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On behalf of Germany

Statement by Mr. Peer Steinbrück
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to the International Monetary and Financial Committee
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I. Global Economy and Financial Markets

There are now strong indications that the global economy is recovering. The decisive and wide-ranging measures undertaken in many countries as well as a strong performance in Asia were important factors for the rebound in global economic activity. However, there remain important economic and financial challenges and the degree of uncertainty is still high. After confidence in financial markets has been restored, we should return to market principles backed by transparency. Furthermore, it is vital that we develop exit strategies that are consistent across policy fields and that we coordinate the principles of our strategies internationally to avoid negative spill-overs and to strengthen sustainability and fair competition. Further restoring confidence in the markets and designing appropriate exit strategies will be among the key challenges ahead.

In the EU, macroeconomic conditions seem to stabilize. Household and business confidence are rising gradually, although from very low levels. Subdued economic activity is expected in 2009 as a whole, reflecting the global confidence shock, triggered by the escalation of the financial turmoil, and the housing correction in several EU countries. Quarterly GDP growth may turn positive in the second half of 2009. We expect moderate positive growth rates throughout 2010 in Europe. Inflationary pressures have moderated significantly in EU Member States, mostly reflecting a marked decline in energy and other commodity prices and the strong contraction of global demand. In the near future, moderately increasing consumer prices are to be expected.

Japan has been hit particularly hard by the effects of the crisis. GDP is forecast to contract considerably in 2009 but to return to positive growth in 2010. The US economy is hit most directly by the financial crisis and the economy has weakened significantly. Following tighter credit conditions and a weaker labour market, there has been a marked decline in private consumption, which is a main driver of growth. The economy is expected to contract in 2009 before returning to modest growth rate in 2010.

Global imbalances decreased but still pose a risk for global macroeconomic and financial stability. Economic policy should continue to address them in a manner compatible with sustained economic growth. This includes fiscal consolidation in the US in the medium term as well as structural reforms in Europe and Japan, measures to increase domestic absorption in energy exporting countries and increased consumption and exchange rate flexibility in Asia. The "Framework for Strong, Sustainable and Balanced Growth" as agreed at the G20 Summit in Pittsburgh provides guidance for the reduction of global imbalances.

Germany

After four quarters of decline German GDP grew slightly in Q2 (s.a. +0.3 %). Positive growth impulses came mainly from private consumption and construction investment - supported by various fiscal measures – and net exports. However, real GDP was still about 6 % down on the year in calendar-adjusted terms which illustrates the sharp decline of economic activity. As a result, the output remains at a very low level. Recent economic data signal that economic recovery has continued in the 3rd quarter. Various leading economic indicators, such as industrial orders and confidence measures, are showing a rebound, albeit from a very low level.

The consequences of the recession are clearly apparent on the labour market. However the decrease in employment and increase in unemployment must still be considered moderate on the whole, bearing in mind how far the economy has plummeted. Up to now, the large-scale expansion of short-time work and flexible work time arrangements which are wide-spread in German manufacturing have dampened the effects of economic weakness on employment. Given that the economy is tending towards recovery, these mechanisms may successfully perform their intended bridging function. Still, unemployment is expected to creep up.

In accordance with the EU coordinated crisis response, fiscal measures in Germany have been boosted to mitigate the negative effects of the financial and economic crisis. As a consequence, the fiscal position has worsened considerably, after reaching a balanced budget in 2008. When the recovery has established a firm footing, determined measures will be necessary to reduce the deficits in a binding manner. In Germany, the new constitutional budget rule with fixed structural deficit limits which is in line with the Stability and Growth Pact will constitute the appropriate framework of our exit strategy in order to return to the path of sustainable fiscal policy.

Financial Markets

As the world economy is in a deep recession, the financial system remains under stress with considerable downside risks. The IMF membership therefore has to continue its efforts to create a sound global framework for financial markets. The focus should be on the implementation of the Washington Action Plan and decisions made at the summits in London and Pittsburgh on a timely and coordinated basis. In this context the IMF membership needs to establish the necessary legislation to ensure that all financial products, institutions and markets are appropriately regulated and subject to oversight. We welcome that the IMF and the FSB have conducted their first Early Warning Exercise; it is important that they continue to strengthen their cooperation where necessary.

Non-cooperative jurisdictions

There is a need to restore the confidence of retail clients in the financial industry, through measures that enhance their ability to take efficient decisions and that ensure a high degree of protection. Further work should be pursued on non-transparent and non-cooperative jurisdictions, including off-shore centres, in order to improve their standards, to enhance their effective compliance with prudential regulatory and supervisory standards, to fight money laundering and terrorist financing and to ensure effective implementation and application of the standards on exchange of information for tax purposes. To bring these jurisdictions towards full adherence to internationally agreed standards, we should commit to take sanctions against those that do not implement them fully and efficiently. In particular, sanctions against jurisdictions that have not yet substantially implemented the agreed international tax standards should be taken from March 2010.

II. IMF Policies

Surveillance and early warning exercise

Surveillance remains the core business of the Fund despite the temporary crisis-related expansion of IMF lending. It is the primary tool for the IMF to fulfill its important crisis prevention function. We welcome the steps taken to enhance the assessment of spillovers between the real and financial sectors and to strengthen the analysis of cross-border linkages and macro-prudential issues. Better integration of refined Financial Sector Assessment Programs (FSAPs) into Article IV consultations will be helpful in this regard. Article IV consultations would, in particular, be a valuable monitoring tool with regard to the implementation of FSAP recommendations. Moreover, we welcome the close and strengthened collaboration between the Fund and the Financial Stability Board. We agree that the Fund's surveillance mandate should better acknowledge macro-financial stability, which can easily be accommodated under its existing mandate. Efforts to enhance the peer review process within the IMF in the context of surveillance are welcome, but must acknowledge the cooperative character of the Fund.

Quota review and governance reform

IMF reform should include quotas, voice, mandate and governance issues. It should follow the following principles: First, all elements of reforms have to be dealt with together and in the same time-frame. Second, the reform should be based on objective economic and financial criteria, consistent with the IMF's core mandate, and not on political criteria. Third, equal treatment must be afforded to all IMF members. Fourth, the IMF should remain a quota-based institution. Fifth, the reform process should be fully anchored within the relevant IMF bodies, and should engage all members of the IMF.

A fair representation of all countries is crucial for the legitimacy of the Fund. To this end, we ask other countries to urgently implement the 2008 quota and voice reform, too. Going beyond, we will work constructively to conclude the next quota review by January 2011. The overall aim should be to better align members' actual quotas with their calculated quotas. Against this background we welcome the decisions of the G20 in Pittsburgh. We share the expectation that this review will lead to a shift in quota share to dynamic emerging markets and developing countries of at least five percent from over-represented to under-represented countries based on the current quota formula. Voting rights and representation in the IMF should continue to be commensurate with financial obligations and should be based on quotas. We are committed to protecting the voting share of the poorest in the IMF. Recent data updates show that the formula adequately reflects changes in the world economy as calculated quota shares of dynamic countries – in particular emerging market and developing countries – increase markedly. The size of the quota increase should be determined by the long-term liquidity needs of the IMF. Furthermore, it should be sufficiently large to help restoring the IMF as a quota-based institution.

While reforms to enhance the effectiveness of the Executive Board are important, we believe that the current size of the Executive Board reasonably strikes the right balance between inclusiveness/legitimacy and an effective functioning of the Fund. Lowering the number of chairs from 24 to 20 would be unlikely to yield efficiency gains, while reducing notably the variety of views of the Fund's member.

While the current decision making structure of the Fund may benefit from some careful adjustments, the overall division of labour between the Executive Board, the IMF management and the IMFC appears to have served the Fund well in the past. Any reform must ensure that the IMF Executive Board remains fully involved in all strategic and operational decision making within the Fund, including surveillance and lending. At the same time, consideration should be given to greater involvement of the Governors in providing strategic direction to the Fund and increasing its accountability. We welcome a streamlining of the IMFC and deem it important that its structure and procedures are transparent and efficient in the future. As an alternative, we are prepared to consider the possibility of creating a Ministerial Council.

We support a review of the IMF's mandate in order to clarify the IMF's role in preventing and responding to global financial and economic crisis, including its role in a better oversight of the capital account and in promoting global financial stability.

As part of a comprehensive reform package, we agree that the heads and senior leadership of all international institutions should be appointed through an open, transparent and merit-based process. We call on the IMF and the World Bank to come forward with concrete proposals in this respect. A balanced distribution of IMF staff is desirable, in terms of geographical origin as well as professional background.

We are ready to consider in more detail lowering the thresholds required for special voting majorities to reduce the possibilities of blocking minorities. Double-majority voting on some of IMF policy/regulatory issues also deserves further study, provided it does not undermine the IMF's decision-making capacity.

IMF resources

Over the last months, global efforts to increase the temporary resources available to the IMF, as outlined by the G 20 in April, are moving forward successfully. All IMF members with sufficiently strong reserve positions are invited to contribute to an enlarged NAB. In particular, G 20 countries are encouraged to adhere to their commitments at the London G20 summit. For Germany, the Deutsche Bundesbank signed a bilateral borrowing agreement with the Fund amounting to Euro 15 billion. This temporary credit line to the Fund is part of the Euro 125 billion contribution committed by EU-member states. We intend to transfer our bilateral loan into the enlarged NAB as soon as an agreement of NAB-modalities has been reached.

As NAB lending is exclusively meant to be a backstop to quota resources - when quota resources are insufficient to meet a concrete demand - it should not be seen as or become part of the Fund’s regular resources. A review clause in a new NAB agreement should ensure an assessment of the quota increase and of IMF resources actually needed.

In a longer-term perspective, IMF resources should also be assessed against moral hazard problems. Taking into account the close link between mandate and financing needs, IMF resources should be kept under close review. Since the gradual unwinding of the global crisis provides room for maneuver for withdrawing expansive policy impulses, the IMF too should consider exit strategies from its extraordinary measures in a timely fashion.

IMF Financial Support

The currently large buffers of resources, financed by member countries’ currency reserves, should not invite the Fund to look for business beyond its genuine monetary mandate - unique among IFIs - providing balance of payments support. In particular, we have strong reservations against any modification of the mandate that would allow Fund resources be used for direct financing of budget deficits. This would not only constitute a monetary financing of public spending, which is not allowed in the EU for good reasons, but also raises the question as to whether, in this case, Fund resources could still be treated as currency reserves by IMF members. Potentially needed budget support is a genuine task of the Multilateral Development Banks which are financed out of savings and not central bank reserves. Moreover, we are not convinced that the Fund should assume a general insurance function for public sector liabilities because this would risk setting the wrong incentives both for borrowers and investors. This would also require differentiating between country specific risks which is not compatible with founding principles of the IMF. Over time, we will rather need “exit strategies” from public sector financial support, when market forces are recovering and the impact of the financial crisis is fading.

SDR allocations

With the general allocation of Special Drawing Rights (SDR) and the one-time allocation, together roughly US$ 283 billion, global liquidity increased. Germany stands ready for a voluntary SDR trading arrangement with the Fund provided that other major countries adequately share the burden of SDR absorption. In the course of the economic recovery a thorough review should help to design an exit strategy from the crisis situation in order to avoid inflationary effects in the longer term. In its regular reviews, the IMF should consider whether a (partial) cancellation of the allocated SDRs would be warranted. As SDRs provide unconditional liquidity support to augment reserves, they are assets to hold and not to spend. Thus, using SDRs for development purposes is problematic. We would advise to consider at least a reconstitution requirement in an upcoming review.