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Statement by the Managing Director to the International Monetary and Financial Committee on the IMF Reform Agenda

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Context. Since we last met, financial markets have rebounded, trade has recovered, and the global economy is poised to grow more than 4 percent, a significant upward revision. These positive developments just a year from the crisis peak testify to the power of cooperation and collective effort. Yet many challenges remain that will require more such global collaboration: a multi-speed recovery and reemerging global imbalances, large fiscal consolidation needs in many countries, massive capital inflows into some others, the resumption of reserve accumulation, and persistent need for deep financial regulatory reform. In short, the world remains a dangerous place.

Role of the Fund. Against this backdrop, the review of the Fund's mandate requested by the IMFC at its last meeting remains very timely. Of course, the Fund will strive to provide analytical insights—and, where appropriate, financial support—that help policy makers deal with the near-term concerns outlined above. But reflecting on the role of the Fund from a longer term perspective is critical to entrench the relevance of the Fund beyond the crisis. This process is well underway, with ideas put forward in all three key areas of the Fund's mandate review, namely surveillance, lending, and the functioning of the international monetary system. Let us consider them with an open mind and neither too much nor too little ambition, commensurate to the challenges faced. Ultimately though, the role the Fund will be able to play depends not only on its mandate, but on its legitimacy. Thus it is critical to make progress on quotas and other governance reforms in parallel. Let me elaborate.

Surveillance. A key lesson from the crisis is that seemingly localized risks can spill over quickly in a globalized world. Greater emphasis on multilateral surveillance and outward spillovers would promote global stability and improve the traction of Fund surveillance. Bilateral surveillance will of course remain a key pillar. But there is a need to bridge multilateral and bilateral perspectives. I look forward to discussions in the coming months on potential innovations to this end. Items under consideration include reports on spillovers from countries that may significantly affect the system, and multilateral consultations on special topics. Adopting a Decision on Multilateral Surveillance could be a way forward.

Macro-Financial Stability. The essential task of strengthening global financial stability remains a work in progress. Many actors, national and multilateral, have a role to play in this area, including the IMF, in close collaboration with the FSB and others. Key areas for the Fund include improving the understanding of macro-financial linkages, helping to fill data gaps, tracking cross-border exposures and improving traction of policy recommendations. The Board will consider a number of proposals in the months ahead to strengthen the Fund's capacity to enhance macro-financial stability. Potential innovations include broadening the set of data available to the Fund for mapping and assessing risks associated with financial networks; enhancing our understanding of the systemic impact of large complex financial institutions; making the FSAP a mandatory part of surveillance for countries with systemically important financial systems; and defining an effective IMF-FSB relationship.

Financing. Last year's reform of lending instruments, including the creation of the Flexible Credit Line (FCL) and the increase in Fund resources, played a decisive role in stabilizing emerging markets. Nevertheless, the crisis exposed certain gaps in global financial safety nets that remain to be addressed. We have begun to consider various ideas to strengthen the Fund's crisis prevention toolkit, including improvements to the FCL; a new precautionary credit line to serve a broader group of members; and, to reduce systemic risk, a multicountry swap line that could be offered in well-defined circumstances to a limited set of systemically-important countries with strong policy track records.

International Monetary System. The crisis has reignited the long-running debate over the stability of the international monetary system (IMS) and interest in a potentially enhanced role of the SDR. The task of strengthening the IMS is ambitious and the scope for near term changes limited. But it is incumbent on the Fund to advance the reflection on the functioning of the IMS and explore avenues for improving it, taking a suitably long term perspective. I look forward to discussions on this topic in the months ahead. We may well find that in some areas action need not await the long term.

Quotas and Governance. To succeed in delivering any mandate, let alone an expanded one, the Fund needs strong and balanced resource and governance foundations. As is evident from the Executive Board's report on these topics, much more work and effort will be needed to reach consensus in these areas, and yet time is short if the target deadline of January 2011 is to be honored. I urge all members to secure the needed acceptances of the 2008 Quota and Voice Reform. Looking ahead, key issues are: (i) how to achieve the desired rebalancing of voting shares, as defined by the IMFC at its last meeting; (ii) how large should the Fund be? Clearly, there is a close link between the Fund's future financing role, its resource adequacy, and its ability to promote global stability. In this regard, reaching closure on the expanded New Arrangements to Borrow is an important achievement, albeit the Fund should remain a quota-based institution; and (iii) how to modernize the Fund's governance structure—management selection, ministerial engagement, Board composition and size, voting majorities, staff diversity and accountability—to maximize effectiveness. None of these questions has a single right answer. Thus, we must strive for the best possible compromise.

Low-Income Countries. Low-income countries, like others, are benefiting from the global rebound. That said, they still face considerable challenges, and the Fund remains committed to providing them with policy, technical and financial support when needed. We have made important progress to implement reforms to the Fund's lending facilities and financing framework for low-income countries. Meanwhile, the devastation suffered by Haiti awoke us to the need for a mechanism for the Fund to provide exceptional debt relief to countries hit by catastrophic disasters. A proposal has been tabled, which if approved, would allow the Fund to join international efforts to relieve Haiti's debt.

Closing. We cannot allow the return of economic stability to signify a return to "business as usual" for the IMF. The crisis exposed huge cracks in the international financial architecture of which the Fund is a key part. We have an historic responsibility to fix them. I urge all of us to recommit to seeing our collective goals to the finish line before reform fatigue sets in.