International Monetary and Financial Committee

Nineteenth Meeting
April 25, 2009

**Statement by H.E. Tito Mboweni,
Governor, South African Reserve Bank, 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

Statement by Hon. Tito T. Mboweni
Governor of the South African Reserve Bank, South Africa

Representing Africa Group I Constituency
comprising 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 25, 2009
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A. The global economy and financial markets; Outlook, risks and policy responses

Introduction

1. The world economy is currently – as we are all too aware – in the midst of a deep recession. We have seen substantial declines or contractions in growth rates in many countries, developing and industrialised, and world trade has declined dramatically. The crisis threatens to undermine the hard won gains of macro-economic stability and growth across the developing world - particularly in Africa - and could subvert our progress towards the achievement of the Millennium Development Goals. If decisive global action does not succeed, the economic crisis could generate adverse social consequences, resulting in political and ultimately security crises.

Global Policy Responses

2. So far, wide-ranging and often unorthodox policy responses have made some progress in stabilising financial markets and containing the downturn in output. Global efforts have not yet arrested the corrosive feedback loops between weakening activity and intense financial weaknesses.

3. We are encouraged to note that several countries have implemented policies largely involving the provision of fiscal stimuli and liquidity to contain the financial crisis. An important near-term policy challenge is to broaden the perimeter of regulation to cover all systemically relevant institutions and for effective implementation. We, therefore, emphasise the need for international policy co-ordination and collaboration. Meaningful early-warning exercises and transparent communication of potential risks need to be reinforced. The Fund

in collaboration with institutions such as the Financial Stability Board (FSB) should play a catalytic role in bringing about such an outcome.

Developments in Africa

4. Hard-won economic gains in Africa are being threatened. During the last decade many sub-Saharan African countries sustained the highest rates of economic growth seen since independence, and rising income levels underpinned a sustained reduction in absolute poverty. The global demand for commodities, greater flows of capital to Africa and debt relief have helped. But more importantly, successes in a growing number of countries have also reflected robust policy frameworks fostering stable, low-inflationary macroeconomic environments, designed and implemented with strong domestic ownership and the support of the IMF and other development partners. The current crisis threatens to reverse these positive developments. Falling commodity prices and reduced availability of financing threaten to undermine the successes achieved across the continent. The severely reduced access to trade credit, in particular, is a problem.

5. Hence, we note with unease that growth in sub-Saharan Africa is estimated to decline from 5.3 per cent in 2008 to 2.2 per cent in 2009, less than the region's average population growth rate of about 2.3–3.0 per cent. The outlook could have been worse, except that in many of our countries, falling food and fuel prices have helped to dampen inflation, while the limited exposure of our banks to the most-risky financial transactions in advanced economies has largely protected these banks from the first-round impact of the financial crisis. However, pressures from the global economic slowdown are building on African economies. They are now facing unprecedented risks – not of their own making – including a sharp drop in export receipts, falling commodities prices, declining remittances and outward private capital flows, resulting in rapid growth slowdown and rising unemployment. The policy challenges posed by these risks require more than the ongoing efforts of African policy-makers to sustain sound economic policies and strengthen governance. Africa will return to a state of deep poverty affecting around 90 million people if the crisis is not resolved soon. Hence, additional policy advice, technical assistance and expanded but accessible Fund resources to low-income countries (LICs) are needed to ensure that the expected side effects of the crisis are minimised.

B. THE IMF crisis response and reform agenda

IMF crisis response

4. Financial institutions in most developed economies remain under severe stress, reflected by declining asset prices, increasing non-performing loans, large credit losses and tightening credit conditions, while the institutions are in dire need of liquidity, capital injections and a supportive framework to dispose of toxic assets. The Fund's response to the extraordinary financial system challenges facing the global economy, through its recent lending from its General Resources Account (GRA), was appropriate. Indeed, we note that access to many such loans for countries outside Africa, has ranged from 500 per cent to over 1 000 per cent of quota, while lending to some of our countries, even under the high access

Exogenous Shocks Facility has typically been around 25 per cent of quota. The recently announced doubling of access to Fund facilities for emerging market and low income countries may provide more liquidity to these countries.

5. The Fund, other International Financial Institutions (IFIs) and donors need to ensure that Africa's financing needs are addressed properly. The need for rapid and enhanced financial support to sub-Saharan African countries is buttressed by the fact that, as the global crisis takes its toll, concessional financial support assumes greater significance in assisting the countries to reinforce their social safety nets and to create fiscal space for growth-facilitating infrastructure and development projects. For the expected increased financing to have the requisite positive effect, the Fund needs to spearhead the debt relief process by adjusting its Debt Sustainability Framework to accommodate the new financing needs of low income countries.

6. The crisis has prompted the Fund to introduce the Flexible Credit Line as a crisis-prevention and crisis-resolution instrument. Access to this instrument has already shed some of the perception of stigma that is normally associated with IMF support. However, as regards other Fund instruments, further streamlining and evenhanded implementation of conditionality need to continue to ensure country ownership of programmes and to further shed the 'stigma' that tends to be associated with Fund lending.

7. Given the current actual and potential future demand on the Fund for financing, the institution needs a substantial increase in resources. Such resources have to be borrowed in the near term, while medium to long-term Fund resources should come mainly from a general quota increase. The general agreement for significant SDR allocation to provide resources to all members is welcomed and needs to be implemented in the shortest possible timeframe.

8. The World Bank and other IFIs have a cardinal role to play in resolving this crisis by supporting counter-cyclical policies and investment in LICs. We call on them to continue to adapt their financing instruments and increase their lending to needy members, especially the LICs.

IMF Reform Agenda

Governance

9 The legitimacy and increased effectiveness of the Fund need to be addressed by generally acceptable and equitable measures to address obvious democratic deficits in the institution. First and foremost, increased voice and representation of emerging markets and developing countries in the Fund's decision-making structures need to be accomplished in reality through a significant realignment of quotas, beyond the initial modest outcome achieved during the 2008 Spring meetings, which is yet to come into force. Progress in that context presupposes a comprehensive reform of the quota formula to improve the indicators of openness and variability, as well as the existence of a strong political will which conveys a sense of urgency. Like many members of the IMFC, the Board and the Committee of

Eminent Persons on the IMF Governance Reform, we support the preference for, and recommendation that, the head and senior management of the Fund be selected based on an open, competitive and merit-based process, with no consideration accorded to nationality, without compromising representivity. We call for a rebalancing of representation on the IMF Board in line with development in the World Bank and the representation of Africans at all levels in the Fund, including at top management.

Advancing IMF Surveillance Agenda

10. We note the increasing co-ordination amongst the world's leading economies and their efforts to improve regulation of the banking and financial sectors. Going forward, multilateral institutions, especially the Fund and the Financial Stability Board, need to assist in deepening global financial stability. The Fund also needs to improve on its financial-sector early-warning mechanism to assist in averting future crises, while seeing to it that all countries put in place and observe essential prudential and regulatory guidelines. We welcome the co-operation of the FSB in this regard.

The Fund and low-income countries

11. In conclusion, the Fund and other IFIs need to enhance their support to low-income countries in order to enable them to withstand the adverse consequences of the global recession. For sub-Saharan African countries, the Fund needs to sustain its efforts to encourage the Paris Club and official bilateral and commercial creditors to increase the delivery of debt relief; and intensify support for their development agenda through structured policy dialogue. The Fund also needs to take a more positive attitude toward the provision of non-concessional financing for increased fiscal space and investment in viable projects to stimulate growth for further poverty reduction.