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Statement by the Hon. **PEER STEINBRÜCK**,
Alternate Governor of the Fund for **GERMANY**,
at the Joint Annual Discussion

**Statement by the Hon. Peer Steinbrück,
Alternate Governor of the Fund for Germany,
at the Joint Annual Discussion**

IMF/World Bank Annual Meetings 2006 in Singapore
Speech at the Annual Meetings
19 September 2006

Peer Steinbrück
Federal Minister of Finance
Alternate Governor of the IMF for Germany

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

I

First of all, I would like to thank the authorities of Singapore for their outstanding hospitality and excellent organisation of these annual meetings.

II

I welcome the continued strong, broad based global expansion. I am confident that global growth remains on track. I am aware, however, that risks to the forecast are clearly tilted to the downside. The US economy continues to look healthy, even with the possibility of a moderate cooling of economic activity further down the road. The broad upswing in Japan is solidly rooted. In Europe, prospects for domestic demand continue to strengthen. In Germany, GDP growth is accelerating considerably and a number of important reform projects are taking shape. I see some upside potential to the outlook in emerging market economies, notably China. Together, this points towards more balanced global growth this year. This in turn would support the orderly adjustment of global imbalances.

Nevertheless, the risk of a disorderly unwinding of these imbalances cannot be ruled out. Measures for an orderly adjustment include: budget consolidation and higher national savings in the US, more exchange rate flexibility and a boost in domestic demand in Asia, a continuation of the reform process in Japan and Europe, and increased investment spending in oil producing countries in line with their absorptive capacity and cyclical position.

Let me add: All countries including those in East Asia should allow sufficient exchange rate flexibility. Otherwise, countries and regions with market determined exchange rates will have to bear an unduly large share of the adjustment burden.

The impact of higher energy prices on growth and inflation is still muted. However, further supply disruptions could prove more serious. Therefore, we are well advised to pursue joint efforts to foster energy efficiency and to promote clean and sustainable energy technologies, in particular renewable energy, not only in industrial but also in developing countries. Stable access to affordable, clean and sustainable energy, although not mentioned in the Millennium Development Declaration, is an essential element in enabling sustainable economic and social development. In this respect, I appreciate the World Bank's

efforts to help oil-importing developing countries adjust to rising energy prices and to help oil exporting countries to manage windfall profits in a way which guarantees sustainable development.

III

I share the widespread disappointment about the suspension of the Doha negotiations. I am convinced that trade liberalisation on a non-discriminatory basis remains the best way to stimulate global growth and to alleviate poverty. Therefore, I sincerely hope that an agreement can be reached in the foreseeable future. I urge all member countries to step up efforts to reinvigorate the process of multilateral trade liberalisation. This would help to mitigate risks of trade disputes and to forestall a renewal of protectionist trends. After all, the proliferation of bilateral trade agreements is only a second best solution.

Developing countries are amongst those for whom most is at stake in the negotiations. We need to stick to our commitment and conclude a *Development Round*, as foreseen in the Doha Ministerial Declaration. I acknowledge the importance of Aid for Trade as essential in helping many developing countries benefit from trade. Our commitment to technical co-operation in the area of Aid for Trade is not linked to the pursuit of the negotiations. The World Bank and the Fund should continue to strengthen their support for member countries with adjustment needs arising from trade liberalisation. This support should be granted within their respective mandates and core areas of expertise, i.e. the Fund should concentrate its assistance on trade-related macroeconomic and financial sector issues, whereas the Bank should focus on structural adjustment needs.

IV

I welcome the steps already taken by the IMF's Managing Director in the context of the Fund's Medium-Term Strategic Review and the intensive debate on important issues. With regard to the IMF's quota reform I am pleased about the adoption of the Board of Governors' resolution.

A fair and adequate representation of all members reflecting their relative position in the global economy is indispensable to the Fund's legitimacy. The Board of Governors' resolution is an important step to achieve these goals, including an initial limited round of ad hoc quota increases for the clearly under-represented countries, namely China, Korea, Mexico and Turkey.

Germany is also ready to work constructively towards reaching an agreement on a new quota formula as part of the second stage. The new quota formula should be as simple and transparent as possible. It should be based on verifiable and

clear economic criteria to reflect the relative economic position of each member country in the world economy. In this respect, GDP and openness (both in trade and in financial terms) should play an important role in the new formula.

Once a new quota formula has been agreed, additional ad hoc increases should be based on that formula in order to adjust the quota shares of the most under-represented members, including under-represented EU countries. It is important that the principles of equal treatment and fair burden sharing amongst all IMF members are strictly applied in the second stage. The extent and the pace according to which the new quota formula will be used to adjust quota shares should be guided by the Fund's liquidity situation. A demonstrated need for additional Fund liquidity is an essential precondition for any general increase in quotas.

While a fair and adequate representation of all members is unquestionable, adjustment of quota shares should be linked to more financial commitments accordingly. In particular, this would mean higher contributions for instance to the PRGF Trust Fund and IDA.

With a view to enhancing the voice and representation of low-income countries, Germany is ready to support an increase in basic votes in the context of a global agreement. A mechanism for safeguarding the share of basic votes might also help to enhance IMF legitimacy and relevance.

I support the Managing Director's objective to complete the second stage by the Annual Meetings 2008.

V

Beside the IMF's reform of representation and voice the Fund and the Bank need to adapt to other challenges, such as global imbalances with a growing accumulation of reserves in many countries, unprecedented global capital mobility and a fall in income from lending operations.

I agree with many of Rodrigo de Rato's proposals in this respect, notably to focus the Fund more on its core mandate, to streamline activities and to improve the division of labour with the World Bank. In particular, the Fund should continue to advise and support its members in strengthening their economic resilience and in becoming more attractive for stable private capital inflows. This should increasingly allow members to overcome times of economic stress without Fund financial assistance.

I agree with the Managing Director that it is particularly important to give IMF surveillance a stronger emphasis on issues of global relevance and international spillovers. In this regard, I welcome the multilateral consultations on global imbalances and the exploration of their potentials. Moreover, a review of the 1977 Surveillance Decision can help to ensure that surveillance continues to meet the challenges of today's international monetary system. Subject to further work on the issues involved in setting a remit, I support the aim of a remit to clarify medium term objectives and operational priorities of surveillance.

I welcome the ongoing work of the Fund on crisis prevention, including precautionary arrangements and country insurance. While welcoming the Fund's proposal for a Reserve Augmentation Line as a first concrete proposal, I see a need for further work on the unresolved key issues in the design of a potential new liquidity instrument for market access countries. Any new financing instrument will have to be thoroughly checked against indispensable features of the Fund's systemically desirable support mechanism, including conditionality, uniformity of treatment, existing Fund instruments and the revolving nature of Fund credit.

I also welcome the Bank's new strategy in IBRD countries. The Bank has to be more responsive to the needs of Middle Income Countries with a view to helping them reach the Millennium Development Goals, fight poverty and provide regional and global public goods. The Bank is a global institution and will only be able to fulfil its role as a knowledge bank and a transmission belt for development experience if it is able to cater to all eligible countries across the spectrum of income levels.

Since the IMF's and World Bank's role in monitoring debt sustainability is crucial, I look forward to the review of the present debt sustainability framework. Ensuring debt sustainability in countries that have benefited from comprehensive debt relief is of utmost importance; the re-accumulation of unsustainable debt should be prevented. In this regard, the debt sustainability framework should be refined, widely accepted, forward-looking, and it should seriously deal with non-concessional borrowing. In particular, the framework should incorporate measures to prevent inappropriate lending by free riders. These measures must reinforce reporting obligations for debtors and address both borrower and creditor sanctions. The Bank and the Fund should continue to provide technical support for countries to develop their debt management capacities.

Thank you for your attention.