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 External Sector Report *on July 11, 2025.*

Executive Directors generally agreed with the findings of the 2025 External Sector Report (ESR) and its policy recommendations. Directors observed that global current account balances widened in 2024 with current accounts in major economies diverging significantly. They noted that excess global current account balances increased by the largest amount in a decade, driven by the increase in excess current account balances in the largest economies.

Directors observed that domestic macro imbalances drove the widening global balances in 2024, with changes in investment rates contributing the most to diverging current accounts from the saving-investment perspective. They agreed that state interventions and other non-market policies and practices affect trade flows, but the impact on external imbalances is harder to quantify, in part due to lack of comprehensive data. A few Directors stressed that state interventions and other non-market policies can distort the composition of savings and investment that underpins the current account. A few other Directors emphasized the risks from delayed fiscal consolidation and rising debt levels in major external deficit advanced economies. They called for a greater focus in these areas.

Directors observed that the US dollar was broadly stable in the first three quarters of 2024, appreciated sharply in the last quarter of 2024 reflecting optimism about the US economy and favorable terms of trade, and depreciated in early 2025 amid rising uncertainty. Net capital inflows to emerging market economies in 2024 showed a similar pattern to 2023.

Directors generally welcomed the first of a periodic monitoring of the International Monetary System (IMS). They concurred that US dollar dominance has characterized the IMS over recent decades, underpinned by network externalities, complementarities among various uses of the dollar and its safe asset status. Directors took note of emerging trends in the IMS, including increasing geopolitical fragmentation concerns, a greater use of RMB in international trade and finance, a softening in the role of the US as world banker and insurer, and the emergence of alternative payment systems and private digital assets. They however noted that none of these trends currently alter the central role of the US dollar in the IMS.

Directors noted that global current account balances are projected to narrow over the medium term, underpinned by a reduction in current account balances in key surplus economies. They cautioned that this outlook is subject to unusually high uncertainty, reflecting the fluid prospects for the trade and economic relationship among major economies.

Directors reiterated that excess global current account balances could exacerbate the risks of sudden stops and disruptive currency and capital flow movements, while contributing to deepening geoeconomic fragmentation and raising trade barriers. In this context, they agreed, however, that the impact of tariffs on the current account is likely limited with a few Directors considering their negative impact on value chains. Directors encouraged both excess surplus and deficit economies to take steps to promote external rebalancing, in order to reduce the risk of financial crisis, improve resource allocation, and help preserve support for multilateralism.

Directors underscored that policies to promote external rebalancing differ with positions and needs of individual economies. They considered that in economies in which excess current account deficits partly reflect the need to reduce high public debt levels, policies should focus on a credible fiscal consolidation. In economies where excess current account surpluses persist, prioritizing policies aimed at promoting investment and diminishing excess saving, including through expanded social safety nets or higher fiscal deficits—where feasible—is warranted. Directors also emphasized that economies where external positions are broadly in line with fundamentals should continue to address domestic imbalances to prevent the buildup of excessive external imbalances; in many cases fiscal consolidation is needed to maintain external balance, along with structural reforms to improve productivity and increase investment.

Directors underscored that pragmatic international cooperation remains vital in sustaining global growth and mitigating cross-country spillovers. Directors agreed that trade tensions should be resolved to promote clarity and transparency and deepen economic integration through nondiscriminatory reductions in trade barriers or by pursuing comprehensive free trade agreements at the regional, plurilateral or multilateral level. In addition, industrial policies should be consistent with international obligations and be limited to specific objectives in sectors where externalities or market failures prevent effective market solutions and should undergo comprehensive cost-benefit analyses in the context of limited fiscal space. Directors stressed that ensuring an adequate global financial safety net, with the Fund at its core, will be essential in navigating a global economy with heightened uncertainty and the associated increase in risks. In this regard, the approval of the 16th General Review of Quotas further fortifies liquidity in the global financial system. Directors noted that this needs to be followed up by members consenting to their respective quota increase to ensure that the IMF is adequately resourced to serve as an anchor of the global financial safety net.

Directors reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries. A few Directors expressed disagreement with the assessments of a few individual countries. Directors stressed the importance of continued caution in interpreting and communicating the assessment results. Noting their limitations, Directors encouraged further exploration of possible improvements to enhance the EBA methodologies.