



# **International Monetary and Financial Committee**

Twenty-Sixth Meeting  
October 13, 2012

**Statement by Eveline Widmer-Schlumpf  
Minister of Finance, Switzerland**

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



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I endorse the substance—and the sense of urgency—of the Managing Director’s messages to policy makers in her *Global Policy Agenda*. I also broadly share her views about how the IMF can help its members implement this agenda. In what follows, I want to emphasize those aspects which I perceive to be critical.

**I. SECURING THE RECOVERY**

*Advanced economies*

While the global recovery is fizzling, risks loom large and the global economy is very vulnerable right now. It is worrying that the extensive use of traditional and unconventional macroeconomic policy instruments has as yet failed to establish a sustainable path to recovery. The underlying cause of the stalling global economy seems to lie with pervasive uncertainty about the direction of policies and the ability of policy makers—not only in the euro area—to address the fundamental adjustment challenges. The latter prominently include medium-term fiscal adjustment to reverse debt accumulation and structural reforms to enhance the functioning of labor and product markets.

The euro area remains the epicenter of risks and uncertainty, and much more remains to be done to restore market confidence and reverse capital flight from the periphery. A banking union and ultimately a high degree of fiscal integration are necessary ingredients for a more resilient monetary union. Since these reforms steps will take time to be adopted and implemented, and considering the global economic situation, ample liquidity provision by the ECB is appropriate. To prevent financial market fragmentation and to eliminate convertibility risk, I welcome the recent announcements by the ECB. Their practical implementation will have to rely on appropriate conditionality that can fully restore market confidence.

The other policy priority in the current context is avoiding the “fiscal cliff” in the United States. A major and steep contraction of fiscal policy in the U.S. would not only throw the U.S. back into recession but entail significant negative repercussions for the global economy. While I understand that the adoption of strong policies is hampered by the electoral context, I note that removing the threat of the fiscal cliff will serve the interests of both, the U.S. and the global economy. The IMF has also urged the U.S. authorities to elaborate a medium-term fiscal consolidation plan. Such a plan would not only help place the high public debt-to-GDP ratio on a downward path over the longer run, but also remove the short-run risk of a sudden shift in market sentiment that could significantly increase interest rates and jeopardize the recovery.

More generally, the importance of implementing structural reforms in advanced economies cannot be overemphasized. Slowing growth combined with increasing financial instability, particularly in the euro area, feed a damaging climate of acute uncertainty. While accommodative policies have bought precious time, deep structural reforms are now called for that address fundamental impediments to long-run growth. I want to particularly emphasize the crucial role of labor and product market reforms in this respect.

Also, efforts need to continue to make the global financial system more resilient. One crucial missing element is a mechanism to facilitate an orderly restructuring of sovereign debt.

### ***Emerging market economies***

I see much merit in developing a comprehensive and balanced policy framework to monitor and manage capital flows. Such a framework will need to be carefully designed, be based on experiences, and be sufficiently flexible to take into account the various structural characteristics of countries. Capital account liberalization, accompanied by appropriate non-discriminatory regulation and policies, should foster cross-border flows. The latter are beneficial to all, as they permit a better allocation of savings and investments across countries.

### ***Low-income countries***

The creation of a self-sustained Poverty Reduction and Growth Trust (PRGT) has been a long-standing request from my constituency. The decision by the Executive Board to distribute the SDR 1.75 billion of additional higher than expected profits from the 2009-10 gold sales is to be seen as the main building block to achieve this objective. It will be important to ensure that all future modifications to the PRGT facilities be designed in a manner that is consistent with maintaining self-sustainability. I reiterate our view that the Fund's chief and most useful role in assisting PRGT-eligible countries lies in the provision of macroeconomic advice and capacity building.

## **II. ANCHORING THE FUTURE**

Clear, candid, and even-handed surveillance is the key to ensure the long-term health of the international monetary system or, more broadly, the global financial system. Surveillance is among the most important tasks of the Fund and continuous efforts to improve its quality and effectiveness are crucial. Important milestones in strengthening surveillance reforms have been reached. I particularly welcome the new *Financial Surveillance Strategy*, the *Integrated Surveillance Decision*, and the *Pilot External Sector Report*. I am confident that these reforms will be instrumental in increasing the traction with policymakers. This said, I continue to see room to streamline the Fund's outputs, particularly on multilateral surveillance.

### ***Strengthening financial systems***

I endorse the IMF's new *Financial Surveillance Strategy*. It responds to an apparent weakness in the Fund's surveillance, as identified in the 2011 Triennial Surveillance Review. The three overarching strategic objectives—improving risk identification and macrofinancial policy analysis; upgrading instruments and products of financial surveillance to foster an integrated policy response to risks; and increasing the traction of financial surveillance by engaging more actively with stakeholders—encompass the main strategic priorities of financial surveillance in the period ahead. The implementation of this strategy should allow the Fund to adequately respond to the challenges posed by global financial interconnectedness and markedly strengthen its financial surveillance.

Among the strategic priorities, I want to emphasize the following. First, better integrating financial surveillance in Article IV consultations is essential. To this end, financial sector expertise in the Fund's area departments must be enhanced. Our Executive Board Chair is open to allocate additional resources to accomplish this goal. Second, the Fund should provide regular advice on, and assessment of, ongoing and planned regulatory reforms. Chapter 3 of the latest GFSR is a good and useful example of this work. Third, I am convinced that more “truth-telling”—that is, clear and frank messages to policy makers, based on first-rate and even-handed analysis—could be helpful in enhancing the traction of IMF advice and, thereby, mitigating risks. And fourth, I consider it critical that the collaboration with the World Bank on financial sector issues be deepened, particularly in low-income countries.

### ***Global imbalances and spillovers***

I strongly welcome the IMF's new Decision on Bilateral and Multilateral Surveillance, more commonly known as the *Integrated Surveillance Decision* (ISD). The ISD establishes comprehensive guidance for all surveillance activities of the Fund and, in particular, including on the scope and modalities of multilateral surveillance. I am confident that this modernized legal framework will contribute to significantly strengthen the Fund's surveillance function. I also trust that the dialogue between the Fund and its members will remain collaborative, candid, and even-handed, while paying due regard to individual country circumstances.

### **III. ADDRESSING THE GOVERNANCE DEFICIT**

I am confident that the full implementation of the 2010 quota and governance reform package will result in a more legitimate IMF. Our constituency has contributed significantly to these reforms. Poland and Switzerland have recently agreed to equally share one Chair in the IMF Executive Board in the future on a two-year rotational basis, once the measures envisaged as part of the 2010 quota and governance reforms have become effective, and with Switzerland nominating a candidate for the first two-year period. We call on other members to now provide

what is still needed to meet their commitment of reducing the advanced European Chairs in the Executive Board by two.

Our constituency is ready to work constructively towards a compromise on the quota formula review as part of a coherent and balanced package, provided that others are also willing to do so. I encourage all members to engage constructively so that we can conclude the quota formula review by January 2013. That said, we object to a step-wise process and will not tentatively agree to changes in individual variables without having a clear sense of what the final outcome will look like. I also want to stress, once again, that this review process must be inclusive and take place within the IMF Executive Board and the IMFC, where all members are represented.

Any refined quota formula should be based on the agreed principles that have already guided the 2008 reform. Among those principles, I want to emphasize the one of broad acceptability, that is, the importance of reaching an agreement on a refined formula that is broadly acceptable to the entire membership. Only a formula that produces broadly acceptable quota shares can enhance the legitimacy of this institution, the pivotal objective of IMF governance reforms. A GDP-only formula or one that is essentially based on GDP, benefitting a minority of large members at the expense of the vast majority of smaller and more open members, would surely not satisfy this principle.