



# **International Monetary and Financial Committee**

Twenty-Fifth Meeting  
April 21, 2012

**Statement by Honorable Pravin J. Gordhan  
Minister of Finance, 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, Zimbabwe

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**Global economy**

Although the threat of global slowdown seems to have been averted due to better policies in the Euro area and improved activity in the United States, we remain concerned about the fragility and weakness in the global economy. With downside risks remaining elevated, job creation, and maintaining fiscal and financial stability, remain a daunting challenge. The Euro area remains at the epicenter of the current global financial crisis with potentially widely spread spillover effects through trade and financial channels. We acknowledge recent policy steps, including the announcement to increase the firewalls, as steps in the right direction, but more needs to be done. Additionally, we urge the US and Japan to also formulate and put in place credible medium-term debt consolidation plans.

Sub-Saharan Africa has thus far sustained solid growth with relative insulation from financial spillovers emanating from the Euro area. However, any escalation in the Euro area crisis would have negative repercussions on the region. High oil and food prices pose unprecedented inflationary pressures, and these may exert additional pressure on the region's external and fiscal balances. Moreover, the slowdown in emerging market economies, which have become important markets for exports from the SSA region, is a cause for concern. The most important challenge facing SSA and other low and middle income countries is how to rebuild policy buffers and implement fiscal consolidation, in a manner that retains protection of social spending, infrastructure investment, and economic growth.

We urge the policymakers in the emerging and developing economies to respond to the moderating domestic demand and slowing external demand from advanced economies while at the same time managing volatile capital flows. They should also rein in overheating tendencies and renewed risks to inflation and fiscal positions from energy prices. To do so, economies with no inflationary pressures and low public debt can deploy discretionary fiscal stimulus, those with no inflationary pressures but with weaker fiscal fundamentals can ease monetary policy but control lending to overheating sectors through macro-prudential measures and those with inflation and high public debt need to avoid further stimulus and continue to rebuild fiscal space, remove monetary accommodation and strengthen prudential policies and frameworks.

## **Fund's Role in Low Income Countries**

Low income countries (LICs) continue to face challenges which are threatening the impressive growth recorded in recent years. The continuous volatile global food and fuel prices, turmoil in global financial markets, and the weaknesses in advanced economies, particularly in the euro area have heightened downside risks. Consequently, the progress in rebuilding macroeconomic buffers has been slow due partly to measures adopted to mitigate the social impact of exogenous shocks. Most LICs are now in a weaker position to deal with exogenous shocks given the more limited fiscal buffers and the constrained aid envelopes.

The implication of the foregoing is that a large number of LICs would need additional concessional financing from the international community to protect vital spending, safeguard debt sustainability and sustain external stability. In this regard, we welcome the decision of the Executive Board to distribute SDR 700 million (about US\$1.1 billion) in reserves attributed to a portion of the windfall profits from recent IMF gold sales to support concessional lending to LICs. We also encourage the Fund members to voluntarily return the amounts distributed to the PRGT subsidy account. We further urge that the remaining SDR 1.75 billion (about US\$2.7 billion) in windfall gold profits should also be used to bolster the Fund's concessional resources.

We are, however, concerned about the recently approved modifications to the joint IMF-World Bank debt sustainability framework (DSF) for low income countries which introduced conservative thresholds that would unduly constrain borrowing decisions in some LICs. While there may be merit for including total public debt in debt sustainability analysis (DSA), we remain skeptical about the plan to introduce benchmarks for total public debt in the absence of a strong analytical foundation for designing such benchmarks. It would have been more prudent to use total public debt indicators as a basis for policy discussion with country authorities while also giving prominence to country specific information in DSA.

We continue to support Fund Technical Assistance (TA) as it enhances capacity building in LICs. In this regard, we consider the recent efforts to further enhance effectiveness of the Fund's TA and make it more responsive to the evolving needs of members as outlined in the recently reviewed Fund TA Strategy as quite appropriate. We see significant merit in prioritizing TA delivery through the continuous development of country and regional strategy notes in cooperation with recipient authorities, while moving to multi-year planning. Equally important is the need for better synergies between TA and training to ensure they reflect the priorities, facilitate fund-raising, and benefit from economies of scale.

## **Quota and governance reforms**

The legitimacy and increased effectiveness of the IMF need to be addressed by generally acceptable and equitable measures to tackle obvious democratic deficits in the institution. To that end, increased voice and representation of emerging and developing countries in the Fund's decision-making structures need to be accomplished in reality through a significant realignment of quotas, beyond what has been achieved in the 2008 and 2010 reform packages. Since the 1978 Review, the quota share of SSA has progressively declined with

each subsequent round of IMF quota review. The IMF has commenced a review of the quota formula which is expected to be completed by January 2013. Indications based on initial discussions are that once again SSA is destined to lose more quota share. SSA cannot be counted upon to continue to support reforms that seek to legitimize the IMF, while simultaneously undermining representation of a large number of countries. SSA will support a formula that does not reduce its quota share any further.

### **Third Chair for Sub-Saharan Africa**

With the continuously declining quota share for SSA, and added to that limited representation at the IMF Board, we wish to renew our long-lasting call for enhanced representation at the IMF Executive Board through a third chair for SSA. The reality that there are only two Chairs, representing more than 45 African countries at the IMF Board cannot have a positive impact on IMF legitimacy. We call on Europe to use the forthcoming reconfiguration to make one Chair available for SSA, as the membership reconfigures for the 2012 regular election of Executive Directors.

### **Surveillance**

We appreciate the new initiatives that the Fund is taking to increase the value of its advice including modernizing the legal framework for surveillance, preparing an External Stability Report, designing a strategic plan for financial sector surveillance. We wish to recall that during the September 2011 Annual Meetings, the IMFC emphasized the need to have an integrated, evenhanded and effective surveillance framework to better capture the risks to economic and financial stability. We are aware that to focus surveillance on integration of country level stability, regional or group-wide stability, and global economic and financial stability, the Fund requires a legal mandate. In this regard, we support the on-going efforts to modernize the current legal framework for surveillance.

In addition, the on-going work to deepen the understanding of global interconnectedness is critical in integrating into the bilateral and multilateral surveillance. We look forward to a global mapping of networks across the IMF membership. We also welcome the proposed efforts to strengthen risk assessment with more attention given to analysis of risks to better identify vulnerabilities and transmission channels. Further, we welcome the proposed External Stability Report, a new flagship in multilateral surveillance. With its focus on enhancing the coverage, consistency and transparency of external stability assessment, we see merit in it providing a broader view to enhance the debate on global imbalances, currencies and policies.

### **Strengthening the International Monetary System**

We fully recognize that the international monetary system (IMS) has helped to engender strong global growth and the international exchange of goods and capital, which resulted in a phenomenal development in interdependence among the economies of the world. This progress in globalization and the associated prosperity makes the existence of a vibrant and sound global monetary system ever more important. This notwithstanding, the system has

over the years exhibited signs of instability, ranging from frequent crises, volatile capital flows, relentless current account imbalances and exchange rate misalignments as well as unparalleled large accumulation of reserves. We recall that these deficiencies in the IMS brought a renewed international drive for reforms in order to durably fortify the system and make it less prone to crisis.

In this respect, we call on staff, management, and the Executive Board of the IMF to persevere in their efforts to shape a safer IMS. Specifically, we urge them to intensify their efforts to strengthen the architecture for global policy collaboration, monitoring and management of capital flows. We further urge them to enhance global financial safety nets by way of financial deepening and reserve asset diversification. We are confident that the restructuring of the IMS along these lines would minimize policy discretion for individual countries, while enhancing the stability of the system.

Global policy coordination is in principle an essential pillar of the IMS. In this regard, we urge that the G-20 mutual assessment process be preserved and consolidated, going forward. It is equally important that the Fund continues with the strands of work aimed at developing a more coherent view on capital flows and policies that affect them. Accordingly, we encourage Fund staff, management, and the Executive Board to agree on a comprehensive, balanced, flexible and transparent Fund view or advice that might enable knowledge sharing among countries, on capital flow liberalization and management.