International Monetary and Financial Committee

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Statement by Christophe Akagha-Mba,
Minister of Economy and Prospective, Gabon

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

Statement by Mr. Christophe Akagha-Mba
Minister of Economy and Prospective
(Gabon)

The global economy is firming up, with broadly more favorable prospects than was the case at the time of our last IMFC meeting. Important progress has been achieved in policy implementation, especially in advanced economies. Albeit a less favorable environment in emerging market economies, encouraging changes have occurred recently, notably increased impetus from advanced economies and stronger growth in low-income countries.

We welcome the recent policy developments in systemic countries. These include the agreement on fiscal consolidation and debt ceiling issues in the United States, which helped push back significant uncertainties; better communication on the U.S. Federal Reserve's tapering of unconventional monetary policy, which helped ease market pressures including in emerging economies; progress on bank resolution mechanisms and the banking union in the euro area; and policy actions to rebalance growth from credit and investment toward consumption in China, which reduces the risk of further slowdown or hard landing and that of an abrupt global commodity price decline. If the latter risk were to materialize, many low and middle-income commodity exporters could see their financial buffers reduced further.

It is encouraging to note that advanced economies, including in the euro area, have stabilized. Emerging market economies have slowed on the margin and face financial stability risks stemming from both potential policy spillovers from advanced economies and adverse investor sentiment. Nevertheless, it should be noted that the contribution of emerging economies to global growth remains significant. Furthermore, emerging markets and developing economies as a whole still represent the bulk of global growth.

In particular, low-income counties and small, middle-income economies continue to grow at a strong pace, owing to strong domestic demand, the nascent recovery in advanced economies and broadly favorable commodity prices—albeit on a slight downward trajectory. Low-income countries will be better able to sustain their growth momentum through investments in physical capital. This will require continued efforts to mobilize domestic revenues but also easier access to regional and external financing including, where fiscal and debt vulnerabilities are not a concern, through non concessional resources.

Overall, much more remains to be done to avoid further growth disappointments and put the global recovery on a stronger, more sustainable growth path. We underscore that many of the past policy challenges remain relevant, notably as regards the financial sector in advanced economies, medium-term fiscal consolidation plans, and structural reforms aimed at strengthening growth prospects. Current macroeconomic policies should broadly be aimed at sustaining economic growth while returning to "normal" monetary conditions everywhere activity has picked up significantly. We share the view that the design of policies to achieve this objective can be made more difficult by spillovers originating from systemic economies and by common shocks. This calls for concerted policy efforts.

The Fund has a critical role to play in assisting the membership through policy advice, technical assistance, and financial support when needed. In so doing, the institution should remain legitimate, credible and effective. Legitimacy and credibility calls for adapting to the evolving global economy. Effectiveness entails, among others, that the Fund be endowed with adequate permanent resources to fulfill its mandate notably as regards global monetary and financial stability. This calls for implementing the agreed quota and governance reforms.

The Managing Director has laid out appropriate policy priorities for the membership and well-thought out views on the role of the Fund in helping the latter meet those challenges. We support her Global Policy Agenda.

MANAGING MONETARY NORMALIZATION AND POLICY SPILLOVERS

We are concerned that the balance of risks, while improving, is still tilted to the downside. The major concerns relate to the enduring very low inflation and ensuing risk of deflation in some advanced economies on one hand, and risks associated with renewed financial volatility in emerging market economies on the other hand.

Regarding some advanced economies, especially in the *euro area*, we welcome the readiness of central banks to use unconventional monetary policies if needed to flush out the risk of deflation. Addressing the large output gaps, with the view to preventing long-term inflation expectations from drifting down and reducing deflation risks, is critical. A successful shift from liquidity driven markets requires further progress in the zone's transition from fragmentation to deeper integration. Additional progress is also needed to finalize the repair of banks' balance sheets and accelerate the restructuring of corporate sector debt. Further measures to assess the health of the banking system are necessary.

In the *United States*, a successful transition towards greater stability requires the normalization of monetary policy. However, the need to address potential spillovers from unconventional monetary policy tapering, notably to emerging market economies, remains. As demonstrated recently, exit from unconventional monetary support should be carefully and effectively communicated, with a forward-looking perspective, with the view to reduce the risk of market volatility and spillovers.

Emerging and frontier market economies facing financial turbulence should, on their side, use the tools at their disposal—monetary policy tightening as needed, external adjustment, macro-prudential measures, but also capital flow management where desirable and feasible–to fight financial volatility. To further take advantage of financial globalization while minimizing potential costs, policymakers should promote larger local investor bases, deeper banking sectors and capital markets, and better institutions.

BOOSTING GROWTH AND REDUCING VULNERABILITIES

We share the objectives of restoring confidence and fostering robust growth; confronting capital flow and financial vulnerabilities; and enhancing medium-term growth prospects everywhere. There is a shared responsibility among countries in delivering these objectives. Macroeconomic policies should broadly be geared at supporting growth. Stronger policy cooperation among policymakers and regulators is also required to prevent negative policy spillovers and so-called spillbacks, and to lift global growth. As indicated above, the Fund should play a central role—as it has—in analytical work and policy dialogue among the membership.

The pending fiscal and debt issues in *many advanced economies* and *some emerging market economies* should be addressed over the medium term while being mindful of the need to sustain the fragile recovery. This requires both revenue-enhancing measures and expenditure-rationalizing reforms. The latter entail strong political consensus and careful communication to be sustained and successful. A more durable solution to the debt ceiling in the United States will require such consensus and help mitigate policy uncertainty. The fragile situation of *Arab Countries in Transition* calls for priority spending to be put on job creating investments and other equity-enhancing expenditures. We share the view that countries that experience large financing needs or debt burdens would need to tighten fiscal policy more quickly.

Diversification and structural transformation remains paramount for *low-income and small middle income countries* to sustain their growth momentum, notably by bridging their vast infrastructure gaps. We are delighted to see that the Fund is now putting more emphasis on these issues in its policy priorities. Increasing revenue mobilization and spending more efficiently are necessary.

That said, the investment needs facing low-income countries (LICs) in particular would require more resources. The need for external financing is even more acute for countries that are not or little endowed with natural resources. Thus, the review of the Fund's debt limits policy, while aiming at preserving debt sustainability in LICs, should center on ways to ease access to investment financing. LICs and small middle-income countries currently face a historical opportunity to diversify and transform their economies, with global interest rates being low and expected to remain so for some time. LICs that experience relatively small fiscal deficits and low debt levels—or a low risk of debt distress—should be given increased room in borrowing for investment under the revised debt limits policy. The Fund should also deliver on appropriate advice on financial sector deepening and surveillance in LICs to channel public and private savings towards investment.

Growth performance in *Sub-Saharan Africa* continues to surprise on the high end. That said, the region is not immune from adverse spillovers from external demand and commodity price movements. Countries on the continent should put more emphasis on policies to advance regional integration as an additional source of growth. Maintaining adequate buffers against shocks also remains essential.

ADAPTING THE FUND TO THE CHANGING GLOBAL ECONOMY

We recognize that the global economic landscape is changing and that the Fund should adapt to remain relevant. In particular, the institution should be adequately endowed to meet the needs of members; be representative of the membership by providing adequate clout to members that are underrepresented relative to their economic weight; and ensure that small members have appropriate voice. It is therefore imperative that the Fund quota and governance reforms move forward, starting with the agreed 2010 Reforms which entry into force has been delayed for too long. Countries that have yet to provide their acceptance of the reforms should do so in order to make them effective.

We look forward to the implementation of the 2010 Reforms so as to complete the Fourteenth General Review of Quotas and, subsequently, proceed with the Fifteenth Review. It is essential in this process to preserve the credibility of the membership's commitments.

We share the view that, while awaiting the entry into force of the 2010 Reforms, steps ought to be taken towards implementing some elements of the agreed reforms as feasible. We welcome the potential actions [interim steps] proposed by the Chairman of this Committee to move forward.

As a quota-based institution, the Fund should be endowed with sufficient permanent resources. Meanwhile, it is important to ensure that existing resources are appropriate to meet the needs of members at all times, including--if needed—through temporary borrowing arrangements.

Finally, on *staff diversity*, there has been encouraging progress recently. However, Sub-Saharan Africa remains one of the two underrepresented regions in Fund staff, especially at managerial levels. We would expect sensible progress on this front. We view diversity as an important component of the strategy to strengthen the institution.