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Statement by the Hon. **GEORGE OSBORNE**,  
Governor of the Fund for the **UNITED KINGDOM**, and by  
the Hon. **ANDREW MITCHELL**, Governor of the Bank for  
the **UNITED KINGDOM**

**George Osborne MP, Chancellor of the Exchequer, and  
Andrew Mitchell, MP, Secretary of State for International Development  
Washington DC, October 2010**

The global economy has now entered the recovery phase after the most severe global recession since the Great Depression. The recovery will not be completely even, with some countries, particularly in emerging Asia, recovering more quickly than others. In some advanced economies, investment is starting to pick up, as is employment growth, while private consumption remains weak but is growing. Overall the recovery remains consistent with the historical experience of post-financial crisis recoveries. Although downside risks to the outlook have increased in recent months, in the UK the fundamentals are coming into place for a strong recovery and jobs are returning.

Fiscal consolidation remains essential for a strong, sustained and balanced recovery. The path of adjustment should be differentiated depending on the state of the public finances and financial system in each country. Those countries facing serious fiscal challenges need to continue implementing accelerated consolidation plans, whereas those countries with fiscal room should continue to consolidate at a steady pace in order to support demand in the short-term. But rowing back now from deficit reduction would lead to a severe loss of confidence.

There can also be no recovery without decisive and consistent action by countries to build a strong, well-regulated global financial system. Ongoing fragility in global financial markets demonstrates the deep and lasting impact of the crisis on the financial sector. It is vital that we maintain a cooperative approach to the reform of financial sector and that we implement internationally consistent rules that support the free movement of capital and open markets.

We welcome the recent agreement reached to strengthen international capital and liquidity standards. Full, consistent and non-discriminatory implementation of these, and other measures, is now crucial. But there is more to be done. We need to turn our attention to restoring the self-disciplining role of markets, reducing market distortions and addressing moral hazard. A key part of this will be delivering the coherent framework for tackling the risks posed by systemically important institutions that the G20 committed to back in September 2009.

Greater trade liberalisation is the key stimulus the world economy needs at this time. Trade is a powerful wealth creator - it has the ability to provide employment opportunities, spread knowledge and encourage innovation. Moreover, it has lifted millions of people around the world out of poverty. That is why it is imperative that we maintain momentum to conclude the Doha round of negotiations as soon as possible, which will provide gains to the global economy worth \$165 billion. Resisting protectionist measures during a time of fiscal

consolidation will also be a key and I welcome the G20 Toronto commitment to refrain from introducing or raising further barriers to trade for a further three years.

Alongside international cooperation on issues such as financial regulation and trade, we need effective international financial institutions to support our efforts to promote recovery. Most urgently, our credibility as an institution and as Governors depends on delivering a successful outcome in reforming the IMF's governance. The IMF must represent the balance of economic power in the 21<sup>st</sup> century, to stay relevant and effective. Discussions on this issue are not easy and require compromise from all sides, but we have been encouraged by the progress that we have made in recent weeks. It is extremely important that we agree a lasting deal that remains stable for the coming years, and that countries have confidence that will be implemented. A minimum first step must be for all countries to ratify the 2008 reforms.

The reform must deliver greater quota and board representation to the dynamic emerging and developing countries. Europe can contribute to achieving this goal by reducing its representation on the IMF's Executive Board. We hope that other countries will also contribute to this goal by agreeing to create a permanent 24-seat board to provide more security to the smallest seats on the Board.

On quota, our ability to finalize the details of an agreement in the coming weeks will be greatly enhanced if we reach a consensus during these meetings on the main parameters of the review. We need to start narrowing down the options and should aim to make progress on three key points:

- to ensure that the Fund has enough resources to carry out its role effectively, we should be prepared to increase quotas by up to 100%, with some rebalancing with the NAB.
- secondly, all over-represented countries should contribute to the shift in quota, so that the burden does not fall on a small number of countries. The size of the shift can be greater if more countries play a part. And those that are losing share need to be able to present this as a fair deal at home. So we hope that we can agree that with the exception of the poorest, who we must protect, all over-represented countries should contribute to the shift; and
- finally, we need to agree on who the shift is from and to. We now need to reach agreement on the definition of the shift if we are to make progress over the next few weeks. The IMF's simulations show that we can deliver both a shift of over 5% from over represented countries to under-represented countries, and a shift of over 5% to dynamic emerging markets and developing countries. These are in line with what was agreed both at Pittsburgh and in Istanbul and we should agree today that these are our objectives.

However, governance reform alone won't make the IMF an effective institution able to meet the needs of its members. The increasing importance of emerging economies in the global economy, alongside significant increase in the scale and volatility of capitals flows, poses new challenges for the International Monetary System. The Fund must be equipped with the right tools to promote stability, ensure countries can withstand economic shocks and prevent crises from spreading.

IMF lending frameworks must provide incentives for countries to adopt sound policies in good times, and be flexible enough to deal both with individual country problems and systemic shocks. We welcome recent reforms to the IMF's Flexible Credit Line and the creation of the Precautionary Credit Line. The IMF should look to maximise the impact of its new tools. We would also encourage further work on a systemic crises response framework and cooperation with regional arrangements.

The scale of cross-border economic and financial links underlines the importance of ensuring that the Fund is able to provide objective oversight of our economies and of the system as a whole to prevent future crises. We welcome the IMF's efforts to integrate financial sector and economic surveillance and to enhance its analysis of the impact of a country's own policies on others. We support further work to sharpen surveillance, to ensure that the Fund is able to provide high quality and timely advice to inform policy decisions. We encourage the IMF to work with others, including the World Bank, FSB and OECD to bring additional expertise to its work.

As the world economy recovers, we have a duty to ensure that the poorest countries benefit too. The IMF continues to have an important role to play in supporting low-income countries through policy advice and financial assistance tailored to their specific needs and focused on poverty reduction. We are pleased that the UK has been able to support this work through a \$2 billion loan of Special Drawing Rights to the Poverty Reduction and Growth Trust. We encourage other IMF members to provide resources to support this work.

Alongside this, the World Bank continues to be at the forefront of promoting development and improving the resilience of developing countries. The UK welcomes the action taken by IDA to deploy unused resources to trial a new crisis response window. We now call on other shareholders and donors to agree a permanent Crisis Response facility within IDA, to ensure that it can continue to respond quickly and effectively to the needs of the most vulnerable. The UK welcomes the Bank's strong focus on results. It is essential that the Bank delivers better value for money and maximises the value of resources available for development. By doing this, the Bank can help the international community deliver on the pledges that have just been reaffirmed at the UN Millennium Development Goals Conference in New York.