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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 seventeenth meeting in Washington, D.C. on April 12, 2008 under the Chairmanship of Mr. Tommaso Padoa-Schioppa, Minister of Economy and Finance of Italy.
2. The Committee met at a time of unusual uncertainties surrounding global economic and financial market prospects. It stresses that the challenges facing the world economy are of a global nature, requiring strong action and close cooperation among the membership. The Committee is confident that the key reforms recently agreed by the Fund's Executive Board, including the strategic refocusing of the Fund on its core mandate based on its comparative advantage, will strengthen the Fund's role in promoting global financial stability and international monetary cooperation and in serving its universal membership effectively at this critical juncture.

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

3. The Committee notes that global financial instability has increased since its last meeting. World economic growth has slowed and growth prospects for 2008 and 2009 have deteriorated. Risks to the outlook come from the still unfolding events in financial markets and from the potential worsening of housing and credit cycles. Inflationary risks—notably from higher food, energy, and other commodity prices—have also risen. The Committee agrees that policymakers should continue to respond to the challenge of dealing with the financial crisis and supporting activity, while making sure that inflation is kept under control. While each country's situation is different, coherent action must be taken, taking due account of cross-border interactions.

4. In the advanced economies, monetary policy should continue to aim at medium-term price stability, while responding flexibly to signs of a more pronounced and prolonged economic downturn. Fiscal policy can also play a useful counter-cyclical role. In the United States, temporary fiscal easing will help to counter downside risks to growth. Other advanced economies have also experienced financial turbulence and their growth rates have declined; when consistent with medium-term fiscal objectives, automatic stabilizers should be allowed full play. Further progress should also be made on: safeguarding medium-term fiscal

consolidation in the United States; product and labor-market reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; addressing supply bottlenecks in oil-exporting countries; and reforms to boost domestic consumption in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries.

5. The Committee welcomes the actions taken by the central banks of the advanced economies to provide liquidity support to ease strains in interbank markets, and calls for continued vigilance to deal with the financial turmoil. Further prompt actions by large financial institutions to disclose losses and repair balance sheets by raising capital when needed and mobilizing medium-term funding will contribute to restoring confidence. The Committee sees the ongoing work in several fora aimed at managing and drawing lessons from the financial turmoil as a key step to strengthen the stability of the global financial system and to reinforce the supervisory and regulatory frameworks. In this context, it welcomes the Fund's work in these areas, notably the Global Financial Stability Report and the report prepared by the IMF on "The Recent Financial Turmoil—Initial Assessment, Policy Lessons, and Implications for Fund Surveillance." The Committee underscores that continued close Fund collaboration with the Financial Stability Forum (FSF), the Bank for International Settlements, standard-setting bodies, and national authorities will be essential to ensure that the lessons from the crisis are effectively shared and that agreed policy actions are rapidly implemented. In this context, the Committee welcomes the policy recommendations by the FSF and calls for their timely implementation; it also emphasizes the importance of strengthening the Fund's financial surveillance role, including through the Financial Sector Assessment Program, and its capability to identify risks in the future. The Committee will review further progress on these issues at its next meeting.

6. Emerging market and developing countries have so far continued to grow strongly and show resilience in the face of the ongoing financial crisis, though their growth prospects have moderated and inflation risks have increased. For many countries, containing inflation and addressing vulnerabilities remain key priorities. Other countries may have room to respond to a further worsening of the external environment by counter-cyclical monetary and fiscal policies without jeopardizing their stabilization gains. Commodity-exporting countries, exposed to the risk of significant swings in commodity prices, should maintain progress toward economic diversification. The Committee notes that a number of developing countries, especially low-income countries, face a sharp rise in food and energy prices, which have a particularly strong impact on the poorest segments of the population. The Committee urges the Fund to work closely with the World Bank and other partners in an integrated response through policy advice and financial support.

7. The Committee reiterates its strong support for a prompt and ambitious conclusion of the Doha Development Round of trade negotiations.

8. The Committee notes that Sovereign Wealth Funds (SWFs) are becoming increasingly important players in the international monetary and financial system, offering various economic and financial benefits, including a stabilizing influence on financial markets, but also posing several challenges for policymakers. The Committee welcomes the IMF's initiative to work, as facilitator and coordinator, with SWFs to develop a set of best practices by the 2008 Annual Meetings. It emphasizes that SWF best practices should be

developed on a collaborative and voluntary basis, and go hand in hand with work in the OECD and elsewhere on best practices for countries receiving SWF investments. The Committee looks forward to reviewing the progress made on these fronts at its next meeting.

### **IMF Reforms and Policy Agenda**

9. The Committee welcomes the agreement by the Executive Board on the package of quota and voice reforms as an important contribution to enhance the Fund's credibility and legitimacy, in line with the objectives set forth at the Annual Meetings in Singapore in 2006. The Committee looks forward to the approval of the quota and voice reforms by the Governors by April 28, 2008, as well as the early acceptance by the members of the proposed amendment of the Fund's Articles of Agreement to make the quota and voice reforms effective. The package of reforms is forward-looking in requesting that the Executive Board recommend further realignments of members' quota shares in the context of future general quota reviews, which take place every five years, to ensure that members' quota shares adequately reflect their relative positions in the world economy. These realignments are expected to result in increases in the quota shares of dynamic economies, and hence in the share of emerging market and developing countries as a whole. The Committee also looks forward to further work by the Executive Board on elements of the new quota formula that can be improved before the formula is used again.

10. The Committee endorses the agreement by the Executive Board on a new income model and a new medium-term budgetary envelope, which will contribute to placing the Fund on a sustainable financial footing. The new budgetary framework, which reduces net spending by 13½ percent in real terms over the next three years, and the new income model provide for a strengthened, integrated budget process to ensure lasting budget discipline and an allocation of resources reflecting the Fund's refocused strategic priorities. The Committee strongly recommends that the Governors give their full support to the new income model by approving the proposed amendment of the Fund's Articles by May 5, 2008. It calls on all members to work toward the early completion of the legislative steps required for making the new model effective, including the establishment of an endowment funded by the profits from a strictly limited sale of gold within the agreement of the central banks. By relying on broader and more sustainable income sources, the new model appropriately recognizes that many Fund activities provide a public good. The Committee endorses the safeguards adopted to ensure that the reimbursement of the Fund for the administrative expenses of the PRGF-ESF Trust does not result in insufficient concessional lending capacity of the Trust. The Committee looks forward to the introduction of comprehensive cost accounting of Fund activities. It encourages further work by the Executive Board on the design of investment policies under the Fund's expanded investment authority, with a passive investment approach that closely tracks widely used benchmark indices; the operationalization of the new framework for setting the basic rate of charge; the review of the role and adequacy of precautionary balances; the need for a dividend policy; and the completion of the review of charges and maturities on Fund facilities by the time of the 2008 Annual Meetings.

11. The Committee agrees that the principle of comparative advantage should underpin the refocusing and repositioning of the Fund's activities in all areas of its mandate.

12. Consistent with the 2007 Surveillance Decision, bilateral surveillance will remain at the core of the Fund's work, and an essential input into multilateral and regional surveillance. The Committee supports the efforts underway to sharpen the analysis of the financial sector, macro-financial linkages, exchange rates, and spillovers; deepen work on identifying and addressing risks to financial stability in close cooperation with other institutions; extend the Fund's vulnerability exercise to advanced economies; and better integrate global and cross-country perspectives into bilateral surveillance. It looks forward to steps to make surveillance outputs better focused and more timely, while ensuring that the quality of bilateral surveillance is preserved. Key operational aspects in implementing the 2007 Surveillance Decision will be clarified at the Executive Board, and the upcoming Triennial Surveillance Review will address strategic issues related to refocusing surveillance. The Committee encourages the Executive Board to consider a first statement of surveillance objectives and priorities prior to the next Annual Meetings.

13. The Fund's closer interaction with emerging market economies will focus on the specific challenges that they face from global financial integration, cross-border linkages, and volatile capital flows. Recognizing that the emerging market and developing countries are not immune to a broadening of the problems in financial markets, the Committee encourages the Executive Board to consider increasing the level of normal access to Fund resources and to continue its work on an appropriate crisis prevention financial line. It notes the Managing Director's decision to bring these matters promptly to the Executive Board's attention. The Committee looks forward to reviewing the progress achieved at its next meeting.

14. The Committee supports continued close engagement by the Fund with its low-income members. This will be achieved by focusing the Fund's work on macroeconomic and financial stability issues and helping low-income countries tackle the challenges of debt sustainability, capital inflows, and commodity price swings. Work will also continue on possible improvements in the Fund's engagement with countries suffering from shocks affecting their balance of payments, including through the Exogenous Shocks Facility and other existing facilities; in fragile situations; and emerging from conflict. Efficiency gains will come from closer and more efficient cooperation and a clear delineation of responsibilities between the Fund and the World Bank, as well as from a streamlining of operations and procedures. The Committee calls on the Fund to provide a structured way of approaching donors regarding funding requests and encourages members to provide additional financial contributions to ensure that the Fund can continue to subsidize emergency assistance and capacity building to its low-income members.

15. The Committee agrees that Fund technical assistance and training should continue to play a key role in supporting members' capacity building efforts in the areas of the Fund's core mandate. It looks forward to steps that will increase the effectiveness of technical assistance in a resource-constrained environment with greater prioritization and a stronger result-focus, including through consideration of a system of graduated charges. The Committee also supports initiatives to promote external financing for the provision of Fund technical assistance and training.

**Other Issues**

16. The Committee recommends members' acceptance of the amendment of the Articles of Agreement for a special one-time allocation of SDRs.
17. The next meeting of the IMFC will be held in Washington, D.C. on October 11, 2008.

## INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

### ATTENDANCE

April 12, 2008

#### **Chairman**

Tommaso Padoa-Schioppa

#### **Managing Director**

Dominique Strauss-Kahn

#### **Members or Alternates**

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

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

(Alternate for Obaid Humaid Al Tayer, Minister of State for Financial Affairs,  
United Arab Emirates)

Anders Borg, Minister of Finance, Sweden

Wouter Bos, Minister of Finance, Netherlands

Palaniappan Chidambaram, Minister of Finance, India

Alistair Darling, Chancellor of the Exchequer, United Kingdom

James Michael Flaherty, Minister of Finance, Canada

José Félix Rivas-Alvarado, Director, Board of Directors, Central Bank of Venezuela  
(Alternate for Rafael Isea, Minister of Finance, República Bolivariana de  
Venezuela)

Aleksei Kudrin, Deputy Prime Minister and Minister of Finance, Russian Federation

Christine Lagarde, Minister of Economy, Finance and Employment, France

Mohammed Laksaci, Governor, Banque d'Algérie

Martín Lousteau, Minister of Economy and Production, Argentina

Guido Mantega, Minister of Finance, Brazil

Tito Mboweni, Governor, South African Reserve Bank

Hans-Rudolf Merz, Minister of Finance, Switzerland

Masaaki Shirakawa, Governor, Bank of Japan

(Alternate for Fukushiro Nukaga, Minister of Finance, Japan)

Vittorio Grilli, Director-General, Department of the Treasury, Ministry of Economy  
and Finance, Italy

(Alternate for Tommaso Padoa-Schioppa, Minister of Economy and Finance,  
Italy)

Ben S. Bernanke, Chairman, Board of Governors of the Federal Reserve System

(Alternate for Henry M. Paulson, Jr., Secretary of the Treasury, United States)

Didier Reynders, Deputy Prime Minister and Minister of Finance, Belgium

Axel A. Weber, President, Deutsche Bundesbank

(Alternate for Peer Steinbrück, Minister of Finance, Germany)

Wayne Swan, Treasurer of the Commonwealth of Australia

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

Tarisa Watanagase, Governor, Bank of Thailand

Zhou Xiaochuan, Governor, People's Bank of China

## Observers

Mohammad Alipour-Jeddi, Head, Petroleum Market Analysis Department,  
Organization of the Petroleum Exporting Countries (OPEC)

Joaquín Almunia, Commissioner for Economic and Monetary Affairs,  
European Commission (EC)

Agustín Carstens, Chairman, Joint Development Committee (DC)

Mario Draghi, Chairman, Financial Stability Forum (FSF)

Angel Gurría, Secretary-General, Organisation for Economic Co-operation and  
Development (OECD)

Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development,  
United Nations (UN)

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

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

Ugo Panizza, Chief, Debt and Finance Analysis Unit (UNCTAD)

Stephen Pursey, Director, Policy Integration and Statistics Department and Senior  
Advisor to the Director-General, International Labour Organization (ILO)

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

Robert B. Zoellick, President, World Bank Group