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**Statement by Mr. Luis Arce Catacora
Governor of the International Monetary Fund for Bolivia
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The capitalist system is experiencing an acute wear and tear given that it is facing a four-pronged crisis: energy, food, climate, and financial. Therefore, it is not capable of finding solutions to unemployment, lack of growth or - worse yet- health and food security, even for people in advanced countries. Now, four years after 2008 we are confronting a likely “double dip” recession rooted in the fiscal and sovereign debt crisis in the United States and Europe, while speculators are making big profits in commodities and financial markets. We could say that a fifth crisis has mounted: the macroeconomic policy crisis, expressed in lack of adequate policy responses for the short and medium term. The worst part of this crisis is that developing countries will end up paying for what they have not caused nor benefited from.

We are astonished that the leaders in the developed world are not taking decisive actions to come up with a clear and sustainable solution for the sovereign debt crisis for highly indebted countries, which is leading to negative growth in several European countries. They have apparently no way out from the trade-off between debt crisis and financial crisis, ruling out an orderly debt restructuring. They have been totally captured by the notion that fiscal consolidation is a pre-condition for stability and growth, considering only the long-run prospects. Over and over, the Fund is coming up with the same anti-crisis policies as it did in the 90’s.

The fiscal consolidation recipe neglects attention to poverty and unemployment. While we are concerned with the prospects of economic stability in the long run, we are of the view that diminishing now fiscal stimuli in distressed systemic countries may worsen the risks of impairing growth recovery in the short-run, which surely will worsen the long-run prospects. We see that most people in countries hit by the crisis in 2008 and 2012 should expect to live in a lower living standard for a long time and for many of them poverty is ahead. This is so not only because of long lasting high unemployment but also because income distribution is worsening; for example, in the United States there has been a significant increase of the corporate profit in relation to the workers’ compensation, which may be mounting to the slow recovery observed in that country.

The World Economic Outlook (WEO) shows us that the global growth rate for 2012 has been revised downwards from 4.5 % to 3.3 % as systemic economies will have lower growth (among them United States, Japan). Even China and Brazil will have lower growth in 2012. These figures signal that the economic activity is weaker than envisaged with greater disparity among regions and we should expect much higher volatility. What is more financial risk are substantially increased. Therefore, uncertainty is ahead of us. The Fund itself, for example, reckons that vulnerabilities in low income countries could reemerge in the event of a global shock.

One of these vulnerabilities is commodity dependence and it has to be ended the sooner the better. 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 and still are failing in many countries.

The prospects of impaired long-run global economic outlook –which may impact eventually in global output and demand-, are not the only matter of concern for us, but also the reforms underway in financial systems in systemic countries. The way these reforms are being conceived and implemented is not securing that the world will be free of another financial crisis any time ahead. For example banks recapitalization is being delayed, and investment and commercial banking activities are likely to continue to be allowed within a bank, meaning that money from depositors would still be financing risky financial investments and probably financial speculation. Lobbyists from big banks around the world seem to be succeeding since regulation is not going to change substantially and the moral hazard will prevail in the financial system of advanced countries.

Based on that scenario, low-income countries are compelled to rebuild policy buffers but at the same time they should focus on strengthening internal demand, accelerate industrialization, and reaching food security. Countries like Bolivia were using the fiscal space to meet social policies aimed to tackle poverty. However, if external conditions get worse because a “global double dip recession”, these countries may be critically affected because the crisis will translate into inadequate fiscal resources, as they rely heavily on income from oil and minerals for their treasuries, to keep up social expenditure and public investment.

Therefore, it is urgent that the IMF reforms its lending tool kit to include a facility for countries that face a “budget support need” but not a balance of payments need. We have been talking about it since October 2008 as we were afraid of a long period of sequels of 2008 financial crisis. Now a “double-dip” recession seems more certain than ever, putting low-income countries in need of meaningful financial assistance, so that the IMF have to re-think its “culture” of financing only a balance of payments need. . 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 may disappear as fiscal income decreases because of the crisis and consequently they may urgently need temporary budget financing to keep up social expenditure and public investment. This current crisis again originates from advanced countries over-indebtedness. We claim again that it is not fair that developing countries like us -that have been responsible managing our fiscal accounts- would have to pay for their mistakes.

Food security is at stake again. For that matter we believe that low income countries should channel more support to agriculture and agro-industrial sectors, recurring even to subsidies for these activities. Fiscal stimulus should be applied, and social expenditure preserved while the fiscal stance should be improved by better targeting subsidies to poorer households. At the same time capital controls should be exercised as necessary in both ways, to avoid

financial shocks that affect external stability, while accommodative monetary policy still should be in place, without neglecting inflation contention. Also, controls on food exports should be applied to avoid endangering food security, as we did in Bolivia. So far there is no other line of defense against rises in food prices that lead to food scarcity among the already poorly nourished people. We have banned exports of some food staple as the United States did in the past, through rationing corn exports, so this policy is already a widespread one. Even though many governments from developed world continue to claim they are helping developing countries, no concrete progress is envisaged as commodity producers are not fairly rewarded for their products. One way to address this issue would be contribute to a sustained improvement in the terms of trade, especially for food exporters.

The quota formula clearly presents faults in its variables and weights that allow an unfair concentration of the quota share in developed countries, while distorting members' participation in the global economy. At present, this formula is hurting emerging and developing countries. We ask for a greater weight for the PPP-GDP in the formula, keep openness, reserves and an appropriate compression factor. We are not in favor of introducing members' financial contribution in the quota formula, because it would mean additional asymmetries in the quota formula.