International Monetary and Financial Committee

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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

1. **Broad-based strength in the global economy has continued in recent months, and the central near-term outlook is one of continued firm growth**. Growth has been underpinned by a continued recovery in Advanced Economy investment and in global trade. In recent quarters, labour productivity in Advanced Economies has picked up. Rates of unemployment have continued to fall, with output gaps narrowing or beginning to turn positive, while core inflation has remained moderate.

2. **However, there are also some clear downside risks to the outlook**. Recent policy announcements have elevated concerns about protectionism. Additionally, given that some asset price valuations remain elevated against historical measures, the recent financial market volatility is a reminder of the challenges that will be faced as monetary policy normalisation by some major central banks continues.

3. We therefore strongly agree with the IMF's view that now is the right time to address medium-term risks, including addressing high public debt levels and tackling 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. It is important that we maintain a balance between monetary, fiscal and structural policy 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, clearly defined objectives and transparent communication, to ensure credibility and accountability.

    b) **Fiscal policy should continue to ensure that public finances are on a sustainable trajectory**, putting debt firmly on a downward path while allowing flexibility to provide support 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.

    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 £31bn 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 to design new learning pathways, and providing over £0.5bn in additional investment every year to raise standards. We have made strong progress in improving labour market outcomes, with employment currently standing at a record high of 75.3%, and the inactivity rate at a record low.

d) **The global financial regulatory reform agenda remains a priority.** The finalisation of Basel III completes the key elements of the post-crisis financial reform agenda. We must remain focussed on the full, timely and consistent implementation of agreed reforms, which are essential to promoting an open and resilient global financial system. Any roll-back on financial sector reforms should be avoided. Action by the UK Government and the Bank of England has substantially strengthened the resilience of the financial system, including through instituting a ring-fencing regime that will require the UK's largest banks to separate their retail and investment banking from 1 January 2019.

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.

<u>IMF Policy Issues</u>

Policy advice and surveillance

4. This period of expansion is an opportunity to drive important reforms that will lead to stronger and more inclusive growth.

5. Slow productivity growth remains a common problem for much of the membership. Reducing barriers to international trade and investment in services would sustain productivity-increasing structural change, as Fund analysis shows. Significant opportunities exist here, as services trade liberalisation has been slower than in goods, and barriers are particularly high in developing economies. Removing trade barriers would be one of the most direct ways to increase global productivity. We encourage the Fund to continue focusing on this area.

6. 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 on technological change in recent Fund publications. 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 and tax compliance; and ensuring macroeconomic measurements evolve in parallel to accurately capture rapid changes in the real economy. Additionally, the distributed ledger technology underlying crypto-assets presents a broad range of opportunities but we must also monitor and address the challenges presented by crypto-assets. We encourage the Fund to work with other standard-setting bodies to consider these issues.

7. We welcome the completion of the Interim Surveillance Review (ISR), which highlights the progress made in integrating macro-financial analysis into bilateral and multilateral surveillance. Challenges remain in embedding this analysis and it should be further enhanced, including through balance sheet analysis, a greater focus on spillovers, a deeper understanding of the

propagation of financial shocks and continued progress towards addressing data gaps. Assessing the traction of Fund advice will be a central part of next year's Comprehensive Surveillance Review (CSR), including drawing on expertise from outside of the Fund.

8. Corruption, which is often a symptom of weak governance, threatens countries' ability to pursue stable and inclusive growth and poverty reduction. Left unchecked, it can erode 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 look forward to its swift, robust and even-handed implementation. The UK will volunteer to be one of the first countries to include anti-corruption scrutiny in its Article IV report.

Low-Income Countries and Fragile and Conflict-Affected States

9. We are concerned about the scale, nature and severity of rising debt vulnerabilities in Low-Income Countries (LICs). 40 percent of Low Income and Developing Countries now face significant debt-related challenges, up from 21 percent in 2013. We call on the IMF and the World Bank Group to develop a joint action plan to help enhance debt transparency and address debt sustainability in LICs. This should also include the promotion of sustainable lending and borrowing practices, improving the prioritisation and effectiveness of investment and supporting debt resolution mechanisms, in close coordination with the Paris Club.

10. 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 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. To respond to the new opportunities and challenges facing LICs, in programme design, the Fund should more explicitly account for the longer time horizon that LICs require to achieve macroeconomic stability and inclusive and sustainable growth. It should also strengthen the poverty impact of IMF programmes, and take steps to enhance countries' resilience to natural disasters.

11. We welcome the hugely valuable role that the IMF has played in many Fragile and Conflict-Afflicted States (FCS) over the last two decades. The IEO Report on the Fund's Role in FCS shows that the Fund has a unique role to play in these situations. We fully support the IEO recommendations and strongly encourage the Fund to implement them. Changes to the recruitment, allocation and promotion of staff working in and on FCS issues is a key priority that will help drive all the other reforms that are required. The report is clear that IMF engagement is only fully effective when its staff can have face-to-face, in-country contact with FCS authorities. The Fund should ensure that its staff are able to visit high risk locations, in a safe way, like other international organisations.

12. We welcome the IMF's work along with the OECD, World Bank and UN on the Platform for Collaboration on Tax. We call on the IMF to continue to champion the effectiveness of tax capacity building programmes, especially through medium-term revenue strategies (MTRS). 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

13. We remain committed to maintaining an adequately resourced IMF. We will continue to work constructively towards the completion of the 15th General Review of Quotas (by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019) and remain committed to protecting the voice and representation of the poorest members. As set out in the Report of the Executive Board to the Board of Governors, further progress will require important elements of judgment and compromise.

14. 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 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 call upon the IMF to redouble its efforts to meet its 2020 diversity targets. We also reiterate the importance of promoting gender diversity in the IMF's Executive Board and welcome the progress report to the Board of Governors on efforts to date.