International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

Statement by the Hon. Mohammed Laksaci
Governor, Bank of Algeria

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

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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
Saturday, October 11, 2014

1. The global recovery remains uneven and is proceeding at a disappointing slower-than-expected pace. At the same time, downside risks have increased, including geopolitical risks. The current pace of the recovery is too weak to put the global economy on a strong footing and reduce unemployment. While growth in the United States continues to strengthen, the stagnant growth in the euro area is of concern and the protracted very low inflation raises the specter of deflation and prolonged stagnation. Despite the recent monetary policy loosening in the euro zone, the near-term prospects remain difficult. Growth in emerging market economies is also decelerating, whereas many developing countries, including low-income countries, continue to show strong growth performance and resilience, driven by high infrastructure investment, private consumption, and export growth.

2. Risks have increased. The prolonged period of low interest rates has led to the buildup of financial risks in the search for yield, as evidenced by the rich valuation of equity prices, the mispricing of risk, and low volatility in financial markets. Vulnerabilities have also emerged in the less than adequately regulated shadow banking. There are genuine concerns that a too fast pace of normalization of monetary policy in the United States could trigger adverse market reactions, including destabilizing capital outflows in emerging market economies, as would potential intensification of geopolitical risks.

3. We support the Managing Director's Global Policy Agenda, which provides a sensible road map to deal with the current combination of difficulties and risks. Collective efforts are needed to set the global economy on a path of high growth and employment while safeguarding financial stability. In advanced economies, monetary policy accommodation should continue for some time to support growth, given

the existing slack and low inflation. However, monetary policy normalization in the United States is expected to gain speed in the near future, as warranted by the strength of growth and employment, and should be accompanied with adequate communication and guidance to avoid adverse market reactions. Support for growth must also come from other sources, including invigorating domestic demand and accelerating structural reforms to foster competitiveness and private sector investment. We welcome the emphasis in the Global Policy Agenda on investment in infrastructure to support short-term growth and strengthen medium-term potential output. It will be critical for countries that have infrastructure gaps and adequate fiscal space to upscale their infrastructure investment to support growth and employment in their own economies and boost demand in partner countries.

4. We note the progress achieved in fiscal consolidation in many parts of the world, and underscore the importance of formulating and implementing medium-term fiscal adjustment plans encompassing growth-enhancing fiscal reforms, together with sustained efforts to put public sector debts on a declining path. We encourage the IMF to deepen its analysis of how to calibrate the pace and composition of fiscal consolidation strategies in an environment of low potential growth.

5. Emerging markets and developing countries remain important drivers of global growth, even though their recent growth performance has been below expectations. Vulnerabilities in some countries have increased, including inflationary pressure, reduced fiscal buffers, rising external current account deficits, and risk of capital flow reversals. Addressing these vulnerabilities requires a combination of macroeconomic policies and well-designed macro-prudential measures, as well as capital flow management measures, as needed to enhance resilience to exogenous shocks. Here too, more work by the IMF is needed to improve our understanding of the effectiveness of macro-prudential policies.

6. In low-income countries, effective macroeconomic policies have contributed over many years to ensure a steady, robust, and resilient growth. However, significant challenges remain; including reducing poverty, increasing employment, improving living standards, and reducing income inequality. Policies will need to be geared toward building fiscal buffers by increasing the revenue base and rationalizing government spending. We encourage the Fund to further strengthen its

engagement with these countries. We look forward to a revised IMF debt limit policy with the objective of ensuring flexibility with regard to debt sustainability and meeting LICs changing financing needs.

7. The MENA region faces considerable difficulties, stemming from conflicts in some countries, which have led to the displacement of millions of people and adversely affected the economies of neighboring countries. In addition, the weak global demand has put downward pressure on oil prices, while difficulties in the euro area have dampened export revenues and tourism receipts in some countries, affecting growth and employment, especially among the youth. Achieving high and broad-based growth and employment reduction remain key challenges that call for sustained efforts to preserve macroeconomic stability, enhance resilience to exogenous shocks, and deepen structural reforms to foster efficiency and competitiveness, as well as promote economic diversification.

8. We appreciate the IMF support to Arab Countries in Transition, and underscore the importance of continued close engagement with these countries through financial and technical assistance that is well calibrated to their needs and specific circumstances. We also call for increased financial support from all bilateral partners and other international financial institutions, including under the Deauville Partnership.

9. The recent FSAP review and the Triennial Review of Surveillance have highlighted the progress achieved by the Fund in adapting its surveillance to new challenges facing member countries, including risks assessment and spillover effects. We encourage the Fund to further tailor its policy advice under bilateral surveillance to country-specific circumstances, and ensure that all member countries have equal opportunities to benefit from its in-depth financial assessment under the FSAP.

10. We reiterate our call on members who have not yet ratified the amendment of the Articles of Agreement to do so with diligence. We also underscore the need to start work on a revised quota formula and the 15th general quota review as early as possible.

11. We take note of the progress achieved in promoting staff diversity in the Fund, including from the MENA region, and encourage Fund

management to redouble efforts to ensure adequate representation of the MENA region at more senior staff and managerial levels.