International Monetary and Financial Committee

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IMFC Statement by George Osborne
Chancellor of the Exchequer, United Kingdom

On behalf of United Kingdom

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Global Economy

Since our last meeting in October, global growth has continued to moderate. In the latest World Economic Outlook, global growth is expected to be 3.2 per cent in 2016 before picking up to 3.6 per cent in 2017. Growth in advanced economies is projected to remain modest, with some bright spots in the US and UK, offset by slowing growth in many emerging markets and developing economies. The Fund estimates that the UK will grow at 1.9 per cent for 2016, confirms that the UK was the fastest growing major advanced economy in 2014 and in subsequent years is forecast to be ahead of everyone but the US. The IMF is clear that their forecasts are predicated on the UK remaining in the European Union, and highlight the real risk of exit including through downward revisions to this year's forecast to reflect heightened uncertainty ahead of the June referendum.

Overall, the global recovery continues to be weak and uneven, with downside risks increasing, in both number and likelihood, against a backdrop of heightened financial market volatility, a large fall in commodity prices, and increased geopolitical tensions. One of these downside risks is the shock of a potential UK exit from the EU, as the WEO highlights, which as well as the domestic impact "could do severe regional and global damage by disrupting established trading relationships." Enhanced efforts are required from policy makers across the globe 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. In the UK, our deficit reduction plan is based on simple rules, which commit the Government to reducing the debt to GDP ratio in each and every year of this Parliament, to reaching a surplus in the year 2019-20, and to maintaining that surplus in 'normal times' in order to rebuild buffers. The continued implementation of credible, medium-term fiscal plans can help by anchoring markets' confidence.

- **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 strengthening productivity growth over the next decade, setting out concrete policy measures. These are designed to encourage long-term investment in economic capital (including infrastructure, skills and knowledge) and promote a more dynamic economy that encourages innovation and helps resources flow to their most productive use. The government has also recently set up the National

Infrastructure Commission to determine the UK's infrastructure priorities and hold governments to account for their delivery.

- **Global financial regulatory reforms continue to be a priority and should be implemented promptly and consistently.** This includes the Basel III and total-loss-absorbing-capacity (TLAC) standard for global systemically important banks. To this end, we encourage other national authorities to strengthen cross-border cooperation. We support the ongoing international work on the decline in correspondent banking services. We welcome the planned work by the FSB, IMF and BIS to take stock of experiences and potential lessons from macro-prudential frameworks and tools including international cooperation.

- **Monetary policy should continue to support economic activity consistent with domestic central bank mandates.** The use of negative interest rates is an important development that requires careful monitoring. Clear and effective communication from major central banks continues to be important to attenuate adverse spillovers and risks to financial stability.

The heterogeneous story across emerging markets continues to be central to that for global growth. Asia remains the global growth engine, contributing two thirds of global growth in 2016, despite a further downward revision to expectations. Meanwhile downgrades to Latin America, driven by the concerning situation in Brazil, have weighed on the global growth outlook. Emerging markets are encountering tough times, particularly those who did not fix the roof while the sun was shining. Cautious economic management will now be required to guard against risks tilted to the downside and tightening global financial conditions should be informed by a clear picture of balance sheet exposures. While many countries have significant policy buffers by historical standards, others need to take action to rebuild fiscal buffers, and enhance monetary policy credibility. As in advanced economies structural reforms to boost potential growth are also imperative and would support medium and long-term sustainability.

We welcome the work the Fund has done for the Spring Meetings to examine the situation in China and potential spillovers from its transition to a more consumption-led economy and the unwinding of risks built up in recent years. It is clear of course, that the vast size and potential of China's economy means that it continues to be a key positive contributor to regional and world growth this year and its strong current account position and buffers are a source of stability. But the Fund's analysis underscores our shared interest in supporting China as it grapples to enhance the resilience of banks and corporates and ensure the sustainability of local government finances and credit. We would welcome further analysis of potential positive and negative spillovers from China through financial channels.

<u>IMF Surveillance</u>

Against this backdrop the case for developing better macro-financial analysis and balance sheet analysis is stronger than ever. The IMF should see it as a top priority to support countries in monitoring exposures of corporates and their banking sectors during this period, including potential foreign exchange and maturities mismatches. We urge the IMF to continue its internal work on surveillance reform. The Fund should also continue to work with the G20 and FSB on the Data Gaps Initiative, and engage with the G20 and other international fora should it need further data to deliver its surveillance role effectively.

This also enhances the case for strengthening the global financial safety net (GFSN). While the current GFSN has important strengths, and has been greatly expanded since the crisis, it also has some clear areas for improvement. We welcome Fund work to strengthen cooperation with regional financing arrangements (RFAs) and review the Fund's toolkit to ensure it can meet today's client demand.

We support the increased focus on gender issues as part of the Fund's regular surveillance work, and look forward to further work supporting national authorities in addressing gender gaps, where they exist. We welcome the Fund's work on the macroeconomic impacts of climate change. The Fund has a crucial role to play in supporting its members in considering the fiscal implications of their mitigation efforts and adaptation strategies in a way that is consistent with debt sustainability, growth and poverty reduction objectives. Attention should also be given to the macroeconomic consequences of demographic transitions, as well as migration and large-scale refugee flows.

IMF Lending

Given the challenges faced by commodity-exporting emerging market and developing economies in particular, we encourage the IMF to continue collaborating closely with other international institutions to support these countries in their adjustment efforts. With elevated global risks it will be important that consistent and comprehensive strategies for support are put in place quickly, taking into account the institutions' comparative advantages as well as country-specific circumstances.

We welcome the priority given by the Fund to the diverse challenges faced by the poorest, fragile, and conflict-affected states, including in the context of capacity development. It is important that the Fund continues to look at ways to strengthen engagement with clear actions identified and progressed. We look forward to the upcoming review of the Debt Sustainability Framework for Low-Income Countries, as a way of increasing its usefulness in guiding borrowing and lending decisions.

Recognising the Fund's important role in strengthening the quality of public financial management, we strongly encourage work to further the transparency of financial flows, including through supporting members in undertaking Fiscal Transparency Evaluations. We also hope that the review of the Fund's Guidance note on the role of the Fund in governance issues will strengthen the Fund's ability to support its members in tackling corruption that can have detrimental impacts at the macroeconomic level.

International effort to ensure tax transparency is also essential. This includes the widespread, consistent and effective implementation of G20/OECD Base Erosion and Profit Shifting (BEPS) project which is critical for a fair and modern international tax system. The UK, Germany, France, Italy and Spain announced at the Spring Meetings a pilot initiative for the automatic exchange of information on the beneficial owners of companies and legal entities, making it more difficult for firms to dodge tax or funnel corrupt funds. We have also written to G20 counterparts urging progress towards a fully global exchange of beneficial ownership information. From June 2016, the UK will be the first G20 country to have a public, central register of company beneficial ownership.

We continue to support the Fund's work on sovereign debt issues, including the use of state contingent instruments. The countercyclical nature of these instruments could help elevate the risk of sovereign debt crisis during downturns.

IMF Resources and Governance

We strongly welcome the implementation of the 2010 quota and governance reform package. We look forward to completion of the 15th General Review of Quotas by the 2017 Annual Meetings that will importantly look at increases in the quota shares of dynamic economies in line with their relative positions in the world economy. We remain committed to maintaining a strong, quota-based, and adequately resourced IMF. We note the importance of maintaining high quality IMF staff and improving staff diversity, and of promoting gender diversity on the Executive Board.