



International Monetary and Financial Committee

Thirty-Seventh Meeting
April 20–21, 2018

Statement No. 37-33

**Statement by Mr. Goranov
EU Council of Economic and Finance Ministers**

Brussels, 12 April 2018

Statement by Minister of Finance, Vladislav Goranov in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, 20-22 April, 2018

Global economy

1. The EU is strongly committed to keeping the global economy open, while improving the 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, as the broad-based cyclical expansion continues, including in the EU and the euro area where GDP is expected to grow by 2.3% this year in both cases. It is now time to shift the focus from stimulating the economy to rebuilding fiscal buffers and ensuring long-term and more inclusive growth with emphasis on the composition and quality of public finances and structural reforms. We also note that vulnerabilities and downside risks in financial markets remain. High public and private debt in several advanced and emerging economies can pose challenges going forward.
3. Trade is rebounding and supporting growth. We underline the positive impact of trade and of a well-functioning multilateral trading system on growth and investment. Enhanced cooperation is needed to facilitate trade within a level playing field. We are concerned by the existence of over capacity and distortive practices in some sectors, regret recent unilateral decisions to impose import tariffs and believe the situation needs to be tackled at the international level within the multilateral framework.
4. The pace of economic growth in the EU and in the euro area surpassed earlier expectations, driven by increased support from a global upswing, favourable financing conditions and continued improvements in the labour market situation. Private consumption remains the main backbone of the economic expansion. But also investment, which had frequently been identified as the weakest link in the post-crisis recovery, is showing signs of a broad-based pick-up. Strong economic growth is helping to increase employment, and to lower unemployment.
5. Inflation in the euro area remained rather muted at the end of 2017. Wage pressures and core inflation are expected to rise only gradually. Inflation in the euro area is forecast to remain stable in 2018 at 1.5%, before edging-up to 1.6% in 2019.
6. Several key elements are in place to support the successful exit of Greece from international financial assistance in August 2018 as planned. The Greek authorities have completed all prior actions to conclude the third review of the European Stability Mechanism programme. The fourth review has been launched. The Eurogroup reconfirmed in June 2017 that it stands ready to implement a second set of debt measures, to be calibrated upon an updated Debt Sustainability Analysis and to be implemented to the extent needed to meet the agreed gross financing needs objectives, conditional upon the successful implementation of the programme. Technical work on a growth-adjustment mechanism to account for possible differences between growth assumptions and actual growth developments as part of the medium term debt measures is progressing well. The focus for the last stretch of the Greek European Stability Mechanism programme should now be on advancing with the reform agenda, adopting a holistic growth strategy, and completing all remaining key deliverables, so as to conclude the fourth and final review in

a timely manner. This will pave the way for successful completion of the programme and a return to full and sustained access to international markets.

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. In light of the current, broad-based economic growth, albeit with the persistence of crisis legacies in some areas, a broadly neutral fiscal stance at aggregate level for the euro area in 2018 continues to be appropriate. The positive cyclical conditions call for the need to rebuild fiscal buffers, in particular in countries where debt ratios are high, while continuing to strengthen the growth potential of our economies.
- **Structural reforms to modernise our economies.** We will pursue policies that support sustainable and inclusive growth in the short and the long term, tackle remaining macroeconomic imbalances, and improve adjustment capacity and convergence. Reforms undertaken in recent years have started to pay off, albeit in an uneven way, as economic growth becomes widespread throughout all Member States. Those 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. A renewed reform momentum will be necessary, among others, to improve labour market functioning, create an enabling business climate, complete the Single Market and remove barriers to investment. Those efforts are crucial for increasing productivity and employment, strengthening convergence, boosting growth potential, and in particular for the euro area economy, enhancing adjustment capacity. Moreover, NPL ratios have stabilised in nearly all more affected euro area Member States or are on a declining trend, but progress remains uneven across Member States and banks. High NPL ratios hinder banks' ability to lend, transmission of monetary policy and economic adjustment capacity. Further action is therefore required, in line with the Council Action Plan. At the EU level, efforts to complete the Single Market in goods and services should continue, and priority will be given to completing the Banking Union and further 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) are expected to have already mobilised EUR 274 billion or more than 80% of the initially targeted EUR 315 billion in total investments across all EU Member States and have supported some 589,000 SMEs. The legislative proposal to extend the duration of the EFSI to end-2020, and to raise the investment target to at least EUR 500 billion was adopted in December 2017. It puts emphasis on the additionality and quality of the projects rather than on overall volume. However, to reinforce the mobilisation of private investments, policy actions under the so-called "third pillar" of the plan need to be stepped up with reform initiatives both at European and Member States level to promote favourable framework conditions for businesses across the Single Market.

8. There have been important reforms to strengthen Europe's Economic and Monetary Union in recent years but its architecture remains incomplete. The ongoing economic expansion provides an opportunity to address challenges ahead. It is in this context that work

will continue to deepen the Economic and Monetary Union. Work in the next few months will focus on areas where the discussion is more advanced. Progressing on issues such as completing the Banking Union and enhancing the European Stability Mechanism should strengthen the resilience of the Economic and Monetary Union. Reflections will continue also in other areas, including on fiscal issues, which need more time to mature.

9. The European Union remains committed to supporting Ukraine's macroeconomic stabilisation and structural reform agenda, including through macrofinancial assistance. The European Union urges the Ukrainian authorities to continue implementing reforms. A total of EUR 2.8 billion have already been disbursed to Ukraine under this instrument since 2014. Another EUR 1 billion of macrofinancial assistance could become available in 2018 provided the conditions set out by the EU are met, in particular related to the fight against corruption, and to a successful track record under its IMF programme.

IMF Policy Issues

IMF Resources and Governance

10. We 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 center of the Global Financial Safety Net.

11. We consider it most important that discussions on the quota formula and the 15th Review will continue to be treated as an integrated package. The discussion should be well sequenced, discussing all elements that are part of the quota review. A prerequisite for progress in the negotiations is to clarify the prospects for a possible quota increase as soon as possible. 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.

12. We recall that many EU Member States significantly contribute to the Fund's lending capacity by renewing the New Arrangements to Borrow (NAB) 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. Discussions on the adequacy of the Fund's resources should not pre-suppose a future decision about a possible renewal of the bilateral credit lines.

13. 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. The latest quota data update clearly 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. We believe that voluntary financial contributions should be recognised in the upcoming 15th General Review of Quotas discussions, and some form of compensation is warranted. We agree that the fact that permanent quota resources have been backstopped by a second and third line of defence has served the Fund well in the past. EU Member States agree that the Fund is and should remain a quota-based institution.

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. High quality and well-regarded surveillance is critical for the IMF's ultimate goal of promoting the stability of the international monetary system, as well as global economic and financial stability, and for the Fund's credibility as trusted advisor. Fund involvement in structural issues (especially digitalisation, climate change and inclusiveness) should comply with shared principles, including macro-criticality, in-house expertise and close collaboration with other institutions and in accordance with the pilot-based approach, which has proved to be useful.

16. We welcome the report by the Fund on the 2018 Interim Surveillance Review. We welcome the progress made on surveillance on the deeper understanding of global interconnectedness, risk work, fiscal and external sector analysis and the integration of macrofinancial analysis into surveillance. We support the extension of the macrofinancial analysis across the full membership. We encourage the Fund to work further in particular on the items where progress has been less prominent, such as financial sector vulnerabilities, the assessment of outward spillovers, and on capital flows. Maintaining new skills and expertise built up since 2014 will be critical, such as in the mainstreaming of macrofinancial analysis. 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. The emergence of the digital economy has broad implications across many areas of the Fund's work. The current series of Board discussions on several aspects of the digital economy is timely. We encourage the Fund to further develop the macrofinancial surveillance of non-bank financial risks, and to monitor potential financial stability implications of technological innovation.

17. The EU trusts that the approach on the Fund's program design for countries in currency unions will be applied as agreed by the Board, on a flexible case-by-case basis, taking into account differences in the various currency unions' legal, institutional and policy frameworks.

18. Debt levels in low income countries have been increasing rapidly in recent years and hence debt sustainability risks need to be managed carefully. In order to further enhance public debt transparency, both borrowers and lenders should adopt sound and sustainable financing practices. Creditors, be them official or private, should use 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 encourage the IMF to provide a quantitative assessment of borrowing space in debt sustainability analyses for low income countries. We call on the private sector to develop similar guidelines for sustainable financing and transparency to the G20 Operational Guidelines for Sustainable financing. We invite the World Bank and the IMF to further explore tools including the collection of data to further enhance debt transparency. We look forward to the upcoming review of IMF facilities for low income countries, notably to address

a greater domestic resources mobilisation. The EU encourages the IMF and the World Bank to enhance capacity building on debt management issues in Low Income Countries.