INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Ahmed Osman Ali
Governor of the Central Bank
Djibouti

On behalf of
Benin, Burkina Faso, Cameroon, Central African Republic, Chad,
Union of the Comoros, Democratic Republic of the Congo,
Republic of Congo, Côte d'Ivoire, Djibouti, Republic of Equatorial Guinea, Gabon,
Guinea, Guinea-Bissau, Republic of Madagascar, Mali,
Islamic Republic of Mauritania, Mauritius, Niger, Rwanda,
Democratic Republic of São Tomé and Príncipe, Senegal, and Togo

IMFC Statement by Mr. Ahmed OSMAN ALI
Governor of the Central Bank of Djibouti
April 14, 2023

We would like to express our deepest sympathies to the people of Turkey, Syria, Mozambique, Malawi, and Madagascar for the loss of life and profound suffering caused by recent natural disasters. We also express our deepest compassion to the human victims of the war in Ukraine and all conflicts around the globe.

Global Outlook and Policy Priorities

The risks of deterioration in the global growth outlook have risen sharply in recent weeks, despite positive signs in some key areas. While strong labor markets in advanced economies, unravelling of supply bottlenecks, and stronger activity in China gave reasons to be optimistic about a stronger recovery, the threat that the worst prospects unfold is becoming more prominent. The recent bank failures and troubles in the USA and Europe have sent alarming signals, notably in emerging markets and developing economies (EMDEs)—and more acutely in low-income countries (LICs)—on which turmoil in financial sectors in advanced economies usually have large negative spillovers. For instance, one consequence has been the increase in the sovereign spreads of bond issuers in Sub-Saharan Africa, which have had limited access—if any—to international markets in the past 12 months, thereby further tightening financial conditions and increasing debt vulnerabilities. These developments come on top of multiple other shocks, notably the pandemic and the war in Ukraine, which have significantly impacted global stability and reduced policy buffers. We, therefore, welcome the timely policy actions taken so far to contain the turbulence and restore stability and confidence in financial markets. Prudential regulation and supervision frameworks should be strengthened further, including to address interest rate risks, to ensure financial sector resilience and stability.

We are also concerned by the persistent challenges facing the global economy which resolution calls for renewed multilateralism and collective actions. We regret the continuing geopolitical tensions and heightened fragmentation within and across countries, which accentuate inequalities, food insecurity, and uneven progress towards sustainable and inclusive growth. We call for reducing geopolitical tensions through diplomatic means and efforts to end the Russia-Ukraine war. Climate change continues to have devastating effects around the globe and in LICs in particular, including the severe drought in the Horn of Africa. Increased debt vulnerabilities add to the challenges. We should not also lose track of the difficulties posed by insecurity in the regions of Sahel, Great Lakes, and Horn of Africa, with daunting growth, budgetary and humanitarian impacts. While the economic prospects for LICs are relatively positive, their growth rates are not sufficiently strong to offset the increasing risk that a significant number of the world population will fall back into poverty and extreme poverty, derailing achievement of the Sustainable

Development Goals (SDGs) and further aggravating divergence in standards of living with middle-income countries (MICs).

With downside risks to the global outlook remaining elevated, policymakers should pursue strong and well-calibrated domestic macroeconomic policies to contain inflationary pressures and safeguard economic and financial stability while supporting the recovery and protecting the most vulnerable populations. Continuing to bring inflation down towards targets and ensuring that inflation expectations remain well-anchored through sufficiently positive real interest rates should remain the priority for most central banks. We concur on the need for the necessary fiscal consolidation to support monetary policy and prevent the burden of the fight against inflation to lie excessively on central banks out of concern for preserving growth. Fiscal policy should aim at preserving fiscal and debt sustainability in a growth-friendly manner to the extent possible while putting in place or enhancing social protection programs.

The external funding squeeze already experienced by some Sub-Saharan African (SSA) countries calls for stepped up efforts to mobilize domestic revenue. Also critical are the actions to address the security challenges facing many countries in SSA, which threaten their fiscal sustainability, create humanitarian crises, and delay their progress towards achieving the SDGs. Support measures to help populations cope with the elevated inflation should be adapted to country circumstances and preserve price signals to the extent possible, to help maintain or increase fiscal space to address more structural social and development needs. However, where such measures have been in the form of price freeze or generalized price subsidies, notably for food and energy, it is critical that their removal be gradual to preserve social cohesion in such trying times while maintaining well-targeted direct support to vulnerable groups.

We are particularly concerned by the adverse spillovers risks on EMDEs of the policy decisions in advanced economies. The tighter monetary policies in those countries are having negative effects on financial stability, financing conditions, and debt sustainability in EMDEs. We call for close monitoring of these risks and greater consideration of measures to appropriately mitigate their potential impact while EMDEs continue to address the lingering effects from multiple shocks and strengthen their economic resilience.

Structural reforms are also important for strengthening the resilience to shocks and spur strong and inclusive growth. The efforts by LICs in Sub-Saharan Africa to address the effects of climate change and preserve the planet as a global public good, through mitigation and adaptation strategies, should be supported more effectively by the international community. Moreover, diversifying the sources of growth and advancing the structural transformation of their economies in a manner that achieves sustainable and inclusive development—including job creation for their youth—should remain a priority for these countries.

The Global Policy Agenda

We support the Managing Director's Global Policy Agenda, including its emphasis on the institution's Integrated Policy Framework and its work on governance, trade, digital money, and climate change issues, and appreciate that critical issues for LICs such as food insecurity and rising poverty have been highlighted. We commend the Fund for the creation of a dedicated Food Shock Window under its emergency facilities to address the urgent balance of payments pressures stemming from the global food crisis. It is imperative that such an initiative be supported by the efforts of the international community to ease the supply constraints on food and fertilizers and help LICs invest to increase their agricultural productive and storage capacities. Moreover, considering the extremely challenging environment facing LICs, especially those facing increasing food insecurity, we call on the Fund to be bolder and more flexible concerning the Food Shock Window to enable greater number of countries to access this important and timely financing instrument.

We welcome the emphasis on supporting vulnerable countries, notably low-income countries and fragile and conflict-affected States. Many of these countries are facing security-related shocks which have a bearing on their fiscal position. The management costs of refugee flows and internally displaced populations, as well as the pressure of these movements on socio-economic infrastructure, constitute additional pressures on the public finances. This requires an integration of security challenges in the IMF surveillance. This could be done through in-depth analyses of their fiscal and growth impact and spillovers, as well as increased capacity development assistance and financial support as needed. We welcome the Fund's Strategy for Fragile and Conflict-Affected States (FCS), which should provide operational advice and resources to better support those countries.

Addressing debt vulnerabilities through debt restructurings remains of the essence. For vulnerable low- and middle-income countries facing debt distress, it is urgent to accelerate progress in the implementation of the G20's Common Framework. We welcome that Chad's debt restructuring has advanced well and call for its speedy completion. This case shows that with the will of all stakeholders, the G20 Common Framework can deliver. We also call for rapid progress on the processes for Sri Lanka, Zambia, Ghana, and Ethiopia, and consideration of debt treatment for other countries facing debt distress. We encourage the Fund in its efforts to facilitate complex debt restructuring processes and coordination, notably among traditional, new official, and private creditors. In this respect, we welcome the launch of the Global Sovereign Debt Roundtable, which will be helpful in addressing the shortcomings in debt restructuring processes, both within and outside the Common Framework.

We welcome the recent decision by the Executive Board to raise annual and cumulative limits of access under the General Resource Account (GRA) and call for a swift alignment of similar limits under the Poverty Reduction and Growth Trust (PRGT). The decision to increase access limits under the GRA will allow members, especially those among LICs that can benefit from GRA-PRGT blended arrangements, to access additional non-concessional Fund resources as needed. We expect access under the PRGT to be raised also, with a view to safeguarding uniformity of treatment and evenhandedness between members. The Fund should ensure that it maintains its capacity to meet the growing balance of payments needs of low-income members. In this regard, we call for greater fundraising efforts and encourage additional voluntary SDR channeling to the PRGT—especially its subsidy resources—and to the Resilience and Sustainability Trust (RST). We also call for consideration of IMF internal resources to this end, including gold sales. We support a voluntary SDR channeling to multilateral development banks to increase their capacity to assist LICs. Attention should also be paid to replenishing the Catastrophe Containment and Relief Trust (CCRT) which remains underfunded and would be unable to meet the needs of members in the event of a qualifying catastrophe. Therefore, we call on the IMF to explore all options for an adequate replenishment of its various trust funds.

Completing swiftly reforms under the 16th General Review of Quotas (GRQ), with a meaningful outcome for Fund's permanent resources, is key to strengthen Fund's effectiveness and unique role in the global financial safety net. Quotas are central to the Fund's permanent lending capacity and governance, and therefore, we continue to call for the acceleration of discussions on the different elements of GRQ for a timely conclusion by December 15, 2023, the cut-off date, with a desirable outcome to increase quotas and protection of the shares of all PRGT-eligible and small developing countries. We also continue to support and call for further progress in IMF staff diversity, including at managerial levels.

We recognize the importance of international trade as an engine for inclusive growth. It is critical to ensure a rules-based, transparent, and equitable multilateral trading system. The IMF's role remains critical in promoting international economic cooperation and creating an environment that encourages global trade and investment. In this regard, enhancing Sub-Saharan Africa's equitable participation in global trade flows, especially in the areas of agriculture, emergent manufacturing, and value chain creation, will benefit both the region and the global economy. Regional integration is a right step in that direction. We, therefore, call for a more active role of the IMF in supporting the nascent Africa Continental Free Trade Area (AfCFTA).

Continuous focus by the IMF on macro-critical structural issues such as climate change, and ensuring long-term financing remain of the essence. More collective action is needed to mobilize resources—including private financing--for climate vulnerable developing countries that lack fiscal space to meet climate mitigation and adaptation needs. Sub-Saharan Africa must prioritize adaptation and resilience and invest massively in "green" activities, notably through programs such as the Africa Adaptation Acceleration Program. We urge the international community to provide financial and technical support and promote technology transfer to the continent in its climate efforts as a global public good. More than ever, multilateral cooperation needs to be strengthened if we are to address complex common challenges in an effective manner.