

**The Acting Chair's Summing Up  
2018 External Sector Report  
Executive Board Meeting 18/66  
July 16, 2018**

Executive Directors broadly agreed with the findings of the External Sector Report and its policy recommendations. They noted that global current account surpluses and deficits have remained broadly unchanged in recent years. At the same time, the concentration of excess imbalances in advanced economies has increased, on both the surplus and deficit sides, amid a widening of creditor and debtor positions. Directors noted with concern the projected continuation of this trend under baseline policies.

Directors cautioned that, absent effective automatic adjustment mechanisms and conducive policies, large and sustained external excess imbalances could pose risks to global stability and growth. They noted that the lack of progress in rebalancing could increase the likelihood of rising trade tensions, with negative implications for global trade, growth, and financial markets. Meanwhile, expansionary fiscal policy in key deficit economies operating above potential could lead to a faster-than-expected tightening of global financing conditions, and prove disruptive for emerging market and developing economies, especially the more vulnerable ones. Directors also emphasized that a further widening of debtor positions in key economies could result in a sharp adjustment over the medium term.

Directors broadly agreed that, with limited policy space and normalizing cyclical conditions, policies will need to be carefully calibrated to achieve domestic objectives while contributing to external rebalancing. In countries with weaker-than-warranted external positions, actions to strengthen public and private sector balance sheets should take priority, while monetary normalization proceeds gradually. In economies with stronger-than-warranted external positions and fiscal space, a more expansionary and growth-friendly fiscal policy would help support demand and productivity, thereby promoting globally-balanced growth. Directors highlighted the role of flexible exchange rates in facilitating external adjustment. They concurred that, where price adjustment is constrained by currency regimes, the focus should be on reforms to facilitate greater internal relative price adjustment, as well as improved risk-sharing mechanisms.

Directors agreed that well-tailored, growth-enhancing structural policies will need to play a more prominent role in tackling global imbalances. In general, excess surplus countries should prioritize reforms that promote domestic investment and competition, while excess deficit countries should prioritize reforms that strengthen external competitiveness and labor productivity.

Directors welcomed the analysis on the link between trade policies and external imbalances. They broadly shared the assessment that trade barriers undermine domestic and global growth, likely without a meaningful impact on current account balances. Directors called on all countries to work together to resist protectionism, revive liberalization efforts, and strengthen the open multilateral

trading system—particularly to promote trade in services, where gains from trade are substantial but barriers remain high.

Directors welcomed staff's efforts to refine the External Balance Assessment (EBA) methodology, and better reflect the role of fundamentals and policies in explaining current account dynamics. While recognizing the progress in strengthening the conceptual underpinning of the models, they noted remaining limitations and inherent uncertainties, with some also pointing to changes in current account norms following refinements. Accordingly, Directors stressed the need to avoid mechanistic use of model-based estimates and to exercise caution when interpreting model residuals, which remain large in some cases.

Specifically, Directors highlighted the importance of using country-specific judgment and results from all EBA models and new complementary tools to arrive at final assessments. However, they also underscored that this judgment needs to be analytically grounded, transparently presented, and evenhanded. Noting estimation uncertainties, Directors appreciated the presentation of external assessments in ranges, and suggested that a similar approach be consistently taken for all countries. They encouraged further efforts to improve the methodology on an ongoing basis, and offered many suggestions that merit consideration in future refinements.

Directors stressed the unique role of the Fund in providing multilaterally consistent assessments of external positions and contributing to the debate on global imbalances. The quality and timeliness of data provision by its members is important in this regard. Directors welcomed the efforts to broaden the reach of the External Sector Report, while recognizing that continued work remains necessary to incorporate new insights. They also called for greater efforts to better integrate external sector assessments and policy advice into other flagship reports and bilateral surveillance.