BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

J

Press Release No. 40

September 26–28, 2000

Statement by the Hon. **GORDON BROWN**,
Governor of the Fund for the **UNITED KINGDOM**,
at the Joint Annual Discussion

Statement by the Hon. Gordon Brown,
Governor of the Fund for the United Kingdom,
at the Joint Annual Discussion

These meetings in Prague provide us with an opportunity to reaffirm our support for the ideals of international cooperation. To send a message to the world that in the new world of open capital markets the proper course is not to retreat from global cooperation but to enhance cooperation.

It is fitting that these meetings are held in Prague—this great international city—in a country—the Czech Republic—which is making a success of integration in the world economy. That same spirit of internationalism needs to drive change at the global level—to forge a new year 2000 consensus for growth, stability and poverty reduction.

When we are next confronted with a challenge to the stability of the global financial system, people will not be satisfied by being informed of who had been at which meeting. they will want to know whether we have learnt the lessons of the financial crises we faced in 1997 and 1998 and put in place the necessary reforms from effective early warning procedures to a framework for crisis resolution.

Times of prosperity test our character as much as times of adversity and if we are to use this period of relative stability to best effect we must seize the opportunity to make the reforms we all know are essential. While over the last two years we have made great progress in agreeing a framework of codes and standards, this framework will work well only if there is a transparent, effective and authoritative surveillance mechanism at the heart of which is coordination through the Article IV process by the IMF.

If globalisation is to work it must work for the poor. We welcome the reforms proposed to enable 20 countries to secure debt relief by the end of this year. But we also know that our goal is a virtuous circle of debt relief, poverty relief and economic development. In the run up to the Spring meetings we must look at how, by all our efforts, we can take new measures to move this process forward.

The lesson of recent decades is that no country—rich or poor—can secure high and sustainable growth—without pursuing policies for monetary and fiscal stability.

That is what we are doing in the UK.

In our first three years in Government we concentrated on building a platform of economic stability - the only sound platform for an enterprise culture in a global economy, the precondition for all we can achieve.

In a global marketplace with its increased insecurities and volatilities, no nation can secure high levels of sustainable investment without ensuring both monetary and fiscal stability.

Achieving lasting stability requires a credible framework with clearly defined policy objectives, maximum openness and transparency, and clear and accountable divisions of responsibility.

That is why in Britain we have set a new monetary framework based on consistent rules - the symmetrical inflation target; settled and well understood procedures - with Bank of England independence; and openness and transparency. Side by side with this and as important, a new fiscal discipline with, again, clear and consistent rules - the golden rule for public spending and the sustainable investment rule to ensure long-term fiscal sustainability; well understood procedures - our fiscal stability legislation; and here, too, a new openness and transparency.

Every event, national and international, tests our resolve to end short-termism and to steer a course for long-term stability.

I understand the concerns of our exporters about the exchange rate with the euro, and I understand the concerns about world oil prices and petrol prices. When the price of oil shifts from $10 to over $30, we should recognise a shared global interest in increased production and a lower more sustainable price. But the proper national response to the volatility and uncertainties of today's global economy is not to lurch, between budgets, from one quick fix or soft option to another. The proper response, together with our international partners, is to maintain a course for long-term stability to ensure economic growth.

We are already enjoying the benefits of our pre-emptive action - a strong and stable economy with low inflation and sound public finances.

Inflation has averaged 2.5% since we introduced the new monetary framework three years ago and 10 year inflation expectations have fallen from over 4% to 2.5%, in line with our inflation target.

The enhanced credibility of our monetary policy framework has also allowed interest rates to be lower and more stable than in the past. Official interest rates are less than half the level seen a decade ago.

We have reduced public debt from 44% of GDP in 1997 to around 34% and by cutting debt we have cut debt interest payments - releasing money for public services not just for one short year but year on year and in a sustained way. Extra public spending which comes not at the expense of prudence but because of our prudence.

And this stability has allowed the creation of over one million jobs since we came to power in 1997. Unemployment is now the lowest it has been for 20 years.

We will continue to take a tough and prudent approach to monetary and fiscal policy based on low inflation and sound public finances.

And while we are achieving stability, now is not a moment for complacency but a time of challenge and opportunity for Britain. our challenge is through a national productivity drive to bridge the 30 per cent productivity gap with our competitors that still exists.

We must overcome the old problems of under investment and inadequate skills through reforms to our capital and product markets, the encouragement of innovation and an enterprise culture open to all, as well as the building of a modern skills base.

We said in 1997 that our aim was high and stable levels of growth and employment and that our objective was to raise the trend rate of growth of the UK economy. and this year in our Public Service Agreements, the Treasury set the objective of raising the trend growth rate of the UK economy over the next four years.

We can achieve this objective. We have much to learn from the experience of the US economy over the past decade which has shown how combining stability and fiscal prudence with high levels of investment particularly in the new information technologies can lead to sustained productivity improvements and more higher skilled employment.

But we will not fall into the trap of basing our approach to economic policy including fiscal policy on the potential for improvement in trend growth before this has been demonstrably achieved. So we will continue over the coming year with the same deliberately prudent approach to the public finances. We will not make the old British mistake of assuming that a cyclical improvement in the public finances automatically means a structural improvement.

And in the Pre-Budget Report we will announce further measures to encourage enterprise, competition and high quality long-term investment as we steer a course for stability, growth and rising employment.