

July 23, 2021

**The Acting Chair's Summing Up
2021 External Sector Report
Executive Board Meeting 21/73
July 16, 2021**

Executive Directors broadly agreed with the findings of the 2021 External Sector Report (ESR) and its policy recommendations. They noted that global balances are expected to rise further in 2021, mainly reflecting the unequal impact of the COVID-19 crisis across economic sectors and countries. Meanwhile, excess current account imbalances in 2020 remained broadly unchanged and concentrated in advanced economies. Directors observed that favorable global financial conditions had facilitated the financing of current account deficits, but that the pandemic may have slowed the downhill flow of capital from richer to poorer economies. Stocks of foreign assets and liabilities have fluctuated but are still near historic highs, with attendant risks to both debtor and creditor countries.

Directors observed that the pandemic has had varying effects across the membership in terms of trade, capital flows, and exchange rates. Despite the recovery in merchandise trade, spending on services remains subdued, implying lower trade balances for tourism-exporting economies. Directors noted that the unprecedented government borrowing to finance health care and economic support has had uneven effects on trade balances: economies with relatively large budgetary expansions saw their trade balances fall, while economies with smaller fiscal expansions experienced rising trade balances. Currencies fluctuated widely early in the pandemic, with more moderate movements since mid-2020, amid exceptional policy support and rising global risk sentiment.

Directors generally shared the view that global imbalances would narrow over the medium term under baseline policies, although numerous uncertainties surround this forecast. The path depends crucially on fiscal policy developments. A resurgence of the pandemic could make its impact on external positions more persistent, further slowing the flow of capital toward poorer economies. On the upside, expedited vaccinations, including in lagging regions, would contribute to unwinding pandemic-induced current account movements.

Directors considered that near-term policy efforts should focus on ending the pandemic, including through strong international cooperation to secure up-front financing for vaccinations and public health measures. A synchronized global investment push would also help the recovery, with limited effects on global current account balances. Directors welcomed in this context the Fund's recently proposed general SDR allocation, which can help countries meet international liquidity needs. Exchange rate intervention and capital flow management measures can complement macroprudential measures in addressing financial stability risks, which could arise if further external shocks materialize, guided by the

Institutional View and the Integrated Policy Framework. Directors underscored that multilateral efforts should intensify to resolve trade tensions and to modernize international taxation, including by phasing out tariff and nontariff barriers, especially in the medical sector, and addressing gaps in the rules-based multilateral trading system. Some Directors also recommended avoiding measures that entangle trade and currency issues.

Directors underlined that, over the medium term, collective action by both excess surplus and excess deficit economies is needed to reduce excess global imbalances in a growth-enhancing manner. For economies in which current account deficits reflect larger-than-desirable fiscal deficits, fiscal consolidation over the medium term would promote debt sustainability, reduce the current account gap, and facilitate raising international reserves. Economies with export competitiveness challenges would benefit from productivity-raising reforms, including to enhance education outcomes and innovation. In economies with excess current account surpluses and remaining fiscal space, policies should support the recovery and medium-term growth, including through greater public investment in digitalization, infrastructure, and climate change mitigation and adaptation. Directors noted that, in some cases, intensifying reforms to encourage private investment and discourage excessive precautionary saving may also be warranted, including by reducing informality and expanding social safety nets.

Directors appreciated the consideration of temporary pandemic-induced factors in external sector assessments and encouraged continued efforts to refine the External Balance Assessment methodologies, including to reflect more persistent effects of the pandemic on external positions and address other limitations of the model. They reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries, while adequately taking account of country-specific circumstances. They also highlighted the importance of continued careful communication of the results of such assessments. Directors also welcomed the discussion of the pandemic's impact on non-ESR countries and encouraged such coverage in the future.