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IMFC Statement by Mohammed Laksaci
Governor, Bank of Algeria

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

Statement by the Honorable Mohammed Laksaci
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
Friday, April 15, 2016

We are meeting today against the backdrop of weaker-than expected global growth, low commodity prices, insufficient demand growth, and financial market volatility. The near-term prospects remain difficult with major risks tilted to the downside, including continued low growth, increasing threats to financial stability, lower confidence in policies, and rising geopolitical tensions. Moreover, growing strains on commodity exporters, including oil producing countries, are severely affecting their fiscal and external current accounts, thereby lowering their growth prospects. On the positive side, however, a number of emerging market and developing economies are showing resilience, and are better placed than in the past to adjust to external shocks, owing to the availability of sizable buffers and their flexible policy frameworks, which are the result of several years of sound macroeconomic management and economic reform.

Given the challenges ahead, strong and timely policy actions are needed to invigorate growth in the short term and raise potential growth over the medium term while strengthening financial stability and enhancing resilience to exogenous shocks. In a highly integrated world economy, policy actions by individual countries must be mutually reinforcing at the global level with due regard to possible cross-border side effects, calling for stronger international cooperation.

In advanced economies, monetary policy must remain accommodative to support growth, even though it has become clear that it cannot continue to shoulder this burden alone. In this regard, central banks in selected advanced economies must carefully assess the broader implications of negative policy interest rates and exit from accommodative monetary policy at the zero bound level. We encourage the IMF to examine the implications of divergent monetary policies in advanced economies on capital flows and financing conditions in emerging market and developing countries.

While fiscal positions have deteriorated in many advanced economies, owing to weaker growth, fiscal policy where space is available can play a supportive role in sustaining demand and laying the foundations for higher productivity growth and employment through investment in key infrastructure, technology, and human capital development. Greater attention will need to be devoted to income inequality, which in addition to its undesirable social effects, has continued to weigh down on demand growth.

In turn, structural reforms tailored to specific country needs, should seek to remove impediments to inclusive growth, raise potential output, diversify commodity-dependent economies, and address environmental challenges. Within this context, improving the business environment, increasing investment efficiency, reforming labor and product markets, and restructuring state enterprises can have potent effects on growth and employment.

In emerging market and developing economies, challenges and priorities differ across countries, depending on the strength of their fundamentals and the nature and size of the shocks they are facing, as well as other country-specific factors. To safeguard the hard won economic and social gains in recent years, efforts should focus on ensuring a successful transition of the Chinese economy to a more balanced and sustainable growth path, while managing the cross-border effects during the transition. Equally important is the need in many emerging markets and developing countries to contain financial sector vulnerabilities associated with softening growth, tighter global financial conditions, and declining capital inflows. Adjusting policies in a timely manner to lower commodity prices in commodity-dependent countries, and strengthening fiscal institutions to achieve a growth-friendly fiscal adjustment within a medium-term framework are important for enhancing confidence and boosting private investment and growth.

Low-income countries, including oil and commodity exporters, have been significantly affected by the slower growth in advanced and emerging market economies, and the sharp decline in commodity prices, with frontier market economies further impacted by tighter global financial conditions. Although these countries have made noticeable progress in revenue mobilization, expenditure prioritization, and public financial and debt management, most of them have limited policy flexibility and buffers to deal with exogenous shocks and preserve hard won gains in terms of growth, poverty reduction, and social inclusion. Continued strong donor and Fund financial as well as technical support would be crucial.

In the MENAP region, although weaker than expected in October 2015, aggregate growth is expected to pick up in 2016 at 3.1 percent and 3.5 percent in 2017. The growing fiscal deficits from lower prices have prompted the MENAP oil-exporting countries to draw on accumulated fiscal reserves while initiating revenue-raising measures and expenditure cuts, including on subsidies. In oil-importing countries, gains from low oil prices have been offset by spillovers from weak growth in advanced economies and regional security issues.

We support the Managing Director's Global Policy Agenda, which offers an appropriate combination of collective efforts to deal with the challenging prospects and risks. In this regard, the focus on further strengthening the effectiveness of IMF surveillance, enhancing its capacity development support, and adapting its lending facilities to changing global circumstances is well placed. We welcome the Fund's work on structural reforms tailored to country circumstances, including enhancing revenue mobilization and spending efficiency to increase fiscal space for public investment in infrastructure, human resource development, and innovation and technology to spur productivity growth and raise potential output. We also attach high importance to future IMF work on de-risking by major financial institutions and its impact on developing economies.

It is clear that the challenges facing a highly integrated global economy can be best addressed through global cooperation to ensure policy consistency and appropriate adjustment to shocks, and provide a coherent global financial safety net with adequate coverage for all countries. We welcome the Fund's review of the existing layers of the global safety net, which includes, in addition to official reserves, central banks' bilateral swaps, regional financial arrangements, and IMF lending facilities, and look forward to further exploratory work on how to improve on the existing system.

An adequately resourced and quota-based IMF can play a central role in strengthening the international monetary system. In this regard, we welcome the effectiveness of the 14th General Review of Quotas and the entry into force of the seventh amendment on the Reform of the IMF Executive Board. We look forward to the completion of the 15th General Review of Quotas, based on a new quota formula, which should further shift quota shares toward emerging market and developing countries to better reflect their weight in the global economy, while protecting the quota shares of low-income countries. We reiterate the importance of maintaining the high quality of human resources and improving the diversity of IMF staff, including through stronger representation of the MENA region.