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The Chair's Summing Up
2020 External Sector Report
Executive Board Meeting 20/82
July 24, 2020

Executive Directors generally agreed with the findings of the 2020 External Sector Report and its policy recommendations. They noted that current account imbalances had narrowed modestly in 2019, and that the overall configuration of external positions on the eve of the COVID-19 pandemic implied persistent vulnerabilities and challenges in addressing underlying structural distortions. Furthermore, stock imbalances have reached historic highs, with attendant risks to both debtor and creditor countries. Directors shared the view that, while current account imbalances are expected to narrow modestly in the near term, this outlook is subject to high uncertainty and cross-country variation.

Directors noted that excess current account imbalances continue to be concentrated in advanced economies. They reiterated that reducing excess imbalances in the global economy requires continued joint efforts on the part of both excess surplus and excess deficit countries.

Directors observed that the COVID-19 crisis has caused a sharp contraction in global trade, especially in services, and tighter external financing conditions in the early stage of the crisis, with implications for external positions varying widely across countries. They noted the exceptional policy responses on both the fiscal and monetary fronts. For economies dependent on commodities, tourism, and remittances, the adverse effects on their economies and external positions could be severe, likely requiring significant economic adjustment and financing. Directors also noted with concern the recent rise in trade restrictions, especially on pharmaceutical and medical products.

Directors cautioned that a worsening of risk sentiment could re-trigger capital flow reversals and currency pressures, increasing risks of an external crisis for economies with preexisting vulnerabilities, such as large current account deficits, a high share of foreign currency debt, and limited international reserves. Moreover, a second wave of COVID-19 could deepen the decline in global trade and supply chains, reduce investment demand, and limit the financing of current account deficits for emerging market and developing economies. Directors underscored the importance of maintaining strong policy frameworks, adequate reserve buffers, and close monitoring of various components of external flows and currency mismatches. Many Directors noted that precautionary arrangements signify the

Fund's endorsement of countries' strong policy frameworks and their prudent response to potential balance of payments needs.

Directors agreed that near-term policy efforts should continue to focus on providing emergency lifelines, ensuring adequate liquidity, and promoting economic recovery while also building strong social safety nets. Countries with flexible exchange rates should allow them to adjust in response to external shocks, although the extent of necessary adjustment and its effectiveness vary depending on country characteristics. Exchange rate intervention, where needed and reserves are adequate, could help alleviate disorderly market conditions. While capital flow management measures on outflows may be needed in imminent crisis circumstances, as guided by the Institutional View, Directors took note of their limited use during the pandemic. They noted the role played by bilateral swap lines in easing global financial conditions and countering capital outflow pressures experienced during the pandemic. They also saw official financing as instrumental in helping vulnerable countries preserve health spending and respond to the crisis. Directors highlighted the need to avoid policies that distort trade, including tariffs, nontariff barriers, and subsidies, with a number of Directors calling particular attention to the detrimental effects of currency-based countervailing duties.

Directors underlined that, over the medium term, economic and policy distortions that predated the COVID-19 crisis might persist or worsen, suggesting the need for reforms tailored to country-specific circumstances. They concurred that previous recommendations to address excess global imbalances remain largely valid. Excess deficit economies would benefit from growth-enhancing fiscal consolidation and structural policies aimed at enhancing export competitiveness and, for commodity exporters, economic diversification. Excess surplus countries should prioritize reforms that encourage private investment, discourage excessive precautionary savings, and where fiscal space remains, increase productive public investment.

Directors looked forward to a comprehensive and multilaterally consistent assessment of the effects of the COVID-19 crisis and policy response as relevant data become available, with a number of Directors seeing merit in expanding the analysis to the broader membership. Directors acknowledged the challenges in conducting such analysis given the potential structural changes resulting from the crisis. Directors also encouraged continued efforts to improve the External Balance Assessment methodologies and offered several suggestions in this regard. They reiterated the need to ensure transparency, consistency, and evenhandedness of external assessments across countries.