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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 eleventh meeting in Washington, D.C. on April 16, 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 continuing global economic expansion, underpinned by supportive macroeconomic policies, improving corporate balance sheets, and benign financial market conditions. While returning to a more sustainable pace, global growth will likely remain robust in 2005. The Committee notes, however, that widening imbalances across regions and the continued rise in oil prices and oil market volatility have increased risks. The potential for a sharper-than-expected rise in long-term interest rates from their very low levels and for increased exchange rate volatility also calls for vigilance. The Committee emphasizes that in the coming months IMF surveillance should focus on promoting policies for reducing global imbalances over time; addressing the impact of higher oil prices, in particular on the most vulnerable countries; managing the policy response to potential inflationary pressures; and ensuring the sustainability of medium-term fiscal frameworks.

3. The Committee reiterates that all countries have a shared responsibility to take advantage of the current favorable economic conditions to address key risks and vulnerabilities. To ensure orderly adjustment of global imbalances and to help achieve more sustainable external positions and stronger medium-term growth, the Committee calls for concrete actions by all to implement the agreed policy response in a timely and effective manner. This includes fiscal consolidation to increase national savings in the United States; greater exchange rate flexibility as appropriate, supported by continued financial sector reform, in emerging Asia; further structural reforms to boost growth and domestic demand in Europe; and further structural reforms, including fiscal consolidation, in Japan.

4. The Committee notes that conditions in the oil market will remain tight in the medium term, reflecting strong global demand, low excess capacity, and supply concerns even after investments in some countries. It underscores the importance of stability in oil markets for global prosperity, and recognizes the impact of higher oil prices especially on poorer communities. In this context, the Committee calls for efforts to remove disincentives to investment in oil

production and refining capacity, and to promote energy sustainability and efficiency, including through new technologies and removing barriers to the development of alternative fuels. It encourages closer dialogue between oil exporters and importers, and further efforts to improve oil market data and transparency.

5. Inflation remains relatively subdued in most countries, reflecting in part greater credibility of monetary policy. However, with inflationary pressures likely to increase as the expansion matures, a smooth transition to more neutral interest rates remains a priority in many countries, although the appropriate timing and pace will vary, depending on countries' cyclical positions. In countries receiving strong capital inflows, exchange rate flexibility would facilitate monetary management.

6. Steps to strengthen fiscal positions within sound frameworks and address structural weaknesses will also be critical for supporting medium-term growth and macroeconomic stability, and meeting demographic challenges. Fiscal deficits remain high in many industrial countries and should be reduced. In emerging markets, fiscal indicators have generally improved, but in countries with high levels of public debt continued efforts will be needed to reduce them to more sustainable levels. In both industrial and developing economies, structural reforms need to be advanced to remove rigidities and ensure sustainable growth. The Committee welcomes Argentina's rapid recovery. The recent debt exchange offer represents an important step toward the long-term goal of sustainable growth. Argentina will now need to formulate a forward-looking strategy to resolve the remaining arrears outstanding to private creditors consistent with the IMF's lending into arrears policy, and to continue with necessary structural reforms.

7. Poverty reduction must remain at the top of the international agenda. The Committee welcomes the strong growth performance across developing countries, particularly in sub-Saharan Africa, but notes with concern that most of them are at risk of falling well short of the Millennium Development Goals (MDGs).¹ With improved macroeconomic stability in most countries, the key challenge remains to press ahead with reforms to strengthen the investment environment and foster private sector-led growth. The global community, in turn, needs to support these reform efforts through meeting commitments to increased and better coordinated financial and technical assistance, further debt relief, policies to improve remittance flows, and improved market access for developing countries.

8. The Committee emphasizes that successful and ambitious multilateral trade liberalization is central to sustained global growth and economic development. The immediate priority is for WTO members to translate the mid-2004 framework agreements into a viable policy package in time for the December 2005 WTO Ministerial Conference. The Committee encourages Doha participants to aim for ambitious and comprehensive results, notably in agriculture; substantial reductions in barriers to other trade, including liberalization in financial and other services; and

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

strengthened multilateral trade rules. The Committee supports the IMF's continued role in advocating trade liberalization and assisting members to benefit from it. It encourages the IMF to work with other partners in the Integrated Framework to explore further ways of easing adjustment to trade liberalization, including through the Trade Integration Mechanism, and building capacity in low-income countries. The Committee looks forward to consideration of proposals at its next meeting.

Shaping the IMF's Strategic Direction

9. The Committee welcomes the discussions underway on the IMF's medium-term strategy, and looks forward to reaching conclusions by the 2005 Annual Meetings and further reflection on longer-term issues. The Committee agrees that the central elements of the IMF's mandate as set out in its Articles of Agreement remain as important as ever. The challenge is to enhance the IMF's effectiveness in pursuing its core objectives, while continuing to adapt to changing global economic circumstances. This would ensure that the IMF remains relevant for all its members, which would further foster the coherence, credibility, and evenhandedness of the IMF.

10. The Committee calls for further work on the following emerging priorities that will help shape the institution's strategic direction:

- Surveillance is a central task of the IMF and determined efforts are required to enhance its effectiveness and impact, building on the conclusions of the Biennial Review of Surveillance. Surveillance should become more focused and selective in analyzing issues, in an evenhanded way across the membership. Regional and global surveillance should play an increasingly important role, and be better integrated with bilateral surveillance.
- Work on financial sector issues and international capital markets should be further strengthened to reduce vulnerabilities and promote financial stability. This, including the Financial Sector Assessment Program, should be integrated more fully into surveillance and other activities, and complemented by advice to members on ways to improve access to international capital markets and on orderly capital account liberalization.
- The IMF's lending function is a central pillar of its mandate. All lending should be selective and anchored in strong country ownership and institutional frameworks, putting members firmly on the road to external viability. The Committee looks forward to further reflection on how the needs of members could be met through IMF arrangements, and whether new instruments or revisions to existing facilities are required.
- The IMF has a critical role to play in helping low-income countries in their efforts to reduce poverty and achieve strong, sustainable growth through sound policies and institutions for macroeconomic stability. Efforts should continue to adapt the IMF's activities and instruments to the special circumstances and challenges of low-income countries, based on strong cooperation and clarity of responsibilities with the World Bank.

- The IMF must meet the highest standards of internal management, control, auditing, and governance. This will require further deepening of budget reforms, further work on the IMF's finances and financial structure, and efficient deployment of resources to reflect priorities. The Committee also looks forward to further work on risk management and control, and personnel management systems.
- 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 Committee emphasizes that the period of the Thirteenth General Review of Quotas provides an opportunity for the membership to make progress toward a consensus on the issues of quotas, voice, and participation.

IMF Support for Low-Income Members' Efforts Toward Poverty Reduction and Strong, Sustainable Growth

11. The Committee underscores the conclusion of this year's Global Monitoring Report that bold actions are urgently needed by the developing countries and their partners to realize the MDGs. The U.N. Summit in September 2005 will mark an important milestone to review progress and lay out actions going forward. The IMF has a critical role in supporting—through policy advice, capacity building, and financial assistance, including debt relief—low-income countries' efforts to achieve macroeconomic stability, debt sustainability, and strong, sustainable high growth needed to make progress toward the MDGs.

12. Work is underway to refine the operational aspects of the Poverty Reduction Strategy (PRS) approach, improve the design of PRGF-supported programs, and enhance PRGF-PRS alignment. This will be underpinned by more extensive analyses of the sources of and obstacles to growth, and of the linkages between growth and poverty reduction. The Committee looks forward to further work to ensure adequate financing of the PRGF to meet future demands as assessed by the IMF, and other IMF instruments to assist low-income countries, including to help members deal with shocks. It also looks forward to further work on a policy monitoring arrangement to enhance the IMF's signaling role for countries that do not need or want IMF financing.

13. The Committee supports work by the IMF and World Bank on aid effectiveness and financing modalities. On innovative sources of development financing, such as the International Finance Facility (IFF) and its pilot—the IFF for immunization—global taxes which could also refinance the IFF, the Millennium Challenge Account, and other financing measures, it welcomes the joint IMF and World Bank note outlining progress that has been made. The Committee asks to be kept informed of the further work ahead of the U.N. Summit.

14. The Committee notes the recent progress in providing debt relief under the HIPC Initiative. It encourages countries to take the necessary actions to benefit from the Initiative, and urges full creditor participation. The Committee supports the joint IMF-World Bank framework to assist low-income countries' efforts to achieve and maintain debt sustainability while pursuing their development objectives, and a review of experience under the framework.

15. The Committee welcomes the IMF's work and the preliminary discussion of key issues regarding proposals for further multilateral debt relief and its financing options, and calls for further discussion with shareholders and examination of these issues, including the possible use of the IMF's resources, by the time of its next meeting. It notes that any possible further debt relief from the IMF should be part of a wider international effort.

Other Issues

16. The Committee welcomes progress toward meeting the objectives of IMF surveillance identified at its last meeting, including in the areas of exchange rate issues, financial sector surveillance, better integrating debt sustainability analysis and regional and global spillovers into country surveillance, and balance sheet vulnerabilities. It also welcomes the *Africa Regional Economic Outlook*. The Committee looks forward to the upcoming review of the Standards and Codes Initiative to assess its effectiveness in informing surveillance, enhancing crisis prevention, and strengthening countries' institutions.

17. The Committee welcomes the increased adoption of collective action clauses in international sovereign bonds, and calls on the IMF to continue to promote progress in this area. It notes the "Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets" being developed by a number of sovereign issuers and the investor community, and encourages further efforts to improve the Principles aimed at achieving a broad consensus. 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.

18. The Committee takes note of the recent review of IMF conditionality, including the design of IMF-supported programs. Progress has been made in streamlining conditionality and fostering national ownership. The Committee encourages the IMF to incorporate the findings of the review into its operational work, and to deepen further its analysis of key elements of program design.

19. The Committee recommends completion of the ratification of the Fourth Amendment.

20. The Committee wishes to thank James Wolfensohn for his great contribution as President of the World Bank. During his time at the helm of the Bank, great strides have been made in cooperation and partnership between the IMF and the World Bank, and in progress toward realizing our dream of a world free of poverty.

21. It is expected that the next meeting of the IMFC will be held in Washington, D.C. on September 23, 2005.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

ATTENDANCE

April 16, 2005

Chairman

Gordon Brown

Managing Director

Rodrigo de Rato

Members or Alternates

Burhanuddin Abdullah, Governor, Bank of Indonesia
Hamad Al-Sayari, Governor, Saudi Arabian Monetary Agency
(Alternate for 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
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
Dong-Soo Chin, Deputy Minister for International Affairs, Korea
(Alternate for Duck-Soo Han, Deputy Prime Minister and Minister of Finance
and Economy, Korea)
Sultan Al-Suwaidi, Governor, United Arab Emirates Central Bank
(Alternate for Mohammed 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)
Didier Reynders, Minister of Finance, Belgium
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, Netherlands

Li Ruogu, Deputy Governor, People's Bank of China,

(Alternate for Zhou Xiaochuan, Governor, People's Bank of China)

Observers

Joaquín Almunia, Commissioner, Economic and Monetary Affairs
European Commission

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)

John Hancock, Counsellor, Trade and Finance, Trade Facilitation Division
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)

Geoffrey Skipper, Senior Research Analyst, Organization of the Petroleum Exporting Countries (OPEC)

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

Juan Somavia, Director-General, International Labour Organization (ILO)

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

James D. Wolfensohn, President, World Bank