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Statement by Ms. Keller-Sutter
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

International Monetary and Financial Committee, October 25, 2024

Statement by Ms. Karin Keller-Sutter, Minister of Finance of Switzerland on behalf of Azerbaijan, Kazakhstan, Kyrgyz Republic, Poland, Serbia, Switzerland, Tajikistan, Turkmenistan, and Uzbekistan

The global economy continues to show resilience. Yet, the outlook remains subdued and is clouded by significant vulnerabilities, uncertainty, and risks. Enhancing prospects for buoyant and sustained growth, strengthening resilience, and restoring confidence is critical in this context. The IMF needs to continue to help the membership achieve these objectives through its policy advice, capacity development, and lending, thereby maintaining its essential role as the global expert institution on macroeconomic and macrofinancial issues and as a platform for multilateral cooperation.

We warmly welcome the Principality of Liechtenstein as the Fund's 191st member and as a future member of our constituency.

Global setting and policy priorities

Globally, inflationary pressures have moderated, while growth has remained steady and financial stability has been preserved. However, the medium-term outlook remains weak by historical standards. Downside risks to global growth are becoming more pronounced, and risks of renewed inflationary pressures remain. Record levels of public debt and elevated debt service obligations represent a significant vulnerability for the global economy. In addition, risks from geoeconomic fragmentation persist, while long-term trends, such as demographic and climate change, present increasingly pressing challenges.

Prudent policies are needed to consolidate public finances and complete the disinflation process, while laying the foundations for faster and sustainable growth.

We emphasize the urgent need to rebuild fiscal buffers and reduce debt vulnerabilities. Sustainable public finances are a precondition for macroeconomic stability, including financial stability, and durable growth. Now is the time for fiscal consolidation. Improving the quality of fiscal measures, notably by enhancing the efficiency and prioritization of spending, is key for accomplishing fiscal adjustment while limiting negative side effects. Credible medium-term fiscal frameworks, including fiscal rules, should anchor consolidation plans and reduce fiscal policy uncertainty.

Central banks should continue to carefully calibrate their policy stance to ensure adequate monetary conditions. A soft landing, with inflation returning to target without a recession, is within reach in many countries. As inflation rates continue to approach targets, the risk of premature monetary easing abates. At the same time, it is important to remain vigilant and take into account the uncertainty about natural interest rates and lags in monetary policy transmission.

Structural reforms are necessary to boost the potential for growth over the medium to long term. Enhancing competition, raising productivity growth, as well as fostering labor force participation and flexibility is essential in the face of secular headwinds, particularly from population aging.

Reforms to improve education are particularly important to make economies more innovative, productive, and resilient to rapid change, including from the technological and digital transformation. To successfully implement structural reforms, inclusive institutional frameworks, such as participative processes, and good governance are key, as they help foster trust as well as public understanding and social acceptance of reform proposals.

Multilateral cooperation to ensure an open, rules-based, and transparent international trading system remains critical. An open exchange of goods, services, and capital, based on predictable rules, is essential for economic efficiency and stability. It is important to enhance the resilience and reliability of supply chains, building primarily on private initiatives, while preserving global integration. Reforms of the World Trade Organization and its dispute settlement system remain urgent.

The Fund's role at the current juncture

The Fund's multilateral and bilateral surveillance needs to remain focused on macroeconomic and macrofinancial issues, providing guidance and tailored advice to members based on high-quality and timely analysis. We look forward to the forthcoming comprehensive surveillance review and emphasize that monetary, fiscal, financial sector and exchange rate policies need to remain the priority topics in IMF surveillance, in line with the IMF's core mandate and expertise. This review should also be informed by the valuable recommendations of the Independent Evaluation Office's report on the evolving application of the Fund's mandate.

Capacity development (CD) provides important tailored and hands-on advice and assistance for reform implementation. CD should continue to focus on the Fund's areas of expertise, such as revenue mobilization and public financial management. In this context, we welcome the implementation of the joint IMF-World Bank initiative on domestic resource mobilization. We support further strengthening CD by ensuring that it is well sequenced and prioritized, closely integrated with surveillance and lending, results-based, transparently monitored, and designed to promote greater ownership. We underscore the critical role of regional capacity development centers and recognize the valuable contribution of the Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) in helping members of our constituency address their specific challenges.

Fund lending must continue to support members in solving their balance-of-payment problems and restoring external viability, including debt sustainability, under adequate safeguards. Strong conditionality and high lending standards remain instrumental in this regard. To be effective, Fund lending must also be catalytic, compatible with members' debt-carrying and repayment capacities, and based on solid finances and adequate reserves, both of the IMF and of its trusts. Upcoming policy reviews, including of access limits under the General Resources Account, program design and conditionality, and the short-term liquidity line, as well as actual lending decisions, must be consistent with these principles. The Fund should be particularly cautious in expanding its lending share. A growing share of super-senior debt could crowd out market financing and complicate debt treatments, potentially to the detriment of the member in debt distress. In addition, the build-up of precautionary balances remains important in light of the significant financial risks facing the Fund.

The IMF's core mandate and expertise on macroeconomic and financial issues remain as relevant as ever in the 80th year of the Fund's existence. For decades, the IMF has served its membership as a center of excellence for policy advice and technical assistance, an integral part of the global financial safety net, and a platform for multilateral cooperation. Looking ahead, the IMF should continue to perform this critical and focused role, as part of a well-coordinated division of labor among international institutions and fora.

Tackling debt vulnerabilities

The Fund's work on debt-related issues must remain a priority. High debt vulnerabilities are a pressing concern in many countries, some of which urgently need debt restructuring. We thus reiterate our strong support for efforts to help improve the effectiveness of coordinated case-by-case debt treatments, to enhance debt transparency and debt management, and to strengthen the Fund's debt policies and analytical tools, for example in the ongoing review of the debt sustainability framework for low-income countries (LICs).

It is essential to address debt challenges, including liquidity challenges, and their root causes in a holistic manner. We welcome the initiative by the IMF, jointly with the World Bank, for a "3-pillar approach" to help countries in this endeavor, but look forward to further work to make the approach truly holistic. Strong macroeconomic policies as well as reforms, notably to enhance domestic resource mobilization and public financial management, are necessary elements of such an approach. Other necessary elements are decisive action to tackle the specific debt challenges at hand, and external financial support, including catalytic support by the IMF. A thorough and prudent debt sustainability analysis must form the critical basis of measures undertaken. In this context, we caution against focusing overly on liquidity challenges. Solvency and liquidity challenges are intricately linked and can hardly be distinguished in practice. Meanwhile, in cases of unsustainable debt, a timely debt restructuring is indispensable. Concentrating only on liquidity challenges, therefore, risks doing "too little, too late". In addition, there is a risk that official financial support will simply be used to repay existing creditors or lead to an undue transfer of risks from the private to the public sector.

Cross-cutting issues

The Fund should continue to work with other relevant institutions to promote global coordination and consistency on policies to address climate change. It should do so with a focus on its mandate and expertise, concentrating on macroeconomic policies. The agreed climate strategy should anchor the Fund's work in this area and should be implemented across its four pillars—surveillance, policy work, CD, and cooperation.

Digital finance presents both opportunities and challenges. The Fund's analysis and advice on the macrofinancial implications of fintech, central bank digital currencies, and other financial innovations can help members develop digital strategies that promote financial inclusion, while safeguarding financial stability and integrity. Close cooperation with—and, where appropriate, deference to—other relevant international institutions and fora is essential.

Ensuring the effectiveness and financial soundness of the IMF's trusts

The Poverty Reduction and Growth Trust (PRGT) is a key element of the Fund's unique support for LICs. Our constituency attaches great importance to the PRGT. Switzerland is a longstanding contributor, and Poland joined the group of contributors last month. We stress that only a financially robust PRGT can consistently help members establish sound macroeconomic frameworks and address balance-of-payments problems through Fund-supported programs with catalytic financing.

For the Resilience and Sustainability Trust (RST) to achieve its purpose, arrangements under the Resilience and Sustainability Facility (RSF) must include high-quality reforms. These reforms should promote tangible changes in institutions and policies that have a lasting positive impact. Linking an RSF arrangement to an on-track upper credit-tranche-quality arrangement is essential to embed such reforms in a viable policy framework and to achieve complementarity. To ensure effectiveness and efficiency, maintaining the RST's focus on climate change and pandemic preparedness is warranted. In addition, close cooperation, including with the World Bank, remains essential for effective sectoral reforms. Evidence from the RST interim review and ongoing RSF arrangements shows their merits—but also challenges—with regard to program design. The Fund needs to ensure that the Trust remains financially sound and that its resources are used effectively.

IMF resources and governance

We look forward to the establishment of a new 25th chair on the IMF Executive Board for Sub-Saharan Africa.

Our constituency supports a strong, quota-based, and adequately resourced IMF at the center of the global financial safety net. We look forward to the adoption of the package under the Sixteenth General Review of Quotas, allowing sufficient time for orderly domestic ratification processes. Looking ahead, progress on quota realignments for the most underrepresented members, based on the existing quota formula, remains an important objective. Quota reviews should aim to ensure that quota shares adequately reflect the relative position of each individual member in the global economy. In this context, we emphasize that countries' relative positions in the global economy are determined by both non-GDP elements and GDP, and that the quota formula must continue to reflect this.

For the IMF to be effective, the quality of its work as well as its integrity and reputation must be impeccable. The Fund needs to lead by example in terms of procedures, practices, and budgetary prudence, as well as in maintaining balance sheet strength. The continuous search for savings and the reallocation of resources to meet evolving priorities and needs should remain core elements of the budget process.