

20100302 IMF: Transcript of a Press Conference Call on the International Monetary Fund's Analysis on "Exiting from Crisis Intervention Policies"

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MS. BECKMAN: Hi, good morning. This is Jennifer Beckman with Media Relations, and you've joined the IMF conference call on the Exit Strategy paper that is embargoed until 10 a.m. this morning. This conference call will be conducted on background, and by that we mean that officials participating in the conference call can be quoted as a senior IMF official and not by name. Each one has some brief introductory remarks, and after that we can begin taking questions.

SENIOR OFFICIAL: I'll start with some general principles. The first one is when to exit, and the answer is when private demand is ready to take the relay.

The second general principle is on sequencing between fiscal and monetary policy, and the line here is that one more year of deficits is much more costly than one more year of low interest rates; therefore, fiscal exit should come first if possible.

Then I mentioned two caveats. The first one is the principles are general but countries are in different positions, and therefore the implications are not the same. Emerging market countries are closer to exit than advanced economies.

The second caveat I mentioned is that in some countries, fiscal exit may be needed now despite the fact that private demand is not yet here because the fiscal situation is really bad.

On coordination, I mentioned the fact that recovery is going to be associated with large interest rate differentials, low in advanced countries, high in emerging market countries. The solution is not to increase the interest rates in advanced countries. This would hurt growth in advanced countries and therefore in the world, but it is, unfortunately, for the emerging market countries to adapt to that situation. They can change the mix of fiscal and monetary policy.

Let me stop here.

SENIOR OFFICIAL: I will say a few words on fiscal exit strategies, and to start with, it's clear that the crisis has left fiscal scars; large, increasing public debt; high deficits, particularly in advanced countries owing to preexisting fiscal weaknesses related to the demographic trends. As to the debt increase, it's important to keep in mind that it reflects mostly the revenue losses from the recession and other factors rather than the fiscal stimulus per se. The economy would have even been weaker without the stimulus. But this also means that beyond the question of withdrawal or exiting the stimulus, there's a broader question of fiscal consolidation or fiscal consolidation strategy, and it is now urgent and in a way more needs to be done to communicate both the fiscal consolidation strategy than actually to start to implement it, because the fiscal uncertainty may undermine economic recovery.

The strategic goal now should be to reverse the rise in public debt, not just to stabilize public debt at post-crisis levels, because levels of public debt after the crisis are tending towards 100 percent of GDP in many countries, and keeping it at this level would involve higher interest rates and over the medium term lower potential growth. And also reduce the capacity to respond to shocks.

However, it is also important to keep in mind that lowering public debt is going to be a long process. It is not something that can be done very quickly, because for a major correction, a large improvement in the primary fiscal balance is needed; and this would be difficult to accomplish. At the same time, history tells us that this can be done. It was done before, and it can be done again.

The timing on the fiscal consolidation depends, of course, on countries' positions, particularly the speed of recovery and the deficit position. In general, you can say that most advanced economies should maintain fiscal stimulus in 2010 and begin tightening in 2011 if the recovery proceeds as currently projected.

At the same time, the emerging economies that are arising faster could start tightening now, and in some cases market concerns imply that fiscal tightening may be needed in some countries, even

ahead of the economic recovery. In any case, actions that do not imply negative impact on growth should be implemented now.

This includes reforms in entitlements, in health, in pension entitlements, such as increasing the retirement age. Each one would be very important to strengthen long-term fiscal trends.

This also includes reforms in fiscal institutions such as the introduction of fiscal rules and the strengthening of medium-term fiscal frameworks, which can strengthen the law and make the fiscal effort long lasting.

And finally reforms in goods, labor, and financial markets are also important to boost potential growth, because if there is one lesson in the history of fiscal consolidation, it is that economic growth is a very powerful force to strengthen the fiscal accounts.

I will stop here.

SENIOR OFFICIAL: Let me say a few words about exit for monetary policy and financial policy.

On monetary policy, central banks are confronted with two issues in exiting. One is when and how fast to tighten monetary policy in terms of interest rates; and the second is how to unwind the unconventional monetary policy measures that were taken during the crisis, for example liquidity facilities or actions to alleviate problems in certain segments of the credit markets. The key message is that these challenges are manageable both from the strategic and the operational viewpoint.

On the first issue, exiting from a very low interest rate (in many cases close to zero), when and how fast to tighten depends on specific country conditions. The key goal must be to maintain price stability, and it is fundamental that central bankers not fall behind the curve and do whatever is required to maintain stable inflationary expectations. In many advanced economies hit by the crisis, inflation expectations are contained, capacity utilization remains low and deleveraging is still going on. So, in principle, one would expect interest rates to remain low for the foreseeable future. By contrast, those economies in a different position in the cycle may need to tighten considerably earlier. An important issue here is that central banks have tools that enable them to exit from low interest rates even if they have not exited yet from unconventional monetary policies.

On unconventional monetary policies use of many liquidity facilities will decline naturally as financial conditions improve. But other interventions put in place by central banks to alleviate bear credit markets would require a decision. It is very important that these measures remain in place until financial stability is secured.

As to financial policies introduced by governments during the crisis, the guideline is to exit properly, flexibly, and to use a lot of judgment. The key consideration is to not undermine financial stability, so there is a need to be sure that the conditions for financial stability are fully in place before a broad exit from these facilities. In some cases, market incentives will lead to an automatic exit, but in others a decision will be required. The caveat I want to mention is that when governments start a broad exit from financial support measures, they need to be prepared to address problems in the weakest institutions in order to avoid further dangers to financial stability.

Finally, as financial support policies are unwound, it is important that work continues on a new regulatory system that avoids the problems that got us into this crisis in the first place. The culmination of successful exit strategies will be new regulations that lead to a better and safer financial system.

MS. BECKMAN: Okay, and with that, we are ready for the first question.

QUESTIONER: Yes, hello. I have two questions, actually. One is on the Fund's role in taking on the role of monitoring the exit strategies to ensure national consistency. Is that something that is a new mandate for the Fund, and is that something, for example, the G20 has signed onto?

The other question is what would the situation in Greece—what would you take away from the situation that's happening in Greece regarding your paper with the fiscal deficits? What message does Greece present?

SENIOR OFFICIAL: I'll answer the first question which is that indeed I think this is part of the

mandate that has been given to us by the G20. It has asked for us to identify the conditions under which we could have sustained a strong recovery. Exit is part of that strategy, so we're doing the work both at the level at which we've described it here and at the level of giving advice to specific countries about what their specific options are.

SENIOR OFFICIAL: Although I don't want to comment on specific countries, what our paper says and what I said earlier in my introduction is that there are some countries that should tighten fiscal policy earlier than other countries because their fiscal situation is worse and because they are subject to market pressure. Of course, this includes countries like Greece but in general other countries could wait to implement the fiscal tightening.

One thing, however, I want to underscore if I can take this opportunity is that although the fiscal tightening can happen at a different pace in those countries, there are some measures that all countries can implement now, and those are the measures that do not affect demand negatively, say, reforms to entitlements or fiscal institutions and in goods and labor markets to boost growth, and all these things can be implemented now regardless of market economic conditions.

QUESTIONER: When you say that the fiscal exit may be needed now and ahead of the monetary policy exit, by "now," you mean, I assume, for most countries in 2011, not in 2010; and how does this position affect measures under discussion including in the United States for new stimulus measures or support measures to be implemented this year, including the Jobs Bill being discussed in the U.S.? Should they continue giving—you said they would need stimulus through this year, or would you recommend countries not implement any other stimulus measures?

SENIOR OFFICIAL: The principle is stimulus should continue until private demand has recovered if the fiscal conditions allow it. Again, no specific comments on any particular country, but there are countries which have the fiscal space to continue the stimulus for awhile while private demand is recovering. At this stage, taking out, phasing out the fiscal stimulus too early when private demand has not yet recovered would be a mistake if it can be avoided.

MS. BECKMAN: Okay, if we have no more questions, let's conclude here. Thank you for joining us, and I remind you this is a backgrounder.

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