International Monetary and Financial Committee

Twenty-Seventh Meeting
April 20, 2013

Statement by Pravin J. Gordhan, Minister of Finance, National Treasury,
South Africa

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

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Global Economy

1. The global economy has yet to shake off the fallout from the financial crisis, despite the fact that crisis risks seem more muted compared to a year ago. The global economy continues to be burdened by, amongst others, excess capacity, fiscal austerity, and record unemployment, especially youth unemployment. The rising trend of youth unemployment around the world threatens not just current economic growth but also political stability. Furthermore, continued sluggish growth may trigger fresh worries among market players – a development which will render the already slow recovery even slower.

2. The near-term outlook for the euro area remains the main source of concern as economic activity is expected to contract. In this regard, we support structural reforms and adjustment programs by European periphery countries which need to be supported by the deployment of firewalls to prevent contagion as well as further steps toward banking union and fiscal integration. For the United States, the priority is to avoid excessive fiscal consolidation in the short term, promptly raise the debt ceiling, and agree on a credible medium-term fiscal consolidation plan, focused on entitlement and tax reform. In Japan, there is a need for a credible medium-term fiscal strategy. Without such a strategy, the stimulus package carries important risks.

3. For emerging market and developing countries (EMDCs), where there was a noticeable slowdown in 2012, the priorities must include rebuilding policy space. This implies that fiscal reforms, including various austerity measures, should attempt to minimize their negative impact on economic growth. In addition to rebuilding policy buffers, low-income countries (LICs) need to enhance homegrown policies that promote inclusive growth, reduce inequality, poverty and unemployment, particularly youth unemployment. All efforts must be made to increase trade and its related financing to the benefit of all developing countries and LICs.

Quota Formula Review and Governance Reforms

4. It is regrettable that the Executive Board completed the quota formula review in January 2013 without reaching an agreement on a new quota formula as expected. At the root of this disagreement, is the insistence by some member countries to retain variables in the formula, whose flawed nature has already been identified in the previous reviews. We urge all parties to

intensify their efforts in seeking compromise, and we remain cautiously hopeful that a new quota formula will emerge in the context of the 15^{th} General Review of Quotas.

5. It is of significant importance that a new formula be agreed upon as continuation of the application of the current formula, whose shortcomings are well documented, is not acceptable. We have seen in previous reviews, that the formula is biased against some EMDCs and its application has consistently generated a loss in their voice and representation, particularly some in our Africa Group 1 Constituency. We should aim to avoid a repeat of the undesirable outcome of the 14th General Review of Quotas, where the shift in quota shares to dynamic EMDCs was achieved mainly through a reduction in the quota shares of other EMDCs. Moreover, it is already clear from simulations performed by IMF staff that Sub-Saharan Africa will again suffer an erosion of voice and representation, if the current formula is not significantly reformed.

6. The persistent loss of voice and representation has become untenable for our Constituency and undermines the legitimacy, credibility and relevance of the IMF. We thus call for steps to be taken to protect the voice and representation of the poorest members. We also call upon the IMF to ensure that the 15^{th} Quota Review is accompanied by appropriate *ad hoc* adjustments that protect the voice and representation of EMDCs that would otherwise continue to record a steady deterioration in their quota share. In the absence of such protection, it should not be expected that we can continue to ratify reforms that undermine the legitimacy of the IMF by reducing our voice and representation.

7. The economic crisis has demonstrated the importance of preserving the cooperative nature of the IMF in resolving global problems. Thus, in the interest of enhancing the IMF's legitimacy, credibility and relevance, it is imperative that IMF reforms should generate a governance structure that fully reflects the voices of all its members.

Third Chair for Sub-Saharan Africa

8. Sub-Saharan Africa remains one of the most under represented regions in the IMF. For 43 countries to be represented by only two chairs at the IMF Board is simply untenable. Recognizing that quota reviews are insufficient to address this representation deficit, we reiterate our call to the IMF membership to find a way of establishing a third chair for Sub-Saharan Africa, including through an expansion of the IMF Board. This is consistent with a similar decision that all of us made at the World Bank. Not only will a third chair for Sub-Saharan Africa increase the voice of the most underrepresented region, but it is critical in enhancing the legitimacy, credibility and effectiveness of the IMF.

Vulnerabilities and Policy Challenges Facing Low- Income Countries

9. While LICs have enjoyed strong growth in the post-financial crisis period, vulnerabilities seem to be re-emerging, and sustaining growth while maintaining macroeconomic stability is becoming a major challenge. This is in part due to the dwindling policy buffers. Progress in rebuilding these buffers has slowed over the past few years as rebuilding them without creating social tensions and sacrificing provision of additional capacity for future growth is proving to be difficult for many LICs. Therefore, it is critical that in rebuilding fiscal buffers, LICs need to

adopt fiscal consolidation strategies that balance adjustment against the need to maintain growth and preserve priority social spending and public investment. In addition, monetary and exchange rate policies could play a critical role in facilitating adjustments in case of a protracted growth decline. However, these policies' shortcomings related to the transmission mechanism and poorly anchored inflationary expectations need to be recognized.

10. Furthermore, LICs need to develop domestic engines of growth to substitute for weaker global demand. These include deepening financial sector development and regulation, strengthening labor and product markets competitiveness, improving the business climate, better targeting investments in infrastructure to increase productivity and long-term inclusive growth, and above all enhancing and establishing robust institutions that would improve the efficiency of spending. Enhancing technical assistance by the IMF, continuously evaluating and modifying, as necessary, IMF lending facilities for LICs and additional concessional financing and aid from the international community would help mitigate shocks without aggravating debt vulnerabilities.

Energy Subsidy Reforms

11. We are aware that energy subsidy reforms are an important aspect of the process of rebuilding policy buffers. However, it is becoming increasingly difficult to phase out these subsidies given the political tensions such actions generate, especially in the absence of well-targeted social safety nets. The IMF has on many occasions advised gradual lifting of energy subsidies coupled with appropriately phased price adjustments, and provided policy advice on developing social safety nets. However, we are yet to witness the full benefits of these efforts. It is clear, however, that successful energy subsidy reforms require an appropriately sequenced, comprehensive reform agenda which include extensive consultations with stakeholders, a clear communications strategy and sequencing of energy price adjustments. This is a broad agenda which calls for the IMF to enhance its collaboration with other institutions that have relevant expertise to complement its efforts.

IEO Evaluation of the Role of the IMF as Trusted Advisor

12. We welcome the Independent Evaluation Office report on *The Role of the IMF as Trusted Advisor* which underscores the frictions between the Fund's role as global watchdog and trusted advisor. We note that even though the Fund's image has improved in the aftermath of the global crisis, much still needs to be done to improve the evenhandedness, quality and traction of Fund advice. Many emerging and developing country members remain skeptical of the IMF's role as a trusted advisor. This affects the traction of Fund advice in a negative way. We urge the IMF to constructively address the Board-endorsed recommendations.

Policy on Debt Limits in Fund-Supported Programs

13. The Fund's debt limits policy has contributed to the recent success of LICs' efforts to preserve debt sustainability and contract external debt on more concessional terms. These positive developments notwithstanding, the debt limits policy has proven complex to implement and led to undesirable outcomes including distortions of investment and financing decisions. As the Fund forges ahead with a comprehensive review of the policy on debt limits in Fund-

supported programs, it will be important that the reforms ensure not only evenhandedness across the membership but also facilitate increased flexibility in managing borrowing policy which is more targeted to countries' specific circumstances and does not unduly constrain LICs' options in determining the composition of their sovereign debt. At the same time, it will be crucial that the reform preserves incentives for LICs to borrow on concessional terms as well as ensure that they receive favorable terms on their borrowing. Efforts must also be made to explore options for debt relief in favor of non-HIPC countries in debt distress.