International Monetary and Financial Committee

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Chairman, EU Council of Economic and Finance Ministers

On behalf of the EU Council of Economic and Finance Ministers

ANNEX

Brussels, April 2014

Statement by Minister of Finance, Yannis Stournaras in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, D.C., 12-13 April, 2014

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. Global activity is picking up. At the same time, growth is becoming more differentiated across the global economy. The recent financial market tensions are a reminder that the global economy remains vulnerable, even as growth and trade are accelerating. This emphasises the need to continue to strengthen domestic macroeconomic frameworks and to implement a cooperative approach in response to the current situation.

3. Europe's economic recovery is expected to continue spreading across countries and gaining strength while at the same time becoming more balanced across growth drivers. The main challenge now is to build on the improvements and to stay on the path of consolidation and reform. According to the Commission Winter 2014 forecast, growth is expected to accelerate to around 1½% in the EU in 2014, before growing more robustly in 2015 at 2%. By 2015 all EU economies are expected to be growing again. Unemployment rates have stopped increasing since mid-2013 in most of the EU, but large differences among countries remain. Inflation is expected to remain low for some time before increasing in 2015 on the back of decreasing unemployment and excess capacity. The European Central Bank has announced that it will maintain an accommodative monetary policy stance for as long as necessary.

4. We stand by Ukraine and commit to provide it with strong financial backing. The EU Heads of State or Government have welcomed the presentation of the comprehensive assistance package by the European Commission and tasked all relevant Council bodies to process it rapidly. We encourage the EIB to continue its operations in Ukraine. IMF support will be critical to unlocking assistance from the European Union. The immediate priority is to restore macroeconomic stability through sound fiscal, monetary and exchange rate policies. At the same time, we call on the government to launch urgently an ambitious set of structural reforms, including to fight corruption and enhance transparency.

Policy challenges

5. The biggest challenge now facing Europe's economy is how to sustain and strengthen the recovery that is underway.

- On 18 February 2014, EU Finance Ministers agreed on the five broad economic policy priority areas on which national and EU level efforts should concentrate in 2014 to boost growth. These are: 1) pursuing differentiated, growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances; 2) restoring lending to the economy; 3) promoting growth and competitiveness for today and tomorrow; 4) tackling unemployment and the social consequences of the crisis; and 5) modernizing public administration.

- Sound public finances are a prerequisite for sustainable growth. The fiscal stance in the EU as a whole is expected to be broadly neutral in 2014. Due to the successful efforts to consolidate public finances as well as resuming growth, debt ratios are projected to stabilise at around 90% of GDP and start to decline in 2015. European and domestic fiscal rules promote differentiated fiscal consolidation, according to each Member State's fiscal situation. The focus is on progress achieved in both nominal and structural terms, i.e. corrected for the impact of the economic cycle and one-off and temporary measures as well as on growth-friendly fiscal strategies. The EU consolidation strategy has proven to be successful in terms of reaching fiscal targets, in particular regarding the correction of excessive deficits, and has supported stabilisation of financial markets and prevented a further escalation of the debt crisis. In this regard, the EU pays particular attention to the need for a growth-friendly fiscal consolidation. This includes an adequate mix of growth-friendly expenditure cuts and revenue measures, accompanied by structural reforms to enhance the economic growth potential. The large consolidation efforts by EU Member States over the last couple of years have led to visible results and the average headline deficit in the EU is now forecast to decline below 3% of GDP this year. This achievement has allowed reducing the pace of fiscal consolidation in a number of countries. Sustained further structural efforts in line with the Stability and Growth Pact are still necessary to reduce high debt ratios in the majority of countries, even if the pace should be differentiated according to countries' situations.

- It is essential that we continue our efforts on economic rebalancing in the euro area which has made substantial progress over the past years. In particular, significant progress has been made in the countries with previously high current account deficits. A notable part of the adjustment is structural in nature, thanks to efforts in terms of structural reforms and also due to a reorientation of resources towards internationally tradable sectors. As such, part of the adjustment is expected not to go away once the overall economic situation improves. The rebalancing will benefit from ongoing strengthening of domestic demand as well as the efforts of all Member States in considering measures aimed at further improving competitiveness and the functioning of the specific sectors, such as services, financial intermediation and other non-tradables.

- The EU will proceed with the implementation of structural reforms with the objective of creating the conditions for higher potential growth and employment. Structural reforms aim in particular at removing rigidities in labour, product and services markets, improving network industries, encouraging sustainable investment and boosting innovation and research and promoting the reallocation of resources towards more productive sectors. Labour-market reforms aim at increasing levels of participation and stimulating job-creation.

- We have made further progress towards the completion of the Banking Union. The ECB has launched a comprehensive assessment of the banking system, consisting of a supervisory risk assessment, an asset quality review and a stress test, the results of which will be made public in November 2014. The Council and the European Parliament have reached a political agreement on a Single Resolution Mechanism, including a Single Resolution Fund (SRF), to complement the Single Supervisory Mechanism. The Single Resolution Board will contract financial arrangements, including where possible public ones, for the SRF. The Intergovernmental Agreement on the transfer and mutualisation of contributions to the SRF will be concluded shortly. We reiterate our aim to arrive at an agreement on the operational framework of the ESM direct recapitalisation instrument rapidly.

- Adequate long-term financing for the EU economy is central to increasing growth. The EU is taking a number of initiatives with a focus on several aspects: mobilising private sources of long-term financing, making better use of public finance, improving the functioning and role of capital markets, improving SMEs' access to financing, attracting private finance to infrastructure, and enhancing the overall environment for sustainable finance. The European Investment Bank (EIB) group is also focusing on these challenges, notably after the increase of the capital of the EIB and European Investment Fund.

6. Consistent implementation in the field of financial regulation continues to remain a key priority for all G20 members so as to ensure a global level playing field. The EU has largely completed the implementation of the core reforms set out by the G20 in response to the global financial crisis. This includes the implementation of the Basel III framework through the Capital Requirements Directive/Regulation applicable since the 1st of January 2014; implementation of the

OTC derivatives recommendations through the European Market Infrastructure Regulation; and the revision of the Markets in Financial Instruments Directive / Regulation; and the agreement of December 2013 on the Deposit Guarantee Scheme Directive and on the new framework for the prevention, management and resolution of banks in line with the Financial Stability Board Key Attributes (the so-called Banking Recovery and Resolution Directive). At the end of January 2014, the European Commission adopted a proposal for a regulation on banking structural reform to address remaining risks posed by “too-big-to-fail” banks and to implement the G20-FSB shadow banking recommendations on enhancing transparency on securities financing transactions. Finally, on international coordination aspects, EU and US regulators made significant steps forward in addressing cross border issues in the OTC derivatives field. The EU stresses the importance of a structured international cooperation in the financial regulatory areas, allowing regulatory jurisdictions to defer to one another when justified by the quality of their respective regulatory and enforcement regimes, based on equivalent outcomes. We remain committed to working with our international partners in this context.

II. IMF POLICY ISSUES

7. We have made progress 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.

Governance

8. The EU welcomes the adoption of the report of the IMF Executive Board to the Board of Governors of 22 January on the 2010 reforms and the 15th General Review of Quotas and the associated Resolution of the Board of Governors of the IMF. We also welcome the mandate given to the Chairman of the International Monetary and Financial Committee (IMFC) to advise the IMFC at this meeting on progress in making the 2010 Reform effective. Our priority continues to be for all IMF members to ratify the 2010 Reform as soon as possible. We attach high importance to securing this objective. All EU Member States have already fully ratified the 2010 Quota and Governance Reform. The EU encourages members which have not yet ratified the 2010 reforms to do so expeditiously. The implementation of the 2010 IMF Quota and Governance Reform is key to the Fund's legitimacy and will result in a governance structure that better reflects the realities of the world economy. In this context, 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.

9. EU Member States reconfirm that they remain committed to continue constructive discussions on the quota formula and the 15th General Review of Quotas. In this regard, we look forward to the IMFC Chair reporting on progress making the 14th Review and the Board Reform Amendment effective, and the available options for completing the current round of the quota reform process, with the objective of completing the 15th Review by January 2015. EU Member States consider that it is most important that discussions on the quota formula and the 15th review continue to be treated as an integrated package, as also reiterated in the respective January 2014 report of the Executive Board to the Board of Governors. This implies that no decision can be taken in isolation. An agreement will need to take into account the interests of the entire membership and it should be fully anchored in the relevant IMF bodies, where all IMF members are represented. The latest data update confirmed that the current quota formula captures dynamic developments in the world economy and can deliver on the aim of increasing the Fund's representativeness thus further enhancing its legitimacy. 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. The main variables of the quota formula should remain both GDP and openness which best capture the role and mandate of the IMF.

10. 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. Openness reflects the Fund’s mandate and in particular its increased focus on spillovers and economic and financial interconnectedness, which is based on the lessons of the recent crisis. It is an indispensable part of the formula and its weight should at least be maintained. The methodology of openness should be maintained. EU Member States will only be able to consider dropping the variability variable as part of an integrated package approach after it is determined how its weight would be reallocated.

Surveillance

11. The EU welcomes significant improvements in Fund surveillance in recent years, including the adoption of the Integrated Surveillance Decision which will ensure a better integration of bilateral, regional and multilateral surveillance and which will be valuable to grasp spillover effects. Looking ahead, monitoring and identifying risks to financial stability and continuing to strengthen the analysis of macro-financial linkages, as well as a thorough evaluation of the surveillance experience in connection with the new institutional view on capital flows as well as macro-prudential policy measures will remain key. EU Member States in particular reaffirm the need to enhance the Fund’s financial surveillance through the implementation of the Financial Surveillance Strategy and close cooperation with the FSB. In this respect, the EU looks forward to the 2014 Triennial Surveillance Review (TSR), welcoming in particular the envisaged focus on effective implementation. We agree with the proposal to assess how the Fund can respond to post-crisis policy challenges, including an analysis of the need to focus its advice on macro-critical structural reforms where relevant and within the perimeter of the Fund’s mandate. In this regard, we would like to emphasize the importance of an effective and comprehensive surveillance of monetary unions and their members that should take proper account of their policy-making framework. We consider that the 2014 TSR would benefit from an analysis on how Fund surveillance and advice can better reflect the respective competences at EU Member States’, the euro area and the European Union level with a view to providing more consistent and effective surveillance. The Fund has provided useful input on important European policy discussions, including through last year’s EU Financial Sector Assessment Program (FSAP). It would be also very interesting to widen the analysis to include the role and the scope for complementarities of Fund surveillance with other international institutions. This has to be done respecting the different mandates and roles of these bodies.

12. We would also like to note that some streamlining of the various surveillance products continues to deserve consideration to help increase the consistency of messages across products and contribute further to the IMF's efforts to improve its assessment of interconnections between economies and across sectors. We encourage staff to further explore ways and make proposals in the upcoming TSR on how to improve traction. The EU considers that it would be useful if Article IV reports more consistently reviewed members' follow-up on previous IMF surveillance advice and the quality and relevance of the Fund's previous analysis and recommendations (an “accountability box”). The EU supports the regular conduct of Article IV consultations as well as mandatory and timely publication of Article IV reviews. Systemically important countries/regions should lead by example.

13. 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. The availability and quality of economic data is essential to the proper conduct of IMF surveillance. EU Member States also welcome the review of the Fund’s AML-CFT strategy and reaffirm their strong support for it. AML-CFT should continue to be a priority for the Fund and be resourced appropriately.

The Fund's lending framework and the global financial safety net

14. Next to a strengthened surveillance framework, a well-designed lending framework and continued effectiveness of global safety nets remain crucial for effective crisis prevention and resolution. In this regard, the EU welcomes the recent review of the Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL) and Rapid Financing Instrument (RFI) and looks forward to further analysis and proposals to enhance transparency and predictability in qualification assessments and access and exit discussions. EU Member States recall their strong support for IMF precautionary instruments and agree that they have a useful role to play in the global financial safety net (GFSN), while complementing the efforts of countries to further strengthen the resilience of their economies. The EU also supports the strengthening of the IMF's debt sustainability analysis, which is reflected in the Guidance Note for Public Debt Sustainability Analysis (DSA) in Market Access Countries

Resources

15. The EU reiterates the importance that the Fund continues to have the resources needed to fulfil its mandate. While noting that it is crucial that the Fund remains a quota-based institution, the EU welcomes the progress to date on the 2012 commitments to increase temporary resources as

second line of defense available to the IMF by USD 461 billion. While the vast majority of these committed resources have been made available to the IMF, we look forward to the rapid finalization of the remaining agreements. *[All EU Member States that have committed resources in this context have signed their bilateral agreements with the IMF.]*

IMF's support to low-income countries

16. EU Member States welcome ongoing efforts by the Fund to bolster lending to low-income countries (LICs), including the agreement to use windfall gold sales profits to boost the concessional lending capacity for low-income countries and to ensure the longer term self-sustainability of the Poverty Reduction and Growth Trust (PRGT) based on the decision taken by the Executive Board in 2012. The EU calls on all remaining IMF members to pledge the second distribution of gold sale windfall profits in line with their commitments. Debt reduction through the successful implementation of the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative together with stronger policies and improved economic prospects have helped expand and diversify external financing opportunities for low-income countries. At the same time, new financing and borrowing needs to be undertaken prudently. Against this background, EU Member States welcome ongoing efforts by the IMF and the World Bank to continue assisting low-income countries to strengthen their debt management capacity, in line with the existing IMF-World Bank debt sustainability framework for low-income countries. We also support inclusive discussions with low-income countries, including on the possibility of developing guidelines for sustainable financing.