IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Chair at the conclusion of the Executive Board's discussion of the World Economic Outlook, Global Financial Stability Report, *and* Fiscal Monitor *on September 25, 2014.*

Executive Directors noted that an uneven global recovery continues, notwithstanding setbacks in the first half of the year. However, the pace of recovery remains weak as the legacies of the crisis continue to cast a shadow. Investment has not picked up solidly in many advanced economies, and emerging market economies are adjusting to lower rates of economic growth than those reached during the immediate postcrisis recovery. Moreover, activity in some regions is being negatively affected by ongoing geopolitical tensions. Directors also observed that some problems that predate the global financial crisis—including the effects of an aging population on labor force growth, weak productivity growth, and infrastructure gaps—are coming back to the fore and affecting the pace of recovery through lower potential growth in a number of economies.

Directors noted that global growth should increase as growth in major advanced economies picks up on accommodative monetary policies, supportive financial market conditions, and the more gradual pace of fiscal consolidation (except in a few countries, including Japan). Growth in emerging market and developing economies should also increase with a gradual improvement in structural factors affecting activity in some economies and further strengthening in external demand as advanced economies' growth recovers.

Notwithstanding this expected pickup in growth, Directors underscored that the recovery remains fragile and subject to significant downside risks. If geopolitical tensions persist it could have negative effects on confidence and contribute to increases in oil prices and declines in asset prices. In some advanced economies, risks also arise from the effects of protracted low inflation or deflation on activity or on public debt dynamics.

Directors underscored concerns about increased financial risk taking arising from the prolonged period of low interest rates, resulting in asset price appreciation, spread compression, and record-low volatility across a broad range of asset classes. They also noted that asset holdings are now concentrated in a small number of large managers. These increased market and liquidity risks could spill over to global markets, potentially triggered by heightened geopolitical risks or volatility associated with monetary policy normalization. Directors noted that the largest banks have strengthened their balance sheets in response to tighter regulation, but low profitability at some banks has created the need for an overhaul of business models, potentially creating headwinds for the economic recovery. Moreover, credit intermediation has been migrating to the shadow banking sector, creating new challenges for supervision and regulation. Against this backdrop, Directors observed that a tighter financing environment could adversely affect the sovereign debt dynamics of many emerging market and developing economies, particularly if coupled with lower growth.

Directors also remained concerned about medium-term risks to the global recovery. Growth in advanced economies could continue to disappoint over a longer period because of lower potential growth or because of a sustained weakness in demand. Directors noted that absent structural reforms, potential growth may be lower than currently projected.

Directors called for greater efforts in most economies to restore growth. They considered that premature normalization in monetary policy should be avoided, given the absence of robust demand growth in advanced economies. Some Directors also saw a need for additional actions by the European Central Bank, while a few Directors cautioned that more time is needed to gauge the effectiveness of policies already introduced. A few other Directors saw little or no scope for further unconventional monetary accommodation in the euro area, as it may not be effective in promoting demand and sustainable growth, and cautioned against maintaining such accommodation longer than necessary, in view of the financial stability risks.

Directors highlighted the need to restructure weak banks and resolve nonviable institutions and to enhance the transmission of monetary policy through balance sheet repair. Moreover, adequate data to monitor the buildup of risks and a mandate for authorities to limit these risks, particularly in the shadow banking sector, are required. Directors broadly supported the use of macroprudential policies to improve the trade-off between financial and economic risk taking as well as regulate and supervise the shadow banking sector, although a number of Directors noted the limited experience regarding the effectiveness of such measures. To ensure adequate incentives for risk taking in the banking sector, some Directors underscored the importance of governance and executive compensation reforms.

Directors stressed that fiscal adjustment in advanced economies needs to be attuned, in pace and composition, to support the immediate recovery as well as lay the ground for medium-term plans (especially in the United States and Japan). More generally, debt and deficit reduction should be designed to minimize their adverse effects on jobs and growth. Directors broadly agreed that for countries with clearly identified infrastructure needs and in which efficient public investment processes exist, an increase in public infrastructure investment could provide a boost to demand as well as raise potential output in the medium term. Directors also broadly noted that in some cases a more supportive fiscal stance could help to bring forward the growth benefits of structural reforms, provided that there is enough fiscal room and that the costs and benefits of the reforms, as well as their implementation prospects, are sufficiently certain. In some countries, fiscal conditions put a premium on structural reforms that can be implemented without budgetary costs.

Directors noted that emerging markets' efforts to rebalance growth toward domestic sources have supported global growth, although this rebalancing, combined with lower-than-expected growth, has also reduced policy space and raised vulnerabilities for some countries. In this context, the scope for macroeconomic policies to support growth, should downside risks materialize, is limited for economies with weak fiscal or external current account positions or high or increasing inflation levels or those facing financial system risks from a sustained period of credit expansion. Directors underscored the importance of reducing these vulnerabilities, including by rebuilding fiscal buffers. They also stressed that continued strong growth in low-income countries calls for greater progress in strengthening policies—by boosting fiscal positions with stronger revenues and rationalizing public spending, achieving greater monetary policy independence, and strengthening public financial management. Directors emphasized the importance for emerging markets to continue managing external financial shocks with exchange rate flexibility, complemented with other measures to limit excessive exchange rate volatility.

Directors underscored the importance of structural reforms to raise potential growth in both advanced and emerging market and developing economies. Within the euro area, these include active labor market policies and better-targeted training programs. Higher public investment in some creditor economies, complemented by policies to encourage private investment, could boost demand in the short term while raising potential output over the medium term. More forceful structural reforms in Japan are also needed to increase labor supply and raise productivity in some sectors through deregulation. Other advanced economies could also raise potential growth with measures to augment human and physical capital and increase labor force participation. Among emerging market and developing economies, the priorities vary. These include removing infrastructure bottlenecks; reforms to education, labor, and product markets; and better government services delivery. While the current account surplus in China has decreased markedly, further progress to gradually shift its growth toward domestic consumption and reduce reliance on credit and investment would help forestall medium-term risks of financial disruption or a sharp slowdown. Joint efforts by both surplus and deficit economies are needed to contribute to a further narrowing of global external imbalances. Further diversification and structural transformation remains a key priority for low-income countries.

ACRONYMS

AE	advanced economies
CAB	cyclically adjusted balance
CAD	cyclically adjusted deficit
CAPB	cyclically adjusted primary balance
CEE	Central and Eastern Europe
EMMIEs	emerging market and middle-income economies
ESSC	employer social security contribution
EU	European Union
GDP	gross domestic product
GFSM	*Government Finance Statistics Manual*
LAC	Latin America and the Caribbean
LIDCS	low-income developing countries
MENA	Middle East and North Africa
MENAP	Middle East and North Africa and Pakistan
NAO	National Audit Office
OECD	Organisation for Economic Co-operation and Development
PRGT	Poverty Reduction and Growth Trust
SNA	System of National Accounts
SOE	state-owned enterprise
SSA	Sub-Saharan Africa
SSC	social security contributions

COUNTRY ABBREVIATIONS

Code	Country name
AFG	Afghanistan
AGO	Angola
ALB	Albania
ARE	United Arab Emirates
ARG	Argentina
ARM	Armenia
ATG	Antigua and Barbuda
AUS	Australia
AUT	Austria
AZE	Azerbaijan
BDI	Burundi
BEL	Belgium
BEN	Benin
BFA	Burkina Faso
BGD	Bangladesh
BGR	Bulgaria
BHR	Bahrain
BHS	Bahamas, The
BIH	Bosnia and Herzegovina
BLR	Belarus
BLZ	Belize
BOL	Bolivia
BRA	Brazil
BRB	Barbados
BRN	Brunei Darussalam
BTN	Bhutan
BWA	Botswana
CAF	Central African Republic
CAN	Canada
CHE	Switzerland
CHL	Chile
CHN	China
CIV	Côte d'Ivoire
CMR	Cameroon
COD	Congo, Democratic Republic of the
COG	Congo, Republic of
COL	Colombia
COM	Comoros
CPV	Cabo Verde
CRI	Costa Rica
CYP	Cyprus
CZE	Czech Republic
DEU	Germany
DJI	Djibouti
DMA	Dominica
DNK	Denmark

Code	Country name
DOM	Dominican Republic
DZA	Algeria
ECU	Ecuador
EGY	Egypt
ERI	Eritrea
ESP	Spain
EST	Estonia
ETH	Ethiopia
FIN	Finland
FJI	Fiji
FRA	France
FSM	Micronesia, Federated States of
GAB	Gabon
GBR	United Kingdom
GEO	Georgia
GHA	Ghana
GIN	Guinea
GMB	Gambia, The
GNB	Guinea-Bissau
GNQ	Equatorial Guinea
GRC	Greece
GRD	Grenada
GTM	Guatemala
GUY	Guyana
HKG	Hong Kong SAR
HND	Honduras
HRV	Croatia
HTI	Haiti
HUN	Hungary
IDN	Indonesia
IND	India
IRL	Ireland
IRN	Iran
IRQ	Iraq
ISL	Iceland
ISR	Israel
ITA	Italy
JAM	Jamaica
JOR	Jordan
JPN	Japan
KAZ	Kazakhstan
KEN	Kenya
KGZ	Kyrgyz Republic
KHM	Cambodia
KIR	Kiribati
KNA	Saint Kitts and Nevis

Code	Country name
KOR	Korea
KWT	Kuwait
LAO	Lao P.D.R.
LBN	Lebanon
LBR	Liberia
LBY	Libya
LCA	Saint Lucia
LKA	Sri Lanka
LSO	Lesotho
LTU	Lithuania
LUX	Luxembourg
LVA	Latvia
MAR	Morocco
MDA	Moldova
MDG	Madagascar
MDV	Maldives
MEX	Mexico
MHL	Marshall Islands
MKD	Macedonia, former Yugoslav Republic of
MLI	Mali
MLT	Malta
MMR	Myanmar
MNE	Montenegro
MNG	Mongolia
MOZ	Mozambique
MRT	Mauritania
MUS	Mauritius
MWI	Malawi
MYS	Malaysia
NAM	Namibia
NER	Niger
NGA	Nigeria
NIC	Nicaragua
NLD	Netherlands
NOR	Norway
NPL	Nepal
NZL	New Zealand
OMN	Oman
PAK	Pakistan
PAN	Panama
PER	Peru
PHL	Philippines
PLW	Palau
PNG	Papua New Guinea
POL	Poland
PRT	Portugal
PRY	Paraguay
QAT	Qatar

Code	Country name
ROU	Romania
RUS	Russia
RWA	Rwanda
SAU	Saudi Arabia
SDN	Sudan
SEN	Senegal
SGP	Singapore
SLB	Solomon Islands
SLE	Sierra Leone
SLV	El Salvador
SMR	San Marino
SOM	Somalia
SRB	Serbia
STP	São Tomé and Príncipe
SUR	Suriname
SVK	Slovak Republic
SVN	Slovenia
SWE	Sweden
SWZ	Swaziland
SYC	Seychelles
SYR	Syria
TCD	Chad
TGO	Togo
THA	Thailand
TJK	Tajikistan
TKM	Turkmenistan
TLS	Timor-Leste
TON	Tonga
TTO	Trinidad and Tobago
TUN	Tunisia
TUR	Turkey
TUV	Tuvalu
TWN	Taiwan Province of China
TZA	Tanzania
UGA	Uganda
UKR	Ukraine
URY	Uruguay
USA	United States
UZB	Uzbekistan
VCT	Saint Vincent and the Grenadines
VEN	Venezuela
VNM	Vietnam
VUT	Vanuatu
WSM	Samoa
YEM	Yemen
ZAF	South Africa
ZMB	Zambia
ZWE	Zimbabwe

GLOSSARY

Term	Definition
Automatic stabilizers	Budgetary measures that dampen fluctuation in real GDP, automatically triggered by the tax code and by spending rules.
Contingent liabilities	Obligations of a government, the timing and magnitude of which depend on the occurrence of some uncertain future event outside the government's control. Can be explicit (obligations based on contracts, laws, or clear policy commitments) or implicit (political or moral obligations) and sometime arise from expectations that government will intervene in the event of a crisis or a disaster, or when the opportunity cost of not intervening is considered to be unacceptable.
Cyclical balance	Cyclical component of the overall fiscal balance, computed as the difference between cyclical revenues and cyclical expenditures. The latter are typically computed using country-specific elasticities of aggregate revenue and expenditure series with respect to the output gap. Where unavailable, standard elasticities (0,1) are assumed for expenditure and revenue, respectively.
Cyclically adjusted balance (CAB)	Difference between the overall balance and the automatic stabilizers; equivalently, an estimate of the fiscal balance that would apply under current policies if output were equal to potential.
Cyclically adjusted (CA) expenditure and revenue	Revenue and expenditure adjusted for temporary effects associated with the deviation of actual from potential output (i.e., net of automatic stabilizers).
Cyclically adjusted primary balance (CAPB)	Cyclically adjusted balance excluding net interest payments.
Fiscal devaluation	A revenue-neutral shift from employers' social contributions toward value-added tax.
Expenditure elasticity	Elasticity of expenditure with respect to the output gap.
Fiscal multiplier	The ratio of a change in output to an exogenous and temporary change in the fiscal deficit with respect to their respective baselines.
Fiscal stimulus	Discretionary fiscal policy actions (including revenue reductions and spending increases) adopted in response to a financial crisis.
General government	All government units and all nonmarket, nonprofit institutions that are controlled and mainly financed by government units comprising the central, state, and local governments; includes Social Security funds, and does not include public corporations or quasi-corporations.
Gross debt	All liabilities that require future payment of interest and/or principal by the debtor to the creditor. This includes debt liabilities in the form of special drawing rights, currency, and deposits; debt securities; loans; insurance, pension, and standardized guarantee schemes; and other accounts payable. (See the 2001 edition of the IMF's *Government Finance Statistics Manual* and *Public Sector Debt Statistics Manual*). The term "public debt" is used

Term	Definition
	in the *Fiscal Monitor,* for simplicity, as synonymous with gross debt of the general government, unless otherwise specified. (Strictly speaking, the term "public debt" refers to the debt of the public sector as a whole, which includes financial and nonfinancial public enterprises and the central bank.)
Gross financing needs (also gross financing requirements)	Overall new borrowing requirement plus debt maturing during the year.
Interest rate–growth differential	Effective interest rate (r, defined as the ratio of interest payments to the debt of the preceding period) minus nominal GDP growth (g), divided by 1 plus nominal GDP growth: $(r - g)/(1 + g)$.
Net debt	Gross debt minus financial assets corresponding to debt instruments. These financial assets are: monetary gold and SDRs, currency and deposits, debt securities, loans, insurance, pension, and standardized guarantee schemes, and other accounts receivable. In some countries the reported net debt can deviate from this definition on the basis of available information and national fiscal accounting practices.
Nonfinancial public sector	General government plus nonfinancial public corporations.
Output gap	Deviation of actual from potential GDP, in percent of potential GDP.
Overall fiscal balance (also "headline" fiscal balance)	Net lending/borrowing, defined as the difference between revenue and total expenditure, using the 2001 edition of the IMF's *Government Finance Statistics Manual (GFSM 2001).* Does not include policy lending. For some countries, the overall balance continues to be based on *GFSM 1986,* which is defined as total revenue and grants minus total expenditure and net lending.
Policy lending	Transactions in financial assets that are deemed to be for public policy purposes but are not part of the overall balance.
Primary balance	Overall balance excluding net interest payment (interest expenditure minus interest revenue).
Public debt	See *Gross debt.*
Public sector	The general government sector plus government-controlled entities, known as public corporations, whose primary activity is to engage in commercial activities.
Revenue elasticity	Elasticity of revenue with respect to the output gap.
Stock-flow adjustment	Change in the gross debt explained by factors other than the overall fiscal balance (for example, valuation changes).
Structural fiscal balance	Difference between the cyclically adjusted balance and other nonrecurrent effects that go beyond the cycle, such as one-off operations and other factors whose cyclical fluctuations do not coincide with the output cycle (for instance, asset and commodity prices and output composition effects).