3. **On July 20, the EU Commission adopted a proposal to implement the Basel III agreements through new EU-wide legislation**. The package includes regulation and a directive ("CRD4"), both of which are subject to approval through the EU Council and Parliament—a process that will likely take at least six months. The proposal falls short of IMF staff recommendations (see paragraph 50 of the staff report) and hence is a disappointment. Specifically:

- ***The common standards are too weak***. The Commission suggests a common standard (maximum harmonization) set at the level of Basel III minimum requirements. Moreover, the Commission has softened the definition of core tier 1 capital relative to the Basel III recommendations in some areas. In contrast, staff has called for common standards that exceed the Basel III minima, given prevailing balance sheet uncertainties and the lack of EU-wide resolution arrangements and a fully unified fiscal backstop.

- ***More flexibility is needed for macroprudential policies***. National authorities can only set system-wide higher capital requirements on loans secured by real estate or using the Basel III countercyclical capital buffer, although they have more freedom with regard to individual banks. National authorities are likely to need more flexibility to use a range of macroprudential tools, given the uncertainty surrounding the tools required for effective macroprudential policy and future macroprudential risks.

- Furthermore, the ***Commission proposal lacks a firm commitment to implement the leverage ratio or net stable funding ratio*** in 2018, as was agreed under Basel III.

It will be important to strengthen the legislation as it is finalized, including by creating stronger common standards and ensuring sufficient flexibility for macroprudential policies.

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Statement by the IMF Staff Representative on the United Kingdom
July 26, 2011

This note reports on information that has become available since the staff report (SM/11/181) and staff supplement were issued and does not alter the thrust of the staff appraisal.

1. **UK GDP grew at 0.2 percent (quarter-on-quarter, seasonally adjusted) in Q2 according to preliminary estimates released today**. Several one-off factors, such as the additional bank holiday associated with the royal wedding and the impact of supply-chain disruptions in the wake of the Japanese earthquake and tsunami, affected growth during Q2. The Office for National Statistics notes that it is not possible to be precise about the impact of such special effects, but their broad-brush analysis indicates that these factors may have had a net downward effect on Q2 GDP of 0.4 percent in the services sector and 0.1 percent in the production sector. The GDP outturn is slightly lower than what staff had projected and will be incorporated into the next update of staff's projections for the September 2011 *World Economic Outlook*. However, the outturn does not materially alter the central scenario of continued recovery at a moderate pace.

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