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IMFC Statement by Pierre Moscovici
Commissioner, European Commission

Statement of Commissioner Pierre Moscovici to the International Monetary and Financial Committee on behalf of the European Commission

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Economic outlook

Growth in the EU is firming, helped by positive impulses from the fall in the oil price, euro depreciation, monetary accommodation and the Investment Plan for Europe. These tailwinds are expected to support an acceleration of GDP from 1.3% in 2014 to 1.7% this year and 2.1% in 2016 (euro area: 0.9%, 1.3% and 1.9% respectively), and should limit the risk of entering a period of very low growth or stagnation. Inflation in the EU has continued to decelerate over the last months, turning temporarily negative. However, underlying inflationary pressures, as reflected in measures of core inflation, have remained relatively stable. Looking ahead, the European Commission expects inflation in the EU to remain low for some time and to increase slowly over 2015, supported by a lower euro exchange rate and a gradual strengthening of economic activity. The unemployment rate is set to fall to 9.8% in the EU and 11.2% in the euro area in 2015.

The growth agenda

Europe is taking its responsibility to promote growth. In the EU, structural, fiscal and monetary policies are combined in an integrated, growth-friendly approach to tackle the growth challenge effectively and act both on the demand and supply sides of the economies. The three main pillars of the economic policy strategy for 2015 are: (i) a coordinated boost to investment, by improving the investment environment and moving ahead with the new Investment Plan for Europe; (ii) a renewed commitment to structural reforms; (iii) ensuring fiscal responsibility, by pursuing differentiated growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances.

The European Commission's Investment Plan for Europe was endorsed by European Heads of State and Government on 18 December 2014, and the new European Fund for Strategic Investments is on schedule to become operational in mid-2015. The Investment Plan for Europe consists of three components: (1) mobilising investment finance through targeted support to viable projects; (2) enhancing technical assistance to public and private promoters as well as identifying projects and enhancing transparency about project pipelines across the EU in key areas such as transport, energy and social infrastructure, the digital economy and the environment; and (3) removing sector-specific and other financial and non-financial barriers to investment. These three prongs are complementary and designed to remove bottlenecks to investment and expand the number of viable investment projects coming to market. On 18 February 2015, as part of the Investment Plan, the European Commission launched its project to develop a Capital Markets Union (CMU) with a view to ensure the free flow of capital across the EU economy, contributing to diversifying and reinforcing the funding of enterprises, and in particular small and medium-sized enterprises. CMU aims to foster a more diversified financial system complementing bank-financing with deep and developed capital markets. It is built on the firm foundations of financial stability created by the Banking Union and the financial reforms of the last five years.

Structural reforms, both in labour and product markets, have to play a key role in the current context to foster investment, employment and growth potential. There are clear signs showing that structural reforms are starting to bear fruit, particularly in those EU Member States where significant reform efforts have been made in recent years. EU economies also continue to make progress in correcting their external and internal imbalances, in particular in relation to current account deficits, competitiveness, and balance sheet repair in all sectors, thus contributing to the rebalancing in the EU and within the euro area. In some of the most vulnerable EU Member States which had large deficits a few years ago, current account positions have improved to a range stretching from small deficits to large surpluses. The stock imbalances of external liabilities, however, remain large in a number of Member States. This requires them to aim at sound current account balances, notably in light of an economic outlook characterised by subdued inflation. In terms of policy action at EU level, further deepening the Single Market remains high on the agenda in order to help the EU economies modernise and become more competitive as well as more attractive for investors. Among the priorities of its 2015 Work Programme, the European Commission is committed to propose measures to deepen the Single Market for goods and services, to develop a truly connected Digital Single Market, and to make the most of the Single Market in energy and transport.

The aggregate fiscal picture for the EU is now considerably more favourable than for other major economies. The large consolidation efforts implemented in difficult economic conditions are bearing fruit, with the headline deficit for the EU as a whole in 2014 expected to stand just below the 3% of GDP threshold for the first time since 2008. It is expected to decline further in 2015, in the context of a more favourable macroeconomic environment. However, considering the elevated debt levels, debt reduction efforts should continue in the near future, as sound public finances are a prerequisite for long-term sustainable growth. In this respect, the European Commission's 2015 winter forecast shows that the reduction of deficits is set to continue, although the pace of fiscal consolidation is expected to slow to virtually zero in 2015. In the context of still negative but narrowing output gaps, this would amount to a broadly neutral fiscal stance. This appears appropriate, as it strikes a balance between sustainability requirements (given high debt levels) and cyclical stabilisation concerns (given low growth, low inflation, and the constraints that monetary policy faces). We also recognise that countries are at different points in their adjustment paths and have different fiscal structures. For these reasons, we advocate a differentiated consolidation pace and we stress the importance of a growth-friendly composition of consolidation that prioritises investment. Substantial progress has been achieved in making use of the flexibility built in the Stability and Growth Pact, and in refining the methodology to measure fiscal effort and the structural indicators. The European Commission in January 2015 presented detailed guidance on how it will apply the existing rules of the Stability and Growth Pact to strengthen the link between structural reforms, investment and fiscal responsibility in support of jobs and growth. The Stability and Growth Pact provides flexibility to ensure that fiscal targets reflect economic conditions. This flexibility allows for stimulating growth in a fiscally responsible manner, by better accounting for investment expenditure, the cost of needed structural reforms, and cyclical conditions.

IMF Issues

The International Monetary Fund is a key pillar of the international monetary system. It is important that we continue our efforts to ensure the Fund's capability to address the challenges of today's international monetary and financial system. We need to support its capacity to foster global growth and financial stability. For us, a strong IMF is needed to fulfil its main tasks of crisis prevention and crisis resolution.

Surveillance is key in crisis prevention. In order to maintain stability and prevent crises, the Fund's surveillance of national, regional and global economic and financial developments needs to be further strengthened. The 2014 Triennial Surveillance Review (TSR) was a good opportunity to take stock of the progress made in Fund surveillance in recent years and we are looking forward to receiving updates on the implementation of the recommendations. We would like to underline that IMF country surveillance should take due account of the degree of interconnectedness of IMF members participating in deeper forms of economic union or in monetary unions. It is key that Fund surveillance and advice fully reflect the specific policy-making frameworks and respective competences at the EU Member State, euro area and EU levels with a view to providing more consistent and effective surveillance. Continued close cooperation between the IMF and the European authorities will help ensure the high quality of policy advice.

The European Commission welcomes that the IMF in response to the global economic crisis strengthened its lending capacity and approved a major overhaul of the mechanisms for providing financial support. In the context of staff's upcoming analysis for proposals to modify the Fund's lending framework, we stress that any policy response should aim at strengthening the existing exceptional lending framework, with assessments continuing to be made on a case-by-case basis. We consider that the Fund should continue to be in a position to address systemic balance of payments crises, especially in the presence of contagion risks, in line with its mandate. We also look forward to future work by the IMF on official sector involvement and the lending into arrears policy. Against the background of ongoing IMF efforts to strengthen the contractual framework to address collective action problems, we consider the IMF as the primary forum to discuss sovereign debt restructuring issues.

Our priority continues to be for all IMF members to ratify the 2010 Quota and Governance Reform as soon as possible. All 28 EU Member States have already fully ratified. We encourage all IMF member countries that have not yet ratified to do so expeditiously. In view of the weak global recovery, and the vulnerabilities we see across the global recovery, a strong and adequately resourced IMF is of utmost importance for the global economy. We therefore strongly support the commitment in April 2014 by the IMFC and G20 Finance Ministers and Central Bank Governors to maintain a strong and adequately resourced IMF.

The implementation of the IMF 2010 Quota and Governance Reform is key to the Fund's legitimacy and will result in a governance structure that better reflects the realities of the world economy. The EU is open to discussing all options for next steps on quota and governance reform, provided there is a broad consensus for such measures amongst the IMF membership. However, this can only be regarded as an interim measure pending the full entry into effect of the 2010 Quota and Governance Reform. Furthermore, any approach to enhance representation and voice needs to be combined with steps to ensure that the Fund remains adequately resourced in case of potential needs. We are open to considering any further proposals.

We also support the agreement laid down in the report by the Executive Board to the Board of Governors to complete the 15th General Review of Quotas by December 15, 2015. The quota formula and the 15th Review of Quotas should continue to be treated as an integrated package.