International Monetary and Financial Committee

Thirty-Seventh Meeting
April 20–21, 2018

Statement No. 37-13

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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

Washington, 20-21 April 2018

1. The robust recovery in the EU is set to continue. In the past few quarters, the EU and the euro area economies have continued to expand at above-potential growth rates. This growth momentum is set to continue in the near term. Thanks to further labour market improvements, consumption growth is continuing. Investment has grown more strongly than GDP in recent quarters. However, external downside risks to the economic outlook have increased. These are mainly related to a rise in protectionist measures.

2. Continuing the revival in world trade and investment is essential to restoring global growth. We consider it imperative to uphold the commitment to keep markets open, ensure a level playing field and stand together to fight against protectionism including all unfair practices. We share the objective of addressing non market-oriented policies and practices that lead to severe overcapacity and are ready to engage with all partners on these issues in all relevant international fora, whilst emphasising the need to refrain from unilateral actions.

3. The European Union remains strongly committed to an open and rules-based multilateral trading system, with a central role for the WTO, and will continue to pursue a progressive trade agenda, promoting its values and standards globally and seeking a level playing-field. The European Commission will soon submit the new economic partnership with Japan for signature and conclusion, alongside the free trade agreement concluded with Singapore. Agreements on ambitious trade deals with Mexico and South American countries should also follow this year.

4. We should shift the focus from stimulating the global economy to ensuring sustainable, balanced and inclusive growth in the long-term. To achieve this, we need to continue using all policy tools – monetary, fiscal and structural – while emphasising the need to rebuild fiscal buffers, improve the composition and quality of public finances to make them more growth-friendly and inclusive, and implement structural reforms. We are determined to address the challenges brought by globalisation and technological change to offer our citizens new opportunities and inclusive growth.

5. Digitalisation specifically also brought challenges for taxation. Fair taxation for everyone, including for the digital economy, is rightly demanded by our citizens. The EU proposals for the taxation of the digital economy which we presented in March are our contribution to finding a common consensus on this issue. We need to push forward with agreeing on a long-term approach to addressing the impact of the digitalisation of the economy on the international tax system.

6. Greece has entered the final stage of its European Stability Mechanism (ESM) programme. The focus is now on ensuring its successful completion. Several key elements are in place to support the successful exit of Greece from international financial assistance in August 2018 as planned. The third review of the ESM Programme was concluded in March and the fourth review has been launched. The IMF Board agreed in principle on a stand-by agreement based on shared conditionality. In addition, the Eurogroup reconfirmed in June 2017 that it stands ready to implement a second set of debt measures, to be calibrated upon an updated Debt Sustainability Analysis and to be implemented to the extent necessary, conditional upon

the successful implementation of the programme. In this context, technical work on a growth-adjustment mechanism is ongoing. The focus for the last stretch of the Greek ESM programme should now be on advancing with the reform agenda, adopting a holistic growth strategy, and concluding the fourth and final review in a timely manner. This will pave the way for successful completion of the programme and a return to full and sustained access to international markets.

7. In 2018, the aggregate fiscal stance of the euro area is set to remain broadly neutral for the fourth year in a row, following the significant fiscal consolidation that occurred between 2011 and 2014. The change in the fiscal stance in recent years has helped the economic recovery of the euro area, which has also benefited from highly accommodative monetary policy. Thanks to robust growth and lower interest expenditure, the aggregate headline deficit of the euro area is expected to have declined to 1.1% of GDP in 2017 (from 1.5% in 2016). We expect that the euro area headline deficit will decline to 0.9% of GDP in 2018. However, the European Commission's Opinions on the 2018 Draft Budgetary Plans highlighted the risk of non-compliance with the Stability and Growth Pact for some Member States.

- Looking forward, Member States with high public debts should take advantage of the improved economic conditions to rebuild fiscal buffers to preserve the long-term sustainability of their public finances.
- Those Member States over-achieving their fiscal objectives and with limited risk of overheating should use their fiscal space to support domestic demand and investments, including cross-border ones such as those that are part of the Investment Plan for Europe.

8. Boosting investments in the real economy remains fundamental to increase the growth momentum. The European Fund for Strategic Investments (EFSI), the centrepiece of the Investment Plan for Europe, is active in all Member States. It has already triggered over EUR 274 billion in investments. Given its success, the EFSI was extended with the aim of mobilising at least half a trillion euro of investments by 2020. We have also adopted other initiatives in the areas of the Single Market for goods and services, the Digital Single Market, and the Energy Union to remove concrete obstacles to investment. We established a European External Investment Plan to promote investment in Africa and the EU Neighbourhood.

9. Structural reforms are crucial to achieving long-term growth and ensuring that Europe's model which combines open, efficient and dynamic markets with fairness and social inclusion can address the new challenges. We have refocused our structural reform programme to pay more attention to welfare and the distributional consequences of reform. The new generation of structural reforms, which we call 'Structural Reforms 2.0', encompasses investment in education and skills, promoting competition and market entry to encourage new job creation as well as reaching security and flexibility in labour markets. On 13 March, the European Commission adopted a comprehensive social fairness package, recommending to extend social protection to all workers and self-employed. Our Structural Reform Support Programme providing technical support to the design, implementation and evaluation of reforms upon the request of the Member States has proved highly successful and is already providing support to 15 EU Member States on more than 150 projects.

10. The EU continues to work towards improving the architecture of the Economic and Monetary Union (EMU). While there have been important institutional reforms to strengthen Europe's EMU in recent years, its architecture remains incomplete. On 6 December 2017, the European Commission presented its roadmap and put forward some concrete proposals for tackling the remaining challenges for deepening EMU, such as insufficient risk-sharing, complex governance or greater economic convergence. The improved economic situation provides an opportunity to discuss the ways to tackle future crises. Work in the next few months

will focus on areas where the convergence of views is the greatest. Reflections will continue also on other ideas, which need more time to mature, and have a longer term perspective, including a common safe asset to reinforce financial integration and stability.

11. As part of our efforts to complete EMU, we must proceed further with completing the Banking Union, and making headway with Capital Markets Union. We are committed to put in place all building blocks of the Capital Markets Union by mid-2019. Importantly, to guarantee the credibility of the Banking Union, we must without delay take a decision on the fiscal backstop for the Single Resolution Fund and on putting in place a European Deposit Insurance Scheme. The package of measures to tackle non-performing loans in Europe that we published on 14 March 2018 complements our work on the Capital Markets Union and is an essential step towards the completion of the Banking Union.

12. We consider it important to confirm our strong support for the current system of multilateral economic institutions. We support the commitment by the IMFC to a strong, quota-based, and adequately resourced IMF at the centre of the global financial safety net. Whilst strengthening regional financing arrangements is useful, that cannot replace the IMF as the institution in charge of global financial stability. We recall that many EU Member States have contributed significantly to Fund resources, by renewing the New Arrangements to Borrow (NAB) and by granting new temporary bilateral borrowing arrangements.

13. Regarding the recent decision on IMF programme design in currency unions, we underline the importance of a flexible case-by-case approach, taking into account differences in the currency unions' legal, institutional and policy frameworks while respecting the principle of even-handedness. We look forward to the review on the Conditionality and Design for Fund supported programs.

14. We welcome the progress made by the IMF to further strengthen its surveillance, as set out in the Interim Surveillance Review, especially on the deeper understanding of global interconnectedness, risk work, fiscal and external sector analysis and the integration of macrofinancial analysis into surveillance. We encourage the Fund to work further in particular on the items where progress has been less prominent such as financial sector vulnerabilities and the assessment of outward spillovers. We believe that further work should be done to integrate insights from financial, multilateral and regional surveillance exercises into national surveillance to ensure consistency (in particular recommendations from Financial Sector Assessment Programs, World Economic Outlook, Global Financial Stability Report, External Sector Report and Euro Area Policies Article IV into national Article IV reports).

15. We take note of the IMF's initiative to review and enrich its debt sustainability (DSA) framework. The European Commission has developed a comprehensive framework for assessing fiscal sustainability in recent years and stands ready to exchange its experience regarding the method. We underline the importance of a framework with sufficient room for discretion. Any assessment should be made on a case-by-case basis.

16. We underline the importance of debt transparency. With rising debt levels in low income countries in recent years, debt sustainability risks need to be managed carefully. All actors should commit to use the IMF-World Bank Debt Sustainability Analyses and respect the debt limits fixed by the IMF Debt Limit Policy and the World Bank Non-Concessional Borrowing Policy.