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IMFC Statement by Mohamed Loukal
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Algeria

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

Statement by the Honorable Mohamed Loukal
Governor of the Bank of Algeria
to the International Monetary and Financial Committee
Speaking on behalf of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, and Tunisia

Global growth continues to be weak, with lower growth in advanced economies (AEs), along with persistent low inflation and increasing risk of deflation, and slow trade growth. While short-term risks have abated, including from Brexit, and emerging market and developing countries (EMDCs)' performance has improved following more benign financial conditions and a recovery in commodity prices, medium-term risks continue to be tilted to the downside, including weak global demand, spillovers from the growth rebalancing in China, demographic trends and low productivity growth in AEs, as well as geopolitical factors. Growth is projected to pick up somewhat in 2017, mainly driven by the expected strengthening of EMDCs' performance, but to remain low from a historical perspective.

More vigorous and coordinated policy actions are needed to address the wide-ranging challenges facing the global economy, combining accommodative monetary policies, growth-friendly fiscal policies, and structural reforms. In addition, it is important to ensure that gains from technological progress and globalization are shared by all. Increased coordination across countries should help amplify the positive impact of individual country policies while reducing their negative cross-border spillover effects. We support multilateral efforts to this effect, including in completing financial regulatory reform, advancing trade liberalization, and strengthening that global safety net to achieve sustainable, job-rich, and more inclusive global growth.

While monetary policy accommodation is still needed in AEs in view of the existing economic slack, it cannot alone shoulder the burden of supporting growth, and must be supported by fiscal policy. A growth- friendly fiscal policy, contingent upon fiscal space availability, is urgently needed, and should be implemented within a credible medium-term framework to help revive demand and improve potential growth through investment in infrastructure and human capital development. For countries facing high debt burdens, gradual fiscal consolidation is needed with adequate attention to well-designed tax structures, growth enhancing spending, and protection of vulnerable groups. Structural reforms must also play a major role in supporting long-term growth through product and labor market reforms to raise productivity and labor market participation rates, including for women, and address labor market duality.

We welcome the progress achieved in addressing crisis legacy in the financial sector in AEs and strengthening resilience in EMDCs. We call for further advances in regulatory reform, and stress the importance of increased vigilance toward renewed excessive risk taking by systemically important banks which could undermine global financial stability and erode public confidence. Moreover, the side effects of the very low, or negative, interest rates on the profitability of banks and the insurance industry, as well as the sustainability of pension funds should be monitored closely.

EMDCs continue to drive global growth, despite the many challenges they are facing. Strengthening policy frameworks and enhancing resilience will be key to absorbing exogenous shocks, sustaining growth, and maintaining financial stability. Growth-friendly fiscal consolidation is needed, especially for commodity-dependent EMDCs with large fiscal imbalances.

Low-income countries (LICs) remain vulnerable to weak global conditions, terms-of-trade shocks, conflicts and security issues, and natural disasters. While recognizing the progress achieved in recent years in boosting growth and reducing poverty, this adverse environment has led to weaker performance, in particular in Sub-Saharan Africa. Efforts would need to focus on invigorating the growth momentum, including by rebuilding fiscal space through enhanced revenue mobilization and spending efficiency to increase pro-growth, pro-poor spending and to deal with exogenous shocks. Adequate concessional financing is critical to support LIC investment needs while maintaining public debt at sustainable levels. We call on the international community to upscale its assistance to small and fragile states and strengthen their capacity to deal with the daunting challenges they face. We look forward to increased flexibility and a dynamic approach in the joint Fund/Bank DSA review in order not to unduly constraint LICs’ access to finance for priority spending.

The Middle East, North Africa, Afghanistan, and Pakistan (MENAP) region is still facing significant challenges stemming from low oil prices for oil exporters, weak global demand for oil importers, and spillovers from conflicts and security issues in a number of countries. Oil exporting countries have responded to the terms-of-trade deterioration through a combination of fiscal adjustment and drawdown of accumulated reserves. Most oil-importers have used the gains from lower oil prices to reduce imbalances while reforming their subsidy systems. Many countries are making progress in macroeconomic stabilization and structural reforms aimed at increasing employment, reducing poverty, and fostering inclusion. Sustained efforts in these areas over many years are needed to yield tangible results. Countries in conflict situation and those that are hosting a large number of refugees face severe problems that require increased and well-coordinated international assistance. We highly value the IMF financial and technical support to MENAP countries, and are appreciative of its continued engagement with countries in conflict situation despite the challenging circumstances.

The challenges ahead are significant and call for vigorous and sustained efforts by all, with effective coordination to amplify the benefits of individual policy actions. We support the Managing Director’s Global Policy Agenda, which lays out a coherent set policies and reforms that can bring about positive outcomes. In this regard, Fund policy advice must not only be tailored to individual country circumstances, but also take into account the synergies and positive as well as negative spillover effects that can affect other economies and the global economy as a whole.

We look forward to the Fund completing its work on assessing fiscal space and identifying how best it can be used to boost domestic demand and revive growth while being mindful of cyclical conditions and country-specific constraints. This is an area where greater cooperation is needed to ensure that additional demand comes from countries that have the means to do so. In this regard, the Fund can draw useful lessons from the pilot cases on the infrastructure policy support initiative, and eventually expand it to other pilot countries. While implementation of structural reforms has been underway in many countries over the past years, Fund analysis and policy advice would need to focus on those reforms that can have the highest pay-off in terms of boosting potential growth and job creation, depending on countries specific circumstances.

Promoting economic diversification and shifting to a more balanced and sustainable growth model are of particular interest to the MENAP region. We attach particular importance to benefiting from international experience in this area, and stand ready to work closely with the Fund and multilateral development institutions on possible medium-term strategies to achieve these objectives.

We look forward to the completion of the work on IMF financial support instruments, including new lending facilities and financial safety net for EMDCs. We also support completing financial regulatory reforms, and welcome ongoing efforts to address the withdrawal of correspondent banking relationships in EMDCs to avoid financial exclusion. We call on the IMF to enhance its contribution and advocacy role to combat illicit financial flows, which pose serious risks to financial stability as well as fiscal and external sustainability in many countries.

We continue to attach high importance to the IMF remaining a quota-based institution and to providing it with adequate resources to meet members needs and help maintain stability of the International Monetary System. Hence, we support maintaining temporary access to bilateral borrowing and look forward to the completion of the 15th General Review of Quotas, based on a new quota formula, leading to a fair representation of EMDCs. We welcome ongoing efforts to enhance the diversity of IMF staff and maintain the high quality of its human resources. We look forward to further efforts to improve the representation of the MENAP region at all staff levels.