G-20 Seminar on Structural Reforms

Opening Remarks by Christine Lagarde, Managing Director
Shanghai - February 26, 2016

Good morning!

Thank you, Minister Lou Ji Wei, for your kind introduction. It is a great pleasure to be in China for the G-20 Meetings, and this seminar touches upon important issues that will be central to our discussions today and tomorrow, as they touch upon the recovery, the medium term, and beyond.

Shanghai provides a most fitting venue for this seminar. Over the last quarter century, Shanghai's skyline has undergone a stunning transformation—a brilliant representation of China's first economic transformation, and a testament to the visionary generation that has been leading it.

Today, another transformation is underway. China's leaders have long recognized the importance of structural reforms for achieving safe, inclusive, and sustainable growth. Minister Lou, as you yourself noted recently in Qiushi magazine, China needs to accelerate structural reforms to raise potential growth, to empower the market to play a more decisive role, to accelerate state-owned enterprise reform, and to deepen the reforms of the social security system.

Of course, China is not the only economy in need of structural reforms. In fact, structural reforms are fundamental for the success of *every* G-20 economy. This was clearly recognized in the G-20's 2009 framework for strong, stable, and balanced growth. And it was given specificity in the over 800 commitments that G-20 members made in their 2014 national growth strategies.

Structural reforms have become even more pressing given the disappointing state of the global recovery. Activity weakened unexpectedly at the end of last year, which has led us at the IMF to revise growth downward for this year and beyond.

Growth in advanced economies remains modest, and some large emerging markets are showing signs of distress. On top of this, China's necessary transition to a more balanced growth model has added to market volatility. All this has unsettled financial markets, which in turn depresses consumer and investor sentiment.

In this fragile environment, we need urgent action not only to boost economic potential, but also to boost confidence about the recovery and near-term growth.

This calls for a broad-based policy response, which strengthens growth and reduces vulnerabilities. Work done by our staff suggests that a mix of mutually-reinforcing demand and supply policies both lifts output over the longer term and supports growth in the short term.

The reason for combining supply and demand policies lie in the short-term output costs of supply-side reforms, which call for complementary demand policies. For example, where labor market reforms lead to job losses, demand policies can support employment by boosting firms' expectations about future output. Fiscal policy can also be used to support workers who get laid off.

The important thing is to do both, and to reduce economic rigidities and inefficiencies broadly and thoroughly. We have seen time and again that when policymakers' commitment to structural reforms is considered strong—for example, when a “wave” of reforms is adopted—the effect of combined policy action is larger than the sum of its parts!

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Given the fragile state of the current recovery, and the quite considerable downside risks to the global economy, I believe that we need to realize the expected pay-offs from structural reforms earlier than initially anticipated.

So I am calling on all G-20 countries to speed up the implementation of structural reforms that they committed to under the G-20 growth initiative. And I am calling on all our 188 member countries at the IMF to undertake reforms that hold back their growth momentum, and that we have discussed with them in our annual Article IV Consultations.

I am aware that this is a large and demanding agenda. Each economy is different, and so are reform needs in each country. So where to start? What does make most sense, and where should political capital invested first?

To answer these questions, the G-20 has asked the IMF to develop some guiding principles and priorities, and we have been glad to embark on this work. Structural reforms are a *macroeconomic* priority, and this is the perspective that the Fund brings to the table, working closely with our institutional partners in responding to this request.

The analytical work and country cases that we presented to our Executive Board in late 2015 suggests that, amid large diversity of individual country experiences, three economic dimensions are particularly important for the successful implementation of structural reforms:

• A first dimension is a country’s income level. As the saying goes: “don’t try to run before you can walk”. Our research finds that for the more advanced economies, reforms that foster technology and innovation may have the greatest pay-off. For emerging market economies, strengthening property rights and capital markets may be more relevant.

• A second dimension is the country’s position in the economic cycle. For example, we know that fiscal multipliers are larger when economic growth is below potential. In these situations, spending on infrastructure projects—for example, roads and bridges—is likely to have a larger growth pay-off in the near term.

• A third dimension is the country’s space for reform, which takes into account the distance from international best practice as well as the resource envelope available to finance reforms.

Policy choices will naturally also be shaped by each country's societal preferences. For example, looking at employment, both the Anglo-Saxon and the Nordic “flexicurity” approaches have been successful. But they are based on very different labor market policies.

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Work is currently going on to refine this analysis and make these broad principles more operational. Moreover, as countries re-charge their structural reform programs, they can count on support from many international partners.

The OECD has long been a global leader in evaluating structural reforms in industrialized and advanced emerging market countries. Its “Going for Growth” framework—[whose 12th annual report has been launched today]—has provided essential inputs to G-20 countries on structural reforms. We are looking forward to collaborating with Ángel and his staff on enhancing the structural reform agenda.

The World Bank has also been providing advice on reforms, reflecting its decades of experience in helping developing countries and emerging market economies design and implement structural reforms.

And of course, there are the more specialized international organizations, such as the ILO and UNCTAD, which can also support countries advancing reforms in their respective areas of expertise.

What about the IMF?

Structural reforms have long been part of our surveillance mandate. Consistent with our macroeconomic focus, we have long been supporting our member countries identify the most macro-critical structural reforms—namely those that have the best chance of supporting economic growth and macroeconomic

stability.
Structural reforms also feature in our lending programs. Given the many demands on country authorities during a program, we seek to identify what are the most macro-critical reforms within the confines of both what is necessary and what is feasible in individual countries.
Capacity building is a third way that the IMF supports structural reforms. In what is perhaps the Fund's most unsung success story, we have been providing technical assistance to our members and training to their officials—especially in areas of our particular expertise, such as structural reforms in the fiscal and financial sectors. The demand for Fund advice in these areas has been nothing short of overwhelming.
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Ladies and gentlemen, as Confucius once said,

"*When it is obvious that the goals cannot be reached, don't adjust the goals, adjust the action steps*."

I am confident that the ultimate goal of strong, stable, and balanced growth can be reached, but I do believe firmly that we need new action steps.

The time has come for G-20 countries to re-invigorate structural reforms. And the IMF—working closely with our partner institutions—is committed to supporting you in this endeavor.

Thank you.