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Statement by Luc Oyoubi, Minister of Economy, Employment and Sustainable
Development, Ministère de l'Economie, de l'Emploi et du Développement
Durable, Gabon

On behalf of Benin, Burkina Faso, Cameroon, Central African Republic, Chad, Comoros,
Democratic Republic of the Congo, Côte d'Ivoire, Djibouti, Equatorial Guinea, Gabon,
Guinea, Mali, Mauritania, Mauritius, Niger, Republic of Congo, Rwanda, São Tomé and
Príncipe, Senegal, Togo

Statement by Mr. Luc Oyoubi
Minister of Economy, Employment and Sustainable Development
(Gabon)

We welcome the progress that is being made on the global economic agenda. Measures taken have helped to improve the short term fiscal picture, with further progress in the financial sector which is now supporting the recovery in the United States and, to a lesser extent, the euro area. We note however that significant risks remain and that large economic and financial disequilibria in advanced economies continue to weigh heavily on the global recovery. At the same time, emerging and developing Countries continue to register higher growth and are driving the global recovery. We agree that this multi-speed recovery complicates the design of policies.

Risks to the global outlook remain significant. They include persistent fiscal imbalances and debt overhang in advanced economies, and weaknesses in financial sectors' balance sheets. However, new or re-emerging risks are also appearing and these include asset price overheating and excessive capital flows in emerging market and developing countries, and distortions from easy and unconventional monetary policy in a number of advanced economies. Risks associated with oil market developments, notably volatility, should not be overlooked. Volatile oil prices have had a significant impact on developing countries and advanced economies alike, and we do not see these risks abating in the foreseeable future given the continuing geopolitical tensions and supply-demand gaps.

It is clear from the Managing Director's Global Policy Agenda that decisive measures are needed in the advanced economies to address the fundamental causes of disequilibria in these economies, contain the risks from materializing, and to ensure that the global recovery is strong and sustainable. The priority remains on sustaining the recovery—as the risk of stagnation cannot be underestimated—while laying out the foundations over the medium-term for sustainable growth. We broadly share the Managing Director's agenda and endorse it.

I. STRENGTHENING THE RECOVERY

We recognize that the policy mix required to cope with global and regional risks and improve growth prospects depends on country and regional circumstances, based on their cyclical positions and structural characteristics. It is critical that policy responses be carefully designed and communicated so as to contain to the extent possible policy uncertainty that proves to be harmful to the recovery. In particular, policy uncertainty in systemically-important economies remains high and could have adverse effects on investment and output in other regions. *A contrario*, the desired reduction in policy uncertainty in systemic economies in the near term may give a boost to global investment and growth.

We share the view that fiscal consolidation should continue gradually in advanced economies, with due regard to the need to support the still tepid recovery. In this regard, it is critical not to hamper confidence further through excessive or too-rapid tightening. In those countries, fiscal consolidation should only pick up steam as the recovery takes roots and growth shows signs of durability. As political economy factors have weighed on the current situation of fiscal policy gridlock in certain countries, it is important that, ultimately, a careful analysis of multipliers is needed to make informed decisions on the nature and pace of fiscal adjustment which ideally should encompass spending and revenue measures. The credibility of fiscal adjustment efforts will also hinge on the design of medium-term fiscal plans and entitlement reforms.

The purchases of assets, long-term refinancing operations and other interventions of central banks in financial markets are helping reduce funding costs and strengthen confidence. To ensure adequate monetary policy transmission, it is imperative to pursue the repair of financial sectors' balance sheets and improve their capital and earnings. Since inflation expectations seem well anchored, there is room for an accommodative monetary policy stance. However, complacency could prove harmful to the objective of macroeconomic stability there and elsewhere, notably in emerging economies.

For *emerging market and developing countries*, we share the view on the need, in the short term, to manage risks from financial excesses—stemming from large cross-border capital flows, too-rapid credit growth, etc---and rebuild buffers while pursuing physical capital accumulation and enhancing human capital. Rebuilding buffers requires fiscal consolidation. The latter should be done at a pace that is not detrimental to domestic demand which underpin current growth in those countries. Investment expenditures in education, health and infrastructure should be preserved and, where feasible, increased, as they are critical for long-term growth.

In the case of low-income countries (LICs) in particular, certain reforms such as the elimination of energy subsidies, while warranted, need to be done in conjunction with well-targeted measures to protect the poor while informing the general public on the wisdom of these reforms. They should also be implemented gradually. Otherwise, these reforms might lead to social unrest, making them even harder to implement in the future. We therefore support the call for appropriately paced fiscal consolidation in many countries, taking into account the difficult interrelated constraints they face.

II. RESTORING RESILIENCE FOR LONGER-TERM, SUSTAINABLE GROWTH

The nexus among **fiscal consolidation, debt sustainability and growth** remains a challenging one. Sustained consolidation efforts to bring down debt ratios to acceptable levels are paramount. However, the determination of an acceptable level of debt is difficult and varies across countries. Several advanced economies need to more than stabilize their debt levels, and to actually reduce them significantly. Even countries with a relatively low current stock of debt might also encounter fiscal and debt problems due to a rapidly aging population and generous public pensions. A critical

issue is the time and the manner these countries can maintain primary surpluses—in order to reduce their debt ratios—without incurring significant output and employment losses.

We agree that a clear and credible fiscal plan is needed to bring debt ratios on a downward path over the medium term. A number of policies, such as accommodative monetary policies, debt restructuring and government asset management can help ease the fiscal adjustment process, but by themselves they will not solve the deficit or debt issues, and they may cause more problems than solving them. Ultimately, emphasis will have to be on the traditional revenue-raising and expenditure-reducing measures, together with structural, growth-inducing policies that are specific to each country.

While enjoying better debt dynamics and greater policy space to pause the fiscal adjustment process, emerging markets and developing countries as a whole should also focus on medium term fiscal sustainability and increase their resilience to shocks. As many of these countries will also confront rising age and health-related expenditures, they will have to start designing policies to address these issues. In this regard, continued efforts will be needed to raise government revenue. However, for many low-income countries—due to their low level of per capita income—and small states—due to their particular vulnerabilities to exogenous shocks—will continue to rely on external assistance, including from the Fund.

On **monetary policies**, unconventional measures in advanced economies have played a positive role during the crisis and helped to maintain financial stability. They continue to provide support to aggregate demand, and are also, as intended, generating a substantial rebalancing of private investor portfolios toward riskier assets. However, we share the concern that a prolonged period of extraordinary monetary accommodation could push portfolio rebalancing and risk appetite to the point of creating significant adverse side effects, and need therefore to be closely monitored. Central banks should have credible strategies of exit from those exceptional policies.

Regarding **financial sectors**, while we welcome the significant steps taken by banks in advanced economies to restructure their balance sheets, there is need for additional efforts in some countries to complete the restructuring process. In particular, banks in the euro area periphery continue to face significant challenges that are restraining their ability to support economic recovery as they remain challenged by high funding costs, deteriorating asset quality, and weak profits. Bank balance sheet repair and steps toward a stronger EU financial oversight framework, including progress toward an effective Single Supervisory Mechanism (SSM) and the completion of the banking union (BU), should therefore be key priorities in the euro area.

We note the delays in completing the regulatory reform agenda and share the view that this not only represents a source of continued vulnerability weighing on the recovery and posing risks to global stability, but is also a source of regulatory uncertainty that may impact the willingness of banks to lend. We agree that a renewed political commitment is needed at the global and national levels to complete the reform agenda.

We reiterate our view that the **multilateral trade agenda** should be revived to complement the developing bilateral trade agreements and regional integration. The IMF should be a strong vehicle for advocating progress on the global trade agenda, notably under the Doha Development Round. A renewed effort by all is called for, to regain momentum on this agenda. This would provide a significant boost to potential global growth and employment.

Low-income countries

It is particularly heartening to see the dramatically improved growth performance of many low-income countries over the past two decades. The current growth path of dynamic LICs stands apart from previous episodes in that it is underpinned by sound macroeconomic frameworks and associated with effective implementation of productivity-enhancing structural reforms and institution building, which all bode well for the future of those economies. Most importantly, with the removal of the excessive burden of external debt on these countries' economies through the HIPC Initiative, and the establishment of debt monitoring agencies which are helping them to monitor their external debt situation, these countries are managing their debt situation better and are also making better use of their limited resources to develop their economies. Moreover, economies based on resource-intensive growth should tackle the specific challenges that they still face, while all LICs must tackle their income gaps and employment problems.

Sub-Saharan Africa

In line with LICs as a whole, Sub-Saharan African (SSA) economies continue to grow at a strong pace, underpinned by increasingly robust domestic demand, and their medium-term prospects remain favorable. Hence, we agree that strengthening policy buffers at this juncture should be a priority in many of these countries while pursuing their infrastructure building strategies. LICs remain nevertheless exposed to an uncertain external environment, including developments in both advanced and emerging economies. Commodity price shocks can also derail these economies from their current path. Therefore, the continued support of the Fund is critical to help them pursue macroeconomic stability and make growth more inclusive and sustainable.

III. ADAPTING TO THE FUTURE

Adapting to the future will make the Fund an even more legitimate, credible and effective institution. In this vein, the Fund should continue to be appropriately equipped with adaptive surveillance toolkit, adequate financial resources, and technical/capacity building assistance. In particular, we welcome the Integrated Surveillance Decision (ISD), the augmented loan resources under NAB, and call on the membership to make effective the 2010 Quota and Governance Reform so as to increase quota resources. We look forward to a new quota formula and the completion of the Fifteenth General Review of Quota by January 2014 as scheduled.

It is equally important that the financial resources available in the Poverty Reduction and Growth Trust (PRGT) to respond to the needs of low-income members be adequate. The

replenishment of the PRGT through the allocation of the windfall gold sale profits is welcome. Nevertheless, these resources may not suffice to meet the potential needs of those members going forward in such uncertain environment. The recent decision to halve the access norms and limits under the PRGT facilities is unfortunate as it would, at best, leave the access levels in nominal terms at their current levels, *ceteris paribus*. It is therefore of critical importance that efforts are pursued by the membership to raise the level of resources available in the PRGT.

We commend the Managing Director for continuing to put emphasis on the importance of advancing staff diversity. Nevertheless, more remains to be done to bring in an appropriate number of staff from underrepresented regions, including Africa, especially at managerial levels. We call on more significant and rapid progress on this front.