

Andreas Dombret: Issues at the IMF-World Bank Annual Meeting 2013

Statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Atlantic-Brücke, Washington DC, 9 October 2013.

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1. Introduction

Ladies and gentlemen

I would like to thank the Hodges family for opening their house to us and for inviting me today. Washington is busy with the annual meetings of the IMF and the World Bank. But there is even more going on. The G20 are also meeting, as are the Financial Stability Board, the Governors of the Bank for International Settlements and the Institute of International Finance.

For a couple of days Washington has become the Mecca of the financial world. Thus, it is good that this delegation from the Atlantik-Brücke has also come to Washington to be part of it all and to gather information.

I would like to give you a very brief overview of what economic issues will be under discussion. Three topics will be at the center of interest: first, the global economic outlook; second, current and future challenges for economic policy; and third, institutional matters, such as the global reform of financial regulation. Let us take a closer look at these three topics.

2. The global economy

The global economy has improved, but growth is still moderate. In its latest World Economic Outlook, the IMF projects global growth to reach 2.9% in 2013 and 3.6% in 2014. In doing that, the IMF revised earlier estimates downwards.

The underlying geographical pattern of this outlook is a bit scattered. Growth in advanced economies is recovering, while estimates for emerging economies have been revised downwards. In the euro area, growth has picked up, but will remain weak. On the positive side, reforms in the crisis countries are progressing and initial results are becoming visible. The German economy has overcome its cyclical weakness and has returned to normal capacity utilization.

3. Challenges for economic policy

What are the challenges for economic policy? Looking to the future, there are three major challenges we have to face.

The first of these is the normalization of monetary policy in advanced economies. With improved economic conditions, it becomes more probable that interest rates will rise again. Nevertheless, exiting from such a prolonged period of low interest rates will be difficult. It might cause volatility on financial markets and limiting this volatility will be decisive.

Emerging markets, in particular, will have to prepare themselves for potential outflows of capital. Some of them will have to undertake structural reforms and consolidate their public finances.

This brings us to the second challenge: developments in public finances. This topic is relevant for the US – just think of the government shutdown and the risk of eventually reaching the debt ceiling –, it is relevant for Japan and it is certainly relevant for the euro area. Ultimately, high government debt impedes economic growth and endangers financial stability.

The third challenge is the dampened outlook for emerging market economies. This will shift the global pattern of growth toward advanced economies and will require emerging markets to adjust.

4. Regulatory reform

Now, we have talked about the global economic outlook and we have talked about challenges for economic policy. This leaves us with the third topic that will be relevant for this year's annual meeting: institutional reform.

Let us take a closer look at the reform of financial regulation. Here, we have already made good progress. We have, for instance, agreed upon new capital requirements for banks. These will make banks more resilient against shocks, thereby enhancing financial stability.

But we have not reached the end of the reform process. Two topics are currently of interest. The first is the issue of shadow banking. Shadow banking refers to financial institutions that operate outside the perimeter of traditional banking regulation. We might also use the term "non-bank banks". Money market funds or hedge funds are typical examples. As these entities might be a source of systemic risk we have to deal with them in terms of regulation. This issue has already been discussed at the G20 summit in St. Petersburg in August. Progress has been made and shadow banking will remain high on the reform agenda.

The same is true of the "too big to fail" problem. This refers to banks which are so big that their failure could bring down the entire financial system. Just think about what happened when Lehman Brothers failed in September 2008. What we need are restructuring mechanisms that will allow such banks to fail without disrupting the whole system. At the conceptual level, we have already made good progress. Now, we have to implement the new measures.

5. Conclusion

Ladies and gentlemen, many issues will be discussed at this year's annual meeting of the IMF and the World Bank. I have highlighted a few of them but left out others.

In the context of the IMF, there will certainly be debates on quotas and governance. At the same time, there will probably be discussion about issues such as public debt management or finance for growth. It will be interesting to see what comes out of all these discussions and to what extent it will shape the future of the global economy.

Thank you.