International Monetary and Financial Committee

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April 24, 2010

Statement by the Hon. Mohammed Laksaci
Governor of the Bank of Algeria

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

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We welcome the positive developments in international financial markets and global economy since our last meeting. The swift and adequate policy response in advanced economies (AEs) and in emerging market and developing countries (EMDCs) to the unprecedented global financial and economic crisis has been instrumental in stabilizing financial markets, restoring some measure of confidence, and supporting economic recovery. The speed of the recovery differs, however, with many emerging markets and developing countries and the United States taking the lead.

Notwithstanding these favorable developments, the sustainability of the recovery and global financial stability remain subject to significant downside risks affecting advanced economies. Most notably, high debt-to-GDP ratios have heightened concerns about sovereign risks and their potential impact on the stability of financial systems and on investors' confidence. While important progress has been made in repairing banks' balance sheets and restoring the normal functioning of credit channels, vulnerabilities and risks remain, including shortage of capital in some segments of the systems, unfinished task in fully recognizing and disposing of distressed assets, and risks of further asset deterioration. Such vulnerabilities could threaten global financial stability and constrain the still fragile recovery. The crisis-generated high unemployment would also limit growth prospects in these countries, should it turn out to be of a long term nature, with negative spillover effects on the global economy and potential risks of exacerbating protectionism.

Continued cooperation among the membership is crucial to ensure that appropriate and coordinated strategies are put in place to face the challenges ahead. Key priority should be devoted to proper sequencing of exit strategies to avoid stifling the recovery, while addressing the fiscal risks through credible and well-communicated fiscal consolidation strategies, and promoting employment, including through well-designed labor market policies. In the same vein, it is essential to reinforce ongoing efforts to strengthen the financial systems, including through adequate capitalization, improved governance, and strengthened regulatory and supervisory framework.

We welcome the strong performance in many EMDCs, reflecting their strong fundamentals. While near term prospects continue to be encouraging, adverse developments in AEs, from a double-dip recession or a tightening of financial conditions could have negative spillover effects on global growth and trade. The recent increase in capital flows to some emerging market economies calls for vigilance to avoid potentially disruptive effects.

The countries in our constituency have made significant progress in dealing with the legacy of the global economic crisis and are pursuing policies aimed at promoting growth and employment in their respective economies. They underscore the need for dialogue and economic cooperation in strengthening international trade and global growth and attach importance to maintaining a global economic environment free of restrictions on trade and financial transactions.

We also welcome the broadly satisfactory growth performance so far in low-income countries, including in Sub-Saharan Africa. Continued assistance from the international community is warranted to strengthen growth further and make meaningful progress toward the MDGs.

We take note of the ongoing work in the Fund to strengthen its role in the global financial architecture. We welcome the ongoing review of the Fund's mandate aiming at adapting the institution to the post-crisis global economy. While we believe that bilateral surveillance should remain central in the Fund's surveillance role, with the Article IV consultation process as the main vehicle, we support strengthening multilateral surveillance, including by adopting a multilateral surveillance decision, increased emphasis on spillover effects of policies of systemic countries, and increased focus on regional aspects and cross-cutting themes in countries facing similar situations and policy options. We support stronger surveillance over financial issues and greater focus on macro-financial linkages in bilateral surveillance, but we reiterate our support to the voluntary nature of the FSAP exercise.

We support strengthening the oversight role of the IMF over the international monetary system. In this regard, we welcome the general SDR allocation which, together with the special one-time allocation, has helped meet the global liquidity needs and boost members' reserves. We call on the Fund to continue working towards strengthening the role of the SDR in the international monetary system, including through regular general allocations.

We are encouraged by the ongoing work in the Fund to further improve its toolkit for crisis resolution and prevention. In this connection, improving the Flexible Credit Line (FCL) to cover a broader range of countries would enhance its attractiveness. While we remain open to establishment of new facilities and instruments to respond to member needs, it is important to avoid redundancy and the creation of stigma through segmentation of the membership.

Addressing the skewed quota distribution between AEs and EMDCs will be essential for enhancing Fund's relevance and effectiveness. The current general review of quotas should result in a significant shift in quota shares from AEs to EMDCs, without such a realignment coming at the expense of other developing countries.

As a quota-based institution, the Fund needs a substantial quota increase, in addition to the agreed enlargement of the NAB, to effectively deliver its mandate. However, any such increase remains closely linked to the objective of realigning quota shares. Pending adequate revision of the current quota formula, all options to mitigate any adverse effect on the share of EMDCs should be considered, including adopting a two-step quota increase, with the second step intervening once further work has been done on the quota formula, and introducing a significant equiproportional element in the distribution of the quota increase.

We remain open to proposal to further strengthen the effectiveness of the IMFC and enhance Ministers and Governors' engagement, while maintaining its advisory nature and consensus-based deliberations. We also support an open and transparent process for the selection of the Managing Director and Deputy Managing Directors of the IMF on a merit basis and without consideration of nationality or geographical preferences, and increased staff diversity at all levels.