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Statement by Mr. Maurer
Switzerland

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

International Monetary and Financial Committee, October 14, 2017

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

We thank the Managing Director for her *Global Policy Agenda*. This agenda sets the right policy priorities at the current juncture. The upturn in global economic activity provides a window of opportunity to step up the implementation of structural reforms and to strengthen economic and financial buffers. It is critical that this opportunity does not go to waste. Enhancing the flexibility of our economic structures and ensuring adequate buffers will help us make further progress towards our objective of strong, sustainable, balanced and more inclusive growth.

Current conjuncture

We broadly share the assessment of recent developments and the global economic outlook. The global upswing is strengthening further and becoming increasingly broad-based.

Short-term risks are broadly balanced, yet their dispersion appears to be wider than usual. On the upside, near-term growth could exceed expectations amidst rising confidence and real wages, and still benign financial conditions. On the downside, geopolitical tensions and policy uncertainty cloud the outlook. In particular, uncertainty about macroeconomic and regulatory policies in some large economies, the continued risk of inward-looking policies, and the outcome of the Brexit negotiation process could lead to abrupt shifts in financial market volatility and reduce growth below expectations.

Medium-term risks remain tilted to the downside for the time being. The potential rollback of key financial regulatory reforms would weaken the financial system and thus its ability to support strong and sustainable economic growth. Persistently low interest rates could nourish excesses in the financial system. Eroded policy buffers imply uncertainty about how much space there will be to respond to the next downturn. And last, but not least, reduced trust in institutions, excessive inequality and political polarization could harm social cohesion and increase the threat of protectionist policies.

Policies and priorities

The main priority is to press on with the implementation of structural reforms, the rebuilding of fiscal buffers and the completion of financial regulatory reforms. The key challenge in using the window of opportunity will be for policymakers to find ways to convince their constituencies of the very need for reforms, not least at a time when economic conditions have been improving in a sustained manner.

Structural reforms play a key role in enhancing resilience and lifting potential growth, while making growth more inclusive. While priorities differ across countries, reforms should in particular aim at: (i) ensuring broad-based access to high-quality education, skills development, and retraining—including vocational education and training—to promote a more equitable distribution of income and raise the adaptability of the workforce; (ii) where needed, improving the quality of the existing infrastructure and implementing new infrastructure projects; and (iii) opening up product and service markets and facilitating labor market adjustment.

The favorable economic environment is an ideal moment for countries to strengthen their fiscal buffers and—for those with excessive debt levels—to reduce vulnerabilities by bringing public debt down to a prudent level. This will help to sustain aggregate demand in the next downturn or in a new crisis. We underline the key role of strong fiscal frameworks in anchoring sustainable debt dynamics, including sound fiscal rules and robust fiscal institutions.

Monetary policy should remain accommodative where necessary, while giving due consideration to the financial stability risks that such a course may entail. Monetary policy easing has supported growth but also contributed to rising asset valuations and increased risk-taking. A prolonged easing raises the risk of unsustainable asset price dynamics and excessive leverage. Macroprudential policies continue to play a key role in guarding against the build-up of financial vulnerabilities.

Significant progress has been made in enhancing the resilience of financial institutions in recent years. Still, several important elements, such as the resolution and recovery frameworks for global systemically important banks as well as central counterparties, remain work in progress. Priority should be given to the timely completion and implementation of these frameworks, and to improving cross-border cooperation. In addition, the consistent implementation of the agreed reforms such as the total loss absorbing capacity requirements, and the finalization of the Basel III accord remain a high priority to further strengthen the financial sector and create a more level playing field.

Open markets for trade and finance, as well as technological progress, have brought considerable benefits to the global community. The rules-based multilateral framework that underpins open markets must be preserved. While economic integration and technological progress induce structural change in our economies, turning our back on open markets and technology will not help. Instead, we must continuously adjust to new realities and seek to foster adaptability through education and training systems that produce the skills that the economy needs, and facilitate sectoral reallocation while ensuring effective retraining of workers with a focus on outcomes.

What the Fund will do

We broadly support the work agenda for the Fund outlined in the *Global Policy Agenda*. We welcome its focus on macro-relevant issues and the collaboration envisaged with other institutions, where appropriate, to avoid duplication of work.

We welcome the work planned on the role of structural reforms in raising productivity and enhancing resilience. We see much merit in also examining the political economy challenges inherent in reform implementation, and call on the Fund to pay more attention to this issue. These challenges may have become even more relevant in the current cyclical upswing.

We continue to support the Fund's work on external balance assessments. Given its broad membership and its expertise, the Fund is uniquely placed to lead the way in developing and using methodologies to assess external sector positions. We look forward to the review of the External Balance Assessment (EBA) methodology and call on the Fund's Management and staff to engage closely with national authorities in the course of this review. At the same time, we reiterate that the estimates from the EBA models should not be used in a mechanical manner. Country-specific information as well as judgment are essential to make a comprehensive assessment of each country's external position. Ensuring transparency and consistency across members and over time remains crucial.

We fully agree that strong institutions and policy frameworks are central in promoting trust and resilience, hence helping to make growth stronger and more inclusive. We support the Fund's appropriately ambitious work agenda on governance and corruption, in collaboration with other institutions. Third-party indicators can provide valuable information in this context and we look forward to further discussions in this regard.

We welcome the discussion on the modalities underpinning the cooperation between the Fund and regional financing arrangements (RFAs). It will be important to translate broad principles into concrete guidance. We recognize that, given the heterogeneity of RFAs, the cooperation should be based on a tailored approach that preserves consistency with their respective governance structures. We also emphasize that this cooperation must remain in line with the core prerogatives of the Fund. We stress that preserving the Fund's independence in assessing macroeconomic policies, in setting conditionality, and in analyzing debt sustainability is critical to safeguard its resources and ensure its central role in the global financial safety net.

We remain committed to the objective of a strong, quota-based and adequately resourced Fund at the center of the global financial safety net. We reiterate our view that the current quota formula works well in guiding the desired shifts in quota shares across the membership. Should there be a broad consensus to modify the formula, we stand ready to engage in the discussion in line with the four broad principles that have guided the deliberations so far. In this case, we stress that GDP and Openness should remain the most important variables. Voluntary financial contributions should be duly recognized as part of the calculations of quota shares. It would be sensible to determine, at an early stage, whether a consensus is possible among the membership for a quota increase under the Fifteenth General Review of Quotas. At this stage, we are open to consider a quota increase so as to preserve the current total resource envelope and realign quota shares.

Switzerland will join other members in providing temporary resources to the Fund through a borrowing agreement, consistent with the modalities specified in the 2016 bilateral borrowing framework. The Swiss government has decided to extend a bilateral loan of CHF 8.5 billion to the IMF, and will task the Swiss National Bank to conclude a borrowing agreement to this effect. This process is expected to be completed in the coming weeks.

The Swiss National Bank and the Fund also signed a borrowing agreement, through which Switzerland will provide up to SDR 500 million in new loan resources for the Poverty Reduction and Growth Trust (PRGT). This agreement was made effective on August 30, 2017. Switzerland remains committed to help ensuring that the PRGT has sufficient resources for concessional lending to the Fund’s low-income members. We continue to stress the need to preserve the self-sustainability of the PRGT in the long term.