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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	EU Terms of Reference for the G20 Finance Ministers and Central Bank Governors meeting on 12-13 April 2023

Delegations will find attached the EU Terms of Reference for the G20 Finance Ministers and Central Bank Governors meeting on 12–13 April 2023 in Washington, DC.

EU terms of reference for the G20 Finance Ministers and Central Bank Governors Meeting
on 12-13 April 2023

1. The global economy has been experiencing a broad-based slowdown, with inflation remaining high, albeit having peaked, and high uncertainty. Russia's unprovoked and unjustified war of aggression against Ukraine, and the lingering but waning COVID-19 effects in parts of the world weigh on the outlook. They are only partly counterbalanced by the reopening of the Chinese economy and still resilient labour markets in large advanced economies. The EU resolutely condemns the Russian war of aggression against Ukraine which causes immense human suffering and has significant negative effects on the global economy and on vulnerable populations across the world – constraining growth; increasing inflation; disrupting supply chains, jeopardizing energy and food security; elevating financial stability risks and weighing on public debt sustainability, notably in low- and middle-income countries. According to the Commission's Winter 2023 Forecast, EU economic growth is projected to slow to 0.8% in 2023, a more moderate slowdown when compared to the Autumn 2022 Forecast, before gaining some traction in 2024, with a rate of 1.6%. The deployment of the EU Recovery and Resilience Facility will provide support.

2. In this rapidly changing economic environment, the G20 should continue to support strong, sustainable, balanced and inclusive growth, and coordinate to address global economic challenges. In this respect, it remains a key priority to step up joint efforts to avoid fragmentation by strengthening multilateralism, avoiding harmful competition and subsidy races, and foster the rules-based international system. International cooperation is essential also to support and accelerate the green and digital transitions.

3. In the context of high inflation and tighter financing conditions fiscal policies need to remain credible and appropriately calibrated, also contributing to financial stability. Prudent fiscal policies should aim at ensuring medium-term debt sustainability, while raising potential growth in a sustainable manner and addressing the green and digital transitions and resilience objectives through investment and reforms. Fiscal policy should remain agile going forward. Whilst broad-based fiscal stimulus to aggregate demand is not warranted, we are gradually transitioning towards more targeted measures. Reforms to reduce bottlenecks to private investment are a necessary complement to public investments for the green and digital transitions and energy security. The European Central Bank (ECB) is adjusting monetary policy in line with a data-dependent approach, and is determined to ensure a timely return of inflation to the 2% medium-term target. It is monitoring current market tensions closely and stands ready to respond as necessary to preserve price stability and financial stability in the euro area. The euro area banking sector is resilient, with strong capital and liquidity positions. In any case, the ECB's policy toolkit is fully equipped to provide liquidity support to the euro area financial system if needed and to preserve the smooth transmission of monetary policy. Clear communication by major central banks on their monetary policy remains important.
4. Food shortages and high food and fertiliser prices triggered by the war are exacerbating global food insecurity, which disproportionately affects the most vulnerable. This situation is aggravated 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 2022, helped to reduce grain prices to levels prevailing before the war. The EU welcomes the recent renewal of the Black Sea Grain Initiative and stresses the importance of its further extension. The G20 should also step up efforts and coordinate international collective actions to restore food security and enhance food production and resilience. We are looking forward to the mapping exercise on food insecurity by the Food and Agriculture Organization and the World Bank. Open food trade should be supported in line with the WTO ministerial declaration in June 2022.

5. Close coordination between the health and finance ministries will remain central to support the strengthening of the multilateral system for pandemic prevention, preparedness and response with the WHO at its core. We welcome the launch of the first call for proposals by the Pandemic Fund and call on further donations to support the fund. We look forward to the work of the G20 Joint Finance-Health Task Force (JFHTF) in 2023, which will focus on better understanding economic risks and vulnerabilities from pandemics, and on how to mitigate them, sharing best practices and experiences in order to develop joint responses to pandemics, and explore options for surge financing mechanisms and how they could be made operational, considering already existing financing mechanisms.
6. The G20 should continue its work to bridge the infrastructure financing gap by exploring policies and financing mechanisms for mobilising private sector financing to promote quality infrastructure investment, including at the local level to support investments for inclusive, resilient, and sustainable urban infrastructure, thereby also contributing to climate adaptation. To this end, the EU stands ready to contribute with its long experience of de-risking instruments. We look forward to the 2023 Infrastructure Investors' Dialogue to integrate the private sector perspective in designing policies for financing the cities of tomorrow. In addition, the G20 should advance the work on improving the quality and availability of infrastructure data and explore definitions of infrastructure across economies with the aim of unlocking further private sector investments. This includes working on Environmental, Social and Governance aspects of infrastructure investments by implementing the G20 Quality Infrastructure Investment (QII) principles and operationalising the QII indicators, also contributing to developing the framework for the global goal on adaptation to be adopted at COP28. Furthermore, we should finalise as soon as possible the discussion on the future governance model of the Global Infrastructure Hub.

7. The G20 should consider as an utmost priority to finalise the remaining work needed to ensure implementation of the two-pillar agreement on the revision of the international tax rules and urge the OECD to get the multilateral convention needed for Pillar 1 ready for signature by the end of Q2-2023. We welcome members having started the implementation of Pillar 2 and call other countries to swiftly follow suit. The possibility of setting up tool kits in particular to facilitate implementation by developing countries could be further explored. Building on the OECD Crypto-Asset Reporting Framework and the amended Common Reporting Standard, which are integral additions to the global standards on information exchange for tax purposes, we urge the Global Forum to continue monitor processes to ensure widespread implementation of both packages by all relevant jurisdictions. The feasibility of an international reporting and exchange of information framework relative to the acquisition of immovable property could be further explored.

8. We strongly support the G20 request to the Multilateral Development Banks to bring forward actions to mobilize additional financing within their mandates and with existing resources. We ask MDBs to step up efforts on the implementation of the recommendations of the G20 Independent Review of MDBs' Capital Adequacy Frameworks within their own governance frameworks, and to deliver an update in Spring 2023 with a view to early decisions. MDBs should, as a first step, explore balance sheet optimization and financial innovation measures to boost their lending capacity and increase access to MDB data and analysis for a better assessment of MDBs financial models. This should lead to the development of a roadmap for the implementation of the recommendations by June 2023, with the aim of boosting their lending capacity, while safeguarding long-term financial sustainability, robust credit ratings and preferred creditor status. The EU welcomes the pledges of USD 87bn to the RST and PRGT, of which, so far, USD 27.7bn from EU Member States. On top, the EU welcomes the USD 1381mn pledged so far to the PRGT Subsidy Accounts, of which USD 482mn have been pledged by EU Member States and 100mn by the European Union. We welcome the operationalization of the Resilience and Sustainability Trust (RST) to help eligible low-income countries, small states and vulnerable middle-income countries address longer-term structural challenges that pose prospective risks to balance of payments stability, notably those stemming from pandemics and climate change, and look forward to the update on the adequacy of resources and lessons learnt. We call on G20 members and other countries, especially those that have not contributed yet, to consider new voluntary contributions to meet the USD 100 bn global ambition to bolster the PRGT's loan and subsidy resources and to ensure adequate financing for the full operationalization of the RST. EU Member States are committed to finalise the 16th General Review of Quotas by the agreed deadline of December 2023. We support a strong, quota-based and adequately resourced IMF to preserve its role at the centre of the Global Financial Safety Net. We consider that the current formula is working well and delivers on the set of realignment objectives. In this respect, we see no rationale to change the formula. EU Member States support at least maintaining the size of the Fund, as part of a package approach. We look forward to the review of precautionary arrangements (FCL, PLL and SLL).

9. The EU and its Member States recall the commitment to continue efforts to implement the G20 Common Framework (CF) for Debt Treatments in a predictable, timely, orderly and coordinated manner. We welcome the conclusion of the debt treatment to Chad and encourage the timely conclusion of the debt treatment for Zambia, the resumption of technical work on Ethiopia, as well as the swift formation of a Creditor Committee for Ghana. We support exploring a possible extension of the CF to middle-income countries facing debt vulnerabilities and at least a form of ad hoc coordination between official creditors as it has been the case for the provision of financing assurances for Sri Lanka. We stress the need to strengthening multilateral coordination to address the deteriorating debt situation in these countries. We look forward to a swift resolution to Sri Lanka's debt situation and welcome the provision of financing assurances by main creditors. In line with existing practice, MDBs should be excluded from debt treatment to be able to continue to support vulnerable countries with concessional financing. The newly established G20 Expert Group on MDB reform should not duplicate or delay ongoing work, respecting the governance of individual MDBs. We encourage all members of the G20 and the Paris Club, together with the IMF and the World Bank and other stakeholders, to review and improve the functioning of the CF based on the lessons learned from the first country cases, including by providing additional clarity to debtor countries on process, in the form of a user manual. We welcome the IMF and WB initiative to establish a Global Sovereign Debt Roundtable, and stress the need for good coordination and complementarity with existing Paris Club outreach events and constructive engagement by all official bilateral and private creditors. We reiterate our support for strengthening the international efforts aimed at enhancing debt transparency by all actors. We support the IMF and World Bank efforts to promote debt data reconciliation and disclosure and encourage all private sector lenders to join the joint Institute of International Finance/OECD Data Repository Portal.

10. The G20 should continue its work on assessing the macroeconomic risks of climate change and nature-related risks, and the macroeconomic and distributional impacts of climate policies and just transition strategies. This work should contribute to the just transition work programme established at COP27. We should also aim for an open and frank discussion on accelerating climate mitigation policies, assessing trade-offs and the degree of effectiveness of different mitigation instruments, especially pricing mechanisms, and spillover effects. As agreed by Leaders in Bali, we emphasise that the policy mix toward carbon neutrality and net zero should include a full range of fiscal, market and regulatory mechanisms, inter alia to mobilise private sector financing.
11. The G20 should accelerate the implementation of the G20 Sustainable Finance Roadmap, notably by implementing the actions on taxonomies, disclosure, and sustainability risks. We should continue the work to strengthen the credibility of industry net-zero commitments and to enhance their accountability, especially by supporting the use of comparable data to assess the effective implementation of commitments. We should focus on ensuring interoperability and comparability among sustainable finance taxonomies and corporate reporting standards, such as those of the International Sustainability Standards Board (ISSB), across markets to scale up sustainable finance flows. Building on the technical discussions of the June G20 Forum on International Policy Levers, we should also advance a common understanding on the policy levers that influence sustainable investment decisions. It will be key for the Sustainable Finance Working Group (SFWG) to advance the discussion on policy levers to unlock sustainable investment to support the climate transition focusing on both pricing and non-pricing policies. We also encourage the FSB to coordinate international work to address financial risks from climate change through the implementation of its Roadmap.

12. The G20 should continue to strongly support work by the Financial Stability Board (FSB) to monitor and address financial stability risks arising from all forms of crypto-assets including stablecoins, also in the light of the recent turmoil in the crypto-asset markets, notably by advancing, in close coordination with international standard-setters, the swift development and effective implementation of consistent and comprehensive regulatory and supervisory frameworks for crypto-asset issuers and service providers in each and every jurisdiction as soon as possible. We look forward to the FSB and IMF joint synthesis report on related macroeconomic and regulatory issues. We support a timely implementation of the G20 Roadmap on cross-border payments and stand ready to take the necessary steps to this end. The G20 should continue supporting the international work and analysis on the potential role of central bank digital currencies and their wider implications for the international monetary system. Regarding non-bank financial intermediation, addressing the vulnerabilities arising from it, including from liquidity mismatch in open-ended investment funds, leverage and margining practices, as well as ensuring the resilience of the sector, should remain priorities. The FSB should also pursue its work on promoting resilience against cyber and operational risks, in particular on the ability to anticipate and respond to cyber-attacks and on strengthening financial institutions' ability to manage third-party risks and outsourcing. In line with the October 2021 Rome Declaration, we should lead by example in the fight against money laundering (AML) and terrorist financing (CFT) and by effective implementation of AML/CFT measures pursuant to the FATF standards. In particular, regarding beneficial ownership transparency, we should support implementation of the revised FATF standards and ensure efficient and fast international cooperation so that beneficial ownership information is shared among competent authorities to prevent cross-border misuse of legal persons and arrangements. We should continue to implement, also by digital means, policies to support the financial inclusion of vulnerable and underserved individuals and SMEs. In addition, we welcome the adoption by the FATF Plenary in February 2023 of the global roadmap to accelerate compliance regarding virtual assets.
