



International Monetary and Financial Committee

Thirtieth Meeting
October 11, 2014

**Statement by Mr. George Osborne
Chancellor of the Exchequer, H.M. Treasury, United Kingdom**

On behalf of the United Kingdom

Statement by George Osborne
Chancellor of the Exchequer, H.M. Treasury, United Kingdom
On behalf of the United Kingdom

Global economy

Since our last meeting in April, the global recovery continues and the world economy no longer faces the extreme risks to growth and stability of only a few years ago. Global growth is expected to improve modestly in 2014, with recovery progressing in advanced economies, particularly in the US and UK. The euro area recovery continues, albeit muted. In the UK, the Fund continues to project in its latest World Economic Outlook that the UK will grow at 3.2% for 2014 and 2.7% for 2015, with the UK growing faster than any other major advanced economy this year.

However, the global recovery remains weak and uneven, with growth forecasts revised down again and downside risks increasing both in the short and medium-term. There remains the need for further progress by policy makers to deliver a strong and sustainable global recovery. Across advanced economies policy makers must continue with ongoing efforts to reduce public debt, focusing on raising growth and building resilience to shocks at a global level:

- **Continued implementation of responsible medium-term fiscal consolidation plans.** The UK has made significant progress on fiscal consolidation since 2010. According to the Fund, between 2010 and 2013 the UK reduced its structural deficit by more than any other advanced economy (4.7% of GDP). Public debt and deficits remain too high in many advanced economies, including the UK, and the task of fiscal consolidation is not yet completed. The importance of credible, medium-term frameworks for fiscal discipline that can anchor markets' confidence remains a priority.
- **Effective financial regulation and progress on regulatory reform continues to be a priority.** This includes restoring confidence to the banking sector; a critical part of which is ensuring the upcoming EU stress tests are credible and robust. Basel III is also being implemented, there are new global rules on derivatives and we must secure an international solution to the too big to fail problem in the banking sector.
- **Pushing ahead with growth-enhancing structural reforms is common across all economies.** Structural reforms are crucial to help improve productivity and prospects for longer-term growth. As the Fund has noted infrastructure investment can have a role to play. In the UK focus has been placed on capital investments, including infrastructure. In this context the UK Government has already taken a number of steps to switch current spending to capital spending to support the quality of the fiscal consolidation and long-term productivity growth.

Improving growth while retaining resilience also requires the provision of appropriate, and well-communicated monetary policy support and calls for the development and use of appropriate macroprudential tools as a first line of defence against financial stability risks. As part of this action policy makers should continue to communicate their expectation of higher financial market volatility to market participants to help ensure a common understanding and that they are adequately prepared.

In emerging markets, growth rates are forecast to remain below the levels seen over the last decade. The need for prudent macroeconomic policies; strengthening of policy frameworks and undertaking of necessary structural reforms can support sustainable growth and build resilience to economic shocks. We welcome the continued capital account liberalisation in China, a key part of the current reform agenda. Chinese financial integration into the world economy should help to support global economic growth and stability. As part of developing the offshore RMB market the UK Government has just announced we have begun the process of issuing the world's first non-Chinese sovereign bond in RMB.

IMF surveillance

I endorse the findings and recommendations of the **triennial surveillance review** and **FSAP review** and their key themes. The Fund needs to deliver a greater focus on risk and spillover analysis, including expanding “macro-financial” analysis. The key now is effective implementation with ongoing oversight by Fund management and the Executive Board.

Developments in recent years have served to highlight the importance of **strengthening contractual frameworks** for foreign law bonds to provide a more robust and market based contractual solution to possible future collective action problems. The Fund is not in a position to mandate contract designs, but its expertise and experiences in dealing with countries undergoing sovereign debt restructurings make it a valuable advisor in this area and make it the appropriate forum to discuss these issues. In that context we strongly support the Fund's proposal to promote the widespread use of modified pari passu clauses in sovereign bonds governed by foreign law and proposals to strengthen aggregation in Collective Action Clauses (CACs) in foreign law bonds.

IMF lending

I look forward to the completion of the Fund's review of its **Debt Limit Policy**, based on the latest staff proposals. This revision should bring additional flexibility for Low Income Countries to better access non-concessional lending, necessary to help fulfil the infrastructure demands for growth. However this greater flexibility brings risks and therefore we welcome the additional safeguards included. I encourage the Executive Board to rapidly adopt these proposals.

I commend the World Bank Group and Fund for its leadership and quick response to the **Ebola crisis**, including its rapid mobilization of emergency funding to support treatment and containment. We are encouraged by the joint effort of the international community in West Africa, while underscoring the importance of providing ongoing support for the World Health Organization's Ebola response Road Map. Beyond the human tragedy, economic losses in these countries are devastating. Swift and coordinated operational action and financial support are critical to mitigate the impact of the crisis.

I also welcome the Fund's stepped-up engagement with Arab Countries in Transition and states in a fragile situation, and encourage it to increase its efforts.

IMF Governance Reform

The UK remains committed to the full implementation of the 2010 quota and governance reform package and I urge the US to ratify these reforms at the earliest opportunity. We are committed to maintaining the credibility and legitimacy of the Fund.