# International Monetary and Financial Committee

Thirty-First Meeting
April 18, 2015

**IMFC Statement by Eveline Widmer-Schlumpf**
**Head of the Federal Department of Finance, Switzerland**

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

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**Statement by Ms. Eveline Widmer-Schlumpf, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, and Turkmenistan**

I welcome the Managing Director's messages in her *Global Policy Agenda (GPA)*. The *GPA* provides a clear overview of the current global economic situation and challenges. It helps identify and prioritize the needed policy measures, though it would have benefitted from a more thorough identification of some of the trade-offs implied by its policy prescriptions. From the perspectives of our member countries, I would like to convey our views on the following key issues.

## I. Economic Outlook

We broadly share the Fund's assessment of the global economic outlook and the main risks. Economic growth is likely to remain moderate and uneven across regions and large economies in the near term. We agree that the distribution of risks is still tilted to the downside, but has become somewhat more balanced than six months ago. In particular, on the upside, the sharp drop in oil prices could provide a stronger support to the world economy, as a whole. Nevertheless, we take note that the uncertainty around the projected path for global growth has increased.

We welcome the greater focus on medium-term developments in the Fund's multilateral surveillance reports. The impact of expectations about future economic developments on current prospects through private investment is a case in point. The greater focus on the medium term should also lead to a better balance in the Fund's policy advice, between advocating structural reforms to raise potential growth, and measures to continue supporting demand in the short term.

## II. Monetary Policy and Financial Stability

Highly expansionary monetary policies have helped stabilize the global economy and mitigate risks of deflation. At the same time, they have taken us into uncharted waters. They have pushed interest rates to extremely low levels, thus encouraging greater risk-taking and a build-up of new risks to financial stability. Moreover, they have led to spillovers that pose significant challenges in a number of countries.

Monetary policies should remain focused on ensuring price stability and stable economic conditions in line with central bank mandates. These policies should be adequately supported by effective macroprudential policies as well as stronger efforts to complete the global financial regulatory reform agenda. Ensuring the contribution of all these elements is crucial for strengthening confidence, stability, and resilience. In this context, the Fund has an important role to play in supporting members' full and prompt implementation of the aforementioned agenda, particularly in implementing effective measures to deal with too-big-to-fail problems.

Financial stability risks have to be closely monitored and effectively addressed. We continue to see macroprudential policies as the first line of defense to address the risks associated with the prolonged period of low interest rates. We also see a need for stronger efforts to address the high and rising stock of nonperforming loans, particularly in a number of euro area economies. Together with higher capital buffers, such efforts would strengthen bank balance sheets, thereby also helping to increase monetary policy effectiveness.

## III. FISCAL POLICY

Lowering public debt ratios to safe levels is of paramount importance for reducing the associated risks to financial stability and growth as well as rebuilding adequate policy buffers. Debt ratios will have to fall, particularly in many advanced countries. Clearer commitments to medium-term targets are thus needed, supported by enhanced institutional frameworks, and improved fiscal transparency. Also, much-needed structural fiscal reforms should not be delayed, seizing the opportunity created by lower oil prices. The Fund's surveillance should put particular emphasis on these key aspects of fiscal policy.

We continue to see strong merit in well-designed fiscal rules and credible medium-term consolidation plans. These tools promote effective expenditure control over the business cycle, while allowing automatic stabilizers to operate in a symmetric manner. As shown in the Fund's multilateral surveillance reports, fiscal policies have been largely asymmetric in many economies, as automatic stabilizers are often offset by discretionary measures in good times. This asymmetry had clearly contributed to the build-up of public debt already before the crisis, thereby reducing the available buffers when the crisis hit.

## IV. STRUCTURAL REFORMS

Structural reforms are key to reach the objective of strong, balanced, and sustainable growth and should not be delayed any longer. So far, there has been considerable demand support, but a lack of progress on structural reforms. In advanced countries, demand policies can, to the extent that policy space is available, help support growth in the short term. However, these policies alone are insufficient, in particular, because they do not eliminate the fundamental impediments to growth—this can be achieved only through well-targeted and well-prioritized structural reforms.

Policies to revive long-term investment should focus on making investment projects more attractive for private finance. The structural weaknesses that discourage the private sector from engaging in long-term investment projects have to be effectively addressed. The public sector should, in particular, make sure that the investment climate is adequate to attract private funding. Measures to promote long-term investment should thus be included, for the most part, in the structural reform agenda.

## V. Role of the Fund

We continue to be convinced that the core mandate of the institution is, and should remain, the stability of the international monetary and financial system, with a clear focus on macro-critical issues. This is where the Fund has its widest technical expertise and its clear comparative advantage. In this context, we see a strong case for developing a long-term strategy for the IMF, with corresponding deliverables. This strategy should also define the Fund's financing role in a post-crisis setting.

The Fund should remain the leading institution in developing an adequate framework to restructure sovereign debt. The lack of such a framework represents a major deficiency in the international financial system. The role of the Fund is particularly important in light of (i) its core mandate, (ii) its technical expertise, and (iii) the numerous cross-linkages between its various ongoing reforms to strengthen the international financial architecture. The Fund should maintain strong ownership and continue its efforts to complete the review of its lending framework, including in the case of sovereign arrears to private creditors.

In line with its mandate, the Fund should contribute to the Financing for Sustainable Development process by (i) providing policy advice, (ii) helping to strengthen members' institutional capacity, (iii) underscoring the central role of the debt sustainability framework, and (iv) highlighting the risks, particularly for the public sector, associated with innovative and leveraged development financing. The Fund should provide this contribution through its bilateral and multilateral surveillance, its programs, and its customized technical assistance.

## VI. Governance of the Fund

The full implementation of the 2010 quota and governance reforms remains a key priority. Our constituency has already made significant strides in implementing these reforms, among other things by contributing its share to the consolidation of advanced European representation at the Executive Board. We call on all other members to honor their commitments, consistent with the broad agreement that was reached in December 2010.

We stand ready to continue the efforts to find a viable solution on possible interim steps to advance progress in the key areas of the 2010 reforms, pending their ratification. We are convinced that the option of delinking the quota increase from the Board reform amendment is not feasible, in particular, because it cannot obtain the support needed from the broad membership. Moreover, this option would take too long to be implemented. Instead, we see merit in the option of limited ad hoc quota increases for those members that are most underrepresented.