International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

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

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

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Global Economy

1. The optimism that greeted the post-crisis recovery seems to be waning with below par global growth in the first half of 2014. The lower-than-expected growth performance in advanced and emerging market economies in the first quarter of the year further stalled the already brittle and uneven global recovery. Although a modest rebound is expected in the second half of 2014 through 2015, the pervasive downside risks cast serious doubt about strong recovery in the medium-term. In this regard, raising actual and potential growth in all jurisdictions becomes a policy priority. Achieving this goal would require appropriate mixes of accommodative monetary policy, properly calibrated fiscal regimes, structural reforms and macro-prudential tools.

Advanced Economies

2. In spite of the accommodative monetary policy and slowing fiscal consolidation, the recovery in advanced economies remains weak and uneven. In the *United States*, after a slow start in the first quarter of the year, growth has rebounded strongly on account of stronger private consumption and fixed investment, ramped-up state and local government spending, and a correction of the larger-than-expected end 2013 inventory overhang. In order to further strengthen growth, the authorities need to properly manage exit from the unconventional monetary policy, and reach bipartisan agreement on a credible medium–term fiscal consolidation plan.

3. In the Euro *area*, economic activities slowed down in the second quarter of the year but are expected to strengthen gradually with continuous implementation of appropriate policies including moderating fiscal consolidation, further monetary easing, and improved lending conditions. In Japan, a stronger-than-expected performance in the first quarter due to one-off factors that boosted consumption and investment has waned, and with the planned unwinding of the fiscal stimulus growth is not likely to change. This means that the current aggressive monetary easing would have to be maintained for an extended period. This is in addition to a concrete post-2015 fiscal consolidation plan that would provide greater flexibility to respond to downside risks.

Emerging Market and Developing Economies

4. In emerging market economies (EMEs) weak and uneven growth continues, although moderate recovery is expected going forward on account of stronger demand from advanced economies and favorable global financial conditions. The strong growth in low income countries (LICs) would continue in the near-term. However, both the EMEs and LICs face severe external risks particularly, those arising from the possible tightening of financial conditions following asynchronous normalization of monetary policy. Going forward, policy makers need to adopt credible macroeconomic policies and frameworks especially building domestic and external buffers to shield themselves against further shocks. This would involve removing supply bottlenecks, boosting productivity, investing in infrastructure, enhancing macro prudential policies, and adopting more flexible exchange rate systems.

5. For sub-Saharan Africa (SSA), the nascent positive growth trajectory is increasingly being threatened by rapid build-up of fiscal vulnerabilities in a number of countries, and the worsening security conditions in some others which, apart from the spillover effects on some neighboring countries, also have adverse implications for stability and growth. Against this backdrop, greater emphasis on sustaining macroeconomic stability is warranted, particularly in countries where fiscal space permits. In others, policy makers have to make revenue mobilization and broadening of the revenue base a priority. There is also a need for conscious efforts to enhance the effectiveness of monetary policy, and structural reforms including by boosting intra-regional trade, addressing weak institutions, governance and capacity challenges, and improving the business and investment climate.

6. Of particular concern for the SSA is the Ebola Virus Disease (EVD) crisis which has already taken an extremely heavy toll on the three most affected countries - Guinea, Liberia and Sierra Leone. Apart from the unfortunate loss of many lives, the political, economic and social disruptions have been severe, and could negatively impact the medium term outlook in these countries and the entire sub-region if the crisis persists much longer. In this regard, we call for sustained support and cooperation of the international community in combating the EVD. We are, indeed, very grateful for the support already provided to these countries by development partners through organizations like the World Health Organization, Doctors Without Borders, and by international financial institutions, including the IMF , the World Bank and the African Development Bank. Of particular note is the recent unanimous decision by the Executive Board of the IMF to provide additional financial resources to each of the countries to address their widening balance of payments and fiscal needs. However, in view of the evolving nature of the crisis, we urge the Fund to stand ready with a contingency plan should supplementary financial resources be needed to effectively address the crisis. We equally welcome the flexibility on fiscal deficit and debt limit policies with respect to the affected countries to enable them address the problem.

Sovereign Debt

7. We welcome the current review of the Fund's lending framework (exceptional access framework) which seeks to provide the Fund with more policy options for dealing with countries in sovereign debt distress, and also reduce the cost of debt restructuring for both

debtors and creditors. An option of note is the one that would allow a country that has lost market access (and with uncertainty about sustainability of its debt with high probability) exceptional access to Fund resources on the basis of a debt operation that involves an extension of maturities. Such a "reprofiling" operation, coupled with the implementation of a credible adjustment program, would improve the prospect of securing sustainability and regaining market access, without having to meet the criterion of restoring debt sustainability with high probability. Furthermore, since reprofiling will be market based, agreement by sovereign creditors to amend the terms of the instruments to extend maturities would be needed. It is in this regard, that we support the Fund's work on strengthening the contractual framework to address collective actions problems in sovereign debt restructuring.

8. We note the progress made on the review of policy on debt limits in Fund-supported programs. However, while we consider a unified debt limits framework (encompassing all borrowing regardless of terms) would provide stronger safeguards for debt sustainability, we urge that the framework provides individual countries the necessary flexibility to blend concessional with non-concessional financing as needed, bearing in mind that these two types of financing are imperfect substitutes. The evolving debt limits policy conditionality should not constraint the efforts of LICs policy makers to address their infrastructure deficits. It should also be monitorable, and reasonably within the direct control or influence of the authorities. In particular, it is important that debt conditionality takes into account the uncertainties related to debt negotiation outcomes and the timing of disbursements. The framework should equally refrain from requirements that could stigmatize countries and undermine the avowed principle of increased flexibility. Above all, it should be flexible enough to allow countries to tap into a wider range of financing options. This would enable developing countries to invest in meaningful transformative infrastructure projects and inclusive growth while preserving debt sustainability.

Surveillance

9. The importance of enhanced surveillance came to the fore with the recent global financial crisis. Thus continuous strengthening of the Fund's surveillance framework should be a priority. It is in this sense that we encourage the Fund management to fully implement the recommendations of the 2014 Triennial Surveillance Review including integrating and deepening risks and spillover analysis. Going forward, we would like to see a fully embedded macro-financial analysis in Article IV surveillance, as well as more tailored expert advice to countries based on a deeper understanding of countries' macroprudential policy and its interactions with other policies. In addition, the Fund should aim at achieving greater impact by conducting surveillance based on thorough knowledge of country perspectives; more client–focused, yet candid, communication; ensuring evenhandedness in surveillance, policy advice, and traction; and fostering global cooperation.

10. We are particularly concerned about financial sector surveillance which the Fund has been conducting through the Financial Sector Assessment Program (FSAP). Although the exigencies of the financial crisis and resource constraints led to the 2010 decision that restricted mandatory FSAPs to jurisdictions with systemically important financial sectors, the recent review of the FSAP did not only uphold the 2010 decision, it went further to adopt

other forms of engagements – improved coverage of financial sectors in Article IV consultations and more targeted technical assistance and dissemination of best practices – to address the needs of non-systemic jurisdictions. We strongly feel that technical assistance should not be a substitute for FSAPs. In the interest of evenhandedness, the frequency of FSAPs should be increased for non-systemic countries, including low-income countries.

Quota, Voice and Diversity

11. Following the disappointing outcome of the quota formula review last year, we note with concern that no progress has been made so far this year except the data update and quota calculations based on the existing quota formula reviewed recently by the IMF Executive Board that still fails to address the concerns we have raised since 2008. While we welcome the continued commitment of Fund members to resume the discussions on the quota formula jointly with the 15th General Review of Quotas, we look forward to an outcome that effectively supports our long-standing call for enhanced quota share, in particular, through a revised quota formula that reflects fair and better shares of African economies in line with their new dynamism. We hope that the persistent erosion of Africa's quota shares would be reversed, given the profound negative impact any action to the contrary would have on the Fund's credibility, legitimacy and effectiveness. In addition, we call for further enhancement of the voting shares of African countries through an upward revision of basic votes.

12. We reiterate our long-standing call for the IMF Executive Board to be aligned with the growing mandate of the Fund and effective representation. To this end, the Board Reform has not addressed the Representation issue through the establishment of a Third Chair for sub-Saharan Africa, which we have consistently requested. Having 45 sub-Saharan African countries represented by only two Chairs at the IMF Executive Board weakens the Fund's legitimacy and effectiveness.

13. We welcome efforts being made to address diversity. However, we wish to stress that further progress is needed. Presently, the representation of Africa in high decision making structures and among staff continues to be insignificant. The recruitment and promotion of African staff continue to fall short of the set targets. We caution against a downward revision of the targets and reaffirm our call to strengthen the accountability frameworks for meeting the targets and to make every effort to expand the pool of institutions from which staff is recruited, including reputable Universities in Africa. Finally, in order to monitor the progress made to address our diversity concerns, we call upon the Management of the Fund to present an annual status report to the Governors.