International Monetary and Financial Committee

Twenty-Fourth Meeting
September 24, 2011

Statement by Ngozi Okonjo-Iweala, Coordinating Minister of the Economy and Minister of Finance, Federal Ministry of Finance, Nigeria

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, Zimbabwe

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Coordinating Minister of the Economy and Minister of Finance, Federal Republic of Nigeria

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A. Global economic and financial developments

The global economy experienced remarkable growth in 2010, however economic activity is slowing down and has become more uneven with increasing downside risks. In many advanced economies, growth continues to be weak, with high unemployment rates, and increasing concern over sovereign debt crisis in the Euro Area and greater uncertainty over the US economic outlook. Given the uneven nature of global growth, policy challenges differ considerably across countries. In most advanced countries, the main policy challenge is to sustain the recovery and reduce the lingering high unemployment while moving forward with the required fiscal adjustment and the necessary financial sector reforms and repairs. In contrast, growth in emerging market economies continues to be strong, leading to concern that rising commodity prices could exacerbate inflationary pressure in a number of these economies.

For Sub-Saharan Africa, the growth outlook remains optimistic. The resilience and rapid recovery of the majority of low-income countries (LICs) from the global crisis reflect their strong structural reforms efforts, pre-crisis macroeconomic policy buffers built during the good days, and increased ownership of policies, and flexibility in the Fund’s financing and engagement with the authorities. These reform efforts were instrumental to attracting investment inflows into the region. However, continuing these trends will hinge on robust growth and recovery in advanced economies. The rising global demand for commodities is arguably a key driver of the enhanced GDP growth together with increases in the prices for oil, minerals, grain, and other raw materials. On the other hand, rising global food prices have put upward pressure on inflationary trends and exacerbated food insecurity for many countries in the region, particularly net food importing countries. An acute drought, the worst in six decades, has hit hard the greater Eastern Africa region and has exacerbated chronic food scarcity throughout the region.

For some emerging market and developing economies, there is a need to accelerate the unwinding of accommodative macroeconomic policies to avoid overheating in the face of strong economic activity, while ensuring that the poor are protected from the effects of higher food and fuel prices. Progress also needs to be made in reducing risks to global growth from still-large global imbalances by increasing the contribution of net exports to growth in economies with large current account deficits and, conversely, by increasing the role of domestic-demand-driven growth in economies with large current account surpluses. This will require continued policy cooperation among countries.

B. The role of the Fund in Low Income Countries

While growth has remained robust, some vulnerability exists. Many LICs remain vulnerable to the resurgence of the global fuel and food price increases which is slowing down rebuilding of fiscal buffers as a result of pressures to protect social spending. LICs also face inadequate financing of priority development projects in the face of possible decline in aid flows as well as slow recovery in exports with the persistent slow recovery in advanced economies.

Against this backdrop, we urge the Fund to further strengthen its engagement with LICs through enhanced financing using its various lending facilities, policy advice and technical assistance. More specifically, we call on the Fund to increase the concessionality of Fund lending to LICs and extend the interest free moratorium on Fund concessional resources beyond 2011. It might also be necessary for the Fund to provide more counter-cyclical support to LICs. We continue to ask for Governors' support to allocate all windfall profits from the sale of the Fund's gold to augment PRGT resources. Equally important is the need for the IMF to actively support LICs efforts to access international markets and also review the debt sustainability framework in order to accommodate the higher investment needs of most LICs while preserving the soundness of public finances. Furthermore, it is imperative that LICs facing high and unsustainable debt burdens benefit from a comprehensive debt relief process.

Given that the increases in fuel and food prices are becoming permanent features of the global economic landscape, complicating macroeconomic management and raising cost of living, we urge the IMF and other multilateral institutions to continue to advocate, on behalf of LICs, for quick delivery of the G20 pledges under the Global Agriculture and Food Security Program and the immediate implementation of their recommendations to minimize food price volatility. We see merit in the elimination of developed countries' trade protections and restrictions, which are major impediments to developing agricultural value added in LICs as well as the urgent conclusion of the Doha round of trade talks.

C. Surveillance

We welcome efforts to continue modernizing Fund surveillance in the post global financial crisis period. We consider that there is scope for strengthening the Fund's multilateral surveillance by highlighting risks to domestic and external stability and advising on the necessary policy adjustments. Since the financial sector was at the epicenter of the recent global economic and financial crisis, it is of utmost importance to bring financial sector issues and policies to the core of the Fund's surveillance framework. Similarly, enhancing multilateral surveillance and outward spillovers could promote stability and improve the traction of Fund surveillance. Accordingly, we believe it would be effective to use outward spillovers as a bridge between multilateral and bilateral surveillance. Nevertheless, even with greater attention on multilateral surveillance and outward spillovers, bilateral surveillance should continue to remain a pillar of the Fund's activities.

We also welcome the improvements to the Fund's surveillance framework, including increased focus on the interlinkages among economies, deeper understanding of macrofinancial linkages and making Financial Sector Assessment Program mandatory for twenty-five members with systemically important financial systems as well as provision of five spillover reports and the consolidated spillover report. Looking ahead, we encourage the Fund to engage in more cross-country analysis to bring out the relevant experiences and lessons at international level. In addition, to enhance financial stability, there is need to increase effectiveness of financial sector surveillance through the strengthening of the analysis of financial sector vulnerabilities and macro-financial linkages. Furthermore, for the LICs, it is important to pay attention to the implications of the underdeveloped financial system on effectiveness of macroeconomic policies. Equally important is the need to bring out financial policy advice more strongly in the Article IV consultation reports.

D. Strengthening the International Monetary System

The International Monetary System (IMS) has contributed to global output growth, enhanced global trade, and deepening financial integration. However, the deficiencies of the IMS were once again evident during the global financial crisis. And these have increasingly been the source of tension that, left unaddressed, could threaten the progress of globalization and the accompanying prosperity. If the IMS is to help global recovery and maintain stable growth going forward, there is need for speedy reform.

In this regard, we urge the Fund to take the necessary steps to strengthen multilateral commitments from all members, create a collaborative framework for orderly cross border capital flows, ensure reliable access to global liquidity in crisis times, and provide a wider range of safe global assets, all of which are mutually reinforcing. It could be recalled that during the recent financial crisis, short term-liquidity provision necessitated a series of one-off liquidity injections by individual central banks. However, this model may not be enough to respond to future crises. Thus, it is worth considering the creation of a multilateral facility where the Fund and central banks work together to provide liquidity to member countries facing financing pressures. We are also open to considering greater international use of other currencies than the four currently in the SDR basket, including those of large dynamic emerging markets. Nevertheless, we believe that the SDR could play a greater role in strengthening the IMS.

E. Quota and governance reforms

Last year, the Fund membership agreed to historic reforms that increased the representation of emerging market economies to better reflect their economic weight in the world, while the voice of some poorer countries was protected. These reforms, it is hoped, would contribute towards improving the legitimacy and credibility of the Fund and, therefore, allow it to play a greater role in promoting and sustaining global growth and economic stability. We, in this regard, invite all members to quickly consent to the respective quota share increases to enable the increased quotas to become effective by December 31, 2011.

We welcome the agreement for the immediate start of the comprehensive review of the current quota formula and its completion by January 2013. The critical weaknesses in the quota formula were well acknowledged by all Governors in their 2008 Reforms, and further observed during the 14th general review of quotas. In this regard, we welcome the Executive Board's re-engagement on quota review discussions, and in particular the review of the quota formula. Accordingly, we encourage the Board to persevere with this exercise in the course of the next two years in line with the agreed timeline for the 15th general review of quotas by January 2014 which we hope, will make a bold attempt to restore legitimacy of the Fund amongst all its members. In this respect, it is important that the quota formula review begin with a frank and thorough discussion and agreement on objectives and guiding principles for quota reform. Furthermore, a more systemic review of the goals that the quota formula should achieve and the variables that would best capture those goals is warranted. These goals must be based on two essential principles namely, fair representation, and the mandate and role of the Fund.

We welcome the membership's commitment to maintain the Executive Board size at 24 and an agreement on an all-elected Board. To that end, we urge the membership to swiftly ratify the proposed amendment to the Articles of Agreement for all Executive Directors to be elected.

The decision by the Advanced European countries to reduce their combined Board representation by two chairs in favor of a greater voice and representation of the emerging markets and developing countries is a commendable development. We urge all the membership to support an increase in the number of developing country Executive Directors to achieve the objective of improving the voice and representation of these countries.

It is in this spirit that we continue to pursue a third Chair for Sub-Saharan Africa at the Fund. As we have stated in the past, our request seeks to address more effectively the representation deficit of our region and, therefore, the workload of the current two chairs. We seek support from all members that one of the chairs to be released by the Advanced European countries be allocated to Sub-Saharan Africa.