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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

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1. Following the deep contraction recorded last year and early this year due to the pandemic, the European economy returned to growth in the second quarter of 2021, against the backdrop of advancing vaccination campaigns and an improving health situation. The latest European Commission forecast, issued on 7 July 2021, projects GDP to grow by 4.8% in 2021 and 4.5% in 2022 both in the European Union and in the euro area. The European economy is expected to return to its pre-crisis level already in the course of 2021. Risks and uncertainty remain very high as the economic outlook for the EU still crucially depends on the evolution of the pandemic, even though its impact on the economy is much smaller than at its outset. Moderation in the world economy and protracted supply bottlenecks may also weigh on activity going forward. In this context, the macroeconomic policy mix in the EU will continue to be supportive over the forecast horizon, also benefitting from the EU's Recovery and Resilience Facility (RRF).

2. We support the IMF’s proposed goals of vaccinating at least 40% of the population in all countries by the end of 2021 and at least 60% by the first half of 2022. The EU is sharing half of its vaccine production with the rest of the world. More than 700 million doses have been delivered in the EU (more than 70% of adults are now fully vaccinated) and more than another 800 million doses have been delivered to the rest of the world, to more than 130 countries. Vaccine donation commitments already amount to 500 million doses from Team Europe, which includes the European Commission’s announced donation of 200 million doses to be delivered by the middle of 2022.

3. Fiscal policy in the EU has continued to support the economy in 2021. The general escape clause of the Stability and Growth Pact was triggered in March 2020 and will remain activated through 2022. This, together with the additional fiscal impulse provided at European level, will enable the fiscal stance to remain supportive next year. The EU will continue to coordinate its fiscal response to avoid a fragmented recovery process. Support measures in EU Member States should remain timely, temporary and targeted and be compatible with medium term fiscal sustainability. Once health risks diminish, budgetary measures should gradually pivot towards ensuring a sustainable and inclusive recovery.

4. The EU has started disbursing funds under its EUR 1.82 trillion package for a sustainable and green recovery, which includes both the EU budget for 2021-2027 and the Next Generation EU recovery instrument. Both Next Generation EU and the EU budget are geared to ensuring that the EU’s economic recovery is both sustained and sustainable, in line with the guiding principles of the EU’s economic agenda: environmental sustainability, productivity, fairness and macroeconomic stability.

5. The centrepiece and biggest programme under Next Generation EU is the RRF, which is set to provide up to EUR 672.5 billion in financial support in loans and grants for investment and reforms. The RRF is already helping Member States to enhance their productive public spending and creating more favourable conditions for reforms aimed at addressing country-specific structural challenges. It will contribute to building a more sustainable, more resilient and fairer Europe for the next generation in line with the United Nations’ Sustainable Development Goals.

6. Climate change is a global challenge requiring a coordinated global response. The European Union adopted on 28 June the European Climate Law to enshrine the objective of climate neutrality by 2050 and the intermediary greenhouse gas emissions reduction target of at least 55% by 2030 compared to 1990 levels. On 14 July, the European Commission presented the 'Fit for 55' package, a set of interconnected proposals that provides the tools to reach these goals. It comprises upgrades to current legislation and several new initiatives, in a broad range of policy areas and sectors: climate, energy, transport, buildings, agriculture and forests. The proposals strengthen and expand carbon pricing, targets, standards and support measures. The European Commission also adopted a new sustainable finance strategy on 6 July, with an ambitious and comprehensive package of measures to help improve the flow of money towards financing the EU transition to a sustainable economy in line with the Fit for 55 package. In addition, in the period up to 2027, the European Union itself, beyond the substantial contributions by Member States, will spend over 30% of its external budget on climate change related activities. In her State of the Union speech of 15 September 2021 the Commission President announced a EUR 4 billion top-up of our overall climate expenditure in developing countries up to 2027, which is now set to exceed EUR 28 billion. In this context, we very much welcome and encourage the IMF's actions to broaden and deepen its engagement on climate change related issues across its activities.

7. After years of tensions, we have a golden opportunity to rebuild bridges around trade and develop a shared view on the challenges ahead. As highlighted in the new EU Trade Strategy, multilateralism, resilient global value chains of medical and pharmaceutical products, trade in services, digital trade, investment, the environmental sustainability of trade and investment and a level playing field are more important than ever. Against this background, it is critical to continue providing support and guidance for the efforts being deployed in Geneva on WTO reform and on the modernisation of its rulebook. A free, fair and rules-based multilateral trading system evidently calls for more and better rules. IMF members should work together and with the WTO membership towards a successful outcome at the 12th Ministerial Conference of the World Trade Organization, which is an important milestone in the near horizon.

8. We all need to give the highest priority to global solutions to address the taxation of the digital economy and the remaining Base Erosion and Profit Shifting (BEPS) issues. After years of negotiations, a large majority of the OECD Inclusive Framework members agreed on the principles of both pillars at their meeting on 1 July 2021, which was subsequently endorsed by the G20 Finance Ministers and Central Bank Governors on 9 July. Currently, 134 out of 140 Members of the Inclusive Framework (IF) have joined the agreement. We see good prospects of reaching an agreement at the G20 Summit in Rome and expect the reform of the international tax system to be finalised by inviting all the IF members to implement the global and consensus-based solution for both pillars as soon as politically feasible.

9. The European Union continues to support the commitment by the IMFC and G20 Leaders 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 December 15, 2023.

10. The ongoing COVID-19 crisis requires coordinated global efforts to help countries in need**.** We recognize that the transition to a post-COVID world cannot be fully achieved until there is a satisfactory level of vaccination and protection globally. As part of the EU's global response to the COVID-19 pandemic, the EU approved EUR 3 billion of Macro-Financial Assistance to 10 enlargement and neighbourhood partners to help them cope with the economic fallout. Of this, EUR 2.4 billion have already been disbursed or will be disbursed

very soon[1]. This assistance comes on top of the 'Team Europe' package, the EU's robust and targeted response to support partner countries' efforts in tackling the pandemic, reaching over EUR 40 billion. We believe an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) is a pivotal tool to provide much-needed concessional financing and stabilisation programmes to vulnerable countries.

11. The European Union has strongly supported the new general allocation of Special Drawing Rights of about USD 650 billion, which became effective on 23 August 2021. This allocation provides additional liquidity to the global economy by increasing countries' foreign exchange reserves. About USD 275 billion is directly allocated to low-income- and middle-income-countries, which are being hit especially hard by the crisis. To significantly magnify the impact of the general allocation in support of vulnerable countries, we call for ambitious voluntary contributions from all countries able to do so, including through the PRGT. Several EU Member States are considering such contributions to the PRGT, subject to national procedures. We also support setting up a new 'Resilience and Sustainability Trust' (RST) to meet longer-term protracted and prospective balance of payment needs and support climate change mitigation and adaptation, green investments and health and pandemic preparedness.

12. We welcome the progress on the implementation of the final extension of the G20-Paris Club Debt Service Suspension Initiative (DSSI). We welcome the progress on the implementation of the Common Framework for Debt Treatment beyond the DSSI in relation to the country case of Chad, calling for private creditors to provide debt treatments on terms at least as favourable. We look forward to progress with the debt treatment negotiations with Ethiopia and to the launch of the process for Zambia under the Common Framework. We consider that sharing information among creditors as well as with the International Financial Institutions is essential to ensure successful debt treatments. Over time, the Common Framework should become the standard process for all debt restructuring cases, including in middle-income countries.

13. We welcome the multilateral efforts to strengthen debt data transparency and improve debt disclosure, including the second self-assessment of the G20 Operational Guidelines for Sustainable Financing's implementation and the progress with the implementation of the IIF's Voluntary Principles for Debt Transparency. In this respect, we also support the IMF and World Bank proposal on a debt data reconciliation process.

[1] In September 2021, the Commission adopted decisions approving the first disbursement to Bosnia and Herzegovina (EUR 125 million) and the second disbursements to Moldova (EUR 50 million) and Ukraine (EUR 600 million). The actual transfer of funds are expected to follow in October 2021.