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

Statement by Mr. José Dario URIBE, Governor of Colombia, on behalf of Colombia, Costa Rica, El Salvador, Guatemala, Honduras, Mexico, República Bolivariana de Venezuela, and Spain at the International Monetary and Financial Committee

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Economic Outlook

Global growth remains disappointing and uneven across the world and regions. Compared to April 2015, growth was revised downwards for this year and is expected to pick up in 2016. According to IMF flagship reports, potential growth has also declined in both Advanced Economies (AEs) and Emerging Markets and Developing Countries (EMDCs), owing to lower productivity and demographics. The remarkable fall in commodity prices is affecting exporter countries while providing some relief to others. These medium to long-term prospects and the underlying structural bottlenecks deserve particular attention from both the membership and the Fund.

Although economic growth remains tepid in some AEs, the United States and some euro area countries such as Spain are exhibiting strong growth. In EMDCs growth projections have continued to weaken. However, there is significant heterogeneity in EMDCs, and prospects among countries differ substantially. While some large economies are being affected by specific domestic and geopolitical tensions, others are navigating through terms of trade cycles. Non-renewable commodity exporters in Latin America like Colombia, Chile and Peru are adjusting to the terms of trade shocks by adopting robust packages of policy responses, while other oil-importing countries are benefiting from the oil price drop.

Risks to the global outlook remain tilted to the downside and have increased for EMDCs. For the latter, risks are associated with deterioration of China's near and medium-term outlook, a further decline in commodity prices, lower financial liquidity, tightened financial conditions and higher volatility. The impact of monetary policy normalization in the United States on financial stability is also uncertain, but the assessment needs to be balanced as the associated U.S. economic growth will have a significant positive effect on the world economy. Also, financial stability could be threatened by a delayed monetary policy adjustment in the U.S, as financial imbalances may build up. Legacy issues also pose challenges to AEs, in particular high public and private debt, as well as low investment.

However, during the past years progress has also been achieved. In AEs developments and prospects for financial stability have improved. In the Euro Area the ECB's accommodative monetary policy stance, coupled with revised financial regulation and the start of operations of the Single Supervisory Mechanism and Single Resolution Board, have been instrumental. As a result, capital markets in Europe are better integrated and the transmission of monetary policy impulses has improved. In Spain, an ambitious package of structural reforms and the significant correction of previous fiscal, financial and external imbalances are underpinning a strong recovery.

EMDCs are also more resilient to external shocks than in the past, as they have strengthened institutional policy frameworks and built buffers. In the last decade, public debt in most countries has declined significantly and international reserves have accumulated. Improvements in financial supervision and regulation have been notable, and in most countries financial institutions are sound and well capitalized. We recognize, however, that vulnerabilities in EMDCs have risen during the global crisis. For instance, fiscal space has narrowed and private leverage has increased, fueled by accommodative global monetary conditions. As a result, corporate balance sheets are now more exposed to higher interest rates and currency depreciation, with potential spillovers to the financial sector.

Policy Response and Challenges

In the context of AEs' legacies, EMDCs' vulnerabilities and market liquidity risks, policy actions are particularly challenging and a collective effort is needed in order to ensure financial stability. At the same time, the fragile recovery in some AEs and the slowdown in EMDCs call for a balanced mix of policies to focus on supporting demand and improving growth potential through structural reforms.

EMDCs should use macroeconomic policies to support actual growth when scope exists, and strengthen buffers to contain risks and reduce vulnerabilities. In order to address excessive leverage and balance-sheet exposure, the use of macroprudential tools could be necessary. As a complement, conducting stress tests regularly and developing tools to improve macro-financial linkages analysis is warranted. We reiterate the importance of exchange rate flexibility, when feasible, as the main shock absorber and as a driver of economic diversification. Commodity exporters will also need to structurally adjust their fiscal position to compensate for the persistent lower fiscal resource revenues. These countries need to move ahead with structural reforms to boost non-traditional tradable sectors and promote trade integration.

Colombia, for instance, has been hit by the sharp decline in oil prices and is in the process of adjusting the economy to a new reality. We are taking actions to make this adjustment as orderly as possible, particularly through preserving good macroeconomic policies and fundamentals. The policy response has been grounded in maintaining exchange rate flexibility, keeping inflation under control and expectations well anchored, preserving financial stability, and complying with the fiscal rule's targets. The Flexible Credit Line has played an important role as a complement to these policies.

To contain balance sheet risks, we strictly monitor the liquidity, market and credit risk of banking and non-banking intermediaries. Regulation has been enacted to limit liquidity risk exposure of broker-dealers and money market funds. Currency and FX liquidity mismatches have been traditionally limited for local intermediaries. Monitoring of these risks has been expanded to the operations of Colombian banks' foreign subsidiaries and regulation is being studied in this regard. A legal project that seeks to enhance the ability of the supervisory authority to define and monitor financial conglomerates is also being prepared. Moreover, as in the past, exchange rate flexibility is considered a key tool to discourage the emergence of currency mismatches in corporate balance sheets and to further the development of the market for hedging instruments.

To boost short-term growth, AEs' accommodative monetary policy remains essential alongside macroprudential policies to contain financial sector risks. In the U.S., smooth, gradual and well-communicated monetary policy normalization is paramount to ensure financial stability. The adoption of credible medium-term fiscal consolidation plans to address high public debt is also critical to boost confidence.

In the euro area, although progress has been achieved in the euro institutional framework, there is still work to be done as the European Monetary Union architecture remains unfinished.

In the medium-term, structural reforms continue to be critical. For instance, Spain and Mexico have undertaken important structural reforms with successful results for their economies. The role that efficient infrastructure investment plays in supporting both short and long-term growth needs to be emphasized, especially in the case of EMDCs that experience large gaps in this area. Indeed, an ambitious infrastructure package currently underway in Colombia will help bolster long-term growth and may serve as a countercyclical tool.

For both AEs and EMDCs, boosting productivity remains a priority and it is particularly pressing in commodity exporter countries that urgently need to diversify their economies. Finally, implementing policies for improving social inclusiveness and education in EMDCs is also crucial to ensure sustainable growth.

The Role of the Fund

In an environment of heightened risks and low short and long-term growth, the Fund needs to stand ready and able to assist its members and enhance its safety net. Capacity building also continues to be a critical area. Enhanced quality advice in both surveillance and technical assistance as well as greater agility in its delivery, remain essential. The Fund should deepen its analysis and advice on financial regulation and supervision, macro-financial linkages, macroprudential policies, and revenue mobilization due to their particular relevance in the current juncture.

The Fund needs to continue building expertise on structural reforms in order to better advice countries. A country-specific approach, cost-benefit analyses and the sequencing of structural reforms would be extremely useful to identify tailored recommendations and priority areas.

Widening the scope of advice to incorporate macro-critical issues with impact on growth sustainability is also an important step. However, in a context of limited resources, the Fund's work should concentrate on areas that are consistent with its core mandate. Close collaboration with other international institutions is fundamental.

We reiterate that the Fund needs adequate financing to assist its members. At the same time, the IMF needs to remain a quota-based institution. In this regard, the ratification and implementation of the 2010 reforms are of the highest priority.