhancement in transparency of investment trust, and further promotion of the NISA (tax-exempt individual investment accounts). The government will also support Japanese firms’ and financial institutions’ activities in Asia. For instance, the government have just installed institutional arrangement in order to establish listed infrastructure fund market, and will encourages Japanese Bankers Association to reach conclusion on concrete proposal and schedule for how to enhance fund settlement system by the end of this year.

The Government Pension Investment Fund (GPIF) will appropriately revise its policy asset mix as quickly as possible, following based on this year’s revaluation of pension finance. It will enable the GPIF to respond to the long-term changes in the economic and investment environment, such as changes from deflation to moderate-inflation environment, in order to secure sound pension finance over an extended period of time.   In addition, initiatives for strengthening the governance structure of the GPIF will be immediately promoted, such as (i) the improvement of the investment committee structure, (ii) the securement of investment professionals, (iii) accelerating discussion on other necessary measures including the necessity of law amendments etc.

<Pro-growth corporate tax reform*>

The government will strengthen Japan’s locational attractiveness and enhance competitiveness of Japanese companies. In this context, the government aims to reduce the effective corporate tax rate to the internationally-comparable level and embarks on corporate tax reform to be more growth-oriented. To that end, the government aims to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. The government will start the first phase reduction from the next fiscal year.

As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. The government will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.

By strengthening Japan's locational competitiveness in combination with other measures, Japan aims to be among top 3 developed countries in the ranking of the World Bank's "Doing Business" by 2020 (ranked 19th in 2015).

<Promoting Innovation and "Robot Revolution"*>

The government promote innovation of science and technology and develop infrastructure that links innovation technology with new business through following measures.

- establishing a "National System" that create business from innovate technology seeds, including through (i) reforming functionality of R&D institutes to enhance activities to link universities with business, (ii) allowing researchers to hold concurrent posts at universities and R&D institutes, and (iii) reforming employee invention system in order to incentivize both employees and companies (related bill will be submitted to the next ordinary session.).
- setting up the "Robotic Revolution Initiative Council" to create a 5 year plan by the end of 2014 with the aim of addressing social challenges and realizing new industrial revolution by robots.

<Further regulatory reforms in National Strategic Special Zones>

With the aim of significant increase in inward FDI, the Japanese government designated six National Strategic Special Zones in May to implement ambitious regulatory reforms. For example, in the Tokyo area, Kansai area and Fukuoka City, measures will be taken to attract foreign enterprises and promote business start-ups, such as providing clarification on employment rules/practices. In Yabu City (in Hyogo Prefecture) and Niigata City (in Niigata Prefecture), measures will be taken to enhance productivity of agriculture by facilitating entry of private enterprises into agriculture and the transfer of authority from the Agriculture Committee to local government in order to facilitate smooth farmland transactions.

In order to strengthen Japan's competitiveness as a business hub, the government further introduce regulatory reforms in National Strategic Special Zones. Specifically, it would consider introducing (i) simplified and accelerated incorporation procedure, (ii) more convenient information services in English regarding financial administration, (iii) relaxation of bus-related regulations for improvement of airport access, and (iv) acceptance of the entrepreneurial people in National Strategic Special Zones as well as establishment of new scheme for accepting diverse foreign people. The government will soon conclude its consideration on these potential reforms and submit laws to the next Diet session, if necessary.*

Through these reforms and other measures, Japan aims to double the inward FDI stocks to 35 trillion yen in 2020 (18.0 trillion yen at end-2013).

<Promoting private investment>

To promote private investment, the government has introduced tax incentives to promote investment in facilities that would improve productivity. Furthermore, in order to reduce regulatory uncertainty surrounding new business activities, the government has put in place a new mechanism under which enterprises are able to check in advance whether any regulatory restrictions apply to their business plans.

Through these measures and other efforts, Japan aims to restore the annual level of business investment at pre-Leman shock (70 trillion yen) by FY2016 (64.6 trillion yen in FY2012).

At the same time, the government is working toward strengthening financial and capital markets to promote the provision of risk money to growing businesses. A wider variety of financial products and a broader range of investors can stimulate private investment. For example, a bill was approved by the Diet which promotes the use of security based crowd-funding, aiming to provide risk money to new technologies and ideas. This new means of fundraising enables venture businesses to diversify their financing sources. Also, the government has provided tax incentives to promote investments into venture funds by private firms.

<Making more use of PPP/PFI>

Regarding infrastructure investment, it is essential for Japan with high public debt to make more use of private funds and private expertise through PPP/PFI in developing, rehabilitating, operating, or managing infrastructure.

Against this backdrop, the government is planning to

- make use of PPP in repairing the Metropolitan Expressway in Tokyo.
- introduce concession contracts in the government-owned airports (e.g. SENDAI Airport) in order to allow private sector to operate and manage the airports.

In addition, the government established “Private Finance Initiative Promotion Corporation of Japan” in October 2013 with the aim of providing risk money to PFI infrastructure projects. Through these measures, Japan aims to triple the size of PPP/PFI projects over the ten years from 2012 (4.1 trillion yen → 12 trillion yen).

With regard to PFI projects for private entities awarded with infrastructure concessions, the government also set numerical targets (six airports, six water systems, six sewages and one road), and accelerated the deadline to implement 2 to 3 trillion yen worth of this type of PFI projects from 2022 to the end of FY2016.*

Employment

< Reinforcing Workforce and Reforming the Employment System >

In order to reduce the number of women who leave workforce due to childbirth/child rearing and to increase the percentage of women in leadership position, the government is taking following measures.

- promoting childcare arrangements to accommodate some 200,000 additional children by the end of FY2014, and some 400,000 additional children by the end of FY2017.

- raising childcare leave benefits from 50% to 67% of wages prior to leave for the initial 6 months of leave period.

In addition, the government added the following new commitments in June 2014 in order to enhance women’s participation and advancement in job market.

- introducing over 10,000 integrated after-school childcare services/programs and securing the capacity of after-school childcare centers for about 300,000 children by the end of March 2020.*

- obliging listed companies to disclose the number of women in executive positions in their financial reports before by March 2015.*

- reviewing tax and social security system to be neutral with regard to how women choose to work by the end of 2014.*

Together with other measures to facilitate women-friendly work places such as disseminating good practices and promoting disclosure of company information on female participation, the government aims to raise the employment rate of women (aged 25-44) from 68 percent (in 2012) to 73 percent in 2020 and to increase women occupying leading positions to 30 percent in 2020.

The government will also implement following reforms to utilize foreign human resources.

- reviewing current Technical Intern Training Systems, which invite trainees from abroad with the aim to support technology transfer, by implementing measures such as expanding job categories and extending training period from 3 years to 5 years, possibly starting from FY2015, while drastically strengthening management and supervision schemes.*

- considering schemes by the end of FY 2014 to accept foreign workers at overseas subsidiaries of Japanese corporations in manufacturing sector.*

- designing a system by the end of this year to enable foreign nationals, who obtained the national qualifications such as “certified care worker” by learning at Japanese higher education institutions, to work in the field of nursing care after graduation.*

- accepting foreign housekeeping support workers in National Strategic Economic Special Zones.*

The government is shifting budget allocation from employment adjustment subsidies to labor mobility support subsidies to realize the labor mobility without unemployment.

In order to improve working conditions of part-time workers, the government has recently submitted a bill which expands the scope of part-time workers deemed equivalent to ordinary workers whose discriminately treatment is to be prohibited and requires employers to be accountable about the concrete measures to ensure adequate employment management (approved in April 2014).

The government has formulated a plan to increase "Career Consultant", who provides professional advices for career-formulation on July 2014.

Through these measures and other efforts, the government aims to increase ratio of hires who had changed jobs to 9% in five years (7.4% in 2011).

In terms of improving non-regular workers’ careers and their working conditions and promoting workers’ work-life balance, it will also consider support measures in FY2014 and implement them in FY2015 in order to spread and promote “diversified regular worker”, which is different from usual regular workers in terms of definition for his or her duty, working place or working hours.*

In order to realize flexible and diversified ways of working, the government will also pursue following initiatives.

- In order to meet the needs of workers who would like to be evaluated not based on working hours but on performance, a new working hour system to break the link between wages and the length of time spent at work will be created, while protecting workers’ health and achieving a better work-life balance for workers who have a specific scope of duties and advanced professional skills, and meet a certain annual income requirement (e.g., a minimum of ¥10 million). After the Labor Policy Council has completed its deliberations and reached a conclusion on the system, the Government will take the necessary legislative measures during the next ordinary Diet session. *

- Given that major industrial countries have developed mechanisms for pecuniary remedies provided to workers through court decisions in line with their respective employment systems, the government will survey relevant systems and their operation at home and abroad. Base on the finding of the survey, the government will widely study the shape of globally accepted, transparent, fair and objective labor dispute resolutions systems in 2015. *

Competition

<Agriculture sector>

- The government has taken measures to facilitate the participation of various entities, including private companies, into agriculture sector by establishing "Farmland Banks" to consolidate the fragmented farmland ownerships.
- Through these measures, the government aims to quadruple the number of farms run by corporate farmers over the next ten years.
- The government will undertake integrated regulatory reform of Agricultural Committee and others so that highly-motivated and business-minded farmers can pursue more dynamic production and operation with taking advantage of knowledge of corporations. Related bills will be submitted to the ordinary Diet session in 2015.*
- The government will also encourage diversification of distribution channels for dairy farmers through establishing a system where farmers can select and sell their products not only to the conventional designated vendors but others from 2015. Furthermore, it would promote the "AFFrinnovation (sixth industry)" and exports through reviewing the current capital contribution percentage rule to A-FIVE recipients by December 2015 and creating export promotion groups respectively for such products as beef, Japanese tea and fishery products from FY2015.*
- Through these measures, the government aims to expand the size of "AFFrinnovation" market from 1 trillion yen to ten trillion yen in 2020, and increase the size of export of agricultural and food products up to one trillion yen in 2020 (about 0.45 trillion yen in 2012).

<Healthcare sector>

- The government aim for establishing non-profit holding company system in 2015. It would allow multiple medical and social welfare corporations to be managed in an integrated manner. It will also design a system, required to allow university hospitals to be spun off as separate entities in order to be managed in an integrated manner with other hospitals under the new holding company system.*
- The government will significantly expand the system for mixed use of medical treatments covered and uncovered by public insurance (the mixed medical treatment system).*

<Energy sector>

- Japan has taken measures to liberalize fully the retail electricity market by around 2016 to encourage entry of diverse players. The bill for introducing the full retail competition was approved in the ordinary Diet session of 2014.

- The government plans to submit a bill to the next ordinary Diet session, which secures further neutrality of electricity transmission and distribution sectors from generation and retail sectors by legal unbundling. It intends to complete entire the Electricity System Reform by 2020 at the latest.*

- These measures will expand choices for consumers and business opportunities, thereby suppressing electricity rates to the maximum extent possible and securing a stable supply.

<Trade>

- Japan will continue to promote economic partnership negotiations, including TPP (Trans Pacific Partnership), RCEP (Regional Comprehensive Economic Partnership), the Japan-China-ROK FTA, and the Japan-EU EPA, with the aim to increase the FTA coverage ratio to 70% from current 23% by 2018.

  - Japan signed the Japan-Australia EPA in July 2014.
  - Japan reached an agreement in principle in the negotiations of the Japan-Mongolia EPA in July 2014.
  - Japan aims to reach agreement in principle on the Japan-EU EPA during 2015.
  - Japan will accelerate negotiations further on the Trans-Pacific Partnership towards its early conclusion.

- The government will take trade facilitating measures such as streamlining trade-related procedures and extending opening hours of ports and harbors.

- Japan will continue to resist protectionism in all its forms, including export restrictions and local content requirements, amongst others through complying with the G20 standstill and rollback commitments.

Other measures

<Revitalization and structural reform of local area *>

The government will amend the Local Revitalization Law and establish a one-stop platform for planning and implementing regional revitalization efforts. The amendment of the law will be submitted to the next ordinary Diet session.

In order to overcome demographic challenges and aging society as well as build dynamic local economic structure, it is necessary to present a long-term and comprehensive vision for local economy. In this respect, the government established a headquarter function to promote various policies in comprehensive manner. The new headquarter's objectives include (i) maintaining regional economy's vitality through consolidation, integration, and networking of industry, employment, and urban functions in order to slow the outward migration to Tokyo, and (ii) overcoming the declining population and birth rate.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

As noted earlier, the Japanese government is fully committed to the Medium-term Fiscal Plan, key component of which was included in the St. Petersburg Fiscal Template.

The government raised the consumption tax rate from 5% to 8% on April 1, 2014.

At the same time, the government has implemented fiscal stimulus measures in FY2013 supplementary budget (amounting to 1.1% of GDP (5.5 trillion yen)) and this year's budget in a front-loaded manner in order to mitigate negative impacts of the consumption tax rate increase and to swiftly restore stronger growth trajectory.

In the FY2014 budget, the primary balance of the General Account of the national government will be improved by 5.2 trillion yen, more than the amount targeted in the Medium-term Fiscal Plan (approximately 4 trillion yen) and compared with last year, the amount of newly-issued government bonds will be reduced by 1.6 trillion yen. As a result, achieving the FY2015 target is now on the horizon.

The government will determine by the end of this year whether to raise the consumption tax rate from 8% to 10% in October 2015, taking into account the economic conditions and other factors in a comprehensive manner.

Through these efforts, Japan will do its best to realize both economic growth and fiscal consolidation.

Medium-term fiscal strategies:

a. Overall strategy for debt sustainability

Virtuous cycle of economic revitalization and fiscal consolidation is indispensable. As for fiscal consolidation, the government will make its utmost efforts both on the expenditure and revenue sides to ensure that the current extremely deteriorated fiscal situation will not hinder progress in economic revitalization. The government will prioritize and streamline public expenditures so that they will contribute to economic growth and development more effectively. On the revenue side, it will seek a more growth-oriented tax system.

b. Debt-to-GDP ratio objective

- The government set out an objective to halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010 and to achieve a primary surplus by FY2020, and thereafter to steadily reduce the

public debt to GDP ratio.
In order to achieve the target of a primary surplus by FY2020, the government will advance the consideration of a clear trajectory without delay while taking into account the compilation of the national budget for FY2015, etc.,.

- The government also presented intermediate objectives to improve the primary balance of the National Government's General Account at least by approximately 4 trillion yen in FY2014 and in FY2015 respectively. Also, the government set out its intention to make its utmost efforts to keep the amount of newly issued National Government bonds below that of a preceding fiscal year for the FY2014 and FY2015 budgets.

c. Expenditure and revenue reforms

Regarding the expenditure for social security which is increasing due to the aging population, etc., the government will steadily implement the measures for establishing the sustainable social security system, while aiming at the balance between the benefits and the contributions in the medium term.
With regard to the other expenditures, the government will constrain them as much as possible through further prioritization and streamlining.

On April 1st this year, the government raised the consumption tax rate from 5% to 8%. Consumption tax hike to 10% will be decided by the end of this year, taking various economic and other situations into account.

2. Medium-term projections, and change since last submission:

			Projections				
	FY2012	FY2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018
Gross Debt (% of GDP)	187.5	192.3	192.7	192.5	190.4	189.0	187.7
ppt change	-0.6	1.7	1.3	2.1	1.8	1.1	-
Fiscal Balance (% of GDP)	-7.7	-7.9	-7.0	-5.1	-4.4	-4.4	-4.6
ppt change	0.9	1.2	-0.6	0.3	0.5	0.7	-
Primary Balance (% of GDP)	-5.9	-6.2	-5.1	-3.2	-2.4	-2.2	-2.1
ppt change	0.5	0.8	-0.8	0.1	0.2	0.2	-

Note1: Figures in this table refer to those of the national and local governments combined. They exclude the expenditures and revenues related to the recovery and reconstruction from the Great

East Japan Earthquake.

Note2: “ppt change” means the change from the data presented in the St. Petersburg Fiscal Template (September 2013)

Source: “Economic and Fiscal Projections for Medium to Long Term Analysis” (Cabinet Office, July 2014)

3. Economic Assumptions, and change since last submission:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

			Projections				
	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018
Real GDP growth (%)	0.7	2.3	1.2	1.4	1.8	1.9	2.1
ppt change	-0.5	-0.5	0.2	-0.6	-0.1	-0.1	-
Nominal GDP growth (%)	-0.2	1.9	3.3	2.8	3.6	3.4	3.5
ppt change	-0.5	-0.7	0.2	-0.9	-0.3	-0.1	-
LT interest rate (%)	0.8	0.7	1.0	1.6	2.3	2.7	3.1
ppt change	0.0	-0.4	-0.4	-0.7	-0.4	-0.3	-

Note: "ppt change" means the change from the data presented in the St. Petersburg Fiscal Template (September 2013)

Source: "Economic and Fiscal Projections for Medium to Long Term Analysis" (Cabinet Office, July 2014) and "Mid-Year Economic Projection for FY 2014" (Cabinet Office, July 2014)

ANNEX 2: NEW POLICY COMMITMENTS

In this Annex, the new reforms measures, announced in the revised growth strategy and "Basic Policies for the Economic and Fiscal Management and Reforms 2014" (both published in June 2014), are shown with asterisk "".*

[1. Macroeconomic Policy Responses]

• ***Making progress on fiscal consolidation and economic revitalization:**	**The government will make its utmost efforts both on the expenditure and revenue sides to ensure that the current extremely deteriorated fiscal situation will not hinder progress in economic revitalization. The government will prioritize and streamline public expenditures so that they will contribute to economic growth and development more effectively.**
Implementation path and expected date of implementation	The government intends to steadfastly reaching its budget target for FY2015, which is to halve the primary deficit to GDP ratio from the ratio of FY2010. In order to achieve the target of a primary surplus by FY2020, the government will advance the consideration of a clear trajectory without delay while taking into account the compilation of the national budget for FY2015, etc.
What indicator(s) will be used to measure progress?	The government set out objectives to halve the primary deficit of the national and local governments to GDP ratio by FY2015 from the ratio in FY2010, and achieve a primary surplus by FY2020, and thereafter to steadily reduce the public debt to GDP ratio.
Explanation of additionality (where relevant)	The above commitments reflect the government position, announced in "Basic Policies for the Economic and Fiscal Management and Reform 2014" (published in June 2014).

[2. Investment and Infrastructure]

• *Enhancing corporate governance, provision of risk money, and promotion of ventures:	The Tokyo Stock Exchange (TSE) will draft the Corporate Governance Code, which outlines the principles of corporate governance. Relevant government ministries established a forum in September and have held several meetings already in order to discuss how to promote the provision of funds for growth, including equity and mezzanine finance and medium to long-term loans, to enhance growth-oriented business innovation and other medium to long-term measures for improving productivity. The forum will publish a mid-report proposing certain measures by the end of this year and the full report will be published by mid-next year. It is necessary to mobilize private funds, including those with long-term maturity, for these purposes, where funds supply from banks, quasi-public funds valid for a specified period of time and others, are not sufficient at this moment. In addition, in order to encourage active interactions between start-ups and larger firm, the government established "Venture Business Creation Council" in September 2014. It would enhance better matching between start-ups and larger firms as well as serve a platform to develop business seeds into concrete business. The government will also review current government procurement laws to promote procurements from recently launched SME start-ups. Related bill will be presented at the next ordinary Diet session.
Implementation path and expected date of implementation	. A council of experts of which FSA and TSE will jointly act as a secretariat, will aim to prepare key elements of the Code by around this fall so that TSE can newly draft the Code in time for the season of general shareholders' meetings in (June,) 2015. Other measures also have specific timelines.
What indicator(s) will be used to measure progress?	Through enhanced corporate governance and other relevant efforts, Japan aims to restore the annual level of business investment at pre-Leman shock (70 trillion yen) by FY2016. It also aims for entry rates of corporations to exceed exit rates of corporations, and to increase entry/exit rates close to 10% (currently at about 5%).
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" in June 2014.

• *Reinvigorating financial and capital market and reforming management of public and quasi-public funds:	The government aims for building the best financial and capital market in Asia, including through promotion of infrastructure fund and healthcare REIT, improvement in securities and fund settlement, enhancement in transparency of investment trust, and further promotion of the NISA. The government will also support Japanese firms' and financial institutions' activities in Asia. The Government Pension Investment Fund (GPIF) will appropriately revise its policy asset mix as quickly as possible, based on this year's revaluation of pension finance. It will enable the GPIF to respond to the long-term changes in the economic and investment environment, such as changes from deflation to moderate-inflation environment, in order to secure sound pension finance over an extended period of time. In addition, initiatives for strengthening the governance structure of the GPIF will be immediately promoted, such as (i) the improvement of the investment committee structure, (ii) the securement of investment professionals, (iii) accelerating discussion on other necessary measures including the necessity of law amendments etc.
Implementation path and expected date of implementation	For instance, the government have just installed institutional arrangement in order to establish listed infrastructure fund market, and will encourages Japanese Bankers Association to reach conclusion on concrete proposal and schedule for how to enhance fund settlement system by the end of this year. The GPIF will appropriately revise its policy asset mix as quickly as possible.
What indicator(s) will be used to measure progress?	These measures are expected to contribute for Japan to be among to 3 developed countries in the ranking of the World Bank's "Doing Business" by 2020 (ranked 19th in 2015)
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" in June 2014.

• ***Pro-growth corporate tax reform:**	**The government will strengthen Japan's locational attractiveness and enhance competitiveness of Japanese companies. In this context, the government aims to reduce the effective corporate tax rate to the internationally-comparable level and embarks on corporate tax reform to be more growth-oriented. To that end, the government aims to reduce the percentage level of the effective corporate tax rate down to the twenties in several years. The government will start the first phase reduction from the next fiscal year. As regards the revenue sources to fund such rate reduction, including the fact that the Japanese economy is pulling out of the deflation and showing structural improvements, in order to be consistent with the FY2020 target to achieve primary surplus, permanent revenues will be secured through such measures as broadening the tax base and so forth. The government will continue to discuss this issue towards the end of this year when we will reach conclusions on the specifics.**
Implementation path and expected date of implementation	The first phase of reduction of the corporate tax rate will start from FY2015
What indicator(s) will be used to measure progress?	By strengthening Japan's locational competitiveness in combination with other measures, Japan aims to be among to 3 developed countries in the ranking of the World Bank's "Doing Business" by 2020 (ranked 19th in 2015)
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" and "Basic Policies for the Economic and Fiscal Management and Reform 2014" in June 2014.

• *Promoting Innovation and "Robot Revolution":	**The government promote innovation of science and technology and develop infrastructure that links innovation technology with new business through following measures.** **- establishing a "National System" that create business from innovate technology seeds, including through (i) reforming functionality of R&D institutes to enhance activities to link universities with business, (ii) allowing researchers to hold concurrent posts at universities and R&D institutes, and (iii) reforming employee invention system in order to incentivize both employees and companies (related bill will be submitted to the next ordinary session.).** **- setting up the "Robotic Revolution Initiative Council" to create a 5 year plan by the end of 2014 with the aim of addressing social challenges by robots and new industrial revolution.**
Implementation path and expected date of implementation	Most of these measures have specific deadlines.
What indicator(s) will be used to measure progress?	These measures will help to further promote innovation in Japan.
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" in June 2014.

• *Further regulatory reforms in National Strategic Special Zones FDI:	**The government further introduce regulatory reforms in National Strategic Special Zones. Specifically, it would consider introducing (i) simplified and accelerated the incorporation procedure, (ii) more convenient information services in English regarding financial administration, (iii) relaxation of bus-related regulations for improvement of airport access, and (iv) acceptance of the entrepreneurial people in National Strategic Special Zones as well as establishment of new scheme for accepting diverse foreign people.**
Implementation path and expected date of implementation	The government will use two years until FY2015 as period when it purse structural reforms with enhanced efforts through National Strategic Special Zones. It will soon conclude its consideration on the above-mentioned reforms and submit laws to the next Diet session, if necessary.

What indicator(s) will be used to measure progress?	Through these measures and other measures, Japan aims to double the inward FDI stocks to35 trillion yen to 2020 (18.0 trillion yen at end-2013).
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" in June.

• Promoting private investment:	**The government has introduced tax incentives to promote investment in facilities that would improve productivity. The government has also put in place a new mechanism under which enterprises are able to check in advance whether any regulatory restrictions apply to their business plans. A bill was approved by the Diet which promotes the use of security based crowd-funding, aiming to provide risk money to new technologies and ideas. The government has also provided tax incentives to promote investments into venture funds by private firms.**
Implementation path and expected date of implementation	The government will implement these measures, as announced.
What indicator(s) will be used to measure progress?	Through these measures and other efforts, Japan aims to restore the annual level of business investment at pre-Leman shock (70 trillion yen) by FY 2016 (64.6 trillion yen in FY2012)
Explanation of additionality (where relevant)	The government announced this commitment in the revised "Japan Revitalisation Strategy" and "Basic Policies for the Economic and Fiscal Management and Reform 2014" in June 2014.

• Making more use of PPP/PFI:	**The government is planning to make use of PPP in repairing the Metropolitan Expressway in Tokyo, and introduce concession contracts in the government-owned airports. It also established "Private Finance Initiative Promotion Corporation of Japan" in October 2013.**
Implementation path and expected date of implementation	With regard to PFI projects for private entities awarded with infrastructure concession, the government set numerical targets for number of projects (six airports, six water system, six sewage and one road project) as well as size of projects (2 to 3 trillion yen), accelerated from previous deal line of FY2022 by the end of FY2016.*

What indicator(s) will be used to measure progress?	Japan aims to triple the size of PPP/PFI projects over the ten years from 2012 (4.1 trillion yen → 12 trillion yen).
Explanation of additionality (where relevant)	The government announced numerical targets for PFI projects for private entities awarded with infrastructure concession in the revised “Japan Revitalisation Strategy” in June 2014.

[3. Employment]

• Reinforcing Workforce and Reforming the Employment System:	In order to reduce the number of women who leave workforce due to childbirth/child rearing and to increase the percentage of women in leadership position, the government is taking following measures. - promoting childcare arrangements to accommodate some 200,000 additional children by the end of FY2014, and some 400,000 additional children by the end of FY2017. - raising childcare leave benefits from 50% to 67% of wages prior to leave for the initial 6 months of leave period. In addition, the government added the following new commitments in June 2014 in order to enhance women's participation and advancement in job market. - introducing over 10,000 integrated after-school childcare services/programs and securing the capacity of after-school childcare centers for about 300,000 children by the end of March 2020.* - obliging listed companies to disclose the number of women in executive positions in their financial reports before by March 2015.* - reviewing tax and social security system to be neutral with regard to how women choose to work by the end of 2014.*

• Reinforcing Workforce and Reforming the Employment System: (continued)	The government will also implement following reforms to utilize foreign human resources. - reviewing current Technical Intern Training Systems, which invite trainees from abroad with the aim to support technology transfer, by implementing measures such as expanding job categories and extending training period from 3 years to 5 years, possibly starting from FY2015, while drastically strengthening management and supervision schemes.* - considering schemes by the end of FY 2014 to accept foreign workers at overseas subsidiaries of Japanese corporations in manufacturing sector.* - designing a system by the end of this year to enable foreign nationals, who obtained the national qualifications such as “certified care worker” by learning at Japanese higher education institutions, to work in the field of nursing care after graduation.* - accepting foreign housekeeping support workers in National Strategic Economic Special Zones.*

• Reinforcing Workforce and Reforming the Employment System: (continued)	The government is shifting budget allocation from employment adjustment subsidies to labor mobility support subsidies to realize the labor mobility without unemployment. In order to improve working conditions of part-time workers, the government has recently submitted a bill which expands the scope of part-time workers deemed equivalent to ordinary workers whose discriminately treatment is to be prohibited and requires employers to be accountable about the concrete measures to ensure adequate employment management (approved in April 2014). Furthermore, The government has formulated a plan to increase "Career Consultant", who provides professional advices for career-formulation on July 2014 In terms of improving non-regular workers' careers and their working conditions and promoting workers' work-life balance, it will also consider support in FY 2014 and implement it in FY 2015 in order to spread and promote “diversified regular worker”, which is different from usual regular workers in terms of definition for his or her duty, working place or working hours.* In order to realize flexible and diversified ways of working, the government will also pursue following initiatives. - In order to meet the needs of workers who would like be evaluated not based on working hours but on performance, a new working hour system to break the link between wages and the length of time spent at work will be created, while protecting workers' health and achieving a better work-life balance for workers who have a specific scope of duties and advanced professional skills, and meet a certain annual income requirement (e.g., a minimum of ¥10 million). After the Labor Policy Council has completed its deliberations and reached a conclusion on the system, the Government will take the necessary legislative measures during the next ordinary Diet session. * - Given that major industrial countries have developed mechanisms for pecuniary remedies provided to workers through court decisions in line with their respective employment systems, the government will survey relevant systems and their operation at home and abroad. Base on the finding of the survey, the government will widely study the shape of globally accepted, transparent, fair and objective labor dispute resolutions systems in 2015.*

Implementation path and expected date of implementation	Most of these measures has specific deadlines
What indicator(s) will be used to measure progress?	Together with other measures to facilitate women-friendly work places such as disseminating good practices and promoting disclosure of company information on female participation, the government aims to raise the employment rate of women (aged 25-44) from 68 percent (in 2012) to 73 percent in 2020 and to increase women occupying leading positions to 30 percent in 2020. Through these measures and other efforts, the government aims to increase ratio of hire who had changed jobs to 9% in five years (7.4% in 2011).
Explanation of additionality (where relevant)	The government announced some of these commitments in the revised "Japan Revitalisation Strategy" in June 2014.

[4. Competition]

• Agriculture sector:	The government has taken measures to facilitate the participation of various entities, including private companies, into agriculture sector by establishing "Farmland Banks" to consolidate the fragmented farmland ownerships. The government will also undertake integrated regulatory reform of Agricultural Committee and others so that highly-motivated and business-minded farmers can pursue more dynamic production and operation with taking advantage of knowledge of corporations. Related bills will be submitted to the ordinary Diet session in 2015.* The government will also encourage diversification of distribution channels for dairy farmers through establishing a system where farmers can select and sell their products not only to the conventional designated vendors but others from 2015. Furthermore, it would promote the "AFFrinnovation (sixth industry)" and exports through reviewing the current capital contribution percentage rule to A-FIVE recipients by December 2015 and creating export promotion groups respectively for such products as beef, Japanese tea and fishery products from FY2015.*
Implementation path and expected date of implementation	The government nominated "Farmland Banks" in 43 prefectures by June. Other reform measures have specific timelines.
What indicator(s) will be used to measure progress?	Through these measures, the government aims to quadruple the number of farms run by corporate farmers over the next ten years, expand the size of "AFFrinnovation" market from 1 trillion yen to ten trillion yen in 2020, and increase the size of export of agricultural and food products up to one trillion yen in 2020 (about 0.45 trillion yen in 2012).
Explanation of additionality (where relevant)	The government made progress in this reform by nominating specific "Farmland Banks" and announced to undertake integrated regulatory reform of Agricultural Committee in the revised "Japan Revitalisation Strategy" in June 2014.

• **Healthcare sector:**	**The government aim for establishing non-profit holding company system in 2015. It would allow multiple medical and social welfare corporations to be managed in an integrated manner. It will also design a system, required to allow university hospitals to be spun off as separate entities in order to be managed in an integrated manner with other hospitals under the new holding company system.* The government will significantly expand the system for mixed use of medical treatments covered and uncovered by public insurance (the mixed medical treatment system) .***
Implementation path and expected date of implementation	Most of these measures have specific timelines.
What indicator(s) will be used to measure progress?	These measures will promote revitalization of the healthcare industry through the provision of efficient and high quality services.
Explanation of additionality (where relevant)	The government announced some of these commitments in the revised "Japan Revitalisation Strategy" in June 2014.

• **Energy sector:**	**Japan has taken measures to liberalize fully the retail electricity market by around 2016 to encourage entry of diverse players. The government plans to submit a bill to the next ordinary Diet session , which secures further neutrality of electricity transmission and distribution sectors from generation and retail sectors by legal unbundling.***
Implementation path and expected date of implementation	The government has set specific schedule for three stages of the Electricity System Reforms, namely (i) establishment of the Organization for Cross-regional Coordination of Transmission Operators (OCCTO) in 2015, (ii) full retail competition in 2016, and (iii) legal unbundling of transmission and distribution sectors at around 2018 - 2020. It intends to complete entire electricity reforms by 2020 at the latest.
What indicator(s) will be used to measure progress?	These measures will expand options for customers and create business opportunities for business.
Explanation of additionality (where relevant)	The government announced some of these commitments in the revised "Japan Revitalisation Strategy" in June 2014.

[5. Trade]

• **Promoting economic partnership negotiations, taking trade facilitating measures, and resisting protectionism:**	**Japan will continue to promote economic partnership negotiations, including TPP (Trans Pacific Partnership), RCEP (Regional Comprehensive Economic Partnership), the Japan-China-ROK FTA, and the Japan-EU EPA. The government will take trade facilitating measures such as streamlining trade-related procedures and extending opening hours of ports and harbors. Japan will resist protectionism in all its forms including export restrictions and local content requirements, amongst others through complying with the G20 standstill and rollback commitments.**
Implementation path and expected date of implementation	The government will continue to participate in TPP and other economic partnership negotiations. ➢ Japan signed the Japan-Australia EPA in July 2014. ➢ Japan reached an agreement in principle in the negotiations of the Japan-Mongolia EPA in July 2014. ➢ Japan aims to reach agreement in principle on the Japan-EU EPA during 2015. ➢ Japan will accelerate negotiations further on the Trans-Pacific Partnership towards its early conclusion.
What indicator(s) will be used to measure progress?	The government aims to increase the FTA coverage ratio to 70% from current 23% by 2018
Explanation of additionality (where relevant)	

[5. Other Measures]

• Revitalization and structural reform of local area *	The government will amend the Local Revitalization Law and establish a one-stop platform for planning and implementing regional revitalization efforts. The amendment of the law will be submitted to the next ordinary Diet session. In order to overcome demographic challenges and aging society as well as build dynamic local economic structure, it is necessary to present a long-term and comprehensive vision for local economy. In this respect, the government established a headquarter function to promote various policies in comprehensive manner. The new headquarter's objectives include (i) maintaining regional economy's vitality through consolidation, integration, and networking of industry, employment, and urban functions in order to slow the outward migration to Tokyo, and (ii) overcoming the declining population and birth rate.
Implementation path and expected date of implementation	The amendment of the law referred in these measures will be submitted to the next ordinary Diet Session.
What indicator(s) will be used to measure progress?	These measures will promote the development of local economy.
Explanation of additionality (where relevant)	The government announced some of these commitments in the revised "Japan Revitalisation Strategy" in June 2014.

Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

MEXICO

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

Since 2013, Mexico has pursued and enacted a historic economic reform agenda that will increase the growth potential of the economy while promoting strong, sustainable and balanced growth. Going forward, the objective of the Mexican government is to guarantee the full implementation of the reforms, mainly through the enactment of adequate secondary legislation. In particular, a number of regulatory steps are being currently implemented to ensure that the reforms become fully operational.

Key Commitments

1. Implementing the Energy Reform. Following the approval of the secondary legislation on August 7, 2014, the necessary regulations and guidelines will be issued to initiate the inflow of private investment into the sector. In addition, the government has committed $300 billion dollars to developing energy infrastructure over the next five years through the National Infrastructure Program (PNI, for its acronym in Spanish).

2. Implementing the Telecommunications Reform. The telecommunications secondary legislation was approved by Congress in June 2014. With the reform in place, the new regulator, the Federal Institute of Telecommunications, will have the faculty to promote greater competition in the sector (i.e. the definition of a dominant player in the market). This reform allows greater foreign investment in the sector and the bidding on two new national television chains, and ensures that the digital transition will be achieved by 2015.

3. Implementing the Competition Reform. In July 2014, the new Economic Competition Law became official granting new powers to the new autonomous regulator, the Federal Antitrust Commission. Using its new faculties, the Commission will enforce the antitrust legislation, that is, it will force divestment in sectors that are highly concentrated, will promote a culture of competition, and will target and prevent monopolistic practices.

4. Fostering Investment in Infrastructure through the implementation of the Financial Reform and the National Infrastructure Program (PNI). Capital market regulations will be improved and simplified to help channel more effective institutional investors and commercial banks to infrastructure projects. The private sector participation in infrastructure will also be encouraged through the National Infrastructure Fund (FONADIN) to promote Public Private Partnerships (PPP) project development. Moreover, the government has committed to channel almost $600 billion dollars to over 700 projects in energy, communications and urban development programs through the PNI over the next five years.

5. Greater financing for infrastructure and SME´s. In the next four years, the government through National Development Banks will commit almost $45 billion dollars to expanding direct and induced credit for SMEs and infrastructure.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

Structural reforms will have a positive impact on the potential growth of the economy by increasing productivity, investment and competition. In the short term, this will help close the output gap. In the medium term, it will spur job creation, while increasing Mexico's growth potential.

	Key Indicators					
	2013***	2014	2015	2016	2017	2018
Real GDP (% yoy)	1.4	2.7	3.7	4.9	5.2	5.2
Inflation (%, yoy)	3.97	4.02^	3.0	3.0	3.0	3.0
Fiscal Balance (% of GDP)**	-0.4	-1.5	-1.0	-0.5	0.0	0.0
Current Account Balance (% of GDP)	-2.1	-1.9	-2.0	-2.0	-2.1	-2.1

***A positive (negative) gap indicates an economy above (below) its potential.**
****A positive (negative) balance indicates a fiscal surplus (deficit).**
***** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.**
^ Source: Forecast based on Banco de Mexico's market survey among private sector analysts. Data from the October 2014 survey.

Key Drivers

In the short term, external sector demand proves to be one of the key drivers for economic growth of the country. The firm recovery in advanced economies will support export activity and, in turn, manufacturing. Likewise, public expenditure is already helping boost economic activity.

In the medium term, the aforementioned key reforms along with other reforms also recently implemented, will positively affect investment levels. Particularly, the enacted reform agenda will improve investment climate through better regulation that provides, among other benefits, legal certainty to private investment in the energy, telecommunications and financial sectors. Growth composition should change gradually and systematically insofar as the reforms are implemented.

Assessment of Obstacles and Challenges to Growth

Economic growth could be challenged by both, external and domestic factors. As far as external factors are concerned, Mexico is one of the economies most financially connected to global markets. If global economic activity remains subdued, especially in advanced economies, export dynamics in Mexico could slow down, affecting production levels, in particular in manufacturing.

As regards domestic factors, a handful of elements have limited the country's potential. In particular, productivity growth has been a binding constraint on economic growth. From 1990 to 2011, total factor productivity decreased at an annual rate of 0.4 percent. Likewise, the labor market slack has hindered growth, influenced by high levels of informal employment and low levels of competition in strategic input markets. Moreover, further progress is required in order to increase domestic demand, notably private consumption. Therefore, these and other obstacles to growth are addressed by the reform agenda adopted in 2013. The Government is working in order to rapidly implement the structural changes embedded in the reforms, for their benefits to be tangible in the near term.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

The Fiscal Reform approved in 2013 and implemented in 2014 broadens the tax base and limits special treatments, while promoting a simpler and progressive tax code. The approved measures modify all components of the tax system. As a fiscal policy measure, the reform promotes job formality with the establishment of a new tax incorporation regime. Furthermore, as mentioned above, the reform includes a Structural Balance Rule, adding a maximum limit of current expenditure growth so as to generate savings and to guarantee a higher quality in public spending.

Fiscal Reform

Regarding corporate taxation, the repeal of the Single Rate Business Tax Law or flat tax (IETU), as well as the Cash Deposit Tax Law (IDE) have been approved, simplifying the corporate tax regime. The new Income Tax Law (ISR) eliminates or limits several special regimes, including the simplified and fiscal consolidation regimes so tax evasion and deductions are limited; at the same time, it broadens the tax base in order to substitute the tax collection associated with the two taxes that were abolished. This will simplify the system, replacing the three former taxes with only one tax, while maintaining revenue collection levels. Thus, the administrative burden associated with paying taxes is reduced and the collecting efficiency is increased.

Regarding the personal income tax, the measures proposed to broaden the tax base and strengthen its progressivity were approved. A new schedule was approved for the Income Tax for individuals, including new segments and an increase to the marginal rate for high-income individuals, reaching 35% for individuals with an annual income above Ps. 3 million.

Likewise, a global limit was passed on personal deductions equivalent to 4 minimum wages or 10% of income. Furthermore, this global limit will not apply to donations by individuals or to the payment of school tuition. Moreover, the taxation of capital gains and dividends from the Mexican Stock Exchange was approved.

Regarding VAT, proposals were approved regarding the equalization of VAT in the border region to the rate prevailing in the rest of the country, as well as the preservation of the zero rate on food and medicine and the elimination of the exemption for temporary imports.

Regarding excise taxes, the approval of a special tax (IEPS) on flavored drinks was complemented by the tax set on non-basic high-calorie density foods at a rate of 8%. Furthermore, it was established that tax collection proceedings from the IEPS on flavored drinks would be used for public health programs.

Regarding green taxes, the IEPS on carbon was approved, introducing a limit of 3% tax on the price of fuel and the specification that natural gas will represent the zero-based with regard to emissions. Consistent with the extra-fiscal purpose of this tax, its payment through carbon credits is also allowed. Similarly, the tax on pesticides was approved starting in 2014.

With respect to mining, the proposed royalty was approved with amendments that allow certain credits and an exemption for small mining producers, as well as an increase in the resources destined for local governments. A new schedule for the update of water royalties was also approved.

The changes to the Fiscal Code of the Federation are aimed at facilitating compliance with fiscal obligations, strengthening the mechanism of exercising taxpayer rights and granting greater rights to the authority to combat tax fraud.

To facilitate tax compliance, the registration in the Federal Taxpayer Registry (RFC) is simplified, that is, it can be done online and though different electronic media. The Tax Mailbox has been created in order to modernize communication between taxpayers and tax authorities.

Taxpayer rights are strengthened by forcing the tax authority to inform on the advances of audits to firms' boards, establishing a new mediation mechanism between taxpayer and tax authority, regulating the embargo on bank accounts and establishing a limit on the deferral of the prescription of fiscal credits. In addition, authority is allowed to leave without effect fiscal receipts issued for non-existent operations and deadlines for debt collection procedures are reduced.

Fiscal Framework Reform

In December 2013, Congress approved the reform of the Federal Budget and Fiscal Responsibility Law. The reform strengthens macroeconomic stability, grants credibility and transparency to the evolution of expenditure and public finances in Mexico, and establishes fiscal discipline as a State Policy.

The reform strengthens the current budget balance rule, by adding a current expenditure cap. This cap ensures a return to a balanced budget in the medium term and assures an improvement in spending quality. Hence, fiscal policy will be more counter-cyclical than it has been in the past.

Second, Public Sector Borrowing Requirements (PSBR) are established as a fiscal anchor that guarantees a sound management of public finances in the medium term. This measure is broader than the current definition of traditional balance and, therefore, will provide greater transparency to the efforts of maintaining public debt in a sustainable path.

Although originally proposed as part of the fiscal reform, a simplification of the mechanism of distribution and savings of excess revenues was included in the secondary legislation of the Energy Reform (see Other Measures for further details of the Energy Reform), as well as the creation of the Mexican Oil Fund for Stabilization and Development.

- **Stabilization Funds.** The Reform increased the limits of stabilization funds so that the Federal Government and the Mexican States have greater margin to respond to adverse shocks. This increment will provide more resources to accumulate and reach a level that allows a response to a negative shock in income, as the one experienced during the 2009 crisis and that represents an extreme case of the shocks to which public finances are exposed. In order to harmonize the management of surplus revenues, the stabilization funds will become the first mechanism to cover public finances' contingencies so that the long-term savings in the Mexican Oil Fund are used only in extraordinary cases in which public finances face severe shocks that could last for over one fiscal year.
- **Mexican Oil Fund for Stabilization and Development.** The Mexican Oil Fund for Stabilization and Development, which is a savings fund that concentrates all the revenues from the energy sector, has been created. The Fund will allocate an amount equivalent to 4.7 percent of GDP of oil revenues to the Expenditure Budget, which is the amount that it currently received. Resources above this threshold would go into a long-term savings fund. Once the savings in the fund reach a threshold of 3 percent of GDP, the government would be able to make use of 60 percent of the excess resources. The Technical Committee of the Fund shall consist of three members of the Sate: the Minister of Finance, who will be chair of the committee and has a casting vote, the Minister of Energy and the Governor of the Central Bank of Mexico, as well as four independent members, appointed by the President with the Senate approval.

Monetary Policy

The Central Bank of Mexico's constitutional mandate is to pursue stability of the purchasing power of the national currency. To meet this objective, Banco de Mexico adopted an inflation-targeting scheme as framework for the monetary policy conduct. Specifically and consistent with its mandate, the Central Bank has defined as a permanent target reaching an annual inflation of 3 percent in an efficient way, that is, at the lowest possible cost to society in terms of economic activity. The conduction of monetary policy in Mexico under an inflation-targeting scheme has contributed to anchor inflation expectations, reducing the level, volatility and persistence of inflation.

Exchange Rate Policy

In Mexico, the Foreign Exchange Commission (composed by the Ministry of Finance and the Central Bank) is responsible for conducting the foreign exchange policy. The flexible exchange rate regime in Mexico has served as a natural shock buffer to attenuate the impact of adverse external events. Various elements have strengthened the role of the exchange rate as a buffer against the referred shocks. First, there has been a reduction in recent years in the pass-through of exchange rate fluctuations to domestic prices. Second, the existence of a well-developed derivatives market in Mexico, which allows economic agents to cover their exchange rate risks. Hence, due to its stabilizing properties, the flexible exchange rate regime will remain an important element of the policy framework in Mexico.

New Structural Policy Responses

Investment and Infrastructure

Mexico has enacted an ample reform agenda that will increase the growth potential of the economy. On the economic front, the most important ones are: Labor Reform, Education Reform, Telecom Reform, Anti-trust Reform, Fiscal Reform, Financial Reform and Energy Reform. The enacted reform agenda aims at the supply side of the economy, and will improve significantly the investment climate and the intermediation process of Mexico, enhancing the country's attractiveness for investment and contributing to close the gap between long-term financing needs and capital availability.

- In order to attract investment in high quality infrastructure projects and Small and Medium Enterprises (SMEs), one of the most important domestic challenges is related to the efficient implementation of these reforms.
- The role of National Development Banks is strengthened regarding infrastructure and SME financing.

Mexico's Federal Government recently presented the National Infrastructure Program 2014-2018, which includes a comprehensive infrastructure development strategy that aims to increase the country's economic growth and productivity. Mexico has several public and private sector financial vehicles to promote investment in infrastructure, as well as a recently revised legal framework that fosters private participation. Nonetheless, some challenges prevail regarding infrastructure development and financing:

- Institutional investor's participation in infrastructure is limited due to the lack of appropriate financing vehicles and infrastructure investment and risk management expertise. Also, current incentives among institutional investors account for a low risk appetite for infrastructure products.
- Despite there being a wide range of infrastructure projects in different stages of structuring, it is necessary to consolidate a pipeline of bankable projects that meet the national strategy for infrastructure development.

Employment

The comprehensive structural reform agenda that Mexico has undertaken will produce a definite impact on employment. This increase will result from greater economic growth and a more efficient labor market.

One of the challenges Mexico is facing is developing a labor market that is flexible and inclusive, that is conducive to higher labor productivity and increases real wages, promoting higher growth rates for the country. In November 2012, a Comprehensive Labor Reform in Mexico was approved by Congress. The reform is expected to contribute to a more flexible labor market, promote formal employment and increase labor productivity.

The said reform addresses many of the country's employment gaps. Regarding flexibility, it allows firms to have training programs, trial contracts and temporary contracts for specific activities. It also sets a cap on back wages in order to reduce market frictions and increases efficiency and transparency in labor unions. Moreover, it protects vulnerable groups, especially women and the disabled, while reinforcing health and civil protection measures.

In the Inflation Report, October-December 2012, Banco de Mexico quantifies the expected impact that the Labor Reform would have on output. According to this estimate, the impact on the potential GDP growth rate over the next five years could be an average of 0.15 percentage points per year. This scenario is considered the most probable, while a more optimistic scenario would increment the potential GDP rate by an average of 0.25 percentage points per year.

As part of the fiscal reform approved in 2013, several measures were included to foster formality. The proposal for a Regime of Incorporation, which substitutes the Intermediate Regime and the Regime for Small Taxpayers, was approved. The new regime provides an entry point to formality for small and medium enterprises, allowing them to be completely incorporated to the general regime after 10 years. Individuals with annual incomes of up to Ps. 2 million are allowed to pay taxes under this regime.

Additionally, the government proposed the introduction of an Unemployment Insurance Facility for formal workers. However, this measure still requires approval by Congress. The said program creates adequate conditions for a successful reintegration of the worker into the labor force, promoting labor market efficiency. The benefits include an appropriate job search that matches worker's abilities and aspirations with those of firms in case of unemployment. It encourages the creation of formal jobs by maintaining the current costs of social security for employers. The reform is expected to positively impact productivity. In the absence of household income, workers might accept less productive jobs than those they could accept if they had an income that would allow them to keep searching for an opportunity that better matches their skills and qualifications. The design of the Unemployment Insurance ensures stability of public finances.

Finally, on September 8, 2014, the Mexican Government introduced a new strategy that seeks to provide incentives for the millions of workers to join the formal economy. As part of the Fiscal Reform, *"Crezcamos Juntos*" is a program that involves various areas and levels of the government, as well as the private sector. In order to make the transition from informality to formality attractive, the program involves various incentives such as social benefits, while offering a smooth transition for those involved.

Competition

Last year, Mexico enacted a series of reforms that tackle, directly or indirectly, the lack of competition in strategic markets. In this matter, Congress approved a constitutional Anti-trust Reform, which among other factors, gives the Federal Antitrust Commission (COFECE) more autonomy and legal authority to regulate the access to essential inputs.

To implement the constitutional reform, on April 30, 2014, the Mexican Congress passed the new Economic Competition Law.

The most important changes include:

- **New faculties of the Federal Antitrust Commission.** It grants the commission new faculties, such as declaring and regulating essential inputs, determining and establishing measures to remove barriers to entry, and compelling the divestiture of assets.

- **Monopolistic practices and market concentration.** The law adds new categories of absolute monopolistic practices and new regulatory measures to prevent and investigate market concentration.
- **Special procedures and sanctions.** The law includes various new special procedures, like initiating investigations ex officio and is accompanied by a modification to the Federal Criminal Code to include penalties for monopolistic practices.

The Financial Sector Reform will make credit more readily available and at lower cost through greater competition. Mexico already boasts one of the most open financial systems in the world. So, most financial institutions in Mexico have some form of foreign participation, if not outright ownership.

In the media and fixed-line telecommunication sector, the Telecom Reform, enacted in June 2013, aims to ensure access to information technology and telecommunication and broadcasting services, including broadband.

A key measure introduced in the secondary legislation in 2014 is the definition of a dominant player, which designates an entity which amounts to more than 50% of the market share in a specific part of the telecoms or broadcasting sector. The law also establishes tighter regulation for any dominant players, including outlawing interconnection fees and forcing firms to share infrastructure. While the new regulation does impose conditions on the television sector, an important impact will be felt immediately in the telephone sector. One way the Reform seeks to attract new competitors into the TV market is by bidding for two new national chains.

Furthermore, the government continues to promote foreign direct investment. Thus, under the Telecom Reform, greater foreign investment in the sector is allowed. In the case of telecommunications, foreign investment can represent up to 100% of total investment (it was previously limited to 49%). In turn, this will increase the penetration of fixed telephone lines, mobile telephony, internet and broadband, and bring them to the levels observed in other developed countries. The government has also committed 100 billion to developing communications infrastructure through 2018.

Additionally, the Energy Reform opens up investment in the nation's energy sector to private sector participation. With this reform, the government will be able to perform exploration and extraction activities of oil and other hydrocarbons through contracts with PEMEX and/or the private sector. Moreover, PEMEX and CFE will have more technical, managerial and budgetary autonomy, which will contribute to a more competitive provision of services.

Trade

Over the last 20 years, Mexico has taken important steps to strengthen and promote the free flow of goods, services and financial resources. The country boasts free-trade agreements with over 40 countries, including nearly all G20 members, and continues to pursue the strengthening of its trade links.

Mexico has been actively working in the construction of the Trans-Pacific Partnership (TPP), which seeks to establish a free trade area in the Asia-Pacific region. Furthermore, the TPP aims to be more ambitious than a traditional free trade agreement, as it seeks to eliminate or reduce all barriers to trade, and boost investment substantially between the participating economies, which represent nearly 40% of world GDP.

The country has also been working on obtaining the benefits of its large and growing infrastructure, as well as its strategic geographical position. To assist merchandise border crossing with the United States, both governments agreed to launch a Cross-Border Long-Haul Trucking Pilot Program, so that carriers from the US and Mexico can engage in cross-border trucking operations into the other country. This program is still in its early stages, but it is a step forward to increase efficiency, and decrease transportation and environmental costs.

The structural reform agenda approved last year will have a key impact on the Mexican external sector, including trade. Broadly, these reforms seek to reduce barriers to foreign direct investment, relax equity restrictions in transport, media and fixed-line telecommunications, as well as in financial services. Moreover, they facilitate entrepreneurship and business start-ups and reduce barriers to entry and competition in strategic input markets, while relaxing constraints against private investment in the energy sector.

Other Measures

Energy Reform

On December 12, 2013, a historic Constitutional Energy Reform was approved by Congress. The reform opens investment in the nation’s oil sector to private companies. This will have a sizable positive impact on economic growth. It will also allow Mexico to tap into its vast natural gas reserves. Together with efficiency gains in the economy from lower energy prices, the reform is expected to increase potential output by 1 percent of GDP by 2018.

On August 11, 2014, President Peña Nieto signed into law the secondary legislation of this Reform and announced 10 measures to guarantee its full and efficient implementation. Among them were publishing the results of the “Round Zero”, that is, the fields awarded exclusively to PEMEX for exploration and drilling, and announcing the fields that will be open to private investment (“Round One”). Other actions included the establishment of the new energy regulatory bodies: the National Agency of Industrial Safety and Environmental Protection, the National Energy Control Center (CENACE) and the National Center for Control of Natural Gas (CENAGAS). Additionally, several programs were established to encourage the formation of human capital in the sector, to strengthen the Mexican Petroleum Institute, which conducts research and development, and to foster the use of renewable energy. With this reform, the Mexican Government will be able to perform oil and other hydrocarbons exploration and extraction activities through contracts with PEMEX and/or the private sector. The contracts include: services, profit-sharing, production-sharing, licenses or any combination of the aforementioned options. The National Hydrocarbon Commission (CNH, after its name in Spanish) will be in charge of the bidding processes and management of such contracts. Oil companies will have the right to book expected benefits of contracts in their balance sheets. However, they must specify that hydrocarbons are owned by the Mexican State.

The reform also creates the Mexican Oil Fund for Stabilization and Development. The Fund will receive and manage oil revenues in order to promote sound public finances in Mexico. Moreover, the Fund will channel resources for long-term savings, the universal pension system, science and technology, infrastructure for development, scholarships, among others.

Private investment in oil refining and processing will be allowed, as well as in oil transportation, storage and the distribution of natural gas, gasoline, diesel and other oil derivatives. In addition, the private sector will be able to participate in all the petrochemical chain and to perform activities of generation and commercialization of electricity. Transmission and distribution of electricity by the private sector will be done under contracts with the Federal Electricity Commission (CFE, after its name in Spanish).

The CNH and the Energy Regulatory Commission (CRE, after its name in Spanish) will be strengthened with the reform. Both commissions will be constituted as regulatory coordinated organisms, with their own legal personality, technical, managerial and budgetary autonomy. Commissioners will be proposed by the Executive branch of the government and confirmed by the Senate. Furthermore, PEMEX and CFE will have more technical, managerial and budgetary autonomy.

CENAGAS will be a public entity in charge of managing the pipelines and storage system, while CENACE will be removed from CFE and transformed into a public entity in charge of the national electricity system operation.

The State will protect and take care of the environment through strict sustainability criteria, promoting cleaner energy and fuels, as well as stimulating the reduction of pollutant emissions from the energy industry. The reform creates a decentralized agency for the regulation and supervision of industrial security and environment protection in the hydrocarbon sector.

Within the mining industry, the reform keeps the possibility of exploiting gas associated with carbon mining.

Secondary Legislation

On August 7, 2014, Mexico Upper House approved the complete secondary legislation for the Energy Reform. This new legal framework establishes free competition between state enterprises and private individuals in all energy activities. Additionally, it strengthens public companies and regulators (Energy Regulatory Commission and the National Hydrocarbons Commission) and the Ministry of Energy.

The secondary legislation approval includes the following five main themes:

1. **Exploration and Extraction Contracts**.
    a. The auction process for exploration and extraction contracts will be managed by the CNH, and any firm can participate. However, the Ministry of Energy (SENER) will determine which fields are up for auction and the form of contracting (profit sharing, service contracts, production sharing or licenses). Lastly, the Ministry of Finance (SHCP) will determine the economic terms of the contract.
2. **Energy Policy and Regulatory Bodies**.
    a. The National Gas Pipeline Center (CENAGAS) will be in charge of operating and overseeing the national network of hydrocarbon transportation pipelines and storage facilities system.
    b. The Electric Energy National Control Center (CENACE) will be in charge of managing the National Electric System and operating the electric wholesale market.
    c. Legislators approved that by January 1, 2016 private firms will be able to set up gas stations without them being a PEMEX franchise, however PEMEX will be their sole supplier. Furthermore, by January 1, 2017, firms will be allowed to self-supply gas. Private participation in gas distribution will enable more job creation.
    d. Additionally, from 2015 to 2017, SHCP will determine gasoline prices based on inflation and international prices. Beginning from 2018, gasoline prices will be liberalized.
3. **Regulation for Production Companies**.
    a. The body of State Productive Companies (SPC) is created with managerial autonomy and regulated independent bodies. This way, SPCs' main goal will be to maximize economic gains for the state, with a structure more similar to a private company.
    b. As an anticorruption measure, SPCs must have complete information systems regarding their suppliers and contractors, which will have to be updated on a regular basis.
    c. Pemex and CFE as SPCs will be subject to an annual evaluation, which will be carried out by a Commissioner that will have to be an independent expert.
4. **Opening of the Domestic Energy Market**.
    a. CFE will remain an electric service provider for residential consumers and for small medium commercial & industrial clients. These users will not see changes in the way they currently pay or consume electricity.
    b. Electric plants, except those intended for self-supply or of smaller than 0.5MW capacity, will require a permission from the Energy Regulatory Commission to generate electricity.

5. **Tax Regime.**

    a. PEMEX and CFE will be required to annually submit to SHCP their annual report on earnings and prospects. SHCP will determine the dividend to be paid by PEMEX and each of its productive subsidiaries.

It is plausible that, in preparation for this, enterprises may start (or perhaps have done so already) to invest immediately (in facilities, equipment, among others), which would boost jobs in the short term. Additionally, we expect to see an increase in potential growth in the long run and a gradual decline in energy prices.

Law to Increase Productivity and Competition

In October 2014, the current Administration presented the Law to Increase Productivity and Competition in the Economy. The law seeks to bolster the integration of production chains (SMEs with large enterprises), to increase the added value of exports, to strengthen the domestic market, to bolster financing activities and projects that have productive potential, as well as to increase investment in human capital, entrepreneurship and applied innovation.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

Mexico's fiscal strategy for the 2014-2018 period aims at securing a downward trend of public debt through a comprehensive fiscal consolidation strategy that includes a fiscal reform, the strengthening of the Fiscal Responsibility Law, and mechanisms to contain current expenditure and to improve the efficiency and quality of public spending in infrastructure, health and poverty alleviation programs. We expect the ratio of public debt to GDP to peak in 2015-2016 and follow a downward path thereafter.

2. Medium-term projections, and changes since last submission (required for all members):

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Deficit[1]	2.3	3.5	3.5	3.0	2.5	2.0	2.0
ppt change	0.3	1.7	1.6	1.1	0.7		

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
1/ Includes Pemex investment.

Economic assumptions, and changes since last submission (required for all members):

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Real GDP growth	1.4	2.7	3.7	4.9	5.2	5.2	5.2
ppt change	-1.7	-1.3	-0.3	0.9	1.2		
ST interest rate[1]	3.8	3.0	3.3	3.9	4.5	5.0	5.5
ppt change	-0.3	-1	-1.7	-1.2	-0.9		

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
1/ Average short-term interest rate (Cetes 28 days).

ANNEX 2: NEW POLICY COMMITMENTS

Macroeconomic Policy Responses (including Reforms to Frameworks)

1. Investment and Infrastructure

The new policy action:	**1. Execute the National Infrastructure Program 2014-2018 in order to promote domestic demand, job creation and lead to productivity increases.**
Implementation path and expected date of implementation	• The Federal Government recently presented the National Infrastructure Program 2014-2018 (NIP), which includes a comprehensive infrastructure development strategy that aims to increase the country's economic growth and productivity, based on three guiding principles: 1) Logistics Platform 2) Balanced Regional Development 3) Sustainable Urban Development The NIP is a broad and profound agenda for infrastructure development; it comprises 24 strategies, 83 action lines and 20 indicators with specific targets that will allow evaluating the performance of the Program. The NIP estimates a total amount of public and private investment in infrastructure to be almost $600 billion dollars for the next five years. The Program includes 743 infrastructure projects to be developed between 2014 and 2018, in the following sectors: Energy (with investments of $301.2 billion dollars), Housing ($143.8 billion dollars), Communications and Transportation ($102 billion dollars), Water ($32.2 billion dollars), Tourism ($14 billion dollars), and Health ($5.6 billion dollars). This program, together with the structural reform agenda will lead to an increase in the economic growth rate of between 1.8 and 2 percentage points, and will create 350,000 additional jobs per year, reaching a total of over 1 million jobs per year. Private resources are essential to achieve the coverage and quality of the National Infrastructure Program. It is expected that the $377 billion dollars of public investment will be complemented with $221 billion dollars of private investment.
What indicator(s) will be used to measure progress?	Number of projects developed. Annual public and private investment in infrastructure.
Explanation of additionality (where relevant)	For more detailed information about the Program, sectors and projects please refer to http://presidencia.gob.mx/pni/

The new policy action:	2. **Strengthen the role of National Development Banks for infrastructure and SME financing**
Implementation path and expected date of implementation	The Financial Reform, which amended 34 laws, will enhance credit allocation in an already stable and well-capitalized financial system. Its main objective is to reduce costs and promote efficiencies in credit origination mainly for SMEs, as well as to provide a new mandate for Development Banks, in order to foster financial market development and financial inclusion. In this sense, the major National Development Banks recently presented their medium-term plans (2014-2018), which define objectives and strategies to complement commercial banks' lending, with adequate risk sharing. This will allow an increase in credit growth, in particular in areas that are not fully covered by commercial banks like infrastructure and SMEs. The main strategies include: • Expanding direct and induced credit (almost 45 billion dollars by 2018) • Fostering participation of commercial banks in infrastructure financing (mini-perm financing, mezzanine products) • Contributing to channel institutional investors' resources to infrastructure (guarantees) • Fostering infrastructure development by local governments • Strengthening credit and guarantee programs for SMEs, which will contribute to create a credit history record for these enterprises The full implementation of these strategies is fundamental for strengthening the role of National Development Banks for infrastructure and SME financing. Development Banks play an important role in complementing efforts of commercial banks to increase the supply of credit, which could serve as a catalyst for job creation and growth. During 2014, major National Development Banks' boards will take the necessary actions for the implementation of the medium-term plans.
What indicator(s) will be used to measure progress?	Balance of National Development Bank's credit as a percentage of the Gross Domestic Product (GDP).
Explanation of additionality (where relevant)	This new commitment contributes to the particular objective of the Financial Reform of providing greater flexibility to the operations of Development Banks, in order to allow them to complement commercial banks and increase credit growth, primarily in areas that influence national development.

The new policy action:	3. Foster private sector participation in infrastructure
Implementation path and expected date of implementation	The Pension Funds (AFORES) are able to invest in infrastructure projects through structured instruments called Development Capital Certificates (CKDs), which are traded on the Mexican Stock Exchange. Nonetheless, a more active involvement of local institutional investors is required to fully develop local capital markets and channel more resources into long-term project financing. In this sense, the Mexican Federal Government is encouraging a reform of capital market regulation, regarding the participation of institutional investors in infrastructure, in order to: • Improve incentives for investment portfolio management, leading to better investments and more efficient asset managers • Simplify the regulatory framework for infrastructure products, making CKDs a more flexible instrument • Extend the range of institutional investors that can invest in CKDs, including insurance companies This policy will contribute to strengthen local institutional investors' participation in infrastructure, fostering private capital mobilization for this sector. This reform is being analyzed and will be presented during 2014. In addition, the Federal Government has developed the National Infrastructure Fund (FONADIN), which is a specialized project-financing vehicle that promotes infrastructure development through PPP schemes. FONADIN is the concessionaire of a network of 51 toll highways. Toll income allows financing new infrastructure projects with high social returns (using brownfield projects to finance greenfield). It is a flexible risk-taking entity that can efficiently promote a wide range of projects. The different funding modalities used by FONADIN include several financial alternatives such as guarantees, mezzanine loans and capital. FONADIN's action plan for 2014 includes: • Supporting PPP project development • Exploring new alternatives to channel in a more efficient manner local institutional investors' resources (mainly pension funds) to infrastructure (project bonds, securitization, among others) • Strengthening project preparation and structuring in order to consolidate a pipeline of bankable projects for private sector investment, fostering solid evaluations and risk management techniques • Implementing a mechanism to prioritize infrastructure project development, in order to meet the infrastructure strategy outlined in the National Infrastructure Program 2014-2018

What indicator(s) will be used to measure progress?	• Total investment (public and private) in infrastructure fostered by FONADIN. • Annual number of projects supported by FONADIN, including number of investment funds in which FONADIN participates.
Explanation of additionality (where relevant)	This policy action is not related to past commitments.

2. Employment

• The New policy action:	Unemployment Insurance
Implementation path and expected date of implementation	The policy is currently under discussion by Congress. If, as expected, it is approved this year, its implementation would be considered in the budget proposal for 2015.
What indicator(s) will be used to measure progress?	Once the reform is approved, its progress could be verified by the number of applicants that are granted unemployment insurance in a given year.
Explanation of additionality (where relevant)	This policy action is not related to past commitments.

3. Competition

• The New policy action:	Implementation of the Anti-trust Reform, including the recently approved secondary legislation.
Implementation path and expected date of implementation	COFECE will be in charge of implementing the measures through its everyday operation.
What indicator(s) will be used to measure progress?	Implementation could be tracked through the number of resolutions that COFECE emits in a year.
Explanation of additionality (where relevant)	Secondary legislation defines several important details that complement the constitutional reform and enable its implementation.

• The New policy action:	Implementation of the Telecom Reform, including the recently approved secondary legislation.
Implementation path and expected date of implementation	The Telecom Reform has already been approved by Congress and is in its early stages of implementation. The Telecom Regulator (IFETEL) is now in charge of its implementation.

What indicator(s) will be used to measure progress?	Progress on this front could be tracked by the penetration of telecom services among the population (i.e. broadband access, cellphone penetration) and by price indicators (i.e. dollars per MB of broadband speed).
Explanation of additionality (where relevant)	Secondary legislation defines several important details that complement the constitutional reform and enable its implementation.

4. Any other structural policy

The new policy action:	**1. Complete the secondary legislation of the Energy Reform**
Implementation path and expected date of implementation	The Energy Reform aims at increasing private investment across the whole sector. The new legal framework will allow for substantive risk sharing between the private and public sectors, which will allow Mexico to fully profit from its energy potential. The Constitutional reform was approved by Congress in December 2013, nevertheless it is fundamental to complete the secondary legislation of the Energy Reform to ensure its full implementation. With this Reform, the Mexican Government will be able to perform exploration and extraction activities of oil and other hydrocarbons through contracts with PEMEX and/or the private sector. Private investment in oil refining and processing will be allowed, as well as in oil transportation, storage and the distribution of natural gas, gasoline, diesel and other oil derivatives. In addition, the private sector will be able to participate in all the petrochemical chain and to perform activities of generation and commercialization of electricity. The reform creates a Sovereign Stabilization and Development Fund, which will receive and manage oil revenues in order to promote sound public finances in Mexico. Moreover, the Fund will channel resources for long-term savings, the universal pension system, science and technology, infrastructure for development, among others. These actions will clearly contribute to growth and employment. The Energy Reform's secondary legislation was presented to Congress on April 30, 2014. This legislation is expected to be approved in mid-August 2014.
What indicator(s) will be used to measure progress?	Total investment in energy sector as percentage of the GDP.
Explanation of additionally (where relevant)	Secondary legislation defines several important details that complement the constitutional reform and enable its implementation.

COMPREHENSIVE GROWTH STRATEGY:

NEW ZEALAND

A. ECONOMIC OUTLOOK AND KEY POLICY COMMITMENTS

Economic Objective

The Government is focused on managing the current cyclical upswing, while lifting New Zealand's underlying growth rate so that, incomes continue to rise and new jobs continue to be created beyond the peak of this economic cycle. To achieve this the Government is:

- returning its own accounts to surplus and then reducing debt;
- pushing ahead with a wide-ranging series of microeconomic reforms to create a more productive and competitive economy;
- driving better results and better value for money from public services; and
- continuing to support the rebuilding of Christchurch, New Zealand's second largest city following the 2010 and 2011 earthquakes.

Taken together the measures described below are aimed at lifting trend or potential growth in a sustainable and balanced manner. A key element of this is helping the economy to absorb the impact of earthquake reconstruction (estimated to be around 15 percent of GDP over a decade) in the least distorting way possible.

Increasing international connections, creating higher skilled jobs and better conditions for investment will lay the foundation for more innovation, more diversification and more capital intensity that will support higher productivity, exports and overall growth. Prudent fiscal policy via returning to fiscal surplus and rebuilding fiscal buffers by lowering debt will make growth more sustainable, counterbalancing New Zealand's large negative net external liability position. Robust domestic demand on the back of high terms of trade, earthquake reconstruction and higher employment and investment together with more internationally connected businesses will see increased two-way flows of trade, people and capital.

Key Commitments

See above.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

Led by the private sector, the New Zealand economy is growing strongly. Real GDP in the June 2014 quarter was 3.9 percent higher than a year earlier. Real GDP growth of between 2 and 4 percent is forecast over the next four years. Growth has been faster than trend over 2014, reducing unemployment to 5.4 percent in the September 2014 quarter and adding to demands on productive capacity. Strong construction sector activity, high net immigration, and interest rates, which remain low by historic standards, continue to support the expansion. Over much of Treasury's four-year forecast period, the economy is expected to operate at or above capacity.

Growth in demand has reduced spare capacity in the economy but consumer price inflation (CPI) remains modest, with annual CPI inflation 1 percent in the year to September. Contributing factors are subdued wage inflation, well-anchored inflation expectations, weak global inflation, falls in oil prices, and the high New Zealand dollar. House price inflation has fallen significantly since late-2013.

	Key Indicators[1]					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	2.8	3.9	3.3	2.4	2.1	
Nominal GDP (% yoy)	5.3	7.0	3.6	4.6	3.9	
Output Gap (% of GDP)[2]	-0.0	0.9	1.3	0.5	0.1	
Inflation (%, yoy)[3]	1.6	1.4	2.2	2.4	2.2	
Fiscal Balance (% of GDP)[4]	-2.1	-1.3	0.1	0.3	0.7	1.1
Unemployment (%)[5]	6.0	5.6	5.3	4.9	4.6	
Savings (% of GDP)[6]	18.7	19.1	18.4	18.3	18.4	
Investment (% of GDP)[6]	21.6	23.3	24.3	24.8	25.0	
Current Account Balance (% of GDP)	-3.4	-3.6	-6.0	-6.4	-6.4	

[1] Calendar years unless stated.

[2] A positive (negative) gap indicates an economy above (below) its potential.

[3] December quarter on previous December quarter

[4] Year ended June 30. Operating Balance before gains and losses. Positive (negative) balance indicates a fiscal surplus (deficit). 2014 figure is an outturn.

[5] Seasonally adjusted rate, December quarter.

[6] Nearest March year.

Source: The Treasury - *Pre-election Economic and Fiscal Update*, 19 August 2014.

Key Drivers

The pace of expansion in economic activity quickened and broadened over the second half of 2013 and this trend continued into 2014 before easing recently. Agricultural production has been strong, supporting export growth in the face of the high New Zealand dollar and moderate global growth, and robust business confidence has contributed to more investment in capital equipment. Earthquake reconstruction, previously high terms of trade, strong net inward migration and stimulatory monetary policy settings are also contributing to robust household and firm spending. Economy-wide employment has risen sharply, contributing to growth in household incomes and falling unemployment. Fiscal policy and the elevated exchange rate are providing some offset to demand growth. Credit growth is increasing but remains moderate.

Investment made the largest contribution to growth in 2013 (over 2 percent) as the economic expansion quickened and this is expected to be the case again in 2014. Thereafter, investment's contribution to growth is forecast to ease back but remain positive. The level of investment, partly associated with earthquake reconstruction, is forecast to remain high (see Key Indicators table). Consumption, mostly private, is forecast to make a steady contribution of around 2 percent per year to growth. Export volumes are forecast to gradually increase as headwinds from the high exchange rate and modest global growth dissipate. Strong domestic demand growth will in part be met from higher imports.

Macroeconomic Policy Settings

New Zealand's macroeconomic framework comprises a freely floating exchange rate, the independent Reserve Bank of New Zealand operating a flexible inflation-targeting monetary policy regime, and a transparency-based fiscal framework anchored by achieving and maintaining prudent levels of debt. Demand management is typically the purview of monetary policy, supported by the operation of fiscal stabilisers.

In aggregate, macro policy settings are currently calibrated to managing the robust expansion underway and the likely opening up of a positive output gap, while looking to support rebalancing of the drivers of growth.

Fiscal Policy

The Operating Balance excluding Gains and Losses (OBEGAL) was a deficit of 1.3 percent of GDP in the year ended June 2014, down from a deficit of 2.1 percent in the previous year. The New Zealand Government presented its latest fiscal plans in the 2014 Budget on 15 May 2014, with the economic and fiscal forecasts updated by the Treasury in August in the Pre-election Economic and Fiscal Update. The Government is focused on returning to surplus and its long-term fiscal objective is to reduce net core Crown debt[1] to 20% of GDP by 2020. In the Budget, the Government outlined its intention to manage its spending and revenue so that any change in fiscal settings do not have a material adverse impact on interest rates. Over the next four years fiscal policy is forecast to impart a negative fiscal impulse on average. Relative to a neutral stance, fiscal policy is expected to remove inflationary pressure such that short term interest rates will be around 50 basis points lower than otherwise.

Government spending has declined as a share of GDP, freeing up resources to be used elsewhere in the economy. A significant element of the progress to date has come from

[1] The Government's debt objective is set in net debt terms. The specific net debt measure used is a core crown measure and excludes financial assets ring-fenced for particular policy purposes, particularly the assets of the New Zealand Superannuation Fund and Advances

defining the results being sought from government spending and reprioritising resources accordingly.

Beyond 2020, the Government intends to maintain net debt within a range of around 10 to 20 percent of GDP. Repaying government debt will rebuild fiscal buffers, putting New Zealand in a better position to cope with future economic shocks or natural disasters. Increasing government saving will help raise national saving and contribute to the sustainability of the expansion.

Monetary Policy

The target for monetary policy is to keep future CPI inflation outcomes between 1 percent and 3 per cent on average over the medium term, with a focus on keeping future average inflation near the 2 per cent target midpoint. As noted, CPI inflation is currently at a low level despite above-trend growth. However, inflation is expected to increase as the expansion continues. The current stance of monetary policy remains accommodative, notwithstanding the Reserve Bank of New Zealand increasing the policy rate by 100 basis points between March 2014 and July 2014. In October, the Reserve Bank indicated that a period of assessment is appropriate before considering further policy adjustment.

Macro-Prudential Policy

Following the signing of a Memorandum of Understanding on Macro-Prudential policy between the Minister of Finance and Reserve Bank Governor, quantitative restrictions on the share of high loan-to-value ratio (LVR) loans to the residential property sector took effect on 1 October 2013. This policy means banks are required to restrict new residential mortgage lending with LVRs of over 80 percent to no more than 10 percent of the dollar value of their new housing lending flows. The use of macro-prudential tools is intended to promote greater financial system stability but their implementation can also contribute to achieving monetary policy objectives. The Reserve Bank expects the speed limit to remain in place until the housing market comes into better balance, with a more sustainable rate of house price inflation.

Assessment of Obstacles and Challenges to Growth

New Zealand's economic performance has improved since the early 1980s and New Zealand's per capita GDP growth has subsequently broadly kept pace with other advanced economies. However, this improvement has been insufficient to close the sizable gap that had already opened up with other developed economies. New Zealand's GDP per capita remains around 15 percent below the OECD average. This is despite ranking highly when economic policies are compared internationally.

Improvements in New Zealand's terms of trade have made a positive contribution to New Zealand's per capita income since the early 2000s. However, without ongoing increases in the terms of trade, which are unlikely, sustained growth in per capita income will require improvements in productivity. Overall, output per hour worked remains the overriding driver of New Zealand's relatively low income level.

The challenge of lifting New Zealand's productivity performance is interlinked with the challenge of boosting international connections, including lifting the share of international trade in the economy. The combination of small market size and being situated a large distance from major economic centres means New Zealand is often not as well linked into international flows as many other small countries. International connections boost productivity by bringing scale, competition, investment and ideas. And a productive economy attracts international flows of goods and services, people, capital and ideas.

In terms of sustainability, the key strategic challenge is moving towards export and investment-led economic growth. Such a shift will improve the robustness and resilience of of the economy by increasing stocks of financial and productive capital. Continued improvements in the management of New Zealand's large stock of natural resources are also important for the sustainability of economic performance.

There are short-term challenges in managing pressures from the Canterbury rebuild and Auckland housing market in the current upturn. Effectively managing these pressures will help support higher trend growth that will come from easing some of the underlying supply constraints on the capacity of the economy in the medium-term.

New Zealand generally does well in supporting economic and social participation. New Zealand has high rates of employment and its education and health systems work well for most, with high rates of participation in tertiary education. However, there is still room to improve economic and social participation for some groups. This includes lifting employment rates for Māori (the indigenous people, or tangata whenua, of New Zealand) and sole parents, and reducing the gap between the highest and lowest performers in the education system.

B. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses

Fiscal policy in New Zealand must comply with the principles of responsible fiscal management set out in the **Public Finance Act**. This includes transparency requirements and requirements to run operating balances sufficient to achieve and maintain prudent levels. In September 2013, the Act was amended to also include principles relating to how fiscal policy impacted on monetary policy and on future generations.

Operating fiscal policy in support of monetary policy and allowing interest rates to be lower than they would otherwise be, will help to sustain the recovery, create better conditions for investment and productivity growth and reduce the pressure on households with mortgages. It will also reduce pressure on the exchange rate, taking pressure off the tradable sector and help tilt the economy towards savings, investment and exports.

Core Crown expenses are forecast to fall as a share of GDP over the next four years. The Government will continue to focus on achieving better results. This includes extending the investment approach concepts currently being applied in the welfare sector (discussed in the Employment section below), to other areas of government spending in order to reduce long-term social and economic costs of dysfunction. The emphasis on reprioritisation, value for money and efficiency of government spending will continue.

To anchor the operation of fiscal policy over the medium term, Budget 2014 extended the time horizon for its **long term debt objective**. As noted above, beyond 2020, the Government intends to maintain net debt within a range of around 10 to 20 percent of GDP - the range acknowledging that debt will fluctuate over the economic cycle. If tax revenue comes in well ahead of forecast, the Government's main priority will be additional debt repayment until the 20 percent debt target is met.

As part of its fiscal strategy, the Government has moved to more consistent and deliberate **management of the Crown's balance sheet**. In addition to rebuilding fiscal buffers through reducing debt as a share of GDP and resuming New Zealand Superannuation Fund (NZS Fund) contributions when conditions permit, the balance sheet strategy involves encouraging asset ownership only when it is necessary to deliver core public services, looking to dispose of assets that are surplus to requirements or no longer fit for purpose, introducing private-sector capital and disciplines where appropriate (for example, through the use of public-private partnerships) and better monitoring of actual investment performance against expectations. A major focus is managing the government's large **social housing** portfolio more effectively and efficiently. This includes setting up a new entity that will work with social housing providers to better meet demand, including selling some existing government owned houses to assist with the development of a market for social housing.

Providing economic and fiscal conditions allow, the Government recently announced its intention to further reduce **Accident Compensation Corporation** levies starting on 1 April 2016 – the equivalent of a tax cut for households and businesses - and to begin reducing income taxes from 1 April 2017.

New Structural Policy Responses

The Government's microeconimic policy agenda is laid out in its **Business Growth Agenda** (BGA). The BGA lays out the six key inputs that businesses need to succeed and grow. These relate to export markets; capital markets; innovation; skilled and safe workplaces; natural resources; and infrastructure. It contains around 350 individual initiatives. A BGA update report was published June 2014.

Investment and Infrastructure

Ensuring the best possible conditions for **business led investment** is a key component of the Government's Business Growth Agenda.

New Zealand has a large stock of natural resources. The Government is seeking to maximise the value New Zealand derives from these resources while doing so in a sustainable manner and alongside robust environmental reporting and safety standards. Good **regulation** facilitates good decisions about the best way to use resources, including changing their use as circumstances change; and supports their being used efficiently, not wastefully. In addition, environmental regulation needs to be enduring and transparent, in order to provide certainty and predictability about how natural resources can (and cannot) be used. This certainty and predictability is essential for high-quality investment decisions by businesses, public sector organisations and households. To support this, the Government is making changes to the Resource Management Act to provide more certainty, timeliness and cost-effectiveness around resource allocation decisions. The Environmental Reporting Bill will also be progressed.

The Government has recently completed its **Government Share Offer** (GSO) programme. The GSO has helped to deepen New Zealand's public equity markets and increased share ownership. The proceeds from the GSO were placed in the Future Investment Fund, established in Budget 2012, with the aim of funding new capital investment without issuing government debt. Budget 2014 allocated a further $1 billion of new capital from the Future Investment Fund into health sector and education projects, the rail sector, housing development and irrigation infrastructure. The Government has also announced that it will draw an additional $212 million from the Future Investment Fund to accelerate a package of

regionally important state highway projects. The remainder of the Future Investment Fund will be allocated in the 2015 and 2016 Budgets.

Through the **BGA Building Infrastructure** work programme, the Government has continued to work to address the infrastructure challenges that New Zealand faces and reverse the historical pattern of variable and inconsistent investment. This work has been guided by the second National Infrastructure Plan, published in 2011, which seeks to provide a common direction for how economic and social infrastructure is used, planned, funded and built. Over the last three years, the Government has added almost $16 billion of infrastructure assets to its books – reflecting the multi-billion dollar investments in priority new infrastructure such as roads, rail, ultra-fast broadband, irrigation, electricity transmission and rebuilding Christchurch.

Last year, the Government made a commitment to accelerate key **Auckland transport** projects. Budget 2014 provided $375 million of new capital funding for the New Zealand Transport Agency, by way of an interest-free loan, to accelerate $815 million worth of projects. These projects will assist in reducing congestion in Auckland, improve access to the airport and capitalise on the benefits of major roading projects already underway in the region.

The Government has also made new commitments to extend **Ultra-Fast Broadband** (UFB) from a target of 75 per cent of New Zealanders to 80 per cent of all New Zealanders, and to contribute a further $150 million to extend the Rural Broadband Initiative (RBI), which improves broadband coverage in more sparsely populated rural areas. These two announcements will mean almost every New Zealander will be able to access fast, reliable internet services.

The **National Infrastructure Evidence Base**, published in February 2014, concluded that the overall state of New Zealand infrastructure is positive. New Zealand has broadly the right infrastructure, in the right place, providing the right quality of service – although there are a number of ongoing challenges to be addressed. A number of infrastructure assets are ageing, the population base is changing and moving, and technology is opening up a new range of possibilities for both service delivery and asset management.

One of the key challenges that lies ahead is the need to better understand the drivers of future demand for infrastructure and the options for meeting that demand in a growing economy. The intention is to build on the recently-published National infrastructure Evidence Base to help develop a shared understanding of future drivers of infrastructure demand across the infrastructure network and build flexibility in the system to respond to future changes in these drivers.

The Government will explore alternative sources of funding for future infrastructure investment, as set out in the 2011 National Infrastructure Plan. This analysis will also take learnings from Christchurch and other international disasters and develop specific tools for businesses and planners to use to strengthen resilience. In October 2013 Treasury published a guide for government agencies, potential bidders and the public on the general direction and principles that will be adopted for **public private partnerships** (PPPs), the processes that are to be followed and the rationale for them. It also provides a framework for assessing whether a PPP is to be preferred over other forms of procurement in any given situation. More detailed guidance will be developed as experience is gained with PPPs, or as particular issues present themselves.

Improving the supply of housing and housing affordability is a major focus for the Government, through enabling more flexibility in the housing market. Significant progress toward addressing the **supply of land** for housing has been enabled through the introduction of the Housing Accords and Special Housing Areas Act 2013 (HASHA). The HASHA was passed in September 2013 and allows territorial authorities and central government to enter into housing accords in regions or districts where significant housing supply and affordability issues have been identified. Under an accord, Government and councils can work together to free up land supply, and councils can recommend “Special Housing Areas” within their territorial boundaries. Within a Special Housing Area, the Act can be used to consider any application for a qualifying development and any associated infrastructure, replacing the provisions of the Resource Management Act and streamlining consenting processes for residential developments. More generally, the Government is reining in what infrastructure local councils can charge residential developers through development contributions and investing in building industry skills and boosting productivity in the sector. Tariffs and duties on building products have been removed to reduce costs through increased competition.

The establishment of the Financial Markets Authority (FMA) and the implementation of the **Financial Markets Conduct (FMC) Act 2013** are improving the regulatory framework that governs New Zealand’s capital markets. They are designed to support investor confidence in capital markets and streamline capital-raising for businesses, while ensuring the cost of financial market regulation is minimised. The first phase began on 1 April 2014 and involved general fair dealing obligations and other key growth-focused initiatives. The latter included the enabling of **crowd-funding and peer-to-peer lending** and making it easier for firms to offer employee share schemes, primarily by reducing the disclosure requirements needed. Phase two of the Act begins on 1 December 2014 and includes the new financial product disclosure requirements and the remainder of the Act. The FMC Act provides the framework for the development of **alternative stock exchanges** that could operate separately to, or as a precursor for, listing on NZX’s main board.

In March, the launch of direct trading of the New Zealand dollar against the Chinese Renminbi in the Chinese onshore market was announced. Direct trading will increase the integration between the New Zealand and Chinese financial systems, and deepen the economic relationship between the two countries.

New Zealand will continue work to deliver an **Asia Region Funds Passport** to allow a managed fund based in one jurisdiction in Asia to be offered more easily to investors in other participating jurisdictions. The Funds Passport is intended to provide New Zealanders and investors in the Asia region with access to a greater range of investment opportunities. It may also open up a new channel for international investment flows between New Zealand and participating economies in the Asia region, deepening the region’s capital markets and supporting the development and competitiveness of the region’s fund management industry.

Innovation

Innovation is critical to ongoing producitvity growth and job creation. Through the **BGA Building Innovation** work programme the Government has set itself the high level goal of “creating the right business environment and incentives to encourage New Zealand’s business sector to double their expenditure on R&D to more than one per cent of GDP”.

The Government has also set a goal of increasing public expenditure on science to 0.8 percent of GDP as fiscal conditions allow. Government investment in science and innovation has increased by more than 60 percent since 2007/08 and will reach $1.5 billion in 2015/16. This includes $141 million of business R&D grants delivered via Callaghan Innovation[2].

[2] Callaghan Innovation is a stand-alone Crown Entity established on 1 February 2013. It is charged with working across the whole innovation system to accelerate the commercialisation of innovation by firms in New Zealand.

These grants have recently been simplified to reduce compliance costs and provide more certainty. For example, Callaghan Innovation's business R&D Growth grants provide 20 percent co-funding to firms who invest at least $300,000 in R&D in New Zealand and meet certain other requirements.

Budget 2014 announced changes to the **tax treatment of R&D** to alleviate 'black-hole R&D' expenditure – that is, R&D expenditure that is not immediately deductible for tax purposes and that does not form part of an asset that can be depreciated over time. The changes will ensure that this R&D can either be depreciated over time, or taken as a one-off deduction when the asset is written off for accounting purposes. This will help to improve the neutrality of the tax system and make R&D investment more attractive. The Government also announced the introduction of 'cashing-out' R&D tax losses for innovative start-ups. This programme will allow certain R&D-intensive companies that are not yet profitable to cash out their deduction from R&D expenditure as opposed to carrying it forward. This will help provide young innovative businesses that are cash-constrained with the resources they need to invest in further R&D and successful commercialisation.

The Government will help attract **multinationals** to make high-value investments in R&D that build on New Zealand's existing research strengths by working to identify and communicate where New Zealand has an international competitive advantage in R&D.

The Government is continuing to deliver **Primary Growth Partnership** (PGP) programmes, a government-industry initiative investing in significant programmes of primary industry research and innovation. There are now 18 PGP programmes supporting value-chain innovation across the horticulture, pastoral, wool, seafood, viticulture, apiculture, dairy, forestry and red-meet sectors as of April 2014. The intent is to add to the existing programmes through regular funding rounds.

Employment and Skills

The Government's high level goal in this area is to "Materially lift New Zealand's long-run productivity growth rate while maintaining our high rate of labour force participation". The focus is on better developing, attracting, retaining and utilising the skills that the economy and employers need and supporting safe and fair workplaces.

New Zealand's **labour market regulation** rates well on most measures of flexibility, and in general are able to achieve equality and efficiency objectives and resolve most employment relationship problems quickly at minimal cost. The Government is continuing to make changes to provide employees and employers with the flexibility to make working arrangements that suit their needs, while maintaining fairness in the workplace. Key changes include: the introduction of the starting out wage to lower the barriers to work for our youngest workers and least-experienced workers, flexible working arrangements, and a voluntary 90-day trial period to encourage businesses to take on new staff and give new employees an opportunity to enter the workforce. The collective bargaining process has also been improved to reduce bureaucracy and make the system fairer and more flexible for both workers and employers.

The Government has recently introduced significant reforms to the **welfare system**. The Government's goal is to improve outcomes for vulnerable New Zealanders by helping people at risk of long-term benefit dependency to move into employment. The reforms involve an active, work-based approach; starting with the belief that most people can, and want to, work. At the core of the system is the investment approach, designed to ensure the service delivery agency takes a long-term view, and focuses on investment to improve individuals' employment outcomes, thereby reducing the future liability of the benefit system[3].

Budget 2014 contained new funding to support people off benefits and into work, including funding additional places in employment and work-readiness programmes. The Government has introduced a simpler, more flexible business-focused package of **employment programmes**. The Jobs Streams package consolidates existing employment programmes into two main streams. The first stream is training courses tailored to the needs of industry and employers. They aim to provide employers with trained employees and enable people to move towards sustainable employment. The second is flexible wage subsidies that invest in a disadvantaged job seeker by making a temporary contribution to their wages and training that will aid them in accessing and maintaining employment. The primary aim is to ensure that disadvantaged job seekers gain the skills employers need to help them move into sustainable employment.

On 1 April 2014 the adult **minimum wage** increased from $13.75 to $14.25. This increase represented a balance between protecting low paid workers and ensuring jobs were not lost. The New Zealand minimum wage is around 50 percent of the average hourly rate, which is the highest rate in the OECD.

Budget 2014 included an extension of New Zealand's **paid parental leave** scheme, with an additional four weeks paid leave to be introduced over the next two years. Eligibility of paid parental leave will also be extended to caregivers other than parents and to people in less-regular jobs or who recently changed jobs. The parental tax credit will also be increased as will the payment period.

New Zealand's **schooling system** currently performs strongly for the majority of students, but not all. The Government's goal is to ensure that by 2017, 85 percent of 18 year-olds will have achieved NCEA Level 2 or an equivalent qualification. To do this, the Government is adopting a range of measures to lift our school-level achievement and is implementing alternative pathways for students at risk of leaving the school system without the necessary tools for long term success. Budget 2014 includes additional funding to support teachers and principals to lift educational performance for young New Zealanders. Four new teaching and leadership roles will be created in schools - Executive Principals, Expert Teachers, Lead Teachers, and Change Principals. These changes are designed to enhance the teaching and leadership in the schooling system to raise student achievement.

In recent years, the Government has worked to improve the performance and value for money of the **tertiary education** system by setting better performance incentives and improving the information available for students about employment outcomes. At the same time, the Government has made significant investments in tertiary education, with a focus on improving the achievement of young people and participation in higher level study. The new Tertiary Education Strategy launched in March 2014 supports a shift to a more outward-facing and engaged tertiary education system, with strong links to industry. A key element of this is a stronger focus on results – ensuring employment, access to skilled employees for business, and a focus on the relationship between people's tertiary education and their future earnings. Specific actions the Government has taken include:

- Providing additional science, agriculture and health science places in tertiary institutions.

[3] New Zealand G20 Employment Plan provides more detail on the Investment Approach to welfare.

- Establishing three extra Centres of Research Excellence, cross-institutional networks supporting the best research in tertiary education institutions across New Zealand.

- Setting up new ICT Graduate Schools, bringing industry leaders, students and academics together to create more meaningful connections between education providers and innovative ICT firms.

- Increasing competition in the provision of industry training by allowing employers direct access to industry training funding.

- Increasing investment in engineering courses at universities

Competition

New Zealand's competition regime is designed to promote competition for the long-term benefit of consumers and to enable innovation to occur. Key elements of the competition regime are systematically reviewed to ensure it achieves this objective and remains international best practice. High quality competition policies are especially vital for New Zealand given the unusual combination of small size and great distance from the rest of the world that tends to result in weaker competitive disciplines in domestic markets than is the case in some other countries.

Specific actions being taken in this priority area include passing the **Commerce (Cartels and Other Matters) Amendment Bill**, which is currently awaiting its second reading in Parliament. This Bill will bring New Zealand's cartel laws into line with overseas jurisdictions by criminalising serious cartel behaviour and clarifying the law in relation to pro-competitive collaborative arrangements.

The Government will also review the **misuse of market power** prohibition and related matters in response to the Productivity Commission's recent inquiries. This review will also explore options for the removal or overhaul of regulatory provisions that may no longer be necessary or working effectively, including those for resale price maintenance and the cease and desist regime.

Alongside continued deployment of infrastructure under the UFB and RBI programmes, the **Telecommunications Act** is being reviewed. The review will support the deployment of infrastructure by focusing on what settings will be needed post-2020 to ensure the regulatory framework promotes competition for the benefit of end-users, while providing the necessary certainty for market participants. The Government will also complete the Telecommunications Service Obligations review, building on the review findings that were provided to the Minister of Communications and Information Technology at the end of 2013.

Trade

Through the **BGA Building Export Market** work programme the Government has set itself the high level goal of increasing the ratio of exports to GDP to 40 percent by 2025. Exporting is seen as central to lifting New Zealand's productivity growth. Businesses that export internationally tend to be more productive than businesses that solely supply the domestic market because of their greater access to resources, knowledge and ideas, and the increased competition they face against other global firms.

New Zealand is taking a multipronged approach to lifting exports. This includes negotiating comprehensive, high-quality **Free Trade Agreements** (FTAs) and implementing existing FTAs. New Zealand also continues to be active at the multilateral level to promote resolution of the outstanding issues in the WTO Doha Round and as an active participant in other processes in Geneva, including implementation of the WTO Agreement on Trade Facilitation and negotiations for an expanded Information Technology Agreement and a Trade in Services Agreement. The WTO's Government Procurement Agreement (GPA) committee has recently agreed to the terms of New Zealand's accession to the WTO GPA. New Zealand continues to support and promote ambitious outcomes in trade agreements alongside other parties.

Improving access to international markets for New Zealand businesses through the negotiation of FTAs is central to achieving the Government's export goal. New Zealand recently concluded an agreement on economic cooperation with the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu which entered into force December 2013. New Zealand is working with participants in the Trans Pacific Partnership (TPP) to bring negotiations to a successful conclusion consistent with the goals set by TPP Leaders.

New Zealand will also aim to successfully complete bilateral negotiations with India as well as the Regional Comprehensive Economic Partnership made up of the 10 ASEAN countries and their current six FTA partners. Efforts will also continue to bring into force the FTA with the six countries of the Gulf Cooperation Council.

Government agencies will continue to work with business to ensure high take-up of FTA preferences and other benefits conferred by New Zealand's FTAs. This will include: ongoing dialogue with exporters to ensure they are taking maximum advantage of the agreements; completing built-in negotiations under existing FTAs to expand the scope of commitments in areas such as services and government procurement; addressing impediments that limit the take up of FTA preferences such as documentation requirements; and maximising the use of existing FTA provisions to maintain or improve market access and facilitate trade.

In Budget 2014, an increase in the government's investment in **New Zealand Trade and Enterprise** (NZTE) was announced. This funding will be used to expand the number of companies NZTE works intensively with to provide customised services for up to 700 internationalising firms, and a lighter-touch engagement with 4,000 firms. This will also involve expanding NZTE's international footprint and services in China, the Middle East and Colombia, and providing new services that will meet the demands of firms as they innovate and grow internationally.

New Zealand is working to complete the **Trade Single Window** for exporters and importers, progressively bringing more traders online and expanding the number and type of documents that can be lodged. Ultimately parties involved in international trade and transport will be able to submit the craft and cargo clearance data required by New Zealand border agencies electronically, once, through one entry point. Once implemented, the system is expected to deliver significant benefits to importers, exporters and others operating in international trade supply chains.

Budget 2014 announced the temporary removal of **duties and tariffs** currently applying to building materials. This will increase competition in those products and improve housing affordability.

Recognising the significant impact that differences in, and unfamiliarity with**, regulatory regimes** in different countries can have on trade and doing business more broadly, New Zealand will undertake fit for purpose tests on its market-facing regulatory regimes. The focus of this work will be to ensure that New Zealand's regulatory regimes, and the way they interact with others, are not acting as a barrier to two-way flows of trade and investment and, deeper regional integration more broadly. Sector-specific work already under way includes the implementation of an inter-agency infant formula market assurance programme to further protect and strengthen confidence in New Zealand's food assurance systems. A clearing house to address onshore regulatory barriers to exports has also been established. Government agencies are engaging with businesses to identify regulations that may be negatively affecting their export potential, and determining the best avenue to resolve them. More broadly, the legislative expectations of regulators to monitor the performance of their regulatory regimes are being reinforced and enhanced to ensure that efficiency and fitness-for-purpose is an ongoing test when administering existing regulation.

New Zealand will also look for opportunities to enhance the ways in which our regulators work with their counterparts in our key trading partner countries. One way this will be done is by developing a toolkit on international regulatory cooperation, which will identify the range of regulatory cooperation options available to regulators, and the key factors to consider when choosing a particular option. New Zealand intends to work with partner countries, including those in APEC and the East Asia Summit, to further develop this toolkit and ensure that it is a useful resource for regulators in the region. We will also look to better use our existing FTAs to encourage cooperation between regulators, and seek to ensure that FTAs that are currently negotiated provide appropriate mechanisms for dialogue between regulators.

COMPREHENSIVE GROWTH STRATEGY:

RUSSIA

RUSSIA'S GROWTH STRATEGY[1]

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

Russia's comprehensive growth strategy is designed to contribute to achieving the G20's collective target of a 2 % increase in GDP growth above currently projected path over the next 5 years. The Government confirms its commitments made in the St. Petersburg and previous G20 Action plans, and considers the current work on growth strategies as a continuation of the efforts done before. We expect that the existing national policy agenda will allow to achieve the GDP growth rates of 3,0 – 4,0 percent in the medium term, with simultaneous enhancement of its quality. This will be supported by enhancing investment activity both in the private and public sectors, and improving labour market performance.

Proposed reforms are supported by the measures aimed to maintain macroeconomic stability, including maintenance of steady and low inflation and flexible exchange rate regime, and responsible budget and debt policies. In the budgetary policy domain, Russia will follow its St. Petersburg fiscal commitments to maintain medium and long-term debt sustainability.

Key Commitments

Priorities of Russia's Growth Strategy are structural reforms which are in the core of sustainable growth.

1. **Creation of high-productive quality jobs and increase in labor productivity.**

2. **Increasing investments, particularly in infrastructure.** Public investments will be primarily focused on expansion of the transport infrastructure. To encourage investments in the Far East region of Russia measures on creating territories of accelerated development and special economic zones will be combined with introducing incentives and preferential regulation aimed at encouraging investment and enhancing social and economic development of the region.

Another area of reform at the cross-section of the investment and competition domains pertains to private-public partnership.

Additional policy actions will be implemented to ensure the efficiency of the public investments and to improve the quality of the budget management.

3. Increasing share in GDP of high-technology and science intensive sectors.

4. **Improving investment climate.** This includes measures that enhance antimonopoly legislation, taxation procedures (through the newly adopted (February, 2014) Action plan "Modernizing tax administration"), eliminating administrative barriers for business.

5. **Ensuring macroeconomic sustainability.** Maintenance of steady and low inflation, flexible exchange rate regime, and responsible budget and debt policies.

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[1] The strategy assumes the existence of strong economic cooperation between the G20 countries and Russia's intensifying involvement in the global integration processes, without considering possible negative scenarios that may be caused by the geopolitical risks.

Current and Future Growth Prospects

	Key Indicators					
	2012	2013	2014	2015	2016	2017
Real GDP (% yoy)	103,4	101,3	100,5	103,3	103,3	104,3
Nominal GDP (% yoy)	111,2	107,3	108,8	108,5	108,3	109,7
Output Gap (% of GDP)	0,7	-0,3	-1,4	-1,0	-0,4	0,1
Inflation (%, yoy, average)	105,1	106,8	107,4	106,7	104,4	104,3
Fiscal Balance (% of GDP)	-0,1	-0,5	0,4	-0,6	-0,6	-0,6
Unemployment (%)	5,7	5,7	5,8	5,9	5,7	5,6
Savings (% of GDP)	27,2	27,3	24,4	24,0	23,8	24,0
Investment (% of GDP)	21,7	21,5	20,5	21,5	21,8	22,1
Current Account Balance (% of GDP)	3,6	1,6	3,0	1,3	0,1	-0,4

The projections take into account the expected effect of the measures envisaged by the growth strategy in case of their full implementation and favorable global conjuncture. The scenario assumes some decrease in oil prices ($104 per barrel of Urals in 2014, and $100 in 2015 to 2017).

Key Drivers

During the post-crisis period services sectors have been the main growth driving forces accounting for about two-thirds of the overall GDP growth. Economic activity has been mainly driven by the financial services, trade (largely, retail trade) and real estate sector. Manufacturing used to provide significant support for the post-crisis GDP recovery, but recently its positive effect has been seriously weakened turning into the main drag on growth. By contrast, the agriculture sector demonstrated strong acceleration of growth last year due to the good harvest and favorable statistical base effect. Since 2014 manufacturing is expected to resume supporting positive GDP dynamic. Nevertheless, services sectors will remain the primary supply-side driver in the medium term, due to its prevailing share in the GDP.

From the expenditure side, household consumption has been the main contributor to the GDP growth (more than half of the GDP volume). In 2012-2013 the contribution of household consumption to the GDP growth exceeded overall GDP dynamic. In 2012 net exports negatively contributed to the economic growth, as well as fixed capital formation - in 2013. Fixed capital investment dynamic has been the main factor that caused the overall GDP growth slowdown. Its contribution to the GDP growth turned from 2,0 p.p. in 2011 to the negative in 2013. The impact of net exports became positive in 2013 due to a decline in merchandise imports and strengthening of exports growth.

Over the next three years the investment growth is projected to overpass the growth of the other demand components, amounting to 2,4-4,7% per annum. Household consumption is expected to grow by 2,0-3,5% per annum, remaining the main factor of the GDP growth.

Macroeconomic Policy Settings

Maintaining macroeconomic stability and protecting the economy from external volatility remain the major priority of Russia’s both fiscal and monetary policies.

Prudent fiscal policy stance is ensured by the fiscal rule that sets maximum limit for the federal budget spendings in accordance with estimated revenues under the long-term average oil price, regardless of the actual oil price.

The Central Bank is in gradual transition to the inflation targeting and floating exchange rate regime. Increased monetary policy transparency is regarded by the Central Bank as a necessary precondition for this.

During 2013-2014 the Central Bank consistently implemented measures to increase flexibility of exchange rate regime. However, gradual transition to floating exchange rate was complicated by more intense ruble depreciation to main reserve currencies that was caused by global economic and geopolitical factors in the beginning of 2014. As soon as domestic risks for financial stability were decreased (2Q2014) the Bank of Russia continued transition to free floating rate. In June and August, 2014 parameters of exchange rate policy were consequently adjusted. So, the floating operational band was symmetrically widened from 7 to 9 rubles; at the same time currency interventions within this operational interval (aimed at smoothing volatility of exchange rate) were abolished. The cumulative volume of interventions that leads to change of operational band by 5 kopeeks was lowered from 1.5 billion US dollars to 1 billion US dollars on June 17, 2014 and further to 350 mln US dollars since August 18, 2014. All these actions clearly indicate the increase of exchange rate flexibility.

To increase the effectiveness of the interest rate channel of the monetary policy transmission mechanism, in 2013 the Bank of Russia implemented a set of measures aimed at developing the system of the monetary policy instruments. These measures included:

- Introduction of the Bank of Russia key rate (unification of the interest rates on one-week liquidity provision and absorption open market operations);
- Establishing the interest rate corridor and optimization of the instruments for managing the banking sector liquidity;
- Change of the refinancing rate role in the range of the Bank of Russia instruments.

Assessment of Obstacles and Challenges to Growth

In 2013 Russia's real GDP growth dropped to 1,3%, down from 3,4% in 2012 and 4,3% in 2011.The slowdown was mainly attributed to weak investment demand and stagnation of industrial production. Investment growth fell from solid double-digit numbers in the first half of 2012 to negative numbers in 2013, when the situation was exacerbated by low external demand from the main trade partners. In 2014 high level of the private capital outflow continues to have a significant destabilizing impact on the financial market.

The major challenge for the Russian Government is to ensure sustainable economic development. Extension of its base and enhancement of the quality of growth require particular attention. Addressing these general challenges necessitates the transition to a new growth model instead of the previous one that worked in the period of booming oil prices. Concrete problems to be addressed to make this transition happen include the following.

Monetary policy:

- High level of inflation (6,8% in 2013). Due to ruble depreciation and the pass-through effect the annual inflation rate accelerated to 8 % in September, 2014 In 1Q2014 pro-inflationary effect from rouble depreciation was complemented by prices' rise for a number of foods as a result of specific factors like import bans, rise in prices at global food markets;
- Thin financial market (underdeveloped securitization market, lack of institutional investors, very low (less than 5%) share of pension funds and insurance companies in the financial system). Total assets of the non-governmental pension funds amounted to approximately 55 mln. US dollars (2.8% of the annual GDP). Absence of the local institutional investor base contributes to higher volatility in the financial market and lacking long-term finance;

Labour and employment policy:

- Lack of quality jobs with high productivity, leading to excessive employment in the low productivity sectors.
- Demographic projections predict a gradual decrease in the working-age population, and hence a declining labour supply. Shortage of the labour

resources and aging of workers may cause structural distortions at the labour market, and become a major limitation to the long-term economic growth.

- There is a substantial mismatch between the labour market requirements and the qualifications acquired in the educational institutions. As a result, almost half of the employed have jobs that are not matching their professional education profile. The imbalance of the labour market leads to the structural unemployment, which is aggravated by the deficit of the highly qualified personnel (especially, in the engineering and technology sectors).

Other areas

In the macroeconomic settings outlined above, facilitating investment, especially in infrastructure, remains our key objective. Following the challenges identified in the previous action plans, transport bottlenecks and insufficient private investment in the economy remain high on the policy agenda, along with the need to raise labour mobility and improve the business environment. New (since Saint-Petersburg) policy actions are being introduced as well, such as increasing the efficiency and effectiveness of the public investment through obligatory audit, widening the scope of the public-private partnership and additional measures on improving the business climate and providing support for SMEs.

There is also a risk that Russia's share in the international trade will decline due to low growth of goods exports. This will happen if stagnation in the energy and metal exports (due to higher competition in the world markets and less commodity-intensive demand in the emerging economies) is not compensated by a strong growth in the manufactured goods exports. Our goal in this area is therefore three-fold: 1) to reduce administrative trade barriers; 2) to ensure that the Russian businesses fully benefit from the WTO membership; 3) to augment the system of the government support for the high-technology exports to further stimulate exports diversification.

B. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Fiscal policy will continue to play a significant role in supporting sustainable economic growth, prioritizing the targets in the education, science and infrastructure spheres, as well as enhancement of the quality of social safety nets. These objectives have been set forth in the Budget message of the President of the Russian Federation to the Federal Assembly for 2014-2016.

Basing on the G20 Action plan on BEPS, complex changes in the Russian tax legislation will be adopted to counter tax base erosion and profits shifting to the offshore jurisdictions.

The privatization program remains relevant and is aimed at creating better conditions for investment and competition, as well as optimization of the government's presence in the economy. Changes to the privatization plans are made following the decisions of the President and Government and taking into account the current market conjuncture and advice from the leading investment consultants.

The primary goal of the Bank of Russia's monetary policy in the next three years will be to ensure price stability as an important condition for balanced and sustainable economic development.

By 2015, the Bank of Russia is planning to complete the transition to the inflation targeting regime. The new regime's essential characteristics include setting quantitative inflation targets, making decisions primarily on the basis of the forecast of economic development and inflation dynamics, as well as the Bank's active external communication and accountability.

The Bank of Russia will seek to achieve the inflation targets by adjusting interest rates on its operations, taking into account the specificity of the monetary policy transmission mechanism. The Bank of Russia will pay close attention to macroeconomic forecasts and the assessment of the risks of inflation deviation from the target, taking into account that the impact of the monetary policy measures is spread over time.

In the course of the transition to the inflation targeting regime, the Bank of Russia will continue to increase the effectiveness of the interest rate channel of the monetary policy transmission mechanism, which is the primary channel the Bank of Russia uses to affect the economy. Price stability will create favourable conditions for developing long-term business strategies and higher economic activity, helping to reduce the interest rates and strengthen the incentives for savings and investments.

In 2014 the Bank of Russia is planning to complete all preparatory work that is needed to move to floating exchange rate regime. Free floating exchange rate allows the Bank of Russia to focus on management of market interest rates to meet inflation targets. The Bank of Russia will continue to make foreign currency transactions in the domestic market related with replenishment and disbursement of the sovereign wealth funds in favour of the Russian Federal Treasury demands. The Bank of Russia also reserves the right to make currency interventions that facilitate liquidity management in banking sector. At the same time, this regime allows discretionary interventions in domestic currency market in order to maintain financial stability in case of major external shocks.

New Structural Policy Responses

Investment and Infrastructure

The Russian Government is facing the challenge to increase the share of investment as percentage of the GDP, which will require marked increase in both the private and public investment.

The key to boosting the private investment is improving the investment climate. Russia has moved in the World Bank's "Doing Business" ranking from the 112th place in 2013 to the 92nd place in 2014. Following the St. Petersburg commitments, the authorities take further actions to improve the business environment framework through eliminating excessive administrative burden and simplifying business procedures, including implementation of "roadmaps" for National Business initiative among the most problematic fields of public regulation: customs and tax administration, grid connection, property rights and business registration etc.

Public investment will be primarily focused on expansion of the transport infrastructure via implementation of the federal program "Development of the Transport System". It implies increase in the overall road construction rate (total length of federal highways is to reach 44,1 thousand km by 2018), reduction of the transportation costs in the economy (transportation expenses' share in the GDP is projected to fall by 7,7 % by 2020 comparing with the 2011 level), enhanced accessibility of the transport services for the population (a two-fold increase in the population's mobility is projected by 2020), higher external competitiveness of the national transport system (increase in the transportation services' export by 80% in 2018), while ensuring proper safety and sustainability of the transport system.

The recent decisions by the Government envisage use of the public funds to support investment in the large-scale infrastructure projects. The projects already approved or being under consideration are primarily aimed at development of the transportation facilities (reconstruction of the Baikal-Amur and Trans-Siberian Mainline Railways, development of the Moscow Air Transportation Cluster, construction of the Central Circular Road in the Moscow region, construction of the railway 'Elegest – Kyzyl – Kuragino' in the Tuva Republic et al.), and extension of the energy supplies capacities. Total cost of the approved projects is estimated at 1998 bln. rubles from which 935 bln. rubles will be funded through the Sovereign Wealth Fund, with the share of the public funding by project varying from 30% to 100%.

One of the biggest public infrastructure projects to be launched in Russia is linked with the 30-year, 400 bln. US dollars worth, 1-trilliion cubic meters gas exports agreement signed by Russia and China in May 2014. The contract stipulates that 38 bln. cubic meters of the Russian gas will be annually supplied to China through the Power of Siberia gas pipeline (construction to be launched in August 2014). The pipeline will form a unified gas transmission system for the Irkutsk and Yakutia gas production centers connecting them with the consumers in the Russian Far East and China. The Yakutsk – Khabarovsk – Vladivostok gas trunkline (with an offshoot to China) will be constructed at the first stage (3200 kilometers, onstream by end-2017), and at the second stage the Irkutsk center will be connected to the Yakutsk center (800 kilometers).The total investment required by the project (including into the Power of Siberia gas pipeline construction, infrastructure facilities and enterprises) is estimated at 2 trln. rubles (equivalent of over 57 bln. US dollars). The project is expected to have a powerful multiplier effect on the adjacent industries, such as metallurgy, pipe and machine construction, mining, etc. The project also requires modernization of the overall regional transportation and energy infrastructure.

Another area of reform at the cross-section of the investment and competition domains pertains to private-public partnership. Building on successful implementation of the Pulkovo airport reconstruction PPP project, consultations over the design of the new PPP legislation and plans to widen the scope of these mechanisms are currently being held.

Russia also recognizes the need to take additional policy actions (see Annex) to ensure the efficiency of the public investments and to improve the quality of the budget management for the oil and gas revenues accumulated in the Reserve Fund and National Wealth Fund. Our goal is to further strengthen the legal framework for the public investment reporting and audit. Issues in this area are addressed through the new legislation covering project selection for the public investment, which was passed in November 2013, and through obligatory public audit.

To foster investments in SMEs, in May 2014 a special joint-stock company Agency for Credit Guarantees was established in Russia. Establishment of the Agency with paid-in capital of 50 billion rubles (1,4 billion US dollars) will help in attaining of the following financial and economic performance indicators:

- The aggregate amount of the guarantees issued by the Agency - 350 billion. rubles (equivalent of approximately 10 billion. US dollars);

-The Aggregate amount of guarantees issued by the Agency and regional guarantee institutions – 500 billion rubles (equivalent of approximately 14 billion. US dollars)

- The aggregate amount of loans to SMEs that are secured by the Agency's guarantees - 700 billion. rubles (equivalent of approximately 20 billion. US dollars);

-The aggregate amount of loans secured by the Agency and regional guarantee institutions – 1 trillion rubles (equivalent of approximately 29 billion. US dollars)

- The total amount of the guarantees issued - 7300 contracts.

The formation of the national system of guarantee institutions with the Agency at its core will significantly contribute to expanding the SMEs' access to credit, allowing them to undertake the investment projects in the non-trade sector, mitigating the risks of long-term lending to the medium-sized business and creating a comprehensive system of warranty support for SMEs.

To develop Russia's Far East region it is planned to combine measures on creating territories of accelerated development and special economic zones with introducing incentives and preferential regulation aimed at encouraging investment and enhancing social and economic development of the region.

Employment

Implementation of the Russian Employment strategy will be ensured by quality job creation, boosting labour participation, and supporting the structural economic change. The set of actions to achieve objectives of the strategy is developed and listed in the Action plan (adopted by decree of the Russian Government № 1250-p dated

9.07.2014) to raise labor productivity, creation and modernization of highly-productive jobs.

The implementation of the Employment strategy will be also ensured by: the growth of the of newly-created and modernized existing quality jobs is the key element of the employment strategy, which will substantially contribute to boosting labour productivity; and supported through creating the business climate that enables modernization, innovation and private investment, reduction of the regulatory burden on business, and investing in human and physical capital. Investment in skills development and infrastructure, in particular, is increasingly important for Russia's ability to harness technology and boost labour productivity. Development of the public-private partnerships for investment in skills and infrastructure is essential to orient the education and training system to deliver skills that meet the labour market and social needs.

Demographic forecasts suggest Russia will face a noticeable decline in the working-age population in the forthcoming 5 years. Therefore, it will be important to mobilize all existing reserves, which can alleviate shortages and tensions due to negative demographic trends.

Increased labour participation of women, youth and persons with disabilities is an important reserve to address the demographic challenges. A set of measures to return women with young children to the labour market after a 3-year maternity leave includes development of childcare services provided to families with children and appropriate infrastructure, and re-training schemes for mothers, who would like to return to employment or join the labour market as new entrants. Actions to facilitate youth labour participation envisage measures aimed at incentivizing the employers to hire new entrants to the labour market, developing internships and apprenticeships for the vocational institutions graduate students, shortening the education-to-work transition period for the graduates of the vocational education institutions, etc. Finally, actions aimed to support people with disabilities, who would like to work but for some reasons cannot to find a job, include creation of accessible infrastructure and provision of access to vocational education and better employment services, with a focus of such a support on individual needs of a person with a disability.

Providing support for the structural economic changes through facilitation of labour mobility, in combination with effective training and retraining programs, forms the second element of the Russian Employment strategy. Labour mobility facilitation requires easy access to the information on vacancies all over the country, affordable housing, opportunities to get training or retraining and support programs for moving to different regions. Employment services play a key role in facilitating labour mobility, providing guidance and information for job-seekers.

Development of training and re-training programs reflecting the modern technologies and needs of enterprises and industries becomes the key to the success of the Employment strategy. Investment in education and skills development is critical for creating better quality jobs, boosting labour productivity, increasing labour participation and tackling the labour market exclusion and informality. However, employers are not always effective in utilizing employees' skills, and this can be particularly the case within certain sectors and regions. This means that investment in the supply of skills alone will not be sufficient to improve the jobs quality and resilience of the economic growth. It is also needed to pay attention to the demand side, namely identifying how firms could best utilize skills.

Competition

An additional source of boosting growth is expected to be found in enhancing the competitiveness of the economy. Our top priority is to create incentives for diversification of the economy, which would allow to increase the share of the high-technology and science-intensive industries in the GDP by 1,3 times by 2018 compared to the 2011 level. Increase in competitiveness will also contribute to achieving the goal of raising labour productivity by 1,5 times by 2018 compared to 2011.

Moreover, the authorities are working on improving the competition environment. For example, competition is fostered by improving the antimonopoly legislation and, where appropriate, spreading the "best practice" procedures. For this purpose a special Action plan (roadmap) "Development of the competition environment and improvement of the antimonopoly policy" was approved by the Government in December 2012. These actions will be complemented by provision of the government support for SMEs through a different federal program, envisaging subsides for SMEs and measures for developing infrastructure to support entrepreneurial activity in all regions of Russia. In 2014 that program received financing of 21,5 billion. rubles (equivalent of 539 mln. US dollars).

Further measures are being taken to modernize taxation procedures through the newly adopted (February, 2014) Action plan "Modernizing tax administration". The plan is targeted to reduce average time costs of paying taxes, and "Doing Business" sub-rankings can be used directly to track progress. Other actions in this area include facilitation of the processes of registering a firm (reduction of the stages from 9 to 5 (2015) and then to 3 (2018), reduction of the time required from 30 to 5 days (2015) and ultimately to 3 days (2018), reduction of the cost from 6,1 to 3 thousand rubles by 2015) and obtaining construction permits (reduction of the number of procedures from 51 to 15 (2015) and ultimately to 11 (2018), reduction of the time required from 423 days to 130 (2015) and to 56 (2018), expenses from 184% of GDP per capita[2] in 2012 (equivalent of 26 thousand US dollars) to 104% in 2015 (equivalent of 17 thousand US dollars) and to 101% in 2018), and simplification of the licensing procedures that include expanding the list of business activities that do not require obtaining permission from 36 to 50 by 2018.

Reducing the barriers to competition has been continuously identified as a priority for Russia by international organisations, and is a widely present goal in the range of national long-term programs. The key policy actions above are aimed at expanding

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[2]Estimated in accordance with the World Bank's methodology.

the scope of electronic procedures, eliminating excessive bureaucratic requirements, normalizing tax accounting and financial accounting treatment. These measures will strongly contribute to the overall objective of reaching a more sustainable and balanced growth through transition to the new growth model.

Another area of reform at the cross-section of the competition and energy efficiency domains came into effect with the adoption in July 2014 of the Federal law concerning environment protection standardization and provision of economic incentives for the implementation of the best available technologies (BAT). The law is a huge step towards increasing the competitiveness of the national production sector and overall eco-friendly modernization of the Russian economy. It is aimed to ensure deployment of the production objects in compliance with the highest energy efficiency and consumption standards and mitigation of the negative impact on the environment, while fostering R&D and introduction of the modern national technologies and equipment. The law provides for:

(1) Introduction of the principles of the BAT, including the definition of the criteria for the projects that will be selected for the BAT-oriented standards implementation and the procedures of definition of the BAT by the technical working groups.

(2) Replacement of the currently effective 3 types of permissions (emissions, unloads, waste) by a single complex eco permission, that will be granted to companies taking into account the programs for higher eco efficiency undertaken by them.

(3) Division of the economic entities into 4 categories for differential application of regulatory measures, which will allow to strengthen the monitoring and oversight over the heavy and heaviest polluters and limit the excessive regulation of the least environmentally dangerous objects.

(4) Introduction of the catalogue of the harmful substances and emissions in order to facilitate the process of rating, production control and fees calculation.

(5) Provision of economic incentives for stimulating the ecological modernization, including: (a) payments for emissions within the standard would be included into the production costs, while payments for excessive emissions would be fined; (b) compensation of the expenses on minimization of negative impact on the environment and introduction of the Best Available Technologies; (c) a 5-fold raise of fines for excessive emissions coefficient; (d) compensation of the interest paid on the investment credits; (e) introduction of the additional amortization coefficients for the BAT equipment; (f) definition of the catalogue of the eco-friendly activities that will be subject to allowances.

Transition to the new scheme of the ecological regulation must be completed by 2022.

Trade

Since the St. Petersburg summit Russia has taken a number of measures to stimulate trade. The overarching framework is provided by the state program “Development of the external economic activities”, covering 2014-2018 (revised version was adopted in April 2014). The program provisions for improving border and customs procedures, developing a national system to support exporters, optimizing regulation of external sector, promoting international cooperation and creating the Eurasian Economic Union. The first two elements are further supported by separate detailed action plans (roadmaps):

- “The Roadmap for enhancing customs administration” (revised version was adopted in September 2013) outlines new measures to streamline customs payments and veterinary regulations, setting ambitious aims, such as more than a 3-fold reduction in time required for preparation of documents and more than a 30-fold reduction in time costs of actual customs formalities by 2018. The implementation of the roadmap would help to propel Russia into the top-20 of World Bank’s Doing Business *Trading across borders* index. Since both export and import formalities are to be liberalized, Russia’s trade partners will also see significant benefits through larger external demand. It should be noted that implementation of the Roadmap is fully in line with the Bali WTO Trade Facilitation Agreement.

In line with the trade facilitation efforts Russia, along with its Customs Union partners, is working on the “single window” mechanism at the borders of the Customs Union. This mechanism is aimed to streamline the administrative procedures at the borders of the Customs Union, enhance their transparency and decrease the transactional costs. An action plan for introducing the “single window” mechanism is to be developed by December, 2014.

- “The Roadmap for enhancing access to the overseas markets and supporting exports” (revised version was adopted in July 2014) includes clauses on simplifying VAT refunds for exporters, reducing formalities for processing in the customs territory, and strengthening information systems. This will help create a level-playing field for the Russian businesses in the context of higher competition that they face after the WTO accession. The new version of the Roadmap envisions a substantial increase in financial support for the high-technology exports, both in terms of the range of measures (guarantees, subsidies) and in terms of the volume of financing. All these measures will help: 1) to narrow the gap between Russia and other countries in terms of volumes of export financing (thereby creating more equal conditions for Russian exporters), 2) to reveal export potential of Russian companies (especially for SME) by the means of cutting transactional costs and, consequently 3) to ensure higher and more stable rates of economic growth. The expected effect on manufacturing exports of goods with high value added is estimated at additional growth by 82% or 30,8 bln. US dollars in 2019 compared to the baseline. The Roadmap will produce substantial positive spillovers for our trading partners through increased engagement of the high-technology sector companies in multinational cooperation.

Russia will further proceed with the measures under its WTO accession commitments, including lowering tariffs for agricultural and manufactured goods to 11.3 % and 6.4 % respectively and liberalization of the international investors participation in the Russian insurance companies’ shareholding. This is in line with the G20 focus on reducing trade distortions, and in the medium term it will help to foster external competitiveness of the Russian businesses (mainly through incentives for cost optimization in a more competitive environment, but also by lowering the prices of intermediate inputs). Russia will further develop its relations within the WTO, as illustrated by Russia's joining the Information Technology Agreement in September 2013 and by its push for making the Transparency Mechanism for Regional Trade Agreements permanent. We underline the importance of early implementation of the WTO Trade Facilitation Agreement, having taken for our part a number of important steps in that direction.

We will as well continue our efforts in the sphere of preferential regional and bilateral cooperation (the Eurasian Economic Union will be launched in 2015; FTAs are being negotiated with Vietnam, negotiations are to be continued with New Zealand and European Free Trade Association countries and examined with Israel and India).

Other measures

Financial Markets Regulation, Control and Oversight System reform

In March 2014, the Bank of Russia's Financial Market Service (CBFMS), which was in place since September 2013 and acted as interim successor of the Federal Financial Market Service, ceased to exist. This marked the completion of the integration of the financial market regulation functions into the Bank of Russia's activities. The mega regulator performs three key functions for the financial sector, namely, regulation and oversight, financial market development, customer rights protection (the two latter were not covered by the regulator previously).

The Bank of Russia's priorities in the sphere of financial market regulation and development include conducting consolidated oversight and passing a universal bankruptcy law.

As for consolidated oversight, the synergy is already in place. For instance, when bank licenses were being revoked earlier, CBFMS was analyzing the implications for the companies linked with the banks. With a centralized database in place, this task is performed automatically.

At present the base rules for the bankruptcy procedure are framed by the Insolvency Law that covers bankruptcy procedures for all companies, while there is also a separate Bank Insolvency Act.

The new draft of the Federal Law, aimed at the improvement of regulation of financial recovery and liquidation procedures for credit institutions, stipulates consolidation of the Russian Federation legislation on bankruptcy. The draft Law also includes provisions of the current Federal Law «On the insolvency (bankruptcy) of credit institutions» as well as additional provisions of the Federal Law «On the measures for strengthening banking system stability till December 31, 2014».

The approach is consistent with the G20 and the Financial Stability Board recommendations on recovery and resolution of financial institutions. It will help to preserve measures of financial recovery of systemically important banks which proved to be effective in the 2008 crisis. The Bank of Russia and the Deposit Insurance Agency will have new tools for banks bankruptcy prevention or their liquidation with minimal losses for depositors.

Moreover, at present we are also drafting the new Federal law which will improve the insolvency (bankruptcy) procedures for non-credit financial institutions, including financial market infrastructures (trade organizers, central depository, central counterparties, trade repositories). Particular attention will be paid to the mechanisms of continuity of systemically important functions of financial market infrastructures.

Financial Markets Tax System and Tax Administration reform

In December 2013, the State Duma of the Russian Federation adopted the Federal Law that “On Amendments to Article 27.5-3 of the Federal Law “On the Securities Market” and to parts one and two of the Tax Code of the Russian Federation” which introduced two types of tax incentives for retail investments in securities.

First, the amended Tax Code provides for, as with other forms of property, no capital gains tax if a security is sold after three years of ownership. The exemption will apply to income from sale of securities purchased after 1 January 2014.

Second, a new type of the account was introduced - Individual Investment Account, under certain conditions deposits on this account are exempt from taxation upon the validity period. The new Individual Investment Account is a broker or portfolio manager account that must be opened for a minimum of three years and can be topped up by deposits up to 400,000 rubles (equivalent of 11,5 thousand US dollars). There is no tax incurred during the life cycle of the account. Retail customers will be able to choose one of the two distinct tax benefit schemes: tax-deductible contributions or zero capital gains tax when they close the account (upon the expiration of the minimum period of three years). If the account is closed earlier, deposits will be subject to the regular 13% flat tax used for personal income in the Russian Federation, and any deductions will be reassessed.

Another Tax Code amendment, in force since 1 January 2014, cuts the costs for the participants of the standardized OTC Derivatives Market. Clearing participants are VAT exempt on their premium for clearing the collateral use. From that date, the market price is the actual price of traded financial instruments of futures contracts, and it is used for tax purposes.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE (RUSSIA)

1. **Medium-term fiscal strategies:**

   a. **Overall strategy for debt sustainability**

Russia's overall strategy for debt sustainability is multi-pronged encompassing the following:

- Maintaining a low overall debt burden. Currently the debt-to-GDP base is at around 10% of GDP for federal government debt and 31% of GDP for all external debt (both public and private sector). Russian Federation has one of the lowest government debt-to-GDP ratios amongst the G-20 countries;
- Maintenance of tight fiscal policy and moderate budget deficits projected for the medium-term run (0,4-0,6% of GDP in 2014-2017);
- Implementation of new fiscal rule limiting budget revenue vulnerability to volatile oil prices and other economic shocks;
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- Targeting increased size of fiscal buffers (Reserve Fund and National Wealth Fund are expected to increase cumulatively from current 8,5% of GDP to 9,1% of GDP in 2015);
- Enhanced monitoring of contingent liabilities including direct (e.g. guarantees) and indirect (state-owned enterprises borrowing);

In addition to the above measures, the Russian Federation takes the following actions aimed at creating a stable source of financing the federal budget deficit, minimization of public debt risks and development of the domestic capital market:

1. Modernization of the Russian debt market so it will have all the attributes of a developed market:
   - implementation of the over-the-counter trading of public bonds;
   - regular issuance of benchmark Federal Bonds (OFZ) with a fixed rate coupon at standard maturities (3-15 years) and amounts;
   - initial offering and secondary trading of public bonds in a unified with corporate bonds market place at Moscow Exchange;
   - provision of direct access to the OFZ market to the non-residents through accounts in the international depositary clearing systems Euroclear and Clearstream;
   - OFZs secondary trading in both “T+0” and “T+2” regimes;
   - launch of a tripartite REPO on public bonds basket;

- disclosure of all information about the public bonds market on the official website of the Ministry of Finance of the Russian Federation.

2. The priority of domestic borrowings for the federal budget deficit funding.
3. Increasing the duration of the liabilities portfolio by issuing bonds with longer maturity period aiming to keep the refinancing risk low. In 2013 the OFZ portfolio increased from 4,1 years to 4,3 years while the target duration is 5 years.
4. Intensification of the interaction with rating agencies aimed at maintaining Russia's sovereign credit ratings at the investment grade level.
5. Implementation of a more pro-active liability management policy to affect the public debt size and structure, including the exchange of the old non-liquid non-standard government bonds onto the new on-the-run benchmark bonds.
6. Increasing the amount of the OFZ issuances to increase the liquidity of the domestic debt market.
7. Broadening the investor base through offering new debt instruments.
8. Further infrastructural modernization aimed at creating more comfortable market conditions.

b. Debt-to-GDP ratio objective

While the Russian Federation does not have firm legally-obliged limit on debt-to-GDP ratio, the medium term debt policy envisages an indicative sovereign debt-to-GDP "threshold" considered at the level of 20-25%. At the same time in order to limit the risks related to country's dependence on oil and gas revenues the projected level of this ratio for 2014-2016 is not expected to exceed 15%.

The rising level of the Russian corporate debt burden suggests that the financial authorities should pay close attention to corporate borrowings. Enhancing the system of monitoring the corporate and bank borrowings will be continued with focus on the borrowing policy of the enterprises with significant government stake.

2. **Medium-term projections:**

Russia's medium-term projections for the debt-to-GDP ratio and the federal budget deficit for the period, till 2017 are the following:

	Estimate		*Projections*			
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Debt	10,5	11,3	12,9	14,1	14,3	14,3
Deficit	-0,1	-0,5	0,4	-0,6	-0,6	-0,6
CAPB	n/a	n/a	n/a	n/a	n/a	n/a

3. **Economic Assumptions:**

The debt-to-GDP ratio and the federal budget deficit projections are contingent on the following assumptions for interest rates, inflation and growth:

	Estimate		Projections			
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
real GDP growth	3,4	1,3	0,5	3,3	3,3	4,3
nominal GDP growth	11,2	7,3	8,8	8,5	8,3	9,7
ST RUB interest rate*	5,9	5,5	7,3	7,3	7,3	7,3
LT interest rate	n/a	n/a	n/a	n/a	n/a	n/a

*Average for the OFZ short-term rates as reported on the CBR's website for the years 2012-2014. For the purpose of the Strategy the average 2014 rate is assumed to be constant for years 2015-2017.

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

New policy action	Completing the transition to the floating exchange rate regime
Implementation path and expected date of implementation	By the end of 2014, the Bank of Russia will abandon its exchange rate-based operational indicators.
What indicator(s) will be used to measure progress?	Starting from 2015 no regular FX interventions will be made by the Bank of Russia. Interventions will be limited to those connected with SWF operations; the Bank of Russia also reserves the right to use them for regulating the banking sector liquidity, and also for preserving the financial stability in the event of major external shocks.
Explanation of additionality (where relevant)	The commitment was updated in the “Guidelines for the Single State Monetary Policy in 2014 and for 2015 - 2016” adopted in November 2013.
New policy action	**Completing the transition to inflation targeting**
Implementation path and expected date of implementation	Starting 2015.
What indicator(s) will be used to measure progress?	The Central Bank inflation targets for the baseline scenario: for 2015- 4,5%, for 2016 – 4%.
Explanation of additionality (where relevant)	The commitment will create preconditions for long-term investments and financial market development that will contribute to economic growth. The commitment was updated in the “Guidelines for the Single State Monetary Policy in 2014 and for 2015 - 2016” adopted in November 2013.

2. Investment and Infrastructure

New policy action	Enhancing the efficiency of the public investment, including the investment of the natural monopolies, through obligatory public technical and price audit of all large-scale projects even partially financed by the state.
Implementation path and expected date of implementation	In 2014 public audit will be obligatory for the projects financed in the amount of 8 bln. rubles or higher. In 2015 and further – for the projects financed in the amount of 1,5 bln. rubles or higher.
What indicator(s) will be used to measure progress?	Share of the large projects with a completed audit report.

New policy action	**Implementation of large public investment projects partially financed through the Sovereign Wealth Fund**
Implementation path and expected date of implementation	7 projects are due to be completed by 2018, the other 3 will be finalized between 2020 and 2025.
What indicator(s) will be used to measure progress?	Number of projects completed according to the schedule.
New policy action	**Improvement of the PPP mechanism**
Implementation path and expected date of implementation	Growth of the number of projects negotiated within the PPP law, including concessions, by 10% by 2016 and by 30% by 2018.
What indicator(s) will be used to measure progress?	Number of projects negotiated within the PPP law, including concessions.
New policy action	**Agency for Credit Guarantees**
Implementation path and expected date of implementation	The Agency is engaged in providing counter-guarantees to regional credit guarantee organizations and direct guarantees to medium enterprises. The Agency will coordinate activity of all regional credit guarantee organizations created under the state support for SMEs and collaborate with international organizations.
What indicator(s) will be used to measure progress?	A five-year business plan of this Agency with authorized capital of 50 billion rubles Total amount of provided loans and secured by the Agency with credit guarantees will reach 700 billion rubles, and the total amount of guarantees issued – 7300 contracts.
Explanation of additionality (where relevant)	The Agency was established in May 2014.

3. Employment

New policy action:	**Quality job creation, modernization of the existing jobs and boosting labour productivity**
Implementation path Expected date of implementation	The action plan for increased labour productivity and quality job creation has been prepared for the adoption by the Government (with a period of implementation up to 2018).
What indicator(s) will be used to measure progress?	Number of jobs modernized and the number of jobs created; Labour productivity growth.
New policy action	**Increasing labour participation of the vulnerable groups:** **1.** Organizing vocational training for women on a maternity leave (up to the three years of age of a child); 2. Providing internships and apprenticeships for youth; 3. Fostering employment of the unemployed people with disabilities at the specially equipped workplaces.

Implementation path and expected date of implementation	Program was adopted by the Government on April 15, 2014, and its implementation plan was approved on June 13, 2014 (with a period of implementation up to 2016).
What indicator(s) will be used to measure progress?	1. Number of women on a maternity leave (up to the three years of age of a child), who have attended vocational training courses. 2. Number of vocational education graduates, who found the job within a year after graduation 3. Number of specially equipped workplaces for people with disabilities; the number of people with disabilities employed at the specially equipped workplaces.
New policy action	**Elimination of Structural and regional imbalances through increased labour mobility and education programs**
Implementation path and expected date of implementation	The program was adopted by the Government on April 15, 2014, and its implementation plan was approved on June 13, 2014 (with a period of implementation up to 2020).
What indicator(s) will be used to measure progress?	Number of people who received assistance in finding employment outside their place of living and moved to a new place, the number of recipients of training and re-training.

4. Competition

New policy action	**SME support: subsidies to SMEs, development of infrastructure for the entrepreneurship support in the regions of the Russian Federation**
Implementation path and expected date of implementation	No less than 3% of SMEs are planned to be supported through the government measures annually in 2014-2018.
What indicator(s) will be used to measure progress?	Share of SMEs reached by the government support measures.
New policy action	**SME support: SMEs access to the procurement of infrastructure monopolies and state-owned companies**
Implementation path and expected date of implementation	Share of SME's in the procurement items provision for the infrastructure monopolies and state-owned companies – no less than 25% by 2018.
What indicator(s) will be used to measure progress?	Share of SMEs in the procurement items provision for the infrastructure monopolies and state-owned companies.

5. Trade

New policy action	**State Program "Development of external economic activities"**
Implementation path and expected date of implementation	Covers the period 2014-2018 with interim quantitative checkpoints each year. Each sub-measure (24 in total) correlates to at least one quantitative indicator (36 in total). Main points: fostering bi-, multilateral and global trade cooperation; financial and informational

	support for exporters; improving the customs and border formalities.
What indicator(s) will be used to measure progress?	Main indicators (other than those included in the Roadmaps below): Capacity of border crossings, (index: 2013=30,3: 2014=30,9; 2015=35; 2016=36,1, 2017=37,2, 2018=38,4). Rates of growth of non-resource goods (index, 2011=100): 2014=108,5; 2015=114,0; 2016=117,1; 2017=119,0; 2018=120,5. Top-20 in the World Bank's Doing Business Trading across borders index: 2015 = 79 rank, 2018 = 17 rank.
Explanation of additionality (where relevant)	The Program was amended in April 2014, having become more focused on providing support for exporters; extra target indicators have been added.
New policy action	**The Roadmap for enhancing customs administration**
Implementation path and expected date of implementation	Covers the period of 2014-2018 with interim quantitative checkpoints for 2014 and 2015. Each sub-measure (72 in total) has a concrete deadline (month/year). Main points: widening the use of electronic document interchange, enhancing the physical infrastructure of the border crossings, adopting the principles of automatic customs risk management, improving the mechanisms for payment of the customs payments.
What indicator(s) will be used to measure progress?	Position in the World Bank's Doing Business Trading Across Borders index (current: 157; targets: 2014: 130, 2015: 79, 2018: 17); Number of the documents for export (current: 9, 2014: 6, 2015: 6; 2018: 4); Number of the documents for import (current: 10, 2014: 8; 2015: 6; 2018: 4); Number of days needed for documents' preparation for import or export permission (2014 – 20; 2016 – 15; 2018 - 7) Number of hours needed to complete the customs formalities (for goods with low risk profiles) for exports/imports (current: 60/72, 2014:45/48; 2015: 24/24; 2018: 2/2).
Explanation of additionality (where relevant)	The Roadmap was revised in September 2013. New short-term goalposts for 2014 were included; for each measure a corresponding new document/necessary changes in existing documents were added. New measures were added (incl. electronic veterinary certificates, electronic payment of the customs fees).
New policy action	**Roadmap for enhancing access to the overseas markets and supporting exports**
Implementation path and expected date of implementation	Covers the period of 2014-2018 with interim quantitative checkpoints for each year. Each sub-measure (40 in total) has a concrete deadline (month/year). Main points: financial, information and technical support for exports of the highly processed goods, simplification of the VAT refund for exporters, simplification of the goods processing on the customs territory.
What indicator(s) will be used to measure progress?	Number of exporters (index, 2011=100); currently: 125; targets: 2014: 131, 2015: 137, 2016:142, 2017: 150, 2018: 160); Value of exports of the highly processed goods (index, 2011=100); currently: 110,1; 2014: 120,6; 2015: 136,1; 2016: 155,8; 2017:

	180,1; 2018: 205,5; Credits from the Vnesheconombank [state institution for development] and affiliated entities aimed at export support (bln. US dollars): currently: 0,4; 2014: 1,0; 2015: 4,3; 2016: 8,4; 2017: 13,9; 2018: 18,2.
Explanation of additionality (where relevant)	The Roadmap was revised in February 2014. New indicators (credit, exports of the highly-processed goods) were added, and the old ones were updated. New measures were included, with the focus on both financial (guarantees, use of export credits as collateral) and non-financial (e.g. certification) support for the high-technology exports.
New policy action	**The "single window" mechanism at the Customs Union borders.**
Implementation path and expected date of implementation	The "single window" mechanism will be introduced within the Customs Union for the international trade facilitation by streamlining the customs and other administrative procedures at the borders of the Union and enhancing their transparency. The mechanism will allow agents to submit documents to a single authority instead of several state institutions.
What indicator(s) will be used to measure progress?	Action plan for introducing the "single window" mechanism to be formulated by December, 25, 2014.
Explanation of additionality (where relevant)	On May 29, 2014 the Eurasian Economic Council endorsed the guidelines for developing the "single window" mechanism as part of the external economic activities regulation.
New policy action	**Establishments of centre for credit-insurance support of export**
Implementation path and expected date of implementation	November 2014 – launch of the Center, January 2015 – development of the strategy
What indicator(s) will be used to measure progress?	Volume of export credits issued 2015 – 1 billion US dollars 2016 – 3,36 billion US dollars 2017 – 6,95 billion US dollars 2018 – 9,1 billion US dollars
Explanation of additionality (where relevant)	New measure

COMPREHENSIVE GROWTH STRATEGY:

KINGDOM OF SAUDI ARABIA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

A.1 Economic Objectives

Short-term economic objectives of Saudi Arabia are:

1- The macroeconomic stabilization through:

- Enhancing the fiscal and monetary stability to ensure low and stable inflation.
- Extending the absorptive capacity of the national economy to enhance its competition, stability and growth.
- Developing the SME sector and increase its share in the GDP and its creation of employment to nationals.

2- Improve the conditions of the production Sector through:

- Improving the labor and capital productivity in both publicand private sectors.
- Improvement of the competitiveness conditions of the national economy.
- Investment environment and business climate.
- Empowering the National Competition Council.
- Enhance competition in all economic sectors through improving competence of supervising and organizing agencies and developing its independence and capabilities.

Medium-term objectives are:

1- Maintain the sustainable economic growth through:

- Deepen and accelerate the pace of economic diversification.
- Expansion in using renewable energy sources and reduces the high rates of domestic consumption of oil and gas[1].
- Enhance the Saudi economic growth rate, stability and competitiveness.
- Increase the contribution of the private sector and improve its productivity.
- Reduce unemployment by creating suitable and sufficient job opportunities for Saudi nationals.
- Implement the new national strategy for the transfer towards a knowledge base society.

2- Maintain the mechanisms of minimizing the social disparities

- Raise the standard of living and quality of life of all segments of society.
- Support the individual initiatives in creating projects through financial credits.
- Enhance the social securities.
- Empower women and raise their participation in all development sectors.

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[1] The high growth rate of the domestic consumption of oil and gas, which amounts to about 5% per year, will lead to reduce the potential export of the kingdom in the future, thus the Kingdom is taking strategic procedures to rationalize the domestic use of energy and to diversify its sources. The Kingdom is currently working to improve the standards of efficiency and rationalize use of energy in all economic sectors, particularly in major consumption sectors such as; electricity, water desalination, and transport.

Saudi Arabia's growth strategy is based on key growth-generating factors such as investment, employment, trade, competition and competitiveness. Broad-based investment will contribute largely to the diversification of the economy and generate more job opportunities. Employment generation is expected to raise the standard of living and help improve the quality of life of all Saudis. Foreign trade, competition and competitiveness are expected to increase the contribution of the private sector and improve its productivity. Major new policies that will support achieving these objectives, over the coming five years, would include increasing average annual growth of government consumption to 5.2%, government investment to 10.1%, and value added of oil and gas sector to 2.2%, enhancing competition in Saudi market, and adopting new reform to Investment Policy and the elaboration and implementation of a new investment road-map for each sector.

Saudi growth strategy is expected to contribute to the G20 objectives of strong, sustainable and balanced growth through the following actions:

- Contributing to the global and G20 economic growth and stability by continuing the adoption of positive and balanced policies to play its systemic and stabilizing role in the global oil market.
- Increasing imports by Saudi Arabia of intermediate and capital goods from G20 countries.
- Providing more investment opportunities in Saudi Arabia for the G20 countries and providing profitable opportunities for the G20 investors to take advantage of the free zones planned to be established in Saudi Arabia. A new body is likely to be created to oversee the implementation of the free trade zones,
- Strengthening of bilateral/multilateral technological cooperation.

A. 2 Key Commitments

1. Elaboration and approval of a national strategy and action plan for shifting to knowledge based economy
2. Increasing government investment spending and private investment to expand and develop infrastructure, and stimulate economic activity.
3. Increase employment of Saudi nationals in the private sector
4. Adoption of a non-oil export development initiative over the coming 5 years
5. A package of new policies to enhance competition and competitiveness in all economic sectors.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

B.1 Current and Future Growth Prospects

	Key Indicators					
	2013***	2014	2015	2016	2017	2018
Real GDP (% yoy)(2)	2.3	4.6	5.2	5.6	5.8	6.0
Real GDP (% yoy)(3)	3.95	4.5	3.3	4.3	4.4	4.4
Nominal GDP (% yoy) (1)	1.5****	5.5	5.5	6.6	6.9	7.3
Output Gap (% of GDP)*						
Inflation (%, yoy) (4)	3.03	4.1	5.1	1.7	3.5	3.3
Fiscal Balance (% of GDP)** (1)	12.2	8.1	5.5	2.2	-1.2	-4.4
Unemployment (nationals) (%)	11.2	11.6	10.3	9.1	7.8	6.4
Savings (% of GDP) (1)	46.4	45.1	43.9	43.7	42.7	41.6
Investment (% of GDP) (1)	23.3	24.8	26.9	28.6	30.4	31.99
Current Account Balance (% of GDP) (1)	17.7	15.9	13.7	10.8	7.9	5.1

* A positive (negative) gap indicates an economy above (below) its potential.

** A positive (negative) balance indicates a fiscal surplus (deficit).

*** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.

**** The figure is low because of the significant drop in inflation rates during the second half of 2013, due mainly to the decline of oil and food prices globally. It is worth noting that oil revenues constitute about 40% of nominal GDP in Saudi Arabia.

(1) Current Prices. The Current Account Balance is the change of Stocks as % of GDP.

(2) Constant Prices 2010.

(3) Constant Prices 1999.

(4) The fluctuation in inflation rates during the period (2014 – 2018) is due to the anticipated changes in oil revenues, which will affect the monetary conditions in the kingdom. We expect a reduction in oil prices in 2016 , which will lower the fiscal balance to 2.2% in 2016 and thus will lead to a decrease in the inflation rate.

B.2 Key Drivers

The Tenth Development Plan (2015-2019) seeks to maintain an adequate level of total expenditure on goods and services. It is expected that the yearly growth of real total consumption will average about 5.64% compared with about 5.58%during the Ninth Plan at 2010 constant prices. However, the ratio of total consumption to GDP is expected to decline from about 53.9% in 2014, to about 53.6% in 2019 as the expected average GDP growth rate exceeds the expected average total consumption growth rate in the Tenth Plan.

key drivers adopted in the 10th plan are as follows:

- Introduce new programs and projects to increase value added of oil and gas resources in all production activities, and promote industries using these resources.
- Increase real value added of non-oil sectors annually by an average of 8.5% of GDP (at constant prices of 2010) and its share from 59.1% in 2014 to 66% in 2019.
- Growing the share of private sector in the GDP (at constant prices of 2010) from 44.9% in 2014, to 50.6% in 2019.
- Increasing the annual growth rate of the manufacturing industries sector from 8.36%in 2014 to 10.58% in 2019, and the Mining and Quarrying sector from 5.98% in

2014 to 8.56% in 2019.

- Increase in public investment is planned for the coming five years, about 2.4 trillion Riyal to finance development projects of the major sectors, including human resources, economic resources, social and health, and infrastructure. The 10th development Plan allocates 372 billion Riyals for spending on infrastructure, which is about 76% more than what was allocated in the 9th Plan. This will be accompanied by new measures for the rationalization of government spending.

B.3 Assessment of Obstacles and Challenges to Growth

B.3.1 Investment: Gaps and issues

- Despite the incentives provided to the private sector, certain obstacles continue to impede the development of effective public-private partnerships. Such obstacles have been studied recently and are categorized as: a) caused by the owner of the project who is not capable of following up the large number of projects, or who changes the specifications and requirements during execution, or who adopts complicated procedures for payment. b) Caused by the executing contractor who is technically or financially not capable, or who subcontracts parts of the project to unsuitable local contractors. C) Caused by other factors such as: site ownership availability or suitability problems, complicated financial procedure rules and regulations, lack of experienced labor, the site of the project being away from main cities, and un sufficient number of capable contractors.
- The Saudi strategy for attracting foreign investment needs to shift from focusing on quantity to focusing on quality. Foreign investments can play a role in promoting technological development and improving the competitiveness of the national products.
- Short-term bank credit continues to account for the largest share of total credit. In 2013, it accounted for 53.8 percent of total bank credit, compared to 18.9 percent for medium-term credit, and 27.3 percent for long-term credit. This poses a challenge to the financing of private investments that most contribute to diversifying the economic base. The role of specialized credit institutions in providing medium and long term loans is recently being intensified. This includes the Public Investment Fund; the Saudi Industrial Development Fund with the Kafalah Program for SME; the Saudi Credit & Saving Bank for micro enterprises; the Real Estates Development Fund and the Human Resources Development Fund. But, there is still a need to further provide medium and long-term loans for investment projects and particularly to SMEs.
- It is necessary to review investment incentives, exploit the relative advantages of the various Saudi regions, and provide incentives for achieving balanced and sustainable development among the Saudi regions.
- More private business entrepreneurs are needed to diversify and magnify the scale of economic development.

B.3.2 Employment: Gaps and issues

Saudi Arabia's economy has experienced continued high growth over the last decade. Despite this, it faces challenges of high unemployment and low labor market participation among nationals, mainly driven by:

- The abundance of foreign workers in the country, hindering Saudi national employment opportunities.
- High youth unemployment: male youth (15-24) 21%, female youth 54% (source:ILO)
- Low rate of female labor market participation (15.4% of working force) (source: CDSI 2013).

B.3.3 Foreign trade: Gaps and issues

- Need for restructuring: The key foreign trade issues include the relatively weak importance of non-oil exports, the ongoing increase in the imports of services, the slow growth of service exports, and weak inter-regional trade.
- Reduce dependency on imports: The issue in this regard requires the availability of factors of production characterized by acceptable costs and specifications consistent with the domestic market's absorptive capacity.

B.3.4 Competitivenessand competition: Gaps and issues

- Quality of the national labor force: There is a need to adopt a set of serious steps, including the development of educational and training curricula guided by international standards.
- Competitiveness of the national products:
  - Non-oil export products is dominated by activities that use simple technologies i.e., low-grade technology and knowledge content. These activities produce most of the Saudi Arabia's industrial exports, e.g., cement, glass, clothing, leather products, paper, primary mineral products, and jewelry.
  - Limited investments of the private sector in research and development. This prevents the sector from important qualitative development of production and marketing methods.
- New policies to improve competition have been considered in the 10th Development Plan.

C. POLICY RESPONSES TO LIFT GROWTH

C.1New Macroeconomic Policy Responses

<u>Fiscal Policy</u>:

- Continuing to increase public spending, over the 10th Plan period, as a basic tool for stimulating economic activity and ensuring its stability through the role of government investment spending in increasing the production capacities and enhancing the aggregate supply, as well as through the role of government consumption in boosting the aggregate demand for goods and services.

- Increasing non-oil public revenue by an annual average rate of 11.2%, so that its share of the total public revenue will increase from 10.1% in 2014 to 13.9% in 2019.The increasing of the non-oil public revenues is expected to be achieved through the increasing economic activities such as Public services, and Tourism sector which is expected to achieve an annual growth rate averaging about 8%, Tariffs by an annual average rate of about 11.8% as a result of the increasing imports by about 6.5% annually, along with other revenues of non-oil sectors such as transportation, financial services, telecommunications, franchise, and others.
- Continuing to increase the capital of the specialized government credit institutions in line with the growing demand for loans granted by these institutions.
- Managing budget surplus in a manner that achieves high, and growing economic returns.

To realize the objectives of the fiscal policy, the 10th plan intends to: rationalize government spending and promote capital assets, assure the availability of monetary resources for economic needs while avoiding inflation, promoting savings through new innovative channels, and increase public spending with a yearly growth rate of 6.3%.

Monetary Policy:

- Continuing to adopt monetary policy tools in a manner that ensures growth of domestic liquidity at rates that support economic activity and maintain price stability. The Tenth Development Plan aims at reducing the average rate of inflation from about 4.1% during the Ninth Plan to about (2.9%) in the Tenth Plan. To achieve that, the following new policies will be enforced; monitoring prices of essential products and services and find solution to its increase, rationalize government subsidies, introduce new measures to improve competition, government intervention to reduce market failures, adopt new measures to better implement the National Strategy of Protecting Integrity and Combating Corruption. Measures to promote creation of new companies in fields that enhance price stability of essential goods.
- Continue to adopt proper policies to maintain the stability of the banking system and increase its efficiency and competitiveness. New legislation and regulations are being introduced to achieve these objectives.

C.2 New Structural Policy Responses

C.2.1 Investment and Infrastructure

1. Increasing government investment spending in order to expand and develop the economic, social and environmental infrastructure to meet needs of the growing population and the requirements of improving the quality of public services, particularly in transport and health systems, without prejudicing coordination between government investments and private investments and ensuring integration among them. Establishment of railways in a number of cities and between the regions all over the country.
2. Increasing private investments as one of the important mechanisms for stimulating

economic activity and dealing efficiently with global developments. This would be achieved through:

a) Expanding public-private partnerships for the implementation of infrastructure projects and the improvement and development of health, educational and social development services. .It is one of the projects of the national strategy towards knowledge society, its action plan will be started 2015.
b) Expanding the scale of investment banking to address the growing relative importance of medium and long-term bank credit, and support SMEs. New laws and regulations are being considered.
c) Promote private sector investments in the four Economic Cities by overcoming obstacles that may limit the efficiency of investment performance. Reduce the rental charges of land in industrial zones and other investment projects.
d) Maintaining a regulatory environment that is supportive and has stimulating effect on investment. SAGIA is elaborating a Road-Map for investment in major economic sectors.
e) Establishing 13 region-wise investment councils to encourage and develop investment in all Saudi regions. Each council will cooperate with the Saudi Arabian General Investment Authority [SAGIA] to support investment in its region, overcome obstacles, and improve the investment environment.

3. Developing the financial market and improving its efficiency to enable it to support the development role of the private sector. To achieve that, new actions will and are being introduced: open up the stock market for foreign financial institutions and reduce obstacles hindering foreign investment, creating an Early Warning System (EWS) against financial crisis, introducing measures to reduce harmful speculation and enforce transparency and improve governance of the financial market. The Kingdom owns a number of initiatives that can serve the EWS such as: Economic models prepared by MoEP, Annual reports of the plan achievements prepared by MoEP, some economic indicators prepared by formal agencies in KSA, including Investment Environment Indicator prepared by SAGIA, Business Optimism Index prepared by the National Commercial Bank, Riyadh Chamber of Commerce Index for prediction of Economic status, Index of Social Responsibility of the Saudi Companies prepared by SAGIA, Disclosure related to the Saudi Capital Market Authority, Periodical reports of SAMA, and other government agencies, and various reports on international indicators which reflect the current status of the Saudi economy.

4. Strengthening sustainable development efforts by ensuring that all investment activities are in line with environment-friendly considerations.

The following table summarizes targeted investment during the 10th Development Plan distributed between the major economic activities.

Sectors	Total Plan (billion riyal)	Relative Percentage (%)	Average Yearly Growth (%)
A) Non-Oil Sectors	4440.11	98.4	11.2
1. Production Sectors	1566.91	34.7	13.7
1.1Agriculture, Forestry and Fisheries	35.08	0.8	9.1
1.2 Non-Oil Mining and Quarrying	7.19	0.2	16.2
1.3 Manufacturing	1019.46	22.6	13.7
1.3.1 Oil Refining	278.28	6.2	5.0
1.3.2 Petrochemicals	568.83	12.6	17.0
1.3.3 Other Manufacturing	172.35	3.8	18.4
1.4 Electricity, Gas, and Water	475.29	10.5	13.8
1.5 Construction	29.89	0.7	19.1
2. Private Services Sectors	1384.98	30.7	13.0
2.1 Trade, Restaurants and Hotels	141.36	3.1	17.2
2.2 Transport and Communications	153.77	3.4	15.2
2.3 Financial, Insurance, Business and Real estate Services	1057.84	23.4	12.1
2.3.1 Real estate	969.00	21.5	11.7
2.3.2 Financial, Insurance, and Business Services	88.84	2.0	15.6
2.4 Community, Social and Personal Services	32.02	0.7	14.8
Total Non-Oil Private Sector	2951.89	65.4	13.4
3. Government Services	1488.22	33.0	7.1
B) Crude Oil, Natural Gas sector	74.45	1.6	5.0
Total Investments	4514.56	100.0	11.1

C.2.2 Employment

Ministry of Labor and its related organization (MOL+) is the primary entity tasked with the government's focus on increasing labor force participation and reducing unemployment in the private sector. Through MOL+, a series of supply and demand measures are considered to either improve the aggregate demand or increase labor force participation and expand the active labour market policies. These policies will be consistent with these of the 10^{th} Development Plan, and the National Strategy for the Transition to Knowledge Society.

On the Demand Side:

1) Providing a coherent and comprehensive social protection package to ensure market efficiency and support labor in employment transitions:

    i) **Sanid Program** (which is a new compulsory unemployment insurance for all citizens with jobs) will be effective this year 2014. It will lead to more of the country's younger workforce to seek employment at private companies.

    ii) **Wage Protection System**: A Wage Protection System (WPS) has been introduced by the Ministry of Labor in 2013 to better regulate the labor practices of the private sector and prevent illegal practices. The system – currently covering companies who employ more than 500 workers – monitors the payment of wages to both Saudi and non-Saudi workers employed in the private sector, using bank-certified salary payment files verified through comparison with employee tax database. WPS is in the process of being rolled out, with the intention that it will eventually cover all companies in the private sector.

    iii) **Minimum wage for workers in the private and public sector** is an additional key commitment of Saudi Arabia. The general minimum wage at the amount of 3000 SAR has already been introduced to the public sector in 2012. Furthermore, the social dialogue regarding "minimum wage in the private sector" started with participation from different social partners and the study outcomes are expected in 4th quarter 2014.

    iv) **Hafiz Program** which supports real job seekers financially during unemployment time. The first unemployment Assistance (Hafiz 1) was launched in November 2011. The second unemployment assistance (Hafiz 2) follows the success of Hafiz in 2014 for 20-35 year old and provides the same level of financial assistance to job seekers aged 35-60.

2) Increasing mobility of expatriate labor:

    a) A long term aim of the Ministry of Labor is to increase the mobility of expatriate labor, as this will support a reduction in the wage gap between Saudi and expatriate labor. Currently the Wafeed mobility system allows expats from companies with poor Saudization ratios (based on the Nitaqat band) to apply to other companies without approval from existing employer. The Ministry of Labor is currently revising this legislation to allow expatriates to change employer after contract expiry without having to gain approval by employer required. It is hoped that this will be launched in 2015.

3) Encouraging the employment of Saudi nationals, particularly of the young population, in the private sector by:

    a) **Nitaqat Program** where each company is classified in bands depending on their compliance with nationalization requirements (e.g. the proportion of Saudis in the workforce): then companies classified in high bands are given privileges. In its 2nd Version, Nitaqat encourages companies to pay a minimum monthly salary of SR 3,000 to Saudis New adjustments to the program are ongoing e.g. for disadvantaged groups.

    b) **On the Job training:** A key demand measure has been the launch of a pilot in the private sector providing on the job training. Joint training programs last from two month to two years, with trainees spending 75 per cent of the time in the workplace and the rest in class or theoretical training. On-the-job training for youths and other new employees in the private sector occurs in the workplace under a contract between the employer and trainee. Instruction is provided by a professional trainer or experienced employee. After the completion of the pilot, full scale roll out should begin in 2015.

    c) **Payroll Rebate:** This innovative country and industry wide subsidy program is being launched in 2014 to encourage private companies to increase the proportion of payroll spent of Saudi labor. The scheme subsidizes a proportion of any increase in the total compensation paid to Saudis, with the subsidy level dependent of Nitaqat band.

On the Supply Side:

The objectives are to implement policies that will increase the labor force participation especially among youth and women as well as to promote effective and efficient labor activation programs.

1. Supporting the preparation of Saudis, especially the youth, to participate in the growth and development of the national economy. Government expenditures are increased with significant investments for rehabilitation of the Saudi labor to provide more competitive and productive labor force. A key element of this is a commitment to establish 50 technical training institutes, (Colleges of Excellence), over the next 10 years, which are incentivized based on the number of college graduates that successfully move directly into employment. Also, establishing Project Parallel, a new action since the St. Petersburg Summit, which is an employment readiness program for young Saudis. It is providing an online pre-test, e-learning modules and e-coaching during work experience/on-the-job trainings.

2. Increasing female participation has become an important policy area for the Ministry of Labor and its affiliated organizations. New programs contributing strongly to this regard are:

    - "Female employment in retail sectors". A headline demand side initiative, which has included requirements for lingerie shops and cosmetic shops that sell women products to replace all their male staff with women. This was implemented in 2011 with a one year grace period after which shops that did not comply with the new ministerial decision would be forced to cease trading. In 2014, this was extended to cover a significant number of other retail stores – a new action since the St. Petersburg summit. As well as legislating that such jobs can only be taken by women, the initiative also stipulate a salary requirement for Saudi women working in these shops of SR3,000, of which 50 per cent is paid by the Ministry of Labor over three years, while the fund also supports training by paying 50 per cent of the fees. In addition to this, the Ministry of Labor also provides training centers to prepare women for jobs in sales, customer service, store supervisor, and cashier. The number of Women employed in Private Sector has increased by 160,000 in the past two years.

Additional programs to be rolled out that will contribute to further increases in female employment include:

- Telework program as a new employment channel, in particular females in remote areas. The program is due to launch in H2 2014 with full scale roll out in 2015.
- Distance work programs and legislation for home based businesses starting 2015.
- Daycare Centers: This program has a two-fold purpose. First, it seeks to reduce a key barrier to workforce participation among working mothers, childcare provision. Second, it has a broader objective to couple this employment necessity with the development of an early childhood education infrastructure within the Kingdom. Takamol is leading this effort to establish daycare centers as key enablers for boosting the number of working women while enriching the development of young children. In doing so, daycare centers can activate the immediate beneficiaries, mothers with young children, but also can set up the Kingdom's youth for educational success, leading to a higher quality workforce in the future. After a pilot stage, the program will be rolled out across the country. The program is currently in the development phase. The implementation plan consists of roadmaps for both the subsidies and also the daycare centers:
    - Pilot of daycare without educational facility in mall: 2014 Q4
    - Draft of daycare subsidy policy: 2015 Q1
    - Pilot of daycare subsidy, concurrently with IT infrastructure / systems design: 2015 Q2-Q4
    - Roll-out of daycare facilities: 2015+
    - National roll-out: 2016+
- Transportation incentive: incentives to ease the financial burden of transportation to employees' place of employment; because women cannot drive, this should remove an additional barrier to workforce participation. The program is currently in the development phase. The implementation of this incentive depends on finding an external partner with whom to build transportation systems. The preliminary

implementation plan is:

  - Draft of transportation subsidy policy: 2015 Q1
  - Pilot, concurrently with IT infrastructure / systems design: 2015 Q2-Q4
  - National roll-out: 2016+

- Short vocational training Courses. Whilst the courses are open to males and females, they are particularly intended to female.

3. Prioritizing the incentives to enhance the skills of the youth. A particular focus has been driving greater job readiness for the private sector, where the majority of workers are currently foreign workers. For youth there are key programs, namely Career Education, Project Parallel, On the Job training and Taqat Grads launched or to be launched,such as a series of business incubators and student training programs in industry,to support the transitional period between university and employment covering limited links between the educational framework and entry-level employment opportunities. New national programs planed in the 10th Plan:

   - **Taqat:** a multi-channel job matching agencies. These provide job seekers with evaluation, training and communication skills, and link them with suitable job opportunities. A program has been launched to create an alliance between Taqat and MOL's vocational training schemes run by by the **Technical and Vocational Training Corporation**(TVTC). The focus of the program is to train TVTC staff to provide career guidance support to TVTC students.
   - **Career education:** aims to provide a lifelong service matching skills and interest with employment to make the best possible use of human resources. Current provision incorporates both online and offline support for learning. KPIs include a behavior and environmental change KPI (e.g., Measuring the mindset and behavior change of the beneficiaries) and service level KPIs (quantitative indicators collected by SP and eventually CED offices)
   - **Project parallel:** The main program parts are general employability skills and specialized skills for different types of jobs. A career readiness certificate is issued by the program which gives employers the confidence that the respective person is employable and brings the right skills. The program will be launched and implemented in the first phase in September 2014.

C.2.3 Trade

1. Adoption of a long-term, non-oil export development strategy integrated with the projects of economic diversification, improvement of productivity and competitiveness, and the move towards a knowledge-based society.It is worth noting that the kingdom has already realized important achievement in this regard, since non-oil exports have been raised from (31) billion Riyal in 2001 (4.5% of GDP) to 240 billion Riyal in 2013 (9% of GDP). The average share of non-oil exports as % of GDP is estimated to be 6.2% during the period 2010-2014.The new policy depends on the following mechanisms of implementation:

- Establishment of export-oriented industrial zones.
- Expansion of bilateral and plurilateral FTA's to enhance non-oil exports.
- Adoption of short- and medium-term programs to promote productivity in the government and private sectors.
- Improvement of ports capacity and streamline the procedures and substantial implementation of the trade facilitation agreement.
- Promotion of the role of the Saudi Export Development Authority.

2. Acceleration of growth and liberalization of services sector with the intention to maximize net exports of services. This liberalization will be implemented gradually in most service sectors according to the commitments undertaken by Saudi Arabia under GATS, specifically in transport, telecommunication, and health sectors. Intra City public transport in cities with high population density will be removed from the negative list very soon after setting the requirements, procedures and regulations that will apply in foreign investment in this field.
3. Intensify efforts to prepare a long-term strategy to implement structural reforms to enhance net exports.

C.2.4 Competition and Competitiveness

1. A package of new policies to improve competition has been considered in the 10th Development Plan which include:
   a. Review laws governing the government purchases and tenders.
   b. Reforming contractors classification criteria
   c. Develop the mechanisms used in awarding contracting projects
   d. Revise maintenance contract rules and regulations and adopt KPIs
   e. Empowering the National Strategy of Protecting Integrity and Combating Corruption.
   f. Raising the effectiveness of civil society organization in development efforts.
2. Empowering the National Competition Council.
3. Enhance competition in all economic sectors through improving competence of supervising and organizing agencies and developing its independence and capabilities.
4. Increasing the number of judges specialized in trade and competition matters and the number of specialized courts.
5. Establishing and implementing easy regulatory procedures intended to facilitate starting a business and investing in all regions of Saudi Arabia.
6. Continuingefforts to improve productivity in the national economy, particularly in sectors with comparative advantage.
7. Expanding investment in banking to address the growing relative importance of medium and long-term bank credit, and support SMEs.
8. Enforce the Finance Companies Control Law starting 2014; the law has provided a 2-year grace period for existing finance companies to comply with the finance laws and their implementing regulations.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

2. 1. **Update on Fiscal Strategy:** Debt-to-GDP ratio is low. No changes to fiscal strategy over the medium-term:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt							
ppt change							
Net Debt							
ppt change							
Deficit	340	238	170.7	73.2	(41.4)	(166.7)	(305.7)
ppt change							
Primary Balance							
ppt change							
CAPB	543.3	468	426.7	358.4	279.5	191.8	101.2
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
Figures in billions of SR

3. Economic Assumptions, and change since last submission *(required for all members)*:

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth	3.8	4.5	5.2	5.8	5.8	6.0	6.2
ppt change							
Nominal GDP growth	1.5	5.5	5.5	6.5	6.8	7.2	7.7
ppt change							
ST interest rate							
ppt change							
LT interest rate							
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
For 2013: Constant 1999 price. For other years: Constant 2010 price

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

Macroeconomic Policy Responses (including Reforms to Frameworks)	Continue to adopt appropriate macroeconomic policies and promote gradual shifting to knowledge-based economy
Implementation path and expected date of implementation	▪ Continue to increase capital spending. ▪ Continue to adopt monetary policy tools in a manner that ensures growth of domestic liquidity at rates that support economic activity and maintain price stability. ▪ Elaboration and approval of a national strategy and action plan for gradual shifting to knowledge based economy
What indicator(s) will be used to measure progress?	Approval of the strategy, its implementation plan and budget.

2. Investment and Infrastructure

New Policy Action in Investment and Infrastructure	Increasing government investment spending in order to expand and develop the economic, social and environmental infrastructure
Implementation path and expected date of implementation	During the years 2015-2019: • An increase in the allocation to projects of major sectors to about 2.4 trillion riyal. • Allocation of 372 billion riyal for the infrastructure sector. • Increasing average government consumption annual growth to 5.2% This new policy is expected to contribute to the objective of the 10th Plan to finance development projects of the major sectors, including the human resources, economic resources, social and health, and infrastructure. The allocation of 372 billion Riyal for spending on infrastructure, is about 76% more than what was allocated in the 9th Plan. This budget constitutes about 15% of what is allocated to all development sectors.
What indicator(s) will be used to measure progress?	− The ratio of investment to GDP and of Budget. − Percentage of spending on various economic sectors − Spending proportion on investment and infrastructure and their rate of growth.

New Policy Action in Investment and Infrastructure	**Increasing private investments for stimulating economic activity and dealing efficiently with global developments**
Implementation path and expected date of implementation	This would be achieved, during the 10th Development Plan (2015-2019), through: a) Expanding public-private partnerships for the implementation of infrastructure projects and the improvement and development of health, educational and social development services.It is one of the projects of the national strategy towards knowledge society, its action plan will be started 2015. b) Expanding the scale of investment banking to address the growing relative importance of medium and long-term bank credit, and support SMEs. New laws and regulations are being considered. c) Promote private sector investment in the four Economic Cities by overcoming obstacles that may limit the efficiency of investment performance. Reduce the rental charges of land in industrial zones and other investment projects. d) Maintaining a regulatory environment that is supportive and has stimulating effect on investment.SAGIA is elaborating a Road-Map for investment in major economic sectors. e) Establishing 13 region-wise investment councils to encourage and develop investment in all Saudi regions. Each council will cooperate with the Saudi Arabian General Investment Authority [SAGIA] to support investment in its region, overcome obstacles, and improve the investment environment. f) Promote social responsibility of the private sector.
What indicator(s) will be used to measure progress?	% increase of private investment

3. Employment

The following new policies are expected to contribute to the objective of the 10th Plan to create about 2.1 million job opportunities. The national labor will account for about 1.3 million, or about 62% of total job opportunities. The rest will be accounted for by the non-Saudi labor force.

• The New policy action:	Increase employment of Saudi nationals in the private sector
Implementation path and expected date of implementation	• New adjustments to the Nitaqat program (where companiesare classified in bands depending on their compliance with Saudization requirements)such as: a minimum monthly salary, privileges for disadvantaged groups, and increase foreign labor mobility • On the Job Training: launch 2015 • Coherent and comprehensive social protection package: Sanid Program (which is a new compulsory unemployment insurance for all citizens with jobs) will be effective this year 2014. It will lead to more of the country's younger workforce to seek employment at private companies. Minimum wage for workers in the private sector is an additional key program for Saudi national employment, a new salary will be set for the coming five years. • Establish 50 technical training institutes, (Colleges of Excellence), over the next 10 years, • Establishing an employment readiness program for young Saudis. It provides an online pre-test, e-learning modules and e-coaching during work experience/on-the-job trainings.
What indicator(s) will be used to measure progress?	− Number of Saudis working in the Private Sector − Total subsidy paid out − Number of colleges − Number of beneficiaries project parallel − Number of claims in Sanid program

New Policy Action in Employment	**Increase female participation**
Implementation path and expected date of implementation	•"Female employment in retail sectors". It will be extended to cover a significant number of sectors. •Telework program as a new employment channel, in particular females in remote areas. The program is due to launch in H2 2014 with full scale roll out in 2015. •Daycare Centers: establish affordable daycare centers to boost the number of working women. The program is currently in the development phase. •Short vocational training Courses: Whilst the courses are open to males and females, they are particularly intended to female.
What indicator(s) will be used to measure progress?	− Employment and unemployment rates for female and their participation rate.

New Policy Action in Employment	**Project parallel**
Implementation path and expected date of implementation	The program will be launched and implemented in the first phase in September 2014
What indicator(s) will be used to measure progress?	− Number of citizens registered − Number of certificates − Number of Employed

4. Competition and competitiveness

New policy action in competition	A package of new policies to enhance competition in all economic sectors
Implementation path and expected date of implementation	The package will be implemented over the coming five years of the 10^{th} Development Plan, and includes the following actions: a. Review laws governing the government purchases and tenders. b. Reforming contractors classification criteria c. Develop the mechanisms used in awarding contracting projects d. Revise maintenance contract rules and regulations and adopt KPIs e. Empowering the National Strategy of Protecting Integrity and Combating Corruption. f. Raising the effectiveness of civil society organization in development efforts. g. Empowering the National Competition Council. h. Improving competence of supervising and organizing agencies and developing its independence and capabilities. i. Increasing the number of judges specialized in trade and competition matters and the number of specialized courts. j. Stressing the implementation of the Competition Law.
What indicator(s) will be used to measure progress?	Issuing new laws, rules and regulation. Reviewing performance of the National entity of Protecting Integrity and Combating Corruption , and the National Competition Council Number of specialized courts and specialized judges in trade and competition matters.

<table>
<tr><th>New Policy Action in competitiveness</th><th>Action package to enhance the competitiveness of the Saudi economy</th></tr>
<tr><td>Implementation path and expected date of implementation</td><td>During the coming 5 years the following programs will be implemented:
• Establish new industrial zones, technology parks, incubators and financial centers.
• Increase productivity of labor by 20% in the major economic sectors.
• Raise the number of national students registered in engineering faculties by 30%.
• Raise the number of national students registered in TVTC by 25%.
• Raise GERD by 5% yearly.

This action package is expected to contribute to the objective of the 10th Plan to achieve competitiveness goals by 2019, the Plan intends to: increase productivity of labor by 20% in major economic sectors, raise the number of national students registered in engineering faculties by 30% and the number of national students registered in TVTC by 25% and raise GERD by 5% yearly.</td></tr>
<tr><td>What indicator(s) will be used to measure progress?</td><td>• Number of students registered in TVTC.
• Number of students registered in engineering faculties.
• Number of new industrial zones.</td></tr>
</table>

5. Trade

<table>
<tr><th>• The new policy action:</th><th>Adoption of a non-oil export development initiative over the coming 5 years</th></tr>
<tr><td>Implementation path and expected date of implementation</td><td>The new policy depends on the following mechanisms of implementation:
▪ Establishment of export-oriented industrial zones.
▪ Expansion FTAs to enhance non-oil exports.
▪ Adoption of short- and medium-term programs to promote productivity in the government and private sectors.
▪ Promotion of the role of the Saudi Export Development Authority.
▪ Improvement of ports capacity and streamline the procedures and substantial implementation of the trade facilitation agreement.
This new policy is expected to contribute to the objective of the 10th Plan to grow total exports at an average annual rate of 4.2%, fixed prices, projecting annual growth rate of services and other non-oil exports to be 8%, and 16% respectively.</td></tr>
<tr><td>What indicator(s) will be used to measure progress?</td><td>Annual growth rate of non-oil exports.
Improvements of ports capacity</td></tr>
</table>

COMPREHENSIVE GROWTH STRATEGY:

SOUTH AFRICA

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

South Africa's economic objectives over the short- and medium-term are anchored around the National Development Plan (NDP). The integration of the NDP into government's strategic and operational plans will strengthen alignment between NDP priorities and budgets and improve coordination across complementary areas of policy and expenditure.

The NDP, released on 11 November 2011, outlines South Africa's objectives for development up to 2030. It also provides a diagnostic overview of critical blockages to development, and suggests a number of policies to address these blockages. The NDP's objective is to lift South Africa's average GDP growth to 5 per cent annually as the minimum requirement to create employment, overcome poverty and reduce inequality.

The objectives of the NDP are addressed in the Medium-Term Strategic Framework (MTSF) for the period 2014-19, which was released on 7 August 2014. The MTSF, which is the first five-year policy framework designed in sync with the 2030 vision of the NDP, provides indications of key interventions that will be undertaken in the next five years, prioritises key policy actions and identifies departments responsible for each policy action. South Africa's growth strategy, which is aligned with the NDP and MTSF, aims to improve the environment for, and growth in, employment, investment in infrastructure, trade and competition. Addressing these constraints will deliver on the G20's objective of strong, sustainable and balanced growth.

Key Commitments

1. ***Reduce infrastructure constraints:*** South Africa's aggressive infrastructure build is being championed at the highest levels through the National Infrastructure Plan (NIP) and the Presidential Infrastructure Coordinating Commission (PICC), and targets 18 strategic integrated projects (SIPs) that are intended to facilitate economic growth. The 2014 National Budget set aside R847 billion for infrastructure development for the next three years, 24.4 per cent of 2013's GDP. State Owned Enterprises (SOEs) are expected to spend R381 billion of this budgeted amount.

2. ***Expand and improve basic education and post-school training:*** Skill shortages are a major constraint to South Africa's growth as well as a major source of inequality. Basic and post-school education accounts for about a fifth of total consolidated government spending, the highest proportion among all major expenditure categories. However, this robust investment has not translated to desired outcomes. Both basic and higher education are working together to address this challenge. Higher education has invested in Further Education and Training (FET) colleges which targets skilling of individuals who cannot attend universities. The department has also allocated R78 billion for university subsidies and R19 billion for the National Student Financial Aid Scheme for the next 3 years. Other institutions supported by the 2014 budget are the Sector Education and Training Authorities (SETAs), which are responsible for sector specific skills development, and also the National Skills Fund.

3. ***Expand and improve employment, particularly among the youth:*** New measures such as the Employment Tax Incentive (ETI), launched in January 2014, will assist first time job seekers with obtaining work experience. The Jobs Fund (www.jobsfund.org.za), established by the government in 2011, also assists with job creation through co-financing innovative projects by the public, private and non-governmental organisations. This fund will spend about R3.9 billion over the next three years and its projects are expected to create more than 167 000 jobs (Medium-Term Budget Policy Statement, October 2014).

4. ***Improve the effectiveness of competition policy and reduce mark-ups, particularly in network industries:*** South Africa is characterised by low levels of competition in a number of sectors, which creates an environment for very high mark-ups, therefore posing constraints to growth. To address these challenges, South Africa will continue the development and support towards the building of a world class Competition Authority. Top priorities have been in improving the effectiveness of competition policy and the investigative and prosecutorial powers of the authority as well as on anti-competitive conduct in priority sectors (such as food and agro-processing, intermediate industrial products and construction and infrastructure).

5. ***Deepen regional integration and grow exports:*** South Africa is a relatively open economy, with a transparent and simple tariff regime. The NDP outlines necessary steps that South Africa will take to further facilitate trade such as the ongoing work to streamline its customs administration. South Africa has recently completed an overhaul of its customs management system, which saw the new fully electronic system process over R1.7 trillion worth of goods within 6 months. Additionally, South Africa will continue to champion broader regional integration through the Southern African Customs Union (SACU), Southern African Development Community (SADC) and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013	2014*	2015*	2016*	2017	2018
Real GDP (% yoy)	1.9	1.4	2.5	2.8	3.0	n/a
Nominal GDP (% yoy)	7.8	7.6	8.5	8.7	8.8	n/a
Output Gap (% of GDP)**	n/a	n/a	n/a	n/a	n/a	n/a
Inflation (CPI, %, yoy)	5.8	6.3	5.9	5.6	5.4	n/a
Fiscal Balance (% of GDP)***	-3.9	-4.1	-3.6	-2.6	-2.5	n/a
Unemployment (%)	24.7	n/a	n/a	n/a	n/a	n/a
Gross Savings (% of GDP)	13.5	n/a	n/a	n/a	n/a	n/a
Investment (GFCF) (% of GDP)	19.3	n/a	n/a	n/a	n/a	n/a
Current Account Balance (% of GDP)***	-5.8	-5.6	-5.4	-5.2	-5.0	n/a

***Latest published forecasts (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published projections (National Treasury's Budget Review, 26 February 2014)**

****A positive (negative) gap indicates an economy above (below) its potential.**

***** A positive (negative) balance indicates a surplus (deficit). South Africa's fiscal balance data is for the fiscal year starting 1 April and for consolidated government. These estimates and projections are from the National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014. Revisions from the previous published projections (National Treasury's Budget Review, 26 February 2014)**

Key Drivers

Like other emerging market economies (EMEs), the South African economy has performed poorly in the first half of 2014 due to domestic vulnerabilities in key sectors and less than ideal global economic conditions and trends, particularly subdued growth in key trading and investment partners (particularly the Eurozone). The Rand has also been depreciating due to the gradual normalization of unconventional monetary policies as well as other domestic challenges.

The economy was dominated by negative economic news which included a contraction in first-quarter **real gross domestic product (GDP)** of 0.6 per cent (quarter-on-quarter, seasonally adjusted and annualised[1]), a six-month labour strike in the platinum belt and strike activity subsequently in the metals industry, and a downgrading of its sovereign debt rating by S&P. Tertiary sector activity helped the economy to escape recession, with positive real GDP growth of 0.6 per cent recorded in the second quarter of 2014, however, the mining and manufacturing sectors continued to record negative growth. More recently, South Africa's seasonally adjusted Kagiso Purchasing Managers Index (PMI) has increased to 50.1 in October 2014, moving above the 50 threshold for the first time since March, indicating that domestic manufacturing demand is recovering. However, any improvement is likely to be held back by the weak economic conditions in the Eurozone and weak domestic demand.

Domestic economic demand (real **gross domestic expenditure (GDE)**) has been generally robust, but has trended lower in recent quarters, in line with lower growth in consumption, personal income and credit. GDE growth declined to 2.2 per cent in 2013 from 4.0 per cent in 2012. Quarter on quarter, real GDE returned to positive growth rates in the first half of 2014, although growth declined from 2.7 per cent in 1Q 2014 to 1.8 per cent in 2Q 2014, largely on account of a sharp decline in investment growth in the second quarter.

- Real growth in **household consumption expenditure (HCE)** continued to soften, constrained by elevated inflation and moderating growth in disposable income and household credit.

- **Investment (gross fixed capital formation, GFCF)** growth remained robust in 2013, rising to 4.7 per cent (from 4.4 per cent in 2012), supported by the continued public infrastructure programme. However investment growth averaged just 3 per cent per year since 2010, and slowed for a third consecutive quarter and declined very sharply to 0.5 per cent in 2Q 2014, reflecting low levels of business confidence and constrained electricity supply. The 2014 GFCF growth forecast was revised downward to 2.7 per cent from February's Budget Review forecast of 4.2 per cent. **Private investment** contracted by 1.1 per cent in 2Q 2014, but is expected to reach growth of 3.9 per cent in 2015 and 5.8 per cent in 2016 as confidence returns to the market. The more competitive rand exchange rate, if sustained in real terms and not eroded by wage settlements that outpace productivity gains, will help to boost exports and support further investment in tradable sectors, including manufacturing. **Public corporations' investment growth** is expected to average 4.3 per cent over the medium term. **General government investment growth** accelerated in 2Q 2014, as all three levels of government spent money on water, schooling, healthcare and electrical substation

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[1] Quarterly growth rates are q-o-q, s.a.a.r., unless otherwise specified.

facilities, with road and transport facilities also featuring notably, but is expected to average 5.0 per cent over the medium term, lower than initially projected, as government departments reign in on spending to maintain the expenditure ceiling. **The National Development Plan (NDP) aims to increase South Africa's GFCF to 30 per cent of GDP by 2030.**[2]

- In 2013, HCE accounted for 60.8 per cent of GDP, while **government consumption expenditure (GCE)** made up 22.2 per cent and gross fixed investment stood at 19.3 per cent of GDP. Over the past 5 years, the ratios of HCE and GFCF to GDP have fallen from 61.7 per cent and 23.1 per cent respectively. In contrast, GCE's contribution to GDP has increased from 18.6 per cent over the same period.

The composition of growth is not expected to change materially, with moderate but improving growth most likely to be a feature of the South African economy over the next few years. The growth forecasts have been revised downwards to 1.4 per cent in 2014 and 2.5 per cent in 2015, as electricity and other infrastructure constraints, low levels of business and consumer confidence, and moderate employment and personal disposable income growth weigh on growth. However, over the medium-term, real GDP growth is expected to pick up, increasing to 3 per cent by 2017, as energy generation and transport infrastructure projects are completed, and as export markets recover.

- Expectations of stronger employment growth (projected to increase to 2.3 per cent in 2017 from 1.6 per cent in 2014) and reduced household debt levels should boost HCE and overall confidence in the domestic economy.

- GCE's contribution to GDP is likely to fall as government's finances consolidate.

- Higher investment over the medium term should be supported by continued strong demand from African export markets and expanding partnerships with the private sector.

Assessment of Obstacles and Challenges to Growth

1. Investment

The low levels of investment in the South African economy was identified as a binding constraint on growth as far back as 2006, in the work done by the International Panel on the Accelerated and Shared Growth Initiative for South Africa (ASGISA).

South Africa needs to invest in a strong network of economic infrastructure designed to support the country's medium- and long-term economic and social objectives. This economic infrastructure is a precondition for providing basic services such as electricity, water, sanitation, telecommunications and public transport, and it needs to be robust and extensive enough to meet industrial, commercial and household needs.

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[2] The NDP targets 20 per cent of GDP for private sector investment, and 10 per cent of GDP for the public sector – to make up the 30 per cent of GDP target

The share of the public sector in overall fixed investment increased from under 30 per cent in 1994 to 37.1 per cent in the first two quarters of 2014, with state-owned companies (SOCs), especially Eskom and Transnet, accounting for more than half of public investment. The sustained expansion of public infrastructure spending has supported a positive trend of total investment rising to 20 per cent of GDP in the first two months of 2014.

1.1 Electricity supply constraints

Although Eskom's electricity distribution/transmission network is in relatively good condition, the state of local distribution and municipal infrastructure presents bottlenecks to economic growth, which government has started to address. Municipal infrastructure is most important for end users,

Electricity constraints are driven by insufficient generating capacity and "local" distribution (infrastructure at the municipal or end-user level), both of which government has sought to address. Spending pressures, capacity and poor revenue collection have all hampered efforts to improve capacity.

Eskom is building two large power plants (Medupi, of which the first unit is expected to come online in the first half of 2015, and Kusile) to reduce constraints. Furthermore, Eskom has embarked on a large maintenance programme taking up to 15 per cent of capacity off at any one time to reduce service backlogs.

Additionally, electricity prices are becoming far more cost-reflective.

1.2 Limited rail and port capacity

Bottlenecks exist on specific export routes, constraining South Africa's capacity to export commodities such as iron ore and manganese. In order to address these bottlenecks, Transnet is undertaking R300 billion in investment. It will upgrade its coal rail lines (approx. R52.7 billion) and develop a manganese line. Government is also working on improving port capacity, where tariffs and size have constrained exports. Notably, Saldanha is targeted for R33.2 billion in investment to improve port infrastructure and Durban R42.5 billion investments to expand and deepen the port. Transnet is also rationalising tariffs to be in line with the costs of port handling.

1.3 Water infrastructure constraints

On current projections, South Africa's water demand will outstrip supply between 2025 and 2030. Water licenses have been a barrier to investment in certain sectors, in particular mining, manufacturing and agriculture, which are heavily reliant on water for production.

1.4 Obstacles to private sector infrastructure investment

A **Task Team on Infrastructure in South Africa** was established in 2013 to coordinate discussions between government and the private sector on obstacles to private sector participation in infrastructure development in South Africa. The following obstacles to private investment in infrastructure were identified by the Task Team:

- Lack of certainty on policies and regulations governing infrastructure projects;
- Public sector capacity challenges;
-
- Ineffective project structuring; and
- Weak credit-worthiness of certain public sector institutions

The **Infrastructure Development Act**, will fast-track the implementation of the South African government's infrastructure development plan. The Act which came into effect on 1 July 2014 formalises and establishes in law the **Presidential Infrastructure Coordinating Commission (PICC)**, which is overseeing implementation of the 18 **Strategic Infrastructure Projects (SIPs)** within the National Infrastructure Plan (NIP).

In addition, the Government and business in South Africa are working on reducing red tape. The National Treasury's Director-General together with a private sector representative, co-chair a process that has already delivered results in terms of addressing blockages to the issuance of water licences, and is also dealing with environmental regulations related to mining, as well as bottlenecks relating to business registrations.

1.5 Macroeconomic obstacles to investment

1.5.1 Low domestic savings

The NDP envisages a greater role for domestic resources in funding investment to reduce South Africa's reliance on foreign capital flows. Annual growth in output and incomes of 5.4 per cent should create favourable conditions for a higher level of savings and thus linking savings, investment and growth. The gross savings rate declined sharply in recent decades to an average 13.9 per cent in the first half of 2014 from 19.1 per cent in 1990. South Africa's low household savings rate is the result of low employment growth and the associated impact on income, as well as financial sector liberalisation, which resulted in easier access to credit. Rising household wealth and income expectations, as well as lower interest rates lowered the returns on savings and reduced the cost of borrowing. Low levels of financial literacy in South Africa may exacerbate the impact that some or all of these factors are having on lowering household savings, whilst unsuitable product and business models for lower income households may also exacerbate the problem of low levels of savings in formal savings products.

The South African government is committed to providing an enabling environment for savings with the Social Security and Retirement Reform initiative, the National Financial Education Framework, the protection of consumer rights under the new Consumer Protection Act and the substantial increase in allowable tax deductions and tax concessions particularly with a view to encouraging private savings, both short and long term. Another government measure to boost savings is the RSA Retail Savings Bonds, which have been designed to be as accessible as possible for the general public to invest their money, while earning secured and market related returns on their investments.

The South African Savings Institute (SASI) was launched over 10 years ago to encourage South Africans to increase their savings, using the four guiding principles of Research & Advocacy, Debate around key aspects of saving, Education and Information provision and promoting awareness through various campaigns to fulfil this mandate.

Because of insufficient domestic savings, foreign capital is often required to address South Africa's financing gap. Foreign Direct Investment (FDI) has been quite erratic, but in general, bar a number of large FDI transactions, has been a fairly small component of foreign capital inflows in South Africa since 1995. By contrast, portfolio investment in South African equity and debt securities has been an important source of foreign capital. South Africa registered strong net FDI inflows of R11.9 billion and net foreign portfolio inflows of R16.2 billion in the second quarter of 2014. South Africa targets gross FDI inflows of R40 billion to be facilitated by the Department of Trade and Industry (DTI) in 2014/2015 and R230 billion by 2018/19, relative to a baseline project pipeline of R50 billion in 2013/14.

2. Employment

South Africa has a high unemployment rate, particularly among the youth, which is arguably the biggest obstacle to income growth and social development in the country. In June 2014, there were about 5.2 million unemployed work seekers, accounting for 25.5 per cent of the labour force.

Amongst the unemployed, there were over 3.3 million young (aged 15-34 years) unemployed work seekers in this period, accounting for 36 per cent of the labour force, of which 53.2 per cent of them were among the youth aged 15-24 years.

The number of long-term unemployed has also increased, reflecting a labour absorption rate which remained almost unchanged at only 42.8 per cent of the working-age population in March 2014. The labour force participation rate for women has remained stagnant for most of the period from 2008 to 2014, and is significantly lower at 51.0 per cent in 1Q 2014 than that of men (63.6 per cent).

From the labour supply perspective, South Africa has a large and persistent structural skills deficit that our education system has failed to address. There is also a mismatch between the geographic areas in which labour supply exists, relative to the areas in which job opportunities exist. This mismatch is a result of inefficiencies in education and training, so that acquired skills are not relevant to the current labour market needs. The NDP discusses the complexities of transforming human settlements and recommends developing a national spatial framework (identifying lessons learnt from an earlier attempt, the National Spatial Development Perspective) to coordinate and connect the principal decisions that create and shape places to improve how they function. South Africa is also investing in connective infrastructure and services that enhance labour mobility in search of jobs.

3. Competition

The Competition Act of 1998 ("Competition Act") and the institutions established under it in 1999 were important parts of the first democratic administration's agenda of economic transformation. The Act and its numerous amendments has received positive reviews globally, with the World Economic Forum (WEF) ranking South Africa's competition policy in the top 10 globally in 2013-14.

While South Africa has been praised for its competition policy, the emphasis and focus for competition policy set out in the National Development Plan, New Growth Path, and described in successive iterations of the Industrial Policy Action Plan (IPAP), remains appropriate. The point of departure for competition policy work is the recognition that the South African economy continues to experience ongoing challenges with regard to low levels of effective competition in many sectors dominated by a few entrenched firms.

The lack of competitiveness in **network industries, particularly transport and telecommunication**, has been highlighted as one of the major factors that hinder export performance. Transnet - a state-owned company (SOC) - is a monopoly provider of freight infrastructure. Its pricing of freight is highly uncompetitive, e.g. port tariffs on containers were 360 per cent higher than the global average in 2012. South Africa's ranking on information and communications technology (ICT) infrastructure declined from 55th position in 2000 to 98th in 2012.

The uncompetitive pricing of **intermediate industrial inputs** has been identified in various government documents as one of the significant factors that constrain growth in the manufacturing sector. The Competition Commission has a continued active focus on investigation, prosecution and policy advocacy with regard to these inputs. Prioritisation enables the Competition Commission to identify and undertake focused and targeted competition interventions in sectors that have a high impact on the welfare of low income consumers or a large proportion of the population and in sectors that have linkages to other sectors.

4. Trade

South Africa's **merchandise trade balance** deteriorated further to a deficit of 2.8 per cent of GDP in 2Q 2014 from deficits of 2.1 per cent in 1Q 2014, 2.2 per cent in 2013, and 1.3 per cent in 2012. Export values declined by 6.4 per cent in the second quarter on the back of industrial action, falling commodity prices and declining global demand. The terms of trade (including gold) declined by 3.7 per cent year-on-year in 2Q 2014 and by 4.9 per cent in 1Q 2014.

South Africa's **goods and services trade deficit** shrank sharply to R192 million in June from R7.4 billion in May 2014 and R12.4 billion in April, although the cumulative trade deficit increased to R48.3 billion in the first six months of 2014 from 35.6 billion in the same period a year earlier.

Export growth volumes have stagnated over the past decade - with South Africa's exports lagging behind those of its peers, particularly in non-mineral and services. Some of the factors that have contributed to below-potential export growth include: infrastructure bottlenecks; labour market instability; high local operating costs due to network industry inefficiencies such as rail and road infrastructure. Firms are also constrained by a number of non-tariff barriers such as inefficient border controls. High levels of concentration in South Africa's economy reduces competitive pressures and lowers the number of small and medium sized firms, which also reduces their participation in export markets.

Import growth has remained strong despite the moderate growth in consumer spending and weak Rand. The import bill has been dominated by oil imports (which have been rising in line with the depreciating rand) and capital goods imports (which have been driven by the ongoing infrastructure programme). However, both the volume and value of merchandise imports contracted in 2Q 2014, with both oil and non-oil import volumes moderating due to maintenance work and waning domestic demand.

While Europe remains South Africa's largest trading block, exports to China have increased significantly. Sub-Saharan Africa is also increasingly becoming a more important trade partner for South Africa.

South Africa's **current account deficit** deteriorated to 6.2 per cent in 2Q 2014 from 4.5 per cent in 1Q 2014, due to widening deficits on the trade account, as well as the service, income and transfers account. The deterioration in the latter deficit reflects the conspicuous absence of large dividend inflows that characterised the first quarter, and a moderate increase in gross dividend payments to non-resident investors.

South Africa's current account balance is expected to improve from a deficit of 5.8 per cent of GDP in 2013 to a projected deficit of 5.6 per cent in 2014 (revised downward from 5.9 per cent at the time of the February 2014 Budget Review) and 5 per cent by 2017, on account of expectations of an improvement in export growth.

South Africa will implement a number of initiatives to support broader-based industrialisation such as the development of special economic zones (SEZs). The country foresees the SEZs assisting it to reach its target of increased value-added exports of R20 billion by 2019.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Slower real growth and lower GDP inflation outcomes have led to a downward revision in the nominal GDP forecast. As nominal GDP is the basis for tax revenue forecasting and expenditure estimates, this downward revision will have negative implications for the fiscal framework and debt levels.

However, the South African government's macroeconomic framework is expected to remain resilient. Prudent and transparent fiscal management, inflation targeting and a flexible exchange rate in the context of open capital markets enable the economy to continue growing moderately after the global financial crisis. To date, South Africa's flexible exchange rate has acted as a limited shock absorber for global turbulence. Well-regulated and well-managed financial institutions are able to respond to changing global conditions.

Fiscal imbalances remain and economic growth is still below potential, but output levels have returned to pre-crisis levels. Deep and liquid domestic financial markets and a robust domestic investor base reduce the funding vulnerability of the fiscus. South Africa's debt levels are manageable and the long-term fiscal outlook supports sustainable public finances. South Africa's national government debt has increased from 27.4 per cent of GDP in fiscal year 2009/10 to 45.9 per cent in 2013/14, as government has used the fiscal space grown during the 2000s to support the economy in the aftermath of the global financial crisis. Government net debt as a share of GDP continues to grow, but is projected to level off at 45.9 per cent of GDP in 2017/18. As debt stabilises, government is committed to rebuild fiscal space by reducing the ratio of government debt to GDP.

Several factors underpin South Africa's sustainable debt position. Government's debt portfolio is well structured, and debt denominated in foreign currency is only about 10 per cent of the total, which limits the consequences of rand depreciation. A smooth maturity profile, in addition to an average term-to-maturity of above 13 years, means that the impact of short-term swings in capital markets can be absorbed over time.

In October 2014, the National Treasury proposed a series of five measures to narrow the deficit and stabilise debt over the medium term:

- Reduce growth in spending by lowering Government's 2014 Budget expenditure ceiling (announced in February 2014) by R25 billion over the next two years,
- Adjust tax policy and administration through the introduction of proposals in the 2015 Budget (to be announced in February 2015) to generate additional revenue of at least R27 billion over the next two years.
- Strengthen budget preparation through great emphasis on longer-term planning and efficient resource allocation, within a fiscal framework that links aggregate expenditure and economic growth beyond the medium term,
- Freeze government personnel headcounts and review funded vacancies, and
- Adopt a deficit-neutral approach to financing state-owned companies, by ensuring over the next two years that any capitalisation required does not widen the budget deficit.

Monetary policy remained accommodative throughout the crisis, as inflation remained mostly within the target band of 3 – 6 per cent, barring a few temporary breaches. Consequently, the repo rate was reduced from 12 per cent at the height of the crisis to 5.0 per cent in 2012. However, since May 2013, an accelerating trend in the depreciation of the exchange rate of the rand intensified. This reflected both international as well as domestic factors. Internationally, movements n the EUR/USD exchange rate, asset purchase tapering by the US Fed and related swings in capital flows were the key drivers, whereas domestic factors included strike activity which resulted in slower growth, a widening current account deficit, a downgrade in South Africa's credit rating, stubborn levels of core inflation and structural economic imbalances. These factors, combined with higher domestic maize and wheat prices and the impact of the weaker rand on the local cost of fuel, have resulted in a steadily worsening inflation trajectory. Consequently, the South African Reserve Bank (SARB) embarked on a data-dependent moderate tightening cycle, increasing its policy rate by 50 bps in January 2014 and a further 25 basis points in July 2014.

More recently, the SARB has indicated that the inflation trajectory remains uncomfortably close to the upper end of the target range, while risks to the headline inflation forecast are skewed to the upside. Although international food and oil prices have moderated, the depreciation in the exchange rate of the rand has reduced the benefit thereof. The exchange rate of the rand is one of the key risk factors going forward, vulnerable to a host of factors including sovereign rating downgrades (as witnessed by the most recent downgrade by Moody's); the deficit on the current account and an increasingly challenging environment in attracting portfolio inflows; US dollar strength; changes in expectations related to monetary policy normalisation in the US and its impact on appetite for emerging market asset classes; geopolitical factors and domestic factors. Wage settlements above inflation and the risk of a wage-price spiral are further key risks highlighted by the MPC. The SARB's most recent inflation forecast suggested that CPI inflation would remain close to the upper end of the inflation target band, but should return to within the target band during the first quarter of 2015, however, the most recent CPI print for September 2014 measured 5.9 per cent. At the same time, however, the growth outlook for the domestic economy has deteriorated and growth forecasts have been downgraded. Growth rates are well below potential output and indicative of a widening output gap. Looking ahead, the SARB's leading indicator suggests that the growth outlook will remain subdued. . Against this background, the SARB faces a difficult dilemma but is of the view that interest rates will have to normalise over time. However, any future decisions will be highly data dependent, and while inflation is the primary focus, the SARB will also be mindful of the weak state of the economy.

Financial stability has become an added mandate of the South African Reserve Bank (SARB) and a Financial Stability Committee has been established to this effect. South Africa is currently preparing to implement a Twin Peaks approach to financial sector regulation, with macro-prudential regulation to be housed in the SARB. It is expected that this will come into effect in the first half of 2015. At that stage, a Financial Stability Oversight Committee (FSOC) will be established, to coordinate systemic oversight in the new macroprudential framework. The FSOC will be chaired by the SARB and include other regulatory agencies and National Treasury (NT) as an observer. To date, no macro-prudential tools or capital controls have been used and a macroprudential toolkit is currently being put together by the SARB.

New Structural Policy Responses

Investment and Infrastructure

The **Medium-Term Strategic Framework (MTSF) 2014-19 Outcome 6 ("An efficient, competitive and responsive economic infrastructure network")** sets objectives for the next five years. During this period, movement towards an inclusive and dynamic economy requires that the country should urgently launch the virtuous cycle that allows it to move to a new growth trajectory. The emphasis on absorbing the unemployed into economic activity and higher mining exports requires urgent investments in rail, water and energy infrastructure, alongside regulatory reforms that provide policy certainty. At the same time, the private sector should be encouraged to commit more investments to supplier industries for the infrastructure programme, and in general economic capacity.

The **Infrastructure Development Act**, which is meant to fast-track implementation of the South African government's infrastructure development plan, came into effect on 1 July 2014 after being signed into law by the President on 30 May 2014. The act formalises and establishes into law the **Presidential Infrastructure Coordinating Commission (PICC)** coordinates catalytic projects that can fast-track development and growth through the 18

Strategic Infrastructure Projects (SIPs) within the National Infrastructure Plan (NIP).

The PICC brings key Ministers, Premiers and Metro Mayors into a joint forum to promote infrastructure coordination and decision making, headed by the President and assisted by the Deputy President.

Critical deliverables within the implementation of the NIP include the realization of the key infrastructure national projects, which in turn allows South Africa to work towards the realization of growth and employment targets. Monitoring of the NIP includes collection of data on jobs created on the various infrastructure builds, skilling activities aligned to the infrastructure build as well as localization efforts. Further work includes the identification and resolution of critical blockages in the system, as well as alignment of employment efforts across various implementing entities.

Over the medium-term expenditure framework period (3 years), the South African government has approved 43 infrastructure projects totalling R847 billion and identified investment in infrastructure as a source of job creation. According to the 2014 Budget Review, the medium-term expenditure by major State-Owned Companies (SOCs) is projected to reach R381.9 billion. Investments by Eskom, Transnet, and SANRAL account for 90 per cent of this amount. It is also estimated that in 2014/15, 67 per cent of the finance that is required by SOCs will come from the domestic market. Over the next two years (as of October 2014), financial support provided to these SOC, including capital injections for Eskom, will be provided in a manner that does not affect the budget balance. Funds will be raised to enhance SOC resources, where necessary, through the disposal of non-strategic assets held by the state, or from private investors.

Public-sector investment will total R847.3 billion over the next three years – equivalent to 7 per cent of GDP in each year. The NDP aims to increase South Africa's Gross Fixed Capital Formation (GFCF) to 30 per cent of GDP by 2030, which would require GFCF to grow by 10 per cent per year during this period.[3] The MTSF Outcome 6 aims to increase the GFCF-GDP ratio to 25 per cent by 2019. This would represent an increase from 19.3 per cent recorded in 2013. The MTSF aims to increase public sector investment to 10 per cent of GDP by 2019, up from 7.2 per cent of GDP in 2013.

The key policy actions mainly apply to five main areas/sectors namely energy, transport, water resources, broadband infrastructure and regional infrastructure.

Reforms to close the **energy** infrastructure gap are: ensuring security of electricity supply to support economic growth and development, (a stable electricity pricing policy and regulator), increasing share of gas and renewables in energy mix, legislation allowing exploratory drilling for coal seam and shale gas reserves and draft regulations and legislation for shale gas being formulated. The energy policy white paper sets a target of 30 per cent private-sector participation in electricity generation.

Constructions on Medupi and Kusile power stations are proceeding. The independent power producer programme is diversifying out of renewables into gas, hydroelectric, coal and cross-border projects. Recent progress in South Africa's energy infrastructure initiatives includes the following:

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[3] This includes both private and public sources of investment. The NDP targets 20 per cent of GDP for private sector investment, and 10 per cent of GDP for the public sector – to make up the 30 per cent of GDP target.

- The first unit of the Medupi power station is expected to come online in the first half of 2015.
- Contracts for 47 renewable energy projects were finalised in 2013, with most already under construction. These are expected to add generation capacity of 2 459 MW between 2014 and 2016. The most recent procurement finalised a further 1 450 MW of capacity for 17 projects with higher local content and cheaper electricity costs.
- At Cookhouse, Eastern Cape, Africa's largest wind farm (135 MW) was added to the grid in May 2014.
- South Africa's first baseload gas-fired power plant was recently commissioned by Sasol. Half of the plant's 140 MW capacity will be fed onto the national grid.
- In October 2013 South Africa signed the Grand Inga Hydro Power Project Treaty with the Government of the Democratic Republic of Congo. This massive and strategic project has the potential to generate 40 000 megawatts of hydro-electricity.

Reforms to close the **transport** infrastructure gap are: upgrading the capacity of rail links and ports, the procurement of rolling stock and the construction/refurbishment of wagons/locomotives, construction of new roads and new legislation to allow collection of tariffs from users, upgraded and expanded and integrated public transport in the form of rail and buses developed (the metropolitan bus rapid transit system). Numerous projects in the region aimed at promoting intra-regional trade.

Transnet will upgrade its coal, iron ore and manganese lines. Government is also working on improving port capacity and upgrading and expanding integrated public transport.

Recent progress in South Africa's transport infrastructure initiatives includes the following:

- Plans to expand the coal, iron ore and manganese lines are at advanced stage of feasibility assessment.
- Seven new state-of-the-art cranes have been added to the container terminal at the Port of Durban, increasing efficiency by 27 per cent (crane moves per hour).
- Large metros are investing heavily in integrated public transport networks. Tshwane, Mbombela, Nelson Mandela Bay, EThekwini, Rustenburg and George have all started constructing stations, depots, buses, information technology systems and dedicated bus lanes. Msunduzi, Polokwane, Buffalo City and Mangaung are in the planning phase.
- Transnet's R50 billion locomotive contracts and the Passenger Rail Agency of South Africa (PRASA)'s passenger rail projects.

Reforms to close the **water** infrastructure gap include the construction of dams, water transfer schemes and irrigation schemes, water treatment works are to be developed and reticulation and sanitation infrastructure maintained and upgraded. The investments are aimed at ensuring there is sufficient water supply to enable economic growth and development as well as to expand access to water for both households and the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production.

Resources will be made available to local government to deliver water and improve sanitation, including eliminating bucket toilets. Recent progress, and planned projects, in

South Africa’s water infrastructure initiatives includes the following:

- Rehabilitation of the country’s five large water transfer schemes is underway.
- Department of Water Affairs reviewing water pricing strategy.
- The R14 billion Mokolo Crocodile Water Augmentation project financing is being finalised for phase two.
- The construction of Mzimvubu Dam in the Eastern Cape will continue, and also the raising of the wall of Clanwilliam Dam in the Western Cape.
- During the next five years the bulk of the construction work on Phase 2 of the Lesotho Highlands Water Project will be completed at an estimated cost of R12 billion, which will be borne in total by South Africa.

Broadband infrastructure is to be rolled out and the migration to digital television (DTT) completed in the telecommunications sector. Cabinet adopted "South Africa Connect", our Broadband Policy and Strategy, in December 2013 to take this mission forward. The aim of this policy is to ensure access to low-cost, high-speed international bandwidth, with the cost associated with internet access targeted to be comparable with peers by 2020. In the next five years, South Africa will finish building more than 60 MeerKat dishes and start building the first 100 Square Kilometre Array dish antennas.

South Africa will participate in mutually beneficial **regional infrastructure projects**, including transport, to unlock long-term socio-economic benefits by partnering with fast-growing African economies with projected growth ranging between 3 per cent and 10 per cent. These projects complement the Free Trade Area (FTA) discussions to create a market of 600 million people in South, Central and East Africa. Regional infrastructure projects include the North-South corridor, agreements on electricity generation and transmission capacity in the region, for example the hydro power projects like Grand Inga and a range of smaller hydro and gas projects in Mozambique (e.g. Mphanda Nkuwa). South Africa will continue its partnership with Lesotho in respect of the Lesotho Highlands Water Transfer Scheme.

South Africa will promote local procurement and increase domestic production by having the state buy 75 per cent of goods and services from South African producers. South Africa will utilise the renewable energy sector, the manufacturing of buses, Transnet's R50 billion locomotive contracts and the Passenger Rail Agency of South Africa (PRASA)'s passenger rail projects among others, to promote local content and boost growth.

South Africa will implement the Industrial Policy Action Plan and will over the next five years promote regional economic development and industrialisation, through the creation of Special Economic Zones (SEZs) around the country.

Measures to address macroeconomic constraints to investment

Measures to increase household savings

South Africa’s tax system is an integral part of the country’s public finances. Tax-free savings accounts will be implemented in the next 3 years (National Treasury plans to introduce these accounts on 1 March 2015), creating a mechanism to increase both household and corporate savings. Tax tools to encourage savings at a household level include, but are not limited to, tax-preferred savings accounts and retirement savings reforms. Tax-preferred savings accounts will have an initial annual contribution limit of R30 000, to be increased regularly in line with inflation, and a lifetime contribution limit of R500 000. The account will allow investments in bank deposits, collective investment schemes, exchange-traded funds and retail savings bonds.

Retirement Savings reforms over the past two years have aimed to encourage more people to save for retirement and to preserve their savings throughout their working lives. Changes to the taxation of contributions to retirement funds in line with the Taxation Laws Amendment Act (2013) will provide additional relief to most retirement fund members and encourage them to save for retirement.

Measures to encourage entrepreneurship and SME development

Entrepreneurship and business development are important building blocks for a growing, sustainable economy. Government aims to streamline the regulatory regime, where proposed reforms are to reduce compliance costs and facilitate access to equity finance. The following proposals have been adopted to support business and corporate savings in South Africa and will be implemented in the next 3 years:

- Turnover tax regime for micro businesses
- Small business corporation tax relief
- Venture capital company regime
- Tax treatment of grants

National Treasury has introduced tax relief for small businesses through **section 12E of the Income Tax Act**. Section 12E was created specifically to encourage new business ventures to create jobs, and this encouragement comes in the form of reduced taxation for qualifying small businesses. Graduated tax rates and accelerated depreciation is offered to stimulate this sector.

The government promotes long-term investment by institutional investors through the Venture Capital Companies (VCC) tax incentive (Section 12J), which is similar to the Venture Capital Trusts (VCT) regime in the United Kingdom. Since its introduction in 2008, there has been limited take up of the incentive, with only 5 VCC's registered overall. During the 2014 National Budget, it was announced that more amendments to the regime will be considered in order to make it more attractive. This tax incentive is currently under review to improve its functioning in assisting start-ups and entrepreneurs.

Over the next five years, South Africa will prioritise support to small business, as well as township and informal sector businesses in particular, thus using the SMME development programme to boost broad-based black economic empowerment. South Africa will also promote more employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialisation of the economy.

Initiatives to improve the investment environment for the private sector

In a continued effort to improve the investment climate, the presidency has stated to convene the next meeting of the **Presidential Business Working Group**, which will take forward the

Government's partnership with business for inclusive growth and sustainable development.

Policy uncertainty has long been a constraint for increased investment in the country. However, in the energy sector there is now greater policy certainty. The renewable energy programme has a very clear and transparent process, running over multiple years. The programme has spanned over three bidding rounds so far, with substantial increases in competition in each round, resulting in both lower prices as well as increased local content. The Department of Energy (DoE) have firmed up commitment in the programme by releasing a Determination to continue with further bidding rounds in the future, thus helping to cement supplier investment in the country, and expand local value chains. The third procurement round is finalizing 1 457 MW of capacity from 17 projects with higher local content and lower costs.

To bolster government/public sector capacity to develop and review infrastructure projects, and to ensure that the lead time on these projects is significantly reduced, South Africa has established the Government Technical Advisory Centre (GTAC), which is a step in re-establishing the capacity to assist other government departments in project preparation and development.

Another measure instituted by the Minister of Finance in 2013 was the establishment of the Office of the Chief Procurement Officer (CPO). The CPO will manage and maintain the regulatory environment relevant to government procurement practices; effectively manage government transversal contracts so that cost savings and socio-economic objectives are achieved; oversee and monitor government sector procurement practices to ensure compliance with the regulatory framework; provide advisory services and to implement initiatives that will improve the capability of government procurement practitioners.

South Africa has a potential pipeline of more than R3 trillion worth of infrastructure projects, only a portion of which can be funded by the fiscus. The bulk of this will require external funding.

The National Treasury has initiated the **Task Team on Private Sector Financing of Infrastructure** to identify blockages to the private sector financing of infrastructure (e.g. regulation, such as the Basel III requirements, that reduce the appetite of banks for infrastructure financing) and make recommendations to remove these blockages. The membership of the Task Team include the Department of Public Enterprises (DPE), the PICC, the Development Bank of Southern Africa (DBSA), the Association for Savings and Investment for South Africa (ASISA), and the Banking Association of South Africa (BASA).

Government and business in South Africa are collaborating on the cutting of red tape. The National Treasury's Director General and a private sector representative co-chair a process that has already delivered results in terms of addressing blockages to the issuing of water licences, and is also dealing with environmental regulations related to mining, as well as bottlenecks relating to business registrations. Government has also been working with the financial sector to identify and clear blockages to the private sector playing a role in the financing of infrastructure.

Special Economic Zones (SEZs)

South Africa is **planning SEZs (Special Economic Zones)** in all of the nine provinces. **R3.6**

billion has been set aside for conducting pre-feasibility and feasibility studies for the planned SEZs as well as infrastructure projects in the existing industrial development zones (IDZs) and newly-designated special economic zones through the incentive scheme. The SEZ support forms part of the Department of Trade and Industry (DTI)'s wider support for productive sectors under the Industrial Policy Action Plan, hence putting the economy on a higher, more labour-intensive growth path.

The SEZ incentives include:

- **Manufacturing Development Incentives:** R10.3 billion has been allocated for manufacturing development incentive, through which the South African government would support new investments, skills development and energy efficiency in industrial processes (additional tax incentives will be available from 2015 to establish energy efficient industrial processes)
- **Infrastructure Development**: In addition to the confirmed R847 billion boost to the infrastructure sector in the next three years, the government will build 433 new schools, thousands of new houses within their housing scheme framework and connect one million houses to electricity over a 3 year period.
- **Agricultural Policy**: To support the National Development Plan's target of creating a million agriculture jobs by 2030, it was announced that an agricultural policy was being developed. Over R7 billion will be spent on conditional grants to provinces to fund training and support measures for 435 000 subsistence and 54 500 smallholder farmers, and to improve agricultural extension services

Indicators used to measures progress in addressing infrastructure investment constraints

Government has committed to further investment in infrastructure as well as minimising constraints to increased investment in this space. There are a number of indicators that may serve as proxies in measuring the progress of reduced infrastructure constraints, including the use of Gross Fixed Capital Formation for the public sector. Additionally, the budgeted spending for the public–sector infrastructure of R847 billion over the next three years may be cross-referenced against actual expenditure after the three year period ascertain potential constraints.

Other indicators include, the South African Reserve Bank (SARB) data on South Africa's gross savings as a percentage of GDP (i.e., the national saving ratio). The performance of household savings, government savings and corporate savings are all recorded in both annual and quarterly formats.

The SARB also collects data on South Africa's Balance of Payments (BoP). The performance of South Africa foreign investment is recorded in the financial account of the BoP on an annual and quarterly basis.

From a private sector investor perspective, there is a very strong correlation between the FNB/BER business confidence index and investment (private sector). This can therefore be used as a proxy for improvements in the Investment Climate.

Infrastructure will facilitate economic activity that is conducive to growth and job

creation. Also, it has the ability to produce more inclusive growth, providing citizens with the means to improve their livelihoods and boost incomes. The government has announced the shift in the composition of expenditure towards investment.

Dialogue will encourage confidence and improve private / public outcomes and raise overall investment levels.

Improved profitability (the SME section) would help encourage investment.

Higher savings rates will help to reduce reliance on external capital flows.

By lowering the cost of doing business – and looking for work - the completion of the infrastructure programme will boost SA's long-term growth potential. It will also go a long way to addressing inequality, by reducing imbalances in access and opportunity. Investment in bulk water infrastructure addresses both growing household demand and the needs of the mining, manufacturing and agricultural sectors, which are heavily reliant on water for production. Infrastructure programmes in the energy sector should promote economic growth and development by providing reliable and efficient energy, social equity through expanded access to energy, and environmental sustainability through efforts to reduce pollution. Transport infrastructure should promote the capacity to expand export capacity, but also contributes to social equity through improved access to public transport.

Addressing infrastructure bottlenecks should raise competitiveness and export earnings as well as lower the cost of doing business. Higher savings will reduce reliance on foreign capital. Faster and more inclusive growth will help to reduce inequality.

Employment

Government will introduce further measures to speed up the employment of young people, consistent with the **Youth Employment Accord**, which was signed by government, youth organizations, trade unions, business and community leaders. The Accord spells out the commitment for social partners to increase opportunities for youth in employment, training and skills development and to support youth enterprises and cooperatives.

Government's countercyclical fiscal policy can be used to both protect jobs and (through targeted expenditure) create jobs. This approach allows the public sector to contribute directly to employment creation through direct employment within the public sector, but also to fund social programmes and infrastructure development, both of which could potentially generate a large number of jobs for the low-skilled unemployed.

The implications of the NDP are addressed in the **Medium Term Strategic Framework (MTSF)** which provides indications of key interventions that will be undertaken in the next five years. The MTSF is further given expression in the 12 outcomes agreed by government and directly relevant to employment is outcome 4 which supports "Decent Employment through inclusive growth".

The MTSF's employment targets include a reduction of the official unemployment rate from current levels around 25 per cent to 14 per cent in 2020.

1. *Private employment*

Employment intensive programmes and initiatives will receive top priority, especially those that target the youth and women (MTSF, Outcome 4).

- Government launched the **Employment Tax Incentive (ETI)** in January 2014, to assist with obtaining first jobs and getting the required work experience. Through the ETI, the Government shares the initial cost of hiring with the employer to boost job creation. The work experience gained will improve long-term employment prospects of the youth, whose struggle to obtain a first job significantly affects their long term prospects for employment. The first claims for the programme were received by 7 February 2014. The private sector has so far responded positively to the ETI, with 209 000 employees who have benefitted and 23 500 employers who have participated in the incentive scheme as at October 2014.
- The Government has strengthened small business financial and advisory support, drawing on both public and private sector capacity. Ninety per cent of the jobs to be created by 2030 envisioned by the NDP will come from small and medium enterprises (SME). In May 2014, the President of South Africa created a new ministry dedicated to small business development. In addition, the **Small Enterprise Development Agency** supports small businesses by enhancing the competitiveness and capabilities of small enterprises. The **Small Enterprise Financing Agency** services small business in need of funding up to R3 million. Other support programmes include the SME Development Programme, the Export Marketing Incentive, Business Regulatory Compliance Advice Programme, Technology Transfer Guarantee Fund, and GODISA (an incubator programme). The **Industrial Policy Action Plan (IPAP)** also emphasizes employment creation as the main objective of industrial policy.
- Market activation is also channelled through the **Jobs Fund**, which was established by the government in 2011 and aims to co-finance innovative projects by public, private and non-governmental organisations that will significantly contribute to job creation. The Fund offers once-off grants in four areas which have been identified as levers to benefit both the economy and employment, namely Enterprise Development, Infrastructure Development, Support for Work Seekers, and Institutional Capacity Building. At the end of March 2014, 57 projects were in full implementation, which has resulted in the creation of 17 357 permanent new jobs, of which 50 per cent are jobs for young people. From inception to date the Jobs Fund has approved 93 projects, and total employment in these projects amounts to 167 847, of which 56 356 are new placements into vacant positions.
- In addition, the Sector Education and Training Authority (SETA) system developed a series of sector skills plans, focusing on learnerships, internships, unit based skills programmes and apprenticeships.

2. Labour relations

- In the **State of the Nation Address (SONA) on 17 June 2014**, the President announced various measures to improve South Africa's untenable labour relations environment, as demonstrated by recent prolonged and at times violent strikes in the platinum mining industry.

- The Deputy President will convene a dialogue between the social partners (Labour, Business and Government), under the ambit of the National Economic Development and Labour Council (NEDLAC), to deliberate on the strikes. The social partners will also deliberate on wage inequality, and the Government will investigate the possibility of a national minimum wage as a key mechanism to reduce income inequality.
- The landmark Framework Agreement for a Sustainable Mining Industry, entered into by social partners last year under the leadership of the Deputy President, will now be led by the President.
- Government will implement the undertaking, as part of the October 2012 agreement between the social partners, to build housing and other services to revitalise mining towns, focusing on six mining areas.
- The Government will monitor the compliance of mining companies with Mining Charter targets relating to improving the living conditions of mine workers. The Companies are expected to convert or upgrade hostels into family units, attain the occupancy rate of one person per room and also facilitate home ownership options for mine workers. They are expected to meet the 2014 deadlines for these targets.

3. Public employment programmes

Employment in public employment schemes is targeted to grow to 6 million work opportunities by 2019, with most of the growth by 2015 (this is in line with the current MTEF), in the Youth Brigades and the Community Works Programme (CWP).

Government has a range of Active Labour Market Programmes (ALMP) such as the Extended Public Works Programme (EPWP), CWP, Training Lay-Off Scheme (TLS), Learnerships / Apprenticeships and the Public Employment Services.

- The **Expanded Public Works Programme (EPWP)** has run through all spheres of government since 2004 to provide productive work opportunities and training for the unemployed. The EPWP targets 6 million work opportunities by 2019, with great use of full-time work. Phase 2 set an ambitious target of 4.5 million work opportunities from 2009/10 to 2013/14. The EPWP created 4 069 640 work opportunities during this period and reached its target for women and youth, with 60 per cent of the participants being women and 50 per cent being youth. The EPWP Phase 3 employment target for 2014/15 was projected at 1 075 189, growing progressively each year to the five year target of six million by 2019.
- The **National Rural Youth Service Corps** is an initiative which targets youth in rural areas with a comprehensive two-year skills programme.
- The **National Youth Service Programme (NYDA)** targets the unemployed, out of school and unskilled with accredited learning and exit opportunities; high school leavers and university students with community service; and youth and adults with ad-hoc voluntary opportunities.
- South Africa will expand the number of **internship positions in the public sector**, with every government department and public entity being required to take on interns for experiential training.

4. Expand and improve post-school training

The limited ability of the broader populace to join the labour market has been identified as one of the key challenges in South Africa's development, this is in part is attributed to a perceived lack of requisite skills. Post-School education is seen as a key solution in solving the country's skills deficit; government has therefore undertaken an extensive programme to enhance post-school education opportunities in order to combat the skills deficit.

The Human Resource Development Strategy of South Africa (HRDSSA) 2010-2030, recognises Human Resource Development (HRD) as critically important in South Africa's development agenda. Under Commitment 5, the strategy commits to ensuring that young people have access to education and training that enhances opportunities and increases their chances of success in further vocational training and sustainable employment. (HRDSSA, 2010).

Furthermore, in line with the NGP, **Sector Education and Training Authorities (SETAs)** have to agree to numerical targets set for completed apprenticeships with systems to track progress, specifically in construction, mining, manufacturing and new industries, such as the green economy; apprenticeship systems must be reviewed to support broader success.

The National Skills Development Strategy (NSDS) III has acknowledged the central role of **Technical Vocational Education and Training (TVET)** colleges in the delivery of skills imperatives. Colleges have been earmarked to respond to these national skills development imperatives in creative ways, asserting their role as preferred providers of skills.

The MTSF has identified the following outputs over the next five years:

1. A credible institutional mechanism for labour market and skills planning;
2. Increase access and success in programmes leading to intermediate and high level learning;
3. Increase access to and efficiency of high-level occupationally directed programmes in needed areas; and
4. Increase access to occupationally directed programmes in needed areas and thereby expand the availability of intermediate level skills with a special focus on artisan skills.

The Department of Higher Education and Training (DHET) has positioned an expanded Further Education and Training College (FET) sector, which offers quality programmes that are responsive to industry and community needs, as a cornerstone for developing a sustainable pipeline of critical intermediate skills. In tandem with this government has made a number of interventions to boost the FET sector, this includes the following considerable investments in the sector:

- FET funding increased from R3.9 billion in 2010 to R5.6 billion in 2013.
- To assist talented students who are in financial need, the government runs the FET Colleges Bursary Scheme, which funds between 80 per cent and 100 per cent of the total cost to the students. National Student Financial Aid Scheme (NSFAS) student bursary funding for TVET Colleges increased from R318 million in 2010, benefiting 61 703 students to R1.988 billion in 2013, targeting 222 817 students.
- 12 TVET campuses have been prioritised for either refurbishment or building of new

structures, including student residences. Construction is currently underway and will continue during 2014.

Kha Ri Gude is a literacy campaign that is delivered by 40 000 volunteers, who are paid a stipend. Youth accounts for 63 per cent of their employees

Publicly funded study loans and bursaries were allocated R8.5 billion in 2013, to fund university studies of students with limited means.

Construction of **two new universities** (in the provinces of Mpumalanga and Northern Cape) has commenced.

Medium-term government spending on post-school education and training will amount to nearly R200 billion, of which 55 per cent will consist of subsidies to universities and contributions to the NSFAS, allowing for an additional 116 000 university enrolments by 2016/17.

5. Expand and improve basic education

The NDP's vision for 2030 is that South Africans should have access to training and education of the highest quality, characterised by significantly improved learning outcomes. Education then becomes an important instrument in equalising individuals' life chances, ensuring economic mobility and success and advancing our key goals of economic growth, employment creation, poverty eradication and the reduction of inequality. Basic education, comprising Early Childhood Development (ECD) (for children age 0 to 4) and school education (starting with Grade R at age 5 up to Grade 12), forms the bedrock of the education system.

Building on recent sector plans, the NDP sets enrolment (improved learner retention) and quality (improved outcomes) targets for 2030 and the framework for actions and strategies to realise these. The MTSF sets targets for the next five years: All children between ages 7 and 15 should be in school, increasingly learners should be in class groups appropriate to their age (65 per cent in 2019, 80 per cent in 2030) and, also by 2019, 80 per cent of each age cohort should receive either a National Senior Certificate or an alternative vocational or further education and training qualification.

The government proposed to allocate R833 billion to basic education and skills development over the next three years. Over the 2015 MTEF period, proposed allocations to basic education exceed R640 billion, equivalent to nearly 15 per cent of all spending (MTBPS, October 2014).

Public and private employment initiatives

Implementing the targets and achieving many of the outcomes in the NDP will continue to require a coordinated effort by the Economic Development Department (EDD), National Treasury (NT) and Department of Trade and Industry (DTI), as the co-ordinating departments for Outcome 4, supported by a number of other Departments such as the Department of Rural Development and Land Affairs (DRDLA), Department of Science and Technology (DST), Department of Mineral Resources (DMR), Department of Agriculture, Food and Fisheries (DAFF), and the Department of Public Works.

The Co-ordinating Departments will monitor outcomes for the Jobs Drivers as well as cross-cutting interventions and develop an early-warning system to ensure a faster response to threats and opportunities. They will report on the findings in a narrative form in the **MTSF Outcome 4 ("Decent employment through inclusive economic growth")** reports. These reports will include a dashboard indicating where decisions and actions are required to achieve the overall outcome.

Basic education

The Department Basic of Education (DBE) is responsible for managing all actions outlined in this MTSF, except for planning for an additional year of ECD prior to Grade R, which is the responsibility of the Department of Social Development. The interventions are outlined further and will be refined over time in the planning and monitoring documents of the Department of Basic Education and Provincial Education Departments (PEDs). Basic Education is a concurrent national and provincial function and implemented by provinces funded through provincial budgets. The DBE will facilitate that plans are rolled down to provincial, district and school levels through the appropriate application of actions and targets.

1. *Expand and improve post-school training:* The structural skills problem cannot only be addressed by reforms in the basic education system, since many workers and work seekers that have exited from the basic education system also face backlogs. A review of the system of post-school training system is taking place (a white paper on the topic was released for public comment in January 2014), with the aim of improving the fit between curricula of vocational training and market demands, as well as improved throughput of learners.
2. *Public employment programmes:* While private employment remains under pressure, public employment programmes should be pursued to stem unemployment and to provide skills and provide work experience.
3. *Private employment:* Labour demand remains subdued, therefore stimulation of demand is necessary to ameliorate high levels of unemployment, especially youth unemployment.

The impact will be most evident in the medium- to long-term, when workers and work seekers with improved skills enter the labour force. This will lead to better employment prospects and improved productivity, which improves economic growth. The NDP sets a target of 2 million work opportunities for the EPWP, with greater use of full-time work. The Employment Tax Incentive is intended to support more than 200 000 jobs for young workers over the next 3 years, of which 43 000 jobs represent new opportunities. Formal targets are being developed for the other interventions.

Competition

Concerning the Competition Commission, the lack of effective competition means continued active focus on investigation, prosecution and policy advocacy with regard to sectors such as intermediate industrial and energy-intensive products such as steel and chemicals; infrastructure and construction; and food and agro-processing. These sectors are priority sectors for the Competition Commission. Prioritisation enables the Competition Commission to identify and undertake focused and targeted competition interventions in sectors that have a high impact on the welfare of low income consumers or a large proportion of the population and in sectors that have linkages to other sectors.

The Competition Commission has also begun a process of dialogue with Government particularly in relation to the role of the state in markets. The Competition Commission's advocacy work is not limited to engagements with Government, but also extends to private firms. The aim of the Competition Commission's advocacy activities is to ensure that competition principles and values are promoted.

With the promulgation of the market inquiries provisions on 1 April 2013, the Competition Commission initiated its first formal market inquiry on 29 November 2013 into the private health care sector. The purpose of the market inquires is to assess whether there are competition distortions in markets.

The Competition Commission will continue with its emphasis on maintaining and promoting increased competition within the South African economy through increased support for new entrants into the market. The Commission will also continue with its emphasis on reflecting on public interest issues in mergers, including the impact of proposed mergers on employment and small businesses. The objective of this emphasis is to ensure that minimal jobs are lost and that small businesses are not adversely affected as a result of merger and acquisition activities. Through this action, the Competition Commission will contribute to job retention and entry of small businesses which are necessary for employment creation and inclusive growth in the economy.

Investigative and prosecutorial powers of competition authorities have been widened and clarified. These include powers to conduct market enquiries, criminalization of cartel conduct and provisions governing the application of the Act in an industry that is subject to the jurisdiction of another regulator. This includes a provision which allows for criminal prosecution of directors who played a significant role in a cartel. It is believed that criminal prosecution of directors will help towards deterring cartels. The Competition Commission has been granted formal powers to examine the general state of competition in a sector without necessarily referring to a specific conduct or firm (i.e. market inquiry). This enables the Commission to understand a sector better before embarking on a specific investigation. In addition the Commission can make policy recommendations in respect of competition matters to government authorities or regulators from outcomes of a market enquiry.

For example, there have been various interventions aimed at addressing competition problems in **telecommunications**. The telecommunications regulator has reduced mobile termination rates by 123 per cent between 2010 and February 2014. Lower mobile termination rates took effect from 1 March 2014.

Reforms to be undertaken in the next five years

- The Department of Transport is drafting a bill to establish the single transport economic regulator.
- The government is in the process of introducing competition in electricity generation by promoting the entry of independent players in electricity generation. To ensure that Eskom does not use its control of the grid to undermine competition in the generation segment of the market, the government will transfer control to an independent entity.

- A number of investigations into the pricing of intermediate inputs are underway, most significant of these are alleged excessive pricing of Steel by ArcelorMittal South Africa and polymers by Sasol Chemicals.
- Over the next five years, South Africa will prioritise support to small business, as well as township and informal sector businesses in particular, thus using the SMME development programme to boost broad-based black economic empowerment. The government will also promote more employee and community share ownership schemes and boost the participation of black entrepreneurs in the re-industrialisation of the economy.

These policy actions will help to lower the cost of doing business and the cost of living. The interventions will also encourage a competitive environment in different sectors.

Trade

From the South African Government's perspective, it is imperative to locate the role and understanding of trade policy within each G20 Member State's domestic policy context and circumstances. South Africa's broad development strategy aims to accelerate growth along a sustainable path that addresses the triple challenges of unemployment, poverty and extreme inequalities.

South Africa recognises that trade can support growth. However, this relationship is not automatic and more attention is need on the 'quality and content' of trade. For South Africa, the key challenge is to move off a growth path based on exports of raw materials and minerals and imports of higher-value manufactured goods.

Exports are expected to be a key driver of faster growth, with the National Development Plan (NDP) targeting export volume of 6 per cent. Stronger export growth also drives job creation. Increasing exports, particularly in manufacturing, may be crucial for the low-skilled job creation needed to substantially reduce high overall and youth unemployment. Exports are especially critical amid the wide current account deficit and the associated external vulnerability in the presence of volatile capital flows.

Identify the key policy actions

1. Strengthen trade and investment relations with growing markets around the world, including more targeted export promotion and exporter development.
2. Advance "development integration" in Africa.
3. Identify and address non-tariff measures (NTMs) in key export markets.
4. Implement trade facilitation measures and modernise customs procedures.
5. Encouraging competition.
6. Investment in infrastructure and freight capacity to help alleviate supply bottlenecks.
7. Implement competitiveness enhancing programmes for South African industry, especially for more value-added domestic production and exports.
8. Improving the efficiency, pricing and capacity of local ports to reduce transport costs and enhance competitiveness.

9. Promote further development of Small, Medium and Micro Enterprises (SMMEs) and encourage export villages.

1. Strengthen trade and investment relations with growing markets around the world, including more targeted export promotion and exporter development

Given the underperformance of exports to traditional markets in the past, South Africa must diversify and strengthen economic links with the dynamic and growing economies in Africa and among emerging economies of the South. Consolidating markets in Africa could increase South Africa's exports to the region. The Department of Trade and Industry (DTI) is currently elaborating an Integrated National Export Strategy (INES) and the proposed export targets are aligned to targets in South Africa's National Development Plan (NDP). The proposed targets for the INES are:

- Total exports to grow by 6 per cent by volume per annum to 2030;
- Non-traditional exports to grow by 10 per cent per annum;
- South Africa diversifies its export basket into more value-added goods and services (product diversification);
- South Africa develops new markets (market diversification); and
- South Africa develops and increases its exporter base in terms of Small, Medium and Micro Enterprises (SMME), Broad-Based Black Economic Empowerment (B-BBEE) enterprises and Co-operatives (supplier diversification).

The INES has identified the following key pillars in order to achieve export-led growth and improve export performance:

(a) Improving South Africa's export environment and international competitiveness

A comprehensive approach is adopted to create an export enabling environment by utilising the International Trade Centre's (ITC) Four Gear Concept which are border-in issues (capacity development, capacity diversification and competency development); border-out issues (opportunity identification, national promotion and in-market support); border issues (procedures, documentation, infrastructure and transaction support); and development issues (poverty reduction, employment generation, regional development). Improving competitiveness also looks into issues of leadership and removal of unnecessary barriers faced by exporters.

(b) Strengthening the National Export Institutional Framework through concerted Stakeholder Alignment

The current exporter landscape in South Africa is extensive but often too fragmented. The Department of Trade and Industry will need to take the lead in terms of directing, co-ordinating and monitoring the overall INES implementation; the various elements of the strategy are devolved across the network of private and public national, provincial and local organisations that have experience and expertise. For this partnership and collaborative approach to implementing the INES to be successful requires that there is a clear understanding of roles and responsibilities of the different stakeholders involved as well as the on-going strengthening of their capacity.

(c) Increasing demand for South African goods and services through market prioritisation, diversification and access

Market selection, prioritisation and access for South Africa's exports are generally enhanced through the conclusion of trade agreements. The strategy will seek to promote South Africa's interests in the rules-based multilateral trade system and to influence tariff regime in favour of South Africa's industrialisation programme, with a strong emphasis on the African market.

(d) Increasing export capacity and strengthen exporter performance through the National Exporter Development Programme (NEDP)

The NEDP envisions a well-resourced, efficient and effective exporter development programme that delivers appropriately skilled exporters and that contributes to the number of active exporters and the real value of exports growing consistently over time. The NEDP also looks at strengthening the export culture in South Africa; information sharing; and marketing services to exporters. The programme also considers measures to develop export consortia and export villages (discussed later in the document).

(e) Strengthening the Export Promotion mechanisms through enhancing South Africa's value proposition and improved sector branding.

The review of international best practice identified that several countries are focusing on the issue of country branding and imaging to support their export agenda. A concerted effort by Government and the private sector to improve South Africa's brand internationally is a key component of an export strategy. The conventional export promotion mechanisms will be complemented by non-conventional measures.

(f) Enhancing Export Incentives and Financing

Financial incentives and trade finance form an integral part of the strategy. These instruments represent an intervention by government to improve the export competitiveness of exporters and to facilitate efficient export processes. The strategy posits to increase the number of black, women and emerging exporters participating in these schemes. The strategy will support targeted export incentives and financing instruments offered by Department of Trade and Industry, the Industrial Development Corporation (IDC), and the Export Credit Insurance Corporation (ECIC).

(g) A robust monitoring and evaluation system

The monitoring and evaluation of the INES is linked to the Government-wide Monitoring and Evaluation (GWME) system. The impact to be measured would be performance against the targets. Over and above the proposed targets the INES would monitor the progress and impact of the NEDP, specifically the growth of the number of new exporters entering the market and transformation of the composition of exporters; as well as the retention of existing exporters.

Additionally, the NEDP, which provides a range of support measures such as innovative institutional marketing structures, new tools and value-added services to increase the exporter base in SA. It also provides assistance to existing exporting firms to improve their returns as well as positioning them to enter new markets. The Export Marketing and Investment Assistance (EMIA) Programme is an incentive programme that also aims to develop export markets for South African products.

Trade finance must also be restored to assist in restoring international trade. If commercial banks are unable or unwilling (for risk-related reasons) to finance trade, national governments may need to step in, along with multilateral and regional development banks.

1. Advance "development integration" in Africa

South Africa will continue to champion broader regional integration through the Southern African Customs Union (SACU), the Southern African Development Community (SADC) and the envisaged Tripartite Free Trade Area (T-FTA) that spans Eastern and Southern Africa. The priority is to advance "developmental integration", which is an approach that combines market integration, cross-border infrastructure development and policy coordination to diversify production and boost intra-African trade. South Africa is seeking to consolidate the SADC FTA to achieve better business – and developmental – outcomes in the region.

The SADC FTA has been fully implemented since 2012, with 92 per cent of product lines traded at zero per cent. Beyond goods trade, there is some progress in liberalizing SADC trade in services. The work programme to consolidate the SADC FTA seeks to: facilitate the accession of Member States that are not yet participating in the SADC FTA (Seychelles has submitted its tariff offer); fully implement the FTA; focus on trade facilitation; address non-tariff barriers (NTBs); simplify Rules of Origin; harmonise regional standards and technical regulations; and implement harmonised regional customs documentation and procedures.

A promising development for advancing regional integration is the T-FTA that connects the SADC, the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC) markets (i.e. 26 countries and 600 million people, with a combined GDP of US$1 trillion). The first phase of the negotiations is underway, covering trade in goods and the movement of business persons. The conclusion of the T-FTA is critical for Africa's integration and development as well as providing the basis for the envisaged Continental FTA (C-FTA).

2. Identify and address non-tariff measures (NTMs) in key export markets

One of the priority areas for policy harmonisation and coordination under the Tripartite Initiative is to eliminate non-tariff and other barriers to trade that contribute to the high cost of doing business across the Eastern and Southern African regions. To this end, COMESA, EAC and SADC are implementing a non-tariff barriers (NTBs) reporting, monitoring and eliminating mechanism, which incorporates concrete timelines for the removal of NTBs. All three RECs have established NTB monitoring mechanisms to address NTBs. This web-based NTBs mechanism will enhance transparency and easy follow-up of reported and identified NTBs and NTMs.

3. Implement trade facilitation measures and modernise customs procedures

The South African Revenue Service (SARS) overhauled its customs management system in August 2013. The new system is fully electronic and significantly reduces the administrative burden on importers and exporters, while improving South Africa's ability to detect high-risk transactions and goods. Since its introduction, the system has processed goods valued at more than R1.7 trillion. Border management cooperation that started during the 2010 FIFA World Cup has deepened. For example one of the South African ports of entry is being prepared as a pilot for seamless border management, which will lead to enhanced border control and trade facilitation. The one-stop border post at Lebombo will become operational shortly, once the remaining formalities have been concluded.

4. **Encouraging competition**

The Competition Commission has made progress in addressing uncompetitive behaviour in the product market. The uncovering of price fixing in the construction and pre-cast concrete market has led to lower prices. The major telecommunications network operator (Telkom) was also ordered to reduce communications network prices.

5. **Investment in infrastructure and freight capacity to help alleviate supply bottlenecks**

Addressing infrastructure bottlenecks should help improve export capacity flow. Over the last five years, the South African Government has spent around R1 trillion on infrastructure upgrading and development to enhance the overall economic competitiveness and to serve as a platform to promote domestic industry and exports. The Government plans to invest a further R2 trillion in infrastructure over the next 5 years.

Transnet approved a R2.3 billion project to upgrade the rail network to the port of Coega, which will raise annual manganese export capacity from 5 million to 21 million tons. Coal export capacity will increase by 30 per cent following the addition of a new 200 wagon train between the Mpumalanga coal fields and the Richards Bay Coal Terminal. Transnet will also add 2.4 million tons of annual coal export capacity to the Waterberg rail line by the end of 2013.

The National Treasury, together with the PICC, will work together to unblock procurement processes in infrastructure projects. Public works, human settlements, transport, health and education have been prioritised.

6. **Implement competitiveness enhancing programmes for South African industry, especially for more value-added domestic production and exports**

Successful exporters need competitive goods to compete successful in the global economy. South Africa has introduced a suite of incentives aimed to support the competitiveness of the labour-intensive and value-adding productive sectors of the economy. The incentives include, amongst others, the Manufacturing Competitiveness Enhancement Programme. A key area in improving productivity is providing the correct policy incentives for firms. This includes minimising red tape, rewards for firms that innovate and broad assistance to firms that want to embark on process improvements.

7. **Improving the efficiency, pricing and capacity of local ports to reduce transport**

costs and enhance competitiveness

The ports regulator maintained 2013/14 port tariffs at their 2012/13 levels and decreased container export tariffs by 43.2 per cent, container import tariffs by 14.3 per cent and vehicle export tariffs by 21.1 per cent. A new tariff structure will be phased from 2014 to 2018. Handling capacity at the Durban container terminal is being expanded.

8. **Promote further development of Small, Medium and Micro Enterprises (SMMEs) and encourage export villages**

Recognising the importance of SMMEs and cooperatives, the current Administration that took office in 2014 has established a new Ministry of Small Business Development. The National Development Plan envisages a treble sized economy by 2030 with a target of 11 million job opportunities. SMMEs and cooperatives can make a meaningful contribution to this objective. SMMEs and cooperatives are a critical means to draw new entrants into the economy, strengthen inclusive growth, build the social economy and create large numbers of jobs.

To that end, the concept of an 'Export Village' has been identified as one of the key pillars of the National Exporter Development Programme (NEDP). Export village is described as an institution of voluntary alliance of companies or cooperatives with the objective of promoting their goods and services abroad through joint actions. The benefits associated with such a facility are network information platforms, export logistical support which include customs clearance, tax rebates, sharing of market intelligence, sharing of marketing and export costs and support for capacity building and export training.

Most South African SMMEs manufacture products with potential for export, however struggle to penetrate the international market due to lack of export knowledge, inadequate resources to finance the export costs in respect of export activities and in some instances inadequate production capacity to service the orders. Consortiums and export village will facilitate collaboration between companies and will advance their export agenda and unlock blockages faced by these small companies in exporting.

Export village will prioritise SMME as their key beneficiaries. Export consortia or village have the potential to spur export led growth, generate employment at macro level, whilst at micro level they expand the exporter base and enhance the efficiency of exporters entering international markets

The productive sectors account for a growing share of production and employment to support inclusive and employment-creating growth. South Africa's Industrial Policy Action Plan (IPAP), which informs and guides South Africa's trade policy, provides well-defined, sector-based plans for manufacturing and other sectors. Addressing specific constraints of key sectors, increasing and diversifying exports to Africa and improving the overall regulatory environment will be important. These policy actions are expected to boost net trade's contribution to South Africa's GDP and growth. Improved export growth could also reduce the trade deficit of the current account deficit. This may help reduce South Africa's external vulnerability, given the reliance of capital flows to fund the shortfall.

South Africa is, and will remain, open to FDI and will continue to provide strong protection to investors, both foreign and domestic, that is in line with high international standards. South

Africa is actively encouraging greater levels of domestic and foreign investment and has introduced a range of incentives and addressed a series of industry specific constraint to promote industrial development in South Africa. Exporting firms usually bring in more technology to remain competitive, thus aiding growth. Increased exports result in higher demand and higher employment.

Rebalancing will occur through a smaller current account deficit for South Africa and also support improved competitiveness of South African exports, which would support more manufactured exports to developed and developing economies. The spillovers will be immense, as South Africa is widely regarded to be a "springboard" for accessing the Southern African market. Growth in South Africa, Africa and other emerging economies would change the investors' "emerging market perceptions".

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

The fiscal strategy for achieving a sustainable debt outlook remains unchanged. The debt-to-GDP projections have been revised marginally upwards. The weaker rand exchange rate has pushed up the value of foreign denominated debt, and inflation has had the same effect on inflation-linked debt. Deterioration in the economic growth outlook has increased the debt-to-GDP ratio. Rising bond yields, which are adjusting to anticipated changes in US monetary policy, also contribute to a less benign debt-to-GDP trajectory.

2. Medium-term fiscal strategies

a. Overall strategy for debt sustainability

Pursue countercyclical policy by providing some support to the economic recovery, while reducing the budget deficit over the medium term. The reduction in the deficit is taking place primarily on the expenditure side, through the maintenance of a nominal expenditure ceiling introduced in 2012.

In October 2014 (Medium-Term Budget Policy Statement), the National Treasury proposed to reduce growth in spending by lowering Government's 2014 Budget expenditure ceiling (announced in the Budget in February 2014) by R25 billion over the next two years. At the same time, the Treasury proposed a deficit-neutral approach to financing state-owned companies (SOCs), by ensuring over the next two years that any capitalisation required does not widen the budget deficit.

b. Debt-to-GDP ratio objective

South Africa does not target a specific level of debt. Instead, the goal of fiscal policy is to ensure that debt stabilises over the medium term, and begins to decline as a share of GDP. Over the longer term, fiscal policy will aim to reduce the debt-to-GDP ratio in order to build the fiscal space required to withstand future economic downturns.

c. Intermediate objectives

Maintain the medium term expenditure ceiling, thereby keeping real expenditure growth below long-run potential GDP growth. In so doing, fiscal policy will reduce the structural deficit over time.

d. Expenditure and revenue reforms

Government is in the process of issuing costs containment guidelines. These instructions will apply to the public sector at national and provincial level, and will include restrictions on certain types of operational expenditure.

The independent Tax Review Committee established in early 2013 is mandated to inquire into the role of the tax system in promoting inclusive economic growth, employment creation, development and fiscal sustainability. Its recommendations will inform any changes to tax policy.

e. Reforms to strengthen the fiscal framework

South Africa has introduced a new format for the consolidated fiscal framework. This more transparent format presents core budget information in line with the International Monetary Fund's Government Finance Statistics Manual 2001. The format distinguishes clearly between operating activities and capital investment plans. In addition, extraordinary receipts and payments are brought into the budget framework in line with global standards.

3. Medium-term projections, and change since last submission: These are the latest published estimates and projections (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published set of projections (National Treasury's Budget Review, 26 February 2014) are indicated as track changes.

		Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Gross Debt	42.7	45.9	48.2	49.5	49.7	49.8	n/a
ppt change	0.2	0.1	1.3	1.5	1.4	n/a	n/a
Net Debt	36.8	40.0	42.8	44.6	45.4	45.9	n/a
ppt change	-0.1	0.3	0.9	1.1	1.1	n/a	n/a
Deficit	-4.3	-3.9	-4.1	-3.6	-2.6	-2.5	n/a
ppt change	0.0	0.1	-0.1	0.0	0.2	n/a	n/a
Primary Balance	-1.3	-0.8	-0.9	-0.3	0.7	0.8	n/a
ppt change	0.0	0.1	-0.1	0.1	0.3	n/a	n/a
CAPB							
ppt change							

* South Africa's fiscal estimates and projections are for the fiscal year starting 1 April. The deficit is for consolidated government. The percentage point change is from the Budget Review, 26 February 2014 to the Medium Term Budget Policy Statement (MTBPS), 22 October 2014.

4. Economic Assumptions, and change since last submission:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections

	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth	2.2	1.9	1.6	2.6	2.9	3.1	n/a
ppt change		-0.1	-1.3	-0.7	-0.6	n/a	n/a
Nominal GDP growth	7.3	7.8	7.6	8.7	8.7	8.9	n/a
ppt change	0.2	-0.5	-1.8	-0.8	-1.0	n/a	n/a
ST interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a
LT interest rate	n/a	n/a	n/a	n/a	n/a	n/a	n/a
ppt change	n/a	n/a	n/a	n/a	n/a	n/a	n/a

*** South Africa's growth, inflation and interest rate estimates and projections are for the fiscal year starting 1 April. These are the latest published estimates and projections (National Treasury's Medium Term Budget Policy Statement (MTBPS), 22 October 2014). Revisions from the previous published set of projections (National Treasury's Budget Review, 26 February 2014) are indicated as track changes.** The percentage point change is from the Budget Review, 26 February 2014 to the Medium Term Budget Policy Statement (MTBPS), 22 October 2014.

ANNEX 2: NEW POLICY COMMITMENTS

1. Macroeconomic Policy Responses (including Reforms to Frameworks)

Maintain macroeconomic stability through countercyclical fiscal policy	Government has committed to closing down the fiscal balance, which should support low borrowing cost in the short to medium run and allow economic growth to recover to 3.6 per cent.
Implementation path and expected date of implementation	South Africa's debt levels are manageable and the long-term fiscal outlook supports sustainable public finances. South Africa's national government net debt as a share of GDP continues to grow, but is projected to level off at 44.3 per cent of GDP in 2016/17. As debt stabilises, government is committed to rebuild fiscal space by reducing the ratio of government debt to GDP. Several factors underpin South Africa's sustainable debt position. Although global interest rates are expected to rise, domestic rates on new debt issuances remain low by historical standards. Government's debt portfolio is well structured, and debt denominated in foreign currency is only about 10 per cent of the total, which limits the consequences of rand devaluation. A smooth maturity profile, in addition to an average term-to-maturity of above 13 years, means that the impact of short-term swings in capital markets can be absorbed over time.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	The fiscal strategy for achieving a sustainable debt outlook remains unchanged.

Monetary and Financial Policy	
Implementation path and expected date of implementation	The South African Reserve Bank (SARB) faces a difficult dilemma of a worsening inflation trajectory and weakening economic growth. However, any future decisions will be highly data dependent, and while inflation is the primary focus, the SARB will also be mindful of the weak state of the economy, but is of the view that interest rates will have to normalise over time. It is expected that the Twin Peaks approach to financial sector regulation will come into effect in the first half of 2015. A macroprudential toolkit is currently being put together by the SARB.
What indicator(s) will be used to measure progress?	Remaining within the 3-6 per cent inflation target Well anchored inflation expectations Implementation of the Twin peaks model
Explanation of additionality (where relevant)	No new monetary policy action. Developments on financial policy (see above).

2. **Investment and Infrastructure**

New policy action	Infrastructure Development Act, which is meant to fast-track implementation of the government's infrastructure development plan. The act formalises and establishes in law the Presidential Infrastructure Coordinating Commission (PICC), spelling out the powers of the PICC and allowing the President, which chairs the PICC, to nominate members of all three spheres of government to the PICC.
Implementation path and expected date of implementation	The act came into effect on 1 July 2014 after being signed into law by the President on 30 May. The PICC will meet regularly to drive the implementation of infrastructure.
What indicator(s) will be used to measure progress?	The act sets clear time-frames for government to implement strategic integrated projects (SIPs).

New policy action	Special Economic Zones (SEZ) investment incentives schemes encourage increased investment in South Africa through provision of infrastructure.
Implementation path and expected date of implementation	**Special Economic Zones (SEZ) Bill** was adopted by Parliament in March 2014 and approved by President Zuma. Within the next three months, Government plans to pass all the regulations necessary to establish a SEZ board in order to establish SEZs.
What indicator(s) will be used to measure progress?	

New policy action	Tax-free savings accounts will create a mechanism to increase both household and corporate savings. Tax tools to encourage savings at a household include: • Tax-preferred savings accounts - • Retirement savings reforms • Medical tax credits
Implementation path and expected date of implementation	To be implemented in the next three years.

New policy action	To streamline the regulatory regime, the following reforms/measures would reduce compliance costs and facilitate access to equity finance: • Turnover tax regime for micro businesses • Small business corporation tax relief • Venture capital company regime • Tax treatment of grants

Implementation path and expected date of implementation	To be implemented in the next three years.
What indicator(s) will be used to measure progress?	The South African Reserve Bank (SARB) collects data on South Africa's gross savings as a percentage of GDP

New policy action	Measures to improve investment environment for private sector
Implementation path and expected date of implementation	1. Commitment for further bidding rounds for the renewable energy programme (to cement supplier investment in the country, and expand local value chains, while also helping to reduce the electricity supply shortfall, and lowering carbon emissions) and commitment for the establishment of similar competitive bidding process for the production of electricity from other sources (coal and gas). 2. The establishment of a Government Technical Advisory Centre (GTAC), to assist government departments in project preparation and development. 3. SA has also formed an infrastructure financing task team, to identify constraints to private sector participation in funding infrastructure projects.
What indicator(s) will be used to measure progress?	From a private sector investor perspective, there is a very strong correlation between the FNB/BER business confidence index and investment (private sector). This can therefore be used as a proxy for improvements in the Investment Climate.

3. Employment

New policy action	**Employment Tax Incentive, through which the government shares the initial cost of hiring with the employer to boost job creation.**
Implementation path and expected date of implementation	Government announced Employment Tax Incentive in January 2014.
What indicator(s) will be used to measure progress?	Employment Tax Incentive is intended to support more than 200 000 jobs for young workers over the next 3 years, of which 43 000 jobs represent new opportunities.

Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

Republic of KOREA

1. ECONOMIC OBJECT AND KEY POLICY COMMITMENTS

1.1. Economic Objective

The Korean economy has recovered gradually since mid 2013 and the Korean financial market was relatively stable amid last year's market turmoil. The GDP growth is estimated to strengthen further from 3.0% in 2013 to 3.7% in 2014 despite downside risks including EMs slowdown and tightening in the global financial market. Domestic demand, however, is still weak in part due to high household debt and uncertainty surrounding the outlooks, which weigh on both consumption and investment.

Against this backdrop, the short-term policy objective is to close cyclical gap through proactive macroeconomic policies. The IMF forecasted that negative output gap remains at 0.6% in 2013 and 0.5% in 2014. The medium-term policy objective is to boost potential growth from around 3% in 2013 to around 4% in 2017 by implementing Growth Strategies based on "the Three-year Plan for Economic innovation".

Korea aims to lift GDP by more than 2% above the trajectory by closing cyclical gap and enhancing growth potential. The positive spillovers from other countries' reform efforts are expected to contribute to further growth. Through the Comprehensive Growth Strategy including "the Three-year Plan for Economic innovation", Korea intends to achieve the goal of around 4% growth potential, 70% of employment rate and providing basis for USD 40,000 GDP per capita by 2017.

1.2. Key Commitment

The Korean government identified following 5 measures that have the greatest impact on GDP.

1. The Korean government recently announced a stimulus package worth KRW 40.7 trillion including fiscal and financing supports in addition to the previously planned 2014 budget of KRW 250.8 trillion and "Fund Expenditure Plan" of KRW 105.0 trillion. The stimulus package is expected to raise Korea's GDP growth by 0.1- 0.2%p in 2014, and by 0.3%p in 2015.

2. The Korean government will introduce "Three Tax Schemes" to support household income and thereby boost domestic consumption which include the following:

   - Provide 10% tax credit for firms (5% for large firms) that have raised wage higher than the average of the past three years, to boost disposable income of households.

   - Decrease the tax burden of shareholders of corporates with high dividend payout ratio by lowering tax on dividends(14→9%), with an aim to revitalize the stock market.

   - To encourage corporates to allocate their profit in investment, wage raise and dividends, an additional tax (10%) will be levied on large firms whose investment, wage raise and dividends do not reach a certain level.

3. The government will scale up infrastructure investment. It will spend around KRW 85 trillion of its budget to invest in SOC in 2014-2017. It will also make use of PPP in infrastructure projects including '2nd Seohaean Expressway' (KRW 2.6 trillion) and Metropolitan Express Railway (KRW 3.1 trillion). In addition to that the government plans to encourage state-owned enterprises such as the Korea Water Resources Development Corporation to spend their KRW 5 trillion surplus funds for infrastructure investment in 2014.

4. The government is reforming its regulatory system such as introducing 'One-in, One-out' regulation regime, the negative list approach and Sunset clause. Also, it will introduce "System for Differential Application of Regulation" and "System for Regulation Improvement Based on Suggestions from Enterprises" in order to resolve uncertainty surrounding regulations.

5. The government aims to achieve 70% employment rate especially by increasing labor force participation of vulnerable groups including female and youth. In line with such efforts, the government plans to minimize job mismatch by strengthening Active Labor Market Policy (ALMP). For instance, it will improve access to job search services by establishing more local job centers, ensure all job training courses focused on the needs of industrial sites and offer tailored job search services to the vulnerable groups.

   At the same time, the Korean government will also implement demand-side policies such as raising wage, strengthening social safety net, employment incentive for corporations. For example, more people will be covered as beneficiaries of Earned Income Tax Credit (EITC), which supports income of working vulnerable groups.

2. **ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH**

2.1. Current and Future Growth Prospects

Domestic demand is expected to strengthen as consumption and investment recover and the GDP growth is forecasted to increase to 3.7 percent in 2014. However, a negative output gap will remain in 2014 without supportive macroeconomic policies.

A big concern is that Korea's potential growth would be weakened if structural problems are not addressed effectively. For example, Korea Development Institute(KDI) forecasted that potential growth would fall from 3.6% in 2011-2020 to 2.7% in 2021-2030.

	Key Indicators*					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	3.0	3.7	4.0	4.0	4.0	4.0
Nominal GDP (% yoy)	3.7	5.3	6.1	6.1	6.1	6.1
Output Gap (% of GDP)	-	-	-	-	-	-
Inflation (%, yoy)	1.3	1.8	2.3	2.5	2.5	2.5
Fiscal Balance (% of GDP)	△1.5	△1.7	△2.1	△1.8	△1.3	△1.0
Unemployment (%)	3.1	3.5	3.3	3.0	3.0	3.0
Savings (% of GDP)	-	-	-	-	-	-
Investment (% of GDP)	-	-	-	-	-	-
Current Account Balance (% of GDP)	6.1	5.0	4.4	-	-	-

2.2. Key Drivers

The post-crisis growth has been driven mainly by exports, and both consumption and investment remain sluggish resulting in weakened dynamism in domestic demand. Net contribution of exports to GDP growth stood at 3.1% in 2011 but that of the domestic demand was only 0.6% in the same year. However, domestic demand has slowly recovered in 2013, its contribution rate to GDP growth reaching 1.4%, while that of the exports dropped to 1.5%. On the other hand, service industry makes up relatively smaller portion of GDP(58%) in comparison with other advanced economies and service sector productivity is only about half that of manufacturing.

2.3. Macroeconomic Policy Settings

Korea has continued its supportive macroeconomic policy to ensure recovery.

- **Fiscal Policy**: A supplementary budget of KRW 17.3 trillion was adopted in May 2013 and complementary measures of KRW 3.8 trillion including restructuring the fund management plan and increasing public institution's expenditure were implemented. In addition, front-load around 60% of the 2013 budget was executed in the first half of 2013.

- **Monetary Policy:** Bank of Korea (BoK) has been taking accommodative monetary policy. Amid uncertain global outlook and subdued inflation, the Base Rate has been kept at 2.50% following a 25 basis-point cut in May 2013.

- **Risk management**: The Government strengthened monitoring on downside risks including financial market instability and also updated contingency plans.

At the same time, the government has continued its structural reforms efforts including implementing "70% Employment Rate Roadmap" and "Action Plan for Creative Economy". However, structural weakness of the Korean economy still remains to be addressed.

2.4. Assessment of Obstacles and Challenges to growth

Cyclical factor: There are signs of recovery in domestic demand but the momentum is not yet strong enough that domestic demand remains below the pre-crisis level. In particular, a decrease in facility investment raised concerns over weakening growth potential.

Externally, the growth of the global trade volume has stagnated and positive impact on Korea's economy is likely to be limited to some extent compared to the previous recovery period from the crisis. There are downside risks in the global economy such as financial tightening associated with the monetary normalization in key advanced economies, the rise of geopolitical tensions, and prolonged low inflation.

Structural factor: In a medium-term perspective, the growth potential is likely to fall for following reasons;

- **Labor:** The labor force is projected to decline from 2017 mainly due to rapid population ageing.

- **Capital:** The facility investment declined in part due to contraction of investment sentiments, weighing on capital accumulation.

- **Productivity:** The service sector suffers from low productivity mainly due to strict regulation including entry barriers. The inefficiency in the public sector also undermines innovation and competition.

- **Imbalance:** There are structural vulnerabilities including gap between exports and domestic demand, between manufacturing and service sector and between large firms and SMEs.

3. POLICY RESPONSES TO LIFT GROWTH

3.1. New Macroeconomic Policy Responses

The Korean government recently announced a stimulus package worth a total of KRW 40.7 trillion in order to boost domestic demand since the growth slowed in the second quarter amid a drop in consumer spending.

- **Fiscal Policy:** The Korean government introduced diverse fiscal measures of amounting to KRW 11.7 trillion (0.82% of GDP) by revising "Fund Expenditure Pan" and increasing the budget execution rate. The government will also draw up next year's budget as expansionary as possible without hindering its mid-term fiscal soundness.

Fiscal Policy	• Strengthen fiscal support by KRW 11.7 trillion during the second half of 2014 • Draft the budget for 2015 as expansionary as possible
Implementation path and expected date of implementation	• By revising the 2014 "Fund Expenditure Plan", the Korean government will expand for financing supports for housing and credit guarantee by KRW 8.6 trillion. - To help low-income families purchase or rent houses (KRW 6 trillion) - To increase loans and guarantees for funding small businesses (KRW 2.4 trillion), the tourism industry (KRW 0.1 trillion) and the distribution industry of agricultural and fishery products (KRW 0.1 trillion). • It will increase a rate of budget execution in order to expand central and local government spending by KRW 2.8 trillion in 2014. • It plans to draft the next year's budget as expansionary as possible without hindering its mid-term fiscal soundness.

- **Monetary Policy:** Considering the uncertainties surrounding the global economic outlook and the continued sluggishness of domestic demand, the Monetary Policy Committee of the BOK decided to cut the Base Rate by a 25 basis-point in October following a 25 basis-point cut in August from 2.50% to 2.00%. Also, the Korean government will spend KRW 29 trillion to expand loans and loan guarantees for small businesses and to operate funds that support economic policies.

Monetary Policy	· Increase loans and loan guarantees by KRW 29 trillion for small businesses and operate funds to support economic policies.
Implementation path and expected date of implementation	• The Korean government will scale up financing support for SMEs through state-run banks by KRW 10 trillion in 2014. (KRW 181.9 trillion → KRW 191.9 trillion) • It will increase loans to firms to invest in the facilities by USD 5 billion through the Foreign Exchange Stabilization Fund in 2014 (USD 10 billion → USD 15 billion) • The BOK will spend KRW 3 trillion more for "bank intermediated lending support facility" in 2014. • The Korean government will establish an investment fund worth KRW 5 trillion in 2014 to encourage firms to upgrade their safety-related facilities. • It will mobilize the SMEs' facility investment fund of KRW 3 trillion in 2014. • It will issue additional P-CBO of KRW 2 trillion to provide liquidity to the market from 2015.

- **Exchange rate policy:** The government maintains a policy position that the exchange rate should be determined by the market, based on economic fundamentals as well as supply and demand of foreign currencies.

3.2. New Structural Policy Responses

3.1.0. Boosting Domestic Demand (Balanced growth with exports)

The growth has been mainly driven by exports since the global financial crisis. The domestic demand including consumption and investment has slowed down. One of the reasons is high household debt and slower growth of disposable income. Investment has declined in part due to contraction of investment sentiments. In particular, the service sector consistently lagged behind the manufacturing. These features hamper rebalancing of the economy towards more domestically-driven growth.

To address such problems and pursue balanced growth, the Korean government recently announced a stimulus package of KRW 40.7 trillion. The government will also boost consumption and investment by creating a virtuous circle of higher wages and increased corporate profits. For instance, the Korean government plans to introduce “three tax schemes” to expand household income.

As included in the preliminary version of its growth strategy, the government is also swiftly carrying out policies for rebalancing. First, we will promote consumption by easing burdens on house hold debt, housing expenditure and costs of private education. Second, we will promote the service sector by leveling the playing field with the manufacturing, for example by providing the same preferential tax treatment as the manufacturing. Third, we will introduce foreign currency “on-lending system” that facilitates the imports of equipments and facilities from abroad and promote investment.

Rebalancing the economy toward domestic demand would contribute to narrowing the global imbalance and it would have positive spillover effects on other countries. A combination of above policy measures will contribute to decreasing this year’s current account surplus.

1. Help increase household income	• **Reform Tax System (Three Tax Schemes) to boost household income** • **Raise the non-taxable ceiling on financial income of the elderly** • **Expand income deductions on check cards and cash receipts**
Implementation path and expected date of implementation	• The Korean government will introduce “Three Tax Schemes” to support household income and thereby boost domestic consumption which include the following: - Provide 10% tax credit for firms (5% for conglomerates) that have raised wage higher than the average of the past three years, to boost disposable income of households. - Decrease the tax burden of shareholders of corporates with high dividend payout ratio by lowering tax on dividends(14→9%), with an aim to revitalize the stock market. - To encourage corporates to allocate their income in investment, wage raise and dividends, an additional tax(10%) will be levied on those with investment, wage raise and dividends that do not reach a certain level. • It will raise the ceiling (from KRW 30 to 40 million) of non-taxable for financial income of the elderly in 2014. • It will expand income deductions on check cards and cash receipts from 30% to 40% on increased amount of spending for one year (from July 2014 to June 2015) and extend tax deductions on credit card spending (scheduled to end by the end of 2014 under the sunset clause) by two years.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

2. Promote domestic consumption:	• **Improve household debt structure** • **Reform housing market regulation such as LTV and DTI** • **Stabilize rental housing markets** • **Reduce the cost of private education**
Implementation path and expected date of implementation	• The Korean government will **increase supply of long-term policy-mortgages** from KWR 25 trillion in 2013 to KWR 29 trillion in 2014 in order to restructure mortgage loans from floating interest rate to fixed one to help reduce household debt. • It will improve regulations including eliminating levy on profits from renovations and partially lifting the resale ban on new houses within a specified period in 2014. • It will raise the ceiling on the Loan-to-Value ratio (LTV) and Debt-to-Income (DTI) regulations to normalize the subdued real estate market. The LTV will be applied to 70 %, while the DTI will be fixed at 60% regardless of financial institutions and regions from August 2014. • It will stably supply 500,000 public housing through REITs(real estate investment trusts) by 2017. And it introduced tax deduction of 10% of monthly rent in January 2014. • As for education, to reduce the cost of private education (KRW 19 trillion in 2013), **it will improve the quality, diversify types of public education and provide after-school programs tailored to consumer demand.** To this end, the government will enact and implement "Enforcement Decree to Special Act on Public Education Reform" by 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

3. Resolve issues of discrimination between manufacturing and service sectors:	• **Provide the Same Preferential Tax Treatment as Manufacturing in Tax incentive, Financial support and Government Funding Support**
Implementation path and expected date of implementation	• **The Korean government will develop tax measures to increase service sector investment and employment** to close gap in tax incentives between service sector and manufacturing sector by 2014. • The government will introduce new system which evaluates intellectual property of service companies so that they can use it as credit guarantee in 2014. • To foster the service industry, it will increase service sector R&D budget from KRW 82.6 billion in 2013 to KRW 140 billion in 2017.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

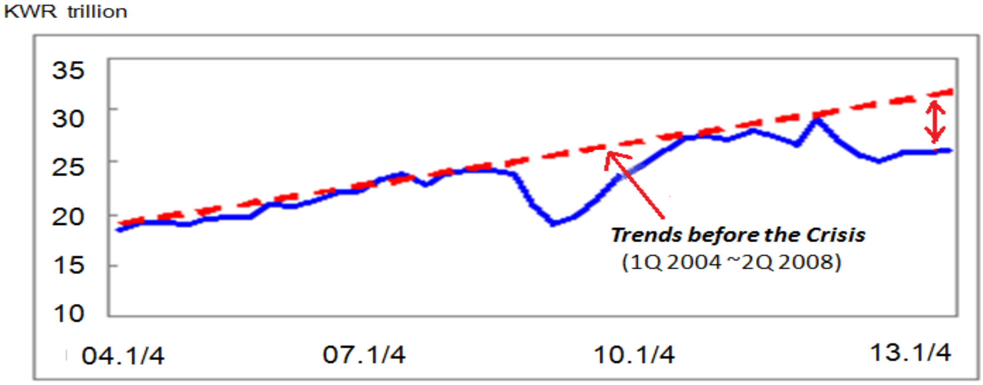
4. Foreign currency loan support through the foreign exchange stabilization fund:	• **The on-lending system to promote the imports of facilities**
Implementation path and expected date of implementation	• The Korean government will introduce "on-lending system" that provides foreign currency loan of up to USD 15 billion utilizing the foreign exchange stabilization fund, which promotes the import of facilities from abroad and investment in facilities. • The Foreign Exchange Stabilization Fund provides foreign exchange for domestic banks so that banks lend money to firms to invest in facilities. The government will support this system from May 2014 as a pilot project.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

3.2.1. Investment and Infrastructure

Proportion of investment in GDP was relatively high in the early 2000s at roughly 33%, reaching 34% in 2003, but after the financial crisis investment to GDP fell to around 29% in 2011-2012 period. In particular, a decrease in facility investment had a negative impact on GDP growth.

As for infrastructure investment, given the fiscal constraints of government it is essential to attract private capital into infrastructure investment.

Figure 1. Korea's trend of facility investment (seasonally adjusted)



Source: Finance Ministry of Korea (2013)

The Korean government seeks policy measures to promote investment and expand infrastructure investment based on "the Three-year Plan for Economic Innovation". Policy measures to promote investment include reforming regulation system, supporting investment for SMEs, expanding investment in safety facilities, boosting ventures and start-ups, investing in activating suspended business projects due to strict regulations, and increasing R&D investment. In order to expand infrastructure investment, the government will spend KRW 85 trillion of its budget on SOC in 2014-2017, while also promoting large-scale infrastructure projects through PPP. These policy measures will contribute to increase in investment, thereby strengthening economic growth and job creation.

1. Reform regulation system	• **Introduce 'One-in, One-out' Regulatory Regime** • **Deregulation that follows the negative list approach and sunset clause** • **Make information on regulations accessible to the public** • **Reduce regulation for small businesses** • **Improve regulation based on suggestion from enterprises** • **Resolve uncertainty surrounding regulations**
Implementation path and expected date of implementation	• **The Korean government will introduce "One-in, One-out" regulatory regime, which put a cap on the total cost of regulations.** A new regulation can be adopted only when existing one with an equivalent cost is identified and removed. Accordingly, the Korean government will revise Framework Act on Administrative Regulations by 2014, and "One-in, One-out" will be fully implemented from 2015. • **Regulations will be required to specify expiration dates and use the negative list approach, whenever applicable.** Sunset clauses will be applied to 30% of the entire regulations before the end of 2014 and to 50% by 2017. • **Regulation-related information will be made accessible to the public via "the Government Regulation Information Portal".** Through this website, people will be informed about all regulations according to their needs, as well as government efforts to ease regulations. And result of "One-in, One-out" policy implemented by each ministry is to be announced on a regular basis. "The Government Regulation Information Portal" is scheduled to be renewed before the end of the first half of 2014. • The Korean government will introduce "System for Differential Application of Regulation" to minimize the burden that regulations impose on small business, especially micro-enterprises (firms with fewer than 10 employees). The government will revise Framework Act on Administrative Regulations by 2014. • The government will introduce "System for Regulation Improvement Based on Suggestions from Enterprises", in particular, with focus on new investment activities or projects. The government will revise Framework Act on Administrative Regulations by 2014. • The government will come up with procedure for enterprises to request responsible agencies information on regulations, such as confirmation of applicable regulations and interpretation on related legislations. The government will revise Framework Act on Administrative Regulations by 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	All regulations are subject to review from the starting point (Holistic approach).

2. Boost Infrastructure Investment	• **Spend around KRW 85 trillion for SOC investment between 2014 and 2017** • **Promote Public-Private-Partnership(PPP) while enhancing efficiency of public expenditure in infrastructure investment** • **Set up action plan for large-scale private investment in infrastructure projects worth KRW 5.7 trillion**
Implementation path and expected date of implementation	• The Korean government plans to increase infrastructure investment via SOC expenditure amounting approximately KRW 85 trillion in 2014-2017. In particular, considering the high demand for infrastructure, the focus will be placed on developing ports, industrial complexes, roads and railways. • **Korea introduced its PPP scheme in 1994 to supplement its public resource.** It first started with BTO (Build, Transfer, Operation) and later expanded its scope to BTL (Build, Transfer, Lease) in 2005. Through PPP, Korea has been able to expand SOC. Korea plans to continue activating private investment through improvement of institution as following. - **The Korean government provides tax incentives for acquiring and registering real estate assets and offers tax reduction for foreign investment**. In addition, various measures are taken to enhance financing for projects. For instance, the Infrastructure Credit Guarantee Fund ("ICGF") is a public financial institution established under the PPP Act with the objective of extending credit guarantees for the liabilities of contractors in PPP projects or the issuance of Infrastructure Bonds. ICGF guarantees as much as KRW 300 billion for each project. - **Recently, the Korean government devised new measures to boost public-private partnership**. First, the government will encourage private investors to pay land acquisition cost in advance by offering additional credit guarantees in order to ease financial burdens arising from delayed land acquisition cost payment. This measure will be taken into effect before the end of the first half of 2014. Second, the government will allow private investors to propose BTL projects, on condition that projects meet requirement. Related legislation was submitted in November 2013 and amendment is scheduled before the end of 2014. • In particular, the Korean government will set up action plans for large-scale PPP infrastructure projects in 2014, including '2nd Seohaean Expressway' (KRW 2.6 trillion) and Metropolitan Express Railway (KRW 3.1 trillion). • The Korean government plans to encourage state-owned enterprises such as the Korea Water Resources Development Corporation to spend their KRW 5 trillion surplus funds for infrastructure investment in 2014.
What indicator(s) will be used to measure progress?	The progress will be assessed by the amendment related Act.
Explanation of additionality (where relevant)	

3. Support investment for SMEs	• Expansion of financial support for SMEs • Raising “Facility Investment Fund” for SMEs • Expansion of reduction of tariff for procurement of automated manufacturing facilities
Implementation path and expected date of implementation	• To support financial intermediation for SMEs, the Korean government will expand support in credit guarantee by KRW 1.5 trillion, trade insurance by KRW 0.5 trillion, and policy finance support for SMEs by KRW 0.4 trillion in 2014. In parallel, the government will give an additional KRW 10 trillion as policy financing for SMEs through state-run banks including the Korea Development Bank and Korea Export-Import Bank in 2014. • The Korea Development Bank and Industrial Bank of Korea raised a total of KRW 3 trillion for “Facility Investment Fund” to offer financing support for SMEs. The fund is scheduled to be introduced from September 2014. • The Korean government will provide more tariff reduction from 30% to 50% to SMEs procurement of automated manufacturing facilities. It is scheduled to be introduced from October 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in July 2014.

4. Expansion of investment in safety facilities	• Raising fund to support investment of enterprises in safety-related facilities • Expansion of tax credit for investment in safety facilities
Implementation path and expected date of implementation	• The Korea Development Bank and Industrial Bank of Korea will raise KRW 5 trillion fund that encourages firms to invest in safety related facilities. The fund is scheduled to be introduced from October 2014. • The Korean government will also extend sunset period (end of 2014) for 3% tax credit for investment in safety related facilities such as safety management to prevent accidents in gas and mining industries.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in July 2014.

5. Boost Ventures and Start-ups	• **Promote Angel Investment** • **Support Venture financing** • **Introduce Crowd Funding** • **Develop "Creative Economy Valley(Korean Silicon Valley)"**
Implementation path and expected date of implementation	• The Korean government seeks to expand investment in ventures through comprehensive policy measures from KRW 1.3 trillion in 2013 to KRW 2 trillion in 2017. • **To promote angel investment**, the Government will **provide tax incentives for angel investments**, including increasing income tax deduction. The government will **give qualifications to professional angel investors** who meet criteria including investment performance and work experience and **provide them benefit including policy financing support**. Enforcement Ordinance of the Special Act on Promoting Ventures will be amended by 2014. • **The Government will expand venture investment via policy financing**. - **(Yozma Fund)** The government will launch and manage joint capital funds with foreign investors to help ventures enter overseas market. The Fund is targeting to secure KRW 50 to 100 billion by 2014, KRW 200 billion by 2015. - **(Female Entrepreneurs Fund)** The government will raise public-private joint venture capital for female entrepreneurs. This Fund aims to continue raising as much as KRW 10 billion by 2014 and KRW 50 billion between 2015 and 2017. - **(SMEs Fund)** The Government will support as much as KRW 950 billion to fund five hundred promising SMEs selected every year for technology development. - **(Gazelle Companies' Fund)** The government will fund so-called 'Gazelle Company' KRW 1.2 trillion to support their marketing and facilities. 'Gazelle Company' refers to fast growing companies that achieve more than 20% growth in sales or employment over three consecutive years. • **Furthermore, the Korean government will introduce crowd funding**. Capital Market Act is scheduled to be revised by 2014, where by crowd funding will be introduced and infrastructure for online small investment established. • The government will develop a "Creative Economy Valley" in suburb Seoul, establishing a cluster of government agencies and related entities that provide various supports to the start-ups and ventures. Related ministries and local governments will launch a task force to formulate detailed actions plans in 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

6. Activate suspended business projects	• Establish task force for supporting business project
Implementation path and expected date of implementation	• **A task force, with participants from public and private sector, has been launched to identify challenges that businesses face and provide them with relevant support.** Its task includes eliminating restrictive entry barriers, easing environmental regulations, and resolving regulations on location requirement for plants. Policy measures were introduced five times from 2013 to provide support for nineteen investment projects that had been stalled due to excessive regulation. For each of nineteen projects, measures including improvement of system will be completed throughout between 2014 and 2016. • The Korean government will continue identifying projects that are facing impasse to provide relevant support.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

7. Strategic R&D investment	• Expand R&D investment focusing on key growth engines
Implementation path and expected date of implementation	• The Korean government targets to increase R&D expenditure from 4.3% of GDP in 2013 to 5% of GDP in 2017. - The government will significantly scale up the budget allocation for 2015 in R&D investment. (KRW 17.8 trillion in 2014 → KRW 18.8 trillion in 2015) a. The government will give its priority to investing in promising industries including the 5th generation mobile communications and material convergence. (KRW 998 billion in 2014 → KRW 1,098 billion in 2015) b. It will expand R&D investment to enhance SME's technology innovation capacity. (KRW 2,977 billion in 2014 → KRW 3,298 billion in 2015) c. It will also expand R&D investment in energy efficiency technology. (KRW 173 billion in 2014 → KRW 187 billion in 2015) • **To promote private investment in R&D**, the Government will set up **"Investment Promotion Centre"** which is an institution imthat addresses difficulties on R&D investment from the private sector.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

3.1.2. Employment

Korea faces the most rapid population aging among OECD countries and Korea's working-age population is projected to decline from 2017. Moreover, female employment rate remains at 53.9% led by discontinuance of female career, largely due to childbirth and childcare. Youth employment rate is also very low recording 39.7% mainly due to mismatch between skill taught in school and those demanded by firms.

In response to this labor supply-side problem, the Korean government sets the policy priority to increase labor force participation, especially of vulnerable groups including female and youth. Korea will promote female employment with the Plan for Supporting Female Workforce in Career Continuance by Life Cycle. And it will also boost youth employment by providing support for every stage of employment from education & training, job-seeking to employment.

In line with such efforts, the government plans to minimize job mismatch by strengthening Active Labor Market Policy (ALMP). For instance, it will improve access to job search services by establishing more local job centers, ensure all job training courses focused on the needs of industrial sites and offer tailored job search services to the vulnerable groups.

At the same time, the Korean government will also implement demand-side policies such as raising wage, strengthening social safety net, employment incentive for corporates. For example, more people will be covered as beneficiaries of Earned Income Tax Credit (EITC), which supports income of working vulnerable groups.

The Korean government also puts efforts to reform the labor market. It will try to meet the demand for a wide range of jobs and change the long working hour culture by promoting flexible work hours. And it will address the labor market dualism.

The Korean government aims to reach 70% employment rate by 2017 with 61.9% of female employment rate and 47.7% of youth employment rate. This will create a total of 2.38 million new jobs.

1. Stimulate female employment	• **Promote Maternity Protection at Work** • **Build the Customized Childcare Support System** • **Create Female friendly Employment Environment**
Implementation path and expected date of implementation	• **The Korean government will increase benefits of childcare leave.** It will also create a pool of workforce who can replace maternity leave workers in 2014. • **The Korean government will establish government running childcare services** and diversify childcare service offerings including for early morning and night by 2014. It will also launch part-time childcare services. • **The government will provide 10% of tax reductions for labor costs over 2 years to SMES** that hire women who suspended their careers for family-related reasons by 2015. • It will supplement Maternity Protection at work including promoting the reduction of working hours during child care and encouraging employers to keep hiring workers after childcare leave by 2014. • It will also improve the quality of female employment by increasing the number of managerial position for women in the public sector and promoting job training courses for women to focus on professional jobs by 2014. • In addition, the government plans to announce comprehensive measures of “support for female career continuance” in September 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers’ Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

2. Stimulate youth employment	• **Provide support for every stage of employment from education & training, job seeking to employment**
Implementation path and expected date of implementation	• **The Korean government will introduce the apprenticeship education program of the Switzerland** in vocational high school from 2015. • **The Korean government will increase the opportunity for internship programs** of 12 public institutions including Korea Railroad Corporation in 2014. • **It will expand special admissions to university** for working high school or college graduates with more than three-year careers to spread "the culture of employment first and education later" by 2014. • It will introduce a joint education program in 2014 that integrates a three-year high school education program and a two-year college education program in order to come up with a vocational training system that meets the demands of the industries. • It will increase subsidies for youth who are first hired as interns at SMEs and then recruited as full-time workers (KRW 2.2→3 million). It will also offer up to KRW 3 million of **grants** to high school graduates working at SMEs for their seniority and **provide incentives** to companies who hired people after the end of military services in 2015. • It will provide youth with an opportunity to take an overseas internship program (700 youth) and will run "K-Move schools" that provide customised vocational training in terms of seeking jobs in abroad (1,200 youth) from 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

3. Strengthen Active Labor Market Programs	• **Establish more local job centers and enhance counsellors' competences and their number** • **Reform to ensure all job training courses focused on the needs of industrial sites** • **Offer integrated and tailored "Employment Success Package" to the vulnerable groups.** • **Provide individual training costs to workers aged 50 or more** • **Integrate job search portals in private and public sectors.**
Implementation path and expected date of implementation	• The Korean government plans to establish more local job centers to meet the demand for employment services and enhance counsellers' competences and their number to improve the quality of employment services in 2014. • It reforms current practices to ensure all job training courses focused on the needs of the industrial sites based on 254 National competency Standards (NCS) in 2014. With this reform, it is planning to enhance the quality of job training and address supply & demand mismatch. • The Korean government will launch "Employment Success Package" to offer tailored services to the vulnerable groups including youth, female and welfare beneficiaries in 2014. • It will expand the coverage of providing individual training costs(KRW 2 million per worker) once only for those who work for SMEs and irregular workers to cover workers aged 50 or more starting from 2014. • It will also integrate private and public job search portals from 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

4. Reform social safety net to encourage willingness to work	• **Raise minimum wages by 7.1% compared to the previous year** • **Lower the minimum unemployment benefits** • **Reform the National basic livelihood security system in favour of employed beneficiaries** • **Expand the coverage of Earned Income Tax Credits(EITC) to include basic living support recipients**
Implementation path and expected date of implementation	• The Korean government is to raise minimum wages by 7.1% for 2015 (from KRW 5,210 to KRW 5,580 per hour). The increase in wage will financially support the low income families and provide them incentive to work. • The government will also cut minimum unemployment benefits from 90% to 80% of the minimum wage in order to motivate people to work. • National Basic Welfare Security System will be reformed so that the government can select beneficiaries for each of the four sectors: livelihood, housing, medicine, and education. Under the reformed system, the beneficiaries can receive minimum benefits they need even if they are working. This reform will encourage people to work as they can still receive benefits from the welfare system with higher income than before. • The Korean government will expand the coverage of EITC from 2015 to include basic welfare support recipients. Before the reform, basic welfare support recipient could not receive EITC even if they meet the eligibility criteria.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.
5. Strengthen responsibilities of creating jobs	• **Enlarge the Scope of Evaluation for the Employment Impact on Government Policies and Projects** • **Consider the Employment Effects when Deciding Projects with a Large Scale Investment**
Implementation path and expected date of implementation	• **The Korean government will carry out the evaluation for the employment impact on 30 government projects in 2014.**(15 in 2013) • The Korean government will put the employment effect into evaluation items for the preliminary feasibility study by revising relevant guidelines in 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

6. Address the labor market dualism	• **Convert Non-Regular Workers in the Public Sector to Regular Status** • **End Discrimination against Non-Regular Workers** • **Increase Non-Regular Worker Protection** • **Address Extreme Regular Worker Protection**
Implementation path and expected date of implementation	• **The Korean government will convert 65,000 non-regular workers in the public sector into regular status by 2015.** • **It will promote helping temporary workers in the private sector to gain permanent employment status** and narrow gaps between regular and non-regular workers at main contracts and subcontracts by requiring companies to regularly publicize employment information by 2014. • **It will strengthen the connection between wages and productivity** and reinforce penalties for minimum wage violations in 2014 to address any discrimination against non-regular workers. • **It will prevent extreme regular worker protection by rationalizing the dismissal system for regular workers.** To this end, it conducted a fact-finding survey on dismissals for managerial reasons in 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in 2014.

7. Promote flexible work hours	• **Create Decent Part-Time Jobs in The Public Sector** • **Promote Decent Part-Time Jobs in The Private Sector** • **Promote Flexible Work Hours in the Private Sector** • **Ensure flexible work employees are not discriminated against**
Implementation path and expected date of implementation	• **The Korean government will create and increase decent part-time jobs in the public sector** starting from 2014. • It will support the creation of decent part-time jobs by providing companies that create new part-time jobs with subsidy for labor costs and social insurance costs from 2014. • It will also revise legislations for **ensuring rights to demand reduced work hours** in 2014. • It will encourage for companies to introduce **the flexible hour system**, and devise incentives such as social health insurance premiums to improve working conditions in the latter half of 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality	These are new policy measures launched in 2014.

3.1.3. Trade

The global trading environment is rapidly changing at the bilateral, plurilateral and multilateral levels. FTA negotiations among large economic blocs, such as the Transatlantic Trade and Investment Partnership(TTIP), Tran-Pacific Partnership(TPP) and Regional Comprehensive Economic Partnership(RCEP), are gaining momentum. The Bali package, which was agreed on at the WTO Ministerial Conference in December 2013 will be followed by further negotiations on the Doha Development Agenda(DDA). At the same time, however, there has also been an increase in trade protectionist measures, including non-tariff barriers in the form of import regulations, customs clearance requirements, standards, and certification.

On a global level, Korea has concluded free trade agreements over the last decade with 50 countries, including Australia and Canada this year, as its trade policy moves toward greater openness. Negotiations with countries such as China and Vietnam as well as regional free trade talks are actively underway. On the multilateral front, Korea notified the WTO in May of its intention to implement all provisions of Section I as Category A commitments as a follow-up to the agreement on trade facilitation reached in Bali and is participating in negotiations on the remaining DDA issues.

Domestically, Korea is seeking to reduce the burden on businesses in the area of certification and customs clearance by combining or abolishing overlapping certification systems and by utilizing advanced IT technology in its customs clearance systems. It is also focusing on reform to improve services, including logistics, finance and software, as well as on promoting innovation in the manufacturing industry in order to foster a trade-friendly environment and lower trade costs. Last but not least, additional efforts to ease e-commerce regulations will lay the foundation for fostering new trade channels, such as e-commerce, parallel importation and foreign direct purchase.

Expected outcomes include a reduction in tariffs and trade costs, as well as an enhancement of trade activity through FTAs and WTO negotiations. Most importantly, the trade policy direction pursued by the Korean government is expected to help boost SMEs' participation in global value chains that will contribute to stronger economic growth.

1. Pursue FTAs and Maximize Their Utilization	• Actively Participate in FTA Negotiations • Make FTA Utilization More Convenient for Businesses
Implementation path and expected date of implementation	• **The Korea-Australia Free Trade Agreement**, which has been signed, and **the Korea-Colombia Free Trade Agreement**, for which the ratification process has been completed, will enter into force in the near future. Meanwhile, **the Korea-Canada Free Trade Agreement**, which has been initialled, and **the Korea-Turkey Free Trade Agreement on Services and Investment**, which has been substantially concluded, are expected to be signed in the near future. • **To maximize SMEs' access to FTA benefits**, the Korean government announced the **"Plan for FTA Promotion by SMEs**" on 29 May, 2014, under which the government will **monitor the level of FTA utilization by SMEs, gather and disseminate success cases, and assist businesses' FTA utilization** efforts through consultation and expanded access to the management system for rules of origin.
What indicator(s) will be used to measure progress?	Progress will be measured by the number of FTAs that have been signed or have taken effect and by the rate of FTA utilization by SMEs
Explanation of additionality	These are new policy commitments launched in 2014.

2. Implement and Develop the Multilateral Trade Agreement	• Take Follow-up Measures for the Agreement on Trade Facilitation to Take Effect • Actively Participate in Plurilateral Negotiations on Information Technology Products, Environmental Goods and Services
Implementation path and expected date of implementation	• The Korean government has taken **follow-up measures to ensure that the Agreement on Trade Facilitation comes into effect as scheduled.** • The Korean government will also actively engage **in plurilateral negotiations on expanding product coverage under the WTO Information Technology Agreement with the goal of achieving its early conclusion, and work hard on negotiations on the WTO environmental goods and WTO services sectors** with a concrete work plan in 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the implementation of domestic procedures for the Trade Facilitation Agreement, the date the work plan for the DDA is concluded, and the development of plurilateral negotiations.
Explanation of additionality	These are new policy commitments launched in 2014.

3. Stimulate Exports in E-Commerce	• Boost Cross-Border, B2C and C2C Transaction in E- Commerce through Streamlined Electronic Transaction Regulations
Implementation path and expected date of implementation	• **The government has changed its regulatory standards for public verification to a negative-list approach and** diversified e-transaction verification methods. The Electronic Financial Transaction Act was revised for this purpose in May 2014. • **The Korean government will introduce a simplified export declaration process for e-commerce** in the second half of 2014 in an effort to boost online markets by taking into account the nature of e-commerce trade, in which traded goods are small in volume and high in diversity. • **The government will help businesses improve compatibility with the international internet environment** and provide consulting services for SMEs to assist their adoption of substitutable technology in 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the change in the volume of exports through e-commerce.
Explanation of additionality (where relevant)	These are new policy commitments launched in 2014.

4. Boost Imports in E-Commerce	• Open Gateway to Parallel Imports • Improve Convenience of Overseas Direct Online Shopping
Implementation path and expected date of implementation	• **The Korean government will allow customs clearance certification for a greater diversity of trade in order to enable parallel imports, with around 200 businesses expected to be eligible for such certification by 2015.** • The government will **increase the number of items for streamlined import declaration** from 6 to all consumer goods (with a few exceptions, including medicines) in 2014 to improve the convenience of overseas direct online shopping. The government will also **simplify the customs refund system** when retuning imported goods in 2014.
What indicator(s) will be used to measure progress?	Progress can be measured by the change in the volume of imports through e-commerce.
Explanation of additionality	These are new policy commitments launched in 2014.

5. Establish Widespread "Smart" Customs Clearance System	• **Reduce Transaction Costs in Trade by Establishing a Smart System for Customs Clearance** • **Contribute to Enhancing Global Trade Transactions by Sharing Know-how on Electronic Customs Clearance Systems with Developing Economies**
Implementation path and expected date of implementation	• **The Korean government will establish** a **mobile customs clearance system** in 2014 and **link** that system **with the National Comprehensive Customs Information Network** by 2015. • The government will pursue **regulatory streamlining efforts** related to customs clearance in 2014. • The government will assist **modernization efforts on customs administration in developing economies**, while providing customs officials with training sessions annually.
What indicator(s) will be used to measure progress?	Progress will be measured by the finalization of the mobile customs clearance system, the number of economies supported in modernizing customs administration via UNI-PASS(currently 8 countries worth US$114.8mn) and the number of participants in global training programs.
Explanation of additionality	These are new policy commitments launched in 2014.

6. Foster Logistics Services	• **Establish Foundation for Advanced Logistics Services** • **Reinforce Infrastructure and Expand Promotion of Compound Transportation**
Implementation path and expected date of implementation	• The Korean government will expand **outsourced(3rd party) logistics** by **fostering logistics-intensive industry**, **providing** SMEs with **consulting services** on the utilization of outsourced(3rd party) logistics and **shared logistics services in 2014.** • The government will finalize the establishment of four logistics complexes by 2015 and facilitate compound transportation through infrastructure reinforcement from 2014. Furthermore, the government will **expand the international compound transport system**(Korea-China compound freight transport zone) and **increase the number of eligible ports** in 2014.
What indicator(s) will be used to measure progress?	Progress will be measured by the volume of outsourced(3rd party) logistics and the scope of the expansion of logistics complexes and the Korea-China compound freight transport zone.
Explanation of additionality	These are new policy commitments launched in 2014.

7. Facilitate access to overseas markets	• Carry out the "Eurasia Initiative" • Help Domestic Corporations Enter Into Promising Emerging Markets
Implementation path and expected date of implementation	• The Korean government will build stronger economic cooperation with major economies in Central Asia. d. It will prepare the "Eurasia Initiative" that includes key projects for promising sectors such as transportation, logistics, energy, and IT. • It will also help domestic corporations enter into promising emerging markets with a package of policy consulting and financing.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public
Explanation of additionality	These are new policy commitments launched in 2014.

8. Facilitate Participation in GVCs through Promoted Innovation in Manufacturing	• Create a New Manufacturing Industry and New Added Value through Convergence with IT/SW • Strengthen the Foundation for Innovation in Manufacturing by Boosting Soft Power
Implementation path and expected date of implementation	• The Korean government announced its "Strategy for Manufacturing Industry Innovation 3.0" in June 2014 and is formulating action plans through nationwide collaboration with the private sector that will help small and medium-sized enterprises efficiently participate in the global value chains. - Along these lines, the Korean government will seek to improve systems & infrastructure and develop programs to create environment that facilitates the followings: a. Promoting convergence between the manufacturing industry and IT/SW to spur innovation in IT/SW-based processes including smart factories and create a new convergence industry. b. Developing key materials and parts for major manufacturing industry and fostering engineering, design and S/W related to manufacturing industry. c. Training professional manpower needed for major manufacturing industry and turning old industrial complexes into places for manufacturing innovation.
What indicator(s) will be used to measure progress?	Specific action plans will be established for the Strategy for Manufacturing Industry Innovation 3.0 by the end of 2014.
Explanation of additionality	These are new policy commitments launched in 2014.

3.1.4. Competition

The poor regulatory environment in some product markets, in particular, service industry, undermines innovation and competition. (As OECD indicated, service sector productivity is just around half of manufacturing.) Furthermore, some markets have been dominated by large firms, creating undesirable anti-competition environment and unfair business practices between large firms and SMEs. Barriers to foreign investment hinder competition as well.

The Korean government is to promote innovation and competition by focusing on four areas: first, easing product market regulation and eliminating strict entry barriers; second, strengthening monitoring measures to root out unfair business practices between large firms and SMEs; third, improving regulations for foreign educational institutions; lastly, liberalizing legal and accounting consultancy market gradually in accordance with FTA.

These policy measures will allow the added value of service sector to increase from 58% of GDP in 2013 to 60% of GDP in 2017. Foreign investment is also expected to increase from USD 14.5 billion in 2013 to USD 25 billion in 2017. In addition, through comprehensive reform efforts 500,000 jobs will be created for the young people and 1.5 million new jobs for women by 2017.

1.Ease Entry Barriers and Business Regulation in Service Sector	**Deregulation and eliminating entry barriers in seven services industries with high growth potential : health care, education, tourism, finance, software, content and logistics industries**
Implementation path and expected date of implementation	• (**Healthcare**) The Korean government will allow establishment of affiliates of medical corporations and expansion of related businesses of medical corporations by 2014. Also pharmacy corporations will be allowed by 2014. • (**Educational service**) The Korean government is seeking to expand autonomy of international educational institutions. For-profit international schools will be allowed to pay dividends out of accounting surplus from 2014 and run language camps during vacation seasons from summer 2014. • (**Tourism**) The Korean government will ease regulations on resort complex and hotels by 2014. • (**Finance**) The Korean government will ease regulation on private equity fund by 2014. With these regulatory reforms, various investment asset classes will be allowed in a single fund. Entry barriers will be eased for investment firms and credit finance corporations by 2014. Furthermore, evaluation criteria for Initial Public Offering (IPO) will be simplified by 2014, alleviating burden on businesses. • (**Software**) The Korean government will streamline the system so that the current cumbersome certificate verifications will no longer be necessary in e-commerce by 2014. • It will take bolder measures to foster the service industry by setting up a Task Force of concerned ministries in August 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

2. Put an end to Unfair practices between large firms and SMEs	• Revise related laws to reward whistle-blowing • Overhaul unfair business practices in distribution industry • Overhaul unfair practices in franchise business
Implementation path and expected date of implementation	• **The competition authority will enhance reward system for whistle-blowing on unfair business conducts against sub-contractors** including unfair discounts, usurping technology and unfair cancellation of purchase. Standard contract form between large firms and SMEs will be also revised by 2014. • The competition authority makes an overhaul on unfair business practices in distribution industry. The Government will conduct written investigation on business practices every year and announce results to the public. Further, standard lease contract form between distributor and tenant will be revised in 2014. • The authority will overhaul unfair practices in franchise businesses by conducting on-site investigations and publicizing the results in 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

3. Ease regulations for Foreign Educational Institutions	• Ease regulations for foreign educational institutions • Simplify document requirements for establishing additional school departments
Implementation path and expected date of implementation	• Currently, only incorporated foreign educational foundations are allowed to establish international schools but **the Government will allow joint ventures of foreign educational institutions and incorporated Korean schools for establishing international schools in eight FEZs (Free Economic Zones) from 2014**. • For existing international schools, the government will simplify document requirements for establishing additional school departments from 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

4. Liberalize Legal and Accounting Consultancy Market Gradually	• Open legal consultancy market in accordance with FTA • Open accounting consultancy market in accordance with FTA
Implementation path and expected date of implementation	• **In accordance with Free Trade Agreements (FTAs), both legal and accounting consultancy market will be opened by phase by phase to relevant parties of the FTAs.** • Legal consultancy market will be opened by three phases. In phase one, foreign law firms will be allowed to set up office in Korea and foreign legal consultant can provide legal advice on foreign laws. In phase two, Korean government will allow partial partnership and profit sharing between Korean law firms and foreign law firms. In phase three, foreign law firms can hire Korean lawyers and handle all kinds of legal services. • Accounting consultancy market will be opened by two phases. In phase one, foreign accounting firms can be set up and qualified foreign CPAs can provide service on foreign accounting standards. In phase two, foreign accounting firms are allowed to acquire shares of Korean accounting firms.
What indicator(s) will be used to measure progress?	The implementation of these policies can be assessed by amendment of Foreign Legal Consultant Act and Certified Public Accountant Act.
Explanation of additionality (where relevant)	These measures have implemented by phases in accordance with FTA agreement.

5. . Promote competition in the mobile communications market	• Attract new entrants into the market
Implementation path and expected date of implementation	• The Korean government will promote competition in the mobile communications market by simplifying the procedure for the business license so as to attract new entrants into the market in November 2014.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures that will be launched in Nov. in 2014.

3.1.5 Others

The Korean government will reform public enterprise and promote "Creative Economy".

1. Reform SOEs:	• **Tightly control debt levels** • **Disclose government-owned data** • **Put an end to unfair transactions**
Implementation path and expected date of implementation	• The Korean government will **encourage 12 public enterprises with heavy debts to reduce the debts level** though public institution asset sales and restructuring of business. With this effort, the government will help reduce **the debt ratio of estimated 239% in 2013 to be down to 200% in 2017** out of a combined total debt of 41 public institutions. Korea will carry out an interim evaluation in the third quarter of 2014. • It will **make all public sector data**, excluding confidential data, accessible to the information system. • It will **investigate and crackdown on unfair transactions** such as abusing the authority of public institutions. The evaluation on these unfair transactions will be conducted all year long.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

2. Promote "Creative Economy":	• **Build centres to support the creative economy and promote entrepreneurship**
Implementation path and expected date of implementation	• "**Creative Economy**" is to create new added-value based on the convergence between industry and culture by combining science & technology and ICT with existing industries while putting creativity as the core value of the economy. • Regulation reform and boosting ventures and start-ups efforts mentioned above will contribute to promoting "Creative Economy". Additional measures to do so will be added as follow. - The Korean government will provide mentoring service, support for intellectual property (IP) rights and give loans for creative ideas to be linked to start-ups. To do this, it will open online "**Creative Economy Town**" for creative ideas in 2014. - **The Korean government will establish the center for the creative economy and innovation in 17 cities by 2015** to foster these centers as a driver for local economic innovation and start-ups. Through these centers we will encourage startups to grow to mid-sized enterprises and to global enterprises. Also, by converging traditional industries with science and ICT we will help develop agriculture, education, energy, and healthcare industries.
What indicator(s) will be used to measure progress?	To evaluate the progress, these projects will be reviewed on a regular basis at the Economic Ministers' Meeting and the results will be made open to the public.
Explanation of additionality (where relevant)	These are new policy measures launched in April 2014.

ANNEX 1: St. Petersburg Fiscal Template — Update

1. Medium-term projections, and change since last submission *(required for all members)*:

		Estimate	Projections*				
	2012	2013	2014	2015	2016	2017	2018
Gross Debt	32.2	33.8	34.3	n/a	n/a	n/a	n/a
ppt change	-1.1	1.6	0.5	n/a	n/a	n/a	n/a
Deficit**	-1.3	-1.5	-1.8	n/a	n/a	n/a	n/a
ppt change	-0.3	-0.2	-0.2	n/a	n/a	n/a	n/a

* Forecasts for the post-2014 period will be unveiled after a mid-term ('14~'18) fiscal plan is confirmed in October.

** General government balance without social security funds

2. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections*				
	2012	2013	2014	2015	2016	2017	2018
Real GDP growth	3.0	3.9	n/a	n/a	n/a	n/a	n/a
ppt change	0.7	0.9	n/a	n/a	n/a	n/a	n/a
Nominal GDP growth	3.7	5.4	n/a	n/a	n/a	n/a	n/a
ppt change	0.3	1.7	n/a	n/a	n/a	n/a	n/a
ST interest rate	3.3	2.7	n/a	n/a	n/a	n/a	n/a
ppt change	-0.1	-0.6	n/a	n/a	n/a	n/a	n/a
LT interest rate	3.5	3.3	n/a	n/a	n/a	n/a	n/a
ppt change	-0.8	-0.2	n/a	n/a	n/a	n/a	n/a

* Forecasts for the post-2013 period will be unveiled after a mid-term ('13~'17) fiscal plan.

Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

SPAIN

A. ECONOMIC OBJECTIVES

Current state of growth in the economy

Spain is firmly committed to strengthening its macroeconomic and structural reform agenda through this National Growth Strategy, with the view of achieving the G20 objective of strong, sustainable and balanced growth and contributing to lift G20's collective GDP by more than 2 per cent above the trajectory implied by policies included in the October 2013 IMF WEO baseline over the coming years to 2018.

Over the last two years, Spain has already adopted a far-reaching program of reforms, structurally changing the economy through an unprecedented process of adjustment and correction of external, fiscal and financial imbalances, therefore contributing to the G20's objectives of sustainable and balanced growth. Through these ambitious reforms, the Spanish economy has gained efficiency, flexibility and ability to compete globally.

Results have already come: The Spanish economy started to grow in the last two quarters of 2013, and continued growing in the first three quarters of 2014. Structural reforms implemented increase the effectiveness of demand-side economic policies, with positive impact on potential economic growth.

Labour market data has been showing net year-on-year job creation for a number of months. In the third quarter of 2014, employment increased by 151,000 persons compared to the previous quarter, resulting in a year on year job creation of nearly300.000 jobs (+1,6%). Unemployment was reduced by more than 500.000 (-8,7%), despite modest economic growth, confirming the positive trend that started in the second half of 2013. Unemployment rate dropped to 23,7%, a reduction of 2pp from last year. Thus, Spain´s new labour market regulation allows for job creation from lower economic growth (1%), as opposed to previous patterns where higher growth was necessary.

The economy is rapidly regaining external competitiveness, as shown by the strength of our exports, the current account balance, and the evolution of the main price indicators, signalling the structural adjustment of the current account balance and the closure of the productivity and cost-gap built up during the initial years of the previous decade, through wage moderation and enhanced flexibility mechanisms. The financial sector has completed a deep restructuring and recapitalization process, and is today in a much more robust and resilient position to provide financing to the economy. The positive completion of the Comprehensive Assessment and the steps towards banking union are also key to allow the financial sector to contribute to growth.

Confidence is back and the recent evolution of the risk premium, the change in financing conditions and the latest economic confidence indicators attest to this (August 2014's indicator of consumers' confidence has shown an annualized rate of increase in relation with the same month a year before of 27.8% and reaches 87.7).

The correction of the fiscal position is taking place in line with the committed path in a growth friendly manner. The 2014 deficit target has been revised down to 5.5% in April. The tax reform of 2014 aims at reducing taxation on labour, to strengthen competitiveness, to promote saving and investment, and to modernise Personal and Income Tax, while reinforcing the fight against tax fraud. The positive economic effects and efficiency gains on the expenditure side of tax reform dominate lower implied tax collection due to cuts in effective tax rates.

Short-term economic objectives

The Spanish economic short-term objective focuses on two mutually reinforcing action paths: implementing and deepening the structural reforms, and favouring a sustained and balanced economic recovery and job creation. To achieve this, five priority areas have been identified, also in line with EU policy objectives: (i) pursuing differentiated, growth-friendly fiscal consolidation; (ii) restoring lending to the economy; (iii) promoting growth and competitiveness for today and tomorrow; (iv) tackling unemployment and the social consequences of the crisis; and (v) modernizing public administration. By laying down the foundations of stronger potential growth and reducing the negative cyclical impact, this action plan will contribute to G20 objective of strong growth.

Medium-term economic objectives

The macroeconomic scenario for the years 2014-2017 predicts that the recovery that began in the second half of 2013 will strengthen and will be followed by a period of continuous growth. It displays a change to a sustainable, balanced and job creating economic growth model. As a reflection of the structural change in the Spanish economy the new economic pattern anticipates a net lending capacity external position. In 2013 the economy registered a surplus in the current and capital accounts equivalent to 1.5% of GDP which is estimated to rise to around 2.5% in 2017. External demand plays and will continue to play an important role as a driver for growth, thanks to reforms in factors markets and in goods and services markets that have allowed for important competitiveness gains, even though internal demand may retake its role with an expansion in private consumption and investment in capital goods.

The outlook for the economy is founded on the prospects enhanced for job creation, the positive tone of consumer and corporate sector´s expectations, continuation in price and wage moderation, a gradual improvement in financial conditions for household and businesses, and a dynamic external sector.

In the years that lie ahead, the reform momentum will be maintained and Spain will continue correcting accumulated past imbalances. Fulfilling the objective of reducing fiscal deficit is a priority, in line with the foreseen fiscal consolidation path. In 2013 the economy achieved structural primary surplus (+2.2% of GDP) for the first time since 2007. Debt to GDP will peak in 2015, and a primary surplus is to be reached in 2016, reversing the Debt to GDP trajectory.

Microeconomic reforms will continue to be implemented during the next years allowing for productivity gains and enhancing job creation, which in turn will increase growth potential and, ultimately, reduce imbalances and contribute to the objective of a strong, sustainable and balanced growth.

Key Commitments

1. Fiscal reform
2. Public administration reform
3. Market unity reform
4. Insolvency reform, refinancing and restructuring of business debt
5. Dis-indexation law

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	-1.2	1.3	2.0	2.5	3.0	n/a
Nominal GDP (% yoy)	-0.6	1.4	2.7	3.4	4.5	n/a
Output Gap (% of GDP)*	-9.5	-8.5	-6.5	-4.1	-1.4	n/a
Inflation (%, yoy)	0.9	0.2	0.6	1.3	1.6	n/a
Fiscal Balance (% of GDP)**	-6.3	-5.5	-4.2	-2.8	-1.1	n/a
Unemployment (%)	26.1	24.7	22.9	21.7	19.8	n/a
Savings (% of GDP)	19.0	19.3	19.9	20.4	21.1	n/a
Investment (% of GDP)	18.2	18.0	18.2	18.6	19.4	n/a
Current Account Balance (% of GDP) ***	1.4	0.9	1.1	1.7	1.8	n/a

*** A positive (negative) gap indicates an economy above (below) its potential.**
**** A positive (negative) balance indicates a fiscal surplus (deficit). Financial one-off package not included**
***** Capital account surplus (0.7%) not included.**

The Spanish economic strategy is fully in line with the policies committed within the European Monetary Union, and included in the Spanish National Reform Programme 2014 (NRP), published on April 30. The NRP´s and most recent Draft Budgetary Plan's Spanish economy projections predict above potential growth throughout the period, even as potential growth is increasing (from -0.2% in 2014 to 0.5% in 2017). Labour will reduce its negative contribution which is expected to be positive for 2018-2022, while capital contribution will strengthen by 0.2 points and total factor productivity will remain in the 0.4-0.5 GDP points range. Thus, the output gap will close progressively and actual GDP will catch up with potential GDP in 2018.

Key Drivers

After five years of negative contribution, the domestic demand will add to growth from 2014 onwards, progressively increasing its weight as the restoration of confidence and the most favourable performance of household income will strengthen absorption. This will also reflect the effects of employment recovery as 2014 will be the first year with net employment creation since the crisis started. However, as shown in the table below, the dynamism of domestic demand is not expected to jeopardize the external equilibrium. Although the external sector will reduce its positive contribution to growth, which has been unusually high due to absorption's reduction, the competitiveness gains in the Spanish economy are mostly structural. The recovery is expected to be based on a reform driven improvement of productive supply and continued strong export growth, thanks to increased competitiveness. Therefore, the increase of the domestic demand will have a lower impact in the balance of payments than in the past. In this sense, we consider that the reduction of global international imbalances would add up to the efforts made by the Spanish economy in increasing its productivity and regaining competitiveness.

From the supply side, one of the main drivers has to be productivity. Recent structural reforms will make TFP increases the main economic growth driver. To this regard, implementation of reforms and constant momentum for structural reforms are one of our commitments.

SPAIN MACROECONOMIC SCENARIO 2014-2017
(% change vs. previous year unless otherwise indicated)
30 September 2014

SPAIN MACROEOCONOMIC SCENARIO 2014-2017					
(% change vs. Previous year unless otherwise indicated)					
SEC-2010					
		Forecast			
	2013	2014	2015	2016	2017
Private consumption Expenditure (a)	-2,3	2	2,1	2,3	2,8
Gross Fixed Capital Formation	-3,8	1,5	4,5	4,6	6,7
Equipment and other products	3,4	7	6	6,2	7,3
Construction	-9,2	-3,3	3,1	3,1	6,1
Domestic demand (contribution to GDP growth)	-2,7	1,4	1,8	1,9	2,6
Exports of goods and services	4,3	3,6	5,2	6,3	6,5
Imports of goods and services	-0,5	4,4	5	5,8	6,3
Net foreign balance (contribution to GDP growth)	1,4	-0,1	0,2	0,4	0,3
Real GDP	-1,2	1,3	2	2,3	3
GDP deflator	0,7	0,1	0,6	1,2	1,5
Private Consumption Expenditure deflator	0,9	0,2	0,6	1,3	1,6
Total Employment (b)	-3,3	0,7	1,4	1,5	2,3
Unemployment rate (% of labour force)	26,1	24,7	22,9	21,7	19,8
Public Sector net borrowing (*) (% of GDP)	6,3	5,5	4,2	2,8	1,1
Net lending with the Rest of the World (% of GDP)	2,1	1,5	1,7	2,5	2,5
(a) Households and Not-for-profit institutions serving housholds					
(b) Full-time equivalent jobs					
(*) 2013 Public sector net borrowing does not include support to Financial Institutions					
Sources: INE and Ministerio de Economía y Competitividad					

Assessment of Obstacles and Challenges to Growth

As mentioned above, the Spanish economic strategy for 2014 is the continuation of an intense Government reform agenda already undertaken in 2012 and 2013 and expanded into 2014 and 2015, which has been complied thoroughly so far. However, gaps and policy challenges remain ahead.

(A) On the macroeconomic side, the need to continue to ensure fiscal stability via growth-friendly fiscal adjustment that helps to reduce imbalances is a priority.

(B) On the structural side: (i) It is macro-critical to tackle high unemployment rates, with a special attention given to youth and long term unemployed. Job creation via strong and sustainable growth is the goal. (ii) We see the opportunity for a better access to finance for the private sector and further repairing of households and companies' balance sheets that will potentially increase growth through investment, while the housing sector continues to stabilise. (iii) Improving the net external stock position and eliminating policy gaps in this area will be addressed by persevering in structural policies that aim at reducing competitiveness gaps and productivity gaps by trade policy and competition policy. In the short run, global economic developments and European developments are also a key back-up to address the aforementioned gaps. In this sense, a lack of demand rebalancing and low inflation may hamper the unwinding of imbalances.

(C) A major challenge for the economy over the long term is population ageing and the associated problems in the labour market (labour supply) and subsequent financial pressures to the public pension system which will require continuing the current efforts. On the same page, in the long run Spain is committed to increase its potential growth and recent structural reforms reflect that fact.

C. POLICY RESPONSES TO LIFT GROWTH

The achievement of budgetary stability has been central to economic policy in Spain since 2012 as it is a necessary condition for sustainable economic growth and job creation. The achievements in this area over the last two years have helped regain confidence of the economic agents in the Spanish economy and have allowed for an improvement in financing conditions. The development of structural reforms has helped as a complement to lift potential growth. In this sense all the reforms aim at reducing policy gaps and generate a strong, sustainable and balanced growth. Spain has developed one of the most intense structural reform agenda since the outburst of the crisis, and the measures specified here continue to reflect the commitment of the authorities with growth.

New Macroeconomic Policy Responses

Fiscal policy

Spain is deeply committed to preserving the sustainability of public finances in the medium term, as proven by a solid track record of deficit reduction in 2012 and 2013, in line with EU fiscal governance rules and targets. The fiscal effort pursued by all Government levels has been among the highest in advanced economies. Spain has also greatly enhanced its overall fiscal framework by reinforcing discipline, control and transparency, with a number of actions including the introduction of a constitutional fiscal rule (which limits the debt-to-GDP ratio to 60% and requires a balanced structural budget), and a reform aimed at guaranteeing the long-term sustainability of the pension system. Looking forward, the consolidation of public accounts and the achievement of budgetary stability will continue to be central to economic policy in Spain. Fiscal policies will be designed to ensure that the nominal deficit falls below 3% by 2016. The main action in this regard is the fiscal reform approved in August 2014, which will enter into force in January 2015. A new Independent Fiscal Responsibility Authority began operations in July 2014, Other measures envisaged include continuing with the ongoing efforts to enhance the transparency of the economic and financial information and eliminating late payments within the administration.

Key policy actions[1]

(i) Fiscal reform:

The Government is undertaking a comprehensive tax reform that, while enhancing revenue collection capacity, allows for the promotion of growth and employment. This reform was approved by the Council of Ministers in August 2014 and will modernize the tax system in accordance with international best practices and will be designed to boost employment and correct low revenue collection. It will enter into force in January 2015.

This structural reform seeks to reduce taxes for all: workers, companies and families and also to strengthen economic growth, stimulate savings and investment through a modern tax system that fosters job creation.

The average Personal Income Tax reduction will amount to 12.5%. Moreover, 72% of taxpayers, those with an income lower than 24,000 euro/year, will have an average reduction of 23.5%. The number of income tax (IRPF) brackets will be reduced from the current 7 to 5. The tax rate of the lowest bracket will stand at 20% next year, dropping to 19% in 2016. The tax rate of the highest bracket will stand at 47% in 2015, dropping to 45% in 2016. Those citizens that have total income from employment of less than 12,000 euro/year will be exempt from paying PIT. Finally, the so-called 'negative taxes' will be extended, including direct aids from the Treasury and earmarked for certain groups, such as large

[1] A detailed budgetary impact of the reforms can be found in Annex 5 of the Spanish Draft Budgetary Plan 2015

families and families with dependent children and disabled members. New social protection vehicles are created while maintaining aid for working mothers. In each case, €1,200 per annum may be received in advance, at a pace of 100 euro per month. These 'negative taxes' will be accumulative.

Corporate Income Tax: the general tax rate for Corporate Income Tax will be reduced from its current 30% to 28% in 2015 and to 25% in 2016. A business capitalization reserve will be created, meaning that companies can earmark a tax-free provision to own resources of up to 10% of the profit made in the tax year, which will be used to promote business self-financing and reduce dependency on outside sources. In the case of SMEs, a levelling-down reserve is created whereby an additional reduction of 10% in the tax base can be enjoyed, up to a limit of 1 million euros. The reduced tax rate for new entrepreneurs will be maintained at 15%.

(ii) Enhancing the efficiency and quality of public expenditure

A competitive economy requires modern, transparent and dynamic public administrations. The Commission for the Reform of the Public Administration (Comisión para la Reforma de la Administración or CORA) was created in 2012, and has delivered the most thorough review of the Spanish public sector of the last decades. Actions identified by the CORA report have been and are currently being implemented. By 2014 an estimated 50% of all the measures will be completed. The following should be highlighted:

- The future Law on Public Administration and Common Administrative Procedure directed to making the regulation of the Spanish Public Sector organization clear and coherent.
- The reform of the General Law of public grants in order to reinforce the transparency in the concession of grants; limit public financing of certain modalities of private spending; eliminate duplicities, among others.

Additionally, new measures to improve the efficiency in the management of the Government's liquidity, to streamline and eliminate duplicities, to increase efficiency in public employment structure and management, to impulse electronic administration, and to reduce administrative burden, will be taken. Moreover, in 2014, the local administration adaptation process to the new model defined by the 2013 law on Rationalization and Sustainability of the Local Administration will be completed.

Reform of public administrations: reform to control commercial debt and avoid public sector arrears. In addition, work will continue to enhance the transparency of the economic and financial information and eliminate late payments within the public administration through the current implementation of electronic billing and the law on commercial debt control passed in December 2013.

In order to maintain the momentum in June 2013 the Office for Execution of the reform of Public Administrations, OPERA, has been created, whose main objective is to safeguard the execution of CORA measures, and if necessary add more.

(iii) Law regulating the Sustainability Factor and Pension System Revaluation Index

Parliament approved the reform of Pension System on December 19, 2013 and the law came into force on January 1st, 2014. The legal text approved concluded a process that was started with the commissioning of a committee of experts, with the aim of ensuring a consolidated public pension system that would be sustainable over time; that is, to provide a response to the demographic challenges and guarantee sufficient and adequate pensions for pensioners both now and in the future with comparable contributions.

The new legislation establishes a new Revaluation Index that guarantees the annual pension increase, setting maximum and minimum levels. As from 2014, the minimum and maximum annual revaluation levels were set, respectively at 0.25% and at CPI plus 0.5% (in a favourable economic environment). The sustainability factor that ties the amount of the pension to life expectancy will be applied as from 2019.

The text also adds control mechanisms that will allow for the impact of the measures implemented to be evaluated. On the one hand, every five years the Government will issue an evaluation report to the Lower House of Parliament and to social partners that will allow the sufficiency of pensions to be verified. On the other hand, the opinion of an Independent Fiscal Responsibility Authority will be sought on the values calculated by the Ministry of Employment and Social Security, both in the determination of the Pension Revaluation Index, applicable each year, and the Sustainability Factor.

Intended impact of policy actions on growth and employment

The first measures of the Fiscal reform will result in a GDP increase of 0.55% in the period 2015-2016 initially, and aim at reducing tax impact on growth in the medium run.

The combined impact of the Reform of the Public Administration[2] for the period 2013-2016 on GDP is 0.58 percentage points whereas the impact on employment for the same period (on employment levels) is 0.20 points.

The Law regulating the Sustainability Factor and Pension System Revaluation Index will add 0.8 percentage points to GDP and employment levels over ten years after implementation (2014). More importantly it addresses one of the main long term gaps in advanced economies, population ageing.

Adjustment facilitation, positive spillovers and global rebalancing

The reform will have the following general objectives: (i) modernizing the tax system in accordance with international best practices; (ii) solving the current problems of the tax system: the tax bias against employment and the low revenue collection; (iii) contributing to fiscal consolidation and job creation; (iv) favouring economic development, ensuring market unity and fiscal neutrality and enhancing the competitiveness of the Spanish economy. The objective is to ensure sufficient tax income and to increase revenue collection by paying special attention to narrow tax bases and to tax fraud, without discouraging job creation. In addition, work will continue to enhance the transparency of the economic and financial information and eliminate late payments within the administration.

Hence, the adjustment of the Spanish fiscal position will firstly preserve the sustainability of public finances in the medium term and provide a solid track for future growth. Moreover, the adjustment of the Spanish fiscal position will reduce the public need of financing, hence adding to the private efforts to reduce external imbalances.

New Structural Policy Responses

Investment

In addition to the policy responses to lift growth included in this growth strategy, restoring lending is essential for the consolidation of economic recovery. The significant improvement in financial conditions and the completion of the restructuring process of the banking sector have paved the way for restoring normal lending to the economy.

The fall in aggregate lending and investment in Spain in recent years is consistent with the need for continued deleveraging. Therefore, policy efforts in Spain focus on creating the appropriate framework and investment climate, with particular attention to SMEs, to ensure that new investment is directed to the most productive uses and that growth is lifted in the long run.

The Government wants to foster this process and to provide alternative funding sources for economic agents. To achieve that goal, Spain is focusing its efforts in improving its investment environment and measures will be taken to facilitate both bank financing, particularly for SMEs, and non-bank financing sources.

The rationale for promoting non-baking financing sources lies in the fact that Spanish SMEs, as most European SMEs, have mostly relied on bank financing. This dependency, which accounts for about 70% of their total financing, can pose problems when banks are going through a difficult moment in terms of prudential requirements, lack of confidence or macroeconomic developments. Diversifying the financing channels would endow SMEs with greater financing stability and improve their financing conditions. Furthermore, bank financing has often been less prone to reach youngest start-ups or new businesses, focusing only in companies with mid to high capitalization. Bank financing for investment in technology, training, communication and innovation, is usually restricted as it faces more difficulties in providing real guarantees.

[2] See Annex III of the Spanish National Reform Program 2014 for details on the assumptions of the impact of each measure.

At the same time, bank financing can and must continue to play an important role in the financing of Spanish companies. The Government has taken several steps to increase transparency and to encourage the strengthening of banks´ balance sheets so that credit can flow again to the real economy. The launch of the European Banking Union on 4th November will join all these efforts to dissipate doubts about banks at EU level and to eliminate financial fragmentation.

1. Investment climate

Key policy actions:

Spain is taking several steps to improve its investment environment:

(i) The "Law on Entrepreneurship and Internationalization". It foresees the development of public opinion surveys about business climate and smart regulation, the conclusions of which will be incorporated to the Strategic Plan for the Internationalization of the Spanish Economy 2014-2015. The idea is to publish periodically this information and exchange better regulation practices in the Ministry of Economy's working groups in order to inform policy actions, foster regional competitiveness and enhance transparency.

(ii) Subnational Doing Business. In collaboration with the World Bank a Subnational "Doing Business" report will be carried out to capture differences in business regulations and their enforcement across regions in Spain. It will provide data on the ease of doing business, identify best regulatory practices, and recommend reforms to improve performance in each of the indicator areas.

(iii) International mobility program. Starting in 2014, Spain has streamlined the procedures to allow international mobility of investors and professionals. This is already facilitating the setting of investors, entrepreneurs, highly qualified professionals, researchers and company relocations.

(iv) A Regulation streamlining plan on "Market Unity". As a development of the "Market Unit Program" and to guarantee full implementation to the Law on Market Unity, this plan will go further with the detection and removal of regulatory barriers to the internal market, analyzing the legislation at national and regional levels and, when necessary modifying them. In a first stage, during 2013, Ministries have carried out an identification and evaluation of pieces of legislation to be simplified and adapted to the new framework, grouped into 29 economic sectors. Now, a second stage of the Regulatory Rationalization Plan is being carried out where regional governments are evaluating regional and local rules.

(v) Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt. It aims at fostering pre-insolvency agreements and focuses on the identification and the preservation of the value of those corporations that are truly viable but at the same time over-indebted. This will help to advance on the deleveraging process required because of the high level of debt of some Spanish non-financial corporations. Among other changes, we can underline the following: once the settlement is judicially ratified, the number of creditors and liabilities than can be affected by a decision of the majority of creditors is now higher; the settlement can involve not only payment deferments, but also haircuts and debt swaps into capital; out of court negotiations are simplified and promoted with the possibility of suspending singular executions for a period of time. This measure also includes the reform of the insolvency administrators´ regime. A new set of principles governing insolvency administrators has already been introduced and its completion is pending on the implementation of secondary regulations. These new guidelines are aimed at improving the quality standards of insolvency administrators, streamlining their appointment to better fit the insolvency administrator to the complexity of the case and striking the right balance between the right set of incentives and a sufficient retribution

(vi) Royal Decree-Law on urgent measures on the revamping of the Bankruptcy Law. Already passed and in force, it improves the features of insolvency agreements and facilitates the transmission of productive units and businesses as a whole when liquidating a firm. Insolvency agreements are enhanced by introducing four creditor classes (labor, public, financial and others), setting new rules to quantify the value of guarantees and improving majority schemes.

(vii) New measures on pre-insolvency negotiations for SMEs and self-employed businesses. The Government is working on a Code of Good Practices to stimulate the refinancing of small and medium enterprises and self-employed businesses. The aim is to standardize proceedings and to create a general framework for the out of court settlements on payments when the company is going through difficulties to comply with its payments in the short term.

Intended impact of policy actions on growth and employment

The "Law on Entrepreneurship and Internationalization" (excluding fiscal incentives) is expected to have an impact on aggregate growth of 0.33 points of GDP over the four years after implementation (2014). The impact on employment level is estimated to be of 0.33 points over the same period.

The "Market Unity Law" is expected to have an impact of 1.68 points on GDP growth in four years' time. The expected effects on employment levels are 1.75 points over the same period.

The Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt will increase GDP by 1.30 points in the four years after implementation (2014-2017). Employment levels will also benefit from this measure, with an expected rise of 1.50 points over the next four years.

Adjustment facilitation, positive spillovers and global rebalancing

These measures aim to improve investment climate thanks to increased competitiveness of national companies and markets, contributing thus to stronger growth and correcting external imbalances as it boosts the Spanish supply of goods and services.

2. Bank financing

Key policy actions

(i) Law to promote corporate financing. This Law, that will be passed this year, will improve SME rights vis-à-vis credit institutions with the objective of reducing informational asymmetries when SMEs seeks for other sources of funding. Moreover, the legal framework of securitization will be revised with 3 main objectives. First, update the regime of securitizations in Spain, making it comparable to the rules applicable in other Member countries. Second, enhance transparency requirements and regulate the "association of bondholders", guaranteeing the protection of the interests of the investors. Third, ensure legal certainty by clarifying the applicable rules, which are dispersed. Finally, the Law will improve the functioning of the Mutual Guarantee Funds for the SMEs to benefit from a reduction in the cost of funding.

(ii) Modification and simplification of the regime of guarantees for bank credit. SMEs will be able to use a higher range of collaterals, and the movable property register along with the legal regime of the pledge will be modernized, reducing the administrative costs for SMEs.

(iii) Role of the Instituto de Crédito Oficial (ICO). The Spanish Government will increase its budget in 2 billion euro, focusing on the creation of SMEs and companies with an internationalization strategy. In this sense a new guaranty scheme for SMEs has been created of around 12,000 million euro in relation to guaranty schemes of International Financial Institutions. Given that this financing is given through banks, it will boost credit activity, as it did during the first quarter of 2014.

(iv) Reform of the covered bonds regime: A new Task Force has been created with the aim of eliminating certain deficiencies and enhancing the Spanish regime. For instance, the Task Force will review aspects such as asset encumbrance and the transparency and liquidity of emissions.

Intended impact of policy actions on growth and employment

The described policy will help to reactivate bank credit for SMEs, which will have an impact on employment and growth. Thus one possible way to quantify the impact of the package is by examining the evolution of bank credit in the coming months.

The impact of the Law on corporate financing is expected to add 0.62 points of GDP in the period of 2014-2017. The estimated impact on employment levels is 0.57 points over the same time horizon.

Concerning ICO funds and the increase of disposable credit for SMEs, GDP could be increased by 0.10 points and the impact on employment levels could be of 0.07 points over the next four years.

Adjustment facilitation, positive spillovers and global rebalancing

The policy actions described above will be a useful tool to achieve some of the objectives already mentioned in section A. More concretely, facilitating bank credit to SMEs supports the objective of restoring lending to the economy. This is, mainly, a demand-oriented policy with positive spillovers, given that it will increase confidence in the Spanish economy, thus attracting productive investment but at the same increasing imports from other countries. Supply side effects resulting from greater investment should also gradually emerge.

3. Non-bank financing

Key policy actions

The Spanish authorities have designed a package aimed at diversifying the financing sources of SMEs and improving the venture capital framework to promote alternative financing channels to banks as well as reducing credit constraints.

(i) Alternative Fixed Income Securities Market (MARF). It was created at the end of 2013 as a platform where professional investors can acquire bonds issued by solvent medium-sized companies. Similar to other markets in the EU, MARF is set up as a multilateral trading facility, with more flexible requirements and lower costs than regulated markets. Up to date there have been nine bond and commercial paper emissions and we expect that this market will gain momentum in the coming months.

(ii) Venture capital. A law and regulation detailing a package of reforms in this field is expected to be passed shortly. Apart from adapting to the EU Directive 2011/61, which regulates alternative investment fund managers, a new type of vehicle will be created, called venture capital SME. Also administrative burdens that hurdle the creation of capital vehicles will be reduced. Venture capital SMEs will have to invest at least 70% of their assets in SMEs and they will be able to assess these SMEs as well as take part in their activity.

On the market side, Fond ICO Global was launched aimed at promoting venture capital and private equity in Spain. Since its inception late 2013, it has already awarded two tenders: seven tickets awarded to venture capital and another seven to growth capital, mobilizing EUR 4.4 billion of which 437 million belong to Fond ICO Global. A third and fourth tenders will be awarded in November. Its initial results are encouraging as the fund has reinvigorated the Spanish capital market.

(iii) Law to promote corporate financing. The Spanish Parliament will pass this law this year, which includes the elimination of hurdles to debt issuances. The Alternative Stock Market (Escalator Funding Law) will be fostered by facilitating the transition between the Stock Exchange and the Alternative Stock Market. A clear regulation on crowd funding is being subject to public consultation with a view to set up a clear framework that fosters this new way of funding while at the same time guaranteeing a high level of investor protection. A specific legal regime for “Establecimientos financieros de crédito” (EFC) is foreseen. A legal framework is created under the supervision of the Spanish Central Bank, reinforcing their role as an alternative source of funding to traditional banks, which has been significant in consumer financing at sales point. Finally, the Law creates the vehicle of institutional investment fund, only made up of professional investors. Given that these investors require lower protection standards, some requirements such us information provision or the number of investors are made more flexible to better reach the objectives.

Intended impact of policy actions on growth and employment

The Law on venture capital is expected to increase GDP in 0.22 points over the next four years. The effects on employment levels will be of 0.18 points in the same period.

Adjustment facilitation, positive spillovers and global rebalancing

The diversification of SMEs financing sources is key to support the credit channel and will improve the performance of the economy due to its positive effects on financial stability and potential growth. This policy is compatible with the deleveraging process of the Spanish economy, given that total debt of the private sector can go on the downward path.

Employment

Addressing the high unemployment levels, notably youth unemployment, has been and will continue to be one of the top priorities of the Spanish economic policy strategy. The thorough reform adopted in 2012 is already underpinning a deep transformation of the Spanish labour market. Thus, the Employment Strategy launched in 2012, initiated a set of profound and coherent reforms that target both short and long term objectives:

In the short term, the measures focus on stabilizing the labour market amidst an economic crisis, limit employment destruction during downturn and foster fast quality employment creation in the recovery.

In the long term, the measures face high structural unemployment, high long term and youth unemployment, excessive labour segmentation, high volatility of employment, limited efficiency of passive and active labour policies, skills mismatch, ageing labour force and the lack of flexibility of labour markets that erodes competitiveness. The main labour legislation reforms have been already implemented and the emphasis now is on strengthening active labour market policies and promoting quality employment creation and more job opportunities for the young.

Key policy actions

(i) Labor market regulation

Spain has transformed its labour market regulation through a major labour reform (February 2012) that increased internal flexibility within firms, rationalized external flexibility and modernized collective bargaining. This reform was followed by several regulatory developments during 2012. In 2013, a report on the impact of the reform was published by the Government and complemented with an OECD specific report on the same issue. These reports were followed by fine tuning measures and additional measures, such as a part-time contracts reform on December 2013. Monitoring of these developments continues while economic agents get used to the new legal framework that is already delivering positive results.

Among short term measures one should highlight a new open-ended contract for smaller firms with one year trial period (no severance payment) and linked to hiring subsidies.

(ii) Flat-rate National Insurance contribution of € 100 during the first 24 months

It is in this spirit that a new lower flat-rate national social security (national insurance) contribution has been launched. With the objective of promoting net creation of stable employment companies, irrespective of their size, that maintain the net job creation for three years will be able to save up to 75% of the national insurance contribution. The measure, which came into force on February 25th will remain in force for the next 24 months will limit the employer common contingency contribution to 100 euros per month (1,200 euros per year). This reduction, in the case of an average gross annual salary of 20,000 euros, would result in a saving for the employer of 3,250 euros per year in National Insurance contributions for each new job position created.

(iii) Activation policies

Spain is modernizing its activation policies in close collaboration with the Spanish Regional Governments. In 2012-2013 a new programming and coordination framework has been developed through a multi-annual Activation Strategy and Annual Employment Plans. This initiative includes the development of common objectives, strategies and concepts. It creates a new result-oriented framework in which funding is linked to efficiency thanks to common monitoring tools. It includes the sharing and spreading of best regional practices and a common IT system.

At the same time, Spain is introducing regulatory reforms that deliver new tools to impulse the modernization of public employment services towards a more personalized and efficient treatment of every worker:

- The reform of training for the employment and the development of a new vocational training strategy and regulatory framework are essential in the new Activation Strategy and is expected to be in place before the end of 2014. Training priorities will better match firms´ real needs, the selection of providers will be made through open competition, monitoring will be enhanced and online training and the official certification of training will be developed further. These reforms are coherent with basic education system reform, target skill mismatch and encourage permanent training of the workforce. They will ease transitions from education to work and enhance lifelong learning at the workplace.
- The Spanish public employment services are going to count on the private sector specialized firms to ameliorate matching in the labour market. Private firms have been selected through an open, transparent and competitive selection process. A new National employment website will also collaborate in this objective and will enhance labour mobility.
- Spain has restructured hiring subsidies and has introduced an improved design process that includes a better ex ante and ex post monitoring. Several short term hiring subsidies have been

introduced targeting the youth, small firms and open ended contracts.

- Spain also fosters a better targeting and a closer linkage between active labour policies and unemployment benefits. Important developments have already been introduced with the reform of several non-contributory subsidies and the new framework of the PREPARA program that targets long term unemployed.

(iv) Youth employment

The new Strategy for the employment and entrepreneurship was launched in 2013 with 15 short term measures and 85 long term measures. It constitutes the cornerstone of the development of the European youth guarantee in Spain. On July 4th the Royal Decree-Law regulating the National Youth Guarantee System was approved. It ensures that people aged between 16 and 25 that are neither employed nor in training will receive an employment offer, education, apprenticeship or work placement. It introduces the following actions:

- The new Youth Guarantee telematic register and Website, provides a meeting point between young people, the public administration services, companies and all those entities taking part in managing the system. It will provide information on the Entrepreneurship and Youth Employment Strategy and the Youth Guarantee and, the requirements.
- Tax break of up to 300 euros over six months for permanent hiring of people benefiting from the Youth Guarantee. It will be compatible with other permanent employment incentives already in place. This incentive will remain in force until June 30th 2016.
- Increased reduction of social security contributions by companies hiring workers benefiting of the Youth Guarantee, under the dual vocational training contract ("contrato para la formación y el aprendizaje")
- Additional reductions for internships hiring of beneficiaries of the youth guarantee, up to 100% of the social security contribution.
- Extension of the reduction of social security contributions, for a period of up to 12 months, when hiring for a part time job linked to training, unemployed under 30 that benefit from the Youth guarantee.
- New tax breaks of up to 100% of social contribution are established for paid internships by university students (Curricular internships) and vocational training internships, from August.

(v) Active ageing and Social Security sustainability

Spain is fostering the adjustment of the real and legal retirement age so as to face the problems related with a rapidly-ageing population. Additionally to the social security reform, mentioned earlier, a reform on partial and early retirement was introduced in 2013, accompanied by new possibilities to make pension and work compatible for older workers. Furthermore, the inclusion of older than 50 years old in collective dismissals is subject to extraordinary contributions to the Treasury.

(vi) Fight against fraud

A new Plan to fight against fraud and the informal sector has been developed and accompanied with new regulatory developments. The collaboration with fiscal and police authorities has intensified, new IT tools are being developed and penalties have been upgraded. A report on the impact of the new Strategy in 2012-2013 is about to be delivered. The system of collecting social security contributions will be enhanced in 2014 to reduce red tape and increase control and monitoring.

Intended impact of policy actions on growth and employment

The impact of this policy action is particularly designed to increase employment levels and economic growth. Past measures would lead to a much higher job creation given an economic expansion. For the same expansionary shock the scenario under reform yields during 2012-2015 a GDP level 5.63 points higher and a number of total employment 14.35 points higher. This is by large, the highest impact on employment and growth of all policy actions included in this growth strategy.

Additional measures, such as the lower-flat rate for National Insurance contribution will increase GDP by 0.2 points over the next four years. The global effect on the employment level is neutral, as this quality measure is directed to increase the number of open ended contracts (and not the level of employment by itself). Nevertheless, the impact in the first year after implementation will be of 0.1

points on the employment level.

Adjustment facilitation, positive spillovers and global rebalancing

According to the OECD, the Spanish Labour market reform has promoted the internal flexibility of firms and reduced dismissal costs for permanent workers. The reform has contributed to significant wage moderation and increased hiring on permanent contracts. It is therefore contributing to job creation and to the reduction of unemployment. Additionally it supports global aggregate demand, and contributes to sustainable and balanced growth and the reduction of inequalities.

Competition

Spain is implementing an ambitious competition and product reform agenda to raise productivity at firm level, facilitate the ongoing adjustment process, improve the medium and long-term growth potential and further increase competitiveness.

Each measure is designed to tackle specific obstacles in the way to a more competitive and job rich economy. While the reform of the professional services is designed to further open this sector to competition, reducing prices and increasing chances for new jobs, the program on market unity is designed to increase the productivity of investments as excessive and disperse regulations hampers effective competition and prevents exploiting economies of scale of operating in a larger market. This discourages investment, reduces productivity, competitiveness, economic growth and employment and is therefore a cost to citizens in terms of welfare. For its part, the Entrepreneur Support Law aims at achieving a more business friendly environment that promotes and assists company creation, and to ensure that viable projects can be fully developed and become international. Lastly, the objective of the dis-indexation law is to reduce inflation inertia by preventing certain “second-round" effects on price formation. To this end, the law reduces the scope of indexation in the public sector and, in particular, prohibits the use of general price indices. This limits the influence on the Spanish economy of major exogenous price shocks and ensures that inflation is closer to the fundamentals of the economy itself.

Key policy actions:

(i) Reform of professional services

During 2014, the Law on Associations and Professional Services will be passed. Its main objective is to provide professional services activities with a common, modern legal framework consistent with the principles of good regulation. This law will help to eliminate barriers that currently hinder unnecessarily access and development of these activities.

The Law will set a new framework for the regulation of professional services based on a general principle of freedom of access and exercise. Restrictions to this principle will only remain where justified in accordance with the principles of non-discrimination, necessity and proportionality. The law will also review the compulsory requirements for the exercise of regulated professions. The goal is to reduce the number of regulated professions and entry barriers, liberalizing the professional services sector, and therefore fostering competitiveness and productivity into the economy. A specialized Commission for the Reform of Professions will be created, with consultancy and proposal capacity. This Commission will have to inform of every new reserve of activity based on its compliance with the principles of this law.

Regarding Professional Associations, the Law will define the professions requiring registration in a Professional Organization (Colegio Profesional) and review the rules on membership fees, transparency and accountability of professional bodies, among other issues.

Up to the Saint Petersburg Summit, Spain had committed to enhance its competition framework through several measures: limiting indexation in the public sector, promoting entrepreneurship and internationalization of companies and ensuring market unity across the Spanish territory, among others. This ongoing process will require new efforts in the coming years, which include:

(ii) Program on market unity

In addition to the already approved law (Ley de Garantía de Unidad de Mercado, LGUM) addressing internal market fragmentation for product markets and reducing business licensing requirements and other administrative burdens will require the following actions:

- Creation of the Counsel of Market Unity Guarantee which will include representatives from the

State, the Autonomous and local authorities regions to boost the law effectiveness.

- Implementation of information sharing systems among different administration layers and an integrated registration.
- A Regulation streamlining plan (see Investment and Infrastructure section).

(iii) Limiting indexation in the public sector

The Disindexation Law (Ley de desindexación de la Economía Española), aims at avoiding the continuous competitiveness loss due to cumulative price differentials with the rest of the EMU, which resulted in lack of growth and employment destruction.

To achieve this objective, the law seeks to reduce inflation inertia by the public sector, and, in particular, by forbidding the use of general price indexes. The law also intends to set a benchmark for the private sector in price formation practices. To this end, the law also creates the Competitiveness Guarantee Index (Índice de Garantía de la Competitividad or IGC) to be used for price updating. The law is currently being discussed in Parliament and the necessary regulation implementation is already being drafted. Indexation schemes in the Spanish legislation, at all levels of the administration, will have to adapt to the new law. Once approved, the law will both limit indexation in the public sector and guide the private sector in its pricing decisions.

(iv) Promoting entrepreneurship and internationalization of companies

The Parliament approved on September 27, 2013 the Entrepreneurship Support Law (14/2013, de Apoyo a los Emprendedores y su Internacionalización, LAEI) which includes measures of fiscal support, financing and internationalization measures, improvement of business climate actions and measures aimed at reducing the administrative burden of companies and at fostering access by entrepreneurs to public sector contracts. In this last regard, during 2014 new efforts will be taken and, in particular, three important measures contained in the Law will be implemented:

- Entrepreneur service point (Puntos de Atención al Emprendedor, or PAE): Special window to assist the entrepreneur and guide him through the different administrative processes and to inform him about activity support measures.
- Fast track to create limited liability societies. The measure was included in the LEAI but its effective application requires new regulations that the Government has committed to put in place during the first half of the year.
- The Law requires the implementation of the one-in, one-out clause, which requires that for every new administrative burden created, another should be eliminated.

Intended impact of policy actions on growth and employment

The reform of the professional services is expected to increase GDP by 0.59 points ten years after implementation while impact on employment level is 0.31 points in the same period.

The Law 20/2013 of Market Unity is expected to increase GDP by 1.42 points ten years after implementation. As a result of this action employment level is expected to rise by 0.75 points in the same period.

Regarding the Law of Disindexation, estimates show that a disindexed economy would benefit more from a positive external shock than an indexed economy. In particular, an increase of 2.5 percentage points in world demand increases GDP by an additional 0,41 percentage points in the case of an disindexed economy, one year after the shock (and employment by 1.05 percentage points) Lastly, the fiscal incentives associated with Entrepreneurship Support Law (14/2013) will increase GDP by 0.28 points and employment levels by 0.15 points ten years after implementation.

Adjustment facilitation, positive spillovers and global rebalancing

The accumulated loss of price competitiveness against other Eurozone countries is one of the factors that have contributed the most to the accumulation of imbalances in the Spanish economy. Measures to increase market competition contribute to increase efficiency and promote growth. Together with its effects on price moderation, enhanced competition in the Spanish markets is key to regain competitiveness, and thus improve our export share, helping in this way to achieve the necessary current account surpluses to reduce the indebtedness of the economy.

Trade

Spain has run persistent current account deficits in the past two decades, mirroring other countries large surpluses, reflecting the build-up in global imbalances. International trade and investment are at the core of Spain´s growth strategy and new economic growth model, aiming at rebalancing its economy and contributing to the larger rebalancing of the global economy.

Spain has experienced a sizeable improvement in the current account balance and has reached a surplus of 0.7% in 2013, coming from a deficit close to 10% of GDP in 2007. Even though this has happened in a context of significant reduction in internal absorption, this improvement has been driven to a great extent by solid export growth which can be related to a significant structural recovery in cost and non-cost competitiveness, and by shifts in demand composition.

From the investment perspective, net FDI reached €15.5 billion in 2013 from the -€3.91 registered in 2012, reflecting a major improvement.

Key policy actions

Trade is central in the Spanish economic agenda, where efforts to increase Spain´s competitiveness through structural reforms are resulting in stronger exports, sustained international share in global exports and the restoration of international attractiveness.

Key policy actions for 2014-2015 are contained in the Strategic Plan for the Internationalization of the Spanish Economy approved by the Spanish Government in February, 28 2014. It comprises 41 internationalization measures in the fields of market access, business climate, access to finance, trade promotion, human capital and innovation. It includes more than 30 relevant indicators to monitor its implementation. A summary of policy actions of the Plan is presented in Annex 2.

As a member of the European Union, Spain actively supports the EU trade agenda. The WTO remains the primary negotiating forum on global trade rules. Spain, within the EU, remains firmly committed to the successful conclusion of the Doha Development Agenda. In parallel to multilateral initiatives, further business opportunities are being created by the negotiation of plurilateral agreements for increased openness in trade of environmental goods, information technology goods, services and international public procurement. Finally, Spain is also actively supporting the bilateral trade agenda of the EU, with several ongoing negotiations at different stages.

Moreover, a rapid and ambitious implementation of the Trade Facilitation Agreement reached in Bali is vital, and can save significant amounts of red tape and costs for trade around the world, in particular for SMEs. Spain as the rest of EU member countries, assumes all compromises of the Trade Facilitation Agreement as *category A* commitments, i.e. applicable as of entry into force of the Agreement. Spanish customs authorities are committed to apply high standards, including many articles that could only be included in the TFA as *best endeavour clauses.* Spanish Customs authorities are currently working to develop a Customs Single Window together with other EU authorities. In addition, they cooperate with the EU in the negotiation of mutual recognition agreements in the field of Authorised Economic Operators.

In the field of services, previously mentioned reforms, namely the labour and financial sector reform, and competition policy are having an important impact in Spain´s price and non-price competitiveness. The latest OECD Service Trade Restrictiveness Index (STRI), shows that Spain has a lower STRI than the average in 15 out of 18 sectors, especially in distribution, banking and construction services, reflecting increased competition and competitiveness.

Measures for the improvement of the business climate have already been described previously. Although not solely oriented to international operations, the measures in this area will have a particular impact on international trade and investment. They will help the Spanish economy to benefit from the progressive opening of world markets by streamlining and simplifying procedures to do business in Spain. Measures incorporated in the Strategic Plan to Internationalize the Spanish Economy 2014-2015, building on the Law on Entrepreneurship and Internationalization of companies will help to broaden the Spanish exporting business base -in particular SMEs-, diversify foreign markets, and will facilitate foreign companies and workers presence in Spain. Among other, the following policy actions can be highlighted:

- Improved regulation where it hinders business and external trade (see section on investment).
- Improved international mobility of investors through a specific program directed to entrepreneurs,

researchers, highly qualified professionals and intra-company transferees, facilitating foreign businesses' activities in Spain, as well as the internationalisation of Spanish companies abroad.

- Establishment of a global information window to support companies in its internationalization process. It already channels/directs information on available instruments in the area of internationalization towards eight different institutions
- Facilitating SMEs access to opportunities in global markets, with specific actions aiming at initiating SMEs to exporting activities, and human capital formation in trade activities and internationalization.
- Improving companies' access to emerging and fast growing economies and diversifying Spanish export markets from more traditional markets, such as the EU.
- Fostering innovation: among others a special program to facilitate direct investment in the IT sector in Spain.
- Establishing a periodic private sector consultation mechanism, to reinforce the reach out efforts to the Spanish business community and therefore the B20.
- All these commitments will be regularly monitored through a given set of indicators, described in annex 2.

Finally, to fully benefit from the potential gains offered by global trade, the G20 must ensure that goods, services, foreign investment and international procurement markets remain open. Within the EU, Spain actively supports the G20 standstill and roll back commitments, and the monitoring mechanisms put forward by the G20.

Intended impact of policy actions on growth and employment

The main objective of the above mentioned measures is to ensure a positive contribution of the external sector to economic growth and qualified job creation, allowing for a more sustainable growth, and to do so in a structural manner, in order to increase the resilience of the Spanish economy in the long run. A dynamic external sector is already one of the pillars of a sustainable growth model and an engine of job creation in Spain.

Previous chapters have already indicated impacts on GDP derived from actions to improve business climate. Moreover it is worth pointing out, as a mere example, that studies on the common EU trade policy have estimated that gains from concluding the current ambitious EU trade agenda would result in GDP growth of 2 per cent EU and approximately two million new jobs [3] for the whole European Union.

Adjustment facilitation, positive spillovers and global rebalancing

Policy actions in trade will help to correct external imbalances and reduce vulnerabilities of the Spanish economy. As the Strategic Plan to Internationalize the Spanish Economy, focuses on internationalization efforts towards emerging and fast growing economies, it also addresses Spain´s largest bilateral trade deficits, contributing to global rebalancing.

Other measures

(i) Education and human capital

The Law for the Improvement of Educational Quality (LOMCE) entered into force in 2014, with a projected gradual implementation. This Law is expected to reduce early dropping out from the school system and to adequate the education methods to the capacities of students, among others.

(ii) Research and development and new technologies

The Government is aware of the importance of research, development, innovation and new technologies on long-term economic growth and gains on competitiveness. In 2014 the budget for R+D+i has been increased by 6.4% for the first time since 2009, and it has been increased again

[3] http://trade.ec.europa.eu/doclib/docs/2013/april/tradoc_151052.pdf

another 4,8% in the budget for 2015. The aim is that private investment in this field steps up from 0.60% en 2014 to 1.2% of GDP in 2020.

Moreover, measures to support our budget effort have been designed: increase the quality and quantity of human resources devoted to these activities; we are going to create a National Agency to increase the efficiency of public resources on R+D+I; a new system of specific financial instruments and fiscal incentives to increase private investment; and more collaboration with our European partners.

(iii) Justice

The main objective will be the reduction of the delays in dispute settlements. To this aim, measures will focus on increasing efficiency, flexibility and agility of the judicial system. For instance, a Provincial Lower Courts will be created to optimize the resources and to better distribute the different issues. If a case does not involve a dispute but the intervention of a judicial body is required, then the process will be simplified.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy

Spain's fiscal strategy for achieving a sustainable debt-to-GDP ratio has not changed since the last submission. It is governed by the Organic Law for Sustainability and Budgetary Stability (2012) in accordance with the Stability and Growth Pact (SGP), a rule-based framework for the coordination of national fiscal policies in the European Union.

The new projections for the -Debt-to-GDP ratio are contained in the common macroeconomic scenario of the 2015 Draft Budgetary Plan, which is complemented by the Stability Programme and the National Reform Plan, the two main documents in the design of economic policy, which set targets, measures and timetables. The two documents´ latest version covering the period 2014-2017 were released on April 30th, while the Draft 2015 Budgetary Plan was presented on October the 15th.

In 2013 the debt-to-GDP ratio increased almost 7.7 percentage points to 92.1%, compared with an increase of 15.2 points registered in 2012. This lower ratio increase is due to a reduction in the financial transactions carried out by the State compared with those carried out in the preceding year (restructuring and bank recapitalization and liquidity provision to regional governments to finance their payments to suppliers). In particular, in 2013 the impact on the government deficit of the aid to financial institutions was 3.2 GDP points lower than in 2012. In addition, there was a repayment of net liabilities embodied in other accounts payable by the general government up to 0.9% of GDP, thus exerting a lower upward effect on the state financing needs of 1.8 points than in 2012.

At the end of 2014, public debt is forecasted to represent 97.6% of GDP, 5.5 points higher than in late 2013. This increase is mainly explained by a deficit for 2014 of 5.5% of GDP. In addition, a deficit-debt adjustment of 1.7% will be added (substantially offset by the increase in nominal GDP, with an effect on the debt-to-GDP ratio of -1.6 points). In 2014, reduced requirements of net issuance by the Treasury (6 billion euros) will alleviate pressures on the debt level (from 65 billion to 59 billion). This has been possible mainly due to the decline in bond yields.

The path of public debt is slightly higher than projected in the previous update of the Stability Programme (which informed the St. Petersburg Fiscal Template), especially as a result of the deviation of nominal GDP levels. Debt as a percentage of GDP will reach its maximum level in 2015 and from 2016 it will begin a downward trajectory, falling below 100% at the end of the forecast period.

Regarding the budget balance, the projected deficit has been slightly revised. Public deficit in the base year, 2013, is 0.1 percentage points higher than proposed in the St. Petersburg Fiscal Template of GDP as a result of both the downward revision of nominal GDP in 2012 and the lower than expected deflators growth.

With the objective of further balancing the necessary fiscal effort to achieve the medium term deficit target, the Government sets a public deficit for 2014 of 5.5% of GDP, compared to 5.8% required. The conservative economic forecasts and the firm commitment of the Government to allocate the effects of increased growth to deficit reduction, make compliance feasible. For 2015 and 2016 targets of 4.2% and 2.8% of GDP are maintained. The deficit projection for the last year of the period places the path of deficit reduction at 1.1% of GDP. Achieving these objectives will require further structural deficit efforts. In 2013 a structural primary surplus of 2.2% of GDP has been achieved for the first time since 2007. This surplus will continue to grow to 3.0% of GDP at the end of the program period.

Progress in fiscal consolidation in the last two years and the ones projected in the following years will allow achieving a primary surplus of 0.6% of GDP in 2016, which will be expanded to 2.3% of GDP in 2017. As already mentioned advances in public deficit consolidation will reduce the growth of public debt and reverse the trend from 2016, having peaked in 2015.

Based on complementary metric, the effort to be developed in the coming years is very substantial. For the period 2014-2017 changes in the cyclically adjusted primary balance, used as a rough indicator of the stance of fiscal policy, are estimated at 2.0, 2.6, 3.2 and 3.8 points of GDP, respectively.

2. Medium-term projections, and change since last submission:

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Gross Debt	92.1	97.6	100.3	100.2	97.9	n/a	n/a
• *ppt change†*	-1.8	-1.9	-1.4	-1.3	-0.6	n/a	n/a
• **Net Debt**	n/a	n/a	n/a	n/a	n/a	n/a	n/a
• *ppt change*	n/a	n/a	n/a	n/a	n/a	n/a	n/a
• **Balance (-sign means deficit)****	-6.33	-5.5	-4.2	-2.8	-1.1	n/a	n/a
• *ppt change (- means downward revision)*	0.27	0	0	0	0	n/a	n/a
• **Primary Balance**	-3.1	-2.2	-0.8	0.6	2.3	n/a	n/a
• *ppt change(- means downward revision)*	0.6	-0.2	-0.2	0.3	0.4	n/a	n/a
• **CAPB**	0.9	-1.0	-0.7	-0.6	-0.4	n/a	n/a
• *ppt change*	0	0	0	0	0	n/a	n/a

* Calendar years

** Excluding one-off measures

† Percentage points change since last submission

3. Economic Assumptions, and change since last submission:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2013*	2014	2015	2016	2017	2018	2019
Real GDP growth	-1.2	1.3	2.0	2.3	3.0	n/a	n/a
• *ppt change†*	+0.1	+0.1	+0.2	0	0	n/a	n/a
• **Nominal GDP growth**	-0.6	1.4	2.7	3.4	4.5	n/a	n/a
• *ppt change*	-0.8	-0.3	+0.1	0	0	n/a	n/a
• **ST interest rate****	0.2	0.2	0.2	0.8	0.9	n/a	n/a
• *ppt change*	0	-0.2	-0.4	0	0	n/a	n/a
• **LT interest rate*****	4.6	2.8	2.6	3.9	4.0	n/a	n/a
• *ppt change*	0	-0.9	-1.2	0	0	n/a	n/a

* Calendar years

** Three-month euribor

*** Spanish ten-year Government Bond

† Percentage points change since last submission

ANNEX 2: NEW POLICY COMMITMENTS[4]

1. Macroeconomic Policy Responses

The New policy action:	Fiscal Reform
Implementation path and expected date of implementation	**Objective:** to ensure sufficient tax income and to increase revenue collection by paying special attention to thin fiscal bases and to tax fraud, promoting job creation. **Implementation:** This reform has been approved in June 2014 and will be effective as from January 2015
What indicator(s) will be used to measure progress?	Tax collection, fraud reduction
Explanation of additionality (where relevant)	

The New policy action:	Enhancing the efficiency and quality of public expenditure
Implementation path and expected date of implementation	**Objective**: The Commission for the Reform of the Public Administration (Comisión para la Reforma de la Administración or CORA) was created in 2012 with the objective of building a transparent and dynamic public administration. **Implementation**: By 2014 an estimated 50% of all the measures will be completed. New measures for this year include the future Law on Public Administration and Common Administrative Procedure and the reform of the General Law of public grants.
What indicator(s) will be used to measure progress?	Expenditure adjustment
Explanation of additionality (where relevant)	New measures not included in the 2012 report, creation of OPERA office.

The New policy action:	Pension reform
Implementation path and expected date of implementation	Sustainability Factor and Pension System Revaluation Index **Objective**: ensuring sustainability of the consolidated public pension system, providing a response to the demographic challenges and guaranteeing pension's sufficiency and adequacy, for pensioners with comparable contributions, both now and in the future. **Implementation**: 2019 (sustainability factor) and 2014 (revaluation index) Active Ageing and social Security sustainability **Objective**: since 2013 Spain has reformed partial and early retirement, as well as started to increase the possibility to increase labour years. This is part of a strategy to increase labour

[4] The indicators used in this Annex 2 should not necessarily be understood in all cases as proxies for measuring progress with the implementation of reforms. In some cases, they are just some of the economic variables on which the reform can be expected to have an impact.

	participation of the elderly and will continue in future years. **Implementation**: from 2013 onwards.
What indicator(s) will be used to measure progress?	The minimum and maximum annual revaluation levels, which as of 2014 are, respectively at 0.25% and at CPI plus 0.5% (in a favourable economic environment).
Explanation of additionality (where relevant)	The reform of pension system is focused to reduce a long term gap, such as the problem of ageing population. Hence implementation of measures that reduce retirement age and aim to increase labour participation of elderly is a continuous effort.

2. Investment

The New policy action:	Investment climate
Implementation path and expected date of implementation	i. Plan on Market Unity **Objective:** to increase the competitiveness of national companies and markets. **Implementation**: a set of measures that fully implement the Law of Guarantee of Market Unity: as the creation of the Counsel of Market Unity Guarantee. . ii. Law on Entrepreneurship and Internationalization and new measures to support the Entrepreneurship Law. **Objective**: Increase the information about business climate .and new measures included to enforce and achieve the goal of increasing business friendliness. iii. Deleveraging measures. **Objective**: Deleverage and increase growth capacity for business specially SMEs. **Implementation**. The framework of out of court debt restructuring is being modified in order to help those companies going through temporary illiquidity via the new Royal Decree-Law on urgent measures on refinancing and restructuring of corporate debt. Further actions implementing a Code of good practices to SMEs and a further reform the Insolvency Code.
What indicator(s) will be used to measure progress?	Number of norms adjusted to facilitate the establishment and free circulation of economic operators (already 2.700 norms identified); Number of complains handled, number of reports about business climate in Spain; number of reports suggesting regulatory reforms; number of pre insolvency negotiations, number of companies that reschedule their debt and avoided liquidation. Amount of rescheduled debt .
Explanation of additionality (where relevant)	All these measures are part of a strategic objective to improve the investment climate. In this sense these measures are all additional and new to others as they tackle different gaps towards the same objective. (i)The Law of Guarantee of Market Unity requires a full regulatory adaptation process and creates specific resolution mechanisms that the economic operators can use as a new way to discipline public administration actions through the civil society participation, process, which is complementary to the protection of rights foreseen in the mentioned Law.(ii) Market Unity is more a programme than a single law; identification of barriers, remotion, analysis and evaluation will take place in a near future and form some time on. (iii) The reform of the insolvency regime in order to favour deleveraging implies a set of measures that will be promoted as part of a fully-fledged strategy. (iv) The implementation measures for the entrepreneurship Law add and imply new measures toward the objective of reducing barriers to business.

The New policy action:	Bank financing
Implementation path and expected date of implementation	**Objective:** to relaunch banks´ lending activity, especially to Small and Medium Enterprises, given their limited capacity to access alternative sources of financing. **Implementation:** The Law to promote corporate financing will possibly be passed at the end of 2014, whereas the new legislation on refinancing and debt restructuring is already on implementation. Increase the role of the Instituto de Crédito Oficial (ICO), increasing the budget of ICO by 2 billion euro, focusing on the creation of SMEs and companies with an internationalization strategy.
What indicator(s) will be used to measure progress?	New bank credit to SMEs (amount of the credits, and number of operations)
Explanation of additionality (where relevant)	The participation creation of law that aims to reduce informational asymmetries and improve functioning of Mutual Guarantee Funds goes further to the commitments in Saint Petersburg , that were of a different nature.

The New policy action:	Non-bank financing
Implementation path and expected date of implementation	**Objective:** to diversify the financing sources of Spanish firms, given their traditional excessive dependency on bank financing. **Implementation**: The new alternative fixed income securities market (MARF) is on implementation since the end of 2013. Whereas the new law on venture capital and other investment institutions is expected to be in place at the end of 2014.
What indicator(s) will be used to measure progress?	Number of emissions in the new fixed income securities market, number of venture capital SMEs created under the new Law and financing extended.
Explanation of additionality (where relevant)	

3. Employment

The New policy action:	National Youth Guarantee System
Implementation path and expected date of implementation	**Objective**: ensure that people aged between 16 and 25 neither employed nor in training receive an employment offer, education, apprenticeship or work placement. **Implementation:** approved in July 4th. The new Youth Guarantee Website, has been launched in July. The tax breaks for permanent hiring, hirings under the dual vocational training contract, for internships, part time jobs linked to training, for people benefiting from Youth guarantee, as well as the new tax breaks for paid internships and vocational training internships are being launched in July and from august 2014.
What indicator(s) will be used to measure progress?	Number of employments created among young people, youth unemployment rate. Number of permanent young employees.
Explanation of additionality (where relevant)	

The New policy action:	Reform of training for the employment and new vocational training strategy
Implementation path and expected date of implementation	**Objective**: provide a better match between firms´ needs and the current offer of training and formation. **Implementation:** before the end of 2014 the training for the employment will be reformed and the new vocational training strategy and regulatory framework will be launched.
What indicator(s) will be used to measure progress?	Number of people attending training under the new system.
Explanation of additionality (where relevant)	

The New policy action:	Flat Flat-rate National Insurance contribution of 100€ during 24 months
Implementation path and expected date of implementation	**Objective**: promoting net creation of stable employment companies, irrespective of their size, that maintain the net job creation for three years will be able to save up to 75% of the national insurance. **Implementation:** The measure, which came into force on February 25th, will remain in force for the next 24 months and will limit the employer common contingency contribution to 100 euros per month (1,200 euros per year).
What indicator(s) will be used to measure progress?	Number of stable employments created (over the trend).
Explanation of additionality (where relevant)	

4. Competition

The New policy action:	Reform of the Professional Services
Implementation path and expected date of implementation	**Objective**: new common, modern legal framework for professions **Implementation:** 2014
What indicator(s) will be used to measure progress?	The reform does not set specific performance indicators, not least because it has yet to be adopted. However, the final goal of this wide-scale reform is to enhance competition among professionals, which is expected to lead to a higher investment rate, job creation and economic growth. Likewise, the pro-competitive effects are expected to lower the profit margins in the professional service sector, thus increasing our economy competitiveness.
Explanation of additionality (where relevant)	

The New policy action:	Market Unity measures
Implementation path and expected date of implementation	**Objective**: addressing internal market fragmentation for product markets and reducing business licensing requirements and other administrative burdens **Implementation:** 2014
What indicator(s) will be used to measure progress?	Effectiveness indicators of the Counsel of Market Unity Guarantee and of e Implementation of information sharing systems among different administration layers and an integrated registration. Number of coordination mechanisms involved in the process and number of agreements adopted.
Explanation of additionality (where relevant)	Additional action in the Program on market unity. (i) Creation of the Counsel of Market Unity Guarantee (ii) .Implementation of information sharing systems. (iii). A Regulation streamlining plan.

The New policy action:	Disindexation Law
Implementation path and expected date of implementation	**Objective**: reduce inflation inertia by limiting indexation in the public sector. **Implementation:** 2014
What indicator(s) will be used to measure progress?	No specific indicators have been determined at this point to follow the effects of the reform, especially considering that it has not been approved yet. It ultimately intends to affect variables such as inflation inertia.
Explanation of additionality (where relevant)	The Law was approved by Council of Ministers on December 2013, and is currently being discussed in the Parliament. Once approved and in force, full implementation of dis-indexation policies will require further implementation legislation and the revision/adaptation of existing laws and rules, when needed.

5. Trade

The New policy action:	Strategic Plan for the Internationalization of the Spanish Economy 2014-2015.
Implementation path and expected date of implementation	Wide range of actions for the internationalization of the Spanish Economy, covering six axis 1.- Business climate 2.- Trade facilitation and market access 3.- Access to finance 4.- Trade promotion 5.- Human capital 6.- Innovation Content of measures within the 6 axis are mentioned beneath. **Implementation:** Approved by the Cabinet on February 28, 2014, it is being implemented over 2014 and 2015. Implementation path of the Plan: Entry into force: Second quarter 2014 First quarter 2015: Indicators assessment and reevaluation of the diagnosis. Intermediate results will be published. First quarter 2016: Updating of the diagnosis and indicators. Publication of the evaluation and concluding report.
What indicator(s) will be used to measure progress?	Degree of implementation and results are evaluated through a detailed set of indicators, (more than 30 different indicators) annexed to the Plan. (Relevant indicators are mentioned beneath). Set of indicators also subject to review in 2016.
Explanation of additionality (where relevant)	The additionally of the Plan derives from new actions, improvement of previous existing ones, its systematic approach and set of monitor indicators. It has been elaborated by the Ministry of Economy and Competitiveness with the involvement of other Ministries and the private sector.

The New policy action:	1.- Business climate
Implementation path and expected date of implementation	Overall improvement of business climate for boosting the internationalization of the Spanish economy. **Actions:** Diffusion of the International mobility programme (described beneath under Human Capital) Setting up a “Doing Business Subnational” ranking in Spain in cooperation with the World Bank and other stakeholders Create a new mechanism of consultation with international operators on specific proposals to improve business climate. **Implementation:** 2014-2015
What indicator(s) will be used to measure progress?	Business Climate Survey – National Statistics Office. International competitiveness indicators (World Bank, World Economic Forum, International Institute for Management Development) Development of regional business climate indicators (Doing Business Subnational).

The New policy action:	2.- Trade facilitation and market access
Implementation path and expected date of implementation	Objectives: to reduce costs for trade and investment and increase market access in third countries. Active national support for EU Trade Agenda: multilateral, plurilateral, bilateral negotiations. **Actions** include: National implementation of the WTO Trade Facilitation Agreement by Spanish Customs Authorities. It includes EU Customs Single Window project and signing of EU Mutual Recognition Agreements with third parties in the field of Authorised Economic Operators. Issue of periodical reports on trade and investment barriers affecting Spanish firms. International programs on patents: New platform with Latin-American countries for SMEs cooperation; Patent Prosecution Highway. Entry into force of already signed Bilateral Investment Agreements. Negotiation of new agreements for the elimination of Double Taxation. **Implementation:** 2014-2015
What indicator(s) will be used to measure progress?	Evolution of international trade, investment and international public procurement. Number of regular exporting companies Participation of SMEs in international trade and investment Technological content of exports
The New policy action:	**3.- Access to finance**
Implementation path and expected date of implementation	Spanish companies' internationalization process is fostered by a greater access to finance, in particular to SMEs. **Actions** include**:** Creation of new financial instruments: internationalization bonds, linked to internationalization credits**.** In place July 2014 New guarantee instrument provided by ICO for international institutions. It will facilitate Spanish companies´ access to finance, and opportunities in international institutions projects. Approved July 2014. Greater flexibility to the "Overseas Investment for Small and Medium Enterprises (FONPYME)", by COFIDES. Approved July 2014. Improving access to guarantees for internationalization CESCE- Ongoing 2014-2015 Creation of a new line (FIEM- Facilidades UE) to facilitate access to EU financing facilities by Spanish firms, with an initial endowment of 50 million Euro. Second semester 2014.
What indicator(s) will be used to measure progress?	Volume of public finance used by enterprises FIEM, COFIDES, ICO. Number of operations CESCE.

The New policy action:	4.- Trade promotion and business support
Implementation path and expected date of implementation	Better support for companies in their internationalization process. **Actions** include: Launch of a Global Information Window to support companies in its internationalization process. It already canalizes information on available instruments in the area of internationalization towards eight different institutions. **Start: April 2014.** Launch of new program in support of integration of SMEs for internationalization activities. **2014-2015** Launch of new programs to promote Health tourism: **2014-2015** **2014-2015**
What indicator(s) will be used to measure progress?	Most indicators are common to axis 3. Number of consultations to the new Global Information Window, including those that require tailor-made responses.
The New policy action:	**5.- Human capital**
Implementation path and expected date of implementation	Increase human capital and global awareness for internationalization issues. **Actions** include: Reform of Spanish legislation in order to retain and attract human capital internationally. Increased international mobility of professionals, post-graduates, highly qualified staff, executives and directors of companies and new business projects. Visa facilitation. **In force since early 2014.** Proposal for new academic programs on internationalization in cooperation with universities and private sector. **2014-2015** Development of a strategic plan for the internationalization of universities. **2014-2015** Increased cooperation with Business Schools and public administrations in the field of internationalization. **2014-2015**
What indicator(s) will be used to measure progress?	Number of students on internationalization programs. Number of nationals in international institutions.

The New policy action:	6.- Innovation
Implementation path and expected date of implementation	Increased cooperation between trade promotion offices abroad (OFECOMES) and the Centre for Development of Technology (CDTI) **In force, mid 2014** Specific promotion activities of foreign investment in ICT sector. **2014-2015**
What indicator(s) will be used to measure progress?	Volume of exports in medium-high technology sectors.

Australia 2014

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

The purpose of this section is to state your country's economic objective and to set out the five key policy commitments that will contribute meaningfully to that objective.

Economic Objective

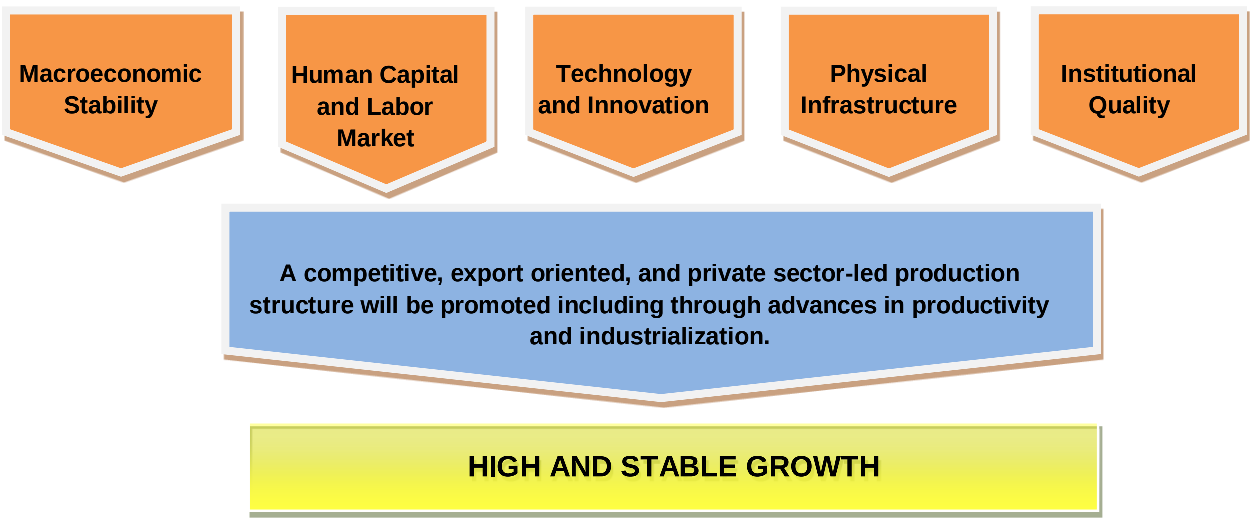
Describe your country's short- and medium-term economic objectives.

Discuss how your growth strategy will contribute to your country's economic objectives and the G-20's objectives of strong, sustainable, and balanced growth.

The elements of Turkey's medium term economic policies are set with *Development Plans* and *Medium Term Programs (MTPs)*. While development plans put a more holistic view of the social and economic priorities of the Republic, the MTPs –which are revised annually- set the specific actions and numerical targets/indicators leading to the overarching objectives of the development plans. The current Development Plan (i.e. the 10th Development Plan) covering the 2014-18 period was released in July 2013 and the MTP for the 2015-2017 period was published in October 2014.

Turkey's Growth Strategy set by the 10th Development Plan can be demonstrated as below:

Figure 1: Turkey's Growth Strategy



The overarching goal of Turkey's growth strategy is to achieve high, stable, sustainable and inclusive economic growth via ensuring a competitive and business friendly economic environment and improving international competitiveness. These will be achieved through various product and labor market reforms, and supporting technology and innovation oriented production structure.

Preserving and strengthening macroeconomic stability is a pre-condition in keeping these targets in scope. Within this context, price financial stability oriented monetary and macro prudential policies will be supported by prudent fiscal policies aiming to decline public debt to GDP ratio while improving the quality of public expenditures. In this vein, public physical infrastructure investments will be increased and conducted in an efficient manner and designed as to support private sector business and investment environment besides improving the well-being of the society.

Key Commitments

1. Enhancing productivity in manufacturing
2. Improving public infrastructure
3. Enhancing technology and innovation
4. Increasing labor participation of female and youth
5. Improving domestic competition

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The Tenth Development Plan projects a 5.5% annual average real growth rate for the planning period; leading to a GDP of USD 1.3 trillion and a per capita GDP of USD 16,000 by 2018. The projections also envisage USD 277 billion of exports and the unemployment rate declining to 7.2% levels by 2018.

The baseline average growth rate per annum for the 2014-18 period is projected as 4.4%. The envisaged policy and reform framework will increase this annual growth rate by 1.1 percentage points to 5.5% in the plan period.

Key Indicators	2013**	2014-18 average (3)
Real GDP (% yoy)	4.1	5.5
Nominal GDP (% yoy)	10.5	10.2
Output Gap (% of GDP)*	-0.1 (1)	0.8 (2)
Inflation (%, yoy)	7.40	4.5 (2)
Fiscal Balance (% of GDP)	-0,7	-0.7
Unemployment (%)	9.0	8.2
Savings (% of GDP)	13,4 (1)	19.0 (2)
Investment (% of GDP)	20.3	24.4 (2)
Current Account Balance (% of GDP)	-7.9	-5.8

* A positive (negative) gap indicates an economy above (below) its potential

** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.

(1) MTP 2015-2017, (2) End 2018, (3) Tenth Development Plan

Key Drivers

Our main macroeconomic strategy towards achieving high and stable growth is developing a private sector-led, open, and competitive production structure. The milestones of this strategy are increasing productivity and accelerating industrialization. To this end, the industrial policy will be geared towards generating higher domestic value-added and transitioning to hi-tech production schemes that will move Turkey up in the global value chain.

The pillars of this transformation will be (i) innovation and enhanced firm capabilities, (ii) a more comprehensive network of related industries to capitalize on synergies, (iii) green technology and sustainable production, and (iv) export market diversification.

The growth will lean more towards investments, whereas the share of domestic consumption is expected to decline. In that regard, Tenth Development Plan envisages a rise in the ratio of investment to GDP from 20.9% to 24.4% and a decline in the ratio of consumption from 84.9% to 80.6%. The Plan also aims to increase national saving rate from 14.4% in 2013 to 19% in 2018. Concurrently, through relatively higher increases in exports, contribution of the net external demand is projected to be positive in the 2014-18 period, helping the re-balancing efforts of the Turkish economy. Furthermore, the share of medium-to-high and high-tech manufacturing industry products within exports is expected to increase, supported by concurrent increases in services exports and market diversification.

Assessment of Obstacles and Challenges to Growth

Low Domestic Savings and High Current Account Deficit:

Low savings rates mostly due to the rapid decline in private savings make the economy prone to risks posed by the global economic environment. Hence, increasing the domestic savings is of utmost importance. To serve this objective, structural policies have been formulated to improve the competitiveness and household savings. In the medium term, policies to overcome these challenges would ease the trade-off between the economic growth and current account deficit.

Investment:

In order to maintain a strong GDP and employment growth, Turkey needs further improvement in investment both in terms of quality and quantity. In that regard, we are planning to increase the investment to GDP ratio to 24.4% in 2018. Towards this end, Turkey embraces an ambitious agenda of large scale infrastructure projects in the fields of *inter alia* energy, transportation, health and education. Turkey will also extensively utilize the PPP model to for mobilizing private sector resources into the infrastructure field.

One major setback the Turkish economy faces is the predominance of bank-based investment financing. Funds channelled through banks are generally of short-term nature, whereas the securities market lies with a huge untapped potential. Furthermore even the funds that are channelled through the capital markets are often short term, which significantly hinders the liquidity of long-term instruments. Therefore several policy measures have been taken to encourage long term investments, including through the introduction of new financial instruments that are mainly tailored for institutional investors.

Finally, promoting the development of SMEs is crucial in fostering entrepreneurship, competition, innovation and growth in Turkey, as they represent the backbone of the Turkish economy. Turkey has made substantial progress in promoting the access of SMEs to financing and plans to take further strides in this field.

Employment:

a) Supporting Labour Force Participation of Disadvantaged Groups, Particularly Women:

While men's labour force participation rates are close to the average of peer economies (i.e. with a rate of 71.5%), female labour force participation rate (i.e. 30.8%) significantly lags behind that of advanced countries. Low participation of women to labor force is a factor that besets the full utilization of economy's potential. This is a particular challenge for the regions of Turkey, where the relative weight of agriculture is rather low. The reasons that feeds into this challenge include the broad-based perception of gender roles within the society, the relatively low educational attainment of girls, and the deficiency of relevant work place facilities (e.g. for childcare).

On the other hand, participation of youth (age group 15-24) into the labor market and their employment rate are low. The youth have had difficulties in finding a job for the reasons that the internship opportunities are limited and they cannot acquire the skills that the employers require, during their education. For this reason, unemployment among the youth is significantly higher than the headline.

The situation of long-term unemployed, which can be described as "people with no job for a year or more", shows a lot about the structure of unemployment as their share in total unemployment is rising. As the unemployment duration increases, people's hope for finding a job decreases, as they lose necessary skills to meet the demands of the labor market and also due to the employers' lower tendency to employ long-term unemployed. For these reasons, unemployment becomes chronic.

b) Supporting Job Creation in the Formal Sector:

Informal employment is one of the long-standing structural problems of Turkey. Informality is more intensive in agriculture and construction sectors, in small-sized enterprises, and in temporary and seasonal work areas. The main reason leading to informality is the low value-added production schemes of certain sectors substantially hindering the businesses' ability to conform to the financial and non-financial burdens of formal employment.

The rate of unregistered employment has decreased from its level of 50% in 2004 to 36% as of end-2013. Yet, this rate is still high. Informality is also more common in female workforce (i.e. 52%), relative to male workforce (i.e. 30%). High rates of informality significantly hamper the actuarial balances of the pension system and limit the policy space on social protection nets.

c) Promoting Social Inclusion – Strengthening the Connection between Social Benefits and Employment:

Social benefit frameworks that disincentive people from participating in the labor force become a major hindrance that also lead to a vicious cycle of poverty and social exclusion. Very often, this is due to the lack of effective cooperation among relevant institutions and inadequate control systems. Therefore, there is an apparent need for strengthening the link between social benefits and employment.

d) Supporting the Feedback Loop between Education and Employment

While 60% of the labor force in Turkey has an educational attainment below high school level, approximately 21% has a high school degree and 19% has higher education. As gloomy as this profile initially looks, it also demonstrates a significant window of opportunity for economic growth through skill development. Besides, higher education yields other substantial benefits such as an increase in female labor force participation.

Vocational training is an area where significant improvement is needed. Measures to that end, need to start from the orientation of students to vocational training on a timely, accurate and effective manner. The curriculum needs to be updated to better reflect the qualifications demanded by the businesses. Finally, the theoretical underpinnings need to be buttressed by practical work experience. A coordinated strategy will facilitate a smooth transition from school to work place.

Competition:

In order to achieve its medium and long term targets, Turkey needs to transform the economy within a competitive market structure. This necessitates effective micro reform policies, which are already on the policy agenda. In that regard, it is of critical importance to make the competition regulations compatible with international best practices to strengthen business environment and to enhance legal certainty, transparency, objectivity and consistency in competition issues.

Trade:

Despite the significant strides taken towards market diversification including through an active agenda of Free Trade Agreement (FTA) negotiations, there is certainly room for improvement.

For Turkey, FTA policy is a continuous and dynamic one. With her unique position as a Customs Union Partner, Turkey has to follow the common commercial policy of the EU, including its FTA policy in general. Although, Turkey's FTA policy is broadly following that of the EU, this is not a process that kickstarts automatically. This often puts Turkey under strain because of the fact that any country that signs an FTA with the EU, automatically gets the same access to Turkey's internal market while Turkey does not gain equal/reciprocal market access to the counterpart. As a country, that considers FTA's as a policy tool to foster growth and employment, Turkey, no doubt will be addressing this issue with due attention in the coming period. A very similar case exists for Mutual Recognition Agreements (MRAs) and thus, Turkey will be following a similar policy response towards MRAs, as well. To supplement these efforts, in order to avoid different quality infrastructure and technical regulations to act as de facto trade barriers, Turkey also considers signing Technical Cooperation Agreements as an effective mechanism.

Domestic value content of Turkey's exports was 78% in 2009, above the OECD average but 11 percentage points lower than its share in 1995, illustrating Turkey's increasing integration into global value chains[1]. Although, Turkey's presence in Global Value Chains (GVCs) is strong, there still exists a need of upgrading as it seems that Turkey mainly specializes in

[1] OECD/WTO Trade in Value Added (TIVA) Indicators, May, 2013.

assembly and low value-added segments of production chains.[2] Definitely, services sector has a key role to play in enabling GVCs. In recent years, services sector has gained an increased role in GVCs and made significant contribution to the growth of Turkish economy. In Turkey's gross exports, services accounts for 22%, but as the OECD TIVA indicators show, in value added terms, the contribution of services is over 40%. In other words, Turkey's exports of goods rely intensively on services input and Turkey intends to reach out to more open, diversified and competitive services markets, as a means to improving productivity in the entire economy.

Taking into account the SMEs' contribution to value-added and exports, increasing productivity and competitiveness of them is one of the main policy targets embodied in Turkey's priorities. Adoption of more efficient policies for SMEs would also help overcoming challenges that limit their participation into GVCs. Both MRAs and Technical Cooperation Agreements are believed to be instrumental for SMEs' participation into GVCs, as most of these businesses typically find it difficult to comply with international standards.

Energy:

Turkey, with a rapidly growing economy, was one of the fastest growing energy markets in the world in the last decade. However, because of the limited availability of domestic primary energy sources, Turkey's growing energy demand increased its dependency on imports, primarily on oil and gas. As of 2013, only 26% of the total primary energy demand is met by domestic resources, while the rest is satiated by imports and Turkey pays about USD 60 billion for fossil fuels each year.

Besides, as documented by the IEA, Turkey has a significant room for progress in improving energy efficiency in a number of sectors.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Discuss policy actions that will be taken in this area.

The fiscal policy stance has been broadly in line with the macroeconomic needs of Turkey. Having positive primary balances and declining the debt-to-GDP ratios are preserved as the key principles of the fiscal policy. In addition, public sector significantly contributed to the momentum of national investments –mainly through infrastructure projects– as allowed by the fiscal space.

After the global crisis, domestic demand rebounded rapidly despite the sluggish external demand. After two consecutive years of fast growth fuelled by domestic demand, pressures on current account and inflation have mounted. To address this challenge, macro-prudential measures were taken. The economy moved gradually towards the desired demand structure in 2012 with the increased contribution of foreign demand to growth and a moderation in domestic demand. Nevertheless, this re-balancing trend has somewhat paused in 2013 where the domestic demand rebounded.

[2] In 2013 total exports of Turkey were recorded as 151.8 Billion Dollars, 141.3 Billion Dollars of which come from Assembly (Manufacturing Sector)

Yet given the tighter global liquidity conditions essentially due to the tapering of monetary policies by the US Federal Reserve, the need for macroeconomic rebalancing has gained imminence. In addition to fiscal discipline, macro prudential policies such as confinement of limit increase and cash advances for credit cards, increasing the minimum monthly payment of credit cards, capping at the maximum instalment period in credit cards, capping at maximum maturity of passenger car loans, implementing minimum down payment ratio for auto loans and increasing risk weights on loans granted for goods and service purchases, loans provided in cash via credit cards and on vehicle loans are used to curb domestic demand.

Fiscal Policy:

General government primary surplus is targeted to be kept above 2 percent of GDP till 2016 as projected in Medium Term Program (MTP) 2015-2017. A stable public savings rate will both create room for further spending on the areas which will further foster economic growth and *crowd in* private sector resources to investment.

The Tenth Development Plan also includes a “Rationalization of Public Expenditure Program”. Among the components of this Program, The Ministry of Finance is responsible for “Keeping the Current Expenditures under Control” and “Strengthening Program-based Budget Link”.

The actions contributing to “Keeping the Current Expenditures under Control” will cover:

- Increasing savings awareness in the public sector,
- Meeting the personnel requirement primarily by re-shuffling the existing personnel in favor of units with the highest need,
- Basing the service procurement on cost-benefit analysis,
- Reducing the cost of service by speeding up e-transformation in the public sector,
- Rationalizing the public sector real estate management,
- Containing the current expenditures (excluding those for personnel) with a “zero-based budget”* approach.
- Directing public R&D spending to the industries especially where import intensity is high.

As per “Strengthening Program-based Budget Link” Turkey will take the following actions:

- Integrating the management information systems in the public financial management area,
- Strengthening the link between the fund allocation process and the strategic plans and performance-based budgeting system.

* If an additional expenditure program is introduced, another current expenditure program will be cancelled.

On the revenue side, ensuring that public revenues are collected from buoyant and permanent sources is the main objective. By means of broadening the tax base and addressing distortionary taxes, the barriers over potential growth will be mitigated. Additionally, the MTP 2015-2017 introduces a new taxation system, which enables public to levy on the value increases of real estate due to public investments or amendments on metropolitan zoning plans, will not only increase the tax revenues but also incentivize channeling of limited resources to more productive areas.

Monetary and Exchange Rate Policy:

Main objective of monetary policy is to achieve price stability. While aiming at keeping inflation close to target, the Central Bank of Turkey (CBRT) also aims to safeguard financial stability and to contain the volatility led by capital flows on domestic economy. In this context CBRT closely monitors the growth rate and the composition of loans. Monetary policy framework involves the use of a set of new instruments alongside the traditional instruments to achieve price stability and financial stability. Moreover, communication of these new policy frameworks is also central to the success of the monetary policies. In addition to price stability CBRT provides support to balanced growth – in line with its mandate - through funding exports, lender of last resort facilities, supporting for core liabilities and contributing to sustainable credit growth.

Uncertainties regarding global monetary policies have grown since May 2013, which caused portfolio flows towards emerging economies to remain weak and financial assets to be re-priced in the second half of the year. Re-pricing of financial assets led the Turkish lira to depreciate significantly. As a reaction, CBRT delivered a strong and front-loaded monetary tightening in January 2014 to prevent deterioration in the inflation expectations and the overall pricing behavior.

In the second quarter, the risk sentiment improved across global financial markets owing to the significant decline in uncertainties about the Fed's asset purchases and the recovery in global growth. In this regard, market interest rates in Turkey declined across all maturities. These developments allowed the CBRT to start a measured decrease in the one-week funding rate in May-July period and this rate was cut by 175 basis points in total. However even after these cuts, the monetary policy stance continued to be tight with a flat yield curve.

The tight monetary policy stance has contained the potential adverse impact of the upside risks on the medium term inflation expectations and Turkish lira performed relatively well. The growth rate and the composition of loans evolved in the desired direction, which helped to contain medium-term inflation pressures and to support the improvement in the current account balance. In line with these assessments, in the third quarter the CBRT maintained the current monetary stance regarding short-term interest rates.

Growth in Turkey weakened in the second quarter, but exports made positive contribution. The private sector demand is expected to follow a mild and gradual growth path and exports are expected to support balanced growth. CBRT will continue to support exports through export rediscount credits and the contribution from the funding for exports program to official reserves is expected to reach 13 billion USD in 2014. It is believed that in the coming period demand developments will not pose an upward pressure on inflation, while supply-side factors will affect the course of inflation.

New Structural Policy Responses

Investment and Infrastructure

Discuss policy actions that will be taken in this area.

Increasing savings and investments in the Turkish economy to strengthen the productive capacity and establish a sustainable growth performance is the main target of medium and long-term macroeconomic policy and the Tenth Development Plan. In the Plan period and afterwards, domestic resources will be directed to investment expenditures, the investment environment will be improved by enhancing the administrative and legislative structure, and the public infrastructure will be strengthened.

Public investments will be concentrated on core infrastructure that will promote private investment:

One of the main objectives of the Tenth Development Plan is directing resources to productive areas in the economy. In this regard, public policy, especially public investment policies, are of utmost importance. High quality public sector infrastructure investments will increase production capacity by stimulating private sector investments and will also contribute to productivity based growth dynamic. To this end, in the Tenth Development Plan following policies have been designed:

- Infrastructure investments will be given priority within the public spending envelope,
- Public investments will be focused on infrastructure issues that cannot be fulfilled by private sector,
- For promotion of strategic investments that include critical technologies for Turkey, utilization of public infrastructure investments as a supporting factor will be given priority,
- A logistics infrastructure and freight transportation that will optimize the costs, shorten the production cycle and integrate transportation, storage, packaging and stock management are critical. Therefore, port-railroad infrastructures that will facilitate Anatolian “north-south trade corridors” and with due access to Central and Southeastern Anatolian regions will be strengthened.
- One of the priority transformation programs in the Tenth Development Plan is Transformation Program from Transportation to Logistics aiming to increase contribution of logistics to growth potential in order to achieve export, growth and sustainable development objectives of Turkey. The Action Plan (2014-2018) regarding aforementioned program has been prepared and will be finalized soon.

Turkey has successfully implemented Public Private Partnership (PPP) models as a means to attract private sector resources to infrastructure investments. PPPs have hitherto been utilized on the energy, airport, port and customs facilities projects. Recently, PPPs are used actively for transportation projects such as *Istanbul Strait Road Tube Crossing Project (Eurasia Tunnel Project)*, *Gebze-İzmir Highway Project*, *Northern Marmara Highway (including third Bosphorus Bridge)* and the *Third Airport in Istanbul*.

In order to promote long term investment by institutional investors, Regulations on Private Pension Funds, Venture Capital/Private Equity Investment Funds, Venture Capital/Private Equity Investment Companies, Real Estate Investment Companies and Real Estate

Investment Funds are introduced with a view to finance long term projects. The number of pension funds increased substantially since the adoption of the relevant regulation. Thanks to the newly introduced incentives (i.e. direct state contribution to individual portfolios) to the pension fund system, the number of subscribers in the system and the portfolio volume under management has substantially increased. Furthermore, investment companies with variable capital, which will be introduced into the legal system in 2015, will support the development of institutional investors within a system that allows for adequate flexibility.

In addition to this, with the amendments in new communiqué on portfolio management companies which became effective in July 2014, the functioning of the portfolio management companies have been changed. By this renewed legislation the major types of collective investment schemes- investment funds- shall only be founded by the portfolio management companies in which their functions are unbounded from their bank conglomerates. This regulation leads to important risk mitigation in the capital markets.

In order to increase the efficiency and attractiveness of products for financing infrastructure investments, the Capital Markets Board (CMB) has revised the previously existing model which is designed primarily for investments in infrastructure. With the revision of the Communiqué on real estate investment companies (published in January 2014) which is a well-functioning regulation, real estate investment companies with higher paid-in capital and sole purpose to invest in infrastructure can also be launched. In addition to enable the initial public offering, this model has also streamlined the concept of sale to “qualified investors” so as to facilitate access to foreign investors. Additionally this financing model is incentivized by tax regulations.

On the SMEs side, Turkey enacted a new legislation regarding the promotion of angel investments. In that regard; a licensing process for angel investors and an accreditation process for the networks of angel investors were introduced. Under the new legislation, licensed angel investors can deduct 75% of the capital that they invest in certain SMEs from their annual tax base. In case of business angels’ investments for R&D and innovation, this ratio goes up to 100%. This licensing mechanism will increase professionalism, make angel investments an institutionalized and trustworthy source of financing and also improve the business culture and ethics in this new market. Turkish Treasury has so far issued 254 licenses for angel investors. 10 investment applications were also successfully completed and 3 applications are being processed. There are also 4 business angel networks which have been accredited by Turkish Treasury.

In addition to this newly introduced business angles program, in order to further strengthen the financial ecosystem, another law regarding the capital contribution of Turkish Treasury to the fund of funds was enacted. With the facilitating role of the government, the volume of venture capital is expected to increase considerably. This will, in turn, greatly support early stage companies in terms of institutionalization, guidance and financing. This mechanism will encourage the establishment of innovative start-ups, increase the dynamism of the economy and contribute to stronger and more sustainable economic growth.

After the global financial crisis in 2008, crowd-funding is emerging as an alternative solution for start-ups and growth stage companies having difficulty in finding financing. By leveraging technology, crowd-funding can serve as an enabling mechanism for new venture formation, job creation and inclusive economic growth. We are planning to create an online platform which will instill confidence to entrepreneurs and start-up companies.

Employment

Discuss policy actions that will be taken in this area.

Increasing the labor participation rate of disadvantaged groups

Disadvantaged groups such as women, youth, people with disabilities, and the long-term unemployed, face distinctive problems in entering the labor market and also inside the labor market, thus they need specific policies. The main problems for them are: low education levels, low skill levels, lack of flexible working patterns, inadequacy of the mechanisms for harmonizing business and family life for women, difficulties faced in first time employment for youth and inadequate social living environment for disabled persons.

As a result, removing the obstacles for the participation of the disadvantaged groups in the labor market and for their employment has been one of the most important objectives in the National Employment Strategy of Turkey (October 2013).

The National Employment Plan envisages that:

i. Female participation rate will be increased to 41% by 2023. The following measures are foreseen in the National Employment Strategy;

- In order to reduce caring responsibilities of women, works for increasing the number of services for children and day care centres will be done. Moreover, in order to prevent women from disengaging from labour market, flexible working implementations will be arranged.
- Sectors providing opportunities for women employment will be prioritised as regards the training activities. Moreover, in order to increase women entrepreneurship, microcredit system will be carried out.

ii. Youth unemployment rate will be decreased to an approximate figure in relation to overall unemployment rate.

iii. The open vacancies for disabled person, which is 22,302 public sector officials and 28,864 for workers in public and private sector, will be filled until the year 2015.

iv. Long-term unemployment rate will be 15% from 24.9% in 2012 until 2023.

Enhancing the basic and occupational skills:

In Turkey, education system has been insufficient in fully satisfying the needs of the labor market. Matching of unemployed and vacancies has been ineffective and decrease in unemployment rate of educated young individuals has been limited in the last decade. Ongoing rapid change in the business world requires individuals to attain both vocational qualifications and basic skills. These skills allow individuals to remain longer at work, to increase their productivity in work-life and adapt to changing business and living conditions more quickly. In this framework, with a perspective of developing human resources in Turkey, it is of utmost importance to ensure that individuals acquire basic skills required by work-life in addition to occupational skills, and strengthen the link between educational system and the labor market. Moreover, improving human capital and increasing the effectiveness of labor market will be important policy areas in the implementation of growth strategy in the forthcoming period.

Within this framework, in the Tenth Development Plan “Basic and Occupational Skills Development Program” is designed. This program aims to ensure that individuals have the basic skills required by the labor market such as ICT, foreign language, financial literacy, problem-solving, critical thinking, communication, leadership, career planning, job searching, in addition to artistic and athletic skills.

Along with the occupational skills, building the basic skills required by working life for individuals is of vital importance for the strengthening the link between education and employment. These skills enable individuals to stay longer in the working life, to increase their productivity and to support their adaptability to the changing conditions of work and life. The main purposes here are to improve the adequacy of the education system to match the needs of the labour market and to make education accessible for all in order to increase the employability of the labour force by lifelong learning. Within this context;

- Curricula of the vocational schools will be updated
- The effectiveness of the Active Labor Market Programs will be increased.

Supporting Job Creation in the Formal Sector

High unregistered employment, which is one of the main issues with regards to labour force market in Turkey, is targeted to decrease. With the approach of implementing disincentive and incentive measures together in combating unregistered employment, reaching an acceptable level is targeted. Within this context;

- A communication centre is established for conveying denunciations and complaints related to unregistered employment. Moreover, at the transactions done with public institutions and banks, registered working status is queried. It is aimed to ease the proceedings of the insured by making the information exchange between institutions compulsory.
- The number of inspection staff of Social Security Institution (SSI) is increased and by restructuring inspection system, guidance approach at inspections is developed.
- In order to encourage registered employment, projects within the scope of European Union Instrument for Pre-Accession Assistance (IPA) are being carried out.

Promoting Social Inclusion – Strengthening the Connection between Social Benefits and Employment

In accordance with economic, social and financial policies, it is targeted to develop an effective and integrated social protection system which prevents individuals from becoming social benefit dependent and promotes working. Within this context;

- Among the social support beneficiaries, those who are able to work, will be directed to active labor force programs.
- Social benefits are redesigned by Ministry of Family and Social Policies in order to encourage receivers to participate in the labor market.

Competition

Discuss policy actions that will be taken in this area that boost competition and reduce red-tape and unnecessary regulation. Both product market and service industry reforms should be considered.

Considering the significance of effective competition policy for a sustainable economic growth, Turkish Competition Authority (TCA) has been put forward significant efforts in order to create a more competitive environment for undertakings. Within this framework, TCA put into effect several regulations in 2013[3]. With these new regulations, TCA aims to enhance legal certainty, transparency, objectivity and consistency for undertakings in their comprehension of competition issues and also carries a step forward its alignment with EU competition legislation.

The Strategic Plan of TCA, covering the 2014-2018 period, aims to identify the markets or industries that have more propensity to infringe competition and establish a prioritization mechanism. In this context, TCA will give priority to these industries and allocate its resources to eliminate the anti-competitive and inefficient structure in these markets. In addition, with the increasing importance of effect-based approach in recent years instead of per se approach, TCA gives weight to the economic impact of conduct or enhancement and development of the effectiveness of the authority's interventions. By this way, it is planned to sustain a more competitive production structure and hence to increase productivity in these markets, that will all contribute to the growth of Turkey.

Scanning the legislation that is not compatible with the competition rules and ensuring a competitive point of view in the acts of government bodies that affects the markets, thus to minimize the restriction of competition are the two other objectives of the Strategic Plan. In accordance with these two objectives, the part of regulatory impact assessment process, "Work on the Guideline on Competitiveness Impact Assessment" is completed and the draft Guideline is prepared. Moreover, with the sector inquiries carried so far by, TCA informed different ministries, state institutions and organization about the elimination of regulations, procedures, legislations and implementations that were not compatible with competition legislation. The achievement of these goals and hence having a more appropriate regulations and policy would create better conditions for investment and increase productivity.

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[3] These regulations include the Guidelines on the General Principles of Exemption, Guidelines on Cases Considered as a Merger or an Acquisition and the Concept of Control, Guidelines on the Assessment of Non-horizontal Mergers and Acquisitions, Guidelines on the Assessment of Horizontal Mergers and Acquisitions, Guidelines on Horizontal Cooperation Agreements, Regulation on Active Cooperation for Detecting Cartels (Active Cooperation/Leniency Regulation) and Guidelines on the Assessment of Abusive Conduct by Undertakings with Dominant Position (2014). Furthermore, there is an ongoing process for the revision of the effects of "Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position" and "Communique On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles". Also, efforts to amend The Act on the Protection of Competition are completed and the draft is currently on the agenda of the Parliament, which comprises significant reforms about De Minimis, settlement and SIEC Test.

Both product market regulations and regulations for professional services have been examined elaborately in the 2nd Competition Report, which was released in 2013. In the Report, it is proposed to design a framework for regulations which should encourage a more viable and efficient competitive environment instead of inhibiting competition. Reduction in the level product market regulations and indirect effects of betterment in the service sector would contribute to the realization of competitive and productivity gains. Furthermore, improvements in bureaucratic and legal processes will decrease direct and indirect costs faced by investors, and hence would enrich the investment climate.

Trade

Discuss policy actions that will be taken to increase trade flows by reducing impediments to trade at or behind borders (e.g. reduce the cost of doing business and help business participate in the global economy).

i) Specific actions that would promote Turkey's participation into global value chains (GVCs) and facilitating trade for business:

With their number and large share of the workforce involved, SME's play a particularly important role in the Turkish economy. As of 2013, SME's constituted 99.9%of total number of enterprises and %76 of employment. Thus, designing and implementing various programs to support SME's has been a priority for the Government, as embodied in main economic policy and strategy documents, including 10th Development Plan covering the 2014-2018 period and the Medium Term Program for 2014-2016.

Indeed, promotion of a competitive, export oriented, and private sector led production structure is key to achieve high and stable growth in the Turkish economy and SME's with their indispensable weight in economic activities have a major role to this end.

Turkey's presence in GVCs is rather robust, yet this presence so far is essentially concentrated in the lower segments of production chain. One of the main reasons lying behind this problem is that SMEs in Turkey could not effectively participate and upgrade in the production chains due to their structural constraints. Therefore, we aim at implementing concrete actions in terms of improving SMEs' R&D capacity and human capital structure while focusing on capital and technology intensive sectors and supporting clustering activities for them. These policy actions would help SMEs to transform their production schemes and take part in the higher value added segments of the production chain by improving quality and technological sophistication of products. Increasing productivity and technological upgrading in its export performance would allow Turkey to become more competitive in its exports markets.

Improving trade facilitation for business, including SMEs by reducing the impediments and transaction costs associated with trade is also considered to have a positive effect in enhancing participation to GVCs. In this regard, Turkey will be implementing a set of measures aiming to ease the customs procedures. Putting into force, in a timely manner, and effective implementation of WTO Trade Facilitation Agreement will serve to that purpose. Reducing cost of trading and unnecessary delays at customs, WTO Facilitation Agreement would help Turkish SME's in enhancing their abilities to participate in GVC's, thus seize the benefits international markets offer.

Without any doubt, for firms to upgrade in the Global Value Chains, technology dissemination and skills upgrading is important. In order to improve R&D capacity and human capital structure of the SME's supporting their clustering activities, certain actions are worked out as well. Among others, 10th Development Plan foresees to increase the share of SME's in the overall R&D expenditures from %17 in 2013 to %20 by 2018.

ii) Specific actions to liberalize trade in services sector:

Taking into consideration the central role of the services sector in global value chains and global growth, Turkey has been in favor of services trade liberalization in a way that would enhance the export opportunities of all countries. Accordingly, Turkey will continue to actively and constructively engage in trade in services negotiations (TiSA) as well as including services trade in its FTAs.

Service sector has a prominent role in terms of economic activity, employment generation and trade at both domestic and international levels. By now, service sectors account for the largest portion of GDP for all country groups, either developed or developing. Services, covering a wide range of activities from health and education to transportation, distribution, financial services and telecommunications, constitute the backbone of Turkish economy. In 2013, services sector constituted 60.5% of the GDP whereas its contribution to employment was %52.2, as of April 2014. Turkey would like further improve and liberalize its services sector which would contribute to global growth by further increasing trade.

Having the advantage of a young and dynamic population, Turkey is increasingly channeling its resources at creating a highly efficient services economy, in order to reach its medium to long term growth objectives. Among others, further liberalization of services sector through number of initiatives, including Free Trade Agreements with enhanced market access opportunities for service suppliers and investors would enable functioning of the global supply chains in a more effective way by reducing barriers inhibiting trade in services.

The fact that the global production networks rely on logistics chains necessitates an efficient network infrastructure and complementary services. Without any doubt, malfunctioning transport, logistics, finance, communication and other business and professional services would damage moving goods and coordinating production along the value chain. Investment in physical infrastructure can facilitate the integration of new players into international supply chains.

With these in mind, Turkey plans to conclude an Intermodal and Logistics Master Plan by 2018 which aims to transform Turkey into a regional logistics hub. Once concluded, it is believed that it would decrease costs of companies in logistics. As infrastructural problems may hamper the physical connection trade routes, Turkey plans to build the hinterlands of its ports with railroad and container transport terminals as well.

Medium Term Program for the 2014-2016 period targets establishment of logistical centers abroad so as to diminish time and storage capacity scarcities. This, definitely, will contribute to improve trade through increased competitiveness. Re-construction of Turkish railway and port management system and elimination of logistic barriers would also help to improve and liberalize Turkish services sector in a way contributing to global growth by further increasing trade.

iii) Specific actions to reduce trade restrictive measures and traditional barriers to trade:

Turkey's Customs Union with the EU necessitates her to follow the common commercial policy of the Union. This includes concluding FTAs with EU's FTA partners as well as aligning its technical legislation and quality infrastructure with the EU.

Further liberalization of trade through FTAs is one of the main policy goals of Turkish foreign trade. Taking into account the positive rates of change in Turkey's exports towards its FTA partners Turkey will do its part to conclude its existing FTA negotiations by 2018 as well as to launch negotiations with at least 10 countries/groups during this time frame. FTAs are proven to have direct and positive impact on trade. For example, throughout the 2000-2012 period, Turkey's total exports increased by 449%, while exports to the FTA partners increased by a remarkable 551%. Based on the objective of elimination of tariffs and non-tariff barriers as well as ensuring transparency and harmonization of trade-related rules, FTA's create a convenient and liberal environment that would support increased trade volume. Turkey has so far benefitted from FTAs in terms of trade generation and would like to continue on the same path, without leading to any controversy in terms of multilateral trade liberalization.

As a country that has aligned its technical legislation and quality infrastructure with that of the EU; Turkey would like to obtain equal market access facility with the signatories of Mutual Recognition Agreements (MRAs). In other words, Turkey believes that proper instruments related to the removal of technical barriers to trade ought to be utilized for the proper functioning of the Customs Union. In this context, Turkey intends to initiate the negotiations for MRAs once the necessary analyses are finalized. Turkey believes these agreements will facilitate trade with partner countries in the relevant sectors and the playing field will be levelled for Turkish exporters.

Through the signing of Technical Cooperation Agreements, Turkey intends to find swift and effective solutions to the technical barriers to trade-related problems that Turkish products face entering the partner countries' markets. This will be ensured through the "Consultation and Cooperation Mechanisms" established through the Technical Cooperation Agreements. In scope of these mechanisms, contact persons, who will be responsible for quick resolution of problems, will be identified and the removal of technical barriers to trade will be based on a bilateral legal footing. Technical Cooperation Agreements also foresee enhanced cooperation among the quality infrastructure bodies of the parties to the Agreement, which, in the end, will help to facilitate trade between two trade partners that are familiar with each other's system of technical regulations and quality infrastructure.

Other measures

Discuss policy actions that fall outside of the areas of investment and infrastructure, employment, competition, and trade but will facilitate transition and contribute to the G-20's ambition.

Energy:

In order to reduce the cost to the economy and to ensure the supply security, our primary objectives are;

- to increase the ratio of domestic resources in energy production
- to diversify the origins of energy supply in terms of countries,regions and sources
- to increase the share of renewables, lignite fired power plants and include the nuclear in energy mix,
- to take significant steps to increase energy efficiency.

The plan to increase the ratio of domestic resources in energy production aims to increase the ratio of domestic resources in primary energy production from 27% in 2012 to 35% in 2018. The components of the plan are: (i) using domestic coal resources for electricity generation, (ii) enhancing domestic and international oil and gas exploration efforts, (iii) using all potential water resources for electricity production and (iv) evaluating renewable potential other than water.

In this context, with the new feed-in tariffs, the renewable energy installed capacity in electricity generation has increased from 17.3 thousand MW to 27.2 thousand MW between 2011 and 2014. Most of this capacity comes from hydro and wind power plants.

Incentives for the domestic lignite-fired power plant investments were promoted (Coal fired power plant investments were supported by significant financial incentives). Increasing the share of the lignite fired power plants in our energy mix will contribute to the reduction of the current account deficit as well as to the energy supply security.

Inactive lignite fields belonging to the *Turkish Coal Enterprises* are leased to the private sector companies for electricity generation. By this method, construction of 10 power plants with approximately 3,000 MW installed capacity was started as of today.

A new power plant with 11.000 MW installed capacity is being planned to be constructed in the *Afsin-Elbistan* region, which has 4.3 billion tons of proven lignite reserves. Negotiations for this project between the line ministry and international investors are ongoing.

Turkey is also planning to build two nuclear power plants in near future. Construction of the *Akkuyu Nuclear Power Plant* with about 4.800 MW installed capacity was started and it is planned to be operational in 2019. Also negotiations with Japanese government for *Sinop Nuclear Power Plant* with about 5.000 MW installed capacity reached the final stage and it is planned to be operational in 2023. Nuclear power plants will help to diversify the electricity production mix.

The roadmap of the country about energy efficiency is determined in the *Energy Efficiency Strategy Paper*. In this paper, it is aimed to reduce the energy intensity by 20% until the end of 2023. In this context and detailed action plans were prepared for all sectors.

Enhancing productivity in manufacturing

Productivity gains not only contribute directly to economic growth, but also ensure effective use and sustainability of scarce resources. “Program for Enhancing Productivity in Manufacturing”, which was designed as a priority transformation program in the Tenth Development Plan, will contribute to enhancing productivity awareness, improving production process and increasing value-added sustainable economic growth.

The Program will be implemented by i) strengthening productivity awareness and implementation capacity to increase productivity, ii) enhancing governance in firms, iii) enhancing production processes, ensuring more efficient usage of non-energy inputs in production process, supporting job training programs to increase the quality of existing employees and iv) supporting economies of scale for firms, increasing market access opportunities, mitigating the problems of small and medium sized firms on access to finance and incentives. As a result of these policies, Turkey aims to increase the contribution of total factor productivity to growth in industry sector to levels above 20 percent.

Technology and Innovation

Turkey aims an innovative production structure which is considered as the basic condition for productivity based economic growth. Detailed and strong policies are set in the Tenth Development Plan to achieve this goal. In the Plan period, R&D activities towards producing clean technologies and green products with high value added, enabling the efficient use of natural resources and prevention of environmental degradation will be supported. Also, to increase the quality of human resources in production, the quantity and quality of researchers will be further increased, while the incentives for researcher employment in private sector will continue. Also, public procurement system will be improved in a way to encourage innovation, domestic production, technology transfer and innovative entrepreneurship. The Plan envisages increasing the ratio of R&D expenditures to GDP from 0.92% in 2013 to 1.8% in 2018.

To contribute to the transformation process in achieving innovative production structure, Priority Transformation Programs are designed and included in the Tenth Development Plan. One of the Priority Transformation Programs is the “Program for Commercialization in Priority Technology Areas” which aims creating globally competitive technological products and brands in the sectors important for the economy. Another one is the “Program for Technology Development and Domestic Production Through Public Procurement”, which is designed to promote innovation, domestic industry and technology transfer; and increasing FDI by policies implemented in public procurement, considering domestic R&D and innovation contribution requirement in public procurements.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. **Update on Fiscal Strategy:** Please provide a summary of any changes to your fiscal strategy for achieving a sustainable debt-to-GDP ratio over the medium-term. If your projections for the debt-to-GDP ratio have changed, please explain whether this has been due to changes in economic assumption, or other factors (please specify), referring to the information provided.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):
   a. Overall strategy for debt sustainability
      (…)
   b. Debt-to-GDP ratio objective
      (…)
   c. Intermediate objectives
      (…)
   d. Expenditure and revenue reforms
      (…)
   e. Reforms to strengthen the fiscal framework (…)

3. Medium-term projections, and change since last submission *(required for all members)*:

	2013	2014	2015	2016	2017	2018
Gross Debt	36.2[4]	33.1	31.8	30	28.5	
ppt change	-0.1	0.1	1.2	0.0	-	
Net Debt						
ppt change						
Deficit	-1	-0.7	-0.8	-0.5	-0.2	0.1
ppt change	-0.2	0.3	0.3	0.3	-	
Primary Balance	2.5	2.2	2.4	2.4	2.5	
ppt change	0.2	0.2	0.3	0.4		
CAPB*						
ppt change						

* New MTP has been released recently in October 2014 and the details of the Program figures will be released in the months ahead.

[4] Realization

4. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	2012*	2013	2014	2015	2016	2017	2018
Real GDP growth	2.1	4.1	3.3	4	5	5	
ppt change	-0.1	0.5	-0.7	-1	0		
Nominal GDP growth	9.2	10.5	12.7	10.2	10.6	10.3	
ppt change	0.1	0,4	2.5	-0.1	-0.5		
ST interest rate							
ppt change							
LT interest rate							
ppt change							

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.

ANNEX 2: NEW POLICY COMMITMENTS

Macroeconomic Policy Responses

The New policy action:	High and stable general government primary surplus
Implementation path and expected date of implementation	General government primary surplus is targeted to keep above 2 percent of GDP till 2017 as projected in MTP 2015-2017. Public saving rate on a stable path will both create room for further spending on the areas which will further foster economic growth and crowd in private sector resources to investment The implementation of the strategy has already begun with the release of the MTP and projected till the end of 2016.
What indicator(s) will be used to measure progress?	General government primary balance is the main indicator.
Explanation of additionality (where relevant)	

Investment and Infrastructure

The New policy action:	Capital markets measures
Implementation path and expected date of implementation	Real Estate Investment Funds, (01 July 2014) Venture Capital/Private Equity Investment Funds (01 July 2014) Venture Capital/Private Equity Investment Companies (09 October 2013) Real Estate Investment Companies (28 May 2013) Securities Investment Company With Variable Capital (The first half of 2015)
What indicator(s) will be used to measure progress?	The number of applications, the total number of companies and funds, the total net asset value can be can be good indicators in determining the trends in the implementation of the new regulations.
Explanation of additionality (where relevant)	In the St Petersburg Summit it was committed to increase the number of the new developed financial products and the number of the domestic individual and institutional investors. As stated above the new products were introduced with regulations that became effective in October 2013 and July 2014. Moreover together with the increasing number of the products it is expected that the number of investors in the capital markets will be increasing in subsequent years.

Employment

The New policy action:	Supporting employment of disadvantaged groups
Implementation path and expected date of implementation	The implementation of the policies for supporting the employment of disadvantaged groups is a comprehensive issue because of the multidimensional nature of the problem and thus requires action from various public institutions. Tenth Development Plan of Turkey (2014-2018) covers this issue and prescribes the action for boosting the participation rate of disadvantaged groups. In this regard, the Strategic Plan of the Ministry of Labour and Social Security (2014-2018), the Strategic Plan of Turkish Employment Agency (2013-2017), Strategic Plan of the Ministry of Family and Social Policies (2013-2017) includes certain objectives and thus related institutions implements specific programmes. In a broader context, National Employment Strategy includes clear indicators and time frame for these objectives.
What indicator(s) will be used to measure progress?	The progress can be measured through checking following indicators; i. Female participation rate, ii. Informal employment rate of women, iii. Youth unemployment rate, iv. Availability of job vacancies for disabled persons, v. Lon-term unemployment rate.
Explanation of additionality (where relevant)	This commitment may be related to the Saint Petersburg commitments of Turkey, since they also included increasing the employment rate of women. However, when compared to the previous commitment, the issue is now being handled in a more comprehensive fashion, and additionally included the groups such long-term unemployed, youth and disabled persons. To sum up, the commitments of Turkey for this year is built upon the last year's efforts and strengthened accordingly.

The New policy action:	Increasing labour force participation of women.
Implementation path and expected date of implementation	A balance between work and family will be created. Awareness will be raised to eliminate the obstacles for women to entrance into the labor force and the employment. Incentive regulations for women will be introduced.
What indicator(s) will be used to measure progress?	Number of awareness raising activities.
Explanation of additionality (where relevant)	

The New policy action:	Supporting female entrepreneurship
Implementation path and expected date of implementation	In order to increase women entrepreneurship, microcredit system will be enhanced. There will be awareness raising programs continuously to support female entrepreneurship.
What indicator(s) will be used to measure progress?	Number of women benefit from awareness raising programs about micro credit
Explanation of additionality (where relevant)	

The New policy action:	Strengthening the Connection between Social Benefits and Employment
Implementation path and expected date of implementation	People with economic difficulty will be supported with regular and comprehensive social benefits. Those among them who are able to work, will be directed to active labour force programmes and works by benefiting from opportunities of job and vocational counselling. Measures would be possible in case of not participating in employment or employment acquisitive actions without a valid reason. Relevant legal changes will be completed by 2016.
What indicator(s) will be used to measure progress?	
Explanation of additionality (where relevant)	

The New policy action:	Updating the curricula of vocational schools
Implementation path and expected date of implementation	Curricula of the vocational schools will be updated to meet the demands of the labour market. On the job training will be added to the curriculum. - 2015
What indicator(s) will be used to measure progress?	Number of vocational schools/students influenced by updated curricula
Explanation of additionality (where relevant)	

The New policy action:	Increasing the effectiveness of the Active Labour Market Policies (ALMP)
Implementation path and expected date of implementation	Labour market needs analysis will be done periodically and efficiently. A databank will be established to collect all the data from other relevant institutions on active labor market programs. – 2015 Active labour market programs will be developed for the needs of target group. – 2015
What indicator(s) will be used to measure progress?	Number of institutions collected data from. Number of active labour market programs developed.
Explanation of additionality (where relevant)	

The New policy action:	Basic and occupational skills
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	Duration of the transition from school to work Total number of employees working at jobs appropriate for their skill levels Number of young people who take basic skills training Youth long-term unemployment rate
Explanation of additionality (where relevant)	

Competition

The New policy action:	The revision of the effects of "Regulation on Fines to Apply in Cases of Agreements, Concerted Practices and Decisions Limiting Competition, and Abuse of Dominant Position" and "Communique On Group Exemption Regarding Distribution and Servicing Agreements in Relation to Motor Vehicles
Implementation path and expected date of implementation	Currently, the study groups for the revision draft are constituted. It is expected to be concluded at the end of 2014.
What indicator(s) will be used to measure progress?	After new drafts are prepared, as a part of the revision process, they are put on the official web page in order to take views/contributions of industry players.
Explanation of additionality (where relevant)	

The New policy action:	Amendment of The Act on the Protection of Competition
Implementation path and expected date of implementation	The draft is currently on the agenda of the Parliament. Also TCA ensures participation to the sub-commission meetings in the Parliament. Depending on the agenda of the Parliament, it is expected to amend the act in the next legislative year.
What indicator(s) will be used to measure progress?	The following processes in the commissions will be pursued. Depending on the agenda of the Parliament, the amendment of the act will be announced.
Explanation of additionality (where relevant)	

The New policy action:	Scanning the legislation that is not compatible with the competition rules
Implementation path and expected date of implementation	Currently, a team is constituted for scanning the legislation and identify the most relevant and problematic areas. The aim is to list the regulations and legislations that may have a more propensity to infringe competition. It is expected to be finished in March 2015.
What indicator(s) will be used to measure progress?	Results of the study wil be published in the next year's competition report.
Explanation of additionality (where relevant)	

The New policy action:	Determination of the markets or industries that have more propensity to infringe competition and establish a prioritization mechanism
Implementation path and expected date of implementation	Relevant departments at the TCA are planning to organize workshops, public opinion researches, and consultation meetings and to make economic analysis. It is expected to be concluded at the end of 2014.
What indicator(s) will be used to measure progress?	Announcement of meetings and public opinion researches might be put on the official web page.
Explanation of additionality (where relevant)	

Trade

The New policy action:	Helping SMEs' participation in the GVCs and facilitating trade for businesses
Implementation path and expected date of implementation	Turkey will improve the R&D capacity and human capital structure of the SMEs and support their clustering activities. The WTO Trade Facilitation Agreement will be put into force in a timely manner. It is firmly indicated in the 10th Development Plan of Turkey for the period of 2014-2018 that it is important to reach upper levels in the GVCs through creating a sustainable high technology product structure. In line with this policy vision, general R&D expenditures to the GDP ratio will be increased to 1.80% by 2018 from its current level of 0.92% in 2013. The share of SMEs in R&D expenditures will be increased to 20% in the same period from 18% as of 2013. Furthermore, technical trainings and consultation activities are planned for improving the human capital of the SMEs. In order to find joint solutions for joint problems, SMEs are encouraged to come together and establish joint procurement, design, marketing, production and services structures. Thus, the aim is increasing the capacity and competition power of the SMEs by acting together. The aim of facilitating trade for businesses, Turkey will be putting into force WTO Trade Facilitation Agreement, within the time frame as was agreed at Bali.
What indicator(s) will be used to measure progress?	Progress can be measured by calculating the increase in R&D expenditures and the increase in Turkey's participation in GVCs through the TIVA database. Progress can be measured by ratification of the WTO Trade Facilitation Agreement. The benefit from the implementation of this Agreement can further be studied by international organizations like the OECD. Putting into force the Agreement in a timely manner will be the most concrete indicator in measuring the progress achieved in implementing the commitment. No country-specific analysis is available to indicate the benefits of implementing WTO Trade Facilitation Agreement. However, OECD's quantitative analysis for the group of developed countries, which includes

	Turkey, shows that Turkey would see increased trade volumes and reduced trade costs from continued improvements in many areas covered by the WTO Trade Facilitation Agreement, including a full implementation of a Single Window. OECD findings suggest that the full implementation of the Agreement could reduce total trade costs by 13% in upper middle income economies and by up to 15% in other developing countries. According to the various studies, the benefits of the Trade Facilitation Agreement to world economy are calculated to be between $ 400 billion- $1 trillion by reducing cost of trade between %10-15. Reducing global trade costs by just 1% would increase worldwide income by more than US Dollars 40 Billion; 65% of which would accrue to developing countries. Potential benefits out of implementing this Agreement can be further studies by relevant international organizations in the implementation process as well.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

The New policy action:	Improving and liberalizing the services sector, especially in the logistics services area
Implementation path and expected date of implementation	Turkey will continue to actively and constructively engage in trade in services negotiations (TiSA) as well as including services trade in its FTAs. Turkey intends to prepare a logistics master plan, re-construct its railway and port management system, eliminate logistic barriers restricting trade, and establish logistical centers abroad. In paralel of the developments in world economy, the importance and role of services trade in Turkish economy has been increasing. Services sector comprised 60.5% of the Turkish GDP in 2013 and has contributed to employment by 52.2% as of April 2014. Turkey aims to further increase the share it gets from global services trade, therefore favours liberalization efforts at every level. In line with this thinking, Turkey will continue to actively participate in TİSA negotiations and sustain her best to conclude ongoing FTA negotiations in a way covering services trade, including those with Ukraine, EFTA, Chile, Peru and Bosnia-Herzegovina. With an aim of determining policies to boost the competitive power of the services sector, Turkey plans to conclude the International Services Trade Statistics Project, by 2016. The average estimated growth rate for 2014-2018 period is 5.5% and services sector is expected to contribute to the value added by 61.9% in this period. The logistics master plan which aims to transform Turkey a regional logistics hub is expected to be concluded by 2018. Once concluded, it is believed that it would decrease costs of companies in logistics. As many infrastructural problems hamper the physical connection trade routes, Turkey plans to build the hinterland of its ports with railroad and container transport terminals as well. By the end of 2018, logistical centers are aimed to be established abroad so as to diminish time and storage capacity scarcities. The priority is given to Russia and Djibouti in this regard. But Central Asia, South Caucasia, China and the USA are also being worked on. Turkey has also been actively working on liberalizing transit passages and abolishing the road transit passage documents that hamper bilateral and regional trade flows.

What indicator(s) will be used to measure progress?	Progress can be measured by looking at the share of services sector in the economy, and Turkey's share in global services trade. OECD STRI index is also considered to be an indicator of liberalization in the services sector. In terms of logistics services, progress can be measured by the issuance of the logistics master plan and establishment of the logistic centers.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

The New policy action:	Reducing trade restrictive measures and traditional barriers to trade
Implementation path and expected date of implementation	Turkey will conclude its ongoing FTA negotiations and start new ones. Turkey will increase the number of its MRAs and TCAs. Turkey aims to conclude FTAs with Ukraine, Colombia, Ecuador, Mexico, Japan, Singapore, Democratic Republic of Congo, Cameroon, Seychelles, Gulf Cooperation Council, Libya, MERCOSUR, Faroe Islands and Peru; and to initiate new FTA negotiations with more than 10 countries including the USA, Canada, Thailand, India, Indonesia, Vietnam, ACP Countries, and Algeria. It is important for Turkey to conclude MRAs with the countries the EU has similar Agreements, especially for the sectors that require CE mark; since this will even the playground for Turkish products. The EU has signed 7 MRAs so far with the USA, New Zealand, Australia, Canada, Japan, Israel and Switzerland. Besides, with the aim of eliminating technical barriers, Turkey aims to increase the number of its TCAs; drafts have been shared with Russia and Turkmenistan and consultations continue with Mexico.
What indicator(s) will be used to measure progress?	Progress can be measured by looking at the number of FTAs, MRAs and TCAs concluded.
Explanation of additionality (where relevant)	This is a new measure and is not additional to any past commitment.

Others

The New policy action:	Enhancing Productivity in Manufacturing
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	Survey results of governance and productivity awareness for the small and medium-sized enterprises Difference in labor productivity based on firm size in manufacturing industry (ratio) Increasing rate of partial labour force productivity in industry sector İncreasing rate of total factor productivity in industry sector
Explanation of additionality (where relevant)	

The New policy action:	Public investments will be concentrated on core infrastructure that will promote private investment
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	Share of core infrastructure investment in public investment and GDP Share of private sector investment in GDP Average completion time of the projects in investment program Logistics Performance Index ranking of Turkey Containerization ratio and container handling capacity in ports Share of rail transport for freights handled in ports Share of private sector in railway freight transport Share of air cargo in total foreign trade volume
Explanation of additionality (where relevant)	

The New policy action:	Technology and Innovation
Implementation path and expected date of implementation	The Tenth Development Plan (2014-2018)
What indicator(s) will be used to measure progress?	Number of new products, brands and patents Number of researchers with Ph.D. degree Number of technology transfer offices, number of companies served by these offices, amount of license revenues of these offices Share of domestic production in public procurement Share of domestic production based on public purchase guarantee in total public procurement
Explanation of additionality (where relevant)	

Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

UNITED KINGDOM

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objective

The UK is taking decisions that will support businesses to invest, export and create jobs – laying the foundations for sustainable economic growth. The government's long-term economic plan has protected the economy through a period of uncertainty and provided the foundations for the recovery. However, the job is not yet done. In order to safeguard the economy for the long-term and build a stronger, more competitive economy and a fairer society, the UK's economic strategy is focused on taking decisive action through:

- **monetary policy and credit easing**: stimulating demand, maintaining price stability and supporting the flow of credit in the economy;
- **deficit reduction**: returning the public finances to a sustainable position and ensuring that sound public finances and fiscal credibility underpin low long-term interest rates, in line with the medium-term fiscal strategy presented at the St Petersburg Summit;
- **reform of the financial system**: improving the regulatory framework to reduce risks to the taxpayer and build the resilience of the system, with financial stability providing a strong basis for positive spillovers to the global economy; and
- **a comprehensive package of structural reforms**: rebalancing and strengthening the UK economy for the future – playing a significant role in reducing imbalances while ensuring sustainable growth – this includes measures to strengthen investment, employment, competition and trade.

The actions set out in the UK's growth strategy – particularly the vital supply-side reforms – illustrate the UK's high ambition and directly contribute to the G20 objective of: stronger, sustainable and balanced growth, and the G20 ambition to lift our collective GDP by more than 2 per cent above the trajectory implied by current policies over the coming 5 years. This will occur through the positive impact on UK's growth and long-term outlook, but also through important positive spillovers that continue to arise to the global economy, via the following channels:

- **strong growth** – through monetary policy and credit easing supporting demand and reduction in risk through improved fiscal credibility;
- **sustainable growth** – through necessary supply-side reforms to address structural weaknesses and improve potential growth, thereby improving the long-term trend rate of growth; implementation of financial regulation reforms to: strengthen bank resilience and end too-big-to-fail, ensuring a more sustainable provision of credit to the economy and improving the stability of London as a global financial centre; and continued fiscal action to ensure public debt is placed on a sustainable, downward path; and
- **balanced growth –** through a focus on the private sector and rebalancing the economy towards net trade and investment.

Key Commitments

1. Continued support for infrastructure investment, for example through the UK Guarantee Scheme, by providing a stable regulatory environment and a transparent infrastructure project pipeline.

2. Unlocking business investment to support investment (particularly for SMEs) in their future.

3. Improving competition policy and removing unnecessary regulation to help stimulate economic growth and innovation.

4. Support for the young and long term unemployed people, to move back into work.

5. Continue to address the housing challenge and build a functioning and stable housing market.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators[1]					
	2013	2014	2015	2016	2017	2018
Real GDP (% yoy)	1.8	2.7	2.3	2.6	2.6	2.5
Nominal GDP (% yoy)	3.4	5.0	4.0	4.4	4.6	4.5
Output Gap (% of potential output)*	-2.2	-1.4	-1.1	-0.7	-0.3	0.0
Inflation[2] (%, yoy)	2.6	1.9	2.0	2.0	2.0	2.0
Fiscal Balance[3] (% of GDP)**	-6.6	-5.5	-4.2	-2.4	-0.8	0.2
Unemployment[4] (% rate)	7.6	6.8	6.5	6.1	5.7	5.4
Savings (% of GDP)	10.9	12.9	14.0	14.9	15.9	16.5
Investment (% of GDP)	14.5	15.2	15.9	16.6	17.4	18.0
Current Account Balance (% of GDP)	-3.6	-2.3	-1.9	-1.7	-1.5	-1.5

[1]All forecasts and assumptions are from the independent Office for Budget Responsibility's (OBR) publicly available March 2014 Economic and fiscal outlook and supplementary tables, which can be found at: http://budgetresponsibility.org.uk/economic-fiscal-outlook-march-2014/ .Indicators presented on a calendar year basis and as forecasts.

[2]CPI measure of inflation.

[3]Based on the OBR's measure of the 'underlying' public sector net borrowing. This excludes the transfers associated with the Royal Mail Pension Plan in 2012-13 and ongoings between the Exchequer and the Bank of England's Asset Purchase Facility.

[4]LFS unemployment.

Key Drivers

UK annual GDP growth was 3.2%[1] in 2013 and with the recovery now becoming well established, growth has been balanced and broad-based across all main sectors of the economy. In the year to the second quarter of 2014: the services sector grew by 3.2%, the production sector grew by 2.4% and the construction sector grew by 5.6%. The UK continues to take further action (including in this growth strategy) to help businesses to invest, export, and to ensure that growth continues to be balanced across all sectors and throughout the UK. For the seventeenth consecutive month in September, all PMI business surveys were in expansionary territory[2].

As the UK economy stabilises, uncertainty recedes and credit conditions ease, the investment environment will continue to improve. Business investment strengthened in the first half of 2014 with growth of 11% in the year to the second quarter of 2014. The independent Office for Budget Responsibility (OBR) expects investment activity to gather pace this year. OBR's Budget 2014 forecast revises up annual business investment growth to 8.0% in 2014 and 9.2% in 2015.

In the first quarter of 2014 net trade contributed 0.6 percentage points to GDP, followed by no change in Q2. Goods exports to other EU countries are expected to remain subdued. At the same time, UK exporters have continued to expand in other markets, with goods exports to countries outside the EU rising 21% since 2010. Business surveys suggest exports may have risen further over the most recent period.

Household consumption accounts for around two‑thirds of UK GDP. In the immediate aftermath of the financial crisis household consumption was constrained by the need to pay down debt, weighing on growth. As confidence has returned and the pace of household deleveraging has eased, consumption has increased and helped drive growth. This is consistent with historical precedent. In recent quarters the contribution of consumption to growth has been smaller than the consumption share of GDP.

Assessment of Obstacles and Challenges to Growth

Public sector net debt (the UK's measure of public debt) is projected to be 74.5% of GDP and 77.3% of GDP in 2013-14 and 2014-15 respectively. Peaking at 78.7% of GDP in 2015-16 – an increase of around 40% since 2007-08 – before falling to 74.2% in 2018-19 (or over £50,000 per household), the highest level of debt since the end of the 1960s. The UK continues to face a long-term challenge in reducing public debt to sustainable levels – an important element to achieving strong, sustainable and balanced growth.

As highlighted in the "Key Drivers" section above, there have been positive developments with regards to business investment. Annual growth in 2013 for business investment and gross fixed capital formation was 5.7% and 4.7% respectively. According to the IMF, total investment as a share of GDP came to 14.5% in 2013, compared to a pre-crisis average of over 17%. Given these challenges, encouraging investment in both infrastructure and small

[1] Quarterly National Accounts, Q2 2014, ONS, September 2014
[2] Markit/CIPS, October 2014.

and medium-sized enterprises (SMEs) is at the heart of the government's economic strategy and crucial to strengthening the economy for the future. In this regard, the OBR projects investment as a share of GDP to rise from 8.1% in 2013 to 10.6% in 2018.

The UK has seen a net increase of over 2 million jobs in the private sector between the first quarter of 2010 and the second quarter of 2014. Over this period, over 5 jobs have been created in the private sector for every public sector job lost. Over the same period all nations and regions of the UK saw an increase in employment. The employment level at the end of 2013 surpassed 30 million and reached its highest ever level in the three months to August 2014. Over the same three month period, the employment rate increased on the quarter to 73.0% to reach its pre-recession peak.

As highlighted by the OECD[3] and the World Bank[4], the UK has the least restrictive product market regulation and the most supportive regulatory and institutional environment for business across the G20. However, the UK understands the importance of ensuring continued progress in addressing policy gaps and since November 2010, the government has set out a programme of structural reforms to remove barriers to growth for businesses and improve competitiveness- including through The Plan for Growth.

In 2013, imports plus exports in the UK as a share of GDP amounted to 60.7% of GDP, which compares to the OECD total of 64.4% of GDP. Although, as noted in the above under "Key Drivers", growth in net trade has been relatively subdued over the last couple of years. In this regard, the UK's economic strategy has had a strong focus on rebalancing the economy towards net trade and investment – therefore, trade is of particular importance to the government.

This government has invested billions of pounds to get Britain building, which has helped to deliver the 475,000 new homes that have been built across the country since 2010. The UK is committed to confronting the risks from our housing market and tackling the long term challenge of housing supply. The government has set out a number of measures in this growth strategy which look to address this challenge by: increasing housing supply so it can better match demand, whilst also ensuring that these homes are affordable and providing more people the opportunity to own their own home.

[3] OECD Product Market Regulation (PMR) database.
[4] World Bank Doing Business 2014 database.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Monetary policy and credit easing

The UK is committed to carefully calibrating and communicating its **monetary policy settings**, in line with the G20-level agreement. In August 2013, the Bank of England's Monetary Policy Committee (MPC) introduced explicit forward policy guidance to reduce uncertainty about the future path of monetary policy as the economy recovers. That guidance was updated in February 2014. The MPC's forward guidance was updated in February 2014. The MPC sets policy to achieve the 2% inflation target, and, subject to that, to support the Government's economic policies, including those for growth and employment. Despite the sharp fall in unemployment, there remains scope to absorb spare capacity further before raising Bank Rate. When Bank Rate does begin to rise, the appropriate path so as to eliminate slack over the next two to three years and keep inflation close to the target is expected to be gradual. The actual path of Bank Rate over the next few years will, however, depend on economic developments. Even when the economy has returned to normal levels of capacity and inflation is close to the target, the appropriate level of Bank Rate is likely to be materially below the 5% level set on average by the Committee prior to the financial crisis. The MPC intends to maintain the stock of purchased assets at least until the first rise in Bank Rate. Monetary policy may have a role to play in mitigating risks to financial stability, but only as a last line of defence if those risks cannot be contained by the substantial range of policy actions available to the Financial Policy Committee and other regulatory authorities.

The **Funding for Lending Scheme (FLS)**, launched in July 2012, continues to support the supply of credit to the UK economy, with changes in November 2013 re-focusing the FLS on business lending, particularly among SMEs.

Fiscal policy

As set out above in Section A under "Macroeconomic Policy Settings", the UK's fiscal policy setting remains broadly in line with the fiscal strategy set out at the St Petersburg Summit and the clear, credible and specific medium-term consolidation plans set out by the government in 2010: the UK remains committed to reducing the deficit and to restoring debt to a sustainable, downward path.

To support restoring the public finances to sustainability, the UK continues to take action to strengthen the fiscal framework. Following earlier announcements on the **welfare cap**, Budget 2014 capped welfare spending in scope for the years 2015-16 to 2018-19 at the level of the OBR's March 2014 forecast. Further, following the announcement at Autumn Statement 2013, the government is **reviewing the current fiscal policy framework**. The outcome of the review will inform an updated 'Charter for Budget Responsibility', which will be presented to Parliament alongside Autumn Statement 2014. More detail can be found in Annex 1.

Macroprudential policy and financial regulation

In April 2013 the Financial Services Act was passed giving the Bank of England significant new powers, exercised by the FPC, to maintain financial stability by ensuring the system is robust to stress and taking steps to reduce the frequency and severity of periods of stress. Two new actions in 2014 are i) the launch in April of a stress test of the 8 major UK lenders, as part of an EU wide exercise, to ensure the system is robust to stress; and ii) the measures announced in June to address the risk that continued momentum in the housing market could pose to household indebtedness and in turn to the economy and to financial stability. These measures comprised guidance to mortgage lenders on the size of interest rate stress test they should include in mortgage affordability assessments and the imposition of a limit on the proportion of new mortgages that can be extended with loan to income ratios at or greater than 4.5.

In the medium term the FPC has three broad priority areas: the medium-term capital framework for banks; ending 'too big to fail'; and diverse and resilient sources of market-based finance.

Developing and communicating a robust **medium-term capital framework** for banks is a key priority for the FPC. In May 2014, the government transposed the EU Capital Requirements Directive IV into UK law and designated the FPC as the authority to make policy decisions on the countercyclical capital buffer (CCB). In November 2013, the Chancellor requested that the Financial Policy Committee (FPC) undertake a review of the role of a leverage ratio in the UK's capital framework for banks. Having issued a consultation paper on 11 July 2014, the FPC published its final review on 31 October 2014 setting out its proposals for the design of the leverage ratio framework, including its views on the calibration of that framework.

Alongside the global systemically important banks framework of the Financial Stability Board, in the UK the Prudential Regulation Authority (PRA) is responsible for identifying other systemically important institutions, including domestic systemically important banks (D-SIBs). The FPC will review the process for identifying different types of D-SIBs as part of its effort to **end 'too big to fail'.**

The EU Bank Recovery and Resolution Directive (BRRD) was approved by the European Parliament in April 2014, a milestone in the EU legislative framework for the recovery and **resolution of banks and large investment firms**. However, feasible and credible resolution arrangements for non-bank SIFIs are not as developed. In the UK, a resolution regime for Central Counterparty Clearing Houses (CCPs), who are supervised by the Bank of England, is being implemented.

Structural reforms will also enhance resolvability of affected institutions. In the UK, the focus is on ensuring that deposit, payment and overdraft services are continuously available to individuals and small businesses even when a banking group is distressed. These **core services will be ring-fenced from investment banking activities** by 2019 under the Banking Reform Act.

Diverse and resilient sources of market-based finance

Non-bank and market-based provision of finance can offer companies alternatives to, and provide competition for, bank lending and can also help distribute risk exposures among a wider group of counterparties. Nevertheless, activities outside the regulated banking sector could potentially present systemic risks. In June, the FPC conducted a review of the regulatory perimeter, in particular of channels through which stress in selected parts of the non-bank financial system could affect wider UK financial stability. The FPC did not see a need to amend the regulatory perimeter in these areas at this stage but would return to the issue on an annual basis, or sooner, if necessary.

As part of its effort to make markets more robust, the Bank of England announced in June that it will widen access to its liquidity facilities in the coming year to include the largest broker-dealers regulated in the UK and the CCPs authorised to operate in UK markets. The Bank will also look into whether it should further develop its capacity to lend in currencies other than sterling. In addition, the government announced in June a joint review by HM Treasury, the Bank of England and the Financial Conduct Authority (FCA) into the way wholesale financial markets operate.

Well-functioning securitisation markets can also support **market-based finance**. A Bank of England and ECB joint Discussion Paper outlined the case for a better functioning securitisation market in the European Union and suggested policy options to facilitate this.[5] A key recommendation is the development of high-level principles for 'qualifying securitisation' to promote securitisations where risk and payoffs are easily understood.

New Structural Policy Responses

Investment and Infrastructure

Since 2010, the government has worked systematically to address barriers to growth including unlocking business investment, in particular for infrastructure investment and SMEs. These reforms are achieving results. As uncertainty recedes and credit conditions ease, the investment environment will continue to improve. Business investment grew by 3.3% in Q2 2014, reaching the highest level since Q2 2005. Compared to the same quarter a year ago, business investment grew by 11.0 per cent, the fastest rate in over 7 years. The Office for Budget Responsibility's March 2014 forecast suggested business investment might grow by 8.0% in 2014 and 9.2% in 2015; the Bank of England's August 2014 forecast similarly suggested growth of 12.5% in 2014 and 11.3% in 2015. Further, credit conditions are improving for SMEs. According to the Bank of England, reported credit availability for small businesses fell for Q3 but is expected in increase in Q4[6]; and gross lending to SMEs was 28% higher in June (Q2) compared to the same quarter last year.

Investing in Infrastructure

As part of £36 billion worth of planned investment in infrastructure across the country more than 200 infrastructure projects are due to start construction in 2014-15, with the potential support over 150,000 jobs in construction and many thousands more in other sectors following completion.

Since the important establishment of Infrastructure UK (IUK) – a dedicated unit in HM Treasury that provides a stronger focus on the UK's long-term infrastructure priorities – the

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[5] Bank of England and European Central Bank (2014), *The case for a better functioning securitisation market in the European Union: a discussion paper*. http://www.bankofengland.co.uk/publications/Documents/news/2014/paper300514.pdf

[6]Credit Conditions Survey 2014 Q3

government has been developing a National Infrastructure Plan for the UK. The latest version of the **National Infrastructure Plan 2013** (NIP 2013), published alongside Autumn Statement 2013, provides an outline of the government's strategy across the energy, transport, flood defence, waste, water and communications infrastructure sectors up to 2020 and beyond.

Also published by IUK, the **Infrastructure Pipeline** presents the most comprehensive overview of planned and potential UK infrastructure investment to date, containing information on over £380 billion of planned public and private sector infrastructure investment. It provides the visibility and improved certainty that investors and the supply chain have been looking for in order to commit to big investments. The Pipeline allows the government to work more effectively, ensuring the UK's infrastructure needs are met and also acts as a prospectus for investors.

The government continues to catalyse private sector participation in infrastructure investment projects, for example taking forward its new approach to Public Private Partnerships – **Private Finance Two (PF2)**. The first PF2 programme is the £700 million privately financed element of the Priority Schools Building Programme with all schools due to be opened by the end of 2017.

The government, through the **UK Guarantees Scheme (UKGS)**, is continuing to provide guarantees aimed at critical infrastructure projects that may have stalled because of adverse credit conditions, rather than due to their commercial or economic viability. The Mersey Gateway Bridge is the fourth guarantee – an announcement from Budget 2014 – to be issued, with construction of the project beginning imminently. The government has further announced up to £1 billion of borrowing by the Greater London Authority for the Northern Line underground extension to Battersea.

The **UK insurance growth action plan**, published alongside Autumn Statement 2013, includes a commitment by UK insurers to work in conjunction with partners with the aim of delivering at least £25 billion of investment in UK infrastructure, including but not restricted to projects in the published Infrastructure Pipeline, over the next 5 years.

Since Autumn Statement 2013, the government has continued to announce further plans to maximise and **accelerate High Speed 2 (HS2)** benefits and **open the Crewe branch of HS2** by 2027, 6 years earlier than planned, and government support for the **Cambridge Gain Share Mechanism.**

Unlocking business investment and SME finance

Business investment is critical to improving productivity and long-run economic growth and therefore the UK continues to take decisive steps to ease the flow of credit to SMEs, through the **FLS** (as highlighted in Section A under the heading of "Macroeconomic Policy Settings"), the Business Finance Partnership (BFP) and the **creation of the British Business Bank**. Autumn Statement 2013 announced that unspent funding from the BFP would provide a further £250 million for the British Business Bank's new schemes, including the Venture Capital Catalyst Fund, Wholesale Guarantees and an Asset Funding Finance Vehicle.

Budget 2014 announced that loans made through peer-to-peer platforms will become **qualifying investments for the tax-advantaged Individual Savings Account (ISA)** wrapper, encouraging the growth of the peer-to-peer sector and thus diversifying the available sources of finance.

The government announced at Autumn Statement 2013 a **package of measures to support SMEs and improve competition in banking**. This included the announcement that it would consult on proposals to require banks to share more information on their SME customers with other lenders through credit reference agencies (CRAs), levelling the playing field for challenger and non-bank lenders. The government confirmed at Budget 2014 that it would legislate and provisions were introduced last month in the Small Business Enterprise and Employment Bill. This should receive Royal Assent early next year and implementation would be later in the year.

The government has also consulted on whether to legislate to require SME lenders to release details on businesses they reject for a loan so that alternative providers can discuss other options with them. The goal is for platforms to be created for alternative lenders to visit to identify SMEs they may wish to finance. The proposals complement the action government is taking to require banks to share information on their SME customers with other lenders through CRAs.

Further, Budget 2014 announced plans to ensure venture capital tax schemes continue to effectively support small and growing businesses and improve access to finance for high-growth potential small and medium-sized companies by making the **Seed enterprise investment scheme (SEIS) permanent.**

To encourage new investors to put money into social enterprises, Budget 2014 announced a rate of 30% income tax relief for **Social Investment Tax Relief**, the same as the rate for the Enterprise Investment Scheme and Venture Capital Trusts. This rate will allow eligible social enterprises to receive a maximum of around £270,000 investment over 3 years

Budget 2014 also includes plans to double the size of the **annual investment allowance (AIA)** to £500,000, from April 2014 until the end of 2015. To further support innovative start-ups and early stage companies to invest in research and development (R&D), Budget 2014 announced that the government will raise the rate of the **R&D tax credit payable** to loss making SME companies.

Further, in April 2014 the main rate of corporation tax was cut again to 21 per cent. This was the latest in a staggered series of cuts which have seen the rate fall from 28 per cent in 2010. Next year it will be cut again to 20 per cent, the joint lowest rate in the G20. Government modelling has shown these cuts, and those to the small profits rate, will boost long-term investment by between 2.5 per cent and 4.5 per cent in the long term (equivalent to £3.6 billion – £6.2 billion in today's prices).

The flow of finance for business investment should also be improved by the macroprudential and regulatory policies discussed above to make the banking system more robust and to promote non-bank sources of finance.

Employment

The UK is undertaking reforms and significant action to provide support and the correct incentives for people to work and to boost labour force participation.

In March 2014, the government accepted the Low Pay Commission's (LPC) recommendations for increases in the **National Minimum Wage (NMW)**, thereby providing positive incentives towards working. As a result, over a million people will see a pay increase.[7] The increase in the minimum wage will help the lowest-waged in the economy, providing a boost to spending power for a significant proportion of the population.

In support of working families, the government is introducing a **new tax-free childcare scheme** and simultaneously rolling out Tax-Free Childcare from autumn 2015, quicker than previously announced. This complements the additional support for childcare being provided in **Universal Credit**. The new support for childcare costs will allow parents, in particular women, to take up work or increase their hours and earnings. Improving the labour market participation of women, and addressing the employment gap between men and women, is a crucial part of promoting job-rich growth. New childcare provision goes hand in hand with the introduction of the **right to request flexible working** for all, and a new system of **shared parental leave**. Evidence from the OECD supports improving the employment prospects of women as a significant contributor to recovery from the economic crisis, and increased provision of affordable high-quality childcare forms the centrepiece of the government's strategy to enable this.

Young people bore the brunt of the economic crisis and ensuring that young people are orientated towards the labour market and able to find employment quickly guarantees they are in the best position to continue in employment in the future. In order to support youth employment, Autumn Statement 2013 announced the **abolition of employer National Insurance contributions (NICs) for under-21 year old employees** earning less than £813 a week from April 2015, making it cheaper for businesses to employ young people and having a particular positive impact on SMEs. Youth unemployment can be a significant contributory factor to slow or minimal growth and the government is committed to ensuring that youth employment can be a motor of growth.

Apprenticeships play a vital role in equipping young people with the skills needed to compete in the labour market and employers need to grow their businesses. Budget 2014 announced the extension of the **Apprenticeship Grants for Employers scheme** until 2016 for over 100,000 grants to employers. This will operate alongside the existing **Youth Contract**, providing support to make it easier for businesses to give young unemployed people a job, training or work experience.

Furthermore, to ensure access to higher education, Autumn Statement 2013 announced that the government will **remove the cap on student numbers at publicly-funded higher education institutions in England by 2015‑16**.

Autumn Statement 2013 confirmed that the government will invest in a **new Help to Work scheme,** which will provide the long-term unemployed with the experience and motivation they need to move back into work and will particularly benefit those at the bottom of the income distribution.

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[7] 'National Minimum Wage 2014 Report', LPC, March 2014.

Competition

Strengthening competition is key to: driving innovation, efficiency and economic growth, bringing greater choice, lower prices and better quality goods for citizens, both within and across borders.

Regulatory reform is a vital part of the UK's growth agenda and the government is reducing the burden of red tape and unnecessary regulation on business, which can restrict growth. There are two main policies which have already succeeded in reducing this burden: the **"One-In Two-Out" policy on new regulation** and the **Red Tape Challenge**. Over the course of this Parliament, the net annual cost to business of domestic regulations has fallen by £1.5 billion

In April 2014, the government introduced a **Small and Micro-Business Assessment**, replacing the previous moratorium on new regulation for micro-businesses and start-ups. This assessment is now a standard element of the government's Impact Assessments, which are assessed by the independent Regulatory Policy Committee.

The functioning of the UK's competition regime is being improved through the creation/establishment of 3 different competition focused bodies: the **Competition and Markets Authority (CMA)** as the UK's lead competition and consumer body, the **UK Competition Network (UKCN)** to co-ordinate sector regulation and competition enforcement and the **UK Regulators' Network (UKRN)** to improve efficiency and consistency of economic regulation and increase awareness of how economic regulation works**.**

Trade

HM Revenue & Customs continues to work closely with the Border Force and other government stakeholders to further reduce impediments to trade. Reducing the cost of doing business and helping business participate in the global economy are features of a number of customs-related initiatives and strategies. The UK enjoys a competitive advantage in terms of customs services, efficiency of the clearing process, the number of days it takes to import or export and customs transparency[8]. However, we are seeking to enhance the Customs automated electronic environment for clearance and regulatory controls to deliver a 'One Government at the Border' approach. This entails the creation of a coordinated and single release process at the border which covers all HM Government activity. As part of this, the government is also beginning to **explore the establishment of an international trade single window** that integrates our existing effective and efficient systems to deliver further benefits.

Promoting free and fair international trade and investment is at the heart of UK policy making, both through our membership of the European Union and in our domestic policy formulation. We strongly support, and are actively involved in, the EU's efforts to negotiate deep and comprehensive liberalising **trade agreements at the multilateral, plurilateral and bilateral levels** as outlined in the EU Growth Strategy. We have concluded significant negotiations with Canada and Singapore and now have **Economic Partnership**

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[8] 'United Kingdom Country/Economic Profile', The Global Enabling Trade Report 2014, April 2014.

Agreements (EPAs) in place with African regional trade blocs. On-going negotiations include the **Transatlantic Trade and Investment Partnership** with the US, FTAs with Japan, India and Mercosur, an Investment Agreement with China, as well as FTA negotiations with non-G20 countries in the ASEAN (Vietnam) and the Mediterranean region (Morocco). The completion of this agenda would increase the share of EU external trade covered by FTAs to two thirds. The UK has been central to the efforts to promote growth and a deepening of the EU's Single Market which we believe has wider spillover benefits for countries outside of the EU.

To help UK exporters take advantage of opportunities and to succeed in new and emerging markets, the UK has significantly increased the support it provides to British businesses. UK Trade and Investment (UKTI) is on course to reach its target of supporting 40,000 businesses in 2013-14, up from 23,600 in 2009-10. The government is also increasing export support in emerging markets: by **increasing UKTI's presence** in India and China through an investment of £6 million in 2014-15 and £3 million in 2015-16; and **establishing British Business Centres** to provide in-market services to SMEs in 6 key emerging markets in 2014-15.

To enable **UK Export Finance (UKEF)** to do more business and deliver more appropriate export finance support to exporters, Autumn Statement 2013 announced the UK will: double UKEF's maximum commitment limit to £50 billion; increase the limit on UKEF-guaranteed bond issuances to $15 billion to ensure that a broad range of competitive finance sources are available for UKEF backed exports; broaden the scope of the existing direct lending scheme and seek to expand the working capital scheme, making it available to more companies; double the number of regionally based Export Finance Advisers to support more SME exporters; and adapt its guarantees so they are suitable for a wider range of potential investors (including insurance and pension funds) in export credits.

Autumn Statement 2013 and Budget 2014 announced further measures to make UKEF more competitive, including through an overhaul of UKEF's direct lending scheme by doubling it to £3 billion, removing the scheme end date, and cutting interest rates to the lowest permitted levels to provide competitive financing that helps UK firms expand overseas. UKEF will also work in partnership with the banks to deliver the enhanced lending scheme, ensuring that smaller companies can benefit from the scheme as well as mid-sized and large businesses.

To help businesses strengthen links with high growth markets and to go further to make the UK an attractive option for business visitors and tourists, Budget 2014 also announced that government will **reform air passenger duty (APD)** by abolishing bands C and D from 1 April 2015. The policies being taken forward to strengthen investment, particularly infrastructure, employment and skills, and increase competition in the UK also have important positive spillovers for trade and competitiveness.

DFID have funded a 10-year HMRC programme, to provide tax and customs capacity building support in developing countries. The first programmes will be in Southern Africa, Tanzania, Ethiopia and Pakistan. The HMRC Capacity Building Unit's work aims to support developing countries to collect the taxes they are owed, improving the investment climate and creating more favourable conditions for domestic and international trade.

There are two policies introduced by HMRC to make it easier for businesses, including SMEs, to trade across borders and increase participation in global value chains. The first: supporting further Authorised Economic Operator (AEO) mutual recognition agreements with third countries to realise additional benefits and encourage wider take up, with an aim to provide businesses with an internationally recognised quality mark which will demonstrate that they operate within a secure supply. The Second: increasing the scope of the Automatic Licensing Verification System (ALVS), which e-enables the write-off of licences, key to improving Border processes and removing administrative burdens.

Other measures

A well-functioning housing market can play a major role in boosting investment and delivering economic growth. Construction, along with investment in infrastructure and regeneration of existing housing can all have a direct impact on economic output. The government is taking decisive action to revive the housing market, boost construction and support families, developers and institutions to invest in new homes.

House building has been critical to the UK's economic recovery and the package of measures announced at Budget 2014 and Autumn Statement 2013 complements existing measures introduced to stimulate economic growth, increase investment and improve housing market stability. The housing market is recovering, like the rest of the economy, having suffered a severe downturn following the financial crisis. As confidence across the economy improves, increased activity in a number of sectors including the housing market can be expected.

There are encouraging signs of a recovery in housing supply with over 475,000 new homes delivered since April 2010 and housing starts in 2013 at their highest since 2007, but there is more to do. To continue to drive this growth forward, the government announced ambitious measures on housing and planning in 2013 and 2014.

The government has comprehensively reformed the planning system with the introduction of the **National Planning Policy Framework** and planning permissions for new housing are now at their highest level since 2007.

Building on this planning reform, in June 2014 the government announced that it would **remove all planning permission obstacles to building on brownfield sites**. The government and Greater London Authority (GLA) will also invest £400m to create **20 new housing zones** on brownfield sites, for potentially up to 50,000 homes in London. The government will also invest £200m to create **10 zones outside of London**.

At Budget 2014 the government announced measures to support the building of over 200,000 new homes. These include helping a further 120,000 households purchase a new-build home by **extending the Help to Buy**; introducing a **new loan scheme to kick-start stalled housing sites** held by SME builders; a new **Urban Development Corporation (UDC)** and an **estate regeneration fund**.

At Autumn Statement 2013 the government introduced a £1 billion, 6 year investment programme to fund infrastructure to unlock new large housing sites. This will support the delivery of up to 250,000 homes. Another key element contributing to economic growth is the government's **affordable housing programme**.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

1. Update on Fiscal Strategy:

The government's long-term economic plan has protected the economy through a period of global uncertainty and provided the foundations for the UK's economic recovery. GDP growth has exceeded forecasts and has been balanced across the main sectors of the economy. However abandoning the government's long-term economic plan and the path towards fiscal sustainability would represent the most significant risk to recovery.

The Office for Budget Responsibility (OBR) expect the 'underlying' deficit to be £24 billion lower over the forecast period than predicted at Autumn Statement 2013. The OBR judge this reflects the improvement in the economic outlook rather than an improvement in the economy's growth potential. As a result there is little change since December 2013 to the structural deficit. The persistence of this structural challenge supports the government's argument that economic growth alone cannot be relied upon to eliminate a structural deficit.

Reflecting the government's commitment to responsible fiscal policy and despite the improved borrowing forecast by the OBR, Budget 2014 set out a fiscally neutral response with the improvement in the fiscal forecast helping to return the public finances to a sustainable position.

2. Medium-term fiscal strategies (required for advanced economies – only if updated):

a. Overall strategy for debt sustainability

   No changes

b. Debt-to-GDP ratio objective

   The government is reviewing the current fiscal policy framework, the outcome of which will inform an updated Charter for Budget Responsibility which will be presented to Parliament alongside Autumn Statement 2014.

c. Intermediate objectives

   No changes

d. Expenditure and revenue reforms

   As set out at Budget 2014, Total Managed Expenditure (TME) in 2016-17 and 2017-18 will continue to fall in real terms at the same rate as over this Parliament. TME in 2018-19 will be held flat in real terms. However, the government will continue to prioritise capital investment over the medium to longer term so Public Sector Gross Investment (PSGI) will increase in line with GDP from 2018-19.

e. Reforms to strengthen the fiscal framework

   Budget 2014 capped welfare spending in scope for the years 2015-16 to 2018-19 at the level of the independent OBR's forecast, as published in their March 2014 'Economic and fiscal outlook'. The welfare cap will ensure that significant increases in spending do not go uncorrected. A forecast margin of 2% above this level will ensure that policy action is not triggered by small fluctuations in the forecast, but will not allow for discretionary policy action which breaches the level of the cap. As set out at Autumn Statement 2013 the cap will apply to all welfare spending in Annually Managed Expenditure with the exception of the state pension and the automatic stabilisers.

Autumn Statement 2013 announced that over the course of 2014 the government will begin a review of the current fiscal framework. At Budget 2010 the government said it would revisit the future of the fiscal framework once the public finances were closer to balance. The current Charter for Budget Responsibility lapses at the end of this Parliament. The fiscal mandate as specified in the Charter is the measure that the OBR uses to assess the government's performance against its targets. The 2014 framework review will consider several questions, including:

- What is the appropriate time horizon for the fiscal mandate once the structural current deficit is closer to balance?
- How fiscal credibility could be further enhanced by a stronger parliamentary commitment to the path of consolidation in 2016-17and 2017-18?

The outcome of the review will inform an updated 'Charter for Budget Responsibility' which will be presented to Parliament alongside Autumn Statement 2014.

3. Medium-term projections, and change since last submission *(required for all members)*:

All numbers given for public sector aggregates (general government plus public corporations) – based on OBR's March 2014 Economic and fiscal outlook*							
	Outturn	**Forecast**					
	2012-13*	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Debt[1]	74.2	74.5	77.3	78.7	78.3	76.5	74.2
ppt change	-1.7	-4.7	-5.3	-6.4	-7.3	-8.3	-
Deficit[2,3]	7.3	6.6	5.5	4.2	2.4	0.8	-0.2
ppt change	-0.5	-0.9	-1.0	-1.3	-1.3	-1.5	-
CAPB[3]	1.0	-2.5	-1.9	-0.6	1.0	2.2	3.0
ppt change	+0.5	-0.2	-0.7	-0.3	-0.4	-0.3	-
Cyclically-adjusted surplus on current budget[4]	-3.5	-2.8	-2.2	-1.5	-0.2	0.7	1.5
ppt change	+0.5	+0.0	-0.5	-0.3	-0.3	-0.1	-

[1]Public sector net debt

[2]Public sector net borrowing

[3]Excludes the transfers associated with the Royal Mail Pension Plan in 2012-13 and ongoing between the Exchequer and the Bank of England's Asset Purchase Facility

All numbers given for public sector aggregates (general government plus public corporations) – based on OBR's March 2014 Economic and fiscal outlook***							
	Outturn	Forecast					
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19

[4]The UK's fiscal mandate uses this fiscal aggregate

*** Figures presented on a fiscal year basis.**

****Illustrates change between March 2014 forecast and equivalent numbers as set out in March 2013 alongside Budget 2013.**

***** The next forecasts period will be released on the 3rd December. The above numbers are consistent with ESA 95 methodology.**

4. Economic Assumptions, and change since last submission *(required for all members)*:

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

	Outturn	Estimate	Projections				
	2012-13*	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Real GDP growth	0.3	2.3	2.6	2.4	2.6	2.6	2.4
*ppt change***	*+0.1*	*+1.5*	*+0.6*	*0.0*	*-0.1*	*-0.2*	-
Nominal GDP growth	1.4	4.7	4.6	3.9	4.6	4.5	4.4
ppt change	*+0.1*	*+1.5*	*+0.6*	*+0.3*	*+0.1*	*-0.1*	-
ST interest rate	0.7	0.5	0.6	1.3	2.0	2.6	3.1
ppt change	*0.0*	*-0.1*	*-0.1*	*+0.4*	*+0.6*	*+0.6*	-
LT interest rate	1.6	2.6	2.9	3.3	3.6	3.9	4.0
ppt change	*-0.2*	*+0.2*	*+0.2*	*0.0*	*0.0*	*0.0*	-

*** Figures presented on a fiscal year basis.**

****Illustrates change between March 2014 forecast and equivalent numbers as set out in March 2013 alongside Budget 2013**

ANNEX 2: NEW POLICY COMMITMENTS

All of the below are new policy commitments.

These areas include:

1. Macroprudential policy/Financial regulation

Strengthening the UK Resolution Regime for Banks and Investment Firms	Transposition of the European Bank Recovery and Resolution Directive (BRRD) in order to further develop the UK regime for resolution of banks and investment firms
Implementation path and expected date of implementation	A consultation on transposition of the BRRD, seeking industry views on the UK's approach to implementation, recently closed. The implementing legislation is now being finalised. The new provisions, will come into force in January 2015. They will include: • A power for the Bank of England to "bail in" the liabilities of a failing bank – cancelling or reducing creditors' claims to the extent necessary to recapitalise the bank. This stabilises the bank, limiting the impact on the economy, and enables the causes of the failure to be addressed. • Enhanced cooperation between European member States and other countries, enabling regulators to manage the failure of large, cross-border banks. • A requirement for banks to meet a minimum requirement for eligible liabilities. This is requirement to hold a certain level of own funds and liabilities that are most easily and credibly loss-absorbing in the event of distress or failure of a bank. Measures to limit the use of public funds to manage the failure of banks, and arrangements to ensure that where there are costs of resolution that cannot be borne by shareholders or creditors, industry meets those costs. • A requirement on banks to ensure that core retail banking services must be in a legally, financially and operationally independent subsidiary from any trading or investment banking activities.
What indicator(s) will be used to measure progress?	Legislation will be in place by January 2015.
Explanation of additionality (where relevant)	The Independent Commission on Banking recommended a number of reforms in order to improve stability and competition in UK banking. The Commission estimated the annual cost of financial crises (based on historical data) at c.2.8% of GDP. These reforms are designed to reduce both the cost and the likelihood of financial crises in the future. However, their precise effect is difficult to determine. It is also difficult to split out the effects of these reforms compared to other reforms introduced as a result of the Commission's recommendation and wider financial sector reforms.

Ring-fencing of core retail banking services	Core retail banking services must be in a legally, financially and operationally independent subsidiary from any trading or investment banking activities
Implementation path and expected date of implementation	Ring-fencing was introduced with the Financial Services (Banking Reform) Act which received royal assent 18 December 2013. Banking reform 'scope of the ring-fence' secondary legislation was laid before Parliament 25th June 2014. Banking Reform Pensions Regulations should be in place by the end of this parliament. The Prudential Regulation Authority expects to publish its rules and supervisory statements during the first half of 2016. Ring-fencing will be in place by the start of 2019.
What indicator(s) will be used to measure progress?	The PRA will work closely with and will monitor the banks to ensure that ring-fencing is implemented.
Explanation of additionality (where relevant)	Ring-fencing supports financial stability by insulating retail and small business deposits and payments services from shocks originating elsewhere in the global financial system and making ring-fenced banks simpler and more resolvable - so core services can be kept running even if a ring-fenced bank or its wider group fails.

2. Investment and Infrastructure

High Speed Rail	Accelerating the delivery, and maximising the benefits of High Speed 2
Implementation path and expected date of implementation	The UK is undertaking a two phase programme for its new High Speed Rail Link between London and major cities in the North of England. Phase One will link London with Birmingham and is planned for completion by 2026. Phase Two will link Birmingham with Manchester and Leeds along two spurs. The government has now accepted the recommendation of the Higgins report that delivery of Phase Two be accelerated. The government is now looking at how to implement this recommendation, which will see the Crewe Spur open by 2027 and Leeds and Manchester Spurs open by 2032. High Speed Two will act as an economic catalyst for growth in the North of England, and procuring Phase Two faster will realise those economic benefits sooner.
What indicator(s) will be used to measure progress?	Work on accelerating Phase Two of High Speed Two is at an early stage and formal metrics have not yet been identified.
Explanation of additionality (where relevant)	Although High Speed 2 has been in planning for many years, Sir David Higgin's report was only published in March 2014. Therefore the decision to accelerate Phase Two so that economic benefits can be realised in the 2020's is a new policy.

Gain Share Mechanism	Introducing a Gain Share Mechanism for Cambridge
Implementation path and expected date of implementation	The Gain Share Deal provides Cambridge with the funds it requires to undertake a series of investments designed to improve the local economy. Funding will begin in 2015-16. Further funding is dependent on the initial government investment having quantifiable results. Further investment decisions will take place every 5-6 years.
What indicator(s) will be used to measure progress?	The government and Cambridge Local Authority will agree a series of indicators to measure the impact of the initial investments. The planned investment will have an immediate positive impact on the number of jobs available.
Explanation of additionality (where relevant)	This is a new policy area.

Changes to planning process	Changes to planning process: Introduction of new Planning Court
Implementation path and expected date of implementation	To speed up the planning system and reduce risks for private sector investors (and therefore encourage them to take on more projects), a new Planning Court was introduced on 6 April 2014.
What indicator(s) will be used to measure progress?	The new Planning Court will speed up projects undertaken at local authority level that are subject to legal challenge, so the exact impact will vary between local authorities. However the time taken to process and deliver planning decisions will be on the public record and scrutinised.
Explanation of additionality (where relevant)	This is a new innovation.

Energy Strike Prices	Using Strike Prices to reduce the uncertainties around energy prices
Implementation path and expected date of implementation	The UK has introduced Strike Prices in the energy market, allowing companies to be more certain of their returns for investment by reducing the uncertainties caused by fluctuations in prices. Initial Strike Prices have now been set through until 2018-19.
What indicator(s) will be used to measure progress?	Progress on Implementation will be reported on by the Department for Energy and Climate Change and should show an increase in investment by energy companies. Energy security is a significant factor in building confidence in markets and successful implementation of this policy should be reflected in confidence in the UK economy.
Explanation of additionality (where relevant)	Although the development of the Strike Price policy has been ongoing for several years, Strike Prices were themselves set in December 2013.

UK Guarantee Scheme	Guarantee issued for the Mersey Gateway Bridge and other projects
Implementation path and expected date of implementation	The issuing of a UK Guarantee has allowed construction of the Mersey Gateway Bridge to begin construction. This project is due for completion in Autumn 2017. The government has further announced up to £1 billion of borrowing by the Greater London Authority for the Northern Line underground extension to Battersea. The government can also confirm it has approved guarantees for Ineos Grangemouth Ethane Import and Storage Facilities (£230/€285m) and Speyside CHP Plant (£48.2m).
What indicator(s) will be used to measure progress?	The Bridge is a Public-Private Partnership project. Metrics for success will include completion on schedule and on budget, with risks to delivery successfully mitigated. Ineos is investing in a (US ethane) gas import terminal as part of its business transformation strategy for its chemicals operations in the UK. A shortage of reliable feedstock from the BP owned 'forties pipeline' had previously threatened to close the plant employing c.800 people. Ineos is one of the largest chemical companies in the world and would rank as the UK's fourth biggest manufacturing business in terms of sales, after Royal Dutch Shell, BP and Unilever (if publicly listed). The guarantee issued to Speyside will be used for the construction of a combined heat and power plant which will generate both electricity and heat.
Explanation of additionality (where relevant)	Although UK Guarantees have been available since 2012 the Guarantee for the Mersey Gateway Bridge was issued in Spring 2014, with Ineos and Speyside signed in Summer 2014.

Venture Capital Catalyst Fund	To increase the availability of later stage VC to SMEs
Implementation path and expected date of implementation	After a successful £25m pilot in 2013, the Catalyst Fund is currently being extended to £125m.
What indicator(s) will be used to measure progress?	Value of investments made by the Catalyst Fund and the associated total lending to smaller business facilitated. *[So far the Catalyst Fund has made 2 investments totalling £13 million to funds with aggregate investment capacity of at least £150 million.]*
Explanation of additionality (where relevant)	The additional funding granted at Autumn Statement was made on the strength of the pipeline of potential investments and will enable the Catalyst Fund to continue to address market gaps in the provision of later stage venture capital.

Wholesale Guarantees	To incentivise banks to lend to smaller businesses by making it more capital-efficient to do so
Implementation path and expected date of implementation	The pilot programme was launched in March 2014 and the first transactions are expected to be structured in Autumn 2014. Subject to the positive outcomes of these, the programme will be opened to further transactions.
What indicator(s) will be used to measure progress?	Bank lending rates to SMEs.
Explanation of additionality (where relevant)	Banks have been reluctant to lend to SMEs, so this programme encourages banks to do so by making lending more capital efficient.

Asset Finance Funding Vehicle	To facilitate the provision of asset finance to smaller businesses
Implementation path and expected date of implementation	The programme is still in the development phase, with ongoing discussions with the European Commission to secure State Aid approval, which is expected later this year.
What indicator(s) will be used to measure progress?	Success rate of smaller businesses securing asset finance funding.
Explanation of additionality (where relevant)	Since the crisis, lease funding has been less available to SMEs from the major bank and there have not been alternative providers to fill the gap. This scheme aims to restore the asset finance market for SMEs as well as diversifying it to promote resilience in the future.

British Business Bank	To make finance markets work better for small firms, allowing them to prosper, grow and support the UK economy
Implementation path and expected date of implementation	The British Business Bank was launched in October 2013 and is bringing the management of all central government schemes into a single institution. The Bank is currently operating out of the Department of Business, Innovation and Skills and expects to be fully operational in Autumn 2014, pending State Aid approval.
What indicator(s) will be used to measure progress?	Total new lending and investment generated by the Bank and number of businesses benefiting both in relation to individual programmes and the Bank as a whole. Business Bank programmes facilitated a total of £2.3bn of new lending and investment in the year to end June 2014. 35,000 businesses are benefiting from its programmes. It aims to unlock £10 billion of finance to business in the next five years.
Explanation of additionality (where relevant)	The funding allocated from the Business Finance Partnership at Autumn Statement 2013 will enable the Bank to address specific gaps in finance markets for smaller businesses, including in later stage venture capital and in the flow of finance from banks and from asset-based finance.

Business Finance Partnership (BFP)	To promote non-bank lending to mid-sized companies and through non-traditional channels to businesses
Implementation path and expected date of implementation	The Business Finance Partnership (BFP) was launched at Autumn Statement 2011. £863 million has been committed to the mid-cap tranche, of which £320.4m has already been invested. £87m was committed to the small business tranche, all of which has been committed to finance providers for smaller businesses.
What indicator(s) will be used to measure progress?	Investments made by the schemes and the additional lending generated to businesses. *[The programme has already generated over £2 billion of lending to businesses.]*
Explanation of additionality (where relevant)	£250 million saved from the scheme was given to the Business Bank for new schemes at Autumn Statement 2013 after the BFP was able to achieve its policy objectives with less than expected funding.

Improving access to SME credit data	The policy will require banks to share data on their SME customers with Credit Reference Agencies (CRAs) and also require CRAs to ensure equal access to that data for lenders
Implementation path and expected date of implementation	The government is legislating to enact this policy. At Autumn Statement the government announced it would consult on proposals to require banks to share more information on their SME customers with other lenders through credit reference agencies (CRAs), levelling the playing field for challenger and non-bank lenders. The government confirmed at Budget 2014 that it would legislate, and provisions were introduced last month in the Small Business Enterprise and Employment Bill. This should receive Royal Assent early next year. Implementation would be later in the year.
What indicator(s) will be used to measure progress?	At present the largest four banks account for over 80 per cent of UK SMEs banking relationships. The proposals are intended to make it easier for SMEs to seek a loan from a lender other than their bank, and this is one of a number of measures the government has introduced, and will continue to introduce, improving competition in banking and access to finance for SMEs.
Explanation of additionality (where relevant)	

Extending ISA-qualifying investments to include peer-to-peer loans	ISAs are savings accounts in which the dividends, gains and interest arising are tax-free. The government has announced that peer-to-peer (P2P) loans will become ISA-qualifying investments. Allowing P2P lending within ISAs should help improve competition by supporting this small but rapidly growing sector
Implementation path and expected date of implementation	The commitment was made in March 2014. Allowing peer-to-peer loans within ISAs will require detailed technical changes to the ISA regulations, which are set out in secondary legislation. The government has consulted with industry on these changes and launched a public consultation in October 2014 to engage with a wide range of stakeholders. The government will then take account of the responses to the consultation when drafting the revised regulations.
What indicator(s) will be used to measure progress?	ISA managers are required to report annually on the types of investments held within the ISAs they manage. The government will therefore be able to monitor the value of peer-to-peer loans held within ISAs in the future. In research conducted by the P2P industry, over 40 per cent of individuals lending via P2P platforms said they would be likely to lend more if they could place their loans into an ISA.
Explanation of additionality (where relevant)	

Increase of the Annual Investment Allowance (AIA)	Increase of the AIA to £500k and extension to 31 December 2015
Implementation path and expected date of implementation	The increased AIA is available on expenditure made from 1 April 2014 for corporation tax and 6 April 2014 for income tax to 31 December 2015, after which it will return to £25,000. This will particularly benefit SME firms, with up to 4.9 million firms – 99.8% of businesses – receiving 100% up-front relief on their qualifying investment in plant and machinery.
What indicator(s) will be used to measure progress?	The measure will be monitored through information collected from tax returns and through regular engagement with businesses and their representative bodies.
Explanation of additionality (where relevant)	The previous £250,000 increased AIA was due to run until 1 January 2015, after which it would drop back to £25,000. The measure increases the AIA from £250,000 to £500,000 from 1 April 2014 for corporation tax and 6 April 2014 for income tax to 31 December 2015, after which it will return to £25,000.

R&D tax credit	Raising the rate of the R&D tax credit payable to loss making SME companies from 11% to 14.5%
Implementation path and expected date of implementation	This measure was introduced in Budget 2014. It has been in effect since 1 April 2014 with the reliefs administered by HMRC. Over the next 5 years this increase will support £1.3 billion of investment in innovation.
What indicator(s) will be used to measure progress?	Uptake of the number of companies claiming the relief and amounts of relief claimed are regularly monitored, and published as National Statistics.
Explanation of additionality (where relevant)	The existing policy was an 11% payable credit for loss-making SMEs on their qualifying R&D expenditure. In Budget 2014, this was increased to 14.5%. This therefore strengthens the previous policy.

Social investment tax relief	This measure was introduced in Budget 2014 with a rate of income tax relief of 30
Implementation path and expected date of implementation	The social investment tax relief applies to qualifying investments made on or after 6 April 2014. This rate will allow eligible social enterprises to receive a maximum of around £270,000 investment over 3 years.
What indicator(s) will be used to measure progress?	The government will evaluate the impact of the relief two years after its introduction.
Explanation of additionality (where relevant)	

Seed enterprise investment	Seed enterprise investment scheme made permanent
Implementation path and expected date of implementation	Legislation to make the Seed enterprise investment scheme (SEIS) permanent was introduced in the Finance Act 2014.
What indicator(s) will be used to measure progress?	HM Revenue and Customs will monitor take up of the reliefs in terms of numbers of investors and investees, amounts of investment and the distribution of levels of investment. This information will be published on HMRC websites in due course.
Explanation of additionality (where relevant)	The measure will support the government's growth agenda by continuing to help small, riskier, early stage UK companies, which may face barriers in raising external finance, to attract investment, making it easier for these companies to become established and to grow.

Financial Technology	Supporting the development of an innovative and Competitive FinTech sector in the UK
Implementation path and expected date of implementation	The government will introduce legislation in the Small Business, Enterprise, and Employment Bill which will require the large banks to forward on details of SMEs rejected for loans to third party platforms that can be accessed by challenger banks and alternative finance providers. This is currently in the Commons Committee Stage. This will help FinTech firms to enter and expand the market for SME lending. We have agreed that the banks will make available transaction-level personal current account date in a standardised format, which will help FinTech companies develop comparison tools. We will launch a major programme of work exploring the potential of digital currencies and associated technology, starting with the launch of a Call for Information. Furthermore, the British Business Bank has entered into a partnership with Innovate Finance (a new trade body representing the FinTech industry in the UK). As announced by the government on 6 August, to enable both government and industry to stay ahead of the curve in this fast-paced sector, the Government Office of Science is conducting a Blackett Review looking ahead 10 years and identifying the technologies, enablers and barriers that will shape the future of the UK FinTech sector. In addition, UK Trade and Investment's marketing strategy on FinTech was also announced on 6 August, which aims to make the UK a destination of choice for setting up a FinTech company and to encourage companies all over the world to use the UK as the springboard for internationalising their FinTech business.
What indicator(s) will be used to measure progress?	Work on FinTech is at a relatively early stage and formal metrics have not yet been identified.
Explanation of additionality (where relevant)	

Business Rates	A series of measures to reduce the burden of business rates, to support businesses investment
Implementation path and expected date of implementation	At Autumn Statement 2013, a series of measures costing £2.5bn (over the next 5 years) were announced to reduce the burden of business rates, to support businesses investment and employment, including: - A 2 per cent cap in inflation increases in business rates in 2014-15 - A continuation of the doubling of Small Business Rate Relief in 2014-15 - Support for the high street, including a £1,000 business rates discount for low value retail premises, pubs and restaurants for two years and a reoccupation relief to get empty shops back into use. - A review investigating long-term reforms to business rates administration. These policies came in effect on 1 April 2014 and remain in place over 2014/15. The relief is being applied by local authorities following legislation and guidance passed by HM Treasury and the Department for Communities and Local Government. Local authorities are being fully reimbursed for any loss of receipts.

What indicator(s) will be used to measure progress?	Local authorities will keep track how much relief is granted to businesses.
Explanation of additionally (where relevant)	

3. Employment

National Minimum Wage	Increasing the Apprentice minimum wage by 2% from October 2014
Implementation path and expected date of implementation	The increase will come in to force from October 2014.
What indicator(s) will be used to measure progress?	There will be a UK wide apprenticeship pay survey conducted in the spring of 2014 and this is likely to be repeated annually. To ensure that employers comply with the NMW rules the government is: • Ensuring that apprentice complaints are being prioritised by HMRC. • Increasing awareness of the minimum wage amongst both employers and apprentices.
Explanation of additionality (where relevant)	

NICs for under-21s	Abolition of employer National Insurance contributions for under-21 employees earning less than £813 a week from April 2015 As a result: an employer will save over £500 for an under 21 year old employee earning £12,000, and over £1,000 for one earning £16,000
Implementation path and expected date of implementation	The abolition of employer NICs for under 21s will come into effect from April 2015. It will be delivered through employers' payroll systems.
What indicator(s) will be used to measure progress?	Data collected by HMRC should be able to show uptake of the NICs relief.
Explanation of additionality (where relevant)	This measure combines with the Youth Contract programme for young people. This measure ensures a significant incentive is given to business to increase hiring of young people. In particular this measure will provide SMEs with more incentives to higher young people and grow their businesses.

Apprenticeship Grants for Employers Scheme	Extending the Apprenticeship Grant for Employers (AGE) scheme to provide over 100,000 grants to employers
Implementation path and expected date of implementation	This is an extension of an existing scheme. An additional £85m will be provided, on top of the existing budget, in the 2014/15 academic year and £85m will be provided for the 2015/16 year.
What indicator(s) will be used to measure progress?	We will monitor progress by looking at the number of AGE grant payments made to employers in 2014/15 and 2015/16.
Explanation of additionality (where relevant)	This is an extension of the AGE scheme that was introduced in 2012. The original programme was very successful and as a result there were calls to extend the programme. This extension will help employers to take on an additional 100,000 apprentices in 2014/15 and 2015/16.

Help to Work	Long-term unemployed people who complete the Work Programme receive additional support to get them back to work. Either an intensive regime of Jobcentre Plus support; daily attendance at the Jobcentre; or a 6-month Community Work Placement
Implementation path and expected date of implementation	The first jobseekers took part in the programme from April 2014, across Britain. The investment will last for four years. The government will invest £700 million over 4 years in a new Help to Work scheme – a package of support aimed at the very long-term unemployed. This will require all Jobseeker's Allowance claimants who are still unemployed after 2 years on the Work Programme to undertake intensive, often daily, activity to improve their employment prospects, or put something back into their community, with swift and severe sanctions for those who fail to comply.
What indicator(s) will be used to measure progress?	The programme will reduce the long term claimant count (the number claiming Jobseekers Allowance for over two years) during its first year. Currently this stands at 180,000.
Explanation of additionality (where relevant)	The Work Programme was previously announced to support people unemployed for over one year. This new measure provides additional support for those who finish the Work Programme without finding employment.

Supporting Work	A package of reforms that will significantly increase the support for and requirements on claimants of out-of-work benefits
Implementation path and expected date of implementation	This work is being delivered in Jobcentres across Britain from April 2014.
What indicator(s) will be used to measure progress?	The claimant count will fall. This will reflect the faster transition into employment for those out of work.

Explanation of additionality (where relevant)	This enhances the existing service offered to the unemployed by introducing intensive job search activity and support earlier.

Tax-free child care	**To help working parents with the cost of childcare, and to ensure they are supported to go out to work, if they want to**
Implementation path and expected date of implementation	Tax-free childcare was announced in Budget 2013, and the government committed to launching the new scheme from autumn 2015.
What indicator(s) will be used to measure progress?	The scheme will be subject to a post-implementation review two years after its launch. We will also conduct an analysis of the effectiveness of TFC, including the take-up and wider impact on different stakeholders. Specific indicators are under development.
Explanation of additionality (where relevant)	

Universal credit	**Additional £200 million support for childcare being provided in Universal Credit**
Implementation path and expected date of implementation	£200m of additional childcare support will made available at Autumn Statement 2014 to allow 85% of eligible childcare costs to be claimed by all families in work and on Universal Credit.
What indicator(s) will be used to measure progress?	Those in receipt of Universal Credit and in work will be able to access 85% of eligible childcare costs.
Explanation of additionality (where relevant)	Extension of existing supping for childcare being provided in Universal Credit.

Cap on student numbers	**Removal of the cap on student numbers at publicly-funded higher education institutions in England by 2015-16**
Implementation path and expected date of implementation	The government will remove the cap on student numbers at publicly-funded higher education institutions in England by 2015-16. For 2014-15, the government will significantly increase the cap for HEFCE-funded institutions by 30,000, allowing those institutions that want to begin expanding straight away to do so, and encouraging competition.
What indicator(s) will be used to measure progress?	UK government will continuously monitor and publish updates on student numbers.
Explanation of additionality (where relevant)	The student number control limits universities to a maximum number of students, although in 2011 reforms were implemented to remove the cap on the highest grade students (ABB+).

	This is the removal of the cap on all student numbers at publically funded institutions. It will enable institutions to recruit an estimated 60,000 young people a year. The graduate wage premium has held up despite expansions in the number of students shows both that the demand for graduates remains high and that higher education is a very good investment for those who want to pursue it. Graduate skills are crucial for future growth in the economy. ONS data shows the percentage of the population classed as graduates has been rising steadily from 17% in 1992, to 38% in 2013. Across the OECD the share of employment that is in high skilled occupations has risen by nearly 20 percent since 1998; the share of employment in low skilled occupations has fallen by more than 12%. Growth accounting analysis indicates that graduate skills accumulation contributed roughly 20% of GDP growth in the UK from 1982-2005 Taking account of indirect benefits (e.g. productivity spillovers from increased innovation) suggests a 1% increase in the share of the workforce with a university degree raises long-run productivity by between 0.2% and 0.5%.

4. Competition

One-in, Two-out	The "One-In Two-Out" policy on new regulation requires that no new regulation is introduced unless it is off-set by deregulation of twice the equivalent value
Implementation path and expected date of implementation	The government continues to implement this key pillar of the deregulatory agenda. The government will report on progress made on reducing the overall net burden of regulation through the One-in, Two-out target and other deregulatory programmes, by the end of the Parliament in 2015.
What indicator(s) will be used to measure progress?	Progress towards the government's deregulatory target as well as new regulation coming into force is published every 6 months in the Statement of New Regulation. All figures are validated by the Independent Regulatory Policy Committee.
Explanation of additionality (where relevant)	The One-In, Two-Out policy continues to reduce significantly the burdens on business from regulation, which requires government Departments to find £2 worth of deregulatory OUTs for every £1 of regulatory INs.

Red Tape Challenge	The Red Tape Challenge is a flagship policy which gets rid of ineffective regulation and asks the public to suggest which existing regulations should be improved or abolished
Implementation path and expected date of implementation	Implementation of regulation identified to be scrapped or improved through the Red Tape Challenge continues and will be reported on by the end of the Parliament in 2015. So far more than 3,000 regulations have been identified for scrapping and improvement– to ensure that outdated, burdensome or over-complicated regulations are abolished or improved –

	with more than 1000 regulations already abolished or improved, with many more due in the coming months.
What indicator(s) will be used to measure progress?	Progress on the Red Tape Challenge target is kept up to date on the Red Tape Challenge webpage: http://www.redtapechallenge.cabinetoffice.gov.uk/home/index/ Final figures will be published by the end of the Parliament in 2015.
Explanation of additionality (where relevant)	The Red Tape Challenge continues to deliver significant returns to the business community; new figures will be compared with the current level of about 800 regulations already abolished or improved.

Small and Micro-business assessments	A new Small and Micro-Business Assessment for all domestic measures came into force on 1 April 2014
Implementation path and expected date of implementation	The assessment replaces a moratorium on new regulation for micro-businesses and start-ups, which was in place until 31 March 2014. This assessment is now a standard element of the government's Impact Assessments.
What indicator(s) will be used to measure progress?	The small and micro-business assessment is an essential part of the government's Impact Assessment template. All government Departments must consider how regulation will impact on small and micro businesses, which is assessed by the independent Regulatory Policy Committee. If at any stage, unnecessary burdens on small businesses are identified, proposals will only be cleared if an exemption is granted to smaller businesses - or if disproportionate burdens on small businesses are fully mitigated. From 1st April 2014, all published Impact Assessments covering new regulation will contain a small and micro-business assessment.
Explanation of additionality (where relevant)	The small and micro business assessment extends the previous exemption of businesses with fewer than 10 employees from burdensome new regulations, to businesses with up to 50 staff.

Creation of the new Competition and Markets Authority (CMA)	The functioning of the UK's competition regime is being improved through the creation of the Competition and Markets Authority (CMA) as the UK's lead competition and consumer body
Implementation path and expected date of implementation	The CMA became fully operational in April 2014 to help stimulate economic growth and innovation and help ensure consumers get a good deal. The CMA was formed from the merger of the UK's existing competition bodies, the Competition Commission and most functions of the Office of Fair Trading. The merged body has stronger powers and more robust decision-making systems and aims to bring greater coherence, flexibility, speed and transparency in the operation of the competition regime. To help ensure the success of the CMA, Autumn Statement 2013 announced an increase in the CMA's funding by £12 million in 2014-15. This additional funding will enable the CMA to deliver a step change in competition enforcement from its first year, tackling cartels more effectively and opening up markets to new entrants, disruptive technologies and greater investment.

What indicator(s) will be used to measure progress?	The CMA has published a number of targets for its activities for 2014/15, and reports on its activities in its annual report at the end of the financial year. The CMA also has a target to derive £10 of direct economic benefit for every £1 spent, and will report on its achievements in that area as well.
Explanation of additionality (where relevant)	The benefit to cost ratio reported for 2012/13 for the Office of Fair Trading (the latest comparable figure available) was 8.7 to 1.

Creation of the UK Competition Network (UKCN)	The UK Competition Network (UKCN) was established with the aim to both prevent anti-competitive behaviour and further open markets to competition
Implementation path and expected date of implementation	In December 2013, the CMA and UK sector regulators established the UK Competition Network (UKCN). The UKCN aims to both to prevent anti-competitive behaviour and to open further markets to competition. The UKCN commits these bodies to work together to ensure the consistent and effective use of competition powers across all sectors in the UK economy through: engagement in regular strategic dialogue; sharing of resources and expertise; and co-operation on enforcement and other action.
What indicator(s) will be used to measure progress?	The CMA is required to produce an annual report on concurrency. It has already produced a baseline report which was published in April 2014, which provides information against which progress can be measured. In that report, the CMA also invited interested parties—including parties outside the regulator community—to comment on issues that should be covered in future annual concurrency reports, which may provide additional areas where progress can be measured.
Explanation of additionality (where relevant)	

Creation of the UK Regulation Network (UKRN)	The UK Regulators' Network (UKRN) was formed to improve efficiency and consistency of economic regulation, and to increase awareness of how economic regulation works
Implementation path and expected date of implementation	In March 2014, the UK's sector regulators formed the UK Regulators' Network (UKRN). Through joint working, the UKRN will tackle some of the most pressing issues for the regulated sectors. The UKRN's work will be on-going; it published its workplan in May which included: • facilitating efficient multi-sector infrastructure investment projects; • promoting consumer engagement and switching in regulated markets; • assessing cross-sector network resilience and cyber-security; and • developing a clear understanding of the overall affordability of regulated services for consumers.

	The Government is consulting on how it can best support closer cooperation between the regulators.
What indicator(s) will be used to measure progress?	Updates from regulators on areas listed by the UKRN as targets for its work will be one way of measuring success. The government's consultation may also lead to specific measurable action that supports the work of the UKRN.
Explanation of additionality (where relevant)	The UKRN replaced the Joint Regulators Group. Unlike its predecessor, the new group has a fully funded secretariat to ensure that the work plan receives sufficient priority along with expert advisors to provide review and challenge.

5. Trade

Making it easier for businesses, including SMEs, to trade across borders and increase participation in global value chains	Supporting further Authorised Economic Operator (AEO) mutual recognition agreements (MRAs) with third countries
Implementation path and expected date of implementation	The World Customs Organisation's Framework of Standards (WCO SAFE) sets international customs safety and security standards for Authorised Economic Operators (AEO). The EU implemented AEO on 1 January 2008. The standard is applied and recognised across all 28 Member States (MSs). Whilst its WCO origin is based on enhanced safety and security the EU has extended the concept to customs procedures by linking AEO status with access to customs simplifications. The aim is to provide participating business with an internationally recognised quality mark which demonstrates that they operate within a secure supply chain and their internal customs controls and procedures are efficient and compliant. Mutual Recognition agreements are in place with third countries (currently US/Japan/Switzerland) which entitle an EU AEO to faster clearance at the frontier (less control) - this means savings in time and money for our businesses. The agreements are reciprocal but the benefits and to whom they apply may differ between agreements.
What indicator(s) will be used to measure progress?	The Mutual Recognition Agreements are projects coordinated and managed by the EU Commission with MS support and participation. A new agreement was signed with China on 16 May, an identified area of export growth for the UK, and businesses with the appropriate AEO status should see less controls on their goods – positive moves for those businesses where delays can be costly – and more confidence in their supply chains. The UK is participating in an EU-Canada project with an estimated completion date of 2015. HMRC can then focus resources on non-compliant businesses and allow compliant, trusted businesses to enjoy quicker access to customs facilitations and border clearance.
Explanation of additionality (where relevant)	AEO offers opportunities to share security responsibilities with the private sector in exchange for greater facilitation. Such programmes allow Customs to achieve more with less and promote sustainable and long-

	term compliance. Changes to the EU Customs legislation, effective from May 2016, will introduce further benefits for UK businesses.

Making it easier for businesses, including SMEs, to trade across borders and increase participation in global value chains	**Increasing the scope of the Automatic Licensing Verification System (ALVS), which e-enables the write-off of licences**
Implementation path and expected date of implementation	ALVS is a cross-Government initiative that improves border processes and removes administrative burdens by allowing for the automatic verification of licenses for importers of live animals, products of animal origin (POAO), food not of animal origin (FNAO) and illegal unreported and unregulated (IUU) catch fish. A phased Roll Out commenced in May 2014 and split over 8 phases which will see full implementation before the end of 2014.
What indicator(s) will be used to measure progress?	Replacing NCH manual clearance functions with immediate customs clearance will remove approximately 150,000 documentary checks and associated manual customs releases per annum. Significant trade benefits and administrative cost savings will also be accrued as a result of reduced paperwork and cost of delays incurred by the manual process. Trade customer benefits are estimated at £360,000 per annum). These will start to be recognised partially during the phased roll out and be fully achieved by the end of 2014.
Explanation of additionality (where relevant)	There is also an environmental benefit in the annual removal of an estimated near million pieces of paper from the process (c£9k cost saving - Environmental Waste Calculator) and a potential impact cost (incurred demurrage charges and loss of value) associated with delays to Customs release.

Trade and development	**10-year HMRC programme, funded by DFID, to provide tax and customs capacity building support in developing countries. The first programmes will be in Southern Africa, Tanzania, Ethiopia and Pakistan**
Implementation path and expected date of implementation	The DFID-funded HMRC Capacity Building Unit's work aims to support developing countries to collect the taxes they are owed, improving the investment climate and creating more favourable conditions for domestic and international trade. The Unit has made substantial progress since it was set up in February 2014. We have hosted delegations from Pakistan and Ethiopia building solid relationships with their tax authorities, and carried out scoping missions to Ethiopia, Tanzania, Rwanda and Pakistan to discuss their needs and priorities for HMRC support. The first long term in-country tax expert was on the ground in Tanzania in July 2014 and we aim to have further long term advisers for Pakistan and Ethiopia in post by the end of 2014. We are also considering further areas where the unit can support global development and trade, including scope to: assist customs authorities to implement the World Trade Organisation agreement on trade facilitation; and to extend its geographic coverage to respond to a number of requests for short and medium term technical assistance.
What indicator(s) will be used to measure progress?	Clear objectives and milestones for projects are established at the outset and include:

	• improved tax policy and administration in partner countries that increases their revenue base and creates sustainable domestic financing • Partner countries' tax reform plans are achieved • Unit is providing timely long and short term assistance to partner countries in line with country need
Explanation of additionality (where relevant)	The most effective way to help developing countries collect the tax they are due is to provide technical support to their tax administrations. This has wider benefits to developing countries administrations and global economic stability and growth. Customs and trade facilitation plays a key role in global trade and projects delivered by the unit may include customs elements on a demand-led basis.

6. Any other structural policy

Removing planning obstacles on brownfield housing sites	**Removal of all planning permission obstacles to building on brownfield sites which are suitable for housing**
Implementation path and expected date of implementation	The government is going to require Local Authorities to remove all unnecessary planning obstacles on over 90% of brownfield sites suitable for housing. The government will create a £5m fund to create the first 100 Local Development Orders (LDOs), removing planning obstacles on the first 10,000 homes. Building on that, the government will compel councils to put LDOs on over 90% of brownfield sites by 2020, and will consult on a range of sanctions to make that happen.
What indicator(s) will be used to measure progress?	Over 90% of brownfield sites will have permitted development rights by 2020. The government will consult on monitoring systems as part of a consultation later this year.
Explanation of additionality (where relevant)	This is a new policy.

New housing zones	**Creation of new housing zones to get brownfield sites shovel-ready, in which Local Authorities bring together land, remove planning obstacles, remediate the land, invest in infrastructure and sell the plots to developers to get them built**
Implementation path and expected date of implementation	The government will offer £400m to support remediation and infrastructure on brownfield sites. In London, the government will: • Make £200m available, match-funded by the Greater London Authority. This will fund 20 housing zones, with capacity for potentially up to 50,000 homes. The government will also: • Provide specialist commercial and planning expertise;

	• Streamline and consider improvements to compulsory purchase powers; and • Work with him to make public sector land available for the zones. Outside London the government will: • Invite bids for £200m funding to fund 10 housing zones; • Provide specialist commercial and planning expertise; • Streamline and reform compulsory purchase powers; and • Work with Local Authorities to make public sector land available for the zones.
What indicator(s) will be used to measure progress?	Government will designate zones on an ongoing basis.
Explanation of additionality (where relevant)	This is a new policy.

Support the building of new homes	A number of measures to support the building of over 200,000 new homes
Implementation path and expected date of implementation	Helping a further 120,000 households purchase a new-build home by extending the Help to Buy: equity loan scheme from April 2016 to March 2020; introducing a new loan scheme to kick-start stalled housing sites held by SME builders which will deliver up to 15,000 units; £200m investment and a new Urban Development Corporation (UDC) to deliver the first new Garden City in England for around 100 years and a £150m estate regeneration fund – to help turn around some of the most deprived housing estates and boost housing supply.
What indicator(s) will be used to measure progress?	The Department of Communities and Local Government continuously review the implementation of housing schemes.
Explanation of additionality (where relevant)	This is a new policy.

Affordable housing	A number of measures to support the building of over 200,000 new homes
Implementation path and expected date of implementation	£4.5 billion of public investment has already delivered 125,000 affordable homes and will deliver a total of 170,000 by 2015. Further funding of £3.3 billion will add another 165,000 affordable homes between 2015 and 2018, making this the fastest rate of affordable housing building over a 3 year period for 20 years.
What indicator(s) will be used to measure progress?	The Department of Communities and Local Government continuously review the implementation of housing schemes.
Explanation of additionality (where relevant)	This is a new policy.

COMPREHENSIVE GROWTH STRATEGY:

UNITED STATES

A. ECONOMIC OBJECTIVE AND KEY POLICY COMMITMENTS

Economic Objectives

The key economic objectives of the U.S. Administration are to achieve a sustained, strong pace of economic growth and robust job creation while ensuring sustainable public finances. Our immediate priority is to boost growth and jobs and achieve full employment. In this context, the Administration is aiming for a pace of fiscal consolidation that maintains support for aggregate demand while also gradually reducing the budget deficit, while the Federal Reserve aims for a monetary policy that achieves its twin mandate of full employment and price stability. Over the medium term, the Administration is aiming for stronger growth potential and a fairer and more inclusive distribution of the benefits of increased growth. The Administration's policy agenda is designed to strengthen the economic well-being of the middle class, enhance economic opportunity, including for women, and ensure a sustainable long-run fiscal position. Strengthening education opportunities, addressing long-term unemployment, making pro-growth infrastructure investments, and supporting innovative new technologies are at the forefront of our policy initiatives. An improved fiscal position over the medium term combined with key energy investments will contribute to more balanced growth, while key infrastructure and education and technology investments will contribute to faster and more sustainable growth and will generate positive spillovers to the global economy.

Key Commitments

Supporting demand and boosting long-term growth potential: To boost growth and jobs and close the cyclical gap, while also setting in train stronger and more sustainable medium-term growth, nearly $400 billion in new investments in transportation infrastructure, education, research and innovation, healthcare, and manufacturing technologies; $15 billion in housing and redevelopment investments; student loan relief for 25 million borrowers, and $63 billion in additional federal budget room for FY2014-FY2015.

Additional income and demand support: To boost near-term demand and help address income inequality, raise the incomes of low wage workers and low income families through a $2.85 per hour increase in the federal minimum hourly wage, affecting 19 million workers directly and around 28 million in total, and permanently continue recent expansions to the Child Tax Credit (CTC) and Earned Income Tax Credit (EITC) and double the maximum EITC credit for workers without children from about $500 to about $1,000. The IMF calculates that the combination of the changes to the minimum wage, EITC, and CTC constitutes additional income support of $146.9 billion over ten years.

Employment participation/skills training: To increase labor force participation and improve labor skills, $8 billion to support business/education partnerships to train 1 million workers (mostly the long-term unemployed), and a suite of policies designed to raise female labor participation by promoting an easing of child care costs, removing tax disincentives to work and strengthening workplace flexibility, including by supporting paid leave and the Pregnant Workers Fairness Act and a $75 billion initiative to provide all four year olds from low and moderate income families with access to high-quality pre-school. The President's Council of Economic Advisors estimates that this package of policies will boost female labor force participation by 0.3 percentage point by 2018, and raise GDP by 0.25 percent.

Trade: Boost international trade by securing ambitious, comprehensive trade agreements with Asia-Pacific (TTP) and European (T-TIP) partners and by creating a single window documentation process to facilitate faster documentation on the export and import of cargo.

Comprehensive Immigration Reform: Pass comprehensive immigration reform to further enhance border security, create an earned path to citizenship, hold employers accountable, and bring the United States immigration system into the 21st century. According to non-partisan estimates by the United States Congressional Budget Office, comprehensive immigration reform as specified in the legislation passed by the United States Senate – which is consistent with proposals the Administration supports – would increase GDP by an estimated 3.3 percent in 2023.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

The Congressional Budget Office (CBO) estimates that the output gap in the United States was minus 4.6 percent at the end 2013. The International Monetary Fund (IMF), in its July 2014 Article IV review of the United States, estimated the output gap at minus 4 percent. The U.S. Administration estimates the annual long-term potential real growth rate of the United States is 2.3 percent, while CBO and the IMF estimate the long-term potential growth rate is 2.1 and 2.0 percent, respectively. The IMF projects growth to average 2.8 percent over the period 2014-2018 (Blue Chip 2.7 percent).

	Key Indicators (Calendar Year Basis)3					
	2013***	2014	2015	2016	2017	2018
Real GDP (% yoy)	1.9	2.2	3.3	3.4	3	2.2
Nominal GDP (% yoy)	3.4	3.8	5.1	5.3	4.9	4.2
Output Gap (% of GDP)1	-4.6	-4.0	-2.7	-1.4	-0.6	-0.5
Inflation (%, yoy)	1.5	1.3	1.7	1.8	1.8	2.0
Fiscal Balance (% of GDP)	-4.1	-2.8	-2.6	-2.8	-2.9	-3.0
Unemployment (%)	7.3	6.8	6.5	6.1	5.9	5.6
Savings (% of GDP)	18.0	18.3	18.7	18.9	19.2	19.4
Investment (% of GDP)	19.5	19.8	20.2	20.7	21.1	21.6
Current Account Balance (% of GDP)	-2.3	-2.3	-2.4	-2.6	-2.7	-2.9

1 A positive (negative) gap indicates an economy above (below) its potential.
2 A positive (negative) balance indicates a fiscal/current account surplus (deficit).
3 All projections are those of the Congressional Budget Office under current law. However, to be more current, the 2014 real and nominal GDP estimates are taken from Blue Chip. Fiscal balance projections are fiscal year basis. The external estimates of the saving, investment, and current account balances are unofficial Treasury estimates by the Office of International Affairs.

Key Drivers

U.S. growth over the next five years is expected to be driven primarily by domestic private demand. Absent a meaningful pick up in foreign demand, net exports may not be an important driver of medium-term growth. As employment expands and wage and income growth accelerate, private consumption will be the principal driver of growth, with private investment picking up speed as the overall economy gains momentum. The President's economic agenda would bolster growth and put the federal debt-to-GDP ratio on a downward path (debt held by the public), with a projected debt-to-GDP ratio of 73.2 percent by FY2018 and 72.0 percent by FY2024. Net of financial assets, the ratios would be 64.3 and 62.7 percent, respectively.

Assessment of Obstacles and Challenges to Growth

The economic challenge for the United States is three-fold: the first is to ensure the provision of strong near-term macroeconomic support to bolster demand and eliminate as quickly as possible the cyclical slack that still exists. Second is to enact structural reforms and make investments in infrastructure, technology, and education to strengthen the pace and sustainability of growth over the medium to long term to bolster the strength and sustainability of U.S. growth. And third is to increase opportunity, skills, and participation in the economy by all members of society.

With respect to the four areas identified for reforms by the G-20 Australian presidency:

Investment and Structural Reforms: To bolster the long-run growth potential of the U.S. economy, more investment in both physical and human capital is needed. For its part, the Administration is focusing on ways to strengthen both near and long-term demand through infrastructure investment; reform the immigration system; make greater investments in research and education; and shift to a simpler, more efficient business tax system.

Employment and Labor Participation*:* The current unemployment rate is 5.8 percent, as of October 2014. This is significantly lower than the recession high of 10.0 percent; and it is 1.4 percentage points lower than one year ago. However, the labor force participation rate is still 3 percentage points lower than it was at the end of 2007, and while a significant portion of this decline is due to demographic and other structural factors, we still have more work to do to ensure full employment. The Administration has launched a significant initiative focused on the long-term unemployed.

Trade: The U.S. Administration strongly supports removing trade barriers through high standard trade agreements, including agreements with the Asia-Pacific (TPP) and Europe (T-TIP). The United States is committed to implementing the Bali Trade Facilitation Agreement.

Competition: The United States is already a very open economy with highly contestable goods and services markets.

C. POLICY RESPONSES TO LIFT GROWTH

Macroeconomic Policy

U.S. macroeconomic policy, including that of the Open Market Committee of the Federal Reserve, is geared to support demand and the restoration of full employment. Under the December 2013 Bipartisan Budget Act, the sequestration caps for fiscal years 2014 and 2015 were increased to allow for a total of $63 billion in additional spending through FY2015. This increased spending of 0.4 percent of GDP will support growth of domestic demand and help to close the output gap more quickly. The President has proposed further fiscal adjustments in his FY2015 budget proposal that would provide even greater support for near-term demand and jobs while also strengthening fiscal sustainability over the longer-term.

The President's fiscal strategy would replace much of the remaining sequestration with a larger and more-balanced deficit reduction over the medium-term while also bringing the deficit down as a share of the economy to 2.1 percent by the end of the ten-year budget window. The plan would recalibrate the pace of fiscal consolidation to support demand and jobs and would make investments needed to grow the economy over the longer-term. Additionally, the President's plan would reduce the amount of federal debt held by the public to 72 percent of GDP, thereby enhancing longer-term fiscal sustainability. Smaller budget deficits will boost national saving and help reduce the U.S. current account deficit other things equal, thus contributing to global rebalancing. Enactment of these reforms is contingent on securing a political consensus with the Congress.

The Open Market Committee of the Federal Reserve is committed to a path for monetary policy that will be guided by the evolving economic and financial situation to achieve its mandate of maximum employment and price stability.

Investment and Infrastructure

Private investment was negatively affected by the Great Recession, and although investment activity has bounced back subsequent to the recession's trough, there remains scope for further improvement. In addition, there is also substantial scope for investment in public infrastructure. Estimates by the American Society of Civil Engineers put infrastructure investment needs at $200 billion over the next six years. The Administration's infrastructure strategy is designed to boost private-sector investment in infrastructure and improve the efficiency of public investment. Key initiatives include:

$302 billion for surface transportation under the Grow America Act to improve roads, bridges, transit systems, and railways over a four-year timeframe. This initiative would address the backlog of required maintenance and repairs, double funding for public mass transit systems, make the TIGER competitive grant program permanent, fund high-performance rail to link regional economies, support exports by improving movement within the country's freight networks, and increase the amount of qualified private activity bonds that can be allocated to highway and freight transfer facilities from $15 billion to $19 billion.

$56 billion under the Opportunity, Growth, and Security Initiative for investments in education, research and innovation, developing and scaling new manufacturing technologies and capabilities through a network of new innovation institutes; investing in a thousand additional National Science Foundation grants, building a new biosafety research laboratory; and investing in applied research at the Department of Energy to accelerate the development and deployment of new energy efficiency and renewable energy technologies, such as higher-performing electric drive motors, batteries and ultra-light materials and composites to make electric vehicles more affordable and convenient. It also includes incentivizing States to make progress toward the goal of doubling American energy productivity in 20 years and toward modernizing their electricity grids, resulting in more cost-effective demand response, distributed generation, and improved grid reliability and resilience.

$27.9 billion in discretionary funds to position the United States to compete in clean energy, and $4.2 billion to drive energy innovation. The United States has made considerable progress toward boosting energy efficiency and increasing domestic energy production. Domestic production of renewable energy, oil, and gas increased 22.4, 29.8, and 19.8 percent, respectively, from 2008 to 2012. In 2013, total U.S. oil production exceeded 12 million barrels per day, making the U.S. the world's largest liquid energy producer. Domestic natural gas production surpassed 67 billion cubic feet per day, the highest U.S. level ever.

Launch of the Build America Investment Initiative to expand private sector investment in infrastructure. In July 2014, the President launched this initiative to focus federal efforts on increasing the quality of infrastructure development, the number of investable projects, federal coordination with project sponsors and investors, and reviewing federal financing programs to ensure they are serving an important role in supporting the market. We expect the Initiative to make additional announcements, but early elements include the launch of an Transportation Investment Center at the Department of Transportation, designed as "navigator" service and technical expertise to state and local governments as well as the private sector.

Creation of America Fast Forward Bonds (AFFBs) to expand funding sources for state and local government infrastructure projects. Borrowing costs for state and local governments issuing AFFBs would be lower while yields to investors of AFFBs would be higher. Using data for taxable municipal debt issued under the Build America Bonds (BABs) program during 2009 and 2010, Treasury research has found that state and local government borrowing costs inclusive of the 35 percent interest payment subsidy were lower from issuing BABs vs. tax-exempt bonds. The AFFB proposal sets the interest payment subsidy at 28 percent.

Exempt foreign pension funds from application of the Foreign Investment in Real Property Tax Act (FIRPTA) to remove the difference in tax treatment between U.S.-based and foreign pension funds. This change would treat any gain from the sale of real assets, including infrastructure, in the same way whether the seller is a domestic or foreign pension fund. With real asset sales by foreign pension funds no longer generating a tax liability under FIRPTA, an obstacle to the purchase of U.S. infrastructure assets by a potentially important class of foreign investor would be removed, thus potentially expanding the pool of private capital available for infrastructure investment in the U.S.

Continue to support the recovery of the housing market through targeted actions aimed at increasing both the demand and supply of available mortgage credit to facilitate new construction. We estimate that if residential investment were to rise to the level implied by historical trends and demographics, GDP would be about 1.5 – 2.0% higher. The Administration has focused on actions that will provide needed investments and increase certainty, including the President's budget proposal to dedicate $15 billion to Project Rebuild (investing hardest hit communities to rehab and demolishing blighted homes, creating jobs and improving communities) and expanding access to mortgage credit through FHA and FHFA reforms clarifying "put-back" risk for mortgage lenders.

Establish a new **Interagency Infrastructure Permitting Improvement Center** to modernize and improve the federal permitting process, a Transportation Investment Center to increase the amount of private capital invested in U.S. transportation infrastructure, and a Presidential Working Group to recommend specific actions to increase private investments in other infrastructure categories such as water and energy.

Because longer-run prospects for investment are tied to national savings, the President's budget would put federal debt as a share of GDP on a declining path, avoiding the risk of crowd-out effects and creating a more favorable climate for private investment.

Employment

To build long-term prosperity and ensure that our economic recovery reaches all Americans, the Administration aims to mitigate downward pressure on labor force participation as the population ages and renew progress in reducing the gender gap with respect to participation. Key objectives include addressing low wages and low family incomes, and providing and better labor market opportunities, particularly for women, the long-term unemployed, youth, and low-skilled workers. Key initiatives include:

Increasing the U.S. federal minimum wage from its current level of $7.25 an hour to $10.10. The minimum wage – last increased in 2007 – has fallen in real value over time, and is now worth about 20 percent less than it was in the early 1980s. The Council of Economic Advisers estimates that an increase would raise wages for 19 million workers directly and around 28 million overall, while lifting 2 million people out of poverty. Raising the minimum wage would also strengthen the economy by increasing the incomes of consumers most likely to spend it. Since early 2013, 17 states and the District of Columbia have passed minimum wage increases that will benefit 7 million people.

Permanently continue expansions to the Earned Income Tax Credit, Child Tax Credit, and American Opportunity Tax Credit; and expand the EITC for single workers, including to permanently extend increased refundability of the Child Tax Credit; permanently extend the Earned Income Tax Credit (EITC) for larger families and married couples; extend the American Opportunity Tax Credit to provide partially refundable financial aid for college; and expand the EITC for workers without qualifying children. Continuing recent improvements in refundable credits will benefit 26 million American families, while 13.5 million workers will benefit from expanding the childless EITC. Refundable credits like the EITC that reward work have been among the most effective policies in reducing poverty and increasing labor force participation.

$8 billion to improve training and skills development programs and partnerships with a $4 billion New Career Pathways program to expand reemployment services (e.g., job search, relocation assistance, etc.) and training for as many as 1 million displaced workers a year and $4 billion to support partnerships between businesses, education, and training providers to train approximately 1 million long-term unemployed workers for new jobs over two years.

$6 billion over the next four years to train Americans with in-demand skills through The Community College Job-Driven Training Fund, which offers competitive grants to partnerships of community colleges, public and non-profit training entities, industry groups, and employers to launch new training programs and apprenticeships that will prepare participants for in-demand jobs and careers.

Trade

The Administration is committed to securing ambitious, comprehensive trade agreements with countries in the Asia-Pacific region (TPP) and with Europe (T-TIP). These markets represent more than 60 percent of global trade. All economic studies point to significant benefits in terms of real GDP from comprehensive agreements. Real income benefits to the United States from TPP are estimated at $77 billion a year by the Peterson Institute, while a comprehensive agreement trade and investment agreement with Europe would support hundreds of thousands additional jobs on both side of the Atlantic. **Key goals in international trade, therefore, are to conclude comprehensive and ambitious agreements on TPP and T-TIP**.

In addition, Executive Order 13659 dated February 19, 2014, established a phased approach to meet the December 31, 2016, deadline for completion and government-wide use of International Trade Data System (ITDS), prioritizing inclusion of agencies playing a major role in cargo movement. The first phase of this effort began in spring 2014, with several U.S. agencies initiating testing of early technical capabilities for imports at select locations and with pre-identified industry partners. The second phase will begin in spring 2015 and will include imports and exports as well as an expanded range of capabilities and industry users. By December 31, 2016, the end of the implementation schedule, the U.S. Government shall utilize the ITDS as the single method of receiving from users data and other relevant documentation required by the Government for the release of imported cargo and clearance of cargo for export.

Immigration

Boost growth through comprehensive immigration reform. The Administration is committed to fixing a broken immigration system based on four core principles: 1) continuing to strengthen border security by giving law enforcement the tools it needs to make communities safer from crime, enhancing infrastructure and technology, and strengthening the capacity to remove criminals and apprehend and prosecute threats to national security; 2) streamlining legal immigration to provide visas to foreign entrepreneurs looking to start businesses, help the most promising foreign graduate students in science and math stay in the United States after graduation, and reunite families in a timely and humane manner; 3) providing undocumented immigrants with a legal way to earn citizenship so they can come out of the shadows while holding them accountable by requiring they pass background checks, pay taxes and a penalty, go to the back of the line, and learn English; and 4) stop businesses from knowingly hiring undocumented workers by holding them accountable and giving employers who want to play by the rules a reliable way to verify that employees are present legally. The nonpartisan Congressional Budget Office (CBO) estimates that comprehensive immigration reform as per the Senate-passed bill would increase real GDP relative to current law projections by 3.3 percent in 2023 and 5.4 percent in 2033.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

The FY2014 federal fiscal budget deficit was 2.8 percent of GDP, a decline of 1.3 percentage points from FY2013, and a decline of 7.0 percentage points from the FY2009 budget deficit of 9.8 percent of GDP. The smaller deficit reflected an increase in receipts, with moderate economic growth and higher tax rates on upper-income earners contributing to the growth in revenues.

The United States' is committed to strengthening the sustainability of federal government finances in a balanced way over the medium term while also providing needed budgetary support to innovation, infrastructure, and education to secure strong growth in the near and long-term. The federal budget deficit is projected to fall to to 2.1 percent of GDP by 2024. The President's Budget policies would achieve the core goal of fiscal sustainability by putting federal debt as a share of GDP on a declining path.

The Bipartisan Budget Act of 2013 (BBA) and the Consolidated Appropriations Act of 2014 (CAA) replaced a portion of the cuts caused by sequestration with long-term reforms, but only for the years 2014 and 2015 and then only for a portion of the sequestration for each of those years. The President's fiscal strategy would trim the deficit by $2.1 trillion over the next ten years on top of the nearly $4 trillion in deficit reduction already achieved since 2011 (including the deep cuts imposed by sequestration). The fiscal strategy includes $1.8 trillion in new revenues and almost $400 billion in spending reductions, including savings from reducing Overseas Contingency Operations (OCO) and net interest. The strategy would further reduce tax loopholes and tax benefits for the wealthiest while also including $400 billion in health-related savings that build on the health reform law and help contain long-term costs related to Medicare.

The fiscal strategy's projected deficit and debt paths over the medium term are contingent on a certain evolution of domestic and foreign economic developments and on the adoption by Congress of the President's proposed spending and revenue policies.

Medium-Term Projections (FY)	2013	2014	2015	2016	2017	2018
Debt (Federal, Held by the Public)	72.0	74.2	74.6	74.3	73.7	73.2
Deficit (Federal)	4.1	2.8	2.9	2.7	2.3	2.2
CAPB*	1.7	1.6	1.4	1.6	1.6	1.7
Assumptions						
Real GDP growth (% change year/year)	1.9	2.4	3.5	3.3	2.8	2.5
Nominal GDP Growth (% change year/year)	3.4	3.9	5.3	5.2	4.9	4.5
S/T interest rate (91-day Treasury bills)	0.1	0.1	0.4	1.3	2.2	2.9
L/T interest rate (10-year Treasury notes)	2.4	2.8	3.3	3.7	4.1	4.3

* As there are no cyclically-adjusted budget balances in the Mid-Session Review, the numbers above are from the President's FY2015 budget.

ANNEX 2: NEW POLICY COMMITMENTS

Macroeconomic Policy

• The New policy action:	Additional Federal Budget Room
Implementation path and expected date of implementation	Added $63 billion to the federal government expenditure ceilings imposed by Sequestration for the period FY2014 through FY2015 (October 2013 to September 30, 2015).
What indicator(s) will be used to measure progress?	Was approved by Congress and signed by the President in December 2013.
Explanation of additionality (where relevant)	The additional spending authorized is $63 billion above the level envisaged at the time of the St. Petersburg summit.

Investment and Infrastructure

• The New policy action:	Increase Public and Private Infrastructure Investment
Implementation path and expected date of implementation	Measures include: • Federal investment of $302 billion over four years for surface transportation and infrastructure to improve roads, bridges, and transit systems. Proposed to Congress. • Reduce municipal infrastructure investment costs and attract additional capital into U.S. infrastructure through the issuance of American Fast Forward Bonds (AFFBs). Proposed to Congress. • Exempt foreign pension funds from the Real Property Tax Act, thus equalizing the treatment of domestic and foreign pension funds. Proposed to Congress. • Create a new Infrastructure Permitting Centre to streamline the government permitting process for infrastructure projects. Created through executive action and currently operating at the Department of Transportation. • Create a new national Transportation Investment Centre to facilitate the development of public-private partnerships and further leverage federal credit programs. Created through executive action and currently operating at the Department of Transportation. • Create partnerships with the private sector to spur investment in specific infrastructure sectors. New $10 billion loan fund launched in July focused on rural infrastructure.

What indicator(s) will be used to measure progress?	• For proposals to Congress: Must be approved by Congress and signed by the President. • For executive actions: growth in pipeline of U.S. infrastructure projects and building a robust US infrastructure asset class.
Explanation of additionality (where relevant)	The tax exemption is projected to constitute a 21 percent reduction in the interest paid by municipal governments and AFFBs would result in a direct subsidy of 28 cents per dollar of interest paid. The AFFBs program would reduce net interest by about nine percent, making it easier for municipalities to fund public infrastructure and increase the potential of the economy.

• The New policy action:	Opportunity, Growth and Security Investments
Implementation path and expected date of implementation	New federal investment of $56 billion in education, research and innovation, healthcare and manufacturing technologies for FY 2015.
What indicator(s) will be used to measure progress?	Approved by Congress and signed by the President.
Explanation of additionality (where relevant)	If approved by Congress, would provide additional relief from Sequestration in FY 2015.

• The New policy action:	Energy Investment and Innovation
Implementation path and expected date of implementation	Measures include: • New federal investment of $27.9 billion for clean energy and $4.2 billion for energy innovation. • Eliminate $4 billion in taxpayer subsidies to the oil, gas and other fuel producers. • Modify and permanently extend the renewable electricity production tax credit. • Implementation of the President's "All-of-the Above" strategy on energy, which supports recent trends in the energy sector through environmentally responsible production of oil and natural gas and advance the growth of energy sources with low or zero carbon emissions through programs that support wind, solar, other renewables, and nuclear.
What indicator(s) will be used to measure progress?	New investment and changes to tax laws must be approved by Congress and signed by the President.

Explanation of additionality (where relevant)	The Administration's proposal to modify and permanently extend the renewable electricity production tax credit would extend prior law for facilities on which construction begins before the end of 2014. For facilities on which construction begins after December 31, 2014, the proposal would permanently extend the renewable electricity production tax credit and make it refundable. The renewable electricity production tax credit would also be available to otherwise eligible renewable electricity consumed directly by the producer, rather than sold to an unrelated third party, to the extent that its production can be independently verified. Solar facilities that currently qualify for the investment tax credit would be eligible for the renewable electricity production tax credit in lieu of the investment tax credit through 2016. The President's "All-of-the-Above" energy strategy has three key elements: to support economic growth and job creation, to enhance energy security, and to deploy low-carbon energy technologies and lay the foundation for a clean energy future. Increases in oil and natural gas production in the United States alone contributed more than 0.2 percentage point to real GDP growth in both 2012 and 2013, and employment in these sectors increased by 133,000 between 2010 and 2013. Some of the recent trends in the energy sector predate the Administration and stem from technological advances and risk-taking by American entrepreneurs and businesses, as well as from government-supported research and other public policies. More information is available in the Administration report, available here.

• The New policy action:	Housing Reform
Implementation path and expected date of implementation	Measures include: • New federal investment of $15 billion in housing rehabilitation and demolition in hardest hit communities. • Implementation of the Federal Housing Administration's "Blueprint for Access" and the Federal Housing Finance Agency's "Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac" to expand access to credit for underserved borrowers.
What indicator(s) will be used to measure progress?	Broad-scale GSE reform will require an Act of Congress and approval by the President. However the Administration has already taken some executive actions to expand access to credit and while some lenders have already reduced credit overlays as a result, the Administration will continue to monitor and work with mortgage lenders, FHA and FHFA to drive further progress.
Explanation of additionality (where relevant)	The steps the Administration has outlined to address lender uncertainty and expand mortgage lending to a larger number of creditworthy borrowers is expected to support a healthy recovery of the mortgage market.

Employment

• The New policy action:	Labor Market Reforms
Implementation path and expected date of implementation	Measures include: • Raise the federal minimum wage to $10.10 per hour for both government and private sector workers – affecting 28 million employees. • Permanently extend increased refundability of the Child Tax Credit; permanently extend the Earned Income Tax Credit (EITC) for larger families and married couples; permanently extend the American Opportunity Tax Credit for college costs; and expand the EITC for workers without qualifying children. • $4 billion to support and re-skill approximately 1 million long-term unemployed workers through business and training/education provider partnerships over two years • $4 billion for a New Career Pathways program that will streamline the delivery of training and reach as many as one million workers a year • $6 billion over the next four years to train Americans with in-demand skills through The Community College Job-Driven Training Fund
What indicator(s) will be used to measure progress?	Minimum wage rate increase for federal employees has already been approved. A change to the national minimum wage requires legislation by Congress and the President's signature. Tax law changes require approval by Congress and the signature of the President.
Explanation of additionality (where relevant)	The Administration's proposal would increase the EITC for workers without qualifying children by doubling the phase-in rate and the phase-out rate from 7.65 percent to 15.3 percent, thereby doubling the maximum credit from about $500 to about $1,000. This larger childless EITC would promote employment and reduce poverty for this group of workers. Past research has shown that the EITC has led to significant increases in employment. The IMF calculates that the combination of the changes to the minimum wage, EITC and CTC constitutes a $146.9 billion expansion over ten years.

• The New policy action:	Female Labor Force Participation

Implementation path and expected date of implementation	Measures include: • **Paid Leave.** The Budget supports a $105 million State paid leave fund to provide technical assistance and support to states that are considering paid leave. • **Preschool for All Initiative.** In partnership with states, this $75 billion initiative would provide all four year olds from low and moderate income families with access to high-quality pre-school while encourage states to expand these programs to all children. • **Child and Dependent Care Credit.** Increase the Child and Dependent Care Tax Credit for children under age five to provide a total credit of up to 65 percent of the first $3,000 in child care expenses for one child under age five and up to 65 percent of the first $6,000 in child care expenses for two children under age five – plus an additional credit of up to 30 percent on the next $1,000 in child care expenses for each child under age five, for up to two children. • **Paid Leave**: New $500,000 competitive grant for states to conduct actuarial studies of paid leave programs. Two other ongoing Department of Labor studies of paid leave programs in California, New Jersey, and Rhode Island and on workers' use of leave more generally. • **Pregnant Worker Fairness Act**: Requires employers to make reasonable accommodations to allow for continued employment. Would also prohibit employers from forcing pregnant employees to take paid or unpaid leave if a reasonable accommodation would allow them to work. • **Pregnant Worker Rights Interactive Map**: To help reduce discrimination against pregnant women, the clickable map will contain information on pregnant worker rights on a state-by-state basis. • **Highlight Initiatives Expanding Pay Equity through Access to Non-Traditional Jobs**: Includes Scaling up Mega Construction Projects Initiative, increasing women in Apprenticeship, new direction for WANTO Grants, and creation of non-traditional occupation clearinghouse for women. • **A $25 Million Competitive Grant**: Would provide grants to address barriers faced by those with child care responsibilities to participate and succeed in job training programs. • **Endorsed Paycheck Fairness Act**: Improves enforcement of anti-discrimination laws and increases transparency to help workers know whether they are

	receiving fair pay.
What indicator(s) will be used to measure progress?	New investment and changes to tax laws must be approved by Congress and signed by the President.
Explanation of additionality (where relevant)	The President's Council of Economic Advisors estimates that this package of policies will boost Female Labor Force Participation by 0.3 percentage points by 2018, which will raise GDP by 0.25 percent.

Trade

• The New policy action:	Complete TPP and TTIP Agreements
Implementation path and expected date of implementation	Complete Trans-Pacific Partnership (TPP) and Transatlantic Trade and Investment Partnership (TTIP) agreements.
What indicator(s) will be used to measure progress?	Negotiation and congressional ratification of the agreements.
Explanation of additionality (where relevant)	According to an analysis supported by the Peterson Institute, a TPP agreement provides global income benefits of an estimated $223 billion per year, by 2025. Real income benefits to the United States are an estimated $77 billion per year. The TPP could generate an estimated $305 billion in additional world exports per year, by 2025, including an additional $123.5 billion in U.S. exports. TTIP could provide an addition tens of billions of dollars per year, subject to the terms of the agreement.

• The New policy action:	Single Window
Implementation path and expected date of implementation	Create a single window documentation process for the export and import of cargo and completion of the International Trade Data System (ITDS), by December 2016.
What indicator(s) will be used to measure progress?	The President's February 19, 2014, Executive Order directs U.S. departments and agencies with a role in trade to complete the development of the Single Window by December 2016.
Explanation of additionality (where relevant)	

Immigration

• The New policy action:	Comprehensive Immigration Reform
Implementation path and expected date of implementation	The United States Senate has passed The Border Security, Economic Opportunity, and Immigration Modernization Act (S. 744) that is consistent with the President's principles to further enhance border security, create an earned path to citizenship, hold employers accountable, and bring the United States immigration system into the 21st century. Specifically, the legislation would revise laws governing immigration and the enforcement of those laws, allowing for a significant increase in the number of noncitizens who could lawfully enter the United States permanently or temporarily. The legislation also would create a process for many currently unauthorized residents to gain legal status, subject to their meeting certain conditions.
What indicator(s) will be used to measure progress?	Must be approved by Congress and signed by the President.
Explanation of additionality (where relevant)	According to non-partisan estimates by the United States Congressional Budget Office, comprehensive immigration reform as specified in S. 744 – which is consistent with proposals the Administration supports – would increase GDP in 2023 by an estimated 3.3 percent.