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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 14, 2023

**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**

In the current, challenging environment, we need the Fund in its capacity as a center of competence in macroeconomic policy, as an integral part of the global financial safety net, and as a platform for cooperation. Fund policy advice and capacity development remain critical to help members navigate difficult trade-offs. Fund lending should support vulnerable members in their macroeconomic policy making and adjustment. Maintaining high standards for lending and strong conditionality are critical, not least to ensure that the financial solidity of the Fund and its trusts remains indisputable. Furthermore, the Fund should act as facilitator and advocate of multilateral cooperation, which remains essential to tackle global challenges.

Global setting and policy priorities

Global growth prospects remain subdued. Risks are high and remain tilted to the downside, also due to financial vulnerabilities. Fiscal policy space is constrained in many countries. High debt levels coupled with tighter financial conditions create additional risks for sovereigns and corporates. These risks could materialize and hamper activity before inflationary pressures abate. In the medium term, an increase in geopolitical tensions and a reversal of global integration would further weigh on growth and inflation dynamics.

An end to Russia's war against Ukraine would be the single most important contribution to improving the global outlook. In addition to the unspeakable human toll, the war is imposing enormous economic costs.

An adequate tightening of policy stances and strong reform efforts are necessary. Policymakers must stay the course to (i) achieve price stability and keep inflation expectations firmly anchored, in line with central banks' mandates, (ii) preserve financial stability, as well as (iii) reduce deficits and debt vulnerabilities, while providing targeted support to the most vulnerable, and (iv) bolster potential growth through structural reforms. Policymakers need to act carefully and adjust their stance, should economic conditions deteriorate faster than anticipated.

Given the still high level and persistence of inflation, central banks need to maintain appropriately tight monetary policy until there are clear signs that price stability is achieved. Failure to do so would undermine the credibility of central banks and lead to higher and more volatile inflation, as well as more frequent disruptions in financial markets. While monetary tightening by major central banks can induce international spillovers, ensuring price stability is the best service that they can render for the stability of the international monetary system.

The preservation of financial stability requires effective, risk-based financial regulation and supervision and the decisive use of available tools when financial stability risks materialize. In recent weeks, financial stability risks in the banking sector came to the fore. Confronted with the severe risks from an impending failure of a global systemically important bank (G-SIB), the Swiss authorities acted quickly and decisively. They facilitated a private takeover, while

providing strong support, notably to ensure sufficient liquidity. The action taken strengthened confidence and helped preserve financial stability, both in Switzerland and globally. Looking ahead, aside from continued vigilance and monitoring, it will be important to draw lessons. A review of the effectiveness and appropriateness of the existing regulatory framework is necessary. In addition, risks in non-traditional financial sectors, including non-bank financial institutions and the crypto sector, should be carefully monitored and appropriately addressed.

In most countries, fiscal policy needs to be tightened. The rapid rise in public debt and increasing borrowing costs leave public finances vulnerable. Governments need to scale back the fiscal stimulus of past years and better target support to the most vulnerable. Sustained expansionary fiscal policy would add to inflationary pressure and force monetary policy to tighten more and faster. Rebuilding fiscal buffers is also critical to be able to address future crises. Structural fiscal reforms and credible medium-term fiscal frameworks are more important than ever. They help to promote consistent macroeconomic policies and build up room to handle future shocks.

Structural reforms remain necessary to strengthen the potential for growth. Labor market policies should focus on improving skills and reducing frictions. These efforts are particularly important to boost sustainable employment. Product market reforms, as well as measures to strengthen governance and transparency, also remain central to fostering a business environment that is conducive to private sector development and investment.

It is critical to protect the open, rules-based, and transparent international trading system. More resilient supply chains are warranted, but should not come at the cost of unwinding many of the benefits of globalization. A clear commitment to open global systems and predictable rules, including reforms of the World Trade Organization and its dispute settlement system, is urgently needed.

Climate policies need to be credible, timely, and predictable to support the green transition. They should set the right incentives to boost innovation and private sector investment. Determined efforts to reduce carbon emissions should be resumed and accelerated, while meeting the immediate challenges of energy security. Delaying necessary action will only increase future costs. Energy production must shift to cleaner sources, but the transition will also require economic activity to become less energy intensive. Carbon pricing is the most effective and efficient way to transition to a low-carbon economy.

The Fund's role at the current juncture

Fund policy advice and surveillance, including top quality economic analysis and knowledge sharing, remain key, for instance in the context of the necessary monetary normalization and rising financial sector risks. We welcome ongoing work on the operationalization of the Integrated Policy Framework. Further work will also be important on the External Balance Assessment (EBA) to better reflect the links between the current account, demographics, and pension systems. The EBA methodology should be extended to include improved exchange rate models and a module for the analysis of stock imbalances.

Capacity development (CD) remains important in providing tailored and hands-on advice and assisting reform implementation. We support further enhancing CD by ensuring it is sequenced and well-prioritized, closely integrated with surveillance and lending, results-based, transparently

monitored, and geared toward fostering ownership. CD delivery should continue to be focused on the Fund's core areas of expertise, including debt-related issues. We underscore the crucial role of regional capacity development centers and resident advisors. The Caucasus, Central Asia, and Mongolia Technical Assistance Center (CCAMTAC) makes a valuable and much appreciated contribution to helping the members of our Constituency address their unique challenges.

Fund lending remains important to support members in achieving macroeconomic adjustment and addressing balance-of-payments needs, particularly in the current, challenging environment. Access limits were recently raised on a temporary basis, responding to their partial erosion against standard metrics, while the Fund also adapted its lending framework to enable support in cases of exceptionally high uncertainty. That said, the Fund's financial solidity must remain unquestionable. High lending standards and effective and strong conditionality are a *conditio sine qua non* for maintaining confidence in the Fund's ability to carry out its mandate, to reassure lenders and donors to the Fund, and to catalyze other funding to members. Permanent changes in access limits would need to be consistent with available Fund resources and can thus only be considered once there is clarity about the outcome of the 16th General Review of Quotas.

The Fund's lending toolkit has proven flexible enough to provide prompt, adequate, and tailored support in the face of major shocks. As part of multilateral support efforts, the Fund should focus on lending through existing instruments, particularly UCT-quality programs, and providing a coherent macro policy framework.

Ensuring the financial soundness of the Poverty Reduction and Growth Trust (PRGT)

We are concerned about the challenging financial situation of the PRGT. While low-income countries (LICs) are particularly affected by the spillovers from Russia's war against Ukraine, adequate reserve buffers and subsidy resources remain key premises for sustainable concessional Fund lending to LICs. The low reserve coverage ratio constrains the Fund's ability to assume risk in its concessional lending operations and the overall credit capacity of the PRGT. In this context, the reserve asset character of central banks' claims on the loan and deposit accounts of the PRGT must not be put at risk. Additionally, the shortfall in subsidy resources to enable a certain level of lending has become larger. Apart from PRGT sustainability considerations, lending to PRGT-eligible countries is in many cases constrained by high debt levels and significant risks to debt sustainability. PRGT lending requires effective conditionality and also needs to be consistent with recipient countries' absorptive capacities.

We support fundraising efforts with a focus on fair burden sharing, and we strongly encourage all countries that have made pledges to turn them into actual contributions. Switzerland provided a loan to the PRGT in the amount of SDR 500 million during the 2020 loan mobilization round and is providing about SDR 40 million in subsidy resources over the next five years starting from 2023. Looking ahead, the Fund needs to devise a comprehensive strategy to address the challenging financial situation of the PRGT. Lending capacity and the terms for concessional lending must be assessed jointly. We advocate a prudent strategy that also reflects the role of the Fund, including the catalytic role of its financing, within the global system of multilateral and bilateral providers of financing to LICs. In light of the recent sharp rise of the SDR interest rate

and the need to carefully manage limited subsidy resources, updating the interest rate structure for PRGT lending should be considered.

Operationalizing the Resilience and Sustainability Trust (RST)

The operationalization of the RST will help eligible countries address risks stemming from longer-term structural challenges, in particular climate change. In the context of high estimated demand, available lending resources will need to be carefully managed. For the RST to achieve its purpose, RSF-arrangements will need to feature substantive reforms guided by the Fund's specific expertise. Access to RST resources should be closely aligned with the strength and quality of reforms underlying RSF-arrangements. To garner other essential information and knowledge, close and effective cooperation with the World Bank—and, where appropriate, other international organizations—is critical. Switzerland is preparing a contribution to the RST to support countries' macroeconomic policy efforts focused on climate change challenges.

Tackling debt vulnerabilities

Addressing debt sustainability concerns is imperative. Debt vulnerabilities are high and rising in many countries, with some countries in urgent need of debt restructuring. While we welcome the recent progress made with debt treatments under the G-20 Common Framework, enhancing the efficiency of such debt treatments is a priority. Expanding the scope of coordinated case-by-case debt treatments in line with the principles of G-20 Common Framework to a broader group of countries is also essential. The Global Sovereign Debt Roundtable (GSDR) could be helpful, notably in improving coordination. At the same time, the GSDR needs to be complementary to, and not preempt decisions by, key institutions, such as the IMF, the World Bank, and the Paris Club. Their roles and competences must be preserved. Aside from that, we continue to support efforts to enhance debt transparency by both debtors and creditors, including with respect to collateralized debt, and call on creditors to adhere to prudent and sustainable lending practices. We remain strongly supportive of the Fund's and the World Bank's multipronged approach to address debt vulnerabilities.

Cross-cutting issues

The Fund, together with other relevant institutions, should advocate global coordination and policies to address climate change. In line with its mandate and expertise, the Fund should concentrate on macroeconomic policies. We agree on the importance of the private sector in climate finance and support work to facilitate the climate alignment of private financial flows, including by strengthening the comprehensiveness, comparability, and accessibility of the climate-information architecture. In addition, work to help central banks and supervisors better evaluate the exposures of the financial system to climate-related risks is highly appreciated.

The Fund rightly highlights the opportunities and challenges associated with digital finance. Its analysis and advice on the macro-financial implications of fintech, central bank digital currencies, and other financial innovations will help members design digital strategies that enhance growth

and financial inclusion without weakening financial stability and integrity. The recently developed framework for effective policies for crypto assets will be useful in this regard.

Promoting open trade is part of the Fund's mandate, and its role in this policy area should be reinvigorated. In its work on trade, the Fund should emphasize the role of diversification, buffers, and domestic policies to strengthen resilience. Also, the Fund should advocate the merits of an open, rules-based, and transparent multilateral trading system, and it should foster dialogue and cooperation.

In all cross-cutting areas, close collaboration with other relevant institutions and bodies will be crucial to make best use of its expertise and enable complementarity.

IMF resources and governance

We remain committed to a constructive discussion on the 16th General Review of Quotas within the Fund's decision-making bodies. We reaffirm our commitment to a strong, quota-based, and adequately resourced IMF to preserve its role at the center of the global financial safety net. We strongly support progress on quota realignments for the currently most underrepresented members, while protecting the position of the Fund's poorest ones. Quota realignments cannot abstract from the formula for the calculation of quota shares. The current quota formula reflects a compromise that continues to serve the Fund well and, hence, provides an appropriate basis for a quota allocation. The adequate size of the Fund should be based on realistic assumptions and balanced arguments. Considering the different elements of the 16th Review as an integrated package will help build a broad consensus.

We underscore that the Fund must be exemplary with respect to internal governance, prudent budgeting, and maintaining balance sheet strength. The continuous search for efficiencies and reallocation of resources to reflect evolving priorities and needs, in line with the Fund's core mandate and fields of expertise, should remain core elements of the budget process. With respect to strong finances, we stress the need for a further build-up of precautionary balances.