



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Valdis Dombrovskis
European Commission**

**Statement of Executive Vice President Valdis Dombrovskis and
Commissioner Paolo Gentiloni to the International Monetary and Financial
Committee on behalf of the European Commission**

Washington, 15, October 2020

The global economic outlook remains very uncertain amid the outbreak and spread of COVID-19. Our first and common priority should remain to limit the impact of the pandemic on people and the economy, and put in place strategies for a strong and inclusive recovery, while making the most of the green and digital transitions. Full implementation and targeted adjustment of our policy responses is paramount. Economic support measures should not be withdrawn prematurely.

The EU is determined to do whatever it takes to effectively address the economic challenges caused by the spread of coronavirus. Our Member States have taken sizeable discretionary fiscal measures of about 4½% of GDP in 2020, in addition to allowing automatic stabilisers to operate fully. Member States have also provided ample liquidity facilities to businesses of more than 25% of GDP, consisting of public guarantee schemes and deferred tax payments.

At the EU level, we have activated the general escape clause of the Stability and Growth Pact so that Member States can use fiscal policy to tackle the economic consequences of the pandemic. The use of the clause provides Member States with the flexibility needed to take necessary measures for supporting our health systems and for protecting our economies, without endangering fiscal sustainability in the medium term. We have also increased the flexibility of our state aid and banking rules to facilitate the provision of liquidity, and we have provided unprecedented support through flexibility in EU funds.

Beyond these measures, and the package of monetary and supervisory policy measures taken by the European Central Bank, we have put in place three important safety nets to support workers, businesses and healthcare in EU Member States, amounting to a package worth EUR 540 billion. The new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), worth up to EUR 100 billion, will help protect jobs and workers affected by the pandemic. The Pan-European Guarantee Fund, created by EU Member States for the European Investment Bank Group, will provide financing of up to EUR 200 billion to hard-hit businesses that are viable in the long-term, in particular small and medium-sized companies. Finally, the Pandemic Crisis Support, established by the European Stability Mechanism, can provide loans for up to EUR 240 billion to euro area Member States to support domestic financing of direct and indirect healthcare, cure, and prevention-related costs due to the crisis.

The fiscal policy stance in the EU should remain supportive next year. Depending on the development of the pandemic, emergency measures may need to be adjusted and combined with measures that improve the fundamentals of our economies, support the green and digital transition and have a positive impact on demand. Member States, in particular highly indebted countries, should rely on credible temporary measures, which can be rolled back once the recovery consolidates. This would allow a prudent fiscal trajectory beyond 2021 and ensure sustainable debt dynamics. The quality of public finances will be crucial to couple demand support with improving the fundamentals of the economy and meeting the goals of the European Green Deal.

On 17-21 July, the EU Heads of State and Government reached a landmark political agreement on a EUR 1.82 trillion package for a sustainable and green recovery, which includes a reinforced long-term EU budget for 2021-2027 and a “Next Generation EU” recovery instrument. Next Generation EU will raise EUR 750 billion of financing from the financial markets. Both Next Generation EU and the EU budget will help the EU recover and transform its economy in line with its major policy priorities, in particular the European Green Deal.

The centrepiece and biggest programme under Next Generation EU is the Recovery and Resilience Facility (RRF), which will provide EUR 672.5 billion (EUR 360 billion for loans and EUR 312.5 billion for grants) in financial support for investment and reforms in relation to the green and digital transitions and the economic and social resilience of national economies. The Recovery and Resilience Facility must guide and build a more sustainable, resilient and fairer Europe for the next generation in line with the United Nations’ Sustainable Development Goals. Member States will be asked to set out their reform and investment agendas for the coming years, consistent with the country-specific challenges and priorities identified in the context of the EU’ reform strategy, the so-called ‘European Semester’. These reforms and investments will allow Member States to improve environmental sustainability and connectivity.

The EU will pursue its active engagement in the process of modernization of the World Trade Organisation to improve its negotiating, monitoring and dispute settlement functions and hopes that the Riyadh Initiative on the Future of the WTO will provide the necessary boost to that process. The need to handle trade tensions and to foster mutually beneficial trade relations is critical in the post COVID-19 world. Decisive commitments to open markets and to a level playing field for trade and investment will provide the trust and predictability needed to recover from the economic impact of the pandemic. In this context, we call on G20 members and on the rest of countries to refrain from raising new barriers to investment or to trade in goods or services, imposing new export restrictions or implementing WTO inconsistent measures to stimulate exports, as well as to address trade distortions caused by non-market practices. To that end, the reform of the WTO, advocated by G20 Leaders since 2018, is urgent.

Europe is at the vanguard of greening the recovery. Beyond the ongoing crisis response, we are working on making the recovery sustainable and inclusive. Climate change is a global challenge requiring a coordinated global response. Its economic consequences are being felt today and the cost of inaction is increasing. The Commission has proposed an EU Climate Law to enshrine in law the objective of climate neutrality by 2050, and a plan for an emissions reduction target of at least 55% by 2030. In addition, the upcoming renewed sustainable finance strategy will help guide private finance to be in line with our long-term ambitions. Postponing climate action is not an option for the EU.

The response to the crisis also offers us an opportunity to take further steps towards a more stable and dynamic Economic and Monetary Union (EMU). While the Next Generation EU recovery instrument strengthens Europe and EMU, completing EMU continues to be a key priority. National plans under Next Generation EU could include reforms in areas with a beneficial impact for the development and integration of capital markets. On September 24th, the Commission published its new action plan for the Capital Markets Union, setting out key measures to complete it.

The current crisis places an even higher priority on the work on finding a global solution to the taxation of the digital economy. We welcome the progress achieved in international discussions and look forward to an ambitious, fair, effective, and workable global solution on both pillars.

Together with our international partners, we remain committed to agree on a two-pillar global solution by 2020, and we will redouble our efforts to deliver this global goal.

The ongoing Covid-19 crisis calls for a coordinated global response and multilateral solutions to support especially vulnerable countries. We support the IMF in making full use of its emergency financing facilities, including the Rapid Credit Facility and the Rapid Financing Instrument and its flexibility to address country specific needs in the face of the impact of Covid-19. We also continue to support the use of the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF.

The European Union has launched a “Team Europe” package to support partner countries in the fight against the coronavirus pandemic and its consequences, with collective resources of EUR 37 billion prioritising humanitarian aid, support to the health, food and water/sanitation systems, as well as the socio-economic recovery. The EU has also contributed to mitigating the adverse effects of the COVID-19 crisis in third countries through a EUR 3 billion package of Macro-Financial Assistance loans for 10 partners in the Western Balkans and the EU’s southern and eastern neighbourhood. With this package, the EU is strengthening international coordinated responses and helping partners limit the economic fallout of the pandemic. The ongoing and swift implementation of these programmes demonstrates the effectiveness of this approach and the EU’s solidarity with these countries at a time of unprecedented crisis. The efforts of ‘Team Europe’ are in line with the EU’s call for a global recovery initiative that secures a green, digital, just and resilient recovery and which should link investment and debt relief to the Sustainable Development Goals.

We welcome the progress on the G20-Paris Club Debt Service Suspension Initiative (DSSI). We are committed to continue working for a full and transparent implementation by all official bilateral creditors and we call for disclosure of country-by-country data on the amounts suspended. We welcome the IMF and World Bank efforts to develop a fiscal monitoring framework and improve debt disclosure, and look forward to public reporting of the results. We support the IMF and World Bank proposal on a debt data reconciliation process to strengthen debt transparency. We call for an extension of the DSSI beyond 2020 and welcome efforts to ensure support for the most vulnerable countries even after the expiration of the DSSI, while integrating debt discussions into a broader perspective of countries’ financing strategy. We urge further progress on the implementation of the IIF’s Voluntary Principles for Debt Transparency, particularly on identifying a data repository.

The European Union continues to support the commitment by the IMFC and G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. This continues to be important at a time of exceptional uncertainty and downside risks. The EU calls for the timely implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019, including the ratification of the doubling of the New Arrangements to Borrow (NAB) and completion of domestic approval procedures for the new round of Bilateral Borrowing Agreements. We ask the IMF to keep exploring additional tools, including a new general allocation of SDRs that could serve their members’ needs as the crisis evolves.