International Monetary and Financial Committee

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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 we last met in April, the global recovery has remained subdued but there has been a noticeable shift in the drivers of growth. Advanced economies are gradually strengthening, including the UK where all sectors of the economy are now growing. At the same time, there have been clear signs of slowdown in some emerging markets economies (EMEs).

The global outlook remains fragile and the risks are still very much to the downside. Policymakers must avoid missteps and cannot afford to ease up with reforms to repair their economies and tackle deep-seated vulnerabilities. Quite the opposite - whether it is urgent macroeconomic adjustment, financial repair or implementation of medium-term structural reforms, quick and decisive action is now needed to make the transition to strong, sustainable and more balanced global growth.

In the UK, I am determined to deliver the Government's economic plan to secure the economic recovery. I have informed IMFC colleagues that I will set out next steps in my Autumn Statement to the UK Parliament on December 4th.

Policymakers in **advanced economies** need to use the opportunity provided by the recent pick-up in momentum to push ahead with the following fundamental reforms:

- *Putting public finance back on a sustainable track.* In the UK, the budget deficit has decreased by a third since 2010, but it is still too high at over 7 percent. Gross debt is also set to reach 100 percent of GDP in the coming years. For these reasons, it is essential to press on with implementation of medium-term fiscal consolidation plans. In the euro area, significant progress has already been made with fiscal adjustment but more will be required, particularly in periphery countries facing the largest fiscal challenges. At the euro area level, further institutional reforms are required to deliver greater fiscal integration and budgetary coordination. Having avoided the fiscal cliff in 2012, the immediate priority for the US is to end the government shutdown and lift the debt ceiling. In Japan, we have seen a bold monetary and fiscal stimulus to fight deflation, but this now needs to be complemented with strong plans for medium-term fiscal consolidation and structural reforms. The recently announced consumption tax increase is a welcome first step in this regard. Medium-term consolidation in advanced economies should continue to be supported by accommodative monetary policy. Normalisation of monetary policy should be gradual and dependent on the state of the economy, with clear communication of the policy reaction function.

- *Repair and reform of financial systems.* Failure to complete the healing process of financial systems still threatens to hold back the economy. In the UK, measures have been taken to strengthen banking sector resilience, including robust stress testing and credible plans to strengthen capital buffers. In addition, the *Funding for Lending Scheme* has been introduced to improve credit supply, and the *Help to Buy* scheme to support the housing market. In the euro area, the financial system remains weak and fragmented. The forthcoming balance sheet assessment and stress tests will be critical in addressing remaining uncertainties and repairing bank balance sheets. A clear and credible strategy is needed for meeting capital shortfalls identified by the process. Further steps to strengthen the currency union will be needed, including a single supervisory mechanism, resolution mechanism and a common backstop, whilst respecting the integrity of the wider single market. More broadly, progress in developing and implementing the multi-faceted global financial reform agenda remains mixed. It is important that we work together to ensure that Basel III capital and liquidity standards are implemented in a consistent and non-discriminatory manner, and address gaps in areas like cross-border resolution, shadow banking, accounting standards and OTC derivates.

The immediate priority for **EMEs** is coping with recent financial market volatility, including tighter financing conditions and capital outflows. It will be important to address underlying vulnerabilities with necessary macroeconomic adjustment, anchored in sound policy frameworks. This is most important for those under market pressure, but all EMEs should focus on reforms to rebuild buffers and improve resilience. As the World Economic Outlook highlights, the appropriate policy mix and pace of adjustment will differ across economies. I urge the Fund to continue supporting policymakers with appropriately tailored surveillance and advice.

For **MENA countries in transition,** achieving macro-economic stability and higher growth are essential for job creation and accommodating the growing working age population in the region. Better targeting of public spending on infrastructure and basic services will be needed, as part of a credible medium-term fiscal consolidation strategy. I welcome the support provided by the IFIs, including the IMF and by bilateral donors but more needs to be done. Efforts need to be redoubled. The IFIs need to identify additional financing needs and consider the scope for further immediate IFI support. I look forward to progress before our next meeting.

A common theme across all groups of economies is the need for important underlying *structural reform*. Such reforms will help accelerate the rotation of global demand and address external imbalances. They are also the key to raising productivity and boosting growth potential. In recent years these issues have received more attention in advanced economies, but the recent apparent slowdown in potential growth of EMEs demonstrates the importance of such reforms for all the membership. Given that these reforms take time to implement and bear fruit, I urge policymakers to move ahead with this agenda as quickly as possible. In the UK, the *Plan for Growth*, and the *National Infrastructure Plan* are implementing a comprehensive programme of supply-side reforms to boost competitiveness and improve the business environment, including infrastructure investment; deregulation; measures to boost trade and investment; root and branch reform of the planning system; and radical reforms to every stage of education and skills provision.

IMF Surveillance

The implementation of the IMF's new surveillance toolkit is now well underway. New products and process are up and running within a modernized and a new integrated surveillance framework that bridges the gap between bilateral and multilateral surveillance. The immediate priority is to ensure that this new surveillance approach is effectively operationalised and translated into stronger surveillance on the ground. In that respect, I look forward to the 2014 Triennial Surveillance Review, and welcome the intended focus on the following themes:

- *Effective implementation of the Integrated Surveillance Framework.* IMF surveillance needs to be underpinned by robust and compelling analysis. Deepening analysis and understanding of financial and macro-financial interconnectedness continues to be a priority. The Fund has made significant progress in this area, including through its Spillover Reports, but the work is still in its infancy. I encourage the Fund to continue with the IMF-FSB Data Gaps Initiative and work to map financial flows between global financial centres. These will be important initial steps towards developing the framework and tools we need to make real progress in this area.

- *Consistency and Focus of Fund surveillance*. Now is the right time to take stock of the Fund's "policy compass", the tailoring of surveillance and the coverage of medium-term sustainability and growth issues. Fund surveillance and advice needs to look beyond the near term to the multiple, medium-term challenges that policymakers are currently grappling with, not least because solutions require difficult decisions now. Looking more closely at recent Fund surveillance, further work is needed to improve consistency, particularly in terms of the quality of bilateral surveillance, including Article IV report and Financial Sector Assessment Programmes. This process will take time, and the new Integrated Surveillance Decision will play an important role, but the TSR should consider further options to help address this issue.

IMF Lending

The global recovery remains fragile and it is essential that the IMF has the resources at its disposal to support the potential financing needs of the entire membership. I am pleased to see that most bilateral financing agreements have now been finalised to meet the pledges that were made 18 months ago. Our support bolsters the IMF's financial firepower by over $460bn. I welcome the Managing Director's recent confirmation that the Fund continues to stand ready to offer financial support to countries facing balance of payments difficulties. The IMF should be ready to implement well-designed programmes with appropriate conditionality and risk-mitigation measures.

The Fund's precautionary lending instruments have become an important part of the Fund's lending toolkit and the global financial safety net, reflecting the need for crisis-prevention and crisis-mitigation lending to countries coping with adverse external shocks. As the

Managing Director notes in her Global Policy Agenda, experience has shown – for instance in the case of Mexico – the benefits of timely mobilisation of precautionary resources in times of heightened market volatility and uncertainty. The UK continues to support the use of these instruments and looks forward to the forthcoming review as an opportunity to assess their effectiveness and consider potential further enhancements.

The IMF must also have adequate concessional resources to support low income countries (LICs) that remain exposed to global volatility. I welcome the announcement this week that allows us to take forward the distribution of gold sale windfall profits and encourage all members to allocate their share of the windfall profits 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 delivery of the historic 2010 quota and governance package, which will maintain the legitimacy and credibility of the Fund. The UK was one of the first IMF members to consent to the 14th General Review and ratify the Seventh Amendment in 2011. The broader membership has made significant progress with implementation, but has not yet reached the 85 percent threshold for ratification of the Board Reforms that is required for both elements to become effective.

The UK remains committed to meeting the January 2014 deadline for the 15th General Review. As I noted at the Spring Meetings, we need an integrated package, reflecting the spirit of cooperation and compromise across the membership. This will be essential if the membership is to move forwards to a broad consensus.