IMF EXECUTIVE BOARD DISCUSSION OF THE OUTLOOK, APRIL 2025

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 11, 2025.*

Executive Directors broadly agreed with staff's assessment of the global economic outlook, risks, and policy priorities. They concurred that the global economy is at a critical juncture, with significant internal and external imbalances and vulnerabilities. Directors recognized that major policy shifts are underway, generating a new wave of uncertainties with potentially significant implications for the functioning of the global economy.

Directors noted that the financial market landscape is marked by increased uncertainty and market volatility, against the backdrop of stretched valuations within many segments of financial markets. Global financial conditions have tightened, with near-term financial stability risks (as gauged by IMF's Growth-at-Risk metric) rising. Directors concurred that further correction of asset prices (with geopolitical risks being a potential trigger), the ongoing increase in leverage and interconnectedness in the financial system, especially among certain non-bank financial intermediaries (NBFIs) receiving strong investment flows in recent years, alongside still-rising sovereign debt levels, constitute key vulnerabilities keeping risks to financial stability elevated.

Directors noted that risks to the outlook are firmly tilted to the downside. They acknowledged that the escalating protectionism and elevated policy uncertainty could further reduce near- and long-term growth at a time when the world economy is entrenched in a low-growth, high-debt environment. Directors stressed that divergent and rapidly shifting policy stances or deteriorating sentiment could trigger more abrupt repricing of assets and sharp adjustments in foreign exchange rates and capital flows, especially for emerging market and developing economies. On the fiscal side, escalating uncertainty and unexpectedly high interest rates may lead to a significant increase in global public debt, particularly due to rising expenditures on defense and declining revenues linked to output uncertainty from tariffs. Furthermore, higher interest rates could limit key development spending and exacerbate financing risks in low-income developing countries, including against the background of declining official development assistance. Directors also highlighted that more limited international cooperation on common challenges could also hinder progress toward building a more resilient global economy and addressing development needs.

Directors noted that elevated uncertainty intensifies the growth-inflation trade-offs and called on central banks to carefully fine-tune monetary policy to achieve their mandates and ensure price stability. Monetary policy should remain data-dependent and clearly communicated to anchor expectations. Where near-term inflation risks are tilted to the upside or inflation expectations are rising, future cuts to the policy rate should remain contingent on evidence that inflation is heading decisively back toward target, while ensuring that financial stability is not compromised. Central banks should stand ready to act forcefully if inflation risks materialize. Directors acknowledged that although major emerging markets have proved remarkably resilient in the face of adverse shocks, abrupt sell offs in global markets against the backdrop of potential divergence in monetary policy paths, coupled with high trade policy and economic policy uncertainty, could tighten their financial conditions and raise currency volatility. Emerging markets may thus require adoption of measures to mitigate disruptive capital outflows, and Directors recognized that the IMF's Integrated Policy Framework provides a toolkit for responses in such scenarios, tailored to country-specific circumstances.

Directors emphasized that a full, timely and consistent implementation of Basel III and other internationally agreed bank regulatory standards would ensure a level playing field across jurisdictions and guarantee ample and adequate capital and liquidity. Directors acknowledged that the growing nexus between banks and NBFIs calls for supervisors to enhance the risk assessment of such linkages. They recognized that continued buildup of debt and elevated economic uncertainty underscore the need to strengthen the macroprudential policy framework to contain excessive risk taking in the NBFI sector, alongside ensuring capital and liquidity buffers in banking systems are adequate to support the provision of credit through periods of stress. Directors emphasized the importance of macroprudential buffers and strong crisis preparedness and resolution frameworks to mitigate shocks.

Directors called for gradual and growth-friendly fiscal adjustment within a credible medium-term framework to reduce debt, rebuild fiscal buffers, and accommodate priority spending while protecting the vulnerable. In light of emerging fiscal risks and new spending pressures, economies with limited fiscal space should reprioritize public spending within their planned budgets. Economies with room for fiscal maneuver could use some of the available space, if appropriate, within well-defined medium-term fiscal frameworks. Directors noted that advanced economies should prioritize expenditure reforms, advance pension and healthcare reforms, eliminate ineffective tax incentives, and expand tax bases by removing exemptions to improve tax expenditure efficiency. For countries facing new spending needs—for example, in defense—it is essential to demonstrate a strong commitment to upholding the integrity of the existing fiscal rules while ensuring transparency. Emerging market and developing economies should enhance revenues through tax system reforms and improved revenue administration, phase out energy subsidies, and streamline public wage bills while safeguarding public investment and upgrading social safety nets.

Directors emphasized the need for fiscal and structural reforms to enhance growth potential and the criticality of international cooperation to respond to global challenges and bolster resilience. Given significant demographic shifts, they stressed the need for comprehensive policies to increase labor force participation among women and older workers, implement pension reforms, and effectively address migration challenges. Directors recognized that renewable energy sources and innovative production paradigms could help countries reap the benefits of advancements in artificial intelligence without escalating electricity prices. They also highlighted that economic activity thrives under clear and transparent trade policies that stabilize expectations for businesses and consumers while minimizing volatility. Furthermore, continued cooperation across various policy areas—

including trade, industrial policy, international taxation, climate, and development and humanitarian assistance—can help mitigate global spillovers and protect vulnerable populations.