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June 30, 2023

Statement by Mr. Mizuguchi, Mr. Hara, and Mr. Ando on United Kingdom
(Preliminary)
Executive Board Meeting
July 6, 2023

We thank staff for the informative report, and Ms. Riach, Mr. Trott, and Mr. Chrimes for their insightful Buff statement. We welcome the recent developments in the UK, including the authorities' appropriate response to market risks following the 2022 mini-budget and the Windsor Framework agreement to resolve the dispute over the Northern Ireland Protocol. However, the post-pandemic economic recovery has been hindered by the sudden energy price shock due to Russia's war in Ukraine and inflation remains elevated. We agree with staff that the primary policy goals are to maintain price and financial stability, while strengthening the fiscal and financial framework. Promoting climate initiatives and prioritizing transformation policies are also critical. **As we broadly concur with the thrust of the staff's appraisal and policy advice, we would like to offer the following comments for emphasis.**

Tackling inflation in a timely and decisive manner is of utmost importance, given robust inflation momentum and signs of persistence. We commend the authorities' effective and proactive monetary policy response in the face of persistent high inflation, and their determination to return inflation to the 2 percent target and have it stay there. We understand that staff and authorities are of the view that the risks to inflation are skewed significantly to the upside, given exceptionally tight labor markets that could result in further wage growth and uncertainties surrounding the recovery of the global supply chain. In this regard, monetary policy has an important role to play, and the BoE should continue to review the pace and magnitude of tightening as appropriate. If risks to financial stability materialize, appropriately designed tools would be their first line of defense in effectively addressing market dysfunction. Should markets perceive tensions between price and financial stability objectives, clear public communication on authorities' intentions would be crucial.

Fiscal policy should be aligned with monetary policy in the fight against inflation while enhancing the fiscal framework and addressing critical spending needs over the medium term. In this regard, we agree with staff that the authorities should save any near-term fiscal over-performance and adhere to targets and avoid any further loosening in 2024. From a medium-term perspective, it is of utmost importance to better incorporate spending needs to enhance potential growth, while maintaining fiscal discipline. The focus on spending prioritizes enhanced investment in skills, innovation, and infrastructure, as well as climate measures to meet the Net Zero targets by 2050. In this context, we note the authorities' efforts to address fiscal risks and to assuredly deliver debt stabilization over the medium term.

While the financial sector appears resilient to potential substantial macro financial shocks, continued vigilance and strong oversight is warranted. We note that staff and authorities see the current macroprudential settings appropriate, and that the authorities remain vigilant on potential risk with a wide range of macroprudential tools in hand. The recent global banking stress and the experience of the SVB UK resolution highlighted the importance of addressing potential rapid deposit outflows. In this regard, we welcome the authorities' consideration to improve depositor outcomes in case of bank failure and note that broader reforms may also be broached in this context. Importance of continued strong regulation and supervision of all UK banks is also emphasized, and we welcome that the development of the "strong and simple" framework is progressing well.

Further ambitious measures are needed to address the UK's long-term challenges and achieve climate objectives. We note the authorities' efforts to accelerate green investments to achieve the Net Zero target, while emphasizing the need for further initiatives, including strategies to attract private investment and incentives that facilitate the transition to a greener economy. Measures to improve energy efficiency and security are also critical, given the rising risks of supply shortages and vulnerabilities. Furthermore, we welcome that authorities are committed to addressing the UK's weak growth potential and labor supply. In this regard, we take positive note of the progressive measures in the 4Es growth plan, including creating a competitive tax regime and a flexible regulatory environment. Also, the authorities' efforts to reduce Brexit-related uncertainties, including the "Windsor Framework" agreement with the EU, are commendable. In order to accelerate these efforts and unlock growth potential, we agree with staff that further ambitious and evidence-based structural reforms are important.