Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Confederation

Federal Department of Economic Affairs,
Education and Research EAER

State Secretariat for Economic Affairs SECO
Economic Cooperation and Development
Macroeconomic Support

Luncheon Speech
State Secretary Ineichen-Fleisch

Reference: 2013-04-05/475

Dear Ministers,

Dear Excellencies,

Ladies and gentlemen,

It is an honour for me to be here and to share a number of thoughts following our interesting discussions this morning. But first I would like to thank the Kyrgyz authorities for their hospitality and the excellent organisation of this event. Their initiative to organize this conference has provided an excellent opportunity for people working in the Caucasus and Central Asia region to exchange views and learn from each other how best to address challenges ahead.

In fact, Switzerland and Kyrgyzstan have a few things in common. And as you may know, Kyrgyzstan is sometimes labelled the Switzerland of Central Asia. Indeed, my first impression confirms this: Kyrgyzstan has mountains and lakes - like Switzerland. Our countries are landlocked and water is an important resource in both. However, while Switzerland is known for its cows (and by extension chocolate and cheese) Kyrgyzstan is known for its horses.

But I can assure you that it is not because of the horses that I have come here. Much rather, it is because **we have close relations with many countries in the region**, like Azerbaijan, Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan and Uzbekistan which - together with Poland and Serbia - **are part of our joint voting group at the Bretton Woods Institutions**. Since Switzerland joined the Bretton Woods Institutions in 1992 - we have been accompanying the transition journey of the region, notably in the field of economic and financial development.

So, I believe **we do have some familiarity with the challenges the region is facing** and we do have, although in different degrees, an engagement in most of the countries in many of the areas that are being addressed by this conference.

When I was asked to talk during the conference, I thought I should try to offer some insights from a Swiss perspective. I will thus like to focus on three areas:

- Private Sector Development and Trade
- Financial Sector Development and
- Financial Stability

I Private Sector Development and Trade

As you know, Switzerland is a small, landlocked country without natural resources. We do not have any "obvious" sources of growth. Therefore we need, similar to you, to understand what drives economic growth.

Our major driver of growth is private sector and trade development. For instance, in Switzerland, 99.7% of all companies are small and medium-sized enterprises. They also provide work for 67% of all employees.

In my view, **the key to private-sector driven economic growth is good economic framework conditions**. In Switzerland, the main role of the state in the economy is precisely to provide for adequate framework conditions for the economy. Indeed it does so with quite some success: Switzerland routinely occupies the first ranks in global competitiveness indicators.

The main ingredients contributing to this success appear to be:

- a **stable and predictable political and judicial environment**
- a well-educated workforce
- an **open and liberal economic order** with a good network of trade arrangements and reasonable taxes
- **sound macro-economic policies**, such as a **prudent fiscal stance**, and low and stable inflation.

Many of these issues are also on the top of the policy agenda in the Caucasus and Central Asia region.

It is because we believe that private sector is an important driver of growth that Switzerland, through the **Swiss State Secretariat for Economic Affairs** which I represent, has **been long supporting reforms** in the region that aim at enhancing the role of the private sector.

- For instance, through the *EBRD's Early Transition Countries Fund (ETCF)* **SECO** aims to **support market activity and economic reforms** and help to mobilize investment. Projects that supports private sector development, promote private enterprise and strengthen the financial sector can receive financial support from the Fund.

- Another program, implemented with the IFC (International Finance Corporation of the World Bank Group) called *"Central Asia Investment Climate Program"* seeks to **address bottlenecks limiting private investment** while working with firms and government to facilitate new investment.

Finally, **trade and a good integration in the regional and world markets is also an important driver of growth**. For instance in Switzerland, every second Swiss Franc is earned abroad. Despite the fact that Switzerland is not a member of the European Union, approximately 60% of its exports flow to the EU. It however maintains an extremely dense network of bilateral relations and agreements. Also, it is a continuous task to improve market access and eliminate obstacles to cross-border exchange. I am convinced that **there is still a lot of potential within this region to foster exchange to the benefit of all countries**.

II Financial Development

The second area I would like to mention is financial development. A well-diversified, liquid, deep and broad financial sector is the basis for a healthy development of the private sector and provides the state with the ability to react to economic conditions.

For the private sector to flourish it is important that the financial sector caters to the different needs of small and medium-sized companies. This requires offering different debt instruments, also for longer term-maturities, expanding the products for insurance and facilitating the hedging of risks, including for micro and small enterprises.

An important aspect in the development of financial markets is the **development of local currency bond markets.** They play an important role in providing alternatives to foreign denominated debt. While this is an important medium-term goal - it is also an ambitious one, as it requires a number of pre-requisites to be in place.

- Together with the IMF and the EBRD SECO has been and is still providing **support to develop and improve local capital markets and increase local currency lending** for instance through the *EBRD's "Early Transition Countries Local Currency Initiative".*

III Financial Stability

The corollary to financial sector development - is of course - financial stability. It is, I believe an important factor in the macroeconomic framework conditions and has public good character. Typically, its importance is less recognized when things go well. However, when they do not, the importance of financial stability becomes very apparent This is therefore the last of the three topics I would like to address today.

Given the importance of its financial sector, **financial stability is a very important topic for Switzerland**. As you know, the Swiss financial sector is very large - in fact, the capitalisation of its two largest banks alone amounts to roughly 6 times the country's GDP! As you can easily imagine, it is therefore of outmost importance to have a well-functioning, adequate and effective banking sector regulation and supervision in place. This is also the main reason why Switzerland has actively participated in defining the global regulatory framework in the wake of the financial crisis and has adopted strict rules for its own financial sector - the so-called Swiss finish to the Basel III regulatory framework.

In our experience there are at least three key elements contributing to financial stability:

1. a sound monetary policy,
2. adequate regulation and oversight, and
3. fiscal prudence.

1) **A sound monetary policy that aims at ensuring domestic price stability and allows for the exchange rate** to reflect fundamentals is maybe the **most important basis** of macroeconomic framework conditions. This is in the **responsibility of the Central Bank**, and I'm sure my colleagues from the Swiss National Bank can confirm they take this responsibility quite seriously.

- They also support Central Bank authorities in partner countries by sharing expertise and knowledge in this area.

2) As the second ingredient, it is crucial that financial sector development is accompanied with a corresponding **development of a regulatory and oversight regime**.

The difficulties in dealing with failed banks have highlighted the importance effective legislative frameworks for bank resolution.

- The **IMF is an important partner** in the efforts to improve the regulatory and supervisory framework. Several joint projects aim at improving the legislative framework, revising the banking code and strengthen capacities of Central Banks in the region.

- Strengthening the financial sector to **prevent money laundering and financing for terrorism** is another area of collaboration between SECO, the IMF and our regional partners. As you may know, the IMF's has established a global facility, called **Topical Trust Fund on Anti-Money Laundering and Countering Financing for Terrorism**, where Switzerland is an early as well as the main contributor.

3) The last element of financial stability is **fiscal prudence**.

In Switzerland we have introduced the so-called debt-brake rule in the late 1990s. This requires fiscal policy and budgetary decision to respect certain debt limits. So far, the rule has proven very effective. In fact, Switzerland is one of the few OECD countries whose public debt burden has decreased over the last decade.
SECO therefore supports efforts of the authorities in its partner countries to **improve fiscal management by strengthening the budgeting process, establishing medium-term budget frameworks, and strengthening debt management.**

- To that end, SECO is for instance **co-financing Public Financial Management reform programs** implemented by the World Bank in Azerbaijan, the Kyrgyz Republic and Tajikistan.
- It also provides financing for regional initiatives, such as the peer-learning program PEMPAL, in which most countries of the region participate.

Conclusion

As you can see, SECO and Switzerland interact with your countries on very many levels, be it through bilateral technical assistance, support for multilateral assistance or global initiatives in a broad range of sectors.

Of course, our constituency at the Bretton Woods Institutions is also an important vehicle to support the engagement of these two institutions in the region.

And what can I say about our experience in supporting this region through its transition journey? Let me share a few thoughts on a personal note.

- **First: launching structural reforms is important, but ensuring the sustainability of these reforms is the real challenge**. At the end of the day, the **sustainability of reforms depends on effective capacity-building and the establishment of capable institutions**. Frequently, technical assistance programs have increased capacities at the level of the individuals but this has not translated into enhanced institutional capacities. Taking into account structural obstacles to improving institutional capacities is therefore key when designing assistance programs.

- **Second: good economic governance is at the roots of a well-functioning and accountable public administration** that provides the framework for a flourishing private sector.

- **Third: ownership by beneficiaries is very important - there is only so much that can be achieved by external assistance**. Eventually, reforms have to be carried and supported by the beneficiary at ALL levels. Leadership is key because it determines how changes are perceived by those that are directly concerned.

Therefore, you can make an important difference by providing leadership in implementing a reform agenda!

- **Fourth, projects need to be well tailored to each countries needs.** Reform programs need to reflect countries' specific needs and circumstances. Similarly, it is important that beneficiaries are able to bring in their view and experience as to how things should be done.

With this, I would like to thank you for a very fruitful morning of discussions and am very much looking forward to this afternoon's sessions.