



TRANSCRIPT



G24 Press Conference

April 12, 2019

Ms. Elnagar – Welcome to the IMF Spring Meetings. This is the G-24 press conference. I am Randa Elnagar with the IMF Communications Department. Let me present our speakers first. Chair of the G-24, Governor of the Central Reserve Bank of Peru, Mr. Julio Velarde. First Vice-Chair, who is going to be joining us soon, for the G-24, Dr. Maxwell Opoku-Afari, First Deputy Governor of the Bank of Ghana. Second Vice-Chair, Mr. Peyman Ghorbani, Vice Governor of the Central Bank of Iran. Director of the G-24, Ms. Marilou Uy.

The Chair is going to give some opening remarks, and then we are going to take your questions. Thank you.

Mr. Velarde - Thank you very much. Let me welcome you to this press conference. Thank you for coming. As you know, there has been significant slowdown in the world economy. The tailwinds of the tax reduction in the United States are less strong than last year, and we have China also growing somewhat less than last year. And Europe is facing a much bigger slowdown in part because of trade tensions and uncertainty of trade and concerns about Brexit. Germany, who had a strong performance last year, their numbers have been corrected this year, and is pulling the rest of Europe to a slower growth.

Most analysts do not predict a recession, but uncertainty has increased. We hope that the trade tensions will be solved, as these trade tensions have been affecting the world growth; and, also, we are convinced of the need of a better capitalized safety net which includes resources by the IMF. Now we have less space than the previous crisis so as to react, so we have to focus. The G-24 has been focused on the IMF lending toolkit, and that is important.

You have the Communique issued before in your hands, so I do not have to comment about that. If there is any question, I am willing to answer. And I believe there is a conviction in the emerging markets of the G-24 that we need stronger multilateral institutions to address the problems that we are facing in a lot fronts, not only climate change, trade tensions, the bigger financial flows, and bigger possibility of imbalances, high indebtedness in many emerging market countries. You have nine countries that are pretty well affected now and 20 that are almost on the brink of having problems with their debt in the near future. That will be all. I am ready for your questions, please.

Ms. Elnagar - Please identify yourself and organization before you ask your question, please. Thank you.

Question - My question is that we have been meeting for the last 70 years as far as World Bank and IMF is concerned now, 70th anniversary. As far as corruption is concerned, where the rest of the world, the global economy is concerned because people are getting poorer and poorer as far as corruption is concerned in many countries still today existing, and corrupt politicians and business people are putting their money in Swiss banks where no accounting is so far even today. So billions of dollars even from the Indian corrupt ministers or corrupt politicians are still sitting in the Swiss banks. So what is the future as far as the economy goes together with corruption, and how much do you think you have tackled down as far as the World Bank and IMF is concerned, because you are the ones who are giving for a number of projects to the governments around the globe, but most of the money is not reaching to the people.

Finally, sir, where do we stand as far as the economy of India is concerned or India today financially? Thank you.

Mr. Velarde - Thank you very much for the questions. First, I am not from the IMF nor the World Bank. I am from the Central Bank of Peru, so I cannot be responsible for. Actually, the recent count of the IMF for this year is that corruption is

costing one trillion dollars for the world economy, and, of course, a good part of the resources has been deviated into fiscal paradise. I will not say any particular country. And that sharing of that information is becoming more and more [inaudible]. Knowing that find the beneficiary of the accounts in these places is essential also to fight corruption, not only government corruption but illegal money, tax avoidance, et cetera, et cetera; no? And I believe there is a stronger push in that direction. You have had many cases where they have discovered some corrupt politicians with their money in Andorra and in some of the Caribbean islands; and a pressure for bigger collaboration is there, has been there already for some years, and it is hoped that in the near future that can be leveraged; no? I will not talk about India particularly because it is a special country.

Ms. Elnagar - Sir.

Question - Thank you very much. I want to find out, one day Fiscal Monitor was launched this week. One of the things they talked about was increased debt distress for some low-income countries in terms of borrowing, non-concessional, taking non-concessional loans. I want to find out from you; we have seen a development in Africa where growth has stalled, although a number of countries have gone to the market to take non-concessional loans. In the light of all these, what would be the strategy for these countries to be able to get out of the debt distress they are getting themselves into? I do not know if you get my question. Because increasingly they are becoming exposed to these Eurobonds, and you look at growth; growth is still not picking up like it is supposed to be, and then there is pressure on them as far as debt is concerned. How do they get out of debt distress?

Mr. Velarde - It is not only the case of Africa. It is in many other parts of the world. We have seen it in parts of Asia. Venezuela, one of the more famous [inaudible] buy-in. They put the reduced price. The new government has said that they will not pay them if that is the case, but that is another issue. I believe that lenders and borrowers have to be more careful. In the search for yield, mainly portfolio managers have been looking for high yield and going into bonds that even when they are perceived there might be some risk, they are willing to buy those bonds, because in the short run they believe they will obtain a yield, and their bonus will be associated with the performance of the portfolios. But, of course, that is only part of the picture. You need two to tango. The governments have to be more careful in what conditions do they borrow and for what do they borrow; no? But it is a problem.

I am not going to talk about my country, but we set for hyperinflation in the '90s, and we were a basket case. Now we are paying a ten-year debt in domestic currency, as much as the Treasury was paying before 2007. We are paying 5 percent for a 10-year bond in domestic currency. We have increased our credit rating six notches in seven years, which has been the fastest increase in credit rating of any country. Philippines have increased five notches in ten years. So we can do it. It is hard, but many times when conditions are harder, the search for yield and the bonus that you can obtain because your portfolio in the short run is having higher yields is an incentive to continue lending many times, but also the borrower has to be more careful.

I have not answered completely, but it is being prudent, the answer, being prudent for the investor, the one buying the paper, and also for the government issuing the debt; no?

Question - Thank you. Venezuela is a G-24 member, and it is not clear who the representative is right now. Have you discussed who should that representative be? Is there any plan for calling for a vote, a member-wide vote, to see who that person will be, and if so, what is the G-24 position on who the representative should be?

Mr. Velarde - There has been no position. There has been no vote. Venezuela has not attended a meeting. It has not been discussed, so there is no position of the group. I suppose different countries may have different positions, but it has not been discussed in the group.

Question - I want to follow up the question of my colleague. Why is not possible to discuss? Is it because you do not have any common view or because you are not in position to do it? Could you elaborate a little bit just to make us understand what the problem is at the moment, because we listen to both World Bank and IMF saying for weeks that they are ready to help Venezuela, but they are not in position to do it because of absence of recognition among the membership. So when could they have any view on which is the legitimate government in Venezuela, and then the institution would be able to provide the help the population needs over there?

Mr. Velarde - We are the group that does not make decisions giving money, et cetera. It is different from the World Bank. IDB that you know that the meeting that was going to take place in China was suspended. And in the case of the World Bank or other financial institutions where Venezuela has a vote and they can receive resources, this is not the case here.

There has been no discussion at all because Venezuela was not present. Many countries, they recognize the government of Mr. Maduro; others recognize the government of Mr. Guaido. In the case of my country, we recognize the government of Mr. Guaido, not the one of Mr. Maduro, but that is the case of my government. In the case of the G-24, it has not been discussed in that forum. They have not attended. Maybe if they were present, somebody would have said you do not represent a legitimate government. That was not the case. So there was no discussion at all, and there will not be any discussion at least until the meeting in October, because we meet every six months, so it is different from other institutions.

Question - I have a question regarding Belt and Road Initiative. There have been some critics that some of the projects have risen the debt for some of the developing countries, and I was wondering what is your comment or response to that? And, also, what do you think is the future prospect in terms of how China and the G-24 countries should cooperate, or [push for more] cooperation under the initiative?

Mr. Velarde - There has been no discussion of the issue this time. Last time there was a conference where, first in October in Bali, and the points were there should be more information, more transparency. Second, as China is a government lender, at the end they should go also into the group of lenders, as other governments. Third, this transparency is needed not only to know the amount of debt but also to know many times where the resources have gone. There is suspicions that in many cases they have gone to corruption in some governments. What can be the future? I believe the Chinese taking a more active role in helping infrastructure of many countries. So actually that point is pretty important. In many countries it has not been so important, this lending, because the lending conditions are too expensive. In the case, for example, of Peru, yes, going to the market, we can obtain better lending conditions than what the Chinese government usually charges. In Latin America, Chinese lending has been important to countries facing problems that were paying high interest for the debt. That was the case. So Venezuela, that was the case, of Ecuador. That was the case of Argentina before the current government. But otherwise, you see most of the countries, they can go to the financial markets at a better rate of interest have not been taking loans of China. We have had the first investment of Chinese investment since the early '90s. We have a lot of Chinese investment but very little loans. Actually if there is a quantity, it will be less than \$10 million probably; no?

Question - I just want to know what was your evaluation of the global nonperforming debt situation, and do you think that the fiscal and monetary policy taking place right now is sufficient to meet this problem? This is my first question. The second one is, do you think that the Egyptian monetary and fiscal policies are OK for the percentage of growth we are looking for?

Mr. Velarde - Two particular questions about that particular economy, which I am not so familiar, so I cannot answer your questions. If it was monetary policy and fiscal policy around the world, I believe probably this patient policy, this communication by Chairman Powell of the Fed that the conditions are to wait and see and be more patient, and that has come to America as appropriate policy. He has not ruled out any hikes, but for the moment he has said they do not seem to be needed.

In the case of the ECB, you have seen they have postponed the adjustment for some time because of the slowdown of the economy. There is still a lot of uncertainty. Fiscal policy, you have some countries that have some fiscal space, I will mention. I will mention since we were talking about China in the previous question, that fiscal policy in China is looking to have been pretty useful in out this [inaudible] of recovery that we are seeing now in China. It depends on some particular country.

Question - A couple of questions. The first one is related to what my colleagues asked. As for debt forgiveness for more than is actually many years, are you concerned that debt servicing is reducing the fiscal space for capital expenditure in some of these developed countries and considering the great appetite for Eurobonds.

My second question has to do with Ghana. We recently just exited from an external credit facility arrangement with the IMF, and I want to know if there are some advice, lessons, you think that we should take so that we do not go into that arrangement again.

And my last question has to do with the Communique you issued, and I want a clarity on that communique. The sixth paragraph says, "On the occasion of the 50th anniversary of the reform that included the special drawing rights, SDR, in the IMF Articles of Agreement, we reiterate our call for a more active use of SDRs as a reserve asset." And I want some elaboration on that. Thank you.

Mr. Velarde - For the part of indebtedness, the IMF now it has raised in the World Economic Outlook the problem of many countries with high level of indebtedness, how we have reduced the fiscal space.

For the question of the SDR, it is like a currency. The countries that have less problems, especially in monetary policy, are those countries that have their currency of reserve that we cannot follow accurately like the States, OECD, because our currency is not a reserve currency. In the case of the States, the Fed or the ECB, they can issue more of the currency without causing too much problems because it is a reserve currency, and they have deeper markets. In the case of Ghana, Peru, can not print a lot of money, we have the no reserve currency and this will cause inflation. What we are talking here is a greater use of SDR as a reserve currency by itself. And that will help to have more resources for the IMF and even a reduced weight of the dollar as a real currency, it is a basket of currencies if there are to be no reserve currency; no? It was in that sense.

For the question on Ghana, I have the Deputy Governor of the Central Bank of Ghana, who is going to answer you.

Mr. Opoku-Afari - Thank you very much. On the question of Ghana, including the IMF ECF program, the ECF program was introduced to address specific macroeconomic imbalances. The program was concluded last month, and there were a lot of gains that have been made in terms of addressing some of these macroeconomic imbalances. Going forward, what Ghana has to do to ensure that we do not go back to that is to make sure that these gains that have been made through the ECF program are consolidated going forward. We have to work to consolidate gains, and the government of Ghana has an objective of introducing a lot of transformative programs, and what we have to make sure we do is to ensure that those transformative programs are built on the macroeconomic stability that has been achieved so far, so the two have to go together. We have to continue to make sure that stability is maintained whilst we continue to have the transformative program. With that we are sure that you will continue to grow without losing macroeconomic stability or reintroducing the imbalances that we had in the past.

Ms. Elnagar - Further questions?

Mr. Velarde - Thank you very much for your presence. I hope we have answered some of your questions. Thank you very much.

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