International Monetary and Financial Committee

Thirty-Third Meeting
April 16, 2016

IMFC Statement by Mehmet Şimşek
Deputy Prime Minister for Economic and Financial Affairs, Turkey

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

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Statement No. 33-28

Statement by Mr. Şimşek
Turkey

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

Statement by Mr. Mehmet Şimşek,
Deputy Prime Minister, Republic of Turkey
on behalf of Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Republic of Slovenia, and Republic of Turkey
at the 33rd Meeting of the International Monetary and Financial Committee
Washington DC, April 16, 2016

Global Economy and Policy Priorities

Recent economic data and leading indicators suggest another year of moderate growth. The global economy continues to expand at modest rates, as global financial conditions have tightened, and trade and investment growth have remained sluggish. A slight increase in global growth is expected next year and going forward, mostly depending on rising growth in emerging and developing countries as growth in advanced economies is projected to remain modest. Bank lending in the US is holding up well and loan demand is picking up in the euro area. The US labor market continues to improve, households have deleveraged to a certain extent and house prices are increasing. The euro area is growing, albeit at a lackluster pace, while emerging Europe is one of the global growth highlights. Emerging market economies appear more resilient at this juncture, as they still have sizable buffers that can be deployed when needed, and their monetary and exchange rate policy frameworks and financial sector regulations have seen notable improvements over the years. We note that the spillovers and uncertainties emanating from the historic transition in the Chinese economy and the normalization of the unconventional monetary policies in some advanced economies – both of which will eventually be conducive to a more sustainable global economy in the medium term – along with tumbling commodity prices pose important challenges for the global economy. In this regard, clearer communication by advanced and key emerging market authorities is essential**.** The current global conjuncture warrants prudent and decisive actions on a policy mix geared towards supporting growth in the short term, and laying the ground for strong, sustainable, and balanced growth in the medium term.

Continued monetary policy accommodation in advanced economies with low inflation prospects remains warranted. However, we need to acknowledge that monetary policy after years of extremely low policy rates and now, even below the zero bound, is close to its limits in most parts of the world. In this vein, the Fund's emphasis on structural reforms and other policy levers to relieve monetary policy is well-grounded. The Fund should also monitor the cross-border impacts of the unconventional policies and thoroughly analyze the potential implications of negative policy rates on capital flows, savings-investment dynamics, financial markets, and banks' balance sheets.

There is a pressing need to ensure the steadfast implementation of focused and well-sequenced structural reforms, along with accompanying policies and measures compensating for the short-term implications of reform efforts in order to improve confidence, address supply-side problems, and help turn around economies mired in sub-optimal growth. In view of sluggish productivity growth and rapid population ageing, advanced economies need to reform product and labor markets, strengthen the existing infrastructure, and spur productivity through improving human capital, and incentivizing R&D and innovation. The growth dividends of labor market reforms, with a particular focus on addressing the skills mismatch and improving labor market flexibility, enhancing the education systems, addressing infrastructure gaps, and adopting fiscal structural reforms would be significantly high in emerging market and developing countries. We welcome the Fund's conceptual framework for structural reforms that provides a useful background for their prioritization. In its bilateral surveillance, the Fund can shed more light on the potential macroeconomic impacts of various structural reforms on individual economies, while its policy recommendations should draw from country-specific factors and the work of other international organizations. Additionally, we need to continue our efforts on inclusive growth and reducing inequalities, which have a detrimental impact on both the short-term demand and long-term growth potential.

Fiscal policy in countries with fiscal space can stimulate public investment, particularly by closing the infrastructure gaps, and also boost potential growth in the medium term via incentivizing innovation and reducing labor tax wedges. Countries with limited fiscal space should pursue responsible yet growth-friendly fiscal policies with more efficient expenditure policies, as well as strengthen their tax administrations. On the other hand, the implementation of credible medium-term fiscal consolidation plans and higher medium-term growth are needed to provide a lasting solution to the debt overhang in a number of countries. With its expertise and know-how, the Fund should continue to assist member countries in identifying policy space, crafting growth-friendly fiscal policies, and promoting effective policy delivery. Through the infrastructure policy support initiative, the Fund can offer policy recommendations to strengthen institutional capacity.

Notwithstanding the significant progress achieved thus far in reforming the global financial system in the wake of the great recession, legacy issues in advanced economies and elevated corporate sector leverage in emerging market economies warrant a continued policy response. The completion of the EU banking union will advance financial stability in the euro area. We also see the need to further improve the insolvency regimes in the euro area, while banks need to recognize bad assets on balance sheets and address corresponding capital shortfalls where needed. Closely monitoring corporate debt and FX exposure remains a priority for emerging market economies, especially for sectors with declining profitability. The Fund's work on identifying policies and measures to foster equity finance can help improve the financial sustainability of the corporate sector. While continued efforts are essential to advance the regulatory reform agenda, due attention needs to be paid to minimize the implications of regulatory reforms on banking services, particularly to avoid de-risking by corresponding banks.

Fund Issues

We support the Fund's work on strengthening the International Monetary System (IMS). The IMS has become more flexible and the Global Financial Safety Net (GFSN) has grown over the years, with wider coverage and stronger resources. The Fund has revamped its lending toolkit, strengthened surveillance, and bolstered its resources. However, there are still a number of gaps restraining the IMS from performing efficiently. We look forward to the Fund's upcoming work focusing on members' experiences and policies in dealing with capital flow pressures and encourage the Fund to pursue a symmetric and balanced approach on the role of pull and push factors. We need to ensure that there is more comprehensive and granular data on capital flows and their intermediation by banks, large institutional investors, and investment funds. With regard to the role of the SDR, we expect the Fund to explore options that would contribute to the better functioning of the IMS.

Strengthening the GFSN is paramount for a stronger insurance and crisis resolution system. The current GFSN has important gaps, such as uneven coverage and a fragmented structure. In this regard, cooperation between the Fund and the existing layers of the GFSN can be further improved through monitoring and policy signaling by the Fund, while preserving flexibility of the existing layers and taking into account the respective mandates and structures of institutions. The Fund should also facilitate and guide the policy dialogue with the relevant institutions to develop incentives for policy adjustment and put in place mechanisms to reduce moral hazard. At the same time, it could be worthwhile revisiting the Fund's lending toolkit with a view to improve the speed and predictability of the existing facilities, meet members' varying needs, and address the shortcomings of precautionary facilities, including the exit phenomenon. Drawing on past experience, more targeted instruments can be introduced to assist the macroeconomic adjustment in commodity exporters and low-income countries, while remaining mindful of their resource implications. Stigma still constitutes a disincentive for countries to approach the Fund in a timely manner. A holistic approach including more evenhanded treatment, communication, and outreach would make a difference in addressing these concerns.

Global challenges require a strong Fund. The doubling of quotas and the governance reform following the adoption of the 2010 Reforms were landmark achievements. Our constituency supports an adequately resourced Fund, especially in the face of heightened uncertainties and downside risks, and we continue to advocate increasing quota subscriptions in order for the IMF to return to its quota-based nature while borrowed resources should have a limited share in total resources; in particular, bilateral loans should only provide temporary and last resort support and due consideration should be given to catalytic role of the Fund. This reinforces the expeditious completion of the 15th General Review of Quotas in order to strengthen the Fund's permanent resources. At the same time, we see scope for further improving the Fund's governance in a bid to align it with today's economic realities.

Shocks of non-economic origin that have far reaching macroeconomic implications and are within the mandate of the Fund, should be monitored closely, including geopolitical tensions, refugee and migration flows, and global epidemics. It is essential to provide the necessary resources and policy support to countries facing challenges stemming from the refugee and migration crisis. We remain supportive of the planned global initiative to support the countries affected by such non-economic shocks and highly welcome the Fund's involvement.

Finally, the Central and Eastern European Constituency highly welcomes the appointment of Madame Christine Lagarde as the Managing Director and Mr. David Lipton as the First Deputy Managing Director of the Fund for a second term.