



November 6, 2008

G-20 Heads of Governments and Institutions

Dear Sir/Madam:

As the G-20 Summit approaches, I thought I would share with you some thoughts, from the perspective of the IMF, on the challenges ahead and how the international community might come to grips with these. I see two broad tasks ahead:

- Dealing with the immediate fallout of the financial crisis—i.e., coordinating policy responses and providing financing to restore confidence and growth.
- Dealing with the longer-term global architecture—i.e., fixing an inadequate regulatory system and developing a reliable early warning and response system.

On the near-term task, more can—and must—be done to exit from the current crisis:

1. Demand is falling rapidly around the world, and the IMF is revising down further its growth forecast. Additional monetary and fiscal policy responses need to be on the agenda. There is scope for fiscal expansion in many advanced and some emerging market economies; and with inflation declining, some central banks have scope for further monetary easing. We also need to keep in mind that all countries will need to resist protectionism as a reaction to the downturn.
2. Emerging markets are under great stress as the capital flows that have sustained growth dry up across the board. The international community must take action. For this reason, the Fund has moved rapidly to assist several countries with substantial financing and policy advice, and also put in place a new Short-Term Liquidity Facility to provide rapid financing for countries with strong fundamentals.
3. However, there may be concerns in markets that the official resources needed to stabilize the situation are inadequate—which could exacerbate the problem as investors head for the exits. The summit is an opportunity to signal the international community's willingness to ensure that sufficient resources are available, be it through co-financing of IMF programs (as done in the case of Hungary) or increasing the Fund's loanable resources.
4. Low-income countries are also likely to face difficulties as the global economy slows. The Fund, working closely with the World Bank, will continue to provide financial support, but it is also imperative that aid flows are maintained so that the hard won gains of the last few years are not jeopardized.

4. Low-income countries are also likely to face difficulties as the global economy slows. The Fund, working closely with the World Bank, will continue to provide financial support, but it is also imperative that aid flows are maintained so that the hard won gains of the last few years are not jeopardized.

On longer-term global financial architecture, there are three dimensions to build on:

5. The design of financial regulation requires a rethink, including to cover areas that have been left out, building on the work already done by the FSF. However, the crisis has underlined the importance of having its ultimate implementation by national authorities subject to surveillance by a body or network of institutions alert to systemic implications across financial instruments, markets, and countries.


6. Any early warning system to detect impending dangers to the world economy must find a way of bringing together the scatter of international and national macrofinancial expertise. We at the Fund have already begun intensifying our early warning capabilities and will be strengthening our collaboration with others involved in this area.

7. Forewarned, the world must also be forearmed with a mechanism for effective action. Many have questioned whether existing groupings, the various Gs, are sufficiently representative or have the needed infrastructure for follow up and implementation. There is a need for a suitably sized and representative group of key policymakers able to agree on a consistent approach that might frame follow up at the national and multilateral levels. The IMF is prepared to play its part in supporting any such initiative to coordinate and monitor policy responses.

There have been numerous calls in recent months for a “new Bretton Woods agreement,” which I strongly endorse. However, one important lesson of the original Bretton Woods agreement was that its foundations were carefully laid through serious and vigorous discussion of the underlying issues. I therefore very much welcome the initiative taken by the President of the United States to bring together the G-20 leaders, to follow up with various working groups, and culminate these efforts in a conference, hopefully within the year ahead.

The IMFC has asked the Fund to draw the policy lessons from the current crisis and recommend policy responses to restore confidence and stability, and I hope to be able to share some of our preliminary findings soon. I very much look forward to meeting you at this historic summit.

Very truly yours,



cc: Minister of Finance
Governor of the Central Bank
Executive Director of the International Monetary Fund