



# **International Monetary and Financial Committee**

Thirty-Second Meeting  
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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**

**Lima, 9-10 October 2015**

## **Global economy**

In the first half of 2015, the economic recovery in the EU continued at a moderate pace and broadly in line with expectations. Continued growth in private consumption has supported economic activity this year, whereas investment has remained weak in comparison with past recoveries, despite exceeding expectations in the first half of the year. Exports have also surprised on the upside, despite the global slowdown. Labour market conditions in the EU continue to gradually improve. Still, the recovery remains timid, considering the positive impulses from the low oil price, the still low external value of the euro and monetary accommodation that have been supporting economic activity. Looking ahead, the moderate recovery is expected to continue, supported by the tailwinds that seem to be fading more slowly than previously expected, but the deterioration in the external environment and the heightened economic and political uncertainty are set to weigh on the near term economic outlook.

We welcome the agreement on a new three-year European Stability Mechanism (ESM) programme for Greece. This is the result of intense work between the Greek authorities and the Institutions. The ESM financial assistance facility agreement covers an amount of up to EUR 86 billion over a period of three years. This includes a buffer of up to EUR 25 billion for the banking sector in order to address potential bank recapitalisation and resolution costs. With the support of the programme the Greek authorities have an opportunity to restore mutual trust, financial stability and confidence, which are preconditions for the Greek economy to grow again. It is important to swiftly implement the agreed reforms. This will allow Greece to restore competitiveness and to ensure sustainable economic growth.

The European Commission will continue to support the macroeconomic and financial stabilisation and reform process in Ukraine. The total amount of EU macro-financial assistance disbursed to Ukraine since May 2014 is EUR 2.21 billion, making it the largest financial support package ever provided by the EU to a third country in such a short time. Subject to satisfactory progress with the implementation by the Ukrainian authorities of the policy programme jointly agreed with the EU, another EUR 1.2 billion is expected to be released by early 2016. In that regard, we call on the Ukrainian government to intensify its reform effort, while acknowledging its reform achievements so far. We also welcome the negotiated agreement between Ukraine and an ad-hoc creditor committee concerning its debt restructuring. The agreement will enable the authorities to pursue their reform programme with renewed vigour.

The three main pillars of the 2015 economic policy strategy are: (i) ensuring fiscal responsibility; (ii) a commitment to structural reforms; and (iii) a boost to investment.

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 standing below the 3% of GDP threshold for the first time since 2008. The fiscal deficit is expected to decline further in 2015 and 2016. At the same time, according to the stability and convergence programmes (medium-term fiscal plans) submitted by Member States, the structural adjustment came to a halt in the EU in 2015 and is set to resume at a moderate pace in 2016. Given the uncertainties related to the economic environment, the neutral fiscal stance appears broadly appropriate in

2015, striking the balance between sustainability requirements and cyclical stabilisation concerns. 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. A number of euro area Member States still need to continue with fiscal adjustment to bring down very high levels of debt. Other countries have more room for manoeuvre and could use it to encourage domestic demand, with a particular emphasis on investment. This would support domestic growth and the euro area as a whole. The flexibility embedded in the Stability and Growth Pact rules allows Member States to facilitate structural reforms and investment, while following the commonly agreed rules.

The urgency of structural reforms is reflected in the EU country-specific policy recommendations given to EU Member States in the context of the EU annual economic policy coordination cycle, the so-called "European Semester". While taking into account the specific challenges of each Member State, they emphasise the need to deliver ambitious structural reforms in product, service and labour markets in order to raise productivity, foster competitiveness, and facilitate investment. In this respect, the Commission welcomes the work undertaken in the Eurogroup to reduce the tax wedge which is a key factor in boosting job creation. Some Member States have taken important steps in this direction and are seeing the benefits of those decisions. Furthermore, the European Commission is committed to further deepen the Single Market.

In November last year, President Juncker presented the "Investment Plan for Europe". On 4 July, the necessary legal framework for its first two pillars entered into force. These are: first, mobilising investment finance through targeted support to viable projects, in particular through the European Fund for Strategic Investments which already started backing a number of projects; and second, 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. The third pillar focuses on removing financial and regulatory barriers to investment and promoting the development of framework conditions conducive to investment. In this respect, the Commission looks forward to the work by the Member States to identify the main bottlenecks to investment, in particular in infrastructure and those related to financial market fragmentation.

Strong capital markets are critical for supporting the economy, allocating resources and facilitating long-term productive investment. To strengthen investment for the long term, we need to build a true single market for capital – a Capital Markets Union for all 28 Member States. To this end, the Commission on 30 September 2015 adopted an Action Plan on Building a Capital Markets Union setting out the measures required to bring about a well-functioning and integrated Capital Markets Union by 2019. Early actions will include a comprehensive package on securitisation with updated calibrations for Solvency II and the Capital Requirements Directive, the definition of infrastructure with revised calibrations for Solvency II, and a proposal to review the Prospectus Directive to reduce the cost of public offerings.

The crisis has shown that the Economic and Monetary Union (EMU) is incomplete. A roadmap has been laid out by the so-called 'Five Presidents' Report<sup>1</sup> to deepen it. The report argues that progress is needed on four fronts towards: i) a genuine Economic Union that ensures that each economy has the structural features to prosper in EMU, ii) a Financial Union to ensure that financial markets provide stable financing to the economy, iii) a Fiscal Union to deliver both

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<sup>1</sup>[http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report\\_en.pdf](http://ec.europa.eu/priorities/economic-monetary-union/docs/5-presidents-report_en.pdf)

fiscal sustainability and fiscal stabilisation and iv) a Political Union to provide democratic accountability, legitimacy and institutional strengthening.

In the first stage until mid-2017, the EU institutions and euro area Member States will build on existing instruments and make the best possible use of the existing treaties. Among the first concrete proposals, the Banking Union will offer a common system to ensure that citizens' bank savings are always protected up to a limit of €100,000 per person and account. Economic governance will put stronger emphasis on the euro area dimension and on the implementation of reforms, while paying greater attention to employment and social performance. Without multiplying the institutions, a new advisory European Fiscal Board could be set up to coordinate and complement the national fiscal councils and a euro area system of Competitiveness Authorities could be created to prevent economic divergence and increase national ownership of reforms. Furthermore, the euro area needs to be represented more strongly on the global scene, including in the International Monetary Fund. The second stage to complete EMU's economic and institutional architecture will take place from mid-2017 to 2025 and concrete steps of a more far-reaching nature should be agreed. The Commission will deliver a package of actions already by end October 2015.

### **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.

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 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, underlined on several occasions, to maintain a strong and adequately resourced IMF.

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 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 interconnectedness of IMF members participating in deeper forms of economic union or in monetary unions. This year's Article IV consultation on the euro area showed a broad convergence of views between the IMF and the euro area on Staff's findings and policy recommendations.

In the context of staff's upcoming analysis for proposals to modify the Fund's lending framework, 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.