International Monetary and Financial Committee

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IMFC Statement by Ueli Maurer
Minister of Finance
Switzerland

On behalf of
Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic, Republic of Poland, Republic of Serbia, Switzerland, Republic of Tajikistan, and Turkmenistan

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Statement by Mr. Ueli Maurer, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan and Turkmenistan

We thank the Managing Director for her *Global Policy Agenda*. This agenda is ambitious and it will be important to translate policy intentions into actions, with a clear prioritization in line with the Fund's mandate. We particularly appreciate the strong emphasis put on the importance of preserving the rules-based multilateral framework. This framework has served well in allowing countries to reap the benefits of free trade and an open financial system, while promoting a level playing field and good governance. We also welcome the focus on member-tailored policy advice and support the Fund's work aimed at achieving strong, sustainable, balanced and more inclusive economic growth.

Global outlook

We broadly share the assessment of recent developments and the global economic outlook. The world economy is gaining speed, particularly in advanced economies, with a somewhat more heterogeneous outlook for emerging and developing economies. At the same time, risks remain tilted to the downside. Chief among them are the uncertainties surrounding the open multilateral trade and financial system, as well as the potential reversal of financial regulatory reforms. Other sources of uncertainty are the future course of economic policies in the United States, political developments in Europe, and the complex exit negotiations between the United Kingdom and the European Union. Continued rapid credit expansion in China is a key risk in the medium term. The apparent disconnect between high policy uncertainty and low implied volatility in equity markets increases the potential for a swift repricing of risks, with a negative impact on growth in the short term.

Pre-crisis trends such as population aging and weak productivity growth as well as unresolved crisis legacies continue to weigh on growth prospects. Balance sheet repair in several advanced economies remains incomplete. Vulnerabilities in a number of emerging economies are rising, in particular due to foreign currency-denominated debt in the corporate sector. Public and private debt levels remain too high in too many countries. The erosion of policy buffers has itself become a source of uncertainty about how much policy space will be available to respond to the next downturn.

Policy priorities

Structural reforms and sound policies remain essential to enhance resilience, lift potential growth and make growth more inclusive. The cyclical upturn should not bring about a false sense of complacency. Rather, efforts must be focused on enhancing the flexibility of economic structures, rebuilding policy buffers, and strengthening policy frameworks. Goods and capital markets should remain open and the rules-based multilateral trade system is to be safeguarded.

Structural reforms play a key role in unlocking productivity growth and ensuring that the benefits of economic integration are shared more broadly. These reforms should be prioritized, well sequenced and tailored to country-specific circumstances. Key measures are tackling demographic challenges, addressing labor market rigidities, increasing competition in product markets, and improving education policies.

Credible fiscal strategies are needed in many countries to rebuild policy buffers and ensure debt sustainability. We underline the dangers of pro-cyclical fiscal policies and call on the Fund to continue advocating the necessity of counter-cyclical policies over the whole business cycle. Fiscal rules and fiscal institutions can play a key role in this regard. We look forward to the planned review of experiences with fiscal rules as well as debt management strategies. We emphasize that the assessment of fiscal space inevitably involves a high degree of judgment. Fiscal space has yet to be defined in a convincing manner, especially on a forward-looking basis.

Accommodative monetary policies remain warranted in many countries. Downside risks to inflation have receded as activity has gained traction and broadened. However, underlying inflation in advanced economies is still subdued; stronger demand and improving labor markets are yet to translate into higher wage growth and core inflation. That said, central banks should stand ready to tighten the stance of monetary policy if and when economic conditions improve.

Completing the financial regulatory agenda, including the full and consistent implementation of agreed standards, is critical to safeguard global financial stability. Hard-won gains should not be reversed. We welcome the collaboration with other bodies such as the Financial Stability Board and efforts to promote international dialogue. Meanwhile, the resilience of the financial sector must also be enhanced through stronger efforts to repair bank balance sheets, notably by addressing the legacy of non-performing loans, including in the euro area.

Protectionism and inward-looking policies will not help to address the problem of rising inequality. Instead, policies to address the decrease in the labor share of income should focus on strengthening workers' adaptability by improving education, including through vocational training, ensuring equality of opportunity in the labor market, and retraining workers affected by structural change. Active labor market policies also play an important role in reducing frictional unemployment.

The Fund and the membership

The Fund has a key role to play in promoting sound policies and structural reforms, and in making the case for a multilateralism that works for all. In so doing, the Fund must continue to advocate the need to strengthen resilience and foster more inclusive growth in line with its core mandate, as well as to maintain global economic cooperation.

We call on the Fund to pay more attention to political economy constraints and provide advice to its members on how best to alleviate these, as the effective implementation of policies and reforms has been lagging. We emphasize the need for the Fund to focus its work on macro-critical areas, in collaboration with other organizations, as it seeks to deepen its understanding of the effects of technological progress, trade and capital flows. We welcome the Fund's intent to support reforms aimed at improving governance, enhancing the business environment and promoting competition.

We look forward to the conclusion of the work on refinements to the Fund's debt sustainability framework for low-income countries. This framework has been instrumental in ensuring sound public finances and debt sustainability. It continues to play an essential role for IMF and World Bank assessments and advice, for fiscal and borrowing policies of low-income countries, and for lending and grant allocation by donors. We continue to advocate the need for a prudent approach to debt sustainability analysis.

We welcome the intention to provide a rigorous and candid assessment of global imbalances. Assessing excess imbalances requires a fine understanding of the country-specific factors that underpin current account dynamics. In today's highly interconnected global economy, the drivers of the current account have become increasingly multifaceted. Careful analysis is especially warranted in the case of small open economies due to their sizeable cross-border linkages. Moreover, greater emphasis should be put on the net international investment position than on the current account. The former does take into account valuation effects, which can be large, while the latter does not.

We agree that macroprudential measures can be helpful to address vulnerabilities related to changing global financial conditions. Given the importance of an open and transparent international system of orderly capital flows for global growth and stability, capital flow management measures should be relied upon in exceptional circumstances only, as a last resort and temporarily. Furthermore, they should not substitute for macroeconomic and structural policies. In this regard, the Fund's Institutional View continues to be relevant.

We are ready to consider possible reforms to the Fund's lending toolkit in line with the Fund's mandate. A new non-financial policy instrument for the whole membership could play a useful signaling role and help facilitate cooperation between the Fund and regional financing arrangements. While we stand ready to consider a proposal for a new short-term liquidity instrument to complement the existing toolkit, such an instrument should respond to effective needs. Moreover, further work will have to address still significant design and implementation issues.

While the first priority in crisis prevention should remain adequate policies at the national level, we also support an effective global financial safety net (GFSN) with the Fund at its center. To fulfill its role, the Fund requires adequate resources. The assessment of the adequacy of Fund resources must take due account of the important progress already made in strengthening the resilience of the international monetary system, including through the extension of regional financing arrangements (RFAs) and the reform of the Fund's lending framework with respect to sovereign debt. We believe that different layers of the GFSN can operate effectively together and that it is reasonable to further strengthen the cooperation between the IMF and RFAs. We remain committed to conclude the Fifteenth General Review of Quotas within the timeframe agreed last year. We welcome the renewal of the NAB Decision until 2022. The NAB remain the main backstop for quota resources.

With respect to the new round of bilateral borrowing agreements with the Fund under the new framework set up last year, Switzerland remains ready to consider a contribution, subject to an amendment of the domestic legal framework and to domestic approval. A new bilateral agreement between Narodowy Bank Polski (the central bank of Poland) and the Fund for an amount of up to EUR 6.27 billion has become effective in January 2017.

We look forward to the review of the Fund's capacity development strategy. Regarding the Fund's capacity development work on non-core issues, such as climate change and gender, the review should look into the impact on Fund resources and ensure that there is an appropriate balance between this work and the work on core macroeconomic topics covered by the Fund's mandate. Also, there is a need to continue strengthening the results-oriented approach to capacity development delivery, both for externally and internally-financed activities.

We support the proposal to keep the budget of the Fund unchanged in real terms for the next fiscal year. The combination of a flat real budget and the ensuing need for ongoing reallocation and reprioritization of resources have served the Fund well in the past years. It has helped ensure that the budget is aligned with the Fund's main objectives. At the current juncture, we also favor maintaining the assumption of a flat real budget for the following fiscal years.