



International Monetary and Financial Committee

Twenty-Eighth Meeting
October 12, 2013

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

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

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

I welcome the Managing Director's messages to policy makers in her *Global Policy Agenda* (GPA). 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 view as critical.

I. TUNING THE ENGINES OF GROWTH

The latest shift in global growth dynamics marks a turning point in global economic developments. While the recent market turmoil in some large emerging market economies coincides with communication by the Federal Reserve about the eventual exit from its unconventional monetary policies, the role of domestic vulnerabilities in these economies must not be ignored. Indeed, while communication by the Federal Reserve in May 2013 acted initially as a trigger for a necessary re-pricing of risk across the board, subsequent developments have shown significant differentiation along the lines of domestic vulnerabilities. Such developments highlight the need to build policy buffers without delay while economic conditions are favorable. Once the tide is turning, the range of policy options can quickly become constrained if policy buffers are insufficient.

Risks associated with the prolonged use of expansionary monetary policies need to be assessed thoroughly. While monetary policy accommodation buys time for reforms to be implemented, risks of financial and fiscal dominance should not be neglected. Central banks may come under pressure if a desirable interest rate hike were perceived as endangering the stability of systemic financial institutions or the sustainability of public finances. In this context, while we acknowledge the recent steps towards a banking union, we are concerned that bank balance sheet repair remains incomplete in the euro area. We are also concerned about the lack of medium-term fiscal consolidation plans in the United States and in Japan.

Fiscal vulnerabilities remain elevated and represent a source of risk to the global outlook. Medium-term fiscal consolidation is critical to ensure the credibility of macroeconomic policy. And credibility will, in turn, result in substantial gains for growth over the longer term. Expenditure reforms remain needed in many countries to ensure long-term debt sustainability. Also, we are concerned that fiscal consolidation has generally relied too much on tax rate increases when deeper reforms to the tax system would have brought the same benefits without weighing negatively on economic growth. Where appropriate, inefficient tax exemptions should be eliminated and tax collection should be enhanced through administrative reforms. Fiscal institutional frameworks and quantitative anchors for fiscal policy are important tools to foster fiscal soundness. Debt rules, especially when combined

with structural budget balance rules, constitute an important institutional element to further strengthen fiscal discipline.

In emerging market countries, economic growth has slowed, capital flows have partially reversed, and a number of currencies have depreciated reflecting also the level of country vulnerabilities. This short episode should not, however, lead us to conclude that emerging market economies have entered a new world. Domestic vulnerabilities have been around for a while and emerging markets are coming off historically high cyclical peaks. In this sense, the ongoing adjustment might also represent a return to a more sustainable steady state, which is not necessarily an unwanted development.

Low-income countries (LICs) continue to show a solid economic performance. For them, the first line of defense to reduce vulnerabilities is to strengthen the fiscal frameworks with a view to building buffers. In the current environment – with an outlook for rising growth in 2014 and 2015 – it is appropriate to do so. There is significant potential for an improvement in the composition of public spending in LICs: reforming energy subsidies, better designed social safety nets, and controlling the wage bill could be accompanied by increased spending on health and education. There is also untapped potential in many LICs to raise domestic revenue, especially by broadening the tax base and improving tax administration. The feasibility of these measures relies on institutional capacity, which should be bolstered, particularly in small and fragile states.

II. POLICIES FOR AN INTERCONNECTED WORLD

We welcome the narrowing of global imbalances since their 2007 peaks. It is important for the Fund to monitor these trends and further develop reliable assessment methodologies. This assessment of imbalances has to take into account important country-specific factors such as the savings rate, the age distribution of the population, and foreign direct investment activity.

We look forward to the 2014 Triennial Surveillance Review and its focused approach, as recent reforms to surveillance – the main one being the adoption of the Integrated Surveillance Decision – still need to be fully implemented. The review should assess the evenhandedness and traction of Fund surveillance, in particular in large economies. The ultimate aim should be to improve the way members act on the policy advice provided by the Fund. Also, it is critical that all members fulfill the obligations they have under the Fund's Articles of Agreement. We also welcome the focus on macro-critical structural reforms. In the post crisis environment, structural reforms are indispensable to reinvigorate growth and contribute to macroeconomic stability.

We welcome the greater focus on the link between corporate debt overhang, sovereign debt distress, and bank funding problems. The consideration of the corporate sector node raises some new questions and challenges that go beyond the recapitalization of the banking sector.

There is a need for concrete action to complement the current policy reform package with further measures, including the recapitalization of corporates, and the winding down of non-viable entities.

We are pleased that progress has been made towards strengthening financial surveillance in all three pillars of the Fund's financial sector strategy. We particularly welcome the decisive efforts to better integrate financial sector issues in Article IV consultations. The Review of the FSAP will be an important complement to the TSR. In addition to the regular FSAP assessment for the systemic financial centers, Switzerland has volunteered to undertake the pilot assessment of the FSB's Key Attributes of Effective Resolution Regimes for Financial Institutions. This standard should help establish effective national resolution regimes and ensure cross-border collaboration in the resolution of internationally active financial institutions.

In countries with shallow financial systems, we continue to see sustainable financial deepening as an important contribution to support economic growth and stability. The Fund strategy has rightly identified a need to deepen collaboration with the World Bank on financial sector work in LICs and we hope to see further progress in this area.

We take note of the Fund's plans in the area of international taxation, as indicated in the GPA. The contribution of the Fund to this debate should be consistent with its core mandate.

III. STRENGTHENING THE FUND

The Fund has an important role to play in helping pave a path to sustained growth and financial stability, as reflected in the GPA. What is lacking in this document is further elaboration on the lending role of the Fund. As we all know, outstanding Fund credit is historically high. There will thus be important policy issues to be addressed by the IMFC in the near future. These issues include, but are not limited to, the collaboration of the Fund with Regional Financing Arrangements; the use and design of the Fund's precautionary credit facilities; and the amount of financial resources that should be at the disposal of the Fund.

We agree that the Fund must adapt to a changing world, but it has to do so in a focused way. The Fund has been successful when it remained focused on a number of limited but well defined tasks. By reflecting on the long-term trends of the world and their implications for the Fund, we should not forget the core mandate of the institution which is, and should remain, the stability of the international monetary system.

Last but not least, ratifying the 2010 quota and governance reform is a prerequisite for the 15th General Review of Quotas, and for implementing in full the changes to the composition of the Executive Board. These reforms will testify to the Fund's ability to implement key

organizational reforms. We recognize that the ratification of such fundamental reforms can be subject to complex democratic processes in member countries. 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. I call on other members to now provide what is still needed to make the 2010 quota and governance reform package effective.