



International Monetary and Financial Committee

Thirty-Eighth Meeting
October 12–13, 2018

**IMFC Statement by Mohamed Loukal
Governor, Bank of Algeria
Algeria**

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

Statement by Governor Loukal, Algeria
Speaking on behalf of Afghanistan, Algeria, Ghana, Iran,
Morocco, Pakistan, and Tunisia
Friday, October 12, 2018

At the outset, and on behalf of our constituency, I wish to extend our sympathy and condolences to the people and the government of Indonesia for the tragic loss of life and economic dislocation following the recent catastrophic earthquake and tsunami. We also extend to them our deep appreciation for their hospitality and for the excellent arrangements during this difficult time.

Since our last meeting in April, the global economic expansion—although still fairly robust—has plateaued earlier than expected and become less even across and within country groups. Many of the risks anticipated in April have intensified and some materialized. In particular, the escalation of global trade war has already been reflected in scale-back of global growth outlook. The imposition of tariff and nontariff barriers and retaliatory measures by major trading blocks have moved us away in a matter of a few months from cross border integration established and nurtured over a few decades. The same economic linkages and global supply chains that facilitated income convergence through investment, trade and technology transfer may now serve to transmit negative shocks. Ironically, the countries most committed to globalization stand to lose the most from its reversal. Tightening global financial conditions and rising borrowing costs, high and rising oil prices, and heightened geopolitical tensions pose additional serious risks to the outlook. Forced migration for political and economic reasons has created a host of economic and social challenges for both the source and host countries, as well as for the transit countries, including those in our constituency—and is also fueling anti-globalization sentiments and inward-looking policies. The window of opportunity provided by the prolonged global economic recovery is fast closing at the time when the downside risks to the outlook have magnified, and upside risks are dissipating.

In advanced economies (AEs), with the exception of the United States, the prolonged economic recovery is maturing, and by 2019, growth will converge to a sub-par potential. In the United States, on the back of a sizable pro-cyclical fiscal stimulus and economic deregulation, growth is expected to remain firm and above potential in 2018 and 2019, and recovery to last longer, until the effects of the fiscal stimulus and investment incentives dissipate in 2-3 years. The overall growth in Emerging Markets and Developing Economies (EMDEs) is expected to remain strong and support global recovery, even though growth in China is projected to moderate to a more sustainable level due to the ongoing structural economic rebalancing, and a few large countries in the group are facing economic stress. With wide variations across countries and regions, growth in Low Income Developing Countries (LIDCs) is expected to remain fairly robust overall, due to recovery in commodity prices and continued, though waning, global economic expansion. The economic prospects

for the Sub-Saharan African countries, many saddled by high debt, however, remain precarious, as they continue to fall behind in income convergence and in closing their wide poverty gaps, with frontier economies, including in our constituency, significantly impacted by tighter global financial conditions.

Global financial stability risks could rise sharply and abruptly due to a multiple of factors as vulnerabilities continue to mount and many legacy issues of the last crisis continue to linger. The growing pressure on portfolio flows to EMDEs is likely to worsen with the faster US monetary policy normalization and the growing risk-off sentiment. The fact that this pressure has surfaced during a fairly predictable and well-communicated monetary tightening process might be an indication that the impact of a major negative surprise on the financial markets could indeed be significant. There are also new sources of potential risk, including the rapid spread of crypto-assets, that we have to be vigilant about. We also urge the Fund to continue engaging with stakeholders, through various channels, to mitigate the impact of withdrawal of correspondent banking relationships that is restricting orderly current account transactions for some members, including in our constituency.

We support the Managing Director's Global Policy Agenda (GPA)'s call for increased policy coordination and its action plans to assist members through well-calibrated and tailored advice to achieve higher, more inclusive and job-rich growth combined with macroeconomic stability. We support, in particular, the GPA's recognition of the need for the Fund to assist in the resolution of the trade conflicts within the rules-based multilateral trade system and the cooperative approach that has been the hallmark of global economic relationships in the past few decades. The Fund and the World Bank, as well as other international institutions, have the responsibility to educate the general public about the benefits of open trade and the heavy cost of protectionism. We welcome the strengthening of Fund support for fragile and conflict-affected countries, and its call for full implementation of management plan for these countries following the recent IEO evaluation. The GPA's clear recognition of the need and its call for helping developing member countries to achieve their 2030 Sustainable Development Goals (SDGs) are commendable. To that end, support of the international community is paramount, as recent Fund staff studies have shown that LIDCs' financing requirements to meet their development objectives are indeed substantial and far in excess of any reasonable domestic revenue mobilization effort.

The key messages of the GPA could not have been more clear and timely in view of multiple challenges facing the world economy and country groups. The key priorities for most AEs are to strengthen their potential growth, rebuild fiscal buffers, and tackle the lingering financial sector vulnerabilities. In the context of an aging population, it is imperative for them to lift their sluggish productivity and raise potential output growth by reforming the products and labor markets and improving skills and employability. For EMDEs, in an environment of tightening global financial conditions and diminished risk tolerance, the more immediate challenges are to guard against reversal of capital inflows and protect against

contagion by fortifying fiscal and external buffers through a balanced mix of macroeconomic and macroprudential policies, including temporary recourse to capital flow management measures, as needed. Unlocking the EMDEs' growth and employment potential requires streamlining regulations, improving competitiveness, and investing in infrastructure and human capital.

With support from firming international oil prices, the oil-exporting countries in MENAP+ have been diversifying their economies, rebuilding buffers against future downturns in the oil market, and creating jobs, especially for their highly educated youth, through labor market reforms—but much still remains to be done. The oil-importing countries in MENAP+ face the challenge of striking the right balance between maintaining a healthy growth and increasing employment opportunities while containing the impact of higher oil prices.

The priorities for LIDCs are to put in place policies to stabilize their macroeconomic balances and debt dynamics in the short- to medium-term, and strive to achieve their SDGs in the longer run. Following the GPA's strong endorsement, we call upon the Fund and the international community to redouble their efforts to help LIDCs meet their development objectives through country-specific policies and concessional financing that takes account of these countries' limited implementation capacity and, in many cases, already high indebtedness. The conflict-affected and fragile states deserve more immediate attention to their reconstruction and humanitarian and refugee resettlement needs. As we indicated last April, we welcome Fund's consideration of modifications to its LIC facilities, and look forward to an increase in concessional lending capacity and higher access levels. We also welcome the Fund efforts towards enhancing debt transparency and introducing greater flexibility in implementation of the revised debt sustainability framework.

We reiterate our support for an adequately-resourced and quota-based IMF, and look forward to the completion of the 15th General Review of Quotas, including agreement on a new quota formula, no later than the 2019 Annual Meetings, with the aim of maintaining total resources available to the Fund broadly at current level. We continue to stress that the realignment of quotas should ensure a meaningful increase in the quotas of dynamic EMDEs—but not at the expense of other EMDEs—and protect the voice and representation of all PRGT-eligible countries and small developing states. In view of the limited progress since our April meeting, and with time running short, the IMFC should play a key advocacy role to accelerate the process and ensure timely completion of the review.

Fund's highly qualified and diverse international staff is its most valuable asset. We call on the Fund to meet its diversity benchmarks and increase staff representation from the MENAP+ region, including at managerial levels. We also look forward to completion of the ongoing comprehensive review of staff compensation and benefits, which should better align the system to the needs of a well-qualified, motivated, and diverse staff.