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INTERNATIONAL MONETARY FUND
WORLD BANK GROUP
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Statement by the Hon. **ERNST WELTEKE**,
Governor of the Fund for **GERMANY**,
at the Joint Annual Discussion

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Governor of the Fund for Germany,
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Dear Mr Chairman,
Dear Fellow Governors,
Dear Mr Wolfensohn,
Dear Mr Köhler,

First of all, I am pleased to extend a warm welcome to the new Managing Director of the IMF. I wish you, Mr Köhler, for your difficult and challenging work every good fortune and success.

I.

We are delighted that the Annual Meetings of the IMF and World Bank are being held this time in Prague — in other words: in the heart of Europe. We are now meeting in a country which, not much more than 10 years ago, was — from our point of view — behind the "Iron Curtain" and was neither a member of the IMF nor of the World Bank.

We welcome the Czech Republic's successful efforts at being a very generous host to the Bretton Woods Institutions under difficult circumstances. We would like to take this opportunity to express our warmest gratitude and to wish our host country every success in continuing its course as a country which is at the forefront of the transformation process.

II.

We welcome the dynamic overall development of the world economy, however, at the same time, we also perceive risks which must be taken seriously:

- Growth, which is more highly synchronised globally, tends to increase the inflationary risks.

- These risks are being heightened by rising oil prices and — in Europe — by the strength of the US dollar.

This means that in economic policy, the right decisions to shape the future course must be taken today:

- The policy of fiscal consolidation has to be continued. In many industrial countries and emerging market economies, budgetary policy is still pro-cyclical. Dynamic growth creates additional scope for fiscal consolidation which should be used.

- Secondly, the process of growth has to be underpinned by a monetary policy which remains steadfastly geared to domestic stability.

- Thirdly, the supply conditions to foster growth and employment also have to be improved further.

III.

For the IMF, surveillance, and therefore crisis prevention, have to be the primary concern. There are already examples of significant progress in that respect:

- In most countries, transparency of monetary and fiscal policy is much greater now than it was even a few years ago.

- Standards and codes for financial stability receive broad international support now. Their implementation is, first and foremost, the responsibility of individual countries.

- IMF surveillance has been significantly improved by the inclusion of the analysis of national financial sectors and indicators for crisis vulnerability.

However, the reform agenda has not been accomplished yet. I welcome and support the new Managing Director's proposals with regard to the further strengthening of crisis prevention and especially to intensify contacts to important participants in international financial markets.

IV.

If financial crises do occur in the member states despite improved surveillance and precautionary measures, the IMF should act in such a way that market forces are maintained or strengthened, and not undermined. It is crucial to foster the self-responsibility of market partners.

For that reason, when combatting acute crises, the IMF should confine itself to its financial role which is a catalytic one and should not seek to become a "lender of last resort". This would not be in accordance with its mandate and its limited financial resources.

The official sector has to give the financial markets clear signals on its acting when a crisis occurs. The private sector expects such clarity. In each and every financial crisis, the Fund has to start from the basic necessity that the private sector must make an appropriate contribution to crisis resolution. The IMF should work out proposals to make this approach operational as soon as possible.

V.

In the past, the IMF and the World Bank have all in all been successful in fulfilling their mandates. For this to remain so in the future, these institutions need to be adapted and strengthened. In a market economy environment, too, they have to provide important public goods — something the World Bank is stressing this year.

The division of labour enhances the efficiency of both institutions. Their original — and still valid — mandates define their respective responsibilities: The IMF is a monetary institution which has the mandate of ensuring a stable monetary and financial system. The mandate of the World Bank is focused on developmental objectives. Given this clear division of responsibilities, the institutions should not compete with, but rather complement each other and work together in a well-focussed result-oriented way.

VI.

Allow me to touch briefly upon an issue that is being debated in Prague, not only here at the Annual Meetings but outside as well: the advancing globalisation.

Let's be frank: to make optimum use of market forces, those forces should not be unnecessarily hindered. Therefore, global liberalisation cannot — and must not — be turned back. Its benefits are beyond dispute. Liberalisation gives developing countries the possibility for their deeper integration into the international financial and trade system – and also provides new opportunities for income. Free trade is the most effective support for development.

In the long term, however, globalisation will only be broadly accepted if all can benefit from its advantages. This implies, inter alia, that the more advanced economies will open their markets further and will accept related adjustment burdens.

VII.

In conclusion, I would like to say a few words on the debt initiative. At the Cologne Summit in 1999, it was agreed that the initiative should be “broader, deeper, and faster". I believe that this goal can be achieved. However, full funding still has to be assured. The debt initiative will be successful, if the following principles guide its implementation:

- Financial support must be secured. It is, therefore, important that all countries fulfill their financial commitments.

- Rapid implementation of the debt initiative should not endanger the quality of reform programs in debtor countries. It is important to lay the foundations for sustained growth and a vigorous fight against poverty by policies owned by countries. Progress in this area is the best guaranty that new debt problems can be avoided.

- We are concerned by the burden recently being placed on some debtor countries by sharp rises in oil prices and falling prices for export-commodities. We stress, however, that the debt initiative is flexible enough to take into account these temporary volatilities. Moreover, the structures in the affected countries need to be strengthened so that they can also better cope with temporary fluctuations. I would like to call on the oil-exporting countries to be aware of their responsibility for the world economy, especially for poor countries that are particularly hard-hit by rising oil prices.

Thank you.