INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Valdis Dombrovskis
Vice President
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Statement of Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni to the International Monetary and Financial Committee on behalf of the European Commission

Washington, 16 April 2020

The coronavirus outbreak has evolved into a global pandemic; it is a human tragedy and a health crisis. The virus does not discriminate between people and it does not know borders. This historic crisis therefore requires a fast, massive and coordinated global response. Our first and common priority should be to deal with the COVID-19 pandemic, to limit its impact on people and the economy, to draw lessons for the future, and to prepare our strategies for recovery. The necessary health and safety policy measures being adopted to stem the spread of the virus and the change in behaviour in the general public required by these measures are disrupting the global economy. The global economic outlook remains very uncertain as the outbreak and spread of the coronavirus Covid-19 has triggered a collapse in oil and commodity prices and financial market turmoil. Although the health crisis is intrinsically of a transitory nature, it has pushed the global economy into recession.

The EU is determined to do whatever it takes to effectively address the healthcare crisis and the economic challenge caused by the spread of coronavirus and to restore confidence and support a rapid recovery. The European Commission and the EU Member States are working together to ensure that health systems have all the resources they need, both financially and in terms of material, that affected companies have all the liquidity they need, and that the jobs and incomes of affected workers as well as self-employed are protected.

The EU has, as immediate reaction, put together a set of forceful measures at national and EU level while setting a framework for further actions to respond to developments and to support the economic recovery. EU Member States as of 3 April have already decided initial fiscal measures of more than 3% of GDP for 2020 to support the economy, in addition to the impact of automatic stabilisers which are very sizable and should work fully. The Member States and the EU have, so far, committed to provide liquidity facilities of more than 16% of GDP, consisting of public guarantee schemes and deferred tax payments. These figures could become much larger going forward. The EU also agreed to activate the general escape clause of the Stability and Growth Pact, as it considers that a severe economic downturn is underway in the EU. This will allow a coordinated and differentiated fiscal response that, together with the support of monetary policy, will help to reduce the negative economic impact of the COVID-19 outbreak and will support the recovery when it is over. We also adopted a State Aid Temporary Framework to use the full flexibility foreseen under State aid rules to support the economy in the context of the COVID-19 outbreak. Furthermore, specific schemes and increased flexibility were set up to redirect all available structural funds to respond to the economic fallout of the COVID-19 outbreak.

Beyond measures directly targeted at addressing the healthcare crisis, measures at EU level include significant additional expenditure and liquidity mobilised from the EU budget and the European Investment Bank (EIB). The Eurogroup on 9 April agreed to three additional safety nets, for workers, businesses and public finances, which together add up to half a trillion of euros, and a plan for the recovery to ensure we grow together once the virus is behind us. Ministers agreed on the need to establish, for the duration of the emergency, a temporary loan-based instrument to protect employment, for up to EUR 100 billion in total, based on the proposal by the Commission for a temporary Support mitigating Unemployment Risks in Emergency (SURE). We will also use Commission and EIB Group instruments to enhance programmes for guaranteeing bank credits to SMEs and provide additional financing for SMEs and midcaps. The EIB Group will create a pan-European guarantee fund of EUR 25 billion, to support EUR 200 billion of financing for companies with a focus on SMEs. Ministers also proposed to establish a Pandemic Crisis Support, based on the existing Enhanced Conditions Credit Line (ECCL) of the European Stability Mechanism available to all euro area Member States during these times of crisis. Access granted will be 2% of the respective Member's GDP as of end 2019, as a benchmark. It was also agreed to work on a Recovery Fund to prepare and support the recovery, providing funding through the EU budget to programmes designed to kick-start the economy in line with European priorities and ensuring EU solidarity with the most affected member states. This complements the package of monetary and supervisory policy measures taken by the ECB in March, including the €750 billion Pandemic Emergency Purchase Programme (PEPP).

At present, we should ensure that trade and investment flows are not disrupted. We very much welcome the statement adopted by G20 Trade and Investment Ministers on 30 March. Maintaining open trade flows and avoiding the disruption of global value chains is crucial. Proportionality, time-limitation and transparency, via the WTO, of any necessary emergency measure affecting essential goods were among the actions proposed by the EU and should help to tackle the immediate COVID-19 crisis.

We look forward to an early G20 agreement on other actions proposed by the EU on tariff relief on COVID-19 related products and on export finance, as well as the removal, in line with WTO rules, of tariffs and other import restrictions introduced before the pandemic and a moratorium on new unilateral tariffs. More than ever, we have to deescalate the ongoing trade tensions that were weighing negatively on global economic growth and delineate trade policies that can sustain the economic recovery post-crisis. 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 restore the functioning of the WTO Appellate Body.

The COVID-19 crisis calls for a coordinated global response and multilateral solutions to support especially vulnerable countries. The EU will focus in its team Europe approach on (i) emergency response to the immediate health crisis, (ii) strengthen the partner countries' health systems and (iii) address the socio-economic consequences. We also welcome the available existing emergency financing facilities of the IMF including the Rapid Credit Facility and the Rapid Financing Instrument and the IMF Catastrophe Containment and Relief Trust to swiftly deliver the appropriate international financial assistance to emerging markets and developing countries to cope with the challenges, including liquidity and debt-relief measures.

Beyond the ongoing crisis response, we are working on all the necessary measures to help the economy recover and to go back to sustainable and inclusive growth once the coronavirus has receded. The crisis offers an opportunity to make a shift. Climate change is a global challenge requiring a coordinated global response. Its economic consequences are being felt and the cost of inaction is increasing, as is the risk of insufficient action. The European Green Deal and its Investment Plan, as well as the upcoming sustainable finance strategy can play an important role in accelerating the recovery from the negative economic shock caused by the current health emergency. We will need to act decisively and invest in innovation and research, redesign our economy, and update our industrial policy with the aim of putting Europe on a new path of sustainable and inclusive growth.

We need to give the highest priority to finding a global solution to the taxation of the digital economy. We look forward to an ambitious, fair, effective, and workable global solution and will redouble our efforts towards a consensus-based solution to deliver this global goal. Together with our international partners, we have to conclude this work by 2020.

Further progress in Economic and Monetary Union deepening in particular on the Banking Union, the Capital Markets Union, the European Stability Mechanism reform and a Budgetary Instrument for Convergence and Competitiveness can boost market confidence in the currently challenging economic environment.

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. This is particularly essential at a time of exceptional uncertainty and downside risks. We welcome the agreement to double the New Arrangement to Borrow (NAB) and invite all NAB participants to ratify the increase as soon as possible. EU Member States and National Central Banks that provided bilateral credit lines to the IMF are willing to participate in the new round of bilateral borrowing agreements, subject to the completion of domestic approval procedures. We expect similar assurances to be given by lenders outside of the EU.

The EU formulated its global response strategy on 8 April to support partner countries in the fight against the coronavirus pandemic in a "Team Europe" approach. The objective is to combine resources from the EU, its Member States and European financial institutions, in particular the EIB and the European Bank for Reconstruction and Development (EBRD).

As regards the IMF's work on the Comprehensive Surveillance Review, we believe that the Fund's definition of economic and social sustainability should in future also include climate change which should become part and parcel of Article IV reviews given that this issue has become macrocritical. As regards the IMF's work on the Financial Sector Assessment Program (FSAP), a closer integration of the findings and recommendations in the Article IV reports seems warranted. Euro area FSAPs on a regular basis and at the same frequency as for jurisdictions with systemically important financial sectors should parallel the arrangements for surveillance of euro area monetary and exchange rate policies based on the existing commitment by G20 members, including the EU, to seek such regular assessments.

We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries. We welcome a convergence of approaches between the European and IMF frameworks on debt sustainability to facilitate the establishment of a common diagnosis on debt sustainability.