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Statement by Mr. Peer Steinbrück
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On behalf of Germany

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Minister of Finance of The Federal Republic of Germany
to the International Monetary and Financial Committee
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I. Global Economy and Financial Markets

Global Economy – Global growth moderated towards the end of last year in response to entrenched and more protracted turmoil in financial markets and the downturn of the US economy. Events in financial markets have caused a re-pricing of credit risk and a retrenchment from risky assets that, combined with increased complexity and illiquidity, have led to disruptions in core funding markets. This has prompted extraordinary liquidity injections by central banks. The adjustment process will take time and near-term global prospects have deteriorated. Downside risks persist in view of the ongoing weakness in US residential housing markets, stressed global financial market conditions, continued high oil and commodity prices, and consequent inflation pressure. In the EU, GDP growth in 2007 contributed to strong job creation on the back of economic reform and sound economic fundamentals, but the last quarter of the year saw a deceleration of economic activity. Going forward, a reduced growth momentum is expected in 2008 on average, reflecting in part the weakening of global growth and also some dampening of domestic demand. However, the balanced external position and comparatively low public deficits have placed the EU in a relatively good position to weather the global headwinds. The Japanese economy remained resilient to the global slowdown through the end of last year but entering 2008 the growth momentum appears to have slowed with deteriorating business and consumer confidence and export growth showing signs of moderation. While the full impact of financial market turbulences on the US economy remains to be seen, indicators for early 2008 suggest that the economy is now operating close to recession. From a global imbalances perspective, signs of stronger export growth and some slowdown in consumption have contributed to some easing. Despite these developments, global imbalances remain an important challenge. Economic policy should continue to address global imbalances in a manner compatible with sustained economic growth. This includes longer term fiscal consolidation in the US as well as structural reforms in Europe and Japan, measures to increase domestic absorption in oil exporting countries and increased consumption and exchange rate flexibility in Asia. High and volatile oil prices remain a concern. Well-functioning markets with sound and reliable regulatory and tax frameworks will help bring forth the considerable investment in production and refinery capacity that is needed, while energy prices that properly reflect underlying costs are important to ensuring that consumers have the right incentives to conserve energy.

Germany – The German economy continued to experience a strong upswing in the last year. Foreign trade impulses and a vigorous domestic economy put the upswing on a broad foundation. Leading indicators and the economic fundamentals suggest that the underlying cyclical momentum continues to remain intact, although risks emanating from a weaker world economy and strong increase of the oil prices have increased. In view of high capacity utilization and high volume of orders, investment activity will remain strong. The economic upswing has been accompanied by a strong revival in the job market, which is reflected in an increase in employment as a whole and a marked decline in unemployment. Together with higher income this should stimulate private consumption. The positive economic development goes hand in hand with a stronger fiscal position and this has helped us to achieve a balanced budget in 2007 for the first time since unification. We will continue our successful strategy of structural consolidation combined with policies to improve the conditions for growth and employment. In 2008, this includes a lowering of unemployment benefit contributions to stimulate employment and a corporate tax reform that reduces the tax burden on enterprises, thus improving further the conditions to make business and invest in Germany. We are designing a reform of national fiscal rules laid down in our constitution that would help us sustain the consolidation success achieved so far.

Emerging Market Economies – –Emerging market economies are forecast to continue robust, if slower, growth. Today, most emerging market economies are far less susceptible to crisis situations than was the case ten years ago, due in large to sound policies. In many emerging market economies, increasing foreign exchange reserves build a buffer against developments in international financial markets. At the same time, strong foreign exchange inflows can also complicate policymaking, especially in countries with fixed exchange rates. We support China in further pursuing the modernization of its social security systems and its financial sector, and in continuing to move towards greater exchange rate flexibility, thereby making a necessary contribution to the adjustment of global imbalances. This will also help China to contain overheating in its economy. We encourage Middle Eastern countries to make use of their higher oil revenues for productive investment in the oil and non-oil sectors in order to secure high growth rates and provide more employment opportunities for their growing working-age population. With respect to outward investment of emerging markets, we look forward to the outcome of the work under way at the Fund to identify best practices for sovereign wealth funds (SWFs) in such areas as institutional structure, risk management, transparency and accountability. We also encourage the OECD to build on its important work by identifying investment policy best practices for countries that receive cross-border investment from SWFs.

II. Implementation of the IMF's Medium-Term Strategy

Quota and Voice Reform

Germany welcomes the proposed Resolution of the Board of Governors on the Reform of Quota and Voice in the IMF. The reform is a crucial step to enhance the credibility and legitimacy of the IMF. Therefore we support the Resolution and encourage others to do so as well. The proposed reform package strikes a careful balance between the differing views and priorities of IMF members. Consequently, the content of the reform is a compromise that required flexibility from all sides.

As called for in the Singapore Resolution, the reform better aligns the representation of Fund members with their relative weight in the global economy. Furthermore, the reform will result in a meaningful shift of quota and voting shares to dynamic emerging market countries. For low-income countries, the tripling of basic votes and the introduction of a mechanism that maintains the share of basic votes in total voting power ensures that their voice is preserved. Germany contributed to the success of the reform also in terms of the shift of voting shares, including through voluntary foregoing of quota shares.

Income Position and Budget

We welcome the strategy for refocusing and restructuring the IMF presented by the Managing Director. We support the key elements of the new income model and endorse the proposed amendment of the Articles of Agreement to expand the investment authority for currencies held in the Investment Account and the Special Disbursement Account. We support a sale of IMF gold, that should be strictly limited to the post-Second Amendment gold, and the investment of the profits in an endowment.

Progress on Other Elements of the Medium-Term Strategy

Surveillance is the most important task of the Fund and we agree with the Managing Director that renewing the foundations of bilateral surveillance and strengthening its implementation is a key objective of the Fund. We also support the proposal to strengthen cross-country analysis and the analysis of linkages between international developments and national policies. At the same time, bilateral and regional surveillance should be more focused. There is also room for streamlining current surveillance practices, for example by moving to a single annual Board review of the Euro area.

Furthermore, we support the Managing Director's initiative to increasingly focus the Fund's surveillance activities on the linkages between the financial and the real sector.

Moreover, financial sector issues should be better integrated into the Fund's surveillance activities. Here, we call for a sharper focus of FSAPs regarding content, coverage and frequency, a better integration of FSAP findings into Article IV reports, and a strengthening of analytical tools to provide the intellectual framework for financial sector analysis. In this perspective, the collaboration with the FSF and other international financial bodies should be strengthened to enhance early warning capabilities on financial sector risks, building on their comparative advantages and their respective mandates and roles in the international financial landscape.

We appreciate that **emerging market economies** have shown unprecedented resilience in the face of the recent financial market turbulence. The Fund's role in emerging market economies should be guided by its core mandate, which includes candid surveillance, technical assistance and the provision of temporary conditional financial assistance in acute balance of payment difficulties. Any new financing instrument proposal has to be thoroughly checked against its consistency with the Fund's mandate, its financing mechanism and other existing Fund instruments, as well as principles of conditionality, uniformity of treatment and the revolving nature of Fund resources.

Role of the Fund in Low-Income Countries – The Fund plays an important role in low-income countries through surveillance, technical assistance and concessional lending. The IMF should enhance the effectiveness and efficiency of its work in low income countries by focusing on macroeconomic stability and sustainable growth that support the achievement of the Millennium Development Goals (MDGs). We welcome the IMF's ongoing role to support the implementation of the HIPC and MDR initiatives. We also urge commercial creditors to play their full part in providing debt relief under the HIPC initiative. To foster the effectiveness and efficiency of public financial management in low-income countries, we ask the Fund to actively support the implementation of the "G8 Action Plan for Good Financial Governance in Africa".

Building on our existing commitment on development and debt relief, we welcome the agreement on the financing of debt relief for Liberia.

III. Development Finance and Debt Sustainability

Development Finance – The Millennium Development Declaration remains the framework for our cooperative efforts contributing to poverty reduction and sustainable development. Last year, substantial commitments were made with a view to achieving the MDGs. Implementation issues are now coming to the fore. While increasing official development assistance and delivering it in a more effective manner is important, developing countries themselves bear primary responsibility for their development. There is broad consensus on what the key prerequisites in this respect are: sound policies that support private sector activity, good governance, strong institutions and the rule of law. The importance of mobilizing domestic resources and attracting private capital flows to increase investment is also widely recognized, as is the importance of further trade liberalization.

Debt Sustainability – As the implementation of the HIPC- and MDR-Initiatives progresses, maintaining debt sustainability in the long run remains an important challenge. Based on the assessment made under the Debt Sustainability Framework (DSF) of the World Bank and the IMF, the risk of renewed debt distress is an ongoing concern. We support the IMF and the World Bank in their work on the DSF to make debt sustainability analysis a widely-accepted means of guidance for borrowing and lending decisions. We welcome the agreement reached by the OECD Expert Group on Principles and Guidelines to promote Sustainable Lending Practices towards low-income countries. We reviewed actions to tackle aggressive litigation against HIPCs.