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IMFC Statement by Valdis Dombrovskis
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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, 14 April 2022

1. Russia's unprovoked aggression against Ukraine grossly violates international law and the principles of the UN Charter. Its ongoing unjustified and unjustifiable attacks are exacting a tragic human cost on the people of Ukraine. Russia is undermining European and global security, the international rules-based order, and stability and prosperity. The EU stands firmly by Ukraine and its people and will do so for as long as it takes. The EU will continue to work very closely with its international partners to support Ukraine and further increase collective pressure on Russia to end its war of aggression and to withdraw its troops from within Ukraine's internationally recognised borders. Since February 2022, the EU has been implementing far-reaching sanctions on Russia and its accomplices, notably Belarus, and stands ready to reinforce them and implement anti-circumvention measures through sanctions that relate inter alia to individual persons and entities and have a significant impact on the Russian economy and its financing capacity. The EU is also implementing the price caps on oil and petroleum products agreed by the G7, 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.

2. The EU has reiterated its commitment to continue providing strong support to Ukraine and its people for as long as it takes. We strongly welcome the adoption of the upper credit tranche-quality programme for Ukraine. The EU is coordinating closely with international partners to help close Ukraine's financing gap and to advance with the implementation of the programme. In 2022 alone, the EU provided an emergency and exceptional macro-financial assistance (MFA) operation of EUR 7.2 billion. To ensure the predictability and reliability of this sizable support to Ukraine for 2023, the EU set up a new financial instrument - "MFA+" - in the form of highly concessional loans of up to EUR 18 billion, that also includes an additional interest rate subsidy. Payments of EUR 4.5 billion have already taken place, to be followed by disbursements of EUR 1.5 billion on a monthly basis. Team Europe (i.e. the European Union and its Member States and European Financial institutions) has provided more than EUR 67 billion in financial assistance to Ukraine since the outbreak of the war. This includes EUR 17 billion made available to host Ukrainians who have found shelter in the European Union. The EU and its Member States are also crucial providers of military aid, and equipment as well as material for the civilian population (e.g. medications, food, and fuel).

3. The EU economy continues to display resilience. Stronger-than expected growth in the second half of 2022 together with significantly lower wholesale gas prices and continued strong labour markets improved the near-term growth outlook for the EU economy. The latest Commission forecast, issued in February, lifted the outlook for growth this year and slightly lowered the inflation projections. Since then, economic developments have not warranted a substantial revision of the growth outlook for 2023 and 2024. Energy commodity prices have continued to fall, the unemployment rate has remained at an all-time low, amid persistent signs of labour market tightness. Headline inflation has continued declining, whilst core inflation increased further. Monetary policy normalisation is thus set to continue. The EU banking sector is resilient. EU banks have solid capital positions, robust asset quality, high liquidity buffers and rely upon well-functioning supervision market infrastructures that have withstood market volatility shocks and declines in asset valuations.

4. The effective implementation of the EU's Recovery and Resilience Facility (RRF) is at the top of our priorities. It is the centrepiece of the EU's efforts to achieve a sustainable and transformative recovery after the pandemic, making available EUR 723.8 billion (in current prices) in loans (EUR 385.8 billion) and grants (EUR 338 billion). The implementation of

national reform and investment agendas - Recovery and Resilience Plans (RRPs) - is in full swing, with more than EUR 150 billion having been disbursed to Member States by 31 March 2023. At least 37% of expenditure in each national RRP has to be targeted towards green measures, ensuring that the EU is aligned with the longer-term climate and environmental sustainability goals. In fact, around 40% of RRF funds has been allocated to climate-related measures.

5. On 8 March 2023, the European Commission set out its guidance for EU Member States on the conduct and coordination of fiscal policy. In 2023-24, fiscal policies should aim at ensuring medium-term debt sustainability and raising potential growth in a sustainable manner. Prudent fiscal policy will help to ensure the stability of the European economy and facilitate the effective transmission of monetary policy in a high inflation environment, by ensuring the respect of the 3% of GDP deficit reference value as well as plausible and continuous public debt reduction. Fiscal measures that have mitigated the impact of the energy crisis on businesses and consumers should be phased out. If an extension of support were necessary, Member States should target their measures, refraining from generalised support and only protecting vulnerable households and firms in order to limit fiscal costs and ensure price signals to limit energy consumption and increase energy efficiency.

6. 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 published its orientations for a reform of the economic governance framework in November 2022. Discussions amongst EU Member States on the revised fiscal framework are progressing. The Commission intends to publish its legislative proposals in the coming weeks. The Council of the European Union has set out the aim of concluding legislative work in 2023.

7. Russia’s war against Ukraine has aggravated the global food crisis. Supply chain disruptions are driving high food prices that are straining the budgets of households and states. They are also causing difficulties in accessing agricultural inputs. The total EU support for food security, as part of the Team Europe response to the global crisis reaches more than EUR 8.3 billion from 2021 to 2024. We strongly welcome the good implementation of the food shock window under the IMF’s emergency financing toolkit which aims to enhance the IMF’s support to members facing urgent balance of payment needs related to the global food shock.

8. Although the energy market outlook for 2023 remains challenging because of uncertainty, it has improved thanks to extensive and timely policy measures undertaken by the EU and its Member States and close cooperation with international partners. The EU set a strategic framework for rapidly reducing its dependence on Russian fossil fuels in the form of the REPowerEU plan and the European strategy for external energy engagement, by fast-forwarding the clean transition through energy efficiency measures, accelerating the renewable energy roll-out and joining forces to achieve a more resilient energy system and a true Energy Union. The RRF is the main instrument to channel financial support from EU funds for REPowerEU objectives, and InvestEU, through its sustainable infrastructure window, is supporting clean investments that would help in accelerating the phasing out of Russian fossil fuels. The European measures have been successfully implemented in all key areas of energy policy and reduced uncertainty in European and global markets: security of supply and storage, gas demand reduction, supply side measures (the EU Energy Platform and international outreach), introduction of a market correction mechanism to avoid excessive prices in gas markets, reduction in electricity peak demand, faster deployment of renewables, and targeted upgrades of the infrastructure for diversification.

9. Close coordination of the health and economic responses remains necessary. It is critical to reinforce national health systems, as well as to improve surveillance. As a founding member

and one of the biggest founding donors (with a pledge of USD 450 million), the European Commission welcomes the first call for proposals by the Pandemic Fund and calls for further donations to support it. Moreover, we fully support the work undertaken by the G20 Joint Health and Finance Task Force. Further work should focus on developing a G20 framework for economic vulnerabilities and risks arising from pandemics and on enhancing response tools to tackle future pandemics. It is crucial that this work is conducted in coordination with relevant International Financial Institutions (IFIs), including the IMF. We welcome the discussion on how surge financing can be rapidly mobilised and allocated to support countries' response to a pandemic.

10. We believe that the Fund has an important role to play to help the membership address macroeconomic and financial stability risks related to the twin crisis of climate change and biodiversity loss. We welcome the proposal by the IMF 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 maximize benefits from climate change while facilitating the green transition.

11. The EU continues 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. 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. We support at least maintaining the size of the Fund, as part of a package approach.

12. The EU has made significant voluntary contributions to reach the global ambition of USD 100 billion of Special Drawing Rights (SDR) 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 87 billion that have been pledged so far, of which USD 27.7 billion are from EU Member States. We moreover welcome the total USD 1381 million pledged so far to the PRGT Subsidy Account, of which USD 482 million by EU Member States and, in addition, EUR 100 million by the European Commission. We call for additional countries to consider voluntary contributions to the PRGT and to the RST.

13. We remain very concerned about the global debt dynamics. We need to step up the implementation of the G20 Common Framework for Debt Treatments and progress with the ongoing country cases. We call for the swift formation of the Creditor Committee for Ghana in order to provide the necessary financing assurances, and we stress the importance of cooperation among all bilateral creditors. We also stress the need to swiftly proceed with the technical work for Zambia and Ethiopia in the respective Creditor Committees. We firmly consider that the MDBs' role in the Common Framework consists of ensuring net positive concessional financing flows. We also need effective multilateral creditor coordination for middle-income countries that need debt restructuring. In this respect, we welcome the recent agreement on an IMF programme for Sri Lanka.

14. We stress that debt transparency is essential. We fully support the international efforts aimed at strengthening debt data transparency. We look forward to further guidance from the IFIs 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.