IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Chair at the conclusion of the Executive Board's discussion of the Fiscal Monitor*,* Global Financial Stability Report*, and* World Economic Outlook *on April 4, 2017.*

Executive Directors broadly shared the assessment of global economic prospects and risks. They welcomed the positive developments since the second half of 2016: global economic activity has accelerated, headline inflation has generally risen following a rebound in commodity prices, and financial market sentiment has strengthened. Global growth is expected to pick up further in 2017–18, reflecting a stronger-than-expected recovery in many advanced economies and projected higher growth in many emerging market and developing economies, including from improved conditions in several commodity exporters. However, growth momentum is still modest and downside risks continue to dominate, with heightened policy uncertainty and persistent structural headwinds. Directors underscored the importance of using all policy tools at the national level and strengthening multilateral cooperative efforts to sustain a stronger recovery, ward off downside risks, safeguard hard-won gains in global integration and financial stability, and promote inclusion.

Directors noted that the balance of risks remain tilted to the downside, especially over the medium term. In advanced economies, while the ongoing cyclical recovery is encouraging, output remains below potential and unemployment above precrisis levels in many countries. Population aging, low labor productivity growth, and crisis legacies are weighing on growth potential. In emerging market and developing economies, medium-term prospects are closely linked to developments in commodity markets, global financial conditions, the ongoing economic transition in China, and progress in resolving domestic imbalances and structural challenges in some economies.

Directors observed that elevated political and policy uncertainties in many parts of the world pose difficult challenges to the economic outlook and financial stability. They cited, among other things, faster-than-expected normalization of interest rates; a rollback of financial regulation, which could spur excessive risk taking; and a potential rise in protectionist and inward-looking policies.

Against this backdrop, Directors emphasized the need for comprehensive, consistent, and well-communicated policy actions to achieve strong, sustainable, and balanced growth; enhance resilience; and ensure that the benefits of economic integration and technological progress are shared more widely. Policy priorities vary across individual economies depending on cyclical positions, structural challenges, and vulnerabilities facing them. Multilateral cooperation is as essential as ever to complement national efforts as well as tackle common challenges, including preserving a rules-based, open trading system; ensuring a level playing field in international taxation; and strengthening the global financial safety net. Multilateral efforts are also needed to address the withdrawal of correspondent banking relationships and the refugee crisis. Both deficit and surplus countries should implement appropriate policies to reduce persistent global excess imbalances.

Directors agreed that a common challenge across advanced economies is to boost potential output, through fiscal and structural reforms that target country-specific priorities, including to upgrade public infrastructure where needed; improve labor force participation and skills; eliminate product market distortions; and reform corporate income taxation to promote private investment, research and development, and resource reallocation to productive areas. Resisting a retreat from global economic integration must also be part of the agenda to secure strong, sustainable global growth.

Directors saw a need to tackle the adverse side effects of technological change and trade integration with appropriate policies. In this context, they noted the staff's finding that technological progress appears to be the main factor explaining the decline in labor income share in advanced economies, while trade integration—which has contributed to significant improvements in living standards and poverty reduction around the world—seems to be the dominant driver in emerging market economies. Directors stressed that the design of inclusive fiscal policies, such as transfer and tax instruments, should strike the right balance between promoting redistribution and maintaining incentives to invest and work. They also emphasized the importance of improving education, training, health services, social insurance, and pension systems. In some cases, active labor market policies could be an effective tool in the short term.

Directors agreed that strengthening the recovery remains a priority in many economies, requiring support from both monetary and fiscal policies, combined with growth-enhancing structural reforms. Where core inflation is persistently low and/or the risk of deflation remains tangible, unconventional monetary policies remain appropriate to support economic activity and lift inflation expectations, while their potential negative consequences on financial stability should be closely monitored. Fiscal policy can play an important role, particularly when monetary policy has become less effective. Directors agreed that, as a general principle, fiscal policy should be countercyclical, be growth friendly, and promote inclusion, anchored in a credible medium-term framework that ensures debt sustainability. Depending on country-specific circumstances in terms of economic slack, fiscal space, and debt levels, policy choices range from discretionary fiscal support to budget recomposition and rebuilding of fiscal buffers.

Directors concurred that, while emerging market and developing economies can retain influence over their domestic financial conditions, many could face elevated risks that arise from external negative spillovers, including a sudden reversal of market sentiment and sharp volatility in capital flows and exchange rates. Directors urged policymakers in these countries to be prepared for less favorable external conditions. Specifically, it will be critical to maintain sound policies and strong frameworks, including exchange rate flexibility and a robust macroprudential toolkit, while capital flow management measures may be used temporarily as warranted, though not as a substitute for warranted macroeconomic adjustment. For many countries, priorities include proactively monitoring vulnerabilities and addressing weaknesses in the corporate and banking sectors, improving corporate governance, and reducing infrastructure bottlenecks and barriers to entry. These should be complemented by measures to enhance resilience, such as developing a local investor base, fostering depth and liquidity in the equity and bond markets, and upgrading the tax system to promote efficient use of resources.

Directors stressed that solidifying improvements in financial stability and market expectations requires concerted efforts across countries. In the United States, where tax reform and financial deregulation could have a significant impact on the financial and corporate sectors globally, authorities should be vigilant to the increase in leverage and deterioration in credit quality and should take preemptive measures against excessive risk taking. In Europe, where important progress has been achieved, further efforts are still needed to adjust bank business models, facilitate the disposal of nonperforming loans, and remove structural impediments to bank profitability. In China, where major reforms to the financial system are taking place, special attention should be paid to the rapid growth in assets among smaller banks, the increasing reliance on wholesale funding, and the close interconnections between shadow products and interbank markets. At the global level, completing the regulatory reform agenda remains important, and a rollback of regulatory standards should be resisted.

Directors observed that commodity-exporting low-income developing countries have faced a difficult adjustment process since the commodity cycle turned in 2014. In light of rising debt and weaker external positions in several of these economies, Directors called for intensified policy efforts to mobilize revenue, improve tax administration, enhance spending efficiency, and contain the buildup of debt. For many diversified countries, the priorities are to build fiscal buffers while growth remains relatively strong and to achieve a better balance between meeting social and developmental needs and securing debt sustainability. A common challenge across all low-income developing countries is to maintain progress toward attaining their sustainable development goals.