



International Monetary and Financial Committee

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**Statement by Gordon Brown
(Chairman)
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On behalf of United Kingdom

UK Statement to the IMFC

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

Introduction

We meet in Washington during a period of continued global economic growth. Financial market conditions remain broadly favourable and recent volatility seems to have subsided. At the same time, global current account imbalances remain large, although there are some signs they have begun to stabilise.

We remain alert to the potential impact of: a sharper than expected US slowdown; the possibility of a rapid unwinding of global imbalances; the risk of intensifying inflationary pressures in advanced economies; financial instability; supply-side problems in oil markets; and, on the upside, stronger domestic demand in the eurozone and emerging markets.

If we are to ensure sustained growth and prosperity for all countries, we must make the case for the benefits of globalisation, and commit to policies that maximise globalisation's benefits and minimise its risks.

The UK is willing to meet these challenges. Both domestically and internationally, we are working to make sure that we and our partners benefit from globalisation. We believe that through building an outward looking nation, playing a full part in an effective multilateral system, and embracing free and fair trade, we can maximize prosperity.

Global trade

One of the greatest threats to long-term growth and prosperity is the rising protectionist sentiment around the world. The strongest signal we can send to counter protectionist policies is to reach urgently a successful conclusion to the Doha round of world trade talks. We welcome the recent resumption of trade negotiations. But time is running out and we need bold political leadership to drive the negotiations to the next stage.

Under the right circumstances, trade can be a driver of economic growth, development and poverty reduction – provided developing countries have the economic infrastructure to trade competitively.

These potential gains for all countries make it imperative urgently to secure an ambitious trade agreement that substantially reduces tariffs and other barriers to boost global growth and reduce poverty.

We believe that it is for least developed countries to decide, plan and sequence reforms to their trade policies in line with their country-led development programs and international obligations. It is therefore crucial to provide developing countries with Aid for Trade to help them participate effectively and fairly in the global trading system. The Fund and the Bank continue to have an important role in taking this agenda forward.

Before the WTO Hong Kong ministerial in December 2005, rich countries made Aid for Trade pledges of \$4bn by 2010. The UK alone has committed to spend £100m a year by 2010 on institutions and people in order to support trade. Our total support for aid for trade, including support for infrastructure – like roads, ports, power and telecommunications – is expected to increase by 50% by 2010 to a total of \$750m a year. Together European countries and the European Commission will increase assistance to a total of €2 billion a year by 2010. Japan has promised \$10 billion over three years and the US a total of \$2.7 billion a year by 2010.

All countries must now turn their commitments into concrete and credible financing. In line with the WTO Aid for Trade Taskforce recommendations, we are calling for the full funding and early establishment of the enhanced Integrated Framework (EIF). In recognition of the importance of the EIF, the UK will contribute up to 20 percent towards the EIF's multilateral fund. The EIF multilateral fund could be as much as \$400 million over five years. Therefore, the UK's commitment could be worth as much as £38 million over five years.

IMF reform

We need to make our global institutions fit for the challenges ahead. We have already taken the first steps in this direction by approving the Governors' Resolution on Quotas and Voice, implementing the first phase of governance reform, and by deciding to revise the 1977 Surveillance Decision.

We recognize that global institutions can only be effective if they have legitimacy and credibility with their membership. As the global economy continues to change and develop, one of the central challenges for international organisations is to respond to these changes. In this regard, the UK welcomes the initiation of the two year quota and voice reform package for the IMF. A quota allocation has already been given to correct the most extreme imbalances and there is agreement to continue with a fundamental reform of the quota system. To ensure the continuing effectiveness and legitimacy of the Fund, the UK will continue to push for an outcome which better reflects relative weights and roles in the global economy, and to increase the weight of basic votes in order to enhance the voice of Low Income Countries.

At the Spring Meetings last year, we agreed that surveillance needed to be reformed. This reform is crucial to the success of the Medium-Term Strategy. A reformed surveillance framework would mean greater global economic stability and – through that – greater prosperity for all. These benefits will be felt by all of the Fund's membership.

The UK supports a revised Decision and remit on the basis set out by the Fund, in line with the Managing Director's principles for a revision, as set out in his report to the IMFC. We are prepared to work closely with other members to gain consensus on this issue. We believe that surveillance should be applied even-handedly across the membership and that a new Decision should not impose new obligations. A revised Decision would bring greater clarity to the Fund's role in surveillance, reducing the risk of mission creep. A focus on multilateral spillovers will emphasise the importance of surveillance to systemically important countries. In this regard, we welcome the report on the multilateral consultation on global imbalances launched after last year's Spring IMFC meeting. We

look forward to further consultation on issues of global concern, such as financial globalisation, energy and trade.

A remit for surveillance is a central part of the reform of surveillance. A remit will help to ensure that we give due attention to the most pressing priorities for surveillance. It offers a simple and transparent means for the membership to set out clearly the objectives for surveillance. A remit would also add value by ensuring that the conduct of surveillance is both independent and accountable, both of which are essential to make surveillance more effective.

A remit, endorsed by the IMFC, will signal the commitment of all members to engaging in policy discussions on the basis of IMF surveillance. We should aim to have agreement on this by the Annual Meetings. We therefore support the Fund's latest proposals for a remit to strengthen the accountability framework necessary for reinforced Fund surveillance.

The Crockett Report has made a number of sensible suggestions for making the IMF's financial position more robust and sustainable. However, the Fund must make a more thorough analysis of both its mission, and its long-term expenditure, before taking forward these reforms and should ensure that they do not undermine its role in low income countries.

The UK believes that a priority of any future income solution should be greater transparency, simplicity and flexibility in the Fund's financing structure. We support the principle of reducing cross-subsidisation where possible and the sale of part of the Fund's gold holdings to create an endowment.

The IMF has made good progress since September. Together, the completion of these reforms will ensure that the Fund has the governance structure, tools and sustainable finances to more effectively promote global economic and financial stability and help its members maximise the benefits of globalisation.

Role of the IMF in low income countries

This year marks the half-way point between 2000, when the vision of attaining the Millennium Development Goals was expressed at the

Millennium Summit, and 2015, when our performance will be judged against our achievement of these goals.

The Fund has a critical role to play in helping achieve the Millennium Development Goals by providing the support and long term finance needed for growth and poverty reduction. The Fund and the World Bank must continue to strengthen their collaboration on this issue, and in this regard we welcome the finding of the External Review Committee on IMF-World Bank collaboration that collaboration between the two institutions is generally effective. However, it also noted that there are clear areas for improvement, and we look forward to further work to ensure that the Fund and Bank improve their effectiveness in Middle and Low income countries – both in helping countries tackle poverty, and in delivering services to their members. This work should be based on a clear and equal partnership that takes fully into account the institutions' comparative advantages. We call for a strong and sustained commitment from their managements to effective cooperation.

Debt relief provides long term, predictable resources for countries to spend on tackling poverty, an important contribution to the achievement of the Millennium Development Goals. We welcome continuing progress. Since the autumn, Sierra Leone and Sao Tome and Principe have reached completion point under the Heavily Indebted Poor Countries (HIPC) initiative, and thus received irrevocable debt relief on their bilateral and multilateral debts. We congratulate these countries on their efforts.

And we strongly welcome the further progress the IMF has made in implementing the Multilateral Debt Relief Initiative, with 24 countries now benefiting from \$38 billion of debt relief, including \$4 billion from the Fund itself.

We will continue to work to ensure the full implementation and financing of the HIPC and MDRI Initiatives, alongside full creditor participation. The UK believes that all of the poorest countries that can use the savings from debt relief for poverty reduction should be eligible for 100% debt relief. The UK will continue to pay its share of the debt service owed to the World Bank and African Development Bank by low-income countries that meet the criteria. We urge others to join us in this effort.

Liberia has made impressive progress over the past year in building peace and stability. The UK fully supports Liberia's participation in the HIPC Initiative, which will be crucial to allowing Liberia to move forward with economic reforms. We must ensure that solutions for the clearance of Liberia's arrears to all three international financial institutions are finalised as soon as possible. The UK is ready to play our full part in this and to pay our fair share of the necessary donor costs. The UK has also already agreed to meet 10% of the donors' share of the costs of arrears clearance at the African Development Bank.

A further challenge is to ensure that the debts of countries that have received relief are maintained at sustainable levels. We must all work together – lenders and borrowers – to ensure that new borrowing is appropriately concessional, well targeted and used for productive purposes. A charter on responsible lending will help to guide lending decisions and we also welcome the work of the OECD Export Credit Group to strengthen guidelines on new lending to HIPC countries. The use of the joint Debt Sustainability Framework is crucial to ensuring debt sustainability. We urge the Fund and the Bank to be active in facilitating and supporting stronger creditor coordination and to continue their work to disseminate the DSF to all creditors. We are also concerned about the rising incidence of litigation against HIPCs, and believe that all governments and private creditors have a social responsibility to ensure that debt relief is delivered on equitable terms.

Delivering the resources to meet our global commitment to achieving universal primary education completion (MDG2) is a key test of our resolve. 77 Million children are presently denied primary school education, of which up to 30 million live in conflict-affected or fragile states. It is critical that donors support those countries that have come forward with ten-year plans: helping to make a reality of their commitment to their children. This May the European Commission will host a meeting at which donors and developing countries will discuss the steps needed to make progress towards this goal.

In 2007 the UK, Italy, Canada, Norway and Russia, together with the Gates Foundation, launched the Advanced Market Commitment (AMC) for a vaccine against pneumococcal disease. This market-

based mechanism could prevent over 5 million childhood deaths by 2030 by providing developing countries with the purchasing power to buy, at discounted prices, a suitable vaccine when one becomes available. The same should also be done for other major diseases, including malaria, TB and, ultimately, AIDS. We also welcome the GAVI Alliance's new investment, made possible by IFFIm, of \$500 million to finance the strengthening of basic health systems between 2006 and 2010.

Climate change

Climate change poses one of the greatest challenges facing the world today and it is the poor in developing countries who are most vulnerable to its impacts. The challenges of climate change and environmental protection require us to cooperate internationally in new ways. The UK strongly supports the World Bank's continued work with the Regional Development Banks and the private sector on an Investment Framework for Clean Energy and Development. The UK is also creating a new international Environmental Transformation Fund with £800 million to help developing countries respond to climate change and to support development and poverty reduction through environmental protection. It will begin with £50m support for a pathbreaking initiative to protect the Congo Forest and the people who depend on it.