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IMFC Statement by Toomas Tõniste
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Toomas Tõniste in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting, Washington, 13-14 October, 2017

1. The EU remains committed to keeping the global economy open, resist protectionism and strengthen global economic cooperation. We support a rules- and market-based international economic order with sound multilateral institutions. We need to work together in order to enhance global growth by tackling political and economic risks while making sure that growth benefits everyone.

Global economy

2. Global growth has picked up and is now on firmer footing. Economic growth has gathered speed in the first half of 2017 and is set to continue at a similar pace, with EU GDP expected to expand at about 1.9% this year and next. The ongoing expansion of trade, the still very accommodative monetary policy and high levels of consumer and business confidence are supportive to these positive developments. However, economic and political risks remain.

3. The ongoing EU economic expansion is being driven largely by domestic demand, with both private consumption and investment contributing to growth. Overall, GDP growth has become stronger and more broad-based across Member States and sectors. The improvement in the labour market is widespread, although the EU unemployment rate remains too high and large differences in unemployment rates will take time to be reduced and there is still room for improvement in terms of job quality. The robust employment performance is expected to underpin healthy, though somewhat slower, consumption growth in the coming quarters. In a majority of Member States, investment has been emerging as a stronger contributor to economic growth over recent quarters and the conditions for investment look favourable going forward.

4. Headline inflation in the euro area has receded from the level reached at the start of the year, but core inflation has moved somewhat higher while also still remaining subdued. Looking ahead, headline inflation is expected to be higher than last year, although the drop of energy inflation and the appreciation of the euro are expected to hold back inflation and there are as of yet few signs of wage inflation picking up.

5. The second review of the European Stability Mechanism Programme for Greece was concluded on 15 June 2017. The Eurogroup welcomed the implementation of prior actions for the completion of the second review, paving the way for the next disbursement; in addition, with a view to ensuring the sustainability of Greek debt, the Eurogroup recalled that it stands ready to implement a second set of debt measures, to be calibrated upon an updated Debt Sustainability Analysis and to be implemented to the extent necessary, conditional upon the successful implementation of the programme. In addition, on 20 July 2017, the IMF Board approved a stand-by agreement in principle based on shared conditionality. This comprehensive agreement represents a major step forward, and the focus for the last year of the Greek programme should now be on how to advance with the reform agenda under the ESM and IMF programmes and take measures to strengthen growth and conclude the planned reviews in a timely manner, in order to pave the way for a return to full and sustained access to international markets.

Policy challenges

6. While external imbalances are lower than before the financial crisis, their persisting high level remains a challenge for the global economy. In this regard, the recent IMF External Sector Report provides an instructive analysis. There has been a rotation of excess imbalances toward advanced economies as large imbalances persisted in those economies and narrowed in key emerging market economies, led by a smaller current-account surplus in China and the commodity exporters. Excessive external imbalances should be addressed in a way that is supportive for global growth also through structural reforms and fostering investment to help to strengthen domestic demand and growth potential,

7. The EU authorities remain strongly determined to implement the three main pillars of our economic policy strategy. Our policy strategy is bearing fruit:

- **Structural reforms to modernise our economies.** We shall pursue policies that support sustainable and inclusive growth in the short and the long term, and improve adjustment capacity, rebalancing and convergence. Reforms undertaken in recent years have started to pay off, albeit in an uneven way, as economic growth becomes widespread throughout all Member States. Those Member States that pursued comprehensive labour market, product market and social protection reforms since the crisis have been better able to support employment and preserve fairness. Ambitious structural reforms should facilitate the smooth and efficient reallocation of human and capital resources, and help to address the challenges of ongoing technological and structural changes. Reforms that create an enabling business climate, complete the Single Market and remove barriers to investment remain necessary. Those efforts are crucial for increasing productivity and employment, strengthening convergence, boosting growth potential, and in particular for the euro area economy, enhancing adjustment capacity. Reforms in insolvency frameworks and more efficient judicial processes and the development of secondary markets for non-performing loans (NPLs) should support a strategy to reduce NPLs. At the EU level, efforts to complete the Single Market in goods and services should continue, and priority should be given to completing the Banking Union, the Capital Markets Union, the Digital Single Market, and the Energy Union.

- **Re-launching investment.** The Investment Plan for Europe has proven to be a successful tool for encouraging a sustainable increase in investment in Member States. The projects approved for financing under the European Fund for Strategic Investments (EFSI) are already expected to mobilise € 225 billion or 72% of the targeted EUR 315 billion in total investments across all EU Member States and support some 445,000 SMEs. A legislative proposal to extend the duration of the EFSI to end-2020, and to raise the investment target to at least EUR 500 billion is in the final negotiation phase, taking into account the recommendations of the evaluation on the experience gained so far. Emphasis is put on the additionality and quality of the projects rather than overall volume. We have stepped up advisory support for project structuring via the European Investment Advisory Hub and have the European Investment Project Portal on investment opportunities. However, to reinforce the mobilisation of private investments policy actions under the so-called "third pillar" of the plan, aimed at promoting favourable framework conditions for businesses across the Single Market, should continue with reform initiatives both at European and Member States level. This could be further strengthened with the proposed annual report by the European Investment Bank to the Commission on investment barriers and bottlenecks. We are also accelerating the Capital Markets Union initiative launched in 2015 to establish an integrated EU capital market. Legislative proposals aimed at facilitating the development of a simple, transparent, standardised securitisation market have been agreed.

- **Pursuing fiscal policies responsibly.** The EU fiscal strategy aims at ensuring the medium and long term sustainability of public finances while supporting the economic recovery in line with European fiscal rules. The euro area fiscal stance is expected to be broadly neutral in 2017 and 2018, which has been deemed appropriate by the Eurogroup (respectively in July 2016 and July 2017). At the same time, the general government deficit in the EU is expected to fall from 1.7% in 2016 to 1.5% in 2018, and the debt ratio is forecast to continue declining from 85.1% in 2016 to 83.6% in 2018. Nevertheless, public finance challenges remain. Member States should continue to implement their fiscal policies in full respect of the Stability and Growth Pact (SGP), while making the best use of the flexibility embedded within the existing rules. The fiscal effort should be differentiated by individual Member States in compliance with the requirements of the SGP, with due consideration given to stabilisation and sustainability needs, as well as taking into account possible spillovers across the Member States, including for the euro area as a whole. Overall, Member States should improve the composition of public finances, thereby creating more room for high quality investment, where needed, and ensure the effective functioning of national fiscal frameworks.

8. More broadly, a deeper Economic and Monetary Union (EMU) is essential to ensuring the resilience of the euro area economy and capitalise on the full benefits from EMU. Work towards deepening EMU is being continued in order to foster policies for growth, stability, competitiveness and convergence. We also reiterate that work is set to continue to complete the Banking Union in terms of reducing and sharing risks in the financial sector, in line with the ECOFIN roadmap of 2016, including a European deposit insurance scheme and making the common backstop for the Single Resolution Fund operational at the latest by the end of the transitional period of this Fund.

9. The EU urges the Ukrainian authorities to continue implementing the reforms envisaged in the IMF and EU programmes for Ukraine. The EU remains committed to supporting Ukraine’s macroeconomic stabilisation and structural reform agenda, notably through macrofinancial assistance. A total of EUR 2.81 billion have already been disbursed to Ukraine under this instrument since 2014. Ukraine is encouraged to continue and accelerate its wide-ranging reform efforts, which could give the country access to a final EUR 600 million tranche of EU macrofinancial assistance by the end of 2017.

IMF Policy Issues

Policy advice and surveillance

10. 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. The Fund has a key role for providing policy advice to ensure that the gains from development, growth and increasing economic integration are more broadly shared both within and across countries.

11. We look forward to the Interim report of the Comprehensive Surveillance Review which, following the 2014 Triennial Surveillance Review, will assess its implementation, identify any emerging pressure points, and help shape the subsequent review.

12. We welcome the ongoing IMF work on capital flows and the role of macroprudential policies in addressing systemic risks arising from volatile capital flows. Further efforts are welcome to promote a globally consistent assessment of capital flow management measures and macroprudential policies.

IMF Resources and Governance

13. EU Member States support the commitment by the IMFC for a strong, adequately resourced and quota based IMF at the centre of the global financial safety net. Many EU Member States have significantly contributed to the Fund's resources by providing access to bilateral borrowing, and confirmed their contributions in a new round of temporary bilateral borrowing last year, as a third line of defence altogether amounting to EUR 182 billion.

14. EU Member States remain committed to constructive discussions on the 15th Review and the quota formula, which should (i) be well sequenced with a clarification on the prospects for a possible quota increase at an early stage and (ii) continue to be treated as an integrated package and be fully anchored in the relevant IMF bodies. EU Member States are working towards the completion of the 15th General Review of Quotas, including a possible new quota formula within the agreed deadlines. The results of the latest quota database update underline clearly that the current quota formula captures dynamic developments in the world economy and is already aiming to increase the Fund's representativeness and thus preserving its legitimacy. The principles of the 2008 quota reform remain valid, namely that the formula should be simple and transparent

15. The main variables of the quota formula should remain both GDP and openness which best capture the role and mandate of the IMF. In particular, openness captures the stake countries have in the global economy, in line with the IMF mandate to promote cooperation and facilitate international trade and with its increased focus on spillovers and external sectors. Voluntary financial contributions should be recognized in the upcoming quota and governance discussions, and some form of compensation is warranted.

16. Advanced European countries reaffirm their commitment to reduce their Board representation by two chairs. Actions taken so far have effectively led to greater Board representation of emerging market and transition countries.

IMF toolkit

17. EU Member States welcome the IMF's decision to enhance the effectiveness of its toolkit, as part of the strengthening of the international financial architecture, by the adoption of a new Policy Coordination Instrument (PCI), which is designed for countries that are seeking to unlock financing from official creditors or private investors and/or signal commitment to an economic reform agenda. We welcome that countries would have to commit to policies strong enough to constitute the basis for a Fund-supported program. We encourage the IMF to engage in a dialogue with the institutions that intend to provide financing to the countries with a PCI in order to facilitate cooperation. It is important that a possible new Short Term Liquidity Facility responds to a clear need of members and is in line with the IMF mandate.

18. EU Member States welcome the IMF work for a stronger collaboration between the IMF and the Regional Financing Arrangements (RFA) as part of a broader effort to further strengthen the global financial safety net. We welcome the IMF's approach of respecting the independence, governance structure, different mandates and different lending practices of

RFAs. In this respect, EU Member States stress that given the particular role played by the ESM and other EU financing arrangements as regards EU/EA financial stability, full control over the rules and criteria governing lending decisions under our instruments will be retained at the European level.

19. The EU takes note of staff's ongoing work on program design in currency unions. We believe that it is in the IMF’s interest to engage with all the membership, recognizing that individual countries are part of different international arrangements and institutional frameworks. In the case of the EU, this entails to respect the EU and euro area specific institutional and legal frameworks. We are open to discuss the framework and policies of the euro area with Fund staff through its surveillance in the context of Article IV consultations of the euro area or the EU Financial Sector Assessment Programme.

20. We welcome the recently concluded Review of the Low-Income Countries Debt Sustainability Framework prepared jointly with the World Bank.