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IMFC Statement by Elisabeth Svantesson
Chair
EU Council of Economic and Finance Ministers

Statement by Minister of Finance, Elisabeth Svantesson in her capacity as Chair of the EU Council of Economic and Finance Ministers, at the 2023 IMF Spring Meetings,

Washington, DC, April 2023

1. On 24 February last year, Russia launched its illegal, unprovoked and unjustified military aggression against Ukraine, violating international law and the principles of the UN Charter that include the right of Ukraine to choose its own destiny. The EU stands, and will continue to stand, firmly by Ukraine and its people for as long as it takes. The EU also continues to work very closely with its international partners to support Ukraine directly and indirectly and further increase collective pressure on Russia to end its war of aggression and to withdraw its troops and military equipment from Ukraine within its internationally recognised borders. The EU, together with international partners, is implementing far-reaching sanctions on Russia and its accomplice Belarus, and is continuously working to reinforce them and implement anti-circumvention measures. The Russian economy has been significantly set back and its financing capacity is increasingly hit through sanctions related to the financial, energy and transport sectors, export controls and the ban of export financing, and visa policy.
2. Food shortages and high food and fertiliser prices exacerbated by the war threaten food security and overall stability across the world. This situation is aggravated by the actions taken by Russia. The UN-backed deal to resume Ukrainian food exports through the Black Sea, signed in July 2022, helped to reduce grain prices to levels prevailing before the war, demonstrating that the Russian war of aggression is at the root of food price increases. Therefore, the EU welcomes the recent renewal of the Black Sea Grain Initiative and stresses the importance of its further extension. The EU strongly rejects the Russian propaganda, and especially the claim that sanctions have contributed to the food crisis. We support stepping up and coordinating international collective actions on food security, building, inter alia, on the G7, G20 and UN initiatives, the EU Solidarity Lanes, as well as the IMF food shock window.

3. The EU has provided emergency and exceptional macro-financial assistance (MFA) to Ukraine for a total of EUR 7.2 billion in 2022. In 2023, the EU set up a new Macro-financial Assistance "+" instrument in the form of highly concessional loans of up to EUR 18 billion, that also include an additional interest rate subsidy. The first payments have already taken place. Disbursements to the tune of EUR 1.5 billion are envisaged on a monthly basis, pending satisfactory progress toward implementing the agreed policy conditionality, which was designed also with a view of advancing on Ukraine's path towards the EU, having become a candidate country in 2022. The assistance provided by the EU and bilaterally by Member States since the start of the Russian aggression has made a substantial contribution to addressing Ukraine's funding gap, demonstrating the strong commitment to securing Ukraine's financing. The overall level of assistance to Ukraine and its people provided by the European Union and its Member States so far amounts to at least EUR 67 billion, including EUR 17 billion that have been made available from the EU budget for Members States, which are hosting around 4 million people under temporary protection. In 2022, the European

Investment Bank disbursed EUR 1.7 billion in emergency relief to Ukraine, with the support of the European Commission, helping the Government of Ukraine meet most immediate and urgent financial needs. Over the same period, the European Bank for Reconstruction and Development deployed EUR 1.7 billion to support the real economy and vital infrastructure in Ukraine. Ukraine's remaining funding needs in 2023 will be met through a continued coordinated effort by the international community. Looking ahead, the EU-G7 multi-donor platform and Ukraine's EU-accession path will accelerate the recovery and transform long-term growth prospects.

4. A critical role in this global challenge falls on the IMF. We reiterate in particular our strong support for the IMF's close engagement with and continued support for Ukraine. We welcome the approval of a 48-month Extended Fund Facility for Ukraine. This programme will contribute towards addressing the financing gap of Ukraine in the coming years and help to restore external viability in the medium term, while enhancing the policy framework and fostering sustainable economic growth. Importantly, it should also have a strong catalytic effect on other donors and creditors. The EU will continue its financial support over the IMF program horizon.

5. The shocks unleashed by the Russian invasion of Ukraine triggered an increase in inflation and a deceleration of economic growth in the EU. Intensifying and broadening inflationary pressures have prompted the ongoing normalisation of monetary policy. Growth in the EU should be supported going forward by public investment on energy security and renewables and the measures to contain the social and economic impact of high energy costs, as well as productivity enhancing structural reforms. Coordination of fiscal and economic policy remains key. Prudent fiscal policies should aim at ensuring medium-term debt sustainability, while raising potential growth in a sustainable manner and addressing the green and digital transitions and resilience objectives through investment and reforms. Fiscal policy should remain agile going forward. Whilst broad-based fiscal stimulus to aggregate demand is not warranted, we are gradually transitioning towards more targeted measures. Reforms to reduce bottlenecks to private investment are a necessary complement to public investments for the green and digital transitions and energy security. The EU financial sector has shown resilience, thanks to the regulatory reform agenda implemented since the great financial crisis in 2008. EU banks now have solid bank capital positions, robust asset quality and high bank liquidity buffers that have withstood market volatility. The recent banking sector stress illustrates the importance of a robust and operational crisis management framework that includes appropriate tools for dealing with banks in trouble decisively and in a timely fashion. The EU is well prepared in this regard.

6. The EU has agreed on a comprehensive package for EU Member States covering the years 2021-27, amounting to more than EUR 2 trillion in current prices. It combines a reinforced Multiannual Financial Framework (MFF) and the extraordinary recovery effort funded through the temporary "Next Generation EU" (NGEU) instrument. The total amount of grants and loans disbursed so far, including pre-financing, stands at EUR 144.1 billion. To ensure the EU alignment with its longer-term climate goals, at least 37% of expenditure in each national RRP has to be targeted towards the green transition. The 27 plans approved have gone even beyond this target and, on average, will spend around 40% on climate-related measures. Looking ahead, the RRF instrument will be aligned

to REPowerEU priorities, the EU plan to diversify energy sources, reduce demand and accelerate the clean energy transition launched in May 2022. Overall, close to €270 billion REPowerEU funds will be available for Member States. Further, the EU also aims to catalyze private investments towards EU policy priority areas through the InvestEU Programme, which intends to mobilise over EUR 372 billion of financing through the backing of an EU budget guarantee.

7. To advance the transition towards a climate-neutral and environmentally sustainable economy, the European Commission put forward in 2021 the "Fit for 55" package to reinforce the EU's main climate, energy and transport legislation. This entails a WTO-compliant Carbon Border Adjustment Mechanism, strengthening of the EU Emission Trading System, and the establishment of a Social Climate Fund to compensate vulnerable energy and transport users. Russia's war against Ukraine has led to high and volatile energy prices and has increased the urgency of reducing the dependence of our energy systems, while fostering the green transition. The EU responded by accelerating the transition to a decarbonised energy system, also thanks to the REPowerEU plan, providing a toolbox of measures that Member States can use to protect consumers and businesses, coupled with energy saving measures, and accelerating the preparations for the impact of potential further gas supply disruptions from Russia.

8. It is important to seize the opportunities of the net-zero industrial transformation, whilst avoiding a subsidy race to the bottom. Europe is determined to lead the clean tech revolution. To this aim, the European Commission presented a comprehensive strategy through the European Green Deal Industrial Plan in February 2023 and already proposed a Net-Zero Industry Act as part of a broader package. The plan outlines ways to fully mobilise, in a more flexible manner, all relevant national and EU tools, so as to provide timely and targeted support in strategic sectors, and improve framework conditions for clean tech investment, with a view to ensuring EU's resilience and competitiveness without affecting the cohesion policy objectives. The full potential of the European Investment Bank should be exploited. It remains a key priority to step up joint efforts to avoid fragmentation by strengthening multilateralism and foster the rules-based international system. International cooperation is essential also to support and accelerate the green and digital transition. Beside the Green Deal Industrial Plan, it remains important to focus on the long-term competitiveness and productivity of the entire economy.

9. The EU continued providing macro-financial assistance (MFA) to partner countries experiencing a balance of payment crisis. In particular, the remaining MFA operation for Tunisia provided under the EU's global response to the COVID-19 pandemic was successfully completed in 2022. In light of a gas crisis that started in October 2021, the EU provided a new MFA to Moldova, the first two instalments under which were already disbursed. The EU will continue to provide support to Moldova, including by helping strengthening the country's resilience, security, stability, economy and energy supply. In January 2023, in view of the severe consequences of Russia's war against Ukraine, the European Commission adopted a proposal to further increase the ongoing MFA operation to Moldova, and proposed in February 2023 a new MFA operation for North Macedonia.

The implementation of the third regular MFA for Jordan was also taken forward.

IMF Policy Issues

10. We reiterate the IMF's critical role in providing financial support, with adequate safeguards to help members deal with balance of payments problems, notably for countries destabilised by the economic and financial impact of the Russian war against Ukraine. We strongly support IMF's engagement with Members with sound policies facing exogenous shocks, to maintain the relevance and effectiveness of the IMF, as well as to limit spillovers and financial risks to the Fund. We welcome the operationalization of the Resilience and Sustainability Trust (RST) in October 2022 to assist eligible countries in addressing balance of payments needs related to broader long-term structural challenges such as climate change and pandemic preparedness. In this context, we welcome the pilot programmes already approved and note the demand prospects in 2023. We look forward to the review of precautionary arrangements (FCL, PLL and SLL). We agree with further deepening the Fund's engagement, in line with its mandate, on macro-critical climate change related issues across its activities, including through climate-related surveillance, lending through the RST, and policy advice and capacity development. Further, the IMF's proposals for an International Carbon Price Floor among large emitters and the work on Integrating Adaptation to Climate Change into Fiscal Policy have the potential to curb emissions and contribute to reaching climate objectives.

11. 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. EU Member States support at least maintaining the size of the Fund, as part of a package approach.

12. Many EU Member States have made large voluntary contributions to help reach the 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 RST. The EU welcomes the USD 87 billion that have been pledged so far, of which USD 28 billion have been pledged from EU Member States. On top of that, the EU welcomes the total USD 1381 million pledged so far to the PRGT Subsidy Account, of which USD 482 million have been pledged by EU Member States and, in addition, 100 million by the European Union. We call for G20 members and other countries, especially those that have not contributed yet, to consider new voluntary contributions to bolster to the PRGT's loan and subsidy resources, and to ensure adequate financing for the full operationalization of the RST. To maximize its impact, the RST should help catalyse private sector finance through strong RSF-supported reforms.

13. Efforts need to be further stepped up to implement the G20/Paris Club Common Framework (CF) for Debt Treatments in a predictable, timely, orderly and coordinated manner, in a context of increasing debt vulnerabilities for developing countries, also driven by energy and food insecurity.

We welcome the conclusion of the debt treatment to Chad and encourage the timely conclusion of the debt treatment for Zambia on the first semester 2023, the resumption of technical work on Ethiopia, as well as the swift formation of a Creditor Committee for Ghana. We also welcome the approval of the EFF program and look forward to a swift resolution to Sri Lanka's debt situation and welcome the provision of financing assurances by main creditors. We encourage all members of the G20 and the Paris Club, together with the IMF and the World Bank and other stakeholders, to review and improve the functioning of the CF and develop a user manual for its implementation based on the lessons learned from the first country cases, providing additional clarity to debtor countries on the process and timelines. We stress the need for effective coordination of debt restructuring in middle-income countries, where needed, and support exploring how to extend the CF to these countries facing debt vulnerabilities, and we support at least a form of ad hoc coordination between official creditors as it has been the case for the provision of financing assurances for Sri Lanka. We welcome the IMF and WB initiative to establish a Global Sovereign Debt Roundtable, and stress the need for good coordination and complementarity with existing Paris Club outreach events and constructive engagement by all official bilateral and private creditors.

14. 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 and WB efforts to promote debt data reconciliation and disclosure and the debt transparency pillar of the IMF-WB Multi-pronged approach to address debt vulnerabilities. We look forward to further guidance on collateralised financing practices. We encourage all private sector lenders to contribute to the joint Institute of International Finance/OECD Data Repository Portal.