INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by João Leão
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, João Leão in his capacity as Chairman of the EU Council of Economic and Finance Ministers to the International Monetary and Financial Committee

8 April 2021

1. The global economic recovery is expected to accelerate in the second half of 2021 fuelled by a supportive macroeconomic policy mix and an expected rise in the share of vaccinated populations in advanced economies. However, the global economic outlook is subject to high uncertainty related to the path of the COVID-19 pandemic, emergence of new viral mutations and the speed of vaccination, not least in emerging market and developing economies. As stated by the European Council on 25 February, we reaffirm our solidarity with other countries and underline our determination to step up our global response to the pandemic.[1] We need to ensure affordable and equitable access to vaccines for all. In this regard, we fully support collaborative efforts, especially the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility, and underline the need to close its financing gap. As the global community continues to face extraordinary challenges and uncertainty, efforts need to remain focused on protecting people's health and livelihoods and overcoming the crisis, with unprecedented efforts in terms of health measures, structural reforms, investment, and a comprehensive approach towards a green, digital and socially inclusive recovery.

2. Policy actions should continue to be coordinated in order to effectively address the pandemic, sustain the economy and support a sustainable recovery. Fiscal support should not be prematurely withdrawn. For the time being, and as long as the acute health emergency prevails, broad fiscal measures remain necessary to protect citizens and companies. Policy measures should be tailored to country-specific circumstances and be timely, temporary and targeted. In a second stage, once the health situation improves and restrictions ease, fiscal measures should gradually shift towards more targeted actions to promote a resilient and sustainable recovery. Once the recovery is firmly underway, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability should be pursued, while enhancing investment levels and improving the quality of public finances. Transparent and clear monetary policy communication by major central banks is important for the global economy. Reforms that strengthen the coverage, adequacy, and sustainability of health and social protection systems for all, and support a fair and inclusive recovery, should be pursued, while particular attention should be paid to budgetary measures to make the most of the opportunities stemming from the green and digital transitions.

3. Climate change is an integral and essential part of our agenda. It is a global challenge that requires an effective and coordinated response within a stronger institutional framework. The economic consequences of climate change are being felt, and the cost of inaction is steadily increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances, and financial markets alike. The transition towards a climate-neutral and an environmentally sustainable economy can be accelerated by economic incentives and fiscal measures. Key policies include the strategic objective for a climate-neutral economy, mobilizing sustainable finance while striving for consistency across jurisdictions, energy taxation and initiatives related to carbon pricing. The European Council agreement on the Multi-annual Financial Framework (MFF) and the recovery instrument Next Generation EU includes an overall climate target of 30% of total expenditure. The EU Member States remain committed to scaling up the mobilisation of international climate finance from a wide variety of private and public sources, instruments and channels in the context of meaningful mitigation actions and transparency on implementation. This will help support the transition towards a carbon-neutral

[1] https://www.consilium.europa.eu/en/press/press-releases/2021/02/25/statement-of-the-members-of-the-european-council-on-covid-19-and-health-25-february-2021/

global economy and alleviate the socio-economic impact of the transition.

4. For the EU, continued coordination of national fiscal policies is crucial for an effective response to the COVID-19 shock, a sustainable recovery. Against the backdrop of the general escape clause of the EU fiscal framework, which was activated in March 2020, Member States took sizeable discretionary budgetary measures at the national level amounting to around 4% of GDP in 2020, to contain the pandemic and provide support to individuals and businesses particularly affected. These supplemented the operation of automatic stabilisers, which provided around 4pps of GDP of fiscal support in 2020. Member States also put in place exceptional liquidity support of almost 19% of GDP, mainly via guarantees provided to companies and to banks to ensure the flow of credit. Overall, the euro area fiscal stance was highly expansionary in 2020. The general escape clause remains active in 2021 and could remain active also in 2022 based on current preliminary indications from the European Commission. The Eurogroup is committed to a supportive stance in the euro area 2021 and in 2022, also taking into account the fiscal stimulus stemming from the Recovery and Resilience FacilityOnce the recovery is firmly under way, Member States will 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. Further coordinated fiscal support will be provided at the EU level. The EU has agreed a comprehensive package covering the years 2021-27. This combines a reinforced MFF with an extraordinary recovery effort funded through the Next Generation EU recovery instrument that will raise EUR 750 billion from financial markets. Together, these amount to EUR 1.8tn in 2021-27 and will help to transform the EU economy, pursue the European Green Deal, make the most of the digital revolution, and strengthen economic and financial resilience. The centre piece and biggest instrument of Next Generation EU is the Recovery and Resilience Facility, which will provide EUR 672.5 billion in financial support (EUR 360 billion in loans and EUR 312.5 billion in grants) for national investments and reforms in relation to the green and digital transitions and to boost growth potential as well as the economic and social resilience of national economies. In addition, the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) has allowed for up to EUR 100 billion loans in support of Member States' short-time work schemes and similar measures to protect jobs and workers affected by the economic fallout of the COVID-19 pandemic. Until now, the Council approved a total of EUR 90.6 billion in SURE support to 19 Member States, out of which EUR 62.5 billion was already disbursed. Furthermore, the Pan-European Guarantee Fund, created by Member States for the European Investment Bank Group, can support EUR 200 billion of financing for companies with a focus on SMEs. Finally, the Pandemic Crisis Support established by the European Stability Mechanism (ESM) makes available up to EUR 240 billion of financing to euro area Member States to support domestic financing of direct and indirect healthcare, cure, and prevention related costs due to the COVID-19 crisis.

6. By end 2020, the European Fund for Strategic Investments (EFSI) had mobilised EUR 547 billion in investment. It also recently contributed to mitigate the impact of the COVID-19 pandemic on the EU's economies. Close to one and a half million start-ups and small businesses are expected to benefit from improved access to finance. Some 70% of the expected mobilised investment comes from private resources. The InvestEU programme will build on the success of the European Fund for Strategic Investments (EFSI) and bolster investments across the European Union. It provides crucial support to companies, contributing to overcome the effects of the crisis. The overall investment to be mobilised on this basis is estimated at EUR 370 billion.

7. Trade must play its full role in the recovery from the COVID-19 pandemic and in the green and digital transformation of the economy. Making globalisation more sustainable and harnessing gains from trade for all should be the underlying driver of a reviewed EU Trade Policy. Strengthening trade stability and multilateral rules-based trade will be the central pillar of the EU's actions. Leading efforts to reform the World Trade Organization and improve the effectiveness of the multilateral framework for trade governance should be the key priority. At the same time there is a need to ensure that the international

rules are fit for today's economic realities and well equipped to respond to competitive distortions.

8. The work on the ESM reform is coming to completion, and the ratification process is under way. Moreover and since sufficient progress has been made on risk reduction. Member States participating in the Banking Union decided to bring forward the introduction of a common backstop for the Single Resolution Fund for it to be available by the beginning of 2022. Work will also continue on deepening the Capital Markets Union. On strengthening the Banking Union, including a European Deposit Insurance Scheme, we will continue to work on all elements on a consensual basis. Progress in deepening the Economic and Monetary Union, together with the Next Generation EU recovery instrument and sustainable finance, will also contribute to strengthen the international role of the euro.

IMF Policy Issues

9. In the face of the ongoing Covid-19 crisis, the IMF has demonstrated its ability to take strong and rapid measures to support its members. EU Member States support the IMF in making full use of its lending toolkit to serve members´ needs in the face of the ongoing economic fallout. The IMF should ensure that its current lending strategy is suited to the pandemic's unique nature and associated uncertainty, while safeguarding member countries' capacity to repay and ensuring the appropriate use of financial assistance through good governance. We ask international financial institutions 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, which we are willing to support on the basis of the IMF Articles of Agreement and of a detailed and convincing IMF proposal. While there are also vulnerabilities in middle income countries, low-income-countries are being hit especially hard by the crisis. Therefore, we continue to support an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as a pivotal tool to extend concessional financing and stabilisation programmes to vulnerable countries. We also support the IMF Catastrophe Containment and Relief Trust (CCRT) to help the poorest countries face their debt obligations to the IMF and Capacity Development to help strengthening economic institutions. We reiterate that the IMF and World Bank should coordinate closely, also with other IFIs and MDBs, to ensure their measures are coherent and complementary.

10. The EU Member States continue to support the commitment by the IMFC and by G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). This continues to be important at a time of exceptional uncertainty and downside risks. EU Member States welcome the implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019, including the entry into force of the doubling of the New Arrangements to Borrow (NAB) and completion of domestic approval procedures for the new round of Bilateral Borrowing Agreements by most countries. We are committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded no later than December 15, 2023.

11. We look forward to the conclusion of the IMF Comprehensive Surveillance Review and Financial Sector Assessment Program Review. The Covid-19 pandemic and its implications have made the IMF surveillance even more relevant in the next decade. In particular, the IMF decision to integrate climate change and inequality-related issues in its surveillance framework can play an important role towards making the recovery more inclusive and sustainable. The macro-critical implications of climate change mitigation, adaptation, and transition management should be integrated in the Fund's surveillance. They should feature as appropriate in all surveillance products issued by the IMF. In addition, given that the uncertainty and scarring effects associated with the pandemic will likely persist for some time, we welcome the IMF's decision to underscore the importance of addressing long-term structural challenges, such as providing universal health access, promoting digitalisation, strengthening good governance, increasing women and youth labour

market participation, and raising productivity growth. We also look forward to the upcoming review of the Institutional View on capital flows.

12. It is essential to ensure the swift and effective implementation of the G20-Paris Club Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative (DSSI), which is a major step forward toward improving our current sovereign debt restructuring international architecture. The Common Framework is instrumental to ensure strong creditors' coordination and facilitate timely and orderly debt treatments on a case-by-case basis for DSSI-eligible countries, with broad creditors' participation, including the private sector in line with the comparability of treatment. We support exploring to extend the Common Framework to middle income countries facing debt vulnerabilities, while at the same time recognizing that resources for debt relief should be prioritized for low income countries. We also welcome the progress on the G20-Paris Club DSSI and, to help to reduce liquidity pressures in low income countries, we stand ready to further extend the DSSI until end 2021, under certain conditions and subject to a thorough assessment of the IMF and WB.We are committed to continue ensuring a full and transparent implementation of the DSSI, which has been fundamental in supporting beneficiary countries by freeing up fiscal space in the short term to fund social, health, and economic measures to respond to the pandemic. In addition, debt transparency is critical for a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We renew our support to the international efforts aimed at strengthening debt transparency, in particular in low-income countries, including the update of the IMF-WB multipronged approach to help countries address emerging debt vulnerabilities, the IMF-WB proposal on a debt data reconciliation process, the organisation of a second voluntary self-assessment of the G20 Operational Guidelines for Sustainable Financing implementation, and the implementation of the IIF Voluntary Principles for Debt Transparency.