



International Monetary and Financial Committee

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Statement by Mr. Darling

IMFC Statement

The confluence of the worst financial crisis for generations and the surge in commodity prices has hit every country - the result of fundamental changes in the world economy. These twin shocks demonstrate the need for new, comprehensive approaches to maintain stability, both in economies and financial markets.

How we work together to meet these challenges is the focus of these Annual Meetings. We should keep two goals in sight. The immediate priority has to be stability. Events that started in financial markets are now feeding through to the real economy. All forecasters, including the International Monetary Fund, have been surprised by the profound impact of this shock. Beyond that, it is clear that the global financial system will never be the same again, so we must discuss how to strengthen the system for the future.

Tackling the financial crisis

We are witnessing unprecedented turmoil in global financial markets: a financial crisis that will affect every country. The priority is financial stability, and we must do whatever is necessary to ensure that stability is maintained.

The first challenge is to ensure that we each take the appropriate action to prevent financial collapse and minimise the impact of the global downturn across the world economy. This requires a comprehensive approach that restores confidence in the system, puts banks on a stronger footing and supports the real economy over the short and medium term. Markets cannot do this alone. Governments have to take the necessary action to enhance and maintain stability in the banking system. That is why the UK has announced specific and wide-ranging measures to strengthen capital and enhance liquidity, covering three areas.

1. Providing sufficient short-term liquidity by increasing the amount available to the Bank of England to lend through the Special Liquidity Scheme to in excess of £200bn
2. Make available new capital to UK banks and building societies so that they can deal with the current events in global financial markets while continuing their role of lending to individuals and businesses, support the economy.
3. Ensuring banks are willing to lend to each other with confidence – freeing up interbank lending – by offering a temporary government guarantee for eligible new debt issued by banks.

This comprehensive programme builds on other actions to strengthen the financial system, including encouraging banks to make additional disclosures beyond those required by accounting standards; and imposing a temporary ban on short-selling to help to calm financial market volatility.

The global nature of these problems means it is important for all countries to adopt a comprehensive approach, recognising that different national circumstances will require different specific solutions. We welcome measures approved by the US Congress to support its banking system, including the troubled asset relief programme. We also welcome the agreement made by members of the European Union to work together to rebuild confidence in the banking system, including the need to apply flexibility in EU state aid decisions and to apply the EU stability and growth pact in a way that reflects exceptional circumstances. But more action will be needed.

Strengthening the international financial system

We should also use these meetings to take forward our work to strengthen international supervision, based on improved co-operation between national supervisors. At the Spring Meetings we agreed to implement recommendations on strengthening regulation and we have made good progress on these issues, including disclosure. But the turmoil has underscored the need for further, speedier action.

Full implementation of the FSF's recommendations needs to happen quickly if we are to strengthen markets and restore confidence. Firstly, international authorities should improve cross-border supervisory cooperation and crisis management. Secondly the Basel Committee should continue its work on reviewing capital requirements for banks securitisation activities. Thirdly, over the long term, the FSF should develop its work on the issues around the pro-cyclicality of the financial system, to better understand any correlation between markets' willingness to take risks and economic cycles. Fourthly, market participants and national authorities should continue to work urgently together to enhance the over-the-counter (OTC) derivatives markets infrastructure.

The FSF should also initiate a work programme to assess the extent to which undesirable incentives created by internal compensation structures, including executive pay, encouraged excessive risk-taking by financial institutions and, if so, how these risks can be mitigated in the future. The UK Financial Services Authority is currently looking at the appropriate policy options on remuneration structures.

We strongly support the Managing Director's proposals to restore confidence in the financial markets. The Fund should put all its analytical and financial resources at the service of its members.

- **Strengthening macro-financial surveillance to provide effective advance warning of the risks and expert advice on policy responses.** The IMF must continue to work closely with the Financial Stability Forum. We welcome the recent IMF and FSF high level meeting with G20 countries. But we need to do more. **The Fund and the FSF**

should deliver a joint assessment of the risks and mitigating actions that need international cooperation, and come forward immediately with concrete proposals to strengthen its early warning system.

- **Responding rapidly to any financing demands from countries facing problems.** We support the Managing Director's proposal to use the Fund's emergency funding mechanism to help members in need and we are ready to take decisions quickly in support of any lending proposals so that support can be provided rapidly and flexibly. In addition to existing mechanisms, **we call on the Fund to bring forward proposals for a new fast-track liquidity facility as a matter of urgency.**
- **Ensuring that it is relevant and effective in the longer-term.** It is clear that the Bretton Woods Institutions have not kept pace with developments in the world economy. We need to take a fundamental look at the role and governance of the international financial system.

Global Commodity Markets

Despite recent falls, the impact of high commodity prices still poses challenges. We welcome the IMF's comprehensive analysis of the causes, macroeconomic consequences, and the policy responses. A number of countries have taken welcome steps to reduce commodity export restrictions and price subsidies, but it remains important to reduce distortionary measures that prevent price signals being passed on to consumers. Where measures are necessary to mitigate the impact of the shocks, they must be targeted at the poorest and most vulnerable sectors of society. **Recognising that structural reforms can be difficult and may take time to implement due to lack of social safety nets and political considerations, we call on the Fund and the World Bank to provide technical assistance to countries wishing to implement reforms.**

The UK welcomes the role that Saudi Arabia has played in enhancing the dialogue energy dialogue with the Jeddah energy meeting. **The London Energy Meeting in December will help advance this dialogue and build consensus on future demand and supply outlooks, strengthening the case for market reform and allowing investment decisions to be made with the best possible information as we move to a low-carbon economy.**

Since low-income countries face the greatest difficulties in adjusting to these shocks, the World Bank and IMF's support, in the form of policy advice and financing, is essential. **The recent reform of the IMF Exogenous Shocks Facility are a welcome improvement, and we call on all donors to the Trust Fund to approve the modifications, so that countries can begin to access the facility as soon as possible.** Rising food and energy prices have also compounded the challenge of meeting the MDGs. The IMF also has an important role to play in providing advice, technical assistance and financial support to low income countries. The

Fund, in close cooperation with the World Bank, also has an ongoing and crucial role in supporting low-income countries' own efforts to achieve long-term debt sustainability.

Sovereign Wealth Funds

We welcome the agreement by the International Working Group (IWG) of Sovereign Wealth Funds (SWFs) and the IMF on a set of Generally Accepted Principles and Practices (GAPP), which underscore SWFs' strong stake in open and stable financial markets. The GAPP will provide an effective framework for the operation of SWFs, based on good corporate governance and transparency. We welcome the permanent establishment of the IWG to review and ensure implementation of the GAPP and also to ensure continued dialogue with recipient countries.

Strengthening the role of the IMF

The new Statement of Surveillance Priorities (SSP) provides an opportunity to refocus the IMF's surveillance work towards the financial sector and macrofinancial stability links, and also to improve the accountability of the Fund for its surveillance. This is a complement to the implementation of the 2007 Surveillance Decision. But we need to ensure that there is effective follow-up. The MD should therefore report regularly to IMFC Ministers on progress against agreed priorities.

For the Fund to provide effective help it is important that countries are able to access appropriate finance to mitigate the impact of shocks and promote stability. The Fund's set of lending instruments must be streamlined and strengthened to ensure that it reflects the needs of the global economy. We therefore welcome the review of Fund lending, in particular its focus on streamlined conditionality. We support proposals to develop a new lending instrument to meet the needs of emerging market economies.

Enhancing the Fund's effectiveness in dealing with global problems is dependent on improving its governance and strengthening its legitimacy, including strengthening the participation of emerging markets and low income countries. **We support the establishment of a Ministerial Council, and agreement for an open, transparent and meritocratic selection process for the Managing Directors of the IMF and President of the World Bank.**