International Monetary and Financial Committee

Thirty-Fourth Meeting
October 8, 2016

IMFC Statement by Pravin Gordhan
Minister of Finance
South Africa

On behalf of
Angola, Botswana, Burundi, The State of Eritrea, 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, Kingdom of Swaziland, United Republic of Tanzania, Uganda, Zambia, and Zimbabwe

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Global Economy

1. The current outlook is sobering and in particular partly reflects the inadequate implementation of structural reforms that are meant to raise aggregate demand and ensure inclusive growth. The global economic recovery continues to disappoint and poses significant challenges to our goal of improving living conditions. Although financial market conditions have improved, activity in advanced economies remains sluggish due to weak demand and poor productivity emanating from the crisis legacies, aging populations, and some lingering uncertainty of the final outcome of the Brexit vote. Thus, supporting domestic demand with accommodative monetary and growth-friendly fiscal policies remains a priority. But to unlock growth potential, deep-rooted reforms are critical in order to address persistent structural impediments.

2. Emerging market and developing economies continue to support global growth. However, although the near-term growth is expected to strengthen due to improved financial conditions, the outlook is uneven and generally weak. Emerging market risks have subsided with a peak in corporate leverage and a resurgence of capital inflows. But to maintain financial sector stability an orderly deleveraging is required. In addition, policy action is required to strengthen economic resilience and maintain the convergence path to high income levels.

3. For sub-Saharan Africa, growth is weakening and this could compromise the efforts to deliver on the sustainable development goals. The slowdown is partly attributed to the challenging macroeconomic conditions facing large economies in the region that are adjusting to lower international commodity prices. The commodity price cycle has also created unfavorable conditions for other economies. Moreover, the continued spell of unfavorable weather conditions could complicate macroeconomic management even for non-resource countries that seem to have benefited from the low oil prices. In the long term the diversification agenda needs to be prioritized. In the medium term, commodity exporters need to fully adjust their policies and rebuild buffers in order to preserve macroeconomic stability and enhance economic resilience.

Supporting Growth in sub-Saharan Africa

4. To strengthen economic resilience, the region will continue to engage with the Fund to ensure there is adequate capacity to implement priority policies and reforms. However, the

quality of engagement needs to be consistent with the substance and the tone of commitments already communicated by the IMFC and other bodies. Within this context, technical assistance and capacity building needs to be stepped up. Fund assistance to lower and middle income countries should prioritize capacity building to enhance data quality and management, strengthen revenue mobilization, and provide for well-researched options for implementing structural reforms and upscaling private and public investment. In the meantime, we remain committed to rebuilding buffers to adequately cushion our economies against shocks.

5. To reduce vulnerabilities to exogenous shocks, economic diversification and transformation has been identified as a key development agenda for the region. In this regard, we welcome the ongoing pilot of the infrastructure policy support initiative that has seen fruitful engagement with the authorities as they look into enhancing public investment management. We look forward to its broader rollout in support of efforts to address infrastructure gaps. We welcome ongoing efforts to help design consistent set of policies that allow for smooth adjustment and restoration of growth for low-income countries hit by commodity price shocks. Furthermore, we urge the Fund to continue its efforts to support growth and boost resilience in small states and countries in fragile situations including through capacity building, and providing adequate financing.

6. We welcome the Fund's commitment to support countries meet the 2030 Sustainable Development Goals by continuing to integrate deliverables under the post-2015 development agenda. By providing technical assistance and capacity development, as well as strengthening domestic resource mobilization, the IMF's efforts in this regard will go a long way in enhancing institutional capacity and development financing. To safeguard the gains made thus far in deepening financial inclusion and financial stability, we call on the Fund to work closely with relevant partners to identify concrete solutions to resolve the declining correspondent banking relationships in the region. We also reiterate our support for developing strong mechanisms to help deal with illicit financial flows that have robbed the region of much needed resources to finance development. Recent efforts by the Fund to address these issues and to maintain them within the Global Policy Agenda are welcome.

Fund Surveillance

7. We welcome the continued focus on structural reform needs for developing countries and look forward to the finalization of a toolkit that will guide the identification and prioritization of reforms, and we re-iterate that these efforts must take country-specific macroeconomic circumstances and structural factors into account. We support the integration of macro-critical issues such as those pertaining to inequality and gender; and we look forward to finalization of the ongoing work on harnessing the demographic dividends in sub-Saharan Africa. Although we take note of the Fund's work on trade integration in the region, we encourage a more focused effort to enhance the Fund's contribution to achieving this goal.

8. We support the development of a framework that will help countries identify fiscal space, and look forward to the integration of the analytical framework within Article IV

consultations. Similarly, we welcome the integration of climate change issues in the Fund's surveillance. Nevertheless, we urge that Fund surveillance includes more analysis of spillover effects of developments in advanced economies on frontier economies that are becoming more integrated to international market, as well as spillovers across the region as economies become more interconnected.

9. Although we support the Fund's work on the institutional view on the liberalization and management of capital flows, we reiterate the need to ensure that the responsibility for addressing the burden of capital flows rests on both the source and receiving countries.

Fund Lending

10. Enhancing the financial safety net is critical for the Fund to continue providing the required and timely financial support to the membership. In this regard, we welcome the ongoing initiatives to enhance global financial safety nets. While looking forward to concrete proposals in the review of financial safety nets for developing countries, we reiterate the need to consider enhancing access to precautionary financial support and review of practices in the blending of GRA and PRGT resources. We find this as supportive of channeling PRGT resources to the poorest countries while allowing PRGT-eligible members with strong macroeconomic policies to access other available Fund resources. In the review of the Fund's lending toolkit, we wish to urge that new facilities should not be overly restrictive in allowing access for the intended beneficiaries. We continue to support the Fund's commitment to mobilize adequate resources for PRGT and welcome the continued efforts to maintain the concessional nature of PRGT facilities. We look forward to the review of social objectives in PRGT supported programs, to ensure that they support policies that protect the poorest.

11. We agree that stemming debt vulnerabilities remains vital in enhancing economic resilience. In this regard, we welcome the ongoing work to review the LICs Debt Sustainability Framework. While noting that the framework is the cornerstone for assessing risks to debt sustainability, we urge that the DSF remains flexible to balance the financing of countries' enormous development needs and prudent debt management. Furthermore, we note that the Fund has embarked on the final stage of the work program for revamping IMF policies related to sovereign debt restructuring, as this will help facilitate sovereign debt crisis prevention. We see this as crucial for the frontier markets in the region who are issuing sovereign debt in the international market.

Governance and Fund Resources

12. We look forward to the timely completion of the 15th General Review of Quota, including the introduction of a new quota formula, and reiterate the need to protect the voice and representation of the poorest members. In reinforcing our commitment to having an adequately resourced IMF at the center of the global financial safety net, we welcome the extension of the bilateral borrowing arrangements but urge that they remain temporary and only be used as a third line of defense to ensure that the Fund remains a quota-based institution. While welcoming the coming to effect of the new SDR, we look forward to the outcomes of the Fund's work on the broader use of the SDR. Finally, we re-iterate our call

for a third chair for sub-Saharan Africa, and encourage the IMF Board and management to align this objective with the timeframes for the completion of the 15^{th} General Review of Quota.

13. It is unfortunate that the 2016 Diversity and Inclusion Report is yet to be discussed by the Board, which once again illustrates the need to follow through on commitments. Nevertheless, we reiterate our call for a review of the benchmarks to ensure they adequately address the representation of the region. We welcome the focus on gender diversity at the Executive Board, to give leadership in the gender diversity agenda of the institution.