



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Ueli Maurer Minister of Finance of Switzerland 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

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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 thank the Managing Director for her *Global Policy Agenda*. The agenda rightly conveys a greater sense of urgency, given mounting trade disputes, heightened vulnerabilities and global risks. The global economy is indeed at a delicate juncture, and avoiding further policy missteps remains a top priority.

Global setting

The global outlook has deteriorated since the Spring Meetings, and risks are tilted to the downside. Global uncertainties and, in particular, a further escalation of trade tensions cast a cloud over global growth prospects. There is also a risk that the current slowdown in manufacturing activity could spill over to the still resilient services sector, with negative effects on employment and household confidence. Moreover, geopolitical frictions and historically high debt levels, both public and private, add to the risk of weaker growth prospects. Against this background and the downward revision to global growth forecasts, a renewed commitment to pursuing sound domestic policies, implementing structural reforms, and addressing common challenges within a multilateral framework that is fit for purpose is of critical importance.

Policy priorities

At the current stage of the economic cycle, we see merit in differentiated fiscal policy advice. Automatic stabilizers should be allowed to operate effectively. Meanwhile, we see no need for discretionary fiscal activism. Policy space is limited in many countries and should be preserved for the case of a protracted downturn with widening output gaps. We caution against overestimating short-term fiscal space on the basis of the current low interest rate environment. Moreover, we underscore the critical role of strong fiscal frameworks in avoiding pro-cyclical policies and ensuring debt sustainability. It is regrettable that fiscal buffers have not been substantially rebuilt during the earlier upswing, and public debt vulnerabilities remain too high in many economies.

The stance of monetary policy should continue to be data dependent and well communicated, in line with central bank mandates. Sound monetary policy frameworks play a crucial role in anchoring inflation expectations and strengthening macroeconomic stability. In particular, central bank independence is essential for monetary authorities to fulfill their mandates.

Effective financial regulation and supervision remain essential to identify and tackle vulnerabilities, especially against the background of a further easing of financial conditions. We stress the need to continuously and closely monitor risks to financial stability, to complete and fully implement the global financial reform agenda, and to avoid a roll back of post-crisis regulatory reform.

Structural reforms play a critical role in lifting growth prospects, enhancing resilience, and making growth more inclusive. In this regard, we commend the Fund's analytical work and its new database on structural reforms. We underline the importance of ensuring broad access to high quality education, as well as skills building and retraining, including through vocational education and training, to foster adaptability to changing workplace needs.

Multilateral cooperation

Continuous international efforts are needed to promote the benefits of open and transparent trade policies, as well as to strengthen the rules-based multilateral trading system. An orderly and predictable process to resolve trade disputes constitutes the core of the multilateral trading system and is key to enhance confidence and support growth. We also believe that reducing barriers to trade in services is crucial. The Fund plays an important role in assessing the consequences of cross-border trade tensions.

We welcome the Fund's ongoing work on topics related to the external sector and the underlying external balance assessment (EBA) methodology. In particular, the links between the current account, demographics, and pension systems deserve further consideration. Moreover, we appreciate the Fund's efforts in taking due account of country-specific factors in their assessment of external sector positions.

The Fund can make important contributions to the ongoing discussion on climate change within the limits of its mandate and areas of expertise. We welcome the recent work on the role of fiscal policies in climate change mitigation and in promoting resilience in countries vulnerable to natural disasters. Incentives to switch from fossil fuels to cleaner energy, such as a levy on CO₂, are crucial. For this purpose, we also need to support innovation and develop credible alternative technologies.

We welcome the Fund's analysis of the opportunities and risks associated with fintech. While fintech's impact on financial stability and monetary systems appears to be limited at present, we agree that this rapidly evolving sector warrants continued monitoring. The challenge remains to create an environment that enables innovation, given fintech's potential to enhance efficiency, competition, and financial inclusion, while keeping risks and vulnerabilities in check. That said, the Fund's work on fintech should be proportional to its macro-criticality, focus on aspects within the Fund's core mandate and areas of expertise, and avoid a duplication of efforts of other international institutions and fora.

With respect to the international tax architecture, the Fund can provide useful analytical contributions by assessing the macroeconomic impact of different tax proposals. The Fund also has a role to play in coordinating efforts to help countries improve their capacities in taxation and implement internationally agreed standards. However, the major challenges around international tax issues are primarily addressed by the OECD and related institutions, where work is ongoing, particularly in the area of corporate taxation. Hence, the IMF should focus on complementing the work of these institutions only in areas where it has a comparative advantage.

Fund policies

Against the background of mounting risks to the global economy, the Fund continues to play a central role in supporting the membership through well-tailored policy advice and surveillance, lending, as well as capacity development.

We support the ongoing reviews of key Fund policies to help address these risks. In this context, we look forward to the mid-point assessment of the 2020 Comprehensive Surveillance Review (CSR) and the Financial Sector Assessment Program (FSAP) review. This work will be important in strengthening the Fund's financial surveillance, which is at the core of its mandate. Better integrating Article IV consultations and FSAPs will be key. A more risk-based approach, whether by adjusting the list of mandatory FSAPs, their frequency, their scope, or a combination of these elements, is needed.

We welcome the Fund's efforts to strengthen debt transparency and sustainability. Ensuring debt sustainability is a precondition for durable and stable growth and development. The review of the debt sustainability framework for market access countries (MAC DSA) is critical, given that public debt levels are not only high in many LICs, but also in advanced economies and emerging markets. Methodological improvements and efforts to incentivize broader debt coverage are necessary to detect sustainability risks in a timely fashion. Looking ahead, the review of the Fund's Debt Limits Policy will also be crucial to enhance the design of debt conditionality in Fund programs. More generally, we continue to support the joint multipronged approach of the IMF and the World Bank to address emerging debt vulnerabilities. The multipronged approach should be complemented by efforts to enhance fiscal policies, notably continued work to improve domestic resource mobilization and spending efficiency, as well as to ensure that public investments are cost-effective and well-prioritized.

The Review of Program Design and Conditionality of Fund-Supported Programs highlighted that programs were mostly successful in helping member countries solve balance of payments problems, enhance macroeconomic stability, and promote sustainable growth. Going forward, it is important to draw lessons from the experience of past programs to ensure that program design relies on realistic assumptions, safeguards the quality of reforms, and ensures political buy-in. To this end, parsimony and prioritization in structural

conditionality are key. In addition, we expect that the ongoing work on the political economy of structural reforms will help inform future program design, to make sure that structural conditionality is realistic and adequately sequenced. This in turn could help significantly reduce the risk of off-track programs.

Capacity development (CD) is a core activity of the IMF and a key tool to leverage advice and help support the membership in its reform efforts. We look forward to the revised version of the statement on IMF Policies and Practices on Capacity Development. Besides the better integration of CD with surveillance and lending, we underline the need to further enhance the Board's role in providing strategic guidance and greater visibility to this important part of the Fund's work. Bringing CD closer to recipients through continuous engagement, as well as improving country ownership and the tailoring of assistance to country circumstances, increases the prospect of better CD outcomes. We thus welcome the establishment of a new Regional Capacity Development Center (RCDC) for the Caucasus, Central Asia, and Mongolia (CCAM), which will be key to strengthen macroeconomic capacities and support regional cooperation.

IMF resources and governance

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 regret that no compromise on a quota increase could be reached in the context of the Fifteenth General Review of Quotas. A general increase in quotas could have led to a realignment of quota shares for the currently most underrepresented countries and thereby strengthened IMF governance. The current resource envelope is broadly adequate, and we are ready to contribute our share to maintaining the IMF's current resource envelope. We are ready to agree with the proposed doubling of the NAB, while broadly maintaining the current shares of participants. We call for an expeditious agreement on NAB resources to leave enough time to members to complete their domestic legislative processes.

Looking ahead at the next General Review of Quotas, we underline the importance of ensuring the primary role of quotas in IMF resources and realigning quotas of the currently most underrepresented members. In this respect, we note that the outcome of the 15th Review should not unduly prejudice the outcome of the upcoming 16th Review. The current quota formula continues to deliver the desired outcomes. An increased concentration of voting power would fail to appropriately reflect the diversity of the Fund's membership.

IMF operations

We support the internal modernization projects in HR, IT, and knowledge sharing, as they will be instrumental in increasing the Fund's effectiveness and productivity, as well as in generating potential savings. Nonetheless, these projects, and in particular their resource implications and risks, need to be closely monitored. Sound governance structures and

accountability frameworks will be essential to ensure timely completion and contain costs. We thus appreciate that the Board is kept closely informed on these projects.

We welcome the Comprehensive Compensation and Benefits Review (CCBR). We are confident that the review will preserve the status of the IMF as an employer that continues to attract high-quality and dedicated staff, while bringing about necessary improvements and modernization.