International Monetary and Financial Committee

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On behalf of United Kingdom

UK IMFC statement by George Osborne MP, Chancellor of the Exchequer International Monetary and Financial Committee,

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Global economy

Since we last met there have been encouraging signs that the global recovery is gaining strength, but it continues to be fragile and uneven and new risks have emerged.

I would like to extend our heartfelt sympathy to the Government and the people of Japan in dealing with the devastating impact of the recent earthquake and tsunami. While it is impossible to assess the economic impact of these tragic events, we reaffirm our confidence in the resilience of the Japanese economy and financial sector. The UK stands ready to support the Japanese authorities in any way that we can.

This week's meetings will also be the first opportunity to give a collective response to the economic consequences of recent events in North Africa. They follow the Arab Finance Ministers meeting in Damascus last week, which rightly concluded that job creation and support for the private sector, especially small and medium-sized enterprises, must be at the heart of the response. While the initiative should come from the region and be tailored to individual circumstances, the international financial institutions have much to offer and should, as a matter of urgency set out a shared assessment of the region, ahead of the Deauville Summit. As part of this, we believe the time has now come to extend the mandate of the European Bank for Reconstruction and Development to Egypt and potentially other North African countries. The international community must stand ready to provide the resources to ensure stability in the region should that prove necessary.

These events have reinforced the need for greater multilateral cooperation, including through the G20 Framework. All countries will have to take difficult steps to rebalance their economies to support the global recovery.

Developments in the euro-area underscore the importance of advanced countries putting in place credible plans to tackle fiscal deficits and put debt on a sustainable, downward path. The macroeconomic stability that this will create is an essential pre-condition for sustainable growth. The pace and scale of consolidation needs to be differentiated according to national circumstances. It is necessary for countries like the UK that face exceptional fiscal challenges to implement accelerated consolidation plans. We have put in place a strategy to meet these challenges head on and move to a more sustainable and balanced growth model.

Repair and reform of the global financial system is also a prerequisite for a strong, sustained recovery. Financial market conditions have improved but the system remains fragile and vulnerable to new and emerging risks. Decisive action is required to reduce uncertainty around bank balance sheets, particularly in Europe, and accelerate the design and implementation of a stronger and more resilient global financial system that supports the safe and free movement of capital. Now that we have agreement on stronger global capital and liquidity standards and remuneration, it is imperative that we implement these in a full, internationally consistent and non-discriminatory manner. We welcome the ongoing work to develop a framework to tackle the risks posed by systemically important financial institutions.

Open trade and investment has been a strong engine of global growth and development. It is disconcerting that support for open markets seems to be waning. We therefore urge countries to design policies that support globalisation and I would highlight the risks of trade restrictions in response to supply shocks that could exacerbate higher commodity prices. The membership should reaffirm its commitment to free trade and investment, recognising its central importance in the global recovery, and resist all forms of protectionism. After disappointing progress on the Doha Round in 2010, we must redouble our efforts to bring it to a conclusion in 2011, as a matter of priority.

Reform of the international monetary system

I share the Managing Director's view that we have to learn the inescapable lessons from the crisis about the extent to which policies in major economies, whether advanced or emerging, impact each other and the entire system. This underlines the importance of policy coordination supported by a strong, credible and effective IMF at the heart of the international monetary and financial system to support global coordination.

Last year we agreed historic reforms to ensure that the IMF will better reflect the reality of the global economy. But we have more to do to make the IMF a more effective institution, able to meet the needs of its members.

The IMF's lending frameworks must provide the right incentives for countries to adopt sound policies in good times. And they need to be flexible enough to deal with individual country problems and systemic shocks. It is important that the IMF has the resources it needs to support the global economy in times of uncertainty, and I welcome the entry into force and immediate activation of the new and expanded New Arrangements to Borrow.

Strengthening IMF surveillance

The crisis has also taught us the how important it is for the Fund to provide objective oversight of our economies and of the system as a whole in order to help prevent future crises. Strengthening the quality, scope and traction of IMF surveillance will be essential if the Fund is to fulfill this role. The failings of the pre-crisis period have been well documented and the IMF has already done a lot to address them. New products and processes alone cannot address entrenched structural and cultural issues that need to be tackled at the IMF, for example "silo working" and failure to establish linkages between bilateral and multilateral surveillance. So there is more to be done, building on the findings of the recent Independent Evaluation Office report, to:

- focus more on multilateral surveillance and monitoring spillovers and systemic risks. We welcome the introduction of the spillover reports, which the UK is currently undertaking, and look forward to discussing the findings of these reports;
- strengthen the Fund's links with external experts and other institutions to increase the quality of surveillance, particularly of the financial sector, and encourage the Fund to challenge the conventional wisdom more effectively. We welcome the Fund's approach to doing this in the UK's recent FSAP; and
- improve the traction of surveillance by increasing its relevance to all members and the value it adds to the policy making process.

We look forward to the Fund's Triennial Surveillance Review as an opportunity to address these issues. We look to the TSR to propose sustainable reforms to enhance surveillance, and we are ready to consider changes to the legal framework if necessary.

Managing capital flows

The development of global capital markets represents the most significant change in the international monetary and financial system since the creation of Bretton Woods. The huge increase in global capital flows has contributed to the tremendous expansion in the world economy in recent years, and this trend is set to continue, so it is striking that we lack an international framework to help countries in managing these flows. I therefore support the work that the Fund is doing to develop a comprehensive framework to improve the consistency and even-handedness of advice to countries on policies to deal with capital flows and mitigate the risks of short term volatility. There are a range of policy reforms available. Sound macroeconomic and prudential policies should be the first line of defense. Structural reforms to strengthen institutional frameworks and develop financial markets are also central to increase the capacity to safely absorb inflows and boost the resilience of financial institutions. However, at times it will be appropriate for countries to consider capital flow management policies to reduce short run volatility. The evidence on the effectiveness of these measures is mixed and so measures should be temporary and shouldn't be used to avoid making the reforms necessary to secure the benefits of capital flows over time.

Governance and the role of the IMFC

To remain relevant, credible and legitimate, the IMF must represent the balance of economic power in the 21st century. We welcome the entry into effect of the 2008 quota and governance reform and urge all members to ratify the 2010 reforms no later than the 2012 Annual Meetings. These changes deliver greater quota and board representation to the dynamic emerging and developing countries and will provide more balanced representation on the IMF Board.

We look forward to strengthening ministerial oversight of the Fund by enhancing the role of the IMFC as a key forum for global economic and financial cooperation under the Chairmanship of Minister Tharman Shanmugaratnam.

Low Income Countries

We welcome the Fund's support for low-income countries (LICs) as they exit the crisis, in terms of both financial support and technical assistance. While many continue to face significant challenges, LICs have in general weathered the recent crisis better than previous crises, due to better policies and more sustainable fiscal positions that are partly a result of debt relief efforts. Together with the World Bank and other international institutions, the Fund continues to have a central role in supporting further reforms and maintaining sound fiscal positions. The UK supports a well-resourced PRGT and, in addition to our existing support to both the loan and subsidy accounts, we see strong arguments for using windfall resources from the recent gold sales to support further the Fund's role in LICs. We also encourage the Fund to focus on stepping up its engagement with fragile states, including in countries such as Sudan, Zimbabwe and Afghanistan.