



International Monetary and Financial Committee

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**Statement by Rt. Hon. Gordon Brown,
Chancellor of the Exchequer United Kingdom**
On behalf of the United Kingdom

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CHANCELLOR OF THE EXCHEQUER, UK

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Introduction

We meet in Washington at a time when the global economy is undergoing the most rapid and extensive transformation the world has ever seen - in pace of change, in scale of change, in the impact of change.

The global recovery strengthened significantly during 2004, and growth is expected to continue in 2005.

But this strong growth has been accompanied by further increases in global imbalances both within and between economies.

Growth has been led by North America and Asia, particularly the US and China, but growth in the Euro Area and Japan has been much more subdued. The IMF has forecast growth in the Euro area to be 1.6 per cent this year, and 0.8 per cent in Japan, compared with over 3 and a half per cent in the US.

These imbalances in growth have been accompanied by continuing volatility in the oil price. Brent oil prices have traded above \$40 a barrel since the beginning of 2005, recently reaching a new nominal high of over \$56 a barrel.

So faced with these global uncertainties and risks, we must be vigilant and stand ready to take the necessary actions to maintain the momentum of the recovery and create the conditions for stability and sustainable growth. This requires action to:

- First, continue to entrench economic stability through monetary and fiscal policy;
- Second, push ahead with structural reform, especially in Europe; and
- Third, reach a good agreement in the Doha Round of trade talks that contributes to global growth and fulfils the development potential of the round.

Stability is a precondition for global prosperity and growth, and all major economies — Japan, America and Europe—will be asked this weekend what contribution their continent

can make, not just to further strengthen growth now, but to create the conditions for sustained long-term prosperity.

With supportive monetary and fiscal policies, growth has picked up rapidly in some major economies, but in others growth remains weaker and more vulnerable.

The UK has experienced the longest sustained expansion on record, growing continuously throughout the global downturn, and with unemployment close to the lowest level since the 1970s. We remain on track for stronger growth with strengthening business investment, manufacturing output and exports and continued low inflation.

However, Europe must make further progress with the necessary structural reforms to enhance growth potential and increase resilience to shocks—embracing labour market flexibility, liberalisation in capital and product markets, and greater external openness to trade and investment—in short a new growth agenda, strengthening competition, increasing innovation and enterprise, increasing investment, raising employment and improving skills, to respond to the new challenges of globalisation.

With favourable financial market conditions, now is the time also to focus on structural reform and improved debt management in emerging markets.

It is important that we use this opportunity to identify vulnerabilities, address weaknesses and be proactive on reform policy going forward. Effective international surveillance and multilateral cooperation are essential tools for achieving this, strengthening crisis prevention, and so promoting stability and sustainable global growth.

The international community is taking steps in response to current high oil prices: international institutions are working to improve the transparency of oil market data, including on reserves. This is necessary to improve the functioning of the oil market, and should ultimately result in reduced volatility in prices, as well as allow for better information for investors. But further work is needed. The IFIs can help by supporting countries in removing price distortions so that price signals are allowed to come through in the oil market and advising on improvements to the business climate in key producing countries to encourage investment.

World trade

In 2001, for the first time for decades, world trade failed to grow at all. Even in the recessions of the early 80s and 90s world trade averaged 5 per cent growth. Now this year world trade is back as the stimulus to the world economy- growing by 10 per cent in 2004 and 2005, and growth each year for the next five years is expected to rise from 7 to 10 per cent.

But as we witness this restructuring in the world economy there is a huge opportunity for advanced industrial economies who invest in education, science and their long term future.

They should seize the China and India challenge and capture the growth in high value-added products in both services and manufacturing. So instead of becoming victims of globalisation they can become its beneficiaries too.

Achieving the Millennium Development Goals

Both developed and developing countries must do more if we are to achieve long-term global prosperity. Developing countries must have ownership of country-owned, community-owned poverty reduction plans, sequencing their own development, investment and trade opportunities, and pursue transparent, corruption-free policies for stability. The richest countries must commit to support progress, to tackle poverty head-on and provide the long-term, predictable and effective aid needed urgently if we are to meet the Millennium Development Goals by 2015.

This includes investment to build developing countries' capacity to trade whilst committing to provide complete access to develop country markets and curb protectionism.

The international community needs to recognise and address the constraints faced by developing countries in benefiting from more open global markets. Developing countries need to have the flexibility to carefully design and sequence their trade reforms into their own development and poverty reduction strategies. Trade liberalisation must not be forced on developing countries through aid conditionality or a mercantilist approach to trade negotiations.

The international community must not lose the opportunity presented by the Doha Development Agenda of world trade talks to make good progress towards a freer and fairer world trading system that makes a real contribution to poverty reduction. It is essential to maintain momentum on the key issues of interest to developing countries, particularly agriculture, leading up to the Hong Kong ministerial in December. A good, ambitious agreement is key to increasing growth in developing countries and integrating the most vulnerable countries into the world economy, and maintaining the credibility of the multilateral trading system.

Many developing countries will not be able to benefit from trade even with greater market access because they lack the economic capacity and infrastructure to trade competitively. We need to consider how best to provide additional assistance to help developing countries build the capacity to enable them to produce and deliver goods to international markets competitively. We also need to deliver additional assistance to help vulnerable countries and their most vulnerable people adjust to more open markets.

We welcome the existing work of the IMF in this area, and call on the Fund to build on this and to work with other partners through the integrated framework to explore further ways of building capacity to trade as well as easing adjustment in low income countries, and look forward to a report at the next meeting.

But even with the foundations of economic stability, trade and investment - all vital to global prosperity - the problems that developing countries face cannot be tackled without a substantial transfer of additional resources from the richest to the poorest countries.

The HIPC initiative is freeing 27 countries from the burden of unpayable debt; writing off 70 billion dollars and reducing debt payments from an average of nearly 24 per cent of government revenues to 11 per cent, and with 65 per cent of resources released from debt relief now going to health and education. And so we will work together to ensure the completion of the HIPC initiative so that all eligible countries can benefit from HIPC debt relief; to achieve more effective topping up at completion point; to encourage other creditors to participate; and to ensure that the initiative is securely and fully financed.

But, we know that a substantial increase in resources for debt relief is needed if we are to free the poorest countries from unpayable debt. Despite the success of the HIPC initiative, many countries are still being forced to choose between servicing their debts and making the investments in health, education and infrastructure that would allow them to achieve the Millennium Development Goals. We can and must do more.

This was recognised by the G7 in February, when we committed to providing as much as 100 per cent multilateral debt relief for HIPCs. We must now build on this commitment by agreeing a financing plan to make this 100 per cent relief a reality. The IMF's analysis makes it clear that gold sales could be used pay their debt relief, and that a limited sale over a period of time would not damage the gold markets.

But for other MDBs, deeper relief will require additional efforts from all rich nations, since we must not weaken the very institutions that have a key role to play in assisting countries to achieve the Millennium Development Goals. We welcome the recent announcement that the Netherlands will join Canada and the UK in paying their share of debt service to IDA and the African Development Fund for countries committed to poverty reduction. The task is now to work together to find a solution that covers 100 per cent of the IFI debts and makes a significant contribution towards achieving the Millennium Development Goals.

But if debt is to be kept sustainable in the future, we will need to provide developing countries not just with more debt relief but with more and better aid for infrastructure, education, health and poverty reduction.

A substantial increase in resources to enable growth and trade is needed now if we are to meet the Millennium Development Goals by 2015. And that is why the UK has set a clear timetable to reach 0.7 per cent by 2013.

So building on record increases in aid since 1997, in the spending review we announced that UK official development assistance will rise to 0.39 per cent next year, 0.42 per cent in 2006-07, to 0.47 per cent in 2007-08. We wish to maintain those rates of growth in the overseas aid ratio, rising beyond 0.5 per cent after 2008 and reaching the target of 0.7 per cent by 2013.

However, we know that the richest countries cannot move immediately to 0.7 per cent tomorrow to raise the scale of resources needed now if we are to achieve the Millennium Development Goals.

That is why we have put forward our proposal for an international finance facility, a complement to our commitments to 0.7, to increase the resources available for the poorest countries now, when they are so urgently needed.

The Bank and Fund have conducted further detailed analysis of the International Finance Facility (IFF) and its pilot, the International Finance Facility for Immunisation (IFFIM). I work on the IFFIM is technically advanced and both IFF and IFFIM are ready to be launched. The time has come for a political decision. We welcome alternative proposals to raise additional development finance through international taxation, which could complement the IFF and believe that further work should be taken forward on these issues.

And we know that more aid needs to go hand in hand with better aid. In order to achieve the MDGs it is crucial that the international community prioritises the poorest countries, and improves the effectiveness and long-term predictability of aid. In order to deliver better aid donors need to increase co-operation, harmonise operational procedures and align aid behind country-owned priorities in accordance with the commitments in the Paris declaration on aid effectiveness agreed on 2 March 2005. We must also focus aid on poverty reduction and enhance efforts to untie aid, based on dac principles.

And developed and developing countries must also work together to tackle corruption.

Crisis prevention and resolution

To support the development process, effective and persuasive IMF surveillance is essential for all member countries and the IMF's central contribution to maintaining strong and stable global growth. We welcome the Fund's considerable progress on reforms to strengthen surveillance, and look forward to the full implementation of the recommendations of the biennial review of surveillance. But significant challenges will remain, and we are pleased that measures to further strengthen surveillance will form a central part of the IMF's review of its strategic direction.

There is a strong case for reforms to the structure for carrying out surveillance within the Fund, to enhance the authority and credibility of surveillance, particularly of debt sustainability, by ensuring it gives a frank and independent assessment of risks. IMF surveillance should be as credible and independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy. As a first step, to enhance the credibility of Fund analysis and to improve the internal transparency of IMF decision-making, Fund management should bring forward proposals to make debt sustainability analysis independent of other operational decisions within the Fund.

It is important to ensure that surveillance impacts effectively on decisions made by programme and non-programme countries alike. In this respect, we continue to believe in the importance of providing incentives for countries to put in place strong policies and precautionary support to those members with strong policy frameworks in dealing with the impact of external shocks. As a part of its review, the Fund should examine its range of instruments, and work to develop a mechanism for providing contingent finance to countries with good policies but which face the risk of contagion. The Fund should also examine ways to enable low-income countries with strong policies to benefit from Fund monitoring and advice outside the context of a financed IMF programme.

We welcome the further work the Fund has conducted on improving its signalling role, including the extensive outreach with countries and donors. This cooperative approach, with donors, institutions, and countries working together to improve communication and information, could help make aid flows more stable and predictable, increasing their effectiveness.

On crisis resolution, we very much welcome the widespread introduction of collective action clauses, and encourage their further use. We welcome the release of the *principles for stable capital flows and fair debt restructuring in emerging markets*. They provide a good basis for strengthening crisis prevention and enhancing predictability of crisis management, and we encourage countries and their creditors to adhere to them. We encourage the Fund to continue to strengthen its analysis of debt sustainability and balance sheet vulnerabilities. And we welcome the ongoing work by the IMF on issues relating to crisis resolution.

Creating the conditions for productive investment

To ensure growth and development we must take steps to promote domestic and foreign investment—and find better ways for public and private sectors to work together in raising the level and quality of investment.

Because investment will flow to those countries that are the most stable, and ever more rapidly away from those where the environment for business is volatile and uncertain, there is an even greater premium than before on governments running a successful monetary and fiscal regime to achieve high and stable levels of growth and employment over the long term. This is true for all countries, industrialised and developing.

Less than 5 per cent of total flows of foreign direct investment go to the least developed countries. Domestically generated savings and investment barely match foreign capital inflows – and the savings that do exist often leave the country in capital flight. That is why country-owned poverty reduction plans must focus on creating the right domestic conditions for investment and commerce – with the IMF, World Bank and developed countries providing direct support to help create a stable economic environment, improved infrastructure, and sound legal processes that strengthen property rights and deter corruption.