International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

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Commissioner
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, 15-17 April 2016

The European economy continues to grow at a moderate pace but faces stronger challenges. It continues to benefit from low oil prices, a relatively low euro exchange rate, and an accommodative monetary policy. Looking forward, domestic demand is expected to drive growth and the fiscal policy stance is expected to be slightly more supportive. However, economic developments since the beginning of the year signal that downside risks have risen. Headwinds coming from the slowdown in emerging economies and global trade already had a visible negative impact on EU foreign demand in 2015. Geopolitical and policy-related uncertainty remains high.

The global economy is facing considerable risks with global growth still falling short of expectations and the recovery remaining fragile. The policy response should use all available tools together – monetary, fiscal and structural - to strengthen growth, investment and financial stability. We should in particular look at the available policy space in different countries, while avoiding overburdening monetary policy, and further work on the composition and efficiency of public expenditures. To enhance our readiness to respond to potential risks, we should continue to explore policy options that the G20 countries may undertake as necessary to support growth and stability. Such options should be spelled out by the G20 ministerial meeting in July.

G20 Leaders in Antalya recognized that the ongoing refugee and migration crisis is a global concern. They committed to share the burden with affected host countries by supporting a comprehensive response to protect and assist refugees, and address the root causes of forced displacement. According to the Commission's first assessment, the macroeconomic impact of the refugee inflows on the GDP of the EU is likely to be relatively small and positive in the short term due to an increase in public spending. In the medium term, the impact will be primarily determined by the degree of integration of refugees in the labour market. It is crucial that we address the challenge of the refugee crisis together, given the considerable stress it puts on the countries most affected. The IMF has a key role to play in helping to better understand the short term impact on demand, and the possible longer-term supply effects of the current large refugee flows. It should also set out recommendations and exchange of best practice on policies to facilitate an effective labour market integration of refugees. The International Financial Institutions should where necessary provide technical assistance, financial support, and policy advice, especially to Syria´s neighbouring countries currently hosting a very large number of refugees under great economic and social pressure.

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 first review of the Greek ESM programme is ongoing and the state of play was presented to the Eurogroup on 7 March 2016. Progress was made on the discussions surrounding the pension reform, the income tax reform and the setting up of the privatisation fund and the independent revenue agency. At the same time, the Eurogroup recognised that further work is still needed on all of these areas - as well as on a number of others, such as fiscal and structural policy issues and the implementation of the strategy on non-performing loans - before an overall agreement can be reached on the reform package. The Eurogroup called on the institutions and the Greek government to make all efforts needed and to pursue their joint work with a view to have an agreement in principle as soon as possible. It recalled that the policy package must deliver the target of a primary surplus of 3.5% of GDP in 2018 as agreed in August 2015 in the Memorandum of Understanding. The Eurogroup will come back to the issue of debt related measures for Greece in its coming meetings, as signalled in its statement of 14 August 2015.

The EU will continue to support the macroeconomic and financial stabilisation as well as the reform process in Ukraine. Since May 2014, the EU has disbursed a total of EUR 2.21 bn to Ukraine. Subject to satisfactory progress with the implementation by the Ukrainian authorities of the jointly agreed policy programme, two further tranches of EUR 600 million each could be released in the course of 2016. While commending the reform process launched in Ukraine in particularly difficult circumstances, the EU calls on the Ukrainian government to intensify efforts to implement the political and economic reforms that are essential for the country to return to a sustainable growth path. The Commission also adopted, on 12 February 2016, a proposal for a second macro-financial assistance operation to Tunisia of up to EUR 500 million in loans, following up on an earlier operation of EUR 300 million. During the London conference, on 4 February 2016, the European Commission pledged EUR 2.4 billion to support countries affected by the refugee crisis.

The economic policy strategy of the European Union continues to build on three main pillars: pursuing responsible and growth friendly fiscal consolidation; accelerating structural reforms; and boosting investment. All policy tools – monetary, fiscal and structural – are needed to foster confidence and strengthen the recovery.

- Large consolidation efforts implemented in difficult economic conditions and a low interest rates environment are improving the headline deficit for the EU as a whole, which is expected to amount to 2.2% of GDP in 2016. Based on the Commission's winter forecast, the aggregate debt level is projected to stabilize at around 87% of GDP in EU this year and to start to decline slightly in 2017. The fiscal stance as measured by the annual change in the structural balance for 2016 is expected to be slightly expansionary for the eurozone and neutral for the whole EU. This appears to be broadly appropriate. The appropriateness of the fiscal stance is determined by the need to stabilize the economy in the short-term and the long-term sustainability of public finances, especially in view of potentially higher interest rates in the future and expenditures associated with population ageing.

- EU Member States have stepped up efforts for structural reform during the crisis, especially in countries under programs or enhanced surveillance, which need to be continued. In addition to further reforms to improve labour market responsiveness, reforms to address restrictive regulation in product markets have to be frontloaded. The benefits of structural reforms, inter alia in terms of growth, productivity and employment, for those countries who have reformed are already substantial in the short term. Calculations by the Commission suggest that reform measures on average can increase GDP by between 0.1 and 0.4 percentage points over a 5 year horizon. Delivery on reform commitment should therefore be a priority.

- We are implementing with determination all three pillars of the "Investment Plan for Europe". The first pillar consists of mobilising investment finance through targeted support to viable projects, in particular through the European Fund for Strategic Investments. To date, projects in 22 Member States have been approved for EFSI financing worth a total of over EUR 10 bn, estimated to facilitate a total of EUR 76 bn of investment. We are confident that our target of EUR 315bn by mid-2018 is within reach. The second pillar consists of enhancing technical assistance to project promoters and increasing transparency about investment opportunities across the EU in key areas such as research and innovation, transport, energy and social infrastructure, the digital economy and the environment. Advisory support for project structuring has been stepped up via the European Investment Advisory Hub, our new single point of entry for technical assistance. The new European Investment Project Portal, a publicly available website on investment opportunities is imminent. The third pillar focuses on removing regulatory and non-regulatory barriers and providing supportive framework conditions for investment. Progress is being made towards a Digital Single Market, an Energy Union, a Capital Markets Union and a single market for transport initiatives providing new opportunities for businesses in Europe.

The Banking Union, which has been established progressively since June 2012, has overhauled Europe's regulatory and supervisory framework notably for banks, and contributed to making our system more secure. It is the most advanced sharing of sovereignty since the launch of the euro. Today, the two main pillars of the Banking Union – a single supervisor and a single resolution authority - are in place. Now we need to complete Banking Union with putting in place the third pillar, a single deposit insurance scheme (EDIS). It will be a crucial and significant step forward to further break the link between banks and sovereigns in the Banking Union.

The so-called Five Presidents' Report[1] put forward a roadmap for completing EMU by 2025. In the short term, fiscal governance will be improved by measures to simplify the EU fiscal rules and by an advisory European Fiscal Board, which will assess the euro area fiscal stance, evaluate the implementation of our fiscal framework, and cooperate with national fiscal institutions. A network of National Competitiveness Boards should assess competitiveness performance and reforms in the Member States and strengthen the ownership of reforms. In October 2015, the European Commission presented a proposal for gradually moving towards a more coherent euro area representation in the International Monetary Fund.[2] The Commission in spring 2017 will present next steps needed to complete the EMU in the longer term, based on the proposals outlined in the Five Presidents' Report.

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.

We welcome the implementation of the 2010 IMF Quota and Governance Reforms and look forward to the work on the 15th General Review of Quotas. In view of the weak global recovery and the potential vulnerabilities, a strong and adequately resourced IMF is of utmost importance for the global economy. We therefore strongly support the commitment by the IMFC and G20 Leaders to maintain a strong and adequately resourced IMF.

We consider that appropriate macroeconomic policies, structural reforms and supervisory frameworks continue to offer the first line of defence to cope with external shocks. We look forward to proposals by the Fund to better monitor international capital flows and ways to strengthen the timely identification of emerging or rising cross border risks. We should continue to strengthen the IMF mission for surveillance and crisis prevention. It should take due account of the interconnectedness of IMF members participating in deeper forms of economic union or in monetary unions.

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1 http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf

2 Proposal for a Council Decision laying down measures in view of progressively establishing unified representation of the euro area in the IMF, COM (2015) 603 final from 21 October 2015.