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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 tenth meeting in Washington, D.C. on October 2, 2004, under the Chairmanship of Mr. Gordon Brown, Chancellor of the Exchequer of the United Kingdom. The Committee welcomes Mr. Rodrigo de Rato as the new Managing Director, and looks forward to working closely with him on furthering the goals of global stability and prosperity.

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

2. The Committee welcomes the strengthening and broadening of global economic growth in 2004, supported by a strong upturn in global trade, supportive policies, and favorable financial market conditions. The global expansion is expected to continue at a solid pace provided all countries implement policies and reforms that will promote robust, balanced, and sustainable growth. The Committee notes that downside risks to the recovery have recently increased, stemming in part from the increase and volatility in oil prices. These reflect geopolitical tensions, strong global demand, and market dynamics. The IMF stands ready to assist members that may be adversely affected.

3. The Committee reiterates the desirability of stability in oil markets and prices which are consistent with lasting global prosperity. To this end, it welcomes the decisions by oil-producing countries to continue to expand production and urges further measures to increase capacity, and calls on oil-consuming countries to take measures to promote energy sustainability and efficiency. The Committee also stresses the importance of dialogue between consumers and producers, and of further progress to improve oil market information and transparency.

4. The strength of the global recovery has set the stage for a gradual return to more neutral monetary policies, with the desirable pace and timing of tightening varying across countries, depending on cyclical positions. Continued good communication of policy intentions will be essential to facilitate orderly adjustment in financial markets to higher interest rates, where needed. Inflation remains low and risks to price stability remain moderate. However, policymakers should be ready to contain any inflationary pressures, including from higher commodity prices, thereby ensuring noninflationary growth.

5. All countries should take advantage of the recovery to address medium-term vulnerabilities and challenges with renewed commitment. The Committee considers that bold reforms on a wide front are needed to strengthen fiscal positions, remove structural impediments to growth, support the correction of global imbalances, reduce financial and corporate vulnerabilities, and accelerate poverty reduction.

6. Fiscal consolidation remains a key priority in many countries. In the advanced economies, credible medium-term fiscal frameworks should be based on well-defined policies, and ensure progress on consolidation particularly in good times. Reforms of pension and health care systems will also be critical to address the fiscal pressures from population aging. Although many emerging market countries are making good progress in improving the structure of public debt and strengthening fiscal positions, further efforts are needed to bring public debt down to levels that will build adequate resilience to shocks. Broad tax bases, effective and transparent public expenditure management, and structural measures to boost growth will be important to improve debt sustainability and meet social and infrastructure spending priorities.

7. Structural reforms remain crucial to strengthen the foundations for sustained growth. Most advanced economies should step up their efforts to increase economic efficiency and flexibility to take full advantage of the opportunities from rapid technological change and global integration. Boosting sustainable growth and increasing economic resilience across emerging market countries, depending on country circumstances, will involve: completing financial and corporate sector reforms; strengthening banking supervision and developing domestic capital markets; improving the investment climate; and promoting economic diversification. The Committee notes the importance of addressing the economic implications of demographic changes. Depending on country circumstances, policies will need to focus on boosting labor supply, increasing public and private savings, and lifting productivity.

8. Policies to support an orderly resolution of global imbalances are a shared responsibility, and key to reinforcing the basis for more balanced and sustainable growth. The Committee underscores the importance of progress on medium-term fiscal consolidation in the United States, continued structural reforms to boost growth in Europe and Japan, and, in emerging Asia, steps toward greater exchange rate flexibility, supported by continued financial sector reform, as appropriate. Also, improving information and transparency in markets, including the role of hedge funds, would help strengthen market surveillance. The Committee welcomes the recent improvement in Argentina's fiscal position since 2002. The Committee supports that Argentina decisively addresses all the outstanding structural issues in their program, completes a comprehensive and sustainable debt restructuring, and ensures a sustainable medium-term fiscal framework. We welcome the efforts by Argentina toward completing a comprehensive and sustainable debt restructuring and hope for an expeditious conclusion to the process.

9. The Committee emphasizes that in the coming months IMF surveillance should focus on a number of key issues, including: the impact of higher oil prices, especially on the most vulnerable; the sustainability of medium-term fiscal positions and debt in many members; and managing the policy response to potential inflationary pressures.

10. The Committee calls on all partners to strengthen their commitment to the global effort to reduce poverty. The recent strong growth in most low-income countries is welcome, but the

Committee is concerned that in many cases, particularly in sub-Saharan Africa, growth remains inadequate for achieving the Millennium Development Goals (MDGs).<sup>1</sup> The key challenge for these countries—as recognized in the New Partnership for Africa’s Development—is to press ahead with efforts to further strengthen institutions and governance, to build on the macroeconomic stabilization that has been achieved. The international community needs to support these efforts with more open markets for these countries’ exports, increased and better-coordinated aid and technical assistance, further debt relief, and sound policy advice.

11. An open and inclusive multilateral trading system is central to global growth and economic development, especially for developing countries. The Doha Round offers a unique opportunity for substantial progress toward this objective, and the Committee is encouraged by the recent decisions on negotiating frameworks. We endorse the “July Package” and urge all parties to work toward concrete advances in liberalizing trade, strengthening multilateral trade rules, and reducing trade-distorting subsidies, notably in agriculture. To achieve ambitious trade liberalization will require the full commitment of all parties, in particular strong leadership from the major trading nations and readiness of all countries to embrace the opportunities provided by more open trade. The Committee supports the IMF’s continued role in advocating trade liberalization and assisting members, including through the Trade Integration Mechanism.

### **Making Surveillance More Effective and Strengthening Crisis Prevention**

12. Effective and evenhanded IMF surveillance across the whole membership is central to promoting high and sustainable growth in member countries and to crisis prevention. The increasing interdependence of the membership reinforces the importance of effective surveillance of systemically-important countries and capital markets. The Committee welcomes the progress made in strengthening surveillance, and the steps identified during the recent biennial surveillance review to enhance its overall effectiveness. A focus on implementation is now needed. The Committee calls upon the IMF to continue its efforts to strengthen its economic analysis and policy advice; systematically evaluate the appropriateness of that advice; complement multilateral and bilateral surveillance with a focus on regional issues; improve the quality of the policy dialogue with members (including through increased cross-country analysis where relevant); strengthen communications to markets and the public of the IMF’s policy messages while preserving its role as a candid and confidential advisor; and develop a methodology for better assessing the effectiveness of surveillance.

13. Toward meeting these objectives, the achievement of which should be assessed in the next surveillance review, the Committee agrees that priority should be given to sharpening the focus of Article IV consultations, including a deepening of the discussion of exchange rate issues; enhancing financial sector surveillance; and better integrating debt sustainability analysis and regional and global spillovers into country surveillance. Further progress in reducing balance sheet vulnerabilities, and further work on surveillance in low-income countries will also be monitored in the next review of surveillance.

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

14. Progress in bringing a fresh perspective to the surveillance of program countries should be kept under review, and lessons learned from ex-post assessments of program performance should be carefully implemented. It is important to assess the extent to which earlier IMF advice was acted on by countries, taking account of the countries' views. The Committee looks forward to the forthcoming reviews of the standards and codes initiative and the Financial Sector Assessment Program, reflecting the increasing importance of financial system stability. The Committee calls for a strengthening of efforts to ensure the objectivity of surveillance, including through enhanced debt sustainability analysis covering all member countries.

15. The Committee welcomes consideration of whether there are gaps in the IMF's range of instruments and policies. It notes the preliminary discussions of possible new modalities for high-frequency policy monitoring and delivering signals on the strength of a member's economic policies outside the context of an IMF financial arrangement. The Committee notes the role that existing precautionary IMF instruments are playing in signaling the strength of members' policies; and the possible role for a precautionary PRGF, and precautionary and other financing instruments designed to prevent the emergence or spread of capital account crises. It calls for further work on these proposals, including the usefulness and potential demand, in close consultation with potential users, donors, and creditors, and calls for a report at its next meeting.

16. The Committee welcomes the increased adoption of collective action clauses (CACs) in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes recent initiatives aimed at achieving a broad consensus between sovereign issuers and their creditors on voluntary principles for emerging markets' crisis management and debt restructuring. The Committee looks forward to reviewing further work on general issues of relevance to the orderly resolution of financial crises, including implementation of the IMF's lending into arrears policy.

### **Enhancing International Support for Low-Income Members**

17. The Committee supports the ongoing work to clarify and strengthen the IMF's role in low-income countries, which should be based on country ownership and close cooperation with other multilateral institutions and bilateral donors. The IMF has an important role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve the macroeconomic stability and high growth needed to make progress toward the MDGs. The Committee looks forward to further work on the financing and modalities of the IMF's engagement with low-income members, including the financing of the PRGF after 2006 to maintain adequate capacity to meet future needs, instruments to help members face shocks, and ways to improve monitoring and signaling. The Committee notes the joint report of the IMF and the World Bank on aid effectiveness and financing modalities. It encourages further analysis by the World Bank and IMF of aid effectiveness, absorptive capacity, results-based measurement mechanisms, and financing modalities and mechanisms to augment aid flows, such as the International Finance Facility, global taxes, and other innovative mechanisms, and looks forward to a further report.

18. The Committee supports continued efforts to strengthen the Poverty Reduction Strategy Papers (PRSP) approach and IMF support to low-income countries under the PRGF. It welcomes the report of the Independent Evaluation Office on the PRSP/PRGF, and the work underway to

follow up on its recommendations. To support implementation of the Monterrey Consensus, the Poverty Reduction Strategy (PRS) process should be improved and become better integrated into each country's domestic policy-making processes, and international assistance, including from the IMF, should become more fully coordinated with domestic economic priorities. The Committee looks forward to the work on improving the role of the IMF in the PRS process, and on the design of policy programs supported by the PRGF. It calls for increased incorporation of poverty and social impact analysis into PRGF-supported programs, and for more extensive analyses of the sources of and obstacles to growth, and the linkages between poverty reduction and economic growth.

19. The Committee welcomes the progress in providing debt relief under the HIPC Initiative, which has been extended for two more years, encourages eligible countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the IMF's and the World Bank's work on a single framework to assist low-income countries' efforts to achieve and maintain robust debt sustainability while pursuing their development objectives. It looks forward to further consideration of outstanding issues in the proposed framework for debt sustainability, before it is made fully operational, and of further debt relief, including its financing.

#### **Other issues**

20. The IMF's effectiveness and credibility as a cooperative institution depend on all members having appropriate voice and full participation in its processes. The Committee takes note of the IMF Executive Board's status report regarding work on quotas, voice, and representation. It encourages the Board to consider further issues of voice, quotas, and participation, noting as the Board agreed, that progress will require broad consensus among the shareholders. The Committee recommends completion of the ratification of the Fourth Amendment.

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

22. The Committee expresses its appreciation of the work of Mr. Montek Singh Ahluwalia as first Director of the Independent Evaluation Office (IEO). It looks forward to continued high-quality reports by the IEO.

23. The 60<sup>th</sup> anniversary of the IMF is a timely opportunity to reflect on the forces that will help shape the institution's priorities going forward. The Committee welcomes the preliminary consideration by the Executive Board of the work on the IMF's strategic direction initiated by the Managing Director, and looks forward to a discussion at its next meeting. It also welcomes the continuing progress in reforming the IMF's budgetary framework.

24. The next meeting of the IMFC will be held in Washington, D.C. on April 16, 2005.

## INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

### ATTENDANCE

October 2, 2004

#### **Chairman**

Gordon Brown

#### **Managing Director**

Rodrigo de Rato

#### **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)  
Palaniappan Chidambaram, Minister of Finance, India  
Martin Parkinson, Executive Director, Macroeconomic Group, The Treasury,  
Commonwealth of Australia  
(Alternate for 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-Diaz, Secretary of Finance and Public Credit, Mexico  
Ralph Goodale, Minister of Finance, Canada  
Sultan Al-Suwaidi, Governor, Central Bank of the United Arab Emirates  
(Alternate for Mohammed K. Khirbash, Minister of State for Finance and Industry,  
United Arab Emirates)  
Aleksandr Kudrin, Minister of Finance, Russian Federation  
Mohammed Laksaci, Governor, Banque d'Algérie  
Roberto Lavagna, Minister of Economy and Production, Argentina  
Tito Titus Mboweni, Governor, South African Reserve Bank  
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  
Domenico Siniscalco, Minister of Economy and Finance, Italy  
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  
Gerrit Zalm, Minister of Finance, The Netherlands  
Zhou Xiaochuan, Governor, People's Bank of China

## Observers

Mohammad Alipour-Jeddi, Head, Petroleum Market Analysis Department,  
Organization of the Petroleum Exporting Countries (OPEC)  
Joaquin Almunia Amann, Commissioner, European Commission  
Roger W. Ferguson, Chairman, Financial Stability Forum (FSF)  
Heiner Flassbeck, Officer-in-Charge, Division on Globalization and Development  
Strategies, United Nations Conference on Trade and Development (UNCTAD)  
John William Hancock, Counsellor, World Trade Organization (WTO)  
Donald J. Johnston, Secretary-General, Organisation for Economic Co-operation and  
Development (OECD)  
Malcolm D. Knight, General Manager, Bank for International Settlements (BIS)  
Trevor Manuel, Chairman, Joint Development Committee  
José Antonio Ocampo, Under Secretary-General, Department of Economic and Social  
Affairs, United Nations (UN)  
Juan Somavia, Director-General, International Labour Organization (ILO)  
Jean-Claude Trichet, President, European Central Bank (ECB)  
James D. Wolfensohn, President, World Bank