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Speaking on behalf of Azerbaijan, Kyrgyz Republic, Poland, Serbia and Montenegro, Switzerland, Tajikistan, Turkmenistan, Uzbekistan

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1. Introduction

First, I would like to welcome Mr. Rodrigo de Rato as the new Managing Director of the International Monetary Fund. These are interesting times, since the institution's 60th anniversary has brought forward many calls for change. In its history, the Fund has been challenged many times and has adapted well to a changing world. The Managing Director has already set out the wide range of strategic issues that need to be tackled. Successful change requires a broad ownership across members. All our constituency countries look forward to working closely with Mr. de Rato.

Turning to today's agenda, progress has been made in several areas since our spring meeting. I note with satisfaction that the global economy has further strengthened and global financial markets have shown remarkable stability. The Fund has also made considerable headway in strengthening its crisis prevention framework, while efforts in the area of crisis resolution have slowed down. Significant work has been done in better defining the Fund's role in low income countries, and the Independent Evaluation Office (IEO) has produced two excellent reports, which provide valuable inputs in the discussion of adapting the institution.

2. The Global Economy and Financial Markets

The global economic outlook was again revised upwards this fall, forecasting a level of global economic growth that has not been seen for a long time. The recovery is now broader based and better distributed across regions and countries. While this optimistic picture is very encouraging, it may mask risks related to increasing oil prices, emerging inflationary pressures, and imbalances in both advanced and emerging market countries. Determined efforts are needed in all regions, to use the current benign environment to implement policies that will make the current outlook sustainable over the medium-term.

In Europe, the entry of ten countries, including eight central and eastern European countries, into the European Union on May 1 was an event of historic dimension. In particular, the achievement of the transition countries is impressive. They have managed the transformation into market economies and the creation of the necessary institutions in an incredibly short period of time. I commend these countries for their efforts and am convinced that their dynamism will prove to be a valuable asset for the European Union.

The adoption of the euro will be the next milestone in integrating the new members with the EU. That is why I warmly welcome the creation of the IMF task force group dealing with the euro adoption as well as an idea of establishing an IMF regional representative office in Warsaw, which would be focused on the issues of the accession to the euro zone.

Global imbalances have been a concern in the past meetings. Unfortunately, the imbalances have not diminished. Therefore, reducing fiscal deficits, deepening structural reforms, and making sure that exchange rates play their important role in facilitating adjustment processes remain ongoing challenges.

Oil price developments are also of concern. High oil prices, given global capacity constraints and large demand, are most probably here to stay. Questions regarding possible second-round price effects and, particularly, how central banks should deal with them if they emerge, are daunting. The fact that most economies are less dependent on oil than in the 1970s and monetary policy has since become more credible should make things easier than in the past. The challenge will be how to fit possible actions into the current cycle of gradual monetary tightening, which has been achieved without adverse market reactions so far.

The IMF has done an excellent job at reminding us once again of another important challenge: the economic implications of aging populations. Consistently increasing longevity – which is a blessing as such – coupled with dramatically lower fertility rates is rapidly creating an older population. To adequately deal with the impact of an aging population, we need to consolidate government budgets now, address pension reform, provide incentives to increase labor supply, improve international capital markets, and generally pursue policies that foster innovation and growth.

As to generally growth promoting policies, I am encouraged by the agreement reached in summer among WTO members on a package of frameworks and other agreements for the Doha round negotiations. Much can be gained in this round, in particular better integration of developing countries into the world economy. We must hence press on to successfully conclude these negotiations.

3. Crisis Prevention and Crisis Resolution

Effective surveillance by the Fund of all its members remains the quintessential tool of crisis prevention. Our constituency members have supported the continuous adaptation of the institution’s tools to the requirements of a changing world. This has led to a significant broadening of the Fund’s mandate. I was encouraged by the result of the recent biennial review of Fund surveillance that this has not led to a loss of focus. In my view, maintaining the focus on the core areas of Fund expertise is crucial to maintain the high-quality analysis that is necessary for members to listen to Fund policy advice. At the same time, scarce resources require surveillance that is tailor-made to address mainly those macroeconomic issues that are relevant in each member country.

In view of the importance of exchange rate issues and debt in determining country vulnerabilities, I encourage the Fund to further sharpen its analysis in these areas. A frank and in-depth discussion of exchange rate issues in all countries, as well as a more systematic use of quantitative vulnerability analysis, can provide valuable assistance to members in increasing their resilience against potential crises. The Fund should also better use its unique advantage of conducting surveillance in almost all countries to analyze global and regional spill-over effects of individual country policies. This is particularly relevant in the case of systematically important countries.

However, Fund surveillance can only be effective, if members are ready to listen. Focusing on the relevant issues, developing a frank and continuous dialogue, and using cross-country comparisons to convince members of the benefits of Fund policy recommendations can contribute to increasing the traction of surveillance. Another important element in this context is the existence of adequate institutional capacities in countries. Technical assistance provided by the Fund has played an important role in strengthening such capacities. Several countries in our constituency have benefited from Fund technical assistance and Switzerland supports these activities. Demand for technical assistance continues to rise. Given the budgetary constraints I look forward to the upcoming evaluation of technical assistance by the Independent Evaluation Office, which will hopefully show ways to improve effectiveness in this important activity of the Fund.

Does the Fund need to supplement its efforts in crisis prevention with a financial facility? In my view, the experience with the recently abolished Contingent Credit Line clearly showed that this is not necessary. I remain convinced that strong policies are the basis for effective crisis prevention. Fund membership in itself provides sufficient insurance that in the case of a crisis, adequate financial resources will be available. The institution has amply demonstrated that it can rapidly provide assistance in such cases.

Does the Fund need a non-financing instrument for countries that want to strengthen their surveillance relationship? Such an instrument is appealing, as it may fill a gap between surveillance and financing programs. The preliminary discussions of a monitoring instrument underscored that its usefulness depends crucially on its design. If this instrument is to provide a positive signal about a member's policies, it will have to include a strong economic program with strict and well defined quantitative and structural conditionality.

As regards the crisis resolution framework, the Fund is now principally in the observer role. Market participants continue to embrace collective action clauses (CACs). I welcome the wide-spread inclusion of such clauses in sovereign bonds and their standardization along the lines of the G-10 recommendations. Current Swiss legislation allows the issuance of such bonds with CACs that fulfill to a large extent the G-10 model clauses. However, the relevance of CACs for an orderly debt restructuring process will only be put to test with its application.

As to the efforts of some sovereign debtors and private creditors in developing voluntary Principles for Emerging Market Finance, progress has been very slow. The challenge of defining a framework that is binding enough to be of practical use in a debt restructuring process, while maintaining its voluntary nature appears to be quite daunting. This underscores my skepticism, that voluntary efforts, such as these Principles, can provide a sufficiently robust basis for an effective crisis resolution mechanism.

Given the limited progress in the crisis resolution framework, special attention must be given when providing Fund resources in capital accounts crises cases. Strict adherence to the rules governing exceptional access will be necessary both to safeguard the Fund's resources and the credibility of its policies. It is equally important to adequately price exceptional access and to avoid further bunching of outstanding resources.

4. Fund Support for Low-Income Countries

In close cooperation with other international organizations, the IMF has been playing a key role in assisting its low-income members. I welcome the ongoing efforts to better define this role. At a time, in which the international community is urgently looking for ways to make more rapid progress toward achieving the Millennium Development Goals (MDGs), it is crucial that each institution focuses on what it does best. A clear division of responsibilities between the various players is key. I see the primary task of the IMF in supporting members in their efforts to implement sound macroeconomic policies through policy advice and capacity building.

I welcome the recent adoption of a policy statement on the role of the IMF in low-income countries. The policy statement, together with the strengthened involvement of Fund management through the new Committee on Low-Income Country Work, will help guide ongoing work in several important areas. These include the clarification of the Fund's involvement in the poverty reduction strategies (PRS), the development of a concessional shocks facility, and the financing of future lending under the Poverty Reduction and Growth Facility (PRGF). With this work, the Fund will continue to contribute to the common effort of helping the low-income countries reach the MDGs. Good macroeconomic policies are key ingredients for high aid effectiveness. While the Fund has an important role in assessing the various challenges for macroeconomic policies stemming from rising aid flows, I do not see value in an advocacy role of the Fund to help mobilize additional financial resources.

As regards the PRS approach, it is encouraging that nearly all low-income are using such a medium-term framework to coordinate their poverty reduction efforts. I welcome the changes that were recently introduced to the design of the approach in accordance with the Independen Evaluation Office's and Operations Evaluation Department's recommendations. These should permit a closer alignment between Fund and country procedures, thereby reducing strains on their institutional capacity and increasing country ownership. However, to realize the full benefits of the PRS process there is a need to broaden the participatory process, improve prioritization of measures, and better link cost implications to budgetary plans.

Further progress has been made under the HIPC initiative. For those countries that have completed the process, the reduction in debt levels and in debt-service payments is impressive. Unfortunately, many countries have not yet been able to benefit from debt relief, since macroeconomic difficulties as well as delays in their PRS have not allowed them to complete the whole process. Some of these countries have been off track of their Fund-supported adjustment programs for lengthy periods. I urge these countries to address their fiscal and structural imbalances so they can benefit from the HIPC Initiative. The recent extension of the 'sunset clause' of the HIPC Initiative will allow the remaining countries with debt overhangs to become eligible for assistance.

Looking forward, it will be important to ensure that these countries do not start accumulating debt beyond sustainable levels again. This underlines the importance of having a sound framework that provides guidance for the borrowing policies of low-income countries, and for the lending decisions of the IFIs and donors. The recent work to operationalize the new debt sustainability framework is very valuable in this regard. I look forward to a clarification of the issues relating to World Bank and IMF collaboration, and to an early application of the framework to the Fund's surveillance and lending operations.