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On behalf of Germany

Statement by Mr. Wolfgang Schäuble
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to the International Monetary and Financial Committee
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I. Global Economy and Financial Markets

The global economy has started to recover and a global growth rate of around 4% can be expected in 2010. The speed of the recovery differs across regions, however, with Asia currently being more dynamic than Europe and the US. The stimulus measures introduced during the crisis still seem to be playing an important role in fostering the recovery. There are still significant risks to the recovery, including rising public debt in many industrial countries as well as bank exposure to real estate.

Conditions in the financial markets have improved but remain fragile. Exit strategies are an important element in ensuring a sustainable upswing. While these exit strategies must leave enough room for country-specific circumstances, it is important that they are coordinated internationally to stabilize expectations and to avoid negative spill-over effects.

Global imbalances remain a challenge for global macroeconomic and financial stability. Therefore, it is important to make progress on the "Framework for Strong, Sustainable and Balanced Growth" as agreed at the G20 Summit in Pittsburgh so that it supports a constructive dialogue on tackling those imbalances and on strengthening the growth potential.

Germany

Even though economic activity was quite subdued at the start of the year, leading indicators suggest that the recovery of the German economy is intact.

Initially, the economic recovery will benefit from a gradual expansion of foreign demand. With the continued impetus from foreign trade, investment activity is likely to gather pace over the course of the year and thus enhancing domestic demand. In the construction sector the first half of 2010 should see an improvement in the overall order situation, but will also be marked by a shift in the timing of demand owing to an exceptionally harsh winter.

Fiscal measures taking effect at the start of the year will further reduce the strain on household disposable incomes and help to sustain consumer spending. At the same time, the still uncertain outlook on the labor market might promote precautionary savings on the part of households.

Over the past year, firms temporarily reduced weekly working hours via collective agreements. This helped mitigate the economic slump's impact on the labor market. Government support for short-time work also mitigated the rise in labor costs. This enabled a large number of businesses to avoid lay-offs. In spite of adverse weather conditions, seasonally-adjusted unemployment even showed a slight decline in the first quarter of 2010. And even though the costs of work force retention for companies, resulting in sharply rising unit labor costs, should lead to more adjustment in labor demand, an abrupt rise in unemployment is now unlikely to occur.

Against the background of increasing public deficits and debt, it is of high importance to reinforce confidence in the credibility and long-term sustainability of public finances. Once the German economy is on a self-supporting and stable growth path, fiscal consolidation has to begin. Therefore, consolidating the public budgets in accordance with a credible exit strategy will be the central task of fiscal policy from 2011 onwards. Germany continues to pursue its medium-term goal of a close-to-balance government budget in structural terms. The core element of the German exit strategy is the new deficit rule introduced in 2009. The rule is fully in line with the concept and obligations of the Stability and Growth Pact and will assist the return to sustainable public finances due to its constitutional status and strict enforcement.

Financial Markets

Germany will further strengthen its policies to prevent financial crises. The focus will be on implementing the G20 Washington Action Plan and the decisions made at the G20 summits in London and Pittsburgh on a timely and coordinated basis. 2010 and 2011 will be important years with crucial decisions to be made on future standards and policies. IMF members should support this process by bringing in the necessary legislation to ensure that the new global framework is implemented, in particular with regard to strengthening the capital and liquidity regime. This framework will serve to address systemically important financial institutions, to broaden the scope of oversight and regulation to include all financial products, institutions and markets, and to improve incentives. It will also be important to strengthen the framework for macro-prudential supervision. In this context, Germany welcomes the fact that the IMF and the FSB have conducted their third Early Warning Exercise.

One of the pressing challenges ahead is the development of tools to deal with systemically important financial institutions. The experience of the crisis has demonstrated the importance of a well-designed legal framework for effective bank resolution. The German government has just decided to implement such a framework, complemented by a levy in the shape of a “banking fee”. The fee will flow into a stability fund to finance the restructuring and resolution of systemically relevant banks in the future. The base of the levy will reflect the systemic risk a financial institution poses, thus helping to internalize some of the negative externalities embedded in its activities.

Non-cooperative jurisdictions

Germany welcomes and strongly supports the ongoing efforts to foster the implementation of international standards and to address non-transparent and non-cooperative jurisdictions, including off-shore centres. IMF members should work to ensure their effective compliance with the OECD standard on the exchange of tax information, with the FATF standards to fight money laundering and terrorist financing, and with prudential regulatory and supervisory standards, in particular on cooperation and information sharing. Jurisdictions that lack the capacity to implement these internationally agreed standards should be offered assistance. Where necessary, however, counter-measures should also be applied consistently vis-à-vis non-cooperative jurisdictions.

II. IMF Policies

Germany supports the ongoing discussions about the mandate and governance of the Fund. With regard to the mandate, further work and more fundamental analysis is needed on the status quo of the international monetary and financial system and the performance of Fund surveillance and lending instruments. In the current discussion of the enhanced financing role of the Fund, a thorough assessment of the pros and cons is needed. This assessment should take into account the ongoing international efforts aimed at better risk management in the private sector, better prudential regulation and supervision by the public sector, and adequate private sector involvement in crisis resolution to minimize moral hazard.

IMF reform – quota and governance

Germany supports a review of IMF quotas and governance to strengthen the Fund's legitimacy and effectiveness. All elements of the reform that are to be finalized by January 2011, including the review of quotas, should be dealt with together and in the same time-frame.

Fair representation of all countries, based on their economic weight in the global economy and equal treatment, is crucial for the legitimacy of the Fund. The overall aim should be to better align members' actual quotas with their calculated quotas. Accordingly, the 2008 quota and voice reform, which affords quota increases to under-represented and dynamic economies, should be ratified by all members as soon as possible.

Going forward, Germany supports a further increase in quota shares of under-represented dynamic emerging market and developing countries, while under-represented advanced economies should also benefit from the reform, ensuring that no over-represented country becomes under-represented as a result of an increase in quotas. The close link between financial contributions and representation in the IMF should be maintained. Germany is committed to protecting the voting share of the poorest in the IMF. The quota formula, adopted in 2008 thanks to the great willingness of all the parties to work together constructively, should not be reopened and should serve as the basis of the reform. Preliminary calculations – based on the formula show – that it is possible to generate a shift in quota share to dynamic emerging markets and developing countries of at least five percent from over-represented to under-represented countries, as envisaged in the last IMFC-Communiqué.

The size of the quota increase should be determined by the Fund's long-term ability to meet members' balance of payments financing needs. The increase should be sufficient to help restore the IMF as a quota-based institution, however, since we do not consider it appropriate to further increase the IMF's overall resources as the crisis subsides, a comprehensive review should be conducted with a view to reduce the NAB to ensure the appropriate balance between quota and borrowed resources.

Germany supports reforms to enhance the effectiveness of the Executive Board but sees no merit in decoupling representation on the Executive Board from quotas and members' financial contributions. Also, the discussion about strengthening the Board's effectiveness must not change the principle that the composition of the Board should reflect the economic weight of its members.

While the current decision-making structure of the Fund may benefit from some careful adjustments, the overall division of labor between the Executive Board, the IMF management and the IMFC appears to serve the Fund well. Trying to increase the role of ministers and governors in strategic decision making, for example by improving the effectiveness of the IMFC, is a worthwhile goal. Care must however be taken not to weaken the role of the Executive Board "in conducting the business of the Fund", since only the Board, representing all member countries, can effectively exert control over management and IMF lending. It is hard to discern what value a potential troika structure would add to the governance of the IMFC. We also feel that the use of informal meetings should not be extended too far, as otherwise the decision-making process might become opaque.

IMF mandate - surveillance and lending framework

Surveillance is the primary tool for the IMF to fulfill its important crisis-prevention function. Germany welcomes the steps taken to enhance financial sector surveillance and the development of a comprehensive framework to analyze real and financial sector issues. It is key that the Fund continues its efforts in this area, further enhances its analytical capabilities and strengthens the multilateral aspect of surveillance including cross-cutting themes of countries. However, we are not convinced that *new surveillance procedures*, including the potential introduction of a "multilateral surveillance decision" or a formal amendment of the surveillance mandate are necessary to achieve these goals.

When it comes to bilateral surveillance, Germany remains skeptical about carrying out thematic *Article IV consultations* for groupings of countries, as they would almost certainly not be able to do justice to the underlying differences in the economic structures, developments and policies of members.

With regard to financial sector surveillance, a strengthening of the Fund's financial market analysis seems reasonable in the framework of bilateral surveillance. Yet, Germany is not convinced about the merits of establishing a systematic dialogue between the IMF and financial intermediaries at a global level. In particular, the Fund must not become engaged in micro-prudential oversight or acquire similar tasks. In this respect, while Germany welcomes the Fund's work on closing data gaps and acknowledge its ambition to improve its data situation, this can – for confidentiality and legal reasons – not pertain to data that would allow the identification of individual institutions. Moreover, the Fund should not take on a role in the standard-setting process beyond its membership of, and thereby advisory role in, the Financial Stability Board (FSB). Germany welcomes the continued close cooperation on a pragmatic basis between the Fund and the FSB.

The financial crisis has triggered a discussion about the financing role of the Fund, including innovative ideas to "insure" members against capital volatility. Backed by the large buffer of resources available to the Fund, the expansion of precautionary IMF facilities is currently at the centre of debate. While Germany welcomes and contributes to international efforts to improve crisis prevention, possible adverse implications for the financial system (moral hazard) and the IMF itself (safeguarding its resources) need to be taken into account when discussing new IMF lending instruments. It is predominantly the task of market participants themselves to increase their crisis prevention efforts through appropriate risk management while the public sector should set the right incentives and improve oversight and surveillance. Whatever modifications to the IMF lending framework are considered, the IMF membership needs to make sure that the asset and liability sides of the IMF's balance sheet remain consistent, taking due account of the fact that IMF financing is based on member's currency reserves.

Role of the IMF in low income countries

Germany welcomes that the IMF has provided significant support to Low Income Countries (LICs) with a view to help them address the impact of the crisis. Furthermore, a comprehensive reform of the Fund's lending facilities and financing framework for LICs has been agreed. Over the years, PRGT loan resources have been mainly financed by a limited number of donor countries, including Germany. As available loan resources under the PRGT have fallen to near record lows, Germany supports the call for a wide mobilization of creditors.