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## Highlights of the IMF's Work under Rodrigo de Rato 2004-2007

At the time Rodrigo de Rato became Managing Director in June 2004, the institution faced a number of challenges resulting from a rapidly evolving world economy and a sense that the Fund was being pulled in too many directions. Mr. de Rato's main contribution was to launch a comprehensive [Medium-Term Strategy \(MTS\)](#). The goal of the MTS was to adapt the institution to the changing environment faced by its member countries and to address key challenges such as the Fund's role and relevance in the world economy and in dealing with financial sector issues; raising the Fund's effectiveness in low-income countries; reforming the voice and representation of member countries; and addressing the need for a sustainable Fund income model together with a more effective use of resources. The MTS was endorsed by the Fund's global membership in September 2005 and its [implementation](#) has been proceeding since then.

Among the various objectives set out in the MTS, three significant achievements under Mr. de Rato's leadership should be noted:

**Modernization of [Surveillance](#).** Two major MTS initiatives stand out in this core area of the Fund's work (economic monitoring and policy advice): the 2007 Decision on Surveillance and the launch of Multilateral Consultations. The 2007 Decision brings more clarity to what surveillance is about and reaffirms that surveillance should be focused on the Fund's core mandate, namely promoting countries' external stability. The Decision aims at improving the quality, evenhandedness, and effectiveness in the assessment of the range of policies that can make or break external stability. It also brings greater clarity and specificity to what exchange rate practices countries should follow and when the international community has reason to worry. Another key initiative was Multilateral Consultations—a new process of consultation between the Fund and key stakeholders to discuss, with the involvement of the Executive Board, ways to address global issues. The first such consultation, on Global Imbalances, resulted in policy plans by the participants aimed at reducing global imbalances while maintaining growth.

**Reform of Fund governance-[Quotas and Voice](#).** The MTS launched a process to increase the voice and representation of emerging market and developing countries in the IMF. Its most significant achievement is the 2006 Singapore Resolution by the Board of Governors. This Resolution increased the quota shares of China, Korea, Mexico and Turkey—the four countries whose quotas were most seriously out of line. The Resolution also envisaged, for the first time, a minimum doubling of basic votes—the votes that each country gets regardless of size—that would protect the voting power of low-income countries as a group. Since then, progress has been made on identifying the main elements of a new formula that would determine a second round of quota changes with the goal of increasing the shares of emerging markets and developing countries.

**Deepen integration of financial sector issues in the Fund's work.** As part of the MTS, Mr. de Rato embraced the goal of enhancing the international community's understanding of financial sector issues. This resulted in a scaling up of the Fund's work on financial stability and better integration of these issues with the Fund's surveillance and related macroeconomic work. At the heart of this effort was the creation-in line with recommendations by a working group led by William J. McDonough-of a new department, Monetary and Capital Markets, as a center of excellence for all aspects of financial, capital market, and monetary work in the IMF. These steps have paid dividends, for example, in the Fund's early warnings about the risks of financial market turbulence issued in the April 2007 issue of the [Global Financial Stability Report](#).

In addition, there are other areas of the MTS where progress has been made:

**The Fund's role in low-income countries.** The IMF was the first multilateral institution to implement the Multilateral Debt Relief Initiative in January 2006 that cancelled the debt of several low-income countries with the Fund. The Fund and the World Bank also introduced a debt sustainability framework to strengthen countries' debt management practices. More broadly, the MTS identified the need to make Fund engagement in low-income countries more flexible and focused on what is essential and on areas where the Fund has expertise. In this regard, progress was made in refining Fund positions and on a toolkit for work with low-income countries. First, the Fund's policy advice was clarified on issues related to aid and the use of wage bill ceilings and been adapted to these countries changing needs. Second, a Policy Support Instrument for countries that could benefit from the Fund's 'seal of approval' of their policies but do not require financial assistance was introduced. Lastly, the Fund's technical assistance was ramped up, including through a new regional technical assistance center in Gabon, the third such center in Africa.

**The Fund's Income Model.** Responding to Mr. de Rato's request, a group of eminent people led by Sir Andrew Crockett put forward [recommendations on a new income model](#) for the Fund. Work is underway at the Executive Board to reach consensus on specific proposals based on the report's broad recommendations. In addition, the Fund's own budget has been put within a medium-term framework to facilitate strategic planning. The budget envisages annual reductions in real terms in the Fund's administrative expenditures.

**The Fund and Emerging Market countries.** The MTS identified the need for the Fund to provide appropriate support to these members, taking into account both their changing circumstances and the type of crises they may face. Progress was made on strengthening the methodology to diagnose vulnerabilities and monitoring of risks as well as on policies to deal with large capital flows. In addition, intensive consultations have been held with member countries on a possible new instrument for crisis prevention in emerging market countries.

**Collaboration with the World Bank.** The MTS envisaged a process of strengthened Bank-Fund collaboration. Drawing on the [recommendations](#) of a group of external experts (led by Pedro Malan, former Finance Minister of Brazil) and by the Independent Evaluation Office, a joint action plan to enhance collaboration has been developed and implementation is beginning in October 2007. The plan contains concrete steps to enhance coordination and communications on activities with member countries, policies, and other issues.

**Outreach.** Mr. de Rato attached great importance to outreach in member countries, including in social and political fora. Beyond presenting Fund policies and analysis on

national and global economic issues, he stressed the social dimension of economic policy, such as the need for well-targeted social programs and development of basic infrastructure. He also sought consensus with social partners on aspects of Fund policies and good governance.