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IMFC Statement by Edward Scicluna
Chairman
EU Council of Economic and Finance Ministers

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Statement by Minister of Finance, Edward Scicluna in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, 21-23 April, 2017

1. I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses on the global economy, in particular the outlook and policy challenges, and on IMF policy issues.

2. We need to work together in order to enhance global growth by tackling political and economic risks while making sure that growth benefits everyone. The EU is committed to keep 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.

I. Economic situation and outlook

3. EU GDP is expected to continue expanding at about 1.8% this year and next. This is the fifth year of recovery, and the EU economy has proven resilient to a number of challenges. This recovery has been supported by the low oil price, the accommodative monetary policy and a broadly neutral fiscal policy stance. Past reforms in some Member States' labour markets have also underpinned the recovery. The economic recovery continues to have positive effects on labour markets. Private consumption is likely to remain a main driver of growth, underpinned by robust employment growth and a rise in wages. Unemployment is projected to decline further, yet remaining above pre-crisis levels in 2017. Investment continues its cyclical recovery supported by favourable domestic and external demand and financing conditions, but its level remains low in a longer-term perspective. Headline inflation is gradually normalising, mostly reflecting the recovery in oil prices from very low levels while underlying inflation pressures are forecast to rise more slowly and continue to remain subdued. Headline inflation is set to reach higher levels this year and next compared to last year, though remaining below 2.0%. The policy mix in the euro area should remain growth-supportive. In some Member States, banks still face balance sheet constraints and low profitability, also on account of a still high stock of non-performing loans. However, overall, banks have already improved their capacity to support lending.

4. On 29 March the European Council has been notified of the United Kingdom's intention to leave the European Union. This notification follows the referendum of 23 June 2016 and starts the withdrawal process under Article 50 of the Treaty. We will approach these talks constructively and strive to find an agreement. In the future, we hope to have a close partnership. A European Council has been convened for 29 April.

5. The second review of the European Stability Mechanism Programme for Greece is currently ongoing. The institutions and the Greek authorities have reached an agreement on the main overarching elements of the post-programme policy package. The package aims to ensure a growth-friendly rebalancing of Greece's public finances through structural consolidation measures covering the tax, and the pensions systems as well as structural expansionary measures to enhance the growth potential of the Greek economy in case of a sustainable overshooting of the agreed primary surplus target. On this basis, further technical work can continue and the mission can return to Athens in order to reach a staff level agreement as soon as possible.

Policy challenges

6. As we mark the 60th anniversary of the EU, we look back on peace spanning seven decades and on a Union of 500 million citizens living in freedom in one of the world's most prosperous economies. At the same time, the EU is looking forward at how it will carve a vision for its own future.

7. The EU authorities remain strongly determined to implement the three main pillars of our economic policy strategy. Our policy strategy, which is based on pursuing structural reforms, boosting investment and pursuing responsible fiscal policies in the context of accommodative monetary policy is bearing fruit.

- Pushing forward structural reforms to modernise our economies. Reform efforts are paying off. EU Member States have stepped up reform efforts during the crisis, especially in countries under programmes or enhanced surveillance. Further structural reforms are needed to promote a better business environment, foster innovation and increase dynamism in labour, product and services markets, in order to achieve strong, sustainable, balanced and inclusive growth. Reform efforts need to be stepped up in the euro area, in line with country-specific recommendations under the European Semester, to improve the adjustment capacity in the face of shocks, correct remaining imbalances and enhance the smooth functioning of the currency union. Reforms in insolvency frameworks and more efficient judicial processes should support a strategy to reduce non-performing loans. At EU level, efforts to complete the Single Market in goods and services should continue, and priority should be given to further work on the Capital Markets Union, the Digital Single Market, and the Energy Union.
- Re-launching investment. The Investment Plan for Europe is a useful tool for encouraging a sustainable increase in investment in Member States. So far, the projects approved by the European Investment Bank Group for financing under the European Fund for Strategic Investments (EFSI) are expected to mobilise EUR 180 billion in total investments across all EU Member States and to support some 388,000 SMEs. More investment projects are in the pipeline and we will further increase that figure to reach our target of mobilising at least EUR 315 billion of additional investments. Given its results, the Commission tabled a legislative proposal to extend the duration of the EFSI from mid-2018 to end-2020, raising the investment target to at least €500 billion. We have stepped up advisory support for project structuring via the European Investment Advisory Hub and have launched the European Investment Project Portal on investment opportunities. The EU Council is working under the so-called "third pillar" of the plan to promote a favourable framework conditions for businesses across the Single Market, with reform initiatives both at European and Member States level. We are also accelerating the Capital Markets Union initiative launched in 2015 to establish an integrated EU capital market. Capital charges have been lowered to encourage insurers to invest in infrastructure and long-term investment funds. Legislative proposals to revive securitisation markets, to facilitate capital raising on public markets, to amend EU legislation for venture capital as well as to harmonise certain elements of pre-insolvency frameworks in the EU, are under discussion by the EU Council and European Parliament.
- 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. Continuing the improvement observed since 2011, only 6 of the EU's 28 member states remain subject to the excessive deficit procedure. The fiscal policy stance in the EU is expected to be broadly neutral in 2017 and 2018, based on the Commission's 2017 winter forecast. At the same time, the general government deficit in the EU is expected to slightly decrease to 1.7% of GDP in 2017 and 1.6% next year, and

the debt ratio is forecast to continue declining gradually to 84.8% of GDP in 2017, reaching 83.6% next year. At the same time, 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, considering stabilisation and sustainability needs, as well as taking into account possible spillovers across the Member States, including for the euro area as a whole. More attention should be paid to the quality and composition of fiscal policies, by improving expenditure efficiency and prioritising productive investment, including in human capital; shifting towards a taxation system that is more efficient and supportive of growth, and to the need to address tax fraud and tax evasion and reduce aggressive tax planning.

8. The EU Member States continue to work towards deepening the Economic and Monetary Union (EMU) in order to foster policies for growth, stability, competitiveness and convergence. It is part of a process of reflection on the future of the EU, which has been launched by the White Paper on the Future of Europe presented by the European Commission in March. To support the ongoing debate on the future of the EMU, the Commission will publish in the end of May a reflection paper on deepening the EMU, which will offer different ideas, proposals, options or scenarios for the euro area by 2025. 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 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 Fund's transitional period. The European Commission will also put forward a proposal for a European Pillar of Social Rights on 26 April.

9. The recent decision to disburse the second tranche of EU macro-financial assistance to Ukraine is a demonstration of the EU's long-standing engagement to support Ukraine's macroeconomic stabilisation and structural reform agenda. With this disbursement, the total EU macro-financial assistance extended to Ukraine since 2014 reaches EUR 2.81 billion, which is the largest amount disbursed by the EU to any beneficiary of this instrument. Ukraine's efforts to move forward on structural reforms and on respecting the EU conditions for macro-financial assistance must continue.

II. IMF Policy Issues

The IMF plays a key role in promoting global economic cooperation to foster growth and stability and in preventing and responding to economic crisis. It has an important role in assisting its member countries to formulate and adapt their macro-critical policy frameworks to increase their resilience and to better reap the benefits of globalization in an inclusive way. The IMF, together with its member countries, need to better communicate how an open global economy is a key driver of growth, increased prosperity and welfare worldwide and provide policy advice to ensure that the gains from development, growth and increasing economic integration are more broadly shared.

Governance and Resources

10. We support an IMF fully equipped to fulfil its responsibilities, particularly at a time when economic and political risks remain elevated. EU Member States support the commitment by the IMFC to maintain a strong, adequately resourced and quota based IMF. Many EU Member States have confirmed their contributions to a new round of temporary bilateral borrowing as a third line of defence altogether amounting to EUR 182 billion, subject to the

consent of national competent authorities and parliamentary approval where applicable, after quota and New Arrangements to Borrow (NAB) resources. We 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. EU Member States remain committed to constructive discussions on the 15th Review and the quota formula, which should continue to be treated as an integrated package and be fully anchored in the relevant IMF bodies. 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. Voluntary financial contributions should be recognized in the upcoming quota and governance discussions, and some form of compensation is warranted. 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.

Strengthening the international financial architecture

11. Member States look forward to the IMF's follow up work on possible areas of reform of the International Financial Architecture (IFA). We recall in this respect that many steps have already been taken in recent years to strengthen the IFA including with regard to the Fund's surveillance, monitoring of capital flows and lending toolkit. At the same time, there is scope to strengthen the system further.

12. We consider that a strong global financial safety net – with an adequately resourced and quota based IMF at its centre – is important for safeguarding stability and helping reap the benefits of further economic and financial integration. In our view, the first priority should continue to be effective crisis prevention at the national level through adequate macroeconomic and financial policies, including structural reforms, coupled with effective macroeconomic and macro-prudential surveillance that takes into account the different spillover risks and channels. This underscores the importance of well-targeted and effective IMF surveillance for crisis prevention and peer review. At the same time, we think it is important to continue the monitoring and analysis of capital flows and timely identification of risks at the global level.

13. We welcome the IMF review of the experience with the institutional view on the liberalisation and management of capital flows. We think that the IMF institutional view remains relevant and that the emphasis on further work should be on refining policy advice and transposing the IMF institutional view into the Fund's policy advice and bilateral and multilateral surveillance. We welcome the ongoing IMF work on the role of macroprudential policies in addressing systemic risks arising from capital flows.

14. EU Member States welcome the discussion on how to enhance the effectiveness of the IMF's lending toolkit, as part of the strengthening of the international financial architecture, and the consideration by IMF staff for two possible new instruments, namely a Liquidity Support Instrument and a Policy Monitoring Instrument.

15. It is important that a possible new Liquidity Support Instrument responds to a clear need of members and is in line with the IMF's mandate. There should be no expectation that this instrument would be backstopped by central bank swap lines. There should also be clarity on the qualification criteria. The criteria should ensure that only members with strong economic policies and fundamentals, though likely to have liquidity needs under short-term excessive volatility in capital flows, which in turn could contribute to a Balance of Payment need, would

qualify for this instrument. Prequalification should not circumvent the Executive Board and new arrangements should only be approved in a stand-alone IMF Executive Board discussion. Clear procedures are needed to separate work under the Art. IV process and the qualification process to ensure the Fund's role as a trusted advisor. The Fund should clarify request, use and exit of the possible new instrument, including with a view to ensure adequate safeguards for IMF resources.

16. A possible new Policy Monitoring Instrument should be a strong signalling tool with sound standards for conditionality. Using a Policy Monitoring Instrument to unlock resources from Regional Financing Arrangements needs to respect the different characteristics, decision-making procedures and mandates of the institutions that provide actual financing.

17. We support further efforts to ensure that the different layers of the global financial safety net operate together effectively also outside crisis periods. In particular, we see scope for the IMF to foster cooperation with regional financing arrangements, while taking into account their respective set-up and mandates. In this context, we welcome the test run between the IMF and the largest Asian financing arrangement, the Chiang Mai Initiative Multilateralization (CMIM). We take note of staff's intention to develop principles of engagement and cooperation with regional financing arrangements. We stress that any new principles need to take due account of the respective mandates and policies of all the institutions involved, their areas of responsibility and their institutional arrangements, including the respective regional frameworks and the legal and regulatory obligations attached to them. 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 frameworks. We welcome the Principles for Effective Coordination between the IMF and the MDBs in the case of countries requesting financing while facing macroeconomic vulnerabilities.

18. We welcome the ongoing Review of the Low-Income Countries Debt Sustainability Framework prepared jointly with the World Bank, and the Operational Guidelines for Sustainable Financing, welcomed by G20 Minister and Central Bank Governors in Baden-Baden, which constitute an important contribution to ensuring debt sustainability. We also call on more countries to contribute with additional bilateral loans to the Poverty Reduction and Growth Trust in order to secure an adequate lending capacity as well as better international burden-sharing.