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The Acting Chair's Summing Up
United Kingdom—2018 Article IV Consultation
Executive Board Meeting 18/93
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Executive Directors agreed with the thrust of the staff appraisal. They noted that moderate growth continues, and the labor market is strong, although domestic demand remains constrained by uncertainty about the future economic relationship with the EU. Directors agreed that the possibility of a "no deal" Brexit is the most significant risk to the outlook.

Directors emphasized the importance of a timely agreement with the EU, accompanied by an implementation period to avoid a cliff edge exit in March 2019 and to allow firms and workers time to adjust to the new relationship. An agreement that minimizes barriers to trade in goods and services would best support economic activity and limit disruptions and global spillovers. Nevertheless, preparations should continue for all possible scenarios.

Directors commended the steady progress in reducing fiscal deficits over the last decade and emphasized that continued fiscal consolidation is critical to build buffers against future shocks, in a context of relatively high public debt, a closed output gap, and significant medium-term spending pressures related to population aging. They noted that revenue reforms are likely to be needed to create fiscal space and improve efficiency. Directors considered that as the impact of past sterling depreciation on prices continues to fade, the pace of further monetary policy tightening should be gradual and data-dependent in an environment of greater-than-usual uncertainty. They concurred that the policy rate should continue to be used as the main monetary policy instrument. Once the Bank of England begins unwinding its balance sheet, this process should proceed in a gradual and predictable manner.

Directors noted that in the case of a disorderly Brexit, policies should seek to safeguard macroeconomic and financial stability. They noted that judicious use of the flexibility embedded in the fiscal framework may be appropriate to support the economy in such a scenario, stressing that any easing of fiscal policy should be temporary, limited, and anchored by credible medium-term consolidation plans. Directors welcomed the authorities' readiness to take actions to minimize any market disruptions, including by ensuring the financial system has adequate liquidity.

Directors encouraged the authorities to maintain robust prudential and supervisory standards after Brexit. They welcomed the authorities' efforts to proactively help financial institutions prepare for EU exit, and their commitment to creating temporary permission and recognition regimes that would guarantee EU financial institutions the ability to continue to operate in the United Kingdom for a limited period after departure. Directors called on all parties involved to work together to mitigate transition and spillover risks related to changes in regulatory regimes and responsibilities. They also underscored the importance of continued close cross-border cooperation in the future to maintain financial system stability.

Directors agreed that sustained policy efforts would be needed to enhance productivity, inclusiveness, and external competitiveness. They welcomed recent initiatives to support infrastructure investment and human capital. They noted that greater use of active labor market policies, including support for re-training, could facilitate labor reallocation across regions and sectors after Brexit. Directors welcomed ongoing efforts to enhance corporate transparency and looked forward to sustained progress in strengthening the effectiveness of enforcement of measures against foreign bribery.

It is expected that the next Article IV consultation with the United Kingdom will be held on the standard 12-month cycle.