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IMFC Statement by Mohamed Loukal
Governor of the Bank of 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

Friday, April 21, 2017

The global economic recovery is moderately picking up, with a revival in manufacturing activity, employment, and signs of renewed trade growth, as well as improved market sentiment. Commodity prices have also increased, although from a low level, and risks of deflation in some advanced economies are gradually fading away. This long-awaited turnaround bodes well for the medium-term outlook, especially if higher demand in advanced economies were to supplement the already strong growth impetus provided by China and other emerging market economies, which account for close to three quarters of global growth.

But the outlook is clouded by a multitude of downside risks that could thwart the fragile recovery. In addition to the more familiar risks of crisis legacies, low productivity growth, and risks of tighter global financial conditions, we are now faced with new risks of policy uncertainty and unpredictability in advanced economies, a rise of populist and inward-looking agendas that pose a threat to the global trading and economic cooperation system, and heightened geopolitical tensions and enduring conflicts. It is regrettable that this is happening as we are closer to turning the page on the global financial crisis. We must therefore be vigilant about old and new risks and act decisively to avoid any relapse at this critical juncture of the global economy.

The three-pronged approach highlighted in the Managing Director's Global Policy Agenda provides a useful road map toward supporting the ongoing recovery. Continued monetary policy accommodation in advanced economies, more supportive and growth-friendly fiscal policy, and intensified structural reforms to boost potential output and build resilience are key prerequisites to strengthen the growth momentum and preserve financial stability. Obviously, country specific circumstances will dictate the policy mix in individual cases, but we must ensure greater coherence and consistency at the global level. The IMF is well equipped to draw our attention to situations when domestic and global objectives are not aligned, focusing on optimal policy paths in source countries to minimize cross-border spillovers, as well as on mitigation measures in recipient economies.

By now there is broad agreement that fiscal policy must play a greater role in supporting the recovery in combination with structural reforms to eliminate the impediments to investment and growth. Notwithstanding differences in fiscal room for maneuver, or fiscal space, pursuing growth-friendly fiscal policies is always possible, by giving priority to investment in infrastructure and human capital development, reducing subsidies, and increasing spending to protect the vulnerable groups. Promoting more progressive income taxation, reducing tax exemptions and combating tax evasion, are critical steps toward more efficient and equitable tax systems. We welcome the ongoing work at the IMF on fiscal space and its potential use, and look forward to translating this work into policy advice in bilateral and multilateral surveillance.

Structural reforms must be a permanent component of a growth-oriented strategy and their implementation must be deep and sustained enough to produce tangible results. They must be tailored to countries' circumstances, and give priority to unlocking the potential for innovation, efficiency, competition, and strengthening human capital. We need to better understand the factors behind the trend decline in productivity growth in today's challenging environment of automation and global integration, and address their social effects. We are encouraged by the Fund's work to identify structural policy gaps, and look forward to possible uses of the new toolkit to prioritize structural reforms.

In the financial sector, we must build on the progress made in strengthening global financial stability, by addressing lingering bank vulnerabilities in advanced economies, further enhancing resilience in emerging markets and developing economies, and tackling new sources of systemic financial risk. Intensive collaborative efforts across countries and jurisdictions will help to complete the regulatory reform, improve supervision, along with cautious use of macro prudential policies. Adaptations of regulatory reforms, as needed to support credit growth and investment, must avoid undermining the hard-won gains of financial sector resilience. The Fund's recent work on the Correspondent Banking Relationships (CBRs) is promising, and we hope it will generate coordinated and collective efforts by public and private stake holders to deal with the adverse effects of withdrawal of CBRs in all affected countries without exception.

The recently improved performance of Emerging Markets and Developing Countries (EMDCs) is a welcome development, notwithstanding the headwinds. Policy priorities must continue to focus on fostering broad-based and inclusive growth, building buffers and strengthening macroeconomic frameworks to address possible exogenous shocks, including volatile capital flows, and preserving financial stability by addressing excessive corporate leverage and taming rapid credit growth.

The Middle East and North Africa region including Pakistan and Afghanistan (MENAP+), continues to cope with increasing challenges, triggered by the slump of oil prices in 2014 along with conflicts and security concerns in some countries. Since then, many oil exporters have taken courageous steps to adjust their economies to the sharp decline in their terms of trade, and are engaged in long-term economic diversification, which would greatly benefit from assistance by the IMF, the World Bank, and regional development banks. Most oil importers have used the gains from low oil prices to reduce imbalances, while also carrying out much needed reforms of energy price subsidies. Structural reforms implementation has varied across the region, and would need to be accelerated to raise potential growth and employment and reduce poverty. We reiterate our call for the international community to provide much needed assistance to countries in conflict situation and those that are hosting a large number of refugees.

The recent pick up of commodity prices bodes well for the economic outlook for low-income countries (LICs), including in Sub-Saharan Africa, even though growth prospects differ among countries. While progress has been made in fighting poverty, internal and external imbalances persist and growth inclusiveness remains weak. Sustained efforts are needed to strike a balance between increasing pro-growth and pro-poor spending and rebuilding fiscal space, while dealing with exogenous shocks and promoting economic diversification. We call on the IMF to continue to support LICs, fragile states, and small states, while also supporting the 2030 Sustainable Development Goals (SDG). We also welcome the Fund's active support to the G-20 Compact with Africa initiative and look forward to its extension to other African countries.

We continue to attach high importance to preserving the multilateral framework that has served well the global economy, by promoting a free flow of goods and services, capital, and technical innovations. Such a framework has also helped develop collective responses to global issues that cannot be addressed by individual countries alone. In this regard, we call on all countries to resist protectionism in all its forms, and refrain from inward-looking policies that can be detrimental to global prosperity.

We reiterate our call for the completion of the 15th General Review of Quotas, including a new quota formula by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019, leading to a fair representation of EMDCs, while protecting the quota share of the poorest countries. We underscore the importance of staff diversity and encourage the Fund to achieve its objectives in this area, including regional diversity.