

**STATEMENT MADE TO THE NATIONAL ASSEMBLY, REPUBLIC OF SOUTH AFRICA, ON THE RECENTLY-HELD ANNUAL MEETINGS OF THE INTERNATIONAL MONETARY FUND AND THE WORLD BANK,**

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The debates at the recent Annual Meetings of the IMF and WB, which were held in Washington, USA, focused on poverty and debt relief. They were held at a time when we recognise that we now live in a world where transactions in the foreign exchange markets exceed US\$ 1,5 trillion per day; where trade flows are in the order of US\$ 5,5 trillion per year; where real-time information exists; where decisions made on a screen in New York can affect the education prospects of a child in South Korea; where medical science has advanced to the point of allowing complex surgery to be performed on a child whilst it is still in its mother's womb. Yet this is also a world where the chasm between the rich and the poor continues to grow, where millions of children continue to die from preventable diseases, where families and societies are being decimated by HIV/AIDS, where illiteracy continues to cast a shadow over progress and poverty shackles peoples lives.

The Annual Meetings bring together over 300 ministers of Finance and Heads of Central Banks, who together with their advisors represent 182 IMF and World Bank member countries. The meetings are also attended by Chief Executives of major financial institutions, prominent academics and representatives of non-governmental organisations from around the world. In total some 19 960 people registered for the meetings. The Annual Meetings therefore provide an ideal opportunity to reflect on these issues and to consider ways of addressing them.

South Africa has earned a place in a global economy dominated by creditor nations. This supports the political leadership role which we take up in the interest of development. The latter is expressed through our involvement in the Non Aligned Movement; the Commonwealth Heads of Government Meeting; the United Nations Commission for Trade and Development; the Organisation of African Unity, and the Southern African Development Community.

A number of issues were dealt with at the Annual Meetings:

*World Economic Outlook*

- On the whole, the world economic outlook looks positive with output that bottomed out in 1998, financial markets having stabilised, a turnaround in Asia economies, a recovery in the US economy and the resumption of growth in Europe and Japan.
- In Sub-Saharan Africa we are seeing a recovery in growth albeit from low base; structural reforms should also improve growth performance. However, we must also recognise that many challenges remain – peace and stability, overcoming corruption, ensuring that more meaningful debt relief is forthcoming so that more resources are freed up for social development.

- In South Africa we are witnessing renewed confidence in the financial markets, lower interest rates and an improved export performance.
- The South African financial markets are well developed and well integrated into the world economy.
- Sound economic policies ensured that South Africa was able to weather the global financial crisis better than most.

#### *Debt relief*

- Significant developments on the issue of debt relief took place during the meetings in Washington.
- The “Cologne initiative” through which developed countries committed themselves to the enhancement of the HIPC framework to provide wider, faster and deeper debt relief, was endorsed.
- However, it must also be noted that this initiative does not go far enough. The required track record of reform of up to six years is still too long and continues to be a concern. Although the link between debt relief and social and poverty alleviation is correct, we have to ensure that it does not simply add to the existing conditionalities imposed on countries.
- Having made commitments, the G7 have been less forthcoming when it comes to supporting these with significant financial support. Debt relief initiatives cannot succeed unless the financial support is forthcoming.
- African countries (South Africa, Botswana, Nigeria, and Swaziland) have demonstrated their support for the initiative by pledging contributions to the HIPC Trust fund based on their quota share in the Fund.
- South Africa’s contribution equals SDR 21 million (R100 million) and collectively, the contributions by African countries are in excess of SDR 40 million – the total shortfall which needed to be financed was SDR’s 180 million.

#### *Poverty reduction*

- Countries eligible to borrow from IDA are home to some 3.3 billion people, some 57 percent of the world’s population.
- 78 countries are currently eligible to borrow from IDA and more than 50 percent of these are situated on our continent.
- It is also worth reminding ourselves that official development assistance is at its lowest point in 20 years, seriously jeopardising IDA’s role in supporting sustainable development.
- The Poverty Reduction and Growth Facility (PRGF) endorsed by the Interim Committee, aims to make poverty reduction efforts among low-income countries a key and more explicit element of a renewed growth oriented economic strategy. We have to ensure that this facility is adequately funded and that it supports the work being done on HIPC and is not replaced by since this would reduce the overall level of support to low-income countries for development.
- This approach will emphasis a comprehensive poverty reduction strategy, social and sectoral programmes aimed at poverty reduction, good governance, high priority on key reform measures critical to achieving social goals and country-driven poverty reduction strategies to form the basis for all IDA and Fund lending to low-income countries. Importantly, the strategies for development need to be formulated and developed at home. This of course requires capacity. We stand ready to participate and assist in building this capacity in our region.

### *Gold sales*

- The positive development around gold sales and the gold price have been welcomed.
- Interventions by South Africa and other concerned developing countries prior to the Annual Meetings aimed at the open-market sale of gold by the IMF, paid off.
- The Interim Committee agreed to off-market transactions of up to 14 million ounces of fine gold by the IMF which would enable the Fund to finance its contribution (US\$3.53 billion) to the enhanced HIPC initiative (US\$27.4 billion).
- In addition, governors of 19 major central banks have agreed to a more orderly programme for official gold sales - annual sales not to exceed 400 tons and total sales not to exceed 2000 tons over five years. They also agreed not to expand their gold leasing activities over this period.

### *Financial architecture issues*

- The debate on crisis prevention and crisis resolution measures involving the financial architecture, continues to receive much attention.
- There clearly exists a need for financial reform as the global financial system remains fragile.
- Financial reform should aim to improve incentives for good policy, encourage sustainable capital account liberalisation, discourage pegged exchange rates, improve financial regulation and supervision.
- South Africa's participation in the debate on the financial architecture has been intensive through the working groups of the G22/33.
- An outcome of these debates has been the setting up of the Financial Stability Forum (FSF) by the G7 whose aim is to focus on financial regulation and addressing issues of systemic risk.
- The FSF consists of three working groups namely Capital Flows, Offshore Financial Centres and Highly Leveraged Institutions.
- South Africa was invited to participate in the work on Capital Flows.
- This would involve risk management and disclosure, financial regulation, debt management, the development of domestic capital markets, managing the risk exposure of banks, capital account liberalisation and data dissemination.
- Issues of financial architecture are being actively debated by the various groupings in the private sector such as the Institute for International Finance (IIF) and think tanks such as the Council for Foreign Relations. In a recent report the Council made several recommendations which will assist in shaping the debates in the year ahead.

There are seven major recommendations in the report:

1. Good-house keeping awards – those countries who follow good policies should be recognised for it.
2. Fixed exchange rates are identified as being at the root of many of the problems.
3. Capital inflows can pose many difficulties for small emerging economies.
4. Burden sharing – including collective action clauses.
5. The IMF should scale back on the size of the loans.
6. Back to basics – better role definition for the IMF and the WB.

7. Action is required - there is a suggestion that a global conference on these issues is required.

*The Group of 20*

- The Group of 20 of which South Africa is a member, brings together 'systemically significant' countries - the United States of America, Japan, Germany, Britain, Italy, Canada, France, Brazil, Argentina, Mexico, South Korea, Saudi Arabia, China, India, Russia, Australia, Turkey and two institutional representatives, being the European Union and the International Monetary Fund/ World.
- Generally the work of the G20 will focus on global economic issues which in the short term is likely to concentrate on issues of financial architecture.
- South Africa is expected to play a leading role in developing the agenda for the group.

Conclusion

This is a poignant moment in world history. In his speech to the opening plenary James Wolfensohn, President of the World Bank, noted that the global population has now reached 6 billion and that "[O]n current trends, we will not meet the International Development Goal of halving poverty by 2015, nor the goal of universal primary education by 2015. On current trends, we will not be able to meet the International Development Goal of reversing the current loss of environment resources both nationally and globally by that date. In 25 years time, the 6 billion people will grow to over 8 billion. Of the 6 billion today, 3 billion live under \$2 a day and 1.3 billion live under \$1 a day. I am concerned that these extraordinary statistics may rise to 4 billion and 1.8 billion respectively. This is not a legacy to leave our children".

South Africa finds itself in a unique position to take forward many of the challenges and issues mentioned above. We have earned global recognition and respect for our commitment to democracy, transformation and our commitment to sound economic policies. In addition we currently chair the joint Board of Governors for the period 1999/2000 and as such, will be responsible for the opening speech at the 2000 Annual Meetings which take place in Prague next year. We are well placed to put the challenges and opportunities of the African Renaissance firmly on the agenda of the Annual Meetings.