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IMFC Statement by Berat Albayrak
Minister of Treasury and Finance
Turkey

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

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Minister of Treasury and Finance
on behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Slovenia, and Turkey
at the 39th Meeting of the International Monetary and Financial Committee
Washington D.C., April 13, 2019

Global Outlook

These Spring Meetings take place at a time marked by a slowdown in global growth against an increasingly constrained policy space. Policy uncertainties, lingering trade disputes, and geopolitical tensions continue to weigh on the outlook. Against this backdrop and in view of the persisting downside risks, we agree with the overall emphasis on building more resilient economies, upgrading global cooperation, and a renewed commitment to work together on broader global challenges. We also see it critical to strike a careful balance in the Fund's headline policy advice about promoting growth and strengthening resilience, and therefore, avoiding a procyclical message.

We would like to reiterate our firm support for an open and rules-based multilateral trade system. We positively note the tentative signs of the resolution of major trade tensions and very much hope that cooperative actions rather than disruptive unilateral policies will prevail in delivering a mutually acceptable and sustainable outcome for all parties. We welcome the Fund's continued advocacy for free trade and multilateralism as well as analytical contributions that should better inform the current debate and help make the benefits of trade more visible.

We take note of the projected deceleration of advanced economies, accounting for two-thirds of the expected moderation in global growth. While the US economy continues to decelerate to its potential, the financial markets question the durability of the economic expansion, which, among other things, led the Federal Reserve to take a more accommodative policy stance. We are concerned about the continued growth in corporate debt and deterioration of its overall creditworthiness. Going forward, late-cycle signs in conjunction with the necessity of fiscal consolidation pose significant challenges to both the domestic authorities as well as the global markets.

The slowdown in the euro area during the second half of 2018 was more pronounced than expected, reflecting some – mostly temporary – domestic factors as well as the slowdown in global trade. While core inflation is set to increase gradually on the back of higher wages, the more subdued pace of growth is likely to dampen inflationary pressures. The ECB's recent decision to launch a new series of quarterly targeted longer-term refinancing operations

(TLTRO-III) should help preserve favorable lending conditions and a smooth transmission of monetary policy in the euro area. We continue to follow the fast-evolving political agenda and note that the uncertainties around Brexit poses challenges far beyond the prospects of the UK economy.

Notwithstanding the notable variance across countries, the emerging market economies (EMEs) continue to account for the majority of the global growth momentum. We agree that replenishing policy buffers and addressing vulnerabilities would help EMEs to preserve their growth momentum and withstand future bouts of stress. Specifically, we take note of the steady, but gradual progress in China in rebalancing toward a private consumption- and services- based economy. We note that the Chinese authorities face a difficult balancing act between sustaining the economic growth and regulatory tightening aimed at containing the build-up of financial vulnerabilities.

We welcome the emerging signs of recovery as well as stabilization of the broad market sentiment in the Turkish economy, reflecting the authorities’ comprehensive set of measures. Preserving the prudent monetary stance and fiscal anchor, as well as maintaining close scrutiny on the financial sector against possible stretch points remains crucial as the economy has now embarked on a rebalancing process exemplified by a rapid adjustment in external balances and an improvement in inflation. The use of available fiscal room in a well-targeted manner could also help support economic activity in Turkey.

We are concerned about the bleak prospects of income convergence for a sizable group of economies, particularly in the Sub-Saharan Africa and broader MENA regions. This implies that for more than one billion people, the income levels are expected to fall further behind those of advanced economies. We therefore support scaling up the Fund’s assistance toward these countries through its programs, surveillance, and capacity development provision.

Fund Issues

It is critical that the Fund continuously modernizes its policies and toolkits to remain agile and adaptive. We see a priority in delivering on the Fund’s core mandate to promote strong, sustainable, balanced, and inclusive growth across its membership. To that end, we strongly support and constructively contribute to the ongoing key policy reviews pertaining to conditionality and surveillance which should strengthen the Fund’s effectiveness and focus.

We strongly support the efforts to strengthen surveillance given its key role in fulfilling the Fund´s core mandate and thus, broadly agree with the suggested approach and the roadmap toward the *Comprehensive Surveillance Review*. We reiterate that macro-criticality, carefully defined, should remain the guiding principle for the coverage of structural issues in surveillance. To improve traction, we underscore the importance of a deeper and more flexible dialogue with the country authorities to better identify relevant surveillance priorities and adequately tailor our policy advice. We welcome the emphasis on the role of information technology and knowledge management solutions in enhancing the Fund's surveillance.

We are particularly interested in the *Integrated Policy Framework* as it aims to provide a more systematic assessment on the role of monetary and exchange rate policies, capital flow measures, and macroprudential polies in the face of rising spillovers and deepening macro-financial and external linkages.

High and rising debt levels across a wide range of countries, in particular low-income countries, remains a key concern. We, therefore, appreciate the extensive policy agenda under the lending framework and the implementation of the *joint IMF-World Bank multi-pronged approach* to address emerging debt vulnerabilities. It is all the more important to establish mechanisms to coordinate official creditors and the Fund is well-positioned to play a central role in facilitating dialogue and sharing information between debtors and creditors. We welcome in this regard the contribution to the G20 workstream on sustainable and transparent lending practices.

We welcome the long overdue *Review of the Fund's Policy on Multiple Currency Practices*. We agree that significant changes in the foreign exchange markets call for a sweeping review so as to make the Policy and its application more up-to-date and effective. In this respect, we support a rules-based approach that reflects market realities in member countries, can be applied uniformly across the Fund's membership, and is simple and easily understood by stakeholders.

We welcome the findings of the *Review of the Fund's Capacity Development (CD) Strategy* and support better integration between the Fund's CD and surveillance activities. With CD spending projected to stabilize while demand is growing, prioritization remains essential. We therefore underscore that resource constraints, macro-criticality, the degree of in-house expertise and the authorities' absorption capacity should be considered prior to expanding the CD provision. We firmly support efforts to further strengthen the coordination with other development agencies in the delivery of CD. We continue to be concerned by the high share of externally funded CD which poses reputational and business continuity risks.

We welcome the ongoing modernization efforts on the human resource policies and practices, including through *the HR Strategy*, *the 1 HR Program*, and *the comprehensive compensation and benefits review (CCBR)*. We agree that the CCBR should better align the compensation system and benefit programs with the unique business model of the Fund and ensure that the Fund remains a competitive employer that attracts and retains a strong and diverse international talent, while respecting budget constraints. We stress the importance of evidence-based and fact-driven conclusions and caution against prejudging the outcomes – as it could have severe adverse implications on staff morale.

We are deeply disappointed that the 15th General Review of Quotas (GRQ) has failed to deliver its intended outcomes, particularly in facilitating a quota alignment that would better reflect countries' relative weights and positions in the global economy. It is also critical for the Fund to be adequately resourced and provide full confidence that it can adequately support its membership. While currently maintaining the Fund's resource base calls for an extension of the existing borrowing arrangements, we reaffirm the importance of retaining the quota-based nature of the Fund and therefore, keeping the borrowed resources transitory. We look forward to a comprehensive package that features adequate resource and governance commitments as well as an ambitious yet realistic timeline for the 16th GRQ which could secure a broad-based support from the membership.