2013
ANNUAL MEETINGS
World Bank Group
International Monetary Fund
Washington, D.C.

Governor's Statement No. 27

October 11, 2013

Statement by the Hon. **LUIS ARCE CATACORA,**
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Statement by Mr. Luis Arce Catacora

Governor of the International Monetary Fund for Bolivia

at the 2013 Bank-Fund Annual Meeting

As I have stated several times at annual meetings, capitalism is going through recurrent and simultaneous crises, either food, energy, water, financial and climate crises. Sometimes these crises are more severe than others but it seems that is the way we are going to live from now on unless we come up with new paradigms or at least new answers to address the roots of such crises.

In 2013, some of the developed countries managed a slightly higher growth rate than in recent years but global growth is still subdued and uncertainty continues to prevail, while downside risks are present most of the time. The Euro zone is still struggling to get out of negative growth while IMF programs were not of much help to highly-indebted countries. The recipes of fiscal consolidation and internal devaluation have failed as means to get these countries back to growth. The bottom line is that the world is still suffering the consequences of advanced countries' ill policies in the boom years and the crisis of capitalism, such as the one in 2008.

The volatile dynamics of the global economy is now taking its toll on emerging market economies as United States' monetary policy is getting close to a turning point. Capital outflows, currency depreciation, turmoil in equity markets, higher sovereign risk premiums and, more importantly, more volatile growth rates are present, while some countries are facing risks of recession. Developing countries that follow the neoliberal policies and are closely linked to emerging markets may suffer a great deal if downside risks materialize, while other countries, like Bolivia, that have chosen other models to conduct macro and development policies are likely to stand better against such turmoil, but they may still resent the effects of a recession. We are still concerned that policies in developed countries are engendering multiple vulnerabilities which are extending the span of low growth.

We claim that our new approach to conduct the economy in which the state takes lead of the economic development and applies policies towards stability and a more equal income distribution and poverty reduction is the right path to withstand the effects of international crises and maintain confidence among the people. Also, control of natural resources and strategic sectors of the economy, along with significant expansion of public investment, is key for economic development.

The uncertainty in developed economies unfortunately has not yet come to an end since growth has not fully recovered in Europe and the United States has signaled that it may have a fiscal crisis. Moreover, a number of European countries are still facing problems with their sovereign debt. The World Economic Outlook states that global growth remains in low gear while a modest acceleration of activity is foreseen, and the main impulse would come from growth in United States. But the latest news about the shutdown is not reassuring such statement. It is important that the United States at least gives certainty about their domestic policies, both fiscal and monetary. The recent announcements from the Federal Reserve Bank about tapering liquidity have generated turmoil in the financial markets through effects on the interest rates and then FED has since communicated that the accommodative monetary policy would continue. Moreover, the recent events coming from the impasse about the debt ceiling in the United States is causing renewed fears about recession and default which ultimately would affect global confidence. This new turbulence rooted in political differences is risking the tepid progress made towards the global recovery. Given this event, credit agencies should review the United States' credit rating.

Developed countries in the Euro zone need to act more decisively to solve the debt stress without ruling out debt restructuring to resume growth. Monetary and fiscal policies should now focus on growth while reforms in the financial sector should be meaningful to avoid a crisis like the world endured in 2008, not only through progressing towards a banking union but also introducing a clear separation between investment and commercial bank activities. On the external side, advanced European countries should rebalance to help countries with high deficits in their balance of payments.

I believe that to ensure economic recovery countries must carefully asses the timing of fiscal consolidation. It is also necessary for countries that are engaged in fiscal stimulus to think about the usefulness of channeling stimuli mostly through financial entities and corporations. One option is to channel it directly to the consumers, supporting social programs and policies, as well as contributing to income redistribution. The financial channel has proven to be limited. In fact, policy interest rates are close to zero in many advanced countries and lending rates are at a very low level, yet credit is sluggish.

Rebuilding external and domestic buffers in emerging and developing economies is reasonable but it is not going to happen relying only on fully flexible exchange rates, productivity-enhancing measures or free trade agreements, which may favor only some of the participants. It is imperative that uncertainty regarding the policy response in advanced countries dissipates. Diminishing volatility in exchange rate markets is also crucial. Incidentally, financial regulation must play a more active role to moderate speculation in financial markets that cause damaging effects, especially in emerging and low-income countries. Capital controls, in the form of taxes or restrictions or exchange rate intervention are fair responses to those damaging effects.

We ask the United States for responsible action, to put financial regulations in place and be preemptive. So far we have not seen any progress to assure that a financial crisis, like 2008's, will not be repeated.

The World Economic Outlook also says that monetary policy has to be accommodative where needed to address a sluggish economic recovery. In Bolivia, we have taken one step further. We believe that monetary policy is not only for price stability or an indirect instrument for growth, but also it has to play a role in economic development. Countries like Bolivia are struggling to break commodity dependence and develop domestic demand as a means to reach greater growth. For that matter, all policy instruments are to be effectively used. Fiscal policy is key for a more dynamic economy, not only for the present conjuncture but also for the long-term strategy, in which the state is the main engine of the economy rather than the private sector. It is essential that the Fund's policy recommendations for this and future crises leave out ideological concepts about free market policies which, by the way, have failed in many countries.