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Statement by Mehmet Şimşek
Deputy Prime Minister
Turkey

On behalf of
Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Republic of Slovenia, and Turkey

Statement by Mr. Mehmet Şimşek,
Deputy Prime Minister, Republic of Turkey
on behalf of Austria, Republic of Belarus, Czech Republic, Hungary, Republic of Kosovo, Slovak Republic, Republic of Slovenia, and Republic of Turkey
at the 34th Meeting of the International Monetary and Financial Committee
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Global Economy and Policy Priorities

A cautiously benign outlook with complex challenges defines the current juncture. The global economy continues to expand at a moderate pace, weighed down by a confluence of factors, including persistently weak demand and investment growth, trade stagnation, and low commodity prices. Aside from the still-to-be-addressed crisis legacies and unfolding structural changes, the increasing tendency for inward-looking policies raise concerns about the durability of global growth going forward. On the other hand, there are several positive signs of stronger, more sustainable, inclusive and balanced growth. The immediate market reaction to the Brexit has been more manageable, and a number of major emerging market economies appear to be pulling out of recession.

Policymakers all over the world face difficult and complex challenges. The overcapacity that has been accumulated for over more than two decades is a case in point. Innovations in advanced economies, a secular investment surge in emerging market economies, investment cycles in commodity-producing economies, as well as the secular leveraging cycle have all led to the present state of excess supply. At the same time, global indebtedness has reached an all-time high, and has risen considerably since the onset of the global financial crisis amid today's low-growth, low-inflation environment. The projected macro environment with slow nominal growth remains unfavorable to macroeconomic deleveraging. Other solutions to help balance sheet deleveraging need to be found, which make use of the synergies between fiscal, monetary, financial and structural policies.

The policy mix needs to be more potent, complementary in supporting other policy levers where possible, and should be mindful of possible domestic and international aftereffects. Central banks in advanced economies have experimented with new policies and tools with a view to lift inflation and support growth. However, quantitative easing has reached its limits as expected without the anticipated strong impact on household consumption and corporate investment. The weaker-than-expected growth and low inflation rates proved that accommodative monetary policy alone cannot provide the remedy for below-trend growth and persistent disinflationary pressures. A more appropriate policy response would be blending both supply- and demand-side policies in order to lift the burden on monetary policy.

Fiscal policy can play a more effective role in supporting the demand, and boosting the lagging growth in countries with fiscal space and negative output gaps. Fiscal policy, if supported by credible medium-term fiscal consolidation frameworks, can buoy economic activity without creating undue repercussions or threatening sustainability. To this end, growth-friendly fiscal policies embedded in credible medium-term fiscal plans need to focus on enhancing productivity, upgrading or closing infrastructure gaps where they exist, reforming tax policies, improving the quality of revenues, and bolstering the efficiency of public expenditures. The Fund has much to contribute to the assessment of fiscal space, and the calibration of responsible and credible fiscal responses while also paying due attention to country-specific factors such as the state of economy, the prospects of medium- and long-term fiscal sustainability, spending needs, and fiscal risks. The Fund can also advise on how and where fiscal space can be more effectively utilized in boosting domestic demand. Finally, we expect the IMF to strengthen its call for prudence and anchoring fiscal policies in order to put debt on a sustainable path, especially in countries with large budget deficits and elevated public debt levels.

Central banks should be mindful of the possible reverberations and unintended consequences of their policies. While accommodative monetary policies are warranted in view of the lackluster growth prospects in advanced economies, central banks should remain wary of the side effects of those measures. In addition to the impact of negative rates on banking sector profitability and, more broadly, on the financial system, insurance companies, pension funds, and investors may be tempted to search for higher yields and take excessive risks, which may exert large costs both on home and host jurisdictions. We expect the Fund to continue to assess the implications of and flag the risks posed by unconventional monetary policies, and to present policy advice to help cope with the spillover effects on non-reserve currency-issuing member countries.

Addressing the lingering legacy issues in advanced economies, managing the challenges posed by corporate sector indebtedness in emerging markets, and completing the regulatory reform agenda are imperative to global financial stability. Unresolved weaknesses in the financial sector in some advanced economies fuel market jitters, strain the effectiveness of credit channels, and pose risks to financial stability. In particular, banking sector balance sheet vulnerabilities in Europe and elevated private sector debt overhang in emerging markets deserve closer scrutiny from policymakers. It is encouraging to note the efforts under way to resolve the elevated non-performing loan problem in Europe, but additional and prompt actions are warranted specifically to strengthen insolvency frameworks, promote efficiency and reinforce the capital base of weaker but viable banks within the flexibly applied state aid rules. Moreover, revisions in the financial institutions' business models as well as consolidation are instrumental to reviving the struggling banking profitability in countries weighed down by low growth/low interest rate environment and higher capital requirements. Emerging market policymakers should put policies in place that would promote smooth balance sheet deleveraging. Finally, despite the progress achieved in the global regulatory reform agenda, we should spare no time in adopting the remaining agreed reforms, consistently implement them, and at the same time, closely monitor non-bank financial institutions and improve the data collection.

There is a greater role for well-designed and sequenced structural reforms in lifting the medium-to-long-term growth potential. Structural challenges such as low productivity growth and adverse demographic trends, as well as potentially major transitions driven by new wave of technological advances, place a premium on reforms. Of particular importance is prioritizing structural reforms that would deliver notable returns in terms of boosting growth, creating policy space, improving the labor and product markets, and strengthening competitiveness and institutions. In particular, there is an urgent need for policies to equip the workforce with the skills essential to meet the needs of new economy and support occupational and geographic mobility. We believe that, if accompanied by demand management policies, the short-term adverse implications of such reforms would be limited.

It is in our collective interest to deepen global economic cooperation and advance further trade integration while resisting the protectionist pressures. Recognizing the growing wave of protectionist measures and the rising discontent among middle classes, particularly in advanced economies, we see merit in the Fund's call to adopt policies that would help these segments of the population overcome the adverse implications of trade openness and technological change. It is equally important to advance the global trade agenda, resist protectionism, and send a message of confidence that free trade promotes efficient resource allocation and progress for all if and when rules work properly. We should also make it clear that reversing openness on trade or closing borders to flow of goods, capital, or people would be not only detrimental to individual economies but also would hurt us all. Trade liberalization is essential to open new markets and we welcome the Fund's emphasis on lowering barriers to trade. The Fund's analysis examining the factors behind slower trade growth, as well as the pros and cons of globalization and emerging technologies, can provide a valuable contribution to our understanding of globalization and technological change.

Fund Issues

Notwithstanding some improvements, there are still shortcomings that call for continued reform of the International Monetary System (IMS). Notable progress has been made in strengthening the Global Financial Safety Net (GFSN) and expanding its coverage since the onset of the global financial crisis. Yet, further progress is needed particularly in the areas of advancing the cooperation between the Fund and the GFSN's different layers, improving non-systemic member countries' access to the GFSN, and refining the Fund's lending toolkit in an effort to address the specific needs of the membership and close the gaps in the GFSN. With regard to the lending toolkit, our constituency remains open to ideas that would offer value added over and above the existing facilities, provided that a prudent approach for the use of the Fund's instruments is preserved, which is particularly important for the institution's lending capacity going forward. Equally important is that the proposed facilities do not impose undue costs on the membership or lead to a proliferation of the lending toolkit. We also call on the Fund to revisit the design features of the precautionary facilities and address the remaining shortcomings, including the exit from these facilities. We look forward to the upcoming review of Fund's institutional view on the liberalization and management of capital flows and reiterate our call for a symmetric and balanced approach on the role of pull and push factors. With regard to the role of the SDR, we expect the Fund to explore options that could potentially contribute to the better functioning of the IMS.

The Fund should remain adequately resourced in order to fulfill its mandate and its permanent resource base should be bolstered with the timely conclusion of the 15th General Review of Quotas. In view of the elevated global risks and potentially high demand for Fund financing in the event that downside risks materialize, it is vital to maintain an adequate level of resources available for the Fund to use. As an interim step, the Executive Board endorsed the proposal to maintain access to bilateral borrowed resources provided under the borrowing agreements, and a number of countries in our constituency have agreed or are willing to consider contributing to a new round of bilateral borrowing. That said, we continue to believe that the Fund's permanent resource base needs to be strengthened with the timely completion of the 15th General Review of Quotas, which is essential to lower the institution's dependence on borrowed resources, and the governance structure should be revisited in order to underpin the Fund's legitimacy and relevance and address the chronic problem of underrepresentation hurting many members for a long time. Our constituency remains open to engage in constructive discussions.

Lastly, we reiterate our support for the diversity of the IMF's staff and emphasize our constituency's contribution to gender diversity at the Executive Board, with the election of a female Executive Director.