International Monetary Fund

IMF's International Monetary and Financial Committee Reviews Multilateral Consultation

Press Release No. 07/72
April 14, 2007

عربي
中文
Deutsch
Español
Français
日本語
русский

The Managing Director's April 2006 Report on Implementing the Fund's Medium-Term Strategy proposed that existing IMF surveillance arrangements should be complemented with a new vehicle—multilateral consultations (MC). The proposal was accepted at last April's meeting of the International Monetary and Financial Committee (IMFC), the ministerial-level committee that provides policy guidance to the IMF. Today the Committee discussed the multilateral consultation on global imbalances, convened by the IMF, which brought together China, the euro area, Japan, Saudi Arabia and the United States.

The objective of this first MC was to provide a forum for improving understanding and sharing views on global imbalances and how best to reduce them in the context of sustaining robust global growth (Press Release No. 06/118). The countries involved in the MC were chosen either because they are directly party to the existing imbalances through their current account deficits or surpluses, or because they represent a very large share of global output and could contribute to sustaining world growth as demand and savings patterns adjust.

The five participants in the consultation on global imbalances and the IMF staff said, "The consultation process has proved a useful initiative, bringing together representatives of relevant economies to discuss how best to make progress in addressing this critical challenge. The discussions have been open and constructive, and have contributed to an improved understanding of the issues and of each other's positions." They also noted that the implementation of their policy plans "would in combination constitute a significant further step toward sustaining solid economic growth and resolving imbalances." They added, "We agreed to meet again when developments warrant."

Chairman of the IMFC and U.K. Chancellor of the Exchequer Gordon Brown said, "A year ago the IMFC asked the Fund to embark on the consultation on global imbalances, which the Committee discussed today. The Committee considers that the experience of the multilateral consultation approach has been useful for addressing global issues through discussion and cooperation among members of the IMF. The policy plans set out by the participants involve welcome steps forward in all the key areas of the IMFC Strategy to promote sustained global growth."

Rodrigo de Rato, the Managing Director of the IMF, said, "I welcome the productive discussions in this multilateral consultation. Participants have reaffirmed that reducing global imbalances is a multilateral challenge, and that resolving them in a manner that is compatible with sustained robust global growth is a shared responsibility. Participants emphasized that the policy undertakings in the IMFC strategy are in each individual country's own interest, as well as desirable from a multilateral perspective. I believe that the multilateral consultation has proved to be a valuable new tool for the IMF to help member countries address issues of systemic importance, and that it will remain so as our members address the challenges of globalization. The IMF will continue to follow developments in global imbalances and the implementation of the IMFC Strategy through its regular multilateral and bilateral surveillance activities."

Multilateral Consultation on Global Imbalances

April 14, 2007

1. Over the past year, we[1] have participated in a multilateral consultation convened by the International Monetary Fund. Our goal has been to discuss the policies necessary to address global imbalances while maintaining robust growth. The consultation process has proved a useful initiative, bringing together representatives of relevant economies to discuss how best to make progress in addressing this critical challenge. The discussions have been open and constructive, and have contributed to an improved understanding of the issues and of each other's positions.

2. The global economy remains on course for sustained, solid, and better balanced growth. While global imbalances increased further in 2006 from already high levels, they are showing some signs of stabilizing more recently and deficits

have been relatively easily financed. Each economy has made progress over the past year in implementing policies consistent with the strategy endorsed by the International Monetary and Financial Committee.[2]

3. Reducing global imbalances is fundamentally a multilateral challenge, and resolving them in a manner compatible with sustained robust global growth is a shared responsibility. The policies set out in the IMFC strategy are in each individual economy's own interest, as well as desirable from a multilateral perspective. Moreover, an orderly unwinding of imbalances would benefit the world economy more generally, including because sustained imbalances could add to protectionist pressures.

4. Looking forward, we discussed our future policy plans, and how they could contribute to achieving the goals of the consultation. It was agreed that a rebalancing of domestic demand growth across economies would be key to reducing imbalances while sustaining the robust global expansion. Each participant indicated that its policies, as set out in the attachments, are consistent with the IMFC strategy. The implementation by each participant of these policies would in combination constitute a significant further step toward sustaining solid economic growth and resolving imbalances.

5. The IMF will continue to follow developments. We agreed to meet again when developments warrant.

China: Policy Progress and Plans Relevant to the IMFC Strategy

Over the past year, China's policy developments related to the IMFC strategy included:

• **Raising household income and stabilizing income expectations**. To increase rural household income, agricultural taxes were eliminated and support for grain producers increased. The civil servant compensation system was reformed, and the income distribution system improved. In 2006, growth in real urban and rural per capita disposable income rose to 10.4 percent and 7.4 percent, respectively. To promote social development, central government spending on science and technology, education, health, and cultural services was substantially increased. To enhance employment and social security, the pilot rural cooperative health system was extended to cover more than half of the counties, and 25 provinces established a preliminary mechanism for provision of subsistence living for rural households.

• **Promoting balanced external sector development**, including through streamlining export tax rebates, tariff and processing trade policies and restricting energy-intensive and environmentally unfriendly exports. Policies were adopted to increase imports, including lowering the general tariff level to 9.9 percent. Banking, distribution, and telecommunications sectors became more open to foreign competition, and steps were taken to encourage overseas investment. In fully honoring WTO commitments, China improved external sector policies, laws and regulations.

• **Deepening financial reform**. Significant progress was made in the joint-stock reform of the state-owned commercial banks. The Bank of China and the Industrial and Commercial Bank of China were successfully listed on domestic and foreign markets. The reform of rural credit cooperatives made headway. The non-tradable share reform of listed companies was generally completed. The institutional infrastructure of the securities market was strengthened, and the insurance sector reform advanced. The reform of the foreign exchange management system deepened. Measures were taken to facilitate the holding and use of foreign exchange by corporate and individual residents, and encourage qualified domestic institutional investors, including banks, insurance companies and securities institutions, to make overseas financial investment.

• **Increasing flexibility of RMB exchange rate**. Since the July 2005 exchange regime reform, the RMB has appreciated 7 percent against the U.S. dollar as of March 19, 2007; as of February 2007, its nominal and real effective exchange rates appreciated by around 6 percent and 5½ percent respectively. The foreign exchange market infrastructure has been significantly improved, including introducing the OTC market and market-maker system, improving the mechanism to determine the RMB central rate, and developing forward and swap transactions.

Looking forward, China's policy plans include the following:

• **The government has made reduction of the external imbalance a major objective of economic and social development for 2007**. Comprehensive steps will be taken to expand domestic demand, accelerate structural adjustment, and achieve a rough external balance over time.

• **Boosting domestic demand, particularly consumer demand, and rebalancing investment and consumption**. Care will be taken to ensure appropriate fixed-asset investment growth, improve investment structure and efficiency, and deepen the reform of the income distribution system. Various measures will be adopted to increase income of households, particularly low-income households, to boost consumer demand. Emphasis will be given to boosting rural consumption, strengthening the rural market infrastructure, and improving the consumption environment in rural areas. Starting from this year, tuition and fees for rural compulsory education will be waived completely and the pilot rural cooperative health system will cover more than 80 percent of the counties. The Property Rights Law will come into effect on October 1, 2007.

• **Further promoting balanced external sector development**. The list of products eligible for export tax rebate and rebate rates will be reduced. Measures will be taken to reduce the trade surplus, improve the quality and structure of foreign investment, and encourage overseas investment. The Corporate Income Tax Law unifying income tax for domestic and foreign-funded enterprises will come into effect in 2008.

• **Speeding up financial reform**. Steps will be taken to deepen the reform of the state-owned banks, improve their corporate governance, steadily promote the reform of the Agricultural Bank of China; expedite rural financial reform, and improve rural financial services; develop capital and insurance markets, particularly the bond market; further open up the financial sector in an active and steady manner; and enhance financial regulatory capacity and ensure financial stability.

• **Further improving the exchange regime**. The exchange rate formation mechanism will be improved in a gradual and controllable manner. Exchange rate flexibility will gradually increase, with attention paid to the value of a basket of currencies. Efforts will be made to cultivate the foreign exchange market and deepen reform of foreign exchange administration. Restrictions will be further relaxed on holding and use of foreign exchange by enterprises and individuals.

Euro Area: Policy Progress and Plans Relevant to the IMFC Strategy

Over the past years, policies related to the IMFC strategy included structural reforms in three main markets:

• **Product market**. Under the renewed Lisbon Strategy, competition in product markets has strengthened (the OECD's index of product market regulation shows a decline by more than 0.5 points from 1998 to 2003 to reach the OECD average), driven by the liberalization of network industries, more effective competition policy, and enhanced efficiency of public interventions. A revised Services Directive was adopted to strengthen competition and productivity in the services sector. Specific policies to stimulate private R&D and to promote information technologies are being implemented.

• **Labor market**. Under the renewed Lisbon Strategy, a series of measures have produced concrete progress, with a fall in the average tax wedge in most countries, an increase in labor force participation (by 6.6 percentage points to 64.5 percent between 1995 and 2006) and a decline in the standardized unemployment rate to 7.5 percent by the end of 2006 (its lowest level since 1993). Eight euro-area countries have reformed their public pension systems since 2001 and many countries have tightened early-retirement schemes.

• **Financial market**. EU financial integration is delivering concrete results in wholesale markets, bond markets, and equity trading. Implementation of the legislative measures adopted under the Financial Services Action Plan (FSAP) is continuing. An industry-led Code of Conduct was introduced for the clearing and settlements industry to enhance price transparency, interoperability, and competition in post-trading activities.

Looking forward, policy plans include the following:

• **Further reform in product market**. Priorities include further reducing market regulation and improving the business environment. The Services Directive is expected to be transposed in all Member States by December 2009 at the latest. Euro area Member States will continue to implement measures that strengthen competition (developing an internal market for network industries like gas and electricity and removing barriers in regulated trades and professions).

• **Further reform in labor market**. Priorities featured in the Lisbon-led National Action Plans include further reform to foster labor utilization and productivity (increasing fiscal incentives to work and further adjusting benefit systems; fostering flexibility and security in the labor market including by modernizing employment protection legislation; better aligning wage and productivity developments; and enacting measures to promote labor mobility across borders and between occupations). Member States will also implement policies aimed at modernising higher education, ensuring high-quality and attractive vocational education and implementing national lifelong learning strategies. An important further step in facilitating the mobility of workers will be the adoption of legislation on improving the vesting and the preservation of supplementary pension rights.

• **Further reform in financial market**. Political agreement was reached on the Payment Services Directive (PSD), which aims at creating more efficient and competitive payments systems and facilitating the creation of a single EU payments area (SEPA) by 2010, as well as on a new EU Directive that will provide common and transparent criteria and procedures for mergers and acquisitions in the financial sector. The Markets in Financial Instruments Directive (MiFID)-aimed at creating a "single passport" for investment firms while protecting investors-will come into effect on November 1, 2007. Work is underway on the TARGET2 Securities (T2S) project which aims at creating a common technical platform for settlement in central bank money of securities transactions, with the objective to make cross-border transactions within the EU and the euro area as cost effective and secure as domestic ones, thereby complementing further integration of cash settlement through the implementation of TARGET2. A final decision on implementation will be taken in spring 2008. Implementation of legislative measures adopted under the FSAP at the national level is proceeding. Further initiatives include the preparation of a new Solvency Directive for insurance and work to create a more integrated market to finance housing at both wholesale and retail levels, which should further ensure financial market completeness by facilitating the securitization of loans.

Japan: Policy Progress and Plans Relevant to the IMFC Strategy

Over the past year, developments in Japan's policies related to the IMFC strategy included:

• **Incentives to encourage young and female labor force participation**. Expenditures for reducing skills mismatches for women and younger workers have been included in the FY2007 budget, and tax relief for FY2007-08 expenditures on child care has been raised. A stronger law on equal job opportunity has been passed and will take effect in FY2007. Job placement services have been partly liberalized.

• **Measures to enhance competition**. A new anti-monopoly law granting stronger authority to the Fair Trade Commission was enacted in April 2005 and has been effective since January 2006.

• **Advancing fiscal consolidation**. In order to forestall a possible loss of confidence to the economy, which could result in adverse external spillovers, and in order to achieve sustainable private demand-led growth, the government has been making every effort to advance fiscal consolidation. In the FY2007 budget, the issuance of new government bonds is reduced by ¥4.5 trillion (15 percent in year-on-year terms), the largest such reduction in history. As a result, the primary deficit of the central and local governments combined will be reduced from 1.7 percent of GDP in FY2006 to 0.6 percent of GDP in FY2007.

Looking forward, Japan's policy plans include the following:

• **Labor market reforms**. A bill to extend pension coverage to temporary workers is in the works, and some job placement services are under "market-testing" with a view toward further liberalization. Reform priorities (to be elaborated in June), for inclusion in the cabinet's Basic Policies for FY 2007, include enhancing labor mobility and market attachment, and retraining marginalized workers.

• **Facilitating inward foreign direct investment (FDI)**. The tax treatment of mergers and acquisitions involving noncash transactions is under parliamentary debate. The government will implement the program for acceleration of FDI in

Japan in order to achieve its strategic goal to increase the FDI stock to 5 percent of GDP by 2010.

• **Strengthening competition in key sectors**. The importance of raising productivity, especially in the non-tradable sector, is well recognized. The government has worked out modalities for rolling out the deregulation measures in the "Special Zones for Structural Reform." A draft bill for reform and eventual privatization of some government-owned financial institutions is under legislative review. A Council of Economic and Fiscal Policy committee is looking at ways to promote additional Economic Partnership Agreements bilaterally and regionally. Agricultural and immigration reforms will also be addressed.

• **Further advancing fiscal consolidation**. The government has set fiscal targets to reduce the debt-to-GDP ratio in a stable manner by the mid 2010s and, as a first step, to achieve a surplus in the primary balance of the central and local government combined by 2011.

Saudi Arabia: Policy Progress and Plans Relevant to the IMFC Strategy

Over the past year, developments in Saudi Arabia's policies related to the IMFC strategy included:

• **Public expenditure policies** have increased spending broadly as envisaged in the areas of oil sector investment and toward meeting social and infrastructure needs. In 2006, total expenditures increased by over 12 percent, 16 percent above the original budget. From the $25 billion set aside to finance social projects over the medium term, about $1.5 billion was spent in 2006.

• **Reflecting increased government expenditure** and robust private sector activity, imports and payments for services continued to increase during 2006, with their amounts rising by more than 27 percent.

• **Oil production and refining capacity expansion plans** remained on schedule, including progress on plans to expand upstream oil production capacity to 12½ million barrels per day by 2009.

Looking forward, Saudi Arabia's policy plans include the following:

• **Government spending plans** continue to envisage increased outlays on social and infrastructure investments and on expanding oil sector capacity, notwithstanding the recent fall in oil prices. The announced budget for 2007 has total expenditures growing by around 13-14 percent, with spending on social and infrastructure components growing by nearly 20 percent. The amount set aside for social projects-mainly, for housing and SME credit-has been increased to $32 billion over the next five years.

• **In the hydrocarbon sector**, Saudi ARAMCO is pursuing an ambitious $80 billion investment program to boost its crude oil production capacity, increase oil refining capacity both at home and abroad, and expand gas processing facilities.

• **Investments** to be implemented under Public-Private Partnerships during 2006-10 outside the hydrocarbon sector are expected to exceed $200 billion.

• **Exchange rate policy**. The authorities indicated their intention to maintain the peg to the U.S. dollar, which continues to serve the economy well and is in line with the GCC agreement to establish the Monetary Union in 2010. The openness of the trade regime and the labor market should continue to preserve price stability.

United States: Policy Progress and Plans Relevant to the IMFC Strategy

Over the past year, developments in U.S. policies related to the IMFC strategy included:

• **Continued narrowing of the budget deficit**. The unified federal budget deficit declined to 1.9 percent of GDP in FY 2006, a substantial decrease in two years, and on track to outperform initial IMF staff expectations for FY 2007.

• **Passage of saving-focused tax reforms**. Rate cuts for capital gains and dividends were extended for two years, as were increased expensing of allowances for small businesses. Enhancements to tax-advantaged retirement and education savings vehicles were made permanent, and legal barriers to automatic enrollment in employer-sponsored retirement plans were removed. The saver's credit, aimed at low- and middle-income individuals, was also made permanent. Finally, health savings accounts were made more attractive.

Looking forward, the U.S. authorities' policy plans include the following:

• **Further fiscal consolidation over the medium term**. The FY 2008 budget targets eliminating the budget deficit by 2012.

• **Reforming the budget process to contain spending growth**. The FY 2008 budget proposes limits on the use of Congressional budget earmarks and authority for the President to exercise a budget line-item veto.

• **Entitlement reform to strengthen long-term fiscal sustainability**. Policies have been proposed to slow the rate of growth of health care costs while expanding access to care, including providing a standard deduction for health insurance and expanding the use of health savings accounts.

• **Further tax incentives to support private saving**. The FY 2008 budget promotes new tax-advantaged vehicles, replacing IRAs with Retirement Savings Accounts, and introducing Lifetime Savings Accounts. Social Security reform with Personal Retirement Accounts is again proposed.

• **Enhancing energy efficiency**. Net oil imports amount to 35 percent of the U.S. trade balance. The Administration is committed to cutting gasoline consumption by 20 percent in 10 years by requiring 35 billion gallons of renewable and alternative fuels by 2017, and by increasing fuel economy standards for cars and light trucks.

• **Pro-growth, open investment policies**. The United States is committed to pro-growth policies that make the United States an attractive location for foreign investment. Key elements include a strong commitment to an open investment environment, resistance to protectionist pressures, and a commitment to permanently low tax rates.

• **Capital market competitiveness**. The Administration is actively engaged, through the U.S. Treasury, in ways to improve U.S. legal, regulatory, and accounting frameworks and thus better ensure that U.S. capital markets remain the strongest and most innovative in the world.

---

[1] Representatives of China, the Euro Area, Japan, Saudi Arabia, the United States, and Fund staff.

[2] As stated in the IMFC Communiqué of September 17, 2006, this strategy comprises "steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil-producing countries."

IMF EXTERNAL RELATIONS DEPARTMENT

Public Affairs		Media Relations	
Phone:	202-623-7300	Phone:	202-623-7100
Fax:	202-623-6278	Fax:	202-623-6772