**INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE**

**Forty-Third Meeting**
**April 8, 2021**

**IMFC Statement by Valdis Dombrovskis**
**Executive Vice President**

**European Commission**

# Statement of Executive Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni to the International Monetary and Financial Committee on behalf of the European Commission

## Washington, 8 April 2021

1. For more than one year, the COVID-19 pandemic has disrupted global economic activity and darkened the economic outlook. We are facing a historic crisis resulting from the dual health and economic emergencies caused by the pandemic. Therefore, strong international policy cooperation based on a multilateral approach is needed now more than ever. The latest European Commission forecast, issued on 11 February 2021, projects GDP to grow by 3.7% in 2021 and 3.9% in 2022 in the European Union, and by 3.8% in both years in the euro area. The European economy is expected to return to its pre-crisis level in 2022. These projections are subject to significant uncertainty and elevated risks, predominately linked to the evolution of the pandemic and to the success of vaccination campaigns. Also, Next Generation EU, the EU's recovery instrument of which the centrepiece is the Recovery and Resilience Facility, could fuel stronger growth than projected, since the envisaged funding has - for the most part - not yet been incorporated into this forecast.

2. On 17 December 2020, the EU reached a final agreement on a EUR 1.82 trillion package for a sustainable and green recovery, which includes both the EU budget for 2021-2027 and the Next Generation EU recovery instrument. Both Next Generation EU and the EU budget will help the EU recover and transform its economy in line with its major policy priorities, in particular the European Green Deal, which is the EU’s new growth strategy.

3. The centrepiece and biggest programme under Next Generation EU is the Recovery and Resilience Facility, which will provide EUR 672.5 billion (EUR 360 billion for loans and EUR 312.5 billion for grants) in financial support for investment and reforms. It will help build a more sustainable, resilient and fairer Europe for the next generation in line with the United Nations’ Sustainable Development Goals. The Recovery and Resilience Facility regulation entered into force on 19 February 2021. Expenditure financed by the Recovery and Resilience Facility will provide a significant additional fiscal impulse, and also directly finance structural reforms, which will allow Member States to enhance their productive public spending and thus create more favourable conditions for undertaking reforms aimed at addressing structural bottlenecks

4. Fiscal policy in the EU will continue to support the economy in 2021 and 2022. The decision on the deactivation or continued application of the general escape clause included in European fiscal rules should be taken as an overall assessment of the state of the economy based on quantitative criteria. Based on the European Commission 2021 winter forecast, current preliminary indications would suggest to continue applying the general escape clause in 2022 and to de-activate it as of 2023. Countries should avoid premature withdrawal of fiscal support. Support measures in EU Member States should remain timely, temporary and targeted, and pivot, once the health situation allows, from emergency relief to more targeted measures that promote the recovery and improve the fundamentals of the EU economies. Fiscal measures should maximise support to the recovery without pre-empting future fiscal trajectories or creating a permanent burden on public finances. The composition and quality of measures will be very important to efficiently support the economy.[1] The EU will continue to coordinate its

[1] See the new European Commission Communication on fiscal policy response to coronavirus pandemic of 3 March 2021: https://ec.europa.eu/commission/presscorner/detail/en/ip_21_884

fiscal response and differentiate its policy measures to avoid a fragmented recovery process, taking into account the state of the recovery, fiscal sustainability considerations and the need to reduce economic, social and territorial divergences. Once the recovery is firmly under way, countries should address the increased public debt levels by implementing sustainable medium-term fiscal strategies, with an emphasis on improving the quality of public finances, raising investment levels and supporting the green and digital transitions.

5. Climate change is a global challenge requiring a coordinated global response. Its economic consequences are being felt today and the cost of inaction is increasing. The European Commission has proposed an EU Climate Law to enshrine in law the objective of climate neutrality by 2050 in March 2020. In September 2020, the Commission published a plan for a higher greenhouse gas emissions reduction target of at least 55% by 2030 compared to 1990 levels. Following its endorsement by EU Member States in December 2020, the European Commission is working on its implementation through a review of the main climate and energy legislation currently scheduled for mid-2021. In addition, climate action will be mainstreamed in policies and programmes, with an overall climate target of at least 30% to be applied to the total amount of expenditure financed under the EU long-term budget and Next Generation EU. The European Commission is also working on a renewed sustainable finance strategy to be adopted in the course of 2021 to help guide private finance to be in line with our long-term ambitions.

6. We need open and fair rules-based trade to help restore growth and job creation post-COVID-19. Against this background, the European Commission's new Trade Strategy[2] unveiled on 18 February this year, pursues a course that is open, strategic and assertive, emphasising the EU's ability to make its own choices and shape the world around it through leadership and engagement, reflecting our strategic interests and values. Responding to current challenges, the Strategy prioritises a major reform of the World Trade Organization, including global commitments on trade and climate, new rules for digital trade, reinforced rules to tackle competitive distortions, and restoring its system for binding dispute settlement.

7. We all need to give the highest priority to global solutions to address the taxation of the digital economy and the remaining Base Erosion and Profit Shifting (BEPS) issues. Based on the reports on the Blueprints for Pillar 1 and Pillar 2 approved for public release by the G20/OECD Inclusive Framework on BEPS, we urge the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting to address the remaining issues with a view to reaching a global and consensus-based solution by mid-2021. We remind the G20 of its Leaders' commitment to continue cooperation for a globally fair, sustainable, and modern international tax system and reach a global and consensus-based solution on digital taxation by mid-2021.

8. The European Union continues to support the commitment by the IMFC and G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. This continues to be important at a time of exceptional uncertainty and downside risks. The EU welcomes the timely implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019.

9. The ongoing COVID-19 crisis requires a continued coordinated global response with multilateral solutions to help countries in need. For this reason, the European Union has

[2] https://trade.ec.europa.eu/doclib/docs/2021/february/tradoc_159438.pdf

launched its "Team Europe" package, which combines financial resources from the EU, its Member States, and financial institutions, to support partner countries in the fight against the coronavirus pandemic and its consequences. In addition, we support the IMF in making full use of its lending facilities to address country specific needs in the face of ongoing economic fallout, in particular an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as a pivotal tool to provide much-needed concessional financing and stabilisation programmes to vulnerable countries, and the use of the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF. With the announcement of a contribution of EUR 183 million to the CCRT for 2021, the EU demonstrated its strong commitment to this instrument.

10. We appreciate the report by the IMF on macroeconomic developments and prospects in low income countries and their financing needs. We welcome the progress on the G20-Paris Club Debt Service Suspension Initiative (DSSI), including its extension, and on the implementation of the Common Framework for Debt Treatment beyond the Debt Service Suspension Initiative. We support the further extension of the DSSI until end 2021 to help reduce liquidity pressures in low income countries, subject to the assessment of the IMF and WB. We consider that, over time, the Common Framework should become the standard process for all debt restructuring cases, including in middle-income countries. We ask the IMF to keep exploring additional tools, which could serve their members' needs as the crisis evolves. In this regard, we welcome the progress made on the path to a new general allocation of Special Drawing Rights in 2021, which we are willing to support on the basis of the IMF Articles of Agreement and of a detailed and convincing IMF proposal.

11. We welcome the multilateral efforts to strengthen debt data transparency and improve debt disclosure, including the update of the IMF/WB multi-pronged approach to address debt vulnerabilities and the implementation of the IIF's Voluntary Principles for Debt Transparency. In this respect, we also support the IMF and World Bank proposal on a debt data reconciliation process.

12. Finally, the COVID-19 has reinforced the urgency of the surveillance priorities identified by the IMF Comprehensive Surveillance Review and Financial Sector Assessment Program Review. We welcome the IMF decision to factor in considerations of sustainability related to health, climate change, and inequality in its surveillance framework and encourage the IMF staff to factor in the membership of a country in a currency union, taking into full account the whole set of policy instruments used at national and supranational level to answer the pandemic crisis.