



## INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

### **Forty-Fourth Meeting October 14, 2021**

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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,  
Turkmenistan, and Republic of Uzbekistan

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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, Turkmenistan, and Uzbekistan**

Strong policies, decisive reforms as well as effective international cooperation are needed for global recovery, to avoid divergent economic paths and to address global challenges – both pre-pandemic and new. Appropriate calibration of policies is key, given limited policy space and capacity constraints in many countries. The Global Policy Agenda aptly captures the current challenges and priorities for policymakers and the Fund alike. The Fund should stay true to its mandate by helping members design and implement the macroeconomic and financial sector policies that foster stability and sustainable inclusive growth.

***Global setting and policy priorities***

The global economy continues its recovery, albeit with somewhat weaker momentum and still high uncertainty. Underlying structural vulnerabilities are coming to the fore, while global progress in vaccinations remains uneven and new variants of the virus could emerge.

Fiscal policy space is dwindling, given record high levels of debt, including in advanced economies. Fiscal support thus needs to be effective and targeted, including to the most vulnerable and those most affected by the pandemic. It should be time-bound and phased out as soon as the recovery strengthens. Policymakers should strengthen fiscal frameworks to preserve the soundness of public finances, safeguard debt sustainability and support medium-term growth. Key measures are broadening the tax base, strengthening public investment management, ensuring greater spending and investment efficiency, introducing credible fiscal rules and designing appropriate social safety nets.

The recent rise in inflation warrants close monitoring. While recent inflation dynamics should mostly be transitory as they reflect energy price developments and temporary supply chain disruptions, among other factors, it is important to make sure that inflation expectations remain well-anchored. Clear communication will be important in guiding market and consumer expectations. Monetary policy tightening might be necessary if the increase in inflation turns out to be more persistent than currently expected, even if labor markets have not yet fully recovered.

Structural reforms should address underlying vulnerabilities and boost potential growth with urgency. Improving competitiveness and raising productivity through investments in innovation and research, product and labor market reforms, education, reskilling, and vocational training, are key to expand and fully use economies' potential. Strengthening governance and transparency also remain central to foster a business environment that is conducive to private sector development as well as to promote accountability to the public.

### ***The Fund's role at the current juncture***

The Fund will continue to play a key role in helping members navigate through the pandemic. Continued close engagement with the Fund will be important to address pre-existing structural vulnerabilities laid bare by the pandemic, either in the context of tailored surveillance and capacity development or upper credit tranche (UCT)-quality programs.

While effective global coordination is needed to finance and distribute vaccines to all countries, in particular low-income countries (LICs), this is an area where the Fund should play only a limited role. Development partners and institutions are much better placed to provide targeted funding. The Fund should only step in when a pandemic-related balance of payments need cannot be covered through other financing sources.

We greatly welcome the resumption of bilateral surveillance, which brings the Fund's expertise to its members. Following up on the emergency financing recipients' governance and transparency commitments—both in the context of surveillance and UCT-quality programs—remains important to maximize the effectiveness of such financing, as well as to limit reputational and credibility risks for the Fund and the authorities. The timely and thorough evaluation by the Independent Evaluation Office on the IMF's emergency financing during the pandemic is also essential.

We look forward to refinements in the Fund's analytical toolkit to allow for more integrated assessments in surveillance and better tailoring of policy advice to country circumstances, while ensuring evenhandedness across the membership. The Fund's work on an Integrated Policy Framework has provided valuable insights and advice, also for open advanced economies facing persistently low inflation and policy interest rates near the effective lower bound. The review of the Fund's Institutional View on the Liberalization and Management of Capital Flows will be important to confirm the core principles underpinning the Institutional View, being mindful of the benefits of open capital markets and capital flows. It will also allow discussion of a few potential changes, informed by recent country experiences and research. The upcoming review of the External Balance Assessment methodology should aim to improve all aspects of the methodology to guarantee a holistic, balanced, and ultimately more robust approach to external sector assessments. It should also bring refinements that take better account of country specificities. In particular, the linkages between the current account, demographics, and pension systems deserve further consideration.

The Fund's capacity development activities provide important hands-on advice to members on implementing effective policies and structural reforms. We welcome the ongoing efforts to improve and modernize the performance management of capacity development. This should help ensure that it is tailored, well-prioritized, closely integrated with surveillance and lending, results-oriented, transparently monitored, and geared toward fostering greater ownership. Before engaging in countries with limited absorptive capacity, the comparative advantage of the IMF over other institutions' engagement needs to be clearly established.

### ***SDR channeling***

The recent allocation of SDRs was a strong signal of multilateral cooperation and SDRs can support member efforts to tackle the pandemic and foster recovery. At the same time, the allocation is no substitute for needed policy adjustment and, where appropriate, Fund-supported programs that address underlying structural weaknesses in a more sustainable and targeted manner.

On the current options for voluntarily channeling SDRs from countries with stronger external positions to more vulnerable members: channeling SDRs to the Poverty Reduction and Growth Trust (PRGT) is the most straightforward option as it is well tested. We consider UCT-quality PRGT programs the most effective way for the IMF to support LICs, given the Fund's edge in designing credible macroeconomic policy frameworks that can help catalyze further financing from partners. Regarding other channeling options, including the Resilience and Sustainability Trust (RST), we stress the importance of alignment with the mandate and purposes of the IMF and caution against blurring the lines between traditional Fund support and long-term development finance. Furthermore, safeguarding the reserve asset status of on-lent SDRs and introducing strong safeguards, including sufficient reserve buffers, to contain the credit and reputational risks associated with the lending, are crucial.

### ***Adjusting the concessional financing toolkit for LICs***

LICs have been particularly affected by the pandemic and will continue to face headwinds, especially from an uneven rollout of vaccines and longer-standing structural challenges. Continued support to LICs is thus important, though it will be important to safeguard a focused and catalytic role of the Fund. Higher access limits should not become a norm that leads to overall larger programs. Large Fund exposures risk crowding out other sources of financing and have non-negligible implications on credit risk, especially in an environment of heightened debt vulnerabilities. Access under PRGT arrangements thus needs to take due account of the strength of economic programs and of members' capacities to repay.

Demand for PRGT lending will likely remain high in the coming years. As a long-time supporter of the PRGT, Switzerland provided a loan in the amount of SDR 500 million during the 2020 loan mobilization round. Switzerland will also contribute to the PRGT subsidy account, subject to national procedures. Meanwhile, we are concerned about the financial soundness of the PRGT. We note that the steady decrease in the PRGT reserve coverage ratio due to increased lending erodes the level of protection provided to PRGT lenders. We also note with great concern that higher lending volumes will require raising substantial amounts of subsidy resources. Further contributions are thus urgently needed.

### ***Tackling debt***

Debt levels were already elevated before the outbreak of Covid-19 and have risen to new highs as a result of measures to deal with the pandemic. Debt sustainability concerns need to be addressed with urgency to ensure economic and financial stability during the recovery and thereafter. While the Debt Service Suspension Initiative (DSSI) and the Catastrophe Containment and Relief Trust (CCRT) have provided room to the poorest members to tackle the pandemic and the ensuing crisis, these initiatives now need to be replaced by measures to sustainably resolve debt issues. In this regard, there is urgent need for more efficient debt treatments under the Common Framework. Early engagement between debtors and all major creditors, greater clarity on the process, and timelines could help in finalizing debt restructuring agreements faster and with broader participation.

We strongly support progress in the workstreams of the Fund's and World Bank's Multipronged Approach to Address Debt Vulnerabilities. The reviews of the Fund's Lending into Arrears policies, including work on the perimeter issue, as well as work on the use of collateral in sovereign debt, are very useful to establish greater clarity and awareness around classification and seniority issues. We also continue to support efforts to enhance debt transparency by both debtors and creditors and call on creditors to adhere to prudent and sustainable lending practices. Furthermore, we advocate sustained efforts to improve debt management, including with Switzerland's support for corresponding capacity development activities. Strengthening the overall sovereign debt restructuring architecture remains crucial, to ensure that countries in debt distress can address debt challenges in a predictable and efficient manner.

### *Adapting to change*

Climate change and digitalization are macro-critical for the entire membership and need to be addressed by globally coordinated efforts. The Fund's contributions to these efforts should be in line with its comparative advantage and core mandate. This must guide considerations on an expansion of Fund work. Close collaboration with other relevant institutions and bodies will be crucial to leverage the best available expertise and avoid duplication.

The Fund needs to broaden and deepen its engagement on macro-critical climate change issues to help support members in their adaptation, mitigation, and transition efforts. The Fund should focus on providing advice to members on climate-related issues that have macroeconomic and financial stability implications and that can be addressed through macroeconomic and macro-structural policies. We positively note recent training efforts on climate change-related challenges to best leverage the skillset of the existing workforce. Any ramp up of work needs to be carefully calibrated to avoid overstretching the institution.

The Fund plays a key role in highlighting the opportunities and challenges associated with greater digitalization to the membership. Its analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other innovative financial sector actors will help ensure that members' digital strategies can enhance growth and financial inclusion without

endangering stability. The limited talent pool with deep expertise on this topic will also need to be considered when discussing the size and pace of a potential increase in resources.

### ***IMF resources and governance***

We look forward to continuing our discussions on the 16<sup>th</sup> General Review of Quotas in a constructive way and within the Fund's governance bodies. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We support progress on quota realignments for the currently most underrepresented members while protecting the position of the Fund's poorest ones. Considerations on the size of the Fund should be based on realistic assumptions and balanced arguments. Considering the different elements of the 16<sup>th</sup> Review as an integrated package will help build a broad consensus.

We welcome the Fund's continued efforts to adapt to the changing needs of the membership while staying true to its mandate. We look forward to continuing to engage on an adequate budget envelope and stress the need for the Fund to lead by example in terms of budget discipline. Continuous reprioritization and reallocation of resources to changing strategic priorities and needs remains key to make sure that the Fund can provide timely and pertinent advice to its members in a cost-effective manner.