Axel A Weber: The IMF in a changing world (concluding remarks)

Concluding remarks by Professor Axel A Weber, President of the Deutsche Bundesbank, at the Joint IMF-Bundesbank Symposium “The IMF in a changing world”, Frankfurt, 8 June 2005.

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Ladies and Gentlemen

Delivering the concluding remarks at a symposium with such outstanding participants and lively discussions is a challenging task.

George Bernhard Shaw once remarked ironically that “if all economists were laid end to end they would not reach a conclusion”. It is not too difficult to imagine that he would have acknowledged his proposition as applying to policymakers, too.

In his opening remarks, Vice President Stark posed a list of questions for consideration at this symposium. It was not to be expected, of course, that at the end of the day we could easily resolve all of the issues at hand and provide universally accepted answers.

However, given the inherent difficulties of some of the issues discussed here today, symposiums like today’s are also valuable in shaping our understanding of the problems at hand and providing new perspectives on feasible solutions.

Measured against this yardstick, the symposium has more than met my expectations.

1 The current global economic environment and the IMF

There has been widespread consensus about the driving forces behind the changes in the world economy and the role of the IMF. The IMF was founded over 60 years ago to meet the needs of an international monetary system with fixed exchange rates and restricted capital mobility.

The current environment, however, is a very different one. Its defining characteristics are large scale capital mobility and a growing importance of more flexible exchange rate arrangements.

Some have therefore felt inclined to pose the provocative question of whether we still need the IMF at all. One affirmative answer to these sceptics lies in the fact that the transformation of the global economy into the current situation has been all but smooth and cannot safely be assumed to be smooth in the future.

The 1980’s witnessed the Latin American debt crisis, the 1990’s were fraught with several severe financial crises following abrupt reversals in capital flows to emerging markets.

In the aftermath of these experiences, fundamental questions arose concerning the appropriate role of the IMF. The same questions which have played a distinct role in today’s discussions, too.

Before I briefly touch on some of these issues, it is worth mentioning, however, that in certain aspects the current global economy has been portrait as not being completely different from that in the days of Bretton Woods. The debates on global imbalances are clear evidence that traditional issues of misaligned fixed exchange rates and current account imbalances continue to be highly relevant.

In some camps it is even argued that the current macroeconomic imbalances are a kind of return of Bretton Woods. Reserve accumulation in Asia can be interpreted as a hedge or “self-insurance” against potential currency crises which are mirrored in the current account surpluses of these countries.

But there is more to it than that: The extent to which the US deficit is being financed by Asian central banks is larger than indicated by the surpluses of the creditor countries. This in fact implies that, de facto, Asia is intermediating global savings.

However, there are several compelling reasons to be deeply sceptical about the Bretton Woods II hypothesis. I do not want to delve into the various aspects of this issue, but I would like to say that the current state of affairs merits special attention and warrants a stance to be articulated by an international institution such as the IMF which from its experience also understands the domestic side of international economic interaction.

2 Crisis prevention and crisis resolution

Bilateral and multilateral surveillance as well as policy advice on macroeconomic issues should be the Fund's primary instruments more than ever. Both are also important vehicles for preventing crises. Hence, the growing relevance of financial surveillance in the form of FSAP exercises is in my eyes a highly welcome development.

There was also broad consensus about what contributions national policies should make: Sound fiscal and monetary policies, a well-functioning legal system and stable domestic financial systems are regarded as prerequisites for countries to prosper and to avoid economic turmoil.

It came as no surprise that the discussion regarding other aspects of crisis prevention and crisis resolution was much more contentious. Please allow me to make a few brief remarks.

Pre-crisis liquidity support, contingent credit lines or precautionary exceptional excess arrangements are all means which are thought to help prevent financial crises.

However appealing this kind of reasoning seems to be at first sight, such instruments could be problematic for a variety of reasons. They could push the IMF into the role of a case-by case risk assessor comparable to an insurance company assessing applications, which may be viewed as being incompatible with the IMF's assignment of offering undiscriminating support to its global membership on a revolving basis at intentionally not fully risk-equivalent terms. It could also lead to an unfair tying-up of Fund resources at the expense of members who feel strong enough not to seek pro-active Fund insurance, but would nevertheless prefer Fund resources to remain available for emergency situations.

With regard to crisis resolution and IMF lending, a recurring theme today was the growing relevance of private sector participation in debt work-outs. The increased use of collective action clauses in bond contracts is an indication of this development.

One does not need to go so far as to negate the potential future role of official assistance in the crisis resolution process. But, as was also correctly stated, the Fund has considerable influence to determine the outcome of debt negotiations, including lending-into-arrears decisions in a debt restructuring situation. But it is also clear to me that the Fund's role has to respect the prerogative of private solution schemes to safeguard the Fund's systemically important "diplomatic immunity".

Ex ante moral hazard can best be avoided on the basis of a rules-based lending policy. Defining elements should be the consistent application of the regular access limits and a clear-cut framework for exceptional access. Furthermore, it would certainly be helpful if IMF programmes were designed in such a way that improvements in a country's capacity to repay would at a minimum be commensurate with its repayment obligations vis-à-vis the Fund itself, without paralyzing the country in a "debt trap" in which the country's repayment obligations to the Fund would need to be rolled-over repeatedly.

Of course, there is no perfect solution to the Fund's moral hazard or "roll-over" problem. But rules-based lending focused on truly exceptional emergency cases and on balance of payments problems would at least send a signal in the right direction.

The theme of one of today's sessions, "The IMF – panacea for every illness" brings me to my last point, namely the role of the IMF in low-income countries and in development financing.

Focusing the IMF's objectives necessitates a clear distinction between its work and that of multilateral development organisations. Undoubtedly, the IMF has an important role to play in developing countries. Surveillance, policy advice, technical assistance and PRGF funding, which pursue the goal of macroeconomic stability and sound policies, are important instruments to help improve the perspectives for long-term growth in low-income countries.

The current debate on further debt relief, however, is a more controversial issue. Above all, one might question if further debt relief rightly deserves such a prominent place on the international development agenda as opposed to resetting incentives in accordance with recent historical experience. The IMF itself seems to be quite sceptical about this. Net flows, not debt relief, matter. But that, of course, is a political decision about which central banks have no a priori view as long as no monetary financing is involved.

3 Conclusion

Ladies and gentlemen

This morning my colleague, Dr Jürgen Stark, ended his remarks by recognising the excellent job the IMF has so far performed.

After a day of intense debate about the future role of the IMF in a changing world, there is the danger that this key message will get buried somewhere under the weight of discussions on distinct aspects of the Fund's work.

And for the rare instances where some criticism of the Fund was articulated today, it was certainly in the spirit of the famous German poet, Heinrich Heine, who once remarked that only "he profits from praise, who values criticism".

So let me clearly reiterate that the IMF in our view is an indispensable engine to improve the functioning and stability of the international monetary system.

I have very much enjoyed listening and talking to you. And I would like to thank all of you. I wish to particularly extend my thanks to the Managing Director of the IMF, Rodrigo de Rato, and to all the panellists and moderators.

Special thanks go to our conference staff and to the Bundesbank's International Monetary Affairs Division.