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IMFC Statement by Andrej Šircelj
Chairman

EU Council of Economic and Finance Ministers

Statement by Minister of Finance Andrej Šircelj, in his capacity as Chairman of the EU Council of Economy and Finance Ministers, to the International Monetary and Financial Committee Washington, DC, October 14, 2021

1. After subdued growth in the first quarter of 2021, global economic activity gained traction in 2021. The rebound was driven by the strong outturn among advanced economies, benefitting from progress with vaccination, reopening and sustained fiscal support measures. Going forward, near term growth is likely to soften a bit amid the rapid spread of the Delta variant and continued supply side disruptions, with the recovery in most emerging market economies and low-income countries lagging behind the rebound in the advanced economies. Given the still uncertain global health situation and highly uneven global recovery, determined and focused policy action is necessary. We in particular need to ensure affordable and equitable access to vaccines for all globally. We also support the IMFs proposed goal to vaccinate at least 40 percent of the population in all countries by the end of 2021 and at least 60% by the first half of 2022. In this regard, we fully support collaborative efforts, especially the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility, and underline the need to close its financing gap. As the global community continues to face extraordinary challenges and uncertainty, efforts need to remain focused on protecting people's health and livelihoods and overcoming the crisis.

2. Policy actions should continue to be coordinated in order to effectively address the pandemic, sustain the economy and support a sustainable recovery. The fiscal stance will remain supportive in the euro area in 2021 and 2022. Policy measures should be tailored to country-specific circumstances and remain timely, temporary and targeted while avoiding premature withdrawal and cliff edge effects. As the health situation improves and restrictions ease, fiscal measures should gradually shift towards more targeted actions to promote a resilient and sustainable recovery. Once the recovery is firmly underway, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability should be pursued, while enhancing investment levels and improving the quality of public finances. Particular attention should be paid to the composition of public finances and to the quality of budgetary measures. Priority should be given to sustainable and growth-enhancing investment and structural reforms, notably supporting the green and digital transition and to fiscal reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances. Public procurement frameworks and public financial management should be improved, including in particular investment frameworks and the use of green budgeting tools. Spending reviews should be used to better focus public expenditure on recovery and resilience needs. Transparent and clear monetary policy communication by major central banks is important for the global economy and financial stability. Macro-prudential policy should do its part to ensure financial stability.

3. The EU has agreed on a comprehensive fiscal support package covering the years 2021-27. This combines a reinforced Multi-annual Financial Framework (MFF) and an extraordinary recovery effort funded through the "Next Generation EU" (NGEU) recovery instrument that will raise up to EUR 750 billion from financial markets. Together, they amount up to EUR 1.8tn in 2021-27 and will help tackle the socio-economic consequences of the COVID-19 pandemic, transform the EU economy, pursue the European Green Deal, make the most of the digital revolution, and strengthen economic and financial resilience. The centre piece and biggest instrument of Next Generation EU is the Recovery and Resilience Facility, which will provide up to EUR 672.5 billion in financial support (EUR 312.5 billion in grants and up to EUR 360 billion in loans) for national investments and reforms in relation to the green and digital transitions and to boost growth potential as well as the economic and social resilience of national economies.

4. In addition, the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) has allowed for up to EUR 100 billion loans in support of Member States' short-time work schemes and similar measures to protect jobs and workers affected by the economic fallout of the COVID-19 pandemic. Until now, the EU approved a total of EUR 94.3 billion in SURE support to 19 Member States, out of which EUR 90 billion was already disbursed. Furthermore, the Pan-European Guarantee Fund, created for the European Investment Bank Group, can support EUR 200 billion of financing for companies with a focus on SMEs. Finally, the Pandemic Crisis Support established by the European Stability Mechanism (ESM) makes available up to EUR 240 billion of financing to euro area Member States to support domestic financing of direct and indirect healthcare, cure, and prevention related costs due to the COVID-19 crisis. As part of the EU's global response to the COVID-19 pandemic, the EU approved EUR 3 billion of Macro-Financial Assistance to 10 enlargement and neighbourhood partners to help them cope with the economic fallout. Of these, EUR 2,4 billion have already been disbursed or will be disbursed very soon[1]. This assistance comes on top of the 'Team Europe' package, the EU's robust and targeted response to support partner countries' efforts in tackling the pandemic, reaching over EUR 40 billion.

5. Fighting climate change is an integral and essential part of our agenda. It is a global challenge that requires an effective and coordinated response within a stronger institutional framework. The economic consequences of climate change are being felt, and the cost of inaction is steadily increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances, and financial markets alike. The transition towards a climate-neutral and environmentally sustainable economy can be accelerated by economic incentives and fiscal measures. The European Climate Law lays down the EU commitment to climate neutrality by 2050 and to increase its climate target from a 40% to a 55% greenhouse gas emission reduction by 2030, compared to 1990 levels. The European Commission has on 14 July 2021 put forward the "Fit for 55" package which proposes to reinforce the EU's main climate, energy and transport legislation, including, inter alia, a strengthening of the EU Emission Trading System and its expansion to new sectors, a WTO-compliant Carbon Border Adjustment Mechanism to avoid carbon leakage between the EU and third countries, a revised energy taxation framework as well as new policy targets for renewable energy and energy efficiency. A Social Climate Fund is also proposed to support EU Member States in mitigating the social impacts on vulnerable groups of the climate transition, and in particular an increased use of carbon pricing. This has been proposed in addition to the Just Transition Fund, adopted in June 2021, which will finance projects to make the green transition fair and inclusive.

6. Moreover, the new MFF and the NGEU, and in particular the RRF, ensure that the EU's recovery strategy is aligned with the longer-term climate and environmental sustainability goals, notably through a target for at least 37 percent of climate expenditure in each national Recovery and Resilience Plan. The European Commission's new Sustainable Finance Strategy published on 6 July 2021 will complement these efforts by supporting the mobilisation of the financial sector to meet the investment needs of the green transition and improve the resilience to climate and environmental risks. The EU Member States remain committed to continue scaling up the mobilisation of international climate finance from a wide variety of private and public sources, instruments and channels in the context of meaningful mitigation actions and transparency on implementation. This will help support the transition towards a climate-neutral global economy and alleviate the socio-economic impact of the transition.

7. By end 2020, the European Fund for Strategic Investments (EFSI) mobilised EUR 547

[1] In September 2021, the Commission adopted decisions approving the first disbursement to Bosnia and Herzegovina (EUR 125 million) and the second disbursements to Moldova (EUR 50 million) and Ukraine (EUR 600 million). The actual transfer of funds is expected to follow in October 2021.

billion in investment. It also more recently contributed to mitigate the impact of the COVID-19 pandemic on the EU's economies. Close to one and a half million start-ups and small businesses are expected to benefit from improved access to finance. Some 70 percent of the expected mobilised investment comes from private resources. The InvestEU programme will build on the success of the European Fund for Strategic Investments (EFSI) and bolster investments across the European Union. It will provide crucial support to small and medium-sized businesses, contributing to overcome the effects of the crisis while supporting the EU long-term priorities, in particular the green transition. The overall investment to be mobilised on this basis is estimated at EUR 370 billion, of which 30% should be dedicated to support EU climate and environmental objectives.

8. While global merchandise trade is continuing its robust recovery from the shock of the COVID-19 pandemic, the outlook for world trade continues to be overshadowed by downside factors, including continued weakness in services trade, persisting supply and logistics bottlenecks, and lagging vaccination timetables, particularly in poor countries. Against this background, it is critical to support the rules-based multilateral trading system. The new EU trade strategy pursues "open, sustainable and assertive trade", prioritising a major reform of the WTO and a modernisation of its rulebook to make it fit for today's world and well equipped to respond to competitive distortions. The EU looks forward to substantial progress on those priorities at the 12th WTO Ministerial Conference at the end of this year.

IMF Policy Issues

9. The IMF has demonstrated its ability to take strong and rapid measures to support its members during the Covid-19 crisis. IMF support for countries has shifted from emergency financing and debt relief at the height of the crisis towards regular lending programs with upper-credit-tranche conditionality to address evolving balance of payments needs including for mitigating the effects of the coronavirus and supporting resilient economic recovery.

10. EU Member States welcome the new general allocation of Special Drawing Rights of about USD 650 billion, which became effective on 23 August 2021, accompanied by increased transparency and accountability measures on the use of SDRs. It provides additional liquidity to the global economy by substantially supplementing countries' foreign exchange reserves. About USD 275 billion were allocated directly to low-income- and middle-income-countries, which have fewer resources to cope with the impact of the crisis. We call for additional IMF members to consider signing voluntary SDR trading arrangements to facilitate SDR exchanges and ensure adequate burden sharing across a wider set of countries. We support the IMF in further exploring actionable options for countries to voluntarily channel a share of their allocated SDRs to help vulnerable countries. To significantly magnify the impact of the general allocation in support of vulnerable countries, we call for ambitious voluntary contributions from all countries able to do so according to their national laws and regulations. The loan account of PRGT is the regular candidate to channel part of the allocated SDRs as it is tried and tested and we are looking forward to new contributions to help strengthen the PRGT, as endorsed by the IMF Board. Several EU Member States are considering such contributions to the PRGT, subject to national procedures. We also support exploring the creation of a new 'Resilience and Sustainability Trust' (RST) to meet longer-term protracted and prospective balance of payment needs and support more inclusive, resilient, and sustainable economic recoveries for vulnerable countries within the Fund's mandate, while preserving the reserve asset status of the SDRs channelled towards the RST. RST funding should complement existing Fund arrangements alongside an upper-credit-tranche IMF program without competing with existing sources of financing. We remain open to considering viable options to channel SDRs to Multilateral Development Banks at a later stage, as more technical work is needed. We call for the close cooperation of the IMF with the World Bank and other MDBs. We furthermore stress the importance of consistent and judicious follow-

up of pandemic-related emergency lending safeguards.

11. The EU Member States continue to support the commitment by the IMFC and by G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded no later than December 15, 2023.

12. We welcome the IMF Strategy to Help Members Address Climate Change Related Policy Challenges. While the challenges facing individual Members differ, and the timing and scope of disruptions may vary, concerted action everywhere, now and over the next decade will be crucial to mitigate climate change. We therefore believe that the Fund has an important role to play, and we agree with deepening the Fund's engagement on macro-critical climate change related issues across its activities. Doing so should help the Membership address macroeconomic and financial stability risks related to climate change, while ensuring economic sustainability - issues that fall squarely within the Fund's mandate. This would be in line with the objectives of the EU Green Deal and would contribute to mobilize the financial flows needed to achieve the climate goals of the Paris Agreement.

13. We welcome the Fund's efforts towards the 2021 Review of the Institutional View informed by the IMF's Integrated Policy Framework and the evaluation report of the Independent Evaluation Office on IMF Advice on Capital Flows. While the main elements of the Institutional View remain valid, we agree that a number of considerations could point to the possibility of fine-tuning the IMF's advice on the use of capital flow management tools and look forward to the upcoming review of the Institutional View on capital flows.

14. It is essential to ensure the swift and effective implementation of the G20-Paris Club Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, which has potential to be a powerful tool and is a major step forward toward improving the international architecture for sovereign debt restructuring. The Common Framework aims at ensuring effective coordination and facilitating timely and orderly debt treatments on a case-by-case basis for DSSI-eligible countries, with participation of all creditors, including the private sector, in line with the comparability of treatment principle. We welcome the progress made in the creditor committee for Chad and welcome the first creditor committee meeting for Ethiopia. We also look forward to the launch of the process for Zambia. We are committed to address requests for a debt treatment under the Common Framework in a timely manner. We support exploring to extend the Common Framework to middle-income countries facing debt vulnerabilities, while at the same time recognizing that resources for debt relief should be prioritized for low-income countries. We continue to support the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF and IMF Capacity Development to help strengthening economic institutions.

15. We also welcome the progress in implementing the G20-Paris Club DSSI, and its final extension until end 2021. The DSSI has been important in supporting beneficiary countries by freeing up fiscal space in the short term to fund social, health, and economic measures to respond to the pandemic. In all debt treatment processes, debt transparency is critical for a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We reiterate our support for strengthening the international efforts aimed at enhancing debt transparency, in both debtor and creditor countries, including: (a) the IMF-WB proposal on a debt data reconciliation process; (b) the follow-up on the second voluntary self-assessment of the G20 Operational Guidelines for Sustainable Financing implementation; and (c) the implementation of the IIF Voluntary Principles for Debt Transparency.