# International Monetary and Financial Committee

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**IMFC Statement by Pierre Moscovici**
**Commissioner**
**European Commission**

**Statement of Vice President Valdis Dombrovskis and Commissioner Pierre Moscovici to the International Monetary and Financial Committee on behalf of the European Commission**

**Washington, 7-9 October 2016**

1. The outlook for the global economy remains fragile and subject to considerable political and economic risks. We therefore need to implement the three-pronged strategy agreed in Hangzhou and use all available tools – monetary, fiscal and structural - to strengthen the global recovery. We will need to continue the work for more inclusiveness across as well as within countries to achieve more sustained growth and a broader consensus for globalisation, free trade and structural reform.

2. The modest economic recovery in the EU continues although important divergences remain between Member States. After a solid economic performance in the first quarter of the year, activity in the EU and the euro area moderated in the second quarter of 2016. The boost from tailwinds such as low oil prices is gradually fading, though the accommodative monetary policy provides a boost to demand and fiscal policy remains supportive to growth in the euro area. The solidity of the recovery hinges largely on accelerating investment which has not materialised yet. Although unemployment has fallen to its lowest level in five years, it remains unacceptably high. Downside risks remain largely global and are both economic and political.

3. The outcome of the stress test exercise shows a satisfactory capital position of the EU banking system. An important challenge for some EU banks is the elevated levels of non-performing loans (NPLs). NPLs, ongoing restructuring in the sector and low interest rates weigh significantly on banks' profitability, impacting their future viability and constraining their ability to provide credit to the economy. Further efforts to address NPLs are necessary.

4. Since the summer of 2015, Greece has been on track to reform its economy and build the recovery. A positive scenario is contingent on a timely implementation of the ongoing programme, on financial and trade developments, and on stability of the migration situation. The second review of the ESM programme is to start in the second half of October and will focus on a number of issues including the medium-term fiscal strategy and the roll-out of the guaranteed minimum-income scheme; the establishment of the new privatization fund; labour-market reforms; strengthening of independent entities and reform of the public administration. The Eurogroup in May 2016 also discussed debt-relief measures and agreed on a phased approach with measures to be implemented in the short, medium and long run.

5. The economic policy strategy of the European Union continues to be built on three main pillars: boosting investment, accelerating structural reforms and pursuing responsible growth friendly fiscal consolidation.

- A little more than one year after the launch of our European Fund for Strategic Investments (EFSI), the centrepiece of the Investment Plan for Europe, the Fund is already active in 27 Member States and is expected to have triggered EUR 127 billion in investments. Given its success so far, the Commission has proposed to extend the EFSI beyond 2018 to mobilise at least half a trillion euro of investments by 2020. In addition, the European Investment Project Portal provides for a transparent pipeline of investment opportunities across the EU and the European Investment Advisory Hub, our new single point of entry for technical assistance and advisory services, helps project promoters to enhance the quality of their projects. As part of its efforts to improve Europe's investment environment, first measures of the Capital Markets Union (CMU) Action Plan have already been launched on more transparent and safe securitisation, easier prospectus rules, and increasing venture capital. The Commission set out on 14 September a Communication to accelerate the delivery of the proposed measures towards CMU.

- The Commission's strategy to create an environment conducive to growth and jobs is based on a determined push at EU level to complete the Single Market and promote investment while Member States, who have the main responsibility for structural reforms, have to implement further reforms to remove bottlenecks to fundamental drivers of growth. Assessments carried out by the Commission on the growth effects of a selected number of structural reforms have shown the sizeable positive impact of adopted past and ongoing reform efforts. But they also show potential gains from further, more ambitious reforms. In particular euro area Member States have to implement reforms to increase their adjustment capacity. When it comes to EU-level action, the Commission has identified priority areas, among which the main ones are the Capital Markets Union, the Single Market Strategy, the Digital Single Market, and the Energy Union. We have strengthened economic governance by improving the European Semester. Country-specific recommendations focus on a limited number of priorities that require urgent attention. Social priorities, including issues linked to unemployment, education and social inclusion, now occupy a greater place in our analysis.

- Large consolidation efforts implemented in difficult economic conditions together with very low interest rates have helped improve the headline deficit for the EU as a whole, which is expected to attain some 2.1% of GDP in 2016 from 2.4 % in 2015. Based on the European Commission's spring forecast, the aggregate debt level is projected to stabilize at around 86% of GDP in the EU this year and to start to decline slightly in 2017. The fiscal stance as measured by the annual change in the structural balance for 2016 is expected to be slightly expansionary for the euro area and neutral for the whole EU. This appears to be broadly appropriate. The Commission will promote, in the next Recommendation on the economic policy of the euro area, a fiscal stance for the euro area in 2017 that is supportive of the monetary policy of the European Central Bank and a more growth friendly composition of public finances. Member States should continue to implement their fiscal policies in line with the Stability and Growth Pact, which allows the automatic stabilizers to work around the agreed path of structural adjustment while making the best use of the flexibility in the existing rules of the SGP and ensuring the long term sustainability of public finances. There is broad recognition in the G20 that better quality of public finances can be instrumental to support growth and productivity. G20 Leaders in Hangzhou agreed to make tax policy and public expenditure more growth-friendly, including by prioritizing high-quality investment, while enhancing resilience and ensuring debt sustainability. They invited the OECD and IMF to continue the work on how the composition can support productivity, inclusiveness and growth. We propose an exchange of best practices on growth friendly fiscal policies in the G20.

6. The Commission has also proposed a new European External Investment Plan (EIP) to encourage investment in Africa and the EU Neighbourhood to strengthen our partnerships and contribute to the achievement of the UN Sustainable Development Goals and tackle the root causes of migration. The EIP comprises three parts: mobilising up to EUR 44 billion of investments through a new European Fund for Sustainable Development, stepping up technical assistance, and supporting reforms to improve the business and policy environment. The Plan also includes the Resilience Initiative of the European Investment Bank, under which the Commission will guarantee an additional EUR 5.3 billion in EIB external lending to 2020,

allowing it to expand its private sector operations and increase its support for refugees and host communities. Through the EIP, the EU will take a further step to contribute to the global architecture for development and management of migration.

7. The European Union is taking the lead on international tax transparency. It has swiftly implemented the outcome of the base erosion and profit shifting (BEPS) package in its regulatory framework. However, the ambition of the EU goes beyond BEPS: EU countries committed to exchange information on tax rulings and report on multinationals, to assess tax jurisdictions and to monitor compliance with good tax governance standards. The Commission will, in addition, come forward with a revised proposal on a common consolidated corporate tax base in the coming weeks, which will simplify corporate tax rules for multinational companies and reduce compliance costs.

8. The EU continues to work towards improving the architecture of the Economic and Monetary Union (EMU). The process of completing the Banking Union continues on the basis of a roadmap agreed in June, which includes the European Deposit Insurance Scheme and a common backstop as well as further measures to reduce risk. Many EU Member States are now setting up National Productivity Boards, which will foster the implementation of structural reforms. The European Commission has established the European Fiscal Board, which will enhance the EU fiscal framework and help assessing the fiscal stance in the euro area. We will present further proposals towards a more complete EMU in spring next year.

9. The International Monetary Fund is a key pillar of the international monetary system. We welcome the implementation of the 2010 IMF Quota and Governance Reforms and we support working towards the completion of the IMF's 15th Review of Quotas. A strong and adequately resourced IMF is of utmost importance for the global economy. We therefore strongly support the commitment by G20 Leaders to maintain access to bilateral and multilateral borrowing agreements between members and the IMF, in line with the objective of preserving the IMF's current lending capacity. A number of EU Member States will provide firm commitments by the 2016 Annual Meetings. These contributions will be based on broad participation and fair burden sharing among IMF members.

10. We share the IMF's view that multiple transitions in the global economy pose challenges for its members. We support the discussion on the implications of the financial crisis on the Fund's lending toolkit. However, this should be done on the basis of a thorough assessment of the existing instruments first. Any reform of the IMF lending toolkit should address the perceived stigma and proper incentives for sound policies and a timely exit.

11. We are open to discuss IMF work in light of the recommendations by the Independent Evaluation Office's assessment. In particular, we take note of staff's intention to develop principles of engagement and cooperation with regional financing arrangements. We stress that if new principles should be discussed, due account would need to be taken of the respective mandates and policies of all the institutions involved. On the recommendation that the Fund should clarify how guidelines on program design apply to currency union members we consider that the specificities of the euro area monetary union need to be considered. The recommendations on euro area policies will need to be made through euro area surveillance, not through programme-related conditionality. The implementation of euro area policies can only be based on political commitments within the Treaty-based arrangements.