

IMF EXECUTIVE BOARD DISCUSSION SUMMARY

The following remarks were made by the Acting Chair at the conclusion of the Executive Board's discussion of the World Economic Outlook, Global Financial Stability Report, and Fiscal Monitor on March 21, 2014.

Executive Directors welcomed the strengthening of global activity in the second half 2013. They observed that much of the impetus has come from advanced economies, but inflation in these economies continues to undershoot projections, reflecting still-large output gaps. While remaining fairly robust, growth activity in emerging market and developing economies slowed in 2013, in an environment of increased capital flow volatility and worsening external financing conditions. Directors underscored that, despite improved growth prospects, the global recovery is still fragile and significant downside risks, including geopolitical, remain.

Directors agreed that global growth will continue to improve this year and next, on the back of slower fiscal tightening and still highly accommodative monetary conditions in advanced economies. In emerging market and developing economies, growth will pick up gradually, with stronger external demand being partly offset by the dampening impact of tighter financial conditions.

Directors acknowledged that successfully transitioning from liquidity-driven to growth-driven markets will require overcoming key challenges, including strengthening policy coordination. In advanced economies, a sustained rise in corporate investment and continued efforts to strengthen bank balance sheets will be necessary, especially in the euro area. Risks to emerging market economies have increased with rising public and corporate sector leverage and greater foreign borrowing. Directors noted that the recent increase in financial volatility likely reflected renewed market concern about fundamentals, against the backdrop of early steps toward monetary policy normalization in some advanced economies. In view of possible capital flow reversals from emerging markets, Directors considered the risks related to sizable external funding needs and disorderly currency depreciations and welcomed the recent tightening of macroeconomic policies, which

appears to have shored up confidence. Regarding the financial sector, Directors noted that, despite the progress made in reducing global financial vulnerabilities, the too-important-to-fail issue still remains largely unresolved.

Most Directors recommended closer monitoring of the risks to activity associated with low inflation in advanced economies, especially in the euro area. Longer-term inflation expectations could drift down, leading to higher real interest rates, an increase in private and public debt burdens, and a further slowdown in demand and output. Directors noted, however, that continued low nominal interest rates in advanced economies could also pose financial stability risks and have already led to pockets of increased leverage, sometimes accompanied by a weakening of underwriting standards.

Against this backdrop, Directors called for more policy efforts to fully restore confidence, lower downside risks, and ensure robust and sustainable global growth. In an environment of continued fiscal consolidation, still-large output gaps, and very low inflation, monetary policy should remain accommodative. Many Directors argued that in the euro area, further monetary easing, including unconventional measures, would help to sustain activity and limit the risk of very low inflation or deflation. A number of Directors thought that current monetary conditions in the euro area are already accommodative and further easing would not be justified. Some Directors also called for a more comprehensive analysis of exchange rates and global imbalances in the *World Economic Outlook*.

Directors recommended designing and implementing clear and credible medium-term fiscal consolidation plans to help mitigate fiscal risks and address the debt overhang in advanced economies, including the United States and Japan. They welcomed the expected shift from tax to expenditure consolidation measures, particularly in those advanced economies where rais-

ing tax burdens could hamper growth. Moreover, they agreed that a new impulse to structural reforms is needed to lift investment and growth prospects in advanced economies.

Directors welcomed the progress made in strengthening the banking sector in the euro area, but noted that more needs to be done to address financial fragmentation, repair bank and corporate sector balance sheets following a credible comprehensive assessment, and recapitalize weak banks in order to enhance confidence and revive credit. While acknowledging the EU Council's recent agreement on a Single Resolution Mechanism (SRM), Directors underscored the importance of completing the banking union, including through functional independence of the SRM with the capacity to undertake timely bank resolution and common backstops to sever the link between sovereigns and banks.

Directors noted that the appropriate policy measures will differ across emerging market economies, but observed that there are some common priorities. Exchange rates should be allowed to respond to changing fundamentals and facilitate external adjustment. Where international reserves are adequate, foreign exchange interventions can be used to smooth volatility and avoid financial disruption. In economies where inflationary pressures are still high, further monetary policy tightening may be necessary. If warranted, macroprudential measures can help contain the growth of corporate leverage, particularly in foreign currency. Strengthening the transparency and consistency of policy frameworks would contribute to building policy credibility.

Directors underscored the need for emerging market and low-income economies to rebuild fiscal buffers and rein in fiscal deficits (including by containing public sector contingent liabilities), particularly in the context of elevated public debt and financing vulnerabilities. Fiscal consolidation plans should be country specific and properly calibrated between tax and expenditure measures to support equitable, sustained growth. Priority social spending should be safeguarded, and the efficiency of public spending improved, through better targeting of social expenditures, rationalizing the public sector wage bill, and enhancing public investment project appraisal, selection, and audit processes.

Directors agreed that emerging market economies could enhance their resilience to global financial shocks through a deepening of their domestic financial markets and the development of a local investor base. They supported tightening prudential and regulatory oversight, including over nonbank institutions in China, removing implicit guarantees, and enhancing the role of market forces in the nonbank sector in order to mitigate financial stability risks and any negative cross-border spillovers.

Directors concurred that many emerging market and developing economies should implement other key structural reforms, designed to boost employment and prospects for diversified and sustained growth, while also promoting global rebalancing. Reforms should, among other things, encompass the removal of barriers to entry in product and services markets, improve the business climate and address key supply-side bottlenecks, and in China, support sustainable and balanced growth, including the shift from investment toward consumption.

ACRONYMS

AE	advanced economies	LAC	Latin America and the Caribbean
CAPB	cyclically adjusted primary balance	LIC	low-income country
CEE	Central and Eastern Europe	MENA	Middle East and North Africa
CIS	Commonwealth of Independent States (<i>World Economic Outlook</i> classification)	MENAP	Middle East and North Africa and Pakistan
DBPFs	defined-benefit pension funds	OECD	Organisation for Economic Co-operation and Development
EU	European Union	PFM	public financial management
GDP	gross domestic product	PPPs	public-private partnerships
GFS	Government Finance Statistics	SNA	System of National Accounts
GFSM	<i>Government Finance Statistics Manual</i>	SSA	sub-Saharan Africa
GFSY	<i>Government Finance Statistics Yearbook</i>	VFI	vertical fiscal imbalance

COUNTRY ABBREVIATIONS

Code	Country name	Code	Country name
AFG	Afghanistan	DOM	Dominican Republic
AGO	Angola	DZA	Algeria
ALB	Albania	ECU	Ecuador
ARE	United Arab Emirates	EGY	Egypt
ARG	Argentina	ERI	Eritrea
ARM	Armenia	ESP	Spain
ATG	Antigua and Barbuda	EST	Estonia
AUS	Australia	ETH	Ethiopia
AUT	Austria	FIN	Finland
AZE	Azerbaijan	FJI	Fiji
BDI	Burundi	FRA	France
BEL	Belgium	FSM	Micronesia, Federated States of
BEN	Benin	GAB	Gabon
BFA	Burkina Faso	GBR	United Kingdom
BGD	Bangladesh	GEO	Georgia
BGR	Bulgaria	GHA	Ghana
BHR	Bahrain	GIN	Guinea
BHS	Bahamas, The	GMB	Gambia, The
BIH	Bosnia and Herzegovina	GNB	Guinea-Bissau
BLR	Belarus	GNQ	Equatorial Guinea
BLZ	Belize	GRC	Greece
BOL	Bolivia	GRD	Grenada
BRA	Brazil	GTM	Guatemala
BRB	Barbados	GUY	Guyana
BRN	Brunei Darussalam	HKG	Hong Kong SAR
BTN	Bhutan	HND	Honduras
BWA	Botswana	HRV	Croatia
CAF	Central African Republic	HTI	Haiti
CAN	Canada	HUN	Hungary
CHE	Switzerland	IDN	Indonesia
CHL	Chile	IND	India
CHN	China	IRL	Ireland
CIV	Côte d'Ivoire	IRN	Iran
CMR	Cameroon	IRQ	Iraq
COD	Congo, Democratic Republic of the	ISL	Iceland
COG	Congo, Republic of	ISR	Israel
COL	Colombia	ITA	Italy
COM	Comoros	JAM	Jamaica
CPV	Cabo Verde	JOR	Jordan
CRI	Costa Rica	JPN	Japan
CYP	Cyprus	KAZ	Kazakhstan
CZE	Czech Republic	KEN	Kenya
DEU	Germany	KGZ	Kyrgyz Republic
DJI	Djibouti	KHM	Cambodia
DMA	Dominica	KIR	Kiribati
DNK	Denmark	KNA	Saint Kitts and Nevis

Code	Country name	Code	Country name
KOR	Korea	ROU	Romania
KWT	Kuwait	RUS	Russia
LAO	Lao P.D.R.	RWA	Rwanda
LBN	Lebanon	SAU	Saudi Arabia
LBR	Liberia	SDN	Sudan
LBY	Libya	SEN	Senegal
LCA	Saint Lucia	SGP	Singapore
LKA	Sri Lanka	SLB	Solomon Islands
LSO	Lesotho	SLE	Sierra Leone
LTU	Lithuania	SLV	El Salvador
LUX	Luxembourg	SMR	San Marino
LVA	Latvia	SOM	Somalia
MAR	Morocco	SRB	Serbia
MDA	Moldova	STP	São Tomé and Príncipe
MDG	Madagascar	SUR	Suriname
MDV	Maldives	SVK	Slovak Republic
MEX	Mexico	SVN	Slovenia
MHL	Marshall Islands	SWE	Sweden
MKD	Macedonia, former Yugoslav Republic of	SWZ	Swaziland
MLI	Mali	SYC	Seychelles
MLT	Malta	SYR	Syria
MMR	Myanmar	TCD	Chad
MNE	Montenegro	TGO	Togo
MNG	Mongolia	THA	Thailand
MOZ	Mozambique	TJK	Tajikistan
MRT	Mauritania	TKM	Turkmenistan
MUS	Mauritius	TLS	Timor-Leste
MWI	Malawi	TON	Tonga
MYS	Malaysia	TTO	Trinidad and Tobago
NAM	Namibia	TUN	Tunisia
NER	Niger	TUR	Turkey
NGA	Nigeria	TUV	Tuvalu
NIC	Nicaragua	TWN	Taiwan Province of China
NLD	Netherlands	TZA	Tanzania
NOR	Norway	UGA	Uganda
NPL	Nepal	UKR	Ukraine
NZL	New Zealand	URY	Uruguay
OMN	Oman	USA	United States
PAK	Pakistan	UZB	Uzbekistan
PAN	Panama	VCT	Saint Vincent and the Grenadines
PER	Peru	VEN	Venezuela
PHL	Philippines	VNM	Vietnam
PLW	Palau	VUT	Vanuatu
PNG	Papua New Guinea	WSM	Samoa
POL	Poland	YEM	Yemen
PRT	Portugal	ZAF	South Africa
PRY	Paraguay	ZMB	Zambia
QAT	Qatar	ZWE	Zimbabwe

GLOSSARY

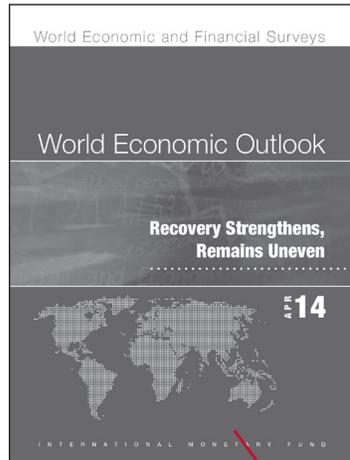
Term	Definition
Automatic stabilizers	Budgetary measures that dampen fluctuation in real GDP, automatically triggered by the tax code and by spending rules.
Contingent liabilities	Obligations of a government, the timing and magnitude of which depend on the occurrence of some uncertain future event outside the government's control. Can be explicit (obligations based on contracts, laws, or clear policy commitments) or implicit (political or moral obligations) and sometimes 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 <i>Government Finance Statistics Manual</i> and <i>Public Sector Debt Statistics Manual</i>). The term "public debt" is used

Term	Definition
	in the <i>Fiscal Monitor</i> , 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 <i>Government Finance Statistics Manual (GFSM 2001)</i> . Does not include policy lending. For some countries, the overall balance continues to be based on <i>GFSM 1986</i> , 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 <i>Gross debt</i> .
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).

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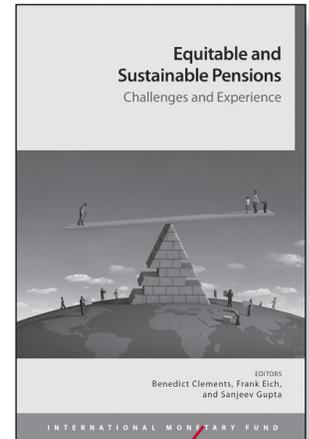
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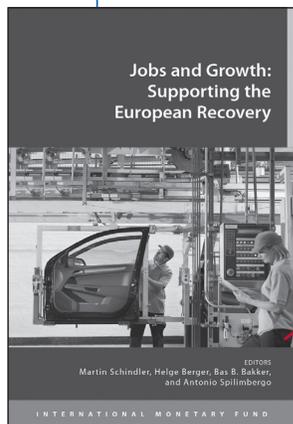
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