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IMFC Statement by Peter Kažimír
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Peter Kažimír in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting, Washington, 7-9 October, 2016

1. I submit, in my capacity as Chairman of the EU Council of Economic and Finance Ministers, this statement which focuses on the global economy, in particular the outlook and policy challenges, and on IMF policy issues.

I. Economic situation and outlook

2. The EU economy is in the fourth year of its recovery and is expected to continue growing at a modest pace over the forecast horizon 2016-2017. Following a strong first quarter 2016, growth slowed down in the second quarter. Looking ahead, domestic demand should continue to benefit, although with a diminishing strength, from still relatively low oil prices, as well as a very accommodative monetary policy and ongoing job creation. The result of the United Kingdom's referendum on EU membership appears to have had only a mild macroeconomic impact so far. The ultimate impact of the Brexit vote is very unclear as the new regime of institutional and trade arrangements between the UK and the EU at the end of the exit negotiations is uncertain. The improvement in labour market conditions has continued with unemployment rates falling to their lowest levels since 2009 in the EU, and since 2011 in the euro area. The results of the EU-wide stress test demonstrate that the EU banking sector has considerably strengthened over recent years. We will continue to address potential vulnerabilities in the EU's banking sector.

3. The monetary policy stance of the European Central Bank remained accommodative, focusing on the implementation of the policy packages introduced in December 2015 and March 2016, with the objective to ensure the return of inflation rates towards levels that are below, but close to, 2%. At the same time, the ECB signalled that – if warranted – it stands ready to act by using all the instruments available within its mandate. The ECB's accommodative monetary policy has played an important role in supporting economic activity as reflected in the pick-up in lending to the private sector.

4. In August 2015 a loan agreement was signed between the Hellenic Republic and the European Stability Mechanism (ESM) with a financial assistance facility covering an amount of up to EUR 86 billion over three years (2015-2018). The decision in June to disburse EUR 7.5 billion to Greece under the first review of the ESM programme recognizes the Greek government's commitment to carry out essential reforms. The second review is to take place during the second half of October. Greece's growth strategy will also be on the agenda. The 24 May 2016 Eurogroup reached an agreement on a set of debt measures over the short, the medium and the long-term horizons. Short-term measures are currently being taken forward by the ESM and will be implemented after the closure of the first review up to the end of the programme.

Policy challenges

5. The EU authorities are determined to implement the three main pillars of our economic policy strategy:

- A renewed commitment to structural reforms. The current, moderate economic recovery should facilitate the implementation of structural reforms. EU Member States have stepped up reform efforts during the crisis, especially in countries under programs or enhanced surveillance. While progress on structural reforms aiming at regaining price competitiveness has been encouraging so far, there is a clear need to move beyond that. Reform efforts should focus on increasing productivity, employment and improving conditions for business investment. To increase productivity in the EU, reforms in a broad spectrum of areas are needed, in particular investing more in knowledge-based capital and taking greater advantage of the latest technological innovations. Reform efforts need to be stepped up especially in the euro area with a more thorough implementation of the country-specific recommendations on structural reforms. This is particularly important to enhance the good functioning of the currency union and to improve the functioning of the European single market. At EU level, a series of concrete proposals have been launched, notably to develop a Capital Markets Union, to further deepen the Single Market for goods and services, to create a Digital Single Market, and to improve the Single Market in transport and energy.

- Re-launching investment. So far, the projects approved by the European Investment Bank Group for financing under the European Fund for Strategic Investments (EFSI) are expected to mobilise EUR 115.7 billion in total investments across participating Member States and to support some 200,000 SMEs. Further investment projects are in the pipeline and we will further increase that figure to reach our target of mobilising at least €315bn of additional investments. Given its success, the Commission tabled a legislative proposal to extend the duration of the EFSI from mid-2018 to end-2020. In June 2016, the European Council confirmed the intention to examine this proposal as a matter of urgency. We have also stepped up advisory support for project structuring via the European Investment Advisory Hub and have launched the new European Investment Project Portal on investment opportunities. A key part of the third pillar of the Investment Plan for Europe is to implement effective measures to remove barriers to investment. We are also making progress on the Capital Markets Union initiative launched in 2015 to establish an integrated EU capital market. Capital charges have been lowered to encourage insurers to invest in infrastructure and long-term investment funds. Legislative proposals to revive securitisation markets, to facilitate capital raising on public markets and to amend EU legislation for venture capital are under discussion by the EU co-legislators.
- Pursuing fiscal policies responsibly. The EU fiscal strategy aims at ensuring the long-term sustainability of public finances while supporting the economic recovery in line with European fiscal rules. Continuing the improvement observed since 2011, only 6 of the EU's 28 member states remain subject to the excessive deficit procedure. The fiscal policy stance in the EU is expected to be slightly expansionary in 2016 and to revert to broadly neutral, in 2017. At the same time, the general government deficit in the EU is expected to decrease to 2.1% of GDP in 2016 and 1.8% next year, and the debt ratio is forecast to continue declining gradually to 86.4% of GDP in 2016 and reaching 85.5% next year. Member States should continue to implement their fiscal policies in line with the Stability and Growth Pact (SGP), while making the best use of the flexibility in the existing rules and ensuring long term sustainability of public finances. The fiscal effort should be differentiated by individual Member States in full compliance with the requirements under the SGP, while considering stabilisation and sustainability needs; as well as taking into account possible spillovers across the Member States, including for the euro area as a whole. More attention should be paid to the quality and composition of fiscal adjustment and the influence of fiscal policy on growth, by improving expenditure efficiency and prioritising productive investment, including in human capital, shifting towards a taxation system that is more efficient and supportive of growth, and to the need to address tax fraud and tax evasion and reduce aggressive tax planning.

6. The EU Member States continue to work towards deepening the Single Market and strengthening the Economic and Monetary Union (EMU) in order to foster policies for growth, stability, competitiveness and convergence. We have agreed on a roadmap to complete the Banking Union which sets out priorities and milestones for the coming years, in terms of reducing and sharing risks in the financial sector, in order to address a number of remaining

challenges. Many EU member states are now setting up National Productivity Boards, which will foster implementation of structural reforms and hence support growth and convergence. The European Commission established a European Fiscal Board to contribute in an advisory capacity to the exercise of the Commission's functions in the multilateral fiscal surveillance. Further long term proposals towards a complete EMU will be presented by the Commission in spring 2017.

II. IMF Policy Issues

Governance and Resources

7. We support an IMF fully equipped to fulfil its responsibilities in these uncertain financial and economic times. EU Member States support the commitment by the IMFC to maintain a strong, adequately resourced and quota based IMF. We welcome the proposed new framework for maintaining access to temporary bilateral borrowing which is a third line of defence after quota and New Arrangements to Borrow (NAB) resources. It will strengthen the role of creditors in the activation of the borrowing agreements building on the 2012 borrowing framework with enhanced governance. EU Member States confirm their willingness to consider contributing to a new round of borrowing, subject to the consent of national competent authorities and parliamentary approval where applicable, with the objective of providing the same level of resources as in 2012 amounting to EUR 180 billion. A number of EU Member States will already be able to provide firm commitments by the 2016 Annual Meetings. Contributions by EU Member States or their central banks will be based on broad participation and fair burden sharing among IMF members. We expect similar assurances by lenders outside of the EU. Voluntary financial contributions should be recognized in the upcoming quota and governance discussions, and some form of compensation is warranted.

8. We are working towards the completion of the 15th General Review of Quotas, including a possible revised new quota formula. The results of the most recent quota database update underline clearly that the current quota formula captures dynamic developments in the world economy. EU Member States remain committed to constructive discussions on the 15th Review and the quota formula, which should continue to be treated as an integrated package and be fully anchored in the relevant IMF bodies. The main variables of the quota formula should remain both, GDP and openness which best capture the role and mandate of the IMF. In particular, openness captures the stake countries have in the global economy, in line with the IMF mandate to promote cooperation and facilitate international trade and with its increased focus on spillovers. Advanced European countries reaffirm their commitment to reduce their Board representation by two chairs. Actions taken so far have effectively led to greater Board representation of emerging market and transition countries.

Strengthening the international financial architecture

9. Member States look forward to the IMF’s follow up work on possible areas of reform of the International Financial Architecture (IFA). We recall in this respect that many steps have already been taken in recent years to strengthen the IFA including with regard to the Fund's surveillance, monitoring of capital flows and lending toolkits. At the same time, there is scope to strengthen the system further.

10. We consider that a strong global financial safety net – with an adequately resourced IMF at its centre – is important for safeguarding stability and helping reap the benefits of further financial integration. In our view, the first priority should continue to be effective crisis

prevention at the national level through adequate macroeconomic and financial policies, including structural reforms, coupled with effective macroeconomic and macro-prudential surveillance that takes into account the different spillover risks and channels. This underscores the importance of IMF surveillance for crisis prevention and peer review. At the same time, more effort is needed to enhance the monitoring of capital flows and timely identification of risks at the global level. We look forward to the final report by the IMF on recent country experiences in managing capital flows, and welcome plans to bring together the work on capital flow management and macro-prudential policies to inform financial and macroeconomic risk management.

11. As regards the ongoing IMF work to improve the IMF lending toolkit as part of the strengthening of the international financial architecture, EU Member States stress that a thorough assessment of in the current toolkit is warranted. On this basis, we are open to discuss forthcoming proposals on reforming the Fund's lending toolkit. Taking into account the different needs of low income countries, we look forward to the staff paper regarding further considerations on the financial safety net for developing countries.

12. We support efforts to ensure that the different layers of the global financial safety net operate together effectively. In particular, we see scope for the IMF to foster cooperation with regional financing arrangements also outside of crisis episodes, while taking into account their respective set-up and mandates. In this context, we welcome the forthcoming test run between the IMF and the largest Asian financing arrangement, the Chiang Mai Initiative Multilateralization (CMIM). The Independent Evaluation Office's assessment of the IMF's engagement in financing arrangements for euro area countries will help to understand the Fund's contribution in managing the recent economic and financial crisis which was of systemic nature. We take note of staff's intention to develop principles of engagement and cooperation with regional financing arrangements. We stress that if new principles should be discussed, due account would need to be taken of the respective mandates and policies of all the institutions involved, their own areas of responsibility and their institutional arrangements, including the respective regional frameworks and the legal and regulatory obligations attached to them. Regarding the recommendation that the Fund should clarify how guidelines on program design apply to currency union members we consider that the institutional specificities of the euro area monetary union need to be respected.

13. We consider the IMF as the primary forum at the international level to discuss sovereign debt issues and we reaffirm the role of the Paris Club as the principal international forum for restructuring official bilateral debt. We call upon the IMF, in consultation with other relevant parties, to continue to promote and monitor the progress on the implementation of the strengthened collective action clauses and pari passu provisions, and to further explore market-based ways to speed up their incorporation into the outstanding stock of debt. We look forward to the final component of the four-pronged work program on sovereign debt crisis resolution endorsed by the IMF's Executive Board in 2013, which intends to discuss, inter alia, issues related to debtor-creditor engagement including the IMF's lending into arrears policy for private creditors.

14. EU Member States welcome the inclusion of the Chinese renminbi (RMB) in the basket of currencies determining the value of the Special Drawing Right effective October 1, 2016. We look forward to the forthcoming Board paper with initial considerations on the potential contribution of Special Drawing Rights to strengthening the international monetary system.