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Statement by Margrethe Vestager

EU Council of Economic and Finance Ministers

Statement by Minister for Economic Affairs and the Interior, Margrethe Vestager in her capacity as Chairwoman of the EU Council of Economic and Finance Ministers, at the IMFC Spring Meeting, Washington, D.C., April 21, 2012

1. I submit, in my capacity as Chairwoman of the EU Council of Economic and Finance Ministers, this statement which focuses notably on the world economy, in particular the outlook and policy challenges, and on IMF policy issues.

I. ECONOMIC SITUATION AND OUTLOOK

2. Strong policy measures in the past few months helped avert the derailment of global growth recovery. As a result, while global GDP and world trade growth have weakened since spring 2011, they are expected to recover in 2012. However, countries should see this window of relative calm as an opportunity to implement the necessary reforms and policies to deliver a lasting recovery. Differences across regions remain substantial. The US has recently shown signs of moderately stronger growth than forecasted in the autumn, as the labour market improved and consumption rebounded. In Japan, the economy ended 2011 on a weak note, but the perspective of moderate growth in 2012 remains intact as post-disaster recovery continues. China has proved fairly resilient, with robust growth continuing.

3. The loss of growth momentum in the EU and EA towards the end of 2011 has been confirmed. Signs of a stabilisation have recently appeared and a gradual return to growth is projected for the second half of 2012. On an annual basis for 2012, GDP growth is now forecast at 0.0% in the EU and -0.3% in the euro area. Financial market indicators have shown signs of stabilisation since the beginning of 2012, with some easing of pressures on sovereign yields. While credit conditions for the private sector have been tightening, the latest measures taken by the European Central Bank have eased banks' funding stress and are associated with an improvement in risk sentiment in financial markets more broadly. Despite the recent tightening of credit conditions, credit supply is not expected to be a major constraint on investment and consumption. Recent developments in survey data suggest that the expected economic slowdown may be mild and temporary.

4. Risks to the global growth outlook remain elevated. More pronounced contagion from the sovereign debt crisis to the rest of the global economy and stronger spillovers between the financial and real sector remain the largest downside risks. Moreover, an aggravation of geopolitical tensions in oil-exporting regions could lead to higher oil prices with negative spillovers to the global economy. On the upside, global growth dynamics may prove to be stronger than currently envisaged in the forecast, in particular if the US economy continues to perform better than expected.

Policy challenges

5. We are delivering on our comprehensive five-point strategy for crisis response:

- First, the agreement reached with the Greek government on a policy package constitutes the basis for the second adjustment programme. This new programme provides a comprehensive blueprint for putting the public finances and the economy of Greece back on a sustainable footing and hence safeguarding financial stability in Greece and in the euro area as a whole. Portugal and Ireland have made significant progress in implementing their EU/IMF programmes, which remain fully on track. In Italy and Spain, governments have adopted a number of important fiscal and structural measures, which have contributed to easing market pressure. We are aware of challenges remaining.

- Second, on 2 March five priorities were endorsed to boost growth and jobs at the EU and national level: pursuing differentiated, growth-friendly, fiscal consolidation; restoring normal lending to the economy; promoting competitiveness; tackling unemployment and the social consequences of the crisis; and modernising public administration. Furthermore, European Leaders have agreed that efforts have to continue to strengthen the EU single market; to complete the Digital Single Market by 2015; and to reduce the administrative and regulatory burdens at EU and national level.

- Third, bank recapitalisation is progressing. The European Banking Authority expects that banks will reach the target capital ratio set for end-June 2012 with only limited recourse to deleveraging. Measures submitted so far address the shortfall in full and create an additional buffer of approximately 26% of the initial shortfall. According to this preliminary assessment, measures with a direct positive impact on capital account for 96% of the initial shortfall on an aggregate basis. There is no evidence so far that the implied deleveraging process has become excessive or disorderly.

- Fourth, on firewalls, on 2 February 2012 the Treaty establishing a permanent stability mechanism in the euro area, the European Stability Mechanism (ESM), was signed. We expect it to be fully operational from July 2012. On 2 March 2012, euro area Heads of State or Governments agreed to accelerate, in full respect of national parliamentary procedures, the payment of the paid-in capital of EUR 80 billion for the ESM, starting with the payment of 2 tranches in 2012. The combined EFSF/ESM lending ceiling currently amounts to EUR 500 billion. We agreed on 30 March on a further accelerated calendar for the payment of remaining 3 tranches of the EUR 80 billion paid-in capital of the ESM in 2013 and 2014, ensuring a timely availability of its lending capacity. For a transitional period until mid-2013, the EFSF may engage in new programmes in order to ensure a full fresh lending capacity of EUR 500 billion. We also agreed that the combined EFSF/ESM lending ceiling will be raised to EUR 700 billion. The overall firewall, including the amounts already committed under the Greek Loan Facility and the EFSM, amounts to approximately EUR 800 billion, more than USD 1 trillion, which is being mobilised to ensure the financial stability of the euro area.

- Fifth, on 2 March, twenty-five Member States signed a new "Treaty on Stability, Coordination and Governance in the Economic and Monetary Union". The Treaty includes a fiscal compact which adds further instruments to European economic governance, bringing it to a new and unprecedented stage of integration. The fiscal compact foresees that Member States that will be bound by the provisions of this Treaty will enshrine in their national legal system, preferably through constitutional provisions, a rule ensuring the achievement of their country-specific medium term objectives. In case of a deviation from the fiscal objective an automatic correction mechanism is triggered. It therefore strengthens the already considerable progress achieved last year with the so-called "six-pack", i.e. the set of legislative acts that radically upgrade the macroeconomic and fiscal surveillance of all 27 Member States, and the expected adoption of the legislative proposals on the 'two-pack' will complete this set of rules.

6. The EU strongly welcomes the Action Plan for Growth and Jobs agreed at the Cannes G20 Summit, which is also important in view of expected continuing global imbalances. It includes specific, and often time-framed, policy commitments both to address short-term vulnerabilities and to strengthen medium-term growth. The EU has a major role to play both to contain the crisis in the short term and to strengthen its growth in the longer term. However, all IMF members need to do their part. We also note that reports on trade measures have become more critical of recent trade developments. Europe remains as committed to free trade as before. We encourage our international partners to match that. The EU remains committed to moving forward the Doha Development Agenda negotiations. A continued impasse on Doha is in no ones interest especially in today's economic environment.

7. The EU fully supports full and effective delivery on the objectives of improving the FSB governance and strengthening its decision-making process, outreach and resources. The EU also remains firmly committed to strengthening the oversight and transparency of derivatives markets, with global consistency on rules implementation and international co-ordination to avoid duplications, overlaps, gaps or conflicts. The EU continues to support the work on extending the SIFI framework to all SIFIs, both bank and non-bank. For D-SIBs, further consideration should be given to the balance between a principles-based approach and a rules-based regime. The EU looks forward to the results of the FSB's work on monitoring the shadow banking system and its related policy proposals. The EU stresses the need to ensure a global approach in building the Legal Entity Identifier, avoiding (both) local (and regional) solutions. The EU welcomes the FSB report on reducing reliance on ratings by CRAs; further action is needed to reduce mechanistic reliance and pro-cyclical effects. The EU fully supports the FSB’s approach to, and priorities for, enhanced monitoring and detailed reporting on the implementation of financial regulatory reforms. This will be key to supporting the full, timely and consistent implementation of agreed policies and standards. Finally, the EU agrees to a study to identify possible unintended consequences of the agreed regulatory reforms for EMDEs, without prejudice to the implementation of existing agreed commitments.

II. IMF POLICY ISSUES

8. We have made significant reform progress in recent years to increase the legitimacy, credibility and effectiveness of the International Monetary Fund. It is important that we continue our efforts to enhance the Fund's capability to address the challenges of today's international monetary and financial system. We need to continue our efforts to ensure adequacy of the Fund's lending capacity, and further enhance its surveillance framework and governance structure.

Resources

9. EU Member States support a substantial increase in the IMF's resources. These resources will enhance the IMF's capacity to fulfil its systemic responsibilities in support of its global membership. A collective global effort is urgently needed to anchor stabilisation and recovery, as no region would remain unaffected from a potential escalation of the crisis.

10. The EU, and in particular euro area Member States are fully aware of their special responsibility in the current circumstances. Therefore, as part of a broader international effort to improve the adequacy of IMF resources, euro area Member States will provide EUR 150 billion of additional resources through bilateral loans to the Fund's General Resources Account. Other EU Member States have also indicated their willingness to take part in the process of reinforcing IMF resources. We call on other financially strong IMF members to support the efforts to safeguard global financial stability by contributing to the increase in IMF resources so as to fill potential global financing gaps.

11. Decisions on the modalities of the new bilateral loans to the IMF should be guided by a number of principles. First, the EU considers that existing policies and rules related to Fund lending should continue to be applied rigorously and in the same way for all Fund members, in line with the IMF's long-standing principle of equal treatment. Second, the primary tool to mitigate any risks to the IMF is the strength of the Fund's policies on programme design, conditionality and access.

Surveillance

12. The EU looks forward to the implementation of improvements in the priority areas identified in the 2011 Triennial Surveillance Review. The EU welcomes the building blocks put forward by the IMF for an Integrated Surveillance decision (ISD). In addition to ensuring a better integration of bilateral, regional and multilateral surveillance, this decision should also acknowledge the case of currency unions, recognize the need for robust assessments of spillovers, incorporate a broader approach to external stability and set out a clear stability mandate for the Fund, with continued cooperation with other international organizations, such as the FSB, while fully respecting their respective mandates.

13. We welcome the envisaged introduction of an enhanced assessment of external balances by the IMF as a contribution to the strengthened surveillance of external stability. Such work should include an improved and deeper analysis of exchange rates, capital flows as well as capital flow management policies, drivers of reserve accumulation, and the monitoring of global liquidity.

14. The EU considers that the coverage of financial sector issues, macro-financial linkages, spillovers, and the assessment of risks should be strengthened in IMF surveillance. The identification of adverse feedback loops between financial sector developments, and the real economy should be improved.

15. In order to enhance the traction of IMF surveillance, the EU supports greater monitoring of follow-up of the IMF’s policy advice. In that regard, it would be useful to reinstate the practice of having Article IV reports reviewed members' follow-up to previous IMF surveillance advice. Systemically important countries should lead by example. The EU furthermore supports mandatory and early publication of annual Article IV reviews. The policy debate within the IMF should, besides discussion in the Board, take place at senior political level The IMFC could play an enhanced role in this regard.

Governance

16. Key aspects of the 2010 IMF quotas and governance reform are yet to be implemented, and a substantial effort will still be needed to reach the necessary thresholds by the agreed deadline. The EU Member States are aware of their responsibility in successfully implementing the 2010 IMF reform and are working on implementing it in full. We call on all IMF members to do likewise and approve the reform by the agreed deadline of the 2012 Annual Meetings. A number of EU Member States have already concluded national ratification procedures and the process is on-going in the remaining Member States. The process is projected to be completed by most Member States by mid-2012. Europe is also working on its commitment to reduce Executive Board representation by two advanced European chairs.

17. EU Member States will play a constructive role in forthcoming discussions on the review of the current IMF quota formula. It is important that the review process is fully anchored within the IMF bodies, including the IMFC, with a view to engage the entire IMF membership. Quotas should continue to reflect the relative positions of the Fund's members in the world economy and members' capacity to support the Fund’s work, and the mandate of the Fund. The EU Member States stress that the principles that underpinned the 2008 reform of the quota formula remain relevant for the current review, as the formula should be: i) simple and transparent; ii) consistent with the multiple roles of quotas; iii) produce results that are broadly acceptable to the membership; and iv) be feasible to implement statistically based on timely, high quality, and widely available data. GDP and openness, possibly including an appropriate measure of financial openness, should remain the main variables in the formula.

18. Further governance reforms to improve IMF accountability, oversight and effectiveness should be an integral part of further discussions on IMF governance and quotas. In this regard, enhanced engagement of ministers and central bank governors in the strategic oversight of the IMF is needed.