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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

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Intensified trade tensions, elevated policy uncertainty and a weaker external environment are weighing on the EU growth outlook. The European economy is set to continue growing but at a slower than previously expected pace in the second half of 2019. Prospects for 2020 remain clouded, with the subpar development in the external environment expected to continue and the risk that the weakness in manufacturing might eventually spill over to the services sector and employment. Given the need to complement and enhance the effectiveness of monetary policy measures and for a more supportive policy mix in the current juncture, fiscal policy should be used in an effective and timely manner in countries with fiscal space. The policy mix should go hand in hand with structural reforms aiming at increasing the growth potential.

The EU remains strongly committed to an open and rules-based multilateral trading system, with the WTO at its centre, and has worked to show trade can be a win-win. At home, we are working to make trade more transparent, more inclusive and to spread its benefits more broadly. Abroad, we are pursuing an ambitious progressive trade agenda, promoting our values and standards globally and seeking a level playing-field. Today, Europeans benefit from free trade agreements with 72 countries. The current Commission has finalised agreements with 15 countries, including Canada and Japan. Our most recent achievement is a political agreement with Mercosur. Several other negotiations are ongoing.

Against this background, we are seriously concerned by the escalation of trade tensions between key partners. We need to handle those tensions collectively. It will be crucial to 1) level the playing field for trade and investment by addressing the market distortions that triggered the tensions, and 2) do this by means of rules-based solutions, because managed trade cannot be an option. This can be achieved through the necessary reform of the WTO, in accordance with the G20 Leaders' commitment from Osaka in June. In this regard, we have taken leadership in the ongoing reform efforts, working on proposals to modernise the three functions of the WTO (having already submitted, together with other trading partners, proposals on the monitoring and the dispute settlement functions). The European Commission further supports outcomes in other level playing field processes, such as the Global Forum on Steel Excess Capacity and the International Working Group on Export Credits.

Brexit also remains a major source of uncertainty, with a disorderly withdrawal (a "no deal" scenario) being one of the key negative risks to the outlook. Brexit is a lose-lose situation whether the UK leaves in an orderly or disorderly manner, but it is clear that a disorderly withdrawal would have the most disruptive impact on trade flows between the EU and the UK. As President Juncker has pointed out, a disorderly Brexit will never be the EU's choice.

According to the Commission 2019 Spring forecast, the aggregate fiscal stance of the euro area was set to become slightly expansionary in 2019, after four years of being broadly neutral. As a result, the European Commission had expected the aggregate headline deficit of the euro area to increase from 0.6% of GDP in 2018 to 0.8% in 2019 and, at unchanged policies, to remain broadly stable in 2020. The economic outlook has continued to deteriorate since, with downside risks intensifying and beginning to materialise. Fiscal policy should actively support monetary policy and the euro area fiscal stance should cater for the materialisation of both a modest rebound and a more negative outlook. An appropriate fiscal stance in the context of the present slowdown requires differentiated national policies, 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 should increase public investment to support growth and rebalancing. All Member States should focus on improving the quality and composition of public finances by shifting public resources towards investment and implementing further structural reforms to ensure sustainable and inclusive growth.

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. This affects consumers, workers, businesses, public finances and financial markets alike. That is why the incoming new Commission intends to set out a European Green Deal to help us becoming the world's first climate-neutral continent. This is our greatest challenge and opportunity. We will need to act decisively and invest in innovation and research, redesign our economy, and update our industrial policy.

Investment in the real economy also remains fundamental for growth. The European Fund for Strategic Investments is active in all Member States. By July 2019, it has triggered some EUR 433bn in investments. It has now been extended with the aim of mobilising at least EUR 500bn by 2020. The EU reached a preliminary agreement on a new InvestEU fund, which builds on its successful predecessor and aims to give further boost to investment, innovation and job creation in Europe. The European External Investment Plan in turn will promote investment abroad.

Structural reforms are crucial for long-term growth and to ensure that the Single Market in Europe can address the challenges of the digital economy, including digital transformation, automation and artificial intelligence. Our reform agenda encompasses investment in human capital, skills, and promoting market competition to encourage job creation. The proposed Budgetary Instrument for Convergence and Competitiveness will encourage reform ownership and resilience of the euro area economies to shocks.

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. We need to give the highest priority to finding global solutions to the taxation of the digital economy. We look forward to ambitious, fair, effective, and workable global solutions 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. We most strongly support the OECD advancing the work along the two-pillar approach and we look forward to the OECD final report in 2020.

While significant progress was achieved in deepening the Economic and Monetary Union (EMU) at the Euro Summit in June, the incomplete nature of EMU leads to sub-optimal macroeconomic outcomes that undermine the cohesion of the single currency area. Further progress in EMU deepening is needed.

First, we need to complete the Banking Union, including the European Deposit Insurance Scheme and a common fiscal backstop for the Single Resolution Fund, to make credible sources of funds available when necessary. Once completed, it should ensure a robust financial system and globally competitive EU banks. To complement it, the EU has made significant progress on Capital Markets Union (CMU), with all its individual actions delivered and agreements reached on almost all legislative proposals. CMU will improve access to capital markets, cross-border capital flows and asymmetric shocks absorption in the EMU. Second, a central fiscal capacity, a Budgetary Instrument for Convergence and Competitiveness and a European Unemployment Benefit Reinsurance Scheme, would help delivering stability, ensuring convergence between EU economies and protecting our citizens. Third, 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.

The Euro Summit also encouraged the Commission to continue focusing on the international role of the euro as a part of our broader commitment to an open, rules based multilateral system. Consultations with market participants showed broad support for increasing the role of the euro. Achieving this requires a comprehensive strategy with the completion of the EMU, the CMU and the Banking Union at the centre. Increasing the available pool of liquid euro denominated safe assets is also key to a more international use of the euro, together with developing financial infrastructures, payment systems and benchmarks.

The European Union fully 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 and we believe that an agreement on IMF resources is urgent. 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, while protecting the voices of the poorest members. EU Member States supported the extension of their 2016 bilateral borrowing agreements for another year to facilitate the passage of the renewal and increase of the NAB.

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 specific institutional arrangements and legal frameworks of the EMU and Banking Union. 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.

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. 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.

We welcome the IMF-World Bank Update on emerging debt vulnerabilities. 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 and welcome the completion of the related voluntary self-assessment. We support the work on collateralised sovereign debt and encourage the development of appropriate international guidance.

Finally, the European Commission strongly supports the ongoing work on the G20 Eminent Persons Group proposals on country platforms. This should include jointly agreed principles on country platforms to provide guidance on their design and implementation, with a number of common development standards, and selection of a few pilot platforms. Other proposals that could be pursued further include enhancing the effectiveness of the global financial safety net, improving global risk surveillance; and exploring how to better enable countries to benefit from openness to capital flows while managing risks to financial stability.