International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

IMFC Statement by Jeroen Dijsselbloem
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Statement by Minister of Finance, Jeroen Dijsselbloem in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, 15-17 April, 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 European economy is entering its fourth year of recovery. The recovery is broad based, with all countries forecast to grow in 2017. Domestic demand is expected to drive growth looking forward. Improved labour market conditions and structural reforms implemented in Member States are having and are expected to have a positive impact on growth, while the fiscal policy stance is expected to be slightly more expansionary. Industrial production, retail sales and construction data for January point to an acceleration in domestic sources of growth. The euro area also continues to benefit from low oil prices, favourable financing conditions and an accommodative monetary policy. However, while the European economy has been able to weather a less supportive external environment relatively well so far, it faces stronger challenges. Economic developments since the beginning of the year, as particularly reflected in survey data, signal that some downside risks are materialising with stronger headwinds coming from the slowdown in emerging economies and global trade, which already had a visible negative impact on EU foreign demand in the second half of 2015. Exports data show a notable slowdown in foreign demand in the beginning of the year. Meanwhile, geopolitical and policy-related uncertainty remains high. While core inflation has been relatively stable, headline inflation has continued to surprise on the downside and is expected to remain at very low levels, even negative, during the first half of 2016 before recovering gradually.

3. In response to the migration crisis facing the EU, the objective is to rapidly stem the flows, protect our external borders, reduce illegal migration and safeguard the integrity of the Schengen area. According to the first assessment by the European Commission, which is broadly in line with the assessment by the IMF, 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. However, it puts considerable stress on some of the countries most affected and it is therefore crucial that we address this challenge together. In the medium term, the impact will be primarily determined by the degree of integration of refugees in the labour market.

4. On the monetary policy side, the ECB eased its monetary policy stance in December 2015 and again in March 2016. Those decisions were taken in order to achieve a return of inflation rates towards levels that are below, but close to, 2% and thereby to secure the anchoring of medium-term inflation expectations. All in all, the ECB's accommodative monetary policy geared towards price stability supports the return to sustainable economic growth.

5. 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 reported 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 NPL strategy - 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.

6. 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 billion to Ukraine. Subject to satisfactory progress with the implementation by the Ukrainian authorities of the policy programme jointly agreed with the EU, 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 overcome political difficulties and implement the reforms, including those for addressing corruption, that are essential for the country to return to a sustainable growth path.

Policy challenges

7. In order to further sustain the recovery and increase our growth paths, the EU authorities are determined to implement the three main pillars of our economic policy strategy:

- A renewed commitment to structural reforms. Sustaining and strengthening the recovery requires continued and determined policy efforts, including a renewed commitment by all Member States to the implementation of structural reforms. The current, moderate economic recovery should facilitate the implementation of structural reforms. Adequate communication on the merits of structural reforms can increase support and, by taking into account country specific circumstances, improve country ownership. EU Member States have stepped up reform efforts during the crisis, especially in countries under programs or enhanced surveillance. The benefits of structural reforms, inter alia in terms of growth and employment, can be already be significant in the short term and may become larger over the longer term given that reforms take years to fully bear fruit. It is noteworthy also that countries that have implemented an ambitious reform agenda are now benefiting from a more marked recovery that also translates into a fall in unemployment. In addition to further reforms to improve labour market responsiveness, reforms to improve the business environment and to address restrictive regulation, particular in services markets are necessary in a number of countries. 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 made, 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. Member States are also working towards strengthening the Banking Union and further improving economic governance in the Economic and Monetary Union.

- Re-launching investment. Fostering investment is a top priority for the EU, as investments levels have fallen significantly from their pre-crisis levels. 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. We are making good progress in implementing the Investment Plan for Europe. The European Fund for Strategic Investments is fully operational. So far, investments worth over €61bn have already been approved in 22 Member States. Further investment projects are in the pipeline and we will multiply that figure over the coming months to reach our target of mobilising at least €315bn of additional investments. We have also stepped up advisory support for project structuring via the European Investment Advisory Hub and the launch of a new European Investment Project Portal on investment opportunities is imminent. A key part of the third pillar of the Investment Plan for Europe are effective measures to remove barriers to investment by, for example, implementing necessary reforms in both product and labour markets, improving the Single Market and providing greater regulatory predictability which are essential to deliver the impact of the Plan. We are also making progress on the Capital Markets Union initiative launched by the European Commission in early 2015 to establish an integrated EU capital market. The objective of the Action Plan is to develop and integrate European capital markets, with a view to diversifying financing sources for unlocking investment in companies and infrastructure projects, attracting foreign investment, contributing to growth and job creation and making the European financial system more efficient, robust and resilient to shocks, also by providing better opportunities to diversify risks.

- Pursuing fiscal policies responsibly. The EU fiscal strategy aims at a differentiated and growth-friendly fiscal consolidation, delivered through its common framework of fiscal rules that is focused on headline and structural balances, expenditure rules as well as the debt ratio. EU Member States have also implemented far-reaching reforms to strengthen their domestic fiscal frameworks. The large consolidation efforts undertaken by EU Member States over the over the 2011-13 period have led to visible results, although many Member States still face significant consolidation challenges in order to reduce high debt ratios. These large consolidation efforts implemented in difficult economic conditions together with low interest rates are improving the headline deficit, which for the EU as a whole since 2015 is below the 3% of GDP threshold. The fiscal deficit is expected to amount to 2.2% of GDP in 2016. At the same time, the structural adjustment came to a halt in the EU since 2015, despite still high public debt ratios. Based on the Commission's winter forecast, the EU fiscal stance for 2016 is expected to be slightly expansionary. Fiscal policy challenges vary substantially among countries. While a number of Member States need to continue their structural efforts in view of the remaining fiscal challenges, some others outperform their Medium-Term Objective (MTO). Structural reforms and investment are useful to ensure the long term public finance sustainability in the euro area, notably through positive effects on the growth potential. On 12 February 2016, the ECOFIN Council formally endorsed a commonly agreed position on how to take structural reforms, investment and the economic cycle into account within the existing rules of the Stability and Growth Pact.

II. IMF Policy Issues

Governance and Resources

8. EU Member States welcome the implementation of the 2010 Quota and Governance Reforms, which has increased the legitimacy of the Fund, and provided it with greater permanent resources. We support the timetable for completing the work on the 15th General Review of Quotas including a review of the quota formula by the 2017 Annual Meetings. 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 representation by two chairs by the time of the next regular election of the Executive Board. Actions taken so far have effectively led to a significant reduction in Board representation.

9. The IMF has a central role to play in a well-functioning international monetary and financial system. EU Member States are committed to maintaining an adequately resourced and quota based IMF. EU Member States look forward to discussions on the adequacy of resources in the context of the 15th Review, as well as to the expected IMF Executive Board discussions on borrowed resources.

Strengthening the international financial architecture

10. 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 and lending toolkits. At the same time, there is scope to strengthen the system further.

11. EU Member States consider that appropriate macroeconomic and financial policies, structural reforms, and supervisory frameworks offer the first line of defence to cope with external shocks. At the same time, more effort is needed to monitor capital flows on a global level, recognizing the importance of both push factors from source countries and pull factors from receiving countries. We look forward to proposals by the Fund in cooperation with the relevant institutions to better monitor international capital flows and ways to strengthen the timely identification of emerging or rising cross-border risks. Regarding the global financial safety net architecture (GFSN), we note that the global financial safety net consists of different layers which are diverse by design and serve different purposes.

12. The resulting GFSN is multi-layered and coverage might be uneven. In view of the greater heterogeneity in the GFSN, reforms should primarily concentrate on strengthening the role of the IMF and improve cooperation. Reforms which aim at fostering crisis prevention, further strengthening the resilience of the system and thereby lowering the need for a safety net should also be explored more thoroughly. This especially underscores the importance of the IMF surveillance function for crisis prevention. We support efforts to ensure that the different layers of the GFSN operate together effectively. In particular, we see scope for the IMF to foster cooperation with RFAs also outside of crisis episodes, taking into account that RFAs are very heterogeneous (in size, operation, focus, activity, mandate, rules of engagement and stage of development). Lessons from our recent crisis experience shows that different governance arrangements may call for a differentiated approach across RFAs. While EU Member States stress that a thorough assessment of the existing instruments would have to take place first, we are open to discussing the implications of the evolving nature of the financial crises on the Fund's lending toolkit – and more specifically on ways to improve precautionary lines and the LICs lending toolkit.

13. 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. We also 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 and pari passu clauses, and to further explore market-based ways to speed up incorporation of such clauses to the outstanding stock of debt. We consider the IMF as the primary forum at the international level to discuss sovereign debt restructuring issues.