



International Monetary and Financial Committee

Twenty-Ninth Meeting
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**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 October, the global recovery has continued. Activity in advanced economies in particular has strengthened and near-term risks to global growth having eased somewhat. Growth in the US accelerated through most of 2013, buoyed by renewed strength in the housing market, healthy corporate balance sheets and improving consumer confidence, as well as reduced fiscal uncertainty. The outlook for the euro area also continues to improve, albeit modestly, but further adjustment is still needed in individual countries and across the euro area as a whole. Meanwhile, the UK grew faster than any other major advanced economy over the past year and the updated WEO projections show that we are now expected to do the same in 2014. The composition of the recovery has also improved, with investment spending having grown by 8.8 per cent over the past year.

Although, the global outlook is improving it remains uneven and fragile in places. Significant downside risks remain and some new risks have emerged, including an increase in geopolitical tensions, notably with the situation in Ukraine. In order to safe-guard the global recovery, policymakers must continue to build their economies' resilience by implementing much needed reforms, tackling underlying vulnerabilities and ongoing efforts to reduce public debt:

- Delivering and completing necessary **financial regulatory reforms and repair** continues to be a priority. In the euro area, the financial system remains weak and somewhat fragmented. The forthcoming balance sheet assessment and stress tests will be critical in addressing remaining uncertainties, repairing bank balance sheets and enhancing bank capital. Progress also continues to implement the global financial reform agenda, but more still needs to be done. It is important to work together to ensure prompt, robust and consistent implementation of international standards. Basel III has started being implemented, and work continues on new global rules on derivatives and to address gaps in areas like shadow banking and cross-border resolution.
- Continued implementation of responsible **medium-term fiscal consolidation plans** is necessary to tackle high levels of public debt in advanced economies. In the UK, the deficit has been brought down by a third, but it is still too high at 6.6 per cent, and faster growth alone will not balance the books. Further work to ensure credible medium-term consolidation plans is also necessary in Japan and the US. Medium-term consolidation in advanced economies should continue to be supported by accommodative monetary policy, while monetary policy normalisation should be gradual and conditional on the state of the economy, and supported by clear communication. As part of the global recovery, policymakers should communicate their expectation of higher financial market volatility, which is currently below historical norms. This should help ensure a common understanding and a reflection in market prices.

- The need for **structural reform** is common across all economies. Such reforms are essential to raising productivity and enhancing growth to support a durable recovery. In the UK, we are implementing a comprehensive programme of supply-side reforms to boost competitiveness and improve the business environment, including investment in future infrastructure; measures to boost trade and investment; reforms to the education system; and a strong focus on job creation.

Following a decade of strong growth, **emerging markets** are slowing and those with underlying vulnerabilities have experienced higher levels of volatility over the past year. The immediate priority for EMs, is to address policy and institutional weaknesses where they exist and strengthen macroeconomic fundamentals. Strong macroeconomic policy frameworks and structural reforms can support sustainable growth and build resilience to economic shocks.

For **Arab countries in transition** (ACTs), macro-economic stability and higher growth is vital for job creation. The Fund's continued financial and technical assistance can support priority reforms, investment and job creation. The Fund's conference in Amman in May provides an important opportunity for it to set out clear and sequenced proposals for assistance to the countries in this region.

IMF surveillance

The experience of recent years is that global financial integration can bring greater fragility alongside its many benefits. The Fund's surveillance role is therefore increasingly important, as is the need for the Fund to respond to recent experience through stronger and deeper surveillance. The 'surveillance toolkit' has grown and strengthened since the crisis and the integrated surveillance decision (ISD) of 2012 supports the Fund in bridging the gap between multilateral and bilateral surveillance, and developing new products. The upcoming Triennial surveillance review is a good opportunity to assess progress and ensure that the priorities we identified in the previous review, and agreed in the ISD, are fully implemented.

IMF lending

While the global recovery is strengthening, risks remain, and it is vital that the IMF has adequate resources to support the potential financing needs of its whole membership. These resources should be used to support well-designed programmes, with appropriate conditionality and risk-mitigation measures. We welcome the Fund's review of precautionary lending facilities, which remains an important part of the lending toolkit. The UK continues to support the use of these instruments, which can assist in crisis-prevention and mitigation for countries facing adverse external shocks.

The IMF has a central role leading the international effort to support Ukrainian reform, lessening Ukraine's economic vulnerabilities, and better integrating the country as a market economy in the multilateral system. We strongly support the IMF's work with the Ukrainian authorities and Ukraine's commitment to address the challenges facing the economy.

I look forward to the completion of the IMF's review of its Debt Limit Policy, which should bring additional flexibility for Low Income Countries to better access non-concessional lending. Such finance is needed to help fulfill the infrastructure demands needed for growth. However this greater flexibility brings risks and therefore additional safeguards are needed, in particular through greater transparency on the source and terms of external borrowing.

The IMF must also have adequate concessional resources to support low income countries (LICs) that remain exposed to global volatility. I am pleased to confirm that the UK has recently made its final contribution of the gold sale windfall profits, and I urge all members still to contribute to allocate their share into the Poverty Reduction and Growth Trust (PRGT). These payments into the PRGT will be an important step towards ensuring the long-term sustainability of the Fund's concessional resources.

IMF Governance Reform

The UK remains committed to the full implementation of the historic 2010 quota and governance reform package that will maintain the credibility and legitimacy of the Fund. The UK was one of the first members to implement this integrated package of important reforms in 2011. I urge the US to ratify these reforms at the earliest opportunity.