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IMFC Statement by Hartwig Löger
Chairman
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Hartwig Löger in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting,

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Economic situation and outlook

1. The EU remains strongly committed to keeping the global economy open, while striving for a level playing field, fighting protectionism and strengthening global economic cooperation. Preserving a rules- and market-based international economic order with sound multilateral institutions is a top priority to ensure sustained growth.

2. Momentum in the global economy remains strong although downside risks have increased. It is now time to focus on rebuilding fiscal buffers and reducing excessive global imbalances while ensuring long-term and more inclusive growth with emphasis on the composition and quality of public finances as well as further structural reforms.

3. Current trade tensions may put the ongoing expansion at risk and are therefore a source of concern. We have to tackle collectively the root causes of those tensions within the rules-based multilateral trade system. Therefore we firmly support the modernization of the WTO to level the playing field for trade and investment and will work together with G20 countries and other WTO members in pursuing this objective. In addition, there are important vulnerabilities in a number of emerging market economies which need to be addressed.

4. According to the European Commission summer interim forecast, both the euro area and EU economies are set to expand by 2.1% this year and by 2.0% in 2019. The euro area economy continues to benefit from supportive monetary conditions, with low financing costs for companies and households, despite the anticipated gradual ending of net asset purchases by the Eurosystem. Brightening labour market conditions, improving household balance sheets and still elevated consumer confidence, should ensure continued private consumption growth going forward. At the same time, vulnerabilities persist as for example underlined by still elevated unemployment rates in some euro area countries. Significant downside risks to the outlook exist. If international trade tensions were to escalate further, they could dampen confidence more permanently, weighing on global investment and trade flows, and likely disrupting the current global cyclical upswing. Additional risks relate to developments in a number of vulnerable emerging market economies and perceived political uncertainty in a number of EU countries as well as political and geopolitical tensions outside Europe.

Inflation in the euro area edged up on the back of higher energy prices, particularly since in the second quarter of 2018, while core inflation has so far remained muted. Headline inflation is forecast to average 1.7% over 2018. In 2019, it is expected to remain on average at a broadly unchanged rate, due to a declining energy inflation profile and underlying inflation gradually gathering pace, as labour markets progressively tighten and wage growth strengthens.

5. The European Stability Mechanism (ESM) programme for Greece was successfully completed on 20 August 2018. The Greek authorities implemented the prior actions for the fourth and final review, upon which the Eurogroup agreed to implement further debt relief measures in order to ensure that the agreed gross financing needs objectives are respected also over the medium-term under cautious assumptions. These include a further deferral of European Financial Stability Facility (EFSF) interest and amortization by 10 years and an extension of the maximum weighted average maturity by 10 years as well as conditional debt measures in the form of the abolishment of the step-up interest rate margin related to the debt-buy back tranche of the 2nd Greek programme and the restoration of the transfer of Securities Markets Programme (SMP) and Agreement on Net Financial Assets (ANFA) income equivalents amounts to Greece. The conditional debt measures are subject to

compliance with policy commitments of the Greek authorities and monitoring, as outlined in the 22 June Eurogroup statement. Following the end of the ESM programme, Greece is now fully reintegrated into the European Semester framework. To complement this, the European Commission decided to activate the Enhanced Surveillance framework for post-programme monitoring. This framework is adapted to Greece in view of the long-lasting crisis and the challenges ahead. It is also geared to support the continuation, completion, and delivery of reforms agreed under the ESM programme, in line with the commitments made by the Greek authorities at the end of the programme.

6. The European Union remains committed to supporting Ukraine's macroeconomic stabilisation and structural reform agenda, including through macro-financial assistance, provided that Ukraine lives up to its commitments. A total of EUR 2.8 billion was disbursed to Ukraine under the macro-financial assistance instrument between 2014 and 2017. Another EUR 1 billion of macro financial assistance has been made available for 2018-2019. It is conditional on the agreed policy measures being implemented, in particular related to the fight against corruption, and on a successful track record under its IMF programme. We urge the Ukrainian authorities to continue implementing the necessary reforms.

Policy challenges

7. The EU authorities remain determined to implement the three main pillars of our economic policy strategy.

- **Pursuing responsible fiscal policies.** Fiscal policies should be pursued in full respect of the Stability and Growth Pact, with an appropriate differentiation of fiscal efforts across Member States, thereby taking into account stabilisation needs and sustainability concerns. The positive cyclical conditions call for rebuilding fiscal buffers, in particular in countries where debt ratios are high, while continuing to strengthen the growth potential of our economies. In light of the current, broad-based economic growth, albeit with the persistence of crisis legacies in some areas, the fiscal stance at aggregate level for the euro area continues to be broadly neutral in 2018 in line with the euro area recommendations.

- **Structural reforms to modernise our economies.** We will continue pursuing policies that support sustainable and inclusive growth, tackle remaining macroeconomic imbalances, and improve our economies' adjustment capacity and convergence between them. Reforms undertaken during the crisis have started to pay off, as economic growth becomes widespread throughout all Member States.

The Member States that pursued comprehensive labour market, product market and social protection reforms since the crisis have been better able to support employment and preserve fairness. However, structural impediments to growth remain and a renewed reform momentum will be necessary to further improve labour market functioning, strengthen education and training, create a more enabling business climate, complete the Single Market and remove barriers to investment. Those efforts are crucial for increasing productivity and employment, strengthening convergence, benefitting from digitalisation, boosting growth potential, and enhancing adjustment capacity in particular for the euro area. At the EU level, efforts to complete the Single Market in goods and services should continue. Priority will be given to completing the Banking Union and progressing on the Capital Markets Union, the Digital Single Market, and the Energy Union.

- **Re-launching investment.** The Investment Plan for Europe has proven to be a successful tool for encouraging an increase in investment in Member States. The projects approved for financing under the European Fund for Strategic Investments (EFSI) have already mobilised EUR 335 billion across the entire EU, above the initially targeted EUR 315 billion in total investments. In December 2017, the EU Council adopted a legislative proposal to extend the duration of the EFSI to end-2020, and to raise the investment target to at least EUR 500 billion. In implementing the initiative, we will put emphasis on the additionality and quality of the projects rather than on the overall investment volume. In order to reinforce the mobilisation of private investments, we will step up policy actions under the so-called "third pillar" of the plan to promote favourable framework conditions for businesses across the Single Market with reform initiatives both at European and Member State level.

8. A strong Economic and Monetary Union (EMU) is not only essential for its Member States but will also contribute to stability at the global level. The ongoing economic expansion provides an opportunity to progress on deepening EMU. In line with the Leaders' Agenda and the outcome of its December 2017 meeting, the Leaders' Euro Summit in June was a significant step towards a more robust Economic and Monetary Union. There will be further discussions on the basis of the Eurogroup letter, notably on the Banking Union roadmap, ESM reform and possible instruments for convergence and stabilisation in EMU. The European Stability Mechanism (ESM) will provide the common backstop to the Single Resolution Fund and be strengthened working on the basis of all elements of an ESM reform as set out in the Euro Summit statement. Work in the next months should start on a roadmap for beginning political discussions on the European Deposit Insurance Scheme while adhering to all elements of the 2016 Banking Union roadmap in the appropriate sequence. The Euro Summit will come back to these issues in December 2018.

IMF Policy Issues

IMF Resources and Governance

9. EU Member States reconfirm that we stand ready to work towards the completion of the 15th General Review of Quotas, including a possible new quota formula, by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019. EU Member States support the commitment by the IMFC and G20 Leaders to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net.

10. We consider it most important that discussions on the quota formula and the 15th Review will continue to be treated as an integrated package. A prerequisite for progress in the negotiations is to clarify the prospects for a possible quota increase as soon as possible. The discussion should be well sequenced, discussing all elements that are part of the quota review. In line with the package approach, we reiterate that nothing is agreed until everything is agreed. The process and outcome of the quota review should be fully anchored in the relevant IMF bodies and needs to take into account the interests of the entire membership of the Fund.

11. We recall that many EU member states significantly contribute to the Funds lending capacity by renewing the New Arrangements to Borrow and through the 2016 Bilateral Borrowing Agreements, after participating in the 2012 borrowing agreements. EU member states highlight that a fair global burden sharing is important in the overall efforts to ensure an adequately resourced IMF, and the voluntary contributions should be recognized in the upcoming 15th General Review of Quotas discussions, and some form of compensation is warranted.

12. EU member states agree that the Fund is and should remain a quota based institution and we support a quota increase as part of the 15th General Review of Quotas. Discussions on the adequacy of the Funds resources should not pre-suppose a future decision about a possible renewal of the bilateral credit lines.

13. EU Member States welcome the IMF quota database update in July 2018 by one year through 2016. We reiterate that the general trend observed in recent updates shows that the current formula captures dynamic developments in the world economy and is already delivering on the aim of increasing the Fund’s representativeness and thus preserving its legitimacy. EU Member States recall that the four principles that underpinned the 2008 quota formula reform remain valid. We underscore that the main variables of the quota formula should remain both GDP and openness which best capture the role and mandate of the IMF. Openness is an indispensable part of the formula and its weight should at least be maintained.

14. Advanced European countries reaffirm their commitment to reduce their Board representation by two chairs. Actions taken so far have effectively led to greater Board representation of emerging market and transition countries.

Policy advice and surveillance

15. EU Member States look forward to the forthcoming Comprehensive Surveillance Review. EU Member States fully support the efforts to strengthen the Fund's core task of surveillance in order to ensure well-founded and comprehensive analysis and policy advice with the aim of supporting sound policies and crisis prevention. EU Member States would like to underline that the Fund's surveillance practice should continue to take due account of the degree of interconnectedness and the specific legal, institutional and policy frameworks of IMF members participating in economic or monetary unions.

16. We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries (MAC DSA) in order to improve the reliability of its outcomes. In our view it would be beneficial to work towards a convergence of approaches between the European and the IMF's frameworks on debt sustainability.

17. We invite the IMF to provide early clarification on possible plans to introduce differentiation across countries' debt-carrying capacity. An upfront differentiation in the MAC DSA based solely on currency union membership would not be appropriate. A more granular and country specific approach seems clearly preferable. We look forward to more guidance on the application of judgement in the IMF framework.

18. EU member states look forward to the IMF review of Conditionality and Design of Fund Supported Programs with the view to enhancing the effectiveness of IMF conditionality and improving programme outcomes. We consider it important to regularly undertake such assessments. The review should also assess the right balance between the financing part and conditionality part of programmes as well as the risk of facility shopping amongst various international organisations.

19. We welcome the Bali Fintech Agenda developed by the IMF and the World Bank which provides a useful framing of Fintech issues for policy makers to consider with regard to reaping the benefits from financial innovations while addressing associated risks. We understand that the Bali Fintech Agenda does not represent a work program of the IMF or the World Bank. However, enhancing our understanding of the opportunities, challenges and risks entailed by fintech developments would help calibrate – if necessary – national and multilateral policy responses to improve the financial system in terms of operation and safety. We look forward to discussing the IMF's and the World Bank's contribution to the upcoming work on fintech in cooperation with other international institutions and stakeholders in line with their respective mandates, responding to possible policy needs of countries.

20. We consider that both borrowers and lenders should enhance debt transparency and sustainability. When making lending or investment decisions, official and private creditors should pay due regard to the IMF-World Bank Debt Sustainability Analyses and respect the debt limits fixed by the IMF Debt Limit Policy and the International Development Association's Non Concessional Borrowing Policy. We look forward to the review of the IDA Non Concessional Borrowing Policy and the IMF Debt Limits Policy. We encourage the IMF to provide a quantitative assessment of borrowing space in debt sustainability analyses for low income countries. We re-affirm our commitment to the 2017 G20 Operational Guidelines for Sustainable Financing. We call for a self-assessment on a voluntary basis, and encourage private investors to develop principles for debt-sustainability. We welcome the IMF and World Bank's joint work on LIC debt, and invite the World Bank and the IMF to further explore tools including the collection of data to further enhance debt transparency and monitor effective adherence to those 2017 guidelines. We look forward to the

upcoming review of IMF facilities for low income countries, notably to address the need for greater domestic resources mobilisation. The EU encourages the IMF and the World Bank to enhance debt management capacity building in Low Income Countries.

21. We welcome the comprehensive compensations and benefits review (CCBR) that should be ambitious and as comprehensive as possible including all options for possible reform.

22. We welcome the IMF's re-statement of its commitment to Fragile States, and look forward to the implementation of mechanisms for enhanced engagement.