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Press Statement by IMF Managing Director Rodrigo de Rato Ahead of the G-20 Meeting in Melbourne, Australia

Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund, issued the following statement at a press briefing on November 18, in Melbourne, Australia, ahead of the Group of 20 Meeting of Finance Ministers and Central Bank Governors:

I am very happy to be here in Melbourne to participate in the Group of 20 Meeting of Finance Ministers and Central Bank Governors and I want to thank the Australian authorities for their hospitality and cooperation. I would like to take this opportunity to briefly review some topics that will be discussed at the meetings: global economic conditions, progress in implementing IMF reforms, and the issue of the energy markets.

The Global Economy

Let me begin by noting that the outlook for the global economy remains good, but there are significant downside risks. For that reason, governments should take advantage of this relatively benign period to address these risks.

Our latest projections for global growth made in the World Economic Outlook in September are 5.1 percent for 2006 and 4.9 percent for 2007. Since then, the U.S. economy has cooled down faster than many people expected but this has been offset by somewhat more rapid growth in the Euro area and continued strength in major emerging economies. Lower energy price and moderate long-term interest rates should also help support global economic activity. So our central forecast remains broadly unchanged for another year of robust and more balanced global growth.

That said, there are important downside risks to growth. One is the possibility that a further correction in the housing market could lead to an even sharper slowdown in the U.S. economy and have spillover effects abroad. The outlook for inflation also remains uncertain. The fall in energy prices since September helps, but we do not know whether this will be sustained. Global excess capacity is becoming more limited as well, which may cause increased wage pressures. In such circumstances, central banks should remain vigilant and act to preserve the hard-won credibility gains of recent years. And on fiscal policy, Governments should take advantage of the strength of the current global economy to push ahead with the necessary fiscal adjustment.

Another risk is a disorderly unwinding of global imbalances. The IMF is engaged in a Multilateral Consultation with several of our members to discuss steps to reduce this risk.

Finally, failure to conclude the Doha trade round successfully would have a damaging impact on global prospects and on the signal that this sends for multilateral cooperation at a time when the world needs multilateral approaches more than ever. I strongly urge all the key players to take the bold steps needed to bring the Doha round to a successful conclusion.

IMF Reform

Let me turn to the reform of the IMF which we will also discuss at these meetings**.**

As you may know, a year ago the Governors of the IMF endorsed a comprehensive program of reform and modernization that would equip the institution to meet the changing needs of its 184 members–what we have called the IMF's Medium Term Strategy**.** I am pleased that at our annual meeting in Singapore last September, the first results of this reform have already come to fruition. And I am confident that once our detailed program of reforms is fully implemented, it will enhance the Fund's legitimacy and give us the tools we need to help all our members meet the challenges of financial globalization.

Let me cover briefly how we are taking forward some of the key points in the reform program:

First, quotas and voice. The IMF's governance structure must adapt to changing global economic realities in order to sustain the broad support it needs to play its central role in safeguarding global stability. At the Annual Meetings in September, the Fund's members agreed to start with an increase in the quotas of four countries—China, Korea, Mexico and Turkey, all G-20 members. They also agreed that over the next two years, there should be a further round of increases in the quotas of other underrepresented countries. At the same time the Governors of the Fund agreed that any such rebalancing of quotas would be done in a way that protected the voice of low-income countries. An upcoming crucial step is to agree on a new quota formula that is simple, transparent and more accurately measures members' positions in the global economy.

Second, improved surveillance. We must continue to be able to provide high-quality economic analysis and policy advice to our member countries. In this context, the IMF is sharpening its advice on exchange rate policies and intensifying work on developments in financial markets. Also, through a new approach, "Multilateral Consultation," the IMF is fostering dialogue on key issues facing the world economy. The first of such consultations among China, the Euro area, Japan, Saudi Arabia and the United States has started to address the issues of global imbalances.

Third, our tools for crisis prevention and response. While financial crises appear a remote possibility in today's benign economic environment, it would be complacent to assume they have disappeared forever. So, we in the IMF are reviewing whether our existing crisis prevention instruments provide an adequate response for an emerging market member that might run into a financial crisis down the road. I will be seeking views from the G-20, and especially from emerging market representatives, on what kind of financial instrument could best meet this need.

With regard to low-income countries. The IMF is committed to helping our low income members reach the UN Millennium Development Goals. We do this best by focusing our efforts on those issues where we have the institutional mandate and expertise. In the coming year, we will be helping low income members develop and manage sound macroeconomic policies, which are essential for growth and to reduce poverty. We are also working to help these countries use additional aid resources productively and to avoid a new buildup of unsustainable debt.

Energy and Climate Change

The G-20 will be discussing energy policies today, and this evening I will be giving a speech at the Energy and Minerals Business Council on "Energy Policy in the Global Economy." In this speech I will make the point that well-functioning energy markets are a key element in promoting global economic and financial stability. Governments can help in several ways. First, enhancing transparency in oil markets would help to reduce price volatility. The creation of the Joint Oil Data Initiative is an important step, which we in the Fund support strongly. Reducing subsidies is also important. Second, although there are some notable exceptions, many producing and consuming countries need to step up the pace of investment in both upstream and downstream activities in the energy sector. Inadequate investment now will only make the energy market realities more difficult in the future. Finally, subsidies are an expensive and badly targeted way of protecting the poor from rising energy prices—much of the benefit goes to the better off. Subsidies also blunt incentives to conserve energy and lead to inefficient investment choices. Reducing energy subsidies both facilitates fiscal consolidation and encourages conservation and diversification.

This is becoming particularly important as concerns about climate change deepen. The link between greenhouse gas emissions and changes in global temperature is now well-established. It is a matter of fact rather than of faith. The consequences of global warming are less certain, but they are expected to be serious. The recent Stern Report suggests that GDP losses from climate change could range from 5 to 20 percent of GDP in many countries. If these numbers are borne out even broadly by further analysis, they are alarming indeed. In terms of the effect on people's quality of life, here in Australia and worldwide, the effects could be devastating.

I believe governments should adopt a risk management approach to climate change, preparing policies to head off the most extreme changes, and to adapt to changes that are no longer preventable. The Fund can play a role by helping countries evaluate the macroeconomic and financial consequences of adaptation and mitigation strategies that they plan to put in place. And in our multilateral surveillance, there may be scope for some assessment of the potential global economic impact of climate change.