



African Fiscal Forum: Fiscal Policy Challenges in Africa 9- 10 November, Townhouse Hotel and Conference centre, Cape Town

Welcome Remarks by Sanjeev Gupta, Deputy Director, Fiscal Affairs Department, IMF

Good morning.

Let me begin by extending my thanks to the Honorable Deputy Minister of Finance, Nhlanhla Nene, for opening the first African Fiscal Forum. Her remarks have provided us with ample food for thought to guide our discussions in the coming day and a half.

For me personally, it is a pleasure to be back in Cape Town. I am particularly pleased to see so many friends from different Ministries of Finance in Africa. I am also looking forward to making new friends at this event.

Perhaps some background on the Fiscal Forum is in order. The IMF Fiscal Affairs Department launched its first worldwide Forum during the IMF Spring Meetings in April 2010. We invited senior policymakers from 35 ministries of finance from around the world to share their experiences in formulating and implementing sound macrofiscal policies. This and the subsequent 2011 Forum were received positively by our membership. Since the Forum held in Washington can invite only a limited number of countries from Africa and tends to focus on cross cutting themes of interest to the entire Fund membership, the South African Treasury earlier this year proposed that we jointly organize a Forum exclusively for the African policymakers. The result is the first African Fiscal Forum—a first for any region.

The Forum's theme of fiscal policy challenges for African policymakers is guided by current developments. Global growth is expected to slow to 4 percent this year and next from 5 percent in 2010. In advanced economies growth remains anemic at 1½ - 2 percent. There is also a heightened risk and uncertainty arising from a negative

feedback loop between weak growth, and weak public and private balance sheets. For fiscal policy in advanced economies, this means finding the right pace of fiscal consolidation that neither undermines credibility nor undercuts the economic recovery. In emerging market and low-income countries growth has recovered faster. However, in an interconnected world, the risks of further spillovers are elevated.

This provides a challenging backdrop for African policymakers. There are many channels through which countries in the region could be impacted by global developments. Weaker growth prospects in trading partners can spill over in the form of a negative growth shock as we saw in 2009. Likewise, foreign direct investment, aid budgets, or remittances may also be adversely affected. In countries that are more integrated into the global financial systems, there may also be spillovers through abrupt changes in capital flows. The other channel that makes African countries vulnerable to shocks is higher food and fuel prices, whose affect can be quite uneven across the region. In such uncertain times, there is a great premium for countries to strengthen their resilience to shocks. And having strong fiscal buffers is an important part of building up resilience. However, building buffers also comes at a cost when a country is faced with large unmet development needs and other expenditure priorities that compete for scarce government resources. This provides a difficult policy tradeoff: what is the right balance between strengthening the policy buffers while also allocating resources to meet development needs?

The three sessions in the Forum are meant to evoke a discussion on the aforementioned issues and policy tradeoffs. This Forum should provide you with an opportunity to share your experiences on fiscal policy challenges and priorities. We would encourage you to be open and participate actively in the discussions. You will find that many of your colleagues from other countries face very similar challenges as you do. By sharing our experiences, we can all benefit from finding better solutions.

Let me conclude by joining the Deputy Minister in again welcoming you to the first African Fiscal Forum and extending my best wishes for a fruitful and rewarding experience over the next day and a half. I am hopeful that at the conclusion of the Forum, you will all take with you new thoughts and ideas on how to cope with fiscal policy challenges in your respective countries.

Thank you.