INTERGOVERNMENTAL GROUP OF TWENTY-FOUR ON INTERNATIONAL MONETARY AFFAIRS AND DEVELOPMENT

COMMUNIQUÉ
OCTOBER 7, 2010

1. Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their eighty-fourth meeting in Washington, D.C. on October 7, 2010. Mr. Pravin Gordhan, Minister of Finance of South Africa and First Vice-Chair, was in the Chair, Mr. Pranab Mukherjee, Minister of Finance of India as Second Vice-Chair, and Ambassador Marcos Galvão, Secretary for International Affairs at the Ministry of Finance, representing Brazil as the Chair.

Uncertainties in the Global Economy

2. Ministers noted that the pace of global recovery has weakened and become more uncertain since their last meeting. In the multi-speed recovery that is underway, most developing regions have continued to maintain their growth momentum reflecting strong fundamentals and robust macroeconomic frameworks. The recovery has, however, become more sluggish in advanced economies, with many facing a vicious cycle of weak sovereign balance sheets, high unemployment and lack of consumer confidence, and continued fragility in the financial sector. Ministers noted that the simultaneous and broad-based fiscal consolidation that is presently underway in many advanced economies poses considerable risks of a downward spiral in global demand. Against this backdrop, downside risks facing the global economy have increased.

3. While emerging markets and developing countries (EMDCs) will continue to provide a major impetus to the global economy, they cannot be the sole engines for the global recovery. Ministers expressed concern about the impact of the growing divergence in monetary policy between advanced and developing countries. In particular, the prospects of sustained low interest rates in the advanced countries have contributed to a surge in capital flows to some emerging markets, putting upward pressures on exchange rates, creating overheating pressures, and carrying risks of increased vulnerabilities and reversals. In view of the risks posed by surges in capital flows, Ministers called on the IMF to strengthen the monitoring of such flows and to consider options for mitigating risks.

4. Persistent uncertainties in the global economy and the divergent policy trends have made macroeconomic coordination and cooperative action as important as and more complex than it was at the outset of the crisis. Ministers underscored that the IMF had a central role to play in such enhanced coordination. They also welcomed the G20 mutual assessment framework and process as a means for proactive and cooperative actions by major economies, and asked that the framework take into account the needs of all developing countries. They expressed willingness to engage with the G20 in this regard.

5. Ministers welcomed the efforts underway to strengthen financial regulation, in particular through the work of the Financial Stability Board and the Basel Committee. They viewed the

new capital and liquidity frameworks as an important step, but noted that much more needs to be done. Ministers also called for appropriate calibration and adaptation of the new rules to the circumstances and needs of developing countries including the smooth functioning and deepening of credit markets and the cost of credit.

6. Ministers expressed concern about the resurgence of volatility in food prices. They called for careful attention by the international community, including the IMF and the World Bank, to these matters and preparedness to assist the affected countries, especially the poorest, in coping with related costs.

7. Ministers stressed the need for continued commitments to avoid protectionist pressures in trade, finance, investment and labor services as well as the importance of resuscitating and reaching an early conclusion of the Doha Development Round.

IMF Reform

8. Ministers stressed that the IMF's legitimacy, relevance, and effectiveness in implementing its mandate depends critically on addressing the imbalance in voice and representation. In this regard, they attached great importance to the ongoing discussions of governance reforms in the IMF. A significant realignment of quotas must be the centerpiece of such reform, and Ministers reiterated that the goal for the Fourteenth General Review of Quotas to be completed by January 2011 must be to bring about a shift of at least 5 percentage points from advanced economies to EMDCs. Ministers called on countries that have not yet done so to complete the ratification of the 2008 quota and voice reform.

9. Ministers noted that the realignment must reflect the rapidly evolving weights in the world economy. The quota formula cannot serve as a robust guide in this regard. Ministers reiterated their call to reform the quota formula. If consensus cannot be reached on a reformed formula for the immediate exercise, the reliance on the quota formula should be minimized and its shortcomings addressed. In particular, Ministers supported a much greater weight for PPP-GDP in the quota realignment. While regretting that the quota formula was not reviewed before it was used again, as called for in the 2008 Governors Resolution, Ministers called for a firm commitment to reform the quota formula within two years from now and for more frequent quota adjustments based on timely data.

10. Ministers noted that, while the realignment would be primarily expected to benefit dynamic EMDCs, it must not come at the expense of other EMDCs that have already suffered losses in the 2008 quota allocation and are most adversely affected by the deficiencies of the quota formula. They called, therefore, for adequate protection of other EMDCs. Ministers supported the protection of the quota shares of the poorest countries on an individual basis, but underlined that this must come from the contribution of advanced economies. They do not support the protection of advanced economies based on calculated quota shares derived from a flawed quota formula.

11. Ministers agreed that the Fund should remain a quota-based institution with appropriate balance between quota and borrowed resources. They noted that the size of the quota increase

needs to be calibrated to ensure that the overall resource needs of the IMF are met together with the goals of quota realignment. They supported a substantial increase in quotas to ensure the desired realignment of at least 5 percentage points to EMDCs.

12. Ministers believed that the current size of the Executive Board is appropriate given the increase in the number of member countries. They called for a rebalancing of Board composition through increasing the number of chairs held by EMDCs, including by considering a third chair for sub-Saharan Africa. They stressed the importance of consensus-based decision making at the Executive Board.

13. Ministers supported the strengthening of the IMFC while preserving its character as a consensus-based body, as well as the integrity of the existing governance structure. They opposed any proposal to replace the IMFC by a Council or similar entities that would take decisions based on weighted voting. Ministers reiterated their call that the Heads of the IMF and the World Bank must be chosen on the basis of an open, transparent, merit based process without regard to nationality beginning with the next elections. This should also apply to the selection of Senior Management with due regard for regional balance. Ministers also called for broader staff diversity at all levels—by nationality, gender, education, and experience—and called for concrete steps to address severe underrepresentation from some regions and countries.

14. Ministers noted that the ongoing review of the IMF's mandate must go hand in hand with ambitious steps to improve the Fund's governance and legitimacy. Changes in the IMF's mandate must be anchored in broad-based consensus and applied in the spirit of mutual cooperation and understanding.

15. Ministers agreed on the need to strengthen both bilateral and multilateral surveillance. In this regard, they believed that the most important step remains effective and even-handed surveillance of systemically important advanced countries and markets. Ministers supported the steps being taken to enhance surveillance of global and systemic financial vulnerabilities and analyze spillover effects of major countries' policies, and called for further actions to integrate financial sector analysis into surveillance. This is particularly important in regard to the financial systems of advanced economies that were at the origin of the recent crisis.

16. Ministers welcomed the steps taken to enhance the IMF's lending toolkit as part of the efforts to strengthen global financial safety nets. They welcomed the changes in the Flexible Credit Line (FCL) including the removal of the implicit access cap and lengthening the duration of arrangements under this facility. Ministers welcomed the establishment of the Precautionary Credit Line (PCL) to meet the diverse needs of the membership. They underlined that these facilities should be seen as a complement and not as a substitute to the legitimate and country-specific needs for reserve accumulation.

17. Ministers called for further enhancements to the financing facilities available to low-income countries, including for precautionary financing that go beyond the existing toolkit. They welcomed the establishment of the Post-Catastrophe Debt Relief (PCDR) Trust and the cancellation of Haiti's entire outstanding debt to the IMF.

Development Priorities

18. Ministers stressed the need for a more cooperative multilateral development agenda in support of national development goals and priorities. They noted that although the crisis has been a major setback to the development progress achieved over the past decade, developing countries have shown greater resilience than in previous downturns. Some developing countries have been able to act counter-cyclically, but most were constrained due to lack of adequate buffers.

19. Ministers noted that the recently concluded UN Summit has highlighted the progress made on the Millennium Development Goals (MDG's), as well as the substantial challenges that still remain. Ministers emphasized that actions undertaken by developing countries before the crisis have allowed gains, albeit uneven ones, at the level of poverty reduction, school enrollment and children's health, access to clean water, and treatment of HIV/AIDS and neglected diseases. However, the crisis led to new challenges. Ministers called for coordinated and sustained efforts to tackle hunger and malnutrition, maternal health, gender equality, environmental sustainability and basic sanitation, especially in low income countries and fragile states which seem to lag behind the most.

20. Ministers took note of the broad range of actions called for by Leaders to achieve the MDGs and asked the World Bank Group to work with other development partners in implementing the action agenda. Ministers welcomed the emphasis being placed on the development agenda at the G20 Seoul Summit and expressed willingness to engage in these discussions and its follow up, including through our common member countries.

21. Ministers recognized the support from the World Bank Group and other IFIs in helping developing countries withstand the severe financing constraints in the aftermath of the crisis and to help protect the most vulnerable from the effects of the crisis. However, Ministers expressed serious concern about the ability of the World Bank Group to respond to the continued uncertainties in the global economy and longer-term development needs. The IBRD will be barely able to meet its pre-crisis lending levels at a time when developing countries need to step up critical investments in infrastructure and human development, and when there is need for large incremental financing for global public goods, especially climate mitigation and adaptation. Ministers noted that the IFC is facing even greater constraints and will be forced to restrict new financing at a time when the demands for its services is reaching new highs. They called for timely implementation of the selective and general capital increases in order to enable the Bank Group to meet its upcoming lending commitments. In view of the large unmet development needs, Ministers called on the IBRD and the IFC to carefully monitor their financial capacity and initiate reviews of capital adequacy as warranted.

22. Ministers noted that IDA has been a pivotal instrument in the support of low-income countries. The recent review of IDA results highlights its many achievements and its critical importance for financing infrastructure, agriculture, health, and education in low-income countries. IDA has also been an effective tool for catalyzing other concessional financing and in helping to reduce the burden arising from growing aid fragmentation. Ministers called for an ambitious replenishment of IDA-16. While many developing and transition countries have

increased their contributions to IDA as development partners, Ministers stressed that developed countries need to meet their responsibility as the principal donors in order to ensure a successful IDA-16 replenishment. They called for the establishment of the IDA Crisis Response Window as a permanent instrument to assist low-income countries to cope with external shocks.

23. Ministers took note of the ongoing reforms at the World Bank Group. The central objective of these reforms must be to enhance the responsiveness of the Bank to its clients in an equitable way. In this regard, Ministers stressed that the Bank needs to be able to meet the diverse needs of its clients and on the scale that is warranted. They called, therefore, for due flexibility in the policies and instruments of the Bank including in its financial policies and for further measures to reduce the costs associated with its lending. They emphasized that the focus on selectivity and the potential tradeoffs that may arise given the current capital constraints need to be guided by individual country demands. Ministers urged the Management of the World Bank to assess and meet the financial and technical assistance needs of all developing countries solely on the basis of economic and developments merits.

24. Ministers took note of the update on governance reforms at the World Bank Group. They viewed such reforms as important to the future of the Bank, but cautioned that they should not compromise the effectiveness and representativeness of the Executive Board. Just as in the case of the IMF, Ministers called for an open, transparent, merit based process for the selection of the President, without regard to nationality. Ministers welcomed the creation of the Board Working Groups to address the selection process of the President and the dual performance evaluation of Board and Management, and looked forward to concrete proposals for the next meeting.

25. Ministers called for timely implementation of the Voice reform decisions that were taken at the Spring Meetings. They emphasized that the reform of Voice and Representation is an ongoing issue that should be completed on schedule to bring about at least parity in voting power between developed and developing countries.

Other Matters

26. Ministers welcomed Mexico as the incoming Second Vice-Chair. The next meeting of the G24 Ministers is expected to take place on April 15, 2011.

LIST OF PARTICIPANTS[1]

Ministers of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development held their eighty-fourth meeting in Washington, D.C. on October 7, 2010. Mr. Pravin Gordhan, Minister of Finance of South Africa and First Vice-Chair, was in the Chair, with Mr. Pranab Mukherjee, Minister of Finance of India as Second Vice-Chairman and Ambassador Marcos Galvão, Secretary for International Affairs at the Ministry of Finance, representing Brazil as the Chair.

The meeting of the Ministers was preceded on October 6, 2010 by the ninety-sixth meeting of the Deputies of the Group of Twenty-Four, with Mr. Rogério Studart, World Bank Alternate Executive Director, as Chair.

African Group: Mohammed Laksaci, Algeria; Denis N'Gbe, Côte d'Ivoire; Jean-Claude Masangu, Democratic Republic of Congo; Ayman Alkaffas, Egypt; Sufian Ahmed, Ethiopia; Denis Meporewa, Gabon; Eric Korantevy, Ghana; Olusegun Aganga, Nigeria; Daniel Mminele, South Africa.

Asian Group: Ashok Chawla, India; Mahmoud Bahmani, Islamic Republic of Iran; Alain Bifani, Lebanon; Javed Talat, Pakistan; Roberto Tan, Philippines; Sarath Amunugama, Sri Lanka; Adib Mayaleh, Syrian Arab Republic.

Latin American Group: Guido Forciani, Argentina; Paulo Nogueira Batista, Brazil; Maria A. Arbelaez, Colombia; Edgar Barquin, Guatemala; Alfonso Guerra, Mexico; Julio Velarde, Peru; Winston Dookfran, Trinidad and Tobago; Julio Viloria, Venezuela.

Observers: Jassim Almannai, Arab Monetary Fund; Ismaïla Dem, BCEAO; William Calvo, Central American Monetary Council; Yang Luo, China; Stephen Pursey, ILO; Ifzal Ali, IsDB; Suleiman Al Herbish, OFID; Yousef Al Bassam, Saudi Arabia; Karim El Aynaoui, Morocco; Heiner Flassbek, UNCTAD; Inés Bustillo, ECLAC; Sultan Al Suwaidi, UAE; Rob Vos, UN-DESA.

Special Guests: Dominique Strauss-Kahn, Managing Director, International Monetary Fund
Robert B. Zoellick, President, World Bank

IMF Executive Board: Mohammed Daïri, A. Shakour Shaalan

World Bank Executive Board: Sid Ahmed Dib, Nada Mufarrij

G-24 Secretariat: Amar Bhattacharya, Ndzouli Mendouga

G-24 Research Coordinator: Jomo Sundaram

IMF Secretariat for the G-24: Simran Maxwell, Dalila Bendourou

---

[1] Persons who sat at the discussion table.