International Monetary and Financial Committee

Thirty-First Meeting
April 18, 2015

IMFC Statement by Jānis Reirs
Chairman
EU Council of Economic and Finance Ministers

Brussels, April 2015

Statement by Minister of Finance, Jānis Reirs in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, D.C., 17-19 April, 2015

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. EU Member States welcome the election of Agustín Carstens, Governor of Banco de México, as new Chairman of the IMFC and extend him our best wishes and support.

I. ECONOMIC SITUATION AND OUTLOOK

2. Global growth and world trade are firming up, but remain uneven across regions. Despite differences across Member States, real GDP growth in the EU in the fourth quarter of 2014 came out slightly above expectations, suggesting that the underlying growth momentum is gaining pace. This partly reflects stronger than expected growth in some large Member States and, notably, higher domestic demand driving a more self-sustained recovery phase. Unemployment rates have fallen gradually since mid-2013 but remain high historically and vary considerably across Member States. Inflation in the euro area is expected to remain low or negative over the coming months given the recent very sharp fall in oil prices before increasing gradually from late 2015 onwards.

3. The EU and euro area economic recovery is expected to strengthen and broaden going forward. First, the fall in oil prices, which is largely supply driven, contributes to an increase in households' real disposable income and corporate profitability. Second, domestic demand will further benefit from the accommodative monetary policy stance – including the expanded Asset Purchase Program – which should lead to improvements in financial conditions as well as easing of credit supply conditions. Third, in the short term, economic activity is expected to be supported by the gradual strengthening of external demand and the depreciation of the euro. Finally, the European Commission presented its Investment Plan for Europe.

4. The ECB Governing Council launched an expanded asset purchase programme effective from 9 March 2015, extending also the purchase programmes for asset-backed securities and covered bonds that had been launched earlier. Under this expanded programme, the combined monthly purchases of public and private sector securities will amount to €60 billion. They are intended to be carried out until end-September 2016 and will in any case be conducted until a sustained adjustment in the path of inflation consistent with the aim of achieving inflation rates below, but close to, 2% over the medium term is seen.

5. In Ukraine, the EU is delivering on its pledge to provide strong economic and financial support to help stabilise the situation, assist with the transition and encourage political and economic reform. Until the end of March 2015, the European Commission, on behalf of the EU, disbursed a total of EUR 1.36 billion of macro-financial assistance to Ukraine. Disbursement of another tranche worth EUR 0.25 billion was decided end-March and will take place this month, thus bringing the total amount of EU macro-financial assistance to Ukraine to EUR 1.61 billion since 2014. Moreover, the European Parliament and the Council have now adopted a new decision providing macro-financial assistance to Ukraine of up to EUR 1.8 billion in loans, which could be disbursed this year and in early 2016. This, by far, makes our financial support to Ukraine the largest assistance package we ever made available to a non-EU country and we will continue to support Ukraine's reform process. We welcome the progress achieved by the Ukrainian authorities in the implementation of its IMF

programme and the Fund's decision to offer an extended financial assistance programme to Ukraine. At the same time, we urge the authorities to retain their reform commitment notwithstanding the difficult geopolitical situation and continue to introduce measures for improving governance and transparency.

Policy challenges

6. Europe is building a sounder foundation for growth and employment through an integrated approach and acting both on the demand and supply sides of our economies:

- A renewed commitment to structural reforms. Implementing and stepping up the momentum of structural reform at national level is of particular importance. Despite some encouraging signs showing that structural reforms are starting to bear fruit, particularly in the EU Member States where significant reform efforts have been produced during the last years, a renewed commitment to structural reforms is needed. 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. The Ecofin Council on 17 February 2015 agreed on the broad economic policy priority areas for 2015. It stressed the need to focus on a number of key reforms areas including making labour market more dynamic, ensuring adequacy of pension reforms, modernising social protection systems, improving competition in product and services markets, improving framework conditions for the business environment, improving the quality of education and of research and innovation investment and improving the efficiency in public administration. At EU level, further deepening the Single Market remains high on the agenda, helping the EU economies to modernise and become more competitive, as well as more attractive for investors. Priorities include removing remaining regulatory and non-regulatory barriers across sectors such as energy, transport, the digital area, and the Single Market for goods and in particular services.
- Improving the investment environment and boosting investment. Fostering investment is a top priority for the EU, as investments levels have fallen significantly from their 2007 peak and remain below their historical norm. As in many G20 partner countries, Europe faces many investment needs and long-term investment is a critical source of future growth. The challenge is to put in particular private savings and financial liquidity to productive use in order to support sustainable jobs and growth. In the EU, work on the Investment Plan for Europe to boost jobs, growth and competitiveness that the European Council endorsed on 18 December is progressing on schedule. This includes setting up a European Fund for Strategic Investments (EFSI) to mobilise 315 billion euro of public and private investment in long-term investment over the period 2015-2017 mostly in support of infrastructure projects, small and medium-sized enterprises (SMEs) and mid-cap companies. In addition, targeted initiatives to support project pipeline preparation and provide technical assistance will help ensure that investment reaches the real economy. Measures removing barriers to investment and providing greater regulatory predictability will make Europe more attractive and will be key to delivering the impact of the Plan. As part of this Plan, the European Commission on 18 February 2015 launched its project to develop a Capital Markets Union (CMU) with a view to ensure a free flow of capital across the EU economy contributing to diversifying and reinforcing the funding of enterprises, notably SMEs. This will be a priority in channelling more funds towards innovative, productivity-boosting projects, and reducing fragmentation by developing a single rule book for securities markets and thus consolidating the single market.
- Pursuing differentiated growth-friendly fiscal consolidation and ensuring long-term sustainability of public finances. The EU pursues a differentiated and growth-friendly

fiscal consolidation, delivered through the framework of fiscal rules that is focussed on headline (nominal) as well as structural balances and the debt ratio. The large consolidation efforts undertaken by EU Member States over the last couple of years have led to visible results, although many Member States still face significant consolidation challenges in order to reduce high debt ratios. Based on the Commission's winter forecast, the EU fiscal stance for 2015 is expected to be broadly neutral, while aggregate debt ratios are projected to stabilise at around 88% of GDP this year and to start to decline slightly in 2016. This reflects a balance between sustainability requirements and current weak cyclical conditions. At the same time, individual budgetary plans show an uneven distribution, with several Member States at risk of not meeting their current obligations under the Stability and Growth Pact, while others are still set to outperform their medium-term budgetary objectives. On 13 January 2015, the Commission presented a Communication in which it gives its interpretation of taking structural reforms, investment and the economic cycle into account within the existing rules of the Stability and Growth Pact.

7. The Europe 2020 strategy sets out a long-term vision for the EU's growth model and social market economy over this decade, based on smart, sustainable and inclusive growth. It contains five headline goals on employment, education, social inclusion, innovation and climate/energy. After five years of implementing the strategy, we can draw lessons of the implementation of the strategy and on that basis, identify how to make it more effective in delivering growth and jobs in the EU. The mid-term review of the Europe 2020 Strategy which is due in 2015 represents an opportunity to further focus policy objectives and instruments on growth and employment, especially through investment and structural reforms necessary for ensuring job-rich, sustainable and inclusive growth.

8. Consistent implementation in the field of financial regulation continues to remain a key priority for all G20 members so as to ensure a global level playing field and in order to avoid regulatory arbitrage, legal uncertainty and inconsistent cross-border regulatory regimes. The EU has largely completed the implementation of the main G20 commitments. The EU has developed a Single Rulebook for all banks in the EU, and in line with commitments to develop a more integrated financial architecture, we have created a Single Supervisory Mechanism and established a Single Resolution Mechanism for the euro area and other Member States who choose to participate. The EU stresses the importance of a structured international cooperation in financial regulatory areas, in particular for the resolution of cross border institutions and market infrastructures. Cross-border cooperation should rely on mechanisms for regulatory jurisdictions to defer to one another when justified by the quality of their respective regimes. We remain committed to working with our international partners to achieve this. As regards the too-big-to-fail problem, adequacy of loss-absorbing capacity of G-SIBs in resolution will be the main issue to be addressed this year, as a final version of the TLAC proposal should be submitted to the G20 by the 2015 summit. Taking into account the progress in the framework for global systemically important banks and further advancing on the one for global systemically important insurers, the finalisation of the methodology for identifying systemically important non-bank-non-insurance sector financial institutions is fundamental to design the policy tools to be applied in this specific segment. The implementation of the agreed G20 Shadow Banking roadmap is essential for addressing risks from market-based finance. We also strongly support future work to tackle misconduct in the financial sector and we welcome the G20 agreement to work on facilitating long-term financing from institutional investors and to encourage market sources of finance, including simple and transparent securitisation.

9. We strongly support the work on international tax evasion and avoidance carried out by the OECD and the G20, in particular, the new global standard for the automatic exchange of financial account information in tax matters. We welcome the decisive progress being made in this respect in the EU on the legislative framework in view of the implementation of the standard from 2017 and on the EU commitment to improving information exchange, in particular the adoption of a tax transparency package on 18 March 2015 by the EU Commission, which includes a legal proposal on the automatic exchange of information on cross-border tax rulings. We also need to continue actively working on all BEPS actions to reach a timely completion of the second set of deliverables due in 2015. Strong political leadership is required across all areas.

II. IMF POLICY ISSUES

Governance and Resources

10. The implementation of the 2010 Quota and Governance Reforms remains our highest priority. All EU Member States have already fully ratified the 2010 Quota and Governance Reform. The EU encourages members which have not yet ratified the 2010 reforms to do so expeditiously. In line with the agreement by the IMFC in April 2014, the IMF has initiated a discussion on options for next steps. EU Member States are open to discussing these options provided there is a broad consensus for such measures amongst the IMF membership. EU Member States emphasize that any options considered for next steps should not constitute or be seen in any way as a substitute for the 2010 Reforms but rather interim steps to make progress towards them. Any interim agreement should be agreed as a package. It is also of utmost importance that an agreement on such interim solution is fully anchored in the relevant IMF bodies, where all IMF members are represented.

11. The EU strongly supports that the IMFC in October 2014 and G20 Leaders in Brisbane underlined their commitment to maintain a strong and adequately resourced IMF. It is crucial that the Fund remains a quota-based institution. We are deeply disappointed with the continued delay in progressing the IMF quota and governance reforms agreed to in 2010 and note that the Fund's resource structure will therefore have to continue to rely on temporary borrowed resources as a supplement to quota resources in case of need. Against this background, EU Member States consider that any approaches to enhance representation and voice need to be combined with concrete steps to ensure that the Fund remains adequately resourced.

12. EU Member States reconfirm that they also remain committed to constructive discussions on the quota formula and the 15th General Review of Quotas. We support the Board of Governors' call for the completion of the Fifteenth Review by December 15, 2015. EU Member States consider that it is most important that discussions on the quota formula and the 15th review continue to be treated as an integrated package, as also reiterated in the respective January 2015 report of the Executive Board to the Board of Governors. The July 2014 quota database update once again confirmed that the current quota formula captures dynamic developments in the world economy and can deliver on the aim of increasing the Fund's representativeness thus further enhancing its legitimacy. The four principles which underpinned the 2008 reform of the quota formula continue to provide the appropriate basis for the current review. In particular, EU Member States believe that it is important that the formula seeks to capture the multiple roles of quotas. The main variables of the quota formula should remain both GDP and openness which best capture the role and mandate of the IMF.

13. Advanced European countries reaffirm their commitment to reduce their Executive Board representation by two chairs as part of the 2010 Reforms. Actions taken so far have

effectively led to a significant reduction of advanced European representation in the IMF Executive Board. EU Member States are working on the commitment to reduce the Executive Board representation of advanced European countries by two chairs to become effective by the time of the first regular election of the Executive Board after implementation of the 2010 quota reform.

Strengthening the international monetary system

14. EU Member States look forward to the IMF's planned work on the challenges facing the International Monetary System and the development of a roadmap for further reforms. These include developing policies to deal with spillovers stemming from heightened currency and capital flow volatility, enhancing the efficacy of the global financial safety net, and ensuring adequate provision of market liquidity.

Surveillance

15. Crisis prevention through surveillance is a core task of the Fund. We welcome the significant improvements in Fund surveillance that have taken place in recent years. In this context, we look forward to the Progress Report on implementing the 2014 Triennial Surveillance Review (TSR) that should focus on the key priorities of strengthening external sector assessments and better integrating the analysis of risks and spillovers as well as on appropriate policies to ensure domestic stability; widening the macro-financial surveillance; continuing to integrate bilateral and multilateral surveillance; and providing policy advice on macro-critical structural reforms; and all this within the broader strategic framework of the FY2016 budget. We also look forward to the forthcoming staff paper on balance sheets in surveillance. Effective surveillance, in particular of balance sheets, requires better data and the EU Member States call on the IMF to work closely with the G20 to accelerate progress on closing data gaps. EU Member States call on all IMF members with overdue Article IV consultations to fully cooperate with the IMF in line with their membership obligations. It will also be important that Fund surveillance and advice fully reflects the specific policy-making frameworks at EU Member States, euro area and European Union levels.

Fund's lending framework and special drawing rights

16. 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 while safeguarding its resources. We look forward to future work by the IMF on official sector involvement and the lending into arrears policy. EU Member States welcome IMF efforts to strengthen the contractual framework. Against this background, we consider the IMF as the primary forum to discuss sovereign debt restructuring issues.

17. EU members look forward to the forthcoming review of the method of valuation of the special drawing right (SDR). We stress in this context that the assessment of the SDR currency basket composition and related issues should follow clear and transparent criteria and that any potential changes to the SDR basket should be consistent with the purpose and the role of the SDR. The SDR basket composition should continue to reflect the role of currencies in the global trading and financial system.

IMF's support to low-income countries (LICs)

18. In the context of the IMF's continued efforts to support countries affected by the Ebola outbreak, we strongly support the provision of debt relief totalling USD 100 million for Liberia, Sierra Leone, and Guinea through the newly established Catastrophe Containment and Relief Trust. These grants can ease pressures on the members' balance of payments and

create fiscal space to tackle respective challenges. We also strongly support the IMF's agreement to provide a second round of new concessional loans amounting to about USD 160 million to these three countries worst hit by the Ebola epidemic. EU Member States welcome ongoing efforts by the Fund to safeguard lending to low-income countries (LICs) and ensure the self-sustainability of the Poverty Reduction and Growth Trust.

IMF’s contribution to post-2015 development agenda

19. This year is pivotal for international action on development and climate change. Looking ahead to the UN Conference on Financing for Development and the UN Summit on Sustainable Development Goals in particular, we encourage the IMF to continue collaborating closely with other IFIs in order to contribute to these processes.