BOARDS OF GOVERNORS ● 2002 ANNUAL MEETINGS ● WASHINGTON, D.C.

INTERNATIONAL MONETARY FUND

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

J

Press Release No. 19

September 29, 2002

Statement by the Hon. **ERNST WELTEKE**,
Governor of the Fund for **GERMANY**,
at the Joint Annual Discussion

IWF/World Bank Annual Meetings 2002 in Washington D.C.

Speech at the Annual Meetings

29 September 2002

Ernst Welteke

President of the Deutsche Bundesbank

Governor of the IMF for Germany

Mr. Chairman,
Governors,
Mr Wolfensohn,
Mr Köhler,
Ladies and gentlemen

I

I am delighted that, following the exceptional circumstances last year, we are now able to hold the annual meetings in Washington again. Although the security situation has forced a shortening of the meetings this time as well, I am confident that we shall get back into the normal swing of things. In my view, it is extremely important that we have enough time to talk to each other so that we can find a joint solution to the problems at hand.

More than ever before, the IMF and the World Bank are institutions with a universal membership. I welcome the Governor of East Timor, the accession of whose country has increased the membership of both institutions to 184.

II

In its recent analyses, the IMF has been drawing a cautiously optimistic picture of the world economic situation. Even so, the risks have increased:

- there appears to be excess capacity and major pressure to adjust in important sectors, such as TMT;
- many structural issues are still unresolved – not only in the developing countries and in the emerging market economies but also in many industrial countries;
- dubious accounting practices in some areas have eroded confidence;
- there continue to be severe balance of payments disequilibria owing to inflationary tendencies in financial assets; this harbours the risk of abrupt adjustment processes;
- symptoms of crisis may still be observed in a number of emerging markets;
- added to which are geopolitical uncertainties;
- furthermore, sharp adjustments on the stock markets have dented the confidence of consumers and investors.

But we should not overlook positive aspects, either:

- for the world as a whole, growth in 2002 and 2003 is also pointing upwards;
- the slump in growth is likely to have bottomed out;
- adjustments on the stock markets seem to be well advanced;
- and price stability appears to be largely ensured.

We should take temporary weaknesses as warning signs and as an opportunity. We have to recognise the causes and remedy them. As we see it, the crucial factors are the following:

- Further work has to be done on consolidating government budgets so that we then have enough leeway to take countermeasures when times are bad.
- Monetary policy has to be medium and long-term in its orientation and geared as a priority to stable prices; in that way, volatile exchange rates will also be avoided.
- Furthermore, structural policy should not be determined by short-term expedience; it should look forward and promote new opportunities for growth.

III

Sound fundamentals are essential not only for the advanced economies but also for the emerging markets and developing countries. Financial crises do not occur by coincidence, but are due to a flawed economic policy. Affected countries should seek to reduce their vulnerability by taking corrective measures and by creating more prudent financial safety margins. Precautionary measures may be inconvenient and sometimes have some short-term costs. But financial crises are the clearly inferior alternative.

We therefore welcome the continuing work of the IMF on improving surveillance and crisis prevention. I think we have made progress in those areas during the past few years. Standards and codes have undoubtedly played a part in that and seem to be meeting with increasing acceptance. In my view, however, that on its own is not enough:

- In many countries, good governance could help to improve the economic situation.
- In other countries, more effective banking supervision could help to prevent financial crises.
- Greater transparency in yet other countries might contribute to improved economic policy.

IV

Crisis resolution is always a last resort. For that reason, we need a strategy in which crisis prevention is a key element.

From the German point of view, a credible access policy confined to the normal access limits is absolutely essential. Investors have to reorient themselves more strongly to the real risks and must not rely on assistance from the public sector. They have to be fully aware that, in the event of a financial crisis, they could also be directly affected themselves.

Even so, there may be exceptional circumstances under which exceptional access to IMF resources might be justified. Any decision on exceptions of this kind would have to be based on well-defined criteria, however, and should also entail special formal approval procedures within the IMF. The sustainability of the country's debt situation is a necessary precondition for both – access to Fund resources above normal limits and the restoration of access to private markets. In such cases of exceptional access particular consideration should also be given to the extent to which balance of payments problems could by their character or size threaten the stability of the international monetary system.

All things considered, it should be clear that no amount of precautionary measures can stop individual countries from still becoming insolvent and having to restructure their debt in the future. Germany therefore fully supports the current work being done on developing orderly rescheduling procedures. Reliable, orderly and rapid procedures are needed to create sustainable solutions and to provide opportunities for a new start.

V

In the ongoing general review of quotas, the right incentives have to be put in place.

A sharp increase at the present juncture would send out the wrong signals. The IMF possesses adequate liquidity. Providing the IMF with overabundant resources might give rise to the expectation of large-scale financing packages and thus run counter to our efforts to involve the private sector. Also, the quotas should remain the primary source of Fund liquidity and more closely reflect the member countries' relative position in the world economy.

VI

As far as the developing countries are concerned, we fully endorse the Monterrey proposals on the financing of international development objectives. That also goes for the Johannesburg resolutions on sustainable development.

In that light, we continue to support the implementation of the HIPC initiative. Those HIPC countries which have not been able to make use of the initiative thus far should put in place the conditions to do so. Also, as many creditors as possible should take part in the initiative.

Ultimately, poverty can be alleviated only by means of higher growth. The IMF can play a part in creating the macroeconomic conditions to make that possible. The World Bank should help to implement the necessary microeconomic reforms. And the industrial countries, as well as the developing countries themselves, should continue to reduce their import restrictions; by doing so, they would play a significant and effective part in aiding development.

Thank you very much.