Statement by Rt. Hon. Gordon Brown, International Monetary and Financial Committee

Washington, 24th April 2004

Introduction

Since our last meeting in Dubai, the world economic recovery has continued to strengthen and is becoming more broadly based. Industrial production has picked up sharply, accompanied by a strong rebound in global trade and major uncertainties have lessened. Nevertheless risks remain—in industrial, emerging market and developing countries—and it is important that policymakers stand ready to take the necessary policy actions. This underscores the importance of continued international cooperation and multilateral progress.

While prospects have improved significantly in some major economies, all countries have an interest in seeing more balanced growth going forward. Flexibility in monetary and fiscal frameworks is key and all countries must take action to ensure that public finances remain sustainable. Structural reform is vital in this respect. And we must secure a speedy resumption of the Doha Round.

Economic stability

For rich and poor countries alike, stability is the precondition for global prosperity and growth, and all major countries—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 proactive monetary and fiscal policies, growth has picked up sharply in some major economies. The UK has experienced the longest sustained expansion on record, growing continuously throughout the global downturn, and with unemployment close to the lovest level since the 1970s. We remain on track for stronger growth with strengthening business investment and exports and continued low inflation. The World Economic Outlook has revised up growth forecasts for the UK for this year by 1 percentage point, compared with projections in September, bringing the forecast into line with the UK Budget forecast. I also welcome the IMF assessment that the strong performance is due not only to an appropriate monetary and fiscal policy but also to structural flexibility.

It is now right for the IMF to consider the experience of fiscal policy in both the upturn and the downturn of the economic cycle; to examine the relative performance of the Stability and Growth Pact, balanced budget approaches and the fiscal frameworks in countries like Britain; and consider whether a new approach to fiscal rules internationally should give more weight to the economic cycle, levels of debt and long-term sustainability, and the needs of public investment.

But because we must sustain growth, it is important that we focus also on structural reform. In the United States, actions to demonstrate that fiscal policy is sustainable over the medium term are still important. Building on improved economic conditions Japan must press ahead with its financial sector reform. And, accompanied by stability oriented fiscal and monetary policy, Europe must demonstrate further sustained progress with the necessary structural reforms to enhance growth potential and increase resilience to shocks—embracing flexibility for labour markets, liberalisation in capital and product markets, and tax competition in place of tax harmonisation—in short a new growth agenda, strengthening competition, increasing innovation and enterprise, increasing investment, raising employment and improving skills. 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 period to identify problems early, address vulnerabilities, and provide candid advice on policy reforms 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.

In Dubai we set out issues of particular concern for surveillance over the year – progress on structural reform and on medium term sustainable fiscal frameworks; reducing balance sheet vulnerabilities, including currency mismatches, and improving debt sustainability; and encouraging policy measures to reduce global imbalances – giving a sharper focus to the surveillance of key vulnerabilities. This remit must continue to respond to changing conditions in the coming period, including: the impact on investment decisions of currency mismatches, the effect of current political risks; exit strategies from the current financing environment; and the impact on debt and current account sustainability of potentially higher interest rates.

This meeting offers a window of opportunity. It is essential that we address the medium-term challenges facing the international financial community.

- promoting the conditions for stability and growth, and further strengthening the mechanisms for crisis prevention and crisis resolution;
- calling for urgent resumption of the trade talks as soon as possible to secure concrete progress with multilateral trade liberalisation and deliver on the commitments made at Doha;
- creating the right domestic conditions for investment and stability;

- confronting the global war against poverty and addressing the urgent challenge of achieving the Millennium Development Goals, including the need to double aid through the International Finance Facility.

Crisis prevention and resolution

I believe that, just as we set down a new rules-based system in the UK, for a new monetary and fiscal regime, we should, in pursuit of the objectives of stability, development and prosperity, establish a new rules based system of governance for the international financial community.

This new system should be founded on clear procedures, with all countries, rich and poor, pursuing agreed codes and standards for monetary and fiscal transparency, and for corporate governance. That is why we have put in place the system of internationally agreed codes and standards. Almost half of the Fund membership has now completed a ROSC and over 70 percent of those have been published. We strongly welcome this. But we must continue to do more to enable all countries to participate, providing the necessary technical assistance. On transparency, we strongly support the steps agreed ahead of the Dubai meetings, to enhance further the publication of Article IV reports and programme documents.

Effective and persuasive surveillance is essential for all member countries. We welcome the Fund's considerable progress on reforms to strengthen surveillance – both improving the analytical context of surveillance, including developing a more consistent framework for debt sustainability analysis and refining vulnerability assessments; and introducing practical measures to strengthen surveillance in programme countries and ensure that surveillance benefits from the "fresh pair of eyes". Yet significant challenges remain, and we will need to monitor carefully their implementation and impact. The Biennial Review will be the next key opportunity to continue to move forward.

More broadly, I believe there is a strong case for further institutional reforms to ensure that the IMF is as credible and independent from political influence in its surveillance of economies as an independent central bank is in the operation of monetary policy. We must implement reforms to ensure:

- greater independence—ensuring that the Fund applies objective, rigorous and consistent standards of surveillance to all member countries; and that surveillance is, and is seen to be, independent of decisions about programme lending and the use of IMF resources;
- greater accountability—with the IMFC or the Board having a formal responsibility to set an annual surveillance remit, with the IMF management and staff reporting back each year on their performance and effectiveness against the remit.

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.

The framework for exceptional access is a valuable tool. Building on the review of the Fund's experience with exceptional access, there is a need to clarify the operation of framework in cases where countries already have access above normal limits; including the use of precautionary programmes with exceptional access.

On crisis resolution, we very much welcome the widespread introduction of Collective Action Clauses, and encourage their further use. We support the ongoing work by issuing countries and their creditors towards developing a code of good conduct. 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.

Under this new framework we can move from letting crises happen and then intervening, to a new paradigm: systems that in themselves diminish the likelihood of crises; earlier awareness as difficulties arise; and more measured and orderly responses when crises have to be resolved.

Trade

The international community must make urgent progress on trade and development. We must reaffirm our full political commitment to a multilateral approach to trade liberalisation, and to making substantial and concrete progress. A speedy resumption of the Doha Round is vital for global growth and our development objectives. It should focus on the core issues of importance to developing countries for open and fair markets, especially in agriculture.

This will be critical for demonstrating the international community's continued commitment to multilateral co-operation, supporting higher growth and financial stability, and enabling developing countries to participate on fair terms in the world economy and make progress towards the Millennium Development Goals.

We know that no country has moved from poverty to prosperity by cutting itself off from the international economy and without increasing its investment and trade. We know that by reducing tariffs in both developed and developing countries and achieving the pro-poor agreement promised at Doha, gains for developing countries can rise to $350 billion with 140 million lifted out of poverty.

Our aim must be to break the trade deadlock, push forward the development objectives of Doha and both open our markets to developing countries now and remove trade-distorting subsidies. But any liberalisation has to be appropriately sequenced and integrated into countries' poverty reduction strategies. We welcome the IMF's initiative to provide assistance to countries to help them address the transitional impact of trade reforms.

And, as developing countries have continued to argue so strongly, an agreement on agriculture is central to any progress on trade. Because three quarters of the world's poor live in rural areas, because 96 per cent of the world's farmers live in developing countries, our agricultural protectionism costs developing countries $20 billion a year directly, up to $100 billion indirectly – twice the amount of development aid they receive. If we were to halve protectionism more widely in agriculture and in industrial goods and services we would increase the world's yearly income by nearly $400 billion dollars: a boost to growth of 1.4 per cent. Developing countries would gain the most in terms of GDP growth—an estimated $150 billion a year—but all countries and regions stand to benefit.

So I am convinced we must do more - for world trade and for developing countries - to urgently tackle the waste of the Common Agricultural Policy, the scandal of agricultural protectionism around the world.

The way forward is both for developed countries to commit to tackling this scandal of agricultural protectionism and – because we know from a World Bank study that twenty four of the poorest countries cannot benefit from access to trade without the capacity to trade - also to provide support, including finance, to developing countries so that they can sequence their development ----- building, with investment in infrastructure, education and development generally, the capacity they need to trade.

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 that 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 Strategies 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.

Achieving the Millennium Development Goals

Stability, trade and investment are all vital but there cannot be a solution to the problems that developing countries face without a fourth reform: a substantial transfer of additional resources from the richest to the poorest countries, in the form of investment for development, that builds new capacity to compete and addresses the long term causes of poverty.

2005 is a crucial, defining year; a year of challenge but also a year of opportunity.

Five years before, in an historic declaration - in perhaps the most significant international commitment of recent decades - every world leader, every major international body, almost every single country, signed up to the historic shared task of meeting over fifteen years eight Millennium Development Goals ---- an extraordinary plan to definitively right some of the great wrongs of our time…. At the heart of which is a clear commitment to ensuring education for every child, the elimination of avoidable infant and maternal deaths, and the halving of poverty

Next year, 2005, is the first date that the first target comes due.

But we know already that the first target to be set and to be met – the 2005 target that ensures for girls the same opportunities in primary and secondary education as boys - is going to be missed. Not only are the vast majority - 60 per cent of developing countries - unlikely to meet the target but most of these are, on present trends, unlikely to achieve this gender equality for girls even by 2015.

So without action, we will not meet our goals in 2015, not even 2050, but 2150. Too often we have set goals, reset them, and recalibrated them again so that a global target is only a measure of how far we have failed, not succeeded.

Put simply, our proposal is that in return for developing countries developing their own country owned, community owned poverty reduction plans to expand their own development, investment and trade, and eliminate corruption, the richest countries commit to provide long-term, predictable and effective aid as investment to the countries that need it most. Our aid is increasingly provided in support of poverty reduction strategies, which are leading to improvements in the policies of developing countries and in the focus of donor support. We welcome the Fund's ongoing efforts to align the PRGF behind the PRSP and in support of the MDGs, early work on a long-term role for the Fund in low-income countries, and we look forward to their continuing work on ensuring that there is adequate financing for PRGF arrangements.

So for the richest countries: it will mean new responsibilities - to open our markets and to curb protectionism and to transfer resources – but also new opportunities - increased trade and a globalisation that also means both security and justice on a global scale.

For the poorest countries: new responsibilities - to pursue transparent, corruption-free policies for stability and a properly sequenced opening up of investment, trade and economic growth - and new opportunities – with the capacity for increased growth and trade and a transfer of resources from rich to poor to tackle long standing problems of ill-health, illiteracy, poverty and underdevelopment

And to rise to the scale of the challenge all of us need something akin to what I regard as the most stable and predictable financing vehicle through which we make possible the funds for – and then the realisation of our goals for – education, health, aids, economic development, debt relief and trade.

For none of our demands can be seen in isolation from each other. So if we are to make progress in meeting the Millennium Development Goals, more funding for health cannot be at the expense of education, more funding for education cannot be at the expense of infrastructure. And more money for education and health cannot be at the expense of more writing-off of debt. And we know also that without economic development – and that means investment and trade - there can be no sustainable exit from poverty. So if we are to make progress in meeting our Millennium Development Goals we must also make sure that developing countries have not just the access to trade but, by funding investment in infrastructure and skills, the capacity they need to trade.

So support for the International Finance Facility is to recognise that each of us can realise our specific objectives only if there is a sustainable financial vehicle to underpin them.

And similarly we must make more progress on debt. While 27 countries have been freed from the burden of unpayable debt; while 70 billion dollars is being written off; and while debt payments are down from an average of nearly 30 per cent of national income to 11 per cent, and with 65 per cent of resources released from debt relief now going to health and education, we can do more - not least for countries facing sharp falls in the price of key export commodities and higher net debt: export ratios which, amongst other things, prevent an exit from unsustainable debt. And so, according to the World Bank, for half the HIPC countries there is a risk there will not be a sustainable exit from debt.

Indeed, debt to export ratios in Rwanda which should have fallen to 150 per cent could be as high as 210 per cent, in Gambia 186, in Chad 181, in Malawi 172 per cent. What's more 11 countries have yet to qualify including Liberia, Somalia and Sudan who have debts of over $20 billion in total.

So that building on the results of the World Bank-IMF study on sustainability we will have to provide more - either through topping up generally, or by specific country by country initiatives. What is also clear is that if debt is to be kept sustainable in the future, we will need to provide more aid in the form of grants. So that both to go further with debt relief and to ensure a sustainable position for the countries most at risk, we need a facility that can both help debt reduction and fund with grants education, health and poverty reduction.

I am very pleased that Completion Point and topping up has finally been agreed for Ethiopia and Niger. However, it is important that we now ensure that other HIPCs with good track records are not delayed in reaching Completion Point and receiving topping up as Ethiopia and Niger have been.

As things stand, countries that have yet to reach Decision Point and receive debt relief will not be able to enter the HIPC Initiative after the end of this year. This will leave a number of countries, many of which are embarking on a difficult path towards peace, unable to benefit from debt relief. It is our responsibility to support their efforts to rebuild their countries and rejoin the international community. We must therefore extend or abolish the sunset clause so that they may obtain the debt relief that they so desperately need.

And it is precisely because we know that education is the very best anti-poverty strategy, the best economic development programme, that the UK will, over ten years, spend £1 billion on educational aid — alongside the World Bank's excellent education Fast Track Initiative.

Making better use of existing aid - reordering priorities, untying aid and pooling funds internationally to release additional funds for the poorest countries - is essential to achieve both value for money and the improved outcomes we seek, but in addition to these reforms, we must recognise that the scale of the resources to tackle AIDS, illiteracy and poverty is indeed in excess of what traditional funding can offer and I therefore I ask all governments both to move towards our agreed target of 0.7 per cent and to, immediately, look seriously at our proposal for the International Finance Facility.

The IFF is founded upon long-term, binding donor commitments from the richest countries. It builds upon the additional $16 billion already pledged at Monterrey. And it leverages in additional money from the international capital markets to raise the amount of development aid for the years to 2015 from $50 billion a year to $100 billion per year. $50 billion that will allow us to attack the root causes of poverty not just the symptoms, and to meet the Millennium Development Goals

And by locking in commitments from a wide range of donors, and improving aid effectiveness by providing recipient countries with predictable, stable and coordinated aid flows to finance the investments needed to put them on a sustainable and lasting path to poverty reduction, prosperity and participation in the world economy.

The front-loading nature of the IFF means that it can deploy a critical mass of aid as investment over the next few years when it will have the most impact on achieving the targets – saving lives today that would otherwise be lost.

We will continue to examine the Tobin Tax; the Soros proposal for Special Drawing Rights; other forms of revenue raising on a world wide basis. But each one of these proposals will come down to one simple question; is there sufficient will in the richest countries to agree these profound changes?

I believe that the advantage of the International Finance Facility is not just that is a better means of providing the necessary resources immediately and thus far faster than other initiatives, but also that unlike other measures like taxes - where all countries must impose it or it can work for none - the IFF can proceed even if some fail to participate.

I thank the growing number of countries who have indicated support for the IFF, in the G7 and elsewhere. As we agreed in Dubai a Ministerial Forum on Financing for Development, chaired by France and the UK in Paris, provided the opportunity to consult developing and emerging market countries on their views. And developing country and emerging market Ministers issued a statement setting out their strong support, and urging donors to implement the IFF. We also look forward to the report by IMF and World Bank on it later this year confirming its technical feasibility.

I am also pleased to say that GAVI is interested in applying the International Finance Facility's principles to the next stage of its work -- donors making long term commitments that can be securitised in order to frontload the funding available to tackle disease.

The UK and French government have indicated that they stand ready to work with other donors on innovative ways to raise the additional resources needed for GAVI and for tackling HIV/AIDS. For our part we are prepared to commit additional long term funding.

If, by these means, GAVI could increase its current budget from $270 million a year to $400 million a year – or over five years an extra two thirds of a billion dollars - it would be possible that their work could save the lives of an additional 2 million people a year.

So in one fund, with one initiative, we can glimpse the possibilities open to us if we act together. If we could do the same for health, for schools, for debt, for the capacity to trade, think of the better world we can achieve.

Finally, I would like to thank Horst Kohler for his outstanding service as Managing Director of the IMF over the past four years. This has been a period of unprecedented change for the IMF, and under his leadership the Fund has become a stronger, more effective and more accountable institution. His leadership has also been central in ensuring that the Fund has continued to play its part in maintaining the conditions for growth and stability and poverty reduction. His commitment to debt relief has ensured that while there were only 5 countries receiving debt relief four years ago, 27 countries are now benefiting from the HIPC initiative.