



International Monetary and Financial Committee

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**IMFC Statement by Pierre Moscovici
Commissioner
European Commission**

Statement of Vice President Valdis Dombrovskis and Commissioner Pierre Moscovici to the International Monetary and Financial Committee on behalf of the European Commission

Bali, 12-13 October 2018

The contribution of Europe to global growth remains robust despite the economic momentum in the EU moderating in the first half of the year. The fundamentals for sustained growth in Europe remain in place, including a supportive monetary policy, improving labour market conditions and a still elevated level of confidence. More than 13 million jobs have been created in the EU since the bottom of the crisis in 2013 and the level of youth unemployment is the lowest since 2000. However, external downside risks to the economic outlook have increased. These are mainly related to the negative consequences of a further escalation in protectionist measures, tighter global financial conditions and financial markets volatility.

The global economic outlook is getting worse. To sustain the expansion in view of the higher risks, we need to boost confidence of investors, consumers and markets. For this we have to rebuild fiscal buffers in high debt countries, improve the composition of public finances to make them more growth-friendly and inclusive, and implement structural reforms. Addressing the challenges brought by globalisation and technological change will help offer our citizens new opportunities.

The European Union remains strongly committed to an open and rules-based multilateral trading system, with a central role for the WTO, and will continue to pursue a progressive trade agenda, promoting its values and standards globally and seeking a level playing-field. The European Commission has finalised seven trade agreements with 12 countries, including Canada, Ukraine and several African nations, bringing the overall number to 39 EU trade agreements with 69 partners across the world. The agreement with Japan signed in July 2018 is the biggest trade deal ever negotiated by the EU. Further agreements are also progressing with Mexico, Mercosur, Australia, Chile and New Zealand.

The European Commission calls on the international community to tackle the root causes of trade tensions. Guided by the commitments by G20 leaders in Hamburg, the European Commission supports the modernization of the WTO in its three functions (negotiation, monitoring and dispute settlement) and will work together with other WTO members to develop a roadmap for the modernization of the WTO ahead of the Buenos Aires Summit. The European Commission further supports outcomes of the Global Forum on Steel Excess Capacity and the International Working Group on Export Credits.

Digitalisation is bringing new challenges for taxation. Fair taxation for everyone, including for the digital economy, is rightly demanded by our citizens. The EU proposals for the taxation of the digital economy, presented in March, are our contribution to finding a common consensus on this issue. The first proposal will update corporate tax rules in view of the challenges posed by the digitalisation of the economy (comprehensive solution), while the second one proposes to introduce a 3% digital services tax on certain revenues, as a targeted interim solution. The EU aims to reach agreement on the interim approach by the end of the year.

The European Union continues to support the goal of a global solution on digital taxation as the preferred way forward. The OECD interim report on addressing the tax challenges arising from digitalization was presented to the G20 Finance Ministers in March 2018, and the final report is due in 2020. The EU invites its international partners to accelerate work on a comprehensive long-term solution by 2020.

In 2018, the aggregate fiscal stance of the euro area is set to remain broadly neutral for the fourth year in a row. Thanks to robust growth and lower interest expenditure, the aggregate headline deficit of the euro area is expected to decline to 0.7% of GDP in 2018 (from 1.5% in 2016 and 0.9% in 2017). At unchanged policy, we expect that the euro area headline deficit will remain broadly stable in 2019.

The European Commission will re-examine the situation when assessing Member States' Draft Budgetary Plans for 2019. Looking forward, Member States with high public debts should take advantage of the improved economic conditions to rebuild fiscal buffers. At the same time, Member States over-achieving their fiscal objectives and with limited risk of overheating should use their fiscal space to support domestic demand and investments.

Boosting investments in the real economy remains fundamental to increase the growth momentum. The European Fund for Strategic Investments (EFSI), the centrepiece of the Investment Plan for Europe, is active in all Member States. By July 2018 it had exceeded its initial 3-year target by triggering EUR 335 billion in investments. Given its success, the EFSI was extended with the aim of mobilising at least half a trillion euro of investments by 2020. The European Commission has put forward a proposal for an InvestEU fund and a proposal for a new EUR 38bn guarantee under the next Multiannual Financial Framework to continue addressing market gaps in the EU. On the external side, the European External Investment Plan will promote investment in Africa and the EU Neighbourhood.

Structural reforms are crucial to achieving long-term growth and ensuring that Europe's model combining open, efficient and dynamic markets with fairness and social inclusion can address the new challenges. Our reform agenda encompasses investment in education and skills, promoting competition and market entry to encourage job creation as well as reaching security and flexibility in labour markets. It is most essential to facilitate and accompany labour market transitions, so as to reap the full benefits from the ongoing process of structural change, such as the digital transformation, automation, and the emergence of artificial intelligence as well as the transition to a low-carbon economy and increased trade integration.

The EU continues to work towards improving the architecture of the Economic and Monetary Union (EMU). We note in this regards the analysis in the October 2018 WEO that the post-crisis output losses could have been reduced with a more advanced integration in the architecture of the EMU. While the European banking system is now substantially more robust, the Banking Union remains incomplete. The European Commission welcomes the commitment by the EU Leaders at the euro summit of June 2018 to advance the work on Banking Union and particularly the agreement that (i) the European Stability Mechanism (ESM) will provide the common backstop to the Single Resolution Fund and (ii) work should start on a roadmap for beginning political negotiations on the European Deposit Insurance Scheme.

Discussions shall also continue on legislative proposals on a European Investment Stabilisation Function and a Reform Support Programme, to help strengthen the performance and resilience of our interdependent economies. The December 2018 summit shall address these and also look at a broad reform of the ESM. In the long term, reflections shall continue on a common safe asset to reinforce financial integration and stability. We must also do more to allow our single currency to play its full role on the international scene; strengthening our Economic and Monetary Union will contribute to this.

The ESM programme for Greece was successfully completed on 20 August 2018, marking the beginning of a new chapter for Greece. The Greek authorities implemented all prior actions for the fourth and final review, upon which the Eurogroup agreed to implement further debt relief measures which will contribute to debt sustainability over the medium term. To cater for

a number of downside risks, the Eurogroup also agreed to re-assess additional debt relief measures at the end of the EFSF grace period in 2032. Greece is now being fully reintegrated into the European Semester of economic policy coordination, like all other Member States. To complement this, the European Commission decided to activate the Enhanced Surveillance framework for post-programme monitoring. This framework is adapted to Greece and will support the continuation, completion, and delivery of agreed reforms. Maintaining reform momentum will be key to underpinning credibility and supporting a sustainable recovery.

We continue to confirm our strong support for the current system of multilateral economic institutions. We support the commitment by the IMFC to a strong, quota-based, and adequately resourced IMF at the centre of the global financial safety net. 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.

We welcome the final report and the valuable work of the G20 Eminent Persons Group on Global Financial Governance. We call for an inclusive and structured discussion with an open mind to analyse proposals in more depth in an appropriate G20 format and in other relevant global fora.

We also welcome the IMF staff initiative to review and enrich its Debt Sustainability Analysis framework for Market Access Countries in order to improve the reliability of its outcomes. The European Commission has developed a comprehensive framework for assessing fiscal sustainability in recent years and stands ready to exchange its experience regarding the method. In our view it would be beneficial to work towards a convergence of approaches between the European Commission's and the IMF's frameworks on debt sustainability. We invite the IMF to provide early clarification on possible plans to introduce differentiation across countries' debt-carrying capacity. An upfront differentiation based solely on currency union membership would not be appropriate. We look forward to more guidance on the application of judgement in the IMF framework. We underline the importance of a framework with sufficient room for discretion with no automaticity in activating debt restructuring if a country enters a programme. Any assessment should be made on a case-by-case basis.

The European Commission looks forward to the IMF review of Conditionality and Design of Fund Supported Programs. We would like to stress the need to focus on the right combination and sequencing of reforms when considering the design of conditionality. In addition to the focus on balance of payments problems, we believe that for countries with deep-seated institutional structural deficiencies affecting their competitiveness, it is important to have conditionality that also includes structural or institutional reforms. We however recognize that those reforms may be more difficult to fully implement and may take more time to bear fruit than within the time span of a standard IMF programme.

We underline the importance of debt transparency and debt sustainability. All actors should commit to use the IMF-World Bank Debt Sustainability Analyses and respect the debt limits fixed by the IMF Debt Limit Policy and the World Bank Non Concessional Borrowing Policy. The European Commission affirms its commitment to the 2017 G20 Operational Guidelines for Sustainable Financing. We call for a self-assessment on a voluntary basis by all G20 members of those guidelines. We encourage private investors to develop comparable principles for debt transparency which should make reference to the merit of using the existing IMF and World Bank frameworks on debt sustainability. We encourage the IMF and the World Bank to further strengthen its tools to enhance debt transparency and management capacity building in Low Income Countries.