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NOTE

From:	General Secretariat of the Council
To:	Permanent Representatives Committee (part 2)/Council
Subject:	EU statement for the International Monetary and Financial Committee (IMFC) meeting in October 2022

Delegations will find attached the draft statement by the Chairman of the ECOFIN Council for the IMFC meeting in October 2022.

Statement by Minister of Finance, Zbyněk Stanjura in his capacity as Chairman of the EU Council of Economic and Finance Ministers, at the IMFC Annual Meeting, Washington, DC, October 2022

1. Russia's unprovoked and unjustified military aggression against Ukraine grossly violates international law and the principles of the UN Charter which include the right of Ukraine to choose its own destiny. This unjustified and unjustifiable attack is exacting a tragic human cost on the people of Ukraine and has been forcing millions to flee to the EU. The attack is challenging European and global security, stability and prosperity. The EU stands firmly by Ukraine and its people as they face this unparalleled crisis. The EU will continue to work very closely with its international partners to support Ukraine directly and implement far-reaching sanctions on Russia and its accomplice Belarus. The Russian economy and its financing capacity continues to be hit hard through sanctions related to the financial, energy and transport sectors, export controls and the ban of export financing, and visa policy. We support the objectives of the price cap on oil and petroleum products agreed by G7 Finance Ministers on 2 September, namely to reduce Russian export revenues and their ability to fund its war of aggression whilst limiting the impact of the war on global energy prices, particularly for relevant low and middle-income countries. EU countries are united and are closely coordinating measures to respond to rising prices and imbalances in the energy market.

2. Food shortages and higher food and fertiliser prices triggered by the war threaten food security and overall stability across the world. We emphasize that this situation is caused by the actions taken by the Russian Government, notably the blockage of Ukrainian ports, deliberate destruction of Ukrainian agricultural facilities, and restrictions imposed on its own export of agricultural products and fertilisers. The UN-backed deal to resume Ukrainian food exports through the Black Sea, signed in July, helped to reduce grain prices to levels prevailing before the war, clearly demonstrating that the Russian war of aggression against Ukraine is at the root of food price increases. Therefore, the EU strongly rejects the Russian propaganda that sanctions have contributed to the food crisis. Moreover, recent Russian allegations that developing countries are not benefiting from the deal are disproved by the facts. We support stepping up and coordinating international collective actions on food security, building, inter alia, on the G7, UN and FARM initiatives, as well as the IMF's proposed new food shock window.

3. The EU has provided emergency macro-financial assistance (MFA) to Ukraine of EUR 1.2 billion, which was fully disbursed by May 2022. In May, the EU further announced a new exceptional envelope of up to EUR 9 billion in exceptional MFA, to address Ukraine's urgent financing gap. The first EUR 1 billion loan of this assistance was fully disbursed in August. A second component of EUR 5 billion will follow, in the form of MFA loans backed by the EU budget and Member States guarantees. We are now working on the arrangements to make the remaining up to EUR 3 billion available as soon as possible. The assistance provided since the outbreak of the war has made a substantial contribution in addressing Ukraine's increased financing gap. The European Investment Bank has also approved in July 2022 the repurposing of EUR 1.6 billion in undisbursed loans, of which EUR 1 billion can immediately be provided by the EIB as support to the Ukrainian authorities. This comes in addition to the EUR 668 million approved by the European Investment Bank in March 2022 and which was disbursed within one month of the start of Russia's war of aggression. The European Bank for Reconstruction and Development has also committed to invest EUR 1 billion in Ukraine by the end of the year. Nevertheless, Ukraine's financing needs remain substantial over the coming months.

4. The global recovery lost steam in the first half of 2022 amid rising inflation, heightened uncertainty, weakening consumer demand, tighter monetary policy and lingering impact of COVID-19 restrictions in China. Global inflation increased, mainly because of rising energy and food prices as well as supply constraints and sometimes tight labour markets in a context of economic re-opening after the peak of the pandemic. It is likely to remain elevated, notably in the regions that are most susceptible to supply disruptions caused by Russia's military aggression against Ukraine. Going forward, strong labour markets, high household savings accumulated during the pandemic and some retrenchment of oil prices might contain the pressure on consumers in advanced economies in the near term, but the risks related to high inflationary pressures, pandemic developments, and tighter financing conditions are weighing on global growth, both in advanced and in emerging market economies.

5. Policy measures to facilitate the rapid recovery from the COVID-19 crisis have been effective, with fiscal and monetary policies working hand-in-hand. However, the shocks unleashed by the Russian invasion of Ukraine are impacting the EU economy both directly and indirectly, setting it on a path of lower economic growth and higher inflation. Intensifying and broadening inflationary pressures have been prompting faster normalisation of monetary policy in the euro area. Public spending on security, defence, and on measures containing the social and economic impact of high energy costs is weighing on public finances, and in certain Member States the cost of humanitarian assistance to the displaced persons from Ukraine is also a factor.

6. The current situation should be resolved at source, with diversification and stabilisation of energy supplies and an end to the Russian invasion of Ukraine. For as long as the situation persists, however, an appropriate economic policy response is indispensable. Coordination of fiscal policy is key, particularly in the euro area to achieve an appropriate policy mix and weather the heightened risks and uncertainties. The fiscal stance in the euro area, taking into account national budgets and the funding provided by the Recovery and Resilience Facility (RRF), will remain supportive in 2022. However, supporting overall demand through fiscal policies in 2023 is not warranted, the focus should be on protecting households and firms most vulnerable to energy price hikes with temporary and targeted support, including to avoid further fuelling inflation. Fiscal policies should maintain the agility and flexibility to adjust, if needed. Such measures should be designed to improve incentives for energy efficiency and green transition. Fiscal policies need to aim at preserving and ensuring debt sustainability, as well as raising the growth potential in a sustainable manner to enhance the recovery, thus also facilitating the task of monetary policy to ensure price stability by not adding inflationary pressures. Fiscal policies should continue to be appropriately differentiated according to Member States' economic and fiscal situation. The current economic situation and heightened uncertainty call for a careful design of fiscal policy, including the quality of measures, and coordination of fiscal policies in the euro area in 2023. Fiscal measures should focus on alleviating the supply-side constraints that are holding back our economies. The implementation of structural reforms and supporting investment for structurally diversifying energy supplies and reducing energy dependencies remains priorities. It should take into account the REPowerEU initiative and make efficient use of the RRF and other EU funds, where appropriate, while also fostering green and digital transitions. Macro-prudential policy remains essential to ensure financial stability.

7. Managing the pandemic remains critical for the economic recovery. We look forward for the results of the Independent Evaluation of the Access to COVID-19 Tools Accelerator (ACT-A) initiative. In the long term, it is key to continue to strengthen the global health architecture to prevent, be better prepared in view of future pandemics and bridge financing gaps in pandemic Prevention, Preparedness and Response (PPR), while ensuring the central coordination role of the WHO. We welcome the launch in September of the Financial Intermediary Fund (FIF) for PPR, and we call potential donors to join this effort.

8. Fighting climate change is an integral and essential part of our agenda. The transition towards a climate-neutral and environmentally sustainable economy can be accelerated by structural measures to facilitate reallocation in labour and capital, complemented with economic incentives and fiscal measures. The European Commission has put forward in 2021 the "Fit for 55" package which proposes to reinforce the EU's main climate, energy and transport legislation, including, inter alia, a strengthening of the EU Emission Trading System and its expansion to new sectors, and a WTO-compliant Carbon Border Adjustment Mechanism to avoid carbon leakage between the EU and third countries. The Russian war against Ukraine has increased the urgency of the transition of our energy systems. The EU's response to the need to phase-out Russian fossil fuels is to accelerate the transition to a decarbonised energy system. The European Commission has put forward in May 2022 the REPowerEU plan, to diversify energy sources, reduce demand and accelerate the clean energy transition. High and volatile energy prices are affecting industry and households, and the European Commission has provided a toolbox of measures that Member States can use to protect consumers and businesses. While pursuing these actions and remaining fully committed to the objectives of the European Green Deal, Europe needs to accelerate its preparations for the immediate impact of potential further gas supply disruptions from Russia. The Commission has proposed a new European Gas Demand Reduction Plan, drawing on best practices from across the Union, envisaging an immediate recommendation for a voluntary gas demand reduction of 15% in all Member States over at least the next 8 months, and introducing a process to trigger a binding demand reduction target should it become necessary.

9. The EU has agreed on a comprehensive package for EU Member States covering the years 2021-27. It combines a reinforced Multiannual Financial Framework (MFF) and the extraordinary recovery effort funded through the temporary "Next Generation EU" (NGEU) instrument, together amounting to EUR 2,018 billion in current prices. The centrepiece of NGEU is the RRF, which has firmly entered its implementation phase since the end of last year. By now, the EU Council had approved the Recovery and Resilience Plans (RRPs) of 26 Member States after positive assessments by the European Commission, and the European Commission already made regular disbursements to eight Member States (Spain, France, Greece, Italy, Portugal, Croatia, Slovakia and Latvia). This brought the total amount already disbursed under the RRF to EUR 113 billion. If fully implemented, this package will ensure that the EU is aligned with the longer-term climate and environmental sustainability goals, notably through a target of at least 37% of climate expenditure in each national RRP.
The 26 plans approved so far have gone even beyond this target and, on average, will spend around 40% on climate-related measures. The European Commission's Sustainable Finance Strategy published on 6 July 2021 is complementing these efforts by supporting the mobilisation of the financial sector to meet the investment needs of the green transition and improve the resilience to climate and environmental risks. For instance, the EU has followed up on its Taxonomy for sustainable activities with technical criteria to assess activities' contribution to climate change mitigation and adaptation.

10. As part of the EU's global response to the COVID-19 pandemic, in 2020 the EU approved EUR 3 billion of Macro-Financial Assistance (MFA) to 10 enlargement and neighbourhood partners to help them cope with the economic fallout. By the end of June 2022, COVID MFA operations had been concluded, with a total disbursement of EUR 2.8 billion in loans. The MFA COVID-19 package came on top of the 'Team Europe' package, the EU's robust and targeted response to support enlargement and neighbourhood partner countries' in tackling the pandemic, Besides the financial assistance foreseen in context of the COVID-19 pandemic, the implementation of a third regular MFA programme for Jordan is also well underway. Moreover, in November 2021, in light of the ongoing post-pandemic economic recovery, and of a gas crisis that started in October 2021, Moldova submitted a request for a new MFA. Following the Decision from the Council and the European Parliament to provide a new operation of up to EUR 150 million in loans and grants, a first instalment was disbursed in August 2022.

IMF Policy Issues

11. With the declining effects of the COVID-19 pandemic, IMF support for countries has started shifting from emergency financing and debt service relief towards regular lending programs with upper-credit-tranche conditionality, while new challenges still require emergency financing. It will be key for the IMF to stand ready to provide financial assistance for countries destabilised by the economic and financial impact of the Russian war against Ukraine, including soaring food shortages and food prices and in line with its mandate. In this respect, we support the quick establishment of the new time-bound Food Shock Window within the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF). At the same time, the IMF should mitigate the long-term impact of the Covid-19 crisis by assisting in addressing evolving balance of payments needs, including those related to broader long-term challenges such as climate change and pandemic preparedness. We welcome the creation of the RST and look forward to its rapid implementation. After the approval by the IMF Executive Board in March of a disbursement of US$ 1.4 billion under the Rapid Financing Instrument to help Ukraine meet urgent balance of payment needs, we welcome that the IMF is considering options to further support the country financially. It is of utmost importance to avoid net negative flows vis-à-vis the Fund. We underline the importance of starting a new UCT-quality programme as the next step as soon as possible.

12. The EU Member States continue 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 (GFSN). We are 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.

13. Good progress is being made on the voluntary contributions towards the total global ambition of USD 100 billion of Special Drawing Rights (SDR) or freely usable currencies 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 [79] billion that have been pledged so far, of which USD [23] billion have been pledged from EU Member States. On top of that, the EU welcomes the total USD [893] million pledged so far to the PRGT Subsidy Account, of which USD [432] million have been pledged by EU Member States. In addition, the EU is advancing a proposal by the European Commission to contribute EUR 100 million from the EU budget to the PRGT subsidy accounts as part of the EU's support of low-income countries and to further encourage the mobilisation of subsidy and loan resources. We call for additional G20 members and other countries to consider voluntary contributions to sustainably bolster the lending capacity of the PRGT, and to reach a critical mass of resources for the operationalisation of the RST later this year.

14. Efforts need to be stepped up to implement the G20/Paris Club Common Framework (CF) for Debt Treatments in a timely, orderly and coordinated manner. We welcome the provision of official financing assurances from Zambia's Creditor Committee, and the recent approval by the IMF Board of an IMF-supported programme for Zambia. We look forward to the Creditor Committees finalising the debt treatments for Zambia and Chad and to continue the technical engagement on Ethiopia with a view to an IMF-supported programme also for this country. We encourage the World Bank and the IMF to coordinate closely and continue their support to the implementation of the CF, including through technical assistance and advisory support to debtor countries. We encourage the G20/Paris Club, together with the IMF and the World Bank and other actors, to take stock of the functioning of the CF in relation to the first country cases, in order to make it more efficient, create right incentives for eligible countries in need of debt treatment and ensure a fair burden sharing among official and private creditors through the comparability of treatment. We stress the need for effective coordination of debt restructuring in middle-income countries, where needed, and support exploring how to extend the CF to lower-middle-income countries facing debt vulnerabilities, while at the same time recognizing that resources for debt relief should be prioritized for low-income countries in need. In the absence of consensus at the G20 for such an extension of the CF, we support an ad hoc coordination as proposed for example by the Paris Club for addressing the debt vulnerabilities of Sri Lanka. We also welcome the IMF's debt service relief provided to the poorest and most vulnerable countries thanks to the Catastrophe Containment and Relief Trust (CCRT). The EU and EU Member States have made significant disbursements (USD 426 million) to provide additional contributions to ensure that it is adequately funded to help countries cope with future natural disasters and health shocks.

15. We stress that debt transparency is essential to ensure a sound assessment of debt sustainability, for debtor government accountability, and to enable informed decisions by borrowers and creditors in the context of debt relief. We reiterate our support for strengthening the international efforts aimed at enhancing debt transparency, in both debtor and creditor countries, including the IMF-WB proposal on a debt data reconciliation process and the debt transparency pillar of the IMF-WB Multi-pronged approach to address debt vulnerabilities. We look forward to the IMF's upcoming paper on how to strengthen the incentives for debt transparency, as well as further guidance 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.

16. We welcome the IMF's ongoing work on climate change. While the challenges facing individual Members differ, and the timing and scope of disruptions may vary, concerted action everywhere, now and over the next decade will be crucial to mitigate risks related to climate change. We believe that the Fund has an important role to play, and we agree with further deepening the Fund's engagement, in line with its mandate, on macro-critical climate change related issues across its activities, including through comprehensive climate-related surveillance, lending through the RST, and policy advice and capacity development. Further, we welcome the IMF's proposals 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. We look forward to the continued collaboration of the IMF in the OECD Inclusive Forum on Carbon Mitigation Approaches, in a way to incentivize the adoption of ambitious and effective climate change mitigation policies and climate-related data-availability.