International Monetary and Financial Committee

Thirty-Eighth Meeting
October 12–13, 2018

IMFC Statement by Nadia María Calviño Santamaría
Minister of Economy and Business
Spain

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

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We express our deepest sympathy to the people of Indonesia and regret their loss after the recent tragic events. We thank them for hosting the 2018 Annual Meetings in Bali and for their warm hospitality.

Economic outlook and policy priorities

Momentum in the global economy remains strong. GDP growth continues to be robust and the economic recovery has translated into job creation, higher consumption and investment. According to the IMF's World Economic Outlook, the global economy is expected to grow at 3.7% of GDP in both 2018 and 2019.

Nevertheless, significant downside risks have increased or, in some cases, even materialized over the last semester. Some factors that have fostered growth over the past few years are coming to an end. Further, escalating trade tensions, the withdrawal of monetary stimuli in advanced economies that affect, specifically, a number of vulnerable emerging market economies and rising debt levels in low-income countries are all sources of concern. This is particularly true in a context of historically high public debt levels and limited policy space. Additionally, uncertainty regarding an eventual Brexit deal requires close monitoring.

International trade, a key factor for welfare, productivity, employment and economic growth, is threatened by current tensions and a growing protectionist stance, compromising the on-going expansion and potentially blocking the path to prosperity for many countries. These challenges must be addressed collectively by enhancing a rules-based multilateral trading system with the World Trade Organization (WTO) at its centre. We must commit to work towards the modernisation of the WTO so that it may fulfil its role to level the playing field for trade and investment, which is a top priority for sustained growth. At the same time, efforts are needed to ensure that the gains from technology and globalisation are shared more broadly across countries and the different layers of the population within countries.

There are also some unresolved consequences of the global financial crisis that require a swift response, especially high levels of unemployment, social inequality and poverty. Climate change remains as a pending weakness and continues to have an asymmetrically differential impact on developing countries, which generates greater inequality. Population ageing will also have to be addressed, with the expectation that by 2050 the world population over 60 will have reached 2 billion. This reality will require action in different areas, such as intergenerational fairness, labour market participation and financial inclusion.

Now is the time to act. A still positive outlook is the appropriate context to engage in a forward-looking reform agenda to guarantee the sustainability and inclusiveness of our economic growth model, as rightly suggested by the IMF's Managing Director's Global Policy Agenda. We should focus on enhancing multilateral solutions, replenishing fiscal buffers and ensuring a sustainable and more inclusive growth path, with emphasis on the quality of public finances, social fairness and structural reform. Policy makers must strive to make GDP growth sustainable from an economic, environmental and social perspective. Their success will increase the resilience of our economies to potential shocks.

In this respect new reform momentum is needed to encourage competition, create a more enabling business climate and reconcile flexible labour markets with investment in human capital, long-term productivity gains and social fairness. In particular, this means ensuring good and sustainable job opportunities for the youth and for the long-term unemployed, advancing gender equality and easing the transition to a digital economy.

From a fiscal policy perspective, in line with the Fiscal Monitor recommendations, this means rebuilding fiscal buffers in a socially responsible way, maintaining a firm commitment with fiscal consolidation and a determined reduction in debt-to-GDP ratios, where necessary. It also means guaranteeing social welfare by optimising scope for generating fiscal revenues and modernising our tax systems to reflect economic realities, including considerations on the digital economy or financial transactions, in line with work in progress at the EU and international levels.

The on-going economic expansion also provides an opportunity to progress in the deepening of the Economic and Monetary Union, which also contributes to global stability. Much has been achieved in terms of financial integration, but more efforts are required to complete the Banking Union and to strengthen the Capital Markets Union. Furthermore, a common fiscal capacity must be created in order to spread the benefits of economic prosperity and enhance economic convergence within the Union.

At a global level, it has also become apparent that debt transparency and sustainability have to be strengthened, in particular in low income countries, to avoid potential negative spillovers for the entire global financial system. The multi-pronged approach of the IMF and the World Bank focused on debt-management capacity, debt sustainability and transparency, as envisaged in the Managing Director's Global Policy

Agenda, has our full support and is in line with efforts to achieve the 2030 Sustainable Development Goals (SDGs). We also reaffirm our commitment to the 2017 Operational Guidelines on Sustainable Financing and call for the IMF and the World Bank to oversee of the proposed voluntary self-assessment implementation exercise.

We should also strive to make the best use of other very useful tools at our disposal to work towards a truly sustainable growth paradigm. These include the Bali Fintech Agenda, a very welcome step so that we may reap the benefits and opportunities of new technologies in the financial sector whilst dealing with its weaknesses. The Future of Work initiative under the 2018 Argentinian G20 Presidency also captures the importance of facilitating technological change without leaving anyone behind.

The role of the IMF

Increasing downside risks to global growth and market stress in some countries are a reminder of the need for a strong IMF with enough capacity to play its role in a healthy world monetary system. As we have seen in recent years, strong economic policy frameworks at the national level are necessary but may not always be enough to fully insulate countries from financial turbulence. Under such circumstances, the IMF needs to be ready to step in with enough financial capacity to enable it to cope with the impact of market stress on balance of payments.

To this end, all IMF members should stand committed to the timely conclusion of the 15^{th} General Review of Quotas, which should lead to a strong, quota-based and adequately resourced IMF that preserves its role at the centre of the Global Financial Safety Net. In this regard, the Review should be forward-looking and aim at the steady-state scenario for the next decade, incorporating the longer-term desirable size and design of the institution.

It is crucial that discussions be well sequenced, including all elements that are part of the quota review and that should be treated as an integrated package. A prerequisite for progress in the negotiations is to clarify as soon as possible prospects for a possible quota increase, which we believe should be one of the outcomes of this Review.

We recall that many countries, including Spain and Mexico, significantly contribute to the Fund's lending capacity with borrowed resources and highlight that a fair global burden sharing is important in the overall efforts to ensure an adequately resourced IMF. In any case, we believe the Fund should remain a quota-based institution and discussions on the adequacy of its resources should not pre-suppose future decisions on possible renewal of these arrangements.

We welcome the IMF quota database update in July 2018 by one year through 2016. Once again, the update shows the merits of the current quota formula which is already delivering on the aim of increasing the Fund's representativeness and thus preserving its legitimacy. We believe that it has served its purpose well, given that it relies on two variables that are fully in line with the IMF's goals, namely GDP and openness. In particular, openness is an indispensable part of the formula and its weight should at least be maintained. However, we are also aware that the current formula also leads to some distortions in the way it portrays economic realities. For this reason, although we do not see the need for a fundamental change in the formula, we do believe some amendments may be necessary to ensure adequate and fair representation.

We would like to reiterate that efforts must continue, building on the extensive technical work that has already been done, in order to deliver on this Review before the agreed deadline and no later than the Annual Meetings in 2019.

As regards IMF policy, we welcome and look forward to the outcomes of current initiatives to review and improve different aspects of the Fund's activities, in particular the Comprehensive Surveillance Review, the review of the Debt Sustainability Analysis framework for Market Access Countries, the review of Conditionality and Design of Fund supported programmes, the capacity development strategy and the review of the AML/CFT Strategy, which should lead to enhanced surveillance and more effective and well-targeted policy advice.

We would also like to stress the value of the Fund's Article IV missions, a very useful exercise both for the supervised country and the international community. Hence, the introduction of new features should be properly communicated and handled carefully, in particular when they may be sensitive for the affected country, including the calculation of the existing fiscal space or macro-critical governance issues.

Additionally, we are supportive of revisiting considerations to further strengthen the IMF's governance and accountability structures in line with IEO's recent governance evaluation update. As part of this effort, we encourage the Fund to continue to encourage the equal representation of women in all roles and leadership positions.