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IMFC Statement by Bruno Le Maire
Minister of the Economy, Finance and the Recovery

France

In his capacity as Chair of the EU Council of Economic and Finance Ministers

Statement by the Minister of the Economy, Finance and the Recovery of France Bruno Le Maire, in his capacity as Chairman of the EU Council of Economy and Finance Ministers, to the IMFC Spring Meeting, Washington, DC, 21 April 2022

1. The Russian Federation's unprovoked and unjustified military aggression against Ukraine grossly violates international law and the principles of the UN Charter which include the right of Ukraine to choose its own destiny. This unjustified and unjustifiable attack is exacting a tragic human cost on the people of Ukraine, and is forcing millions to flee to the EU. Moreover, it is undermining European and global security, stability and prosperity. The EU stands firmly by Ukraine and its people as they face this unparalleled crisis. As regards preserving the rules based international order, while safeguarding financial stability, the EU will continue to work very closely with its international partners to support Ukraine directly and implement far-reaching sanctions on Russia and its accomplice Belarus. The Russian economy and its financing capacity have been hit hard through sanctions related to the financial, energy and transport sectors, export controls and the ban of export financing, and visa policy. The EU has moreover provided an emergency macro-financial assistance operation to Ukraine of EUR 1.2 billion, of which the first 600 million was paid out in March and which, together with other international financial support initiatives have made a substantial difference in addressing Ukraine's increased financing gap. The EIB has also disbursed EUR 668 million of immediate liquidity assistance.

2. The global economy continued to recover throughout 2021, but in an uneven and asynchronous manner, with a number of economies still below pre-pandemic output levels at end 2021, while global inflation rose sharply. Russia's military aggression against Ukraine has further pushed up energy, goods and other commodity prices, which are likely to remain elevated throughout 2022, with scope for considerable volatility. Beyond the direct consequences, the conflict has also affected confidence and significantly increased uncertainty, and is worsening the global outlook, intensify supply bottlenecks and add to underlying inflationary pressures, while other global risk factors such as the emergence of new variants and waves of COVID-19 remain present. Managing the pandemic remains critical for the economic recovery. In the short term, it is key to continue to support the Access to COVID-19 Tools Accelerator (ACT-A) initiative and its COVAX facility, and ensure effective financing to boost global vaccination, therapeutics, diagnostics and genomic surveillance, while strengthening health systems and response. The EU is fully committed to continue exporting and sharing vaccine doses worldwide, mobilising financing to fight COVID-19 in particular in low and middle income countries, and boosting local pharmaceutical production in Africa. In the long term, it is key to continue to strengthen the global health architecture to be better prepared for future pandemics, while ensuring the central coordination role of the WHO. It is critical to support the rules-based multilateral trading system. The new EU trade strategy pursues "open, sustainable and assertive trade", prioritising a major reform of the WTO and a modernisation of its rulebook to make it fit for today's world. The EU looks forward to substantial progress on those priorities at the 12th WTO Ministerial Conference which following its postponement at the end of last year will take place in Geneva in the week of 13 June 2022.

3. Fighting climate change is an integral and essential part of our agenda. It is a global challenge that requires an effective and coordinated response within a strong institutional framework. The economic consequences of climate change are being felt, and the cost of inaction is steadily increasing, as is the risk of insufficient action. This affects consumers, workers, businesses, public finances, and financial markets alike. The transition towards a climate-neutral

and environmentally sustainable economy can be accelerated by economic incentives and fiscal measures. The European Climate Law lays down the EU commitment to climate neutrality by 2050 and to increase its climate target from a 40% to a net 55% greenhouse gas emission reduction by 2030, compared to 1990 levels. The European Commission has on 14 July and in mid-December 2021 put forward the "Fit for 55" package which proposes to reinforce the EU's main climate, energy and transport legislation, including, inter alia, a strengthening of the EU Emission Trading System and its expansion to new sectors, a WTO-compliant Carbon Border Adjustment Mechanism to avoid carbon leakage between the EU and third countries, a revised energy taxation framework as well as more ambitious policy targets for renewable energy and energy efficiency. It will be key to drive forward the discussion on enhancing policy tools to price carbon emissions at the international level, focusing on sharing of best practices and integrating it in an appropriate manner into the broader mix of policies and instruments to decarbonise the economy at the national level. The Commission has also proposed a Social Climate Fund to support EU Member States in mitigating the negative social impacts of the green transition on the sectors affected and the most vulnerable groups. This is complemented by a proposal for a Council recommendation on addressing the social and labour aspects of the just transition. This has been proposed in addition to the Just Transition Fund, adopted in June 2021, which will finance projects to make the green transition fair and inclusive.

4. Policy measures have been well calibrated and fiscal and monetary policies have worked hand-in-hand to facilitate the rapid recovery from the COVID-19 crisis. The fundamentals underpinning the economic recovery in the EU remain strong. We are continuing our strong coordination of fiscal policies to weather the significantly increased risks and uncertainties. The fiscal stance will remain moderately supportive in the euro area in 2022, taking into account national budgets and the funding provided by the Recovery and Resilience Facility. Our fiscal policies have to remain agile and flexible, and we stand ready to adjust our policy stance to the changing circumstances as needed. In particular, we will consider concrete options for dealing with the impact of increased energy prices on our citizens and businesses, especially our vulnerable citizens and SMEs. On the basis of the European Commission Winter Forecast 2022, transitioning to a broadly neutral aggregate fiscal stance next year appears appropriate while standing ready to react to the evolving economic situation. National fiscal policies should take into account the overall investment needs and reflect the new geopolitical situation. Fiscal strategies need to be differentiated across Member States. In the EU, with a view to preserving debt sustainability, as of 2023 Member States with high public debt should start gradual fiscal adjustment to reduce their public debt, if conditions allow. This adjustment should be embedded in a credible medium-term strategy that continues to promote investment and reforms needed for the twin transition and improve the composition of public finances. On the other hand, Member States with low or medium debt should prioritise the expansion of public investment where necessary. All of this would contribute to achieving an appropriate overall policy stance. Therefore, all EU Member States should increase the resilience of their economies and promote and protect high-quality nationally-financed investment to lay foundations for high sustainable growth and to achieve our twin transition goals.

5. The EU has agreed on a comprehensive package for EU Member States covering the years 2021-27. This combines a reinforced Multiannual Financial Framework (MFF) and an extraordinary recovery effort funded through the temporary "Next Generation EU" (NGEU) recovery instrument, together amounting to EUR 2,018 billion (in current prices). The centre piece of NGEU is the Recovery and Resilience Facility (RRF), which has already entered its implementation phase. By early March 2022, the Council had approved the Recovery and Resilience Plans (RRPs) of 22 Member States after positive assessments by the European Commission, and the European Commission disbursed – including first regular disbursements to Spain and France – a total of

EUR 74 billion to support the implementation of the RRPs. A large number of Member States are expected to submit new payment requests in the coming months. With economic uncertainty on the rise again, it should be recalled that a significant portion of RRF lending capacity remains available to assist Member States' efforts to boost their recoveries and their resilience through reforms and investments.

6. The effective implementation of the MFF 2021-2027 and of the NGEU, and in particular the RRF, will ensure that the EU's recovery strategy is aligned with the longer-term climate and environmental sustainability goals, notably through a target of at least 37% of climate expenditure in each national RRP. The 22 plans approved so far have gone even beyond this target and, on average, will spend around 40% on climate-related measures. The European Commission's new Sustainable Finance Strategy published on 6 July 2021 will complement these efforts by supporting the mobilisation of the financial sector to meet the investment needs of the green transition and improve the resilience to climate and environmental risks. In addition, the European instrument for temporary support to mitigate unemployment risks in an emergency (SURE) has allowed for up to EUR 100 billion loans in support of Member States' short-time work schemes and similar measures to protect jobs and workers affected by the economic fallout of the COVID-19 pandemic, out of which almost EUR 90 billion were already disbursed. Furthermore, the Pan-European Guarantee Fund was created as a temporary instrument to address liquidity needs of European companies with a focus on SMEs and implemented by the European Investment Bank Group, with a view to mobilise up to EUR 200 billion of financing.

7. As part of the EU's global response to the COVID-19 pandemic, in 2020 the EU approved EUR 3 billion of Macro-Financial Assistance (MFA) to 10 enlargement and neighbourhood partners to help them cope with the economic fallout. Of this, EUR 2.5 billion have been disbursed by the end of 2021. This assistance came on top of the 'Team Europe' package, the EU's robust and targeted response to support enlargement and neighborhood partner countries' in tackling the pandemic, reaching almost EUR 40 billion. Besides the financial assistance foreseen in context of the COVID-19 pandemic, the implementation of a third regular MFA programme for Jordan was also taken forward, with the release of the second tranche in July 2021. At the end of 2021, the Commission also received two official requests for MFA from Moldova and Ukraine. The Commission's proposal for an additional MFA to Moldova of EUR 150 million was endorsed by the European Parliament and the Council on 25 March, with a view to have a first disbursement by June.

8. By end 2021, the European Fund for Strategic Investments (EFSI) mobilised more than EUR 520 billion in additional investment across the EU. It also more recently contributed to mitigate the impact of the COVID-19 pandemic on the EU's economies. Close to one and a half million start-ups and small businesses are expected to benefit from improved access to finance. More than 60% of the expected mobilised investment comes from private resources. The InvestEU programme will build on the success of the EFSI and bolster investments across the European Union over the 2021-2027 period through higher risk taking in favour of higher impact and additional investments. It will provide crucial support to small and medium-sized businesses as well as for infrastructure, research and innovation investments as well as for social projects. This will contribute to overcoming the effects of the crisis while supporting the EU's long-term priorities, in particular the green transition, the digital transformation and the competitiveness of the EU economy. The overall investments to be mobilised on this basis are estimated at EUR 372 billion, of which 30% should be dedicated to support EU climate and environmental objectives. The main implementation partner for the InvestEU programme is the EIB Group. Furthermore, other implementing partners, notably public promotional banks, will help deliver on the InvestEU programmes' objectives, covering all Member States with a wide range of financial products.

IMF Policy Issues

9. As the recovery is taking hold, the IMF support for countries has shifted from emergency financing and debt service relief towards regular lending programs with upper-credit-tranche conditionality. It will be key for the IMF to mitigate the effects of the Covid-19 crisis by addressing evolving balance of payments needs, and to provide financial assistance for countries destabilised by the economic and financial impact of the Russian aggression against Ukraine, while helping to tackle broader challenges such as climate change, digitalisation and demographics. We welcome the approval by the IMF Executive Board of a disbursement of US$ 1.4 billion under the Rapid Financing Instrument to help Ukraine meet urgent balance of payment needs.

10. The general allocation of Special Drawing Rights of about USD 650 billion, which became effective on 23 August 2021, accompanied by increased transparency and accountability measures on the use of SDRs, has benefitted all members by addressing the long-term global need for reserves and has helped underpin the stability of the global economy. We call for additional members to consider signing voluntary SDR trading arrangements to expand burden sharing across a wider set of countries. The EU supports the voluntary channelling of Special Drawing Rights (SDR) to help vulnerable countries, including through significantly and sustainably scaling up the IMF Poverty Reduction and Growth Trust (PRGT), and through the establishment by the IMF of the Resilience and Sustainability Trust (RST). The RST will provide financing with longer repayment schedules, subject to appropriate risk mitigation, to assist vulnerable countries' reform efforts to reduce risks to prospective balance of payment stability, focusing primarily on climate change, as well as on pandemic preparedness, within the Fund's mandate. We strongly encourage the Fund to work in close cooperation with the World Bank and other MDBs in implementing the RST, particularly as regards design of conditionality, benefitting from their expertise and respecting their mandates and comparative advantages. The EU welcomes the pledges so far by G20 and non-G20 members, of which EU Member States have so far pledged USD 20 billion. On top of that, the EU welcomes the pledges to the PRGT Subsidy Accounts, of which USD 321 million have been pledged by EU Member States. More EU Member States are willing to contribute significantly to this global effort. We call for additional members to consider voluntary contributions to bolster the PRGT and to reach a critical mass of resources for operationalisation of the RST by the IMF Annual Meetings 2022.

11. The EU Member States continue to support the commitment by the IMFC to a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net (GFSN). We are 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 December 15, 2023.

12. We welcome the IMF's ongoing work on climate change. While the challenges facing individual Members differ, and the timing and scope of disruptions may vary, concerted action everywhere, now and over the next decade will be crucial to mitigate risks related to climate change. We therefore believe that the Fund has an important role to play, and we agree with deepening the Fund's engagement on macro-critical climate change related issues across its activities. Further, we welcome the IMF's proposals for an International Carbon Price Floor among large emitters, which has the potential to curb emissions, and the proposal for Integrating Adaptation to Climate Change into Fiscal Policy, to minimize losses and maximize benefits from climate change while facilitating the green transition.

13. We welcome the completion of the Fund's 2022 Review of the Institutional View on the Liberalization and Management of Capital Flows (IV). While the main elements of the Institutional

View remain valid, we agree that the policy changes and further guidance provided in the Review of the IV contribute to fine-tuning the IMF's advice on the appropriate use of capital flow management tools. We invite the Fund to make further progress in this area in the forthcoming years.

14. The IMF arrears policies are among the key Fund's policies related to sovereign debt restructuring. We welcome the significant progress achieved towards the Review of the Fund's arrears policies and perimeter with, among others, work to develop a new 'institution-based approach' for the definition of multilateral institutions benefiting from protection under the Fund's Non-Toleration of Arrears Policy (NTP).

15. 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. We encourage the G20/Paris Club to take stock of the functioning of the Common Framework in relation to the first country cases, in order to make it more efficient, create right incentives for eligible countries in need of debt treatment and ensure a fair burden sharing among official and private creditors through the comparability of treatment. We look forward to relevant Creditor Committees' efforts to conclude the Chad and Ethiopia debt treatment, and encourage G20 and Paris club creditors to work on the requested debt treatment from Zambia and form a creditor committee in a timely manner. We are committed to address new requests for a debt treatment under the Common Framework in a timely manner and we call for all bilateral creditors to act in this direction. We ask the IMF and the World Bank Group to assist countries requesting debt treatment under the Common Framework through Technical Assistance and advisory services where needed. We support exploring how to extend the Common Framework to lower-middle-income countries facing debt vulnerabilities, while at the same time recognizing that resources for debt relief should be prioritized for low-income countries. We also welcome the IMF's debt service relief for the poorest and most vulnerable countries provided thanks to the Catastrophe Containment and Relief Trust (CCRT). The EU and EU Member States have made significant disbursements (USD 426 million[1]) and encourage others to provide additional contributions to ensure that it is adequately funded to help countries cope with future natural disasters and health shocks.

16. We stress that debt transparency is essential to ensure a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We reiterate our support for strengthening the international efforts aimed at enhancing debt transparency, in both debtor and creditor countries, including the IMF-WB proposal on a debt data reconciliation process and the debt transparency pillar of the IMF-WB Multi-pronged approach to address debt vulnerabilities. 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.

[1] Data as of December 2021.