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 September 21, 2017.*

Executive Directors broadly shared the assessment of global economic prospects and risks. They observed that global activity has strengthened further and is expected to rise steadily into next year. The pickup is broad based across countries, driven by investment and trade. Nevertheless, the recovery is not complete, with medium-term global growth remaining modest, especially in advanced economies and fuel exporters. In most advanced economies, inflation remains subdued amid weak wage growth, while slow productivity growth and worsening demographic profiles weigh on medium-term prospects. Meanwhile, several emerging markets and developing economies continue to adjust to a range of factors, including lower commodity revenues.

Directors noted that, while risks are broadly balanced in the near term, medium-term risks remain skewed to the downside, with rising financial vulnerabilities. These include the possibility of a sudden tightening of global financial conditions, a rapid increase in private sector debt in key emerging market economies, low bank profitability and pockets of still-elevated nonperforming loan ratios, and policy uncertainty about financial deregulation. Directors also pointed to risks associated with inward-looking policies, rising geopolitical tensions, and weather-related factors.

Given this landscape, Directors underscored the continued importance of employing a range of policy tools, in a comprehensive, consistent, and well-communicated manner, to secure the recovery and improve medium-term prospects. They recognized that major central banks have made every effort to communicate their monetary normalization policies to markets. The cyclical upturn in economic activity provides a window of opportunity to accelerate critical structural reforms, increase resilience, and promote inclusiveness.

Directors stressed that a cooperative multilateral framework remains vital for amplifying the mutual benefits of national policies and minimizing any cross-border spillovers. Common challenges include maintaining the rules-based, open trading system; preserving the resilience of the global financial system; avoiding competitive races to the bottom in taxation and financial regulation; and further strengthening the global financial safety net. Multilateral cooperation is also essential to tackle various noneconomic challenges, among which are refugee flows, cyberthreats and, as most Directors highlighted, mitigating and adapting to climate change. Concerted effort is also needed to reduce excess global imbalances, through a recalibration of policies with a view to achieving their domestic objectives as well as strengthening prospects for strong, sustainable, and balanced global growth. In this context, as a few Directors emphasized, the IMF also has a role to play by continuing to strengthen its multilateral analysis of external imbalances and exchange rates.

Directors agreed that continued accommodative monetary policy is still needed in countries with low core inflation, consistent with central banks' mandates. Fiscal policy should gear toward long-term sustainability, avoid procyclicality, and promote inclusive growth. At the same time, fiscal policy should be as growth friendly as possible, using space, where available, to support productivity and growth-enhancing structural reforms. In many cases, policymakers should prioritize rebuilding buffers, improving medium-term debt dynamics, and enhancing resilience. Efforts to raise potential output should be prioritized based on country-specific circumstances, including increasing the supply of labor, upgrading skills and human capital, investing in infrastructure, and lowering product and labor market distortions. Social safety nets remain important to protect those adversely affected by technological progress and other structural transformation.

Directors noted that income disparities among countries have narrowed, but inequality has increased in some economies. They saw a role that well-designed fiscal policies can play in achieving redistributive objectives without necessarily undermining growth and incentives to work. Directors generally concurred that there may be scope for strengthening means-testing of transfers in many countries and for increasing the progressivity of taxation in some others. Most Directors noted that any consideration of a universal basic income would have to be weighed carefully against a host of country-specific factors—including existing social safety schemes, financing modalities, fiscal cost, and social preferences, as well as its impact on incentives to work—which, in the view of many Directors, raised questions about its attractiveness and practicality. Directors emphasized that improving education and health care is key to reducing inequality and enhancing social mobility over time.

Directors underlined the continued need for emerging market and developing economies to bolster economic and financial resilience to external shocks, including through enhanced macroprudential policy frameworks and exchange rate flexibility. They noted that a common challenge across these economies is how to speed up their convergence toward living standards in advanced economies. While priorities differ across countries, many need to improve governance, infrastructure, education, and access to health care. In several countries, policies should also facilitate greater labor force participation, reduce barriers to entry into product markets, and enhance the efficiency of credit allocation.

Directors observed that the global financial system continues to strengthen, and market confidence has improved generally. They recognized the substantial progress made in resolving weak banks in many advanced economies, while a majority of systemic institutions are adjusting business models and restoring profitability. However, a prolonged period of monetary accommodation could lead to further increases in asset valuations and a buildup of leverage in the nonfinancial sector that could signal higher risks to financial stability. These developments call for continued vigilance about household debt ratios and investors' exposure to market and credit risks. In this context, Directors stressed the need to calibrate the path of normalization of monetary policies carefully, implement macro- and microprudential measures as needed, and address remaining legacy problems.

Directors noted a generally subdued outlook for commodity prices. They encouraged low-income developing countries that are commodity exporters to continue improving revenue mobilization and strengthening debt management, while safeguarding social outlays and capital expenditures. Countries with more diversified export bases should further strengthen fiscal positions and foreign exchange buffers. Across all low-income developing countries, an overarching challenge is to maintain progress toward their Sustainable Development Goals.