International Monetary and Financial Committee

Seventeenth Meeting
April 12, 2008

Statement by Mr. Tito Mboweni
Governor, South African Reserve Bank

On behalf of 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 African Reserve Bank, South Africa

Representing Africa Group 1 Constituency comprising of 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

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Saturday, April 12, 2008
Washington, D.C

A. THE GLOBAL ECONOMY AND FINANCIAL MARKETS - OUTLOOK, RISKS, AND POLICY RESPONSES

1. We are concerned to note that global economic expansion is being dented by the financial crisis that originated from the US subprime mortgage market, but has now spread far beyond the subprime. Regrettably, global growth is now projected to decline to 3.7 percent in 2008 from 4.9 percent in 2007, with the impact of the deteriorating economic conditions being greatest on the advanced economies, where growth is slowing sharply going into 2008. The emerging market and developing economies, however, have so far been less affected by the financial turbulence and have continued to grow at a rapid pace, led by China and India, though their trade and industrial production are beginning to moderate. The projections, however, show growth in emerging and developing economies beginning to decelerate, although their overall growth would remain strong. We are concerned about the immediate risks and challenges facing the global economy going forward, including negative unfolding events in the financial market, and inflationary pressures. We urge policy makers to take measured policy actions to address these and other related problems. Moreover, they should be ready to respond judiciously to a more pronounced global downturn.

2. On the regional economic outlook, we welcome the continued strong growth performance and relatively favorable economic outlook for Sub-Saharan Africa (SSA). We note that although growth in SSA is expected to slow down slightly to 6.6 percent in 2008, relative to 6.8 in 2007, it is expected to rise to the 2007 level in 2009. The strong growth and favorable outlook have been underpinned by improved macroeconomic policies, implementation of structural reforms and favorable commodity prices, as well as a supportive external environment. Enhanced earnings by commodities' exporters in SSA have also facilitated increased investments and growth. We, however, are aware that a sustained average annual growth rate of 7 percent or higher is broadly considered necessary to help SSA reduce poverty significantly and achieve the MDGs. The challenges we face in meeting such desirable growth target include: low savings and investment, erosion of trade preferences, high food and fuel-price induced inflationary pressure, unpredictable aid flows, balance of trade shocks for net oil-importing countries, droughts, conflicts in some countries and HIV/AIDS. We

are also concerned that on-going decline in global growth would lead to reduced demand for and revenues from our commodities, further weakening economic conditions, and that the structural increase in food prices and subsequent impact on food security of low- and middle-income households could undermine poverty reduction strategies in the region. We believe that continuous implementation of sound policies by SSA countries, and strong support from the international community and the Fund are critical for sustainable growth for poverty reduction.

3. High food prices present African countries with particular challenges, especially in the context of a distorted agricultural market. We are concerned that our consumers will bear the brunt of price increases, whilst African producers remain locked out of key agricultural markets. In addition to deleterious effects on social cohesion, high food prices in a slowing global economy would pose serious policy challenges including macroeconomic ones for SSA.

Financial Market Conditions

4. We agree with the latest Global Financial Stability Report that the world financial system has increasingly endured a difficult time since the publication of the October 2007 edition. Overall, financial risks have risen and markets are continuing to experience bouts of turbulence. We observe that the crisis, which originated in a small segment of the U.S mortgage market, has spread to broader cross-border credit and financial markets through both the subprime and credit crunch in banking and financial markets.

5. We also note that systemic concerns have increased, and uncertainty about where the risks lie has undermined trust among market participants, causing a severe liquidity squeeze. The systemic concerns are exacerbated by a deterioration of credit quality, a decline in valuations of structured credit products, and a lack of market liquidity accompanying a broad deleveraging in the financial system.

6. We are somewhat relieved that the contagion to emerging markets seems minimal and likely to be contained, as their market risks remain low relative to historical experience, with many countries benefiting from improved macroeconomic fundamentals and strong external balances. We consider it likely that the impact to the emerging markets could be through the weakening of credit and market discipline in global markets, as some of the countries have enjoyed easy borrowing access to international markets for domestic lending.

7. The immediate priorities for policy makers should be to mitigate risks to the global financial system, reduce systemic spillovers, minimize uncertainty and restore confidence. We also encourage the Fund to continue work on developing new applications for stress tests and other risk-assessment models to help identify and address vulnerabilities in a multilateral context.

Risks to the Outlook

8. We note that the current edition of the World Economic Outlook (WEO) projects global growth to be significantly lower than the level projected in October 2007, while the overall balance of risks to the global growth outlook remains tilted to the downside. At the same time, the underlying fundamentals supporting growth remain strong in most emerging market and developing economies, while downside risks, emanating largely from the financial market turbulence, are expected to have modest adverse effects. We agree that even though the recent repricing of risk and increased discipline in credit markets could strengthen the foundations for future expansion, they pose near-term risks to growth. We are concerned that a sharper-than-expected slowdown in advanced economies that reduces the demand for SSA's principal exports, and the related prospect of weaker commodity prices would be key sources of risk for the sub-region's commodity exporters. Inflationary pressures, mainly from high oil and food prices, are also a serious risk. We urge policymakers to continue to remain vigilant in their strong efforts to deal with financial market turmoil in order to avoid a full-blown crisis of confidence or severe credit crunch that disrupts economic activities globally. We underscore that only timely policy responses would prevent an extended period of tighter credit conditions that could have a significant dampening impact on growth worldwide.

B. IMF REFORMS AND POLICY AGENDA

Quota, Voice Reform and Representation

9. We welcome the progress made in a number of areas of quota and voice reform, and note that in the broad context of the Fund's history, several elements of the package represent significant structural shifts. These include the trebling of basic votes, and the incorporation of PPP as a measure of GDP. We believe that this is an important step in the rebalancing of the relative interests of advanced and developing countries in the Fund.

10. Nevertheless, we remain very concerned that the proposed package of reforms falls short of the provisions of the Singapore Resolution and the constituency expectation of at least retaining members' pre-Singapore quota shares, particularly in light of the fact that African countries comprise over a quarter of the Fund's membership and are a significant part of the Fund's lending, surveillance and Technical Assistance work. The proposed package still has a considerable built-in governance deficit since the two rounds of ad hoc quota increases amounting to 11.5 percent and meeting the quantitative target of the Singapore Resolution, does not allow for a significant shift of quotas from developed to developing economies as was envisaged in Singapore. We trust that this shortfall will be adequately addressed in future quota reviews as a priority.

11. We consider the Board's recommendation for an amendment to the Fund's Articles to enable the Executive Directors elected by 19 or more members to appoint an additional Alternate Executive Director as a necessary tool for alleviating the burden placed on African offices to represent a large number of programme countries. Further steps will be required to place these constituencies on an equitable footing with other elected constituencies in discharging their representation function. We urge the Fund to expedite action on measures necessary for implementation.

12. The closing of this chapter should mark the beginning of a new chapter of governance reform at the Fund. More needs to be done to change the Fund's ownership structure to better reflect the changing global economic landscape.

A Sustainable Model for the Fund's Finances

13. We support efforts to improve the Fund's income position through the implementation of a number of recommendations made by the Committee of Eminent Persons, and considered by the Board as most likely to yield substantial revenue. In this regard, we are encouraged by the new income model and suggested expenditure reform, particularly the US$100 million reduction in annual administrative spending. We welcome the mandate given by the Board to authorise the sale of the Fund's post-Second-Amendment gold and support the expansion of the Fund's investment authority, to maximize the income of the Fund. Though we understand the need for downsizing, we believe that the process should depend on voluntary separation mostly, be undertaken with a "human face," and should preserve the diversity of staff at the Fund.

14. We broadly support the establishment of an endowment from proceeds realized through post Second-Amendment gold sales as well as the investment of a small portion of quota resources of all members, provided members can participate, equitably, in determining the framework for the investment of quota resources. We recognize the value of charging countries for the provision of technical assistance to generate an income for the Fund, but we do not support charging low-income countries for technical assistance.

15. We urge that work on the new income model continue to be guided by three broad principles: i) ensuring continuity with respect to the Fund's existing mandate, core functions, and effective operation; ii) avoiding excessive complexity in the design and operation of the income model; and iii) establishing a framework that is transparent and sufficiently flexible to enable the Fund to respond appropriately to future developments.

16. As the Board has approved the elements of the new income model, we expect that the remaining work will soon be concluded, and what is needed now is for concrete proposals on potential income-generating options to be packaged and presented to Governors for necessary approval and implementation.

Strategic Directions in the Medium-Term Budget

Surveillance

17. We note with interest the Fund's proposal to strengthen the framework for surveillance of the financial sector and capital markets to focus on the sectors' impact on growth, macroeconomy, and the assessment of risks. We consider the proposed improvement of the surveillance framework as a useful step, which should help facilitate the establishment of linkages between the financial and real sectors. We suggest that the issues of adequacy of prudential guidelines, risk-based supervision, risk management practices and outreach be emphasized and given additional attention in LICs to help enhance the soundness of these sectors. We support efforts to strengthen surveillance with a view to enhancing assessments of exchange rates, including the strengthening of existing Consultative Group on Exchange Rate (CGER) techniques. Further deepening of analysis of the methodology for assessing the exchange rate policies of low-income countries and exporters of non-renewable resources would be a step in the right direction. Finally, we consider that bilateral surveillance, which is at the core of the Fund's work, should be underpinned by enhanced analysis and a reduction in the associated volume of reports.

Crisis Prevention

18. We are encouraged that, in accordance with the strategy outlined by the IMFC, the Fund is playing its role in bringing together systemic countries in a forum aimed at strengthening mutual understanding of the issues relating to global imbalances to enable participating countries to indicate and commit themselves to specific policies, which would make a significant contribution toward sustaining robust global growth, while reducing global imbalances and preventing crisis. We recall that the first multilateral consultation, which included, China, the Euro Area, Japan, Saudi Arabia, and the United States took place in 2007 for the purpose of committing to policies helpful in dealing with broad problems, such as global imbalances. We are of the view that implementation of the policy commitments by these countries would be useful in helping address some global economic problems, including financial crisis and global imbalances.

19. We agree with the Managing Director's report (to the IMFC) that financial globalization has increased the need for global perspectives in accessing vulnerabilities and that monitoring risks at country, regional and global levels needs to be intensified. In this regard, we encourage the Fund to implement its expressed plan to extend vulnerability assessments to advanced countries soon, and to collaborate more with national institutions to have regulatory and supervisory structures strengthened to keep pace with financial innovations.

The Role of the Fund in Low-Income Member Countries (LICs)

Promoting Growth for Poverty Reduction and Meeting MDGs

20. We are encouraged that growth in SSA is robust relative to the global growth, which is declining. We know however, that to lift SSA out of poverty and achieve the MDGs, we would require a sustained average annual growth rate of over 7.0 percent. This could only be brought about through deliberate efforts to expand the sources of growth, including diversification of our economies and overcoming other challenges to meeting the desired growth targets. Such challenges include: low savings and investment, erosion of trade preferences, oil price-induced shocks for net oil-importing countries, drought, unpredictable aid flows, HIV/AIDS, and possible continuous global economic slowdown. We consider that persistent implementation of sound policies in SSA countries and strong support of the international community and the Fund are critical in overcoming the constraints to sustainable growth for poverty reduction and meeting the MDGs.

Redefining and Modernizing the Role of the Fund in LICs

21. We understand the need, and consider it crucial for the Fund to redefine its role in LICs, especially in the context of Bank –Fund collaboration. In our view, this should enhance the opportunity for each institution to deliver improved services in its areas of expertise, while minimizing over-lapping activities and conflicting advice. It should not imply a retreat from the traditional areas of Fund's support to LICs. In addition to the traditional modalities of the Fund's engagement with LICs (Article IV, PRGF, HIPC, PSI, etc.), we stress that the issues of improved program design, aid for trade, enhanced fiscal space, non-Paris club debt relief, financial sector development, and growth need to be given adequate attention by the Fund. We emphasize that, now that the PSI has become a useful Fund Instrument, its review to correct some inadequacies identified in the course of its implementation, needs to be undertaken in 2008 as envisaged.

Capacity Building: Provision of Technical Assistance, Advice and Financing

22. Our countries consider the provision of technical assistance (TA) as one of the key functions of the Fund. We therefore encourage the Fund to continue to provide TA in its core areas of expertise to enhance the development of effective capacity critical for articulating sound policies for improved economic management, growth and poverty reduction. We also encourage the Fund to ensure that its capacity building activities are continuously aligned with the needs of member countries, while its TA should underscore the importance of country ownership and appropriate coordination with other providers. We emphasize that even in the context of graduated charging for TA that is being contemplated but not yet agreed to, TA and training should continue to be provided to LIC's as a public good. We welcome planned initiatives by the Bank and the Fund to build capacity for public debt and fiscal risk management in LICs and put

in place a technical cooperation arrangement in middle-income countries to improve debt management systems in the context of asset-liability management framework. We urge that the plan be translated into concrete projects soon and concluded in a timely manner. We consider that the Fund's policy advice has been of immense value to LICs which have often implemented such advice to the letter, while its financing has helped minimize funding-related vulnerabilities of Fund-Supported programs. We urge the Fund to continue to sustain its support in these areas.

Debt Relief and Debt Sustainability

23. On debt relief and debt sustainability, we note with encouragement that 22 countries have reached the HIPC Initiative completion point, and received debt relief from the Fund under the Multilateral Debt Relief Initiative (MDRI). We commend the Fund for its recent role in facilitating bilateral contributions to finance the cost of the Fund's debt relief for Liberia, which has been successfully completed recently. We note that this relief would allow Liberia to start moving to HIPC decision point and qualify for HIPC and MDRI debt relief. While the Fund's role is commendable in this regard, we urge that the institution sustains its efforts in encouraging non-Paris Club and official bilateral and commercial creditors to increase their delivery of debt relief. We also encourage the Fund to actively engage with other arrears cases, including Sudan and Somali with a view to bringing about speedy resolutions. We welcome the Fund's focus on having LICs intensify the use of Debt Sustainability Framework (DSF) as a guideline for information sharing between creditors and debtors to assist LICs avoid contracting new non concessional loans. We are however, of the view that as concessional lending may not always be available to LICs having need for it, flexibility in exceptional circumstances may be needed to allow LICs access to non-concessional loans for viable projects that could pay for themselves, while ensuring that debt sustainability is not jeopardized.

Doha Round and Aid for Trade

24. We consider the slow and uneven progress of the Doha Round negotiations since its resumption in late 2006 as disappointing. In this regard, we continue to call for an early and substantial conclusion of the Round. It is our view that progress, at the desired pace, will not be made without courageous and purposeful leadership from advanced economies. Advanced economies must shun protectionism and cut significantly agricultural subsidies and tariffs, while all countries should reduce non-agricultural tariffs and be committed to a successful Doha outcome in the global interests. In addition, aid for trade facilitation needs to be sustained. We also stress that multilateral trade reforms, facilitating a better functioning of the international trading system, would be helpful in securing market access for developing countries' exports. Strong growth momentum in LICs would eventually reflect positively on the weakening global economy. We in SSA therefore, expect the Fund to play an effective catalytic role in bringing about prompt and successful conclusion of the Doha Round. In a similar vein, we suggest that assistance in implementation of trade-related reforms and strengthening

of LICs' competitiveness needs stepping up under the Enhanced Integrated Framework (EIF), while donors should redeem pledges made for increased aid for trade in line with the Paris principle on aid effectiveness. We urge that the Fund continue to make its TA available in support of trade facilitation.