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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, 12-14 April 2019

After having recorded in 2017 the fastest growth rate in a decade, economic activity in Europe moderated last year and is set to further slow down this year in a context of policy uncertainty amid rising trade and geopolitical tensions. At the same time, the fundamentals are still in place for continued but more moderate growth. The EU unemployment rate has fallen below pre-crisis levels, and stood at 6.5% in January. 15.7 million jobs have been created since the global financial crisis.

An important factor in the increased uncertainty are the trade tensions between key partners. The European Union remains strongly committed to an open and rules-based multilateral trading system, with the WTO at its centre. We will continue to pursue a progressive trade agenda, promoting our values and standards globally and seeking a level playing-field. Despite concerns of increasing protectionism, the EU has recently concluded agreements with thirteen countries. These include Canada, Japan and several African nations. It brings the number of EU trade agreements to 40 with 70 partners worldwide. An agreement with Singapore will soon be concluded and an agreement with Vietnam is about to be signed. Negotiations are progressing with Mexico, Mercosur, Australia, Chile and New Zealand.

We call on the international community to tackle the root causes of trade tensions by developing strengthened rules to discipline non-market oriented policies and practices. The European Commission supports the modernisation of the WTO in its three functions: negotiation, monitoring and dispute settlement. We have tabled negotiating proposals in Geneva and will work together with other WTO members to operationalise the commitment to WTO reform undertaken by G20 Leaders at the Buenos Aires Summit. The European Commission further supports the outcomes of the Global Forum on Steel Excess Capacity and the International Working Group on Export Credits.

In 2019, the aggregate fiscal stance of the euro area is set to become slightly expansionary, after four years of being broadly neutral. As a result, the European Commission expects the aggregate headline deficit of the euro area to increase from 0.6% of GDP in 2018 to 0.8% in 2019. This should help sustain demand. At unchanged policies, we expect that the euro area headline deficit will remain broadly stable in 2020. Achieving the appropriate fiscal stance in the context of the present slowdown requires differentiated national policies in full respect of the Stability and Growth Pact, taking into account fiscal space and spillovers across countries. Euro area Member States with high public debt should run prudent fiscal policies while Member States with fiscal space and low levels of public investment should increase public investment to support growth and rebalancing. All euro area Member States should improve the quality and composition of public finances.

Boosting investment in the real economy remains fundamental to increase growth in the EU. The European Fund for Strategic Investments, the centrepiece of the Investment Plan for Europe, is active in all Member States. It had triggered some EUR 380bn in investments by February 2019, and was extended with the aim of mobilising at least EUR 500bn by 2020. The EU reached a preliminary agreement in March 2019 on a proposal for an InvestEU fund, with a EUR 38bn guarantee, to continue addressing EU market gaps. The European External Investment Plan will promote investment in Africa and the EU Neighbourhood.

Structural reforms are crucial for long-term growth and to ensure that EU markets can address the challenges of the new digital economy, including digital transformation, automation, artificial intelligence and the transition to a low-carbon economy. Our reform agenda encompasses investment in education and skills, promoting competition and market entry to encourage job creation as well as ensuring inclusive growth and security and flexibility in labour markets, to help offer our citizens new opportunities. The proposed Reform Support Programme supports the delivery of more reforms to boost competitiveness and resilience.

Digitalisation brings new challenges for taxation. Fair taxation for everyone is rightly demanded by our citizens. Fundamental changes are needed on rules for profit allocation between countries. A greater share needs to be allocated to jurisdictions where users are located. The overall challenge is to adapt the system of international corporate taxation whilst limiting profit shifting opportunities and putting a floor under international tax competition. Political pressure is intense, and several options are being discussed in the EU. Together with our international partners, we have to conclude this work and shape the overall direction of reform by 2020. The European Commission strongly believes that the solution must ultimately be a global one. We look forward to the update from the OECD on addressing these challenges with the objective of reaching a consensus-based long-term solution by 2020.

The Euro Summit in December 2018 agreed on a number of steps towards a stronger Economic and Monetary Union (EMU). It is now time to turn these decisions into concrete deliverables and implement them swiftly.

First, we need to continue work on the Banking Union including the European Deposit Insurance Scheme and a common fiscal backstop for the Single Resolution Fund, to make sure that credible sources of funds are available when banks need to be resolved.

A completed Banking Union should ensure globally competitive EU banks able to finance the real economy and a robust and coherent underlying financial system. To complement it, Europe has made significant progress to implement an Action Plan for Capital Markets Union (CMU), an integrated and deeper market for capital in Europe . CMU will grant better access for EU firms and citizens to capital markets, notably in smaller markets, intensified cross-border capital flows and better absorption of asymmetric shocks in the EMU.

Second, we have to enhance the role of the European Stability Mechanism in order to safeguard the stability of the euro area and to ensure efficient governance of financial assistance programmes in Member States.

Third, a central fiscal capacity would be crucial for delivering on convergence between our economies. This is of high sensitivity and importance because we live in a world where inequalities are creating tensions.

In a changing world with new economic powers, new technologies and challenges to global governance, reinforcing the international use of the euro is part of Europe's broader commitment to an open, rules based multilateral system and to better shoulder global responsibilities. In December 2018, the Commission presented a communication on strengthening the international role of the euro as well as a recommendation in the field of energy. In addition to providing further momentum for completing the EMU, the CMU and the Banking Union, the Commission specifically suggests strengthening the liquidity and resilience of European market infrastructures, and supports a reliable framework for producing interest benchmarks and instant payments. Other initiatives proposed aim at developing the use of the euro by the international financial sector. Finally, we are consulting stakeholders on their views related to the broader use of euro in specific sectors (energy, transport, food and commodities and foreign exchange markets).

The European Union supports the commitment to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. We aspire to maintain the current level of IMF resources, subject to satisfactory agreement on adequate burden sharing. The Fund is and should remain a quota-based institution. We deeply regret that a quota increase 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) and call for a timely agreement on their future 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.

We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries. The European Commission has developed a comprehensive framework for assessing fiscal sustainability. We would encourage a convergence of approaches between the European and IMF frameworks on debt sustainability to facilitate the establishment of a common diagnosis on debt sustainability. We look forward to more guidance on the application of judgement in the IMF framework whilst recognising the need for sufficient flexibility to cater for country specificities.

The European Commission looks forward to the forthcoming Comprehensive Surveillance Review and the Financial Sector Assessment Programme Review. We underline that the Fund's surveillance practice should continue to consider the EU architecture and to take due account of the degree of interconnectedness and the specific legal, institutional and policy frameworks of IMF members participating in economic or monetary unions. The IMF should provide consistency between national and Union-wide surveillance.

The European Commission also welcomes the IMF review of Conditionality and Design of Fund Supported Programs. We stress the need to focus on the right combination and sequencing of reforms when considering the design of conditionality. Some structural or institutional reforms may be more difficult to fully implement and may take more time to bear fruit than within the time span of a standard IMF programme. Therefore cooperation with other institutions (such as the World Bank, or the European Commission) remains important.

We welcome the IMF and World Bank multipronged approach on debt vulnerabilities in emerging and low-income countries and encourage the IMF and the World Bank to further strengthen its tools. All actors should commit to use the Debt Sustainability Analyses and debt limits as fixed by IMF and World Bank policy. We affirm our strong commitment to the implementation of the G20 Operational Guidelines for Sustainable Financing. We encourage all G20 members to participate in the ongoing self-assessment. We welcome the private sector’s principles on debt transparency which make reference to the merit of using the existing IMF and World Bank frameworks on debt sustainability. We support the focus put on the work related to the challenges created by collateralised sovereign debt.