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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, April 19, 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

Recent economic activity has been surprisingly resilient, though the medium-term outlook remains subdued. Ongoing conflicts, continued high vulnerabilities, and risks of fragmentation pose significant challenges to the global economy. The IMF needs to remain a center of macroeconomic policy expertise for its members and a platform for multilateral cooperation. The Fund's policy advice, capacity development, and lending remain essential in helping countries implement the policies and reforms that strengthen resilience, restore confidence, and improve prospects for strong and sustainable growth.

Global setting and policy priorities

Global growth has surprised on the upside, as an alleviation of supply chain disruptions has both benefited growth and helped to reduce inflation. Meanwhile, the outlook is bleak, with medium-term growth projected to be significantly below historical averages. Continued restrictive monetary policy, the withdrawal of fiscal support, the longer-term impact of the pandemic and Russia's war against Ukraine are expected to weigh on the growth momentum already weakened by population aging and climate change.

Risks have become more balanced. Financial markets have generally remained resilient and there are upside risks, notably from innovation and technological progress. At the same time, geopolitical tensions have been pronounced and key downside risks remain. These include high debt vulnerabilities and limited fiscal buffers in many countries, as well as potentially more adverse effects from geo-economic fragmentation.

Prudent policies are needed to complete the disinflationary process and to rebuild fiscal buffers, while laying the foundations for faster and sustainable growth.

Central banks need to continue to ensure adequate monetary conditions. In many countries, inflation is projected to return to target without a significant slowdown in growth or a spike in unemployment. Therefore, central banks need to manage the trade-off between easing monetary conditions too early and causing more economic damage than necessary. When underlying inflation and inflation expectations are approaching target, a move towards a more neutral policy stance is appropriate.

Sound public finances are a precondition for macroeconomic stability and durable growth. Achieving this requires ambitious fiscal consolidation—including expenditure rationalization and reprioritization—to reduce debt vulnerabilities, rebuild fiscal buffers and secure the resources needed to address longer-term challenges. It also requires structural fiscal reforms, including the adoption and implementation of credible medium-term fiscal frameworks, strategies, and rules.

Structural reforms are essential to lift growth prospects. Labor and product market reforms are needed to enhance economic efficiency and agility, increase competition, and address the

expected decline in labor force participation. Climate policies need to be credible, timely, and predictable. They should provide the right incentives for innovation and private sector investment, while meeting the immediate energy security challenges. Properly designed carbon pricing is an effective economic policy instrument for the transition to a low-carbon economy.

An open, rules-based, and transparent international trading system is key. Not only does it support economic integration, but it also contributes to predictability, thereby promoting investment. Widespread industrial policies and trade restrictions would undo global integration, threatening global prosperity and the prospects for income convergence. The resilience of supply chains can be improved through private initiatives and diversification, without the need to restrict the movement of goods, services, and capital across borders. At the same time, the need to reform the World Trade Organization and its dispute settlement system remains urgent.

The Fund's role at the current juncture

The Fund's multilateral and bilateral surveillance needs to continue to provide guidance and tailored advice to members on macroeconomic and financial policy making, based on top-quality economic analysis. Monetary and fiscal policies, as well as macro-financial stability, need to remain priority topics in IMF surveillance, in line with the IMF's core mandate and areas of expertise.

Capacity development (CD) provides important tailored and hands-on advice and assistance for reform implementation. CD should continue to focus on the Fund's core areas of expertise, such as revenue mobilization and public financial management. In this context, we support the new Global Public Finance Partnership, to which Switzerland also contributes financially. We support further enhancing CD by ensuring that it is well sequenced and prioritized, closely integrated with surveillance and lending, results-based, transparently monitored, and geared towards fostering 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 resolving their balance-of-payments problems and restoring external viability, including debt sustainability, under adequate safeguards. Strong conditionality and high lending standards are essential elements to this end. To be effective, Fund lending should also be catalytic, compatible with members' debt-carrying- and repayment capacities, and based on sound finances, both of the IMF and of its trust funds. Lending policies, including access limits and norms as well as fees, charges and surcharges need to be consistent with these elements, including adequate precautionary balances and reserves. The Fund must avoid lending into unsustainable debt situations.

Tackling debt vulnerabilities

Debt vulnerabilities are high and a pressing concern in many countries, some of which are in urgent need of a debt restructuring. In this context, the Fund should exercise caution 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.

The Fund's work on debt-related issues is crucial and must remain a top priority. This includes work to help improve the effectiveness of coordinated case-by-case debt treatments, including under the Common Framework, to enhance debt transparency and debt management, and to strengthen the Fund's debt policies and analytical tools, for example by reviewing the debt sustainability framework for low-income countries (LICs).

Regarding efforts to support countries facing liquidity risks, we caution that it is hardly possible in practice to distinguish between liquidity and solvency risks. In line with this, it is important that the Fund's definition of debt sustainability continue to include both solvency and liquidity requirements. In cases of unsustainable debt, a timely debt restructuring is needed. It is also important to avoid that official financial assistance be simply used to repay existing creditors.

Cross-cutting issues

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

Digital finance presents both opportunities and challenges. The Fund's analysis and advice on the macro-financial implications of fintech, central bank digital currencies (CBDCs), and other financial innovations can help members develop digital strategies that promote growth and financial inclusion while safeguarding financial stability and integrity. Close cooperation with, and, where appropriate, deference to, other relevant international institutions and fora is essential. As interest in wholesale CBDCs has grown significantly among central banks, it will be important to collaborate closely with the BIS in this area.

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

The Poverty Reduction and Growth Trust (PRGT) underpins the Fund's unique support to LICs. Our constituency attaches great importance to the PRGT, to which Switzerland has been a longstanding contributor. The PRGT needs to continue to help members establish sound macroeconomic frameworks and to provide catalytic financing, to ensure balance of payments viability, promote sustainable growth, and attract financing from development partners and investors. Against the backdrop of high demand for lending in recent years, the financial situation of the PRGT needs to be addressed in order to restore its self-sustainability. Sufficient subsidy resources and reserve buffers remain key, also for the Trust's ability to respond to future peaks in demand. We welcome the launch of the PRGT review aimed at ensuring the continued effectiveness of PRGT support and safeguarding the financial soundness of the Trust. It should include adjustments to lending policies and terms that support the Trust's objectives, while making the PRGT future-proof even in a moderate-to-high interest rate environment.

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 foster tangible changes in institutions and policies that have a lasting positive impact. Linking an RSF arrangement to an upper-credit tranche arrangement is essential to embed such reforms in a viable policy framework and achieve complementarity. With a view to ensuring effectiveness and efficiency, maintaining the RST's focus on climate change and pandemic preparedness is warranted. Also, close cooperation with the World Bank and others remains essential to devise effective sectoral reforms. Early evidence from RSF arrangements shows their merit, but also challenges with regard to program design. As lessons are being drawn, the Fund must ensure that the Trust is financially sound and its resources are used effectively. Switzerland contributed SDR 500 million to the RST earlier this year.

IMF resources and governance

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 smooth adoption of the package under the Sixteenth General Review of Quotas, including continued provision of bilateral resources to the IMF. Sufficient time for the domestic ratification processes will be needed. Looking ahead, progress on quota realignments for the currently most underrepresented members based on the existing quota formula remains an important objective. 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. We look forward to the establishment of a new 25th chair on the IMF Executive Board for Sub-Saharan Africa.

For the IMF to be effective, the quality of its work as well as its integrity and reputation must be impeccable. It 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 reflect evolving priorities and needs should remain core elements of the budget process. We emphasize the need to continue to build precautionary balances in light of the significant financial risks facing the Fund.