



## **International Monetary and Financial Committee**

**Twenty-Eighth Meeting  
October 12, 2013**

**Statement by Luis de Guindos,  
Minister of Finance and Competitiveness of Spain, Spain**

On behalf of Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain,  
República Bolivariana de Venezuela



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Although global growth remains subdued, there are encouraging signs that advanced economies' growth rate is starting to accelerate and that emerging economies, albeit at a slower pace, continue to maintain a substantial level of activity. In this context, to achieve strong growth, and job creation and address the challenges ahead, it is important to press further with the global policy agenda in a coordinated manner. Policy priorities should be focused on implementing structural reforms, ensuring fiscal sustainability and appropriate monetary conditions and reducing financial fragmentation. At the global level, reducing external imbalances and fostering a more resilient global financial system will help reduce uncertainties and will contribute to a faster recovery.

### **USA and Japan**

In Japan and the United States, strong medium-term fiscal plans are needed to place government debt on a sustainable track. The conclusion of the recent US federal shut-down and a prompt lifting of the debt ceiling is also a priority in the United States. Monetary conditions should remain accommodative as long as needed and, in the case of the United States, exiting from monetary stimulus, when appropriate, needs to be clearly and timely communicated as well as mindful of its spillovers in other countries.

### **Euro Area**

The recovery in Europe is taking hold and growth is expected to strengthen gradually in the period ahead. However, remaining challenges require staying the course of reforms to ensure a more solid recovery and to reduce unemployment, which remains unacceptably high. Financial tensions in the euro area have eased thanks to decisive reforms and progress in strengthening bank balance sheets in several European countries, together with collective European efforts to improve the architecture of the Economic and Monetary Union (EMU). However, there are few signs that these improvements in financial and economic conditions are translating into better lending conditions in some European countries, where companies, especially small and medium-sized enterprises (SME), are still confronted with higher funding costs than their European competitors with comparable fundamentals. These difficulties in accessing finance are hampering the recovery in these countries.

Against this background and building on recent improvements, the main priority is to continue efforts and timely completing a fully-fledged Banking Union. This crucial pillar of the new EMU architecture will help address the persistent euro area financial fragmentation

and repair the monetary transmission mechanism, thus contributing to reinforce confidence in the European banking sector and to restore normal lending to the economy. Important advancements are forthcoming. In particular, the Single Supervisory Mechanism will be a far-reaching step that should be complemented by a Single Resolution Mechanism. Also, the upcoming Asset Quality Review and stress tests will help further strengthen banking balance sheets while underpinning confidence. It is important that these reviews and tests have input from independent evaluators.

The ECB's role in stabilizing financial markets, promoting adequate monetary conditions and addressing financial fragmentation continues to be paramount.

Sound public finances and structural reforms to increase growth potential also need to go hand in hand. Important progress has been made on these fronts in recent times but more efforts are needed to achieve medium-term fiscal targets and to reduce the level of debt. At the same time, the pace and composition of the adjustment needs to be appropriately designed to take into account the economic and financial environment and to make the adjustment as growth-friendly as possible.

In Spain, the economy is showing encouraging signs of stabilization, growth is expected to turn positive from the second half of 2013 onwards and most of the main imbalances are being corrected at a fast pace. Public deficit is being reduced, the external sector is turning from an ample deficit to a surplus this year, whereas unit labor costs are swiftly adjusting and private sector deleveraging is proceeding at a rapid pace. Banks' resilience has been significantly strengthened, through a comprehensive reform and restructuring, including a substantial increase in the level of capital and provisions. Going forward, the priorities are to bolster monitoring, supervision and transparency. Further to that, the government remains committed to continue implementing its policy strategy based on fiscal consolidation and deep structural reforms to spur competitiveness with the overall goal of addressing the remaining imbalances, creating employment and promoting a strong and sustainable recovery.

## **EMDCs**

Even though EMDCs are coming down from cyclical peaks and moving to more moderated levels of activity, they are major contributors to global economic growth. Lower exports, driven by weaker external demand and a fall in commodity prices, will keep a large part of emerging and developing economies from growing at a faster rate. However, domestic demand continues to be somewhat dynamic and investment remains an important source of growth. Macroeconomic fundamentals continue to be strong in most countries and we should be cautious about generalizing the notion that these fundamentals have weakened.

To address challenges related to external conditions which affect interest rates and capital flows, efforts should be directed at preserving financial stability, using the exchange rate as a shock absorber, taking actions against excessive volatility and being prepared to face liquidity shortages. Emerging markets with more robust policy frameworks have been less affected and exchange rate flexibility has acted as a policy buffer. However, excessive exchange rate movements carry risks, and countries with adequate reserves could use them to mitigate excess volatility and avoid overshooting in exchange rate depreciations. Precautionary facilities like the FCL are extremely useful in these circumstances.

### **Low income countries**

Although most LICs have shown strong resilience in terms of sustaining high growth rates over the course of the global crisis, there are important regional differences in vulnerabilities among them and there has been uneven progress in rebuilding fiscal and external buffers. LICs should continue the reform process in order to become more resilient and rebuild their buffers to adverse shocks and the International Financial Institutions (IFIs), including the Fund, should stand ready to support sound policy packages in the event of intense external shocks.

### **Global imbalances**

Global rebalancing is crucial for strong and sustainable growth and needs to continue. A significant correction of current account deficits in some deficit countries, as is the case of Spain, has already taken place, with an important share of the correction being structural in nature. In some countries, improvements in unit labor costs, structural reform efforts and a reorientation of resources towards internationally tradable sectors have contributed to this structural adjustment; although measures remain essential to improve competitiveness in deficit and debtor countries, further efforts by surplus and creditor countries are also needed, as a stronger demand in those economies is critical for the rebalancing. In particular, it will be important to address structural rigidities in some surplus and creditor countries that keep wages below productivity levels and hold back consumption and to pay attention to persistent currency intervention that generates undervalued exchange rates.

### **The role of the Fund**

Bolstered by the integrated surveillance decision, the IMF is placed in a unique position to assess spillovers and interconnections among economies and financial systems. While this position has led to a more comprehensive analysis of risks and implications of national policies, a more balanced approach would be desirable in particular when assessing how the rebalancing among economies should be accomplished.

The IMF expertise has proved highly valuable when assessing the impact of new regulatory frameworks on banks and on financial stability. Nevertheless, still much has to be done in

terms of global financial regulation and its implementation at the national level. Commitment from all the parties involved is of utmost importance for the achievement of a more resilient financial framework. The IMF has an important role to play to ensure that all actors proceed in a cooperative way to make the reforms gain momentum and providing an accurate assessment to improve traction will be decisive in this regard.

We welcome the upcoming triennial surveillance review, which will offer a good basis to analyze the consistency and effectiveness of IMF's efforts in this field. An increased focus of Fund's surveillance on macro-critical medium-term structural policies is necessary, especially today that growth and jobs are the top priorities for most countries and where many structural issues are critical for domestic and external stability. In this sense, an integrated macroeconomic picture, with appropriate recommendations, is in many cases impossible without an analysis of structural policies.

We also welcome the future review of precautionary lending facilities. Although some adjustment could be made to these facilities, it should be noted that so far they have functioned reasonably well and have provided a good support to the countries that have been using them.

On governance, it is important to complete the ratification of the 2010 IMF Reform. This will increase the legitimacy and credibility of the Fund. Moreover, as agreed, the reform of the quota formula and the 15<sup>th</sup> General Quota Review should proceed according to the deadline of January 2014. The aim of any change in the quota formula and in quota shares should be to adequately reflect the relative positions of the members in the world economy.