



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Valdis Dombrovskis
Executive Vice President
European Commission**

Statement of Executive Vice President Valdis Dombrovskis and Commissioner Paolo Gentiloni to the International Monetary and Financial Committee on behalf of the European Commission

Washington, October 14, 2022

1. Russia's unprovoked aggression against Ukraine grossly violates international law and the principles of the UN Charter. This unjustified and unjustifiable attack is exacting a tragic human cost on the people of Ukraine, millions of whom have been forced to flee to the EU and targeting civilian infrastructure in Ukraine. It is undermining European and global security, stability and prosperity. The EU stands firmly by Ukraine and its people. The EU will continue to work very closely with its international partners to support Ukraine and implement far-reaching sanctions on Russia and its accomplice Belarus. The Russian economy and its financing capacity have been hit hard through sanctions that relate inter alia to the financial, energy and transport sectors, export and import controls and the ban of export financing, as well as to asset freezes and travel bans of individual persons and entities. The European Commission supports the price cap on oil and petroleum products agreed by G7 Finance Ministers on 2 September, designed to reduce Russian revenues and the ability to fund its war whilst limiting the impact of Russia's military aggression on global energy prices, particularly for low and middle-income countries.

2. After an unprecedented pandemic, the EU economic output overtook pre-crisis levels in record time. We were able to achieve the fastest recovery since the post-war boom thanks to the NextGenerationEU initiative, our common recovery plan, which is a boost of confidence for our economy, guaranteeing a constant stream of investment to sustain jobs and growth. However, uncertainty remains high and downside risks dominate. The EU economy continued to expand at a solid pace in the first two quarters of 2022, but the war has intensified headwinds to growth. We still expect in 2022 a quite robust yearly growth rate although adverse developments, notably soaring gas prices and related volatility, higher inflation mainly driven by energy and food prices and falling consumers' and firms' confidence continue to prevail. The high household saving rates, the full deployment of the EU Recovery and Resilience Facility (RRF) – the EU instrument for providing grants and loans to support reforms and investments in the Member States – and a resilient labour market will cushion the deterioration in economic conditions.

3. Fiscal policy in the EU will continue to be supportive in 2022, to weather the significantly increased risks and uncertainties, underpinned by the implementation of the RRF. The focus should be on protecting households and firms most vulnerable to energy price hikes with temporary and targeted support, while maintaining the agility to adjust, if needed. We believe that income support policies are most appropriate to keep the price signals for the green transition. Fiscal policies, appropriately differentiated, should aim at raising growth potential in a sustainable manner and preserving debt sustainability. Implementing structural reforms and supporting investment for the green and digital transitions remain priorities, while also structurally diversifying energy supplies and reducing dependencies. Given the prolonged energy price crisis, when taking measures to compensate consumers and industry, Member States should consider the fiscal affordability of measures, their social impact and their impact on the demand for energy.

4. The RRF is the centrepiece of the EU's efforts to achieve a sustainable and transformative recovery after the pandemic. Climate-related measures account for around 40% of total expenditure so far. It is currently being implemented and many Member States are expected to submit further payment requests in the coming months. Some requests for targeted revisions to the plans are also expected.

5. To support Ukraine, the EU has provided an emergency macro-financial assistance operation of EUR 1.2 billion. In May, the EU further announced a new exceptional operation to the country of up to EUR 9 billion, to finance Ukraine's relief and reconstruction. The first EUR 1 billion loan of this assistance was disbursed in August, about to be followed by a second component of EUR 5 billion in loans adopted in September. Regarding the remaining EUR 3 billion of the exceptional MFA pledged in May, work to enable a full mobilisation by the end of the year is ongoing. All together Team Europe, i.e. the European Union and its Member States, has provided more than EUR 19 billion in financial assistance to Ukraine since the outbreak of the war. On top of this, the EU also agreed to give arms and other aid to the Ukrainian military as well as equipment and material (medications, food, fuel) for the civilian population. The EU is also coordinating closely with international partners to help ensure positive net flows from all International Financial Institutions to Ukraine at the current critical juncture. Together with other international financial support initiatives, this has made a substantial difference in addressing Ukraine's increased financing gap. The European Commission believes that the IMF should as soon as possible go forward with an upper credit tranche-quality programme for Ukraine, to further support the country financially.

6. Russia's war against Ukraine has aggravated the global food crisis. Supply chain disruptions are driving high food prices that strain the livelihoods of households, the budgets of states and difficulties in accessing agricultural inputs (seeds, fertilisers, amongst others), in particular for small-scale farmers. The European Commission and EU Member States have put forward a range of short-term and medium-term actions, including the recent mobilisation of an additional EUR 600 million for food security in African, Caribbean, and Pacific countries. This brings the total EU support for food security and food systems, as part of the Team Europe response to global crisis, to more than EUR 7.7 billion from 2021 to 2024. We in this context strongly welcome the new food shock window under the IMF's emergency financing toolkit to enhance the IMF's support to members facing urgent balance of payment needs related to the global food shock.

7. Russia's invasion of Ukraine produced a seismic shift in the energy landscape. Uncertainty over deliveries of fossil fuels from Russia has led the EU to urgently seek ways to reduce its reliance on Russian imports. The European Commission, on 8 March, put forward the outline of REPowerEU, a plan to make Europe independent from Russian fossil fuels, followed up in May with the full plan to diversifying energy sources, reducing demand and accelerating the clean energy transition. Following a proposal by the European Commission, on 30 September the Council of the European Union agreed a Regulation on an emergency intervention in Europe's energy markets to address high energy prices. The regulation includes measures to reduce electricity demand during peak hours in order to decrease electricity prices for consumers. It introduces measures to collect surplus revenues from the production of electricity and a solidarity contribution from the fossil fuel sector's surplus profits, which will be used to alleviate the impact of high prices on final customers and further protect electricity retail customers.

8. The global COVID crisis is not over yet: close coordination of the health and the economic response remains central. The EU is fully committed to continue exporting and sharing vaccine doses worldwide. It is also critical to reinforce national health systems and to strengthen the global health architecture on pandemic Prevention, Preparedness and Response (PPR). As founding member and one of the biggest founding donors (with a pledge of 450 million USD), the European Commission welcomes the launch of the Financial Intermediary Fund (FIF) for pandemic preparedness and response, in particular the central technical role of the World Health Organization, an inclusive governance and the clear link with the G20 work. The fund will provide a dedicated stream of additional, long-term financing to strengthen PPR

capabilities in low and middle-income countries and address critical gaps through investments and technical support.

9. The environment of recurring large shocks, cyclical fluctuations and ongoing investment needs for the green and digital transitions while keeping debt sustainable, demonstrates the need for a robust EU economic governance framework. The European Commission will shortly provide orientations that could pave the way for a consensus on a reform of the framework, with the aim of addressing the key economic and policy issues that have emerged from the stakeholder consultation and the public debate and to create a simplified and more integrated architecture for macro-fiscal surveillance. Member States should have more scope to determine their debt reduction paths, with more freedom to invest, but more scrutiny on progress.

10. Our European Green Deal, with the European Climate Law and the ‘Fit for 55’ package, is being implemented with full force to reach our greenhouse gas emissions reduction target of at least 55% by 2030. We will work relentlessly to adapt to our climate. The necessary transformation has started in the European Union but climate change is a global crisis requiring a coordinated global response. We believe that the Fund has an important role to play to help the membership address macroeconomic and financial stability risks related to climate change. We also welcome the proposals for an International Carbon Price Floor among large emitters, which has the potential to curb emissions, and the work on Integrating Adaptation to Climate Change into Fiscal Policy, to minimize losses and maximise benefits from climate change while facilitating the green transition.

11. The European Union continues to 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. The EU is committed to revisiting the adequacy of quotas and continuing the process of IMF governance reform under the 16th General Review of Quotas, to be concluded no later than 15 December 2023.

12. Good progress is being made on the voluntary contributions towards the total global ambition of USD 100 billion of Special Drawing Rights (SDR) or freely usable currencies to help vulnerable countries, notably through the IMF Poverty Reduction and Growth Trust (PRGT) and the IMF Resilience and Sustainability Trust (RST). The EU welcomes the USD [80] billion that have been pledged so far, of which USD [23] billion are from EU Member States. We also strongly welcome the total USD [769] million pledged so far to the PRGT Subsidy Account, of which USD [434] million by EU Member States. The European Commission is also contributing EUR 100 million to the PRGT subsidy accounts as part of the EU’s support for low-income countries. We call for additional G20 members and other countries to consider voluntary contributions.

13. We need to step up the efforts to implement the G20-Paris Club Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative in a timely, orderly and coordinated manner, with clear and predictable timeframes. We welcome the provision of official financing assurances from Zambia’s Creditor Committee, and the recent approval of an IMF-supported programme for Zambia. We look forward to the finalisation of the debt treatments for Zambia and Chad and to continue the technical engagement on Ethiopia. We support exploring a possible extension of the Common Framework to lower-middle-income countries facing debt vulnerabilities. In the absence of consensus, an ‘ad hoc approach’ on coordination for such cases based on the Common Framework would be desirable.

14. We stress that debt transparency is essential. We look forward to the IMF’s upcoming paper on how to strengthen the incentives for debt transparency, as well as further guidance

on the use of collateral in sovereign borrowing. We encourage all private sector lenders to contribute to the joint Institute of International Finance/OECD Data Repository Portal.