

Special high-level meeting of ECOSOC with the World Bank, IMF, WTO and UNCTAD

Statement by Mr. Calvin McDonald, Deputy Secretary of the IMF and Acting Secretary of the International Monetary and Financial Committee

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Preliminary Remarks

- President Oh Joon, thank you for your invitation to participate in this high-level meeting.
- The global economy is not in a good place; the recovery remains disappointing. Growth has been too low for too long, and risks to global financial stability have increased. But let me caution that we at the International Monetary Fund are not at the point of being alarmed, but we remain alert to the current challenges.
- Our Managing Director, Christine Lagarde, outlined these points in her Global Policy Agenda presented over the weekend in Washington, during our Spring Meetings. The discussions of the International Monetary and Financial Committee (IMFC) focused on these challenges. IMFC members endorsed the Managing Director's Global Policy Agenda, which provides guidance for the IMF's priorities going forward. As background, you would have seen the IMFC Communiqué. In today's presentation, I would like to give you a brief summary of the strategic priority areas endorsed by the IMFC.
- Allow me to highlight a few key points regarding the global economy before talking about the role of the Fund in supporting its membership, and specifically in securing the recovery and laying the foundation for stronger and more equitable medium-term growth.

State of the Global Economy

- The global recovery has weakened. The impact of lower commodity prices has not been as positive as expected, and in many countries, financial conditions are tightening.
- In many advanced economies, the recovery is more moderate than anticipated amid weak demand and low potential growth.
- Emerging economies, which have contributed to the bulk of global growth since the crisis, are cooling. China continues its transition to a more balanced, sustainable economic model, which means that its growth, while still strong, is lower. Brazil and Russia are experiencing larger than expected downturns. The Middle East has been hard hit by the oil price decline, and many African and low income countries are facing diminished prospects. But there are some bright spots, such as India and several other emerging markets in Asia.
- We are at a delicate juncture. Not only have baseline growth projections weakened, but risks to these projections are tilted to the downside. Financial market volatility is on the rise, and emerging political risks such as a potential exit of Britain from the European Union (Brexit) are testing confidence. Terrorism incidences are on the rise and the refugee and migrant crisis persists.

Policy Challenges and Priorities

- Now, where does all of this leave us? It leaves us with the need to take decisive action jointly to address these lingering problems. We need different actions in different countries, of course, but at the IMF we see the need for a general three-pronged approach spanning structural, fiscal, and monetary policies. If each country plays its part and takes decisive actions in these areas, then these policies can become mutually reinforcing and add up to a significant global package—as our Managing Director so eloquently put it “the whole would then be greater than the sum of its parts.” Together they can mutually reinforce economic activity and reduce stability risks.

- Global cooperation will be critical to tackle the global challenges we face: these include shoring up global trade, pressing ahead with financial regulatory reform, and tackling a range of “global public goods” challenges—from climate change to corruption. It is key to follow through on important commitments on sustainable development goals and climate change made last year. It is also essential to maintain a strong global financial safety net that protects countries from sudden liquidity shortages or external shocks. Which brings me to what the IMF will be doing to support its membership to shift the global economy into a higher gear.

How will the IMF Help its Membership?

- To buttress the economic recovery and make it more durable, the Fund will continue to support its membership through financial support, policy advice, and technical assistance.
- Let me start by saying that we have just welcomed one new member – Nauru – bringing the membership of the Fund to 189 countries.
- The IMF currently has 38 ongoing active programs, including 11 with fragile states. We have been providing financing to countries affected by lower commodity prices and natural disasters. For example, the Fund approved new disbursements under the Rapid Credit Facility for Central African Republic, Dominica, and Madagascar. The IMF has also enhanced its focus on macro-financial and macro-structural issues in surveillance, and integrated emerging issues, such as analyses on climate change, gender, and inequality, into surveillance. To better support our membership, we have introduced online training courses in Spanish, Russian, and French and scaled up the technical assistance and training provided in low-income countries.
- What are our strategic priorities going forward?
- We see three main areas of engagement. We will:

- Proactively identify policy space and propose measures to improve the policy mix;
- Provide financial support when needed, with instruments that better address the membership's evolving needs; and
- Help address new challenges in the evolving global landscape.

Finding Effective Policy Space

- To improve the policy mix we will help identify who has fiscal space to support demand. Improving the efficiency of public investment is important. Research by IMF staff shows that the most efficient public investors get twice the “growth bang” for their “investment buck” than the least efficient. So efficiency matters. This year, we will pilot a new infrastructure policy support initiative to help identify what approaches work in different settings. We will also continue to deepen our analysis of the impact of structural reforms on growth, employment, and macroeconomic stability, and on principles to guide the prioritization of these measures.
- With respect to private sector balance sheets, the Fund will examine options to reduce the risk of adverse balance sheet effects arising from private sector indebtedness and unresolved crisis legacies. We will focus on promoting longer-term equity finance and the use of macroprudential policies to avoid dangerous increases in leverage. We will also continue to facilitate the adoption of financial regulatory reform in member countries.

Financial Support and Other Fund Assistance

- While strong policies and effective Fund surveillance remain the cornerstone of crisis prevention, a large enough and more coherent global financial safety net— with a well-resourced Fund—will be particularly important. The long awaited passage of the 2010 Quota and Governance Reforms have finally come into effect. But we are not complacent; we are committed to work expeditiously for the completion of the 15th Review to further enhance

the representation of dynamic emerging markets in the Fund and to strengthen its financial capacity to support countries in need. To this end, we will also continue to work on making the international monetary system more robust, including by strengthening coordination with regional financing arrangements and revisiting the lending toolkit. We will also examine a broader use of the SDR in the system. In 2015, we completed the review of the SDR basket – leading to the inclusion of the renminbi: an important milestone for the institution and China’s global financial integration.

- The Fund will also explore other reform options:
 - As countries are doing more to support the recovery, we will need to stand ready to backstop good policy implementation. For this, we have to consider how to ensure that our assistance meets the needs of the membership. For instance, we know that it is not just the most vulnerable countries that are affected by liquidity shocks. In the global crisis, just as many bystanders with relatively strong fundamentals were affected as countries with weaker fundamentals. Quick, predictable and reliable liquidity support could ring-fence eligible members hit by liquidity shocks and limit contagion risks.
 - The Fund will also seek to provide tailored policy advice and consider further options for financial support to countries hit by the collapse in commodity prices. We will try to assist with the necessary diversification and adjustment, but at a pace which minimizes adverse impacts.
 - More should also be done for countries affected by the current refugee crisis and epidemics who are shouldering the burden for others. A coordinated global initiative to provide financial assistance, including from the Fund, could support these countries and, more generally, help manage the spillovers from shocks of non-economic origins.
- The Fund will continue to assist low-income countries, fragile states and small states affected by natural disasters, including through our technical assistance. For example, the Fund will focus on assisting low income countries in international tax issues and, through concerted efforts with the World Bank, to boost their domestic resource mobilization efforts. In

addition, the Fund will re-examine the scope for precautionary financial support and blending GRA with PRGT resources.

New Challenges

- The changing global landscape also presents new challenges that need to be addressed. For example, de-risking and the associated withdrawal of banking services threatens, in some cases, access to finance. We will continue to collaborate with other international institutions to better understand this issue and identify possible mitigating policies.
- The Fund will continue to build its expertise and strengthen policy advice in a number of other macro-critical issues. Technological developments, climate change, inequality, governance and corruption, migration and demographics, are just some of the issues that our members are grappling with and the Fund will stand ready to assist.

Concluding Remarks

- To conclude, we are facing important challenges. But the destination is clear: strong, durable and inclusive growth. To get there we need decisive actions by all. The Spring Meetings that just concluded in Washington provided us with renewed momentum and strategic direction, but to successfully tackle the global challenges we have to continue working together in a coherent, cooperative, and coordinated manner.

Thank you.