International Monetary and Financial Committee

Twenty-Ninth Meeting
April 12, 2014

**Statement by Ngozi Okonjo-Iweala,
Coordinating Minister for the Economy and Minister of Finance,
Nigeria**

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. Almost six years since the global financial crisis began, the global economic recovery remains uneven and fragile with significant downside risks. Although recent evidence points to strengthened global economic growth with expectations of even better performance in the near term, the growth drivers have shifted to advanced economies (AEs). The emerging market economies (EMs) are witnessing slow growth along with Arab countries in transition and small developing countries while low income countries (LICs) have been able to maintain their growth momentum. Furthermore, as the financial stability situation in AEs improves, that of emerging market economies has worsened. Increased financial market and capital flow volatility in EMs pose important challenges ahead. At the same time, fiscal vulnerabilities remain elevated and represent additional sources of risk to the global outlook. The deflation risks that have emerged from the lower-than-targeted inflation rates in AEs together with other risks associated with the recent developments in Ukraine calls for strong policy actions at national and regional levels, and international cooperation in order to address these risks and to promote a more robust global recovery for healthy job creation.

Advanced Economies

2. The US is on track to achieving an above-trend growth trajectory on the back of rising export growth, a more moderate fiscal consolidation path, and an accommodative monetary policy. The two-year budget agreement of January 2014 and the suspension of the debt ceiling until March 2015 are positive developments which have removed some of the key risks to global recovery. However, maintaining the recovery speed would require adopting a concrete fiscal consolidation plan, cautious tapering of asset purchases, strengthening of shadow banking supervision, and properly communicated monetary policy actions in order to help manage spillovers and avoid spillbacks.

3. In the euro area, high debt, low investment, structural rigidities, tight credit, and financial fragmentation continue to weigh heavily on the modest recovery, especially in emerging and developing Europe. While significant progress has been made to restore confidence in the banking sector, the transition from fragmentation to robust integration requires addressing credit market risks, particularly the credit supply-demand mismatch. Additional measures to support investment, boost trade, and promote competition will be essential for more sustainable and robust growth.

4. In Japan, growth moderation is expected due, in part, to the tight fiscal policy stance and the unwinding of both the reconstruction spending as well as the first stimulus package under the Abenomics program. Sustained growth, therefore, requires implementation of the remaining structural reforms and adoption of a credible medium term fiscal consolidation plan.

Emerging Markets and Low Income Countries

5. For the EMs and LICs, the risks are enormous with the continuous tightening of the external environment. Policy makers need to strengthen policies (domestic and external buffers) even further to shield themselves against further shocks, including through removing supply bottlenecks, boosting productivity, investing in infrastructure, enhancing macro prudential policies and adopting more flexible exchange rate systems. Sub-Saharan Africa needs decisive actions to boost intra-regional trade, address weak institutions, governance and capacity challenges. This is in addition to improving the business and investment environments.

6. It is in this regard that we welcome the recent Fund work on sustaining long-run growth and macroeconomic stability in low income countries. Sustaining long-run growth and macroeconomic stability would require a shift in focus towards structural transformation and diversification of the economy. It is now time for development strategies in LICS to increasingly emphasize diversification, given its critical role in increasing economic growth and reducing output volatility. Such strategies should include rather than abandon agriculture. While the situation may differ across LICs, it is important for authorities to focus on improving infrastructure and trade networks and reducing barriers to entry for new products. Improvements in governance, financial deepening, development of in human capital, and agricultural reforms will further facilitate diversification as well as quality upgrading.

Fiscal policy and Inequality

7. Generally as growth gathers momentum, particularly in LICs, inequality has widened leading in some cases to security threats and social unrest. In this context, fiscal policy – tax and expenditure policies - could be designed to balance distributional and efficiency objectives, including during fiscal consolidation. The appropriate mix of instruments will, however, depend on administrative capacity, as well as on society's preferences for redistribution, the role envisaged for the state, and political economy considerations. We welcome the recent Fund work in this area and urge intensification of policy advice in order to ensure a more enduring inclusive growth. This could be followed, where necessary, by technical assistance.

Policy on Debt Limits in Fund-Supported Programs

8. We view with great concern the delays in the completion of the ongoing comprehensive review of the debt limits policy in Fund supported programs. We welcome the proposed unified debt limits framework which would remove the dichotomy between concessional and non-concessional debt, and broad-based performance assessment to prevent buildup of unsustainable debt, particularly in light of the expanded range of financing options now available to LICs. However, we should guard against including conditionality that exceeds the capacity of LICs to implement or provisions that would excessively infringe on their policy independence.

Furthermore, the fund must pay particular attention to the peculiarities of individual countries and avoid one-size-fits-all approach. Our expectations of the final outcome is that the new policy will provide greater flexibility in setting debt limits without unduly constraining countries' ability to secure adequate external financing to support their significant developmental needs. However, LICs also need to strengthen their debt management and Debt Sustainability Analysis frameworks in order to properly manage their borrowing options, and prevent build up of unsustainable debt. We would appreciate further assistance by the IMF to LICs in this regard.

Global Financial Safety Net

9. We take note of the leading role the Fund has continued to play in advancing the global financial safety net through the establishment of the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument**.** Despite the limited usage of the facilities, which has largely been attributed to stigma associated with the use of Fund resources, they remain important crisis prevention and mitigation instruments. As the Fund forges ahead with the review of these instruments, it is important to ensure greater operational transparency and effectiveness backed by strong incentives for their use and timely exit. While we support the alignment of PLL qualifications with that of the FCL, qualification for the FCL should continue to require very strong economic fundamentals and institutional policy frameworks, while qualification decisions for both the FCL and PLL should take into account country-specific circumstances. Access levels should continue to be linked to the country's actual or potential balance of payments needs and supported with a strengthened discussion/assessment of external risks. In this context, further work on country-specific economic stress indices would be needed. We would also like to see a clearly articulated exit strategy, including time-based commitment fee, in order to reduce exit stigma and the risk of market surprises.

10. Consideration should also be given to strengthening the Fund's precautionary financing facilities for LICs by allowing access to the PLL for LICs, especially frontier markets that meet the qualification criteria. Some of these countries have established good track records of economic management and for various reasons may not be well supported by the concessional facilities of the Fund.

Review of the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

11. The magnitude of illicit money flows, particularly from developing countries has been a major concern in recent times and hence the need for coordinated actions to reduce the incentives for it. Accordingly, we support the Financial Action Task Force (FATF) 2012 Recommendations and the 2013 assessment methodology. We also welcome the Fund's decision to adjust the Reports on the Observance of Standards and Codes (ROSC), and Financial Sector Assessment Program (FSAP) policies concerning AML/CFT, to ensure that AML/CFT information is incorporated into all FSAPs while also introducing flexibility in the nature and scope of the AML/CFT analysis. The direction taken by staff in including financial integrity issues in Article IV consultations and Fund-supported programs is appropriate. It is, therefore, incumbent on the

national authorities to cooperate with the international community by taking decisive actions to prevent illicit money flows in their jurisdictions.

Progress in Implementing the Global Regulatory Reform Agenda

12. In furtherance of the goal of ensuring a more secure and stable global financial system, the pace of implementation of the Global Regulatory Reform Agenda should be accelerated. Five years along the line, much still remains to be done in spite of achievements recorded in the implementation of Basel III, shadow banking, data gaps, over-the-counter (OTC) derivatives, and systemically important financial institutions(SIFI) framework. Regrettably, little progress has been made in implementing reforms of accounting standards.

13. Despite the achievements, emerging market and developing economies remain deeply concerned about the impacts, particularly of new capital and liquidity rules, OTC derivatives reform and bank structural reforms, on their economies. It is therefore important to keep monitoring the impacts and carry out impact assessment and mitigation needs. The Fund can play a leading role in that regard. As such, we welcome the Fund's decision to focus its future works on macro-financial impacts of regulation, shadow banks and macro-financial risks, cross-border regulation, supervision and resolution, and spillover effects of structural measures as well as the methodology for assessing resolution regimes, and advice on national implementation of regulation.

Quota and Governance Reform

14. It is regrettable that the 2010 reform package has not come into effect thereby necessitating the postponement of the completion date of the Fifteenth General Review of Quotas from January 2014 to January 2015. While the Fourteenth General Review of Quotas would significantly reduce the quotas, voice and representation of some sub-Saharan African countries when it becomes effective, we agreed to the 2010 quota and governance reform package as it presented an opportunity to enhance the voice and representation of emerging and developing countries. However, the Board Reform has not addressed the representation issue which we have consistently requested through the establishment of a Third Chair for sub-Saharan Africa. We hope this concern will be considered at an appropriate time.

15. Furthermore, as we look forward to further discussion on the quota formula and the Fifteenth General Review of Quotas, we hope the persistent erosion of Africa's quota at the IMF would be reversed, given the profound negative impact any action to the contrary would have on the Fund's credibility, legitimacy and effectiveness. We urge the IMFC to deeply consider our position, and ensure that the quota formula that will inform the Fifteenth General Review of Quotas not only removes the bias against small emerging and developing countries, but also protects the smallest members as earlier agreed.