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IMFC Statement by Eugen Teodorovici
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Eugen Teodorovici in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, DC, 12-13 April, 2019

Economic situation and outlook

1. The EU remains strongly committed to keeping the global economy open, while striving for a level playing field, fighting protectionism and strengthening global economic cooperation. Preserving a rules- and market-based international economic order with sound multilateral institutions is a top priority to ensure sustained growth.

2. Global growth is slowing down, with the global economy set to expand modestly going forward. There are a number of interconnected downside risks to the outlook. It is therefore important to continue rebuilding fiscal buffers, especially in countries with high levels of public debt, and reduce excessive global imbalances while ensuring long-term and more inclusive growth. Countries should support public and private investment and improve the quality and composition of public finances as well as implement further structural reforms. We will also aim at building consensus for taking appropriate action in case significant risks to the global economy will materialise.

3. Current trade tensions are a source of great concern and put the ongoing expansion at risk. We have to tackle collectively the root causes of those tensions within the rules-based multilateral trade system. Therefore we firmly support the modernization of the WTO to level the playing field for trade and investment and will work together with G20 countries and other WTO members in pursuing this objective.

4. According to the European Commission's Winter 2019 Forecast, the euro area and EU economies will continue to expand in the near term. However, growth will moderate to 1.3% and 1.6% in the euro area in 2019 and 2020, respectively. The growth for EU is forecasted to reach 1.5% in 2019 and 1.7% in 2020. The slowdown reflects, among other factors, fading support from the external environment. The euro area has been disproportionately hit by the slowdown in world trade owing to its geographical orientation and its product specialisation. Some sector- and country-specific factors such as the disruption in car production also contributed to the slowdown in growth in the second half of 2018.

5. Despite slowing growth and downside risks, the fundamentals of the European economy remain sound. Domestic consumption driven by strong labour market performance is expected to continue to be the main driver of growth in Europe. Continued favourable labour market dynamics are expected to support higher wage growth. Lower energy prices and an overall slightly expansionary fiscal stance are also expected to underpin private consumption. Risks relate to the uncertainty created by recent trade tensions and a sharper-than-expected slowing of the Chinese economy.

6. Following the end of the European Stability Mechanism programme on 20 August 2018, Greece is now subject to the EU economic surveillance procedures. To cater for the specific needs and challenges facing Greece, the European Commission has also activated enhanced surveillance, which is a comprehensive framework for monitoring economic developments and policies. Greece committed at the Eurogroup of 22 June 2018 to continue and complete reforms adopted under the ESM programme and to safeguard the objectives of the reforms. A positive assessment of Greece's compliance with its reform commitments can serve as a basis for European partners to agree on the release of policy-contingent debt-measures.

7. 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

8. 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 stabilisation needs and sustainability concerns.. The euro area fiscal stance remained on average broadly neutral over 2015–2018 and, based on the Commission forecast, is projected to become slightly expansionary in 2019 in spite of output being above potential. Rebuilding fiscal buffers is especially important in Member States with high levels of public debt while 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 stabilisers in the next downturn. Increasing public investment, in particular 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 modernise our economies. We will continue pursuing policies that support sustainable and inclusive growth, tackle remaining regulatory barriers, particularly in services, and improve our economies' adjustment capacity and convergence between them. The Member States that pursued comprehensive labour market, product market and social protection reforms since the crisis have been better able to support employment and preserve fairness. However, structural impediments to growth remain and reform implementation should be stepped up to further improve labour market functioning, create a more enabling business climate, enhance human capital, embrace the Single Market, welcome digital transformation and remove barriers to investment, also through ensuring level playing field for all Member States. At the EU level, efforts to complete the Single Market in goods and services should continue. Priority will be given to advancing work on completing the Banking Union and progressing on the Capital Markets Union, the Digital Single Market, and the Energy Union.

- Re-launching 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 380 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 and Investment Funds[1], we are currently negotiating another important investment programme for the 2021-2027 financing period, the so-called "InvestEU", which according to the Commission's proposal would aim at mobilising EUR 650bn based on a EUR 38bn EU guarantee.

9. The euro area is now much more robust than before the crisis, but challenges remain to be addressed. At the Euro Summit in December 2018, Leaders agreed on a comprehensive package which paves the way for a significant strengthening of the EMU. In particular, the Euro Summit endorsed the terms of reference of the common backstop to the Single Resolution Fund (SRF), endorsed the term sheet on the European Stability Mechanism (ESM), and mandated the Eurogroup to work on the design, modalities of implementation and

[1] European regional development fund (ERDF), European Social Fund (ESF), Cohesion fund (CF), European agricultural fund for rural development (EAFRD), and European maritime and fisheries fund (EMFF)

timing of a budgetary instrument for convergence and competitiveness for the euro area, and ERM II Member States on a voluntary basis. Technical discussions on possible features of a stabilisation function continue. The Euro Summit also called to advance work on the Banking Union including regarding a European Deposit Insurance Scheme (EDIS) and the limitations in the current framework for liquidity provision in resolution, and for ambitious progress on the Capital Markets Union. The agreement of December will now be implemented by June 2019 with discussions taking place involving also non-euro area Member States. Finally, work will be taken forward on increasing the international role of the euro.

IMF Policy Issues

15th IMF General Review of Quotas

10. The European Union 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 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. EU Member States are willing to consider an 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 the forthcoming Comprehensive Surveillance Review (CSR). EU Member States fully support the efforts to strengthen the Fund’s core task of surveillance 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 (such as technological advancements, climate change, and geopolitical tensions). EU Member States would like to underline that the Fund's surveillance practice should continue 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.

12. We also look forward to the 2020 Financial Sector Assessment Programme (FSAP) Review, which should take into account the key findings by the Independent Evaluations Office on the IMF’s financial surveillance. We encourage staff to provide an overview of the various alternatives to reduce costs and to reallocate budget to 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 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 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. EU member states look forward to the IMF review of Conditionality and Design of Fund Supported Programs with the view to enhancing the effectiveness of IMF conditionality, building on country-ownership, and improving programme outcomes. It is important to regularly undertake such assessments. The experience with debt restructuring should be evaluated on a case-by-case basis.

15. We consider that both borrowers and lenders should enhance debt transparency and sustainability, including in infrastructure financing. When making lending or investment decisions, official 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'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 and support the WBG-IMF multipronged approach to work with borrowers and creditors to improve the recording, monitoring, and transparent reporting of debt. We re-affirm our commitment to the 2017 G20 Operational Guidelines for Sustainable Financing. We look forward to the results of the self-assessment of the implementation of the guidelines and continue to encourage the ongoing work by the IIF Debt Transparency Group to secure effective progress on that end, including improving debt-sustainability. We welcome the review of IMF facilities for low-income countries, notably to balance enhancing support for the LICs with preserving the self-sustainability of the PRGT financing framework and to address the need for greater domestic resources mobilisation. The EU encourages the IMF and the World Bank to enhance debt management capacity building in Low Income Countries.

17. We look forward to concluding the comprehensive compensations and benefits review (CCBR) that should be ambitious and as comprehensive as possible, establish a transparent and performance based remuneration system that ensures that the Fund remains able to attract and retain highly skilled staff. The CCBR should include all options for possible reform.