Communiqué of the Thirty-Fourth Meeting of the International Monetary and Financial Committee (IMFC)

October 8, 2016

Chaired by Mr. Agustín Carstens, Governor of the Bank of Mexico

Global economy

The global economic recovery continues slowly and unevenly, and growth is expected to pick up only slightly next year, mostly on account of emerging market economies. Economic performance and resilience have improved in some economies and near-term risks in financial markets have largely abated. Still, the outlook remains subdued against the backdrop of modest global demand growth and remaining output gaps; a slowdown in global trade, investment, and productivity; and rising geopolitical uncertainty and medium-term financial risks. The persistently low growth has exposed underlying structural weaknesses, and risks further dampening potential growth and prospects for inclusiveness. Lower productivity growth and remaining crisis legacies in advanced economies, challenges from ongoing adjustments and vulnerabilities in some large emerging market economies, and the effects of lower commodity prices on exporting countries continue to weigh down the outlook. Overall, uncertainty and downside risks are elevated, while longstanding headwinds persist.

The global economy has benefited tremendously from globalization and technological change. However, the outlook is increasingly threatened by inward-looking policies, including protectionism, and stalled reforms. We commit to design and implement policies to address the concerns of those who have been left behind and to ensure that everyone has the opportunity to benefit from globalization and technological change.

Policy response

We reinforce our commitment to strong, sustainable, inclusive, job-rich, and more balanced growth. We will use all policy tools—structural reforms, fiscal and monetary policies—both individually and collectively. We are strengthening policies to bolster confidence and resilience, safeguard financial stability, and ensure that all members of society have the opportunity to benefit from globalization and technological change. We encourage countries hit hard by a persistent decline in their terms of trade to proceed with their policy adjustment. We recognize that excessive volatility and disorderly movements in exchange rates can have adverse implications for economic and financial stability. We will refrain from competitive devaluations and will not target our exchange rates for competitive purposes. We reaffirm our commitment to communicate policy stances clearly and resist all forms of protectionism. We will also redouble our commitment to maintain economic openness and reinvigorate global trade as a critical means to boost global growth. Our priorities include:

Growth-friendly fiscal policy. All countries should use fiscal policy flexibly and make tax policy and public expenditure more growth-friendly, including by prioritizing high-quality investment, while enhancing resilience and ensuring public debt as a share of GDP is on a sustainable path. Appropriate and credible fiscal policies along these lines will support growth, job creation, and confidence. Well-designed tax structures, as well as income policies where appropriate, can promote stronger growth, protect the vulnerable, and reduce inequality.

Continued supportive monetary policy. In advanced economies where inflation is still below target and output gaps remain negative, monetary policy should remain accommodative, consistent with central banks' mandates, mindful of financial stability risks, and underpinned by credible policy frameworks. Monetary policy by itself cannot achieve sustainable and balanced growth, and hence must be accompanied by other supportive policies.

Prioritized structural reforms. Structural reforms are key to raising potential growth and would benefit from synergies with other policies to support demand. Tailored to country-specific circumstances, reforms must be reinvigorated, carefully chosen, and appropriately sequenced to yield the maximum growth benefits, raise productivity, and create opportunities for all, while assisting those who bear the burden of adjustment to globalization and technological change.

Effective financial sector policies . To help ensure that the financial sector is robust enough to support growth and development, we will intensify efforts to address remaining crisis legacy issues in some advanced economies and vulnerabilities in some emerging market economies, while monitoring potential financial stability risks associated with prolonged low or negative interest rates, systemic market liquidity risks, and nonbank intermediation. Timely, full, and consistent implementation of the agreed financial sector reform agenda remains an important priority, as well as finalizing remaining elements of the regulatory framework as soon as possible.

Stronger global cooperation. Concerted effort at the international level is key to boost global trade; sustain progress on global rebalancing; manage spillovers from economic and non-economic shocks; ensure a fair, efficient, and transparent international tax environment; tackle the sources and channels of terrorist financing, corruption, and illicit financial flows; and address the decline in correspondent banking relationships. Comprehensive, coordinated, and time-consistent policy actions that exploit synergies would amplify positive cross-border spillover effects of individual policy actions. We will continue strengthening the international financial architecture, including the global financial safety net.

IMF operations

The IMF has a key role to play in supporting the membership at this challenging time.

Policy advice and surveillance. To improve the policy mix for strong, sustainable, inclusive, job-rich, and more balanced growth, we support the work to: further enhance the consistency of the IMF's fiscal policy advice, including on medium-term fiscal frameworks and by finalizing the work on assessing fiscal space, consistent with debt sustainability, and integrating it into country consultations; analyze how tax systems could have an effect on macroeconomic stability risks; and examine the implications of very low or negative interest rates, including their side effects. We support efforts to identify high-priority structural reforms in line with country-specific macroeconomic circumstances and structural factors, and encourage the IMF to continue to explore synergies and tradeoffs of different domestic policies in Article IV discussions. In this context, we take note of the ongoing work on developing a toolkit to support the formulation and implementation of structural reform recommendations in surveillance, and on expanding the infrastructure policy support initiative to more pilot countries. We support the IMF's examination of the drivers of the global productivity slowdown and the intention to provide policy recommendations. We look forward to the review of countries' experience with the IMF's institutional view on the liberalization and management of capital flows, with a view to identifying emerging issues, as well as the future work on macroprudential policies, which taken together will help provide tailored and consistent policy advice in addressing macroeconomic and financial stability risks. We support the analysis of macrofinancial linkages in bilateral surveillance, drawing on the recent pilot cases.

The International Monetary System (IMS) and the support of multilateralism: We reiterate that strong domestic policies and effective IMF surveillance remain the keystone of crisis prevention. We welcome the recent work on further strengthening the global financial safety net, and call on the IMF to intensify cooperation with regional financing arrangements, including through the joint test run between the IMF and the Chiang Mai Initiative Multilateralization. We look forward to work by the IMF and other institutions on state-contingent debt instruments. We look forward to finalizing the ongoing review of the IMF's lending toolkit to further enhance its effectiveness. We welcome the recent inclusion of the renminbi into the SDR basket, and look forward to the forthcoming examination of the possible broader use of the SDR. We call on the IMF to work toward enhancing international economic cooperation, including to facilitate the global adjustment process. We look forward to the IMF's analysis of the drivers and policy implications of the global trade slowdown and the economic benefits of trade.

Opportunities for all: We look forward to further work on the impacts of globalization, emerging technologies, and digitalization. We welcome further work identifying the reasons behind rising inequality in some countries, including analyzing the causes behind the declining share of labor in output and understanding the impact of policies on inequality in both advanced and developing economies.

Low-income countries (LICs): We call on the IMF to continue efforts, in cooperation with other relevant international organizations, to help countries meet the 2030 Sustainable Development Goals and to integrate deliverables under the post-2015 development agenda into the IMF's work. Work on LICs should focus on continued efforts to support growth and boost resilience in fragile states, and on helping those countries hardest-hit by commodity price shocks, including by designing a consistent set of policies that support growth. We call on the IMF to support LICs in their efforts to address investment needs, and provide advice on striking the appropriate balance between financing development needs and preserving debt sustainability. In this context, we support the work in progress to review the debt sustainability framework for LICs. 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) under IMF programs. We look forward to the findings of the forthcoming review of social objectives in PRGT-supported programs. We welcome the extension of zero interest rates on all IMF concessional lending facilities for at least the next two years, through end-2018. We welcome the support received so far, including by new contributors, to mobilize additional loan resources for the PRGT, and call on members' further support to the successful conclusion of these efforts.

Capacity building: We welcome the IMF's focus on providing technical assistance and training to complement policy analysis, especially supporting LICs as well as fragile states and small states to boost their policy formulation and implementation capacities and strengthen economic institutions. Priorities for capacity building include: enhancing domestic revenue mobilization; building fiscal capacity in small and fragile states; broadening work on international taxation, including through the Platform for Collaboration on Tax; expanding capacity to strengthen monetary and financial stability; and supporting financial sector deepening.

Addressing other challenges facing members: We support the IMF's work with other international organizations to address the decline in correspondent banking relationships and preserve access to financial services. This would include intensifying AML/CFT and supervisory capacity development support in respondent banks' jurisdictions, clarifying regulatory expectations, and promoting industry solutions; promoting greater financial inclusion; and helping countries strengthen their institutions to tackle illicit financial flows. We also support work by the IMF to continue integrating inequality, gender analysis, and climate change in surveillance, when macro critical; help commodity exporters and LICs promote economic diversification; help building resilience to natural disasters and climate change; and strengthen analysis and support for countries managing spillovers from non-economic sources, such as large refugee flows and global epidemics. We welcome the entry into force of the Paris Agreement on climate change. We look forward to the forthcoming review of the Guidance Note on the *Role of the Fund in Governance Issues.*

We extend our sympathy to the governments and people of the Caribbean, especially Haiti, as the region grapples with the impact of Hurricane Matthew. We welcome the IMF's readiness to help countries deal with the aftermath of this catastrophe.

IMF resources and governance

To help maintain the current lending capacity of the Fund, we welcome the pledges of SDR260 billion (US$360 billion) received from 26 members to ensure the IMF's continued access to bilateral borrowing under the strengthened governance framework approved by the Executive Board; support the need for continued access to multilateral borrowing agreements; and call for broad participation of the IMF membership including through new agreements.

Looking ahead, we reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We are committed to concluding the 15th General Review of Quotas and agreeing on a new quota formula as a basis for a realignment of quota shares to result in increased shares for 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, while protecting the voice and representation of the poorest members. To provide adequate time to build the necessary broad consensus, we support the Managing Director's proposal to reset the timetable for completing the 15th Review in line with the above goals by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019, subject to adoption by the Board of Governors. We call on the Executive Board to establish a concrete work agenda to achieve this goal.

We support the efforts of the IMF to harness new technologies—including by improving knowledge management—to increase its agility and effectiveness. We reiterate the importance of maintaining the high quality and improving the diversity of the IMF's staff. We also support promoting gender diversity in the Executive Board.

Our next meeting will be held in Washington, D.C., on April 22, 2017.