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Statement by the Hon. **JENS WEIDMANN,**
Governor of the Fund for **GERMANY**

Statement by the Hon. Jens Weidmann,
Governor of the Fund for Germany

Mr. Chairman,
Governors,
Ms. Lagarde,
Mr. Zoellick,
Ladies and Gentlemen

I

First of all, I would like to thank the authorities for their outstanding hospitality and excellent organization of these Annual Meetings. Unlike the last two years no new member has joined the Fund since our previous Annual Meetings. However, as the membership process for South Sudan has already been started, we are looking forward to welcome this young country as a new IMF member in the near future.

II

The Annual Meetings take place amidst signs that the recovery of the world economy is ongoing, albeit at a somewhat slower pace and against the background of significant risks. Solid growth in important emerging market economies has been a key driver of global activity, while expansionary fiscal and monetary policies in advanced economies have supported economic activities. However, downside risks for the world economy have increased for a wide spectrum of countries and pose challenges for policy makers at the national level, but also in international cooperation. When looking for ways to address these challenges due regard should be given to the underlying weaknesses, especially in the financial sector and public finances, as well as the limits of the yet quite stretched fiscal and monetary policies under current circumstances. Confidence and trust in the ability of policy makers to deliver proper solutions has become a key factor for the effectiveness of policy measures. This requires the pursuit of a clear and medium-term strategy based on sound principles as well as a demonstrated ability to deliver on commitments. Credibility also hinges on respecting the mandates and the division of responsibilities of the various players in the national and international policy area.

The German economic recovery has slowed down in the second quarter 2011 after a strong start in the first quarter. This slowdown was expected and largely due to temporary factors. The perspectives for the German economy remain intact. However, there are major challenges to economic policy, such as achieving the constitutional goal of a balanced budget as early as 2016. Against this background, suggestions for additional fiscal stimuli and postponing budget consolidation might not strengthen confidence. What is rather needed are deficit neutral structural reforms to enhance growth potentials. We should remember that Germany has to remain an anchor of fiscal stability in EMU.

III

Developments since the last Annual Meetings and the still ongoing economic and financial crisis and the efforts to overcome this crisis remind us on a daily basis of the overwhelming importance of crisis prevention. Here, the IMF as the principal institution of global economic governance has to play a major role. Surveillance in its various forms remains the primary tool for the IMF to fulfill its important crisis-prevention function and thus should be top priority at the Fund. Efforts underway to strengthen the tools and effectiveness of bilateral and multilateral surveillance are therefore very welcome and Germany supports these initiatives. However, it will be critical that efforts to strengthen the multilateral dimension of surveillance are not pursued at the expense of bilateral surveillance. Since stability begins at home, Germany strongly cautions against a view that for the pursuit of global stability it might be necessary to ask for compromises with respect to domestic stability. National authorities are – and should remain to be held – responsible for the economic and financial stability in their respective countries. Germany sees domestic stability as a necessary condition for international stability and thus fully supports efforts to strengthen bilateral surveillance, e.g. by enhancing the analytical capacities of the Fund and thus the traction of its recommendations.

IV

The financial crisis has also brought to the fore the discussion about instruments for financial support to distressed countries. The Fund's mandate and institutional setup gives a clear orientation for what the Fund can and should do in this respect. Many countries have benefited in the past of the Fund's programs, which provide liquidity support against conditionality in order to allow for an orderly adjustment process to repair the temporary economic difficulties. External financial assistance can only buy time for necessary domestic adjustments, but can never replace them. More recently introduced and modified facilities like the FCL and PCL which provide a kind of liquidity insurance for countries that pre-qualify on the basis of sound fundamentals and policies were only rarely requested. Germany welcomes a thorough review of those instruments in order to evaluate their effectiveness and the justification of the Fund's commitment of extraordinary large scale financing. This review is a precondition before considering to expanding the Fund's financing role towards short-term liquidity provision even further. Germany does not support any unconditional financial support since such a move would not only bear the risk of setting inappropriate incentives and increasing moral hazard but would also risk to overstretching the Fund's financial possibilities and mandate.

V

Germany continues to be a reliable partner for the Fund in providing necessary financial resources, as demonstrated through her participation in the NAB and her provision of a bilateral loan, in order to ensure that the Fund has sufficient resources available to fulfill its mandate according to the Articles of Agreement. Germany has started the necessary legislative process to ratify the seventh amendment of the Articles of Agreement and prepares in this context her consent to the sizeable quota increase under the 14th General Review of quotas, which will be completed in spring 2012. Germany supports the view that the Fund should remain a quota based institution.

VI

A fair representation of all members is crucial for the legitimacy of the Fund. In our view the 2008 quota and voice reform as well as the quota adjustments under the 14th General Review of Quotas have achieved a fair balance of the quota and voting shares of the various member countries in the IMF.

VII

Largely due to strong pre-crisis macroeconomic policy buffers, LICs were more resilient during the global crisis than in the past and have been recovering well. However, many LICs remain vulnerable. Against this background, the IMF should continue to provide policy support and financing, in close cooperation with the World Bank. 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 help LICs – if used in a responsible manner – to overcome their protracted balance of payments problems within a reasonable timeframe.