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Statement by Wolfgang Schäuble, Minister of Finance, Bundesministerium der Finanzen, Germany

On behalf of Germany

Statement by Mr. Wolfgang Schäuble
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to the International Monetary and Financial Committee
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I. Global Economy and Financial Markets

The global economy has recovered rapidly and a global growth rate of 4 ¾ percent can be expected in 2010. The speed of the recovery, however, differs across regions with Asia currently being more dynamic than Europe and the US. In many industrial countries, high unemployment and the ongoing repair of the financial sector result in only moderate growth. In many emerging markets domestic demand is the main driver for growth. The stimulus measures introduced during the crisis still seem to be playing an important role in fostering the recovery. There are still significant risks to the recovery, including rising public debt in many industrial countries as well as bank exposure to real estate.

Conditions in the financial markets have improved but remain fragile. Exit strategies and strengthening the structural positions of our economies are an important element in ensuring a sustainable upswing. This has been recognised internationally. Exit strategies, however, must leave enough room for country-specific circumstances.

In September 2009, G20 members established the "G20 Framework for Strong, Sustainable and Balanced Growth" in order to tackle global imbalances and to bring the global economy on a sounder and stronger growth path. They agreed on a stronger coordination of their national policies and have engaged in a constructive dialogue and taken concerted actions to contribute to the agreed aims. Among others and depending on the specific national characteristics, these actions include the commitment to credible, medium-term fiscal consolidation strategies, pursuing structural reforms to boost potential growth and increasing (external) competitiveness as well as a rebalancing of sources of growth.

Germany

Germany's economic upturn continued with remarkable vigor this spring. Real GDP in the second quarter of 2010 was up 2.2 percent on the preceding quarter. This was the strongest quarterly increase in GDP since German reunification. The current economic indicators suggest that the upswing is going to continue, although at a more moderate pace. Foreign demand for German industrial goods is clearly on the rise and manufacturing firms continue to rate export prospects as highly positive.

In addition, the basis of economic growth has become much broader. Domestic demand has picked up and contributed to the striking macroeconomic acceleration. Both investment and consumer spending have expanded, with positive spillovers abroad. For example, imports from the rest of the euro area have been growing much faster than exports to these countries. We expect the upwards trend in investment and consumer spending to continue. Income prospects have improved due to the favorable development in the labor market. Furthermore, the development of private consumption is supported by fiscal relief of private household incomes, being effective since the start of the year.

The labor market demonstrated encouraging robustness during the economic crisis. Over the past year, instead of reducing the numbers of employees firms temporarily reduced weekly working hours via collective agreements ("Kurzarbeit"). This was a great help in mitigating the negative impact from the recession on the labor market. The labor market is expected to further benefit from the economic upswing. Survey data already indicate an increasing demand for labor, while unemployment has decreased throughout the first half of the year and continued to decline in the third quarter.

Against the background of increasing public debt, it is of high importance to reinforce confidence in the credibility and long-term sustainability of public finances. Therefore, consolidating the public budgets in accordance with a credible exit strategy is a central political task from 2011 onwards. Germany continues to pursue its medium-term goal of a close-to-balance government budget in structural terms. In line with the obligations of the new constitutional budget rule ("Schuldenbremse"), the federal Government has presented the required consolidation measures in its draft budget 2011 and fiscal plan for the period up to 2014. The new budget rule is fully in line with the concept and obligations of the European Stability and Growth Pact and will foster the return to sustainable public finances due to its constitutional status and strict enforcement. By 2013 at the latest, Germany will be back below the deficit ceiling stipulated by the Stability and Growth Pact. In accordance with the strategy agreed in the G20, growth friendly fiscal consolidation is an objective of high priority.

Financial Markets

While the recovery of financial markets is welcome, Germany will further strengthen its policies to prevent future financial crises. The focus will be on implementing the G20 Washington Action Plan and the decisions made at the G20 summits in London and Pittsburgh on a timely and coordinated basis. 2010 and 2011 will be important years with crucial decisions to be made. IMF members should support this process by bringing in the necessary legislation to ensure that the new global framework is implemented, in particular with regard to strengthening the capital and liquidity regime. This framework will serve to strengthen the overall resilience of the financial system, to address systemically important financial institutions, to broaden the scope of oversight and regulation to include all financial products, institutions and markets, and to improve incentives for market discipline. It will also be important to strengthen the framework for macro-prudential supervision. In this context, Germany welcomes the fact that the IMF and the FSB have conducted their third Early Warning Exercise.

One of the pressing challenges ahead is the development of an appropriate framework to deal with systemically important financial institutions. The experience of the crisis has demonstrated the importance of a well-designed legal framework for effective bank resolution. The German government has just decided to implement such a framework, complemented by a systemic levy in the shape of a "banking fee". The fee will flow into a stability fund to finance the restructuring and resolution of systemically relevant banks in the future. The levy charged will reflect the systemic risk a financial institution poses, thus helping to internalize some of the negative externalities embedded in its activities.

Non-cooperative jurisdictions

Germany welcomes and strongly supports the ongoing efforts to foster the implementation of international standards and to address non-transparent and non-cooperative jurisdictions, including off-shore centers. IMF members should work to ensure their effective compliance with the OECD standard on the exchange of tax information, with the FATF standards to fight money laundering and terrorist financing, and with prudential regulatory and supervisory standards, in particular on cooperation and information sharing. Jurisdictions that lack the capacity to implement these internationally agreed standards should be offered assistance. Where necessary, however, counter-measures should also be applied consistently vis-à-vis non-cooperative jurisdictions.

II. IMF Policies

Germany welcomes the efforts to adjust the Fund's mandate and governance in response to the recent crisis. Considerable progress has been made in reviewing the Fund's mandate, including its surveillance and lending framework. With regard to the reform of the international monetary system further work and more fundamental analysis is needed before any policy conclusions can be drawn.

Germany is fully committed to the overall goal of the IMF quota and governance reform, i.e. to strengthen the Fund's legitimacy and effectiveness. Fair representation and equal treatment of all countries is crucial for the legitimacy of the Fund. All elements of the reform, including the review of quotas, should be dealt with together and in the same time-frame. It is crucial and urgent that all member countries are willing to make compromises in order to meet the agreed timeline.

IMF reform – quota and governance

The overall aim of the quota reform should be to better align members' actual quotas with their calculated quotas. Accordingly, the 2008 quota and voice reform, which affords quota increases to under-represented and dynamic economies, should be ratified by all members as soon as possible. Germany supports a shift of at least five percent to dynamic Emerging Market and Developing Countries (EMDCs) from over-represented to under-represented countries. Under-represented advanced economies should also benefit from the reform on equal terms, while both over-represented advanced and over-represented EMDCs should make a contribution to the shift. Germany is ready to contribute to the shift on fair terms. This said, it must be ensured that no over-represented country becomes under-represented as a result of the general quota increase. Moreover, the voting share of the poorest IMF members should be protected on an individual basis.

The 2008 quota formula should not be reopened and should serve as the basis to determine whether a country is over- or underrepresented. It appropriately reflects the mandate and purpose of the IMF and is well able to generate the envisaged shift in quota shares. The quota allocation should mainly build on a selective quota increase. Ad hoc allocations should, as a rule, be based on the formula. Ad hoc increases outside the formula should remain an exception.

The size of the quota increase should be determined by the Fund's long-term ability to meet members' balance of payments financing needs and should be sufficiently large to help restore the IMF as a quota-based institution. Germany is ready to consider all scenarios with an overall quota increase of up to 100 percent that are able to generate a sufficiently large shift to dynamic EMDCs without discriminating underrepresented advanced economies. When reviewing the NAB as envisaged, we also need to raise the question whether some rebalancing of the NAB is needed.

Germany supports efforts to enhance the effectiveness and legitimacy of the Fund and to strengthen the voice and representation of EMDCs. However, when discussing size and composition of the Executive Board some core principles must be observed, e.g. that constituency formation and participation are voluntary and that representation must be closely linked to quotas and related financial contributions. As the current size and composition of the Executive Board both seem adequate with regard to representation, voice and efficiency, substantial changes are not warranted. Particularly, a reduction in the number of Board chairs would increase the disparity between the grown IMF membership and membership representation in the Board while not necessarily leading to any efficiency gains in the Board's work. Thus, Germany advocates an amendment to the Articles of Agreement to provide for 24 chairs.

While the current decision-making structure of the Fund may benefit from some careful adjustments, the overall division of labour between the Executive Board, the IMF management and the IMFC appears to serve the Fund well. Yet, a stronger engagement of Ministers and Governors would enhance political accountability and legitimacy of the Fund. Germany therefore supports considerations to increase the role of ministers and governors in strategic decision making by enhancing the role of the IMFC or establishing an IMFB. However, this should not curtail the role of the Board of Governors and of the Executive Board. Especially, the Executive Board should continue to conduct the business of the Fund. Furthermore, issues for which the IMFC/IMFB will take the decisions, the Executive Board should be responsible for preparing these decisions.

The proposal to lower the thresholds required for special voting majorities in the IMF should be further pursued, as this would contribute to a more legitimate and inclusive decision making process in the Fund. We endorse the plans to make progress on IMF staff diversity by creating a balanced distribution in terms of geographical origin and gender as well as professional and academic background.

Germany welcomes the initiative to select Heads and Senior Management of all International Financial Institutions in an open, transparent and merit-based process, irrespective of nationality and gender.

Fund Liquidity and status of NAB ratification

The Fund's liquidity situation is comfortable: Given that the Fund has drawn upon bilateral loans for financing operations since June last year, quota resources have been saved and stand at a substantial level. We encourage those current and future NAB participants who have not yet ratified the NAB decision to proceed rapidly in order to make the NAB decision effective. The increase in the overall size of quotas should then be accompanied by a comprehensive review of the NAB to ensure an appropriate overall size and balance between quota and borrowed IMF resources, so that the NAB will continue to play its role as a back-stop to quota resources.

IMF mandate - surveillance and lending framework

As the crisis ebbs, surveillance, which remains the primary tool for the IMF to fulfill its important crisis-prevention function, should return to be the main business of the Fund. Germany welcomes the Fund's work to strengthen financial sector surveillance and to develop a comprehensive framework to analyze macro-financial interlinkages. The Fund should continue its efforts in these areas and further enhance its analytical capabilities. In parallel, it will be critical that efforts to strengthen the multilateral dimension of surveillance are not pursued at the expense of weakening bilateral surveillance. Germany supports the initiative to experiment with a spillover analysis for the five major economies. At the same time, options should be explored to integrate such an analysis of spillover effects into existing multilateral surveillance products and regular Article IV reports.

Germany welcomes the decision to integrate FSAPs into Article IV reports and making FSAP participation a mandatory part of bilateral surveillance for countries with systemically important financial sectors. While Germany welcomes the Fund's work on closing data gaps and acknowledges its ambition to improve its data situation, the Fund has to accept legal constraints in some countries that prohibit the provision of data that would allow the identification of individual institutions. Germany welcomes the continued close cooperation between the IMF and the FSB which has recently been formalized by Fund's Membership in the FSB. It has to be underscored that, thereby, the Fund's independence and accountability to its entire membership will be preserved and its activities kept consistent with its own legal and policy framework.

In response to the financial crisis the Fund accomplished a major overhaul of its lending framework last year, including the establishment of the Flexible Credit Line (FCL). Only recently, further refinements to the FCL, most notably the abolition of its implicit access cap, and the introduction of the Precautionary Credit Line (PCL) were approved by the Executive Board. Thereby, member countries with sound fundamentals and policy frameworks hope to be "insured" against capital volatility and to have quasi unlimited access to Fund resources. While Germany welcomes efforts to improve crisis prevention it needs to be ensured that this unprecedented expansion of the Fund's financing role does not have adverse implications for the financial system and the financial position of the IMF itself. It is predominantly the task of market participants themselves to increase their crisis prevention efforts through appropriate risk management while the public sector should set the right incentives for market discipline and improve oversight and surveillance. On the contrary, proposals – as for example on the establishment of a Global Stabilization Mechanism (GSM) - risk undermining international financial sector reform efforts which aim at setting sound incentives and minimizing moral hazard.

Reform of the International Monetary System

Also after the dissolution of the Bretton-Woods-System in 1973, the US dollar remains the currency that is dominant in international use. In light of the experiences made during the current financial crisis, however this dominance has been criticised and we must deal with these critics.

In the discussion of an evolving international currency system, a central consideration should remain its market driven nature determined by trust and confidence of market participants. Any attempts to make changes should be very carefully analyzed. We have doubts whether an artificially imposed new system would be credible, including a promotion of an international use of the SDR. At the same time, the possible evolution of the international monetary system towards a multipolar currency system can be beneficial provided that such a process is gradual, smooth and driven by market forces reflecting autonomous decisions of private and official agents.

Role of the IMF in low income countries

The IMF has been at the forefront in supporting low-income countries (LICs) in order to help them to address the impact of the crisis. As a result available loan resources under the PRGT have fallen to a near record low and Germany welcomes the recent pledges made in this respect. The comprehensive reform of the Fund's lending facilities and financing framework for LICs brought in a new architecture that is more flexible and tailored to the specific circumstances of LICs. The new framework should be used, in a responsible manner, to help LICs to overcome their protracted balance of payments problems within a reasonable timeframe.