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Statement by Ms. Riach, Mr. Trott, and Mr. Chrimes on United Kingdom
Executive Board Meeting
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The outlook for the UK – as for many peers – remains challenging, but the economy continues to demonstrate resilience, with forecasters (including the IMF) making substantial upgrades to their projections for UK growth in 2023 over the last few months.

At Autumn Statement in November 2022, the UK government took difficult, necessary decisions on tax and spending to restore economic stability, support public services, protect the vulnerable, and lay the foundations for long-term growth. At Spring Budget in March 2023, the government set out further measures to build on this foundation, anchored around the Prime Minister's priorities of halving inflation on the path back to 2%, growing the economy, and getting debt falling. Meanwhile, the Bank of England's Monetary Policy Committee (MPC) will adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit. Separately, IMF staff note that "the UK financial system has weathered the recent global banking stress well."[1]

Inflation

Sustainably bringing down inflation is a priority for the UK authorities. Russia's unprovoked and illegal invasion of Ukraine added to global supply chain pressures, contributing to record wholesale energy prices and seeing headline UK inflation peak at just over 11% in October 2022, the highest level in 40 years. Inflation remains elevated in the UK and in many other advanced economies. Staff note that the Bank of England was the first G7 central bank to raise interest rates in December 2021, and has continued to tighten subsequently. The MPC will adjust Bank Rate as necessary to return inflation to the 2% target sustainably over the medium term, in line with its remit. Monetary policy will ensure that CPI inflation returns to the 2% target sustainably in the medium term.

As set out in the staff supplement, against the backdrop of a tight labor market and continued resilience in demand, the MPC voted to raise Bank Rate by a further 50 basis

[1] https://www.imf.org/en/News/Articles/2023/05/22/mcs052323-united-kingdom-staff-concluding-statement-2023-article-iv-mission

points at its meeting ending on 21 June.[2] The MPC will continue to monitor closely indications of persistent inflationary pressures in the economy as a whole, including the tightness of labor market conditions and the behavior of wage growth and services price inflation. If there were to be evidence of more persistent inflationary pressures, further tightening in monetary policy would be required.

The government has also stressed the priority of reducing inflation, recognizing that higher inflation, erodes the value of wages, and hurts economic growth. The government is addressing this by ensuring responsible fiscal decisions are taken, making active policy decisions including the Energy Price Guarantee and supporting the MPC's actions to tackle inflation. The staff report reiterates that UK fiscal policy is aligned with monetary policy in the fight against inflation. At the same time, the government has taken significant actions to support households with the cost of living, including on energy and childcare, as well as specific measures for those on benefits, pensioners and the disabled. The Prime Minister and the Chancellor are committed to taking the difficult decisions necessary to bring down inflation, with the Prime Minister noting that this is the foundation and first thing needed to build a better future.

Growth

The Chancellor has prioritized four areas to address the UK's productivity challenge and build on the economy's strengths: employment, education, enterprise and everywhere. The staff report notes "important measures" announced by the government to boost potential growth, including to enhance labor participation and to boost business investment. The independent Office for Budget Responsibility has noted that these measures should improve the strength of the economy and increase tax receipts, offsetting some of the direct costs.

A targeted package of policies has been announced to boost labor supply, focused on four key groups: the long-term sick and disabled, older workers, welfare recipients and parents. The spring budget included a suite of measures to address key causes of health-related inactivity, including tailored employment support in mental health and musculoskeletal health services. A new "Returnerships" offer aims to support the over-50s. The government is also removing one of the biggest barriers to parents working, undertaking significant investment to increase the amount of free childcare that working families can access (to 30 hours a week for children aged between nine months and four years). A range of pilots and evaluations, some innovative, are being advanced to help assess what works to address inactivity and improve labor market outcomes; the government will monitor and evaluate the effectiveness of these schemes.

Weak business investment is one factor behind the UK's modest productivity growth since the Global Financial Crisis, including since the pandemic. The government is taking actions to reduce business uncertainty and to reinvigorate enterprise and innovation. The full expensing capital allowance is a significant step; initially announced for three years, the

[2] https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2023/june-2023

government has indicated its intention to make this measure permanent as soon as it is economically responsible to do so.

The government recognizes that the transition to net zero is essential to long-term prosperity, in the UK and globally, and that energy security and net zero are two sides of the same coin. The UK has a world-leading track record in decarbonization, having reduced emissions faster than any G7 country between 1990 and 2021. Thanks to the 2008 Climate Change Act and the 2021 Environment Act, the UK has a strong legal framework in place for reaching net zero emissions by 2050. To keep the UK on a pathway to achieving the 2050 target, the government is required to set legally binding, five-year caps on emissions – carbon budgets – twelve years in advance and then to publish a report setting out proposals and policies for meeting that budget and those budgets previously set.[3] In March 2023 the government published a Net Zero Growth Plan and Energy Security Plan, further refining the UK's energy security and net zero plans and the government's vision for a market-led, technology-driven transition, building on the UK's strengths and early mover status.[4]

Debt

The government has underscored its commitment to fiscal responsibility. The fiscal rules announced in November 2022 ensure that policy puts the public finances on a sustainable path, requiring that debt falls as a share of the economy over the forecast period, while providing space for the economy to recover. In general, the UK's fiscal rules are designed to guide policy decisions for the length of a Parliament, balancing stability with fiscal policy that reflects the current macroeconomic context and the government's objectives. Together with the UK's very strong fiscal institutions and well-established system of multi-year spending settlements, the fiscal rules help the government in delivering a fiscally responsible approach to public spending and taxation in support of macroeconomic objectives.

Financial stability

The UK financial system is one of the largest and most advanced globally, and the authorities take its stewardship extremely seriously. The IMF assess UK financial stability as a global public good. The staff report highlights the strong progress made by the UK authorities in delivering on the recommendations of the 2021 Financial Sector Stability Assessment.

The IMF notes that "the UK financial system has weathered the recent global banking stress well". Amid a still-challenging global economic environment, the Financial Policy Committee judges that UK banks are resilient and are strong enough to support households and businesses. IMF staff also underscore that the Bank of England's financial stability intervention helped swiftly restore market functioning during the pension funds' liability-driven investment disruption last year, and that in March 2023, it effectively used resolution

[3] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147369/carbon-budget-delivery-plan.pdf

[4] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1147457/powering-up-britain-net-zero-growth-plan.pdf

powers to facilitate the sale of Silicon Valley Bank (SVB) UK, fully protecting all SVB UK depositors and limiting risks to the taxpayer. These examples are testament to the strength and effectiveness of UK financial regulatory frameworks, which the authorities continue to refine and enhance, including via the Prudential Regulatory Authority's Strong and Simple initiative for small banks, the government's Edinburgh Reforms, and the Financial Services & Markets Bill.[5]

The UK authorities have long argued for the need to build non-bank financial institutions' (NBFIs') resilience globally, and have been taking actions to address this, both domestically and with international counterparts. As part of efforts to develop system-wide understanding, the Bank of England has launched a system-wide exploratory scenario exercise: this ambitious exercise aims to enhance understanding of the risks to and from NBFIs, and the behavior of NBFIs and banks in stress, including what drives that behavior; and to investigate how these behaviors and market dynamics can amplify shocks in markets.[6]

The authorities will continue to monitor financial sector developments closely.

Conclusion

The UK is a committed supporter of the rules-based international order and of multilateralism. The authorities will continue to work closely with key partners on shared economic challenges. This includes over £4.7bn in economic support for Ukraine: alongside direct bilateral assistance the UK has provided a series of guarantees through both the World Bank and the European Bank of Reconstruction and Development, enabling those institutions to provide hundreds of millions of dollars of additional support for Ukraine. At the IMF, the UK is providing significant support to the Poverty Reduction and Growth Trust and to the Resilience and Sustainability Trust.

We are grateful to the IMF Article IV team, and to IMF staff more generally, for their close engagement and constructive dialogue. **We look forward to continuing to work collaboratively with staff on addressing domestic and international macroeconomic challenges.**

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[5] https://www.bankofengland.co.uk/prudential-regulation/publication/2023/february/strong-and-simple-framework; https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms; https://bills.parliament.uk/bills/3326

[6] https://www.bankofengland.co.uk/news/2023/june/boe-launches-first-system-wide-exploratory-scenario-exercise