Annual Meetings 2009
African Development Bank
Dakar, Senegal

13 May 2009
Statement by the
Mr Lesetja Kganyago, Director General: National Treasury

Chairperson of the Board of Governors, Minister Abdoulaye Diop;
President of the African Development Bank, Dr Donald Kaberuka;
Distinguished Governors;
Respected Delegates;
Ladies and Gentlemen;

I bring the greetings and best wishes to this gathering from the newly appointed Finance Minister of South Africa, Mr Pravin Gordhan. Minister Gordhan would have cherished the opportunity to share his insights with the President of the Bank and his peers on ways to steer our economies through these difficult times,
and also contribute to the choice of policy responses that address the varied and unique ways that the global economic downturn has affected us all.

It is fitting that the 2009 Annual Meetings is being held in the Land of Teranga. Senegal is a country that exemplifies hospitality, and at a time when we come together to refine our response to the global economic downturn, Senegal is acknowledged for its leadership in developing homegrown programmes for Africa’s challenges.

The commodity price boom between 2000 and early 2008, which had tremendous benefits for many of our economies, has now turned.

During the early stages of what was still a financial crisis, it was thought that the fallout would be restricted to the developed world, and that developing countries and economies in transition would be insulated. What started as high risk lending in the US housing market, coupled with a flurry of new financial instruments and risk-management techniques, has now turned into an economic and development crisis in Africa. The channels through which the current crisis has been transmitted in the region are both direct, through the financial linkages with debt, equity and currency markets, and indirect through effects on the real economy, through confidence and demand.

The international economic environment has deteriorated sharply. Since the latter part of 2008 the global economic slowdown has shifted rapidly towards economies of developing countries. The downturn in global growth, decline in most commodity prices, and tighter credit have significantly worsened the economic outlook for Africa. According to the African Economic Outlook, African growth is projected to slow sharply from 6.1 percent in 2007 and 5.7 percent in 2008, is now forecast to dip below 3 percent.

Now that the storm has hit our shores in ways beyond all expectations, it will be the policy choices of the recent past and those that we make now that will test our endurance and measure how soon we are able to reverse its effects, and regain the progress of the past decade. The policy choices will depend on
individual country circumstances, such as debt position, commodity dependence, exchange rate regime, reserves, and access to capital markets. What binds us is the priority to contain the adverse impact of the crisis on economic growth and poverty, while preserving the hard-won gains of recent years, including macroeconomic stability and debt sustainability.

Declining government revenues will result in an increase in fiscal deficits. If the increase in the fiscal deficit can be financed, those countries that achieved macroeconomic stability will have the fiscal space for counter-cyclical measures, including social spending that protect the most vulnerable citizens. But we also need to be reminded that when our economies were growing at 5 percent and higher, we had emphasized the need for rigorous analysis, wise policy choices, budget trade-offs and determined implementation in order to sustain the gains that had been made. Now more than ever, our spending decisions will need to respond to the immediate effects of this crisis, while at the same time fund much needed infrastructure investment in transport, telecommunications and energy.

These are hard choices that will require innovative policies and programmes that respond to the varied and unique challenges that we face.

Where the fiscal space does not exist, additional donor support will be needed to ease the adjustments. For these countries, the commitments made at Gleneagles, and the more recent announcements by the G20, will be critical. The Regional Economic Outlook released in April 2009 reasserts that increased aid could help to sustain growth and mitigate the impact of the global financial crisis. In particular, increased aid scenarios represent one such opportunity to provide financing for counter-cyclical fiscal policies so that countries can maintain their growth momentum and continue making progress towards the MDGs.

The call for commitments to be honoured must also recognise that this crisis requires a global response that is underpinned by mutual accountability, the respect for Africa’s voice and representation and greater transparency and aid predictability.
Mr President, the African Development Bank has a comparative advantage that allows it to respond in a counter-cyclical manner to the demand for financial support from member countries. It is estimated that this increased demand will be about US$ 6 billion in 2009/10 and potentially another US$7.5 billion over 2011-2015. South Africa therefore supports the proposal made by the Bank’s management for an increase in its authorized capital.

We are encouraged by the new facilities, in particular the emergency liquidity and the trade finance facilities, and the innovative policy reforms that will be presented to ADF deputies during the ADF Eleven Mid-term Review. South Africa, as an ADF member, supports the proposals for greater flexibility, responsive products, additional resources and an earlier conclusion of the replenishment process in 2010.

Mr President, the partnerships that have been strengthened during this crisis lays the foundation to counteract the worst effects of the downturn. How we emerge will depend on the policy choices that are taken, which will include accessing the necessary resources and making the correct spending decisions and the strengthening of our financial institutions.

Thank you.