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IMFC Statement by Ueli Maurer
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On behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Republic of Poland, Serbia, Switzerland, Tajikistan, Turkmenistan

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

I welcome the Managing Director's *Global Policy Agenda (GPA).* This document provides a candid assessment of the current global economic situation and challenges, and correctly points out that downside risks have increased since October 2015. From the perspectives of our member countries, I would like to convey our views on (i) the current conjuncture and risks, (ii) policy challenges and priorities, and (iii) how the Fund will help the membership.

I. CURRENT CONJUNCTURE AND RISKS

We broadly share the Fund's assessment of the global economic outlook. Global output growth this year is likely to remain modest. The tightening of global financial conditions, as well as signs of continued sluggishness in global trade and industrial production at the beginning of this year, weigh on the outlook. Output gaps in advanced economies (AEs) are still expected to close further, albeit at a slower pace than previously expected. Meanwhile, output growth in emerging markets and developing economies (EMDCs) is projected to remain on a par with last year, on the back of corporate debt pressures combined with tighter credit conditions.

We agree that downside risks have increased. We share, in particular, the conclusions that (i) global financial stability risks have increased, (ii) vulnerabilities in EMDCs are rising, and (iii) unresolved crisis legacies persist in AEs. This being said, we would have welcomed a reference in the *GPA* to the fact that fiscal risks are also increasing, both in AEs and EMDCs, as pointed out in the most recent multilateral surveillance reports. Moreover, regarding China's transition to a new growth model, which is listed as a key risk to the global outlook in these reports, we would like to emphasize the following: while this transition is challenging and associated with stronger than expected spillovers, attaining slower but still strong and more sustainable growth in China will be of long-term benefit to the global economy.

We are convinced that insufficient reform effort is one of the main reasons for the weaker global outlook and the higher downside risks. The policies implemented since the outbreak of the global financial crisis and the crisis in the euro area have helped avoid widespread economic turmoil with severe consequences. However, a robust and sustainable global recovery has yet to materialize. Moreover, several important indicators, such as continued low private investment and consumption as well as higher financial market volatility, point to the fact that uncertainty remains high and confidence in the effectiveness of policies might be weakening.

II. Policy Challenges and Priorities

Implementing policy packages that are balanced and credible must be, in our view, the priority at the current juncture. The subdued inflation outlook warrants continued accommodative monetary policies, including unconventional measures. These policies should not be overburdened, but adequately complemented by stronger efforts to reduce fiscal and financial vulnerabilities and address structural bottlenecks to growth. Stronger efforts to implement such balanced and credible policy packages represent the key factor to ensure their effectiveness, not least because they strengthen confidence and reduce uncertainties.

In this context, we would like to emphasize three points:

First, the time has come to deliver more forcefully on structural reforms. Progress in implementing overdue structural reforms continues to be uneven. This is especially unsatisfactory as clear commitments have been made in this sense. As we have underscored in the past, structural reforms are an essential tool to eliminate the key impediments to growth. They are, thus, crucial to ensure strong, sustainable, and balanced growth. The current accommodative monetary policies and low oil prices provide a favorable environment to implement these reforms. Failing to turn commitments into actions weakens confidence in policy frameworks. We would have appreciated a stronger emphasis on these issues in the *GPA*.

Second, fiscal policies should pay more attention to the imperative of reducing debt vulnerabilities. Fiscal policies can support structural reforms and demand if fiscal space is available and there is a negative output gap. As pointed out in the most recent multilateral surveillance reports, fiscal positions have continued to worsen significantly since last year, both in AEs and EMDCs. Reversing this trend with timely corrective measures is, therefore, essential for reducing associated risks to financial stability and growth. We welcome the emphasis in the aforementioned reports on the key role that fiscal rules, medium-term fiscal frameworks, and fiscal transparency can play in this sense. We would like to point out that fiscal rules should be respected, meaning, in particular, that escape clauses are activated only if warranted.

Third, there is a continued need to consistently implement the global regulatory reform agenda, including Basel III, the new total-loss-absorbing-capacity (TLAC) standard, and cross-border resolution regimes for globally systemic banks. Despite important achievements, the financial sector continues to be afflicted with important unresolved structural weaknesses. Adding to this, the financial sector is also under pressure because of higher financial market volatility and credit risks. Addressing these issues requires stronger efforts to repair the balance sheets of banks, in particular by further improving capitalization. More efforts are also needed to reduce the large stock of non-performing loans, especially in the euro area where this would also enhance the transmission of monetary policy impulses to the real economy.

III. How the Fund Will Help the Membership

The Fund should continue to play its fundamental role and adapt appropriately to changes in the international monetary system (IMS). This role is grounded in the Fund's core mandate, as well as in the more than seventy years of experience, in which it has built a unique expertise. To ensure that it continues to fulfill its tasks in the most effective way, the Fund should focus on using and deepening its expertise, rather than expanding work outside of its core mandate. In the context of the global financial safety net (GFSN), the Fund should pay more attention to the case of true and narrowly defined "innocent bystanders." Also, there is scope for the Fund to improve its cooperation with regional financing arrangements (RFAs), respecting their mandates and building on the experience gained so far, in particular with the European facilities. Finally, short-term liquidity provision between countries should rest first and foremost on central banks, and we do not see scope for the Fund to coordinate bilateral swap agreements (BSAs).

The analysis on the adequate size of the Fund, which is still at a preliminary stage, should be deepened. First, this analysis would benefit from taking into account the progress already achieved in strengthening the IMS and the global financial safety net. Examples are the recent reform of the Fund's lending framework with respect to the treatment of sovereign debt and the strengthening of RFAs. Second, the analysis could acknowledge more that, if needed, financing from BSAs can be made available for some countries. Indeed, a network of BSAs was established quite swiftly and in a flexible manner, and worked as an effective instrument during the global financial crisis. Third, more attention should be paid to the catalytic role of the Fund. Last but not least, the aforementioned analysis should be closely tied to the discussion on the role, scope, and coverage of the Fund's lending instruments.

While our constituency remains committed to provide the Fund with the resources it needs, our preliminary view is that the Fund's lending capacity remains broadly adequate. We understand the Fund's concerns about the expected decrease of the Fund's total lending capacity to about SDR 470 billion after the expiration of the 2012 bilateral agreements (BAs). However, we note that the forward commitment capacity would still remain high and well above the threshold, which has been set at SDR 100 billion, for the activation of these BAs. Moreover, we would like to recall that these BAs were secured as a temporary second line of defense in the context of the crisis. This discussion on the adequacy of Fund resources should not preempt the future discussions on these BAs.

Finally, we would like to reiterate that crisis prevention remains the first line of defense. Members have to do their homework by implementing sound policies, reducing their vulnerabilities, and enhancing their resilience. In turn, the Fund has to continue to play its critical role in supporting members, as a trusted advisor, with (i) effective bilateral and multilateral surveillance, (ii) critical, independent, and high-quality policy advice, and (iii) well-tailored capacity building. In this context, we would like to highlight that the Fund's standards with respect conditionality, both ex ante and ex post, should remain high.