

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

October 11, 2008

1. The International Monetary and Financial Committee held its eighteenth meeting in Washington, D.C. on October 11, 2008 under the Chairmanship of Dr. Youssef Boutros-Ghali, the Minister of Finance of Egypt. The Committee welcomes Dr. Boutros-Ghali, the new IMFC Chairman. The Committee expresses its deep gratitude to Mr. Tommaso Padoa-Schioppa for his invaluable role as the Committee's Chairman in securing the membership's support for critical IMF reforms, and extends its best wishes.

2. Yesterday, October 10, the G-7 met and agreed the following plan of action:

- "Take decisive action and use all available tools to support systemically important financial institutions and prevent their failure.
- Take all necessary steps to unfreeze credit and money markets and ensure that banks and other financial institutions have broad access to liquidity and funding.
- Ensure that our banks and other major financial intermediaries, as needed, can raise capital from public as well as private sources, in sufficient amounts to re-establish confidence and permit them to continue lending to households and businesses.
- Ensure that our respective national deposit insurance and guarantee programs are robust and consistent so that our retail depositors will continue to have confidence in the safety of their deposits.
- Take action, where appropriate, to restart the secondary markets for mortgages and other securitized assets. Accurate valuation and transparent disclosure of assets and consistent implementation of high quality accounting standards are necessary.

The actions should be taken in ways that protect taxpayers and avoid potentially damaging effects on other countries. We will use macroeconomic policy tools as necessary and appropriate. We strongly support the IMF's critical role in assisting countries affected by this turmoil. We will accelerate full implementation of the Financial Stability Forum recommendations and we are committed to the pressing need for reform of the financial system. We will strengthen further our cooperation and work with others to accomplish this plan."

3. Today the International Monetary and Financial Committee strongly endorsed the above commitments.

4. The Committee recognizes that the depth and systemic nature of the crisis call for exceptional vigilance, coordination, and readiness to take bold action. It underscores that the Fund has a critical mandate to foster the multilateral cooperation needed to restore and safeguard international monetary and financial stability. The Committee considers that, using its emergency procedures, the Fund stands ready to quickly make available substantial resources to help member countries cover financing needs. The Committee calls for further intensive Fund engagement across the membership to discuss and develop robust policy responses to the crisis.

5. Moreover, the Committee notes that many emerging market economies, which have implemented sound policies in recent years, may experience spillover effects from the financial crisis. The difficult global financial environment, including elevated food and fuel prices, adds to the challenges for emerging market and developing countries to preserve macroeconomic stability, sustain growth, and make progress on poverty reduction. For these reasons, it is critically important that collaborative action be coordinated between advanced and emerging economies.

6. The Committee calls on the Fund—given its universal membership, core macro-financial expertise, and its mandate to promote international financial stability—to take the lead, in line with its mandate, in drawing the necessary policy lessons from the current crisis and recommending effective actions to restore confidence and stability. It asks the Fund to focus discussion, and enhance cooperation, with a wide range of perspectives with the FSF, the G-20, and others on this issue in an inclusive setting. The Committee asks the IMF to start this initiative immediately and to report to the IMFC at the latest at its next meeting.

7. The next regular meeting of the IMFC will be held in Washington, D.C. on April 25, 2009. The attachment summarizes the Committee's discussion on other key points.

ATTACHMENT

Supporting Growth and Tackling Global Challenges

1. The Committee emphasizes that macroeconomic policies in the advanced economies need to provide essential stimulus in the face of the risk of a pronounced economic downturn, as confidence in the financial system is restored. Given the decline in commodity prices from their recent peaks and the expected slowing activity in many countries, policymakers should consider the most appropriate policy actions depending on national conditions. The Committee welcomes the recent coordinated monetary policy actions undertaken by several central banks. In a number of economies, fiscal policy has provided timely support to boost activity. Further fiscal initiatives should take account of medium-term consolidation objectives and, if undertaken, should give priority to dealing with financial problems. While macroeconomic policy priorities vary considerably across emerging market and developing economies, the Committee notes that the risk of a marked slowdown owing to financial market strains and sluggish export markets is becoming the primary concern for many of them. The Committee calls on the IMF to stand ready to assist members to prepare timely, effective, and appropriate policy responses to alleviate the impact of negative spillovers from the financial crisis.

2. The Committee is concerned that the progress made by low-income countries in achieving macroeconomic stability, fostering growth, and reducing poverty is being undermined by the adverse global environment. Many low-income countries, particularly in sub-Saharan Africa, have been severely hit by higher food and fuel prices. The Committee calls on low-income countries to pursue strengthened adjustment efforts with increased donor assistance, in particular grants, to limit the effects on real income and poverty. The Committee welcomes the mission statement on low-income countries, and considers that the Fund should continue to play its part in the areas of its core expertise. The Committee welcomes the reforms to the Exogenous Shocks Facility, which allow it to be used more quickly and adequately.

3. The Committee notes the challenges posed by higher commodity prices in many countries, even though food and fuel prices have receded from their recent peaks. It recommends that shifts in international food and fuel prices be passed through to domestic markets, backed by targeted

measures and adequate safety nets to protect the poor and taking into account country-specific circumstances.

4. Progress toward a more multilateral trading system has never been more important given risks to global growth. The Committee therefore calls on members to resist protectionist pressures, and reiterates its strong support for a prompt and ambitious conclusion of the Doha Development Round of trade negotiations.

5. The Committee emphasizes that it remains important to guard against global imbalances. The multilateral strategy for addressing global imbalances remains relevant, even though short-term measures will need to focus on stabilizing financial markets.

Advancing the IMF's Surveillance Agenda

6. The Committee underscores the central role of Fund surveillance in providing clear, advance warning of risks, helping members understand the interdependence of their economies, and promoting globally consistent policy responses. The Committee takes note of the conclusion of the Triennial Surveillance Review, and endorses the Fund's first Statement of Surveillance Priorities.¹ The Committee calls on all members to work together cooperatively and with the Fund toward achieving the economic and operational objectives that it sets forth. The Committee calls on the Fund to press ahead with the enhanced early warning of risks and vulnerabilities, including through enhanced financial sector liaison, analysis of macro-financial linkages, and scenario analysis, and by completing the extension of its vulnerability exercise to advanced economies. The communication of these risks and vulnerabilities should be concise, authoritative, and timely, including through an enhanced World Economic Outlook and Global Financial Stability Report. Work should also be undertaken toward a reshaped Financial Sector Assessment Program that is better integrated with the Fund's surveillance mandate, and embraces regional perspectives. The Committee looks forward to regular reporting by the Managing Director on the progress made against surveillance priorities.

Reviewing the IMF's Lending Role

7. The Committee stresses that Fund financing has a critical role to play in giving confidence to members—subject to adequate safeguards—by helping them cope with the challenges of globalization in general and the current financial crisis in particular. It emphasizes that the Fund is ready to make full use of the flexibility already embodied in its lending instruments, particularly in the emergency procedures and provisions for exceptional access. But additional efforts are needed to review the Fund's lending instruments, which might need to be adapted to the evolving needs of the membership. The Committee welcomes the ongoing review of the Fund's lending role, and supports the plan to advance work in the following five areas: (i) reviewing the analytical framework for Fund lending and its coherence, including the scope for innovation in and streamlining of lending instruments, and exploring new modalities for Fund financing; (ii) creating a new liquidity instrument; (iii) re-examining Fund conditionality; (iv) reviewing the Fund's lending facilities for low-income members; and (v) increasing access limits and financing terms for using Fund resources. The Committee urges the Executive Board to take this agenda forward expeditiously. The Committee strongly recommends that decisions be taken on an accelerated basis in those areas where there is strong consensus and particular urgency—such as the establishment of a new liquidity instrument—and on the full range of issues by the time of the 2009 Annual Meetings.

The Santiago Principles—Generally Accepted Principles and Practices for

Sovereign Wealth Funds

8. The Committee welcomes the development of the Santiago Principles by the International Working Group of Sovereign Wealth Funds (SWFs). The Principles represent a collaborative effort by SWFs from across advanced, emerging, and developing country economies to set out a comprehensive framework, providing a clearer understanding of the operations of SWFs. Their adoption on a voluntary basis signals strong commitment to the Principles and their implementation should further enhance the stabilizing role played by SWFs in the financial markets, and help maintain the free flow of cross-border investment. The Committee welcomes the intention of the International Working Group to consider establishing a Standing Group to keep the Principles under review and explore the scope for collecting and disseminating aggregated information on SWF operations. It emphasizes that continued Fund support, if requested, should be consistent with budgetary constraints. The Committee also stresses the importance of clear and nondiscriminatory policies by recipient countries toward SWF investments. It looks forward to the completion of the work of the OECD in this area, and encourages continued dialogue and coordination between the OECD and SWFs.

Other Issues

9. The Committee welcomes the approval by the Board of Governors of the Resolution on quota and voice reforms, including the amendment of the Fund's Articles of Agreement to enhance voice and participation in the Fund. It notes that this is an important first step toward a realignment of members' quota and voting shares. 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 economies 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. The Committee also welcomes the approval of the amendment broadening the Fund's investment authority as part of the Fund's new income model. The Committee urgently calls on all members to work toward the early completion of the domestic legislative steps required for making the quota and voice reforms and the Fund's new income model effective.

10. The Committee recommends members' acceptance of the amendment of the Articles of Agreement for a special one-time allocation of SDRs.

11. The Committee welcomes the ongoing re-assessment of the Fund's governance. This involves the follow-up by the Fund's Executive Board to the IEO Evaluation of Aspects of IMF Corporate Governance; the work of the committee of eminent persons on IMF governance reform, chaired by Mr. Trevor Manuel; and the engagement of civil society and other concerned audiences. The Committee underscores that governance reforms will require joint and collaborative efforts by all organs of the Fund. It looks forward to a progress report at its next meeting.

ANNEX

SURVEILLANCE PRIORITIES FOR THE INTERNATIONAL MONETARY FUND, 2008-20112

In pursuit of its mandate to promote international monetary and financial stability, IMF surveillance will be guided through 2011 by the following priorities:

Economic priorities

The global economy faces a period of severe financial distress and slower growth alongside the challenges of sharp commodity price changes and global imbalances. The following interrelated policy objectives will be key to return to an international environment more conducive to sustainable noninflationary growth:

- Resolve financial market distress. Restore stability and minimize the adverse impact of the current crisis in financial markets on the real economy;
- Strengthen the global financial system by upgrading domestic and cross-border regulation and supervision, especially in major financial centers, and by avoiding the exposure of capital-importing countries, including low-income countries, to excessive risks;
- Adjust to sharp changes in commodity prices. React to commodity price shifts in domestically appropriate and globally consistent ways, with emphasis on keeping inflationary pressures in check in boom phases and minimizing risks that could arise when prices fall;
- Promote the orderly reduction of global imbalances while minimizing adverse real and financial repercussions.

In coordination with other International Financial Institutions, the IMF should promote a common understanding of the forces and linkages underlying these challenges; draw key lessons from different experiences to share across the membership; provide clear advance warnings of risks to global economic and financial stability; and advise on how best to use policy—in particular monetary, fiscal, exchange rate, and financial sector policies—in support of these objectives.

Operational priorities

- Risk assessment. Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic;
- Financial sector surveillance and real-financial linkages. Improve analysis of financial stability, including diagnostic tools; deepen understanding of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports;
- Multilateral perspective. Bilateral surveillance to be informed systematically by analysis of inward spillovers; outward spillovers (where relevant); and cross-country knowledge (as useful); and,
- Analysis of exchange rates and external stability risks. In the context of strengthening external stability analysis, integrate clearer and more robust exchange rate analysis, underpinned by strengthened methodologies, into the assessment of the overall policy mix.

The Executive Board has set the above priorities to foster multilateral collaboration and guide IMF management and staff in the conduct of surveillance. These priorities look ahead three years, but may be revised if circumstances warrant. They will guide the Fund's work within the framework for surveillance provided by the Articles of Agreement and the relevant Board decisions, including the 2007 Decision on Bilateral Surveillance. Moreover, traditional areas of strength (such as fiscal policy and debt sustainability analysis) and relevant country-specific issues should not be overlooked.

The Executive Board is responsible for conducting, guiding and evaluating surveillance in order to ensure the achievement of these priorities. Management and staff are responsible for delivering on the operational priorities, subject to members' cooperation in line with commitments under the Articles of Agreement. To foster progress toward economic priorities, management and staff are responsible for providing candid high-quality analysis and effective communication. The Managing Director will report: (i) regularly on actions toward priorities and readily visible results; and (ii) at the time of the next Triennial Surveillance Review on progress in attaining these priorities; management's and staff's contributions; and factors that impeded progress.

INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE ATTENDANCE

Chairman

Youssef Boutros-Ghali

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)

Stefan Ingves, Governor, Sveriges Riksbank, Sweden (Alternate for Anders Borg, Minister of Finance, Sweden)

Wouter Bos, Minister of Finance, Netherlands

Duvvuri Subbarao, Governor, Reserve Bank of India (Alternate for Palaniappan Chidambaram, Minister of Finance, India)

Alistair Darling, Chancellor of the Exchequer, United Kingdom

Carlos Fernández, Minister of Economy and Production, Argentina

James Michael Flaherty, Minister of Finance, Canada

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

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

Mohammed Laksaci, Governor, Banque d'Algérie

Hervé Nzé Nong, National Director, Bank of Central African States, Gabon (Alternate for Blaise Louembe, Minister of Economy, Finance, Budget and Privatization, Gabon)

Guido Mantega, Minister of Finance, Brazil

Tito Mboweni, Governor, South African Reserve Bank

Jean-Pierre Roth, Chairman of the Governing Board, Swiss National Bank (Alternate for Hans-Rudolf Merz, Minister of Finance, Switzerland)

Shoichi Nakagawa, Minister of Finance, Japan

Henry M. Paulson, Jr., Secretary of the Treasury, United States

Bernard Clerfayt, Secretary of State, Belgium (Alternate for Didier Reynders, Deputy Prime Minister and Minister of Finance, Belgium)

Floria María Caricote Lovera, Director of Public Credit, Ministry of Finance, Venezuela (Alternate for Alí Rodríguez Araque, Minister of Finance, República Bolivariana de Venezuela)

Peer Steinbrück, Minister of Finance, Germany

Wayne Swan, Treasurer of the Commonwealth of Australia

Giulio Tremonti, Minister of Economy and Finance, Italy

Tarisa Watanagase, Governor, Bank of Thailand

YI Gang, Deputy Governor, People's Bank of China (Alternate for ZHOU Xiaochuan, Governor, People's Bank of China)

Observers

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

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

Agustín Carstens, Chairman, Joint Development Committee (DC)

Mario Draghi, Chairman, Financial Stability Forum (FSF)

Heiner Flassbeck, Director, Globalization and Development Strategies Division (UNCTAD)

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

Hervé Hannoun, Acting General Manager, Bank for International Settlements (BIS)

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

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

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

Robert B. Zoellick, President, World Bank Group

1 The Statement of Surveillance Priorities is attached, and also can be found at <http://www.imf.org/external/np/pdr/surv/2008/index.htm>.

2 Adopted by the IMF Executive Board on October 7, 2008.