International Monetary and Financial Committee

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**Statement by Mr. Hammond
United Kingdom**

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On behalf of United Kingdom

Global Economy

1. **Strength in the global economy has continued in recent months and the central near-term outlook remains firm,** although growth has become less synchronised across countries. Labour markets have continued to perform strongly in Advanced Economies. And despite continued above-trend growth and a shrinking output gap for Advanced Economies as a whole, there are at present few signs of a significant pick-up in core inflation.
2. **However, downside risks to the outlook have grown**. The threat of further protectionist actions presents a growing risk to the global economy. Continued normalisation of monetary policy in the US has raised pressures on some Emerging Markets. And 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 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 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 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. 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 £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 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 agreed reforms, to promote an open and resilient global financial system. We welcome the pivot from new policy development towards the evaluation of these reforms; this will help us to assess their effectiveness and address any unintended consequences. However, we must avoid a roll-back of reforms, and must not compromise their original objectives or the level of resilience we have generated. In addition to global financial regulatory reform efforts, the UK Government and the Bank of England have taken further action to substantially strengthen the resilience of the UK's financial system, including through instituting a ring-fencing regime that requires 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.

IMF Policy Issues

Policy advice and surveillance

4. As Fund analysis has shown, reducing barriers to international trade and investment in services has many economic benefits, including increasing productivity. As part of this, we recognise that modernising and improving the effectiveness of the multilateral trading system is important 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 increasing focus in this area, and also strongly encourage the Fund to continue its analytical and policy work on services trade, working in cooperation with other international organisations.

5. 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, including the work contributing to the Bali Fintech Agenda. 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.

6. The Bali Fintech Agenda presents the many opportunities of fintech, as well as highlighting the challenge for policymakers. The Fund should continue to use its convening power with the relevant domestic and international bodies, as well as undertaking its own work monitoring the macroeconomic implications of fintech and helping 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 cryptoassets.

7. We welcome the progress made in integrating macro-financial analysis into bilateral and multilateral surveillance and look forward to continued progress in the upcoming Comprehensive Surveillance Review (CSR) and Review of the Financial Sector Assessment Program (FSAP). Challenges remain in embedding this analysis and it should be further enhanced, including through 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; and continued progress towards addressing data gaps. FSAPs should also ensure that compliance with international regulatory standards are assessed rigorously and consistently across countries. Evaluating the traction of Fund advice should also be a central part of the upcoming reviews, including drawing on expertise from outside of the Fund.

8. We look forward to Quinquennial Capacity Development Strategy Review, which should strengthen the effectiveness and transparency of the IMF's technical assistance and training. Together with the CSR, this review should seek to better integrate the IMF's Capacity Development with its lending and surveillance, and should strengthen collaboration and coordination with other International Organisations and bilateral donors.

9. 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 early examples of its implementation, and look forward to its further robust and even-handed implementation. The UK has volunteered to be one of the first countries to have its anti-corruption frameworks and systems assessed in its forthcoming 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 corruption, including on AML/CTF efforts. We also look forward to the upcoming review of the Fund's AML/CTF Strategy.

10. We also welcome the IMF's ongoing work on climate issues and its efforts to support countries vulnerable to natural disasters, including helping affected countries build ex-ante climate resilience and develop comprehensive fiscal risk management frameworks. We look forward the IMF's upcoming work on climate mitigation and adaptation strategies, and its proposals for support to countries hit by natural disasters.

Low-Income Countries and Fragile and Conflict-Affected States

11. We remain concerned about the scale, nature and severity of rising debt vulnerabilities in Low-Income Countries (LICs). We support the IMF and the World Bank Group's joint multi-pronged approach to improving debt transparency and sustainability. As well as supporting borrowers, the IMF and WBG must engage with official and private creditors on lending practices and on coordination in cases of debt restructuring. This should 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.

12. 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 upcoming 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, 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.

13. 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 Independent Evaluation Office (IEO) Report on the Fund's Role in FCS shows that the Fund has a unique role to play in these situations. We support the IEO recommendations and strongly encourage the Fund to fully 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. 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 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 FCS authorities.

14. 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 deliver effective 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

15. We remain committed to maintaining an adequately resourced IMF, and support a quota increase as part of the 15th General Review of Quotas (GRQ). We will continue to work constructively towards the completion of the 15th GRQ (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.

16. 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, and reiterate the importance of promoting gender diversity in the IMF's Executive Board.