

Mr Stals reviews the 1998 IMF and World Bank annual meetings

Presentation by the Governor of the South African Reserve Bank, Mr Chris Stals, to the Portfolio Committee on Finance in Cape Town, South Africa on 04/02/99

South Africa's position in the Fund

South Africa is one of the more than 180 member countries of the IMF and the World Bank Group. At this stage, South Africa holds a quota in the IMF equal to SDR 1,365 million (R9.3 billion). The Fund is now in the process of raising all quotas by approximately 45 per cent. South Africa's quota will increase to SDR 1,868 million (R12.7 billion). The total new quotas for all members add up to SDR 212 billion. South Africa therefore holds about 0.87 per cent of the total voting rights in the Fund.

Under certain conditions, South Africa can borrow its total quota (R12.7 billion) from the Fund under normal Fund policies, but, of course, subject to the implementation of certain prescribed macroeconomic policies. The Fund also provides a number of other specific credit facilities, e.g. the Supplemental Reserve Facility, the Compensatory Financing Facility, and the Enhanced Structural Adjustment Facility, that members can make use of under certain conditions. At this stage, South Africa has no borrowings outstanding from the Fund.

The size of a country's quota also determines its participation in the Special Drawing Rights Scheme. Up to now, South Africa has been allocated a total of SDR 220 million. Under the terms of a decision of last year, there will be a further allocation of SDRs later this year, when South Africa will receive a further amount of SDR 180 million (R1.2 billion).

As a member of the IMF, South Africa has the right to be represented on the Executive Board of the Fund (24 Executive Directors represent all members). South Africa joined the English Speaking Group of African countries for this purpose (20 countries), and is given an opportunity on a rotation basis amongst the members of this Group to appoint an Executive Director to the Fund. (This Group is now represented by Mr Jose Pedro de Morais of Angola, with Mr C.D.R. Rustomjee from South Africa as the Alternative Executive Director for the Group. Two years from now, i.e. in September 2000, South Africa will provide the Executive Director for the Group for a two-year period.)

The main controlling body of the IMF is the Board of Governors (Ministers of Finance and Governors of Central Banks of all participating countries). The Board meets once a year (the Annual General Meeting).

The Interim Committee of the Board of Governors is an advisory board and has 24 members (one for each constituency). This Committee meets twice a year and advises the Board of Governors on major policy issues. South Africa's Minister of Finance was elected in October 1998 to represent the English Speaking Group of African countries on the Interim Committee for the next two years.

There is also a Development Committee, constituted on the same basis as the Interim Committee, but with the task of advising the Fund and the World Bank on developmental issues.

South Africa is also a contributing member to the capital of the World Bank and its affiliates. The World Bank has a similar institutional structure to the IMF. Our constituency is at this stage represented on the Board of Executive Directors of the World Bank by Namibia. Loans from the World Bank are, however, granted to countries on a completely different basis and are normally project linked. The Annual Meetings of the Board of Governors of the World Bank and of the IMF take place at the same time (Joint Annual General Meetings).

At the Annual Meetings, the South African delegation participates actively in:

- the plenary sessions (three days);
- the Interim Committee Meeting;
- the Africa Constituency Meeting;
- many bilaterally arranged private meetings, and
- a series of social functions and receptions.

Other meetings at the time of the Annual Meetings

The confusion for any new participant in this annual event is substantially increased by numerous other conferences and meetings that take place at the same time. Of great importance are meetings of:

- the Group of Seven, and
- the Group of Ten.

South Africa obviously does not participate in these meetings.

In addition, there is also a Group of Twenty-four, representing mainly developing countries from Africa, South America and Asia. This group is officially known as The Intergovernmental Group of Twenty-four on International Monetary Affairs. South Africa is not a member of this Group, but has been given observer status with an open invitation to participate in the activities of the Group.

Many other (regional) groups also make use of the occasion to hold meetings in Washington. Last year, the South African Minister of Finance invited all the SADC countries for a short discussion in Washington.

A new grouping that is now in the making is the so-called Willard Group, called together earlier last year by the American Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System, for a special discussion on the world financial crisis. The Group originally included 22 countries, being the major industrial countries and leading emerging market countries, including South Africa. At a meeting in Washington on 5 October 1998, three more countries from Europe were also invited to participate. This Group, working through sub-committees in which South Africa also participates, produced three interesting documents with proposals for improving the international financial system in respect of:

- Transparency and Accountability;
- Strengthening of Financial Systems (Regulation and Supervision), and
- Managing International Financial Crises.

The nature of the current debate

Last year's Annual Meetings took place against the background of:

- the East Asian crisis and its contagion effect, first on other emerging markets, and later on the world economy;
- the serious eco-political situation in Russia;
- the collapse of a major hedge fund in New York – Long Term Capital Management;

- the growing threat of a collapse of the Brazilian economy; and
- growing concern about a slow-down in world economic growth.

At the Washington meetings, these economic problems were dissected from all angles; the causes of the problems were linked to: bad macroeconomic management; ineffective financial regulation and supervision; the current non-system of international exchange rates; excessive gearing within financial institutions; etc. Steps taken by countries and by the multinational institutions to manage the problem and to find solutions were criticised, sometimes for good reason, but often also on the basis of illusory perceptions. The search for measures to prevent the recurrence of a similar situation in future started in all earnest.

It is not possible to summarise all the discussions in this short presentation of today. I am therefore taking a cue from summaries published by the IMF itself (after the meetings) of some consensus reached in the discussions (from IMF Survey of 19 October 1998).

Apart from stressing the need for sound macroeconomic policies at the national level, a programme was agreed to for further studies on the strengthening of the international financial system (the “architecture”). These further studies would be undertaken within the Executive Board of the Fund and would cover:

- a possibility of strengthening or transforming the Interim Committee;
- a code of conduct for fiscal policy, as well as the ongoing work on the code of monetary and financial policies (standards);
- the need for greater transparency at all levels, beginning with the IMF itself. The IMF’s Special Data Dissemination Standard should be expanded; systems for reporting external debt should be improved; the operations of international investors should be disclosed in more detail; the Fund’s surveillance operations should be expanded;
- plans for an increase in private sector involvement in preventing and resolving financial crises;
- introducing or tightening capital controls is not regarded as appropriate in dealing with fundamental economic imbalances. The IMF’s Executive Board was nevertheless asked to review experience with the use of controls and the circumstances under which they may be appropriate;
- the Interim Committee expressed its serious concern over the IMF’s tight liquidity position. It stressed the critical importance of augmenting IMF resources; and
- there was general support for expanding the Enhanced Structural Adjustment Facility (ESAF) and the Highly Indebted Poor Countries (HIPC) Initiative. South Africa does not qualify for any one of these facilities, although we have a vested interest in the proposal because of our sympathy for other countries in our constituency.

It will be noted that none of these proposals are very revolutionary and are intended to work mostly through the existing framework of institutions and systems. More radical proposals are nevertheless also being thrown around in the global debate, e.g.:

- for a major revision of the present floating exchange rate system and a return to a more stable system for the global structure;
- for a merger of the IMF and the World Bank in one organisation (a merger of the Interim Committee and the Development Committee);

- for the conversion of the IMF into a world central bank with a lender-of-last-resort facility; and even
- for a close-down and termination of the role of the IMF.

South Africa's role in the debate

Over the past year the South African economy was severely affected by the adverse world financial conditions. Our approach has been to manage our economy as best as we could in this adverse environment, and to work with the international community to seek for a global solution. As one of the leading emerging market economies, South Africa has many opportunities to make a constructive contribution to the ongoing debate on the reform of the international financial system. Unfortunately, we do not have the resources to participate more actively in all the discussions that are now taking place.

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