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Statement by the Hon. **KASPAR VILLIGER**,
Alternate Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

Statement by the Hon. Kaspar Villiger,
President and Minister of Finance for Switzerland,
and Alternate Governor of the Fund
at the Joint Annual Discussion

The current outlook for the world economy resembles the situation we had one year ago. The deterioration of the global outlook has exacerbated pressures on many economies, in particular emerging market economies and LDCs. New crisis situations have emerged and others continue to remain unsolved. These crises entail enormous costs for the respective populations. They also require significant amounts of official financial assistance. This demonstrates that we should not slow our efforts to strengthen the international financial architecture. We must also aim to substantially improve our contribution to poverty reduction through increased coherence of policies and enhanced aid effectiveness. Doha, Monterrey and Johannesburg have all contributed to forge a global consensus on partnership for development that hold a great promise. It is now imperative to translate these broad commitments into concrete actions and measurable results. For all countries, one of the most powerful means of protection against crises and structural problems continues to be the implementation of sound and sustainable economic and social policies.

Improving Crisis Resolution

Over the past months, the Fund was again called to assist member countries with large financial packages. This has once again put the spotlight on the Fund's role in crisis resolution. The absence of a mechanism to deal with sovereign debt crises has been an important void in the financial architecture. It is reassuring that this is increasingly recognized. I therefore warmly welcome the recent progress on creating a better framework for crisis resolution.

First of all, let me praise the work of the G10 and of representatives of the private sector on collective action clauses (CACs). There is now widespread recognition that CACs can be introduced – to the benefit of both debtors and creditors – in the bond documentation of all major jurisdictions. The public sector's role in the introduction of CACs is limited. It can play little more than a supportive role in changing market practices. In the end, the success of collective action clauses hinges on the private sector's willingness to participate. While I welcome the progress achieved on the contractual approach, I strongly encourage the IMF to pursue its work on the statutory approach and hope that by the time of the next IMFC meeting we will be in a position to endorse very concrete proposals. For me, the Sovereign Debt Restructuring Mechanism (SDRM) is not just a strategic play to advance CACs. We need a mechanism like the SDRM. But an SDRM will only work if there are clear rules for access to IMF resources. The recent discussion on access limits showed that it is currently unreasonable to expect a lid on lending. This, however, makes it all the more important that cases of exceptional access remain truly exceptional.

Strengthening Surveillance

I would like to commend the Fund for having, over the past several years, worked hard to strengthen surveillance and crisis prevention. The candor of reports has continuously increased. However, in crucial areas such as exchange rate issues, debt sustainability analyses, and governance problems, further improvements are necessary. Effectiveness of Fund surveillance, however, also hinges critically on the willingness of members to follow Fund advice and to participate in the voluntary exercises aimed at fulfilling standards and codes.

Implementing the Monterrey Consensus

I am aware of the many challenges that developing and transition countries face, I hope that they will be able to live up to their commitments and pursue economic and social policies that will accelerate development. To reduce poverty and increase crisis resilience, countries that have elaborated a poverty reduction strategy will need to follow up with action. Developed countries need to rise to the challenge, too. First, we must address problems of policy incoherence and, in particular, move towards more consistency between development and trade policies. Second, we should put more effort into improving the quality and effectiveness of our assistance. I appreciate the Bank's many efforts to advance the Monterrey agenda, as well as its strong a commitment to the Millennium Development Goals. Progress towards these goals, as well as the effectiveness of the Bank's and the Fund's lending program, will ultimately depend on the genuine implementation of coherent poverty reduction strategies and macro-economic reforms. In the future, I believe that the Bank and the Fund should become engines for improving the quality of aid and its impact - serving as a platform for exchanging "best practices" from field experience and for exploring new ideas, including coordination.

HIPC

I am satisfied that 26 countries have already benefited from HIPC. In these countries, debt relief makes a real difference: debt service as a share of government revenues has been cut in two and the total debt stock will ultimately be reduced by about two-thirds. Hence, considerably more resources are available for development expenditures and poverty reduction.

Yet, I am concerned about the long-term debt sustainability of the HIPC initiative. More than half the HIPC countries have higher than expected debt levels. This is not due to some failure in the implementation of the initiative – it is too early to judge that – but mainly to over-optimistic initial economic projections and the evolving external environment. Beyond the HIPC Initiative, I continue to believe that debt relief is not the optimal instrument to support economic development and to ensure debt sustainability. Repeated debt relief will promote moral hazard. Now and after HIPC, the emphasis must be on poverty-reducing and growth-enhancing policy reforms.