INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Forty-Second Meeting
October 15, 2020

Statement No. 42-11

Statement by Mr. Albayrak
Turkey

On behalf of
Austria, Republic of Belarus, Czech Republic, Hungary,
Republic of Kosovo, Slovak Republic, Republic of Slovenia, and Turkey

IMFC Statement by Berat Albayrak,
Minister of Treasury and Finance
on Behalf of Austria, Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Slovenia, and Turkey
at the 42nd Meeting of the International Monetary and Financial Committee
Washington D.C., October 15, 2020

Global Outlook

The Annual Meetings of the IMF and World Bank are taking place amidst an exceptional time of distress and uncertainty for the global economy. The Covid-19 pandemic is a truly transformational event whose ramifications will define the entire global economic system. As the human toll from the pandemic continues to mount and the concomitant economic fallout – despite a gradual reopening of economies – persists, authorities across the membership face binding policy constraints and daunting trade-offs. We note in this regard the signs of recovery in the global economy as most economies have started to gradually reopen. Nonetheless, a resurgence of the pandemic in different parts of the world jeopardizes this nascent recovery as administrative containment measures appear to be reinstated in many economies while individuals continue to avoid contact-intensive economic activity. Therefore, the Fund's baseline projections which assume a weakening of growth momentum in the second half of this year appear sensible. We also acknowledge that in the absence of a vaccine, or an effective treatment, social distancing and localized lockdowns will likely continue through and beyond 2021, undermining short-term economic outcomes as well as the longer-term potential through scarring effects. Therefore, the eventual recovery of the world economy hinges critically on the development of clinically proven vaccine(s) and treatments as well as on ensuring equitable and affordable access. This puts a premium on multilateral cooperation, particularly in the area of medicine.

Uncertainty remains a defining feature of the global economic outlook. In that regard, we concur that developing scenario-based approaches to risk assessments and presenting policy options is a more pertinent approach – both from an analytical and practical point of view. We, nevertheless, remain concerned about the persistent disconnect between market valuations and underlying economic fundamentals, which could amplify the potential adverse market reaction in case of a downside scenario.

We appreciate that the policy responses across-the-board have been swift and decisive. The bold actions by systemic economies have not only underpinned domestic economic activity, but also helped prevent a further tightening in global financial conditions. The authorities in the emerging market and developing countries, including those represented by our Chair, have also stepped in with sizable policy packages, despite the relatively limited room for discretionary policy action in many countries. We acknowledge that the Fund's encouragement in this regard has been instrumental in persuading a broader range of countries to embrace a *`whatever it takes`* mode at a very critical point in time. If it weren't for this massive policy effort, achieving the recent turnaround in global market sentiment would not have been possible.

Going forward, we concur that fiscal policy needs to continue playing its critical role in buttressing economic recovery, preserving employment, and cushioning vulnerable segments of the population as well as firms from the adverse effects of the crisis. As economies normalize, fiscal policy needs to be gradually unwound while retaining targeted social support programs and policies to foster reallocation of resources in the economy. We caution against premature scaling back of crisis-related measures. We acknowledge the growing trade-off between the need to provide continued support to foster economic activity and the significant build-up of debt across all country groups. To this end, anchoring fiscal policies to credible medium-term programs that will safeguard debt sustainability is crucial. In the interim, we underscore the importance of ensuring the quality of spending, including through prioritizing productivity enhancing, inclusive spending programs rather than wasteful subsidies and expenditures.

Monetary policy stimulus by the major central banks remains necessary to underpin economic activity and financial market sentiment, while safeguarding medium-term price stability. Introducing swap lines within a broad group of central banks, including from major emerging market economies, helped countering earlier bouts of tightening in financial market conditions. We encourage advanced economy central banks to consider widening these swap networks to cover remaining systemic gaps in the international monetary system. Similarly, we appreciate the ECB's targeted longer-term refinancing operations which have eased lending conditions in the euro area and also created some positive spillovers to the periphery. Given the prevailing uncertainty about the course of inflation, central banks need to remain vigilant against incipient inflationary/deflationary pressures to adjust all available tools, as appropriate, to ensure that inflation expectations are well anchored.

We are deeply concerned about the possibility of the pandemic leaving longer-term scars on potential growth. While the precise effect will vary across economies and sectors, it will reflect a variety of factors, particularly the pressures on sectoral balance sheets, labor market frictions, and the inherent flexibility of countries to undertake a swift and efficient resource reallocation within their economies. Global productivity gains were already sluggish since the Global Financial Crisis and the pandemic is posing renewed pressures in this regard. To that effect, we support the Fund's advice to implement policy initiatives that could counteract the drags on productivity growth, including repairing balance sheets and resolving distressed debt, addressing labor market rigidities and investing in human capital, removing barriers to entry and facilitating resource reallocation, and countering undue concentration of market power through effective use of competition policy.

Finally, we are deeply concerned about the pandemic's dramatic impact on the most vulnerable, leading to higher inequality and a sharp increase in the number of people living in extreme poverty. We continue to support international initiatives to assist low-income developing countries which are under distress.

Fund Issues

As for the Fund's broader response to the crisis, we believe that the Managing Director's Global Policy Agenda (GPA) appropriately focuses on how the Fund can help countries overcome the crisis, restore confidence, and work toward a more sustainable, inclusive, and smarter growth. In the coming months, the core of the Fund's work should focus on crisis-related activities to support its members in tackling the different stages of the pandemic while making further strides towards completing the high-priority work-streams.

Considering the significant increase in debt vulnerabilities and worsening debt dynamics across the membership this year, completing the reviews of the *Debt Sustainability Framework for Market Access Countries* and the *Debt Limits Policy* as well as improving the architecture for sovereign debt resolution remain critical. We appreciate the advancement of the workstream on the *Integrated Policy Framework (IPF)* where the Fund has done a commendable job in putting forward a systematic approach on how to optimally use monetary policy tools, foreign exchange interventions, capital flow measures, and macroprudential policies in an integrated way. We look forward to further advancements to the analytical underpinnings of the IPF as well as its successful operationalization.

We take positive note of the resumption of targeted surveillance and agree that the aim should be to strengthen our frameworks to better assess the impact of the pandemic on workers and firms. To this end, advancing the work on the *Comprehensive Surveillance Review* and the *Review of the Financial Sector Assessment Program* , while drawing on the lessons learned from the crisis, remains important. We support the IMF in making full use of its lending toolkit in the face of the crisis and to adapt it, as needed. We also encourage the Fund to continue exploring additional tools, including a *general SDR allocation*, that could serve its members' needs as the crisis evolves.

The crisis has exposed and exacerbated structural weaknesses and has disproportionally impacted low-skilled workers, women, and youth. We fully agree that with every crisis there is an opportunity and this time is no different. The post-pandemic environment offers an opportunity to invest in a structural transformation of our economies by ensuring more broad-based, inclusive, and sustainable growth.

Lastly, we reaffirm our commitment to a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. We welcome the progress on making effective the doubling of the New Arrangements to Borrow (NAB) and the new round of bilateral borrowing agreements (BBA) on January 1, 2021 and are confident that all NAB and BBA participants will secure the domestic ratification processes as soon as possible. While an expanded NAB and BBA are important backstops for Fund resources, we recognize that these resources are not substitutes for a quota increase and thus, we call for the timely completion of the *16th General Review of Quotas and taking forward the IMF governance reform*.