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Opening Statement of IMF Managing Director Rodrigo de Rato At Press Conference of G-20 Finance Ministers Meeting Xianghe, China October 15, 2005

Thank you for joining me this evening. This is my third visit to China as IMF Managing Director and I am pleased to be here this weekend. I am also honored to be participating in this meeting of the G-20.

The G-20 is playing an important role in bringing together diverse nations to discuss issues of common concern. This type of communication is essential to the process of enhancing international cooperation in an increasingly globalized world. Of course, the International Monetary Fund is itself a multilateral organization that was established with this very purpose of strengthening international economic cooperation, so I certainly welcome and support the efforts of the G-20 governments. This meeting also follows by only a few weeks the Annual Meeting of the IMF in Washington, and the discussions this weekend are advancing many points of consensus that were achieved last month.

One of the primary purposes of the IMF is to conduct ongoing analysis of global economic developments, and in that capacity the Fund staff provided analysis of recent trends for this morning's discussion. I do not want to preempt the final communiqué that will be issued tomorrow. But let me say that the IMF projects global economic growth of 4.3 percent in both 2005 and 2006. That is reason for optimism. However, we do see some significant risks that under certain circumstances could increase the vulnerability of the global economy.

Despite the broadly satisfactory prospects for the global economy, there are risks to growth stemming from higher oil prices. There are things that can be done about these risks. While excess capacity is very limited, oil producers can begin to increase investment in new facilities. Oil-consuming countries have work to do as well. They need to start increasing refining capacity and to take measures to curb oil demand, such as improving conservation and energy efficiency. Also, those countries that have reacted to higher oil prices by increasing subsidies instead of passing on price increases should reconsider their policy. I welcome the measures being taken in some countries, including Indonesia, to contain the cost of subsidies while protecting the poorest people from the effects of rises in prices of oil products.

A second major risk comes from global imbalances. The symptoms of these are high current account deficits and rapidly increasing debt in the United States, and corresponding surpluses in Japan, China, and many other Asian emerging market economies, and increasingly oil-producing countries, including Russia as well as countries of the Middle East.

These imbalances pose serious risks to prosperity, because they are clearly unsustainable, and if they are corrected in a disorderly way, through an abrupt decline in the US dollar and rise in US interest rates, growth and prosperity all over the world will be threatened.

I also participated in this afternoon's discussion of the strategic direction of the IMF. This is another topic that was central to our Annual Meetings in Washington, where I presented to our membership a medium-term strategy for the Fund. Today I discussed steps we have taken in the past few weeks to take the strategy to the next stage. The organizing principle of the strategy is to help member countries to meet the challenge of globalization. Our intent is to make the Fund more focused on the key priorities of this effort by making our advice to individual members and the whole international community more effective. We will tailor our analysis and assistance to the differing needs of each member, especially as they build the institutions needed to benefit from globalization. Most importantly, we will work to give a greater voice in the IMF's governing councils to those regions and countries that have emerged as important forces in the global economy, especially in Asia. We must also ensure that our members in Africa, where the Fund is very actively engaged, are adequately represented.

This is something that is extremely important to the members of the G-20. We are listening carefully to their views on this matter.

Finally, no visit to China would be complete without taking time to meet with our host government. I have had the pleasure to engage in important discussions these past few days with Premier Wen Jiabao, Finance Minister Jin Renqing, and Peoples Bank of China Governor Zhou Xiaochuan. China's economic success is central to the overall strength of the global economy. This success is evident to all participants in the G-20 meeting. It is a reflection of the policy leadership of Premier Wen and his colleagues.

Continued implementation of prudent macroeconomic policies, together with structural reforms, especially in the financial sector, public finances and labor market will help improve living standards and income distribution across China, key objectives of the Government's recently announced economic blueprint for the next five years. Moreover, these policies will lay a solid foundation for China's further integration into the global economy.

We welcome the change in China's exchange rate arrangement announced in July as an important move toward greater exchange rate flexibility. Greater flexibility is in China's best interest as it will provide more room for monetary independence and help to insulate the economy from shocks. We encourage China to fully utilize the flexibility afforded by the new arrangement.

I have every confidence that China has a clear understanding of implications of its economic success, and I look forward to working closely with the leadership as it consolidates its achievements.

Now I will be happy to answer your questions.