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

**Statement by the Hon. Axel A. Weber,
Governor of the Fund for Germany,
at the Joint Annual Discussion**

Mr Chairman,
Governors,
Mr Zoellick,
Mr Strauss-Kahn,
Ladies and gentlemen,

I

First of all, I would like to thank the Turkish government and the authorities of this beautiful city for their outstanding hospitality and excellent organisation of these Annual Meetings. I would also like to extend special greetings to the newest member country of the IMF, Kosovo.

II

The Annual Meetings take place amidst increasing signs that the world economy is recovering. This achievement, coming on the heels of the sharpest recession in the post-war era, owes much to the resolute and wide-ranging support measures taken by decision makers around the world. However, the challenge of building a sounder and more resilient global economy remains daunting:

First, we are only seeing green shoots of recovery, and considerable downside risks remain. Until the upturn becomes self-sustaining, it will need support from the policy stimulus currently in place. Second, the extraordinary policy measures are leaving behind a vast legacy. If the world economy of the future is to enjoy macroeconomic stability and sustainable public finances, these policy measures must be unwound in due time. This is no easy task and requires exit strategies that are credible and well-coordinated, as well as being attuned to country-specific circumstances. Third, the financial excesses that led to the crisis must not re-occur. We therefore need to bring the ongoing work to repair the financial sector and build a robust regulatory framework to a successful conclusion. Finally, prudent macroeconomic policies, entitlement reforms and growth-enhancing structural reforms are the best way to guarantee robust and sustainable global growth in the post-crisis era. In addition, this calls for greater exchange rate flexibility in some emerging market economies.

The results of the recent G-20 summit are encouraging. At the meeting, members signalled their strong will to make headway on all four fronts mentioned above, including, in particular, the ongoing close cooperation in financial regulatory reform.

III

Developments since we last met underscore the importance of effective crisis prevention. In this context, the IMF takes on a key role. Much has been done in recent years to improve Fund surveillance. Germany welcomes the ongoing efforts to take this work forward, including in the area of financial sector surveillance. More generally, Fund surveillance should support a constructive process of peer review, both within the IMF and other forums such as the G-20. To do so, the Fund should continue to provide high-quality, candid, and even-handed analysis, while staying true to its role as trusted advisor.

As regards IMF lending, the Fund's increasing buffers of resources should not tempt this institution to look for business beyond its genuine monetary mandate, which sets it apart from all other IFIs. The IMF is financed by the currency reserves of its members. Its mandate stipulates that its lending activities are directed to the provision of balance of payments support. Hence, proposals to extend the Fund's lending activities to include direct budget support raises questions whether it is in line with the Fund's mandate and whether member countries could, in this case, still treat Fund resources as currency reserves.

Furthermore, we are not convinced that the IMF should assume a general insurance function for public sector liabilities. This would risk setting the wrong incentives both for borrowers and investors.

Taking a longer-term view, moral hazard issues also arise from the vast increase in Fund resources that is currently taking place. This increase should be viewed as a temporary measure, taken in response to extraordinary developments in the world economy. Hence, just as a sustained economic recovery will call for an unwinding of exceptional policy support, so the Fund should eventually prepare the "exit" from its exceptional resources. By the same token, the liquidity created by the recent generous SDR allocations should be re-examined once the global financial system has recovered fully.

A fair representation of all members is crucial for the legitimacy of the Fund. We therefore call upon those members that have not already done so to expeditiously ratify the 2008 quota and voice reform. Going forward, Germany will work constructively to conclude the next quota review by January 2011. The quota review should be based on the equal treatment of all members, and the necessary close link between financial contributions and representation in the IMF needs to be maintained. Furthermore, the review should be based on the current quota formula, as agreed by the G-20. Quotas and Board representation should continue to reflect the relative economic weight of a country in the global economy. Under the current quota formula, dynamic economies—In particular emerging market and developing countries—have experienced a marked increase in their calculated quota share according to recent data updates. As for the size of the quota increase, this should be determined by the long-term liquidity needs of the IMF, while allowing for a meaningful increase for underrepresented countries.

As regards the decision-making structure of the Fund, we would welcome appropriate steps to streamline the format and procedures of the IMFC, while maintaining transparency about IMFC deliberations. Any reform must ensure that the IMF Executive Board remains fully involved, on a daily basis, in all strategic and operational decision making.

IV

Turning now to the World Bank, we stress the importance of enhancing the voice and participation of emerging and developing countries through a dynamic shareholder formula based on objective criteria to be developed by spring 2010. A selective capital increase would be an appropriate way to ensure that under-represented countries are adequately represented. It would also help strengthen the World Bank's capital.

Another important question is how to finance the crisis-related increase in lending by the World Bank since fall 2008. Here, we urge the World Bank Group to make full and prudent use of its balance sheet and to consider additional measures, including a review of possible further interest rate adjustments. Moreover, the World Bank Group's shareholders should reaffirm their commitment to ensure that the Group remains appropriately funded. Finally, we support the ongoing analyses of the need for a general capital increase to strengthen the Bank's role beyond the present crisis.

Looking ahead, we agree that reducing poverty must remain central to the World Bank Group's mission. In addition, the World Bank should also deal with new global challenges, such as climate change, in cooperation with other multilateral development banks and institutions. In particular, the Bank should contribute to financing the transition to a green economy through investment in sustainable clean energy generation and use, energy efficiency, and climate resilience. The recent establishment of the Climate Investment Fund is a noteworthy step in this direction; Germany has committed about US\$ 900 million to this Fund.

Finally, one comment on the joint IMF-World Bank Debt Sustainability Framework. We should avoid interpreting debt sustainability overly generously—and thereby setting off a new wave of borrowing. The greater financing needs of LICs with low debt management capacity and high debt distress risks can only be met through additional grants and concessional finance. The hard-won debt sustainability must be preserved, as this sustainability is a necessary precondition for a country's healthy and sustainable development. While further refinements of the DSF are welcomed, it is also very important to preserve its integrity.