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EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Michael Noonan in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, D.C., April 20, 2013

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

I. ECONOMIC SITUATION AND OUTLOOK

2. The European Commission on 22 February issued its new economic forecast. The baseline scenario for the EU outlook remains that of a mild recovery setting in towards mid-2013 and strengthening in the second half of 2013 and in 2014. Growth is expected to return slightly more gradually than expected earlier. Overall growth should accelerate in 2014 to about 1½% in both the EU and the Euro area. Nevertheless, the current weakness in economic activity is expected to have a negative impact on labour markets with unemployment levels increasing further this year to 11% in the EU and 12% in the Euro area before dropping slightly in 2014.

3. Internal and external rebalancing in the EU is continuing. There is evidence that a shift in production from the non-tradable to the tradable sectors is contributing to a significant reduction of current account deficits in vulnerable economies. At the same time, consumption is expected to hold up in countries with a current account surplus, which is an indication of an increased role of domestic demand as growth driver. In the Euro area, while it is particularly urgent for deficit countries to continue current efforts in addressing their competitiveness challenges, a continued effort by surplus countries to implement structural reforms and let wages grow in line with productivity, while fully respecting the role of social partners, should also contribute to the euro area rebalancing.

4. The EU fiscal consolidation strategy is differentiated, growth friendly, focused on headline (nominal) as well as structural balances, and broadly proceeds in line with plans. It is based on a swift correction of excessive deficits and allows the automatic stabilisers to work around the agreed path of structural adjustment, while ensuring the long term sustainability of public finances. Headline deficits in 2012 are estimated to have fallen to 3¾% in the EU and 3½% in the Euro area. A further reduction to 3½% in the EU and 2¾% in the Euro area is projected in 2013. The debt-to GDP ratio in 2014 is forecast to reach 90.3% in the EU and 95.2% in the Euro area, which is comparatively lower than in other major advanced economies.

5. The main downside risks to the global recovery stem from the debt crisis in the Euro area, a protracted economic slowdown in advanced economies, the lack of credible medium-term fiscal consolidation plans in the US and Japan, a renewed growth slowdown in emerging market countries, and geopolitical tensions that could result in increasing oil prices.

6. As regards the US, the last-minute agreement on 2 January 2013 helped avert some of the "fiscal cliff" austerity. The automatic across-the board spending cuts worth around 0.4% of GDP in 2013 (the "budget sequester") took effect on March 1, as scheduled. Against this backdrop, the EU encourages the US to continue its efforts to deal with its current fiscal challenges.

7. While welcoming Japan's efforts to revive domestic growth, longer-term concerns remain as current economic policies risk increasing Japan's dependence on fiscal and monetary stimulus while bold structural reforms are needed to tackle underlying challenges. In view of its elevated gross public debt level, we support Japan's forthcoming fiscal consolidation measures, including the consumption tax hikes foreseen for 2014 and 2015.

8. We also encourage China to accelerate planned structural reforms including to liberalise the financial sector and strengthen its social safety net, take measures to foster more balanced growth , and move rapidly towards a market determined exchange rate system.

9. The Euro area and the EU as a whole has made further progress in the implementation of its comprehensive crisis response strategy which led to an important easing of financial-market tensions in the past months and a gradual return of confidence. However, the situation remains fragile, which underlines the importance of implementing the measures already decided and continuing with reforms.

10. Fast and sustained progress is being made towards an effective Single Supervisory Mechanism (SSM). Following the political agreement by the co-legislators on the legislative package in March, it is expected that the two regulations will enter into force in July 2013 so that the ECB could assume its tasks in full in July 2014. Our ambition is to reach agreement on the Bank Recovery and Resolution Directive and Deposit Guarantee Scheme Directive before June 2013. In a further step, by summer 2013, the European Commission will present a proposal on a Single Resolution Mechanism for countries participating in the SSM. Euro area authorities are working on the operational framework for the European Stability Mechanism, which should be agreed as soon as possible in the first semester of 2013, to have the possibility to recapitalise euro area banks directly. The EU has also recently agreed on the so called "two-pack" of regulations to enhance the coordination and surveillance of budgetary processes for euro-area Member States, which together with the six-pack that was adopted in 2011 and the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union represents a further important step towards strengthened economic governance in the Euro area.

11. Adjustment programmes in Ireland and in Portugal are performing well, while important challenges remain. Both countries successfully tapped markets by issuing medium and long term sovereign papers which was met by strong investor demand. Greece has updated its medium-term fiscal strategy in line with the Memorandum of Understanding. The Eurogroup has reached a political agreement with the Cyprus authorities on the cornerstones of the policy conditionality underlying a future macroeconomic adjustment programme. The Cypriot authorities are moving forward with putting in place the necessary measures agreed on 25 March. The financial assistance programme for the recapitalisation of financial institutions in Spain is being implemented effectively.

12. At its December meeting, the European Council agreed to further examine ways to improve the coordination of economic policies in the euro area. The June 2013 European Council will consider possible measures to ensure the ex-ante coordination of major economic reforms and the feasibility and modalities of mutually agreed contracts for competitiveness and growth between EU institutions and participating Member States, possibly supported by solidarity mechanisms enhancing the efforts made by Member States. It will also envisage ways of deepening the social dimension of the EMU.

13. We also need to achieve strong, sustainable and balanced growth at global level. The EU strongly supports the ongoing work in the G20 on the Framework for Growth, including the resetting of G20 structural reform agenda; an agreement on an ambitious fiscal framework post 2016; and country specific commitments towards global rebalancing. It is important to put in place and implement more ambitious, focused and concrete structural reform programmes to achieve strong sustainable and balanced growth, and restore confidence in the short term. In this context we welcome the peer review on past structural reform commitments. As for fiscal frameworks, the G20 "Toronto commitments" remain valid, but need to be developed further by a follow-up agreement. G20 Leaders in Los Cabos agreed to identify credible and ambitious country-specific targets for the debt-to-GDP ratio beyond 2016 by the St Petersburg summit, where these do not currently exist, accompanied by clear strategies and timetables to achieve them. Further determined policy efforts are also needed at the global level to reduce global imbalances lastingly. While global imbalances have narrowed with the crisis, although in large part due to cyclical effects, the G20 should not lose sight of the need to implement decisive policy action to bring them to desirable and sustainable levels.

14. The EU is approaching the end of a comprehensive programme of financial services reform. We welcome the first IMF Financial System Stability Assessment (FSSA) and in this context the recognition of the progress achieved by the EU to restore financial stability. At the same time, it provides an encouragement to continue on the direction taken. The reform programme includes the timely and consistent implementation of Basel III, following the recent agreement between the European co-legislators; the implementation of the OTC derivatives recommendations through the European Market Infrastructure Regulation; a new framework for the prevention, management and resolution of banks and systemically important Financial Market Infrastructures in line with the FSB Key Attributes; enhanced frameworks for securities markets and for the prevention of market abuse through the revision of the Markets in Financial Instruments and the Market Abuse Directives; and a new legislation on Credit Rating Agencies. The EU stresses the importance of international cooperation in the implementation of OTC derivatives reform; on reform with regard to banking structures; and on identifying and listing non-cooperative jurisdictions. We remain committed to working with our international partners in this context.

II. IMF POLICY ISSUES

15. We have made significant reform progress in recent years to increase the legitimacy, credibility and effectiveness of the International Monetary Fund. It is important that we continue our efforts to ensure the Fund's capability to address the challenges of today's international monetary and financial system.

Resources

16. The EU welcomes the progress to date on the agreement to increase IMF resources which was reached in 2012 at the IMFC and the G20, which resulted in total additional resources of USD 461 billion. We welcome the progress made in completing the implementation process and look forward to the rapid finalisation of the remaining agreements.

Governance

17. All 27 EU Member States have fully concluded national ratification procedures for the 2010 Proposed Amendment on the Reform of the IMF Executive Board and the Fourteenth

General Review of IMF Quotas. Once effective, the 2010 IMF quota and governance reform will result in an improved governance structure that better reflects the realities of the world economy. The EU therefore encourages all IMF member countries that have not yet completed domestic procedures to do so expeditiously. Furthermore, advanced European countries reaffirm their commitment to reduce their Executive Board representation by two chairs as part of the 2010 IMF quota and governance reform agreement by the time of the first regular election of the Executive Board after implementation of the 2010 quota and governance reform.

18. EU Member States welcome the timely conclusion of the review of the IMF quota formula and the report which identifies areas of common ground, as well as areas where further discussions are needed. EU members note the IMF Executive Board's decision to integrate the discussions on quota formula with the discussions on the 15th General Review of Quotas, which is due by January 2014. EU Member States welcome the integrated package approach, where no individual elements will be discussed in isolation from the broader context of the quota review, and no decisions on single elements will be taken separately from the other elements of the review. The EU considers that it remains crucial that the discussions and decision on the quota formula and the 15th General Review of Quotas are fully anchored in the IMFC and the Executive Board, where all IMF members are represented.

19. The four principles which underpinned the 2008 reform of the quota formula continue to provide the appropriate basis for the current review. In particular, EU Member States believe that it is important that the formula seeks to capture the multiple roles of quotas. Quotas should continue to reflect not only members' relative positions in the world economy, but also their stake in promoting global economic and financial stability as well as their financial strength and ability to contribute usable resources. In light of this, EU Member States believe that in the context of the integrated package approach the main variables of the quota formula should remain both GDP and Openness which best reflect the role and mandate of the IMF. Openness captures member countries' interconnectedness in the global financial and economic system. Since openness indicates countries' mutual interdependence, it also reveals their potential demand for IMF resources in the event of a crisis. The role of Openness needs to reflect the increased focus of the IMF on spillovers and economic and financial interconnectedness, which is based on the lessons of the recent crisis.

Cooperation of the IMF with Regional Financial Arrangements

20. The EU emphasizes that Regional Financial Arrangements (RFAs) have an important role to play in financial crisis prevention and resolution. Successful collaboration between the Euro area authorities and IMF on joint financial assistance programs and policy advice to Euro area member countries in response to the Euro area sovereign debt crisis demonstrates the value of international institutions and regional financing arrangements working together in line with their respective mandates and their relative strengths and roles. The recent paper by the IMF on the Fund's relations with RFAs provides a useful basis to assess whether there is scope for further policy recommendations, building on the "G20 principles for cooperation between RFAs and the IMF" that were agreed by the G20 in Cannes in 2011.

Surveillance

21. The EU welcomes the recent improvements in Fund surveillance, including the adoption and recent entry into force of the Integrated Surveillance Decision, which will ensure a better integration of bilateral, regional and multilateral surveillance, and the Fund's

Financial Surveillance Strategy, which clarifies the Fund's role in financial sector issues and macro-financial linkages. We look forward to the second pilot External Sector Report (ESR); its analysis represents a useful addition to the Fund's multilateral surveillance. We welcome further refinement of the ESR, in particular to better take into account the specificities of countries within currency unions. We also look forward to the 2013 Spillover Report which presents an update on spillovers in connection with the systemic five countries/regions.

22. EU Member States consider it important that the IMF regularly monitors and assesses gross cross-border capital flows, their transmission channels and management measures, including possible implications for other countries. In this context, we welcome the adoption of an institutional view on capital flows by the Executive Board in November 2012. We look forward to the IMF fully transposing its institutional view on the liberalization and management of capital flows into its policy advice, bilateral surveillance and multilateral surveillance. EU Member States also welcome further work of the IMF together with the BIS on global liquidity indicators and their inclusion into Fund surveillance.

23. The recent reforms to Fund surveillance represent progress in enhancing the effectiveness and evenhandedness of Fund surveillance, and implementation will be important. We look forward to regular reviews by the Fund on the experience with the implementation of these reforms. In this context, some streamlining of the various surveillance products continues to deserve consideration to help foster the traction of IMF surveillance. Moreover, in order to enhance the traction of IMF surveillance, and to improve monitoring, it would be useful if Article IV reports more consistently reviewed members' follow-up to previous IMF surveillance advice and the quality and relevance of the Fund's previous analysis and recommendations (an “accountability box”). The EU furthermore supports mandatory and timely publication of annual Article IV reviews. Systemically important countries/regions should lead by example.

24. EU Member States call on all IMF members with overdue Article IV consultations and deficiencies in the provision of data to the Fund to fully cooperate with the IMF in line with their membership obligations.

IMF’s support to low-income countries

25. EU Member States welcome the ongoing efforts by the Fund to bolster lending to low-income countries (LICs). This includes the agreement to use windfall gold sales profits to bolster the concessional lending vehicle for low-income countries, the two-year extension of the zero interest rates charged on the loans to low-income countries and the implementation of the reforms that followed from the review of LIC facilities that was concluded in September 2012. Given the scarcity of PRGT (Poverty Reduction and Growth Trust) resources, they must be efficiently used according to the Fund’s mandate, with appropriate conditionality attached, in order to ensure its self-sustainability eventually. The EU calls on all IMF members to pledge the second distribution of gold sale windfall profits.