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Statement by Mr. Yılmaz
Turkey

On behalf of
Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo,
Slovak Republic, Republic of Slovenia, and Turkey

Statement by Mr. Cevdet Yılmaz
Deputy Prime Minister, Republic of Turkey
on behalf of Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Slovenia, and Republic of Turkey
at the 32nd Meeting of the International Monetary and Financial Committee
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Global Economy and Policy Priorities

Global growth remains moderate and the distribution of growth across countries and regions has been uneven. Advanced economies in general enjoy a moderate growth though it is yet to be entrenched. Growth in emerging market economies has lost its steam as tighter financial conditions weigh on the economic activity. Commodity price downswing has posed an additional burden on major commodity exporters. While remaining cognizant of the vulnerabilities, we note that most emerging markets have stronger buffers and are better equipped to keep external shocks at bay compared to previous crisis episodes. Moreover, two important drivers of the current global conjuncture namely monetary policy normalization in the United States and China's growth transition are eventually healthy and positive for the global economy. Lower oil prices could also continue to provide a boon to the global growth.

The start of the gradual monetary policy normalization in the United States is imminent. The Federal Reserve should be clear in the communication of its policy direction. On the other hand, the continued highly accommodative monetary policy stance, both in the euro area and Japan, still appears appropriate in view of the economic slack and inflation below the target. At the same time, transmission channels of monetary policy should be unclogged in order to result in the revival of credit to the private sector. In order to unlock credit growth in the euro area, particularly in the weaker "periphery", corporate balance sheets need to be restructured and the high NPLs burdening the banks' balance sheets need to be resolved. National insolvency regimes need to be strengthened, accompanied by streamlining out-of-court debt restructurings as well as incentivizing banks to recognize bad loans. These national policies should be combined with a euro area wide initiative to reform the cross-border insolvencies.

Countries, in particular those with fiscal room, sizable output gaps and sustainable debt prospects can utilize the available space to undertake high-return infrastructure projects as well as human capital to lift potential growth. For countries with compressed or no fiscal space, expenditure and revenue policies should be crafted in a budget-neutral way to revitalize the economic activity. Fiscal reforms, supported by strong institutions and well-calibrated structural reforms, can yield solid growth dividends in the long term. For many countries improving public spending efficiency should remain a priority. Credible medium-term fiscal consolidation plans remain pending in the United States and Japan.

Policies need to be calibrated carefully in the emerging market economies and mainly in countries with limited fiscal space. The policymakers in emerging market economies should closely monitor the foreign currency exposures and implement micro- and macroprudential measures to curb leverage and foreign exchange exposures in the corporate sector. Exchange rate flexibility is warranted to cushion the implications of external shocks while targeted exchange rate interventions can be instrumental in averting disorderly market conditions.

We welcome the efforts of the Chinese authorities to undertake market-oriented reforms. Greater clarity and effective communication of their policy direction would improve the chances of success. It is crucial that any public support to the economy in China facilitates the desirable rebalancing towards domestic consumption and is accompanied by a credible reform of state-owned enterprises and regional finances.

Tepid potential growth across the board constitutes a pressing challenge for the global economy. Waning total factor productivity, weak potential employment growth, sluggish investment prospects along with population aging in many economies constrain their growth potential. Concerted efforts are needed to ward off the risk of the new mediocre transforming into a secular stagnation. An ambitious and well-targeted set of structural reforms will be instrumental in raising the productive potential of our economies. In advanced economies, for instance, improving the public infrastructure and raising the labor force participation are among the key priorities. For the euro area specifically, reforms need to focus on removing barriers to product market entry, addressing the debt overhang and reconsidering labor market regulations to enhance labor market flexibility. Structural reform priorities in the emerging market and developing economies include addressing infrastructure bottlenecks, reforming labor and product markets, improving the education system, and bolstering business conditions. We need to discuss best practices and set of policies to boost the labor force participation rates and develop the skills set required for the evolving economic realities. We look forward to the Fund's upcoming work on structural reforms.

The Role of the Fund

We welcome the initiatives to make the Fund more agile, integrated and member-focused. We broadly support a more holistic approach and a widening of the scope of policy advice, while focusing on the Fund's core mandate and strengthening its synergy with other international organizations. We acknowledge that the expansion in the activities by the Fund would require adequate budgetary resources.

International Monetary System

The Global Financial Safety Nets (GFSNs) have been strengthened since the global financial crisis. Notwithstanding the progress, concerns over global financial instability call for even stronger GFSNs, which can provide assurance to markets that much needed liquidity can be mobilized in the event of stress. In its in-depth analysis on the efficacy of the GFSNs the Fund should explore areas to optimize its cooperation with regional financing arrangements. We also look forward to the review of the composition of the Special Drawing Rights (SDR) basket.

IMF Surveillance

The Fund's policy advice, capacity development and research have been evolving to respond to the emerging demands from its membership. We appreciate the efforts underway to mainstream the macro-financial surveillance and sharpen the risk analysis. The granularity of bilateral surveillance has been improving with more expert advice and integration of the macroprudential policy. Balance sheet analysis will be an important addition to the Fund's toolkit and can illuminate the financial frictions, sectoral interactions and cross-border links. We look forward to the Fund's stocktaking exercise on Capital Flow Management (CFM) measures, which will be a timely analysis to assess the costs and benefits of these measures. With respect to macro-structural analysis, policy advice should be more tailored to country circumstances while estimates on the payoffs of structural reforms can provide significant value and insights for country authorities.

We welcome the indication in the Managing Director's Global Policy Agenda that the Fund will focus on the challenges posed by the rising influx of refugees and migration. We see strong merit in analyzing both economic impacts and opportunities of the refugee crisis.

IMF Lending

The Fund, as a global cooperative institution, has demonstrated its effectiveness and agility in its prompt support to the Ebola hit countries. We strongly encourage the Fund to continue to stand ready to respond promptly to calls on its financial assistance and crisis prevention instruments. We support the ongoing efforts to enhance the Fund's lending framework to meet evolving demands of the membership while appropriate conditionality, safeguards and risk mitigation measures remain in place. We trust that follow-up work on the Fund's lending framework and sovereign debt will be completed soon.

Quota and Governance Reform

The Fund can play its mandate to safeguard global economic and financial stability only if it is equipped with ample resources and improved governance and representation. The effectiveness of the 2010 Quota and Governance Reforms can restore the quota based nature of the Fund and strengthen its governance. In this regard, we believe that the earliest implementation of the 2010 reforms is essential for the credibility, legitimacy and effectiveness of the Fund and should remain the highest priority for the IMF Membership. We call on the members, who have not ratified the 14^{th} review quota increases, to legislate this reform package without further delay.

Sustainable Development

Equipped with cross-country experience and analytical skills the Fund is well placed to provide significant value added to the global development agenda in close collaboration with other international organizations. The Fund's capacity building efforts on domestic revenue mobilization can make the real difference for countries to create permanent resources for financing development. In its policy advice the Fund should continue to promote fiscal policies geared towards addressing income inequality, fostering human capital accumulation and calling for targeted social assistance programs while encouraging member countries to streamline resource intensive energy subsidies. We welcome that access norms and limits were raised by 50 percent for Poverty Reduction and Growth Trust (PRGT) facilities as well as the support under the Rapid Financing Instrument. It is equally important to ensure the self-sustainability of the PRGT financing model. The Fund's commitment to strengthen its engagement with small and fragile states is laudable.