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Report to the Board of Governors of the  
International Monetary Fund by the Chairman  
of the International Monetary and Financial Committee  
of the Board of Governors, the Hon. **TOMMASO PADOA-SCHIOPPA**

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International Monetary Fund by the Chairman  
of the International Monetary and Financial Committee  
of the Board of Governors, the Hon. Tommaso Padoa-Schioppa**

I am pleased to report to the Board of Governors the results of the deliberations of the IMFC, which I have had the honor to chair for the first time.

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

The Committee had a comprehensive and wide-ranging discussion on the recent developments in the global economy against the backdrop of the recent financial market turbulence. The Committee noted that the global economy continues to be underpinned by strong fundamentals and the robust growth of emerging-market and other developing economies. It welcomed in particular the resilience of these economies in the face of the recent turbulence. Nevertheless, the Committee expects the recent disturbances in financial markets in advanced economies to have a moderating effect on global growth in the near term. In light of this, it underscored the importance of sound macroeconomic policies in the medium term and continued vigilance to maintain well-functioning financial markets and to strengthen the foundations for sustained high growth. The Committee also noted that central banks in advanced economies have been playing a critical role in ensuring the smooth functioning of money markets by providing necessary liquidity. At the same time, it stressed that monetary policy should continue to focus on achieving price stability.

The meeting on Saturday was the first time the global financial community came together since the market turbulence of this summer, and the Committee had a very useful discussion on the lessons emerging from this episode. Let me highlight the following three conclusions from our deliberations on this topic.

First, all Ministers and central bank Governors expressed their commitment to continue to work together, including multilaterally, to address the challenges that the disturbances brought to the fore.

Second, our discussion identified the following areas that should be addressed: risk management practices related to complex structured products; valuation and accounting for off-balance sheet instruments; clarifying the treatment of complex products by ratings agencies; addressing basic principles of prudential oversight for regulated financial entities; and liquidity management.

Third, the Committee welcomed the progress being made in prioritizing financial sector issues in the IMF's work, and called for continued efforts to broaden and deepen

the IMF's financial expertise to identify future issues, and to better integrate the findings of the IMF's multilateral surveillance in its regional and bilateral surveillance.

Looking toward the medium term, the Committee underlined the importance of further actions to strengthen the foundations for sustained high growth. Many countries need to pursue ambitious medium-term fiscal consolidation plans to address pressures on social spending arising from population aging. The Committee also called for continued structural reforms across the membership to allow countries to take full advantage of the opportunities provided by globalization and technological advances. The Committee urged WTO members to work toward a prompt and ambitious conclusion of the Doha Round trade negotiations. Let me also stress that the Committee called for sustained implementation of the policy plans reaffirmed at the Spring 2007 IMFC meeting by the participants in the multilateral consultation on global imbalances. It reiterated that an orderly unwinding of global imbalances while maintaining global growth is a shared responsibility in which all regions should do their part.

### **Implementation of the IMF's Medium-Term Strategy: Priorities Ahead**

The Committee had substantive discussions on the implementation of the IMF's Medium-Term Strategy. The Committee stressed the critical importance of the implementation of the program of quota and voice reforms adopted by the Board of Governors in Singapore. I would like to underline that this is an area in which significant progress has been achieved over the past year, and the IMFC communiqué identifies several important achievements on which the membership should now continue to build in the months ahead. In particular, the Committee supported the inclusion of GDP in the new formula as the most important variable. It also considered that PPP-GDP should play a role, along with a compression factor. The Committee stressed that the total quota increase should be of the order of 10 percent, with at least a doubling of basic votes. The Committee reiterated that the reform should enhance the representation of dynamic economies, many of which are emerging market economies, whose weight and role in the global economy have increased. An outcome of the second round of reforms should be a further increase in the voting share of emerging market and developing economies as a whole. The Committee also stressed the importance of enhancing the voice and representation of low-income countries. The Committee encouraged the Executive Board to continue its work in order to allow agreement on all the elements of the package by Spring 2008.

I regard the conclusions of this part of the IMFC meeting as a very promising step forward, and I wish to express here my gratitude to my fellow Ministers for the constructive spirit they have shown.

The Committee also made progress in giving guidance on the further work to be undertaken on the Fund's financial situation. It welcomed the progress made in developing a new income model for the Fund based on the recommendations of the Committee of Eminent Persons chaired by Mr. Andrew Crockett. The Committee noted

that both income and expenditure will need to contribute to putting the Fund's finances on a sustainable footing. The Committee called on the Executive Board to develop specific proposals on the new income model and the new expenditure framework by the time of the 2008 Spring meeting, and to agree on a new and detailed medium-term budgetary envelope for the FY 2009 budget that is consistent with the emerging income and expenditure framework.

The Committee also discussed the progress of the Fund's ongoing work to strengthen IMF surveillance, highlighting that the evenhanded implementation of the Decision on Bilateral Surveillance adopted in June 2007 is an essential element of the Fund's Medium-Term Strategy. The Committee took note of ongoing efforts to better tailor the Fund's policy advice to emerging market economies, including the work undertaken to design a new liquidity instrument. The Committee also welcomed the progress on clarifying the role of the Fund in low-income countries and on helping these countries reap the benefits of higher aid and debt relief, while avoiding a new build-up of unsustainable debt. In this context, the Committee looked forward to urgent progress on financing assurances by member countries to allow Liberia to benefit from debt relief.

### **Other Issues**

In closing, the Committee expressed its deep gratitude to Mr. Gordon Brown for his invaluable contributions to the work of the Committee and the Fund throughout the eight years of his Chairmanship of the Committee. The Committee also paid tribute to Mr. Rodrigo de Rato for his skillful and strategic leadership as Managing Director of the International Monetary Fund, underlining, *inter alia*, his accomplishments in developing an ambitious medium-term strategy for the Fund, deepening the integration of financial sector issues in the Fund's work, and launching a bold reform to strengthen the voice and representation of low-income and emerging-market countries in the Fund. Finally, the Committee welcomed the appointment of Mr. Dominique Strauss-Kahn as the new Managing Director.