International Monetary and Financial Committee

Twenty-Third Meeting
April 16, 2011

Statement by Teklewold Atnafu
Governor, National Bank of Ethiopia

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 and Zimbabwe

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A. Global economic and financial developments

We are encouraged that the global economic recovery is gaining strength, although economies are recovering at different speeds, owing to regained private consumption in advanced economies, reduced excess capacity in emerging and developing economies, improved market confidence, and strengthened financial conditions.

Notwithstanding these achievements, we call on the international community to steadfastly maintain cooperation in policy response, and to resolutely address the following emerging challenges. We urge the advanced economies to tackle the problem of high unemployment within the framework of appropriate fiscal consolidation efforts and sustained growth in domestic demand. Likewise the emerging and developing economies should tackle youth unemployment which has been associated with social unrest. Further we call on the advanced economies to enhance policy coordination in managing and reducing high sovereign and banking risks that continue to undermine achievement of sustainable financial stability. On the challenges of global rebalancing, we urge the Fund to take a proactive role in advancing dialogue on the appropriate and coordinated policy measures in this respect with the view of creating conditions for a sustained global growth.

B. Economic and financial developments in sub-Saharan Africa

Following the brief interruption of Sub-Saharan Africa's (SSA) economic expansion of the last decade by the global economic and financial crisis, output growth in most of the region's economies has recovered to pre-crisis levels. This is largely due to strong pre-crisis macroeconomic policy buffers which enabled countries to pursue countercyclical policies, aided by positive terms of trade and robust domestic demand growth. However, growth prospects within the region differ considerably. Output growth in the region's low income countries as of this year has reverted to the average growth rates that prevailed during the first eight years of the new millennium while economic recovery in the oil exporting countries will be entrenched by the current strengthening of global oil prices. However, recovery in the region's middle income countries remain subdued with output gaps not likely to narrow in the near-term. In spite of the promising growth outlook, the combined effects of the 2008 food and energy price hikes and the subsequent global recession, have degraded the region's progress towards closing its huge infrastructure gap and meeting the MDGs.

The outlook is blurred by near-term challenges that could potentially threaten the impressive growth prospects for the region. A potential turn for the worse in Europe, in particular, could adversely impact economic activity in many countries of the region as Europe still remains their main trading partner. Furthermore, a prolonged and larger-than-anticipated increase in food and energy prices could have adverse implications for the oil-importing countries with major social and fiscal costs. Thus, though the growth outlook for the region is promising, we consider that SSA countries should implement appropriate fiscal and monetary policies to address the near-term challenges that threaten the region's good economic performance.

C. Global challenges, Global Solution: The Role of the IMF

The global financial and economic crises challenged our practice of macroeconomic policy, shared benefits of globalization, relevance of policy coordination in enhancing macroeconomic stability and supporting growth, and the link between the macro economy and the financial sector. Although we have taken key steps to reverse the crises and support the recovery, the recent trends suggest that sustained effort in these areas by all countries and key institutions is needed to ensure sustained growth momentum going forward. We see IMF playing a key role in supporting the growth processes through its strengthened financing and policy advice.

To that end, we share the view that jobless growth in all economies is not self-sustaining as growing fiscal risks and social unrest threatens macroeconomic stability. The persistently high unemployment in advanced economies is complicating fiscal consolidation, thus delaying the recovery and compounding fiscal weakness. In developing economies, youth unemployment together with existing infrastructure gaps and the yet to recover external trade continue to constrain growth rates well below potential. We, in this regard, urge the Fund to proactively provide leadership, in collaboration with other institutions, in promoting inclusive growth through, inter alia, policy advice and appropriate financing.

We are aware that global rebalancing is critical in sustaining the global growth momentum and in light of this global commitment to macroeconomic policy coordination is required. As economies begin to gradually recover, unified commitment to policy coordination that featured prominently during the crises is withering and giving rise to tensions that seems to center around global imbalances and response to capital flows. In this regard, we welcome the new Euro zone economic governance framework – "Pact for the Euro"- as it enhances policy coordination. We also appreciate the efforts made so far by the IMF especially in advising on the management of capital flows and hope that it can provide a good platform for enhancing cooperation.

Although sub-Saharan Africa had limited integration with the global financial system and therefore insignificant spillovers, this is changing rapidly. We, in this regard, want to draw attention to the importance of focusing on financial sector developments in sub-Saharan Africa. There is growing South-South banking FDI, cross-listings of firms in stock markets, mobilization of funds from the bond markets by banks, government appetite for sovereign bonds with increasing demand to finance infrastructure projects from the market and the spreading of universal banks. Furthermore, "too important to fail institutions" are emerging. These provide opportunities for strengthening interconnectedness in the financial sector and without strong regulatory institutions financial stability may be compromised. In this regard, we are encouraged by the IMF's recent Vulnerability Exercise for Low Income Countries (VE-LICs), and urge that additional support measures be structured along the lines of the findings of these vulnerability assessments.

D. The role of the Fund in the Low Income Countries (LICs)

On broader context, the IMF should continue to focus on its core areas of expertise as well as be more responsive to the financing needs of LICs. Accordingly, as LICs endeavor to improve their economic management, and take advantage of the opportunities for global trade and financial flows, the IMF must stand ready to support these efforts through its policy support and financing instruments. We, in this regard, consider the rapid response of the IMF in overhauling its concessional lending facilities for LICs that created a new architecture of flexible and tailored facilities as an important milestone towards achieving this goal.

It is in this spirit, and in light of the changing global challenges and solutions noted above, that we strongly urge the Fund to sharpen its role in LICs well beyond its pre-crisis interventions by further adapting its toolkit to the new financing needs. To that end, we call for the scaling up of resources in Fund lending arrangements with LICs, enhancement of the access levels, and the extension of an interest free moratorium for another three years. Furthermore, it is imperative that low income countries facing high and unsustainable debt burdens benefit from a comprehensive debt relief process. We also ask for the support of Governors on the use of the bulk of the windfall profits from the sale of IMF gold to enhance the PRGT resources. Equally important is the work required to enhance and deepen the financial systems in LICs. This is essential for the proper functioning of monetary policy, development of financial markets, and the promotion of growth and poverty alleviation. The Fund's enhanced technical assistance (TA) in these critical areas would be valuable.

Additionally, the Fund's collaboration with donors is critical, particularly in dealing with the needed financial support to LICs for achieving the MDGs. In this regard, the issue of volatility of aid, tightening of disbursement standards and attendant delays, non-uniformity of disbursement procedures, and a layer of conditionalities, all of which can undermine the success of a financial program in LICs need to be re-examined, going forward. In light of this, the Fund should continue to play a catalytic role and proactively address these deficits. Furthermore, a special committee that was set up to study the impact of the 2008 fuel and food price increases on LICs should be revived and strengthened, given that fuel and food price hikes are once again in record territories and are becoming permanent fixtures on the global economic landscape. Finally, we welcome the improvement in the provision of TA by making it more collaborative and more regional through the strengthening of the AFRITACs. We urge that the decision to eliminate charges for TA should be a permanent feature.

E. Quota and governance reforms

Quota reform

We welcome the December 2010 agreement by all members to double the Fund's total quota shares. This maintains the quota-based nature of the Fund, and ensures its ability to serve its membership in times of crisis. We, in this regard, invite all members to quickly consent to the respective quota share increases to enable the increase in quotas to become effective within the prescribed timeline—by December 31, 2011.

We also welcome the agreement on a major realignment of quota shares among members that will result in a shift of more than 6 percent of quota shares to dynamic emerging market and developing countries (EMDCs) and more than 6 percent from over-represented to under-represented countries. This notwithstanding, we are disappointed by the smaller shift from the advanced economies to dynamic EMDCs of about 2.4 percent, leaving a disproportionate burden of the realignment of over 3.6 percent to be borne by other EMDCs including 19 members that are PRGT-eligible. As a result, the affected countries have become diminished partners. We, therefore, urge all members to pursue a more balanced realignment at the forthcoming 15th general review of quotas.

Quota formula—we welcome the agreement for the immediate start of the comprehensive review of the current quota formula and for completing this review by January 2013. The critical weaknesses in the quota formula was well acknowledged by all Governors in their 2008 Resolution 63-2 and further observed during the 14th general review of quotas. We therefore underscore the need for an early start in the review of the quota formula, and for the IMFC to be kept abreast of the progress and the need for Ministerial guidance starting with the 2011 Annual Meetings

Governance reform

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.

3rd Chair for SSA—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 developing countries is a commendable development. We urge all 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 for SSA.

We wish to further recall SSA's pursuit for a collective and coordinated representation at the BWIs. As stated in the past, the decision by the Board of Governors at the World Bank presents an opportunity for the region to enhance its representation, but also poses challenges in the event parity in the representation at the BWIs is not maintained. While we acknowledge the different mandates of the BWIs, we cannot deny the historical parallelism that has been maintained over the years, including many elements with respect to representation. We, therefore, continue to call on the support of Governors for our pursuit for a third chair.

Outstanding governance reforms

IMFC reform process—while we fully reaffirm our support for strengthening the IMFC as a vehicle for enhancing Ministerial engagement, we remain unconvinced that we are close to seeing the IMFC as the vehicle for IMF governors' involvement in the strategic oversight of the IMF. While we were encouraged by the earlier decisions to adjust the IMFC meetings and deliberations to meet this objective, we reiterate our concerns over the holding of the IMFC and DC meetings on the same day and over the narrow scope of the IMFC agenda setting. We urge that a forum for effective Ministerial engagement building on the current informal restricted sessions be strengthened. We share the view that the IMFC communiqué should reflect the discussions and conclusions of the members. We see these as reforms that will enhance the role and engagement of Ministers in providing strategic guidance to the Fund.

Selection of Fund management—reaffirming our strong support for the proposals for a transparent, non-region-specific process for selecting the Fund's management, we call for progress on this front in view of the approaching election cycle.