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

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

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I welcome the Managing Director's messages in her *Global Policy Agenda.* The document provides a clear overview of the current global economic situation and challenges. Moreover, it underscores an essential point: in adapting to new realities, policymakers have to deal with difficult trade-offs. These trade-offs require careful analysis in order to identify an appropriately balanced package of policies. From the perspectives of our member countries, I would like to convey our views on the following key issues.

I. Economic Outlook

We broadly share the Fund's assessment that global output growth is expected to be moderate this year, before accelerating next year. Growth in advanced economies (AEs) should strengthen in 2015, supported by higher growth in the Euro Area and Japan—albeit starting from a low level—and a continued increase in activity in the United States. In contrast, growth in emerging market and developing economies (EMDCs) will continue to decelerate. The outlook for these economies has become more challenging, especially for commodity exporters, as former tailwinds, such as high commodity prices, public investment booms, and ample capital inflows, have reversed. Firmer global growth is expected in 2016, as output gaps in AEs gradually close and economic activity in EMDCs as a whole recovers.

We also agree that risks have rotated further from AEs to EMDCs and remain tilted to the downside. Three points stand out. First, while the agreement in Europe on a third bailout program for Greece has reduced the risk of contagion for the time being, the remaining gaps in the Euro Area architecture continue to be a source of potential instability. Second, the imminent normalization of monetary policy by the Federal Reserve in the United States may lead to financial market volatility. However, this normalization will occur in the context of robust economic activity in the United States. Third, financial conditions in many EMDCs have tightened and their capital markets have shown increased volatility.

II. Monetary Policy

While expansionary monetary policies remain warranted in many developed economies, continued overburdening of monetary policy should be avoided. Central banks alone cannot overcome the legacies of the crisis and adverse long-term trends that in fact predate it. Moreover, accommodative monetary policies have pushed interest rates to excessively low levels, thus leading to greater risk-taking and a build-up of new risks to financial stability.

Last but not least, these policies have caused spillovers that pose significant challenges in a number of countries.

Stronger efforts are needed to strengthen the transmission channels of monetary policy to the real economy. We see, in particular, a need to develop and implement a comprehensive strategy to effectively reduce nonperforming loans, which continue to be high, especially in the Euro Area. Such a strategy should include measures to (i) enhance prudential oversight and incentivize writing off of impaired loans, (ii) improve debt enforcement regimes and insolvency frameworks, and (iii) develop markets for distressed debt.

III. Financial Stability

Financial stability risks have to be closely monitored and effectively addressed. We continue to see sound financial regulation and supervision as the first line of defense to mitigate these risks, complemented with macroprudential measures. Such measures will also be useful in those EMDCs where corporate and private leverage and foreign-currency exposures are creating systemic vulnerabilities. In the Euro Area, there is a need to strengthen capital ratios of banks. In fact, as pointed out by the Fund's analysis, a significant number of banks would fall below the regulatory minimum ratio if a harmonized definition of the Tier 1 capital ratio were applied.

The Fund should be more vocal that the implementation of the global regulatory reform agenda has been insufficient and must be completed without loss of ambition. A prompt implementation of regulatory reforms is essential for reducing financial sector vulnerabilities and, in turn, strengthening the resilience of our economies. We agree with the importance of addressing risks in the non-bank sector. However, we are of the view that more emphasis should be put on the important risks that remain within the banking sector. Further action is needed to address too-big-to-fail problems, including by increasing the loss-absorbing capacity of systemically important banks and ensuring the cross-border consistency of resolution frameworks. Furthermore, we need to strengthen the resilience of financial market infrastructures, in particular systemically important central counterparties.

IV. Fiscal Policy

Lowering public debt ratios is critical for reducing the associated risks to financial stability and growth, as well as rebuilding adequate policy buffers. This will clearly be a long-term effort, not least because debt levels in many countries will ultimately have to fall well below pre-crisis levels. Clearer commitments to medium-term fiscal targets are thus needed, ideally supported by fiscal rules, enhanced institutional frameworks, and the promotion of fiscal transparency, including public accounting standards.

Strengthening fiscal policy frameworks would also be beneficial to resources-rich countries in many ways. The Fund's analysis on commodity prices is welcome, not least because it is highly relevant for a significant part of its membership. This analysis shows that strengthening fiscal policy frameworks, especially by reducing the pro-cyclicality of fiscal policy, is key for mitigating the impact of commodity price volatility—together with more flexible exchange rates and more developed financial markets. Moreover, stronger fiscal frameworks would help strike the right balance between building buffers and frontloading capital spending.

V. Structural Reforms

Progress on structural reforms has been insufficient in many countries, both AEs and EMDCs. More determination is required to implement these reforms and thus eliminate key impediments to growth. Many of these impediments, such as low productivity, insufficient competition, a lack of good governance, and inadequate business conditions, are long-lasting and deeply rooted. On top of this, new headwinds to growth due to important long-term trends, such as population aging, have emerged. Current accommodative monetary policies and low oil prices provide a very favorable environment to implement structural reforms and bolster potential growth in many countries.

A prompt implementation of structural reforms would also have beneficial effects for strong, balanced, and sustainable growth through another key channel—confidence. In implementing these reforms, policymakers would demonstrate both their commitment to, and their capability of, putting in place necessary measures, thereby going beyond demand-side policies, exploiting complementarities, and rendering macroeconomic policy frameworks more balanced and credible. This is essential in order to convince financial markets and re-launch private investment, both domestic and foreign.

VI. Role of the Fund

We continue to be convinced that the core mandate of the IMF is, and should remain, the stability of the international monetary and financial system, with a focus on macro-critical issues. From our perspective, the key issue in this regard is to ensure that the Fund is as effective and efficient in its activities as possible. This can only be the case if the IMF (i) continues to prioritize its resources where it has a clear comparative advantage and unique technical expertise, which have been accumulated in about seventy years of existence, and (ii) avoids duplicating the work of other institutions.

The Fund needs to make more efforts to put in place an adequate framework to restructure sovereign debt. This is especially important given that (i) it is part of the Fund's core mandate and (ii) the lack of such a framework is a major deficiency in the international financial system. So far, progress has been made in only one of the areas identified by the

Fund, i.e. the strengthening of the contractual approach to address collective action problems. Progress in the other areas has been lacking. We, therefore, call on the membership to support a re-launch of discussions in order to make substantial progress.

VII. Governance of the Fund

The full implementation of the 2010 quota and governance reforms remains a key priority. 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 call on all other members to honor their commitments, consistent with the broad agreement that was reached in December 2010.

Lastly, we continue to be ready to find a viable solution on possible interim steps to advance progress in the key areas of the 2010 reforms, pending their ratification. We are convinced that the option of delinking the quota increase from the Board reform amendment is not feasible, because it does not have enough support. Instead, we see merit in the option of an ad hoc quota increase for those members that are most underrepresented. We also would like to underscore that our constituency remains committed to providing the Fund with the resources it needs.