INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Fifth Meeting
April 21, 2022

IMFC Statement by Ueli Maurer
Minister of Finance
Switzerland

On behalf of

Republic of Azerbaijan, Republic of Kazakhstan, Kyrgyz Republic,

Republic of Poland, Republic of Serbia, Switzerland, Republic of Tajikistan,

Turkmenistan, and Republic of Uzbekistan

International Monetary and Financial Committee, April 21, 2022

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

We underscore the Fund's important role in promoting multilateral dialogue and cooperation in the midst of accentuated international tensions and high uncertainty, to address immediate global challenges while continuing to support members' efforts towards a resilient and sustainable recovery. Against the backdrop of pre-existing challenges exacerbated by the still lingering pandemic, Russian Federation's aggression against Ukraine has significantly clouded the outlook. The Fund's leadership and advice will need to remain geared toward its core areas of expertise and mandate to help members design policies that enhance economic resilience and broad-based growth. In this regard, navigating difficult policy trade-offs will be key, given diminished policy space and the capacity constraints faced by many countries.

Global setting and policy priorities

In addition to the tragic human loss and suffering, the war against Ukraine has triggered significant and potentially long-lasting economic disruptions. Countries with close links to Russia and Ukraine will suffer particularly and will be confronted with difficult economic and policy challenges. Additionally, given the effects on commodity markets, spillovers will be felt globally, and in particular by the poorest members. These developments compound the structural vulnerabilities laid bare by the pandemic, which remain an important driver of uncertainty and economic divergence. As a consequence, policy trade-offs have further intensified, with the key challenge consisting in keeping inflation at bay and debt sustainable without stifling the recovery or threatening financial stability.

This balancing act requires credible and responsive monetary policy. Central banks need to react in a timely and decisive manner to avoid a deanchoring of inflation expectations. It is important for central banks to continue to act within the scope of their mandates, even when markets are volatile and debt service costs are increasing.

With global financial conditions tightening, more countries will struggle to maintain debt sustainability. Reduced fiscal policy space and record high debt levels call for spending prioritization and rebuilding buffers. In some cases, fiscal consolidation may also help contain inflationary pressures. Nevertheless, where warranted, targeted and prioritized fiscal support can help dampen the effects from the war against Ukraine and from a possible emergence of new virus strains. Credibly locking in consolidation efforts through well-designed fiscal rules and medium-term fiscal frameworks is important, also to instill confidence, especially where scope for immediate consolidation is limited.

Financial stability risks have increased and require continued close monitoring. Clear communication about the outlook and what it implies for monetary and fiscal policy can help manage expectations. Unwinding remaining pandemic-related regulatory forbearance and adjustments made to the prudential policy mix may help prevent a further buildup of risks. In exceptional circumstances, capital flow management measures may contribute to smoothening the transition to tighter global financial conditions in the short term, but they must not substitute for warranted macroeconomic adjustment and necessary reforms to ensure sound financial supervision and regulation, and strong institutions. Under the current circumstances, a fragmentation of the payment system is a tangible risk that needs to be kept in check, given the detrimental consequences it could have for members with limited correspondent banking relationships. Moreover, while financial innovation should be fostered, potential new risks emanating from the fintech sector and digital assets also need to be monitored more closely and mitigated.

Structural reforms to limit pandemic-related scarring and to address supply bottlenecks should not be postponed. Emergency measures that were introduced during the pandemic should be phased out to be replaced by targeted and transparent policies. Measures to improve competitiveness and raise productivity—whether through investments in innovation and research, product and labor market reforms, or education, reskilling, and vocational training—can contribute to easing inflationary pressures and help ensure that economies realize their full potential. Measures to strengthen governance and transparency also remain central to fostering a business environment that is conducive to private sector development and investment.

The Fund's role at the current juncture

To address immediate challenges and structural vulnerabilities, the Fund should continue its close engagement with members through the provision of tailored surveillance, capacity development, and lending, particularly in the context of upper credit tranche (UCT)-quality programs.

The Fund's lending toolkit has proven flexible enough to provide prompt and adequate support in the face of major shocks. Emergency financing proved useful in the crisis period to contain the economic fallout from the pandemic, but should remain an extraordinary tool. Continued follow-up on the governance and transparency commitments made by emergency financing recipients in 2020/21—both in the context of surveillance and UCT-quality programs—remains relevant to maximize the effectiveness of such financing, as well as to limit reputational and credibility risks for the Fund and country authorities.

Surveillance is as important as ever. Advising countries on macroeconomic and financial policies is what the Fund knows—and therefore does—best and where it can bring the greatest value added, particularly in times of increased uncertainty. To maximize effectiveness and value-added, the Fund—in its surveillance and beyond—should also concentrate on its core mandate, to help members recalibrate policies and foster economic resilience in the face of structural transitions.

The Fund's analytical toolkit is key to better tailor surveillance to country circumstances, while ensuring evenhandedness across the membership. This is notably important in a context of impending monetary normalization, which may lead to significant cross-border capital movements. We therefore welcome the work on the Integrated Policy Framework. We also welcome the recent review of the Institutional View on the Liberalization and Management of Capital Flows, which confirmed that open capital markets and capital flows entail significant benefits, and that increased risks associated with capital flows are best met through sound macroeconomic policies and resilient financial sectors. In addition, we broadly welcome the proposed refinements to the External Balance Assessment methodology. Further work will be important to better reflect the links between the current account, demographics, and pension systems.

Capacity development provides tailored and hands-on advice to the membership and helps countries effectively implement reforms. We welcome the ongoing efforts to ensure it is well-prioritized and sequenced, closely integrated with surveillance and lending, results-based, transparently monitored, and geared toward fostering greater ownership. We see merit in exploring a greater range of capacity development modalities, including a hybrid delivery model. At the same time, in-person capacity development remains key to build trustful relations with country authorities. Regional capacity development centers and resident advisors remain important in ensuring the effectiveness of Fund capacity development. We very much welcome that the Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) is now fully operational, which is a valuable and much appreciated contribution to helping the members of our Constituency address their unique challenges.

Ensuring the soundness of the Poverty Reduction and Growth Trust

Adequate subsidy resources and ample reserve buffers remain key to accommodate further Fund concessional lending. Low-income countries (LICs) have been particularly affected by the pandemic and will face adverse spillovers from the war against Ukraine. In this context, the two-stage funding strategy for the Poverty Reduction and Growth Trust (PRGT) endorsed by the Executive Board in 2021 remains appropriate, with fundraising efforts giving due regard to broad participation and fair burden-sharing. We underscore the need to safeguard the PRGT's self-sustained lending capacity. The fact that almost 80 percent of present PRGT debtors are currently at high risk of, or in, debt distress underscores the need for a sufficiently solid reserve coverage. Switzerland provided a loan to the PRGT in the amount of SDR 500 million during the 2020 loan mobilization round and has pledged SDR 39 million in subsidy resources. We encourage timely pledges for loan and subsidy resources, including through the new investment options. In this context, the PRGT is an effective and proven option for channeling recently allocated SDRs from countries with stronger external positions to more vulnerable members.

Establishing a Resilience and Sustainability Trust

We welcome the establishment of the Resilience and Sustainability Trust (RST), to help LICs, small states, and vulnerable middle-income countries in addressing risks stemming from longer-term structural challenges, particularly climate change and pandemic preparedness. The RST could substantially contribute to prospective balance of payments stability by improving climate resilience and facilitating the transition to a low carbon world. For the RST to achieve its purpose, the Fund as trustee must focus on its specific expertise in macroeconomic policy design and in supporting macro-critical reforms. To garner other essential information and knowledge, close and effective cooperation with the World Bank—and other international organizations when appropriate—is critical.

The Fund needs to ensure the financial soundness of the RST. We very much welcome the requirement of a concomitant on-track Fund-supported program with UCT-quality conditionality as a qualifying element for RST support, the binding cap on access to RST resources, and the build-up of sufficiently strong reserve buffers as well as additional safeguard measures monitoring the member's capacity to repay following the end of the agreement. The consistency of RST-supported reform targets with standard Fund program conditionality will be critical to ensure a solid foundation for structural policy implementation and to mitigate credit risks. For the RST to be a viable option for channeling SDRs, the reserve asset quality of contributors' claims must be ensured.

Tackling debt vulnerabilities

Addressing debt sustainability concerns is imperative. The Debt Service Suspension Initiative and the Catastrophe Containment and Relief Trust have provided breathing room to the poorest members in the context of the pandemic. Notwithstanding this, more efficiency in implementing debt treatments under the G20 Common Framework is urgently needed. Notably, timelines and greater clarity on the process could help avoid too-little-too-late restructurings. Expanding the scope of coordinated debt treatments in line with the Common Framework to a broader group of countries would also be important. Aside from that, we continue to support efforts to enhance debt transparency by both debtors and creditors, including with respect to collateralized debt, and call on creditors to adhere to prudent and sustainable lending practices.

We remain strongly supportive of the debt-related workstreams that are part of the Fund's and the World Bank's multipronged approach to address debt vulnerabilities. The work on refining the Fund's debt-related policies remains key to strengthening the overall sovereign debt restructuring architecture.

Supporting structural transitions

Climate change and digitalization are affecting our economies and financial systems in a macro-critical way and will need to be addressed in a globally coordinated manner to prevent divergence and fragmentation. The Fund's work in these important areas should focus its contributions on its particular macroeconomic and financial expertise. Close collaboration with other relevant institutions and bodies will be crucial to best leverage the available expertise and enable complementarity.

Fund work and advice on climate-related issues should focus on macroeconomic and financial stability implications, such as mainstreaming climate adaptation into fiscal policy. We would welcome further work on embedding adaptation needs in a holistic strategy to strengthen overall macro-fiscal resilience. We also see merit in factoring adaptation costs more systematically into the Fund's debt sustainability framework, based on assessments of climate change exposure and vulnerability. We support work aimed at helping central banks and supervisors better evaluate the exposures of the financial system to climate-related risks. Financial stability analysis and advice incorporating climate risks should continue to be risk-based and tailored to country specificities.

The Fund has a key role to play in highlighting the opportunities and challenges for the membership associated with digital finance. The Fund's analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other innovative financial sector actors will help members ensure that their digital strategies can enhance growth and financial inclusion without endangering financial stability and integrity.

IMF resources and governance

We look forward to continuing the discussions on the 16th General Review of Quotas in a constructive way and within the Fund's governance bodies. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We strongly support progress on quota realignments for the currently most underrepresented members while protecting the position of the Fund's poorest ones. Considerations on the adequate level of Fund resources should be based on realistic assumptions and an objective analysis of potential needs. Considering the different elements of the 16th Review as an integrated package will help build a broad consensus.

We welcome the Fund's continued efforts to adapt to the changing needs of the membership while staying true to its mandate. We stress the need for the Fund to continue to lead by example in terms of budget prudence and balance sheet strength. With respect to the former, the continuous search for savings and reallocation of resources to reflect evolving priorities and needs should remain core elements of the budget process. With respect to the latter, we stress the need for a further build-up of precautionary balances given the substantial financial risks to the Fund.