INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Third Meeting
April 8, 2021

IMFC Statement by Lesetja Kganyago
Governor for the South African Reserve Bank

South Africa

On behalf of

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

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The impact of the COVID-19 pandemic on the global economy has been unprecedented. The virus has taken a severe toll on human lives with disproportionate effects on vulnerable groups. The impact on our economies has been significant in the context of pre-existing vulnerabilities, including weaknesses in our health systems. Thus, the availability and even distribution of vaccines to all countries is essential to preserve human lives and achieve population immunity to lay the groundwork for a durable exit from the crisis.

The global economy is showing positive signs of recovery, supported by an unprecedented policy response. We note that GDP projections for 2021 have been revised upwards, benefiting from the optimism about vaccine production and distribution. **However, this outlook remains uncertain and uneven.** Mutations of the virus and subsequent waves of infection, amid limited vaccine access and deployment, could result in a delayed recovery. The IMF estimates that over 150 countries will see per capita incomes below pre-COVID levels and nearly 90 million people are expected to fall into extreme poverty by the end of 2021. Output losses in emerging market and developing economies (EMDEs) are expected to be higher than in advanced economies. **We are, therefore, concerned that the extent of economic divergence resulting from the COVID-19 crisis could see many countries left behind.**

Against this background, **we welcome the IMF's immediate policy priorities centered around tackling the crisis and safeguarding the recovery**. International cooperation to ensure universal access to vaccines is central to a sustainable recovery. Essentially, vaccine policy is synonymous with economic policy. Concurrently, policy efforts should remain geared to support vulnerable households and businesses until the recovery is firmly entrenched.

Sub-Saharan Africa (SSA) remains vulnerable. The regional economy is projected to rebound in 2021. However, the level of GDP growth is anticipated to be significantly lower than before the COVID-19 crisis. The contraction of the regional economy in 2020 was driven by pronounced declines in travel, trade, tourism, remittances, and capital flow reversals. Given pre-existing vulnerabilities in SSA, the COVID-19 crisis is likely to leave deep scarring effects, including on physical and human capital, worsen poverty and inequality and will contribute to digital exclusion and increased risk of social discontent. Against this background, governments in the region will prioritize structural reforms to support economic recovery, employment, and productivity; enhance resilience; lift potential growth; and promote inclusion.

The region needs to build resilience in the face of possible future external shocks. Such resilience would provide a firm foundation for the region's projected strengthening over the medium-term. The region's improved growth prospects are in contrast with the projected moderation of the global economic recovery in 2022.

We endorse the Global Policy Agenda. In particular, we welcome the IMF's efforts to tackle weaknesses in tax systems, address illicit financial flows, strengthen social safety nets and improve governance.

A strong global financial safety net remains critical to enable countries to deal with short term liquidity challenges, while putting in place policies to sustain the recovery. The IMF estimates that low-income countries (LICs) would need to deploy around US$450 billion up to 2025 to step up their response to the pandemic and build adequate reserve buffers, as well as increase investment spending that would accelerate their income convergence with advanced economies.

We call on the IMF to make the proposal for the new general SDR allocation of US$650 billion in a timely manner. Elevated health-related expenditures as well as weak revenues have created large fiscal and external financing gaps for SSA countries. Considering the large external financing needs, and the negative repercussions of the pandemic, we strongly support the proposed general Special Drawing Rights (SDR) allocation, which would augment global liquidity and support the reserve positions across the Fund membership. We also urge the IMF to explore the voluntary re-allocation of existing SDRs from members with strong external positions to benefit countries in need of liquidity, including middle-income countries (MICs).

A holistic approach is needed to restore debt sustainability. Ongoing efforts, including debt transparency and re-orienting spending towards priority investments and social protection, are essential to ensure long term fiscal and debt sustainability. To complement these efforts, countries in our region will prioritize implementation of measures to enhance domestic revenue mobilization, broaden the tax base, and improve tax administration. Multilateral cooperation and support from the international community will continue to play a vital role in dealing with debt vulnerabilities to accelerate growth and restore debt sustainability. We, therefore, endorse the Fund's approach to debt management and the multipronged approach (MPA). We encourage the IMF to continue to provide the necessary capacity development support to strengthen debt management and enhance transparency in debt recording.

We support the debt relief through the Catastrophe Containment and Relief Trust (CCRT) and the G20 Debt Service Suspension Initiative (DSSI), which unlocks resources for the poorest and most vulnerable Fund members, including the fragile and conflict-affected states, to help fight the pandemic. To this end, we welcome the extension of the DSSI and the approval of the third tranche of CCRT debt service relief for 28 CCRT-eligible members during the period from April 14, 2021 through October 15, 2021. We look forward to the expeditious operationalization of the Common Framework for Debt Treatments beyond the DSSI. At the same time, we encourage the full participation of private creditors, in a way that moderates adverse market and credit rating agency reactions. We call for increased multilateral efforts to improve the architecture for sovereign debt resolution to facilitate expeditious debt treatments.

We commend the Fund's swift response to provide critical support since the onset of the pandemic. We welcome the Fund's prompt provision of emergency financing, including through augmenting existing financial programs and temporarily extending modified access limits, to create additional fiscal space to tackle the pandemic. We draw attention to the role of precautionary financing instruments in helping eligible countries deal with external tail risks.

In this context, we urge the Fund to ensure timely adaptation of its lending toolkit to the evolving needs of LICs and MICs during the recovery. We also want to encourage the IMF to explore non-traditional and predictable funding options to boost the Poverty Reduction and Growth Trust's (PRGT) resources as well as to deploy more resources towards capacity development. We look forward to the review of the Fund's concessional lending capacity, including more permanent reforms of PRGT facilities.

Fund surveillance plays a critical role at both a bilateral and multilateral level in identifying risks and considering policy priorities and trade-offs. We, therefore, welcome initiatives to strengthen the Fund's surveillance toolkit, including the integration of capacity development into surveillance. Over the past year, IMF surveillance deepened our understanding of policy risks related to the spread of the COVID-19 pandemic and we value tailored policy advise provided by Fund staff. We welcome the resumption of Article IV consultations and prioritization of the completion of the Comprehensive Surveillance Review in mid-2021. To mitigate financial risks among all countries, the IMF should enhance analysis of the financial system in bilateral surveillance, including in LICs.

Given that the crisis has exacerbated tax revenue challenges in EMDEs and LICs, we welcome the agenda on revenue mobilization, including the resumption of work on illicit flows. The Fund's policy advice on the application of the Institutional View (IV), and the Integrated Policy Framework (IPF) tools, is also a critical workstream in the context of volatile capital flows. We welcome the IMF's focus on fostering knowledge sharing and multilateralism, and support the work with partners to enhance cross-border payments. Going forward, augmenting policy effectiveness and enhancing access to finance for the informal sector, including for small and medium-sized enterprises (SMEs), youth, women, and low-skilled workers will require sustained technical assistance support.

We recognize that risks from climate change are of increasing concern and agree that transition to a low carbon economy will help build resilience in our economies. Global cooperative efforts are, therefore, required to mitigate climate change and assist vulnerable countries with adaptation costs. In this regard, the availability of adequate, credible and predictable climate finance is critical to ensure that EMDEs deliver on climate action. Our approach to climate change must be consistent with the principles of the Paris Agreement. We welcome the IMF's efforts to strengthen surveillance to help us understand adjustment costs to a low-carbon future and the macro-critical implications of climate change, taking into account country differences. Appropriate technical assistance and capacity development will, however, remain important for countries in SSA, especially oil producers and those dependent on coal for electricity production.

The COVID-19 pandemic has highlighted the importance of multilateral cooperation in buttressing the global economic recovery. Therefore, we remain committed to upholding a rules-based multilateral trading system that builds resilience in global supply chains and strengthens international investment. To this end, resolving trade tensions should be prioritized. Furthermore, we call for global cooperation to promote broader connectivity, particularly in digitalization, which has the potential to contribute to productivity and inclusion.

Even as we get through this crisis, we should guard against complacency. We need to ensure that the Fund remains adequately resourced, to preserve its role at the center of the global financial safety net. The Fund remains the primary safety net for many African economies. We call on the Fund to complete the 16th General Review of Quotas (GRQ) no later than December 15, 2023. Constructive consultations on governance reforms and quota increases and realignments should proceed as planned to ensure credibility, reduce dependence on borrowed resources and ensure that the Fund remains a quota-based institution. Finally, we reiterate the longstanding call for a third chair for SSA at the Executive Board to strengthen our representation at the Fund.

Recruitment, retention and promotion of staff, from under-represented regions, including SSA, remain important. We call for sustained efforts to achieve the 2025 Diversity benchmarks to ensure increased gender and regional diversity.