International Monetary and Financial Committee

Twenty-Eighth Meeting
October 12, 2013

**Statement by the Honorable Pravin J. Gordhan,
Minister of Finance for South Africa**

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

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Global Economy

Despite changing dynamics, global growth remains subdued. Growth in key emerging market and developing countries (EMDCs) has slowed while recent indicators point to somewhat stronger economic activity in several advanced economies. In sub-Saharan Africa, economic activity remained strong, particularly among oil exporters and low-income countries. Middle-income countries with closer ties to advanced economies saw a deceleration, owing in part to slower global growth, weaker trade and lower commodity prices.

While stronger economic activity in advanced economies will have a positive impact on global growth, they also have negative spillover effects to EMDCs. Already, expectations of a tapering of quantitative easing by the United States have generated large capital outflows, rising financing costs and rapid currency depreciations in a number of EMDCs thereby negatively impacting on their long term growth prospects.

Going forward, downside risks remain elevated. In the euro area, recent indicators point towards a re-emergence from the recession, but with its weak banks and high sovereign debt, the euro area remains fragile and vulnerable to sharp shifts in sentiment. The United States has seen several quarters of relatively strong economic activity and this had a positive impact on global growth. At the same time, however, uncertainty regarding the unwinding of unconventional monetary policies and the threat of potentially devastating budgetary challenges continue to pose serious risks to the global economy. In particular, clarity in the communication of an exit strategy regarding the withdrawal of monetary stimulus is critical in minimizing the negative impact thereof.

No further innovations can be advanced regarding policies other than those previously recommended in various IMF publications. Advanced economies need to continue implementing the necessary reforms. Emerging markets have shown resilience to the crises owing to strong policy frameworks. In the face of continuing uncertainty, EMDCs including low-income countries should seek to strengthen their policies 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.

Quota Formula Review

The Quota Formula Review discussions were concluded on January 31, 2013 without an agreement on a new quota formula. Since then new simulations based on updated data were presented to the Executive Board. It would appear that Directors’ positions on the treatment of each variable in the formula had not changed significantly from their positions in January 2013, and consequently still no agreement could be reached.

In a spirit of cooperation, we continue to support the work on the new quota formula as the foundation for quota review. However, we believe that comprehensive IMF governance reform requires more than just a mechanical application of a formula, particularly, when the shortcomings of the current formula are well known i.e. it is phenomenally biased against small emerging and developing countries, including many countries in our constituency. The formula as presently applied has continued to generate an erosion of Africa’s quota at the IMF. This has a profound negative impact on the Fund’s credibility, legitimacy and effectiveness.

Moreover, the formula is incapable of addressing the representation deficit of sub-Saharan Africa on the IMF Board. The fact that we have only two chairs representing 43 countries in sub-Saharan Africa is unacceptable. Against this backdrop, we urge the IMF to address this representation deficiency with the urgency it deserves. We have called upon the IMFC on numerous occasions that establishing a Third Chair for sub-Saharan Africa is the best way forward and we respectfully request the IMF to begin to take this matter seriously.

Review of the Fund's Transparency Policy

Transparency is crucial in enhancing the quality of the Fund’s surveillance and policy advice, especially at a time when more resources have been committed to the work of the Fund. Some progress has been made in improving transparency since the 2009 policy was put in place, but more need to be done. While the recent increase in publication rates for country documents is encouraging, there is still room for further improvements. We have witnessed in our constituency recently, a number of our member countries which have consented to publication of their Article IV reports, but did so reluctantly. The reason for their reluctance has been their inability to effect meaningful changes to the reports regarding market sensitive issues they disagree with. A policy on deletions and corrections that is unambiguous and consistently applied is essential for striking the right balance between the goals of protecting the Fund’s role as a trusted advisor and maintaining the integrity of the staff reports.

We welcome the proposal to shorten the publication lag deadline to meet the increasing global expectations for the Fund’s surveillance role of averting and limiting crises, provided that the policy also ensures that national authorities are presented with the reports on a timely basis and that their comments and inputs are comprehensively considered in a verifiably even handed manner.

2013 Low-Income Countries Vulnerability Report

The *2013 Low-Income Countries Global Risks and Vulnerability Report* shows that despite impressive resilience in terms of sustaining strong growth rates in adverse environments, most low-income countries still face challenges in the transformation of their economies that would result in more inclusive growth and rapid progress towards the Millennium Development Goals. Moreover, progress in rebuilding buffers after the crises has been slow and uneven with significant fiscal vulnerabilities persisting, particularly in many oil exporters, as well as small and fragile low-income countries.

Against the backdrop of limited macroeconomic policy space, the provision of additional external funding will be necessary over and above domestic policy adjustments. In this regard, the International Financial Institutions, including the IMF, are well positioned to provide financial assistance although there would also be a need for additional support from bilateral donors.

2013 Diversity and Inclusion Annual Report

The FY 2013 *Diversity and Inclusion Annual Report* shows that although there was some progress on the Fund's efforts to promote a more diverse and inclusive working environment, such progress has been uneven. Moreover, reaching the 2014 diversity benchmarks for the underrepresented regions – Africa, the Middle East, and Transition Countries - and women, by the end of 2014 is unlikely. Diversity and inclusion are central to the Fund's credibility, legitimacy and effectiveness and thus should receive increased focus, including through ensuring its full incorporation into the Accountability Framework for managers and staff management practices.

Policy on Debt Limits in Fund-Supported Programs

As the Fund forges ahead with the comprehensive review of the debt limits policy in Fund supported programs, it will be important that the reforms ensure not only evenhandedness across the membership but also increased flexibility without unduly constraining implementation of their development agenda.

While the proposed unified debt limits framework which would remove the dichotomy between concessional and non-concessional debt is a step in the right direction, such a framework should avoid unduly constraining adequate financing of development needs in the event that subsequent program debt ceilings are either overly conservative or inadequately tailored to country-specific circumstances. As an integral part of this review the Fund should work more closely with country authorities and continuously monitor the adequacy of these limits.

In addition, the new policy should not create disincentives against increased recourse to financing from LICs' domestic and regional markets, which is critical to promote financial deepening in these countries. More importantly, the reform needs to preserve incentives for low-income countries to borrow on concessional terms as well as ensuring that they receive favorable terms on their borrowing. At the same time, the Fund will need to step up capacity building efforts and technical assistance to low-income countries in the area of debt management. Efforts should also be made to explore options for debt relief in favor of non-HIPC countries in debt distress.

Fund Capacity Building Program and Improving Data Quality

We appreciate the contribution that the Fund's capacity building program has played in building institutions and capacities in member countries that support formulation and implementation of sound economic and financial policies. However, the quality of data is weak and there exist significant data gaps. This limits in-depth research and analysis of policy issues and constrains appropriate diagnosis of policy issues and reliance on evidence-based policy advice. We note that while various member countries are part of the General Data Dissemination System and others are graduating to the Special Data Dissemination Standard, quality of data remains a challenge. In this regard, we would appreciate the Fund focusing the capacity building program on enhancing data collection and quality in the region.