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Statement by the Hon. **HANS-RUDOLF MERZ**,
Alternate Governor of the Fund for **SWITZERLAND**,
at the Joint Annual Discussion

Statement by H. E. Hans-Rudolf Merz,
Minister of Finance of Switzerland
and Alternate Governor of the Fund,
at the Joint Annual Discussion

Washington, D.C., October 3, 2004

I am pleased to address you, President Wolfensohn, Managing Director de Rato, Honorable Governors and distinguished Delegates, in the year of the 60th anniversary of our two institutions. When the founders met in Bretton Woods, the world was still caught in the struggle of World War II. It took remarkable vision to devise the new financial order that should provide the wealth and standard of living we are now experiencing. Sixty years later, the Bretton Woods Institutions' original mandates are still valid. Today's challenge is to transform the Fund and the Bank into learning organizations that permit them to adapt to a constantly changing world, while allowing them to keep focussed on their mandates.

The background of our 60th anniversary is very encouraging. The global economic outlook is better today than we would have expected a year ago, in fact better than in nearly three decades. Today we are experiencing a more and more broad-based recovery that is also increasingly well distributed across regions. The inflation outlook is still relatively benign and incipient gradual monetary tightening did not lead to adverse financial market reactions. Global financial stability has strengthened, with corporate, financial sector and household balance sheets generally strengthening.

While global growth has picked up, the down-side risks of increasing oil prices, emerging inflationary pressures and imbalances in both advanced and emerging market countries remain. However, the positive current outlook provides an excellent opportunity to move ahead with the unfinished agenda of fiscal and structural reform in most member countries. This is indispensable to sustain the recovery and ensure that it is also benefiting the poor. Every country must address its own shortcomings. While every country individually benefits from its reforms, it will also contribute to the adjustment of the significant global imbalances. Acting on the reform agenda today is all the more important, given the medium and long term challenges of aging populations.

The Fund and the Bank should support these efforts. They each have their role in assisting members in their reform efforts by providing advice to promote good policies, technical assistance to strengthen institutions and financing at appropriate terms to alleviate adjustment cost, and make the necessary investment in people and national systems of developing and transition countries.

For the Fund, surveillance remains the key instrument to assist members. Given the virtually universal country membership in the Fund, it should put to use its global expertise and draw from lessons from around the world, but nevertheless provide tailor-made country specific advice. I welcome the efforts to enhance effectiveness of surveillance by increasing the focus on each country's specific vulnerabilities and highlighting the regional and global impact of each individual country's economic policies.

Effective surveillance is also the best crisis prevention. In that context, the idea of a program without Fund resources for a country that does not want or need Fund resources, is appealing: A country may wish a sort of strengthened policy cooperation with the Fund to provide a clear signal of its sound policies. However, the Fund must be careful setting up such an arrangement's design. Experience shows that the ability of an arrangement to provide that signal depends very much on its program requirements.

Yet, I do not think we need an additional instrument providing large amounts of precautionary funds to hedge against the possibility of a crisis. We have seen in the past that Fund membership provides ample insurance with readily available resources. I think, such an instrument is a diversion from the centrality of sound economic policies and it would tie resources of the Fund, thus weakening its financial position.

I warmly welcome the significant steps that the Bretton Woods Institutions have taken to further strengthen the effectiveness of their work in low-income countries. The Poverty Reduction Strategies have become the cornerstones of Bank and Fund support in the context of country-led efforts for poverty reduction.

Close cooperation between the World Bank and the IMF is crucial to achieve the Millennium Development Goals. In my view, the primary task of the IMF is to support low-income members through policy advice and capacity building in their efforts to implement sound macroeconomic policies. The IMF's concessional resources are limited. Moreover, the core mandate of the Fund is of a monetary policy nature. Therefore, its role should not be to provide long-term development finance. Instead, its programs must be designed to maximize the catalytic impact on concessional financing from donors and private sector investment.

The World Bank has a key role in helping countries make more effective use of limited aid resources. It must help strengthen local institutions and systems so that donors can increasingly operate through country-based systems. It should also continue allocating its aid based on policy and institutional performance of recipient countries. At the end of the day, it is the developing countries themselves that have to take the lead to improve the effectiveness of aid, among other things by strengthening governance and fighting corruption.

Looking towards 2015, I note with some concern that many countries in particular in Sub-Saharan Africa continue to lag behind the schedule set to meet the MDGs. All stakeholders, developing and developed countries as well as the international organizations, must step up their efforts to achieve their commitments given in Monterrey. The focus on increasing the effectiveness of finite aid resources is critical, not only from an economic, but also from a political point of view. The credibility of the international community is at stake.

Switzerland is therefore ready to participate in the examination of alternative proposals to identify new and additional sources of financing. In this, we should be guided by the following principles. First, our efforts should be targeted at the poorest countries. Second, aid must, to the largest extent possible, be allocated based on performance. Third, we need to avoid creating new institutions or additional cumbersome procedures and conditionality. Fourth, we should avoid using instruments, such as transaction taxes whose distortionary effects on capital flows exceed their potential benefit.

With respect to the International Finance Facility, we recognize the opportunity provided by a facility that would allow to frontload aid. Yet, we remain concerned that global aid would experience a sharp drop following the maturity of the IFF. We believe that we should not borrow against future commitments. In addition, implementation constraints of national budgeting systems would have to be taken into account – which, in the case of Switzerland, would not allow participation.

Finally, we should not lose sight of the fact that the most straightforward approach rests in appropriately endowing the existing development vehicles. In this sense, we urge that the IDA-14 negotiations will be concluded in time, and with a policy and financial framework that allows it to play the role expected of it with respect to achieving the MDGs.

The most important source of development finance will not come from the public, but the private sector. Private sector investment is indispensable to create employment, generate revenues and promote growth. In the case of foreign direct investment, it also provides an important channel to transfer technology and know-how. The World Bank plays a key role in identifying and addressing the structural, regulatory and institutional changes required for private sector development to happen, while the IMF guarantees the necessary macro-economic framework and helps strengthen the financial systems.

Lastly, I am pleased with the joint work of the Bretton Woods Institutions on debt sustainability. While I support the extension of the sunset clause of the HIPC-Initiative, I regret that there still remain 11 countries that have not been able to meet the criteria for debt relief under the Initiative. Looking forward, we must make sure that the countries that have benefited from a substantial reduction of their external debt will not fall back into a situation of unsustainable debt. Therefore, I support the forward-looking framework for debt sustainability in low-income countries presented by the Bank and the Fund. Some important methodological issues remain, including the need of full collaboration between the Bank and the Fund in preparing debt sustainability analyses. This is an urgent matter since the framework is key for a timely completion of IDA14. We will therefore monitor further work carefully.

I closing, I would like to thank the staffs of both the Bank and the Fund for their contributions towards a prosperous, financially stable world without poverty.