2010
ANNUAL MEETINGS
International Monetary Fund
World Bank Group
Washington, D.C.

Press Release No. 30
October 8, 2010

Statement by the Hon. **WOLFGANG SCHÄUBLE,**
Alternate Governor of the Fund for **GERMANY**

Statement by the Hon. Dr. Wolfgang Schäuble,
Alternate Governor of the Fund for Germany

Mr Chairman,
Governors,
Mr Zoellick,
Mr Strauss-Kahn,
Ladies and gentlemen,

I

First of all, I would like to thank the authorities for their outstanding hospitality and excellent organisation of these Annual Meetings. I would also like to extend special greetings to the newest member country of the IMF, Tuvalu.

II

The Annual Meetings take place amidst signs that the world economy is recovering and a global growth rate of 4 ¾ percent can be expected in 2010. This achievement owes much to the resolute and wide-ranging support and adjustment measures taken by decision makers around the world. However, the challenge of building a sounder global economy and more resilient financial markets remain significant:

First, the speed of the recovery differs across regions with Asia currently being more dynamic. In many industrial countries, high unemployment and the ongoing repair of sectoral balance sheets lead to only moderate growth. Exit strategies from extraordinary crisis related policy measures are an important element in ensuring sustainable growth. Against the background of rising public debt, it is of high importance to reinforce confidence in the credibility and long-term sustainability of public finances. Therefore, consolidating the public budgets in accordance with a credible medium-term strategy is a central political task from 2011 onwards.

Second, conditions in financial markets have improved but remain fragile. We need to bring the ongoing work to repair the financial sector and build a robust regulatory framework to a successful conclusion. It is of the essence to implement the G20 Washington Action Plan and the decisions made at the G20 summits in London and Pittsburgh in full and without delay. The recent agreement on Basel III is an important step to improve the soundness and stability of banking sector.

The German economy has grown vigorously in the first half of 2010, driven not only by strong exports but also by increasing domestic demand, in particular private consumption and investment in machinery and equipment. Strong growth of imports also implies that Germany contributes to the global recovery and rebalancing of the world economy.

III

The IMF as the principal institution of global economic governance has played a major role in dealing with the current economic and financial crisis. Going forward, broader governance reforms will increase a well-functioning and efficient institution and further enhance the legitimacy of the Fund.

Already considerable progress has been made in reviewing the Fund's mandate, including its surveillance and lending framework. Germany is fully committed to the overall goal of the IMF quota and governance reform. Fair representation and equal treatment of all countries is crucial for the legitimacy of the Fund. All elements of the reform, including the review of quotas, should be dealt with together and in the same time-frame. It is crucial and urgent that all member countries are willing to make compromises in order to meet the agreed timeline.

The overall aim of quota reform should be to better align members' actual quotas with their calculated quotas. Germany supports a shift of at least five percent to dynamic Emerging Market and Developing Countries (EMDCs) from over-represented to under-represented countries. Under-represented advanced economies should benefit from the quota reform as well. Both, over-represented advanced countries and over-represented EMDCs should contribute to the adjustment. Germany is willing to contribute to an adjustment of quotas on fair terms.

It is only fair to expect that no over-represented country will be under-represented as a result of a general quota increase. Moreover, the voting share of the poorest IMF members should be protected on an individual basis. The 2008 quota formula should not be reopened and should serve as the basis to determine whether a country is over- or underrepresented.

Germany supports further efforts to enhance the effectiveness and legitimacy of the Fund and to strengthen the voice and representation of Emerging Market and Developing Countries. However, when discussing size and composition of the Executive Board some core principles must be observed, e.g. that the formation of and participation in constituencies are voluntary and that representation must be closely linked to quotas and related financial contributions. As the current size and composition of the Executive Board both seem adequate with regard to representation, voice, and efficiency, substantial changes are not warranted. Particularly, a reduction in the number of chairs would increase the disparity between a grown IMF membership and membership representation on its Board while not necessarily leading to any efficiency gains in the Board's work. Thus, Germany advocates an amendment to the Articles of Agreement to provide for 24 chairs.

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 serve the Fund well. Yet, a stronger engagement of Ministers and Governors would enhance political accountability and legitimacy of the

Fund. Germany therefore supports considerations to increase the role of ministers and governors in strategic decision making by enhancing the role of the IMFC or establishing an IMFB. However, this should not curtail the role of the Executive Board which should continue to conduct the business of the Fund. Furthermore, issues for which the IMFC/IMFB will take the decisions, the Executive Board should be responsible for preparing these decisions.

The proposal to lower the thresholds required for special voting majorities in the IMF should be further pursued, as this would contribute to a more legitimate and inclusive decision making process in the Fund. We endorse the plans to make progress on IMF staff diversity by creating a balanced distribution in terms of geographical origin and gender as well as professional and academic background.

As the crisis recedes, surveillance, which remains the primary tool for the IMF to fulfil its important crisis-prevention function, should be the renewed focus of the Fund's work. In particular, Germany welcomes the Fund's work to strengthen financial sector surveillance and to develop a comprehensive framework to analyze macro-financial interlinkages. The Fund should continue its efforts in these areas and further enhance its analytical capacities to detect vulnerabilities in the global economic and financial system and to forestall future crises. It will be critical that efforts to strengthen the multilateral dimension of surveillance are not pursued at the expense of weakening bilateral surveillance. Germany supports the initiative to experiment with a spillover analysis for the five major economies. At the same time, options could be explored to integrate such an analysis of spillover effects into existing multilateral surveillance products and regular Article IV reports.

In response to the financial crisis, the Fund accomplished a major overhaul of its lending framework last year, including the establishment of the Flexible Credit Line (FCL). Only recently, the FCL was further refined and the Precautionary Credit Line (PCL) was established. While Germany welcomes efforts to improve crisis prevention, we caution against an unprecedented expansion of the Fund's financing role, for example through a Global Stabilization Mechanism which could have adverse implications for the financial system and the financial position of the Fund itself. Clearly, 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.

IV

The IMF has been at the forefront in supporting low-income countries (LICs) in order to help them to address the impact of the crisis. As a result available loan resources under the PRGT have fallen to a near record low and Germany welcomes the recent pledges made in this respect. The comprehensive reform of the Fund's lending facilities and financing framework for LICs led to a new and more flexible architecture that is tailored to the specific circumstances of LICs. The new framework should be used, in a responsible manner, to help LICs to overcome their protracted balance of payments problems within a reasonable timeframe.