International Monetary and Financial Committee

Thirty-Fourth Meeting
October 8, 2016

IMFC Statement by Philip Hammond
Chancellor of the Exchequer, H.M. Treasury
United Kingdom

On behalf of 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*, global growth is expected to be 3.1 per cent in 2016 before picking up to 3.4 per cent in 2017. Growth in advanced economies is projected to remain modest, while many emerging markets continue to adjust to lower commodity prices. The Fund estimates that the UK will grow at 1.8 per cent for 2016 and 1.1 per cent in 2017. The UK's economic performance has been robust in recent years. Since 2010, the economy has grown by 13.7 per cent, the fastest among major advanced economies.

Overall, the global recovery continues to be weak and uneven. In the short-term, downside risks have eased somewhat: concerns over growth momentum in China, prominent at the start of 2016, have subsided on the back of policy measures to support growth; sentiment towards emerging market economies (EMEs) more generally is improving, accompanied by a recovery in capital flows after a hard-sell off in the latter part of 2015; and commodity prices have recovered somewhat from the lows at the start of 2016. Over the medium-term, growth continues to be shaped by a combination of complex forces - which include challenging demographics in advanced economies (AEs) and EMEs, the ongoing transition in China, and persistently weak productivity performance in many AEs - with risks to the downside continuing to dominate.

Enhanced efforts are required from policy makers across the globe to deliver a strong and sustainable global recovery. In the UK since the June referendum, the authorities have taken action to support the economy. In August the Bank of England launched a significant monetary stimulus package. The UK Government has announced that it will not be seeking to reach its target of a fiscal surplus in 2019-20 year.

This low-growth environment requires a healthy balance between policy measures to stimulate growth in some countries where needed, and policies to build up fiscal and monetary space going forward, whilst ensuring resilience:

- **Continued implementation of medium-term fiscal consolidation plans is necessary, but governments should be prepared to take the measures needed to stabilise economies and rebuild confidence in the short-term.** The UK faces the future from a much stronger position today than it did in 2010. The deficit has been cut by almost two thirds from its 2009-10 peak of around 10.1 per cent of GDP, falling to 4.1 per cent in 2015-16. However, following the decision to leave the EU, the UK Government is no longer seeking to reach a fiscal surplus by the end of the Parliament in 2019-20. The UK's fiscal plans will be set out at the Autumn Statement in the proper way, when more economic data will be available.

- **Structural reforms to enhance long-run growth remain a common challenge for all.** Reforms that boost the productive capacity of the economy by enhancing productivity, supporting innovation and investment, and improving labour market outcomes must be a priority. In the UK, this remains a longstanding challenge and we have taken and will continue to take measures to promote productivity growth by supporting enterprise, investing in infrastructure and improving education.

- **Monetary policy should continue to support economic activity consistent with domestic central bank mandates.** Clear and effective communication from major central banks continues to be important to attenuate adverse spillovers and risks to financial stability.

- **Global financial regulatory reforms continue to be a priority and should be implemented promptly and consistently.** Building an open and resilient financial system is crucial to supporting sustainable growth and development. In the UK, the financial system has demonstrated that it is resilient and able to withstand economic and financial shocks. Action by the government and the Bank of England over the last six years has substantially strengthened the resilience of the financial system. Finalising the remaining critical elements of the regulatory framework including the timely, full and consistent implementation of the agreed financial sector reform agenda remains a priority. This includes the Basel III and the total-loss-absorbing-capacity (TLAC) standard, effective cross-border resolution regimes, as well as enhancing the resilience, recovery planning and resolvability of central counterparties (CCPs). We continue to support the international work, including the FSB's Action Plan, to address the decline in correspondent banking services, as well as the FSB's work to monitor, and if necessary, address emerging risks and vulnerabilities in the financial system.

We welcome the work the Fund has done for the Annual Meetings to examine the significant challenges facing the global economy and policymakers – which includes an assessment of the spillovers from migration and the transition in China, the impact of structural changes in financial markets on monetary policy and analysis on the slowdown in trade. The latter is particularly welcome given its potential to act as an engine for growth and in light of risks, highlighted in the reports. We would welcome further Fund analysis on the potential gains from global trade liberalisation and how trade can support a strong and sustainable global recovery.

IMF Policy Issues

IMF lending

The IMF's ongoing work to review its lending toolkit is a useful extension of its analysis of the adequacy of the global financial safety net (GFSN) earlier this year. The GFSN is larger and more flexible than in the past but still exhibits patches of over- and under-insurance, within and between regions. We are supportive of precautionary instruments, which have increased the ex-ante insurance available to IMF members with strong policy frameworks, known as 'innocent bystanders'. In principle, precautionary lines provide an efficient alternative to excessive reserve accumulation, which is costly and has global spillovers. We also look forward to the IMF's upcoming review of the financial safety net for low income countries.

Surveillance and policy advice

We should also focus on ways to reduce potential calls on the GFSN by building resilience to global economic shocks and spillovers. Sound domestic policies and frameworks are of course the first line of defence. This underscores the importance of keeping momentum behind reform of IMF surveillance to improve our collective understanding of new forms of interconnectedness, including cross-border financial ties and the dynamics of counties' balance sheets, and their associated risks. We look forward to the IMF's review of countries' experiences and emerging issues in handling capital flows, and welcome plans to bring together work on capital flow management and macro-prudential policy as a next step. We encourage the IMF to work closely with other bodies, such as the FSB and the OECD, and note in particular the ongoing review of the OECD's Code of Liberalization of Capital Movements.

We continue to support the IMF's multi-year work programme on sovereign debt issues. We also note the IMF's forthcoming analysis of the technicalities, opportunities and challenges of state-contingent debt instruments, which merit further debate. We reiterate our support for the ongoing review of the Debt Sustainability Framework for Low Income Countries, as an opportunity to increase its usefulness in guiding borrowing and lending decisions.

Low-income countries (LICs) and fragile states

The UK greatly values the assistance given by the IMF to its low-income members via the Poverty Reduction and Growth Trust (PRGT) to promote macroeconomic stability, growth and poverty reduction. We encourage the Fund to find ways to engage closely and effectively with fragile and conflict-affected member countries, and look forward to the findings of the Fund's review into how best to protect the poorest people in society from the costs of adjustment and economic reforms. We welcome the IMF's report – along with the OECD, World Bank and UN – into improving the effectiveness of tax capacity building programmes, and call on the Fund and other IOs to continue their global leadership in implementing the recommendations. By supporting LICs to improve their domestic resource mobilisation and reduce aid dependency, we will further stability and growth around the world and make real strides towards achieving the Sustainable Development Goals.

Opportunities for all

Taking greater action on corruption and tax avoidance and evasion will help to ensure more effective and efficient global governance, and a global system that works for everyone.

- In May this year, the UK hosted the London Anti-Corruption Summit that agreed ambitious and wide-ranging outcomes to tackle corruption, which may impede growth and widen inequality. We thank the Managing Director and her staff for their positive, vigorous and expert input. We look forward to the Fund's comprehensive review of its guidelines and practices for tackling governance issues, including corruption, via its technical assistance, surveillance and in IMF lending arrangements. Many countries committed to improve fiscal transparency, as appropriate, including by under taking assessments against international standards such as the IMF's Fiscal Transparency Evaluation (FTE). The UK is in the process of undertaking an FTE this year and will provide funding for more FTEs to be done in LICs that want them.

- The UK is committed to tackling cross-border tax avoidance and evasion through global action. We have done this successfully through our collective work in the OECD Base Erosion and Profit Shifting (BEPS) project to tackle aggressive tax planning by multinationals, and our focus now is on the timely and consistent implementation of the agreed outputs. On transparency, the development of the Common Reporting Standard (CRS) for automatic exchange of tax information is a game-changer and we reiterate the importance of all jurisdictions implementing on time. In April this year, we helped to launch the initiative on the automatic exchange of beneficial ownership information and have gained the support of over 40 countries, we have an opportunity to develop this into a global standard, much like the CRS.

We share the Managing Director's concern at the wasted human potential that results from significant gender inequality around the world. We welcome the Fund's five commitments at the UN's High level Panel on Women's Economic Empowerment last month, which together will be a powerful contribution to making headway on this.

IMF Resources and Governance

We support an IMF fully equipped to fulfil its responsibilities in these uncertain financial and economic times. We remain committed to maintaining a strong, quota-based and adequately resourced IMF. The entry into effect of the 2010 IMF quota and governance reform package earlier this year was an important step forwards in this respect. We strongly welcome the new framework for maintaining the IMF's access to temporary bilateral borrowing. The UK has renewed its committed to provide a bilateral loan of SDR 9.2 billion in order to help safeguard the IMF's current lending capacity over the near term. We call for broad participation of the IMF's membership, ideally including agreements with new bilateral donors. Looking further ahead, we will continue to work constructively towards the timely completion of the 15th General Review of Quotas, including a new quota formula, while recognising the scale of this task and its challenges. We are committed to protecting the voice and representation of the poorest members. We reiterate the importance of maintaining high quality IMF staff and improving the diversity of staff, and of promoting gender diversity on the IMF's Executive Board.