International Monetary and Financial Committee

Thirty-Fifth Meeting
April 21–22, 2017

Statement No. 35-20

Statement by Mr. Gigaba
South Africa

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, Somalia, South Africa, Republic of South Sudan, Sudan, Kingdom of Swaziland, United Republic of Tanzania, Uganda, Zambia, and Zimbabwe

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Statement by Mr. Malusi Gigaba, Minister of Finance for South Africa
On behalf of Angola, Botswana, Burundi, Eritrea, Ethiopia, The Gambia, Kenya, Lesotho, Liberia, Malawi, Mozambique, Namibia, Nigeria, Sierra Leone, Somalia, South Africa, Republic of South Sudan, Sudan, Swaziland, Tanzania, Uganda, Zambia, Zimbabwe

Global Economy

1. The global economic recovery is gathering momentum, with improved confidence and growth prospects among advanced economies, a modest rebound in commodity prices, and improvements in global trade. This notwithstanding, we agree with the observation made in the IMF's flagship publications that the risks to the outlook are tilted to the downside, with emerging protectionist trends introducing new risks that may threaten an already fragile global economy. In addition, the multilateral framework is being questioned by some groups and financial sector regulatory reforms risk being rolled back. Further threats include renewed risks stemming from heightened geopolitical concerns and policy uncertainty.

2. Emerging markets continue to experience the strongest growth and risks of a disorderly adjustment in China are somewhat abated. However, the prospects of developing economies are at risk of diverging. The threat of a reversal of capital flows looms large as monetary normalization gets underway in the US, and the global search for yield slows. Although commodity prices have improved, the sustainability of this rebound remains in question.

3. For sub Saharan Africa, growth continues to be hampered by adverse cyclical and supply-side factors. Countries that need to diversify their economies at a time of rising global interest rates and dwindling buffers are facing procyclical forces that present substantial challenges to maintaining policy stability and achieving the 2030 Sustainable Development Goals (SDGs). While non-commodity exporters continue to experience strong growth, they also have weak fiscal buffers and rising public debt. Meanwhile, a severe drought experienced mostly in Eastern and Southern Africa has had a devastating impact on agricultural production and led to high inflation. This has in turn dented the economic gains for non-resource countries that benefited from lower oil prices.

Supporting Growth in sub Saharan Africa

4. Adopting the right policy mix in this environment is also important, including through rebuilding buffers to adequately cushion economies against shocks. Therefore, while we maintain our support for the 3-pronged approach in the Global Policy Agenda, a stronger emphasis on structural reforms and diversification is warranted. Addressing constraints to productivity, achieving durable growth and having effective taxation systems in place are essential to achieving stability. In this regard, we call on the Fund to provide more long-

term capacity-building support and advice to strengthen domestic resource mobilization. We welcome the commitment to expand the Infrastructure Policy Support Initiative and the current review of the Public Investment Management Assessment (PIMA) framework. We also wish to indicate our support for the G20 Compact with Africa (CWA) initiative.

5. The current environment is very challenging for developing economies. Although capital flows have remained stable during this period, the threat of outflows looms large as price pressures become more evident in larger economies. In this context, while we view maintaining free-floating exchange rates and liberalization as an important policy goal, we note that significant short-term balance sheet effects, amplified by the current supply-side inflation pressures, are a threat to welfare gains and stability. Therefore, country-specific Fund advice on appropriate sequencing and timing of liberalization is critical.

6. We continue to call on the Fund to work closely with relevant partners to identify concrete solutions to address the withdrawal of correspondent banking relationships in the region. We also reiterate our support for developing strong mechanisms to help deal with illicit financial flows that have drained the region of much needed resources to finance development. In this regard, we advocate for greater transparency on cross-border flows of goods and financial services. We welcome recent efforts by the Fund to address these issues and urge that greater attention be accorded to them within the Global Policy Agenda.

7. Overall, we are of the view that the IMF should provide more technical assistance in banking, tax administration, and measures to promote investment in infrastructure and job creation.

Fund Surveillance

8. We support the integration of macro-structural issues into Fund surveillance and welcome the recent discussion by the IMF Board. We take positive note that the conceptual framework for macro-structural analysis includes issues of inequality and gender, and we look forward to the results of the initial application of the framework in 2017, as well as further studies by the Fund on the informal sector in sub-Saharan Africa and inequality in low-income countries.

9. Integrating macro-financial surveillance into Article IV consultations is a positive step, though we caution that it must be undertaken in a manner consistent with promoting greater financial deepening and inclusion. Our countries will continue to work with the Fund to improve financial sector policy. Tighter financial sector regulation is an important tool to lower macro-economic risks.. Accordingly, moves toward deregulation in this sector should receive a proactive response from the Fund. In addition, while we support the Fund’s work on the institutional view on the management of capital flows, we reiterate our view that the Fund should ensure that measures adopted are tailored to meet country specifics.

10. We support the integration of macro-critical issues into the Fund's work, including the impact of climate change, gender and various spillovers. We note that the integration of macro-critical issues in Fund surveillance should be undertaken in a country-specific way.

11. We look forward to the completion of the Fund's review of the LIC Debt Sustainability Framework (LIC-DSF) and the integration of the Fund's assessment of fiscal space into bilateral engagements.

Fund Lending

12. We look forward to the completion of the ongoing work on strengthening the global financial safety net (GFSN), including the results of the study on the IMF's alignment with Regional Financing Arrangements (RFAs), and efforts to close gaps in the international monetary system. We appreciate the recent work on enhancing the GFSN for developing countries, including the clarification on blending of Poverty Reduction and Growth Trust (PRGT) and General Resource Account (GRA) resources. We note that these and other matters will be clarified in the staff handbook on Fund facilities and look forward to evenhanded implementation in this regard.

13. We welcome the ongoing work on the Fund's toolkit reform, including the proposal for a new liquidity tool and a policy support tool. We look forward to assessing the usefulness of these tools within our own contexts.

Governance and Fund Resources

14. We support the principle of an adequately-resourced and quota-based IMF that responds to the needs of the membership in an agile manner. In this regard, we look forward to the completion of the 15th General Review of Quotas, including the introduction of a new quota formula, by the 2019 Spring Meetings but no later than the 2019 Annual Meetings. Finally, we reiterate our call for a third chair for sub-Saharan Africa on the IMF Board.

Diversity and Inclusion

15. We remain of the view that the Fund's effectiveness will be enhanced by diversifying the staff complement, that includes not only the right mix of skills but diverse experiences and perspectives as well. Although some progress was made towards achieving the new 2020 diversity benchmarks, strengthening the career pipeline and promotion representation is important to meet the benchmark at the managerial level. We continue to urge the Fund management to increase focus on both recruitment and retention of nationals from underrepresented regions to ensure the benchmarks are attained. Further, we reiterate a review of the benchmarks to ensure they are set to adequately address the representation of the region. We reaffirm our call to expand the pool of institutions to include universities in Africa and urge that this translates into actual hiring of African nationals. It is our position that diversity of views and experience will go a long way in enriching the Fund's delivery of services to its membership. We welcome the focus on gender diversity at the Executive Board.