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December 14, 2020

Statement by Mr. Jin and Ms. Yang on United Kingdom
(Preliminary)
Executive Board Meeting
December 16, 2020

We thank staff for the well-written report and Ms. Riach, Mr. Ronicle, and Mr. Chrimes for their helpful Buff statement. We broadly agree with the thrust of staff's appraisal and would limit our comments to the following.

The UK is confronting the dual challenges of pandemic shock and Brexit uncertainties. Although the well-coordinated and timely policy response helped to mitigate the COVID-19 shocks, nascent recovery was overshadowed by the second wave and unprecedented economic uncertainty. Going forward, the longer-lasting economic effects by pandemic will add to the structural shifts from Brexit, and further measures should be taken to help the economy adjust to the structural changes and boost long-term growth.

Continued fiscal support to mitigate the downside risks remains warranted until the impact of the pandemic abates. Higher public investment is needed to help restart the economy, and we see merit in the key infrastructure plans with £100bn of capital investment next year. To address the issues identified with investment management and ensure the efficiency and effectiveness of the infrastructure investment, we welcome the authorities' consideration to reform the public investment management (PIM) system and share staff's recommendation for an externally validated assessment of the PIM framework. Meanwhile, we commend the authorities on their commitment to ensure sustainability of public finance once the economic recovery is secured.

We are pleased to see the resilience of the UK banking system has been substantially strengthened after the GFC, and banks are well capitalized to absorb the COVID-19 shock and continue lending. At the same time, we share staff's concern on the vulnerabilities of certain types of banks and non-banks, especially in the case of falling property prices or other systemic financial risks materializing, and agree with the continued close supervision of banks.

We welcome the authorities' actions in supporting the labor market and we encourage the authorities to continue strengthening the social safety net. Inequality tends to be higher after the pandemic as it hit the most vulnerable groups disproportionately. Job losses have been concentrated among low-income and low-skilled workers, who relied more on supportive measures. Policies should be targeted to where the needs are greatest in order to mitigate adverse distributional consequences effectively. We commend the new three-year restart program providing targeted support to the unemployed as well as the Kickstart Scheme to create hundreds of thousands of jobs for young people.

We agree with staff's assessment that contingency plans should be prepared for a "no-deal" Brexit, *and we feel the report would have benefited from showing the estimated impacts for different sets of policy responses in the case of a no-deal Brexit.* While the financial sector is well positioned to safeguard financial stability, border protection should be stepped up as well. Additional buffers should be built to accommodate Brexit-related risks and maintain economic stability. We encourage the UK to complete trade agreements with other partners and continue to contribute to the rule-based multilateral trading system.

We take positive note of the UK's ambitious climate agenda and climate mitigation commitment. Supporting spending aligned with meeting climate and environment goals and introducing a carbon price as planned would help to meet the prescribed climate targets, and the assessment of climate-related risks in financial sector analysis is also in the right direction. *We would welcome staff's comments on the UK's climate policies.*

With these remarks, we wish the authorities every success in their policy endeavors.