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Statement by the Hon. **LUIS ARCE CATACORA,**
Governor of the Fund for **BOLIVIA**

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The world is again enduring a wave of low growth across almost all countries, which will aggravate inequality and threaten gains made in the fight against poverty, especially in emerging and low-income countries. Advanced economies should sincerely reflect on the damaging effects of deepening globalization without addressing other embedded failures in the market economy, such as inequality and increasing poverty, even in developed economies, that may be on the horizon. If economic policies persist in addressing only external and internal balances while neglecting human development, this could potentially inflict real damages, not only in developing economies, but also in countries that supposedly reached the category of developed economies, particularly in Europe.

Economic policies that mainly follow the orthodox approach, particularly fiscal, exchange rate and debt policies, have rendered poor results and, what is worse, have caused an entrenched lack of confidence which is being reflected in a decreased global demand and a gloomy economic outlook. As the World Economic Outlook points out, current trends and new shocks are leading to subdued growth, along with significant uncertainties for the future. It is evident that the recovery between 2011-2014 from the Global Financial Crisis was not sustainable, as the global economy had entered on a dangerous path of recession. Subdued global demand, as well as speculative tactics in commodity markets, have provoked damaging lower commodity prices that put many countries on the verge of economic crisis.

Discontentment about the way policies are being implemented is giving room to political instability that may have powerful effects, whose final outcome cannot be predicted, such as the exit of the United Kingdom from the European Union or political changes in other countries risking a return to policies ranging from nationalism to ultra-neoliberal. Economic policies need to abandon orthodox paradigms and apply an adequate mix of growth-friendly policies. Fiscal consolidation and devaluations per se have proven to be ineffective in resolving debt and trade balance problems and have only led to slower growth.

An accommodative monetary policy through higher levels of monetary aggregates or lower or even negative policy rates is not enough to stimulate demand and it must be accompanied by an adequate fiscal policy. Countries should be able to tolerate temporarily higher fiscal deficits to restore confidence and provide a greater dynamism to economic activity. Global demand is weak, as acknowledged, and persistence of current policies may cause it to become even weaker. Growth is essential but it cannot be achieved if left only to market forces and automatic stabilizers. At the same time, countries have to take care of inequality in income distribution and continue building safety nets as a market-based economy per se will not take care of the necessary social protection.

The external rebalancing is plausible but it is not going to happen by solely relying on fully flexible exchange rates, competitiveness-enhancing measures, or free trade agreements, which may favor only some of the participants. It is imperative that uncertainty regarding the policy response in advanced countries dissipate. Bolder actions are essential. It is also necessary to diminish volatility in exchange rate markets. Incidentally, financial regulation must play a more active role to moderate speculation in financial markets that cause damaging effects, especially in emerging and low-income countries. Capital controls, in the form of taxes or restrictions or exchange rate intervention, are fair responses to those damaging effects.

The International Monetary Fund has to go beyond its traditional approach of balancing internal and external sectors and advocating flexible exchange rate policies. Its advice should identify policies that take into account idiosyncratic aspects at the country and regional level, and its analysis should depart from countries' economic history and experiences in order to come up with a proper set of policies that effectively help to take care of core issues. I concur that the Fund has to work on policies that address inequality in countries and analyze understanding the impacts of policies on inequality in both advanced and developing countries.

Countries like Bolivia have to continue building up domestic demand as a means to reach greater growth. For that matter, all policy instruments, monetary, exchange rate and fiscal, are to be effectively used, aiming towards a more dynamic economy, not only for the present conjuncture but also for the long-term strategy. We see that the International Monetary Fund continue to dismiss Bolivian Policies as they do not fit into its orthodox framework. In the last ten years the Fund's projections for the Bolivian economy have been consistently below the Bolivian authorities' projections and real data. Moreover, actual growth has been consistently higher, but the Fund continues to underestimate the capacity of the Bolivian economy. Perhaps it is so because the Bolivian economy does not follow the market economy the way the Fund would like. We believe that the state has to be the main engine of the economy.

The prospects of impaired long-run global economic outlook are not the only matter of concern for us, but also the reforms in financial systems, as well as macro-prudential measures in systemic countries. The way these reforms are being conceived and implemented is not ensuring that the world will be free of another financial crisis any time soon.

Thank you.