Solidarity and Cooperation: Europe's Response to the Crisis
Keynote Speech by IMF Managing Director Kristalina Georgieva
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As prepared for delivery

Thank you for the opportunity to address you today. As EU Commissioner, I benefitted from interactions with this Conference and am honoured to join you again at this critical time.

Jean Monnet once said: "People only act in a state of necessity and usually only recognize necessity in a situation of crisis."

We are in a crisis and it is time for action. In 2020, 90 percent of the countries finished the year with a smaller economy than at the start of it — the worst performance the world has had during peace time. But it could have been much worse. Exceptionally strong and coordinated actions by central banks and by finance authorities have played a critical role in mitigating the human and economic impacts.

I want to pay tribute to Christine Lagarde and the ECB for reacting swiftly with extraordinary policy accommodation, and to all the governments of the EU for putting in place massive fiscal support of over 3 trillion euros for firms and households, including job-retention schemes that helped over 54 million workers. And the Next Generation EU initiative is a remarkable achievement in joint mobilization of funds.

These actions—together with unprecedented scientific advances on vaccines and treatments (many home-grown in Europe) and progress in applying masks, social distancing, testing and contact tracking—have helped stabilize the economy and move the world and the EU towards recovery.

Currently, we are projecting global growth of 5.5 percent and 4.2 percent in the EU this year. But the path to recovery is highly uncertain and, most importantly, uneven. Uncertain because of the ongoing race between the virus and the vaccines. Uneven because of the difference in starting positions, economic structure and capacity to respond – causing inequalities to grow both across and within countries.

The latter is my deepest concern: that the Great Lockdown of 2020 could morph into a Great Divergence in 2021.

Divergence is most profound in the developing world where half of the countries that used to catch up in income levels with their wealthier peers are now falling further behind. But it is a risk for the EU as well. Traditional tourist destinations have experienced much sharper contractions—more than 9 percent last year in Spain, Greece, and Italy—compared to an average contraction of 6.4 percent across the EU.

And we project that by the end of 2022, per capita income for the emerging markets of Central and Eastern Europe will be 3.8 percent below pre-crisis projections, compared to a shortfall of just 1.3 percent for the EU's advanced economies—a negative impact almost three times larger that will slow the pace of convergence.

We also see increasing divergence within countries, in the form of worsening inequality.

Regions with lower GDP per capita went into the crisis with lower productivity, larger contact-intensive sectors, and fewer jobs that allow for remote working—so they have been hit all the harder. Millions of jobs have been lost, with women and young people suffering the most, especially those with lower incomes and savings.

So: the big question facing EU policymakers is: how can we ensure a strong recovery and tackle this threat of divergence?

First—end the health crisis. This year, vaccine policy is at the heart of economic policy, in Europe and around the world. Until we defeat the pandemic everywhere, we risk new mutations that threaten our progress.

Scaling up production and distribution of vaccines is critical. So too, is additional financing to secure doses and pay for logistics, as well as timely reallocation of excess supplies. This requires cooperation.

Second—fight the economic crisis. Until the pandemic is defeated, support for firms and households should continue. Gradual withdrawal has to follow, not precede, a durable exit from the health crisis. It matters internally, and also in terms of spillovers - a premature tightening of policy when worse-hit economies are still deeply fragile could exacerbate divergence between countries.

While now is not the time to withdraw support, it is the time to ascertain the strength of insolvency regimes. Massive support in 2020 led to lower than average bankruptcies. Once support declines and with structural change accelerating, the risk of a higher rate of debt defaults will go up. Insolvency arrangements and greater emphasis on equity support could help prevent debt overhangs and ratcheting bankruptcies.

Third—and most important over the long run—harness the response to the crisis to spur structural shifts to digitalization and greening, and power up Europe's convergence engine.

A coordinated green infrastructure investment push is a must. Our analysis shows that this could boost global GDP over a 15-year period by about 0.7 percent each year, creating millions of new jobs. Carbon pricing can help repair fiscal balances, channel private investments into green sectors, and deliver substantial emissions reductions. Increased access to high-speed internet in rural and underserved areas would raise productivity. Education spending and job training programs would build the skills needed for a digital and green age.

And Europe can step up reforms to address persistent structural challenges. The Next Generation EU can be more than a catalyst for economic transformation: it is a forerunner to new shared fiscal tools to complement the ECB's single monetary policy. The EU can take further steps towards banking and capital market union to spur growth and integration. And efforts to make international corporate taxation fit for the digital age can help boost revenues and address inequality.

Let me finish with a word of thanks for your support to the work of the IMF in this crisis.

From the outset we swiftly recalibrated policy advice. Our message "Spend but keep the receipts" was unusual for the Fund, but appropriate for this crisis. And we put our money where our mouth is. We provided over $105 billion in new financing to 85 countries—including in Europe, to Albania, Bosnia and Herzegovina, Kosovo, Moldova, Montenegro, North Macedonia, and Ukraine.

We adjusted our capacity development work to the needs and modalities of work during the pandemic. We strengthened focus on inclusive growth—especially with our European partners—on issues like progressive taxation and social spending.

And we have stepped up work on climate change — which is not only a threat to economic and financial stability, but also an opportunity for green growth and jobs. Our analysis of policies to reach the EU's ambitious carbon emission reduction goals shows our commitment to put climate change at the heart of our work.

We are working closely with the EU to do more for low-income countries—they face painful choices between tackling the health crisis, meeting peoples' basic needs, and fostering macroeconomic stability and boosting public investment that are essential for sustainable growth.

EU citizens can be proud of their assistance to vulnerable countries during this crisis. You have backed up all our efforts and have contributed to our debt relief and concessional lending capacity. And you are seeking ways for us to do more, including through a new SDR allocation to boost reserves without compounding debt burdens. I greatly appreciate EU finance ministers' support in this regard.

You can count on us. As we count on you.

The European Union was one of the best inventions of the 20th century. Its values of solidarity and inclusion remain the 21st century's best hope.