

IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, APRIL 2026

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 6, 2026.

Executive Directors broadly agreed with staff's assessment of the global economic outlook, risks, and policy priorities. They concurred that the war in the Middle East presents a significant headwind to the global economy—particularly for the conflict region, energy-importing and lower-income countries and Fragile and Conflict-Affected States—through higher commodity prices, inflation expectations, and tighter financial conditions. Given the highly uncertain outlook, Directors appreciated the reference forecast and downside scenarios as a useful analytical framework to support preparedness across a range of possible outcomes, while helping to clarify the transmission channels and spillovers, the heterogeneous impact and policy tradeoffs across the membership, and the appropriate policy responses. They stressed that the likelihood of downside scenarios materializing depends critically on the duration, intensity and scope of the conflict.

Directors concurred that overall risks to global outlook are tilted to the downside and could be further amplified through interactions with each other and with pre-existing vulnerabilities. They considered that downside risks from further escalation of geopolitical tensions and supply chain disruptions, rising fiscal and financial vulnerabilities, potential fragilities linked to the AI investment boom, and erosion of institutions dominate over upside risks related to productivity gains from AI and possible renewed momentum in structural reforms. A reassessment of expectations regarding AI could lead to a decline in investment and trigger an abrupt financial market correction. Directors agreed that larger fiscal deficits and rising public debt, amid already eroded buffers, could place upward pressure on long-term interest rates and tighten financial conditions. They also noted that weakening institutions, including reduced central bank independence and monetary policy credibility, could de-anchor inflation expectations, particularly given renewed pressures from energy shocks.

Directors underscored the importance of preserving price stability. Central banks should be ready to act decisively in line with their mandates to prevent prolonged supply shocks from destabilizing medium-to-long-term inflation expectations, while reserving the option to look through the shocks if they prove transitory and the monetary policy stance is already properly calibrated. Directors emphasized that transparent communication and strong central bank independence are critical for credibility. They acknowledged that the transmission of the shock will differ across countries, reflecting varying exposure to commodity markets and the region, the strength of the anchoring of inflation expectations, and the extent of foreign exchange depreciation. Where negative demand shocks emerge and activity falls below potential, a reduction in policy rates may be appropriate but only if risks to price stability remain contained. If imminent risk of excessive or disorderly exchange rate movements emerges, temporary

foreign exchange intervention and capital flow managements measures may be warranted, alongside appropriate monetary and fiscal policy stances.

Directors noted that financial stability risks remain elevated, reflecting high debt levels and greater rollover risks in core sovereign bond markets, a more price-sensitive investor base, a buildup of leverage across nonbank financial intermediaries (NBFIs) and derivative products, rising interconnectedness between banks and NBFIs, vulnerabilities in private credit, and growing market concentration risk in AI-related sectors. Increasingly uneven, debt-heavy capital flows and a strengthened sovereign-bank nexus are also risks to stability in EMDEs. Directors called on financial supervisors to enhance readiness by ensuring robust prudential oversight, adopting scenario analysis, strengthening stress testing, closing data gaps, and maintaining adequate capital, liquidity, and reserve buffers in line with international regulatory standards.

Directors agreed on the urgency of rebuilding fiscal buffers and strengthening sustainability amid high debt and rising risks that could weaken growth and revenues and add to pressures on fiscal balances. They emphasized that where support is needed to protect vulnerable households from extreme external shocks, it should be temporary, targeted, and preferably delivered through existing social safety nets and within existing resource envelopes, while avoiding price distortions and broad-based measures that are costly and difficult to unwind. Directors stressed that many countries will need credible medium-term fiscal plans including stronger medium-term anchors, supported by revenue mobilization and improvements in spending efficiency, to ensure sustainability while creating space for long-term spending needs, including defense. For countries facing tighter financing conditions, they underscored that credible consolidation and predictable rules remain essential for regaining market confidence. Directors also underscored the importance for low-income developing countries of domestic revenue mobilization and safeguarding critical social and development spending in the face of declining aid flows.

Directors acknowledged the importance of structural reforms to strengthen medium-term growth and resilience. Investment in AI and digitalization can accelerate productivity and growth, together with measures to upskill the labor force and increase participation, improve the business climate, streamline regulations, enhance competition, and strengthen supply chain resilience. Accelerating energy transition would also support energy diversification and security. Directors also noted the importance of addressing domestic saving-investment imbalances that give rise to excessive external imbalances. Actions aimed at removing domestic distortions—through fiscal, structural, and targeted industrial policies—can simultaneously narrow imbalances while enhancing global output.

Directors highlighted that international cooperation will be essential in addressing both the immediate threats from the Middle East conflict and longer-term challenges to growth and sustainability. They called on governments to cooperate to reduce trade policy uncertainty by re-anchoring trade in clear, predictable rules, including by reducing tariff and non-tariff barriers. Directors welcomed the Fund's cooperation with the World Bank and the International Energy

Agency for the assessment of the impact and policy responses to the crisis. They stressed the key role of a well-resourced Fund in assisting its member countries—especially those most affected by the shock from the war, including Fragile and Conflict-Affected States—through its tailored policy advice, lending, and capacity development assistance, drawing as needed on the lessons from the handling of recent crises. Directors reaffirmed the role of the Fund in promoting multilateral solutions in an evenhanded manner. A number of Directors also stressed the important role to be played by the Fund in supporting its member countries' climate strategies. Directors called for continued efforts to strengthen the G20 Common Framework for Debt Treatments.