



International Monetary and Financial Committee

Thirty-Fifth Meeting
April 22, 2017

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

On behalf of United Kingdom

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Global Economy

Since our last meeting in October 2016, global growth has picked up. GDP growth was weak at the beginning of 2016, firming up in the second half of the year. Survey indicators point towards continued solid growth in the first quarter of 2017. There are now upside risks to the near-term outlook, including from cyclical momentum in the euro area, and improved sentiment in the euro area and US. Emerging markets are expected to continue to be important drivers of global growth. In the UK, economic performance has been robust in recent years and since 2010, the economy has grown by 14.6 per cent.

However, medium-term prospects for global growth remain subdued compared to pre-crisis trends. Weak productivity growth remains an issue for advanced economies. Meanwhile, emerging markets face a disparate set of domestic challenges, as well as sharing common external risks. Underpinning the global outlook there is a high degree of policy uncertainty, including potential disruption in long-term established patterns of trade. Therefore, we agree with the IMF's judgement that risks remain weighted to the downside. Policymakers across the globe should work together to support a strong and sustainable global recovery.

On 29 March, the UK issued formal notification of its withdrawal from the European Union. During the withdrawal negotiations, the UK Government will give citizens and businesses in the United Kingdom, the European Union and third countries as much certainty as possible. It is in the interests of both parties to ensure that the UK's departure is delivered in a fair and orderly manner and with as little disruption as possible on each side. Throughout this process the UK will continue to champion free trade in the EU and globally.

The IMF forecasts that the output gap in advanced economies as a whole will have almost closed by the end of 2018. It is important to maintain a healthy balance between monetary, fiscal and structural policy measures to support this recovery and to strengthen underlying growth while ensuring resilience:

- **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, clearly defined objectives and transparent communication to ensure credibility and accountability.
- **Fiscal policy** should ensure that public finances remain on a sustainable trajectory over longer horizons, while allowing flexibility to support economies in the near term, if necessary. To this end, the UK has already reduced the deficit by nearly three-quarters, from a peak of 9.9% GDP in 2009-10 to a forecast 2.6% GDP in 2016-17. The UK has committed to reduce the structural deficit to below 2% of GDP and to get debt falling in 2020-21, and then to return the public finances to balance as early as possible in the next Parliament. The IMF note that the UK's new fiscal framework strikes "an appropriate balance between providing an anchor for medium-term objectives and allowing room for short-term manoeuvring".
- **Structural reforms** to enhance long-run growth remain a common challenge for all. Reforms that boost the productive capacity of the economy by enhancing productivity, supporting innovation and investment, and improving labour market outcomes must be a priority. In the UK, this remains a longstanding challenge and we have taken and will continue to take measures to promote productivity growth by supporting enterprise, investing in infrastructure and improving education. The UK Government has taken action to improve our productivity performance: investing £23bn in a National Productivity Investment Fund targeted at economic infrastructure, increasing the quality of our technical education, and working with industry through our industrial strategy.

- **Global financial regulatory reforms** continue to be a priority and should be implemented promptly and consistently. Building an open and resilient financial system is crucial to supporting sustainable growth and development. In the UK, the financial system has demonstrated that it is resilient and able to withstand economic and financial shocks. Action by the government and the Bank of England has substantially strengthened the resilience of the financial system since the crisis. Finalising the remaining critical elements of the regulatory framework including the timely, full and consistent implementation of the financial sector reform agenda remains a priority. This includes the ongoing work in Basel the total loss-absorbing capacity (TLAC) standard which will ensure effective cross-border resolution regimes and work to enhance the resilience, recovery planning and resolvability of central counterparties (CCPs). We remain convinced of the benefits of global cooperation on financial stability standards through the Financial Stability Board. Without cooperation, it would become more difficult to prevent and resolve financial crises. Additionally, we broadly agree with the assessment of key risks in the Global Financial Stability Report (GFSR) and strongly support the narrative on completing the financial reform agenda and further building strong common international standards. These are essential to building enhanced forms of equivalence arrangements between countries, helping to maintain open global capital markets.
- **Global integration** has undoubtedly made a huge contribution to raising living standards over recent decades but it has not benefited everyone equally. Some workers and communities may struggle to adjust to the pace of change, affecting some regions more than others. This presents a policy challenge to which domestic and international policies should seek to respond. Our response should not be to turn away from free trade and globalisation, however, and the benefits they offer for prosperity and security.

IMF Policy Issues

IMF lending

We support the IMF's ongoing work to enhance the effectiveness of its lending toolkit. Although the global financial safety net (GFSN) is becoming increasingly large and diverse, significant gaps remain. We therefore welcome the IMF's work to develop a new liquidity backstop, which would boost resilience against sudden, short-term liquidity problems, especially for IMF members with strong fundamentals. This revised precautionary toolkit could then leave the Flexible Credit Line (FCL) as a tool only for exceptional tail risks, for members with very strong fundamentals. We also support the IMF proposal to create a non-financial Policy Monitoring Instrument (PMI), which could have both a positive signalling role and help countries access funds from other parts of the GFSN.

Surveillance and policy advice

The IMF has made good progress in integrating macro-financial analysis into Article IV surveillance, including to develop a consistent and forward-looking view on how the financial sector affects members' economies. Going forward, the IMF could further increase its focus on multilateral macro financial surveillance, including obtaining a better understanding of how financial shocks can lead to macro shocks and propagate through financial centres in times of global financial crisis.

We support the IMF's Institutional View on Liberalization and Management of Capital Flows, and welcome the IMF's efforts to clarify the role of macroprudential policies in dealing with large and volatile capital flows. To assist emerging market economies to build robust macroprudential policy – in particular as defence against foreign currency mismatches – we encourage IMF to work closely with other international organisations, such as the OECD, to develop further operational guidance on the use of capital flow management policies, especially those intended to reduce the financial stability risks generated by capital flow volatility.

We continue to support the IMF's multi-year work programme on sovereign debt issues. We welcome IMF engagement in assessing state-contingent debt instruments. We note that these instruments could present a possible future policy option for some countries to increase fiscal space, to support debt sustainability, and to help raise the resilience of the international financial system. We would note that the potential benefits might not be suitable for all countries, however the UK currently has no plans to issue these instruments. We welcome the improvements made to the Debt Sustainability Framework (DSF) model by the IMF. We also welcome existing work by the IMF to raise the visibility and profile of the DSF, such as publishing Debt Sustainability Analyse (DSAs) and utilisation ratios on a monthly basis. We encourage the IMF to continue their outreach efforts amongst both creditors and country authorities, to maximise the usefulness of the DSF to the decision-making of borrowers and lenders.

Low-income countries (LICs) and fragile states

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 encourage the IMF to find ways to engage more closely and effectively with fragile and conflict-affected member countries, finding ways to place staff in country to enable stronger dialogue with member authorities. We look forward to the findings of the Fund's review into how best to protect the poorest people in society from the costs of adjustment and economic reforms.

We welcome the IMF's work along with the OECD, World Bank and UN on improving the effectiveness of tax capacity building programmes, and in particular call on the Fund to continue their global leadership in taking forward Medium Term Revenue Strategy partnerships with developing countries. By supporting LICs to improve their domestic resource mobilisation and reduce aid dependency, we will further stability and growth around the world and make real strides towards achieving the Sustainable Development Goals.

Opportunities for all

Taking greater action on corruption and tax avoidance and evasion will help to ensure more effective and efficient global governance, and a global system that works for everyone.

In May 2016, the UK hosted the London Anti-Corruption Summit that agreed ambitious and wide-ranging outcomes to tackle corruption, which may impede growth and widen inequality. Many countries committed to improve fiscal transparency, as appropriate, including by undertaking assessments against international standards such as the IMF's Fiscal Transparency Evaluation (FTE). The IMF published its FTE of the UK last November, which put the UK at the forefront of fiscal reporting practices worldwide, while making a number of useful recommendations. We encourage other countries to undertake FTEs in due course.

The UK is committed to tackling cross-border tax avoidance and evasion through global action. We have done this successfully through our collective work in the OECD Base Erosion and Profit Shifting (BEPS) project to tackle aggressive tax planning by multinationals, and our focus now is on the timely and consistent implementation of the agreed outputs. On transparency, the development of the Common Reporting Standard (CRS) for automatic exchange of tax information is a game-changer and we reiterate the importance of all jurisdictions implementing on time. In April last year, we helped to launch the initiative on the systematic exchange of beneficial ownership information and have gained the support of over 50 countries. We must now turn this support into concrete action to ensure law enforcement has the information it needs to find the proceeds of corruption that have been hidden away for too long in opaque entities around the world.

IMF Resources and Governance

We support an IMF fully equipped to fulfil its responsibilities, particularly during a period of elevated economic and financial uncertainty. We remain committed to maintaining a strong, quota-based and adequately resourced IMF, to preserve its role at the centre of the global financial safety net (GFSN). We

will continue to work constructively towards the completion of the 15th General Review of Quotas, including a possible new quota formula, by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019. We are committed to protecting the voice and representation of the poorest members. We reiterate the importance of maintaining high quality IMF staff and improving the diversity of staff, and of promoting gender diversity on the IMF's Executive Board.