International Monetary and Financial Committee

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Statement by Alistair Darling
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On behalf of United Kingdom

Statement to the International Monetary and Financial Committee by the Right Honourable Alistair Darling MP, Chancellor of the Exchequer

Since the last meeting of the IMFC, it has become clearer than ever that the global economy is increasingly interlinked. We have seen in recent weeks the challenges faced by policy makers throughout the world as the global economy continues to change. The background to this meeting is international economic uncertainty and a more fragile global environment reflecting the recent economic turbulence in America, Asia and Europe. The clear lesson is that understanding these interrelationships and new policy issues is essential to support the multilateral responses that are needed to such shared challenges.

The IMF is critically important in fostering that international understanding and cooperation. As the policy issues change and the pace of globalisation increases, the Fund must continue to reform and adapt. The IMF has made important progress this year, particularly with the introduction of a new framework for surveillance to clarify the focus of surveillance and reinvigorate its principal activity. This momentum will need to be maintained to make the new procedures operational and to meet the new challenges in supporting global prosperity for all.

The global economy and financial markets: outlooks, risks and policy responses

The global economy entered 2007 with considerable momentum, following one of the longest periods of sustained growth since the early 1970s. However, the period of financial market volatility that began in July has seen uncertainty spreading globally to credit, foreign exchange and equity markets. Some markets, such as those for government bonds and equities, have recovered somewhat, but problems remain in other markets, particularly asset-backed securities. The initial impact has been seen in the financial sector, for example in investment bank profits. The broader effects are still uncertain and impact on the world economy can only be fully quantified with the passage of time.

But as the Fund has already said, this international uncertainty will have an effect on growth right across the world and independent forecasters expect growth next year in America, the euro area and Japan to fall to 2 and 2½ per cent. And although the continued dynamism in Emerging Market Economies is expected to balance this slowdown in the United States and other advanced economies, global growth should moderate in the rest of 2007 and into 2008.

In the UK, in the recent Pre-Budget Report we revised the forecast for growth down for 2008 to the range 2 to 2½ per cent to reflect this international uncertainty. But due to a combination of the Government’s strong macroeconomic framework, its promotion of open and flexible labour, product and capital markets and the strength of the British economy in the first half of the year, it is anticipated that the economy will remain resilient and return to its trend growth path in 2009. The underlying strength of the British economy has allowed the government to put in place medium term spending plans which support the objective of a strong economy and a fair society, able to meet the challenges of new global economy, with opportunity and security for all.

Recent events show that to assist the Fund's membership in fostering national and international prosperity, the IMF will need to build on its work in the financial sector so that – working with others, especially the FSF – the institutions can act as an early warning system. Through this the Fund will identify more fully the links between financial stability and the wider economy; examine closely the impact of global financial interconnections on risks to the financial system and external stability and enhance the ability to take account of spillovers from one country to another. In working more closely with the FSF, it should support the work already underway in the FSF in response to recent market turbulence, and the two bodies should coordinate this wider surveillance work programme.

In responding to the current financial events it is important not to lose sight of the fact that in the medium-term, one of the greatest threats to long-term growth and prosperity is rising protectionist sentiment. To counter this, the international community must remain fully committed to achieving an ambitious, pro-development outcome to the Doha Development Round to boost global economic growth and poverty reduction. Flexibility and bold political leadership are needed by all players across all dossiers and the next step is to build on negotiating group chair texts in Geneva. Building the capacity of developing countries to trade and to take advantage of increased market access in the global trading system through Aid for Trade is essential. We welcome the success of the pledging conference that took place towards the Enhanced Integrated Framework on 25th September in Stockholm and we call on all donors to honour their commitments.

Implementation of the IMF's Medium-Term Strategy

In the context of a fast-evolving global economy the Fund faces the dual challenge of maintaining both its relevance and legitimacy at a time when integration makes cooperation more necessary. The two reinforce each other: a well-focused Fund concentrated on issues of importance to the membership incentivises legitimacy; and greater legitimacy through reformed governance will support the Fund's relevance. Progress has been made in both areas in 2007.

Surveillance Reform

Surveillance lies at the heart of what the Fund can and should do, and stronger surveillance will strengthen crisis prevention to the benefit of all members. We have strongly supported the Fund's programme of surveillance reform over the past 18 months and welcome both the 2007 Surveillance Decision, and the agreement that a Statement of Surveillance Priorities and Responsibilities will be introduced next year. Together, these reforms will form a new framework for surveillance that reflects changes within the global economy and defines the responsibilities of IMF staff and member countries in the surveillance process. They will ensure that both bilateral and multilateral surveillance has a greater impact in the future, supporting the stability of the system.

The 2007 Surveillance Decision defines the scope and focus of surveillance so that it will cover policies that are of particular relevance to external stability. We support the increased emphasis on candour, even-handedness and greater linkages between multilateral and bilateral surveillance, as well as the clarification of the Fund's role in exchange rate policies. It is now critical that both the letter and spirit of the new Decision is reflected in bilateral surveillance over future months. The April 2007 IEO report on exchange rate surveillance also detailed a number of steps that should be taken to improve surveillance in practice; we welcome these and believe that the Fund and its members should ensure that they are implemented over the next year.

In addition to the 2007 Decision, we welcome the agreement that a remit for surveillance will be established through the Statement of Priorities and Responsibilities, alongside the next Triennial Surveillance Review. This will define both operational and economic priorities for surveillance and set out the responsibilities and accountabilities of all those involved in the surveillance process. The content of the Statement will be set by the Board and endorsed by the IMFC, thereby ensuring high-level engagement and oversight from member authorities. The Managing Director should also report to the IMFC each year on how the responsibilities are being met, and whether in the light of global developments, surveillance priorities should be revised. A full assessment of whether surveillance has met the objectives set out in the Statement should then take place at the time of the TSR.

Governance Reform

A reformed surveillance process will have greater credibility and therefore effectiveness across the membership. However, it is crucial for the Fund's activities that this is seen to be underpinned by a legitimate process of governance that both mirrors the realities of the global economy and provides a voice to all IMF members, including those from emerging market and low income countries.

The UK strongly supports the Governors' resolution on quota and voice reform adopted last year. Over the past year, we have worked closely with our international partners to meet the timetable for reform set out in the resolution and will continue to do so. The UK remains fully committed to a successful outcome to this reform, which should better reflect relative weights and roles in the global economy and, equally important, enhance the participation and voice for low-income countries, primarily through a tripling in the level of basic votes. We expect this outcome to result in a rise in the voting share of developing economies and a decline in the share of advanced economies .

In this process and in his overall leadership of the Fund, Rodrigo de Rato has played an important role. He leaves the institution significantly better equipped to face future challenges. We would like to thank him for his work, and welcome the appointment of Dominique Strauss-Kahn as his successor. It is important that all members strongly support the priorities that Mr Strauss-Kahn has set out for building on and accelerating the institution's existing Medium-Term strategy.

We welcome the steps taken by the Executive Board to make the process for selecting the new Managing Director more open, transparent and meritocratic. In particular we welcome the Board's recognition that the successful candidate should be the person who best meets the criteria established for the job, regardless of nationality. It will be important to build on these steps in future appointment processes in the IMF and for the President of the World Bank. No region should assume that either position is theirs to fill and nominations from all countries should be encouraged.

<u>Reform of the IMF's Financial Framework</u>

In the Spring, the IMFC agreed that the Fund's current financial framework was in need of significant reform, in order both to respond to the changing global economic environment and reflect the key activities of the Fund. The *Report of the Committee of Eminent Persons to Study Sustainable Financing of the IMF* was a welcome first step in this direction and we continue to support the majority of the Committee's recommendations for reforming the Fund's income model. However, the IMFC also noted in previous meetings that attention should also be paid to options for reducing the expenditure of the Fund, to ensure that a comprehensive financing model could be put in place.

We are therefore disappointed that there has been no additional action on Fund expenditure since the Spring Meetings and welcome the commitment of the new Managing Director to take action in this area.

Meeting the Millennium Development Goals

We believe that in a world of growing wealth, extreme poverty is morally unacceptable. For this reason, international development remains a priority for the UK Government and last week we announced spending plans that put the UK on track to spend 0.56 per cent of Gross National Income on Official Development Assistance by 2010-11. The work of both the UK and the IMF takes place within the international framework of the Millennium Development Goals (MDGs). These were endorsed by the IMF and all UN member states in September 2000, and in 8 years time, in 2015, the world's performance against these goals will be assessed.

The Fund makes a critical contribution to the international effort to achieve the MDGs by providing the support and long-term finance needed for growth and poverty reduction. That is why the UK strongly supports the Fund playing a full and active part in the Millennium Development Goals Africa Steering Group and we continues to strongly support the Fund's role in concessional financing through the Poverty Reduction and Growth Facility. Looking forward, we welcome the Joint Management Action Plan of the Fund and the World Bank in response to the Malan Report. The IMF and the World Bank should take this opportunity to strengthen their culture of collaboration and work more effectively together in supporting low-income counties. And in its work the IMF should assist its low income members in spending and absorbing aid and restrict its use of conditionality to critical macroeconomic factors, specifically in the wage bill ceilings should be used only in exceptional circumstances.

The international community is delivering debt relief of over $100 billion under the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI), freeing up resources for health, education and other investments to accelerate progress towards the MDGs. We welcome the IMF's contribution to this effort and note that, since the spring, Afghanistan and the Central African Republic have started to receive debt relief.

The UK continues to support full, swift and fair implementation of the HIPC and MDRI initiatives, including prompt agreement on arrears clearance to facilitate HIPC eligibility for pre-decision point countries. In this context, we call on all countries to contribute towards Liberia's debt relief in line with the proposal put forward by IMF staff, which will help enable Liberia to participate in the HIPC initiative and move forward with economic reforms.

It is important now to ensure that all parties play their part to make debt relief work. Debtor countries must work to develop and implement viable macroeconomic and poverty reduction programmes and ensure that they spend the savings from debt relief prudently. Donors must deliver on their 2005 promises to ensure the MDRI is fully funded. And all creditors – public and private - need to provide their share of debt cancellation. On this point, we welcome efforts by the World Bank and IMF to encourage participation, including through the publication of a 'scorecard' of the debt relief provided by bilateral creditors. Finally, we - borrowers and lenders - must all work together to ensure that new borrowing is consistent with IMF and World Bank debt sustainability analyses, is appropriately concessional, well targeted and used for productive purposes.