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Statement by Mr. Luis Arce Catacora
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at the 2010 Joint Annual Discussion

The current crisis of capitalism is deeply rooted in four recurring elements: the climate crisis, energy crisis, food crisis and financial crisis, therefore we are facing a structural senile capitalism crisis.

The 2008 global financial crisis unfortunately has not yet come to an end and there are double-dip downside risks, since growth has not fully recovered in Europe and the United States. Moreover, a number of European countries are still facing problems with their sovereign debt, and empirical evidence shows that debt crises often follow financial crisis. The World Economic Outlook states that sustainable and healthy economic recovery hinges on two pillars: first, internal rebalancing, through strengthening private demand in advanced countries and fiscal consolidation; and second, external rebalancing, through increasing net exports.

As I mentioned in October last year when the Regional Economic Outlook was about to be published, the internal rebalancing seems to rely on a significant fiscal stimulus cuts without giving enough consideration to side effects around the world. I believe that to ensure economic recovery we must carefully asses the timing of such cuts and also be thoughtful and proactive regarding fiscal consolidation, especially in advanced economies. It is also necessary that countries that are engaged in fiscal stimulus 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 in sluggish; therefore, investment is not enough for growth and employment. Another global strategy factor in combating global crisis and dissipating downside risk of double- dip is to shore up countries with sovereign debt problems, without ruling out debt restructuring.

It is also important to remember that the current financial crisis hit many emerging and low-income countries, not through balance-of-payment channels but through fiscal accounts, unbalancing their budgets, even though they managed to keep fiscal discipline in boom years. Thus, social expenditure for education and health is endangered and therefore, these countries are in urgent need of budget support at concessional rates and the Fund has to play a role in attending to these needs. It is worth noting that external equilibrium depends upon fiscal stance.

The external rebalancing is plausible 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 to risks of a double-dip recession dissipates. It is also necessary to diminish volatility in exchange rate markets. 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.

The current economic crisis is not going to be the last, and it seems that the Fund will not be of any help to prepare ourselves to timely identify a future crisis, not because it is not capable of doing so but because its main shareholders would not want to be stigmatized or embarrassed before their citizens and the international community. So, what can we ask for in this regard? We ask the advances countries—where the crisis originated—for responsible action, to put regulations in place and be preemptive, to avoid future global crises and their disastrous consequences, such as those we are enduring at this time. Greater core capital in financial institutions and addressing supervision weaknesses are among the necessary measures to be implemented. Bolivia—a small country—has suppressed subordinated debt as capital for its commercial banks, which requires greater risk capital for bankers.

The World Economic Outlook also says that monetary policy has to be accommodative 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 need 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. 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.

Members' quotas have to increase substantially to realign the global GDP-to-quota ratio according to today's needs and to assure appropriate access to Fund resources in case of need. Along the same lines, it is imperative to protect emerging and low-income countries' share in the Fund's quotas if the Fund is to be a cooperative institution. This Annual Meeting should also conclude with more concrete guidelines for implementing quota shift from advanced countries to emerging and developing countries for at least 6 percent.

The quota formula clearly presents faults in its variables and weights that impede appropriately reflecting members' participation in the global economy. At present, this formula is hurting emerging and developing countries. We ask for a grater weight for the PPP-GDP in the formula and data for this purpose should include 2009.

The Fund's governance reform must address what is important. We do not believe that changing or creating another IMFC-type body is the right step. What we need are effective engagement and discussion mechanisms at the Governor level to achieve a greater democratic participation in the decision-making process, thereby preserving the Executive Board's role. The number of constituencies has to allow member participation and certainly grouping them in a smaller number of constituencies will be detrimental for emerging and developing countries. Furthermore, the Fund should introduce a double-majority in the decision-making process for issues that require consensus to be legitimate. In the selection process for the Managing Director we oppose any nationality restriction which is a kind of discrimination.

The Fund, over time, has changed its lending facilities trying to accommodate them to certain type of countries with common needs and characteristics. The last approval of the Precautionary Credit Line is another step to better serve the membership, and certainly it may help countries—mainly emerging and developed—that comply with the prerequisites. However, there are countries whose economic conditions do not fit in the pre-requisites of the new lending facilities and yet they need the Fund's support. These countries may have State-led economies because their private sector is not dynamic enough for the economy, and efforts made to diversify their economies would notably improve their balance-of-payments position. Yet their gains in fiscal stance have disappeared as fiscal income decreased because of the crisis and they are struggling because a lack of temporary budget financing to keep up social expenditure and public investment. We see that there is no lending facility in the Fund's financial architecture to support these types of countries. I reiterate that the Fund needs to work on this issue as soon as possible, since a double–dip recession may put low-income countries in need of meaningful financial assistance.

The Fund has recently made it mandatory for its systemically important members be subject to periodic assessments under the Financial System Assessment Program. Certainly this means significant progress in bilateral surveillance. However, in light of previous crises like the Asian crisis or Russian crisis, we wonder why this has not happened earlier? Why did the Fund only make efforts to conduct such assessments in emerging or low-income countries? Certainly it cannot be claimed that a financial system sector assessment on United States would have avoided its financial crisis but the world had valuable information available to detect tendencies. This situation illustrates once again the need for a greater democratic participation in the Fund's decision-making process rather than only in big share holders' decisions. We suppress any veto power in the decision-making process in the Fund.