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IMFC Statement by Karin Keller-Sutter
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

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Statement by Ms. Karin Keller-Sutter, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

While a soft landing appears within reach and tail risks to financial stability have been contained, the economic outlook remains subdued, with risks tilted to the downside. In this challenging environment, the IMF's surveillance, policy advice, and technical assistance remain essential to help members manage difficult policy trade-offs and strengthen resilience. Fund lending should support vulnerable members in their macroeconomic adjustment. In addition, the Fund must act as a facilitator and advocate of international cooperation to tackle global challenges, in particular to avert the risk of fragmentation.

Global setting and policy priorities

Economic growth is slow, uneven, and expected to remain lackluster over the medium term. The global growth momentum has slowed amid a necessary tightening of monetary policies, Russia's ongoing war against Ukraine, the withdrawal of fiscal support, and extreme weather events. Headline inflation has declined, but remains above target in many countries. Fiscal policy space is limited in many countries, notably due to high public debt and rising debt service costs. At the same time, climate events are becoming more frequent and more severe. Ongoing crises and risks of fragmentation pose challenges and require support for many countries, including for Central Asian economies—a region of low- and middle-income countries, with only three decades of independence.

Downside risks have moderated since April but continue to dominate. While the turbulences in the banking system in spring were contained, on account of decisive policy action, including by the Swiss authorities, a sharp tightening of global financing conditions could lead to renewed bouts of volatility in the financial system. Meanwhile, high debt vulnerabilities remain a key risk, in particular for some emerging and many developing economies. A further slowdown in China could lead to significant global disruptions. Persistent geopolitical tensions pose a risk to global integration and contribute to a subdued medium-term outlook. An end to Russia's war against Ukraine, with its unspeakable human toll, would be an impactful contribution to improving the global outlook.

Against this background, careful policymaking is needed to complete the disinflationary process, while preserving macroeconomic and financial stability and laying the foundations for sustainable growth.

Central banks need to maintain appropriately tight monetary policies to achieve price stability. Only once underlying inflation and inflation expectations are durably approaching target levels, can interest rates be gradually reduced, carefully balancing the risks of over- and under-tightening. Monetary policy should remain data dependent and be accompanied by clear communication about the central banks' continued commitment to price stability.

Fiscal policy should support the disinflationary process and ensure the sustainability of public debt, while providing room to tackle longer-term challenges. Non-priority and untargeted support should be phased out, while public expenses and investment should be reprioritized. Well-designed fiscal rules can help build such buffers by supporting restraint in good times while being flexible in downturns. Policymakers should focus on structural fiscal reforms and credible medium-term fiscal frameworks.

Preserving financial stability requires effective financial regulation and supervision, and the decisive use of available tools when necessary. Quick and effective action by policymakers to counter financial turbulence last spring restored confidence and preserved stability. It is essential to examine what lessons can be learnt from this episode of turbulence. Drawing firm conclusions regarding the potential need for regulatory adjustments, including at the international level, requires further thorough analyses.

A stronger impetus for structural reforms will be essential to raise medium-term growth. Labor and product market reforms can enhance competition, improve labor force participation, foster innovation, and increase the flexibility of the economy.

Climate policies need to be credible, timely, and predictable. They should set the right incentives to boost innovation and private sector investment, while meeting the immediate challenges of energy security. Properly designed carbon pricing is an effective economic policy instrument to transition to a low-carbon economy.

It is critical to preserve the gains from international trade and investments through reliable supply chains in an open, rules-based, and transparent international trading system. A clear commitment to the establishment and enforcement of well-designed and predictable rules, as well as reforms of the World Trade Organization, are urgently needed. More resilient supply chains are warranted as are measures to address clear market failures. Meanwhile, these measures should not come at the cost of unwinding many of the benefits of globalization.

The Fund's role at the current juncture

Fund surveillance, including high-quality economic analysis and knowledge sharing, remains important to help members safeguard macroeconomic stability and foster sustainable growth. In line with the IMF's core mandate and areas of expertise, monetary and fiscal policies, as well as macrofinancial stability issues need to remain priority topics in IMF surveillance. The Fund's analytical work should also help members navigate ongoing transformations by focusing on their macroeconomic implications. We welcome efforts to operationalize the Integrated Policy Framework and encourage further work on the External Balance Assessment to better reflect country-specific aspects and to incorporate a broader set of measures (e.g., external debt positions) in the assessment.

Capacity Development (CD) remains important to provide tailored and hands-on assistance in support of reform implementation. CD should continue to focus on the Fund's core areas, including fiscal issues, such as revenue mobilization and debt management. We support further enhancing CD by ensuring that it is well sequenced and prioritized, 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 recognize the valuable contribution of the Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) in helping members of our constituency address their unique challenges.

Fund lending remains important to support members' necessary macroeconomic adjustment to address balance-of-payments problems. Fund lending should thus help members strengthen their economic resilience and achieve sustainable growth. It must be compatible with members' debt-carrying and repayment capacities and with preserving the financial solidity of the Fund and its trust funds, including in an adverse scenario. Access limits and norms as well as actual resource use need to be consistent with this. The Fund must avoid lending into unsustainable debt situations. High lending standards, including effective conditionality and stringent qualification criteria for precautionary lending instruments, as well as rigorous and impartial debt sustainability analyses are essential safeguards to maintain confidence in the Fund's ability to carry out its mandate, to achieve the desired catalytic effect of its lending, and to mitigate credit and liquidity risks inherent in Fund lending. We supported the reforms of the precautionary facilities and the Policy Coordination Instrument to enhance the effectiveness of these instruments.

Tackling debt vulnerabilities

Debt vulnerabilities are high and a pressing concern in many countries, some of which are in urgent need of debt restructuring. In this context, the Fund should exercise caution in expanding its lending share, as a growing portion of super-senior debt could crowd out market financing and complicate debt treatments, potentially to the detriment of the member in debt distress.

The Fund's work on debt issues is central to its mandate and must remain a top priority. We reiterate our strong support for the IMF/World Bank Multipronged Approach. In particular, we advocate steps to improve the efficiency of case-by-case debt treatments, both for LICs under the Common Framework and for middle-income countries. Key to this is ensuring effective creditor coordination, including early engagement with private creditors, and strict enforcement of comparability of treatment. More generally, work should continue to refine the contractual approach to debt restructuring involving private creditors. Improving debt transparency as well as debt management and recording is crucial.

We recognize the efforts made by the Global Sovereign Debt Roundtable in advancing common understandings to facilitate debt restructuring. At the same time, we emphasize that the Roundtable should merely facilitate and complement the discussions in key institutions, such as the IMF, the World Bank, and the Paris Club, and not pre-empt their decisions.

Cross-cutting issues

The Fund, together with other relevant institutions, should advocate global coordination and policies to address climate change. In doing so, it should stay within its mandate and expertise, concentrating on macroeconomic policies. We welcome the progress in the implementation of the Fund's climate strategy across its four pillars: surveillance, policy work, CD, and cooperation.

We appreciate the high quality of staff's analytical work, particularly on carbon pricing, the optimal climate policy mix, and the macroeconomic impact of climate policies.

The Fund rightly highlights the opportunities and challenges associated with digital finance. Its analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other financial innovations can help members design digital strategies that enhance growth and financial inclusion while safeguarding financial stability and integrity. We look forward to a handbook on CBDC and underscore the importance of close collaboration with other institutions and forums, especially the BIS and the FSB, to avoid a duplication of efforts.

The Fund's role in promoting open trade should be reinvigorated. An open and predictable trading system remains essential for economic stability as well as for durable growth and development. While economic openness and interconnectedness offer great opportunities, they also expose an economy to external shocks. In its work on trade, the Fund should emphasize the role of diversification, macroeconomic buffers, and sound domestic policies in strengthening resilience.

Ensuring the financial soundness of the IMF's Trust Funds

The financial situation of the PRGT is challenging. Adequate reserve buffers and subsidy resources remain key for sustainable concessional lending to low-income countries (LICs). We support fundraising efforts that focus on broad and fair burden sharing. Switzerland provided a loan of SDR 500 million to the PRGT in the 2020 loan mobilization round and is providing about SDR 40 million in subsidy resources over the next years. Aside from further fundraising, a comprehensive, balanced and prudent strategy is needed to address the challenging financial situation of the PRGT. This strategy must reflect the catalytic role of IMF financing, the PRGT's specific role in the lending toolkit, and resource availability in the PRGT. We therefore look forward to next year's PRGT review, which will also provide an opportunity to ensure that PRGT policies are consistent with the current global interest rate environment and the deteriorated risk profile of the PRGT credit portfolio. On the use of IMF internal resources to support the PRGT, we call for caution more generally. That said, a one-time transfer from the General Resources Account to the PRGT can be considered as a way to establish a basis for future concessional lending to LICs. We stress that the accumulation of precautionary balances should resume after such a one-time transfer. Meanwhile, the Fund's gold holdings should be left untouched.

For the RST to achieve its purpose, arrangements under the Resilience and Sustainability Facility (RSF) must ensure reforms that foster lasting climate-positive institutional and policy changes. Setting a high bar in this regard will help ensure well-designed RSF arrangements and evenhandedness across RST-eligible countries. We continue to see merit in the RST focusing primarily on climate change, which presents a critical global challenge. In engaging in RSF arrangements, the Fund should focus on its comparative advantages, while closely and effectively cooperating with the World Bank and, where appropriate, other international organization. In this context, it is important that the RST does not crowd out the resources needed to integrate climate considerations into the Fund's surveillance and CD activities. To help ensure the financial soundness of the RST, Switzerland is well-advanced in its domestic procedures for a contribution to the RST.

IMF resources and governance

Our constituency supports a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. To meet the needs of its membership, the Fund's current resource envelope should at least be maintained when the Bilateral Borrowing Agreements expire at the end of 2024. We therefore support a quota increase of between 35 and 50 percent, restoring the role of quotas as the primary source of financing. At the same time, borrowed resources will continue to play an important role as an additional line of defense for exceptional circumstances. We support an equiproportional quota increase to facilitate a compromise. Meanwhile, progress on quota realignments for the currently most underrepresented members based on the existing quota formula remains an important goal. In this context, we stress that countries' relative positions in the global economy are determined both by non-GDP elements and by GDP, and that the quota formula must continue to reflect this. In order to increase the voice of LICs, we support an additional chair on the IMF Executive Board for Sub-Saharan Africa.

We underscore that the Fund must lead by example in terms of governance and budgetary prudence as well as in maintaining balance sheet strength. The continuous search for savings and the reallocation of resources to reflect evolving priorities and needs should remain core elements of the budget process. We stress the need to continue building-up precautionary balances given the significant financial risks facing the Fund.