Press Release: Communiqué of the International Monetary and Financial Committee of the Board of Governors of the International Monetary Fund

September 24, 2005

Español Français

1. The International Monetary and Financial Committee held its twelfth meeting in Washington, D.C. on September 24, 2005 under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom.

The Global Economy and Financial Markets—Outlook, Risks, and Policy Responses

2. The Committee welcomes the ongoing global economic expansion, although it notes that growth divergences between countries remain wide. Global growth is expected to continue, although downside risks to the outlook have increased, especially high and volatile oil prices, recently exacerbated by the effects of Hurricane Katrina, the widening of global imbalances, increasing protectionist sentiment, and the possibility of tighter financial market conditions. While core inflation generally is contained and inflation expectations remain well anchored, higher oil prices remain a risk to price stability. The Committee notes that these areas should be a particular focus of IMF surveillance and policy advice in the coming months.

3. The Committee emphasizes that oil producers, oil consumers, and oil companies will all have their part to play in working together to promote greater stability in the oil market. First, the Committee welcomes the action by members of the International Energy Agency and oil-producing countries to continue to increase supplies to the market. Second, the Committee calls for further investment both now and in the long term throughout the supply chain, particularly in refining capacity including of heavy oil, and for efforts to create a favorable investment climate. Third, the Committee also stresses the importance of policies to promote energy conservation, efficiency, and sustainability, including through new technologies, alternative sources of energy, and reducing subsidies on oil products. Fourth, the Committee encourages closer dialogue between oil producers and consumers, and further efforts to improve oil market data and transparency to improve market efficiency. Fifth, the IMF should stand ready to provide assistance to help members, especially poor countries, deal with oil price shocks.

4. The Committee welcomes recent progress in implementing the agreed policies to address global imbalances and foster growth, but urges further action to promote orderly adjustment in view of the heightened risks to the outlook. This includes: fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility in emerging Asia; further structural reforms to boost potential growth in the euro area; and further structural reforms, including fiscal consolidation, in Japan, where the economy is regaining momentum. Measures to promote a more investor-friendly environment, including in a number of emerging market economies, would also contribute to reducing imbalances. Oil-exporting countries will also need to play their part, including through efficient absorption of higher oil revenues in countries with strong macroeconomic policies.

5. Steps to strengthen medium-term fiscal positions remain crucial for supporting global growth and stability. Fiscal deficits in many industrial countries need to be lowered further, and reforms to address pressures from aging populations and ensure the sustainability of pension and health care systems need to be accelerated. Improvements in the fiscal positions and debt structures of many emerging market countries are welcome, but in countries with high public debt levels continued fiscal consolidation efforts are needed. The Committee also calls for more ambitious efforts to address rigidities in labor and product markets in many countries. Regulatory and supervisory authorities should remain alert to risks stemming from ample global liquidity and associated risk taking and leverage.

6. The Committee emphasizes that a successful outcome to the Doha Round by the end of 2006 remains of critical importance for global growth and poverty reduction. Serious challenges remain in reaching agreement at the WTO ministerial meeting in Hong Kong SAR in December. As finance ministers and central bank governors of WTO member countries, we have a vital interest in successful multilateral trade liberalization. Benefiting from a useful exchange of views with Mr. Pascal Lamy, the Director-General of the WTO, the Committee calls on all countries to ensure progress on ambitious trade liberalization with the urgency that the timetable now demands. Key areas for action are: increasing market access, especially for developing countries; significantly reducing trade distorting domestic support; eliminating all forms of export subsidies in agriculture; and making significant progress on services, including financial services, and on issues of intellectual property. The Committee welcomes the joint IMF-World Bank staff report on proposals to enable low-income countries to benefit fully from trade liberalization, and urges the Executive Board to consider these proposals expeditiously.

7. The Committee welcomes the enhanced growth performance and prospects of many of the world's poorest countries, reflecting improvements in their underlying policies. With ten years remaining to meet the Millennium Development Goals (MDGs),1 those countries should move rapidly to strengthen policies needed for sustainable growth and poverty reduction, including through sound macroeconomic frameworks and building the sound, accountable, and transparent institutions that are essential for fostering growth and supporting vibrant private sector growth. Also, the international community must follow through expeditiously on its renewed commitments to provide additional resources, including at the Gleneagles Summit and the Millennium Review Summit. An ambitious outcome to the Doha Round is also essential for poverty reduction.

IMF Objectives and Medium-Term Strategy

8. The Committee welcomes and supports the broad priorities set forth in the Managing Director's Report on the Fund's Medium-Term Strategy to improve the IMF's effectiveness in support of its members. In the coming years the IMF will continue to work to help members meet the economic challenges of globalization within its mandate in the macroeconomic and financial areas. The Committee looks forward to specific proposals and timelines on the main tasks identified in the medium-term strategy in the Executive Board's work program, within the context of the IMF's medium-term budget framework and the staff compensation review.

9. The broad priorities set out in the Managing Director's report2 are to:

• Make surveillance more effective;

• Adapt to new challenges and needs in different member countries;

• Help build institutions and capacity;

• Prioritize and reorganize the IMF's work within a prudent medium-term budget; and

• Address the issues of fair quotas and voice.

The Committee agrees that the IMF needs to deepen its analysis of globalization and continue to develop its strategy for responding to the long-term challenges it poses.

Strengthening IMF Support for Low-Income Countries—Instruments; Financing; and Debt Relief

10. The Committee reiterates that the IMF has a critical role in supporting low-income countries through policy advice, capacity building, and financial assistance. The PRGF remains the main instrument for IMF financial support for low-income country members. The Committee agrees that the IMF's concessional lending should be financed at an appropriate level as assessed by the IMF. The Committee calls for incorporation of the lessons from the recent review of the design of PRGF-supported programs in the future work of the IMF in low-income countries.

11. The Committee welcomes the progress made on new instruments that will strengthen IMF support for low-income countries. The Policy Support Instrument (PSI) will be available to members that do not need, or want, IMF financial assistance, but voluntarily request IMF endorsement and continued assessment of their policies as meeting the standard of upper credit tranche conditionality. The country-owned policy frameworks designed by the authorities would consolidate medium-term macroeconomic and financial stability, and deepen reforms in support of poverty reduction and economic growth. A new window in the PRGF Trust will also be available to complement existing instruments by providing timely concessional support to low-income members without a regular PRGF arrangement and who are facing exogenous shocks, and we look forward to contributions from countries.

12. The Committee supports the proposal to provide 100 percent cancellation of debts owed by Heavily Indebted Poor Countries (HIPCs) to the IMF, the International Development Association and the African Development Fund. This will provide significant additional resources for countries' efforts to reach the MDGs and reinforce longer-term debt sustainability. The Committee welcomes the approach subsequently discussed in the IMF to ensure that the IMF's resources will be used consistently with the principle of uniformity of treatment. It stresses the importance of ensuring that the IMF's capacity to provide financing to low-income countries is maintained, and therefore welcomes G-8 countries' commitments to provide additional resources. It also emphasizes that countries benefiting from irrevocable debt relief should have demonstrated sound policies and high standards of governance. Following this agreement now reached on all the elements, the Managing Director has informed the Committee that he will now call the Executive Board together to complete its approval of the arrangements to deliver debt relief by the end of 2005. The implications of debt cancellation for the new debt sustainability framework should be addressed in the review scheduled for Spring 2006. There should be a regular report on progress at future meetings of the Committee.

13. The Committee underscores the importance of full creditor participation, including by non-Paris Club creditors and private creditors, in contributing their share to implementing the enhanced HIPC initiative. It takes note of the work on identifying low-income countries with unsustainable debts as of end-2004, with a view to finalization by early 2006 of the list of countries potentially eligible for HIPC assistance.

14. The year 2005 is the International Year of Microcredit. The Committee notes the IMF's role in improving data availability on microcredit and in addressing microcredit issues in the Financial Sector Assessment Program.

Other Issues

15. The Committee welcomes the rapid progress on the inclusion of collective action clauses in international sovereign bonds, and the efforts by emerging market issuers and private sector creditors to broaden the consensus on the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets." The Committee looks forward to further work on the orderly resolution of financial crises, including the implementation of the IMF's lending into arrears policy.

16. The Committee calls for continued actions by all countries to develop strong programs on anti-money laundering and combating the financing of terrorism (AML/CFT). The Committee supports the IMF's efforts to implement its intensified AML/CFT work program, and notes the critical importance of supporting countries' efforts with well-targeted and coordinated technical assistance.

17. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and further enhanced. Adequate voice and participation by all members should be assured, and the distribution of quotas should reflect developments in the world economy. The Thirteenth General Review of Quotas presents an opportunity to address the issue, and we look forward to progress on this issue and a report back at our next meeting.

18. The Committee looks forward to continued high-quality reports by the Independent Evaluation Office (IEO) under the leadership of its new Director, Thomas Bernes, and to the upcoming external evaluation of the IEO.

19. The Committee paid tribute to Alan Greenspan, in his last meeting of the IMFC, for his outstanding leadership of the Federal Reserve and his unprecedented and much valued contribution to the Committee's work over the last eighteen years.

20. The next meeting of the IMFC will be held in Washington, D.C. on April 22, 2006.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

ATTENDANCE

September 24, 2005

Chairman

Gordon Brown

Managing Director

Rodrigo de Rato

Members or Alternates

Burhanuddin Abdullah, Governor, Bank of Indonesia

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

Thierry Breton, Minister of Economy, Finance and Industry, France

Mervyn King, Governor, Bank of England, United Kingdom

(Alternate for Gordon Brown, Chancellor of the Exchequer, United Kingdom)

Palaniappan Chidambaram, Minister of Finance, India

Axel Weber, President, Deutsche Bundesbank

(Alternate for Hans Eichel, Minister of Finance, Germany)

Nicolás Eyzaguirre, Minister of Finance, Chile

Per-Kristian Foss, Minister of Finance, Norway

Ralph Goodale, Minister of Finance, Canada

Duck-Soo Han, Deputy Prime Minister and Minister of Finance and Economy, Korea

Sultan Al-Suwaidi, Governor, United Arab Emirates Central Bank

(Alternate for Mohamed K. Khirbash, Minister of State for Finance and Industry, United Arab Emirates)

Aleksei Kudrin, Minister of Finance, Russian Federation

Mohammed Laksaci, Governor, Banque d'Algérie

Tito Titus Mboweni, Governor, South African Reserve Bank

Hans-Rudolf Merz, Minister of Finance, Switzerland

Antonio Palocci, Minister of Finance, Brazil

Armando León, Director, Board of Directors, Central Bank of Venezuela

(Alternate for Gastón Parra Luzardo, President, Central Bank of Venezuela)

Karl-Heinz Grasser, Minister of Finance, Austria

(Alternate for Didier Reynders, Minister of Finance, Belgium)

John W. Snow, Secretary of the Treasury, United States

Toshihiko Fukui, Governor, Bank of Japan

(Alternate for 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, Netherlands

Zhou Xiaochuan, Governor, People's Bank of China

Observers

Joaquín Almunia, Commissioner, Economic and Monetary Affairs,

European Commission

Duncan S. Campbell, Director, International Policy Group, International Labour Organization (ILO)

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

Heiner Flassbeck, Officer-in-Charge, Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD)

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

Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)

Pascal Lamy, Director-General, World Trade Organization (WTO)

Trevor Manuel, Chairman, Joint Development Committee

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

Adnan A. Shihab-Eldin, Acting Secretary-General, Organization of the Petroleum Exporting Countries (OPEC)

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

Paul Wolfowitz, President, World Bank

1 As endorsed by Heads of State and Government in the UN General Assembly on September 8, 2000.

2 The report can be found at http://www.imf.org/external/np/omd/2005/eng/091505.pdf.