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Statement by the Hon. **LUIS ARCE CATACORA,**
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Statement by Mr. Luis Arce Catacora
Governor of the International Monetary Fund for Bolivia
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As I have been stating since 2008, the capitalist system is again experiencing an acute wear and tear given it cannot find the way out from a five-pronged crisis: energy, food, water, climate, and financial, and for that matter it is not capable of finding solutions to address unemployment, lack of growth or - worse yet- health and food security, even for people in advanced countries. Now the world is confronting a new wave of adverse events such as China's slowdown and falls in commodity prices. But what it seems to be a result of the business cycle is also compounded with geopolitical stances and actions, which have caused damages mainly to emerging and low-income countries that have wide open economies. In addition, uncertainty over the short-term outlook is weighing on the economies because financial markets are reacting with higher volatility to stressed trade and long-waited changes in advanced countries' monetary policies. Moreover, the United States is on the verge of a new shut-down by the end of this year.

We note that once again IMF recommendations to the membership reiterate old recipes regarding fiscal consolidation and free market measures, which do not touch on the fundamental issues of the capitalism system failures. Over and over, the Fund is coming up with the same anti-crisis policies as it did in the 1990's and in 2008.

The fiscal consolidation recipe -if not properly calibrated -neglects attention to the need for growth and consequently to tackle poverty and unemployment. While we are concerned with the prospects of economic stability in the long run, we are of the view that by 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 now in 2015, should expect to live in a lower living standard for a long time. This is so not only because of long lasting high unemployment but also because of unfair income distribution around the world.

Countries like Bolivia need to break commodity dependence –as it has been doing- 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. We agree that policies should reflect member circumstances and move towards strengthening demand. It is essential that the Fund's policy recommendations for this and future crises leave out ideological concepts about free market policies and adapt to the countries' reality.

The prospects of impaired long-run global economic outlook are not the only matter of concern for us, but also the reforms in financial systems as well as macro-prudential measures 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.

Based on that scenario, low-income and middle 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 build such buffers and applying growth-enhancing and social policies aimed to tackle poverty and inequality; however, if external conditions get worse -because of a new crisis like the one ahead of us- it will be forced to use its fiscal savings but growth-policies cannot be abandoned at cost of reverting to prior poverty levels.

Bolivia has adopted a state-led economy because its private sector is not dynamic enough, in order to diversify its economy and improve the balance-of-payments position. Yet gains achieved in fiscal stance may be at risk as fiscal income may decline. We claim again that it is not fair that developing countries like us -that have been responsible in managing fiscal policy- should have to pay for other countries' policy mistakes.

Food security is at stake again. For that matter we believe that low and middle income countries should channel more support to agriculture and agro-industrial sectors, recurring even to subsidies for these activities. Fiscal stimulus has to be applied, and social expenditure preserved while 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 should still be in place, without neglecting inflation contention.

Exchange rate flexibility in crisis times is always advised to the membership as well as avoidance of competitive devaluations; however, in practice, countries that leave their currency to go freely with exchange rate market forces affect other countries and also their own domestic sectors. This outcome is seen over and over again. The flexible exchange rate policy cannot always be applied to all countries because economic development is not the same and idiosyncratic vulnerabilities are in place. We believe it is time to start thinking about a new financial architecture for the entire membership.