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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, April 21, 2018

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 rightly focuses on the need to enhance resilience, to strengthen the potential for higher and more inclusive growth, and to address common challenges within the rules-based multilateral framework. At the current juncture, priority should be given to the implementation of structural reforms, the rebuilding of policy buffers, and the completion of the financial regulatory reform agenda. While the window of opportunity remains open, it remains essential that this opportunity be seized.

Global setting

The global economic upturn is solid and broad-based, with output gaps closing or even turning positive in some major economies. We welcome the rebound in global trade and investment. At the same time, risks loom on the horizon. In particular, escalating trade conflicts and inward-looking policies are a clear and present danger. Protectionism would trigger a vicious cycle of retaliations that would harm everyone and shake investor confidence.

Global debt levels are at record highs in many countries. High public debt exacerbates the vulnerability to a sudden tightening of financial conditions and constrains the ability to support the economy in the event of another downturn. The rising debt burden of several low-income developing economies, concomitant with the growing complexity of its source of financing, is of particular concern.

Financial market vulnerabilities continue to build, partly on the back of prolonged monetary policy accommodation. Although necessary, the latter has contributed to stretched valuations and rising leverage. We note that the recent bouts of financial market volatility are not entirely unwelcome as they may help to tame the search for yield at all costs.

Policy priorities

Policies and reforms should be geared towards strengthening the potential for higher and more inclusive growth, rebuilding adequate buffers, improving resilience to financial market risks, and fostering international cooperation.

Tackling structural impediments is essential to achieve higher and more inclusive growth. While priorities may differ across countries, reforms should in particular aim at ensuring broad-based access to high-quality education, including vocational education, skills building, and retraining, which would promote a more equitable distribution of income over the long term and raise the adaptability of the workforce to structural transformation. Due attention to the political economy of structural reforms would help the Fund to get better traction with its advice on reforms.

Fiscal policy should be firmly oriented towards medium-term goals. Now is the perfect time to bring debt ratios back down to prudent levels. The rebuilding of fiscal buffers would put economies in a better position to address long-term fiscal challenges arising from aging and health spending, and will enhance policymakers' ability to respond to future shocks. Fiscal measures should focus on growth-enhancing shifts in budget composition and adjustments of the tax mix, as well as support inclusiveness, especially with respect to structural changes such as those induced by digitalization. Sound frameworks and the implementation of clear and credible medium-term debt and fiscal strategies and institutional rules can play a key role in anchoring debt sustainability and avoiding pro-cyclical fiscal policies.

The path of monetary policy normalization should be carefully calibrated in line with economic conditions. While a gradual normalization may be adequate in this regard, the danger of doing too little too late should not be dismissed. Communication plays a crucial role in ensuring a smooth adjustment.

A rollback of financial regulatory reforms must be avoided. The recently finalized international banking reforms should be fully implemented in a timely and consistent manner. Monitoring their implementation is important. Creditor bail-ins should be possible and predictable in order to reduce uncertainty and reliance on taxpayers' money. Banks should use the current favorable financing conditions to strengthen their balance sheets and their loss-absorbing capacity. These measures should be applied consistently across jurisdictions to ensure a level playing field.

We welcome the focus on the opportunities and challenges of crypto assets. We see a great innovative potential in the blockchain technology for financial markets. We currently consider the main risks to be associated with the integrity, rather than the stability, of financial systems. The main concern relates to the AML/CFT risks linked to issuance, trading, clearing, and settlement of crypto assets. To reap the benefits of crypto assets while addressing concerns, and to ensure a level playing field, the regulatory and supervisory standards of the FATF should be applied consistently across jurisdictions.

Tensions on trade and other issues are best resolved within the open, rules-based multilateral framework. This framework has served the global community well and must be preserved and strengthened including through the further liberalization of trade in services. Economic integration has made a key contribution to global prosperity, and while it induces structural change, turning our back on open markets will not help. Instead, we must continuously adjust to new realities and seek to foster adaptability through education and training systems which produce the skills that the economy needs and facilitate sectoral reallocation, including by ensuring effective retraining.

Contributions of the Fund

The Fund plays a key role in safeguarding the stability of the international monetary system through its surveillance, lending, and capacity development activities, with a constant focus on macro-critical issues and in collaboration with other institutions. The Fund must continue to be a strong advocate in favor of international cooperation, which is essential to preserve an open and rules-based international system.

The impact and traction of the Fund's advice to its members should be assessed as part of the 2019 Comprehensive Surveillance Review. Three areas deserve particular attention. First, an assessment of staff's efforts to follow up on past policy advice should be carried out. Focusing the work in line with core expertise and tailoring advice to country conditions and capabilities will help the Fund to increase the traction of its advice. Second, there is a need to examine in greater detail to what extent political economy considerations have been taken into account to overcome obstacles to policy and reform implementation. Third, given historically high debt levels, enhanced efforts and strengthened surveillance are necessary to ensure fiscal sustainability.

We support ongoing efforts aimed at improving external sector assessments and increasing their transparency. Assessing external imbalances requires appropriate flexibility while preserving consistency and evenhandedness, and EBA model results need to be complemented with an analysis of country-specific factors and transparent staff judgment, not least because econometric models still feature large residuals. The full range of EBA models should inform assessments. We call on the Fund's Management and staff to remain engaged with national authorities in this area of the Fund's work.

We look forward to the 2019 FSAP Review, which, in our view, would be best conducted in tandem with the Review of the Mandatory Financial Stability Assessments Framework. Further efforts remain needed to make the analysis of financial sectors more forward-looking. Moreover, Article IV consultations and FSAPs should be better integrated, both in terms of process and substance, to generate synergies and avoid duplication of work.

High quality and comparable data are essential for effective surveillance and it is critical that members fulfill their obligations in this regard. Adequate tools to measure the digital economy are necessary. The current framework should be exploited as much as possible for this purpose, bearing in mind resource implications. More generally, the costs of compiling new, more granular data should be considered.

We strongly support the Fund's ongoing work on governance and corruption. The Fund should, where relevant, reflect and rely on evaluations made by other institutions, such as the FATF and the OECD, and work closely with these institutions.

We support the Fund's work plan to enhance debt transparency, by both debtors and creditors, and its efforts to address debt problems, including in low-income developing countries. In these countries, domestic revenue mobilization is an urgent priority and should be supported through Fund technical assistance.

We remain committed to completing the Fifteenth General Review of Quotas within the agreed timeframe, with the aim of maintaining a strong, quota-based, and adequately resourced Fund at the center of the global financial safety net. Deliberations on the adequacy of Fund resources, the quota formula, and the distribution of quota shares should continue to be treated as an integrated package and outcomes should reflect the views of the broad membership. We are open to consider a quota increase to help preserve the current total resource envelope and realign the quota shares of underrepresented countries. Increased concentration of the voting power within the Fund would fail to appropriately reflect the diversity of its membership, and make the Fund less inclusive. All countries must be adequately represented in the Fund according to their relative positions in the world economy. Last but not least, we stress the need for discussions to remain within IMF bodies.