International Monetary and Financial Committee

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Statement by Ms. Eveline Widmer-Schlumpf
Minister of Finance, Switzerland

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

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I welcome the Managing Director's messages to policymakers in her *Global Policy Agenda* (GPA). This GPA is effective at indicating and prioritizing the key risks currently being faced. I welcome the clear overview of the current global economic situation and challenges. I also broadly share her views about how the IMF can help its members implement this agenda. From the perspectives of our member countries, let me emphasize several key aspects.

I. LIFTING GROWTH

Global economic growth remains weak and uneven. Downside risks have increased again. The new release of the Fund's global outlook provides another disappointing assessment of the recovery from the global financial crisis. Generally, reform implementation also remains rather weak and uneven.

We concur that downside risks have increased over the last few months. Geopolitical risks are at the forefront. The materialization of these risks would weigh on those economies directly involved and also beyond these through spillovers. As a matter of fact, there are signs that geopolitical risks are already taking their toll on corporate and consumer confidence in the euro area. Risks for financial market stability stemming from prolonged monetary easing have also increased. Financial market risks will be even more under the spotlight in the next few quarters as some of the major central banks prepare to start hiking policy interest rates. The medium-term risk of lower potential growth has to be taken seriously.

There is no alternative to structural reforms in raising output growth in the medium term. Monetary and fiscal support has created essential breathing space, but will not lead to strong, sustainable, and balanced growth in and of itself. Thus, monetary and fiscal policies are not a substitute for the implementation of wide ranging structural reforms. We urge caution around the issue of fiscal easing in support of structural reforms.

Reducing public debt ratios to safe levels is critical to rebuild adequate policy buffers. For many economies, returning to pre-crisis public debt levels will not be enough. One of the key lessons of the crisis is that weak buffers can exacerbate adverse feedback loops across various sectors of the economy. In this context, we think that greater emphasis should be put on the useful role that fiscal rules and fiscal institutions can play as a way to enhance the

credibility of medium-term fiscal plans. We should also strive to increase fiscal transparency, including through the broader adoption of public sector accounting standards.

In the current economic environment, investment in infrastructure can be an important tool to lift economic growth. We consider it important, not to focus solely on expanding public capital expenditure, but also to render infrastructure projects more attractive for private sector investment. The private sector has an important role to play in the provision of long-term finance. Thus, it is essential to address structural weaknesses that discourage private investment in infrastructure projects, such as governance risk, insufficient project transparency, and lack of standardization for investment vehicles for long-term investment. At the same time, it must be ensured that public subsidies for private infrastructure investment do not lead to capital misallocation and a waste of taxpayer money. Also, investment efficiency is key to ensure that infrastructure investment will translate into higher economic growth. In countries where the underlying conditions are not yet met, the priority should be to improve the quality and efficiency of infrastructure investment. Prudence towards infrastructure investment is particularly important in countries with already high debt levels.

II. BUILDING RESILIENCE

The international regulatory agenda still needs to be advanced, in terms of standard setting and in particular – since many standards have been set – in terms of implementation. In most countries, banks remain more important than non-banks from a financial stability standpoint. Thus, the adequate capitalization of banks remains a key priority to increase financial resilience, especially given that the too-big-too-fail problem is far from being solved. Against this backdrop, we support the development of a common standard for total loss-absorbing capacity, which ensures a level playing field, and the work on cross-border resolution of globally systemic banks.

We agree with the importance of macroprudential tools to deal with financial stability risks. In the current context, very low policy rates are necessary to ensure price stability. While these low rates aim to contribute to desirable economic risk taking, they may also lead to excessive financial risk taking in financial markets. In our view, monetary policy should remain clearly focused on price stability, while macroprudential tools should be used as complements to monetary policy to address excessive financial risk taking. While our knowledge on whether and how macroprudential policies mitigate risk taking and financial imbalances remains limited, these measures—at the very least—should help increase the resilience of the financial system.

We stress that subdued bank lending to non-financial corporations owes much to unhealthy and weak banks and less to a lack of cheap central bank credit. Bank lending to non-financial corporations will likely remain weak as long as banks are not robustly capitalized. Against

this background, the finalization of the Comprehensive Assessment by the ECB should represent a milestone on the path toward a stronger recovery in the euro area.

We take note of the attention being paid to shadow banking. Regulation—as well as risk analysis and additional data collection requests—should take account of jurisdictional differences and follow a tailored approach, based on in-depth knowledge of country-specific circumstances. In a similar vein, a healthy dose of diversity in the financial system may be desirable. While diversity in shadow banking activities may be a challenge for regulators, consideration should be given to the possibility that regulation may be synchronizing risks in the (shadow) banking sector, thereby contributing to systemic risk rather than mitigating it. We would welcome greater integration of international work on shadow banking with a view to avoiding duplication of work.

III. Achieving Coherence

We recognize that Fund surveillance has improved since the adoption of the Integrated Surveillance Decision and welcome that the Fund continuously strives to enhance the relevance, efficiency, and traction of its surveillance. We agree that increased economic and financial interconnectedness has created new challenges to the Fund and we value the operational recommendations to adapt surveillance to these changes. This interconnectedness should also be taken into account when discussing the reform of the Fund's governance.

At the same time, we repeat that the core mandate of the institution is, and should remain, the stability of the international monetary and financial system. In this context, we welcome the recommendations made in the Triennial Surveillance Review to (i) improve the assessment of risks and spillovers, (ii) further strengthen macro-financial surveillance, and (iii) focus Fund advice on structural issues that are macro-critical. We would also see much merit in a document subsuming all the key takeaways from the different multilateral surveillance products. We call for strengthening the role of the IMFC in both multilateral and bilateral surveillance, with a view to achieving greater traction, also with larger member countries.

We are pleased that the Fund has come a long way towards strengthening its assessment of financial stability since the global financial crisis. Further incremental changes to the Financial Sector Assessment Program (FSAP) should ensure that FSAPs continue to be effective in detecting key vulnerabilities of the financial sector. An effective integration of FSAP findings and recommendations in Article IV consultations is crucial. We see potential to improve the cost-effectiveness of the FSAP process, as well as to streamline the assessment of standards and codes. Finally, while we are pleased with the collaboration between the Fund and the World Bank on FSAPs, we should ensure that the needs of non-systemic countries are taken into account adequately.

We believe that the Fund has a central role to play in improving the framework for sovereign debt restructurings. The work of the Fund in the field of sovereign debt restructuring should be seen in the wider context of the current reforms of the international financial architecture and the need to improve the functioning of markets. The Fund should be the key institution to develop and disseminate standard best practices based on the contractual approach. Furthermore, we see the primary purpose of debt reprofiling and the clarification – or rather elimination – of the systemic exemption as a way to increase predictability and rapidity. Going forward, we look for concrete proposals in these areas.

Finally, we reiterate the importance of ratifying the 2010 quota and governance reform package. 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. We see the ratification of the 2010 reform as a prerequisite for meaningful discussions on the Fifteenth General Review of Quotas. Work on the Fifteenth General Review of Quotas will have to move in parallel and in an integrated process with the quota formula review. On that front, the latest data update reinforces our view that no fundamental changes to the formula are needed.