INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Valdis Dombrovskis
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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, 21 April 2021

1. The Russian Federation's unprovoked military aggression against Ukraine grossly violates international law and the principles of the United Nations Charter which include the right of Ukraine to choose its own destiny. This unjustified and unjustifiable attack is exacting a tragic human cost on the people of Ukraine, and is forcing millions to flee in- and outside the country. Moreover, it is undermining European and global security, stability and prosperity. The EU stands firmly by Ukraine and its people as they face this unparalleled crisis and we remain committed to uphold the sovereignty and territorial integrity of Ukraine. The EU strongly supports the rules-based international order and will continue to work very closely with its international partners to support Ukraine directly and implement far-reaching sanctions on Russia and its accomplice Belarus. The Russian economy and its financing capacity have been hit hard through sanctions related to the financial, energy and transport sectors, export controls and the ban of export financing, and visa policy. The EU has moreover provided an emergency macro-financial assistance (MFA) operation to Ukraine of EUR 1.2 billion, of which the first 600 million was paid out in March and which, together with other international financial support initiatives have made a substantial difference in addressing Ukraine's increased financing gap. The EU also agreed to give EUR 1 billion in arms and other aid to the Ukraine military as well as equipment and material (medications, food, fuel) for the civilian population. The EU welcomes the IMF emergency assistance to Ukraine, under the Rapid Financing Instrument to help meet urgent financing needs and the financial support of many of our other international partners. The financial needs of Ukraine will be significantly more substantial in a subsequent reconstruction phase where the EU stands ready to play a leading role through the setting up a Solidarity Trust Fund.

2. Managing the global economy at present is a very delicate task. The latest European Commission forecast was issued on 10 February 2022, two weeks before the Russian invasion of Ukraine. The forecast projected that the EU economy would rebound in the second quarter of 2022 and remain solid in the following quarters. Real EU GDP was expected to grow by 4.0% in 2022 and 2.7% in 2023, thanks to strong economic fundamentals. Prices were assumed to remain at elevated levels for the whole of 2022 for gas and electricity, before dropping substantially in Spring 2023. The reaction of energy and commodity markets to the Russian war with Ukraine has been immediate. The increase in energy commodities prices - if sustained – will add additional pressures on consumer inflation. The EU economy is being hit through multiple channels, including negative confidence effects, lower trade, tighter financing conditions due to rising uncertainty and especially higher energy prices. Direct fiscal costs are also set to increase. Overall, the combination of higher energy and commodity prices, a fall in confidence and trade and financial market tensions will likely weigh on the expected economic expansion in the EU but are not expected to derail it.

The European Commission, in light of the current crisis and the increase of energy prices in Europe, on 8 March put forward a plan to make Europe independent from Russian fossil fuels. The *REPowerEU* plan outlines a series of measures to respond to rising energy prices in Europe and to replenish gas stocks for next winter. It seeks to diversify gas supplies, speed up the rollout of renewable gases and replace gas in heating and power generation in order to reduce EU demand for Russian gas by two thirds before the end of the year and to accelerate the green transition.

4. The global COVID crisis is not over. For that reason, we support the goal of vaccinating at least 70% of the world's population in all countries by the first half of 2022. Over one billion doses have been delivered in the EU (more than 80% of adults are now fully vaccinated and more than 60% have received a booster dose). The EU is sharing over two thirds of its vaccine production with the rest of the world. More than two billion doses have been exported to the rest of the world (to more than 166 countries) and the Team Europe target is to donate 700 million vaccine doses by mid-2022 (200 million from the European Commission and 500 million from the Member States). In this context, we underline the importance of strengthening health systems and ensuring the availability of ancillary materials to ensure that doses become 'shots-in-arms', and so that the world is better prepared to address existing and future health challenges.

5. The EU will continue to coordinate its fiscal response, which needs to remain agile to the evolving economic situation. EU fiscal policy will continue to be supportive in 2022, underpinned by the implementation of the EU Recovery and Resilience Facility (RRF) and the continued activation of the general escape clause of the Stability and Growth Pact. Based on the European Commission's winter 2022 economic forecast, transitioning to a broadly neutral aggregate fiscal stance in 2023 appears appropriate, while standing ready to react to the evolving economic situation. The aggregate stance should result from appropriately differentiated national fiscal policies, with high-debt Member States commencing a gradual, growth-friendly fiscal adjustment on nationally financed current expenditure in 2023. All Member States should foster high-quality investment, in particular for the green and digital transition, and promote inclusive growth. The Commission's fiscal policy guidance for 2023 will be updated as necessary at the latest as part of the European Semester Spring package in May 2022.

6. Climate change is a global challenge requiring a coordinated global response. We therefore support the work of the IMF on climate change. While the challenges facing individual Members differ, and the timing and scope of disruptions may vary, concerted action everywhere, now and over the next decade will be crucial to mitigate risks related to climate change. We therefore believe that the Fund has an important role to play to help the membership to address macroeconomic and financial stability risks related to climate change, while ensuring economic sustainability. We also agree with deepening the Fund's engagement on macro-critical climate change related issues across its activities.

7. The European Union adopted last June the *European Climate Law* with an objective of climate neutrality by 2050 and an intermediary greenhouse gas emissions reduction target of at least 55% by 2030 compared to 1990 levels. The European Commission presented the '*Fit for 55'* package in July and December 2021, a set of interconnected proposals that provides the tools to reach these goals. It comprises upgrades to current legislation and several new initiatives, in climate, energy, transport, buildings, agriculture and forests, and support to the most vulnerable in the transition. The proposals strengthen and expand carbon-pricing, targets, standards and support measures. The European Commission also adopted a new sustainable finance strategy in July, with an ambitious and comprehensive package of measures to help improve the flow of money towards financing the EU transition to a sustainable economy. In addition, in the period up to 2027, the European Union, beyond the substantial contributions by Member States, will spend over 30% of its external budget on climate change related activities. The Commission President also announced a EUR 4 billion top-up of our overall climate expenditure in developing countries, which is now set to exceed EUR 28 billion.

8. The EU plans for a green, sustainable recovery are underpinned by a EUR 1.8 trillion funding package. With the RRF, a total of EUR 672 billion has been set aside for loans and grants for investment and reforms, with which EU Member States will jointly build the *NextGenerationEU*. This facility is already providing the means for Member States to ensure that their economic recovery is sustainable, in line with the guiding principles of the EU's economic agenda: environmental sustainability, productivity, fairness and macroeconomic stability. Implementation is currently in full swing, and we can already see real tangible impact all across Europe. The RRF is set to play a crucial role in fostering the green transition and decarbonising our economies, whether by speeding up the deployment of renewables, encouraging building renovation to increase energy efficiency, or reforming operations of electricity markets. The combination of large investments and sectorial reforms will be decisive in enhancing EU energy security of supply and reducing energy dependence. The European Commission also launched Global Gateway, the EU strategy for high quality, sustainable connectivity, supporting infrastructure, policies and people-to-people connections in order to narrow the global investment gap worldwide.

9. We cannot afford for the WTO to be mired in conflict and not allowed to reform. Therefore, all efforts should be made to ensure a successful outcome at the 12th WTO Ministerial Conference. Driven by rules-based multilateral cooperation, trade can be an accelerator for positive change and contribute to achieving not only economic recovery after the pandemic but also broader objectives such as the fight against climate change, the protection of the environment and human rights, as well as enhancing security or public order. However, the increasing tendency among certain players to weaponise trade policy for geopolitical purposes, highlighted in last year's EU trade strategy, has regrettably been borne out. To ensure that our trade policy is geopolitically agile, while also serving our wider goals, the European Commission has made legislative proposals on a new anti-coercion tool, on the fight against deforestation and on sustainable corporate due diligence and sponsored climate initiatives at the WTO. On the digital side, we continue to pursue e-commerce negotiations at the WTO and digital partnership agreements with trade partners around the world.

10. We all need to give the highest priority to the swift global implementation of the historic agreement on a two-pillar international tax package between 137 members of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting reached on 8 October 2021, in line with the agreed timetable.

11. 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. The EU is 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 by 15 December 2023.

12. The COVID-19 crisis has required coordinated global efforts to help countries in need. As part of the EU's global response to the COVID-19 pandemic, in 2020 the EU approved EUR 3 billion of MFA to 10 enlargement and neighbourhood partners to help them cope with the economic fallout. Of this, EUR 2.5 billion have already been disbursed by the end of 2021. The two remaining programmes for Bosnia and Herzegovina and Tunisia were started in 2021. Implementation is progressing, with both countries having already received the first disbursement. The operations are expected to be finalised in 2022. The EU also paid EUR 4.1 billion of budget support in 2020 and 2021. These grants provided 98 countries or territories with additional fiscal space to implement their COVID response plan. This assistance comes on top of the 'Team Europe' package, the EU's robust and targeted response to support partner countries' efforts in tackling the pandemic, reaching over EUR 40 billion.

13. The European Union has strongly supported the new general allocation of Special Drawing Rights of about USD 650 billion, which became effective on 23 August 2021. The EU supports the voluntary re-channelling of Special Drawing Rights (SDR) to help vulnerable countries, including through significantly scaling up the IMF Poverty Reduction and Growth Trust (PRGT) and through the establishment by the IMF of the Resilience and Sustainability Trust (RST). We support the RST based on voluntary contributions to provide financing to assist vulnerable countries' reform efforts focusing on climate change, as well as on pandemic preparedness. We strongly encourage the Fund to work in close cooperation with the World Bank and other MDBs in implementing the RST, particularly as regards design of conditionality. The EU welcomes the pledges so far by G20 and non-G20 members for channelling towards the RST and the PRGT, of which EU Member States have so far pledged USD 20 billion. On top of that, the EU welcomes the pledges to the PRGT Subsidy Accounts, of which USD 321 million have been pledged by EU Member States. More EU Member States are willing to contribute significantly to this global effort. We call for additional members to consider voluntary contributions to bolster the PRGT and to reach a critical mass of resources for operationalisation of the RST by the IMF Annual Meetings 2022.

14. We need to step up the efforts to implement the G20-Paris Club Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative in a timely, orderly and coordinated manner, with clear and predictable timeframes. We look forward to further progress in the current negotiations, including the finalisation of the debt treatment for Chad, and to the formation of the creditor committee for Zambia. We encourage all participating creditor countries to consider possible improvements to the Common Framework, in order to make it more efficient and create the right incentives for eligible countries in need of debt treatment. In particular, Creditor Committees may grant a time-limited debt standstill to those countries who have requested debt treatment. We consider that sharing information among creditors as well as with the International Financial Institutions is essential to ensure successful debt treatments. The Common Framework should become the standard process for all debt restructuring cases, including in middle-income countries.

15. We welcome the multilateral efforts to strengthen debt data transparency and improve debt disclosure, in both debtor and creditor countries, including the IMF-WB proposal on a debt data reconciliation process and the debt transparency pillar of the IMF-WB Multi-pronged approach to address debt vulnerabilities. It is essential to continue reflecting on how to adapt our practices to reflect the evolution of the sovereign debt landscape, for example in relation to increasing transparency and systematic disclosure of collateral backed loans. We encourage all private sector lenders to contribute to the joint Institute of International Finance/OECD Data Repository Portal.

16. We welcome the progress achieved towards the Review of the Fund's arrears policies and perimeter with, among others, work to develop a new 'institution-based approach' for the definition of multilateral institutions benefiting from protection under the Fund's Non-Toleration of Arrears Policy (NTP).