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Statement by the Honorable 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 Hon. 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, October 09, 2015

The global recovery remains weak and uneven with growth deceleration in emerging markets and developing countries and lower-than-projected growth in advanced economies. Risks from protracted decline in commodity prices, including as a result of continued slowdown in some large economies, continue to weigh on the global outlook. In addition, the expected normalization of monetary policy in the U.S. could have an adverse impact on market confidence and financial stability in EMDCs. As a result, market volatility has increased, and global risks are now tilted to the downside.

Nonetheless, some positive developments give reasons for hope. The recovery in the euro area is becoming sustained, and could strengthen further with the stimulating effect of low oil prices. Activity in the U.S. is robust with low inflation and high rate of employment. The Japanese economy has renewed with positive growth. And the transition of China to a more market and consumption-based economy could provide a more sustainable source of global growth.

The important challenges and uncertainties surrounding the global outlook require strong policy actions on the part of all groups of countries, and will involve trade-offs between short-term stimulation of growth, financial stability, and sustained implementation of structural reforms to raise potential output growth and employment. Moreover, as policies will more closely reflect country-specific circumstances, international cooperation will be critical to ensure mutually beneficial effects and avoid negative spillovers.

In advanced economies, where domestic demand remains largely deficient, accommodative monetary policy is still needed, especially given the low inflation environment and absence of wage pressures. Where allowed by existing buffers, fiscal policy should play a supportive role through growth-enhancing public investments, while remaining attuned to reducing high public debt and addressing long-term challenges of aging populations. Equally important is the need for advanced economies to address the crisis legacy by strengthening financial sector regulation and supervision and effectively tackling emerging pockets of financial vulnerability.

In emerging market and developing countries, the challenge is to ensure a smooth adjustment to low commodity prices and weaker global demand while enhancing the resilience of their economies to volatile capital flows and possible further tightening of financial conditions. A number of countries are already using the flexibility afforded by accumulated fiscal and external buffers to ensure an orderly adjustment, and others would need to rebalance their fiscal policy while limiting adverse effects on infrastructure and social spending and long-term growth. Exchange rate flexibility, where feasible, could help absorb shocks and facilitate the adjustment.

Accelerated structural reforms are needed across country groupings to raise potential output growth, achieve economic diversification, and improve social conditions and equity. Priorities in this area differ, ranging from labor and product markets reforms to social spending efficiency, state enterprise reforms, energy sector reform, and improvement in the business environment. We encourage the IMF to focus its analytical work and policy advice on macro-critical structural reforms in close collaboration with relevant international institutions.

Low-income countries are vulnerable to a prolonged global growth slowdown and weak commodity prices and require adequate external financial support to achieve their objectives of high inclusive growth and poverty reduction. A policy framework focused on revenue mobilization to achieve fiscal sustainability, prudent monetary policy to reduce inflation, and deeper financial markets to mobilize domestic savings and support economic activity will be critical for enhancing growth and macroeconomic stability. Addressing infrastructure bottlenecks will help support growth and attract foreign direct investment.

In the MENA region, the ongoing conflicts and security issues have continued to take a heavy toll in terms of human life and suffering. This, together with global headwinds has adversely affected economic activity and social conditions. Growth is expected to remain moderate in 2015 at 2.5 percent, but is projected to pick-up to 3.9 percent in 2016. Against this backdrop MENA oil-exporters are experiencing weak growth and rising fiscal and external deficits. While public spending is being gradually reduced to mitigate the impact of the economic downturn, buffers are shrinking across oil- exporting countries, albeit at differentiated pace. Oil-importing countries have benefited from low oil prices, even though these have been offset in some cases by regional security concerns that depressed tourism activity and foreign direct investment. The lifting of sanctions on Iran is expected to have positive effects on intra-regional trade and economic activity, even though it may temporarily put downward pressure on oil prices.

We support the IMF work toward addressing the many challenges faced by the membership, as clearly laid out in the Managing Director's Global Policy Agenda. We look forward to the Fund strengthening its surveillance work and better tailoring its assistance to the specific circumstances of member countries in this challenging environment. We support the stated objectives of making the Fund more agile, better integrated, and more focused on membership needs, which will require continued adaptation of instruments and lines of work as well as adequate financial resources.

We reiterate our call for the implementation of the 2010 IMF quota and governance reform, as a matter of priority to enhance the Fund's legitimacy, credibility and effectiveness. While we urge early completion of this reform, we look forward to the Executive Board completing its work on an interim solution to address this delay, consistent with the Fund's character as a quota-based institution. We also call for accelerated work on the 15th general quota review, including agreement on a new quota formula.