INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fourth Meeting
October 14, 2021

IMFC Statement by Lesetja Kganyago
Governor for the South African Reserve Bank

South Africa

On behalf of

Angola, Botswana, Burundi, The State of Eritrea, Kingdom of Eswatini,
The Federal Democratic Republic of Ethiopia, The Gambia, Kenya,
Kingdom of Lesotho, Liberia, Malawi, Republic of Mozambique,
Namibia, Nigeria, Sierra Leone, Somalia, South Africa,
Republic of South Sudan, Sudan, United Republic of Tanzania,
Uganda, Zambia, and Zimbabwe

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We note that global economic activity continues to recover, benefitting from policy support, progress in vaccination and supportive financial conditions. However, the outlook remains uneven and highly uncertain. **We are concerned with the widening divergence in the recovery between advanced economies (AEs) and emerging markets and developing economies (EMDEs)** caused by new waves of infection across countries due to virus mutations, uneven access to vaccines, vaccine hesitancy and differences in policy support. The effects on the global economy could leave lasting scars on medium-term performance and amplify the gap in growth between AEs and developing economies. The World Economic Outlook confirms that the output losses in EMDEs have been higher than in AEs. Further, Low Income Countries (LICs) face complex policy challenges to address rising inequality, declining per capita income, and the general decline in living standards.

Against this background, we welcome the Fund's May 2021 A Proposal to End the COVID-19 Pandemic and urge the global community to accelerate its implementation as quickly as possible. This will support the Fund's work with other institutions to foster a durable, transformative, and inclusive global recovery. Policymakers must use all available tools as required to address the adverse consequences of the COVID-19 pandemic on the most vulnerable and reverse rising inequalities. At the same time, we welcome the Global Policy Agenda, especially the emphasis on the need to achieve universal access to vaccines, calibrate policies to tackle risks and vulnerabilities on the horizon, and accelerate sustainable and inclusive recovery.

The economic outlook in Sub-Saharan Africa (SSA) remains constrained by low vaccination rates, limited fiscal policy space, and rising unemployment. Compared to other regions, growth in SSA is set to be the slowest in 2021, while pre-existing vulnerabilities have worsened, including rising debt and inequality levels. The decline in household real incomes has also pushed substantial numbers of vulnerable populations into extreme poverty. Additional risks to the region emanate from the new virus mutations, the slow rollout of and access to vaccines, weak labour market prospects, and limited scope for policy support, pointing to a longer lasting impact of the pandemic.

We reaffirm our position that under the current economic environment, vaccine policy is synonymous with economic policy and we call for intensified multilateral cooperation and support to improve access to vaccines for countries in need. To address the divergent global recovery and effectively bring the global pandemic under control, concerted international support remains crucial for the Access to COVID-19 Tools Accelerator (ACT-A) and its COVAX Facility. We commend countries that have pledged to supply vaccines to LICs and committed to accelerate the development and supply of vaccines, including in Africa. We also welcome the recently established Multilateral Leaders Task Force to tackle obstacles to reaching 40 percent of vaccine coverage in all countries by end-2021 and 70 percent by mid-2022. Open trade through the removal of export restrictions on medicine, therapeutics, and personal protective equipment, as well as the temporary waiver on trade provisions, will help expand capacity to produce vaccines needed to ensure adequate vaccination in SSA.

Labour markets in the region are recovering at a slower pace than those in developed markets, while production is impacted by disruptions in global value chains and lower levels of investment. Although efforts to strengthen social safety nets to cushion the vulnerable remain essential, the tightening of global financial conditions that could be triggered by normalization of monetary policy in advanced economies, will force countries to make difficult policy tradeoffs to sustain the recovery and restore macroeconomic stability. In this regard, **a well calibrated mix of policies contingent on the state of economies remain critical to support a durable recovery. To build resilience against future shocks, we will prioritize structural reforms** to support employment and productivity, lift potential growth, promote inclusion, and minimize external vulnerabilities.

We welcome the Global Policy Agenda.

A strong global financial safety net is critical to enable countries in our region to deal with liquidity challenges, while putting in place policies to sustain the recovery. **We, therefore, welcome the Fund's continued financial support to SSA countries to bolster their capacity to respond to the pandemic.** In this regard, we welcome continued efforts to adapt the lending toolkit, including policy reforms to the Fund's concessional financing facilities. We view the increase in annual and cumulative access limits under the Poverty Reduction and Growth Trust (PRGT) window as vital to align with the General Resources Account (GRA) facilities and ensure evenhandedness. Furthermore, we welcome the extension of the temporary higher access limits, including to the Large Natural Disasters windows within the emergency financing instruments, through end-December 2021, to provide flexibility to countries that had already accessed emergency financing to respond to the COVID-19 pandemic. We urge the Fund to explore the extension of the temporary increase in access limits beyond end-2021 to address the uncertainties of the pandemic and the sizeable financing required to attain the 2030 Sustainable Development Goals. Further, we support the Fund's proposal for a vaccine facility within its emergency financing toolkit to support LICs' efforts to end the global pandemic.

We welcome the successful US$650 billion general allocation of Special Drawing Rights (SDRs), injected to bolster global liquidity. African countries received an estimated US$33 billion in SDRs, which falls short of the continent's large development needs. In this regard, we call for voluntary re-allocation of excess SDRs by financially strong countries to enhance the PRGT concessional financing resources to avert solvency crisis and foster faster and sustainable recovery. Furthermore, we support the establishment of the Resilience and Sustainability Trust (RST) to bridge large financing gaps amplified by the pandemic and address long-term structural challenges of climate change and pandemic prevention and preparedness, among others. Importantly, the RST would complement the Fund's lending toolkit to help the "missing middle-income countries" tackle structural challenges and strengthen external stability in fragile and conflict-affected states.

A holistic approach is central to restoring debt sustainability. We welcome the Fund's continued efforts to reduce debt vulnerabilities to support growth, including the planned rollout of the debt sustainability framework for market access countries as part of the multipronged approach. Ensuring debt sustainability remains a priority, while strengthening fiscal reforms to improve domestic revenue mobilization through broadening tax bases and improved tax administration is critical. We support the Fund's agenda on debt, including close engagement and tailored support to enhance prudence in debt management.

We are concerned about the slow progress within the few countries that have enlisted for debt treatment under the G20 Common Framework (CF) for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI). In this regard, we call on the Fund to intensify the advocacy for a speedy operationalization of the CF to address the destabilizing effects of unsustainable debts on vulnerable members and avoid the derailment of Fund programs in affected countries. **We also call for the full participation of private creditors in the CF process and their commitment to providing comparable debt treatment to ensure fair burden sharing.**

The persistent economic impact of the pandemic on Catastrophe Containment and Relief Trust (CCRT) eligible members continues to weigh on their balance of payments financing needs. In this context, we positively note the approval of the fourth tranche of the CCRT of debt service relief for 26 eligible members for the period October 16, 2021 through January 10, 2022. We commend the donor countries and the EU for their generous pledges and support to the CCRT and call for additional donor support to extend the CCRT beyond the fourth tranche. The extension of the CCRT and efforts to mobilize more resources to create the much-needed fiscal space would be important to support a durable exit from the crisis, even as the G20 DSSI is phased out by end-December 2021.

Fund surveillance continues to play a critical role in identifying risks and considering policy priorities and tradeoffs at both bilateral and multilateral levels. We welcome the conclusion of the Fund's Comprehensive Surveillance Review and Financial Sector Assessment Program Review, as well as the Fund's focus to refine the bilateral surveillance activities and policy advice. Despite the enhanced reserve buffers enabled by the general SDR allocation, we stress the need for continued IMF guidance to help vulnerable countries better manage volatile capital flows through appropriate application of tools within the Integrated Policy Framework and the IMF's Institutional View on Capital Flows. We see room for more collaboration and call on the Fund to strengthen its work on international taxation, including the work on illicit flows, as part of its multilateral surveillance.

Capacity development and long-term technical assistance is crucial to compliment Fund advice for a transformative and sustainable recovery in the region. Accelerated and tailored capacity development alongside Fund policy guidance on the macro-financial implications of climate change adaptation and digitalization of financial services, including central bank digital currencies, will be crucial to assist EMDEs to develop appropriate policy responses and maintain compatible regulatory frameworks.

Fair transitioning to a green and sustainable recovery conducive to low greenhouse gas emission would be important to address climate risks and build resilient and sustainable economies. Our approach to climate change must be consistent with the objectives and principles of the Paris Agreement. We, therefore, welcome Fund efforts to help vulnerable members to build resilient economies, including through providing tailored advice on mitigation, transition, and adaptation, and we encourage strengthening collaboration with relevant institutions. We also welcome the integration of climate change into bilateral surveillance to assess the macro-financial implications of climate change through the Climate

Macroeconomic Assessment Program. In this vein, Fund capacity development will be important to help SSA countries transition from dependence on fossil fuels and manage transition-related spillover effects. We reiterate the importance of the availability of adequate, credible, and predictable finance in ensuring that EMDEs deliver on climate action.

A strong, quota-based, and adequately resourced IMF should remain at the center of the global financial safety net. The ongoing unprecedented global pandemic and rising frequency of global shocks demand a robust crisis response mechanism. To this end, we underscore the need to ensure the adequacy of Fund resources over the medium-term. We should, however, not undermine the importance of working towards a governance structure that reflects the relative position of countries in the global economy. In this regard, we must complete the 16th General Review of Quotas as agreed and address out-of-lineness of current quotas, preserve market confidence and legitimacy of the Fund. Given recent updates to the quota shares for our Constituency and increasing demand for Fund resources, we reiterate the need for a broader protection of the voice and representation of the poorest Fund members. Furthermore, we continue to reiterate our call for a third chair for SSA on the IMF Board to strengthen our representation at the Fund.

We continue to call for increased diversity and inclusion (D&I), particularly of staff from underrepresented regions. To this end, we call for the speedy attainment of diversity benchmarks to effectively draw on different perspectives, enhance the quality and deepen the relevance of policy advice**.** We believe the Fund as an international organization would gain more confidence of the membership through accelerated efforts to achieve D&I. This would be important to reflect its universal membership in line with its Articles of Agreement and enhance its engagement on emerging issues, while cementing its role as a trusted advisor.