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Global Economy

The outlook for the global economy has continued to improve over the past six months. Near-term downside risks have diminished and the upward revision to global growth forecasts is a welcome sign of a firming recovery in many economies. Growth is now expected to be higher than previously thought in several advanced economies and some emerging markets.

But the global recovery remains incomplete. Growth remains below pre-crisis trends and the medium-term outlook remains subdued. Many commodity exporters still struggle with the difficult adjustment to lower prices, weak productivity growth continues to weigh on living standards across advanced economies and adverse demographic trends remain a key challenge to several countries, including in emerging markets. Medium-term risks remain skewed to the downside, including from tighter global financial conditions and elevated policy uncertainty, while debt overhangs and global financial sector vulnerabilities could amplify the impact of adverse shocks.

We therefore strongly agree with the IMF's view that the improved outlook provides a window of opportunity to build buffers and deliver on reforms to promote resilient and inclusive global growth in the medium term:

- **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 continue to ensure that public finances remain on a sustainable trajectory over longer time horizons, while allowing flexibility to support economies in the near term, if necessary. The UK has already reduced the deficit from a peak of 9.9% of GDP in 2009-10 to 2.3% in 2016-17. It has also committed to reducing the structural deficit to below 2% of GDP, getting debt falling in 2020-21 and then returning the public finances to balance by the middle of the next decade.

- **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 has made significant progress in implementing the commitments in its 2015 productivity plan and is currently investing £23bn in a National Productivity Investment Fund targeted at economic infrastructure and boosting innovation across the UK. The UK Government is 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. The UK has also made strong progress in improving labour market outcomes, with for example, employment currently standing at a record high of 75.3%, and the inactivity rate at a record low.

- **Financial regulatory reforms** remain a priority to promoting an open and resilient global financial system which can support strong, sustainable and inclusive growth. The reforms should be fully implemented promptly and consistently, as common international standards are essential to improving equivalence arrangements between countries. The finalisation of Basel III; work to enhance the resilience, recovery planning and resolvability of central counterparties; and the implementation of TLAC remain important, while any roll-back on effective 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 since the crisis, enabling it to withstand economic and financial shocks.

Many policymakers face difficult trade-offs as they look to support growth and rebuild fiscal buffers amid limited policy space and financial stability risks. IMF's recommendations rightly underscore the need for effective macroprudential policy and structural reform as a way of navigating these policy tradeoffs. But given that the availability, maturity and efficacy of these tools varies considerably across countries, we encourage IMF staff to provide further advice on the sequencing of various policy measures and on evaluating alternatives where the space or capacity for effective macroprudential or structural policy action may be limited.

<u>IMF Policy Issues</u>

IMF lending

We continue to welcome the IMF's ongoing efforts to reform its lending toolkit and further strengthen the Global Financial Safety Net. We welcome the new non-financing *Policy Coordination Instrument* and its positive signaling role, and encourage the completion of the review of the *Flexible Credit Line* and *Precautionary and Liquidity Line* and the creation of a new tool for short-term liquidity support.

Surveillance and policy advice

We agree with the assessment of key risks in the Global Financial Stability Report (GFSR) and support the narrative of addressing medium-term financial stability risks, without risking global growth. We welcome the progress made in integrating macro-financial analysis into bilateral and multilateral surveillance, including the scenario analysis in the latest GFSR. This 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. We look forward to work on the impact of prolonged low interest rates and would encourage the IMF to provide member-tailored advice on the policy implications of the gradual unwinding of unconventional monetary policy by systemic central banks.

We look forward to further IMF analysis on the productivity slowdown in advanced economies, including on measurement challenges from the digital economy. The UK Government is working with multiple stakeholders to understand the factors behind the productivity slowdown and avenues to improve it. We have also focused on measurement issues, and the UK's Office of National Statistics now has a new Centre of Excellence to provide advice on these challenges, following a recent review by Sir Charles Bean which suggested that mismeasurement of the digital economy could be underestimating economic growth by a non-negligible amount. We also support the IMF's renewed focus on building fiscal buffers and welcome more member-tailored advice. For example, further analysis of long-term debt sustainability in advanced economies could complement planned work on fiscal space and fiscal rules.

Low-income countries

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 welcome the IMF's review of social safeguards in PRGT programmes, and look forward to further work to examine the effectiveness of social safeguards in improving social outcomes and to respond to the IEO evaluation on social protection.

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 IMF 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.

Vulnerable (small island) states and fragile states

We welcome measures taken to strengthen both the financial safety net and surveillance framework for countries affected by natural disasters and, in particular, small states. These include the increase in access limits to the Rapid Credit Facility and the Rapid Financing Instrument; the new natural disasters stress tests in the revised Debt Sustainability Framework for low income countries; and the World Economic Outlook chapter on the economic impact of weather shocks. Going forward, we encourage the IMF to step up its support to countries vulnerable to natural disasters – including through policy advice on ex-ante risk-management strategies – and to collaborate closely with the recently set up Centre for Global Disaster Protection in London.

We also appreciate recent IMF work on building fiscal capacity in fragile states, as this vulnerable section of its membership particularly benefits from the IMF's expertise. Going forward, we encourage IMF staff to provide advice and technical assistance that is better tailored to the complex political economy realities on the ground, including through increased in-country support.

Opportunities for all

We strongly welcome the preliminary review of the role of the IMF in governance and corruption issues and look forward to further analytical work on these topics. Priority should be given to developing stronger metrics and diagnostic tools to determine which elements of corruption in each country have the largest negative impacts on growth and macroeconomic stability. In addition, more granular, evenhanded and politically realistic policy advice is needed, including through program conditionality. Further efforts are also needed to fight tax avoidance and evasion.

Inclusive growth also requires that the benefits of technology and trade integration are shared by all. It is important that we continue to make progress to remove barriers to trade and, in particular, barriers to services trade where liberalisation has been slower than in goods. Removing trade barriers would be one of the most direct ways to increase global productivity. In the UK, we also remain committed to helping those whose jobs are threatened by technological change. We have set aside funding to deliver Career Learning Pilots which test innovative new methods to help people continue to retrain and upskill throughout their lives.

IMF resources and governance

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. We also reiterate the importance of improving the diversity of IMF staff and promoting gender diversity on the IMF's Executive Board.