



International Monetary and Financial Committee

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**IMFC Statement by Luis De Guindos
Minister of Finance
Spain**

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

**STATEMENT BY MR. DE GUINDOS, MINISTER OF FINANCE OF SPAIN,
ON BEHALF OF COLOMBIA, COSTA RICA, EL SALVADOR, GUATEMALA,
HONDURAS, MEXICO, THE BOLIVARIAN REPUBLIC OF VENEZUELA,
AND SPAIN**

Washington, D.C. October 8, 2016

Global Outlook

The world economy is in a complex situation, with subpar growth despite the intense expansionary monetary policies applied in advanced economies in recent years. According to the IMF, world growth in the first half of 2016 is expected to be slightly weaker than in the second half of 2015 and lower than projected last April.

Relevant geopolitical and economic risks have appeared (or increased) over the last years and months, with the materialization of the vote for EU exit in the British referendum as a case in point. The potential withdrawal of the substantial monetary stimuli in the US is becoming another major risk factor, given the sensitivity of financial markets to an eventual abrupt rise in yields, especially in emerging economies.

International trade, a key factor pushing forward world economic growth before the financial crisis—particularly in emerging countries—is now more subdued and merely growing at the same rate as the world economy; more worryingly, it is subject to the growing risk of a shift towards protectionism in some advanced economies, which could threaten recovery and block the path to prosperity for many emerging economies. Equally important is ensuring that trade liberalization picks up speed again so that international trade can drive world economic growth once more. At the same time, more efforts are needed from policymakers to ensure that the gains from technology and globalization are more broadly shared.

Economic policy

In this context of slow growth and increased risks, robust and predictable economic policies are as important as ever. Worldwide uncertainty is probably eroding investors' confidence, partly explaining the decreased investment rates observed in recent years. The world cannot afford to suffer uncertainty from divergent and inconsistent public policies layered on top of each other. Strong economic policies also increase resilience to shocks, an essential factor in today's changing economic and financial environment.

A coherent mix of structural, monetary and fiscal policies, taking into account international spillovers, is clearly the way forward in order to deal with this challenging environment, as stressed by the G20. This mix should give due consideration to national and regional specificities: in particular, the cost-benefit profile of further monetary stimulus, including its potential strain on the banking system in terms of profitability and spillover effects in the form of easy credit. Also to be considered on a case-by-case is the

potential scope for expansionary fiscal policy, bearing in mind the substantial budgetary impact that the financial crisis has had in most of the advanced economies and the required fiscal adjustment in many emerging economies. In both cases, the medium-term implications for financial stability should be carefully considered, as any damage on this front could lead to a further retraction of investment, possibly undoing any short-term expansionary effects.

Structural reforms should continue to figure prominently in the minds of policymakers. The world economy is still hampered by various obstacles that prevent it from reaching its productive potential, and these need to be decisively tackled. In addition, the crisis has left a vast catalogue of legacy issues which are also weighing down on growth. It is equally necessary to deal with them resolutely in order to clear the way for a healthy recovery.

Countries in this chair offer a good example of the value of reforms. Mexico and Colombia have been well served by their strong economic policy frameworks, which have shielded them notably from the shocks coming from commodities markets. Their dedication to politically costly but necessary reforms has also helped them in this context and should reinforce productivity in the coming years.

Latin American commodity-exporting countries with sound policies have fared well during this period. Exchange rate flexibility and fiscal consolidation have allowed countries to absorb commodity shocks and gradually adjust their economies. Spain has also completed its share of structural reforms in the labor and product markets, as well as in the banking sector. By tackling legacy issues from the crisis and freeing some of the productive potential of the economy over the last four years, Spain has sown the seeds for rapid growth. Equally important has been the substantial fiscal consolidation since 2011, which has dispelled many of investors' fears. These efforts in terms of financial cleansing, fiscal consolidation and structural reforms has paid off, with Spain standing out as the big advanced economy with the highest GDP growth rate forecast by the IMF for 2016, after new upward revisions from both the April WEO forecast and the July WEO update. This growth rate is twice the euro area average and is to a great extent attributable to an increase in competitiveness. The latter is illustrated by the fact that this outstanding growth has been compatible with current account surpluses for the first time in the last three decades.

As regards the Eurozone, gradual progress continues on the banking union front with the aim of reducing, sharing, and better allocating risks, after substantial advances in devising common banking resolution and supervision mechanisms in recent years. The two milestones ahead are the set-up of a common single deposit guarantee scheme (European Deposit Insurance Scheme -EDIS-) and the consolidation of the Capital Markets Union. The correction of fiscal imbalances is proceeding according to plan, while government debt for the whole euro area has peaked and is now trending downwards.

The role of the IMF

Recent movements in financial markets are a reminder of the need for a strong and adequately resourced IMF, with firepower commensurate to the risks in the world economy. Some of those risks have certainly abated since 2012, but others remain and new ones (particularly in the political arena) have emerged. As we have often seen in recent years, strong economic policy frameworks at the national level—while necessary—may not always be enough to fully insulate countries from financial turbulence. Under such circumstances, the IMF needs to be ready to step in with a financial capacity that enables it to make a difference.

This chair believes that an adequately-resourced IMF is a key component of a healthy world monetary system. Most EU countries have shown their resolute commitment to such principle by agreeing to the renewal of the expiring bilateral loans, conceived as a third line of defense. Spain has expressed its strong support for such renewal, insofar as it is possible within the constraints of a caretaker government. Mexico has committed to the renewal of its agreement. It is important that other advanced economies also commit to support the Fund through the renewal of existing loans or, for those that did not previously participate, through the granting of new ones. We want to reiterate, however, that the IMF should remain a quota-based institution and these resources must be viewed as temporary.

As regards the Fund's lending toolkit, improvements are always possible. At the same time, some of the existing instruments have worked very well. Thus, we should be wary of changes or narratives that can cast doubt on such successes. In addition, we should be careful to avoid the proliferation of new instruments.

In terms of governance, we welcome the increase in representation resulting from the fourteenth quota review, and we are looking for further discussions on quota and representation to better reflect the weight of individual countries on the world economy.

We would also like to stress the value of the Fund's Article IV missions, a very useful exercise both for the supervised country and the international community. Hence, caution is advisable when adding new features to this exercise that may be contentious or sensitive for the affected country, including the calculation of the existing fiscal space in the context of Article IV missions.