



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Kwasi Kwarteng
Chancellor of the Exchequer**

United Kingdom

IMFC Statement by Rt Hon Kwasi Kwarteng
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On behalf of the United Kingdom

Global Outlook and Policy Response

The global economic outlook remains challenging, and weaker global growth is a direct consequence of Russia's illegal and unjustified war against Ukraine, a sovereign democratic state. The UK stands united with partners in condemning Russia's outrageous attack on Ukraine as a clear breach of international law, human rights and multiple commitments to peace and security. We offer full solidarity to the people of Ukraine and condemn in the strongest possible terms Putin's catastrophic aggression.

Russia's illegal war has disrupted the supply of food, energy, and other vital goods, causing prices to rise and exacerbating the challenges the global economy was already facing. Russia's weaponisation of energy exports is leading many of us to face the worst energy crisis we have faced in generations. Consequently, global growth has slowed and inflation is set to remain higher for longer.

We must strengthen global energy security, including securing new supplies, supporting domestic production, and promoting energy efficiency. This is how we will deliver on our commitments to net zero and tackle climate change. Implementing net zero commitments will help drive the global economy toward a more resilient path for growth, job generation and increased productivity.

The global financial system has remained resilient to recent shocks; however a number of risks remain elevated. Tighter financial conditions, weaker growth and high inflation pose significant headwinds to the finances of households, businesses and governments, increasing the risks to stability from global debt vulnerabilities.

The Russian invasion of Ukraine and the uncertain global macroeconomic outlook has resulted in significant volatility this year, particularly within commodity markets. Though core markets have remained functional, the disruption has highlighted how commodity market interlinkages could transmit risks to the financial system. Existing vulnerabilities within the nonbank sector could also amplify the impact of future shocks to the system. Given the cross-border nature of international markets, it is important that national governments and authorities cooperate on key stability issues.

Policy space should be used to shield those impacted by high energy prices, tackle high and persistent inflation, and drive growth. It is important that we continue to

jointly monitor risks to the global economy as a global community as concurrent risks could significantly weaken global growth over the year ahead and further raise instability risks, which impact national and international prosperity.

While it is right for us to take measures to strengthen the resilience of the global economy to future shocks, including to supply chains for critical goods, we should preserve openness in global markets, and work together on diversification rather than protectionist measures.

It is more important than ever that we look creatively at supporting the global economic community to build policy buffers and support vulnerable countries in the face of multifaceted global shocks. We must ensure the IMF, in cooperation with the WB and other Multilateral Development Banks, continues to deliver as much value as possible. Despite its challenges, we believe the Common Framework remains the most effective tool at our disposal to tackle debt vulnerabilities. We must urgently deliver on our commitment to step up its implementation and finalise the existing cases, particularly Zambia and Chad. We must also make progress on wider initiatives that contribute to efficient debt treatments and long-term debt sustainability, such as improving private sector participation in restructurings through the contractual approach and greater debt transparency.

An end to Russia's illegal war is critical for a return to global stability and the reversal of adverse impacts. To this end and to support Ukraine, the UK has committed over £6.1 billion in assistance. This includes a commitment of approximately £1.3 billion in loan guarantees to support Multilateral Development Banks, particularly the World Bank, to allow them to scale up their lending to help mitigate the war's economic impact on Ukraine. Looking ahead, IFIs and countries must work closely together to ensure economic support for Ukraine for 2023. The UK has committed to provide at least £2.3bn in military support in 2023.

UK Response

Domestically, the UK is taking bold action. We have acted at speed to protect households and businesses this winter and next. Our Energy Price Guarantee saves households £1,000 on average and we're halving business energy bills through our Energy Bill Relief Scheme.

The Energy Price Guarantee will provide certainty for households and businesses and help with price pressures. The consensus amongst independent forecasters is that the Government's energy plan will reduce peak inflation by around 5 percentage points; though monetary policy remains the primary tool for bringing inflation back

to target, and the Government considers the Bank of England's independence to be sacrosanct.

This is part of our wider new Growth Plan – a first step in tackling the UK's long-term productivity problems by growing the economy to raise living standards for everyone. The Plan makes growth the government's central economic mission, setting a target of reaching a 2.5% trend rate. This will be achieved through three central priorities:

- i. reforming the supply-side of the economy, through removing barriers to the flow of private capital, supporting skilled employment, accelerating infrastructure construction, supporting the housing market and cutting regulations for businesses;
- ii. maintaining a responsible approach to public finances, with a clear commitment to reduce our debt-to-GDP ratio over the medium term, keeping spending under control and maintaining strong institutions and frameworks;
- iii. and cutting taxes to boost growth, with lower rates of corporation tax and lower rates of personal tax.

I will set out our Medium-Term Fiscal Plan on October 31, which will set out further details on the government's fiscal rules, including ensuring that debt falls as a share of GDP in the medium term. This will be accompanied by a full fiscal and economic forecast by the independent Office for Budget Responsibility.

Taken together, reforming the supply side of the economy, reducing and simplifying tax, and maintaining fiscal discipline will drive efficiency, enhance UK competitiveness, and help to boost growth sustainably in the long term.

The IMF's Role

At the heart of the global financial safety net, the IMF is best placed to provide targeted support and advice to help mitigate the worst spillovers resulting from the war in Ukraine, global food insecurity, and the ongoing recovery from the pandemic. We are strongly supportive of the IMF's new food security window, which will provide essential immediate-term support to countries affected by the crisis where a traditional IMF programme is not possible in the short term. We welcome the recently agreed \$1.3bn of financing for Ukraine through the food shock window which follows the \$1.4bn RFI in March 2022. We encourage the IMF to work expeditiously to help countries, including Ukraine, move towards Upper-Credit Tranche quality programs as soon as possible. In the case of Ukraine, the Fund must help recalibrate the

country's macroeconomic strategy, maintain positive net flows to Ukraine and act as a catalyst for further international financing support in the period ahead.

For the medium and longer term, the Fund must also remain centre-stage in supporting countries to transition to more resilient, sustainable, and growth-led futures. I welcome and support the Managing Director's Global Policy Agenda, which clearly articulates the concurrent challenges that policymakers face, and encourage the IMF to continue its focus on the following areas:

- **Surveillance:** The IMF is uniquely placed to provide robust surveillance of economic developments, including on global supply and inflation trends. Continued effective surveillance, anchored in the Fund's mandate, can assist policy choices, encourage policy transparency, and underpins the IMF's lending and capacity development operations. Real-time tailored advice is a crucial part of the IMF's surveillance agenda and I support efforts continuing in this area. We warmly welcome the IMF's significant progress on the systematic integration of climate into Article IV surveillance reports and the integration of climate related risks into Financial Sector Assessment Programs (FSAPs).
- **Lending Toolkit:** We welcome the rapid establishment of the food shock window which will help some members to cope with this challenging and difficult situation. However, the urgent priority for the Fund is to ensure it has the tools and resources to deal with the immediate crisis more broadly. This is critical to ensure that the IMF can provide effective support to members most in need, including some LIDCs that face a particularly acute situation, and to ensure supportive provision and early uptake of precautionary arrangements to help act as a first line of defence and contain potential spillovers. To this end we look forward to an ambitious review of IMF precautionary facilities.
- **Debt:** With record debt levels, much of which is concentrated in vulnerable EMDEs, the need to address sovereign debt risks is ever more acute. We welcome the IMF's ongoing support to finalise debt treatments for the country cases under the Common Framework, as well as their efforts on MICs not eligible for the Framework. As longer-term debt sustainability is also a key shared objective, the UK encourages the IMF to be ambitious on improving debt transparency through the Joint IMF-WB Multipronged Approach to Address Debt Vulnerabilities, which will help to unlock this goal.
- **SDRs:** It's vital we maintain ambition on voluntary SDR channelling and meet the total global ambition of \$100bn of voluntary contributions for countries

most in need. We urge further loan and subsidy pledges to the PRGT, where the need to meet fundraising targets is even more important given higher than previously anticipated potential medium-term demand including through the food shock window.

- **RST:** We commend the Fund for meeting its ambitious target to operationalise the RST come the Annual Meetings and for lining up a strong pipeline of pilot countries to take advantage of the new trust. We encourage further pledges from members that have not yet done so.

Global cooperation is critical, now more than ever. The UK remains firmly committed to multilateralism and recognises the vital significance of economic cooperation across International Financial Institutions and their members. This will include coming to a conclusion on the 16th General Review of Quotas in December 2023. The IMF has a central position underpinning the global financial safety net and promoting macroeconomic stability that sustains sound economic growth. I welcome the direction of its work agenda to support its mission. Securing a strong, resilient, and global recovery which spurs long-term growth is in all our interests, and all IMF members should work to that end.