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Statement by Peer Steinbrück
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On behalf of Germany

Statement by Mr. Peer Steinbrück
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I. Global Economy and Financial Markets

Global Economy – The global economic situation and outlook are characterized by an unusually high degree of uncertainty. The global economic perspectives are deteriorating. Risks are stemming from the ongoing financial market turmoil as well as high oil and non-energy commodity prices – although oil prices have eased recently. The effects of the financial market turmoil are starting to spill over into the real economy resulting in weaker perspectives for global growth. There are signs that growth will also be moderating in some emerging market economies as the effects of the US economic downturn are spilling over to the world economy. In view of these uncertainties and downward risks, we will have to remain vigilant and continue to take the appropriate actions to enhance stability and growth in our countries. The main challenge in the short term will be to restore confidence in financial markets. We will need coordinated efforts to achieve this.

In the EU, GDP growth also weakened in the first half of 2008. Subdued economic activity is expected also in the second half of 2008, reflecting in part the weakening of global growth and elevated commodity prices, the deeper and more prolonged financial turmoil and a housing correction in several EU countries. These developments caused confidence to deteriorate, capital costs to increase further and consumer price inflation to surge, putting a brake on domestic demand. Meanwhile, declining world demand and the sustained strength of the euro together with other factors have weighed on external trade. The near term outlook for GDP growth is relatively weak and it may take some time before growth returns to potential. The balance of risks is tilted to the downside, mainly due to external factors and the continued stress on financial markets. However, the EU economies are generally better equipped than in the past to weather the economic downturn due to reforms carried out in the past and largely healthy balance sheets.

With negative growth in the second quarter, the upswing in Japan seems to have come to an end. Export growth and domestic demand have been slowing, while elevated oil and commodity prices are continuing to fuel inflation.While it is too early to appraise the full impact of the financial market turbulence on the US economy, risks are clearly tilted to the downside. Although the US economy showed considerable resilience during the first half of 2008, sizeable negative impacts on the economy have to be expected.

Global imbalances remain an important challenge. 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 terms 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 in terms of ensuring that consumers have the right incentives to conserve energy.

Germany – The German economy continued to experience a strong upswing over the last year. Momentum from foreign trade and a vigorous domestic economy placed the upswing on a broad footing contributing to a strong revival in the job market, which is reflected in an increase in employment as a whole and a marked decline in unemployment. However, current economic fundamentals suggest that the underlying cyclical momentum has substantially weakened in the second quarter of 2008. Uncertainty remains unusually high, not least because of the turmoil in global financial markets, and we expect economic activity to be subdued in the near future. Nonetheless, economic growth in 2008 will not be substantially off the range of normal capacity utilization. While for 2009, economic activity will slow down considerably, the German economy is supported by continuing sound economic fundamentals. The positive economic developments in recent years have gone 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 reform of business taxation that reduces the tax burden on enterprises, thus improving further the conditions for doing business and investing in Germany. We are designing a reform of national fiscal rules laid down in our constitution that would help us sustain the success achieved in consolidation so far.

Emerging Market Economies – Several emerging market economies continue to experience robust, if slower, growth and are generally far less susceptible to crisis situations than was the case ten years ago due in large part to sound policies. However, as recent developments have shown, emerging economies have not decoupled from the current growth slowdown in the advanced economies and the financial market turmoil leaves its marks. In particular, countries reliant on large capital inflows remain vulnerable. 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 populations.

Financial Markets – One lesson from the current crisis clearly is that we need to continue and increase our efforts to create a sound global framework for financial markets, which needs to be done at an international level. In this regard, there are eight action points we would like to emphasize:

- Obliging banks to keep innovative financial instruments on the balance sheet to increase transparency and ensure that these assets are backed up by sufficient equity.
- Implementing increased bank liquidity buffers at an international level to cushion banks against funding disruptions.
- Introducing international standards on greater personal liability to hold financial market participants accountable for their actions.
- Adjusting compensation schemes in the financial sector to eliminate incentives for excessive risk taking, e.g. by creating an international code of conduct.
- Strengthening cooperation between FSF and IMF to enhance early warning capabilities.
- Reaching an international consensus on banning certain detrimental short-selling practices.
- Requiring originators to retain a portion of securitized assets, thereby strengthening incentives for responsible lending.
- Enhancing cooperation between national regulators, e.g. by creating international colleges of supervisors and harmonizing oversight.

II. The IMF Policy Agenda

Surveillance is the core pillar of the Fund's business, and an effective execution of the surveillance mandate is particularly important in the current environment. Noticeable progress has been made in this respect in recent years, but further improvements are needed. In this context, we broadly share the findings and the priorities identified in the Triennial Surveillance Review. In addition, the recently agreed Statement of Surveillance Priorities can usefully support the ongoing efforts to enhance the focus and effectiveness of surveillance.

There is scope for improvement in terms of risk assessments. With regard to global financial stability issues, more systematic analyses are needed, and tendencies to be "star-struck" by past good performance should be avoided. As far as financial sector issues are concerned, the quality of the analysis and the specificity of the policy recommendations need to be enhanced further. Early warning capabilities must be improved as well. The focus should remain on analysis of macro-financial issues, in particular the transmission channels from the financial to the real sector. The progress in integrating FSAP findings into Article IV reports is welcome and should be built on further. The multilateral dimension and the cross-country aspects of the Fund's analyses constitute the Fund's main comparative advantage. We look forward to further progress in this area.

Evenhanded and high-quality assessments of external stability issues and exchange rate developments are key to the effective implementation of the 2007 Surveillance Decision. External stability analyses should focus on the consistency and sustainability of the overall policy-mix. Exchange rate assessments should be integrated into the overall macroeconomic analysis, and the relevant techniques should be applied in a consistent manner. We welcome the ongoing efforts to refine further and extend these techniques. In this context, members' institutional frameworks need to be taken into due account. We also look forward to the operational aspects of currency unions being addressed in the upcoming revision of the surveillance guidance note. Taken together, these efforts – complemented by ad hoc consultation in relevant cases – should help the Fund to come to a timely conclusion of Article IV consultations.

We welcome the close and strengthened collaboration between the Fund and the Financial Stability Forum (FSF), with each complementing the other's role and help strengthen early warning capabilities. One important element to strengthen the link between the FSF and the IMF further would be a new, joint, annual report on risks, policy recommendations and progress achieved. The goal would be to publish this joint international financial stability report. This way, the public would acquire a deeper insight into the assessment of the vulnerabilities of the financial system and, in particular, into possible policy advice and mitigating actions as well as into the implementation progress regarding earlier recommended actions. In our view with such contributors, the Joint Report would be a high-profile, and powerful tool, not only to communicate financial stability warnings but also to provide policy advice and produce peer pressure.

Lending Framework

We appreciate the ongoing review of the Fund's lending framework. Considering the existing variety of facilities and potential inconsistencies within the framework that has developed over time, such a review appears warranted. In order to achieve a coherent and consistent lending framework the review should be comprehensive, including lending instruments, charges policy, conditionality, the level and maturity of access, and criteria for exceptionality.

Reform considerations should not, however, be an end in themselves. We maintain the view that the fundamental principles of IMF lending have served the Fund well and should not be abolished hastily. The orientation of Fund financing on the balance of payments need of a member is the linchpin of the IMF's mandate and, in our view, still adequate and relevant today. Moreover, it is consistent with the strong focus the IMF places on the balance of payments position in its surveillance over member countries.

The second pillar of IMF financing is conditionality, serving both the country's economic recovery and the Fund's financial integrity. Moreover, it is the concept of country- and case-specific conditionality that enables the Fund to offer all members equal access to Fund resources, including maturities and the rate of charge. This uniformity of treatment is at the heart of the IMF's financing mechanism and should remain a guiding principle throughout the reform discussion.

We welcome a simplification and streamlining of Fund facilities where appropriate. However, we do not consider the Supplemental Reserve Facility, which is the principle funding source for exceptional access, to be a candidate for elimination. In addition, a potential review of standard access limits can only be evaluated jointly with other possible modifications to the IMF lending framework. In any case, clear and consistent criteria for exceptional access beyond standard access limits will always be required.

Governance

It is important for the IMF to have a sound governance system in which responsibilities are clearly assigned, work is performed efficiently and governance bodies are held accountable for their decisions and actions. While the current IMF governance framework could surely benefit from adjustments, the Fund's proven effectiveness, on a regular basis and in times of crisis, broadly validates the current structure and division of labor within the Fund.

Role of the Fund in Low-Income Countries

The IMF continues to play an important role in low-income countries through surveillance, technical assistance and concessional lending. The Fund should enhance the effectiveness and efficiency of this work in low income countries by focusing on macroeconomic stability and sustainable growth that support the achievement of the Millennium Development Goals (MDGs).

In the current environment, we particularly welcome the Fund's advice to help low-income countries cope with the impact of surging food and fuel prices. It will be especially important for affected countries to provide targeted relief to the most vulnerable parts of the population while avoiding harmful universal subsidies that weaken demand responses, create negative externalities, and impose a heavy fiscal burden.

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. However, although the implementation of the HIPC initiative and the MDRI has made considerable progress, many pre-completion-point HIPCs face difficulties and will be slow at best to complete the HIPC process.

Maintaining debt sustainability remains a continuing important task. It is therefore disturbing that already half of the 23 countries which have reached the completion point are exposed to the risk of debt distress and four of these countries already show an even higher risk of debt distress. We would like to stress that debt sustainability is a shared responsibility between borrowers and lenders, both responsible borrowing as well as responsible lending decisions are warranted.

Finally, to foster the effectiveness and efficiency of public financial management in low-income countries, we ask the Fund to continue to actively support the implementation of the "G8 Action Plan for Good Financial Governance in Africa".

III. Sovereign Wealth Funds

We welcome the adoption of Generally Accepted Principles and Practices (GAPPs) for Sovereign Wealth Funds (SWFs) by the International Working Group (IWG). As they will enhance transparency and trust between recipient countries and SWFs, these principles are an important prerequisite for an open global investment climate and underscore SWFs´ strong stake in open and stable financial markets. We commend the IMF for its work in facilitating the development of these best practices and we support the OECD's work on investment policy principles to promote open, transparent, and predictable inward investment regimes as a complementary commitment on the side of the recipient countries. We encourage the IWG to create a Standing Committee which could establish a monitoring process to review the GAPPs and to evaluate implementation thereof. It also could be a forum for a continuing dialogue between SWF and recipient countries.