



International Monetary and Financial Committee

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

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On behalf of the United Kingdom

Global Economy

1. **Global growth momentum has moderated since the first half of 2018**, and a key unknown in the near term is whether growth might continue to weaken further, or if the recent slowdown is flattening off. Some indicators, particularly in the industrial sector, have continued to weaken in 2019, including world goods trade momentum, the global manufacturing PMI, and business confidence.
2. **There are also some more positive signs, and factors that should support near term growth.** The outlook for monetary policy has become more accommodative, supported by continued low levels of inflation, and financial conditions have improved since the end of last year. This has eased pressures on some Emerging Markets. Some weakness in 2018H2 and early this year also reflected temporary factors, while the global services PMI has stabilised in 2019. However, we remain particularly concerned about the impact of trade tensions on the global economy, and on the rules-based trading system. A long period of low interest rates has contributed to a build-up of financial vulnerabilities in some countries and sectors.
3. We therefore strongly agree with the IMF's view that now is the right time to take action to increase potential growth, strengthen resilience to macroeconomic shocks, and tackle medium term financial vulnerabilities. We also agree with the assessment of key challenges in the World Economic Outlook (WEO), Global Financial Stability Report (GFSR) and Fiscal Monitor.
4. **We note the IMF's illustrative scenarios exploring the economic implications of the UK's withdrawal from the EU without a deal, presented in the World Economic Outlook. The Government's aim continues to be to leave the EU in an orderly way, without undue delay, and that means leaving with a deal.** So the Government has agreed an extension to Article 50 up to October 31, or, if earlier, when the Withdrawal Agreement has been ratified and the necessary legislation passed. Alongside this, the Government continues to prepare for all eventualities. In particular, as the Fund has noted, both the UK and EU authorities have taken important steps to mitigate risks to the financial system in all Brexit outcomes. Notably, the UK has put in place temporary permissions regimes to allow EEA firms to continue to provide services in the UK, and the EU has adopted time-limited equivalence decisions for UK central counterparties and central securities depositories – measures which the UK welcomes. We agree with the Fund's conclusion that risks have reduced as a result of these actions although some risks to financial stability remain.
5. It is important that monetary, fiscal and structural policy work together to sustain global growth momentum:
 - a) **Monetary policy should continue to support price stability and economic activity, consistent with central banks' mandates.** In line with the UK's monetary policy framework, monetary policy is best conducted by a central bank with operational independence, and clearly defined objectives, ensuring credibility and accountability. Transparent communication is essential to promote an understanding of the trade-offs inherent in setting monetary policy to meet a forward-looking inflation target, while giving due consideration to output volatility.
 - b) **Fiscal policy should continue to ensure that public finances are on a sustainable trajectory,** while allowing flexibility to support the economy in the near term, if necessary. The UK's

balanced approach to fiscal policy is underpinned by fiscal rules which commit the government to reducing the structural deficit to below 2% of GDP and getting debt falling as a share of GDP in 2020-21. Reducing debt is important to ensure the UK's economic resilience, improve fiscal sustainability, and reduce the burden on future generations.

- c) **Structural reforms to enhance medium-term growth remain a priority across the IMF membership.** Promoting productivity growth is at the forefront of the UK Government's agenda. The UK Government is currently investing £37bn in a National Productivity Investment Fund targeted at economic infrastructure and boosting innovation across the UK. We are also working to reform technical education, engaging with businesses and local communities to design a simpler, streamlined system which will provide clear learning pathways and ensure our workforce is prepared for the 21st century. We have made strong progress in improving labour market outcomes, with the lowest unemployment rate since 1975.
- d) **The global financial regulatory reform agenda remains a priority.** We must remain committed to the full, timely and consistent implementation of internationally agreed reforms, to promote an open and resilient global financial system. We welcome the pivot from policy development towards the implementation and evaluation of reforms; this will help us to assess their effectiveness and address any unintended consequences, including risks arising from market fragmentation. However, we must avoid a roll-back of reforms, and must not compromise their original objectives or the level of resilience we have generated.
- e) **The UK remains committed to a well-functioning multilateral trading system, recognising the positive impact of trade on the pickup in the global economy.** A rules and market based international system is a top priority to ensure sustained growth.

IMF Policy Issues

Policy advice and surveillance

- 6. Fund analysis suggests that targeting bilateral **trade** balances will likely only lead to trade diversion and offsetting changes in trade balances with other partners. We therefore note the importance of modernising and improving the effectiveness of the multilateral trading system to facilitate and deepen trade between countries; making the trading system fairer, stronger and fit for the future in areas such as services and e-commerce. We welcome the Fund's continued focus in this area, and also strongly encourage the Fund to continue its analytical and policy work on services trade and the role of non-tariff barriers, working in cooperation with other international organisations.
- 7. **Digitalisation** presents enormous opportunities for economies, markets and living standards. It is important that these benefits are shared widely. At the same time, the transition to an increasingly digitalised world will require countries to adapt to new challenges and opportunities. We welcome the attention given to technological change in recent Fund publications, and look forward to the upcoming board on country experiences of fintech. The Fund should focus on helping members adapt to these trends and maximise their opportunities, concentrating on analysing the macro-economic implications of technological changes; sharing best practice and supporting members' use of digitalisation to help improve public sector efficiency, tax compliance and tax administration; and ensuring macroeconomic measurements evolve in parallel to accurately capture rapid changes in the economy.

8. We welcome the reference in the Fund's Global Policy Agenda to protecting personal data. The secure movement of **financial data** is essential for global growth and the stability of the financial system. We recognise that countries will need rigorous financial supervision and data protection without spilling into data protectionism and market fragmentation. To help achieve this, the Fund should use its analysis and surveillance to examine the impact of financial data flows on growth, innovation and productivity and assess the economic impact of financial data fragmentation.
9. Building on the **Bali Fintech Agenda**, the Fund should continue to study the implications of fintech and use its convening power with the relevant domestic and international bodies, to help countries reap the benefits of fintech, prioritising areas where collective action needs are high amongst its broad membership. We encourage the Fund to continue working with other international organisations and the standard-setting bodies to consider these issues, including resilience to cyber risks.
10. We welcome the initial scoping boards of the **Comprehensive Surveillance Review (CSR)** and **Review of the Financial Sector Assessment Program (FSAP)**. Notwithstanding the progress made in integrating macro-financial analysis into surveillance to date, strengthening financial surveillance remains critical to delivering the Fund's core mandate. Remaining challenges for bilateral and multilateral financial surveillance include building a deeper understanding of risks across the financial sector; systematic use of balance sheet analysis; a greater focus on spillovers, including through market-based finance; a deeper understanding of the propagation of financial shocks across borders; better tailoring of analysis to country circumstances; and continued progress towards addressing data gaps. The current timely and comprehensive FSAPs for important financial sectors are a very important part of the global system, helping to ensure that compliance with international regulatory standards are assessed rigorously and consistently across countries. This helps to underpin an open global financial system as well as providing important insight into financial stability risks. Furthermore, both reviews provide a chance to ensure better integration of Fund activity – including between surveillance products and capacity development – and to evaluate the traction of Fund advice. The IMF should ensure that its reviews are cognisant of developments in financial surveillance at other IOs, in order that the Fund can exploit its comparative advantage.
11. We look forward to the implementation of the recommendations from the recent **Capacity Development Strategy Review**, which should strengthen the effectiveness and transparency of the IMF's technical assistance and training and improve collaboration and coordination with other International Organisations and bilateral donors. It is particularly important that the Fund seek to develop country strategy notes (CSNs) to provide a country centred approach to capacity development, taking into account institutional capacity in each instance. We reiterate the importance of having Fund staff in country to deliver capacity development, and flag our support for capacity development on debt, governance and domestic revenue mobilisation.
12. **Corruption**, a symptom of weak governance, threatens countries' ability to pursue stable and inclusive growth and poverty reduction. Corruption erodes public confidence in the domestic and international institutions that we all depend upon. We therefore welcome the enhanced framework for Fund engagement on governance and corruption issues and early examples of this increased focus, and look forward to its robust and even-handed implementation. The UK was one of the first countries to have its anti-corruption frameworks and systems assessed in its last Article IV report and encourages other members to do the same. The UK sees this as an important step forward in the Fund's work on the supply-side and facilitation of anti-corruption measures, including on AML/CTF efforts, where we encourage the Fund to continue to prioritise capacity

development focused on improving effectiveness, and further collaboration with the Financial Action Task Force.

13. We also welcome the IMF's ongoing work on **climate issues** and its efforts to support countries, including those increasingly **vulnerable to natural disasters** to build ex-ante climate resilience and develop comprehensive fiscal risk management frameworks. We thank the IMF for its work on climate mitigation and adaptation strategies, and look forward to its proposals for increasing resilience.

Low-Income Countries and Fragile and Conflict-Affected States

14. We remain very concerned about the scale and nature of **rising debt vulnerabilities** in **Low-Income Developing Countries (LIDCs)**, and support the IMF and the World Bank Group's joint multi-pronged approach on debt. This must help borrowers gain capacity and capability to safeguard their public finances, and establish frameworks that provide clear incentives for debt transparency and sustainability. The IMF and WBG must also work with official and private creditors to articulate and implement best practice lending, including through supporting the G20's self-assessment against the Operational Guidelines on Sustainable Financing and engaging with the Institute of International Finance's work promoting private creditor transparency. The IMF and WBG should continue to support the ongoing work of the Paris Club, as the principal international forum for restructuring official bilateral debt, towards the broader inclusion of emerging creditors.
15. We support and value 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 look forward to conclusion of the LICs Facilities Review and wider Conditionality Review, which should lead to tangible improvements in the effectiveness of the PRGT toolkit, while closing the gaps in the financial safety net for LICs. We support the Fund's proposals to tailor existing instruments, in particular the RCF and ECF, to better support the diverse and particular needs of fragile- and conflict-affected states. We also see merit in increasing ECF program length, recognising the longer time horizon that many LICs require to achieve macroeconomic stability, higher domestic revenue and inclusive growth. We are pleased that staff have suggested strengthening the poverty impact of IMF programmes, and are taking steps to enhance countries' resilience to natural disasters.
16. We welcome the hugely valuable role that the IMF has played in many **Fragile and Conflict-Afflicted States (FCAS)** over the last two decades and welcome the Management Implementation Plan for the Independent Evaluation Office (IEO) Report on the Fund's Role in FCAS. Changes to the recruitment, allocation and promotion of staff working in and on FCAS issues is a key priority that will help drive all the other reforms that are required. We call on senior management to drive the cultural and institutional change that is required, including through direction of the Institutional Mechanism. This should draw external input from other institutions and experts that have greater levels of expertise in issues of fragility. We continue to encourage senior management to ensure that staff are able to visit high-risk locations at critical times, as IMF engagement is only fully effective when its staff can have face-to-face, in-country contact with FCAS authorities.
17. We welcome the IMF's work along with the OECD, World Bank and UN on the **Platform for Collaboration on Tax**. The PCT is uniquely placed to deliver effective tax capacity building programmes and has made excellent progress to date, but more could be done to enhance the effectiveness of global and in-country coordination. We call on the PCT organisations to work

together to implement their joint workplan and look forward to the progress report to G20 Finance Ministers this June. Medium-Term Revenue Strategies (MTRS) are a key means of improving coordination at the country level. We call on the Platform to set out a clear process for the MTRS pilots which empowers partner governments to lead the process, brings in and draws on development partners from the outset, and is informed by broad-based consultation with all government stakeholders and taxpayers. The success of these pilots will be important not only for host countries but for the future viability of this new approach.

IMF resources and governance

18. We remain committed to a strong, quota-based and adequately resourced IMF at the centre of the Global Financial Safety Net. We will continue to work constructively towards the completion of the 15th GRQ (no later than the Annual Meetings of 2019) and remain committed to protecting the voice and representation of the poorest members. While we would be prepared to support a quota increase, we deeply regret that this prospect will not garner the support needed for approval of the 15th General Review of Quotas. We would support at least maintaining the current level of IMF resources, and given the importance of ensuring that the Fund is adequately resourced, we would be open to at least doubling the New Arrangements to Borrow (NAB). We regret that such a solution would not deliver any realignment of quotas towards dynamic economies and therefore are open to ideas to ensure progress towards this objective as part of timely progress with the 16th General Review of Quotas. Beyond the issue of resources, we are open to considering how else to ensure that dynamic emerging economies have appropriate access to the Fund's toolkit.
19. Finally, we believe that the Fund must have the capacity to deliver its objectives over the long term. Core to this is strengthening the Fund's most important asset, its people. The Fund must be able to continue to attract and incentivize high-quality, dedicated staff with the right skills, support a variety of career paths, and ensure the diverse workforce and transparent operating model that befits an international multilateral institution in today's changing world. We therefore support the **Combined Compensation and Benefits Review** and the ongoing development of the **Fund's HR Strategy**, both of which are opportunities to give the Fund the tools to better achieve these goals over the coming decades. We also reiterate the importance of promoting gender diversity in the IMF's Executive Board.