INTERNATIONAL MONETARY FUND

Statement by the Managing Director to the

International Monetary and Financial Committee on the Fund's Policy Agenda

October 6, 2010

Context. Although the global recovery continues to move ahead, it remains fragile and uneven, with continued high unemployment. Many countries are emerging from the crisis with high debt burdens, low growth, and still fragile financial sectors. At the same time, economic activity in many emerging market countries has picked up, attracting large capital inflows that challenge economic policy. Important steps have been taken to make financial sectors safer around the world, but the unfinished agenda is still substantial, particularly for cross-border finance and macro-prudential regulation. All this suggests serious vulnerabilities and challenges remain, requiring continued policy cooperation and collaboration.

The IMF's role. The reforms of the past 18 months seek to respond to weaknesses exposed by the crisis and position the Fund to meet the challenges and realities of the new century. Surveillance is evolving to better take into account the extensive linkages between countries and between the real and financial sectors. Reformed lending instruments now provide members with larger-scale and faster-disbursing resources and insurance against shocks. And we are revisiting fundamental aspects of the functioning of the international monetary system. While much has been accomplished, much remains to be done if the Fund is to be universally accepted as an effective and impartial guardian of global stability.

Quotas and governance. The need for progress in this area is increasingly urgent. Since the spring, extensive discussions have taken place on both quotas and governance issues such as ministerial engagement and composition and size of the Executive Board, with the latter issue facing an even tighter deadline for closure. We have yet to agree on the components of overall governance reforms and the precise modalities. Time is short, and the world is watching—we face a clear test of our willingness to adapt to a changing world.

Surveillance. The crisis highlighted shortcomings in the identification of risks to global economic stability. In response, the Fund has continued to modernize its surveillance toolkit, strengthening the analytical underpinnings of the new early warning exercise to capture cross-country spillovers and macro-financial linkages, as well as issues of sovereign debt sustainability and fiscal space. Countries with systemically-important financial sectors will now be subject to financial sector stability assessments under the FSAP every five years as part of bilateral surveillance. Experimental "spillover analysis" will look at the cross-border implications of policies of the five most systemic economies (China, Euro Area, Japan, U.K., U.S.) based on policy discussions with authorities of the countries where spillovers originate and affected countries. We will also continue to experiment with cross-country/thematic surveillance reports and deepen our understanding of financial interconnectedness, including by addressing data gaps. All these initiatives should help strengthen the traction of IMF surveillance. Next year's Triennial Review of Surveillance will be an opportunity to take stock of the legal and policy framework for all our surveillance activities.

Lending. The Fund's lending reforms recognize the importance of large-scale and predictable support to countries vulnerable to crises. Building on the lending reforms of early-2009, the Fund recently made its Flexible Credit Line (FCL) even more flexible by doubling the duration of the arrangement to two years and removing the implicit cap on access; and approved a new Precautionary Credit Line to provide effective crisis prevention to members with sound fundamentals and policy frameworks but also moderate vulnerabilities that preclude FCL eligibility. We must also explore enhanced liquidity provision in times of systemic stress and closer cooperation with regional financing arrangements. And we must make sure the Fund has the resources it needs to be credible in these tasks, including by agreeing on a substantial quota increase.

International Monetary System (IMS). The Fund is responsible for ensuring the effective operation of the IMS. Tensions and risks have been building up in its operations, which manifest themselves in large official reserve accumulation, persistent global imbalances, and capital flow and exchange rate volatility. While there are no easy solutions, work is currently underway on reserve adequacy, capital flows, and the potential for an expanded role of Special Drawing Rights. I expect these efforts, combined with other mandate reforms, to make positive contributions to the stability of the IMS going forward.

Low-Income Countries. The Fund is committed to assist LICs in an uncertain global economic environment. Since the Spring Meetings, we have delivered on our commitment to establish a Post-Catastrophe Debt Relief Trust. In the period ahead, particular attention will need to be paid to exiting from crisis policies and rebuilding policy buffers, as well as speeding progress to reduce poverty. We are stepping up efforts to mobilize contributions from members to complete the financing package in support of the Fund's concessional facilities. The Fund also looks forward to developing a new vulnerability exercise for LICs to parallel the efforts made in recent years for advanced and emerging market economies, working with development partners to assist LICs in implementing sound strategies to scale-up critical infrastructure investment, and enhancing our support for fragile states.

Looking ahead. We have made considerable progress in reforming the Fund in a way that reflects the lessons learned from the crisis and improves the machinery for global cooperation. Last spring I urged that we not resort back to a "business as usual" mentality for the IMF. I am confident that we are moving in the right direction to address flaws in the international financial architecture. We are by no means done. The year long reflection on the Fund's mandate and governance has been a catalyst for new thinking that should deliver on the membership's expectations.