International Monetary and Financial Committee

Twenty-Sixth Meeting
October 13, 2012

Statement by 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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Minister of Finance for South Africa

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Global Economy

1. The global economy is facing unprecedented challenges including high unemployment, especially amongst the youth, lower growth and increasing inequality. Current policy actions in advanced economies have failed to reestablish confidence to boost the global recovery. Under these circumstances, different approaches may be necessary and the IMF should take a leadership role in redefining these approaches.

2. Despite a series of policy measures undertaken recently, Europe remains at the center of the on-going crisis. The uncertainty regarding the fiscal cliff and the debt ceiling in the United States is exacerbating this situation. Despite the spillovers from advanced economies, emerging and developing economies which have established themselves as new engines of global growth are beginning to show signs of slowing down. Low income countries (LICs), particularly those in Africa, which have shown resilience to the crises are also being affected mainly through trade, remittances and aid flow channels.

3. We should all be committed in our resolve to avoid a worst case scenario where strains in the euro area deepen, fiscal cliff and the debt ceiling problems in the US are not resolved, and growth in emerging market economies continues to decline. Policy makers in advanced countries need to speed up implementation of agreed policies and reforms.

4. The recently announced quantitative easing by the US Federal Reserve and the European Central Bank's Outright Monetary Transactions may have positive short-term impact, however, they are not sufficient to prevent the global economy from heading into a recession. Fiscal policy and other structural reforms, including the completion of the financial regulation agenda, are necessary. Fiscal consolidation must be balanced with the need to stimulate global economic growth and the IMF must take a lead in its policy advice to help countries reevaluate and recalibrate these competing objectives.

Quota Formula Review and Governance Reforms

5. As part of the quota and governance reform process of the IMF, the quota formula review represents an important litmus test not only for the cooperative nature of the IMF, but more specifically for its legitimacy, credibility and effectiveness.

6. We cautiously support the ongoing work on the review of the quota formula to be concluded by January 2013. However, we are concerned that preliminary indications from simulations performed by the IMF are that the vast majority of emerging and developing countries will lose quota shares - an outcome that will perpetuate the democratic deficit at the IMF Board.

7. We have witnessed during the 2010 Quota Review, that the gain in quota by dynamic emerging economies came at the expense of other emerging and developing economies. Further, while we appreciate the protection given to individual poor countries, we note that their overall constituency voting power at the IMF Board has in fact declined. We believe that protection of quota must be given to all developing and poor countries. In the future we will be cautious in supporting reforms that generate a perpetual reduction in the voice and representation for our constituency.

Third Chair for Sub-Saharan Africa

8. We were profoundly disappointed by the recent reconfigurations of the European constituencies which constituted a realignment of chairs within Europe. We reiterate our view that critical to addressing the crisis of legitimacy, credibility and effectiveness of the IMF, is an increase in the voice of the most underrepresented region. The reality that there are only two chairs, representing more than 45 African countries at the IMF Board is simply untenable. In parallel to the decision we reached at the World Bank, we reiterate our earlier call for a third chair for Sub-Saharan Africa including through an expansion of the IMF Board.

Review of Facilities for Low-Income Countries

9. The 2009 reform of the facilities for LICs were largely successful. The diversification of instruments and increased flexibility in program design and conditionality, supported by the medium-term financing package to boost the PRGT's lending capacity, have enabled the Fund to respond more adequately to member needs, and helped them navigate the global financial crisis. Additionally, the exceptional zero interest rate policy has provided a welcome breathing space in this unfavorable global environment. Fund financing has been instrumental in supporting LICs in their efforts to improve growth, reduce poverty and re-build macroeconomic buffers, while short-term financing during the recent crisis helped preserve vital spending and facilitated rapid recovery.

10. However, challenges still remain. There is a need to create a sustainable concessional financing framework—including by securing additional resources to address the large prospective drop in the PRGT's lending capacity after 2014—with a view to preserving the Fund's ability to provide effective policy and financing support to LICs. In this regard, we welcome the decision on the use of the remaining windfall profits from gold sales to replenish the PRGT's subsidy resources. At the same time, we would encourage the Fund to continue the ongoing efforts to raise additional resources for the PRGT and accelerate access to, and implementation of HIPC and MDRI initiatives in the remaining eligible countries, as well as explore options for debt relief in favor of non-HIPC countries in debt distress.

11. There is also a challenge of improving the efficiency in the utilization of the IMF's scarce concessional resources by better tailoring access and financing terms to countries' individual needs and capacities. In this regard, we would not support any proposal to reduce access limits and tighten eligibility citeria when the 14th General Review of Quotas comes into effect. Similarly, the use of interest rate surcharges should be discouraged. We look forward to subsequent discussion on these issues.

Diversity Annual Report

12. The *2011 Diversity Annual Report* of the IMF released in June this year indicates that the Fund's diversity agenda has advanced in a number of areas during the review period. We welcome the MD's renewed efforts to integrate the diversity agenda into the Fund's HR policies. We urge the Fund to step up efforts to meet the diversity targets, not only focusing on demographic mix, but also on geographic and skills mix. In doing so, care must be taken to create a conducive working environment for all staff.