

# The strategic review of the International Monetary Fund IMF

2005/2121(INI) - 14/03/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report drafted by Benoît **HAMON** (PES, FR) welcoming the strategic review of under way at the IMF and supported a re-orientation of IMF policies towards emphasising its core mandate of stabilising global exchange rate fluctuations and as a lender of last resort for countries experiencing serious balance of payment problems.

Parliament stated also that the allocation of capital and of voting rights has lagged behind other developments over the years. It called, therefore, on the IMF, in the interest of its own legitimacy, to consider means of distributing the quotas and voting rights within its governing institutions in such a way as to enable more appropriate weightings to be given to the developing and emerging economies. The main factors preventing the developing countries from having a voice in the IMF commensurate with the share of the world population they represent are the lack of votes on the Board of Governors (African countries, accounting for 25 % of the membership, have just over 4 % of the vote) and the lack of qualified human resources, and institutional capacity to participate in decisions. In addition, European positions in the EU representation within the IMF must be better coordinated. Member States should work towards a single voting constituency - possibly starting as a euro constituency, with a view, in the longer term, to securing consistent European representation, subject to the European Parliament's scrutiny.

Parliament went on to emphasise the importance of macro-economic stability, and stated that this is an essential condition for the proper development of structural policies. There must be improved coordination between the various institutions responsible for designing such policies. Due to the progressive opening-up of capital markets and the liberalisation of movement of capital, it is difficult to avoid the occurrence of financial crises. The IMF's adjustment policies have sometimes failed to prevent crises from becoming infectious and recurring. Parliament regretted in this connection any failed efforts to promote economically-sound policies that prevent crises. It recalled that inflation was not the only economic problem in developing countries and that IMF policies should be geared towards the objectives of macro-economic stability and sustainable growth. It noted that to go down the path of sustainable growth, the existence of guaranteed macro-economic policies is essential. To that end, Parliament affirmed that macro-economic stability is not incompatible with the fair distribution of growth.

Parliament underlined the need for the IMF to conduct systematic monitoring of all member countries. It can only do this and give advice on desirable actions to prevent the occurrence of financial crises if member countries disclose their complete statistics concerning, for instance, monetary reserves and volume of money in circulation, on a regular basis.

Partner-country ownership must be at the centre of development cooperation, and Parliament called on the IMF to recognise, when considering conditions for lending, the priority to be given to poverty eradication and not to make the achievement of the MDGs more difficult. Developing countries should not have to open up their markets fully and without restrictions to foreign imports. They should be able to establish protection for certain industries for a limited period so as to permit a steady development. Remaining conditionalities must not pressure low income countries into unilateral opening of markets outside the framework of WTO negotiations or impede their capacities to negotiate, in the framework of WTO negotiations, of their own volition and on their own terms the degree of market opening to which they are ready to commit. Parliament also called on the IMF to ensure an adequate degree of flexibility in

implementing trade-related conditionalities so as to enable beneficiary countries to determine their own degree of market opening. It felt, however, that eventually full integration into the world market offers considerable growth opportunities for developing, newly industrialised and industrialised countries.

Parliament moved on to state that the IMF must increase transparency and build an institutional structure conducive to its mission. It regretted that NGOs and national parliaments are insufficiently involved in the definition of conditionality. There were calls for better coordination between the policies of the IMF, the World Bank, the WTO, the ECB, and the EU, in particular as regards the instruments linking the various markets. These include the Integrated Framework, the Trade Integration Mechanism, the Poverty Reduction and Growth Facility (PRGF) and the Policy Support Instrument (PSI). In the context of the MDG's, Parliament drew attention to the ambivalence in the position of the IMF which, although it is responsible for only one very specific aspect of public action, plays a leading role in implementing the strategies pursued by all players.

Parliament welcomed the IMF's emphasis on improving the levels of education and health in developing countries and welcomed the decision taken by the IMF and the World Bank to extend the experiment of the HIPC (Heavily Indebted Poor Countries) Initiative.