International Monetary and Financial Committee

Seventeenth Meeting
April 12, 2008

Statement by Mohammed Laksaci

Governor, Banque d'Algérie
On behalf of Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, Tunisia

Statement by the Hon. Mohammed Laksaci
Governor of the Bank of Algeria
to the International Monetary and Financial Committee

Speaking on behalf of Islamic Republic of Afghanistan, Algeria, Ghana, Islamic Republic of Iran, Morocco, Pakistan, and Tunisia

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Since our last meeting, the spreading of the turmoil in global financial markets following the deepening crisis in the US housing market has further dampened global economic prospects. Economic growth in the United States has slowed further and is weakening in other advanced countries, reflecting persistent tightening in credit conditions and slower demand growth. Emerging market and developing economies have so far remained resilient and continue to pull the world economy and to play a stabilizing role. However, downside risks from deeper and more protracted financial crisis and further growth deceleration in advanced countries and their spillover effects have increased. At the same time, inflationary pressures have become more evident in many parts of the world. Addressing these risks calls for decisive actions on the part of the advanced economies to counter the ongoing financial crisis and reinvigorate growth. In particular, continued and coordinated interventions to ease the liquidity squeeze, improved transparency, and strengthened financial regulation and supervision are crucial to restoring confidence and avoiding the risk of a global credit crunch.

In view of its universal nature and core mandate of preserving the stability of the international financial system, the IMF is well-placed and has the responsibility to play a key role in helping address the present crisis and contain its potential spillover effects. Of particular importance are efforts to improve the effectiveness of Fund advice, including by strengthening bilateral, regional, and multilateral surveillance, especially focusing on the major advanced countries, and deepening the analysis of financial market developments and risks and the macro-financial linkages. The emphasis on these important aspects of the IMF work in the context of its medium-term strategic direction is well-placed. Given the heightened global uncertainties and risks, it is equally crucial to step up efforts to establish a new liquidity instrument for market-access countries and those seeking greater integration into the global economy. To be effective, access limits to Fund resources under this instrument should be high, with front-loaded disbursements and reduced charges.

We note with growing concern the recent sharp increase in food and fuel prices, the challenges it poses to policymakers, and its significant impact on the population in middle and low-income countries. We invite the Fund to provide appropriate policy advice to help members face this increase without undermining political and social stability. Where needed, flexibility in program implementation and/or increase in access to Fund resources should be taken into consideration. We look forward to an early review of the Exogenous Shock Facility.

The proposed quota and voice reform package, as recently approved by the Executive Board and submitted to the vote of the Governors of the Fund, includes positive elements which,

taken together, constitute an important first step toward the objective of enhancing legitimacy and effectiveness of the Fund. In this regard, we welcome the proposed tripling of basic votes, even though past erosion of their relative importance in total votes is far from being corrected. We also welcome the use of PPP-GDP in the new quota formula, although we believe that a higher weight for PPP-GDP in the blend would better reflect economic realities and improve the formula. The increase in the voting shares of the most dynamic countries, including several emerging-market economies, and those of low-income countries and other developing countries, which results from the proposed reform package, is in line with the recommendations of the Singapore Resolution as is the proposal for an additional Alternate Executive Director for each of the two Sub-Sahara African constituencies.

However, the package falls well short of meeting the international community's expectations of a significant change in the governance structure of the Bretton Woods institutions, including through a meaningful redistribution of quotas and voting shares from advanced to developing countries. Indeed, it would take more than the proposed modest increase in the voting share of developing countries to achieve this objective. We welcome the recognition of the need to refine the formula, including on the measure of openness and variability, and hope that the Board's work on this refinement could start as soon as possible. We also welcome the call on the Board to recommend further realignments of quotas on the occasion of future quota reviews. Finally, we believe that the IMFC could play a useful role in allaying concerns and disappointment expressed both within and outside the Fund on the outcome of the reform in terms of rebalancing of quotas and voting power between advanced countries and developing countries. This could be achieved by indicating in the IMFC Communiqué that an outcome of future quota realignments should be a further increase in the voting power of emerging market and developing countries as a whole. In the same vein, we reiterate our call for efforts to address the significant under-representation of some regions in the staff and management of the IMF, particularly Africa and the Middle-East.

We take note of the Executive Board's agreement on a new income and expenditure framework to place the Fund on a sound financial footing, focus resources on its core competencies, and help modernize its structure and operations. Building on the recommendations of the Committee of Eminent Persons (CEP), the new income model represents a move away from lending-based income sources to more predictable and sustainable investment-based ones. As called for by the Managing Director, it is crucial that the needed legislative approval be obtained expeditiously to ensure early implementation of key components of the model, namely the expansion of the Fund's investment authority and the sale of part of the Fund gold. This said, inclusion of investment of part of quota resources, a key income source recommended by the CEP, would have strengthened the sustainability of the new income model. We continue to have strong reservations regarding PRGF reimbursements to GRA and the planned decline of and charging for technical assistance in view of its crucial role for developing countries. It would be indeed sending a wrong signal if low-income countries, in particular, were to bear the burden of redressing Fund financial position.