International Monetary and Financial Committee

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Statement by George Osborne
Chancellor of the Exchequer, United Kingdom

On behalf of the United Kingdom

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Since we last met in September, we have seen continued turbulence in the global economy, including renewed pressures in sovereign debt and global funding markets towards the end of the year. The outlook has improved this year, in large part thanks to the significant action taken by the ECB, but more recent volatility demonstrates that the recovery remains fragile.

While significant progress has been made to restore faith in policymakers, further decisive action is necessary to restore stability and strengthen growth.

Strengthening financial safety nets

Stronger regional and global safety nets are a vital element of our efforts to boost confidence, mitigate contagion risks and put the global recovery on a more sustainable footing.

The euro area has taken steps to increase its firewall and the IMF's shareholders are now acting to ensure that the Fund has the resources it needs to support the potential needs of the full membership. The UK has pledged $15 billion as part of this broad global effort. I welcome the bilateral contributions that others have made thus far. I hope that those who need more time to finalise their contributions will be able to do so in the coming weeks. Should these additional resources be used, it will be important that they support well-designed IMF programs with appropriate conditionality. Risk-mitigating measures will also need to apply.

At a time when we are putting in place resources for the full membership, we should not forget the specific challenges faced by Low Income Countries (LICs). The IMF needs to pay close attention to monitoring LIC vulnerabilities and be fully resourced to meet the demand for concessional finance programmes. The UK recently provided a bilateral contribution to the Poverty Reduction and Growth Trust (PRGT), helping to complete the 2009 financing package, and I have confirmed with the Managing Director that the UK will re-donate its full share of the agreed gold sales to the PRGT. I call on others in the membership to make contributions to the PRGT and to provide assurances on the proceeds of the gold sales as soon as possible. Furthermore, I continue to support the use of the remaining windfall profits from gold sales to ensure the long-term sustainability of the PRGT and look forward to reaching an agreement on this by the Annual Meetings in Tokyo.

Tackling the underlying sources of fragility

Boosting IMF resources will not be enough on its own to secure the recovery. As the Managing Director's *Consolidated Multilateral Surveillance Report* sets out, we also need a strong and coordinated global policy response if we are to exit the crisis. In particular:

- For advanced economies the priority is still the development and implementation of credible and comprehensive fiscal consolidation plans. The pace and scale of consolidation should vary depending on particular country circumstances. The UK faces significant fiscal vulnerabilities and has a globally systemic financial sector. For those reasons, it has been necessary to implement a strong consolidation plan that has won the backing of the IMF and the international community. This has been important not just for domestic stability, but also for the stability of the global financial system. In contrast, the US has the security of the global reserve currency, which affords it more fiscal space.

In the euro area a differentiated approach to the pace and scale of fiscal consolidation will play an important role in the rebalancing effort within the region. However, other complementary reforms will be required. The euro area's 'fiscal compact' represents a significant step towards greater fiscal integration and coordination of budgetary policies. However, as the IMF suggests, the euro area should also develop some form of fiscal risk-sharing.

- <u>Ongoing instability in the euro area serves to underline the fragility of the financial system and reinforce the need to complete the repair and reform process</u>. In the euro area, the banking system still needs strengthening, including through the timely resolution of non-viable institutions. More generally, we need to ensure the full, consistent and non-discriminatory implementation of the Basel capital and liquidity standards, and to address the risks posed by global systemically important financial institutions (GSIFIs). This is particularly challenging for a global financial centre like the UK. In November last year, I set out far-reaching reforms to implement the recommendations of the Independent Commission on Banking. Legislation will be in place by 2015, with full implementation by 2019. I now look forward to making similar progress at the global level.
- <u>Structural reforms will need to play a key role in supporting productivity growth and facilitating a rebalancing of global demand</u>. In advanced economies reforms to strengthen fiscal institutions and reform entitlement programmes can put public finances on a more sustainable footing, while product and labour market reforms can help unlock growth potential. However, we need a coordinated global effort if we are to rebalance demand and facilitate adjustment in advanced economies. Surplus countries, both advanced and emerging market, need to help by implementing structural reforms that shift their economies towards sources of domestic demand, particularly consumption. This cooperative multilateral approach will be the key to delivering a stronger recovery for us all.
- <u>It is imperative that the IMF membership reaffirm its commitment to free trade and investment, and to resist all forms of protectionism</u>. One of the key risks we face is the loss of faith in the global economic and financial system - weak growth could undermine support for trade and financial integration. We must not allow this to happen.

<u>Strengthening the IMF</u>

I welcome the focus of the Managing Director's *Action Plan* on strengthening IMF surveillance and governance.

Enhancing surveillance

By providing candid and independent surveillance of our national economies and the global economic and financial system as a whole, the IMF will play a crucial role in ensuring that we choose the right policies both individually and collectively.

The IMF has made significant progress in improving its surveillance products and processes since the crisis. However, much more still needs to be done. I therefore strongly support the efforts being made to enhance IMF surveillance. The Managing Director has set out a strong and balanced package of reforms in response to the Triennial Surveillance Review and implementation is now underway. It will be important to maintain momentum across the full range of proposals ahead of our next meeting in Tokyo. In particular, I would emphasise the following:

- The IMF's surveillance framework needs to be modernised to better integrate bilateral and multilateral surveillance and put surveillance on a firmer legal footing. To that end, I support the development of an Integrated Surveillance Decision ahead of our next meeting in Tokyo;
- The Fund needs to continue improving its analysis of spillovers, particularly financial interlinkages. I look forward to seeing the unified spillover report, which should build on the success of last year's reports for the systemic 5 economies. I also urge the IMF to move forwards with the planned thematic spillover report on global financial centres.
- Financial sector surveillance remains a top priority and I welcome the detailed work agenda as a first step towards developing a comprehensive and coherent strategic workplan. It will be important that this provides more clarity on the division of labour with other international organisations, particularly as the FSB enters into a period of potential institutional reform.
- The Fund's external stability analysis needs to be enhanced to ensure more robust surveillance of exchange rates, foreign exchange reserves and global liquidity. I welcome the progress made thus far on the External Balances Assessment methodology and look forward to seeing the External Sector Report later this year.

Quota and Governance Reform

In 2010 we agreed an historic governance deal, which will play an important role in maintaining the credibility and legitimacy of the IMF. The package represents a significant overhaul of IMF governance that will deliver greater quota and Board representation to dynamic emerging market and developing countries. However, timely implementation is not yet assured. The UK has agreed the quota increase and ratified the Executive Board reforms in 2011 and would encourage those members who have not yet done so to do the same, in order to meet the 2012 Annual Meetings deadline. The UK also remains committed to completing the review of the quota formula by January 2013. It is important that we agree a formula that reflects the relative positions of members in the global economy, consistent with the multiple roles played by quota and clearly rooted in the Fund's wider mandate.