

Ernst Welteke: The global economic situation

Speech by Mr Ernst Welteke, President of the Deutsche Bundesbank and Governor of the IMF for Germany, at the 2003 IMF/World Bank Annual Meeting, Dubai, 23 September 2003.

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I.

I am pleased that the IMF and the World Bank are holding their annual meetings in the United Arab Emirates this year. For the first time, these meetings are being hosted by a country in this region.

I am sure that the IMF and the World Bank have made an excellent choice in selecting Dubai as the venue. I thank the United Arab Emirates for their warm hospitality and their splendid organizational performance.

II.

The economic situation in many parts of the world has improved. The IMF's latest forecasts indicate that an upswing is under way. While we broadly share this view, we see, however, still a number of risks.

In this context, I wish to mention three problems:

First, there are widespread concerns that the large current account deficits and surpluses are not sustainable.

Reducing trade restrictions and internal imbalances would mitigate the risk of disorderly exchange rate adjustments. However, measures distorting exchange rates, trade, or capital movements are counterproductive. Global economic problems require multilateral resolutions.

Second, despite some progress in consolidating government budgets, the risks associated with large budget deficits have by no means been averted: This is not least reflected in the recent rise in long-term interest rates. Therefore, fiscal consolidation must be continued. This is a particular challenge in periods of insufficient growth. A medium-term fiscal framework could help to overcome these problems.

Third, monetary policy makers are currently facing an unfamiliar situation: For several years now, both inflation rates and nominal interest rates have been at their lowest level in decades. At the same time, there is ample liquidity which is still growing. New bubbles must be avoided. Therefore, central banks must remain vigilant. As a central bank Governor, I am particularly keen on making that point.

III.

Ladies and Gentlemen, despite these risks, the economic upswing will broaden and gain strength. This will provide an opportunity which must be seized to fully implement the ongoing reforms. We all know that reforms may be painful in the short run. However, they provide the basis for higher growth in the long term for the benefit of all.

IV.

We have to make sure that the economic upswing stabilizes and broadens in a sound financial environment. The IMF and the World Bank have an important role to play with regard to crisis prevention and crisis resolution.

I welcome the progress made in this area:

- The IMF's surveillance will be further strengthened.
- Transparency will be enhanced.

- More and more countries are realizing the benefits of the Financial Sector Assessment Program.
- And the rules governing access to the Fund's financial resources in capital account crises have been strengthened.

Going forward, the focus should be on implementing these measures.

V.

Ladies and Gentlemen, the World Bank and the developing countries are facing major challenges too.

- Let me begin with the Doha round. I find it inappropriate that industrial countries spend hundreds of billions of dollars each year to protect their own products. These subsidies are several times larger than the amount of development assistance. This makes it difficult to exploit the virtues of globalisation for the benefit of all. It would be extremely unfortunate if the failure of the Cancun negotiations would lead to trade conflicts. Again, there is no reasonable alternative to the multilateral approach.
- Second, the "Millennium Development Goals" reaffirmed at Monterrey are a guideline for German policy. Achieving these goals requires joint efforts. Well-targeted financial aid to developing countries can only be successful if combined with good governance and sound institutions.
- Last but not least, a remark on quotas and voting rights. I know that many countries are seeking higher voting shares. Yet, the proper functioning of the IMF and the World Bank as financial institutions requires that a strong link is maintained between member countries' quota shares and their capacity to contribute to the financial resources as reflected by their economic weight. However, I believe there is certainly some justification for an increase in basic votes.

Thank you for your attention.