International Monetary and Financial Committee

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Treasury, H.M.
United Kingdom

On behalf of United Kingdom

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The world economy is emerging from the deepest global recession for over 60 years. All countries had to make difficult choices and take unprecedented policy action to help stabilise and support the economy. The IMF also played a central role in supporting its members. Such continued international action and cooperation is crucial to ensure the sustainability of the recovery and lay the right foundations for future growth, jobs and prosperity.

The prospects for the global economy are more positive than when we last met, but the recovery is still in its infancy and is proceeding at different speeds within and across regions. There are still uncertainties. Financial markets are febrile, oil prices have increased significantly and bank credit, while improved, remains weak in many parts of the world. Confidence has not fully returned to businesses or consumers. It is therefore important that we maintain support until private sector demand is self-sustaining.

The financial and economic crisis has had a significant impact on the public finances in many countries. Recovery is therefore also dependent on putting in place credible and flexible plans for exiting from extraordinary support and reducing fiscal deficits once the recovery is secured. The IMF will play a critical role in helping to coordinate these strategies, alongside the FSB, World Bank, and G20. In doing this we must recognize the importance of spill-over effects and the need for cooperation and coordination.

This is not just about unwinding extraordinary support, it is about making the transition to a stronger, more sustainable and balanced growth path for the world economy. The G20 Framework will play a crucial role in ensuring that major advanced and emerging markets continue to cooperate in advancing these shared objectives. I am grateful to the IMF for their ongoing work in analysing the consistency of G20 countries' own policies as a step towards delivering a fair and balanced package, including macroeconomic, financial and structural reforms.

Financial sector reform

Last year we took decisive and concerted action to stabilise and strengthen the global financial sector. These actions prevented a breakdown in the global financial system, but we still have a lot of work to do to rebuild it and deliver lasting stability. Economic growth must be underpinned by a strong, resilient and efficient global financial sector and we cannot allow harmful divergence or uncoordinated approaches to bring new risks by creating further opportunities for regulatory arbitrage.

The foundation of a new global banking system must be an internationally consistent regime for capital. The Basel process needs to be completed by the end of this year, as agreed in 2009. However there are other areas where we also need to make rapid progress. In particular we need additional measures aimed at those financial institutions that post the greatest risks to financial stability. We also need to continue to strengthen the infrastructures of key financial markets in order to enhance their resilience to shocks and reduce the risk of contagion. Finally, it is vital that we carefully assess the cumulative effectiveness of all these measures and their impact on the financial sector and the wider economy. The IMF, working closely with the Financial Stability Board (FSB) and others has a critical role to play in supporting this work, including through strengthening its macro-financial surveillance.

If financial institutions do nonetheless fail, the impact on the financial system, the wider economy and the taxpayer must be minimised. As this financial crisis has shown, the failure or distress of large and interconnected financial institutions can impose a huge cost to the economy, one that is much wider than just the direct fiscal cost of any government interventions. I therefore welcome the IMF's interim report to the G20 on options for ensuring that the financial sector makes a fair and substantial contribution towards paying for any burdens associated with government interventions to repair the banking system, and look forward to further international work on systemic risk levies and taxes.

IMF Reform

Despite the important role the IMF played in responding to the crisis, it also exposed some weaknesses in the Fund's approach to surveillance and lending, as well as shortcomings in the functioning of the international monetary system. We are committed to delivering the broad based package of reform agreed in Pittsburgh and Istanbul to review the Fund's mandate and governance to strengthen its legitimacy, accountability and effectiveness.

Delivering the agreed realignment of quotas, which should result in an increase in the share of under-represented dynamic emerging markets, is a critical part of this reform and we remain committed to completing this by January 2011. All countries should ratify the April 2008 quota deal as soon as possible. Alongside the quota review, we urge further progress on the full package of reforms to the IMF's governance, including strengthening the role of Governors in providing accountability and strategic oversight to its work.

The Fund has a critical role to play in crisis prevention through both its surveillance and lending. I therefore welcome the ambitious approach the Fund is taking to reviewing its mandate and instruments. On surveillance I welcome proposals to strengthen multilateral and financial sector surveillance, alongside the Fund's core bilateral work. It will be vital for the Fund to work effectively with other institutions including the FSB and the World Bank to deliver this. On lending, the Fund moved quickly to introduce the Flexible Credit Line, but we need to continue to learn the lessons from the crisis and ensure that the Fund has the right framework and instruments to meet the needs of all its members. New instruments can reduce the risk of contagion and provide credible alternatives to self-insurance.

As the world recovers, the effects of the crisis will continue to be felt by those that have least resources to cope and the IMF must continue to provide policy and financial support to aid the recovery in low-income countries. The Fund should urgently explore options for providing exceptional debt relief to Haiti, in line with international efforts.