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IMFC Statement by Nadia María Calviño Santamaría
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Spain

On behalf of
Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, Spain,
and República Boliviariana de Venezuela

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Recent trends, outlook and policy challenges

The world economy faces a clear deceleration in 2019 followed by a modest yet uncertain recovery in 2020, in a context of prevailing downside risks. This requires a strong commitment to address weaknesses at home and tackle common challenges jointly, so that we may collectively be better prepared, should unfavourable scenarios materialise. This holds for economies across the globe.

The Spanish economy has shown strength over the last few years and has undergone a process of significant correction of macroeconomic imbalances. After suffering a significant hit from the global financial crisis, recovery started in 2014, with GDP growth reaching 3.6% in 2015. Thereafter, we have seen a solid growth dynamic, at approximately 3% per year on average, on the back of robust job creation, favourable financial conditions and the correction of imbalances. Reaching the end of the cycle we have also seen growth moderation in 2018, although the latest data for the year show a higher GDP average growth rate than expected. GDP growth in 2018 was 2.6%, which is considerably solid, and we are forecasting a 2.2% for 2019.

Among the drivers of growth in this expansionary phase, private consumption has played a significant role, building on job creation and favourable financial conditions. Growth was still strong last year, with job creation growing at approximately 3% year on year, and credit to households increasing by nearly 13%. Capital investment also solidly supported growth, building up by more than 5% in 2018, hand in hand with the deleveraging of firms and favourable business conditions. Again, the most recent data suggest that this dynamism is continuing in 2019.

This strong expansion over the last few years has allowed the Spanish economy to make very significant progress towards addressing some of our worst crisis legacies, macroeconomic imbalances that were exacerbated by the crisis and that are now being substantially corrected.

This is the case with our labour market, in which robust job creation continues. Further, new job opportunities are concentrated on full-time open-ended contracts, which is a very welcome step to enhance the quality of our employment.

Other imbalances are also being addressed. In particular, it is worth underlying the deleveraging of the non-financial private sector, whose consolidated indebtedness has fallen by 68 points as a share of GDP since its peak in 2010. This process has also been compatible with the increase in lending to households and SMEs which has supported consumption and economic activity. The European Central Bank’s expansionary monetary policy has had a crucial role in this favourable evolution.

As for the external sector, it has also witnessed a significant rebalancing, given the growing internationalisation of Spanish businesses and their competitiveness. For seven years in a row now, Spain has maintained a positive external balance and, for six of those years, also a current account surplus. 2018 saw a moderation of those surpluses as a result of the increase in the oil price and the slowdown in world trade, which has dragged exports, offsetting competitiveness gains. Spain has observed a reduction in exports as a result of subdued dynamism in our traditional export markets, in particular, the euro area.

Looking forward, the latest World Economic Outlook projections for Spain points to 2.1% and 1.9% growth in 2019 and 2020, respectively. Our own projection for 2019 brings growth to 2.2% of GDP. This represents relatively strong growth dynamics, although there is moderation, as is the case in most advanced economies.

In fact, as the Fund's Flagship Reports point out, even in 2020 and beyond, global recovery does not hinge on growth in the most advanced economies. Rather, these countries are facing capacity constraints and challenges that need to be addressed if economic activity is to pick up decisively. As for emerging markets, while they will continue to be the engine of growth going forward, there are profound differences across regions and countries, as well as potential risks that cloud the outlook.

This scenario requires dedicated attention to ensure that our policies contribute towards enhancing our growth potential and cushion the impact of any sharp downturns that may arise.

Specifically, there are two broad areas of concern that should guide policy action, so that it may support and not harm economic activity. On the one hand, social disengagement and inequality, which have resulted from unresolved crisis legacies and past policy actions that did not prioritise the longer-term perspective.

Even in a context where economies have undergone a strong expansion, where economic and financial integration has moved significantly forward, there are still critical underlying weaknesses that affect our societies and that must be addressed. This includes still unacceptable levels of unemployment, also a reality in Spain and many other advanced economies, despite the very positive dynamics, which primarily affect vulnerable groups. Long-term unemployed still represents a significant share of total unemployment in the EU, with the enormous challenge this constitutes for societies and for individuals who suffer the depreciation of their human capital. Youth unemployment also continues to be a major concern quantitatively (the youth unemployment rate in the EU practically doubles the general unemployment rate) and qualitatively (bearing in mind the cost borne by individuals and our future societies), as well as in-work poverty, which requires action to guarantee the right of our workers to quality employment opportunities. Furthermore, risk of poverty or social exclusion remains at unbearably high levels (at 22.4% for the EU in 2017, latest available data).

Gender is another of the dimensions of inequality that is, luckily, already present in the economic debate and policy agendas and has gathered social consensus on the importance of effective equality. However, significant pay gaps, lower participation rates and a lack of diversity remain a cause of concern. This goes beyond being just a social justice problem, which would suffice to validate public policies, but it also has a sizeable impact on human capital, productivity and growth prospects.

Investing in social cohesion and fostering inclusive growth are key priorities to make our economies less vulnerable and volatile, to ensure a solid foundation for sustainable growth and its even distribution in our society.

A second area of concern are the risks that still cloud the outlook, in a context of heightened uncertainty. Specifically, trade tensions remain and, although progress has been made, any further escalation could hinder confidence, investor sentiment and growth. One of the conclusions of the World Economic Outlook is that trade wars make all countries, ultimately, worse off, due to increased uncertainty, negative confidence effects and a tightening of global financial conditions.

Some emerging economies are still particularly vulnerable to potential swings in financial markets' sentiment, especially given the context of high debt levels. These swings could be triggered by events in some systemically important economies, which are still subject to a high degree of uncertainty. Among others, the behaviour of the Chinese economy and the interplay between policy stimuli and the outcome of trade negotiations will undoubtedly play a role in determining global activity.

Looking at a more medium-term horizon, climate change remains a critical challenge that demands an unconditional multilateral response for the sake of our natural resources, sustainability of jobs and economies, as well as tomorrow's societies. This is also true for population ageing, rapid technological change and uncertainty about the future of work.

At this juncture, we should not be complacent. We must strive to put in place policies that deal with those risks and address those pending weaknesses in our global economy, while looking ahead to the economic model that ensures sustainability and leaves no-one behind.

This requires macroeconomic policies and structural reforms to ensure growth and stability, manage spillovers across countries and generate broader opportunities, ultimately favouring diversity and inclusion. Among others, this means fiscal policies that balance trade-offs to support growth and boost potential output where fiscal space is available and building buffers where necessary, should the outlook worsen. In any case, it means supporting growth and protecting the most vulnerable with an adequate expenditures-revenue design, while guaranteeing a sustainable and responsible path for public debt.

We are also called to maintain reform momentum, in order to boost both productivity and inclusiveness, in particular, by encouraging investment in education, human capital and innovation, addressing pending weaknesses in our labour markets, enhancing the quality of our institutions and eliminating barriers to competition for economic activity to flourish. In the financial sphere, resilience must be enhanced and vulnerabilities addressed by strengthening both microprudential supervision as well as macroprudential frameworks.

All of this should be accompanied by an adequately communicated monetary policy that maintains inflation expectations well anchored while standing ready to continue to provide support to prevent any further deceleration.

There are also some policy priorities that we must address by making joint efforts at a global level. The main priority is to enhance multilateral solutions in order to resolve trade disagreements cooperatively as a means for stability in the global economy. This highlights the crucial priority of committing to an open global economy, guaranteeing a level playing field and enhancing multilateral cooperation for the benefit of all.

We must also embrace multilateralism to address other emerging challenges building on collaboration and common policies. At the euro area level, a comprehensive and ambitious package is being pursued and should deliver significant progress on the Banking Union and the Capital Markets Union, as well as on common fiscal capacity, specifically, with a budgetary instrument for convergence and competitiveness for the euro area that includes stabilisation capacity.

At a global level, collaboration is necessary to find solutions for an adequate international corporate taxation, including a digital tax; continuing to monitor the development of Fintech, to discuss decentralised technologies and to follow-up on crypto-assets, as well as proposing flexible regulation while enhancing cyber security awareness; cooperating on migration policies; and upgrading our economies' resilience to climate change.

All these measures would go a long way to improve our policy frameworks and our institutions, the quality of which is essential not only as an economic policy tool but also to regain societies' trust and ownership.

Ensuring the IMF remains at the centre of the system

In this environment, we need a strong IMF with enough capacity to play a key role at the heart of the global financial system. As we are constantly reminded, strong economic fundamentals are necessary but may not always be enough to fully avert financial turbulence. The IMF must strive to remain a relevant actor in the global scene to support country efforts, encourage multilateral action and maintain enough financial capacity to enable it to make a difference.

Our IMF constituency is firmly committed to a strong, quota-based and adequately resourced IMF that should preserve its role at the centre of the Global Financial Safety Net and believes a timely conclusion of the 15th General Review of Quotas is a cornerstone to this end.

We regret that an increase in quotas appears not to be a feasible outcome of the ongoing Review. However, we strongly support an extension and increase of temporary arrangements that, at least, doubles the New Arrangements to Borrow as a second best and pragmatic solution, in order to ensure that the Fund will, at the very minimum, maintain its current financial capacity, in light of the upcoming expiry of its temporary resources. This is a critical objective of this Review and recent commitments to guarantee this financial capacity are welcome.

We believe meaningful progress has recently been made and are optimistic about the possibility of achieving an agreement. However, significant details still need to be decided so we would encourage work to continue swiftly so that we may fulfil our commitment with the deadline set for the upcoming Annual Meetings in October.

We realise that the approval of any agreement on this front would require some time before it becomes effective, given the need for ratification from different national processes. Bearing this in mind, we should also consider the extension of bilateral borrowing agreements in order to ease transitions and ensure the Fund's capacity. We also commit to supporting a timely 16th Review that considers the Fund's permanent resources and deals with representation issues.

Regarding IMF policy advice, constant review and modernisation are also fundamental to ensure Fund's traction and relevance. In this regard, we welcome and look forward to the outcome of current initiatives to review and improve different aspects of Fund's activities. In particular, the Comprehensive Surveillance Review adequately identifies several significant trends, including technological progress, climate change and population ageing, which will most definitely shape the surveillance landscape. Macro-criticality should continue to guide decisions on coverage priorities. This Review should be held in close coordination with that of the Financial Sector Assessment Programme, which has become a critical reference for financial surveillance at both the national and regional levels. We would also highlight the importance of reinforcing capacity development within the Fund and strengthening its link with surveillance and lending.

We also welcome the Review of the Debt Sustainability Analysis framework for Market Access Countries, which should continue to provide sufficient flexibility to cater for country specificities, as well as the Review of Conditionality and Design of Fund supported programmes, where country ownership remains a precondition for success. Given still high levels of indebtedness and the vulnerabilities that follow, we also strongly support the World Bank-IMF multipronged approach for improving monitoring, encouraging transparency and enhancing debt management capacity.

Finally, human resources policies and practices should remain up to date to ensure that the Fund continues to deliver in this context of evolving challenges. To this end, the IMF's HR strategy, 1HR programme and the Comprehensive Compensation and Benefits review should clearly aim at attracting and retaining talent, rewarding good performance and enhancing diversity, including from a gender perspective, as a key to the institution's future success.