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IMF Executive Board Discusses Multilateral Consultation on Global Imbalances

On July 20, 2007, the Executive Board of the International Monetary Fund (IMF) discussed the [staff report](#) on the Multilateral Consultation on Global Imbalances, with China, the Euro Area, Japan, Saudi Arabia, and the United States.

Background

On June 5, 2006, the Managing Director of the IMF announced the initiation of the first multilateral consultation (MC), with a focus on addressing global imbalances while maintaining global growth.¹ China, the euro area, Japan, Saudi Arabia and the United States—invited either because they are directly party to the existing imbalances through their current account deficits or surpluses, or because they represent a very large share of global output and could contribute to sustaining world growth as demand and savings patterns adjust—agreed to participate.

At the time the MC was initiated, global imbalances—the large external current account deficit in the United States, matched by current account surpluses elsewhere—had been widening continuously for some five years. Over this period, the Fund's Executive Board had repeatedly stressed the risks to the global economy arising from the imbalances and the need for policy adjustments to mitigate those risks. From early 2004, the IMFC had also set out in each of its Communiqués the policies needed to help facilitate an orderly adjustment (the so-called IMFC strategy).² But despite widespread agreement with the thrust of the IMFC Strategy, these efforts

¹ The MC—a new IMF instrument established under the Managing Director's Medium-Term Strategy—aims to bring together a small group of countries relevant to a particular problem of systemic or regional importance in order to promote strengthened dialogue and ultimately action to address it. (See IMF Press Release No. 06/118, June 5, 2006 <http://www.imf.org/external/np/sec/pr/2006/pr06118.htm>)

² The IMFC strategy involves steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural

(continued...)

were seen as having had limited practical effect, suggesting the need to develop new avenues of action-oriented dialogue.

The MC began with bilateral visits to the five participants in July and August 2006, followed by three meetings of all the participants together between September 2006 and March 2007. Following these discussions, the participants and Fund staff issued a joint report on the results of the MC on April 14, 2007, which included attachments summarizing each participant's policy progress and plans.³ In the report, the participants noted that the MC had been a useful initiative, which had contributed to an improved understanding of the issues and of each other's positions. They reiterated their support for the IMFC strategy and noted that their policies, as set out in the attachments, were consistent with it. Taken together, the implementation of these policies would constitute a significant further step toward sustaining solid economic growth and resolving imbalances. Participants agreed to meet again when developments warranted it, and the Fund would continue to follow developments, in the context of its regular bilateral and multilateral surveillance.

The Executive Board was briefed on the key elements of the report on April 9, 2007, which were subsequently discussed at the IMFC breakfast on April 14, 2007. In its Communiqué,⁴ the Committee welcomed the report, noting that the policy plans set out by the participants represented further progress in the implementation of the IMFC strategy. It observed that the experience gained so far demonstrated that the multilateral consultation approach had been useful for addressing global issues through discussion and cooperation among members, and should prove to be a valuable instrument for enhancing the effectiveness of Fund surveillance. It looked forward to the Executive Board's review of the experience with the process and the conclusions of the first multilateral consultation and of the lessons for the future.

Executive Board Assessment

Directors welcomed the opportunity to review, and take stock of the results of, the Fund's first multilateral consultation discussions on addressing global imbalances while maintaining robust global growth, in accordance with the strategy outlined by the IMFC. They welcomed the decision of China, the euro area, Japan, Saudi Arabia, and the United States to participate in the first multilateral consultation. Directors strongly endorsed the participants' reaffirmation that reducing global imbalances is both a multilateral challenge and a shared responsibility, and—

reforms, including fiscal consolidation, in Japan; reforms to boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries.

³ See IMF Press Release No. 07/72, April 14, 2007 (<http://www.imf.org/external/np/sec/pr/2007/pr0772.htm>)

⁴ See IMF Press Release No.07/71, April 14, 2007 (<http://www.imf.org/external/np/sec/pr/2007/pr0771.htm>).

given the global importance of this issue—their recognition that an orderly unwinding of imbalances would benefit all Fund members.

While perceptions of the risks associated with global imbalances have diminished, they remain a key global concern. Directors observed that there have been welcome signs over the past year: imbalances have finally begun to stabilize, accompanied by some rebalancing of global demand; and economic policies and developments among the participants as well as other countries have increasingly evolved in a manner consistent with the IMFC strategy. Nonetheless, the imbalances remain historically high, and the possibility of a disorderly and potentially costly adjustment cannot be ruled out. Such risks could be exacerbated in the current environment by the strength of protectionist sentiment, which could intensify if large imbalances persist, or if global growth slows.

Directors noted that the Fund has repeatedly stressed both the risks to the global economy from the imbalances and the nature of the policies needed to facilitate an orderly adjustment. While there has been widespread agreement with the thrust of the recommendations outlined in the IMFC strategy, until early 2006 progress toward their reversal had been relatively limited. Against this background, Directors considered the initiation of the multilateral consultation on global imbalances—aimed at promoting a strengthened policy dialogue and ultimately more rapid policy action to address them—as timely, and indeed fully in accordance with the Fund’s core responsibility to promote the stability of the international monetary system.

Directors welcomed the report of the participants on the discussions. Overall, they considered that the multilateral consultation discussions have helped to deepen agreement on a coherent medium-term approach that gives concreteness to the IMFC strategy. This approach identifies measures that: should gradually reduce imbalances over time while also supporting global growth; are beneficial from a regional and international perspective; and have strong ownership. In this connection, Directors particularly welcomed the individual statements of policy intentions set out by each participant. While these policies are generally not as ambitious as the Fund has recommended in individual Article IV consultations or the WEO, they nonetheless constitute significant steps forward—in line with the Fund’s medium-term perspective on these countries. Taken together, they include steps in all key areas of the IMFC strategy, and once implemented should contribute substantially toward reducing imbalances over the medium term. Moreover, the publication of these policy intentions has provided a valuable roadmap for the future that will enhance public scrutiny and help foster confidence that the international community is working together to help reduce imbalances.

Looking forward, Directors observed that implementation of the policy plans announced by the participants will be key. Over the last two months, each participant has made some welcome progress toward implementing its policy intentions. Directors concurred, however, that much still remains to be done, and the success of the multilateral consultation will ultimately need to be assessed in relation to the advances made in reducing global imbalances while sustaining growth. They recommended that the Fund should continue to play an active role in monitoring progress, both in staff reports for Article IV consultations with the participants and in its multilateral surveillance activities, including the World Economic Outlook and the Global Financial Stability Report. While recognizing that policy actions need to be framed in a medium-

term perspective, some Directors felt that a specific timeframe and benchmarks would have provided a clearer basis for assessing progress and for managing expectations. Directors took note that the participants are willing to meet again if developments warrant. Directors stressed that, while the participants have key roles in facilitating an orderly adjustment, other countries will also need to play their part.

In reviewing the experience with the innovative first multilateral consultation discussions so far, Directors considered that the multilateral consultation approach is useful, and a valuable instrument for enhancing and deepening Fund multilateral surveillance. They noted that the first multilateral consultation had two unique aspects: voluntary participation of a limited number of participants that were possible major contributors to a solution to imbalances, and a framework wherein the voice of the entire international community could be heard through the Executive Board and through the IMFC. These features, together with the uncertainty as to what future problems might need to be addressed, warrant retaining flexibility as regards the operational modalities going forward. Directors observed that multilateral consultations may well be best suited to addressing medium-term macroeconomic or financial problems of systemic or regional importance.

While conclusive lessons cannot be drawn at this juncture, Directors considered that the experience to date suggests that multilateral consultations may be most effective when carried out with the benefit of significant background staff work and discussions in the Executive Board. Procedurally, the first multilateral consultation has underlined the need for flexibility to adjust to unexpected developments and to accommodate the preferences of the participants. Directors acknowledged that the high-level and confidential meetings in the first multilateral consultation helped to ensure open and constructive discussions, and a dialogue that contributed effectively to an improved understanding among participants of the issues and of each other's positions. Directors stressed that involvement of the Executive Board and the IMFC at the appropriate time is crucial to enable the Board to exercise its role in the conduct of surveillance, give the process legitimacy, and allow the international community to assess results. In this context, several Directors suggested a clearer and enhanced role for the Board. Directors also considered that the resource intensity of the first multilateral consultation, together with the Fund's tight budget constraint, highlights the need for carefully assessing costs and benefits, and for avoiding duplication with the activities of other institutions and fora.

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