IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, APRIL 2018

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 2, 2018.*

Executive Directors broadly shared the key messages of the flagship reports and found the analytical chapters topical, relevant, and insightful. They welcomed the broadbased recovery of the global economy, supported by a pickup in investment and trade. Directors observed that global growth is expected to rise further in the near term. Meanwhile, inflation remains muted in many countries. Subdued labor productivity growth and population aging continue to hold back growth in advanced economies. While the recent commodity price increase has supported a recovery in commodity-dependent emerging market and developing economies, the ongoing adjustment processes continue to weigh on growth.

Directors agreed that risks around the short-term outlook are broadly balanced, but beyond the next several quarters, risks are tilted to the downside. On the upside, the cyclical pickup in advanced economy growth may prove stronger than expected as slack in labor markets may be larger than currently assessed. On the downside, a sharp tightening of global financial conditions could have negative repercussions for growth, while financial vulnerabilities accumulated over years of low interest rates could amplify the impact of asset price movements on the financial system, putting growth at risk in the medium term. Most Directors noted that the tax reform in the United States is procyclical and may trigger inflation pressure and a faster-than-anticipated withdrawal of monetary accommodation, as well as widen global imbalances, although the view was also expressed that the reform would boost investment and efficiency, and thus move the US economy to a higher, sustainable growth path. An abrupt tightening of global financial conditions, especially if accompanied by capital flow reversals, could be challenging for several emerging markets and low-income developing countries, notwithstanding improved resilience of their financial systems. Downside risks are particularly evident from escalating trade protectionism and inward-looking policies. Record-high levels of global debt, geopolitical tensions, and climate events also threaten global growth prospects.

Against this backdrop, Directors underscored that the cyclical upswing provides a golden opportunity to advance policies and reforms to strengthen medium-term prospects and reduce vulnerabilities. Priorities are to raise potential output, ensure the gains are widely shared, enhance economic and financial resilience, and safeguard debt sustainability. Directors stressed that a multilateral framework that is open, resilient, and adhered to by all can support growth and benefit the global economy. Enhanced commitment to multilateral cooperation is particularly needed to reduce trade barriers and distortionary trade practices, and to promote a rule-based multilateral trading system that works for all. Directors also called for multilateral cooperation to further reduce incentives for cross-border profit shifting and tax evasion, avoid tax competition, implement the postcrisis financial regulatory reform agenda, and address other shared challenges such as refugees, security threats, cyber risks, and climate change. Reducing excess external imbalances requires policy efforts to lift the contribution of domestic sources of growth above overall GDP growth in surplus countries and to boost potential output and saving in deficit countries.

Directors concurred that monetary accommodation should continue in advanced economies with inflation below target. Where output is close to potential and inflation is rising toward target, a gradual, data-dependent, and well-communicated withdrawal of monetary support is warranted. Directors supported the call for fiscal policy to start rebuilding buffers now, where appropriate, to create room for an eventual downturn and prevent fiscal vulnerabilities from becoming a source of stress. Fiscal adjustment is warranted in most countries, calibrated to avoid procyclicality and anchored on fiscal reforms that increase productivity and promote human and physical capital.

In countries that have ample fiscal space and are operating at or close to capacity, fiscal policy should be used to facilitate growth-enhancing structural reforms. Directors also saw a role for fiscal policy in promoting equality, and for labor and immigration policies in boosting labor supply.

Directors agreed that digitalization presents both opportunities and risks. Digitalization can reduce tax compliance costs, improve spending efficiency, and enhance social protection. At the same time, it creates challenges for fiscal policy and the international tax system. Directors noted that mitigating risks from digitalization would require a comprehensive reform agenda, adequate resources, and a coordinated approach toward a long-term vision of the international tax architecture.

Directors welcomed the increased resilience of the banking system and stressed the importance of completing and implementing the postcrisis regulatory reform agenda. They encouraged policymakers to develop and deploy micro and macroprudential tools to address financial vulnerabilities, and to closely monitor risks related to credit allocation and increasingly synchronized house prices across countries. The global implications of Brexit-related challenges also call for close cross-border cooperation. Directors concurred that, while crypto assets do not pose an immediate threat to financial stability, if widely used, they may raise issues about investor and consumer protection, money laundering, and tax evasion.

Directors agreed that enhancing the quality of credit intermediation, avoiding credit booms that lead to excessive risk taking, and, where feasible, permitting exchange rate flexibility can help emerging market and developing economies enhance their resilience to external shocks. Directors welcomed China's progress in reducing financial vulnerabilities and encouraged further efforts to strengthen its regulatory and supervisory frameworks, particularly in the shadow banking sector.

Directors noted that low-income developing countries face multiple challenges in their effort to progress toward the 2030 Sustainable Development Goals. They expressed concern over the broad-based increase in public debt burdens, the increasing number of countries at high risk of debt distress, and data gaps. These underscore the urgent need for fiscal prudence, improved debt management capacity, and greater debt transparency on the part of both debtors and creditors, as well as concerted efforts from the international community. Several countries need to make room in their budgets to accommodate higher spending on social services such as health care and education, and public investment, by mobilizing domestic revenues and improving spending efficiency. Commodity exporters and those vulnerable to climate-related events face additional complex challenges of diversifying their economies. While country circumstances differ, common priorities for promoting economic diversification and employment include increasing access to credit, expanding vocational skills training, and improving the quality of infrastructure.

Directors expressed concern over the stalled progress in the catching-up process of emerging market and developing economies. They noted that, to facilitate income convergence, policies should aim to strengthen governance, improve educational and health outcomes, and lower entry barriers for new firms.