



# **International Monetary and Financial Committee**

Thirteenth Meeting  
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**Statement by Rt. Hon. Gordon Brown  
Chancellor of the Exchequer, United Kingdom, and Chairman of the IMFC**

## **UK Statement to the IMFC**

**Gordon Brown, Chancellor of the Exchequer and UK Governor of the IMF**

### **Introduction**

We meet in Washington at a time when the global economy is undergoing the biggest restructuring we have experienced since the industrial revolution.

The global economy has continued to grow at a robust pace in 2005, and growth is expected to continue in 2006. We should all be reassured that all of this has been achieved despite the largest sustained oil price shock in 25 years.

But despite this strong growth, risks to the outlook remain. Further sustained rises in oil prices could undermine confidence. Furthermore the persistence of global imbalances in an increasingly integrated world economy raises the risk of an abrupt reaction in financial markets. It is possible that low long-term bond yields may reflect the under pricing of risk. There is also the continued threat of global competitive pressures giving rise to protectionist policy responses, and the ongoing possibility that inappropriate timing of monetary or fiscal policy adjustment could undermine fragile recoveries in some economies.

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

Stability is a precondition for global prosperity and growth, and all major economies – in America, Europe and Asia – will be asked this weekend what contribution their continent can make, not just to foster balance growth now, but to create the conditions for long-term prosperity.

### **Oil**

As we confront the largest sustained oil price increase for a quarter of a century we must continue to pursue policies that will make our economies resilient into the longer-term.

When we met in Washington in September, we called for a series of actions to improve the functioning of the oil market and help mitigate the impacts of high and volatile oil prices. Since then much progress has been made, including the launch of the Joint Oil Data Initiative (JODI) database to improve transparency in supply and the creation in the IMF of a new Exogenous Shocks Facility.

However, in recent days the oil price has again risen to a new nominal high of over \$70 a barrel. With oil prices continuing to pose a significant risk to the global economy, Finance Ministers should remain vigilant to this risk and continue to ensure international cooperation to improve market functioning and address the challenges high and volatile oil prices pose.

Whilst the launch of the JODI database was an important first step towards improving the transparency of the oil market, all countries should continue in their

efforts to improve the quality and transparency of market data. Frequent, relevant and comprehensive data is needed.

Recent market developments have served to re-emphasise the importance of:

- Increasing upstream and downstream investment, which is crucial to reducing the vulnerability of the market to supply side uncertainties;
- Strengthening dialogue among the international community – including through the IMFC and other fora to support the role of the International Energy Forum in bringing together producers and consumers; and
- Ensuring that the new IMF Exogenous Shocks Facility is fully-financed - particularly through contributions from oil producing countries who have benefited most from recent oil price increases – so that it can assist low-income countries to cope with current high and volatile prices.

### **World Trade**

The international community must grasp the opportunity presented by the Doha Development Agenda of world trade talks to achieve an ambitious outcome, by the end of 2006, that will make a real contribution to poverty reduction. Notwithstanding the disappointingly slow progress of the negotiations, this objective is still achievable. Time is tight, there is an urgent need for further movement on behalf of all key players. Concrete action is needed to provide significant increases in market access for developing countries. Effective special and differential treatment for developing countries is key to increasing growth in developing countries, integrating the most vulnerable countries into the world economy, and maintaining the credibility of the multilateral trading system.

Alongside an ambitious outcome to the Round, we strongly support the Aid for Trade work that staff have undertaken and welcome the progress report. While this is not a substitute for an ambitious outcome to the round, it is an important complement. As we have said before, the gains from the Doha Round will not necessarily be automatic. Countries need the flexibility to sequence reforms to their trade policies and some countries may experience adjustment costs or supply-side constraints preventing them from taking advantage of the Doha Round.

We believe that a clear political signal of our willingness to provide additional support to developing countries 'to build the physical, human and institutional capacity to trade' will improve the prospects of securing agreement on an ambitious, pro-development Round. For our part, the UK will contribute funds to an aid for trade fund that will help build the infrastructure and capacity needed in developing countries to help them to trade with the world.

There is a key role for the Bank, working jointly with the Fund, in taking this agenda forward to the Annual Meetings.

### **IMF Reform**

The Managing Director has set out his proposal for implementing the IMF's medium term strategy. It is right that attention must now turn to the

implementation of those proposals that have sufficient support across the membership.

To fulfill a modern role at the heart of ensuring international economic stability, the IMF must focus on crisis resolution as well as crisis prevention. This will require a far greater prominence in the IMF on surveillance – by performing two specific roles: to assess each member's compliance with its obligations under Article IV; and to analyse policy spill-overs and other material risks to other countries.

In the same way that independence for central banks has given monetary policy the long termism and certainty it lacked in the past, so too the Fund's conduct of surveillance would be seen to be more credible, authoritative and effective if independent of political influence.

To make that independence a reality, Britain proposes:

First, a new annual remit for surveillance - set by the IMF's board and endorsed by its members at the IMFC each year - to match independence in the process of surveillance with a clear political commitment to it. And so each year the IMFC should set the direction, and emphasise the unique role of the Fund as a universal institution to support all economies individually and collectively.

Second, practical steps for greater independence, with increased separation of surveillance from lending through further internal reform of the Fund itself: a greater role for an expanded independent evaluation office in reviewing the quality of surveillance and its impact; and increased transparency with compulsory publication of all surveillance papers before discussion by the board, and of minutes after.

Third, new responsibilities for conducting surveillance, both bilaterally and multilaterally. The Managing Director's proposal for modernising the 1977 surveillance decision provides this opportunity.

In multilateral surveillance, the IMFC in its annual remit should task the Fund to identify and quantify the key risks to the global economy - and set out the individual or collective policies to manage those risks. This must include the main issues currently facing the global economy including global imbalances and accumulation of reserves.

For issues which can only be resolved by a number of countries, the Managing Director's proposal for strengthened mechanisms for bringing together the key systemic members of the global economy will assist reaching more effective collective solutions to the challenges this new model of multilateral surveillance could identify. This will strengthen the IMFC as a direct channel of peer pressure and peer support – and promote multilateral policy cooperation by focussing policymakers more clearly on the key actions needed to manage global risks.

The Managing Director's proposals on bilateral surveillance are very welcome. In assessing countries' compliance with their obligations set out in Article IV, members should match their right to choose their own macro economic framework by accepting their responsibility to set out transparently the policies they intend to

pursue for stable economic growth and inflation. And they should specify their monetary, fiscal and exchange rate policies which will help achieve their objectives. The Fund should then report on the countries' success against these objectives.

A new facility for contingency financing for emerging economies – a short term, fast dispersing liquidity facility – would support the emphasis on surveillance by providing incentives to strengthen policy frameworks, and reduce the need for self insurance through excessive reserves by offering guaranteed access to countries with strong fundamentals.

Just as rapid change in the global economy requires the IMF to update its tools, so too must shareholders renew its governance. With the role a modernised Fund must play in the global economy it is vital to its effectiveness that it has legitimacy in the eyes of the whole membership.

In particular this requires ensuring that governance responds to recent changes in the structure of global growth. This means enhancing the voice of the poorest countries - as the international community committed at Monterrey - by addressing the growing disparity between the Fund's increasing involvement in low-income countries and the limited ability of these countries to participate in its decision-making process; and increasing the quota share of those countries which are most underrepresented. Britain will work with the whole membership and the Managing Director to deliver concrete proposals at the Annual Meetings.

### **Role of the IMF in low income countries**

The IMF has a critical role to play in low income countries. In 2005 the creation of a range of new facilities - including the Policy Support Instrument - for low income countries equipped the IMF with the instruments it needs to comprehensively support the challenges of poverty reduction. IMF lending will help them achieve their framework for macro stability and sustained growth - essential foundations for development and poverty reduction. And as countries develop their frameworks, the IMF should also focus on the provision of more technical expertise.

The agreement to a new facility for dealing with external shocks from commodity price rises to natural disasters is welcome.

But both advice and lending must become more flexible, supporting the priorities set out in the countries own development strategies and giving greater fiscal space for the implementation of these plans. In all this, the Fund should support countries who seek to invest increased aid in effective development and within sound macroeconomic frameworks. The Fund and Bank's work through the Joint Staff Advisory Note (JSAN) is key to ensuring that advice and programmes are more effectively integrated with countries own poverty reduction strategies.

And in this, the Fund and the World Bank will need to continue to work closer together. Seventeen years ago the first formal concordat helped set out the lead responsibilities of each - and the cooperative responsibilities of both. But we can go further. The review announced by the Managing Director and President of the

World Bank provides an opportunity to cement a stronger partnership both institutionally and on the ground. For the Fund and the Bank to give countries the support they need it is essential that, between them, they ensure comprehensive coverage of all issues critical to the MDGs. We hope the Committee will reflect this in its work.

We welcome the excellent progress that the international community has made in cancelling the debts of the poorest countries over the last year.

The HIPC Initiative has played a significant role in alleviating the burden of unpayable debt in 28 countries, writing off \$70 billion and reducing debt payments from an average of nearly 24 percent of government revenues to 11 percent, and with 65 per cent of resources released from debt relief now going to health and education. And so we will continue to work together to ensure the completion of the HIPC Initiative so that all eligible countries can benefit from HIPC debt relief; so that all creditors participate; and to ensure that the initiative is securely and fully financed. We welcome the work that the Fund and the Bank have done in identifying further countries that are potentially eligible for the HIPC Initiative as a result of the extension of the sunset clause. We look forward to seeing those countries who wish to do so making progress through the initiative. In order to ensure that all potentially eligible countries are able to benefit from debt relief we would support removal of the sunset clause deadline. Their debt problems will need concerted action across all creditors, and if they commit themselves to poverty reduction, we cannot allow their opportunity to disappear at the end of this year.

We strongly welcome the progress that the IMF has made in implementing the Multilateral Debt Relief Initiative, with 19 countries now benefiting from \$3.3bn of debt relief.

The UK will work will work to ensure that the additional aid commitments of 2005 are transformed into concrete actions and results, including to provide long term predictable financing for universal free primary education. 10 billion dollars a year by 2010 is needed to deliver universal primary education – a goal to which we are all committed. This is only one fifth of the extra annual aid we committed to last year, and is less than 10 per cent of expected aid flows by 2010.

But a key constraint is not just the amount of funds available – the provision of predictable and long-term resources so countries can plan and invest. Developing countries should therefore produce ambitious, ten-year plans for meeting the education MDGs; and match those plans with assurances of long-term, predictable financing. So the UK will spend \$15 billion on aid for education over the next ten years. And for the first time we will enter into 10 year agreements with poor countries to finance their 10 year education plans – locking in the long-term commitment vital to delivering high quality education for all.

As a first step, we must also demonstrate the credibility of our commitments on education by ensuring that current education plans are financed. There is a current FTI financing gap of \$500 million. For our part, the UK will contribute an additional £100million to the Fast Track Initiative, and we call on other donors to make addressing this financing gap a priority.

However we know that 2010 and 2015 are too late to mobilise the scale of finance we need if we are to achieve the MDGs by 2015. Innovative financing mechanisms are also needed to help deliver and bring forward the required financing. The International Finance Facility is the UK Government's proposal for front-loading donor resources through the use of the capital market where bonds would be issued backed by donor commitments to frontload resources today.