

**EXECUTIVE
BOARD
MEETING**

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Supplement 2

June 14, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **United Kingdom—Staff Report for the 2016 Article IV Consultation—Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, June 15, 2016**

Publication: Yes*

Questions: Mr. Fletcher, EUR (ext. 36752)
Mr. Scott, EUR (ext. 38169)

***Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**



INTERNATIONAL MONETARY FUND



Press Release No. 16/[XX]
FOR IMMEDIATE RELEASE
[June XX, 2016]

International Monetary Fund
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Washington, D. C. 20431
USA

IMF Executive Board Concludes 2016 Article IV Consultation with the United Kingdom

On June 15, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with the United Kingdom.

The UK economy has performed relatively well in recent years, with economic growth consistently near the top among major advanced economies and the employment rate at a record high. However, growth has slowed somewhat in the first part of 2016, as heightened uncertainty ahead of the referendum on EU membership appears to be weighing on investment and hiring decisions.

In a baseline scenario in which the UK remains in the EU, growth is expected to recover in late 2016, as referendum-related effects wane, and to average around 2.2 percent over the medium term. Inflation is expected to rise gradually from its current low level (0.3 percent as of April 2016), as disinflationary effects from past commodity price falls dissipate and as tighter labor markets and minimum wage hikes help push up wages.

However, this broadly positive baseline scenario is subject to risks, including those related to the referendum; the current account deficit, which reached a record high in 2015; uncertainty about the degree to which productivity growth, which has been low since the crisis, will recover; and vulnerabilities associated with property markets, which have been buoyant in recent years.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Economic policy has aimed to increase resilience while maintaining steady and sustainable growth. The overall fiscal deficit has been cut to about 4 percent of GDP in FY15/16, down from a peak of over 10 percent of GDP in FY09/10. Monetary policy has stayed accommodative, with the policy rate unchanged at 0.5 percent, given subdued inflationary pressures and helping to support growth. Structural reforms have aimed to boost potential output by, for example, efforts to ease regulatory impediments to housing construction.

Major financial sector reforms have been adopted since the crisis, helping to bolster resilience and requiring banks to increase buffers in their balance sheets. This progress was assessed in detail during this Article IV consultation as part of the IMF's Financial Sector Assessment Program (FSAP), which analyzes financial sector health and associated policies. The FSAP's findings are summarized in the accompanying Financial System Stability Assessment (FSSA).

Executive Board Assessment²

² At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

United Kingdom: Selected Economic Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
					Projections	
Real Economy (change in percent)						
Real GDP	1.2	2.2	2.9	2.3	1.9	2.2
CPI, end-period	2.7	2.0	0.9	0.1	1.3	1.9
Unemployment rate (percent) 1/	8.0	7.6	6.2	5.4	5.0	5.0
Public Finance (fiscal year, percent of GDP) 2/						
Public sector overall balance	-6.7	-5.8	-5.0	-3.9	-2.9	-2.0
Public sector cyclically adjusted primary balance (staff estimates) 3/	-3.0	-2.7	-2.8	-2.1	-1.0	-0.1
Public sector net debt	78.9	81.1	83.4	83.5	82.6	81.5
Money and Credit (end-period, 12-month percent change)						
M4	-0.9	0.2	-1.1	0.3	...	...
Net lending to private sector	-0.2	0.9	1.5	2.0	3.0	4.0
Interest rates (percent; year average)						
Three-month interbank rate	0.8	0.5	0.5	0.6	...	...
Ten-year government bond yield	1.9	2.4	2.6	1.9	...	...
Balance of Payments (percent of GDP)						
Current account balance	-3.3	-4.5	-5.1	-5.2	-5.2	-5.0
Trade balance	-2.0	-2.0	-1.9	-2.0	-2.1	-2.1
Net exports of oil	-0.9	-0.6	-0.6	-0.4	-0.3	-0.3
Exports of goods and services (volume change in percent)	0.7	1.2	1.2	5.1	4.1	4.2
Imports of goods and services (volume change in percent)	2.9	2.8	2.4	6.3	3.9	3.7
Terms of trade (percent change)	0.8	1.7	1.1	0.7	-0.8	-0.2
FDI net	-1.3	-2.4	-4.5	-3.5	-2.6	-2.2
Reserves (end of period, billions of US dollars)	105.2	108.8	109.1	130.5	...	...
Exchange Rates						
Nominal effective rate (2010=100) 4/	103.5	101.0	107.3	114.4	...	...
Real effective rate (2010=100) 4/ 5/	106.8	105.8	113.7	121.8	...	...

Sources: Bank of England; IMF's International Finance Statistics; IMF's Information Notice System; HM Treasury; Office for National Statistics; and IMF staff estimates.

1/ ILO unemployment; based on Labor Force Survey data.

2/ The fiscal year begins in April. Data exclude the temporary effects of financial sector interventions. Debt stock data refers to the end of the fiscal year using centered-GDP as a denominator. There is a break in the series from 2014 on, reflecting the reclassification of housing associations as part of the public sector.

3/ In percent of potential output.

4/ Average. An increase denotes an appreciation.

5/ Based on relative consumer prices.