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Statement by Ms. Riach, Mr. Ronicle, and Mr. Chrimes on United Kingdom
Executive Board Meeting
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The UK has long valued the IMF's independent scrutiny, analysis and advice, so we are pleased to be among the first major economies to be discussed at the Board since the resumption of standard Article IV surveillance. A general election and scheduling challenges meant that there was not a UK Article IV in 2019, and efforts to hold one in the first half of 2020 were stymied by the emergence of the pandemic. We are grateful to the staff team for their efforts against a changing and challenging backdrop, and we welcome the report's focused attention on the challenges associated with COVID-19.

The pandemic has caused exceptional hardship for individuals, families and businesses across the UK, as it has across large parts of the world. The health emergency has been accompanied by unprecedented economic uncertainty and the deepest recession on record: UK GDP looks set for its biggest annual fall since the Great Frost of 1709. Output fell an estimated 25 percent between February and April as a result of restrictions needed to limit the spread of the virus. While the economy grew rapidly over the summer, the UK, like many other countries, has seen a resurgence of the virus in recent months, prompting greater restrictions to contain the spread of COVID-19. Although promising developments on vaccines since staff's virtual mission give some grounds for cautious optimism, there remains considerable uncertainty about the outlook. Under the independent Office for Budget Responsibility's (OBR) central scenario, published in late November, in which restrictive public health measures need to be kept in place until the spring, the economy is not expected to return to its pre-virus level of activity until late 2022.

The authorities have collectively taken extensive and unprecedented action to tackle the virus and mitigate impacts across all areas of the UK. Fund staff note that the economic policy response "– one of the best examples of coordinated action globally – has helped mitigate the damage, holding down unemployment and insolvencies." Significant interventions by the Bank of England and other central banks helped to address liquidity strains and calmed markets early in the crisis. Since March, government action has included helping to pay the wages of people in 9.6 million jobs which might otherwise have been lost, supporting the livelihoods of an additional 2.6 million self-employed workers, and making additional welfare support available. UK businesses have received significant support from the authorities in loans, tax deferrals, business rate reliefs, and general and sector-specific grants, with a focus on small businesses in some of the hardest-hit sectors. The Bank of England has loosened monetary policy, cutting interest rates and resuming its asset purchase program, and views the current stance as accommodative. Action taken by the authorities since the financial crisis has substantially strengthened the resilience of the financial system, and meant that UK banks entered the pandemic well-capitalized (as illustrated by the desktop stress test published in the Bank of England's Interim Financial Stability Report in May). This has enabled them to absorb the COVID-19 shock and continue lending, supported by the release of the counter cyclical capital buffer.

In late November, the government delivered a one-year spending review, prioritizing funding to support the response to COVID-19, support jobs and invest in the UK's recovery. While most aspects of the spending review set out single-year plans for 2021-22, multi-year settlements for health and schools provide additional certainty. Key infrastructure plans also provided £100bn of capital investment next year, a £27bn real-terms increase on FY19-20. This is a significant step towards achieving the government's objective of over £600bn of gross public investment over the next five years, reaching the highest sustained levels of public sector net investment as a proportion of GDP since the late 1970s. Priority welfare outcomes for the spending review included: maximizing employment across the country; improving opportunities for all through work; addressing poverty through enabling progression in the workforce and increasing financial resilience; and delivering a reliable, high quality welfare and pensions system. To help support the labor market, a new three-year Restart program will provide intensive and tailored support to help over one million unemployed people find work, alongside additional funding for work search support measures, and the Kickstart Scheme to create hundreds of thousands of new, fully-subsidized jobs for young people at risk of long-term unemployment across the country. Staff's international comparisons give a partial picture of the UK's welfare provisions, because of the nature of Universal Credit as a single payment covering working age welfare; the UK actually spends more on family benefits as a share of GDP than all but one OECD member, and is in the top quintile for social spending.

The long-term effects of COVID-19 on the economy remain unknown. Staff's estimate for economic scarring is somewhat larger than those of the OBR or the Bank of England, but all of these assessments are characterized by high uncertainty. Our authorities welcome the finding that the UK retains policy space to respond. The exact nature and scale of the challenges to come will depend on many factors, including the path of the virus and the effectiveness of vaccines and their rollout.

Looking forward, which tools the authorities choose to deploy, beyond measures announced to date, will be driven by careful consideration of developments and evidence. From the Bank of England's perspective, the Monetary Policy Committee (MPC) has already noted that if the outlook for inflation weakens, it stands ready to take whatever additional action is necessary to achieve its remit, and that it does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably. Importantly, the reverse stress test exercise considered by the Financial Policy Committee (FPC) ahead of its August report demonstrated UK banks to be resilient to a very wide range of possible outcomes, and the FPC continues to judge that banks have the capacity to continue to support businesses and households through this period.

Meanwhile, the government has pledged to continue to show flexibility and creativity in its response, building on the Chancellor's pledge to do "whatever it takes to support the UK economy through the crisis". Like staff, our authorities believe that announced increases in borrowing and debt over the near term to fund important spending are both necessary and affordable. The government also recognizes its responsibility to ensure that the next generation will inherit a strong economy backed by sustainable public finances. The extent of the government's economic package of support was made possible by work to rebuild the strength of the public finances following the Global Financial Crisis and the UK's strong institutional frameworks. Therefore, over time, and once the economic recovery is secured, the government will take the necessary steps to ensure the public finances are on a sustainable path.

The UK will continue to be a dynamic and outward-looking trading nation. Trade is at the heart of the UK's foreign policy. In under two years, the UK government has signed or agreed in principle free trade agreements with 56 countries (as of 10 December), including Canada, Japan, Singapore and Switzerland. Our authorities intend to step up international engagement, including as an independent member of the World Trade Organization, to strengthen the rules-based global trading system.

The UK left the European Union on 31 January 2020, and regardless of the outcome of negotiations, it will be leaving the Single Market and the Customs Union at the end of the transition period. Whatever the outcome of negotiations, this will bring both changes and opportunities. The UK authorities continue to put in place the measures needed to prepare for these, and to encourage businesses and citizens to prepare. Financial sector preparations have progressed well. The FPC judges that most risks to UK financial stability that could arise from disruption to the provision of cross-border financial services at the end of the transition period have been mitigated. This reflects extensive preparations made by authorities and the private sector over a number of years. However, financial stability is not the same as market stability or the avoidance of any disruption to financial services. Some market volatility and disruption to financial services, particularly to EU-based clients, could arise. Irrespective of the particular form of the UK's future relationship with the EU, and consistent with its statutory responsibilities, the FPC will remain committed to the implementation of robust prudential standards in the UK. The government has also provided certainty about the actions that businesses and individuals need to take in preparation for a successful end to the transition period.

As staff note, any new equivalence decisions should aim to be as stable as possible. The UK believes that having comprehensive, appropriate and reasonable framework for regulatory cooperation will help to provide stability to our equivalence decisions. The UK believes in adopting a proportionate approach when it comes to the withdrawal of equivalence. This includes appropriate adaptation periods to allow jurisdictions and firms time to prepare for the changing circumstances. The length and nature of any adaptation period will depend on the circumstances of withdrawal, such as the type of equivalence decision involved.

The government is pressing ahead with investing in the economic recovery, including by providing £100bn of capital spending next year, to rebuild for a stronger, greener, more equal future. Even before COVID-19, the government had begun to scale up infrastructure investment plans. A new National Infrastructure Strategy is centered around three main objectives: economic recovery; levelling up and unleashing the potential of all parts of the UK; and meeting the net zero emissions target by 2050. The government is looking to further improve the efficiency and effectiveness of infrastructure project delivery and has published a refreshed Green Book to ensure that project appraisals properly analyze how proposals deliver the government's key priorities, including levelling up, and how they will impact different parts of the country.

The UK continues to lead on tackling climate change and environmental issues, with policy ambition backed up by evidence-based reviews and legislative targets. The UK has a well-established system of carbon budgets, stepping up commitments over time. Earlier this year, the UK became the first major economy to legislate to end its contribution to global warming by 2050. The Treasury is undertaking a "Net Zero Review" to assess how the UK can maximize economic growth opportunities from its transformation to a green economy, cutting emissions without seeing them exported elsewhere, and ensuring a fair balance of contributions from all those that will benefit, including considering how to reduce costs for low income households. We welcome a new IMF working paper which offers useful insights and considerations on how the UK can meet its net zero commitments. To help accelerate progress, the Prime Minister this month announced a new target for the UK to reduce its greenhouse gas emissions by at least 68% by 2030, relative to 1990 levels. This sits alongside his ten point plan to create and support up to 250,000 British jobs through a green industrial revolution. UK financial authorities continue to set a strong example in promoting the assessment of climate-related risks to the financial sector. TCFD-aligned disclosures will be mandatory across the economy by 2025, and the Bank of England published its own disclosure for the first time earlier this year. The UK will implement a Green Taxonomy, and will also issue its first Sovereign Green Bond in 2021, subject to market conditions, following up with a series of further issuances to build a 'green curve'. Separately, a government-commissioned independent global review on the economics of biodiversity, led by Professor Sir Partha Dasgupta, aims to build a unified and comprehensive economic framework for thinking about and approaching economics and economic decision-making in a way that fully accounts for our natural assets, and the goods and services we derive from them.

The Fund has publicly recognized the UK's leadership in responding to COVID-19, and our authorities intend to continue to proactively and constructively address shared global challenges. The UK is the largest donor to the COVAX Advance Market Commitment, which aims to support developing country access to COVID-19 vaccines. It has strengthened core funding to the WHO over the next four years, with a 30 percent increase to existing funding. It remains the largest donor to Gavi, the Vaccine Alliance, helping to ensure that the pandemic does not undermine global efforts to protect against preventable diseases. And it continues to work through the Fund, the World Bank Group and other high-value international institutions to promote shared prosperity, including through large and timely replenishments to the Fund's CCRT and PRGT loan resources.