IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the World Economic Outlook, Global Financial Stability Report, *and* Fiscal Monitor *on March 21, 2014.*

Executive Directors welcomed the strengthening of global activity in the second half 2013. They observed that much of the impetus has come from advanced economies, but inflation in these economies continues to undershoot projections, reflecting still-large output gaps. While remaining fairly robust, growth activity in emerging market and developing economies slowed in 2013, in an environment of increased capital flow volatility and worsening external financing conditions. Directors underscored that, despite improved growth prospects, the global recovery is still fragile and significant downside risks, including geopolitical, remain.

Directors agreed that global growth will continue to improve this year and next, on the back of slower fiscal tightening and still highly accommodative monetary conditions in advanced economies. In emerging market and developing economies, growth will pick up gradually, with stronger external demand being partly offset by the dampening impact of tighter financial conditions.

Directors acknowledged that successfully transitioning from liquidity-driven to growth-driven markets will require overcoming key challenges, including strengthening policy coordination. In advanced economies, a sustained rise in corporate investment and continued efforts to strengthen bank balance sheets will be necessary, especially in the euro area. Risks to emerging market economies have increased with rising public and corporate sector leverage and greater foreign borrowing. Directors noted that the recent increase in financial volatility likely reflected renewed market concern about fundamentals, against the backdrop of early steps toward monetary policy normalization in some advanced economies. In view of possible capital flow reversals from emerging markets, Directors considered the risks related to sizable external funding needs and disorderly currency depreciations and welcomed the recent tightening of macroeconomic policies, which appears to have shored up confidence. Regarding the financial sector, Directors noted that, despite the progress made in reducing global financial vulnerabilities, the too-important-to-fail issue still remains largely unresolved.

Most Directors recommended closer monitoring of the risks to activity associated with low inflation in advanced economies, especially in the euro area. Longer-term inflation expectations could drift down, leading to higher real interest rates, an increase in private and public debt burdens, and a further slowdown in demand and output. Directors noted, however, that continued low nominal interest rates in advanced economies could also pose financial stability risks and have already led to pockets of increased leverage, sometimes accompanied by a weakening of underwriting standards.

Against this backdrop, Directors called for more policy efforts to fully restore confidence, lower downside risks, and ensure robust and sustainable global growth. In an environment of continued fiscal consolidation, still-large output gaps, and very low inflation, monetary policy should remain accommodative. Many Directors argued that in the euro area, further monetary easing, including unconventional measures, would help to sustain activity and limit the risk of very low inflation or deflation. A number of Directors thought that current monetary conditions in the euro area are already accommodative and further easing would not be justified. Some Directors also called for a more comprehensive analysis of exchange rates and global imbalances in the *World Economic Outlook*.

Directors recommended designing and implementing clear and credible medium-term fiscal consolidation plans to help mitigate fiscal risks and address the debt overhang in advanced economies, including the United States and Japan. They welcomed the expected shift from tax to expenditure consolidation measures, particularly in those advanced economies where raising tax burdens could hamper growth. Moreover, they agreed that a new impulse to structural reforms is needed to lift investment and growth prospects in advanced economies.

Directors welcomed the progress made in strengthening the banking sector in the euro area, but noted that more needs to be done to address financial fragmentation, repair bank and corporate sector balance sheets following a credible comprehensive assessment, and recapitalize weak banks in order to enhance confidence and revive credit. While acknowledging the EU Council's recent agreement on a Single Resolution Mechanism (SRM), Directors underscored the importance of completing the banking union, including through functional independence of the SRM with the capacity to undertake timely bank resolution and common backstops to sever the link between sovereigns and banks.

Directors noted that the appropriate policy measures will differ across emerging market economies, but observed that there are some common priorities. Exchange rates should be allowed to respond to changing fundamentals and facilitate external adjustment. Where international reserves are adequate, foreign exchange interventions can be used to smooth volatility and avoid financial disruption. In economies where inflationary pressures are still high, further monetary policy tightening may be necessary. If warranted, macroprudential measures can help contain the growth of corporate leverage, particularly in foreign currency. Strengthening the transparency and consistency of policy frameworks would contribute to building policy credibility.

Directors underscored the need for emerging market and low-income economies to rebuild fiscal buffers and rein in fiscal deficits (including by containing public sector contingent liabilities), particularly in the context of elevated public debt and financing vulnerabilities. Fiscal consolidation plans should be country specific and properly calibrated between tax and expenditure measures to support equitable, sustained growth. Priority social spending should be safeguarded, and the efficiency of public spending improved, through better targeting of social expenditures, rationalizing the public sector wage bill, and enhancing public investment project appraisal, selection, and audit processes.

Directors agreed that emerging market economies could enhance their resilience to global financial shocks through a deepening of their domestic financial markets and the development of a local investor base. They supported tightening prudential and regulatory oversight, including over nonbank institutions in China, removing implicit guarantees, and enhancing the role of market forces in the nonbank sector in order to mitigate financial stability risks and any negative cross-border spillovers.

Directors concurred that many emerging market and developing economies should implement other key structural reforms, designed to boost employment and prospects for diversified and sustained growth, while also promoting global rebalancing. Reforms should, among other things, encompass the removal of barriers to entry in product and services markets, improve the business climate and address key supply-side bottlenecks, and in China, support sustainable and balanced growth, including the shift from investment toward consumption.

ACRONYMS

AE	advanced economies
CAPB	cyclically adjusted primary balance
CEE	Central and Eastern Europe
CIS	Commonwealth of Independent States (*World Economic Outlook* classification)
DBPFs	defined-benefit pension funds
EU	European Union
GDP	gross domestic product
GFS	Government Finance Statistics
GFSM	*Government Finance Statistics Manual*
GFSY	*Government Finance Statistics Yearbook*
LAC	Latin America and the Caribbean
LIC	low-income country
MENA	Middle East and North Africa
MENAP	Middle East and North Africa and Pakistan
OECD	Organisation for Economic Co-operation and Development
PFM	public financial management
PPPs	public-private partnerships
SNA	System of National Accounts
SSA	sub-Saharan Africa
VFI	vertical fiscal imbalance

COUNTRY ABBREVIATIONS

Code	Country name
AFG	Afghanistan
AGO	Angola
ALB	Albania
ARE	United Arab Emirates
ARG	Argentina
ARM	Armenia
ATG	Antigua and Barbuda
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BDI	Burundi
BEL	Belgium
BEN	Benin
BFA	Burkina Faso
BGD	Bangladesh
BGR	Bulgaria
BHR	Bahrain
BHS	Bahamas, The
BIH	Bosnia and Herzegovina
BLR	Belarus
BLZ	Belize
BOL	Bolivia
BRA	Brazil
BRB	Barbados
BRN	Brunei Darussalam
BTN	Bhutan
BWA	Botswana
CAF	Central African Republic
CAN	Canada
CHE	Switzerland
CHL	Chile
CHN	China
CIV	Côte d'Ivoire
CMR	Cameroon
COD	Congo, Democratic Republic of the
COG	Congo, Republic of
COL	Colombia
COM	Comoros
CPV	Cabo Verde
CRI	Costa Rica
CYP	Cyprus
CZE	Czech Republic
DEU	Germany
DJI	Djibouti
DMA	Dominica
DNK	Denmark

Code	Country name
DOM	Dominican Republic
DZA	Algeria
ECU	Ecuador
EGY	Egypt
ERI	Eritrea
ESP	Spain
EST	Estonia
ETH	Ethiopia
FIN	Finland
FJI	Fiji
FRA	France
FSM	Micronesia, Federated States of
GAB	Gabon
GBR	United Kingdom
GEO	Georgia
GHA	Ghana
GIN	Guinea
GMB	Gambia, The
GNB	Guinea-Bissau
GNQ	Equatorial Guinea
GRC	Greece
GRD	Grenada
GTM	Guatemala
GUY	Guyana
HKG	Hong Kong SAR
HND	Honduras
HRV	Croatia
HTI	Haiti
HUN	Hungary
IDN	Indonesia
IND	India
IRL	Ireland
IRN	Iran
IRQ	Iraq
ISL	Iceland
ISR	Israel
ITA	Italy
JAM	Jamaica
JOR	Jordan
JPN	Japan
KAZ	Kazakhstan
KEN	Kenya
KGZ	Kyrgyz Republic
KHM	Cambodia
KIR	Kiribati
KNA	Saint Kitts and Nevis

Code	Country name
KOR	Korea
KWT	Kuwait
LAO	Lao P.D.R.
LBN	Lebanon
LBR	Liberia
LBY	Libya
LCA	Saint Lucia
LKA	Sri Lanka
LSO	Lesotho
LTU	Lithuania
LUX	Luxembourg
LVA	Latvia
MAR	Morocco
MDA	Moldova
MDG	Madagascar
MDV	Maldives
MEX	Mexico
MHL	Marshall Islands
MKD	Macedonia, former Yugoslav Republic of
MLI	Mali
MLT	Malta
MMR	Myanmar
MNE	Montenegro
MNG	Mongolia
MOZ	Mozambique
MRT	Mauritania
MUS	Mauritius
MWI	Malawi
MYS	Malaysia
NAM	Namibia
NER	Niger
NGA	Nigeria
NIC	Nicaragua
NLD	Netherlands
NOR	Norway
NPL	Nepal
NZL	New Zealand
OMN	Oman
PAK	Pakistan
PAN	Panama
PER	Peru
PHL	Philippines
PLW	Palau
PNG	Papua New Guinea
POL	Poland
PRT	Portugal
PRY	Paraguay
QAT	Qatar

Code	Country name
ROU	Romania
RUS	Russia
RWA	Rwanda
SAU	Saudi Arabia
SDN	Sudan
SEN	Senegal
SGP	Singapore
SLB	Solomon Islands
SLE	Sierra Leone
SLV	El Salvador
SMR	San Marino
SOM	Somalia
SRB	Serbia
STP	São Tomé and Príncipe
SUR	Suriname
SVK	Slovak Republic
SVN	Slovenia
SWE	Sweden
SWZ	Swaziland
SYC	Seychelles
SYR	Syria
TCD	Chad
TGO	Togo
THA	Thailand
TJK	Tajikistan
TKM	Turkmenistan
TLS	Timor-Leste
TON	Tonga
TTO	Trinidad and Tobago
TUN	Tunisia
TUR	Turkey
TUV	Tuvalu
TWN	Taiwan Province of China
TZA	Tanzania
UGA	Uganda
UKR	Ukraine
URY	Uruguay
USA	United States
UZB	Uzbekistan
VCT	Saint Vincent and the Grenadines
VEN	Venezuela
VNM	Vietnam
VUT	Vanuatu
WSM	Samoa
YEM	Yemen
ZAF	South Africa
ZMB	Zambia
ZWE	Zimbabwe

GLOSSARY

Term	Definition
Automatic stabilizers	Budgetary measures that dampen fluctuation in real GDP, automatically triggered by the tax code and by spending rules.
Contingent liabilities	Obligations of a government, the timing and magnitude of which depend on the occurrence of some uncertain future event outside the government's control. Can be explicit (obligations based on contracts, laws, or clear policy commitments) or implicit (political or moral obligations) and sometime arise from expectations that government will intervene in the event of a crisis or a disaster, or when the opportunity cost of not intervening is considered to be unacceptable.
Cyclical balance	Cyclical component of the overall fiscal balance, computed as the difference between cyclical revenues and cyclical expenditures. The latter are typically computed using country-specific elasticities of aggregate revenue and expenditure series with respect to the output gap. Where unavailable, standard elasticities (0,1) are assumed for expenditure and revenue, respectively.
Cyclically adjusted balance (CAB)	Difference between the overall balance and the automatic stabilizers; equivalently, an estimate of the fiscal balance that would apply under current policies if output were equal to potential.
Cyclically adjusted (CA) expenditure and revenue	Revenue and expenditure adjusted for temporary effects associated with the deviation of actual from potential output (i.e., net of automatic stabilizers).
Cyclically adjusted primary balance (CAPB)	Cyclically adjusted balance excluding net interest payments.
Fiscal devaluation	A revenue-neutral shift from employers' social contributions toward value-added tax.
Expenditure elasticity	Elasticity of expenditure with respect to the output gap.
Fiscal multiplier	The ratio of a change in output to an exogenous and temporary change in the fiscal deficit with respect to their respective baselines.
Fiscal stimulus	Discretionary fiscal policy actions (including revenue reductions and spending increases) adopted in response to a financial crisis.
General government	All government units and all nonmarket, nonprofit institutions that are controlled and mainly financed by government units comprising the central, state, and local governments; includes social security funds, and does not include public corporations or quasi-corporations.
Gross debt	All liabilities that require future payment of interest and/or principal by the debtor to the creditor. This includes debt liabilities in the form of special drawing rights, currency, and deposits; debt securities; loans; insurance, pension, and standardized guarantee schemes; and other accounts payable. (See the 2001 edition of the IMF's *Government Finance Statistics Manual* and *Public Sector Debt Statistics Manual*). The term "public debt" is used

Term	Definition
	in the *Fiscal Monitor,* for simplicity, as synonymous with gross debt of the general government, unless otherwise specified. (Strictly speaking, the term "public debt" refers to the debt of the public sector as a whole, which includes financial and nonfinancial public enterprises and the central bank.)
Gross financing needs (also gross financing requirements)	Overall new borrowing requirement plus debt maturing during the year.
Interest rate–growth differential	Effective interest rate (r, defined as the ratio of interest payments to the debt of the preceding period) minus nominal GDP growth (g), divided by 1 plus nominal GDP growth: $(r - g)/(1 + g)$.
Net debt	Gross debt minus financial assets corresponding to debt instruments. These financial assets are: monetary gold and SDRs, currency and deposits, debt securities, loans, insurance, pension, and standardized guarantee schemes, and other accounts receivable. In some countries the reported net debt can deviate from this definition on the basis of available information and national fiscal accounting practices.
Nonfinancial public sector	General government plus nonfinancial public corporations.
Output gap	Deviation of actual from potential GDP, in percent of potential GDP.
Overall fiscal balance (also "headline" fiscal balance)	Net lending/borrowing, defined as the difference between revenue and total expenditure, using the 2001 edition of the IMF's *Government Finance Statistics Manual (GFSM 2001).* Does not include policy lending. For some countries, the overall balance continues to be based on *GFSM 1986,* which is defined as total revenue and grants minus total expenditure and net lending.
Policy lending	Transactions in financial assets that are deemed to be for public policy purposes but are not part of the overall balance.
Primary balance	Overall balance excluding net interest payment (interest expenditure minus interest revenue).
Public debt	See *Gross debt.*
Public sector	The general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.
Revenue elasticity	Elasticity of revenue with respect to the output gap.
Stock-flow adjustment	Change in the gross debt explained by factors other than the overall fiscal balance (for example, valuation changes).
Structural fiscal balance	Difference between the cyclically adjusted balance and other nonrecurrent effects that go beyond the cycle, such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects).