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International Monetary Fund
Washington, D.C. 20431 USA

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

1. The International Monetary and Financial Committee held its thirteenth meeting in Washington, D.C. on April 22, 2006 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 continued strong expansion of the global economy, despite higher oil prices. The expansion is becoming geographically more broadly based, and global growth is expected to remain strong in the next couple of years. Inflation and inflationary expectations remain well contained—although with excess capacity diminishing, continued vigilance will be required. The Committee notes that downside risks arise from continued high and volatile oil prices, the potential for an abrupt shift in global financial market conditions, a rise in protectionism, and a possible avian flu pandemic. The major risks posed by underlying vulnerabilities, including from widening global imbalances, have yet to be comprehensively addressed.

3. The Committee reiterates that action for orderly medium-term resolution of global imbalances is a shared responsibility, and will bring greater benefit to members and the international community than actions taken individually. While progress has been made, more concerted and sustained implementation—with every country doing its part—is needed to help reduce medium-term risks associated with the imbalances. Following the discussion at the Global Imbalances Conference held at the IMF on April 21, the Committee confirms that the agreed policy strategy to address imbalances remains valid. Key elements include raising national saving in the United States—with measures to reduce the budget deficit and spur private saving; implementing structural reforms to sustain growth potential and boost domestic demand in the euro area and several other countries; further structural reforms, including fiscal consolidation, in Japan; allowing greater exchange rate flexibility in a number of surplus countries in emerging Asia; and promoting efficient absorption of higher oil revenues in oil-exporting countries with strong macroeconomic policies. Given economic interlinkages, all countries and regions will have a role to play by increasing the flexibility of their economies and adapting to changing global demand patterns. The Committee therefore asks the IMF to work on modalities, in consultation with country authorities, aimed at encouraging actions needed to

reduce the imbalances, and calls for a report at its next meeting. More generally, the new multilateral consultations, as outlined in the Managing Director's report on implementing the IMF's medium-term strategy, can play a role in promoting multilateral action.

4. The Committee welcomes the actions already taken to address capacity constraints in oil production. Building on this progress, it calls for further measures to improve the supply-demand balance in oil markets over the medium term, with oil producers, oil consumers, and oil companies all playing their part, including through closer dialogue. The Committee emphasizes the importance of further upstream and downstream investment, policies to promote energy efficiency, conservation, and alternative sources of energy, reducing subsidies on oil products, and further efforts to improve the quality and transparency of oil market data. The Committee will review progress on these issues at its next meeting.

5. Steps to strengthen medium-term fiscal positions remain crucial to support growth and stability, and improve resilience against future shocks. Greater advantage should be taken of the economic expansion to reduce fiscal deficits, and to move forward with reforms to ensure the sustainability of pension and health systems. The Committee also underscores that faster progress to remove constraints to growth in labor and product markets and improve the business and investment climate is essential to reap the benefits of globalization. The Committee welcomes the continued strength of the global financial system, and calls for continued vigilance by financial supervisors, especially regarding the potential impact of a turn in the credit cycle. The Committee calls on members to ensure the robustness of essential economic and financial infrastructure as part of a broad strategy to address the risk of an avian flu pandemic and, in this context, supports the IMF's outreach initiative to promote business continuity planning among financial institutions.

6. The Committee emphasizes the importance of an ambitious and successful outcome to the Doha Round by the end of 2006 for global growth and poverty reduction. The Committee calls on all members to resist protectionism in both trade and foreign direct investment. With time running increasingly short, all members must urgently contribute to reaching agreement on the key elements of a comprehensive package supporting a strengthened multilateral trading system. The Committee also calls for continued efforts to help countries take full advantage of the opportunities of global integration arising from ambitious trade liberalization. For poor countries in particular, the Committee urges Aid for Trade assistance firmly grounded in national development strategies and full use of existing and enhanced mechanisms for trade-related technical assistance.

7. The improving growth prospects in poor countries, including in Sub-Saharan Africa, are encouraging. The Committee emphasizes that achieving the Millennium Development Goals (MDGs) requires a partnership between poor countries and donors. Developing countries should continue to pursue sound macroeconomic policies and growth-critical reforms, including further substantial efforts to build sound, accountable, and transparent institutions. The international community should follow through expeditiously on its commitment to provide additional resources.

Implementing the IMF's Medium-Term Strategy

8. The Committee welcomes the Managing Director's report on implementing the IMF's medium-term strategy, and appreciates the public debate on the role of the IMF. It calls on management and the Executive Board to complete their considerations and then move rapidly to implementation.

9. The Committee reiterates that the IMF's effectiveness and credibility as a cooperative institution must be safeguarded and its governance further enhanced, emphasizing the importance of fair voice and representation for all members. We underscore the role an ad hoc increase in quotas would play in improving the distribution of quotas to reflect important changes in the weight and role of countries in the world economy. The Committee agrees on the need for fundamental reforms. The Committee calls upon the Managing Director to work with the IMFC and Executive Board to come forward with concrete proposals for agreement at the Annual Meetings.

10. The Committee reiterates the importance of making IMF surveillance more effective and supports a review of the 1977 Surveillance Decision. In the context of the Managing Director's medium-term strategy, the Committee proposes a new framework for IMF surveillance which will consist of four elements. First, a new focus of surveillance on multilateral issues, including global financial issues, and especially the spillovers from one economy on others. Second, a restatement of the commitments which member countries and their institutions make to each other under Article IV on which surveillance can focus on monetary, financial, fiscal and exchange rate policies. Third, the Managing Director should implement his proposal for a new procedure, which will involve the IMFC and the Executive Board, for multilateral surveillance. Fourth, the IMFC should set a new annual remit for both bilateral and multilateral surveillance through which the Managing Director, the Executive Board and the staff are accountable for the quality of surveillance. This should involve the independence of Fund surveillance, greater transparency and the Independent Evaluation Office.

11. As emerging market members pursue sound policies and integrate effectively into world trade and capital markets, they make a welcome contribution to global economic stability and avoidance of financial crises. The Committee welcomes the IMF's efforts to respond to the new challenges and needs of emerging market members. Financial and capital markets issues should be increasingly at the center of the IMF's work in these countries. The Committee supports further examination of the Managing Director's proposal on a possible new instrument to provide high access contingent financing for countries that have strong macroeconomic policies, sustainable debt, and transparent reporting but remain vulnerable to shocks. The Committee encourages the IMF to explore the role it can play in supporting regional arrangements for pooling reserves. A review is also needed of the operational aspects of the IMF's policy on lending into arrears.

12. The Committee stresses that the IMF has a critical role in low-income countries, including in helping to ensure that expected increases in aid flows and debt relief are absorbed effectively and in a manner consistent with macroeconomic stability. The IMF needs to play its

part within its areas of core competence in monitoring progress toward the MDGs. The Committee welcomes the establishment of new instruments that will strengthen the IMF's support for low-income countries, including the Policy Support Instrument and the Exogenous Shocks Facility, and underlines the importance of further contributions to enable the IMF to provide timely concessional shock financing. The Committee welcomes debt relief provided by the IMF and other institutions under the HIPC Initiative and Multilateral Debt Relief Initiative (MDRI). It also welcomes the agreement on the final list of potentially eligible members that meet the criteria of the HIPC Initiative. The Committee underscores the importance of ensuring debt sustainability in countries receiving debt relief by refining the joint IMF-World Bank debt sustainability framework, and helping countries to implement sound medium-term debt strategies and strong public expenditure management and tax systems. The Committee notes the importance of countries avoiding the re-accumulation of unsustainable debt and the potentially adverse consequences of nonconcessional borrowing for debt sustainability. It urges all creditors to work with the IMF and the World Bank to adhere to responsible lending. The Committee considers it critical for the effectiveness of the IMF's work in low-income countries that its policy advice, support for capacity building, and financial assistance are closely aligned with the countries' evolving needs and poverty reduction strategies, and focused on macroeconomic issues, including institutions relevant to financial stability, trade, and economic growth.

13. The Committee supports efforts to clarify the division of responsibilities and accountabilities of the IMF and the World Bank, and to improve their collaboration. It welcomes the establishment of the External Review Committee on World Bank-IMF Collaboration, and looks forward to its conclusions.

14. The Committee notes that the IMF's budgetary position has changed following the recent decline in IMF credit, and this requires actions on both income and expenditure. The Committee calls on the Managing Director to develop proposals expeditiously for more predictable and stable sources of income. The Committee welcomes that the medium-term strategy is formulated in a budget-neutral way, and encourages the IMF to further prioritize and streamline its work.

Other Issues

15. The Committee recommends members' acceptance of the Fourth Amendment of the Articles of Agreement. 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), and supports the comprehensive assessment of these programs within the context of the Financial Sector Assessment Program.

16. The Committee notes the upcoming discussion by the Executive Board of the external evaluation of the Independent Evaluation Office (IEO), and looks forward to the continuing contribution of the IEO to the IMF's work.

17. The next meeting of the IMFC will be held in Singapore, on September 17, 2006.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

ATTENDANCE

April 22, 2006

Chairman

Gordon Brown

Managing Director

Rodrigo de Rato

Members or Alternates

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)
Jaime Caruana, Governor, Bank of Spain
Yaga V. Reddy, Governor, Reserve Bank of India
(Alternate for Palaniappan Chidambaram, Minister of Finance, India)
David Dodge, Governor, Bank of Canada
(Alternate for James Michael Flaherty, Minister of Finance, Canada)
Tae-Shin Kwon, Vice Minister, Ministry of Finance and Economy, Korea
(Alternate for Duck-Soo Han, Deputy Prime Minister and Minister of Finance and Economy, Korea)
Eero Heinäluoma, Minister of Finance, Finland
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
Guido Mantega, Minister of Finance, Brazil
Hans-Rudolf Merz, Minister of Finance, Switzerland
Felisa Miceli, Minister of Economy and Production, Argentina
Ngozi Okonjo-Iweala, Minister of Finance, Nigeria
Didier Reynders, Minister of Finance, Belgium
John W. Snow, Secretary of the Treasury, United States
Peer Steinbrück, Minister of Finance, Germany
Sadakazu Tanigaki, Minister of Finance, Japan
Paul Tougui, Minister of State, Minister of Finance, Economy, Budget and Privatization, Gabon
Giulio Tremonti, Deputy Prime Minister and Minister of Economy and Finance, Italy

Awang Adek Hussin, Deputy Minister of Finance II, Malaysia
(Alternate for Nor Mohamed Yakcop, Minister of Finance II, Malaysia)
Gerrit Zalm, Minister of Finance, Netherlands
Zhou Xiaochuan, Governor, People's Bank of China

Observers

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Organization of the Petroleum Exporting Countries (OPEC)
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Alberto Carrasquilla, Chairman, Joint Development Committee
Roger W. Ferguson, Chairman, Financial Stability Forum (FSF)
Donald J. Johnston, Secretary-General, Organisation for Economic Co-operation and
Development (OECD)
Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)
José Antonio Ocampo, Under-Secretary-General, Department of Economic and Social
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Valentine Rugwabiza, Deputy Director-General (WTO)
Jean-Claude Trichet, President, European Central Bank (ECB)
Paul Wolfowitz, President, World Bank