INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Seventh Meeting
April 13–14, 2023

Statement No. 47-26

Statement by Mr. Hunt
United Kingdom

IMFC Statement by Jeremy Hunt

Chancellor of the Exchequer, H.M Treasury, United Kingdom

On behalf of the United Kingdom

I would like to express my unequivocal condemnation of Russia's illegal, unjustified, and unprovoked invasion of Ukraine which undermines the core foundations of an international rules-based system. I reaffirm the United Kingdom's unwavering support for Ukraine and full solidarity with its people. We will always be on the side of freedom, democracy, and the rule of law.

Global Economy

Russia's intolerable war and its weaponization of energy and food supplies continue to weigh heavily on the global economy. Advanced Economies are recovering from a series of shocks and are progressing towards stable growth, but the process will be slow. Core inflation remains high, with interest rates also rising. There are significant downside risks to the outlook: higher-than expected and persistent inflation; the global economy stalling; further escalation of the war in Ukraine; increased food insecurity and poverty; and acceleration of global fragmentation trends.

In addition, whilst the UK banking system remains safe and sound, recent difficulties experienced by a small number of banks internationally have highlighted some volatility in the global financial system. We must ensure that enhanced international standards introduced after the global financial crisis are maintained, both for prudential regulation and resolution, and we must remain vigilant to financial market conditions and be prepared to use the appropriate policy tools to keep banking systems safe and robust. In this regard, the IMF's expert surveillance is pivotal in monitoring the health of the international monetary system. We also welcome continued international work to address risks in the non-bank sector, including developing and implementing regulatory reforms to enhance resilience.

Through this period, the UK's banking system has proven resilient, with robust capital and strong liquidity positions, and is well placed to continue supporting the economy in a wide range of economic scenarios, including through a period of higher interest rates.

I would also underscore the criticality of robust multilateralism in preserving the health of the global economy. Together we must steadfastly work to maintain macroeconomic and financial stability whilst navigating our economies to a path of sustainable growth. We must bring down inflation, we must reduce elevated debt levels with credible fiscal frameworks that are well-aligned with monetary policy objectives, and we must be ambitious in pursuing higher long-term growth: implementing policies that target the broader structural challenges our economies face, such as removing barriers to work, expanding the labour supply, and promoting investment. While it is right for us to take measures to strengthen the resilience of the global economy to future shocks, including to supply chains for critical goods, we should preserve openness in global markets, and work together on diversification rather than protectionist measures.

International action on climate change is also critical. By working together, we can manage the risks of climate change and pursue a pro-growth transition that works for consumers, strengthens industry, and supports energy security and resilience. We must be resolute in our support for developing countries in mitigating and adapting to the effect of climate change through just transitions, recognising the need for unique pathways in pursuit of individual countries' climate goals. The global volatility in energy prices underscores the importance of doubling down on our energy transition efforts; reducing reliance on fossil fuels in favour of clean, affordable energy that can support countries' energy security objectives as well as the global transition to net zero.

I would also like to reiterate that the single most important action to safeguard the global economy and support strong, sustainable growth would be an end to Russia's intolerable war and the full withdrawal of Russian forces from Ukrainian territory.

UK Economy and Policies

Amidst these challenges, the UK government is taking the actions necessary to deliver stability and responsible economic policy. Supported by government decisions taken at Autumn Statement 2022, the economy and public finances have proved more resilient than expected in the Office for Budget Responsibility's (OBR) November 2022 forecast. Spring Budget 2023 takes further action to deliver on three of the Prime Minister's five priorities: halving inflation, growing the economy, and getting debt falling. The independent OBR's latest forecast shows that inflation will more than halve this year, the economy is on track to avoid recession with gross domestic product (GDP) higher, and debt falling in the medium term. Measures in the Spring Budget deliver the largest permanent increase in potential GDP the OBR have ever scored in a medium-term forecast as a result of government policy.

The government have protected households in the face of a cost-of-living crisis with a support package that averages £3,300 per household, including by capping household energy prices for a typical household at around £2,500 per year. The UK's strong fundamentals and the government's plan – built on the four pillars of employment, education, enterprise and everywhere – should promote stronger, sustainable growth. The measures introduced included:

- A number of measures to address inactivity in the labour market, centred around four cohorts: the long-term sick and disabled, older workers, welfare recipients and parents. This included expanding 30 hours free childcare for children over the age of nine months, alongside boosts to subsidized childcare for parents on Universal Credit.
- The full expensing capital allowance announced in the Spring Budget aims to incentivise firms to bring forward investment and thereby boost the level of business investment in the next few years. The government wants to ensure the tax regime remains competitive longer term, and will make this measure permanent as soon as it is economically responsible to do so.
- Temporary fiscal measures to support households with the cost-of-living, some of which will also reduce inflation in 2023/24, including an extension of the household guarantee on energy prices and a freeze on fuel duties.

Through these measures the Spring Budget builds on the action taken at Autumn Statement 2022 to halve inflation, grow the economy and get debt falling; to support businesses and households with the cost of living; and underpin the UK's long-term prosperity.

We are also taking bold steps to secure the UK's supply of cheap, abundant, and reliable energy. 'Powering up Britain' is an ambitious strategy to secure our energy system by ensuring resilient and reliable supply, increasing our energy efficiency, and reducing reliance on fossil fuels. This strategy uses science, innovation, and a pro-growth regulatory regime, powered by private capital from our global financial centre, to fund a green industrial revolution.

The Role of the IMF

I welcome the direction of the IMF's work agenda to support its mission, and fully support the Managing Director's Global Policy Agenda. Safeguarding economic and financial stability, supporting vulnerable countries, and sustaining the path to future prosperity are priorities that resonate deeply with the objectives of the UK. The Fund and its members must work together diligently and cooperatively to achieve each.

The Fund needs to be proactive and vigilant in support of its membership, with a stronger and more flexible lending toolkit. To that end, the operationalization of the Resilience and Sustainability Trust (RST) has been a welcome step. The Poverty Reduction and Growth Trust (PRGT) must also continue to play a pivotal role in supporting the Fund's most vulnerable members. Both Trusts are in urgent need of further financing, including through ambitious SDR channelling commitments towards the $100 billion global ambition. The UK is playing its part here and I am delighted to be signing contributions of SDR 2.5bn to the RST and SDR 1.5bn to PRGT at this Spring Meetings. The UK's SDR 1.5bn loan to the PRGT is expected to generate at least SDR 250m in implicit subsidy resources according to IMF staff, which will help shore up upcoming and future lending to LICs.

I warmly welcome work undertaken at the IMF Executive Board to sharpen the Fund's lending toolkit. This includes the approval of increased access limits for regular (GRA) IMF lending, and an important change to the Fund's policies for lending into exceptional uncertainty. However, it was disappointing that PRGT access limits were not increased at the same time as GRA access. The Fund must be able to offer full and timely support to its poorest members when needed, in accordance with its mandate. I am pleased the Board will revisit the issue of PRGT access limits should further fundraising to the PRGT materialize. We need to go further and faster in delivering contributions to the PRGT, including through SDR channelling. The UK is a leading donor to the PRGT; with our new loan coming into force our total commitment to the PRGT is SDR 5.5bn, and we have gone beyond our fair share in meeting PRGT subsidy requirements through the implicit subsidy mechanism within our loan contributions. I urge other members to be equally ambitious.

If further fundraising doesn't materialize, the IMF must expedite consideration of using internal resources to support the PRGT's critical subsidy needs. Proposals must be brought before the IMF Executive Board in a timely fashion to consider a transfer of GRA lending income or a targeted sale of IMF gold to ensure the PRGT has a sustainable resource envelope in the long-term.

IMF precautionary facilities are also an integral part of the Fund's lending toolkit, bringing significant benefits both to the countries that take them and the global economy more broadly. The upcoming review of these facilities should ambitiously examine how to make them more nimble and more desirable for prospective users. It is in all our interests for this part of the toolkit to be used more widely by qualifying countries. Not least because those countries' commitment to sound policy, combined with the signaling effect of an IMF precautionary credit line, can ultimately reduce calls on IMF resources.

We need to work together to urgently address growing global debt vulnerabilities; this means accelerating the implementation of the Common Framework and making swift progress on non-Common Framework cases such as Sri Lanka. I fully support the Fund's new Global Sovereign Debt Roundtable; it is essential we have a forum where a broad range of creditors and debtors, including the private sector, can discuss debt issues. The UK has led reforms to the wider debt architecture, specifically on Climate Resilient Debt Clauses (CRDCs) and Majority Voting Provisions (MVPs). I thank the Fund for their support on this and encourage International Financial Institutions (IFIs), other Export Credit Agencies and the private sector to offer CRDCs, while it is also my expectation that private creditors will include MVPs in all future syndicated loan contracts.

I commend the IMF's dedicated support to Ukraine, culminating in the approval of a $15.6 billion Extended Fund Facility (EFF). I would like to thank IMF officials for their exceptional efforts and the Government of Ukraine for the excellent progress made under the Board Monitored Programme to pave the way for an EFF. This is a crucial milestone that demonstrates the international community's deep commitment to support Ukraine in the years to come. The UK will do what is necessary to support Ukraine and the IMF in the implementation of this programme. With our international partners we will continue our efforts to support and contribute to Ukraine's repair, recovery, and reconstruction.

The UK remains firmly committed to multilateralism and recognises the vital significance of economic cooperation across IFIs. IFIs must be strong, resilient, and appropriately resourced to serve their members and the Fund is no exception. Concluding the 16th General Review of Quotas by December 2023 is pivotal. The IMF and its members must work collaboratively at pace to secure an agreement for a strong, well-resourced IMF to address current and future challenges.