International Monetary and Financial Committee

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IMFC Statement by George Osborne
Chancellor of the Exchequer, H.M. Treasury
United Kingdom

On behalf of the United Kingdom

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Global economy

Since our last meeting in April, global growth has continued to moderate. In the latest World Economic Outlook, growth is now projected to be 3.1 per cent in 2015 before picking up to 3.6 per cent in 2016. A solid recovery in some advanced economies, particularly in the US and UK, is counterbalanced by slowing growth in many emerging market and developing countries. The Fund estimates that the UK will grow at 2.5% for 2015, and confirms that the UK was the fastest growing major advanced economy in 2014.

Overall, the global recovery continues to be weak and uneven, with heightened risks; particularly in some commodity exporting emerging market and developing economies. There remains a need for further efforts by policy makers in advanced economies, as well as emerging markets, to deliver a strong and sustainable global recovery. Across advanced economies, policy makers must continue to reduce debt burdens, raise growth and ensure resilience:

- **Continued implementation of responsible medium-term fiscal consolidation plans is necessary.** Public debt and deficits remain too high in many advanced economies, including the UK, and the task of fiscal consolidation is not yet complete. Fiscal policy should remain responsible, placing debt as a share of GDP on a sustainable path. The continued implementation of credible, medium-term fiscal plans can help by anchoring markets' confidence.

- **Global financial regulatory reforms continue to be a priority and should be implemented promptly and consistently.** This includes ensuring that rules are aligned across borders to prevent fragmentation and regulatory arbitrage. We welcome the work by the FSB, BIS and BCBS on a total-loss-absorbing-capacity standard (TLAC) for global systemically important banks, and look forward to the finalisation of the common international standard by this year.

- **Structural reforms to enhance long-run growth remain a common challenge for all.** Structural reform continues to be crucial to increase productivity and deliver sustainable growth. In the UK, we have published a plan for productivity growth over the next decade, setting out concrete policy measures. These are based around encouraging long-term investment in economic capital (including infrastructure, skills and knowledge) and promoting a dynamic economy that encourages innovation and helps resources flow to their most productive use.

- **Monetary policy should continue to support economic activity consistent with domestic central bank mandates.** Clear and effective communication from major central banks will be necessary to attenuate adverse spillovers and risks to financial stability as stronger domestic economic conditions are bringing a number of major central banks closer to starting the process of gradual monetary normalisation. The use of appropriate macroprudential tools is also necessary to guard against these risks. Though risk has begun to be repriced markets may not be sufficiently factoring in the potential for a deterioration in liquidity conditions given recent changes in market functioning. Market participants should be alert to those risks, price liquidity appropriately and manage it prudently.

Having made an important contribution to sustaining global growth in recent years, growth projections for emerging markets have experienced further downward revisions, while risks to their outlook have increased. Against this background – and facing a sustained period of slower growth – having growth strategies in place is increasingly important. Action is also needed to strengthen resilience, for example by reviewing and monitoring balance sheet exposures and enhancing policy frameworks.

As this demonstrates China's transition to a more market based economy and the unwinding of risks built up in recent years is complex and is likely to have some spillovers. Of course, the Chinese economy is undergoing a major transformation from an economy sustained by investment, to an economy powered by consumption. So it is clear that even as China undergoes this transformation, the vast size and potential of China's economy means that they will continue to be a key driver of world growth for decades to come, and we should support and encourage China on this journey of economic change.

IMF surveillance

The summer's market turbulence and the global economic outlook reinforce the case for developing better macro-financial analysis and balance sheet analysis. The IMF has advised countries facing significant downside risks to closely monitor the exposures of key corporates and their banking sectors. The IMF should support this effort, including through technical assistance, while also continuing to work with the G20 and FSB on the Data Gaps Initiative, where we welcome the second phase of work to close data gaps.

The IMF should draw on this recent experience to remake the case internally for, and redouble its efforts to fully implement, the recommendations of the Triennial Surveillance Review. Full implementation will require significant changes to operational surveillance practice and to organisational culture. We therefore ask that IMFC members are kept appropriately informed of progress.

We welcome the Fund's emphasis on forthcoming work to review the adequacy of the global financial safety net and its architecture. The safety net has grown significantly since 2009, with regional financing arrangements, swap lines and official reserves all providing additional resources that are complementary to the IMF. This adds complexity to the system, however. It also raises questions about whether global liquidity insurance is spread evenly and efficiently, and whether it can be distributed smoothly and quickly via different institutions with different – but in some cases overlapping – mandates and instruments. Growing interconnectedness, particularly in financial terms, is clearly a risk factor. But equally, the integration of emerging markets and developing countries is also a huge opportunity for all IMF members. It is therefore important to consider how the system can help to reap the benefits of their participation in international capital markets in a safe and sustainable way.

IMF lending

This year is pivotal for international action on development and climate change, and we encourage the IMF to continue collaborating closely with other IFIs in order to assist developing countries. We welcome clear, tangible actions from the Addis Ababa Conference on Financing for Development, the New York Summit on Post-2015 Sustainable Development Goals, and the upcoming Conference of Parties 21 (COP 21) in Paris, and look forward to taking stock on progress at the Spring Meetings.

We welcome the priority given by the Fund to the diverse challenges faced by the poorest, fragile, and conflict-affected states, including in context of capacity development. It is important that the Fund continues to look at ways to strengthen engagement with clear actions identified and progressed. This includes work on modalities to promote further transparency of financial flows recognising the Fund's important role in strengthening the quality of public financial management, and thereby reducing the risk of corruption that can threaten sustainable economic development. Attention should also be given to the macroeconomic consequences of demographic transitions, as well as migration and large-scale refugee flows.

We welcome progress that has been achieved in strengthening international sovereign bond contracts, and stress the importance of accelerating implementation of those enhancements. We look forward to further work on sovereign debt issues, including initiatives to improve sustainable financing practices and to strengthen dialogue between sovereign creditors and debtors.

The UK recognises that, as China opens up, the RMB will become increasingly important as a global currency. The UK supports the inclusion of the RMB into the SDR basket subject to meeting existing criteria in the IMF's upcoming SDR review.

IMF Governance Reform

The UK remains committed to the full implementation of the 2010 quota and governance reform package and we urge the US to ratify these reforms at the earliest opportunity. We are committed to maintaining the credibility and legitimacy of the Fund. While the 2010 Reforms remain the priority, we are open to considering options for a package of interim measures, provided there is a broad consensus amongst the IMF membership.