International Monetary and Financial Committee

Nineteenth Meeting
April 25, 2009

Statement by The Rt. Hon. Alistair Darling,
Chancellor of the Exchequer, United Kingdom

On behalf of United Kingdom

IMFC Statement

The world economy has experienced exceptional challenges during the last two years, and the financial crisis of 2008 precipitated a steep and synchronized global downturn. There are consequences for every country, and global solutions are needed.

Since we last met in October 2008, the international community has demonstrated its resolve to work together to tackle the current crisis. We must learn lessons and build from this to strengthen the global financial system, and the global economy, for the future. There is still much to do. We must maintain momentum to deliver the *global plan for recovery and reform* agreed at the G20 Leaders, with a strengthened role for the IMF at its core.

Restoring Global Growth

At the summit in London leaders committed to do whatever is necessary to restore confidence, growth and jobs, and to repair the financial system to restore lending.

The G20 are undertaking an unprecedented concerted fiscal expansion to raise output by 4% and to save or create millions of jobs and are committed to deliver the scale of fiscal effort necessary. Monetary policy has also been loosened to an unprecedented scale. Global policy rates are at historic lows and some central banks, including the Bank of England, have begun to implement unconventional monetary policy. And we have taken unprecedented action to provide liquidity, recapitalize our banking systems, deal with impaired assets and support lending. We must demonstrate through our domestic actions the commitment to do whatever is necessary to restore growth and to implement swiftly the actions agreed at the London Summit.

It is also essential to ensure long-term fiscal sustainability and price stability and put in place credible exit strategies from the measures that need to be taken now to support the financial sector and restore global demand.

Reinvigorating world trade and investment, which has underpinned rising prosperity for half a century, is critical. It is vital that we avoid a return to protectionism. We must not impose barriers to investment or trade in goods and services, new export restrictions or measures to stimulate exports that are inconsistent with World Trade Organisation obligations. At the London Summit leaders agreed to commit $250 billion of support for trade finance over the next two years. We must achieve an ambitious and balanced conclusion to the Doha development Round.

The IMF has a central role to play through:

- monitoring and reporting quarterly on the actions taken and what further actions are needed globally.

- providing candid, even-handed, and independent surveillance of our economies and financial sectors that focusses on the impact of countries' policies on one another, and on the risks facing the global economy.

- Working alongside the Financial Stability Board to prevent future crises by identifying and providing early warning of the key systemic risks and vulnerabilities. We welcome the progress made on analytic techniques to do so and look forward to the possible approaches being further refined and discussed, and the collaboration between the IMF and the expanded FSB strengthened further.

Financial regulation and supervision needs to be reformed and improved. Confidence will not be restored until we rebuild trust in the financial system. The IMF and the FSB should monitor and report on progress towards delivering the London Summit agreements and the Washington Action Plan including:

- The scope of regulation - we have committed to extending oversight to all systemically important institutions, including hedge funds and credit ratings agencies

- Pay and compensation – the G20 endorsed and agreed to implement the FSF's principles on pay and compensation. We must ensure that these principles are implemented by our national authorities and integrated into risk management practices

- Prudential regulation – we have agreed to take action to improve the quality, quantity, and international consistency of capital in the banking system. By the end of 2009, the FSB should report on the development of guidelines for the harmonization of the definitions of capital and on recommendations to mitigate pro-cyclicality

- Non-cooperative jurisdictions – we agreed to take action against non-cooperative jurisdictions (including tax havens) and it is important the relevant institutions, the OECD, the FSB and the FATF, provide reports setting out compliance with international standards.

Emerging markets and developing countries are also now facing significant challenges. It is imperative for global confidence and economic recovery that capital continues to flow to them. We strongly welcome agreement at the London Summit to make available an additional $850 billion of resources through the IFIs. This includes trebling the resources available to the IMF, through immediate bilateral financing of $250 billion, subsequently incorporated into an expanded and more flexible New Arrangements to Borrow, increased by up to $500 billion.

The UK, alongside our EU partners, have already pledged bilateral support to the Fund, as have other countries. We look forward to concluding these discussions with the Fund as soon as possible. We must also make rapid progress on expanding the New Arrangements to Borrow, and reforms to make it more flexible.

We also support a new general SDR allocation of $250 billion, which, in the current circumstances, would provide a useful injection of global liquidity, and would particularly benefit emerging and developing countries.

IMF Lending

The IMF – under the Managing Director's leadership – is to be commended for the significant achievements in the last few months to reform the lending framework to respond to the needs of its members and prevent further contagion. The fact that a number of fundamentally sound countries have come forward at an early stage to seek precautionary access under the new Flexible Credit Line is a testament to the progress that has been made.

This crisis is clearly unprecedented both in scale and nature, and it therefore requires a step change in our response. We must be prepared to look afresh at the way in which the IMF – working with the other IFIs – provides support, particularly at times when a co-ordinated shock hits the global economy.

We would encourage the Fund to think creatively about how to ensure the increased IMF resources are used effectively to address current problems in corporate and banking sectors – including support for bank recapitalisation or guarantees to promote lending – particularly when, if left unaddressed, these would threaten macro-economic stability.

In addition, and as is in fact already happening in practice, we support the use of IMF resources to help support counter-cyclical fiscal measures in those countries that have sustainable public finances in the medium-term, but who are hampered by current market conditions. This would ensure consistency with the message that we should be working together to stimulate global demand.

Strong, credible, policy frameworks are necessary. However we should be extremely careful not to attach unnecessary conditions to the use of IMF resources at a time when we are working hard to lessen the political stigma attached to seeking support from the Fund. We welcome the recent streamlining of IMF conditionality.

Protecting the vulnerable

At the same time, we must take measures to protect the most vulnerable countries, those IMF members that are not able to borrow on GRA terms.

We must meet our collective responsibility to ensure progress towards the Millennium Development Goals is not undermined. Larger volumes of more concessional financing will need to be made available to low-income countries hit by falling demand for their exports and the reduced availability private finance such as FDI and remittances. That is why the G20 Summit leaders supported using additional resources from agreed sales of gold, together with surplus income, to provide $6 billion additional concessional and flexible finance for the poorest countries over the next two to three years. We welcome the finding by the IMF that this can be achieved without compromising the new income model, and we must therefore make progress this weekend towards making this commitment a reality. We also strongly welcome the decision by the Board to double access limits for the PRGF and the ESF. We need to ensure that PRGF lending is appropriately concessional and propose that the interest rate be reduced to zero for the next two to three years, given the low level of interest rates globally.

In light of the global slowdown many countries may need to borrow to maintain growth and social spending. To ensure they are not unduly constrained from doing so, the Fund must make rapid progress on reviewing the Debt Sustainability Framework. It should be sufficiently flexible to take into account each country's circumstances, while still performing its role in preventing a re-accumulation of the unsustainable debt burdens that necessitated debt relief.

Reforming the IMF's Mandate and Governance

In order to ensure that the IMF can play its full role in helping to manage the crisis and preventing future crises, we must reform its mandate, scope and governance to reflect changes in the world economy, including stronger representation for emerging markets and developing economies, including the poorest. At the same time the effectiveness, credibility and accountability of the IMF should be strengthened through greater strategic oversight by its Governors and more effective decision making.

We are committed to implementing the package of IMF quota and voice reforms agreed in April 2008 and support the acceleration of the next quota review, to be completed by January 2011.

Building on the conclusions of the Manuel Report we support proposals for a Ministerial Council to increase the involvement of the Fund's Governors in providing strategic direction to the IMF and increasing its accountability.

There is a clear need – looking beyond the present crisis – to focus on the future shape of the world economy and the international monetary system, along with the role of the IMF in a world of global capital flows. We look forward to further work on these issues, including in particular the role of the Fund in the capital account.