International Monetary and Financial Committee

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IMFC Statement by Pierre Moscovici
Commissioner
European Commission

Statement of Vice President Valdis Dombrovskis and Commissioner Pierre Moscovici to the International Monetary and Financial Committee on behalf of the European Commission

Washington, 13-15 October 2017

1. Growth in the EU is gaining further momentum. GDP growth has become more broad-based across all Member States, has gathered speed and is set to continue in the next quarters. Consumption growth is expected to continue thanks to private consumption. The widespread improvement in the labour market is also contributing, though large differences in unemployment rates will take time to be reduced. Investment has been emerging as another contributor. Risks to the euro area's economic outlook have become more balanced, although some downside risks exist both on the domestic and external sides including a move to more inward looking policies at global level.

2. We are determined to address the challenges brought by globalisation and to offer our citizens new opportunities and inclusive growth. This means putting a clear focus on inclusiveness, with the aim to strengthen the positive feedback loop between stability, efficiency and fairness. Combining efficiency with fairness aims to balance productivity enhancing measures with policies to ensure that aggregate gains are shared with the broadest range of people.

3. The European Union remains strongly committed to an open and rules-based multilateral trading system, with a central role for the WTO, and looks forward to a successful 11th WTO Ministerial Conference in December, which should deliver real outcomes. We need to stand up for open markets in all our economies. It is critical that the standstill and rollback commitments against protectionism that G20 leaders reaffirmed and extended last year are effectively implemented. To sustain market openness we also need to develop an international level playing field and to address the concerns of our citizens on globalisation. In pursuing a progressive trade agenda, our new trade agreement with Canada has provisionally entered into force and we have achieved a political agreement with Japan on a new economic partnership. By the end of the year, we have a good chance of doing the same with Mexico and South American countries. And we have proposed to open trade negotiations with Australia and New Zealand.

4. We need to continue using all policy tools – monetary, fiscal and structural – individually and collectively to achieve the goal of strong, sustainable, balanced and inclusive growth. We need to pursue responsible fiscal policies, using the appropriate flexibility in order to take into account the needs of both long-term debt sustainability and economic growth. We need in particular to enhance the composition and quality of public finances to make them more growth-friendly and inclusive. We also need to take advantage of the global recovery to implement further structural reforms.

5. Greece has entered the final year of its European Stability Mechanism (ESM) programme, and the focus is now moving towards its successful completion. This aim is supported by a number of encouraging developments, notably the conclusion of the second review of the ESM programme following the implementation of a broad range of reforms, the specification of possible debt measures by the Eurogroup, and the 'agreement in principle' on a precautionary programme by the IMF, based on shared conditionality. Growth has turned positive and unemployment has also started to decline, while Greece has exited from its Excessive Deficit Procedure and made a first return to the bond market in July. It will now be key for the Greek authorities to advance further with the comprehensive reform agenda under the programme, laying the foundations for sustainable growth and full market access.

6. The fiscal stance in the euro area remains broadly neutral in 2017 for the third year in a row. We would consider a continuation of this broadly neutral fiscal stance in 2018 appropriate given the present state of the recovery. In 2017, we expect the aggregate deficit to attain 1.6% of GDP in the EU and 1.4% of GDP in the euro area. Since 2015, the aggregate public debt level has been falling, a trend we expect to continue in 2017 and 2018. Member States' fiscal policies should remain in line with the Stability and Growth Pact, making the best use of the existing flexibility and preserving the long-term sustainability of their public finances. Those over-achieving their fiscal objectives should use their fiscal space to support domestic demand and investments, including cross-border ones such as those that are part of the Investment Plan for Europe.

7. Boosting investments in the real economy remains fundamental to solidify the growth momentum. The European Fund for Strategic Investments (EFSI), the centrepiece of the Investment Plan for Europe, is now active in all Member States and is now expected to have triggered over EUR 236 billion in investments. Given its success, the EFSI was extended beyond 2018 to mobilise at least half a trillion euro of investments by 2020.The work on improving Europe's investment environment advances to support for example venture capital, the raising of capital in public markets, and long-term investments in infrastructure. The Capital Markets Union Action Plan has already delivered about two thirds of the initially announced actions. In June 2017, the European Commission published a mid-term review which aims at facing the future challenges of the EU financial markets. We propose to further integrate EU supervision and to make it more effective, to harness the transformative power of financial technology and to shift private capital towards sustainable investment. We have also adopted other initiatives under the Investment Plan in the areas of the Single Market for goods and services, the Digital Single Market, the Energy Union, and the Circular Economy package to remove concrete obstacles to investment. The European Investment Advisory Hub helps promoters improve their projects. We have also proposed a new European External Investment Plan to encourage investment in Africa and the EU Neighbourhood.

8. Structural reforms are crucial to achieving long-term growth and ensuring that Europe's model combining open, efficient and dynamic markets with fairness and social inclusion can address the new challenges. The cooperation between the European Commission and Member States is delivering results with substantive progress on a large majority of reforms, although this varies by Member States. Reform commitments need to be maintained and sped up, as the strength and sustainability of the recovery depends on it. In particular, reform efforts need to be stepped up in the euro area Member States to increase the adjustment capacity and enhance the functioning of the currency union. Since May, the EU has had in place a Structural Reform Support Programme to provide technical support to the design, implementation and evaluation of reforms upon the request of the Member States.

9. The EU continues to work towards improving the architecture of the Economic and Monetary Union (EMU). Following the release of its Reflection Paper on the Deepening of the EMU and the debates that took place thereafter among various stakeholders, the Commission intends to present proposals on 6 December for the transformation of the European Stability Mechanism into a European Monetary Fund, the creation of a double-hatted European Minister of Economy and Finance and the creation of a dedicated euro area budget line within the EU budget. This budget line would provide for structural reform assistance building on the Structural Reform Support Programme, a fiscal stabilisation function, a backstop for the Banking Union, and a convergence instrument to give pre-accession assistance to Member States on their way to the euro. Work is also set to continue to complete the Banking Union, including a European deposit insurance scheme, making the common backstop for the Single Resolution Fund operational at the latest by the end of the

Fund's transitional period, reducing the level of non-performing loans, and supporting further portfolio diversification in the banking sector. The Commission will also carry out exploratory work for the possible development of a euro area safe asset. The President of the European Council has announced that he will call a Euro Summit in December to advance the discussions on deepening EMU, and has said concrete decisions should be taken at the European Council by June next year at the latest.

10. We consider it important to confirm our strong support for the current system of multilateral economic institutions and the role of the International Monetary Fund in particular. The IMF is a key pillar of the international monetary system. We support further work by the IMF on how to better communicate the ways in which an open global economy is a key driver of growth, increased prosperity and welfare worldwide.

11. We support the commitment by the IMFC to a strong, adequately resourced and quota-based IMF. Many EU Member States have confirmed contributing to a new round of temporary bilateral borrowing as a third line of defence, altogether amounting to EUR 182 billion.

12. We take note of staff's ongoing work on programme design in currency unions. We believe that it is in the IMF's interest to engage with all the membership, recognising that individual countries are part of different international arrangements and institutional frameworks. We underline the importance of even-handed programme design, acknowledging the diversity between the four currency unions. This implies taking into account the specific institutional arrangements and legal frameworks of the currency unions, allowing for a case-by-case approach. We are open to discuss the framework and policies of the euro area with IMF staff through its surveillance in the context of Article IV consultations of the euro area or the EU FSAP.

13. We look forward to the interim report of the Comprehensive Surveillance Review of the IMF. The surveillance of the IMF has a key role to play for crisis prevention and peer review, in particular the monitoring of capital flows and timely identification of risks at the global level. Inclusiveness and macro-financial issues should be fully integrated into surveillance.

14. We welcome the broader set of efforts to further strengthen the global financial safety net. In particular, we welcome the IMF work for a stronger collaboration between the IMF and the Regional Financing Arrangements. The IMF and the relevant European authorities have already established an excellent cooperation. We welcome the approach of respecting independence, governance structure, different mandates and different lending practices. In this respect, we would like to stress that given the particular role played by the ESM and other EU financing arrangements as regards EU/euro area financial stability, full control over the rules and criteria governing lending decisions by our instruments will be retained at the European level.