International Monetary and Financial Committee

Thirty-Fourth Meeting
October 8, 2016

IMFC Statement by Mr. Maurer
Switzerland

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

International Monetary and Financial Committee (IMFC), October 8, 2016

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*. It provides a concise overview of the global economic outlook, of the challenges the membership is facing, as well as the policy work in train at the Fund. In particular, we value the emphasis put on the risks associated with a retreat from global integration and multilateralism, and on the need to intensify cross-border cooperation in order to enhance growth, ensure financial stability, and revive trade.

Global outlook

We broadly share the assessment of recent developments and the outlook for the global economy. In contrast with advanced economies, where activity has recently been weaker than expected, emerging markets and developing countries are performing somewhat better than anticipated. Stronger growth is expected for next year on the back of a recovery in some of the large emerging markets, and a rebound in the United States. At the same time, the economic implications of the United Kingdom’s choice to leave the European Union are yet to unfold.

Unresolved crisis legacies continue to be a drag on growth in many advanced economies. Public debt levels remain at unprecedented levels. With the ongoing overburdening of monetary policy and limited fiscal space in many countries, more emphasis needs to be put on structural reforms to strengthen the supply side. These reforms should be prioritized, sequenced carefully and tailored to country-specific circumstances. Key measures should seek to address labor market rigidities, to increase competition in product markets, to improve education and employability skills, and to mitigate the effects of adverse demographic developments.

Policy challenges

Sound policy frameworks are crucial in the current environment, as they help to ensure that economic and financial policies are credible and are implemented consistently. Actual implementation of the right policies is more demanding than their design. The Fund has an important role to play in increasing our understanding of how to overcome the obstacles to policy and reform implementation, and to advise member countries accordingly.

We agree that fiscal policy needs to be based on sound and consistent frameworks that safeguard the sustainability of public debt. Our fiscal policies have to become more credible. To anchor consolidation, commitment to – and implementation of – medium-term fiscal targets is required. The Fund's surveillance should put greater emphasis on the important role that fiscal rules, medium-term fiscal frameworks, and fiscal transparency – including public accounting standards – can play in strengthening resilience. As elaborated in the October 2016 Fiscal Monitor, fiscal buffers are needed in order to conduct countercyclical fiscal policies to limit output costs in the case of a crisis.

The current global outlook warrants ongoing monetary accommodation. However, vigilance about the side effects of prolonged monetary easing, notably risks to financial stability, is called for. Along with structural factors, including outdated business models, compressed interest rate margins are putting the profitability of banks under pressure. The low interest rate environment may also put at risk the solvency of insurance companies and pension funds. Meanwhile, the search for yield by financial institutions is leading to a build-up of leverage and crowded exposures to certain asset classes.

On the financial sector, there is a continued need to consistently implement the agreed regulatory reform agenda. This includes the total-loss-absorbing-capacity (TLAC) standard, as well as effective cross-border regimes for the resolution of globally systemic banks. We call for the finalization of the Basel III framework by the end of 2016. It is essential that the measures to address the variability in risk weights be neither delayed, nor diluted. This is to ensure that excess variability is reduced and confidence in the risk-weighted approach is preserved.

Increasing the resilience of the financial sector requires further efforts to repair the balance sheets of banks, including by improving capitalization and reducing leverage. Also, more action is needed to address non-performing loans in the banking system, particularly in the euro area. Reducing the uncertainty associated with under-capitalized banks and non-performing loans will improve the transmission of monetary policy and increase the supply of credit to the real economy.

The Fund and the membership

The Fund is uniquely placed to provide advice and support to member countries. We agree that in order to fulfill this role in an effective manner the Fund needs to have adequate resources. Discussion of the Fund's resources should take into account the achievements that have already been reached to strengthen the international monetary system and the global financial safety net. These include the extension of regional financing arrangements, as well as the amendments to the Fund's lending framework with respect to sovereign debt.

An in-depth analysis of the adequacy of Fund resources needs to be conducted in the course of the Fifteenth General Review of Quotas. Along with an agreement on the formula to determine the out-of-lineness of actual quotas, such an analysis would be required before any further increase in quotas is considered. From this perspective, we welcome the proposed elements of a work agenda of the Executive Board – and engagement by the IMFC – to complete the Fifteenth General Review by 2019. We particularly welcome that discussion of the Fund's lending role and facilities will precede the work on the size and distribution of quotas.

We support the new framework for bilateral borrowing agreements with the Fund. Switzerland stands ready to consider a contribution to the new round of bilateral borrowing, subject to domestic approval and amendment of the domestic legal framework. Poland is willing to continue to provide up to EUR 6.27 billion. A final decision will be taken by the Management Board of the Narodowny Bank Polski (NBP) after the text of the agreement is finalized between the Fund and the NBP.

The free cross-border movement of capital is essential for a globally efficient resource allocation and growth. It is in this context that we support the work of the Fund on how countries have intervened to manage capital flows. Particular attention should be paid to capital flow management measures that are applied for reasons not strictly related to macroeconomic policy, or that continue to be applied after the movements that they were intended to address abate.

We welcome the ongoing work by the Fund on macroprudential policies. The outcome of this work should be to enable the IMF to provide well-founded policy advice to the membership. To achieve this, due consideration should be given to the differences in the institutional setup across member countries.

We welcome the priority that the Managing Director is giving to further strengthening the Fund's work on capacity development. We note the work on establishing a new Trust Fund on Financial Sector Stability. We call for more technical assistance for correspondent banking issues, including through internal resources. Coordination of the Fund's work in this area with the FSB-coordinated action plan will be critical.

We are looking forward to a timely review of the debt sustainability framework for low-income countries. The framework is instrumental in ensuring sound public finances and debt sustainability. It plays 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 welcome the work in train on adapting the mechanism to determine PRGT interest rates. This work needs to ensure that the self-sustainability of the PRGT, which is a key pillar of the Trust, be preserved. At the same time, we encourage additional contributions to the loan account of the PRGT. Switzerland intends contribute a loan of SDR 500 million to the PRGT, subject to parliamentary approval.