Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

April 24, 2004

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1. The International Monetary and Financial Committee held its ninth meeting in Washington, D.C. on April 24, 2004 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Sustaining the Recovery

2. The Committee welcomes the strengthening of the global economic recovery since its meeting last September. Industrial production and global trade have picked up sharply, and improved prospects in most regions point to stronger global growth going forward. However, a number of risks remain. These arise from large global imbalances, medium-term fiscal challenges in many countries, and the implications of the eventual transition to a higher interest rate environment. Continuing geopolitical uncertainties and developments in oil markets also remain important concerns.

3. The priority now is to implement the macroeconomic and structural policy measures that will help achieve a robust, balanced, and sustainable recovery. Structural reforms are essential to improve growth potential. Priority should be given to medium-term fiscal consolidation; reforms of pension and health care systems; better functioning labor and product markets; and reducing vulnerabilities in banking and corporate sectors. The Committee calls on all countries and regions to play their part and cooperate in addressing global imbalances.

4. The economy of the United States is expanding briskly, and Japan's economy continues to recover. The recovery in the euro area so far is more subdued. Monetary policy in advanced economies will need to remain consistent with price stability and support the recovery; in many countries where growth is strengthening, interest rates will over time need to rise to more neutral levels; and it will be important to communicate policy intentions clearly. The Committee encourages countries to take advantage of the current environment to strengthen the foundations for sustainable growth. Priorities for action include: medium-term fiscal consolidation in the United States; acceleration of structural reforms in the euro area; and continued banking and corporate reforms in Japan. Fiscal consolidation is also needed in the euro area and Japan.

5. The Committee is encouraged by the strong performance and recovery in many emerging market and developing countries, which has been aided by improved fundamentals and a rebound in private capital flows. Countries should continue to use the opportunity provided by the favorable financial market environment to strengthen growth prospects and reduce vulnerabilities. This will require steps to further strengthen fiscal positions and improve the structure and sustainability of debt, sustained and broad-ranging structural reforms, and, in some emerging market countries, a move toward more exchange rate flexibility as appropriate. The Committee welcomes the improvement in Argentina's macroeconomic performance, and calls on the government to continue to push ahead with full implementation of the policies and provisions of its economic recovery program aimed at strengthening growth, including negotiations aimed at reaching a sustainable debt restructuring through a collaborative agreement with creditors.

6. Economic performance in many low-income countries continues to improve. Nevertheless, the Millennium Development Goals (MDGs) set out in the UN Millennium Declaration remain at risk, particularly in sub-Saharan Africa, and much remains to be done by all partners in the global effort to deliver them. The Committee underscores that stronger domestic institutions, sound economic policies, trade integration, and less burdensome regulation will be needed to underpin faster growth and poverty reduction. It welcomes the recent steps taken through the New Partnership for Africa's Development (NEPAD) and the African Union to improve governance and eradicate corruption. It calls on the international community to provide additional and coordinated assistance—including technical assistance, policy advice, increased and more effective aid including grants, debt relief, and greater access to industrial country markets.

7. The Committee received the report of Dr. Supachai Panitchpakdi, Director-General of the World Trade Organization. It reiterates the critical importance of open markets for supporting broad-based global economic growth and prosperity. The Committee calls for constructive and determined efforts by all countries to achieve early progress with the Doha Round, focusing on the issues of importance to all countries of open markets and fair access, and the reduction of trade-distorting subsidies in all areas, notably in agriculture. A successful completion of the round is a shared responsibility, important for all countries, particularly developing countries. The Committee supports the IMF's role in advocating trade liberalization and helping members to take all the necessary actions to gain full advantage of the opportunities provided by more open trade. It welcomes the IMF's decision to establish a Trade Integration Mechanism, designed as a temporary policy to address concerns associated with the current round of multilateral trade negotiations.

Crisis Prevention and IMF Surveillance Across the Membership: Priorities, Tools, and Modalities

8. Effective and evenhanded IMF surveillance remains an essential element of the international community's efforts to enhance crisis prevention, promote financial stability, and foster high and sustainable growth. The Committee especially welcomes the increased focus of surveillance on: financial sector and capital market issues—including the work from the Financial Sector Assessment Program, Reports on the Observance of Standards and Codes, and Offshore Financial Center assessments; economic developments and policies in countries of systemic or regional importance; early identification of potential vulnerabilities; and institutional foundations of growth. It also welcomes the work already underway and the proposed pilots on the treatment of public investment in IMF advice and arrangements with a view to protecting infrastructure investment, consistent with macroeconomic stability and debt sustainability.

9. The Committee welcomes efforts to bring a fresh perspective to the surveillance of program countries, and the decisions taken to increase the transparency of surveillance. It calls for a strengthening of efforts to ensure the objectivity of surveillance (including through debt sustainability analysis), and requests the IMF to explore ways to support countries' own economic efforts when the IMF is not providing financial assistance. The Committee looks forward to the forthcoming biennial review of surveillance, which should provide a thorough assessment and candid review of surveillance, and propose ways to enhance its focus, quality, persuasiveness, impact, and overall effectiveness.

10. The Committee welcomes the greater focus on vulnerabilities and key issues for surveillance identified at its meeting in Dubai: improving debt sustainability; reducing balance sheet vulnerabilities; and making progress on structural reform and sustainable medium-term fiscal frameworks. It agrees that further progress in these areas, as well as with policies to facilitate the adjustment of global imbalances, remain key priorities for surveillance in the coming year. Surveillance will also need to pay due attention to relevant political risks and to vulnerabilities to exchange rate and interest rate movements.

11. The Committee looks forward to further work on ways to reduce vulnerabilities and provide support for members with strong policies in dealing with external financial developments. It looks forward to the upcoming discussion of precautionary arrangements and their potential to assist members' own efforts to prevent balance of payments crises and as a possible exit strategy from IMF financial support.

12. The Committee welcomes the inclusion by an increasing number of countries of collective action clauses (CACs) in their international sovereign bonds and the convergence toward a market standard. It calls on the IMF to continue to promote progress in this area. The Committee also encourages sovereign debtors and private creditors to continue their work on a voluntary Code of Conduct, and looks forward to reviewing further work on issues of general relevance to the orderly resolution of financial crises. The Committee takes note of the Executive Board's ongoing review of the framework, and application of procedures, for exceptional access to IMF resources. It calls on the IMF to continue reviewing implementation of its lending into arrears policy.

Enhancing IMF Support to Low-Income Members: Instruments and Financing; IMF-World Bank Collaboration; and Promoting Debt Sustainability

13. The Committee reiterates that the IMF—in partnership with multilateral development banks and donors—has an important role to play in assisting its low-income members with effective policy advice, financing, and technical assistance to achieve high and sustained growth and poverty reduction. It welcomes the progress on better tailoring the IMF's assistance to the differing financing and policy needs of low-income countries. The Committee looks forward to further work on a strengthened process of surveillance for those countries where the IMF is not providing financing, with a view toward enhancing the signaling role of surveillance and promoting country ownership. It underscores the importance of improving the macroeconomic design of PRGF-supported programs, including the social impact. The Committee underscores the importance of maintaining an adequate PRGF financing capacity. In order to meet future needs, it calls for further discussions on the financing of a self-sustained PRGF. The Committee welcomes that some countries have indicated a willingness to provide additional resources.

14. The Committee reiterates that the Monterrey Consensus and Poverty Reduction Strategy Paper (PRSP) approach provide the appropriate framework for the IMF's engagement with low-income countries and its participation in global efforts toward achieving the MDGs. It encourages a further sharpening of the focus of PRSPs and PRGF-supported programs to enhance their linkage to the MDGs and their operational usefulness for policy choices and donor coordination. The first Global Monitoring Report on meeting the MDGs highlights the significant remaining challenges. The Committee expresses concern that on current trends, most MDGs will not be met without an increase in the level and effectiveness of financial resources in support of strong policies. It looks forward to reviewing at its next meeting the ongoing joint work with the World Bank on aid effectiveness, absorptive capacity, results-based measurement mechanisms, and various policy options and financing mechanisms, such as an international financing facility and other options. In this regard, it welcomes the consultation with emerging markets and developing countries. The Committee welcomes the recent review of IMF-World Bank collaboration, and supports the plans for improved coordination.

15. The Committee welcomes the progress in providing debt relief under the enhanced HIPC Initiative, with a further five countries reaching their completion point since the Annual Meetings. It looks forward to continued further progress toward full implementation of the Initiative, and takes note of the work being undertaken on options for addressing the sunset clause. The Committee urges all creditors that have not yet done so to deliver debt relief in full. It welcomes the development by the IMF and the World Bank of a debt sustainability framework for low-income countries, and looks forward to further work to make it operational.

Other Issues

16. The Committee underscores the importance of IMF technical assistance in supporting members' efforts to build institutional capacities and implement sound economic policies and financial systems, which will lay the foundations for sustained growth and poverty reduction.

17. The Committee underscores the importance of further determined action by the international community to combat money laundering and the financing of terrorism. It welcomes the significant progress that has been made under the 12-month IMF/World Bank pilot program of AML/CFT assessments. The Committee endorses the recent decision by the Executive Board to make the scope of the IMF's involvement in AML/CFT assessments comprehensive and a regular part of the IMF's work. It encourages all international organizations and bodies to work together closely in conducting assessments and delivering critically needed technical assistance. The Committee urges all members to adopt and implement the revised FATF 40 + 8 Recommendations as the accepted international standard.

18. The IMF's effectiveness and enhanced credibility as a cooperative institution also depends on all members having appropriate voice and representation. Efforts should continue to be made to enhance the capacity of developing and transition countries to participate more effectively in IMF decision-making. The Committee calls on the Executive Board to continue its work on IMF quotas, voice and representation, and looks forward to a report on progress at its next meeting. The Committee recommends completion of the ratification of the Fourth Amendment.

19. The IMF's liquidity is adequate to meet the near-term projected needs of its members although continued monitoring will be important.

20. The Committee welcomes the high-quality work of the Independent Evaluation Office, and looks forward to its reports on PRSP/PRGFs, technical assistance, and the role of the IMF in Argentina from 1991 to 2002.

21. The Committee pays tribute to Mr. Horst Köhler for his leadership of the International Monetary Fund as Managing Director during the past four years. In the face of a difficult world economic situation and unprecedented challenges for the international community, Mr. Köhler has worked tirelessly to promote close international cooperation so that all can share in the benefits of globalization. He has strengthened the IMF's role in working for the stability of the international financial system, has helped the IMF lead the international effort to assist low-income countries, and has instilled a listening and learning culture in the IMF that will change the way in which the IMF interacts with members and civil society.

22. The Committee also acknowledges the contribution of Mr. Jacques J. Polak through 57 years of service to the IMF.

23. The next meeting of the IMFC will be held in Washington, D.C. on October 2, 2004.

Chairman

Gordon Brown

Acting Managing Director

Anne O. Krueger

Members or Alternates

Ibrahim A. Al-Assaf, Minister of Finance, Saudi Arabia

Mervyn King, Governor, Bank of England, United Kingdom, (Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Peter Costello, Treasurer of the Commonwealth of Australia

M.R. Pridiyathorn Devakula, Governor, Bank of Thailand

Hans Eichel, Minister of Finance, Germany

Per-Kristian Foss, Minister of Finance, Norway

Francisco Gil-Díaz, Secretary of Finance and Public Credit, Mexico

Ralph Goodale, Minister of Finance, Canada

Mohammed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates

Aleksei Kudrin, Minister of Finance, Russian Federation

Mohamed Laksaci, Governor, Banque d'Algérie

Roberto Lavagna, Minister of Economy and Production, Argentina

Lesetja Kganyago, Director General: Finance, National Treasury, South Africa (Alternate for Trevor Manuel, Minister of Finance, South Africa)

Jean-Pierre Roth, Chairman of the Governing Board, Swiss National Bank (Alternate for Hans-Rudolf Merz, Minister of Finance, Switzerland)

Antonio Palocci, Minister of Finance, Brazil

Didier Reynders, Minister of Finance, Belgium

Nicolas Sarkozy, Minister of State, Minister of Economy, Finance and Industry, France

Yaga V. Reddy, Governor, Reserve Bank of India (Alternate for Jaswant Singh, Minister of Finance, India)

Alan Greenspan, Chairman, Board of Governors of the Federal Reserve System (Alternate for John W. Snow, Secretary of the Treasury, United States)

Sadakazu Tanigaki, Minister of Finance, Japan

Paul Toungui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon

Giulio Tremonti, Minister of Economy and Finance, Italy

Gerrit Zalm, Minister of Finance, The Netherlands

Zhou Xiaochuan, Governor, People's Bank of China

Observers

Roger W. Ferguson, Jr., Chairman, Financial Stability Forum (FSF)

Donald J. Johnston, Secretary-General, Organisation for Economic Co-operation and Development (OECD)

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Jan Kregel, Interregional Adviser, Division on Globalization and Development

Strategies, United Nations Conference on Trade and Development (UNCTAD)

Eddy Lee, Economic Adviser and Director, International Policy Group Department, International Labour Organization (ILO)

José Antonio Ocampo, Under Secretary-General, Department of Economic and Social Affairs, United Nations (UN)

Ngozi N. Okonjo-Iweala, Chairperson, a.i., Joint Development Committee

Klaus P. Regling, Director-General for Economic and Financial Affairs, European Commission

Panitchpakdi Supachai, Director-General, World Trade Organization (WTO)

Jean-Claude Trichet, President, European Central Bank (ECB)

James D. Wolfensohn, President, World Bank