European Parliament resolution on the strategic review of the International Monetary Fund (2005/2121(INI))

The European Parliament,

– having regard to Article 111(4) of the EC Treaty, which concerns the representation and position of the Community at international level in the context of economic and monetary union (EMU),

– having regard to the Commission proposal of 9 November 1998 for a Council decision on the representation and position taking of the Community at international level in the context of economic and monetary union (COM(1998)0637),

– having regard to the Presidency conclusions of the Vienna European Council of 11 and 12 December 1998,

– having regard to its resolution of 23 October 2001 on the international monetary system - how to make it work better and avoid future crises(1),

– having regard to its resolution of 3 July 2003(2) on the eurozone in the world economy and the developments that can be envisaged in the next few years,

– having regard to the report of 15 September 2005 by the Managing Director of the International Monetary Fund (IMF) on the Fund's Medium-Term Strategy(3),

– having regard to the decisions of the G8 Finance Ministers' meeting of 11 June 2005 on the cancellation of debt for poor countries,

– having regard to Article 178 of the Treaty, on coherence between the policies that the EU implement which are likely to affect developing countries and development cooperation objectives,

– having regard to the Presidency conclusions of the Brussels European Council of 16 and 17 June 2005,

– having regard to the World Bank's World Development Report 2006,

– having regard to the communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions entitled "Proposal for a joint declaration by the Council, the European Parliament and the Commission on the European Union Development Policy "The European Consensus" (COM(2005)0311),

– having regard to the UN Millennium Declaration of 8 September 2000 defining the Millennium Development Goals (MDGs) as criteria set by the whole international community with a view to the elimination of poverty,

– having regard to its resolution of 12 April 2005 on the role of the European Union in the achievement of the Millennium Development Goals (MDGs)(4),

– having regard to its resolution of 6 July 2005 on the Global Call to Action: Making Poverty History(5),

– having regard to its resolution of 17 November 2005 on the proposal for a Joint Declaration by the Council, the European Parliament and the Commission on the European Union Development Policy "The European Consensus"(6),

– having regard to Rule 45 of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of
the Committee on Development and the Committee on International Trade (A6-0022/2006),

A. whereas the role played by the Bretton Woods institutions has evolved since their inception, and their strategic mission is to promote growth, development and financial stability; and whereas there is a need to work towards an international monetary and financial system characterised by stability and solidarity,

B. whereas the individual Member States' weight in terms of their voting rights and quotas in the Bretton Woods institutions no longer accurately reflects their relative weight, and whereas the role played by the Community – notwithstanding the size of its contribution to the capital of those institutions – does not entirely correspond to its weight in the world economy and in world trade,

C. whereas the above-mentioned Presidency conclusions of the Vienna European Council, which reaffirm the IMF's role as the "cornerstone of the international monetary and financial system", under the heading "Europe as a Global Player – Speaking with one Voice" note that "it is imperative that the Community should play its full role in international monetary and economic policy cooperation within fora like the G7 and the IMF and call, firstly, for the European Central Bank (ECB), 'as the Community body competent for monetary policy, [to] be granted observer status at the IMF board" and, secondly, for "The views of the European Community/EMU on other issues of particular relevance to the EMU [to] be presented at the IMF board by the relevant member of the Executive Director's office of the Member State holding the euro Presidency, assisted by a representative of the Commission"; and whereas Article 1 of the above-mentioned Commission proposal of 9 November 1998 suggests that "In the context of EMU, the Community shall be represented at international level by the Council with the Commission, and by the ECB",

D. whereas in particular the lack of coordination of the Community and eurozone, combined with their representation fragmented among several constituencies, does not allow the Member States to exert a degree of influence on the IMF’s decisions commensurate with their economic weight,

E. whereas the IMF is responsible to its shareholders (namely, national governments) and it is the responsibility of those shareholders to be accountable in turn to their electorate,

F. whereas the stabilisation policies implemented by the IMF are necessary to establish a solid basis for growth in those countries, although they have not always achieved the objectives hoped for; whereas the adjustment programmes which have been put in place require fuller explanation to ensure the involvement of all national players and the monitoring of these programmes should be the subject of transparent democratic supervision,

G. whereas, although it is hard to reconcile the principle of nations assuming their own responsibilities with the sometimes numerous number of conditions placed on aid and debt relief measures, these conditions, particularly those designed to bring about better governance, are necessary for the purpose of securing transparency,

H. whereas the IMF has come to play an important role in developing countries and has had to adapt accordingly; whereas, however, promoting development in the poorest countries calls for the mobilisation of new instruments to effectively reduce the stock of debt, as well as a search for innovative instruments to fund development and combat poverty in the context of the MDGs; whereas such action calls for a clear and more efficient division of roles among the IMF, the World Bank and the UN institutions as well as a high level of coordination and cooperation,

I. whereas the above-mentioned Presidency conclusions of the Brussels European Council highlight the importance of "taking[ing] account of development cooperation objectives in all policies that [the Community] implements which are likely to affect developing countries" and of "taking into account the social dimension of globalisation in various policies and in international cooperation",

1. Considers that the IMF as an institution continues to play an important role in promoting balanced global economic growth and exchange rate stability, in facilitating international trade and member countries’ ability to adapt to the global market place and in assisting member countries experiencing balance of payment difficulties;

2. Welcomes the strategic review under way at the IMF; supports 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;

3. Notes the profound changes which have taken place in the missions of the IMF since its inception and which have been accompanied by less significant changes in its governance; notes that, in spite of the successive revisions of quotas and of the system for uniform allocation of a package of basic voting
rights, the allocation of capital and of voting rights has lagged behind other developments over the
years; calls, therefore, on the IMF, in the interest of its own legitimacy, to consider possible means of
distributing the quotas and voting rights within its governing institutions in such a way as to make them
more representative of the international economic situation and to enable more appropriate weightings
to be given to the developing and emerging economies;

4. Points out that 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, technical and institutional capacity to participate in a
meaningful way in deliberations and decisions;

5. Notes that the IMF has also extended its recommendations by entering into the field of social and
environmental policies, and that these are intrinsically linked to the structural policies; points out that
macro-economic stability is an essential condition for the proper development of such policies;
advocates improved coordination between the various institutions responsible for designing such
policies;

6. Considers that, in view of the prerogatives of the IMF, its staffing should come to reflect more varied
backgrounds, while ensuring continued excellence, so as to permit the IMF to make a decisive
contribution to achieving the MDGs;

7. Notes that, 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; therefore underlines the need for the
IMF to conduct systematic monitoring of all member countries;

8. Considers that the persistence of global imbalances in trade and exchange rates calls for a stepping-
up of the IMF’s monitoring role, which is important both in predicting and helping to reduce financial
instability globally and in giving advice to individual countries on policies related to financial stability,
economic growth, exchange rates and reserve accumulation; considers that the IMF can only conduct
systematic monitoring 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;

9. Insists that the European positions in the EU representation within the IMF must be better
coordinated; calls on the Member States to work towards a single voting constituency - possibly starting
as a euro constituency, with a view, in the longer term, to securing consistent European representation,
involving the Ecofin Council Presidency and the Commission, subject to the European Parliament's
scrutiny;

10. Notes that the IMF's adjustment policies have sometimes failed to prevent crises from becoming
infectious and recurring; regrets in this connection any failed efforts to promote economically-sound
policies that prevent crises; recalls that inflation is 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; suggests that conditionality should also be defined in the context of improved
cooperation with the UN's specialist institutions and coordinated between international donors;

11. Notes that to go down the path of sustainable growth, the existence of guaranteed macro-economic
policies is essential; to that end, affirms that macro-economic stability is not incompatible with the fair
distribution of growth;

12. Acknowledges that the conditions imposed by the IMF have in some cases been too rigid and not
always consistent with specific local circumstances; nevertheless emphasises the need to put loans to
good use, whilst considering the position of the recipient country’s democratically-elected institutions;

13. Recognises the ongoing review of the conditions attached by the IMF to its loans to low-income
countries; recommends that the review makes priority reference to poverty reduction as the goal of all
IMF lending to low income countries;

14. Stresses that the principle of partner-country ownership must be at the centre of development
cooperation; therefore calls on the IMF to fully recognise, when considering conditions for lending, the
priority to be given to poverty eradication and not to make in any way the achievement of the MDGs
more difficult;

15. Advocates a gradual, sequential and stable liberalisation of the developing countries' financial
systems, adjusted to take account of their institutional capacities, thus permitting the effective regulation
and management of movement of capital;

16. Supports the view that the IMF should increase its focus on analysis of financial and capital market developments and the implications for both domestic and global financial stability;

17. Urges that developing countries should not have to open up their markets fully and without restrictions to foreign imports and that they should be able to establish protection for certain industries for a limited period so as to permit a steady development; urges European Executive Directors on the Board of the IMF to make sure that remaining conditionalities do 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; also calls 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; however considers that eventually full integration into the world market offers considerable growth opportunities for developing, newly industrialised and industrialised countries;

18. Calls on the IMF to continue its efforts to increase transparency and build an institutional structure conducive to its mission and the changing circumstances of international financial policy; regrets that NGOs and national parliaments are insufficiently involved in the definition of conditionality; stresses that it is for the national representatives to define and make fundamental economic choices such as the strategy for development or for combating poverty;

19. Emphasises the IMF’s role in aligning European and national development policies aimed at tackling poverty by means of a comprehensive approach based on the idea that trade and monetary policies are not ends in themselves but tools for tackling poverty;

20. Calls on the EU Member States to use the existing constituency system to ensure that the constituencies of which they are members forcefully promote a pro-development agenda based on reaching the MDGs by 2015, and that their constituencies give special attention to the technical and institutional weakness of the developing countries in the constituency and provide the necessary technical assistance to overcome them;

21. Calls for better coordination and greater coherence between the policies of the IMF, the World Bank, the WTO, the ECB, other international organisations and the European Union, in particular as regards the instruments linking the various markets, such as the Integrated Framework, the Trade Integration Mechanism, the Poverty Reduction and Growth Facility (PRGF) and the recently adopted Policy Support Instrument (PSI), in order to ensure that open-market policies have a positive impact on poverty reduction; asks for more coherence between IMF programmes and the MDGs; draws attention in this context 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, if not dominant, role in implementing the strategies pursued by all players;

22. Strongly believes that the transparency of the IMF and of the allocation of its funds should be increased through strengthened parliamentary control by the member countries of the IMF;

23. Welcomes the IMF’s emphasis on improving the levels of education and health in developing countries; stresses that improving governance, combating corruption and efficient use of resources, remains the surest way to reduce inequality of access to goods and to fundamental rights such as education and health;

24. Insists that international financial stability can only be promoted if the reform of the IMF goes hand in hand with a sustainable budgetary policy and a well-adjusted balance of payments in every member country;

25. Notes the striking contrast between the degree of pressure which the IMF can bring to bear on the developing and transitional countries and its powerlessness to exert any significant influence on the policies of the industrialised countries, whose budgetary policy and balance of payments fail in part to fulfil the criteria established by the IMF and may therefore undermine international financial stability;

26. Welcomes the decision taken by the IMF and the World Bank to extend the experiment of the HIPC (Heavily Indebted Poor Countries) Initiative; notes the perverse effects of the HIPC programmes and the historical experiences of debt restructuring and debt cancellation; suggests that the IMF develop policies to avoid new debt crises in future;

27. Notes the new Debt Sustainability Framework adopted in April 2005 by the IMF and the World Bank with regard to low income countries; welcomes the fact that the new Framework aims to put debt at the
centre of the international financial institutions’ decision-making process; regrets that the proposal as a whole does not come close to addressing the problem of long-term, real sustainability in terms of creating conditions for low income countries to attain the MDGs;

28. Welcomes the IMF’s PRGF programme in general terms;

29. Supports the call by the UN Secretary-General at the 2005 High Level Dialogue on Finance for Development to redefine debt sustainability as the level of debt that allows a country to achieve the MDGs by 2015 without an increase in debt ratios, which requires greater complementarity between debt relief and outstanding development financing requirements; regrets therefore that in the new Debt Sustainability Framework for low income countries, the IMF continues to define debt sustainability essentially in terms of export ratios (which is an unreliable predictor of debt sustainability for countries characterised by an extreme vulnerability to shock and steep fluctuations in export earnings), that it lacks realistic assessments of vulnerability and that there is no systematic analysis linking the benefits of the HIPC Initiative and the extra funds needed to achieve the MDGs;

30. Welcomes the efforts made by the multilateral institutions to play their part in funding debt reduction in the context of the agreement concluded by the G8, while recognising that this necessary participation must not place these institutions in financial difficulties;

31. Encourages better cooperation between the IMF and the European Parliament and national parliaments, especially in developing countries, in order to strengthen transparency, democratic responsibility and the legitimacy of the IMF and its policies, and requests the publication of more extensive minutes from the IMF Executive Board;

32. Stresses the importance of regular contact between IMF Executive Directors and the national representatives of their countries of origin;

33. Instructs its President to forward this resolution to the Council and Commission, and to the IMF, the UN organisations, the ECB and the IMF governors of the EU Member States.