International Monetary and Financial Committee

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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

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1. **Global economic growth is finally gaining momentum, on the back of a robust recovery in advanced economies and a gradual rebound across emerging economies**. The EU is in its fifth year of recovery. The economy has proven resilient to a number of challenges and growth is broadening across sectors and countries. Private consumption has been the principal contributor to growth since 2014 and is expected to remain the main growth driver over this and next year. Accelerating investment remains crucial to solidify the recovery. Unemployment has fallen to its lowest level in five years, although it remains unacceptably high in many countries. Looking ahead, risks appear to be slightly less tilted to the downside than before, and to shift from domestic to external risks, including in particular a move to more inward looking policies at global level.

2. **We have to provide a response to a growing part of the population which do not benefit from globalisation, leading to increasing populist trends.** This means that we need to make concrete progress in reducing inequalities and fostering inclusiveness. For advanced economies, the quality of expenditures as well as addressing tax distortions and loopholes are important. For emerging market economies, the coverage and nature of tax/benefits systems or the design of institutions will be key.

3. **The European Union remains strongly committed to an open and rules-based multilateral trading system, with a central role for the WTO.** 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. The European Commission is fully committed to ensure that EU trade policy is transparent and fair and protects our values at home while promoting them abroad.

4. **Together, we need to implement the three-pronged strategy agreed in Hangzhou** and use all available tools – monetary, fiscal and structural – to strengthen the global recovery, enhance resilience and promote inclusive growth. We, in particular, need to enhance the composition of public finance to make it more growth-friendly and inclusive, and we need to accelerate the implementation of much-needed structural reforms.

5. **Since the summer of 2015, Greece has been on track to reform its economy and build the recovery.** Good progress has been made on closing the second review of the European Stability Mechanism (ESM) programme, including on the negotiation and implementation of programme conditionalities. The second review focuses on the roll-out of the guaranteed minimum-income scheme; the establishment of the independent agency of public revenue and of the new privatization and investment fund; structural reforms including labour-market institutions as well as measures to improve the business environment and competitiveness; and the strengthening of independent entities and reform of the public administration. Negotiations are ongoing, including with a view to bringing the IMF on board with a programme. The Eurogroup in May 2016 also discussed debt-relief measures and agreed on a phased approach with measures to be implemented in the short, medium and long-run. The short-term measures are currently being implemented by the ESM. Political agreement on important outstanding elements of conditionality (including a fiscal package to underpin compliance with post-

programme targets) was reached at the Eurogroup on 7 April, and we will continue to work closely with all partners in order to allow a speedy conclusion of the programme review.

6. **Large consolidation efforts implemented in difficult economic conditions together with low interest rates have helped to reduce headline deficits in the EU**. In 2017, the aggregate deficit is expected to attain 1.7% of GDP in the EU and 1.4% of GDP in the euro area. The fiscal stance as measured by the change in the structural balance is expected to be broadly neutral in 2017, both for EU and the euro area. Since 2015, the aggregate public debt level is falling, a trend expected to continue in 2017 and 2018 according to the European Commission's 2017 winter forecast.

7. **The European Commission has called for a positive aggregate fiscal stance for 2017 in our Communication "Towards a positive fiscal stance for the euro area".** The budgetary composition should be growth-friendly and the geographical configuration of fiscal stances needs to reflect country-specific conditions. The European Commission looks carefully at the aggregate fiscal stance for the euro area also in order to support the monetary policy of the European Central Bank. Member States' fiscal policies should remain in line with the Stability and Growth Pact (SGP), making the best use of the flexibility embedded in the existing rules and preserving the long-term sustainability of their public finances. Member States which are over-achieving their fiscal objectives should, however, use their fiscal space to support domestic demand and investments, including cross-border ones such as those part of the Investment Plan for Europe.

8. **In order to solidify the recovery we consider fundamental to boost investments in the real economy.** The European Fund for Strategic Investments (EFSI), the centrepiece of the Investment Plan for Europe, is now active in all Member States and is expected to have triggered EUR 127 billion in investments. Given its success so far, we have proposed to extend the EFSI beyond 2018 to mobilise at least half a trillion euro of investments by 2020. In addition, the European Investment Project Portal provides for a transparent pipeline of investment opportunities across the EU. The single entry portal for technical assistance, the European Investment Advisory Hub, helps promoters enhance the quality of their projects. The Commission has also proposed a new European External Investment Plan (EIP) to encourage investment in Africa and the EU Neighbourhood.

9. **The Commission is also working on a number of initiatives to improve Europe's investment environment.** The Capital Markets Union (CMU) Action Plan has already delivered more than half of the initially announced actions to support for example venture capital, the raising of capital in public markets, and long-term investments in infrastructure. We will present an enhanced programme of measures to reinforce the ambition of the CMU, building on its momentum, in the mid-term review scheduled for early June. To prepare the review, we carried out a public consultation on how to complement and, where necessary, recalibrate the actions put forward in the CMU Action Plan.

10. **The completion of the Single Market is also crucial to strengthen the recovery.** The Commission is pursuing the implementation of a number of initiatives, notably the Single Market Strategy, the Digital Single Market and the Energy Union. The Commission has presented in January 2017 a new package of measures in the area of services, including measures to remove existing administrative barriers for service providers seeking to expand across Europe. In addition, the Commission's proposal on the common consolidated corporate tax base will make it easier and cheaper to do business in the Single Market and will act as a powerful tool against tax avoidance.

11. **At national level, the Commission also continues to monitor and assess the reform agendas of the Member States.** Implementing structural reforms is crucial to achieve long-

term growth and ensure that Europe's model combining open, efficient and dynamic markets with fairness and social inclusion can be adapted to the new challenges. The European Semester exercise is delivering results. Since the start of the semester process in 2011 substantive progress on a large majority of reforms has been made, although the pace and depth of the implementation of reforms by Member States vary. Reforms have contributed to macroeconomic rebalancing and reform commitments need to be maintained, 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.

12. **The EU continues to work towards improving the architecture of the Economic and Monetary Union (EMU).** The European Commission presented a White Paper on the Future of Europe on 1 March this year. The White Paper sets out five scenarios, each offering a glimpse into the potential state of the Union by 2025 depending on the choices Europe will make. The scenarios cover a range of possibilities and are neither mutually exclusive, nor exhaustive. We will publish at the end of May a reflection paper on deepening the EMU, which will offer ideas for the euro area by 2025. Euro area leaders are invited to engage in this discussion in order to achieve a common vision for the way forward by the end of this year.

13. **We consider it important to confirm our strong support for the current system of multilateral economic institutions.** The International Monetary Fund is a key pillar of the international monetary system. We support the commitment by the IMFC to maintain a strong, adequately resourced and quota-based IMF. A number of 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.

14. **We share the IMF's view that multiple transitions in the global economy pose challenges for its members**. Sound macroeconomic policy has a key role to play in safeguarding financial stability in countries that experience spillovers from the current reorientation of global economic policy. This underscores the importance of IMF surveillance for crisis prevention and peer review, in particular the monitoring of capital flows and timely identification of risks at the global level. All institutions that work on those issues should cooperate closely.

15. **We support the discussion on how to enhance the effectiveness of the IMF’s lending toolkit and the considerations by IMF staff for two possible new instruments.** However, a number of concerns remain which should be addressed by appropriate design. Any reform of the IMF lending toolkit should address clear conditions for qualification, the perceived stigma, proper incentives for sound policies and a timely exit. There has to be a coherence of the overall toolkit and IMF resources have to be adequately safeguarded and protected.

16. **We are open to discuss IMF work in light of the recommendations by the Independent Evaluation Office.** In particular, we take note of staff's intention to develop principles of engagement and cooperation with regional financing arrangements. We stress that if new principles should be considered, due account would need to be taken of the respective mandates and policies of all the institutions involved. On the recommendation that the Fund should clarify how guidelines on program design apply to currency union members, we consider that the specificities of the euro area monetary union need to be respected. The recommendations on euro area policies will need to be made through euro area surveillance rather than through programme-related conditionality. Euro area policies can only be implemented within the existing Treaty-based framework.