



International Monetary and Financial Committee

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**IMFC Statement by Mohamed Loukal
Governor, Bank of Algeria
Algeria**

On behalf of
Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran,
Morocco, Pakistan, and Tunisia

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Speaking on behalf of Afghanistan, Algeria, Ghana, Iran,
Morocco, Pakistan and Tunisia**

The global economy has gathered steam since last October, and the cyclical recovery is stronger and more broad-based than thought earlier, thanks to higher investment and trade and generally supportive financial conditions. The global economic growth in 2017 was the highest in the past seven years, but with major differences across and within country groups. Advanced Economies (AEs) are expected to grow faster than potential this year and next but, except for the United States, their growth is projected to taper off and settle at a subpar potential rate. In the United States, growth is expected to stay above potential longer on the back of the recent pro-cyclical fiscal expansion. Growth in Emerging Markets and Developing Countries (EMDCs)—led by China and India—is expected to remain strong over the medium term and continue to provide the major engine for global growth. In Low Income Developing Countries (LIDCs) as a whole, growth has strengthened—with further near-term improvement expected—boosted by higher commodity prices and the global recovery, but with considerable variation across countries. The prospects for several LIDCs—particularly those in Sub-Saharan Africa facing negative dynamics of anemic growth, regional conflicts, drought, widespread poverty and high debt—are of concern.

The short-term risks to the outlook are broadly balanced, but the medium-term risks have risen since October, including from intensified trade conflicts; faster than expected monetary policy normalization in AEs, with knock-on effects on financial conditions globally; and exacerbation of geopolitical tensions. Economic and human costs of climate change and forced migration pose significant challenges for a number of countries, big and small, rich and poor. Digitalization and technological change offer new opportunities, but also create new challenges that need to be harnessed. The current long and strong economic cycle has provided a window of opportunity for all countries to push ahead with economic adjustment and reforms, but the cycle is now at its tail end, at the time when risks to the outlook are more firmly tilted to the downside.

The Managing Director's updated Global Policy Agenda—with its rightful emphasis on building the foundation for high and more inclusive growth; open and rules-based trade system; rebuilding policy space and financial sector resilience; strengthening governance and fighting corruption; and improving gender and income inequalities—provides the appropriate framework for action, as long as policies are tailored to country circumstances and constraints. The GPA carries another important message: the window of opportunity is still open, but there is no room for complacency.

The challenges vary considerably across countries. For AEs, the priorities are to increase potential output and productivity growth, create jobs, address the lingering legacy issues

from the global financial crisis, and build resilience and buffers to deal with new vulnerabilities. For EMDCs the key challenges are to curb excessive leverage and safeguard against disruptive capital flow volatility, while maintaining strong growth momentum and enhancing resilience. Greater efforts are also needed to enhance efficiency of investment and social spending. The oil-exporting countries in MENA are gradually emerging from their post-2014 recession, thanks to the global recovery and the recent firming of oil prices, but their economic prospects critically hinge on the success of their efforts to diversify their economies, build fiscal and reserve buffers, address financial vulnerabilities, and create jobs and improve income distribution. We call on the IMF and international financial community to enhance their support to LIDCs, small, and fragile and conflict-affected countries on terms and conditions that would not exceed their implementation capacity or add to their debt burden. We welcome Fund's consideration of modifications to its LIC facilities, and look forward to an increase in its concessional lending capacity and higher access levels.

Prolonged easy money conditions have supported the economic recovery, but with most AEs—with the notable exception of the United States—closing their output gaps later this year or soon after, core inflation is expected to firm, but remain sticky downward relative to inflation targets. In the United States, the faster output growth in the context of full employment and wage pick-up has hastened monetary policy normalization in recent months, raising concerns about an “inflation surprise”, but the overall financial conditions are still accommodating. Monetary policy normalization is inevitable—hopefully later rather than earlier—and once initiated, the withdrawal of stimulus should be in line with cyclical conditions and gradual, and policy intentions should be clearly communicated.

In most countries, building fiscal buffers would increase resilience and create space for investment in infrastructure and workforce skill, and for meeting social protection spending. In many LICs, fiscal consolidation is key to lowering debt vulnerability, while pushing ahead with reforms to attain the 2030 Sustainable Development Goals—objectives and targets that the Fund has also integrated in its work. We support the GPA's call for a multi-pronged approach to enhance debt transparency and address LIC debt problems, welcome Fund's efforts in assisting LICs to implement the updated debt sustainability framework, and call for Fund's enhanced support for small and fragile states.

Weak governance and corruption carry significant economic costs in terms of output and welfare loss that countries can ill afford. Fund's role under the recently adopted Enhanced Framework is rightly focused on supporting countries in addressing macro-critical governance vulnerabilities, including corruption, through transparent, evenhanded, country-tailored, and candid assessment and advice. In this regard, we welcome the intention to address both supply and demand sides of corruption, as well as

facilitation of concealment. We underscore the importance of early engagement with the authorities on the issues to be discussed under surveillance, adequate reporting on authorities' views, as well as parsimony in the use of third party indicators.

One of the side effects of a prolonged period of unconventional monetary policy easing in the last decade has been the build-up of risks in search for yield, at the time when crisis legacies have not been fully resolved. Moreover, with tighter regulation of banks in the aftermath of the GFC, risks seem to have migrated to nonbanks, including in complex derivative products. In the meantime, new risks have emerged, including the spread of crypto-assets, the nature and magnitude of which are not yet fully clear. This is an area where the Fund should stay ahead of the curve. An abrupt tightening of monetary conditions globally also carries the risk of greater global financial volatility and destabilizing capital movements. The Fund should tailor its assessment of macro-prudential measures and capital flow management measures to members' circumstances. The Fund also has a key role in leading multilateral efforts, in collaboration with other stakeholders, to help tackle difficulties associated with the withdrawal of correspondent banking relationships that is hampering orderly current account transactions for some members.

Probably the most disconcerting development since our October meeting has been the escalation of trade conflicts and retreat from globalization and international cooperation. EMDCs and LIDCs have benefitted significantly from trade liberalization and technology transfer in the past few decades, when globalization lifted hundreds of millions of people out of poverty across the developing world. The weakening commitment to the free flow of goods and services is particularly alarming for those LIDCs that are falling behind in income convergence. We reiterate our support to an open and rules-based multilateral trade system and a collaborative mechanism for conflict resolution.

Structural reforms are critical to boost potential growth and productivity, create jobs, meet the challenges of rapid progress in technology, close gender and income inequality gaps, and promote inclusiveness. The 2018 Marrakesh Call for Action has fleshed out the key elements of a holistic inclusive growth agenda for the MENA region that merits consideration. To be effective, structural reforms need to address the most relevant issues in each country, consistent with its resource base, capacity, and constraints. In the case of oil-producing countries in our region, many countries are using the recent recovery of oil prices to pursue reforms to diversify their economies and achieve higher and more inclusive growth, strengthen their fiscal positions, tackle youth and female unemployment, and rationalize domestic energy prices.

We continue to support an adequately-resourced, quota-based IMF at the center of the global financial safety net. We call for maintaining total Fund resources at least at their current level, while reducing reliance on borrowing. We stress the importance of

completing the quota review by 2019 Spring Meetings and no later than the 2019 Annual Meetings. As we have emphasized before, it is important that the revised formula ensures a meaningful increase in quota share of dynamic EMDCs, without being at the expense of other EMDCs, and that the quotas and voting shares of all PRGT-eligible and small developing countries are preserved. In view of limited progress so far, we believe that the IMFC should discuss how to accelerate the process to ensure timely completion of the review.