



International Monetary and Financial Committee

Twenty-Fourth Meeting
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Statement by George Osborne
Chancellor of the Exchequer, H.M. Treasury, United Kingdom

On behalf of United Kingdom

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Since we last met in April the global economic recovery has slowed, risks have become more pronounced and the essential process of rebalancing has all but stalled. The key problem we face is the loss of confidence in policymakers' ability and will to deal with the ongoing crisis. Policymakers need to take decisive action to restore confidence and credibility.

The challenges ahead of us are now complex. We face competing pressures - market pressures on indebted sovereigns, continued banking instability, the ongoing crisis in the eurozone and persistent imbalances in global demand. These challenges require a comprehensive policy response with IMF members taking different actions, depending on their own domestic economic and financial situation. This puts a premium on taking a coordinated approach and the Annual Meetings provide an important opportunity to make progress in that respect.

Global coordination of national policies will inevitably be harder than during the 2008 crisis. The reforms required to deal with the underlying accumulated imbalances are now more difficult to achieve and sustain, requiring policymakers to take tougher decisions. However, the policy agenda for coordinated global action is clear.

Credible fiscal consolidation

Advanced economies must put in place credible fiscal consolidation plans to ensure that debt is put on a sustainable, downward path. The pace and scale of consolidation needs to be differentiated according to national circumstances. Countries with large deficits and significant fiscal vulnerabilities should implement accelerated consolidation plans. The UK has one of the largest structural deficits and a large, systemic financial sector. Implementation of strong consolidation plans is therefore essential, not just for the UK, but for global financial stability.

In the eurozone, countries need urgently to implement the 21 July agreement, as the first step to resolving the sovereign debt crisis. Credible political commitments will be required in the immediate period ahead. However, it is clear that further action will be needed. The eurozone should follow the remorseless logic of monetary union through progress on institutional reform, greater fiscal integration and coordination of budget policies.

Recent events have also shown the importance of putting in place credible medium-term fiscal consolidation plans in the US. However, with the security of the global reserve currency, the US has the flexibility to slow the pace of planned consolidation and support growth in the short term.

Repair and reform of the global financial system

Repair and reform of the global financial system remains incomplete. Decisive action is required to reduce uncertainty around bank balance sheets, particularly in Europe, and accelerate the design of a stronger and more resilient global financial system.

We now have an agreement on stronger capital and liquidity standards and remuneration, and it is imperative that we implement them in a full, globally consistent and non-discriminatory manner. This will facilitate the safe and free movement of capital and contribute towards stronger and more sustainable growth. As highlighted in the recent IMF FSAP and spillover reports, the UK has a critical role in the global financial system. We are committed to strengthening our banking and financial sectors, in particular, to tackle the risks posed by systemically important financial institutions. The Independent Commission on Banking has recently published proposals in this area and the Government will respond by the end of the year. We have committed to introduce necessary legislation by 2015, with a view to completing implementation by 2019.

Rebalancing global demand

A rebalancing of global demand is a key objective of a coordinated policy agenda. If advanced economies are to make progress in repairing both public and private sector balance sheets, current account surplus economies will need to rebalance their economies and boost their own domestic demand. This process is already underway in some countries, but more progress is needed to ensure the process does not stall. The G20 Framework provides the primary mechanism for making the required political commitments, including on structural reform to ensure open markets, increase exchange rate flexibility and refrain from competitive devaluation. We need to see further progress by the Cannes Summit.

Boosting trade and investment

Trade and investment have been a key engine for global growth and development, and will be key to a stronger global economic recovery. We must continue to reaffirm our commitment to free trade and investment, and resist all forms of protectionism. However, progress on global trade talks has the potential to provide a substantial stimulus to growth. We must do everything we can to bring the Doha Round to a conclusion. To that end, we should look to agree a credible plan at the G20 Summit in Cannes that can then be taken to the WTO ministerial in December. In the event that this is unsuccessful, we should take innovative approaches to deliver progress on multilateral trade deals and strengthen then multilateral trading system.

The role of the IMF

Strengthening IMF surveillance

The IMF has a vital role to play in supporting the important policy coordination that will be needed to deliver this complex global policy agenda.

The IMF must provide candid and independent surveillance both of our economies and the global system as a whole. The Fund can assist the IMFC in playing an

enhanced role, by identifying emerging risks, providing us with high-quality advice and assessing our delivery against commitments. In that respect, I welcome the new Consolidated Multilateral Surveillance Report as the basis for a candid Ministerial discussion on the adequacy of our respective policies.

More generally, the IMF's work on improving its surveillance is still a work in progress. The deficiencies of IMF surveillance in the run up to the economic and financial crisis have been well documented, both by the Independent Evaluation Office and the Fund itself. The 2011 Triennial Surveillance Review builds on this analysis and has delivered some important conclusions that have the potential to improve the quality, scope and traction of Fund surveillance. In particular:

- a stronger focus on multilateral surveillance is required, including better analysis of financial interlinkages and spillovers. I welcome the Fund's pilot spillover reports for the systemic economies and look forward to further work in this area;
- the IMF needs to build on progress made since the crisis to further improve its financial sector surveillance and help maintain global financial stability. I support the proposal for a strategic workplan that sets out this role more clearly, including how the Fund will work alongside the Financial Stability Board;
- there is a pressing need to improve external stability analysis, including surveillance of exchange rates, foreign exchange reserves and global liquidity. The Fund should aim to broaden the coverage, increase the consistency and strengthen the transparency of its analysis.
- The Fund's legal framework needs updating to reflect the Fund's central objective of maintaining the stability of the international monetary system within the modern global economy. We should consider ways to deliver an updated and more comprehensive legal framework for surveillance.

The membership should aim to deliver an ambitious and balanced package of reforms that will modernise both the Fund's operational and legal approaches to surveillance. I look forward to considering developed proposals later this year and making early progress by the 2012 Spring Meetings.

Providing support for the membership

It is more important than ever during these uncertain times that the IMF has the resources it needs to support the global economy. I welcome the decision to reactivate the New Arrangements to Borrow, which will strengthen the Fund's resource position in the immediate future. However, it is clear that this is an issue that will need to be kept under review.

The IMF's lending frameworks also need to be flexible enough to deal with individual country problems and systemic shocks, while providing the right incentives for countries to adopt sound policies in the good times. In this respect, the upcoming review of the Fund's Flexible and Precautionary Credit Lines will provide a good opportunity to take stock.

The Fund has an ongoing role in responding to the challenges facing the Middle East and North Africa. The historic transformation is having profound economic and financial effects. Individual countries, and the region, need to take the initiative in

building stronger and more open economies. However, the IMF will need to continue supporting these members, and as part of the international community, stand ready to provide resources to ensure regional stability if necessary.

With the immediate focus on developments elsewhere, we should not forget the challenges faced by low-income countries (LICs). They still require the support of the Fund, World Bank and other international institutions. It is therefore important that the Poverty Reduction and Growth Trust (PRGT) remains well resourced, and the UK also continues to support the use of windfall resources from gold sales to provide further support for LICs.

Delivering commitments to IMF Governance reform

Last year, the membership agreed an historic governance deal that will ensure that the IMF better reflects the realities of the global economy. As such, this package of reforms will play an important role in ensuring that the IMF remains credible and legitimate, providing more balanced representation on the Executive Board and increasing the quota and representation of dynamic emerging and developing economies. The UK has now ratified these reforms and would urge all other members to do the same no later than the 2012 Annual Meetings.