Statement by the Hon. HÉCTOR VALDEZ ALBIZU, Governor of the Fund for the DOMINICAN REPUBLIC
Challenges facing the Global Economy

By Héctor Valdez Albizu, Governor, Central Bank of the Dominican Republic

The conditions shaping the international situation remain complex. The global economy faces significant challenges once again, due to volatility in financial markets and commodity prices, exacerbated by the slowdown of the Chinese economy and the potential impact of rising interest rates in the United States.

In this context, overall growth is expected to be moderate for 2015. Advanced economies should expand at around 2 percent this year. However, prospects for the emerging and developing economies have weakened in 2015, particularly for Latin America, where growth is projected to barely reach 0.5 percent this year.

Regarding China, the crisis its economy faces at the moment has exposed major structural vulnerabilities to what has been one of the main engines driving the world economy over the past three decades. Nonetheless, considering the internal situation of the Asian giant, this process marks the beginning of a transition to a new model of sustainable growth based on private consumption, thus reducing dependence on external demand.

Conversely, the recovery of the United States’ economy is underway. In August 2015, the unemployment rate fell to 5.1%, the lowest level in more than seven years, accompanied by an increase in consumer spending. However, notwithstanding such strong performance would augur an imminent adjustment in interest rates by the Federal Reserve, I think the slowdown in China made this decision, whose effects has already been partially absorbed by the markets.

Against this background, it is my view that the world economy faces three major challenges. The first one is to boost economic growth. For this, central banks must play a major role in those economies where fiscal space is limited for expansionary policies. Accordingly, they should support reforms to raise potential growth and labor productivity in our economies.

The second challenge we face is to ensure growth spillovers to the lowest income population. Recently, Madame Lagarde, citing the results of an IMF study, said: “we must raise the incomes of the poor and middle class to reduce inequality and promote growth.” This study suggests that if the poorest 20% of the population were to increase their income by 1 percentage point of GDP, the average annual growth of the economy would be expected to increase by 0.38%.
The third major challenge facing the global economy is **Climate Change**. We share the view of a number of world leaders that the issue of climate change is not only environmental but also a major macroeconomic challenge. Since 1900, CO₂ emissions have increased worldwide from 2,000 million to more than 30,000 million tons annually. All nations around the world must take responsibility for implementing policies to mitigate these effects and to promote economic growth without further affecting the environment.

Before concluding, let me briefly comment on the recent performance of the Dominican Republic. As a net importer of commodities, the Dominican economy reported, unlike much of Latin America, significant savings in foreign exchange due to the fall in oil prices which together with its strong macroeconomic fundamentals has allowed it to successfully overcome the adverse international environment.

The Dominican Republic's GDP grew by 6.4 percent during the first two quarters of 2015 compared to the same prior-year period, placing the country’s economic performance in a leadership position within the region. Through July, the economy grew 7.5 percent, which allows us to estimate that the Dominican economy will grow well above 6 percent by year-end 2015,

Since the implementation of an inflation targeting framework, inflation has been kept low and stable. As of August 2015, cumulative inflation was only 1.17 percent; thus our estimate is that inflation should end below the lower limit of the target range of 4.0% ± 1.0% for the year.

We anticipate that the current account should close around -2.0 percent of GDP, for the year, the lowest in the last decade. Meanwhile, the Dominican fiscal accounts are undergoing a remarkable consolidation process, registering a surplus for the first half of this year.

Finally, during these IMF/WB annual meetings in Lima, Peru, I expect we achieve the necessary consensus on the policies needed to meet the challenges ahead.

Thank you