INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Olaf Scholz
Germany

In his capacity as Chairman of the EU Council of Economic and Finance Ministers

Statement by Federal Minister of Finance, Olaf Scholz in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting,

Washington, DC, 15 October 2020

1. 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. As some regions start exiting the acute health crisis, while at the same time high infection rates persist in others, utmost vigilance is still required to contain the spread of the virus. At the same time, mitigating the socio-economic damage and reinforcing the resilience of our economies requires unprecedented efforts in terms of health measures, structural reforms, investment, and a comprehensive approach towards a green and socially inclusive recovery.

2. The spread of the coronavirus and the implementation of containment and countermeasures resulted in a very deep contraction of global economic activity in the first half of 2020. However, rapid and ambitious fiscal and monetary policy responses cushioned the blow and, together with the gradual removal of containment measures, supported the rebound of economic activity over recent months. The global economy is expected to continue its recovery through the second half of the year, but the strength and durability of the rebound remains uncertain and uneven across countries and sectors. Balance sheets have been weakened and persistent high infection rates in large parts of the world might result in a partial re-imposition of containment measures, weigh on confidence, and again disrupt economic activity. In light of these risks, we agree that we need to avoid premature withdrawal of policy support and keep a supportive and balanced policy-mix to foster the recovery. In order to facilitate a sustainable recovery, ongoing effective virus containment and the development, manufacture and distribution of effective vaccines, therapeutics, and diagnostics are necessary. Multilateral efforts remain critical to make COVID-19 tools globally accessible. When economic conditions allow, we should pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. The COVID-19 crisis may accelerate ongoing structural changes and sectoral reallocations. We need to facilitate these processes, while keeping an eye on balancing efficiency and equity. Furthermore, we need to give the highest priority to global solutions to address the taxation of the digital economy and the remaining BEPS issues. We look forward to ambitious, fair, effective, non-discriminatory and workable global solutions and all should redouble efforts towards a consensus-based solution to deliver this goal in 2020. An important step is the Inclusive Framework meeting in October, where we aim at reaching agreement on the key policy features which will form the basis for a political agreement. We support the OECD advancing the work on the two-pillar approach as identified by the Inclusive Framework and look forward to the OECD final report.

3. The EU is determined to do whatever it takes to effectively address the economic challenges caused by the spread of the coronavirus.[1] The EU has put together a set of measures while setting a framework for further actions to respond to developments and to support the economic recovery. At the national level, Member States have taken sizeable discretionary fiscal measures to support the economy, amounting to about 4½% of GDP on average so far. In addition, member states have allowed automatic stabilisers to operate fully and have provided liquidity facilities of nearly up to 25% of GDP to businesses, consisting of public guarantee schemes and deferred tax payments. At the EU level, Ministers of Finance have agreed to activate the general escape clause of the EU fiscal

[1] See the March 23rd statement on policy response to COVID-19, https://www.consilium.europa.eu/en/press/press-releases/2020/03/23/statement-of-eu-ministers-of-finance-on-the-stability-and-growth-pact-in-light-of-the-covid-19-crisis/

framework, while remaining fully committed to the Stability and Growth Pact. This allows EU Member States to depart from the budgetary requirements that would normally apply in order to tackle the economic consequences of the pandemic, provided that this does not endanger fiscal sustainability in the medium term. EU Member States now have the flexibility they need to support their health systems and provide timely, temporary and targeted economic stimulus, with the aim of preventing permanent damage to our economies and therefore to the sustainability of public finances.

4. The EU has put in place three important safety nets for workers, businesses and Member States, amounting to a package worth €540 billion.[2] The new instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE), worth up to €100 billion, will help protect jobs and workers affected by the coronavirus pandemic. The Pan-European Guarantee Fund, created by Member States for the European Investment Bank Group, which could support EUR 200 billion of financing for companies with a focus on SMEs. Finally, Pandemic Crisis Support, established by the European Stability Mechanism makes available up to €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.

5. In addition, the EU has agreed to a package for the years 2021-27 to promote a sustainable and green recovery. This combines a reinforced long-term EU budget (Multi-annual Financial Framework, MFF) with an extraordinary recovery effort funded through a "Next Generation EU" recovery instrument that will raise €750 billion from financial markets. Together, these amount to €1.8tn in 2021-27 and will help transform the EU through major policy initiatives, notably the European Green Deal, the digital revolution, and strengthened resilience. The centre piece and biggest programme of the package is the Recovery and Resilience Facility, which will provide EUR 672.5 billion (EUR 360 billion in loans and EUR 312.5 billion in grants) in financial support 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. We aim to implement this package as soon as possible.

6. There is a clear need to keep trade flowing, both to ensure the supply of essential goods and services and to send a signal of confidence for the global economy. International cooperation was key in limiting unnecessary barriers to trade and disruption to global supply chains in the emergency phase of the pandemic and should be stepped up to rebuild the necessary trust and predictability for the economic recovery. It is thus more important than ever to defuse the trade tensions that were weighing on economic growth before the pandemic by accelerating the necessary reform of the WTO. It is crucial to achieve a globally respected, sustainable rules-based multilateral framework for trade to restore a level playing field for trade and investment, also by reducing market distortions.

7. Climate change, if not adequately tackled, already has and increasingly will have a more severe impact on our economies and societies. It is a global challenge that requires a coordinated global response within a stronger institutional framework. 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. As the transition towards a low-carbon and an environmentally sustainable economy can be accelerated by economic incentives and fiscal measures, Finance Ministers of EU Member States will have an important role to play here. Key discussions include the mobilization of sustainable finance while striving for consistency across jurisdictions, the strategic objective for a climate-neutral economy,

[2] See the May 8th Eurogroup statement on the Pandemic Crisis Support, https://www.consilium.europa.eu/en/press/press-releases/2020/05/08/eurogroup-statement-on-the-pandemic-crisis-support/

energy taxation and initiatives related to carbon pricing. The European Council agreement on the MFF and the recovery effort Next Generation EU includes the green transition, outlined in the European Green Deal, as a core element with 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 global economy and to alleviate the socio-economic impact of the transition.

8. The projects approved for financing under the European Fund for Strategic Investments (EFSI) have already mobilised more than €500 billion in investments and recently also contributed to mitigate the impact of the COVID-19 pandemic on the EU's economies. More than one 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, which is a strong crowding-in effect.

9. Work will continue on the ESM Treaty reform, including the early introduction of a backstop for the Single Resolution Fund, ahead of the end of the transition period in 2024, provided that sufficient progress has been made on risk reduction, to be assessed in 2020. 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, will also strengthen the international role of the euro.

IMF Policy Issues

10. In the face of the ongoing Covid-19 crisis, the IMF has commendably demonstrated its readiness and ability to take strong and rapid measures to support its members, especially the most vulnerable. EU Member States support the IMF in making full use of its lending toolkit in the face of the crisis. 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 adequate governance and anti-corruption safeguards. We ask the IMF to keep exploring additional tools, including a new general allocation of SDRs that could serve members' needs as the crisis evolves. Low-income-countries are being hit especially hard by the crisis. Therefore, we also continue to support an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as a pivotal tool to extend much-needed concessional emergency 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. We support the IMF and World Bank to continue work on identifying the most vulnerable countries regarding possibly unsustainable debt levels and to help countries deal with this challenge.

11. Against this backdrop, the European Union continues 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 call for the timely implementation of the package on IMF resources and governance agreed by the IMFC at its meeting in Washington in October 2019, including the ratification of the doubling of the New Arrangements

to Borrow (NAB) and completion of domestic approval procedures for the new round of Bilateral Borrowing Agreements. 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 by no later than December 15, 2023.

12. The crisis has reinforced the case for making progress on the IMF Comprehensive Surveillance Review and Financial Sector Assessment Program Review and we look forward to their conclusion. Furthermore, the IMF is well placed to play an important role towards a green recovery. We are of the view that the macro-economic and financial stability risks associated with climate change are macro-critical across a broad share of the IMF membership. The uncertainty and scarring effects associated with the pandemic will likely persist for some time, underscoring the importance of addressing other long-term structural challenges e.g. tackling inequalities, providing universal health access, promoting digitization, strengthening good governance, and raising productivity growth. We reiterate the strong merit in including macro-critical considerations related to climate change in IMF Article IV and Financial Sector Assessment Programme (FSAP) reviews. The IMF´s capacity to cover the inclusion of macro-financial considerations in its bilateral and multilateral surveillance should be further strengthened, which is all the more important in view of the high level of global spillovers caused by the pandemic. We support increasing gender diversity in the IMF Executive Board.

13. We renew our support to the debt transparency agenda including the IMF-World Bank multipronged approach for addressing debt vulnerabilities and the implementation of the IMF-World Bank recommendations on the G20 Operational Guidelines on Sustainable Financing. We look forward to an update on the implementation of the IIF's Voluntary Principles for Debt Transparency, including on identifying a data repository. We welcome the efforts of the IMF and the World Bank to set up a fiscal monitoring framework and improve sovereign debt transparency through a data reconciliation exercise, as requested in the context of the G20-Paris Club Debt Service Suspension Initiative (DSSI). We look forward to the publication of the results of this work. In light of the developments of the COVID-19 pandemic and of eligible countries' needs, we acknowledge that there will be a need for extending liquidity support and that in some instances further action will be required. We stand ready to extend the DSSI beyond 2020 and stress that all lending institutions acting on behalf of G20 members should fully implement the DSSI in a transparent manner. We are also ready to consider the provision of debt treatments on a case-by-case basis, inside a common G20-Paris Club framework. Bearing in mind the changed structure of global debt, it is crucial to secure the participation of non-Paris Club official creditors and of the private sector on comparable terms. We recognize the IMF's important role to facilitate future debt restructurings and we look forward to the updated IMF-WB debt sustainability analyses. We call on the IMF and the World Bank to explore within their respective mandates possible medium- and long-term financing strategies for developing countries.