**International Monetary and Financial Committee**

Eighteenth Meeting
October 11, 2008

**Statement by Tito Mboweni**
**Governor, South African Reserve Bank, South Africa**

**On behalf of Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia**

**Statement by Hon. Tito Mboweni**
**Governor of the South Africa Reserve Bank, South Africa**

**Representing Africa Group 1 Constituency comprising the following countries:**
**Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe**

**International Monetary and Financial Committee**
**Saturday, October 11, 2008**
**Washington, D.C.**

## Global Economic Developments

1. The global economy has been weakened significantly by the financial crisis that arose as a result of poorly regulated financial institutions in developed countries. This, coming on the back of the commodity price shock of the last few years, is having adverse impact on growth and economic prospects of all economies, with the potential for severe consequences for low income countries in our constituency.

2. The evident slowdown in global growth, the ongoing danger posed by high commodity prices and the possibility of entrenched second-round effects, the drying of access to finance for investment and the erosion of the balance of payments positions of many countries, threaten to undermine the policy gains we have made over the last decade, with the danger of pushing tens of millions of people over the poverty line.

3. Financial markets have performed poorly with respect to their two core functions: allocating capital and managing risk. In a global economy we all now pay the price. We expect to see a further deterioration in financial conditions, including further protracted balance sheet adjustments, loss of confidence in the financial markets and continued volatility in capital flows, especially in emerging and developing countries. Moreover, the significant uncertainty regarding the extent of credit default in severely affected advanced economies is likely to reduce the availability of credit and place a further drag on the global economic recovery.

4. The IMFC was established to promote coordination and collective action in order to avoid a crisis of the kind we now face. We all saw the dangers building up over the last few years, and knew the actions we needed to take to avoid a calamitous outcome. Many of the causes and likely consequences of growing imbalances were repeatedly discussed in this committee. But this common knowledge was not enough to spur determined corrective action. We were not able to act in unison, and the institutions tasked with facilitating a collective could not or were not allowed to realize their mandate. We must now acknowledge this profound failure. As we address the fallout, and act to place the global economy back on track, we must also recommit ourselves to deeper multilateral cooperation, mutual accountability and active policy coordination, with the full participation of developing countries.

**Policy Responses**

5. Sub-Saharan Africa's growth is projected to slow somewhat from 6.9 percent in 2007 to 6.3 percent in 2008, but is estimated to recover only partially to 6.7 percent in 2009. The growth outlook may worsen if the global economy experiences a protracted slowdown. In this context, we must address the medium and long-term implications of the crisis, managing the welfare impact on our citizens while at the same time making policy interventions in support of our growth and development.

6. Policy actions should aim at improving economic infrastructure, creating an environment conducive to investment, strengthening the macroeconomic framework and sheltering the poor from the adverse consequences of the crisis. In this regard, greater flexibility with regard to fiscal and monetary policies will be required in order to soften the impact of exogenous shocks, even as we consolidate the gains of better macro-economic frameworks.

7. In recent weeks, authorities in advanced economies have provided fiscal stimulus and liquidity support to the ailing mortgage and financial institutions in an attempt avoid systemic collapse. Moreover, central banks have acted in concert to respond to the looming global slowdown. While these policy responses are commended, they have exposed the weaknesses in global economic governance, and underscored the need to

build sufficient institutional capacity to manage rapid, coordinated and genuinely global responses.

**Responding to the Challenges Posed by Higher Food and Fuel Prices**

8. Food and fuel prices remain significantly elevated. The underlying causes of the food and fuel price surges are complex, and include strong demand, rising bio-fuel production, high energy and fertilizer prices, and limited spare production capacity. Moreover, lack of investment in agriculture and the effect of market distortions have eroded food production capacity in many of our countries. The adverse impact of the high prices on the poor in developing countries has been debilitating, and threatens to undermine human capital over the longer term. We are concerned that so many PRGF-eligible countries are at risk because of food and fuel price increases, with net fuel-importing low-income countries facing a significant rise in their fuel bill. The macroeconomic consequences include weakening balance of payments positions, greater strain on national budgets as well as acute inflationary pressures.

9. We observe that several developing countries have responded to these shocks with policies that include pass-through of world market prices, making fiscal adjustments to offset higher budgetary costs and setting monetary policy to limit second-round price effects. Additional measures taken by some countries in our constituency include reducing fuel taxes, easing export bans and import tariffs and increasing fuel subsidies and public sector wages. Over the medium term, African agricultural production must be expanded, while net oil importers will need to manage high oil revenue inflows judiciously, including through investment in essential infrastructure, to facilitate sustainable growth for poverty reduction.

10. These efforts will need to be complemented with additional. It is in this regard that we consider it essential for the Fund to increase its financial assistance through the PRGF-augmentation and to remove the requirement of prior actions in the modified Exogenous Shocks Facility. Furthermore, donor support and multilateral cooperation should be enhanced to buttress the efforts of developing countries to cope with the challenges we now face. Policy coherence also demands that advanced

countries make further efforts to remove market distortions, even as they contribute to the development of our agricultural sectors.

**Advancing the IMF's Surveillance Agenda**

11. We urge the Fund to build on its multilateral and bilateral surveillance capabilities, and to strengthen its focus on exercising firm exchange rate surveillance, by equipping staff with skills to more incisively analyse weaknesses and distortions that risk the global economy and often leads crisis.

12. We believe more needs to be done to ensure that the Fund's traditional focus on economic issues is adequately complemented by a good understanding of the manner in which increasingly complex financial markets behave and influence the real economy. This can be achieved in part by the Fund working more closely with international bodies, such as the Basel Committee, the Financial Stability Forum and the various organizations which supervise and regulate financial markets. In this regard, the multi-lateral character of the Fund's governance must be strengthened so as to better enable it to legitimately play a convening and catalyzing role in respect of global responses to financial crises.

13. Ultimately, however, the achievement of the objective of improving surveillance effectiveness will depend largely on the willingness of national authorities to heed Fund advice. In this regard, surveillance will need to be more candid, alert and transparent if it is to gain traction in countries where the Fund has no leverage, especially the advanced economies. Moreover, no member of the Fund should be excluded from the important evaluations that are associated with the FSAP process.

**Reviewing the IMF's Lending Role**

14. We note the initiative to review the Fund's lending role, given the sharp decline in demand for the Fund's general resources, which is a reflection of the degree to which Fund instruments are associated with negative signals, too many conditions, and unnecessarily large costs.

15. In this regard, we believe it is critical that the Fund re-define its lending model to reflect member's needs —whether for finance, signaling or

insurance – and that provision be made for financing instruments that members can access with speed. In the current environment, however, it is essential that the Fund find ways to reinforce positive signaling effects to address legitimate concerns regarding the potential for unintended negative signals that could exacerbate a crisis.

16. We have always argued that there is scope for less conditionality, particularly in cases where the shock is exogenous and self-correcting, provided there are safeguards in place for Fund resources. There are also a number of "conditionality modalities" which the Fund has proposed that we believe will suit some countries better, namely: the introduction of selective, rather than standard qualification tests and reviews; providing support through outright purchases rather than in tranches.

17. We note with concern the difficulties creating a new liquidity instrument, particularly for emerging market economies and urge the membership to come to a decision soon in providing an instrument to countries with basically sound policies that may be experiencing liquidity difficulties as a result of external shocks and not as a result of imprudent policies.

**Strengthening the IMF's Governance Framework**

18. We believe that ultimately, the IMF's ability to act in the global interest will hinge on a governance structure that supports the task of enhancing both the legitimacy and effectiveness of the Fund. Among other things, this requires careful consideration of the respective roles and responsibilities of the Board of Governors, the International Monetary and Financial Committee (IMFC), the Executive Board, and Fund Management.

19. In this regard, we welcome the appointment of a committee of eminent persons to study the institutional framework of the Fund, under the chairmanship of the South African Minister of Finance, Mr. Trevor Manuel. We trust that the committee will reflect on the recommendations in the report by the Independent Evaluation Office (IEO) on corporate governance at the Fund. We look forward to the findings, which we anticipate the committee will release at the Spring meetings in 2009.