International Monetary Fund
February 2, 2012

United Kingdom

Presented by

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Introduction

Before the crisis, growth in the U.K. was over-reliant on private and public consumption, financed by high borrowing, including from abroad.

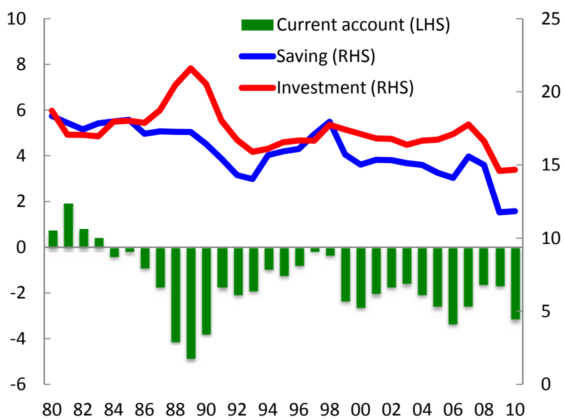
Household saving fell to unsustainably low levels alongside an overheated housing market. Financial sector excesses contributed to a buildup of imbalances and stability risks. Public finances entered the crisis with little policy space and are now severely weakened.

The U.K. can best contribute to strong, sustainable and balanced global growth by taking prudent steps to restore soundness to public finances and to maintain stability in its systemically important financial sector.

Background

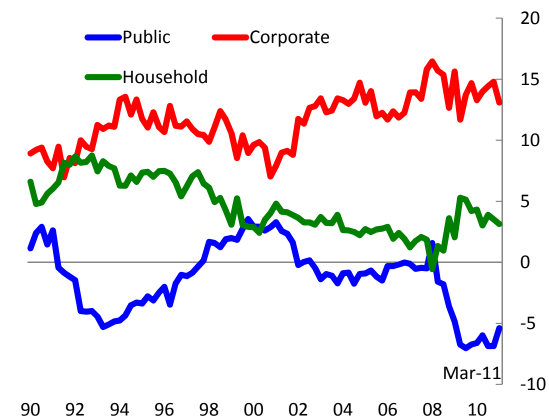
A fall in household and public saving explains a rising current account deficit. Investment remained relatively low.

Saving and Investment
(percent of GDP)



Sources: Office for National Statistics and Haver Analytics.

Gross Saving by Sector
(percent of GDP)



Sources: Office for National Statistics and Haver Analytics.

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Prospects

Fiscal adjustment plans give strong reasons to expect a narrowing of the current account deficit.

Private consumption growth is likely to be restrained as cuts in government transfers slow household income growth and as the need to repair balance sheets keeps the household saving rate high.

Over the medium term, growth must rely more on investment and exports.

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Root Causes of Low Household Saving and Higher Household Debt

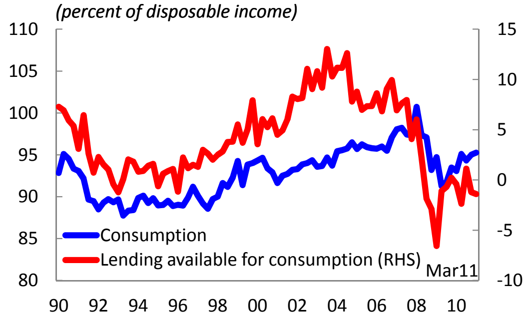
Lower real interest rates

Easier credit conditions

Rising asset prices

Household Consumption and Debt

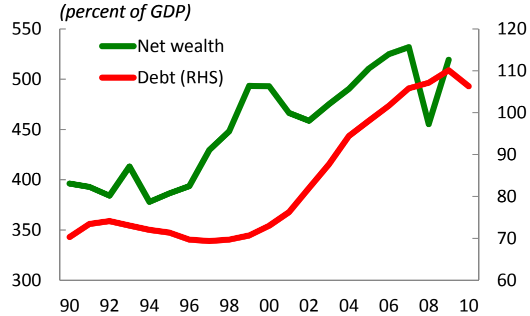
(percent of disposable income)



Sources: Office for National Statistics and Haver Analytics.

Household Net Wealth and Debt

(percent of GDP)



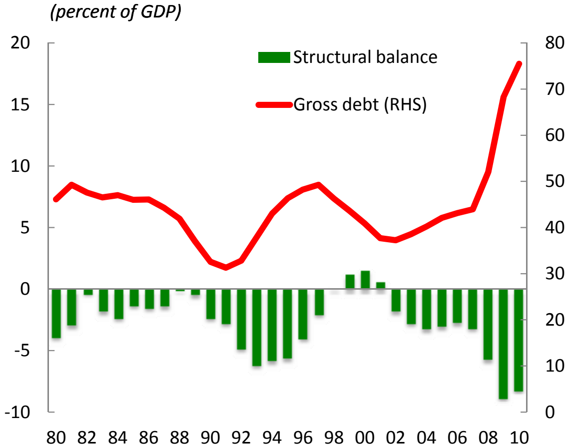
Sources: Office for National Statistics and Haver Analytics.

Root Causes of Low Public Saving

Structural weaknesses in the U.K's fiscal policy framework.

Public Sector Balance and Debt

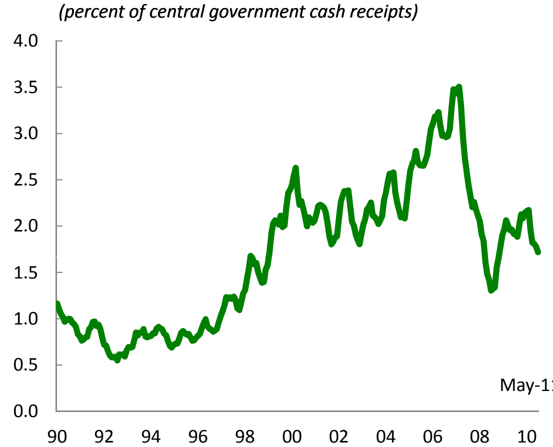
(percent of GDP)



Sources: IMF, *World Economic Outlook* and staff estimates.

Stamp Duty Receipts

(percent of central government cash receipts)

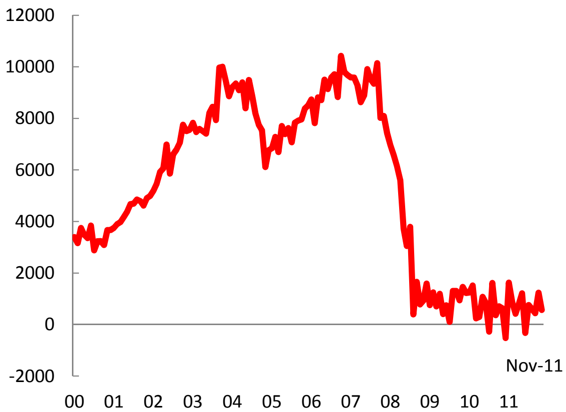


Sources: Haver Analytics and HM Revenues and Customs.

The Role of the Financial Sector in Imbalances

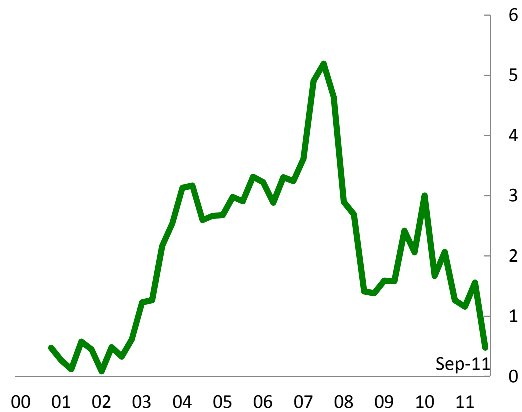
"Boom-bust" pattern of credit growth reflected market failures and distortions.

Mortgage Lending: Total Net New Loans
(millions of pounds)



Source: Haver Analytics.

U.K. Bank Issuance of Bonds to Foreigners
(percent of GDP; 1-year rolling average)



Source: Haver Analytics.

How Should the U.K. Reduce Imbalances

A sustainable increase in public saving should be secured by additional structural reforms that address longer-term fiscal imbalances.

Monetary policy should remain accommodative for some time—so long as underlying inflation remains in check—to support investment and facilitate export growth.

To support growth and prevent another buildup of imbalances and stability risks, financial sector reform in key areas is still needed, including : an enhanced macroprudential toolkit, continued build up of capital and liquidity buffers, stronger supervision, and measures to address "too big to fail".