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On behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Republic of Poland, Serbia, Switzerland, Tajikistan, Turkmenistan

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Statement by Ms. Eveline Widmer-Schlumpf, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, and Turkmenistan

I welcome the Managing Director's messages to policy makers in her *Global Policy Agenda*. I also broadly share her views about how the IMF can help its members implement this agenda. In what follows, I want to emphasize those aspects which I view as pivotal.

I. INVIGORATING A SUSTAINABLE RECOVERY

While I welcome continued progress in addressing the substantial fiscal challenges, consolidation efforts must continue, in particular in advanced economies. Fiscal consolidation must go beyond stabilizing public debt at currently very high levels; it must continue until debt has been reduced to levels that are unambiguously sound. A clear commitment to sustainable public finances and the implementation of the corresponding measures will raise policy-makers' credibility and investor confidence, thereby fostering growth. Both elements—fiscal consolidation and economic growth—are crucial, and I am convinced that there is no conflict between the two, on the contrary: these two must go hand in hand.

As long as inflation expectations remain anchored and inflationary pressures subdued, monetary policy should remain accommodative to support economic activity. Yet policy-makers are well advised to prepare now for an eventual exit from unconventional monetary policies. In this respect, it is crucial that central banks possess the legal and operational independence to implement an unwinding of those policies, if and when needed, to absorb excess liquidity and tighten monetary conditions.

Policymakers need to carefully monitor—and appropriately deal with—potential side effects arising from the prolonged use of unconventional monetary policies. I recognize the benefits of such unconventional policies to support aggregate demand while structural repair is taking place. At the same time, we should all be mindful of the risks associated with the potential side effects of unconventional monetary policies. These risks must be carefully assessed. Targeted micro- and macroprudential policies should be relied upon to mitigate them.

Last but not least, I continue to be of the view that the importance and urgency of implementting structural reforms cannot be overemphasized, particularly in large swaths of the Euro Area. While accommodative polices are buying precious time, deep structural reforms that address fundamental impediments to long-run growth continue to be called for. I want to particularly emphasize the crucial role of labor and product market reforms in this respect.

II. Restoring Resilience

Financial system reform

The implementation of the financial sector regulatory reform agenda, pursued on the international level, remains a key priority. Regulatory reforms, in particular stronger capital ratios, leverage ratios, and measures aimed at dealing with too-big-to-fail institutions must be implemented. While I acknowledge that a timely implementation of certain measures may be difficult for some institutions in the current context, further delays feed uncertainty in the short term and may lead to the build-up of new risks to financial stability.

High deficits and debt

I want to reiterate the significance of fiscal institutional frameworks and fiscal rules in the pursuit of sound public finances. Fiscal rules should operate symmetrically over the business cycle: they should allow for budget deficits when the economy is weak and operating below potential, and require corresponding surpluses when the economy is booming, aptly reducing the potential for pro-cyclical fiscal policy. Maintaining room for automatic stabilizers to operate effectively improves the political acceptance of fiscal rules.

I see merit in reconsidering an internationally coordinated approach to support the restructuring of sovereign debt in exceptional cases. The lack of a framework to facilitate an orderly restructuring of public debt is a notable gap in the international financial architecture. Such a framework would lower the cost of sovereign defaults *ex post*, leading to more prudent lending *ex ante*, which in turn would lower the risk of excessive indebtedness. As with the measures to enhance the resolvability of systemically important private financial institutions, a framework for orderly sovereign debt restructurings would contribute to a better functioning of financial markets and enhance financial stability.

Jobs and Growth

I support the IMF's work agenda on jobs and growth. The promotion of high levels of employment and real income is clearly part of the Fund's mandate.[1] The Fund must have the necessary know-how in these areas to exercise effective surveillance, design efficient programs, and provide useful policy advice. That said, the IMF should collaborate with other

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[1] Article I (ii) of the IMF's Articles of Agreement lists as purpose of the IMF: "To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

institutions such as the World Bank, OECD, and ILO as appropriate, in line with respective mandates and areas of expertise.

Global imbalances and spillovers

I endorse the new "institutional view" on the liberalization and management of capital flows. I believe that this framework well responds to the call by the IMFC, in September 2011, to "further work on a comprehensive, flexible, and balanced approach for the management of capital flows, drawing on country experiences." I welcome the flexibility of the institutional view and its emphasis on country-specific circumstances. I would like to stress that capital flow measures should only be applied as a last resort, and that priority should be given to macroprudential and structural measures that enhance the capacity of the economy to absorb large capital inflows or withstand large outflows. Also, while I agree that full capital account liberalization may not be an appropriate goal for all countries at all times, full liberalization of capital flows is an appropriate long-run goal of economic policy.

III. ADAPTING TO THE FUTURE

I echo the Managing Director's call on those members who have not yet adopted all elements of the 2010 reform package to do so without delay. Our constituency has already made significant strides in implementing these reforms, among other things by contributing its share to the consolidation of advanced European representation at the Executive Board. I call on other members to now provide what is still needed to make the 2010 quota and governance reform package effective, including with regard to Board realignment.

Continued reform of the IMF's quota and governance structure is indeed key to the institution's legitimacy and effectiveness. I encourage all Fund members to engage constructively so that the Executive Board can conclude the 15th General Review of Quotas by the agreed deadline in January 2014. Part of the 15th Review will be the agreement on a new quota formula. I want to emphasize—once more—that this new quota formula must be based on the agreed principles, which have already guided the 2008 reform. The openness of countries, as well as their voluntary financial contributions to the Fund, should be reflected in quota shares. In addition, legitimacy requires that the process leading up to this new formula be inclusive and take place within the IMF Executive Board and the IMFC, where all members are represented.

I continue to hold the conviction that the role of the IMFC in the multilateral surveillance process should be enhanced, and I would welcome some concrete recommendations from the IMF to this effect. I consider IMFC involvement—that is, ministerial level discussions—essential for achieving greater traction, in particular with large members. I also see scope to streamline the various sessions of the IMFC meeting as well as the outputs the IMF produces on multilateral surveillance.

I welcome the findings of the recent external evaluation of the Fund's Independent Evaluation Office (IEO). This evaluation—the second since the IEO was established in 2001—found that the IEO has been a successful institution, that it has played an important role in improving the transparency and oversight of the IMF, and that it was instrumental in enhancing the Fund's learning culture. I encourage Management to now focus on addressing the key areas for improvement identified by the evaluation, including the need to improve the follow-up process for IEO evaluations; clarify the appropriate timing of IEO evaluations to ensure that they address relevant issues while not interfering in current operations; and enhance engagement and communication between the IEO and IMF Management and Staff.