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Founded in 1978, the Group of Thirty is a private, nonprofit, international body composed of senior representatives of the private and public sectors and academia.

Group of 30 Report Calls for IMF Governance and Surveillance Reforms

Istanbul, Turkey, October 5, 2009: - The Group of Thirty (G30) stated in a report today that national governments need to seize the opportunity of the economic and financial crisis to modernize the operations of the International Monetary Fund. In calling for far-reaching, comprehensive reforms of the IMF, the G30 warned that as the immediate severe effects of the financial crisis begin to wane, the impetus for real, substantive and long-lasting reform of this key international financial institution may diminish and begin to stall.

G30 Chairman and CEO Jacob Frenkel said, “The IMF is an enormously important institution at the center of the global financial system. The G30 report aims to enhance the effectiveness of IMF advice to governments on their economic policies, strengthen its authority and ensure it has the capability to mobilize the actions necessary to avoid crises and mitigate systemic vulnerabilities. Reform is necessary and timely.”

Mr. Frenkel, former IMF Economic Counselor and Director of Research, and former Governor of the Bank of Israel, stressed that, “We welcome the strong endorsement of the need for IMF reforms that the Group of 20 leaders voiced at the recent Pittsburgh Summit. Our recommendations are broadly in line with the conclusion of the Pittsburgh G20 Summit. The G-20 has called for detailed preparations to ensure the implementation of reforms in 2010 and we believe that our report will significantly assist this process. Our recommendations aim at correcting imbalances in IMF quotas, improving IMF decision making, empowering the Fund at the political level, and achieving a more efficient division of labor between the Executive Board and Management. As a matter of urgency decisions should be taken to enhance the effectiveness of the Fund’s surveillance mission and reform its governance to strengthen its legitimacy among member governments, the broader public and the international community at large.”

“The institutional structure of the IMF needs to better reflect changing global economic realities and relationships,” said Guillermo Ortiz, Governor, Banco de Mexico and Chairman of the Board of the Bank for International Settlements. “We are recommending that the revision of IMF quotas should be accelerated to realign existing shares with members’ economic weights in the global economy. In the future quota adjustments would be better achieved through a regularized automatic process. Under such a system quota review would occur every four years, using the existing formula, with an update of the quota formula every eight years. Further, no single country should retain a veto over Fund decisions.”

The G30, which consists of senior representatives from the public and private financial sectors and academia, said the Fund should conduct an open, merit based and transparent process in the selection of the Managing Director and this position should not be determined on the basis of nationality. The final decision should be taken by a newly constituted IMF Council, which is a governing body originally proposed by the Fund’s architects.

The report, which is the product of a G30 Working Group on IMF Reform, proposed that the Council should replace the International Monetary and Financial Committee (IMFC) and it should provide strategic direction to the Fund and oversee the work of the IMF’s Executive Board and management.

The report stressed that for the Council to be effective and legitimate, its membership should reflect current global economic realities from the moment of its inception. It also proposed that the Articles of Agreement be amended to eliminate appointed chairs and facilitate a more balanced composition of the Executive Board. Furthermore, the size of the Board should be reduced from 24 to 20 by reducing the number of seats held by European countries from eight to four at most.

Stanley Fischer, Governor of the Bank of Israel and the former First Managing Director of the IMF, stated at a press conference here that, "The current financial crisis exposed weaknesses in the effectiveness of the Fund's system of bilateral and multilateral surveillance. These weaknesses are linked to the reluctance of some member countries to accept surveillance advice; in some important cases member countries ignore it entirely."

Mr. Fischer stressed, "The Fund's system of bilateral and multilateral surveillance needs to be reinforced, buttressed and made more effective. It is important to bolster the Fund's multilateral and cross-country perspectives in its bilateral surveillance, and to place greater focus on international economic and financial linkages and spillovers. Closer cooperation in surveillance between the FSB and the Fund would contribute to strengthening the effectiveness of Fund surveillance of the financial sector and financial tensions. Cross-checking between multilateral and bilateral surveillance will help to promote policies at the national level that promote global adjustment within the international monetary and financial system."

The report recommends that:

- **Article IV surveillance reports should be more sharply focused on current and impending problems and should include specific policy recommendations to deal with those problems.** Governments should be obliged to respond promptly to those recommendations. Their responses and any subsequent failure to act should be brought to the attention of the Executive Board.
- **All member countries of the Fund should participate in the Financial Sector Assessment Program (FSAP).** The Fund should monitor their progress in complying with the recommendations made by the FSAP. Members whose FSAP reports were completed several years ago should have new reviews of their financial systems.
- **In order to be more effective, the Fund should conduct assessments to detect vulnerabilities and the build-up of risk on a near continuous basis in the financial sector or elsewhere.** The next crisis may take place in the core of the financial system, but it could just as well be a fiscal or debt crisis, or an "old-fashioned" balance of payments and inflation crisis. Whatever the cause, the Fund must enhance its ability to identify and prevent potential crises and do whatever it takes to get ahead of the curve on a real-time basis.
- **The Fund should equip itself to issue confidential warnings to systemically important countries whenever developments in their economies or financial sectors give cause for concern.** The Managing Director, advised by his staff, should be authorized to issue such warnings when deemed necessary.

Mr. Ortiz added, "We believe the architecture of the international system can be strengthened by forging a formal agreement between the IMF and the Financial Stability Board. This should define respective responsibilities and roles as regards financial stability, monitoring the global economy, and giving early warning of impending systemic risks. If this is not done, ambiguity over the ways in which the IMF and the FSB coordinate and collaborate may weaken rather than strengthen the international system."