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 March 21, 2019.*

Executive Directors broadly shared the assessment of global economic prospects and risks. They observed that global economic activity had recently lost momentum, reflecting a confluence of factors in a number of large economies. Global trade had slowed sharply, and concerns over trade tensions weakened business confidence. Directors noted that while growth is expected to level off in the first half of this year and firm up thereafter, this short-term outlook is subject to considerable uncertainty.

Directors noted that, over the medium term, growth is expected to moderate further in advanced economies, as population aging constrains the expansion of the labor force and labor productivity growth remains tepid. In emerging market and developing economies, growth is expected to increase modestly. Convergence toward advanced economy income levels, however, remains slow for many of these economies, due to structural bottlenecks and, in some cases, high debt, subdued commodity prices, and civil strife.

Directors agreed that risks to the global outlook remain skewed to the downside amid high policy uncertainty. These include a reescalation of trade tensions and disruptions from a no-deal Brexit. Given still-accommodative financial conditions, the global economy also remains susceptible to a sudden shift in market sentiment and associated tightening in financial conditions. Downside risks in systemic economies, if they were to materialize, also weigh on the outlook. On the upside, if recent tariff increases are rolled back and trade tensions resolved, rising business confidence could lift growth. Over the medium term, many Directors noted risks from rising inequality, climate change, cyber risks, political uncertainty, and declining trust in institutions.

Directors noted that the current conjuncture highlights the urgent need for strong global cooperation and coordination to tackle shared challenges. Many Directors attached priority to resolving trade disagreements cooperatively without raising further distortionary barriers, and reiterated the importance of strengthening the open, rules-based multilateral trading system. Directors stressed that broadening the gains from global economic integration would also require closer cooperation in the areas of financial regulatory reforms, the global financial safety net, international corporate taxation, and climate change. Progress on external rebalancing relies on macroeconomic and structural policies, mindful of countries' domestic conditions and objectives, to increase demand and growth potential in surplus countries, and initiatives to boost supply and potential output in deficit countries.

Against the backdrop of waning global growth momentum and limited policy space in many countries, Directors underscored the need to avoid policy missteps, contain risks, and enhance resilience while raising inclusive growth prospects. Macroeconomic policies should be carefully calibrated, aiming to support growth where output may fall below potential and policy space exists, and ensuring a soft landing where policy support needs to be withdrawn. In the event of a deeper or protracted downturn, policies should become more accommodative where feasible.

Directors stressed that fiscal policy should strike the right balance between growth and debt sustainability objectives as appropriate in individual countries. In countries with high debt, gradual fiscal adjustment is needed, particularly if financing risks are large. In countries with fiscal space, fiscal policy should boost aggregate demand where there is slack and raise potential growth where the economy is operating above potential. In this regard, a few Directors noted the role of automatic stabilizers during cyclical downswings. In the event of a more protracted slowdown in growth, care should be taken to avoid a procyclical fiscal stance. Directors concurred that fiscal policy should also adapt to shifting demographics, advancing technology, and deepening global integration. Where there is limited budgetary room, such a response will have to occur through budget recomposition and reprioritization.

Amid signs of weakening growth and muted inflation in most advanced economies, Directors welcomed the more gradual approach to monetary policy normalization by major central banks since the beginning of this year, which has helped boost positive market sentiment. They urged policymakers to clearly communicate any reassessment of the pace of monetary policy normalization that reflects either changes in the economic outlook or risks surrounding the outlook, to avoid excessive market swings or unduly compressed market volatility.

With financial conditions still accommodative as the credit cycle matures, Directors noted that financial vulnerabilities would likely continue to build in different parts of the global economy. These include rising corporate debt, sovereign–financial sector nexus, maturity and liquidity mismatches, house price misalignment, and sensitivity of portfolio flows and asset prices in emerging markets to changes in global financial conditions. The tightening in financial conditions late last year was too short-lived to meaningfully slow the buildup of vulnerabilities, leaving medium-term risks to global financial stability broadly unchanged. Where needed, policymakers should deploy prudential tools proactively, expand macroprudential toolkits, and continue to repair public and private balance sheets.

Across all economies, growth-enhancing structural reforms remain key to improving potential output, inclusiveness, and resilience. Directors emphasized that high debt levels in many countries require a multipronged approach, including to enhance debt transparency and management. Broader structural reforms should aim to lift productivity, encourage labor force participation, and upgrade skills. Further deregulation in product markets and services, supported by stronger competition law and policy, could help deter the rise in corporate market power in advanced economies.

Noting that corruption could undermine inclusive growth, public finances, and poverty reduction efforts, Directors highlighted the need to improve fiscal institutions, transparency, and governance in the public sector. Greater cooperation is also essential at the global level, including combating foreign bribery and money laundering of proceeds from corrupt activities, as well as improving the sharing of information to fight tax evasion and prosecute corrupt acts.

Directors stressed that, with external conditions remaining uncertain, emerging market and developing economies should focus monetary policy on anchoring inflation expectations where inflation remains high, and support domestic activity as needed where expectations are well anchored. Depending on country circumstances, efforts should continue to raise revenue, reduce debt-related vulnerabilities, and make steady progress on economic and financial rebalancing.

Directors underscored the need for low-income developing economies to adopt policies that focus on drivers of growth, raise resilience to volatile external conditions, durably reduce debt vulnerabilities, and advance toward the 2030 Sustainable Development Goals, with continued support from the international community. Priorities include improving macroeconomic and macroprudential policy frameworks, strengthening domestic resource mobilization, and gearing fiscal policy toward supporting growth and development objectives, including protection for social spending and carefully selected capital projects. Commodity exporters need to continue diversifying their economies through policies that improve education quality, narrow infrastructure gaps, enhance financial inclusion, and boost private investment.