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Statement by the Hon. **AXEL A. WEBER**,
Governor of the Fund for **GERMANY**,
at the Joint Annual Discussion

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Speech at the Annual Meetings

24/25 September 2005

Axel A. Weber

President of the Deutsche Bundesbank

Governor of the IMF for Germany

Mr Chairman,
Governors,
Mr Wolfowitz,
Mr de Rato,
Ladies and gentlemen,

I

I am pleased to be back in Washington for the Annual Meetings of the IMF and World Bank. I would like to thank the United States for the excellent organisation of the meetings despite the strained security situation that has again forced a shortening of the meetings. It is extremely important, in my opinion, to have enough time at this occasion to intensively discuss the urging global challenges. The IMF and the World Bank with their universal membership provide the ideal platform to come to cooperative solutions of the problems at hand. Therefore, I hope that we can return to the usual three-days format soon.

II

The overall outlook for the global economy is broadly positive albeit downside risks remain, in particular, the possibility of persistently high and volatile oil prices. In addition to the already forceful growth in other parts of the world, conditions are in place to improve the economic dynamism in Europe. Also, I am confident that in Germany conditions are in place for the recovery to

broaden further since the implemented structural reforms contribute to an improvement of domestic demand and employment. The broadly favorable macroeconomic environment should be resolutely used to spur fiscal consolidation. The existing global imbalances can only be reduced in cooperative efforts by member states from nearly every region of the world. In this regard, I welcome the first steps that some countries have already taken. Now it is important to continue with necessary measures.

III

Given the substantial developments in the global economy since the foundation of the Bretton Woods Institutions more than 60 years ago, a major issue currently under consideration is the future strategic direction of the IMF. In order to remain an effective and economically leading institution, the IMF has to be prepared for the new challenges resulting from globalisation. The Fund's monetary mandate thereby guides the scope of its future tasks. Let me outline some principles of general relevance in this regard:

- First, surveillance and economic policy advice remain the Fund's key instruments for promoting macroeconomic stability.
- Second, in providing financial assistance to members with balance of payments difficulties clear access limits are fundamental. This is the only

way to give adequate incentives to debtors and creditors and to preserve the Fund's credibility, predictability and financial integrity. Moving the Fund towards the role of a general risk insurer by introducing precautionary credit lines above normal access limits, however, would necessitate a significant change to the Fund's financing mechanism. Namely, such an insurance by the IMF would neither be compatible with its principle to provide financial assistance at deliberately not risk-adjusted terms nor with the current system of refinancing short-term Fund credit through risk-free official reserves.

- Third, a better division of labour with other international institutions, notably the World Bank, is indispensable.
- Finally, for countries only seeking the Fund's seal of approval for prudent policies without having a need for balance of payments financing, non-financial policy support instruments would provide a useful signalling tool. I therefore welcome the proposed Policy Support Instrument for low-income countries.

IV

As regards low-income countries more needs to be done to achieve the Millennium Development Goals, also in the developing countries themselves. Therefore, I welcome the significant progress that has recently been achieved in

our efforts to overcome the extreme poverty in low-income member countries: The G8 debt proposal provides an unprecedented opportunity to complete the process of debt relief for Heavily Indebted Poor Countries, to strengthen their capacity to respond to external shocks, and to free up resources these countries need for poverty reduction. I call upon all shareholders to support the proposal. The debt relief should be subject to clear criteria and conditionality. It has to be fully financed, based on a fair burden sharing, without weakening the financial position of the International Financial Institutions. In any case, a new lend-and-forgive-cycle must be avoided in the future. Nevertheless, further lending under the Poverty Reduction and Growth Facility may be required, in particular for low-income countries suffering from exogenous shocks.

V

In order to retain the IMF's legitimacy every member country should be adequately represented in the Fund. But I note that there are currently significant differences between actual and calculated quotas for a number of member states in nearly every region of the world that call for correction. As quota shares not only define a member's voice in the Executive Board but also its financial

responsibilities vis-à-vis the Fund, the core criterion for quota determination should remain the relative economic strength. I am convinced that we will come to a fair and feasible solution that respects the interests of all members.

Thank you for your attention.