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IMFC Statement by Pierre Gramegna
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Pierre Gramegna in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting, Lima, 9-10 October, 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.

I. ECONOMIC SITUATION AND OUTLOOK

2. Global growth and world trade have disappointed in the first half of the year and the economic outlook for advanced and, particularly, emerging market economies has weakened. In the EU, the economic recovery continued at a moderate pace in the first half of 2015, notably supported by continued growth of private consumption. Still, in the second quarter economic growth came out slightly below expectations reflecting less favourable global economic developments. Most EU economies are on a path of recovery since the start of the year. Unemployment rates have fallen gradually since mid-2013 but remain very high and vary considerably across Member States. Inflation in the euro area has bottomed out after being in a negative territory in the first quarter of 2015 and is expected to gradually increase over the coming quarters and more noticeably in 2016.

3. On the monetary side, the implementation of the ECB's asset purchase programme continues to proceed smoothly. The purchases are intended to run until the end of September 2016, or beyond, if necessary, and, in any case, until the ECB Governing Council sees a sustained adjustment in the path of inflation that is consistent with the aim of achieving inflation rates below, but close to, 2% over the medium term.

4. On 14 August 2015 the Eurogroup reached agreement with the Greek government on the Memorandum of Understanding that constitutes part of the Loan agreement signed between the Hellenic Republic and the ESM. The ESM financial assistance facility agreement will cover an amount of up to EUR 86 bn. Following the agreement and the successful implementation of a first round of prior actions, the Eurogroup authorised the disbursement of EUR 23 billion, of which EUR 10 billion is earmarked for bank recapitalisation and resolution, and another EUR 3 billion will be disbursed in two tranches subject to the completion of specified milestones. We consider there is great value in the continued programme involvement of the IMF as indispensable and we welcome the intention of the IMF management to recommend to the Fund's Executive Board to consider further financial support for Greece once the full specification of fiscal, structural and financial sector reforms has been completed and once the need for additional measures has been considered and an agreement on possible debt relief to ensure debt sustainability has been reached. The resulting policy conditionality will be a shared one as the policy conditionality underlying the ESM macroeconomic adjustment programme is developed in parallel to the one of the IMF. Subject to approval, the full re-engagement of the IMF is expected to reduce subsequently the ESM financing envelope accordingly.

5. The EU will continue to support the macroeconomic and financial stabilisation and reform process in Ukraine. Following a EUR 250 million disbursement in April, the European Commission released the first tranche of EUR 600 million under the third macrofinancial assistance programme on 22 July 2015. This brings the total amount of EU macrofinancial assistance disbursed to Ukraine since May 2014 to 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, two further tranches of EUR 600 million are expected to be released by early 2016. In that regard, we welcome the commendable progress achieved by the Ukrainian authorities in the implementation of its IMF programme, which enabled the IMF to disburse the second tranche of USD 1.7 billion under the Extended Fund Facility in August. The EU calls on the Ukrainian government to continue its reform effort, while acknowledging the difficult geopolitical situation. The EU welcomes the negotiated agreement between Ukraine and the ad hoc creditor committee concerning its debt restructuring. The agreement will enable the authorities to pursue their reform programme with renewed vigour.

Policy challenges

6. Europe is building a sounder foundation for growth and employment through an integrated economic policy strategy 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 to strengthen and sustain the ongoing economic recovery. A renewed commitment to structural reforms is needed while first signs show that previously implemented structural reforms are starting to bear fruit in a number of Member States, particularly those where significant reform efforts have been implemented during the last years. The Ecofin Council on 14 July 2015 adopted the country-specific recommendations which reflect the urgency of ambitious structural reforms in product, service and labour markets that raise productivity, foster competitiveness and facilitate investment. Policy action and strong commitment to structural reforms are in particular required in Member States facing macroeconomic imbalances, especially if affecting the smooth functioning of Economic and Monetary Union. At EU level, further deepening the Single Market remains high on the agenda. Reinforcing the Single Market by removing remaining regulatory and non-regulatory barriers and improving the overall regulatory environment, notably in services and network industries, will allow firms to operate on a bigger scale and reduce their regulatory burdens, thereby enhancing their capacity to innovate, and become more competitive, as well as more attractive for investors. The European Union is committed to further deepen the Single Market for goods and services in the context of the forthcoming Internal Market Strategy, to develop a truly Digital Single Market, and to make the most of the Single Market in energy and transport. This comes in addition to pursuing an enhanced implementation of existing Internal Market rules, which is a shared responsibility of the EU and the Member States.

- A coordinated boost to 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, the necessary legal framework for the first two pillars of the Investment Plan for Europe to boost jobs, growth and competitiveness entered into force on 4 July 2015. This includes the set-up of a European Fund for Strategic Investments (EFSI) to mobilise EUR 315 billion in long-term public and private investment over the period 2015-2018 in support of infrastructure projects, small and medium-sized enterprises (SMEs) and mid-cap companies, but also innovation and human capital. A number of projects are already being pre-financed with EFSI backing. In addition, targeted initiatives enhancing the transparency of available investment opportunities and providing investment support to project sponsors will help ensure that investment reaches the real economy. These initiatives are on track and will be operational by the end of the year. As part of the third pillar of the Investment Plan for Europe, measures removing barriers to investment, improving the Single Market and providing greater regulatory predictability will make Europe more attractive and will be key to delivering the impact of the Plan. In particular, the Commission adopted an Action Plan on Building a Capital Markets Union on 30 September 2015. The objective of the Action Plan is to develop and integrate 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.

- Pursuing fiscal responsibility. The EU pursues a differentiated and growth-friendly fiscal consolidation, delivered through its framework of fiscal rules that is focused on headline and structural balances as well as the debt ratio. The large consolidation efforts undertaken by EU Member States over the last 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 spring 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. Sustaining and strengthening this recovery, while remaining in full compliance with the EU's Stability and Growth Pact, requires continued and determined policy efforts, including a renewed commitment, by all Member States, to the implementation of structural reforms to boost competitiveness and growth potential in the euro area. 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. On 22 June 2015, the 5 Presidents published a report 'Completing Europe's Economic and Monetary Union. It proposes a number of initiatives to be completed at the latest by 2025. The initiatives follow four main themes: (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 market provide stable financing to the economy; (iii) a Fiscal Union to deliver both fiscal sustainability and fiscal stabilisation and (iv) a Political Union to provide democratic accountability, legitimacy and institutional strengthening. The process is organised in two consecutive stages. In a first stage, the EU institutions together with Member States will build on existing instruments and make the best possible use of the existing Treaties. Before the end of October 2015 the Commission will present a first list of proposals. In a second stage, concrete steps of a more far-reaching nature should be agreed to complete EMU's economic and institutional architecture to converge towards the best performance and practices in Europe.

II. IMF POLICY ISSUES

Governance and Resources

8. 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. We agree that this work should be completed as early as possible and no later than mid-December 2015. 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.

9. 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. We encourage the IMF to provide an in-depth analysis on resource adequacy going forward. EU Member States have supported the one-year extension of the initial two-year terms of the 2012 Borrowing Agreements and the establishment of a new activation period under NAB for the period October 2015 – March 2016.

Strengthening the international monetary system

10. EU Member States look forward to the IMF's forthcoming work on the challenges facing the International Monetary System that will allow us to discuss possible areas for further work.

11. EU members also look forward to the forthcoming review of the method of valuation of the special drawing right (SDR). We note that, as China opens up, the renminbi is becoming increasingly important as a global currency. We are open to consider the entry of the renminbi into the SDR basket once it meets the relevant criteria. However, a rigorous technical assessment by the IMF needs to take place before gauging eligibility. Any potential changes to the SDR basket composition should safeguard the purpose and the role of the SDR as an international reserve asset and contribute to the stability of the international monetary system. The SDR basket composition should continue to reflect the relative importance of currencies in the world's trading and financial systems.

12. We note staff's ongoing analysis for proposals to modify the Fund's lending framework, and we look forward to future work by the IMF on official sector involvement and the lending into arrears policy.EU Member States support IMF efforts to strengthen the contractual framework. We 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 fora to discuss sovereign debt restructuring issues.

Post-2015 development agenda and climate finance

13. This year is pivotal for international action on development and climate change. The Addis Ababa Action Agenda has already set the means of implementation to support the 2030 development agenda for sustainable development. EU Member States welcome the IMF's new measures to support developing countries, including by strengthening the global safety net for low-income countries and by boosting domestic revenue potential. In line with the outcomes of the UN Summit on Sustainable Development Goals, we encourage the IMF to continue collaborating closely with other IFIs in order to assist developing countries in their pursuit of the post-2015 Sustainable Development Goals, focusing on its core mandate.

14. Considerable efforts have been undertaken by the EU and its Member States to mobilise and scale up climate finance since Copenhagen and the EU is and will continue to be a leader in climate finance. This should enable all countries to follow a low-carbon and climate resilient development path, and we encourage all countries to participate in the global efforts on climate finance, by broadening the range of contributors. We support a successful and ambitious outcome at the 2015 UN Climate Change Conference (COP 21) in Paris and we welcome the IMF's economic analyses on the topic. It strengthens our assessment that a positive price on greenhouse gas emissions is one of the most effective, if not the most effective, route to durably limiting climate change. This can be

achieved either through an explicit price on a carbon market or a carbon tax or through an implicit price from regulation or standardisation. The EU will persevere in its efforts to reach an ambitious agreement at COP 21, in cooperation with other countries. An ambitious agreement will not only limit global warming that will impact the poorest and most vulnerable the hardest but also produce benefits in terms of energy security and air pollution reduction. The EU also wants to mobilize private climate-investments to unlock the required investments in low-carbon technologies as well as in building resilience against the effects of climate change and encourages the private sector to integrate climate considerations into their business plans. In close coordination with work at the FSB, the IMF should take into consideration the impact of climate-related risks and their effects on the financial sector. We look forward to further work by the IMF on ways to further incorporate climate analyses into its surveillance.