



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Mika Lintilä
Chairman
EU Council of Economic and Finance Ministers**

**Statement by Minister of Finance, Mika Lintilä in his capacity as Chairman of the EU
Council of Economic and Finance Ministers, at the IMFC Annual Meeting,
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Economic situation and outlook

1. The EU strongly believes that a rules- and market-based international economic order with sound multilateral institutions is necessary to ensure sustained and inclusive growth, both within and across countries. We remain fully committed to work together with our partners around the world to keep the global economy open while striving for a level playing field, fighting protectionism, and strengthening global economic cooperation.

2. Global economic growth, and notably manufacturing, remains weaker than previously projected, partly due to trade tensions and the persistent corresponding uncertainty. Current trade tensions are a source of great concern and put global growth at risk. Resolving trade tensions therefore deserves the highest order of priority going forward. Given the slowdown in growth, coupled with the negative risks to the outlook, a timely, differentiated and well-calibrated policy response with an appropriate policy mix that avoids pro-cyclicality should be considered. Countries with fiscal space and large current account surpluses should consider using it to boost high-quality tangible and intangible investments. Countries with high debt levels should pursue prudent fiscal policies to put public debt credibly on a downward path. All should focus on further structural policies to ensure sustainable and inclusive growth and improving the quality of public finances by shifting public resources towards investment. Macro-prudential policy should do its part to ensure financial stability. The work on addressing global imbalances should continue.

3. The G20 in Osaka has recalled the need to cooperatively handle the trade tensions. To that end, it is crucial to tackle, through rules-based solutions, any distortions that may have contributed to those tensions and to level the playing field for trade and investment. The EU will pursue its active engagement in the process of reform and modernization of the WTO to improve its negotiating, monitoring and dispute settlement functions. It is particularly urgent to overcome the deadlock on the WTO arbitration system.

4. The European economy has slowed down, reflecting lower global demand growth and the weakness of world trade. By contrast, domestic demand in Europe has been holding up well, helped in particular by continued job creation. According to the European Commission's Summer 2019 Forecast, EU and euro area economies are set to continue expanding this year and next. After reaching 1.9% in 2018, growth in the euro area is expected to moderate, while inflation is expected to remain subdued. The outlook is subject to interconnected downside risks. Lingering trade policy uncertainty may prolong the downturn in global trade and could trigger a reassessment of financial risks. This adds to concerns about the outlook in some emerging countries, especially in China and the intensification of geopolitical tensions in the Middle East.

5. On the domestic side, Brexit remains a major source of uncertainty, with a "no deal Brexit" being one of the key negative risks to the outlook. If the latter were to materialise, it would have a negative impact on the EU-UK trade relationship and on economic activity in Europe and the UK. The European Commission's Summer 2019 forecast was developed under the purely technical assumption of status quo in terms of trading relations between the EU27 and the UK over the forecasting horizon.

6. The European Union remains committed to supporting Ukraine's macroeconomic stabilisation and structural reform agenda, including through macro-financial assistance. It is conditional on the agreed policy measures being implemented, in particular related to the fight against corruption, and on a successful track record under its IMF programme. We urge the

Ukrainian authorities to continue implementing the necessary reforms.

Policy challenges

7. The EU authorities remain determined to implement the three main pillars of our economic policy strategy.

- *Pursuing responsible fiscal policies.* Fiscal policy should be pursued in full respect of the Stability and Growth Pact, with an appropriate differentiation of fiscal efforts across Member States, thereby taking into account stabilization needs and sustainability concerns. Based on the European Commission 2019 spring forecast, the fiscal stance is projected to become slightly expansionary in the euro area in 2019 and, at unchanged policies, in 2020. Pursuing prudent fiscal policies to put public debt credibly on a downward path is important in Member States with high levels of public debt, as is fostering the resilience and growth potential of their economies. Doing so would also reduce vulnerability to shocks and allow for the full functioning of automatic stabilizers in the next downturn. Also with a view to improving the public finances, increasing public investment in all Member States particularly in Member States with fiscal space and low levels of public investment, would support growth and rebalancing, depending on country specific circumstances.
- *Structural reforms to boost our economies' resilience and dynamism.* We will continue pursuing policies that support sustainable and inclusive growth, tackle remaining regulatory barriers, particularly in services, improve our economies' long-run growth potential and strengthen economic, social and regional cohesion. Countries need to continue with the efforts to implement structural reforms that increase competition in product markets, promote an efficient allocation of productive resources, strengthen investment in skills, and improve the business environment and the quality of institutions. Such reforms will foster economic resilience and create conditions for a better growth potential. Further progress is needed to deepen the Single Market, particularly in terms of services, digital activities, energy and transport, as the Single Market has proven to be a major engine of growth and convergence between Member States.
- *Boosting investment.* The Investment Plan for Europe has proven to be a successful tool for encouraging an increase in investment in Member States. The projects approved for financing under the European Fund for Strategic Investments (EFSI) have already mobilised close to EUR 410 billion across the entire EU and the EFSI is on track to reach the EUR 500 billion target by end 2020. In implementing the initiative, we will put emphasis on the additionality and quality of the projects. In order to reinforce the mobilisation of private investments, we will step up and continue policy actions under the so-called "third pillar" of the plan to promote favourable framework conditions for businesses across the Single Market with reform initiatives both at European and Member State level. Apart from the traditional investment programmes related to European Structural Funds, we are currently preparing another important investment programme for the 2021-2027 financing period, the so-called "InvestEU", which will succeed EFSI and other investment programs and aim to continue mobilising private financing and stimulate investments in Member States.

8. The euro area is now much more robust than before the crisis, but challenges remain to be addressed. At the Euro Summit in June 2019, Leaders made further progress on a comprehensive package, which paves the way for a significant strengthening of the EMU. Member States reached a broad agreement on revising the European Stability Mechanism (ESM) Treaty provisions and on the budgetary instrument for convergence and competitiveness (BICC) for the euro area, and for Exchange Rate Mechanism (ERM) II Member States on a voluntary basis. In addition, progress was made on shaping a view on principles that should guide its further strengthening of the Banking Union. Further work is needed on all these work strands.

9. Climate change is a global challenge that requires a coordinated global response. The

economic consequences of climate change are being felt, and the cost of inaction is increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances and financial markets alike. The Finnish Presidency of the EU Council will seek ambitious progress in the fight against climate change. As the transition towards a low-carbon economy relies on economic incentives and fiscal resources, Finance Ministers of EU Member States will have an important role in contributing to climate action and the transition to climate neutrality. Key discussions include sustainable finance, the strategic long-term vision for a climate-neutral economy and initiatives related to carbon pricing, tax-like measures and taxation, including energy taxation. The EU Member States remain committed to scaling up the mobilisation of international climate finance from a wide variety of private and public sources and to working towards a timely, well-managed and successful replenishment process for the Green Climate Fund.

IMF Policy Issues

15th IMF General Review of Quotas

10. The European Union fully supports 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. EU member states aspire towards maintaining the current level of IMF resources, subject to satisfactory agreement on an adequate burden sharing. We invite the entire IMF membership to consider reaching an agreement on IMF resources as a matter of highest priority. We agree that the Fund is and should remain a quota-based institution. We would be prepared to support a quota increase and we deeply regret that this prospect will not garner the support needed for approval of the 15th General Review of Quotas. Given the importance of ensuring that the Fund is adequately resourced, as a second-best solution to a quota increase we would be open to at least doubling the New Arrangements to Borrow (NAB). We welcome the proposal to extend and augment the NAB and call for a timely agreement on the future of the NAB based on appropriate contributions. We regret that such a solution would not deliver any realignment of quotas towards dynamic economies and therefore are open to ideas to ensure progress towards this objective as part of timely progress with the 16th General Review of Quotas, while protecting the voice of the poorest members. EU Member States supported the extension of their 2016 bilateral borrowing agreements for another year to facilitate the passage to the renewal and increase of the NAB.

Policy advice and surveillance

11. EU Member States look forward to both the forthcoming Comprehensive Surveillance Review (CSR) and the 2020 Financial Sector Assessment Programme (FSAP) Review. EU Member States renew their full support to the efforts for reviewing the Fund's surveillance framework, in order to ensure well-founded and comprehensive analysis and policy advice with the aim of supporting sound policies, strengthening resilience and crisis prevention. Macro-criticality should be the guiding principle for deciding about the broader coverage of core versus emerging structural issues. In this context, we support further integration of climate change into surveillance. EU Member States continue to underline the importance of taking due account of the degree of interconnectedness and the specific legal, institutional and policy frameworks of IMF members participating in economic or monetary unions.

12. The FSAP review should take into account the key findings by the Independent Evaluations Office on the IMF's financial surveillance. The specific EU architecture should continue to be considered in the IMF's analysis and policy advice. The IMF should provide consistency between national and union-wide surveillance. In particular, the Euro Area FSAP (EA FSAP) should adequately inform national surveillance and vice versa. Future national FSAPs will continue to take a holistic view of the banking system, while avoiding duplication with EA FSAPs. We support close coordination of the FSAP Review with the CSR.

13. We also welcome the IMF staff initiative to review and enrich its Debt Sustainability

Analysis framework for Market Access Countries (MAC DSA) in order to ensure its continued effectiveness and improve the reliability of its outcomes. In our view, it would be beneficial to work towards a convergence of approaches between the European and the IMF's frameworks on debt sustainability. We look forward to more guidance on the application of judgement in the IMF framework, whilst recognizing the need for sufficient flexibility to cater for country-specificities.

14. We look forward to the IMF's work on an Integrated Policy Framework to better assess the policy mix between monetary, exchange rate, macroprudential, and capital flow management policies. Developing an understanding of possible trade-offs and complementarities between the different instruments is important to help countries pursue growth and stability objectives. We are looking forward to analysis of the effectiveness of policies aimed at managing capital flows, which are in line with the institutional view on capital flows.

15. We consider that both borrowers and lenders should enhance debt transparency and sustainability, including in infrastructure financing. When making lending or investment decisions, public and private creditors should pay due regard to the IMF-World Bank Debt Sustainability Analyses and respect the debt limits fixed by the IMF Debt Limit Policy and the International Development Association (IDA)'s Non Concessional Borrowing Policy. We look forward to the review of the IDA Non Concessional Borrowing Policy and the IMF Debt Limits Policy. We encourage the IMF to provide a quantitative assessment of borrowing space in debt sustainability analyses for low income countries.

16. We welcome the IMF-WBG Update from June on the recent progress of their multi-pronged approach for addressing emerging debt vulnerabilities, and support its further implementation. We re-affirm our commitment to the 2017 G20 Operational Guidelines for Sustainable Financing. We welcome the completion of the voluntary self-assessment of the implementation of the G20 Operational Guidelines for Sustainable Financing and the IMF-WBG note on the survey results and policy recommendation, while regretting that not all G20 members participated in this exercise. We support continued engagement with the Institute of International Finance on the Voluntary Principles for Debt Transparency to improve debt transparency and sustainability of private financing and look forward to its follow up and broad implementation. The EU encourages the IMF and the World Bank to enhance debt management capacity building in Low Income Countries and to further work on challenges created by collateralized sovereign debt and developing guidance how to deal with it.

17. Strong domestic regulation, supervision and enforcement as well as international cooperation and peer pressure, are crucial to effectively combatting money laundering and terrorist financing frameworks. The Fund should work closely with the Financial Action Task Force (FATF) to advise and support members in this field, notably for the provision of technical assistance to low capacity jurisdictions.

18. We look forward to concluding the comprehensive compensations and benefits review (CCBR) to establish a transparent, cost-effective and performance based remuneration system. This should result in reasonable remuneration levels, which ensure that the Fund remains able to attract and retain highly skilled and diverse staff. The package of benefits offered should be modernized and barriers to more flexible career paths should be removed. The compensation and benefits system should also be simplified, making it easier to understand and navigate, and less costly for the Fund to administer.