International Monetary and Financial Committee

Twenty-First Meeting
April 24, 2010

Statement by Olusegun O. Aganga
Minister of Finance, Federal Ministry of Finance, Nigeria

On behalf of Angola, Burundi, Botswana, Eritrea, Ethiopia, The Gambia, Kenya, Liberia, Lesotho, Mozambique, Malawi, Namibia, Nigeria , Sudan, Sierra Leone, Swaziland, Tanzania, Uganda, South Africa, Zambia, Zimbabwe

International Monetary and Financial Committee
Twenty First Meeting
April 24, 2010

Statement by Honorable Olusegun O. Aganga
Minister of Finance of the Federal Republic of Nigeria

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 and Zimbabwe

A. The global economic and financial markets

Global economic developments

1. We are encouraged by the global economic recovery, which seems to be better than was earlier envisaged and is being well supported by accommodative macroeconomic policies. However, the pick-up in activity has been uneven across countries and regions. Recovery in the major advanced economies is sluggish compared with that in the emerging and developing economies. While a variety of risks have receded, the growth outlook remains uncertain and there continue to be some near-term risks. Public debt in advanced economies cannot rise much farther and already limits the scope for policy maneuver. Further, heightened concerns about sovereign risks, though not so widespread in major advanced economies, are dampening investor confidence and threatening the resurgence of financial stability. Although a stimulus-led recovery is under way in the United Sates, private demand remains subdued. In the euro area, recovery is lagging. A number of countries in Eastern Europe and the Commonwealth of Independent States are also lagging. Among emerging and developing economies, Asia is leading the recovery and is, as a result, attracting large capital inflows. Sovereign risks notwithstanding, we consider that accommodative policies in the advanced countries should be continued until recovery is clearly taking hold.

2. Strong fundamentals and policies had enabled sub-Saharan Africa to weather the crisis well, and recovery from the 2009 slowdown is expected to be faster than from past global downturns. Although some middle-income and oil-exporting countries were hit hard by the collapse in export and commodity markets, the region managed to avoid contraction. Shocks that hit the region mainly emanated from the trade channel because the region is now more open to trade. The outlook, however, is not clear due to uneven global recovery and resurgence of high energy prices. While higher than expected energy prices would benefit oil exporters, it would trigger another round of dampened growth and higher inflation in the region's oil importers. In addition, though bilateral aid held up well during the global downturn, the outlook for official aid as a whole is mixed because of the large output declines, possibly protracted recoveries, and heightened fiscal pressures

in major donor countries. Thus, though recovery in the region seems to be relatively robust, we consider that African countries should maintain supportive macroeconomic policies in the near term to weather the tail risks of sluggish global recovery and the resurgence in energy prices

Financial market developments

3. While the risks have eased as the recovery gained traction, the global economy has not yet stabilized. Vulnerabilities in the financial sector now emanate from concerns about the sustainability of sovereign balance sheets. It is feared that in many advanced economies longer-run solvency concerns could translate into short-term strains in funding markets and intensify the funding challenges facing banks. Slow progress in repair of bank balance sheets and an increase in public borrowing needs may further constrain credit supply and prolong the recovery. Pressing ahead with financial sector reforms to make the global financial system more resilient is essential. Further, it will be important to strike the right balance between protecting the stability of the financial system and ensuring that it is innovative and efficient. Regardless of how regulation is structured, regulators' toolkits will likely need to be augmented to mitigate systemic risks.

B. Challenges for low-income-countries (LICs)

4. We reaffirm that the Fund should remain a quota-based institution, and finance the bulk of its lending from its quota resources. Members' quotas are relevant for access to Fund resources, including general SDR allocations, and for dividend distributions. The reform of quota shares is therefore of critical importance to the LICs since the IMF reformed its financing instruments in 2009. A core objective of the LICs is also to have more voice and representation at all levels of the Fund.

Access to Fund financing

5. We appreciate the relentless efforts of the Fund's management, staff and the Executive Board to activate the new lending architecture for the LICs under the Poverty Reduction Growth Trust created in July 2009. We especially thank the lenders to the trust for their consent to the new framework, which made it possible for the three financing instruments—the Extended Credit Facility (ECF), the Stand-by Credit Facility (SCF), and the Rapid Credit Facility (RCF)—to become operational this year. These instruments—together with the enhanced access levels—will go a long way in meeting the financing needs of the LICs. We urge the Fund and its lenders to further enhance the concessional lending facilities based on the core principles of the Fund.

Crisis prevention facility

6. We acknowledge that our first line of defense is to increase our resilience through improved policies, institutions and, above all, fundamentals. We have done most of these and are committed to persevere with additional measures going forward.

7. That record notwithstanding, we are aware of the efforts in response to the lessons of the crisis to develop crisis-prevention financing instruments for a cross-section of Fund members. While we fully support these efforts, with a caveat for streamlining the number of instruments, we strongly urge that similar crisis-prevention instruments be tailored to the LICs and lower- middle-income countries. A Flexible Credit Line (FCL)-like financing instrument would be appropriate for such countries that have strong fundamentals and policies. We thus support the proposal for broadening qualification for the FCL to meet this objective, while keeping commitment fees and charges at a reduced level.

C. Quotas, size, and the Fund financing role

8. We wish to recall that, on quotas, the 2008 reform package resulted in significant losses for the LICs as a group and for a very large number of individual countries. Once this package has been fully ratified, the level of LIC access to Fund resources will significantly diminish. Therefore, the IMFC's guide for protecting the quota shares of the LICs from further declines should remain a target outcome of the current quota reform.

Quota reform and size of the Fund

9. We reaffirm our welcome to the commitment of the G20 leaders and the IMFC to a fast-track new round of quota and voice reform. It offers IMF members the opportunity to make prompt progress on this critical governance issue and to quickly address legitimacy and governance deficits. We realize fully that achieving these objectives is a daunting task, given the intensity of engagement required and the need for a spirit of compromise from all parties. Nonetheless, the lessons learned from the current crisis and the measures taken to enhance the effectiveness and legitimacy of the Fund in responding to member financing needs, give us a sound basis to use the 14th review of quotas to make a major step forward.

10. Mindful of our efforts to make the IMFC a platform for effective Ministerial engagement, we urge the members of the IMFC to rise to the challenge and guide the process further in three key areas: size of quota increase; size of shift in the quota realignment and the beneficiaries of this shift; and the level of quota protection for the LICs. We believe there is political will to achieve an ambitious outcome: the G20 leaders' commitments and the IMFC communiqué attest to this. To that end, and to achieve the twin objectives of keeping the Fund a quota-based institution while effectively meeting members financing needs in the post-crisis economy, we are of the view that the 14th review should entail a substantial quota increase.

11. Should the time factor prevent fully addressing the deficiencies in the quota formula, we would support the proposal advanced by some members that an aggregate shift in quota shares on the order of 5–7 percentage points is necessary both to enable the Fund to enhance its effectiveness as a quota-based institution and to meaningfully rebalance the distribution of quota shares. Quota reform should therefore target at least a 5 percent shift to emerging markets and developing countries (EMDCs) and protection of the quota

shares of the LICs members of the IMF at the levels of the 2008 package. Eventual realignment of the largest quotas would also be in concert with the objectives of the quota reform.

12. We see merit in the case for a quota increase between 130 to 200 percent to meet these objectives and also to restore quotas relative to averages across traditional global indicators, such as trade and capital inflows to EMDCs. We would support an increase in the upper range and invite the IMFC members to support this level of quota increase. Such a quota increase together with the recently approved expanded new arrangement to borrow (NAB) would give the Fund a commitment capacity of about US$1 trillion. We share the view that this level of commitment would enable the Fund to support members and cope with the additional resource implications of an eventual enlarged Fund mandate.

Future financing role

13. The crisis has offered valuable lessons that can be used to strengthen the global financial safety net. There is certainly merit in countries' desire to increase their resilience to shocks as the first line of defense. We are committed to pursue this objective, and thank the Fund and our development partners for their understanding and support.

14. As part of the second line of defense, we are aware that proposals on the future financing role of the Fund include the present crisis-prevention instruments, especially the modernized FCL, and new instruments, such as the Precautionary Credit Line (PCL), the Multi-country Swap Line (MSL), and the co-financing of the Reserve Pooling Arrangements (RPAs). As we have indicated, there is clearly need for crisis-prevention financing instruments and enhancement of concessional instruments for LICs.

15. While the Fund's proposals for crisis-prevention financing instruments are in the right direction, we urge that more effort be given to modernizing existing instruments, and restrict the new instruments to those that are less stigma-intensive. We fully endorse the caution advanced by other members that all financing instruments, old and new, should be streamlined in line with earlier institutional decisions. This also underlines the need to rationalize the financing instruments. Further, we emphasize the need for greater international cooperation.

D. Governance framework

16. We are encouraged by the progress made thus far on governance reform, and would urge the IMFC and Executive Board to address the remaining issues expeditiously, preferably before the next Annual Meetings. We reiterate that governance reform should proceed in parallel with the reform on quotas to enhance legitimacy of the entire process.

17. ***IMFC reform process*****:** We fully support the proposals for strengthening the IMFC as a vehicle for enhancing Ministerial involvement. To that end, we urge that the IMFC meetings and deliberations be adjusted to meet this objective. Strengthening the role of

the IMFC as a decision-making body would demand clear delineation of the separate responsibilities of the IMFC, the Executive Board, and management.

18. ***Selection of Fund management:*** We strongly support the proposals for a transparent, non-region-specific process for selecting the Fund's management. However, we share the doubts about the efficacy of these proposals unless there is a commitment to quota realignment and clear understandings by all without any "unwritten" rules.

19. ***Functioning of the Executive Board:*** We support the objective of making the Executive Board stronger while maintaining its current size. We look forward to a decision that will enable the sub-Saharan Africa region to have parity in the representation at the BWIs following the decision of the World Bank to establish a third chair for this region.

E. Strengthening Fund surveillance and mandate

20. Surveillance needs to evolve with the global economy. Given the changes in the global economic landscape over the past few years, modernizing surveillance and making financial sector issues core to it have become necessary and inevitable. The importance of evenhandedness in the conduct of Fund surveillance, especially for advanced economies, cannot be overemphasized. Because it is an institution seeking to promote global stability, it is in the best interests of the Fund to strive to overcome the fundamental problem that it seems to have least value and traction with those members that are systemically significant for global stability. The financial sector was at the epicenter of the recent global economic and financial crises. It is therefore of utmost importance to bring financial sector issues and policies to the core of the Fund's surveillance framework.

21. Improving multilateral surveillance and outward spillovers would promote global stability and improve the traction of Fund surveillance. We also believe it would be effective to use outward spillovers as a bridge between multilateral and bilateral surveillance. However, even with greater attention on multilateral surveillance and outward spillovers, bilateral surveillance should continue to remain a pillar of the Fund's activities. Also, we urge that the ambition to widen the scope of surveillance should be matched by expansion of the Fund's resources to deliver on its core mandate.

F. Early warning exercise (EWE)

22. A key lesson the world has learned from the current crisis is the need for better analysis of risks to the global economy. The EWE is an important toolkit for providing an integrated perspective on global risks and vulnerabilities. The collaboration of the Fund and the Financial Stability Board in both operational and technical issues is commendable. The progress made so far with the EWE should now be accompanied by concrete steps to explore how best to communicate the results of the exercise to the membership and the public at large.

23. It will be crucial that EWE results find their way into the Fund's policy advice in both bilateral and multilateral surveillance. As is often pointed out, identifying vulnerabilities is relatively easy—what is harder is the policy action that is crucial to prevent a risk from becoming a reality. Each EWE round therefore needs to assess policy actions taken by authorities in response to previous warnings.