

Communiqué of the Thirty-Third Meeting of the IMFC

Chaired by Mr. Agustín Carstens, Governor of the Bank of Mexico
April 16, 2016, Washington, D.C.

Global economy

The global economy continues to expand modestly. Global growth, however, has been subdued for a long time, and the outlook has weakened somewhat since October. Although recent developments point to some improvements in sentiment, financial market volatility and risk aversion have risen, reflecting partly the reappraisal of potential growth. The significant slowdown in global trade growth also persists. Recoveries in many advanced economies are restrained by a combination of weak demand, low productivity growth, and remaining crisis legacies. Activity in emerging market and developing economies has cooled down, although it still accounts for the bulk of world growth. Globally, lower commodity prices have adversely affected exporters, while their short-term growth impact on energy importers has been less positive than expected.

Downside risks to the global economic outlook have increased since October, raising the possibility of a more generalized slowdown and a sudden pull-back of capital flows. At the same time, geopolitical tensions, refugee crises, and the shock of a potential U.K. exit from the European Union pose spillover risks. Against this backdrop, it is important to buttress confidence in our policies.

Policy response

We reinforce our commitment to strong, sustainable, inclusive, job-rich, and more balanced global growth. To achieve this, we will employ a more forceful and balanced policy mix. Implementation of mutually-reinforcing structural reforms and macroeconomic policies—using all policy tools, individually and collectively—is vital to stimulate actual and potential growth, enhance financial stability, and avert deflation risks. Clear and effective communication of policy stances will be key to limit excessive market volatility and negative spillovers.

- *Growth-friendly fiscal policy is needed* in all countries. Fiscal strategies should aim to support the economy, providing for flexible use of fiscal policy to strengthen growth, job creation, and confidence, while enhancing resilience and ensuring that debt as a share of GDP is on a sustainable path. Tax policy and public spending needs to be as growth-friendly as possible, including by prioritizing expenditure in favor of high-quality investment.
- *Accommodative monetary policy should continue* in advanced economies where output gaps are negative and inflation is below target, consistent with central banks' mandates and mindful of financial stability risks. Monetary policy by itself cannot achieve balanced and sustainable growth, and hence must be accompanied by other supportive policies. In a number of emerging market economies, monetary policy will need to address the impact of weaker currencies on inflation. Exchange rate flexibility, where feasible, should be used to cushion the impact of external shocks, including terms-of-trade shocks.
- *Structural reforms need to be advanced*, benefitting from synergies with other policies to support demand. Structural reforms should be appropriately prioritized and sequenced in each country. Commodity exporters and low-income developing countries should implement policies to promote economic diversification.
- *Timely, full, and consistent implementation of agreed financial reforms*, including the Basel III and Total Loss-Absorbing Capacity (TLAC) standard, remains important to boost the resilience of the financial system. Efforts must continue to facilitate the repair of private sector balance sheets. Advanced economies must deal with remaining crisis legacy issues.

Emerging market economies need to monitor foreign currency exposures and bolster their ability to withstand financial shocks. Further analysis and solutions are needed, as appropriate, with the aim to prevent de-risking from unduly impeding access to financial services, including correspondent banking relationships.

- *Global cooperation is needed* on several fronts, including ensuring a well-functioning international monetary system; reinvigorating global trade integration; combating corruption and improving governance; addressing international tax issues including transparency; coping with challenges of non-economic origin, including those pertaining to refugees; and consistently implementing and completing the financial regulatory reform agenda—including policies to transform the shadow banking sector into a stable source of market-based finance. We reiterate our commitment to refrain from all forms of protectionism and competitive devaluations, and to allow exchange rates to respond to changing fundamentals.

IMF operations

The IMF has a key role to play in supporting a stronger policy response by the membership.

- *Policy advice and surveillance:* We support efforts to deepen analysis of the impact of macro-critical structural reforms, including the new initiative to increase the efficiency of infrastructure investment, and on principles to guide prioritization. To improve the policy mix for strong, balanced, and sustainable growth, we support work to identify country-specific priorities for fiscal policy based on a careful assessment of fiscal positions, and to identify areas where fiscal policy can play a larger and more effective role, consistent with maintaining debt sustainability. We look forward to the review of members' experiences and policies in dealing with capital flows, and welcome plans to bring together the work on capital flow management and macro-prudential policies to inform financial and macroeconomic risk management. We look forward to the analysis of the implications of negative policy rates. We welcome efforts to strengthen exchange rate analysis. We also welcome plans to examine a framework of options to reduce risks from rising corporate and household indebtedness and unresolved crisis legacies in banks.
- *International Monetary System (IMS):* We welcome the recent stocktaking of the IMS and the global financial safety net (GFSN) to determine what areas need further consideration. We reiterate that strong policies and effective IMF surveillance remain the cornerstone of crisis prevention. We agree that a strong and coherent GFSN—with an adequately resourced IMF at its center—is important for the effective functioning of the IMS, safeguarding stability, and helping reap the benefits of further financial integration. We call on the IMF to continue to explore ways to further strengthen the GFSN, including through more effective cooperation with regional financing arrangements. The IMF will discuss the case for a general allocation of SDRs and the reporting of official reserves in SDR. We support the examination of the possible broader use of the SDR.
- *Revisiting the lending toolkit:* We emphasize the IMF's central role in supporting adjustment and fostering effective implementation of sound policies. In this context, and in light of the risks that have been identified, we call on the IMF to explore ways to strengthen its approach to helping members manage volatility and uncertainty—including through financial assistance, also on a precautionary basis. We recognize the particular challenges for commodity exporters and emphasize the IMF's role in assisting them in their adjustments. We also look forward to work on non-financial instruments, such as a policy signaling instrument covering emerging market and advanced economies.
- *Support for low-income countries:* We welcome the IMF's continued work in support of the implementation of the 2030 Agenda for Sustainable Development, as well as continued efforts to support growth and boost resilience in fragile states. We look forward to

discussions on how to enhance countries' access to precautionary financial support and reviewing current practices in regard to blending resources between the General Resources Account and the Poverty Reduction and Growth Trust (PRGT). We also look forward to the successful conclusion of the current efforts to mobilize additional loan resources for the PRGT and to broadening the group of contributors. We support efforts to integrate capacity development and policy advice more closely, in particular, plans to assist low-income countries in boosting their domestic resource mobilization efforts, alongside international tax issues. We welcome the ongoing review of the IMF and World Bank Debt Sustainability Framework for low-income countries.

- *Addressing other challenges facing members:* We call on the IMF to continue to collaborate with the Financial Stability Board, the World Bank Group, and other relevant bodies to help solidify a view on the drivers, magnitude, and impact of de-risking by global financial institutions on developing and emerging market economies, and provide advice and capacity development, where warranted. We welcome the IMF's growing engagement with small states. We welcome proposed work on other challenges facing the membership—within the IMF's mandate and where they are macro-critical—including migration, income inequality, gender inequality, financial inclusion, corruption, climate change, and technological change, including by leveraging the expertise of other institutions. To support countries managing spillovers from non-economic sources, such as large refugee flows and global epidemics, the IMF should be prepared to contribute within its mandate, including to global initiatives. We look forward to a review of the Guidance Note on The Role of the Fund in Governance Issues. We encourage the IMF to continue helping countries to strengthen their institutions to tackle illicit financial flows. We welcome progress made in Argentina's effort to end a decade-long dispute and regain access to international capital markets. We also welcome its efforts and those of other countries to normalize relations with the IMF.

IMF resources and governance

We strongly welcome the effectiveness of quota increases under the 14th General Review of Quotas and of the Seventh Amendment on the Reform of the IMF Executive Board. We call on the Executive Board to work expeditiously toward completion of the 15th General Review of Quotas, including a new quota formula, by the 2017 Annual Meetings, and look forward to a progress report for our next meeting. Any realignment under this Review is expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole. We are committed to protecting the voice and representation of the poorest members. We reaffirm our commitment to maintain a strong, quota-based, and adequately resourced IMF. We reiterate the importance of maintaining the high quality and improving the regional, gender, and educational diversity of the IMF's staff, and of promoting gender diversity in the Executive Board.

We welcome the appointment for a second five-year term of Ms. Christine Lagarde as IMF Managing Director, and of Mr. David Lipton as IMF First Deputy Managing Director. We look forward to their continued excellent and unwavering leadership in the challenging period ahead.

Our next meeting will be held in Washington, D.C. on October 7–8, 2016.