INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Sixth Meeting
October 13–14, 2022

IMFC Statement by Ueli Maurer
Minister of Finance
Switzerland

On behalf of

Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic,

Republic of Poland, Republic of Serbia, Switzerland, Republic of Tajikistan,

Turkmenistan, and Republic of Uzbekistan

International Monetary and Financial Committee, October 14, 2022

Statement by Mr. Ueli Maurer, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

We underscore the Fund's important role in assisting the membership as the global economy faces strong headwinds. Severe shocks have exacerbated pre-existing vulnerabilities, diminished fiscal policy space, and prompted a rapid tightening of monetary policy. Fund policy advice and surveillance as well as technical assistance thus remain critical to help members navigate difficult policy trade-offs and strengthen resilience. Fund lending should support vulnerable members in their macroeconomic policy adjustment. In addition, the Fund must act as a facilitator for international cooperation to tackle global challenges, in particular to avert the risk of fragmentation in the international monetary system.

Global setting and policy priorities

We remain deeply concerned by Russia's war against Ukraine. In addition to the human loss and suffering, the war has caused significant economic damage with global repercussions, including in food and energy markets, threatening industrial activity and household income, bearing the risk of persistent economic scarring in vulnerable economies, and compounding the structural vulnerabilities laid bare by the pandemic. The hostilities could also lead to a reversal of international integration, making the world poorer and the international community less able to effectively address global challenges.

Properly calibrating policy responses is as challenging as it is important. The key policy challenge is to bring inflation back to target and to ensure debt sustainability, while protecting the most vulnerable from the rapid decline in real income due to high energy and food prices.

Monetary policy must continue to tighten to avert a de-anchoring of inflation expectations. Central banks need to act in a decisive, timely, and data-dependent manner, in line with their mandates.

Prudent fiscal policy aimed at consolidating public finances and restoring buffers is necessary, given high public debt levels and tighter financing conditions. Fiscal policy should be effective and avoid accentuating inflationary pressures. Meanwhile, where warranted and feasible, targeted and prioritized fiscal support may help dampen the impact of high food and energy prices and of the lingering COVID-19 pandemic. Care should be taken not to distort price signals, for example by providing support in the form of cash transfers to the most vulnerable. Well-designed medium-term fiscal frameworks and fiscal rules are key to credibly lock in consolidation efforts and underpin market confidence.

Financial stability risks have increased and require continued monitoring. Policymakers should stand ready to forestall a disorderly tightening of financial conditions and, in order to contain the buildup of financial vulnerabilities, to adjust macroprudential tools according to country-specific circumstances. In exceptional circumstances, capital flow management measures may contribute to smoothening the transition to tighter global financial conditions in the short term, but they must not substitute for warranted macroeconomic adjustment and necessary institutional and regulatory reforms. A fragmentation of payment systems is a tangible risk that must be contained, also given the potential consequences for members with limited correspondent banking relationships. Moreover, while financial innovation must be encouraged, new risks emanating from the fintech sector and digital assets also need to be monitored closely.

Structural reforms remain key to expand supply, boost economic activity, potential growth and productivity, and, hence, also help reduce inflation in the medium term. Measures to strengthen governance and transparency also remain central to fostering a business environment that is conducive to private sector development and investment. On the latter, we welcome continued Fund's work in this area in particular through the Public Investment Management Assessment evaluations.

The Fund's role at the current juncture

To address immediate challenges and structural vulnerabilities, the Fund should continue its close engagement with members through the provision of tailored surveillance, capacity development, and lending, particularly in the context of upper credit tranche (UCT)-quality programs.

Fund policy advice and surveillance, including top quality economic analysis and knowledge sharing, remain as important as ever. They are notably important in the context of the necessary monetary normalization and rising financial sector risks, which may lead to significant cross-border capital movements. We therefore welcome further work on the operationalization of the Integrated Policy Framework. We also welcome the recent review of the Institutional View on the Liberalization and Management of Capital Flows. This review confirmed the significant benefits of open capital markets and capital flows, and that increased risks associated with capital flows are best met through sound macroeconomic policies and resilient financial sectors. In addition, we broadly welcome the proposed refinements to the External Balance Assessment (EBA) methodology. Further work will be important to better reflect the links between the current account, demographics, and pension systems. The EBA methodology should also be extended to include improved exchange rate models and a module for the analysis of stock imbalances.

Capacity development continues to play an important role in providing tailored and hands-on advice to the membership and help in implementing reforms. We welcome the findings of the evaluation on capacity development, conducted by the Independent Evaluation Office, that technical assistance in the areas of the Fund's core expertise is broadly effective and of high quality. We welcome efforts to further enhance capacity development by ensuring it is well-prioritized and sequenced, closely integrated with surveillance and lending, results-based, transparently monitored, and geared toward fostering greater ownership. We underscore the crucial role of regional capacity development centers and resident advisors in enhancing ownership, strengthening follow-up advice, facilitating coordination between capacity development providers, and enabling peer-learning. The Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) provides a valuable and much appreciated contribution to helping the members of our Constituency address their unique challenges.

Fund lending remains important to support members in achieving macroeconomic adjustment and addressing balance-of-payments (BoP) needs. For Fund lending to be effective, it must enhance economic stability and resilience, notably by advancing the implementation of strong policies and reforms; it must be catalytic as well as tailored to country circumstances; and it must be backed by solid IMF finances and stringent risk management.

We supported the creation of a temporary food shock window, as part of IMF emergency financing. This will allow important Fund support for countries with urgent food-related BoP needs, including support for Ukraine under the Rapid Financing Instrument (RFI). IMF lending, including under the food shock window, should catalyze further external support, notably given significant financing needs and high debt vulnerabilities in many countries.

Apart from that, the Fund's lending toolkit has proven flexible enough to provide prompt, adequate, and tailored support in the face of major shocks. As part of multilateral support efforts, the Fund should focus on lending through existing instruments, particularly UCT-quality programs, and providing a coherent macroeconomic policy framework, thereby also aiding the authorities' efforts to mobilize other sources of financing.

Ensuring the self-sustainability of the Poverty Reduction and Growth Trust (PRGT)

Low-income countries (LICs) are particularly affected by the spillovers from the war in Ukraine. Adequate subsidy resources and ample reserve buffers remain key premises to accommodate further concessional Fund lending to LICs. We underscore the need to safeguard the PRGT's financial soundness and thus also its self-sustainability. The fact that more than half of PRGT-eligible countries are currently at high risk of, or in, debt distress underscores the need for a solid reserve coverage. The two-stage funding strategy for the PRGT, endorsed by the Executive Board in 2021, remains appropriate. We encourage further pledges for loan and, especially, for subsidy resources, including through the new investment options. Switzerland provided a loan to the PRGT in the amount of SDR 500 million during the 2020 loan mobilization round and, subject to domestic procedures, will provide about SDR 40 million in subsidy resources over the next five years.

Operationalizing the Resilience and Sustainability Trust (RST)

The operationalization of the RST will help LICs, small states, and vulnerable middle-income countries address risks stemming from longer-term structural challenges, particularly climate change. For the RST to achieve its purpose, arrangements under the Resilience and Sustainability Facility (RSF) will need to feature substantive reforms. Also, the Fund as trustee must focus on its specific expertise in macroeconomic policy design and in supporting macro-critical reforms. To garner other essential information and knowledge, close and effective cooperation with the World Bank – and, where appropriate, other international organizations– is critical. To help ensure the financial soundness of the RST, Switzerland is working on a contribution to the RST to support countries' macroeconomic policy efforts focused on climate change challenges.

Tackling debt vulnerabilities

Debt vulnerabilities are high and rising in many countries. Addressing debt sustainability concerns is imperative. While we welcome the recent progress made with debt treatments under the G20-Paris Club Common Framework, more efficiency in implementing such debt treatments is urgently needed. Notably, timelines and greater clarity on the process could help avoid too-little-too-late restructurings. Expanding the scope of coordinated debt treatments in line with the Common Framework to a broader group of countries would also be important. Aside from that, we continue to support efforts to enhance debt transparency by both debtors and creditors, including with respect to collateralized debt, and call on creditors to adhere to prudent and sustainable lending practices. We remain strongly supportive of the Fund's and the World Bank's multipronged approach to address debt vulnerabilities.

Cross-cutting issues

The Fund should advise members on climate-related issues that have macroeconomic and financial stability implications. We support its work on mainstreaming climate adaptation into fiscal policy with a view to strengthening fiscal resilience overall. We also see merit in factoring adaptation costs more systematically into the Fund's debt sustainability framework. In addition, the work aimed at helping central banks and supervisors better evaluate the exposures of the financial system to climate-related risks is highly appreciated. Financial stability analysis and advice on climate should continue to be risk-based and tailored to country specificities.

The Fund has a key role to play in highlighting, for the membership, the opportunities and challenges associated with digital finance. The Fund's analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other financial innovations will help members design digital strategies that enhance growth and financial inclusion without endangering financial stability and integrity.

Close collaboration with other relevant institutions and bodies will be crucial to best leverage the available expertise and enable complementarity in cross cutting areas.

IMF resources and governance

We look forward to continuing the discussions on the 16th General Review of Quotas in a constructive way and within the Fund's decision-making bodies. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We strongly support progress on quota realignments for the currently most underrepresented members while protecting the position of the Fund's poorest ones. The current formula reflects a difficult compromise and continues to serve the Fund well. The adequate size of the Fund should be based on realistic assumptions and balanced arguments. Considering the different elements of the 16th Review as an integrated package will help build a broad consensus.

We underscore that the Fund must be exemplary with respect to governance and budget prudence as well as maintaining balance sheet strength. On budget prudence, the continuous search for savings and reallocation of resources to reflect evolving priorities and needs should remain core elements of the budget process. With respect to balance sheet strength, we stress the need for a further build-up of precautionary balances given the substantial financial risks to the Fund.

Tajikistan is a candidate to host the 2026 Annual Meetings of the IMF and the World Bank Group. It would be a great honor for us to welcome all of you in Dushanbe in October 2026.