Frankfurt EBC

Eurasia – Bull Meets Tiger

15th Frankfurt European Banking Congress 2005
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Eurasia –
Bull Meets Tiger

15th Frankfurt European Banking Congress
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* Transcription from tape by the organizer of the Frankfurt European Banking Congress

Welcome Address

Nikolaus Burggraf

Good evening Ladies and Gentlemen,
Your Excellencies,
Distinguished Guests,

Together with the joint host, the Chairman of the European Banking Congress and of the board of management of Commerzbank AG, Mr. Klaus-Peter Müller, it is my pleasure to cordially welcome all of you to Frankfurt. On behalf of Mayor Petra Roth[1] and my colleagues of the whole magistrate (as Frankfurt calls its governing body) I should like to specially welcome

Mr. Koch-Weser, State Secretary of the Federal Ministry of Finance, who will deliver the speech tonight,

Mr. Trichet, the President of the European Central Bank,

Baron Lamfalussy, the former Chairman of the European Monetary Institute,

Professor Weber, the President of Deutsche Bundesbank,

Dr. Ackermann, the Speaker of the board of management of Deutsche Bank AG,

Dr. Walter, the Chairman of the board of management of Dresdner Bank AG, and all participants giving us the honor of their presence tonight.

Tomorrow morning most of us will meet for the 15th Frankfurt European Banking Congress, entitled “Eurasia - Bull meets Tiger”.

Up to now it has been a tradition to have the dinner on the evening before the conference at the Schloss-Hotel Kronberg, which certainly is a nice place to meet.

[1] Welcome address by Nikolaus Burggraf, member of the Frankfurt magistrate, based on notes prepared by Mayor Petra Roth. Whilst Dr. h.c. Roth was present at the dinner, she was unable to speak at the time of the official welcome since her presence was mandated at a concurrent session of the Frankfurt local parliament.

This year, however, the organizers of the Frankfurt European Banking Congress, Commerzbank, Deutsche Bank, Dresdner Bank and the city of Frankfurt represented by its Mayor, Petra Roth, felt that they should start something new.

The Imperial Hall is part of the city hall called "Römer" which the city purchased as its city hall exactly 600 years ago. Whilst the adjacent St. Paul's church was the birthplace of German democracy, the Imperial Hall has offered a broader view on Europe and European history from the very beginning. The Holy Roman Empire was what we might call the "Europe" of those days.

Here on the wall we can see depicted the portraits of 52 kings and emperors from 768 to 1806. They were painted in the first half of the 19th century and replaced earlier statues. Most of these kings and emperors were elected and – after 1562 – also crowned in Frankfurt. Here in the Imperial Hall, the first banquet after the election or coronation used to take place, at a time when Frankfurt could still afford it. So I should also like to thank you very much, Mr. Müller, for kindly inviting us tonight.

Frankfurt's "big bang" took place in 794 when Charlemagne, one of the patrons of this city, convened a synod and assembly of the rulers of his empire in Frankfurt where he announced, among other things, his reform on measurements and currencies. Let me also mention that his grandson, Charles the Bald (Charles le Chauve), the first king of France and later also an emperor, was born in Frankfurt.

Since I see Mr. Müller frowning I will resist the opportunity to talk about the biographies of the other 51 rulers.

1200 years after the Frankfurt synod, in 1994, the newly established European Monetary Institute (EMI) had its first meeting and press conference here in the Imperial Hall of the Römer. The press conference was held by Baron Lamfalussy, the President of the European Monetary Institute, and I should like to repeat our special welcome to Professor Alexandre de Lamfalussy. He was instrumental in preparing the European Monetary Union as well as the European Central Bank. Professor, it is a well-deserved compliment, that major continuing consulting processes are named after you and have become a European household word.

There are several other examples of European events in the Römer, and the latest was the first Frankfurt meeting of CEIOPS - Committee of European Insurance and Occupational Pensions Supervisors - here in the Imperial Hall in February this year.

In this connection, I should like to repeat my thanks to Mr. Klaus-Peter Müller, who at that time made it possible to hold the city's evening reception for the CEIOPS delegates of the 25 EU member states at the Commerzbank Tower, since the Römer had to be prepared for the next day's conference.

With all this European background, I think the organizers had a very good idea to convene the "Pre-Evening Dinner" of the Frankfurt European Banking Congress at the

Römer. I am confident that we can establish a new tradition here in the Imperial Hall which seems to combine Frankfurt's role as a financial center with European events and traditions.

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In Rudyard Kipling's "Jungle Books", Mowgli eventually kills Shir Khan, the tiger. He was assisted by buffaloes (or was it a bear or even a bull?).

Fortunately, the economic and political realities between Europe and Asia are less cruel, and they are following different rules. The relationship between Asia and Europe is marked by cooperation and close trading ties.

In fact, Asia has become a crucial partner for the European Union, whether economically, politically or even culturally. The European Union's economic and commercial relations with Asia are of a paramount interest for our own European prosperity.

Kipling's story sheds a specific light on the necessity of further European integration. For more than 50 years, Europe has been growing together. For many Europeans, however, this process is too slow and everybody seems to be complaining.

Only last week, Jean Claude Juncker was in Frankfurt to be honored with the Walter Hallstein Award. By the way, Hallstein was once a professor at Frankfurt's Johann-Wolfgang-Goethe University.

In his moving "Thank You" speech, Mr. Juncker emphasized that there is no reason whatsoever to be desperate about Europe. European integration really is a grand project. Never before in history have such a great number of different nations – out of their own free will – transferred so many sovereign rights to an international body.

The European Union is a historical priority and – so Mr. Juncker – we can really be proud of getting so far and managing this complex process, all in all successfully.

It is, therefore, only logical that outside of the European Union European integration is perceived as a success story.

Now we are looking forward to the Dinner Speech by the State Secretary, Mr. Kajo Koch-Weser. But before he speaks, Mr. Klaus-Peter Müller, Chairman of this year's Frankfurt European Banking Congress and co-host this evening, will deliver his welcome address to all of us.

Introduction

Klaus-Peter Müller

Mayor Roth,
Excellencies,
Distinguished Guests,
Ladies and Gentlemen,

I am very pleased to welcome you to this evening's dinner. This has become very much of a traditional event. In fact, for fifteen years now, participants of the Frankfurt European Banking Congress have come together on the evening before the event to meet or renew contact in a more relaxed atmosphere.

This year, we're continuing this valuable tradition – but with a slight difference. After fourteen years at the Schlosshotel in Kronberg on the edge of the Taunus, we have moved right into the heart of Frankfurt. And I'm sure you will all want to join me in thanking Ms. Roth, for giving us the opportunity to meet in this fine historical setting.

I personally believe the move to Frankfurt is positive in all respects. After all, it is only appropriate that, right from the start, the Frankfurt European Banking Congress takes place in Frankfurt. This reinforces our identification with the location. And most of us – especially those from outside the region – will welcome the fact that no extra travel arrangements are necessary.

So this evening's dinner here in the *Kaisersaal* marks the start of a new tradition. But we have naturally preserved one firmly established part of the old tradition: the dinner speech.

As you are probably aware, we had originally intended to have the president of Ukraine, Victor Yushchenko, address us this evening. In fact, Mr. Yushchenko had kindly accepted our invitation and was including a visit to Frankfurt in his programme for a trip to Western Europe. Unfortunately, unforeseen domestic political events caused him to cancel his visit. Though we fully appreciated his reasons, we very much regretted his decision.

However, I feel confident that we have found someone to address us this evening who will do far more than merely fill the gap created by Mr. Yushchenko's cancellation.

In fact, through his highly distinguished career in international finance, he has become an ideal choice of speaker for an event like ours.

For many of you, I'm sure that Caio Koch-Weser will need no introduction from me. He has been a prominent figure in international banking and finance for many years. Since May 1999, he has been state secretary and deputy minister at the German Ministry of Finance in Berlin. From the early seventies until he joined the Finance Ministry, he held several high-ranking positions at the World Bank. These included the position of division chief for the China programme, deputy treasurer and director of treasury operations, regional vice president for the Middle East and North Africa and managing director for operations. He was also a member of the Executive Committee from 1996 until 1999.

In Berlin, he has been responsible for various key areas, including international fiscal and monetary relations and European policy. I think it especially important to point out that Mr. Koch-Weser has also been chairman of the Economic and Financial Committee of the European Union for the past two and a half years – a group of experts responsible for preparing the Ecofin meetings.

In Mr. Koch-Weser, therefore, we have a widely recognized expert in international finance, who has built up an enormous wealth of experience and has also worked consistently, often behind the scenes, to promote Germany as a financial centre. So I greatly hope – and I'm convinced, in fact – that in his remarks this evening on "The international financial system – managing for growth and stability", he will take us backstage a little, allowing us a rare glimpse of what goes on there.

Given the current-account imbalances worldwide and the greater propensity of market participants to take on risk, we in the financial services industry need to tackle the topic addressed by Mr. Koch-Weser systematically. For this evening, let me simply add that I'm sure his remarks will whet our appetites for tomorrow's congress, where the stability of the financial markets will no doubt be a major issue.

Thank you and *bon appétit*!

The International Financial System – Managing for Growth and Stability

Dinner Speech

Caio K. Koch-Weser

I. Introduction

Thank you, Chairman Müller, for the kind invitation to speak to you tonight. You suggested that my remarks may allow you a rare glimpse of what goes on backstage. Since, after six years in office, my term as German finance state secretary is coming to an end, some limits are imposed on expressing my views by the fact that I am still in office this week.

But, let me tonight take you through some, also personal, reflections on <u>first</u>, the challenges of the international financial system, <u>second,</u> what this means for Europe, and <u>third,</u> some thoughts on how Germany is living up to these challenges.

II. International economic policy

To start with – what is the strategic context we have faced over recent years in the international system ?

The relatively benign period in terms of growth and stability of the world economy and the international financial system we experienced since the Asian crisis in the late 90's should not be taken for granted – there are major risks today which need to be taken seriously and to be addressed strategically.

Eight years ago, the Asian crisis was looming with at the time "black nights" for the G7.
I remember vividly – then at the World Bank – the domino-effect and pumping ten's of billions of dollars into the Asian and Latin American EME's and Russia to avert the worst.

Since then, economies and the international financial system have proven resilient to shocks – the world economy expanded on a robust path, led by a flexible and steadily growing U.S. economy. Despite the current lacklustre growth performance in Europe, overall, the Continent has been a stability anchor – the introduction of the euro and enlargement have been a success. The international financial architecture has clearly improved – we see today more transparency, adherence to better standards and codes, particularly also in EME's, and a stricter IMF surveillance.

However, history teaches us that long periods of calm can be misleading – an unexpected combination of factors can end them abruptly. The international financial system remains fragile – risks to instability have increased and are tilted to the downside – the main risk factors being: first, global imbalances (they simply cannot continue to build-up at the present pace much longer – U.S. current account deficit is clearly unsustainable at current level of 6.5 % of GDP); second, oil price hikes, which represent fundamental structural shifts in demand and supply; third, the search-for-yield behaviour by markets, with risk premia not reflecting fundamentals; fourth, systemic risks from new financial instruments and the lack of supervision (e.g. credit risk transfers, hedge funds); fifth, heightened geo-political risks and even the risk of pandemics.

Against this background, we have to ask ourselves critically, whether we have used the benign period effectively for preparing the system for the next "storm". My answer would be: not enough effort has been spent on medium- and long-term trends and risks, and vigorous action to address them has been lacking.

There is therefore a new strategic task ahead: jointly working towards shaping a new consensus, which I would call "an enlightened multilateralism", based on (i) developing common strategies in a longer-term perspective; (ii) focusing more strongly on joint, coordinated implementation; (iii) extending action beyond the traditional G7 by including key EME's; and (iv) raising public awareness of interdependence and international spillovers of domestic policies which result from globalization.

The current situation with failed referenda in Europe, a marked unilateralist approach in the U.S., particularly since 9/11, and the emergence of new global players in Asia, do not bode well and call for renewed efforts towards coordinated policy action, including - beyond the G7 and the three traditional currency areas – also China.

We have arrived at a cross-roads now – a strategic choice to develop a new longer-term strategy consensus, based on "enlightened multilateralism", which takes into account positive and negative spillovers of policy action to other economies and interdependence in the system. I found remarkable Hu Jintao's recent speech to G-20 Finance Ministers and Govenors with his emphasis on interdependence as a policy criterion.

Large responsibility lies with Europe to get its act together and assume new responsibilities as global player – perhaps also in a renewed strategic dialogue with the U.S. on key economic and financial issues (which I once called in an article with Fred Bergsten an informal transatlantic "G-2" steering mechanism for critical issues).

Against this context of growing imbalances and required multinational response we have clearly fallen short in our action.

Global macroeconomic imbalances must be addressed by vigorous policy action in major world regions, particularly the U.S. and East Asian EME's, in order to avoid costly, abrupt adjustments at some point.

The growth of global imbalances largely reflects a massive imbalance in the U.S. current account (reflecting inadequate savings in the U.S. economy) and expansive savings of some Asian economies.

There is the Greenspan argument, portraying the current account deficit as the product of an intricate set of decisions by U.S. and foreign investors that can't be addressed through specific policy actions. Indeed, clearly there is no easy solution as past policies have shown, but increasing public and private savings in the U.S. is key.

Even if you believe in Greenspan's "flexibility" argument, the current situation cannot go on indefinitely. The central challenge is to obtain a clear commitment by the U.S. and emerging Asia to assume their policy responsibilities and implement the "G7 strategy" which calls for the U.S. to raise private and public savings – fiscal policy should play a crucial part through credible medium-term fiscal consolidation and East Asia to address their savings/investment imbalances. There is now a new paradigm emerging and discussed among the Chinese leadership -- to shift to a domestic demand-led economic growth strategy, with hinterlands development, social security reform to lower precautionary savings, and exchange-rate adjustment.

But we have been long on talk (communiqués) and short on coordinated action. How to redress ? My answer is: to strengthen the role of effective informal groups, that steer the agenda and allow for "strategic space" – that is longer-term, joint strategic thinking, and informal but tough peer review and pressure away from short-term, reactive public posturing. The G7, G20 and, in Europe, the Eurogroup are such groups that require further strengthening.

The G7 has been at its beginning a very informal group. Germany has taken forward the architecture by helping create the G20 back in 1999 (for many purposes – I believe – the "G7 of the future").

Another such informal, low-key mechanism is the "G4" (including China), increasingly coordinating exchange-rate matters at deputy level. From my involvement as chairman of the EU's Economic and Financial Committee together with the ECB on the European side, I conclude it is productive and engenders trust among all participants.

Undoubtedly, the G7 will continue to be strong in times of "crisis". The challenge is to give G7-communiqués more "bite" in follow-up to agreed commitments, e.g. the joint agenda for growth. Peer review is key.

I see the G7 Financial Stability Forum as a leading, successful group – with a good record in assessing financial risks. Stakes are high to ensure follow-through on dangers of abuse of the international financial system, focusing on offshore financial centres and hedge funds (which is supported by the industry itself in the Corrigan II report).

Surveillance is the central task for the IMF. The IMF must assume stronger global leadership and not shy away from thorough assessment of positive and negative policy spillovers of key countries' policies (properly taking stock of globalisation) and singling-out underlying "unsustainable" drivers. The IMF should deal in particular with these issues of "interdependence" in the international financial system in its bilateral Art. IV consultations and World Economic Outlook. The IMF should contribute to strengthening peer review on central issues of the G7 agenda (recall): U.S. to increase savings; China to foster domestic demand; Europe to generate more dynamic growth.

Not to be forgotten, international trade: one area of immediate concern is the possible failure of the Doha Round – an alarmist development – with key issues at stake, such as avoiding a "globalisation backlash".

Turning to what this changing international environment means for Europe: despite its "domestic problems" (constitution, reform-backlog in member states, lacklustre growth performance) - Europe simply cannot afford to be inward-looking.

III. Challenges for Europe

<u>First</u>, Europe must strengthen its position and ability to act as a <u>global player</u>.

Key question: does the strategic uprise of a united Europe with "world power ambition" continue or are we witnessing a lasting "drawback" from strategic aims of European integration – and from further "political deepening" of EU integration ?

No question: EU integration and the single market have achieved much – the euro is strong. Monetary union is a success story, anchoring a stability culture, ensuring a historically low interest-rate environment, keeping inflation in check. – This is important to realize in the current European "gloom and doom" period.

But there is a decisive phase ahead – Europe must adopt a truly global long-term view, accept globalization as an opportunity, and act jointly: there is no strategic alternative. Otherwise, it faces the risk of becoming a blind political spot on the world map. Reviving the strategic economic partnership with the U.S. is important: towards a strategic informal "G2" on key strategic issues of common concern such as macroeconomic policy, trade policy, energy policy, financial services and regulatory convergence.
I believe in the role such informal steering mechanisms could play -- also challenging U.S. unilateralism. It worked in part on trade; it is developing on financial services.

The longer-term strategic aim for Europe must be to "speak with one voice", to increase its political weight in a globalised world. A recent example is the election of a President of the Eurogroup, representing the euro area ministers also internationally. The art will be to move in small pragmatic steps with a clear strategic aim.

<u>Second</u>, Europe must improve its <u>economic performance</u>. To increase its current low potential growth is the number one economic policy challenge for Europe. It is necessary to strongly focus the Lisbon strategy, emphasising labour market reforms and reform of the "European social model".

Lisbon has been the right strategy, but too dispersed in its actions, so that the "glass is still half empty". Beyond the need to focus on key priorities, an efficient "division of labour" between EU and member state levels has to be assured.

Overriding issue: how does the EU social model (characterised by a high degree of "social insurance", stricter employment protection legislation and more generous unemployment benefits than the American model) have to be changed in order to be sustainable ? In a recent presentation for the Manchester informal Ecofin, André Sapir of Bruegel Institute, the new Brussels think tank, showed that here the most successful countries in Europe are the Nordic countries. Their social model meets both the objectives of <u>equity</u> (keeping risk of poverty low) and <u>efficiency</u> (providing sufficient incentives for work and thereby generating high employment rates) without any trade-off. The result of the analysis: continental European countries must increase labour market <u>efficiency</u>: improve incentives and reduce disincentives to take up work. Models that are not efficient are simply not sustainable in the face of growing strains on public finances coming from globalisation, technological change and population ageing.

<u>Third</u>, divergences in growth, inflation and competitiveness among member states pose challenges to monetary policy and are a "test case for EMU".

Only now are we beginning to grasp fully (also analytically) the real policy implications of EMU for individual member states and the euro area.

The first five years of EMU was a phase of painful real adjustment in some member states on the one side and a continuing "economic party" in some other member states. Italy, Spain, Portugal and Greece benefited enormously at the beginning of EMU via immediate reduction of their interest burden (no risk premium any longer), whereas Germany had to regain competitiveness by adjusting unit labour costs (now 8 % below euro-area average), with inflation at low levels.

Dealing with divergences in growth, inflation and competitiveness is a real test for monetary union, requiring more differentiated economic policy recommendations. It puts into strategic focus the policy stance and policy mix of the Euro area.

A further dimension here is that six new member states are poised to introduce the euro in the coming years, being currently in the European Exchange Rate Mechanism II "exercise room". The lesson of divergences amongst euro area members tells us that new euro entrants must beforehand strictly meet all the convergence criteria – no compromise or early entry.

Rapid enlargement has stretched the Union already. We simply cannot afford mistakes with regard to the hard tests ahead.

<u>Fourth</u>, sustainable public finances are a key challenge for member states facing the "double burden" of already high levels of public debt and unfavourable demographic developments. The recently reformed Stability and Growth Pact takes on board these challenges of fiscal sustainability. Implementation is now key.

Recent reform has produced an economically more intelligent framework – taking both the economic cycle and prevention better into account.

The key issue remains: how to strengthen a finance ministers' position on these issues at home and how to ensure that the monetary union is not external, but a key concern for national policy making. The stakes are high.

<u>Fifth</u>, EU single market for financial services remains a high priority for integration, with still large growth potential. So far, this is a success story and the strategy implementation mechanism has worked over the past five years.

From an ambitious challenge we have moved to credible implementation.

The euro increased the demand for cross-border investment, increased the size and liquidity of financial markets, enhanced transparency and competition in the provision of financial services, and offered scale and scope economies to financial intermediaries. In the perspective of the next ten years, the EU Commission estimates that further financial services integration could add – over a 10-year period – a total of more than one percentage point to the EU's GDP.

Future priorities are right – the Commission's financial services policy for 2005-2010 focuses on consistent implementation and enforcement of Financial Services Action Plan, systematic analysis of remaining obstacles, and case-by-case impact assessment.

Beyond Europe: financial services are a global business – developments in one jurisdiction have an impact on others – I see the big challenge of "regulatory convergence", particularly with the U.S.; the major strategic opportunity to shape regulatory parameters of emerging global financial markets by deepening the EU-US financial markets' dialogue, drawing on market participants' input. Examples are: implementation of Basel II (current signs by US not encouraging and not acceptable); mutual recognition of accounting standards; level-playing field for US/EU companies by creating similar conditions for corporate governance; and transparency requirements for hedge funds.

A strategic issue should be faced sooner rather than later: moving the European supervisory structure towards a single supervisor. But Germany is at this point fairly alone with this proposal.

Finally, for the EU, a top issue (despite drawback of failed constitution) is how quickly to strengthen its internal economic governance structures.

The Eurogroup of Finance Ministers has been strengthened, with a President elected for two years. In an informal setting, a confidential and increasingly effective dialogue with the ECB is taking a step forward. Peer review of relative policy performance has become a standard feature, but could become still more rigorous.

At the level of the Economic and Financial Committee which I chaired for the last $2^1/_2$ years, we have formed a Financial Stability Table Format – with the main actors

ECB, Finance Ministries, Central Banks and Supervisors – to assess risks in the European financial system systematically.

On the other hand, the dialogue and negotiation in the full Ecofin with 25 Ministers around the table turns out to be difficult. Unfortunately, there is no easy way of reforming the Council of Ministers or the Commission with its 25 commissioners.

IV. Challenges for Germany

The EU is a union of 25 equal member states – but particularly at the current juncture, the larger members have "lighthouse" responsibility. Also Germany must play a forward-looking leading role and give a clear signal how these major policy challenges are to be tackled.

First, on sustainable public finances, the reformed Stability and Growth Pact has to be implemented "at home".

With the ambitious Coalition Agreement on consolidating public finances, albeit somewhat backloaded, the right direction is given. The strategy for structural consolidation can only be successful if it includes also measures on the revenue side. On the effects at this juncture, I must confess that I am more Ricardian than Keynesian when it comes to consumer confidence building.

Second, we can claim that Germany is European "benchmark" in implementing the financial services strategy. Also the "Initiative Finanzplatz Deutschland" is a successful private-public initiative to strengthen the position of Germany as a world-class financial centre.

On measures, the introduction of Real Estate Investment Trusts (REITs) in Germany is a key issue for IFD and an indicator of the commitment of policy-makers to further improve the Finanzplatz Deutschland.

On supervision, with Bafin we have created a modern, strong supervisor for banking, insurance and securities in recent years.

Third, the German banking sector faces particular challenges in the context of future banking consolidation in Europe.

Significant consolidation in the banking industry has taken place in the (original) EU countries over the past few years. The merger between the German HVB and the Italian UniCredito demonstrates that cross-border deals are taking place.

However, the volume of cross-border mergers in the financial sector was only one-fifth of all merger volume, while in the non-financial sector half of all merger volume was cross-border.

I agree with the policy responses proposed by the European Commission: (i) accelerating supervisory convergence and supervisory cooperation, avoiding the present far too complex approval processes with risk of political interference; (ii) removing impediments to corporate reorganisation (financial institutions can take different legal forms – excessive rigidities hamper consolidation); (iii) reducing fragmentation of retail markets – with differing fiscal and consumer-protection rules discouraging pan-European product development.

Consolidating the fragmented German banking system is an issue: the position of the German Government is that it is for the owners and market players to decide in what form they will undertake consolidation. However, the Commission's review and other recent developments mean that the three-pillar system will once again command greater attention.

My own views are well known. I would regard it as the very interest of the owners, the banks and banking associations in Germany, to watch out that the German banking industry – to remain internationally competitive – does not manoeuvre itself into a self-inflicted off-side. Over the long-term, flexibility in terms of legal form, the regional principle and raising private (equity) capital cannot be avoided, as also pointed out by the IMF.

V. End

Pursuing and implementing the international and European agenda I outlined requires leadership, particularly in Europe. Because I see as the main political risk in Europe that people are fearful of unemployment, labour market reforms, consolidation of the welfare state, EU enlargement and globalisation. Disaffection is directed against poor economic performance and against reform measures designed to improve it. Surmounting this challenge would contribute to a broad international consensus on globalisation and governance of the international financial system.

Eurasia – Bull Meets Tiger

Welcome

Petra Roth

Ladies and Gentlemen,

I'm very pleased to welcome you at the Frankfurt European Banking Congress 2005 – the fifteenth here in the Alte Oper.

This congress is a joint venture of Commerzbank, Deutsche Bank, Dresdner Bank, the City of Frankfurt and its Economic Development Corporation; supported by Deutsche Bundesbank and organized by the Maleki Group.

It was established in 1991 to underline the importance of Frankfurt as a financial center in European monetary policy as well as in banking and international financial markets.

The conference has seen many CEOs from the global financial world, Governors of Central Banks as well as Presidents, Prime Ministers and Ministers of State from all over the world.

I'm convinced that the Frankfurt European Banking Congress has been established as one of the important events dealing with European monetary affairs.

Europe is currently experiencing a time of big changes. The failed referendums in France and the Netherlands on the question of a consitution for Europe as well as the difficult EU finance discussions are in contrast to its international importance as an economic block, which is defined by a population of 450 million and a share of 25% of the world's gross national product. Besides this, the European Union is the biggest partner in international trade with a share of 18% (this is not counting trade within the EU).

Last year we discussed the Lisbon Agenda in this context. Europe needs more growth and more jobs. We know that the European Union has to do better.

On the other side of the world, things are being done in a different way.

We are witnessing a dramatic, dynamic development there. So I think this year's motto of the congress, "Bull meets Tiger", is a very fitting one.

Asia is a crucial partner of the European Union, be it economically, politically or culturally. The wider Asian and Asia-Pacific region accounts for more than half of the world's population, roughly 25% of the world's gross national product and more than 30% of the world's international trade, if you add up the foreign trade figures of the relevant Asian countries.

The EU's economic and commercial relations with Asia are of great importance for our own prosperity.

Asia as a whole accounts for 30% of the EU's combined import plus export figures. Asia also accounts for a significant share of the EU foreign investment flows, while certain Asian countries are important investors in the EU.

Frankfurt has a long tradition in attracting companies from Asia, starting with Japan in the late 70's. It was followed by South Korea, China and India. We developed specific infrastructures such as Japanese and Korean schools as well as international schools, and we supported the development of lively business communities in the Frankfurt area. Frankfurt has profited very much economically and culturally from Asian people and companies that have come here.

I'm convinced that the European Union can also profit from the close cooperation with Asia.

We know that Asia is tremendously diverse. Economically and politically, socially and culturally, and also in terms of scale. Economically it is by far more heterogeneous than the European Union after the enlargement last year.

We also must not forget that Asia is also home of two-thirds of the world's poor, with 800 million people living on less than one dollar per day.

However, Asia is one of the most promising regions of the world. Asia's importance for the European Union is incontestable, and it is imperative for the EU to follow a forward looking policy of engagement with Asia, both in the region and globally.

The organizers of the Frankfurt European Banking Congress have created a highly interesting programme. The panels are once again composed of distinguished personalities from business and politics. Thank you very much for your cooperation in actively organizing and sharing this conference.

Also, I'd like to express my gratitude to all those who have made this conference possible, especially to Klaus-Peter Müller, this year's chairman of the conference. Last but not least I want to thank you, the participants, for being here.

I wish you a successful congress and interesting contents, and I hope you will have a pleasant stay in our city.

Eurasia – Bull Meets Tiger

Opening Remarks

Klaus-Peter Müller

Mayor Roth, Thank you for your opening statement. Excellencies, ministers and presidents, ladies and gentlemen, I should also like to bid you a warm welcome in Frankfurt.

At the same time, I want to welcome the representatives of the media, who – I'm sure – will once again give this congress the coverage it deserves. It has now become a tradition and never fails to provide interesting insights.

And we seem to have found a topical and interesting theme again, bringing such a large number of you, our audience, to us in the Alte Oper.

"Europe and Asia – Bull Meets Tiger" is the motto this year. If we follow the Chinese horoscope, however, this combination would be problematic. The two are not supposed to harmonize with one another at all. Fortunately, though, astrology does not play much of a role in the world of finance. At least, I hope it doesn't.

It's our aim to create stronger ties between the bull and the tiger, for the benefit of both sides. And here at least symbols are helpful: both stand for strength and an upswing – the one in Europe and worldwide on stock exchanges, the other throughout all of Asia. So, together, bull and tiger represent a strong combination. At the same time, they form a necessary complement to the already strong links between Asia and the Americas.

Distinguished experts and a promising programme will provide you with deep insight into what is at stake here. But first let me say a little about how today's programme is organized.

Originally we had intended to welcome the president of Ukraine, Victor Yushchenko, as the second keynote speaker. After Mr. Yushchenko had kindly accepted our invitation, unforeseen domestic political events unfortunately caused him to cancel his visit. However, I feel confident that we have found an arrangement that will do far more than merely fill the gap created by Mr. Yushchenko's cancellation.

For we have organized a new panel and look forward to a lively discussion with the following high-ranking experts:

- from Rome: Professor Mario Baldassarri, Vice Minister of Economy and Finance;
- and from London: Mr. Jean Lemierre, President of the European Bank for Reconstruction and Development;

Before that, as announced in the programme, however, we have the honour and the pleasure to listen to the President of the Deutsche Bundesbank, Axel Weber, who will introduce the main theme of today's congress. Professor Weber can draw on a wealth of experience and knowledge gathered during his outstanding academic career.

As chairman of the congress, may I kindly request that you return on time from the intervals so that we can maintain the tight schedule for our programme. So much for the organization.

The Chinese philosopher Lao-Tse apparently once said "True words are not pleasant; pleasant words are not true." Therefore, it should be possible to put unpleasant questions in order to get through to the true heart of the matter.

At present, the West – and especially the United States – is captivated by Asia and by China and India in particular, in a mixture of fascination and alarm. We find the "charm of big figures" attractive. China, for instance, has tripled its per capita income over the past 10 years and is now the world's second-largest importer of crude oil. And India will probably have become the world's third-largest economy by 2020.

Overall, in the past 15 years, "Emerging Asia" has raised its share of world real GDP by 10 percentage points – to 25%. As a result, many people have called the twenty-first century the Asian century. But basically Asia is only regaining its former strength. At one time, namely – around 1820 – it accounted for even 60% of global economic output. Possibly, Asia will have returned to this level by the year 2025. In quick motion, Asia is now leaping into the modern age. However, this also means that it is being confronted all the quicker and all the more strongly with the problems of industrialization – including shortages of energy and raw materials, environmental problems and financial and social tensions.

I sometimes ask myself whether the general Asia euphoria – not least on the part of investors – doesn't prevent a sober discussion of these issues. On the other hand, Europe with its failed constitution – and, above all, Germany with its notorious anxieties – seems to me to be the home of the doubters and faultfinders. It's high time that we Europeans became more aware of our strengths again and actively seized the opportunities created by globalization.

How large concerns and SMEs cope with the new competitive situation will be discussed by prominent business figures in Panel II, under the heading "Strengthening the Eurasian ties." The panel is chaired by my colleague Josef Ackermann.

In the meantime, not only European firms are offering their products and services in Asia, building up production capacity there and taking over Asian firms. For some time now, this has been happening the other way round as well. The acquisition of Siemens' mobile phone business by BenQ, or IBM's PC segment by Lenovo, are good examples.

World trade and foreign direct investments are naturally reflected in capital flows. In addition, the financial markets are developing a strong momentum of their own. We note that the global imbalances have become greater. And we ask ourselves what impact widening current-account surpluses and deficits may have on the world economy.

Our very distinguished speakers of Panel III will deal with the international financial markets, chaired by my colleague Herbert Walter. They also will discuss the extent to which responsibility for stable financial markets can be shared. Key aspects here are the future role of the IMF, the question of the right exchange-rate regime and the significance of the euro as an international reserve currency.

Maintaining the stability of the international financial markets, on the one hand, and reducing the global imbalances, on the other, without triggering monetary shocks and currency crises – that is the great challenge at the moment for the world's central banks. And we could hardly have wished for a better expert for providing a solution to this problem than the president of the Deutsche Bundesbank, Axel Weber.

Mr. Weber, the stage is yours.

Europe and Asia in the World Economy

Challenges to the Global Economy Keynote Speech

Axel A. Weber

Ladies and Gentlemen,

1. Introduction

It is a pleasure and an honour to offer you some thoughts on current challenges facing the global economy. The European Banking Congress is always an appropriate forum for discussing global matters. This is especially true this year as the motto "Eurasia – Bull meets Tiger" addresses two of the most important players of the international monetary system.

Many economists tend to view globalisation as a basically benign phenomenon and take comfort in the fact that the global economy has been marked by robust growth and tame core inflation in the past few years. That is certainly true. But, on the other hand, we are witnessing several instances of possible imbalances:

- commodity prices have reached new record highs,
- yet government bond yields are low and corporate bond spreads and emerging market bond spreads are also low by historical standards,
- in some economies, low interest rates are fuelling housing price booms,
- additionally, the world economy is awash with liquidity,
- last but not least, global current account imbalances are at unprecedented levels.

With regard to that last point: the question of sustainability and the unwinding of the US current account deficit is crucial not only for the US economy itself, but also for the world economy. And it will have repercussions for Asia as well as for Europe. Especially as both regions are on aggregate largely dependent on external demand. For example, exports from emerging Asia have grown by more than 10% per annum over the past decade. They now account for 45% of emerging Asia's GDP. At the same time domestic demand has been subdued in most countries of the region.

2. Facts about global imbalances

Current account imbalances have widened considerably in recent years. The US deficit is at unprecedented levels. According to IMF projections it will reach over 6% (as a percentage of GDP) this year and next year. CEC countries will also exhibit significant deficits of nearly 5%. East Asian countries on the other hand are characterised by notable surpluses. Here, on aggregate, current account adjustments in the wake of the Asian crisis have not been reversed. But the regional disaggregation makes clear that it is predominantly the Chinese external surplus which is driving the regional aggregate. Asian economies, excluding China, will – according to IMF projections – witness a significant shrinkage of their current account surpluses owing to higher import costs (from 3.8% in 2003 to only 0.7% in 2006). China, however, is projected to further widen its current account surplus from 3.2% in 2003 to nearly 6% in 2006. Finally, the euro area is in a roughly balanced position, although underlying national heterogeneity remains significant: Germany with a current account surplus of over 4% in 2005 (Netherlands nearly 5%) and large deficits in Portugal (8.4%), Spain (6.2%) and Greece (3.9%). Owing to oil revenues, countries in the Middle East have moved into notable surplus positions over the past few years (even higher than Asian countries). In part, the increasing Middle East surpluses come at the expense of other regions. This is clearly visible in Asia (excluding China).

The US current account deficit is increasingly soaking up global savings, In 2005 the US current account absorbs more than 7% of global savings according to IMF projections. Given that savings are predominantly invested at home – although home bias has declined over the past years – these figures still underestimate the US influence on international saving assets.

Therefore, the topic of global imbalances is closely aligned to current account developments in the United States. This does not mean, however, that possible causes of global imbalances are purely a US phenomenon. And it does not mean that appropriate policy responses should be required only of the US authorities.

Nevertheless, it is the development of the US current account deficit that lies at the heart of widely discussed concerns among policy makers and economists. There is one reason for this: it is the question of whether the US current account trajectory is sustainable. And unsustainability, of course, means that "things that can't go on forever, don't" as Stein's law of policy reminds us.

2.1 Some brief remarks on sustainability

For sustainability not to be more than just an empty phrase there is, of course, a need for an operable definition. Unfortunately, there is no universally accepted definition of an unsustainable current account. Economists who refer to it commonly use the theoretical framework of the intertemporal approach to the current account. The key message here is that a country must satisfy its intertemporal budget constraint. Judged against this benchmark, the sustainability issue for the US current account deficit is clear: with a negative net foreign asset position of USD2.5 trillion in 2004, the US economy has to produce trade surpluses some day in the future. In other words: a net debtor country cannot run trade deficits indefinitely – even if the debtor in question is the world's most potent economy.

This, of course, is a strictly theoretical analysis of the sustainability issue. A possibly more realistic approach defines sustainability as an unchanged net international investment position (in relative terms). Given the net external indebtedness of more than 20% of GDP in 2004, calculations imply a critical US current account deficit of slightly over 1% of GDP (far below the latest figures of 6% of GDP). Here, some qualifications because of valuation effects on the stocks of net foreign assets are in order. However, such qualifications do not change the basic message.

Nevertheless: this line of reasoning still does not give much practical guidance on the question of which relative net foreign asset position could be sustainable in the foreseeable future. On the one side, it would be unrealistic to expect the adjustment to lead to unchanged US net external indebtedness at current levels. On the other side, it is equally true that a net foreign asset position of the US economy amounting to over 100% of GDP – which is implied by the current trajectory – would mean a further step into uncharted territory carrying with it the risks of a disorderly unwinding with repercussions for the global economic and monetary system.

The bottom line of these considerations is: the current trend of the US current account is unsustainable with respect to different concepts and measures of sustainability. We should realistically expect a further increase in the net indebtedness of the US economy, but the current trend has to be broken in order to minimise unwelcome risks.

Therefore, it is not a question of whether, but rather of when and how the adjustment should come about.

An answer to these questions calls for an analysis of the causes of the current imbalances. This is of particular importance as different opinions about the ultimate causes imply different opinions about the likely stability of the current situation which is, of course, of prime relevance given the operational difficulties with the concept of sustainability for short-term policy purposes.

3. Arguments for and against the sustainability of the US CAD

At the risk of oversimplification, it might be helpful to distinguish three ways of defining the current account:

- Trade View,
- Savings/Investment View,
- Asset View.

Trade View: Cyclical and growth asymmetries between economic regions worldwide have contributed to the emergence of global imbalances. However, trade-related factors cannot explain the magnitude of the imbalances observed.

Savings/Investment View I: Global imbalances largely reflect low savings in the US (fiscal and private). The gloomy side of this perspective emphasises the widening fiscal deficits in the US and/or bubble-driven wealth effects in private consumption (housing market). The benign perspective focuses on a wealth effect rooted in higher US trend productivity growth, resulting in higher risk-adjusted returns on US assets and correspondingly strengthened demand for US assets by foreigners.

Savings/Investment View II: Imbalances reflect structural changes in savings and investment patterns in other parts of the world. The most prominent advocate of the global savings glut hypothesis is the Chairman-designate of the Federal Reserve, Ben Bernanke.

Trade and Asset View: Imbalances reflect more or less stable policy incentives – export-led growth strategies in Asia and reserve accumulation in the aftermath of the Asian crisis (Bretton Woods II hypothesis).

Asset View: Globalisation of financial markets reduces home bias and increases room for manoeuvre for financing of current account deficits. This position has been defended most prominently by the current Chairman of the US Federal Reserve, Alan Greenspan.

But let us be clear: such isolated explanations may be helpful in highlighting certain aspects, but it should not be forgotten that, for a highly endogenous variable like the current account, the fundamental causes of the deficit affect goods and capital markets and a wide range of asset prices simultaneously. To quote Roger W Ferguson Jr on this (2005): "but any compelling explanation of the current account deficit must identify not merely the proximate influences on the deficit – be they exchange rates, capital flows, or aggregate saving and investment – but also the fundamental, underlying sources of the imbalance".

I do not want do go more deeply into the specific empirics of the US current account. Suffice it to say that, in my view, all these causes can explain certain parts of the US current account deficit – albeit at varying levels of importance.

Productivity increases generally prove to be significant explanatory variables for current account changes.

In general, empirical studies do not find much support for fiscal deficits having a very large influence on current account developments. This, of course, puts a question mark behind the popular thesis of "twin deficits". The US over much of the 1990s serves as an illustration (and Germany or Japan are also illustrative in this respect). However, for the past five years, the connection between the fiscal and the current account deficit seems to be closer for the US than most empirical studies would imply.

The ongoing integration of capital markets might have facilitated the financing of CA imbalances, too. There is empirical evidence that "home bias" has been declining over the past few years. But, in my view, one should not be too optimistic with regard to this channel. It is clearly not a panacea for the risks associated with the recent trend in the US current account deficit. Moreover, the process of deepening international financial markets – despite all benefits – entails its own risks. Inconsistent medium-term macroeconomic policy configurations might lead to marked shifts in investor sentiment and more volatile capital flows. In sum: globalisation of financial markets has certainly helped to finance larger current account deficits than could have been imagined some decades ago. But it has not changed the fundamental nature of the adjustment process to international imbalances.

The "global savings glut" hypothesis definitely has some merits. However, I would like to stress that it should be understood as a "global net savings glut" hypothesis, as, besides changes in the saving behaviour, in particular low investment in different parts of the world seems to be crucial. One advantage of this argument is that it offers a possible explanation for the low level of real interest rates globally observed over the past few years. The proposition that it should better be understood as driven by low investment in surplus countries – especially in Asia – instead of excessively high saving rates is supported by developments in these countries. Investment rates in emerging Asia (excluding China) collapsed by nearly 8% of GDP in the Asian crisis. Since then the rise has been modest (+2% of GDP). Both private and public investment are still below pre-crisis levels. What should be taken into account, however, is that the pre-crisis investment level does not provide a suitable benchmark owing to earlier indications of overinvestment in the region. Moreover, the view that weak investment in the region is the more important factor is validated by empirical analysis showing that Asian savings behaviour is well predicted by traditional specifications, but investment behaviour is difficult to explain with the usual factors (WEO 2-2005).

The "global savings glut" or more precisely the "global net savings glut" argument has to be augmented by a description of the relevant transmission mechanisms through which global savings have been channelled primarily to the US economy. Ben Bernanke has elaborated on these mechanisms – something that is occasionally neglected in evaluating this explanation. Some of his findings are that the relevant transmission channels have been asset markets: prior to 2000, the main driving force was equity prices (and exchange rates). Following the burst of the equity price bubble, real interest rates have been the main factor and housing markets and prices most influential. The linkage between housing market developments and the current account is not a phenomenon only of the recent past. As Alan Greenspan has emphasised, the stable long-term correlation between the US mortgage market and the current account could be observed over the past fifty years.

With regard to capital flows, there has been a marked shift from private flows to official flows (gross and net flows) in the past couple of years – with regard to capital inflows, however, there are some tentative signs that private capital flows to the US might have gained more weight again recently. Reserve accumulation by Asian central banks has been a major factor in this regard. Asian central banks de facto intermediate domestic savings into US assets. This has possibly helped to hold interest rates low and has fuelled a housing boom in some industrial countries, especially in the US, though the interest rate effect due to interventions and reserve accumulation is difficult to quantify. As a result, it has been possible to sustain robust demand growth in the US. This has been supported by significant fiscal and monetary stimuli.

The resulting configuration has been referred to as "global macroeconomic co-dependency" (Catherine Mann, 2005).

To that extent, the "global savings glut" argument is tight-knit to the Bretton Woods II hypothesis. And, here, I am quite sceptical as to whether this system can be sustained on a long-term basis. For just one reason: the financial needs – given the current trajectory of the US current account deficit – would be immense. They would expose the financing central banks to huge financial risks in the wake of a declining US dollar. To be concrete: Since 2001 Asian central banks reserves have doubled. In mid-2005 they reached a level of USD 2.6 trillion. Roubini/Setser (2005) calculate that, if past trends continue, Asian central banks would have to raise their FX reserves to over USD 5 trillion in 2008 – an annual increase of more than USD 500 billion. Here, the current slow-down in reserve accumulation, which came to a virtual standstill in mid-2005, indicates that the latest move to greater regional exchange rate flexibility in Asia already has its measurable effects on reserve holdings, casting some doubts on Bretton-Woods II type explanations. In that regard, one also should not forget that in the original Bretton Woods I system, the United States on average produced current account surpluses.

In a nutshell: The "global savings glut" argument may be an explanation for the development of the US current account deficit; but it is not convincing proof of sustainability in the long run. The same goes for the Bretton Woods II hypothesis.

Taking everything together, the current trend in the US current account deficit is unsustainable. This is hardly in dispute. Realistically, we should not expect the US deficit to move soon to levels that would stabilise the net foreign asset position of the US economy. However, the explanations advanced to explain why the current situation might nevertheless be stable for the foreseeable future all have their drawbacks and shortcomings.

As central bankers are paid for paying attention to risks, we should be aware that an abrupt unwinding of the current imbalances could mean massive exchange rate and interest rates movements – and, of course, a shake-up of the global economy.

We should obviously avoid the global economy following the lines described by the late Rudi Dornbusch. According to him, the collapse of unsustainable currencies and wrong-headed policies typically follows a cycle of four distinct phases: 1) enthusiastic investors and speculators chasing immediate short-term returns cause the anomaly to last for longer than economists expect, 2) puzzled by the failure of prices to return to fundamentals or the failure of unsustainable policies to generate a crisis, highly intelligent economists evolve theories explaining that "this" time it really isn't unsustainable, 3) fortified by these theories, yet more investors and speculators chasing short-term returns flood into the market, causing the anomaly to last for much longer than economists had originally expected, and finally, 4) the supply of greater fools comes to a sudden end; the crash comes; the crisis materialises.

4. Adjustment scenarios and policy responses

One should not forget, however, that current account adjustments in industrial countries historically are something different than balance of payments crises in emerging market economies. Accordingly, apocalyptic adjustment scenarios are not justified from the current perspective.

This is supported by recent empirical studies showing that the history of current account adjustments in industrial countries in the past does not validate the pessimistic hypothesis that goes along with an disorderly unwinding scenario (i.e. cumulative effect of shortfalls in GDP, massive currency depreciation and sharply rising interest rates). Finally, the US leads the global economy and the US dollar is the reserve currency for the international financial system. Both factors are reasons to believe that the US can afford to finance larger current account deficits than other industrial countries.

Moreover, the current configuration is predominantly the outcome of very different decisions and actions by market participants. This limits the room for policy options and it may justify some trust that adjustment processes led by market forces will allow for a smooth transition to a more balanced world economy. But, given the uncertainty surrounding a purely market-led adjustment process, there is a justification for supporting policy responses.

Global imbalances are, by definition, multilateral in origin. This means that all parties have to step up their efforts to resolve imbalances. And numerous studies – including our own work at the Bundesbank – show that adjustment via different channels in isolation (growth differentials, exchange rates, US fiscal consolidation) would clearly not be of much help – unless the movements in the relevant variables attain either unrealistic or damagingly high magnitudes.

Two questions then remain: 1) How can adjustment be smoothed? 2) How can resistance to an (abrupt) adjustment be increased? The most sensible answer to these questions are, in my view, to be found in the well-known approach agreed at several IMF and G7 meetings: (a) US: increase in domestic savings, (b) Asia: more flexible exchange rate policies, (c) Europe: structural reforms.

Europe/Euro area

I will confine myself initially to the European case. And let me make clear: even if the current account position of the euro area is nearly balanced, this does not mean that the euro area has no role to play in the adjustment process. Catherine Mann (2005) has rightly argued "that no other country faces as significant a quantitative change to their trade balance as the United States should not imply ease of adjustment. In fact, just the opposite could be the case as each country, facing the policy choices and structural challenges to reorienting demand, production, and financing, could argue that someone else should go first."

However, in my view, the European role in facilitating the adjustment process is clearly more modest than the tasks for the other players, especially for the US itself.

There are two reasons for this: First, even if stronger growth in Europe is certainly something we all desire, the well-known smaller income elasticity of US exports compared with the import elasticity of the US economy (Houthakker-Magee-effect) means that the quantitative effect of higher European growth rates on the US trade balance will, in all likelihood, be modest. Second: even if higher potential growth is of the essence in the euro area and might be spurred by suitable structural reforms, the effect on the current account position of the euro area is anything but clear-cut. For one reason, structural reforms have to be directed towards the non-tradable sector of the economy to improve the current account. For most of the currently discussed areas of reform – social security, fiscal policy – it is quite possible that they will lead – at least in the short term – to increased savings in Europe. This, of course, would not help the adjustment to global imbalances – on the contrary.

So, all in all, the quantitative dimension of urgently needed structural reforms in Europe with regard to the adjustment of global imbalances will – in my opinion – be of secondary importance.

This does not mean that such reforms are not sensible in the light of risks associated with the current imbalances. There are, at least, two good reasons for this: they would enhance the flexibility and resilience of euro area economies in times when a smoother shock absorption capacity might probably be badly needed. And, of course, these reforms are urgently needed to improve the dismal potential growth performance in the euro area in general – and in Germany in particular.

In the euro area, the latest track-record with respect to growth-enhancing policy measures has been disappointing. High public deficits and increasing government debt levels in the majority of member countries have resulted in widespread difficulties to fulfil the commitment of the stability and growth pact. But it is empirically well-documented that solid public finances and low debt levels are important factors to support sustainable long-term growth. The sad fortune of the Lisbon agenda is another point in case. Finally, the controversy about the European service directive illustrates most visibly an ongoing willingness to implement decisive structural reforms. Increased competition in the service sector, however, is just the type of reform that is needed on both grounds – strengthening growth for domestic reasons and supporting absorption for global reasons.

The question of decisive structural reforms is especially important for Germany – given its persistent weak growth performance and given the current political juncture. We should acknowledge that the starting situation for the new government coalition has been difficult and opposing interests needed to be reconciled.

The fundamental objective – improving long-term conditions for growth and employment and rehabilitating government budgets – deserves support. The first steps in reforming the federalist structure, raising the retirement age, reducing subsidies and reducing social insurance contributions, are in particular, welcome.

But, overall, the actual outcome is unconvincing: fiscal consolidation is insufficient, especially with an eye on 2006. Subsequent to the coalition treaty a federal budget has been announced, in which the net borrowing increases. Moreover, net borrowing clearly exceeds the constitutional threshold. A justification for this along the lines of the constitutional provision enshrined in Article 109 GG – i.e. declaring a disturbance of macroeconomic equilibrium – is certainly highly problematic given the government's own assumptions for economic growth in 2006. This is certainly not strengthening confidence in the solidity of public finances. Economic conditions would have allowed smoother consolidation efforts over time with a more ambitious contribution already in 2006. Moreover, the contribution of expenditure-led consolidation is modest; targeted measures focus on the revenue side. Historical experiences, however, show that revenue-based consolidations are the less successful and sustainable ones. In consequence, credibility not only of national but also of European budgetary rules will be further undermined.

Finally, fundamental reforms in key areas have not been decided yet but are envisaged for the coming parliamentary term. These include income and corporate taxation, statutory health insurance scheme, financial constitution and increasing incentives to take on low-paid employment.

Against the challenges Germany is currently facing, fiscal policy, labour market and social security reforms must remain on the political agenda.

Asia

Europe is currently "responsible" for less than 20% of the US current account deficit. Regionally disaggregated, Asia – including Japan – accounts for more than 50%. These mere figures emphasise that for global imbalances, the US-Asian perspective is of major relevance.

The three-pronged approach to global imbalances advocates greater exchange rate flexibility in Asian economies. This broad perspective sometimes overlooks the fact that with respect to exchange rate flexibility Asia is anything but a homogeneous entity. Some Asian currencies have undergone appreciations against the US currency which are comparable to those of the euro area. For example, in the period 1999–2004 the US dollar depreciated by more than 13% against the Korean won (25% against the New Zealand dollar and nearly 9% against the Japanese yen). In comparison, at the end of 2004 the US dollar had depreciated 9.5% against the euro since the beginning of 1999.

And I have already mentioned that the aggregate regional perspective does not take due account of the fact that the short-term perspective for Asia's current account positions masks significant heterogeneity. Among the East Asian countries, it is China that heavily influences the Asian surplus position.

China has also been the most popular culprit with regard to inflexible exchange rate regimes. Here, the recent decision to adjust the renmimbi's exchange rate regime was a welcome first step forward. Further flexibilisation of too-rigid regional currency arrangements will certainly help to smooth the necessary adjustment process. It would also help to minimise the potential collateral damage to current imbalances, such as increased protectionism in some industrial countries.

Nevertheless, it should be borne in mind that, looked at realistically, more flexible exchange rates in Asia will also by themselves play no more than a partial role in this issue.

Taking the "global savings glut" argument seriously points to another potential role for Asian economies: strengthening domestic investment opportunities. From an economic point of view, it is indeed astonishing that developing economies are financing the savings gap in the world's most advanced economy. Therefore, it is certainly necessary to improve investment opportunities in these countries to support domestic absorption (arguably with the exception of China, where investment rates have increased sharply and the private savings/investment balance is well below pre-crisis levels). This is equally important for endowing the young and expanding labour force in most of Asian countries with a modern and growing capital stock. In this respect, Asia (with the exception of China) has generally more favourable demographics than Europe.

With regard to reliance on external conditions Europe and Asia face the same kind of problem: both the tiger and the bull show their strength predominantly outside their domestic habitat.

Conclusion

Adjusting to current global imbalances will be easier when all players stick to their responsibilities. Structural reforms in the euro area are, furthermore, in the domestic own best interests of our economies. The sooner they are implemented, the better. What will arguably be more relevant – and, thus, a necessary policy step in any orderly adjustment scenario – is increased exchange rate flexibility in certain parts of Asia.

Improving investment opportunities in both regions is also of the essence. But it is certainly true: with regard to measures to reduce the current global imbalances the most urgent policy steps have to be taken by the US authorities.

Europe and Asia in the World Economy

Klaus-Peter Müller

Thank you, Mr. Weber. Your analysis has provided us with an excellent overview of today's subject and is a good starting point for our discussion.

Ladies and Gentlemen,

It's my pleasure now to introduce two further high-calibre panellists to cover our topic "Europe and Asia in the World Economy". All panellists will deal with various aspects of the changing architecture of the world financial and economic system.

- First, may I welcome Professor Mario Baldassarri, Italian Vice Minister of Economy and Finance. From 1978 until 2001, he was senior adviser to various ministries and the Italian government. His academic research covers a wide range of economic issues. Recently he has been working on the changing economic balance between Europe, Asia and America. I hope Mr. Baldassarri will share with us his know-how and expertise on the evolving structures of world economy.
- A warm welcome also to Jean Lemierre. In his capacity as president of the European Bank for Reconstruction and Development, he supports the development of market economies and democracies in 27 countries from Central Europe to Central Asia. His worldwide expertise and profound knowledge based on his long and distinguished career in international finance is a valuable asset for our panel.

So I look forward now to hearing what our speakers have to say.

Europe and Asia in the World Economy

Mario Baldassarri*

I would say that China producing manufactured goods is the strongest sign of the new era that we entered at the beginning of this century. Until the end of the last century, the south of the world – China included – was not present in manufacturing. So this is a structural change, which will continue in the course of the next decades. How will this structural change have affected the world economy in a few decades' time? In terms of the average rate of growth in the different areas during the first five years of this century, as Mr. Weber has already pointed out, we had Asia led by China and India at 8-9%, the US economy around 3.5-4%, Europe up to now around 1%.

Let's now project these average rates of growth over the next 15 to 25 years. You've already talked about the G8/G20 question. Today's G8 is made up of the US, Japan, Germany, UK, France, Italy, Canada, plus Russia. In 10-15 years, the G8 will see China leading the world economy, the US second, India third, Russia fourth, Japan fifth, maybe Brazil sixth, maybe Korea – no single European country alone could be part of this G8. In that case, we will fight hard to assign world governance to the G20 rather than to the G8, because each European country will be in the G20.

But – as has just been pointed out – the key point is can a tiger feed a bull? I would say No, but let me use some other examples.

Can the world economy, with this kind of globalization, be sustainable when the major actors could be defined as follows: an American grasshopper *(cicada)*, a Chinese ant and a European sleeping beauty? Could this be a sustainable scenario? In the meantime, we have a missing continent – Africa – and a forgotten continent – Latin America: this is the globalization we have today. So I see a potential temptation that could lead to the US and Asia – the US and China – moving along the Pacific axis and forgetting about the Atlantic, the Mediterranean, Africa and Latin America. It would be the first time in history that history is no longer made around this lake, which was once the Mediterranean and more recently the Atlantic.

But even if the US and China, the US and Asia, were tempted in terms of the high rate of growth – 8% on the one side, 4% on the other – to forget the others, they have to

* Transcription from tape by the organizer of the Frankfurt European Banking Congress

ask themselves whether this would be sustainable. I don't believe it is from a real point of view in terms of different real rates of growth, but mainly it would not be sustainable from a financial aspect. It would be a strange kind of situation in which high US growth is possible only as long as it is financed by Chinese savings. In five years, from 2000 to 2005, China moved from holding 7-8% of US foreign debt to 18-19%. Today, it holds slightly less than 20% of US foreign debt. In ten years' time, this 20% is going to be 30-40%; in 15-20 years it will be 50%. Can this be sustainable? There is a geopolitical problem for the US in the world economy. But there is also a funny situation in which the Chinese would continue to buy and accumulate a huge amount of nice pieces of green paper, without increasing their own domestic standard of living, in order to finance the major world economy, i.e. the US. This is not sustainable.

And in the middle, we have Europe, as a sleeping beauty. Obviously, I wholeheartedly agree about the need for structural change, structural reforms, ageing of population. We have built – and we are very proud of it – altogether the best possible economic and social model for the past in Europe. But we must now ask ourselves whether the European model is sustainable in the new era, in the new global economy. And the answer is No, so we need structural change. But are structural reforms in Europe easier to implement if we have the wrong macroeconomic policy?

What is wrong with European macroeconomic policy? As far as monetary policy is concerned, the point is obviously that we have to take into consideration inflation and financial equilibrium, the government budget, but we cannot forget the exchange rate, on the one side, and the composition – not just the deficit and the debt, the financial side of the government budget – but also the real input of the government budget depending on the level and the composition of government expenditure and government revenue, on the other. So I would not see, for instance, any reason these days for European authorities to increase interest rates until the euro returns to parity with the US dollar on a regular basis.

On the other hand, everybody knows what happened in 1996 with the Maastricht Treaty and the 3% ruling for the ratio of the budget deficit to GDP; a 60% ratio of debt to GDP at that time and 5% of GDP growth – 3% real, 2% inflation. So we emerged with 3%, which is a very important rule for financial equilibrium, but this is a rule that we needed for Europe when Europe was a teenager. After ten years, Europe must become an adult, which means that we need a much more rigorous rule that does not allow for any kind of deficit in the current account, but permits European countries to have whatever we need in terms of investment. And we can easily deal with the fact that individual governments can perform accounting tricks by giving the Commission or the European Central Bank the power to certify investments. That is what we need in Europe.

Finally, what do we need in the rest of the world? If we have no sustainability in terms of real growth, and even if we are prepared to accept unbalanced growth between the different continents, which will lead to only three countries – China, the US and India – accounting for 70% of world GDP twenty years from now (based on a projection of the growth for the past five years), there is still the lack of financial equilibrium. We need to find out, therefore, whether there is a positive sum game in the world economy for *each player*, and not merely overall. So if we have a lack of both real and financial sustainability, given the existing exchange rates, why don't we put the question the other way round? What exchange rates would give the world economy sustained growth perspectives and better growth for each continent? After all, the ultimate goal is higher growth and better living conditions for each player.

I worked out the following rather provocative idea: if we had a 40% appreciation of the renminbi to the dollar and a 20% US dollar appreciation to the euro, we would have higher growth in the US, China, Europe, Latin America and Africa than the current perspectives offer. This is something everyone can work out for themselves. I did it with an econometric model, but we could use many others. This shows the scale of the adjustment that is required.

The Chinese have acknowledged that they need a rather more flexible exchange rate, but will only consider 2-3% per year. However, do we have time – 20 years or so – to adjust slowly, avoiding the perspective mentioned by Mr. Weber – namely, US debt and China's population – to make a switch in world economic policy in different areas? The first switch must come sooner or later in China, where the economy has to become not only export-led but also requires a domestic push, i.e. a transition from simply accumulating pieces of paper towards achieving a better domestic standard of living as well. And in Europe, the situation is the same: not only a focus on exports but also a domestic push through structural change.

We have three big areas: US, Europe, Asia. They cannot behave like a small open economy; they must behave like a big closed economy, interrelated with each other. So we have a new era, but we cannot face this era in the world economy with the governance of the previous era. We need new governance; we need to sit down around the table and find out whether there is a positive sum game for each player. I personally believe there is. Thank you.

Europe and Asia in the World Economy

Jean Lemierre*

I would like to make a few remarks from the point of view of the region in which we operate and about the debate which is being launched here.

The first point, and the most obvious one, relates to *energy*. Both Asia and Europe have little energy. You can find wind, you can find maybe nuclear in some countries, you can find hydro, but the specificity of the bull and the tiger you speak about is that they need energy; they are hungry for energy. – By the way, I understand that things are quite the same in the United States.

The region in which we operate has massive energy. They have oil, gas. I'm talking about Russia, the Caspian area, Kazakhstan, Azerbaijan. Turkmenistan is probably slightly different because they sell most of what they produce to Russia. Access to energy is becoming a key challenge for the tiger and the bull. And there is competition here; we see it today. It's clear that in Central Asia, there is now a new debate about who are the clients, whom are they going to supply.

Mr. Jin, my Chinese colleague at the Asian Development Bank, will fully agree with me about the fact that Central Asia today is back on the map. For a hundred years, it wasn't. It was on the map, of course, a hundred years ago between Russia and the UK, India. That was the great game. But it's back on the map because of energy, and it is a very serious player between the bull and the tiger. When you go to Kazakhstan, this is obvious today. Russia, of course, is a key player. It has to do with a few questions, like price, control of supply, transport, with major modifications. And I would like simply to finish my point about energy by mentioning what I see as a major change for the bull and the tiger in the region. This relates to energy technology. Up to now, the Russians or the Kazakhs have exported gas simply by pipeline. This is very well-known in Germany. But now they can sell gas by crossing the oceans and this is the crucial importance of a major project in Sakhalin, which is gas for Asia. And with energy and ships, you can sell gas to the United States. This changes the energy geopolitics of the region tremendously. Of course, it has a positive impact, I hope, on Asia but it also holds a challenge for Europe.

* Transcription from tape by the organizer of the Frankfurt European Banking Congress

The whole debate about how to get access to energy, at what price, with what kind of investments, is becoming – I think – a crucial question. I say this from a purely European point of view. Listening to what is happening in the region, I think that these challenges are being underestimated. Even if there are some questions about some projects, this question is absolutely key. I'm sure it's going to be at the centre of the debate with Russia, when Russia holds the presidency of the G8 next year. One item will probably be energy security, energy supply. And it does raise very many questions between the two zones – including, of course, the United States.

The second question, which is linked to this one for the region that lies between Asia and Europe, is *trade*. You have a big specificity of development based on trade, but the region in which we operate mainly is not a member of WTO. Some countries are, but Russia is not. Nor is Kazakhstan. The oil and gas producers are not members of WTO. We would like to see them become WTO members soon, but I'm not sure that they will because they have a lot of reforms to implement before they are able to do so. This is also becoming part of the story, which is: what is the balance looking at the energy side, and looking at China mainly, India and Europe? Russians will be interested in growing their economy by diversification and investments and not only by selling gas and oil. This can, of course, be driven by the WTO process through attracting more investment and encouraging competition. These discussions are going to be very crucial in the future. I have said that the energy question is maybe not so well understood, but the investment and WTO issue *is* very well understood in Europe, and especially in Germany. And Germany's role in Russia looking at these questions, including the regions in Russia and the far east of Russia, is very important.

I would like to come back to a third question, which is *demography*. When you look once more at my region in which we operate, you notice that it is going downward from a demographic point of view. Russia is losing people, and that's a fact. China is increasing and becoming richer. India is increasing and becoming richer. It's clear that the geopolitics of demography is going to play over the medium term in this region. The stability of the region will certainly experience a lot of cooperation, not only with regard to energy and trade, but also political cooperation. You can see the beginning of this; you can see attempts to develop different forums in which there is this type of dialogue and discussion. It certainly will have to be enhanced. When you are in Moscow and you speak with Russians, this is becoming a key question, for somewhere which lies in between. What does that mean? What I mean is simply that the theme which you have chosen for debate has a huge impact on this part of the European continent.
I didn't ask you up-front, Mr. Müller, whether you consider Russia to be part of the bull or the tiger. We don't know yet. But this is, in fact, a question I would like to raise here. I *do* think that the western part of the continent has very strong links with the other part of the continent and these will grow stronger, even if they are difficult for various reasons. But Russia wants to be a tiger. And they have the assets for this – energy mainly. And they are looking more and more at Asia. This region, being in between, tries to

get the best of the two, of the tiger and the bull. I'm quite sure they will; at least, it is our job to make sure they do. But this does change the geopolitical map and investment in the region quite considerably.

I will stop here because you asked me for a few remarks after listening to the bull and to the tiger story. That's my point of view on Russia and Kazakhstan. They are on the map and are more and more part of this debate, which was not the case ten years – or even five years – ago. Today, they are absolutely unavoidable. I think this is perfectly well understood by most German investors and bankers. They *do* invest in this region, looking at the growth being generated by the two parts of your debate.

Corporates Strengthening Eurasian Ties

Josef Ackermann

Ladies and Gentlemen,

It is with great pleasure that I **welcome** all of you to our second panel. Drawing on the wealth of their experience, our distinguished guests will discuss their views on "Corporates Strengthening Eurasian Ties", the theme of this session.

Eurasian ties are centuries old, and harnessing them is becoming more important for economic, political, social and cultural reasons. When one thinks of Eurasian ties, one aspect which may immediately spring to mind is cross-border trade. **Trade** between the European Union (EU-15) and Asia in goods alone more than doubled from USD 314 billion to a staggering USD 692 billion over the last ten years. Various policy changes – both at the national and regional levels – have made this possible, with China and India as the two most remarkable examples.

But Eurasian ties extend far beyond international trade. At the micro-level, the momentum behind cross-border investments in Asia continues to accelerate. In 2004, global foreign direct **investment** picked up after 3 years of declining flows. This does not come as a surprise. Asia is indisputably the world's fastest growing region. Asia's large and vibrant economies present enormous opportunities for European companies to expand their businesses.

At the same time, it becomes more and more apparent that the traditional one-way flow of foreign direct investments from Europe to Asia's emerging markets is changing. Clearly, Asian companies are expanding their operations abroad, driven by their search for resources, technology, market access and need to establish their brands.

And yet, obstacles to closer ties remain. Issues such as differences in corporate culture, institutions and governance are being discussed widely, and I am sure these issues will also play a role in the discussions on this distinguished panel.

Now without further ado, I have the great pleasure to introduce our panelists.

First, let me welcome Dr. Jürgen Hambrecht, Chairman of BASF, the world's leading chemical company. BASF celebrated its 140th anniversary in April this year and can look back on many decades of experience in doing business in Asia. What is more, Dr. Hambrecht himself was in charge of the company's East Asian operations and based in Hong Kong in the 1990s. Against this background, we have reason to be more than eager to hear his insights into business and the strategies of European firms in Asia.

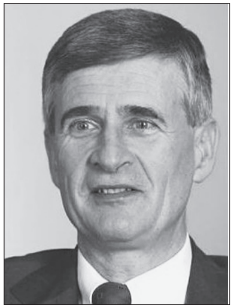
Let me also welcome Mr. Liqun Jin, Vice-President of the Asian Development Bank, based in Manila. Notably, the Asian Development Bank not only aims to reduce poverty in Asia and the Pacific, but it is also an active supporter of improving corporate governance in the region. Mr. Jin draws on a distinguished career, serving as Vice-Minister of Finance, as a member of the Monetary Policy Committee of China as well as in senior positions in international economic affairs, including at the World Bank. Mr. Jin, we are delighted that you join us today and look forward to hearing your views on the ongoing progress of Asian countries attempting to adopt best practices in their corporate frameworks.

Mr. Nandan Nilekani – thank you for being with us. Mr. Nilekani is the CEO and co-founder of Infosys, one of India's leading IT firms, established in 1981. In 1995, Infosys embarked upon its "Globalisation Initiatives" and has since established its presence in the UK, Germany, Sweden, Belgium, France, the Netherlands and Switzerland. Thus, Infosys is taking on the world, and we very much look forward to hearing about your experience on Asian companies doing business in Europe.

Last but not least, it is my pleasure to introduce Dr. Heinrich Weiss, CEO and Chairman of SMS Group, a leading supplier of machinery and equipment for the steel, metal and plastics industries worldwide. Last year, SMS Group celebrated its 100th anniversary of doing business in China. Given these long-standing ties, we shall be delighted to hear his recipe of how to build lasting business relationships in the fast-changing Asian economies.

But first: Mr. Hambrecht – the floor is yours.

Corporates Strengthening Eurasian Ties



Jürgen Hambrecht

"Let China sleep, for when she wakes, she will shake the world."
(Napoleon Bonaparte)

In 1820, China's and India's GDP were nearly half of the world's GDP (33 + 16%). The share of the two countries' combined GDPs decreased to less than 10% between 1950 and 1970. Since then the trend has reversed and for 2025 shares of 25 (China) plus 11 (India) percent have been forecast. Déjà-vu?

What is driving these fundamental changes? It is the combination of demographics and technology. At the start of the 21st century, it looks as if Asia, especially China and India, are becoming the beneficiaries of these changes. The world is humming to the tune of Chinese and Indian development. New markets are developing with an incredible dynamism in Asia and especially in China. Our customer industries are on the move – and so are we: BASF is the world's leading chemical company. It is our goal to supply our customers in all important markets around the globe.

As to the shift of markets: Let us have a look at the consumers with an annual income of more than $10,000. They are the potential consumers of chemical products. In 2001, about 1 billion consumers lived in the industrialized countries – the United States, Western Europe and Japan. By 2015, the number of potential customers will roughly double! However, there is one big difference. In Germany and in Japan the numbers of consumers will stagnate, whereas in China they will increase tenfold to 700 million. Companies wanting to participate in these growth markets need to be there; they must invest in these markets. What counts is proximity to the customer. This holds especially true for the chemical sector.

Asia is the world's fastest growing market for chemical products. With our major investment projects well under way, we are in a good position to participate in the future growth of the region.

Between 1990 and 2005, BASF has invested € 5.6 billion in Asia. To further expand our production network for cost-efficient standard and base chemicals, high-value specialty chemicals and tailor-made systems, we plan to invest at least an additional € 1 billion by 2009.

The investments have already started to pay off: Today we are one of the five largest suppliers in our main product lines and enjoy strong customer relationships. We have established a regional production network with our investments in Malaysia, China and South Korea as well as at sites in Japan, India, Indonesia and Singapore.

Our success builds on our competent team with over 9,000 colleagues in more than 15 countries. Over the past few years, BASF has already capitalized on the region's growth. In 2004, BASF's regional sales were € 6.3 billion, or approximately 17 percent of global sales. By 2010, BASF has the ambitious target of generating 20 percent of its global sales and earnings in the chemical business in Asia Pacific. By then, 70 percent of Asian sales are expected to come from local production.

Innovation is the key to future competitiveness and success. In Asia, and in China in particular, education and learning have a very high status. These countries have understood that technological performance is the key to shaping the future. Today, China is able to send taikunauts into space. By 2010, China will probably supersede the EU in expenditures on research and development. The combination of low cost and high tech will transform China, Korea and Taiwan into potent competitors. The real potential of Asia Pacific goes far beyond offering just production and market opportunities for foreign investors!

Establishing and maintaining Eurasian ties in fact means much more than building plants and opening trade offices there: It means mutually understanding each other's cultural perspectives and learning from each other. We at BASF are committed to shaping the future with our chemistry – together with our partners and all those who are associated with our business activities and products. Asia's fast transition to a modern industrialized region deserves our closest attention. We want to contribute to this development, in particular to the modernization of the chemical industry. And we want to set good examples. This means that we apply the same high global standards with respect to environment, health and safety everywhere in the world. Our partners embrace our basic approach toward sustainable development and especially our ideas on energy efficiency. Together we are striving for long-lasting mutual success.

Strengthening Eurasian ties is not only a task for companies. It's up to politicians to provide an adequate political framework and to maintain a level playing field. Greater openness to trade and investment has been a major catalyst for growth over the last two decades in the EU, but also in dynamic Asia. European trade policy, for example, must ensure that the Single Market is sufficiently open to provide cheap inputs and allow healthy competition vis-à-vis the rest of the world, while simultaneously providing domestic producers adequate access to third markets.

With the exception of Vietnam, all the other major economies in Asia are members of the WTO. Therefore, we would like to see further multilateral liberalization of trade and investment. However, the perspectives of the Doha Round look rather gloomy. We think that EU and U.S. agricultural policies must not be the stumbling blocks to multilateral progress. The successful completion of the Doha Round of multilateral trade negotiations is of critical importance to the global economy.

Against this background we have to take into account the dynamics of bilateral or regional trade agreements in Asia. Today more than 50 such accords have been concluded or are under discussion. With the United States, Japan, Korea or China involved in these activities, the EU must revise its position of concluding such accords only with groups of countries, preferably customs unions, and only after the Doha Round.

In order to avoid exclusion effects for European business, it is of utmost importance that the EU monitors these developments closely and develops bilateral accords where appropriate. There might be even a case for bilateral accords for individual member states of the EU if competitiveness no longer can be maintained via the EU commission.

Globalization also puts pressure on governments to make their countries fit for global competition and attractive for foreign investment.

It is very much up to governments to make their countries or regions as attractive as possible to skilled workers, entrepreneurs and investors – particularly by ensuring good infrastructure and favorable tax and legal regimes. The challenges for Brussels are numerous: Institutional reform, agreement on the budget, sluggish economic growth, divergence on the integration of new Member States …

The recipes for pro-growth policies for Brussels and the European member states are numerous, too. It is most important to fully realize the potential of the Internal Market of 25 member states.

Innovation is the biggest driver for growth. Therefore, we must create a climate in Europe that promotes innovation, rather than obstructing it. A regulatory framework that fosters innovation would be the biggest help (REACH, green biotechnology). And we simply must put more money into education and research and development if we want to go the innovation route – which we should do. Policies that encourage innovation and entrepreneurship are particularly important for SMEs. Less bureaucracy and better regulation are a must. The member states must engage in constructive competition on how to achieve growth and jobs by applying the right policy mix, for example in areas such as direct taxation, labor market and social policies.

In short – in Europe we must generate enthusiasm for innovation, cut bureaucracy and encourage people to act autonomously and entrepreneurially. This will lead to increased competitiveness, growth and social stability. This will make Europe fit for global competition.

Strengthening our Eurasian ties is a question of people, of talking to each other, of building and maintaining strong relationships. We can see the benefit of this in Europe, where the western and eastern parts are growing together. I am convinced that strengthening Eurasian ties will be beneficial in the same way for the people of both continents. Napoleon's times have passed, and China is wide awake. Protectionism is not an option. The way forward depends on cooperation and healthy competition.

"Getting ahead is a question of moving forward together, hand in hand." (Chinese proverb)

Corporates Strengthening Eurasian Ties

Liqun Jin

Thank you, Mr. Chairman. I enjoy the privilege and the honor to attend this meeting. I think this conference goes beyond banking. We should discuss a number of issues which are important for the cooperation and coordination between Asia and Europe.

It is interesting to note the subtitle "When Bull Meets Tiger": I think in the wilderness bulls rarely meet tigers. They move in different domains and their own territory. Having watched National Geographic and Discovery Channel for the last thirty years, I have never ever seen any scene in which the bull fights the tiger. Our job today is to bring them together so that they can work together, which can be more efficient. The tiger is renowned for his speed, the bull for its sheer strength. Together they will be more effective.

What is the role of ADB? First of all, it is important to correct some misunderstanding or misconception about ADB. I attended the Fourth Environmental Forum in Magdeburg, which was initiated by DaimlerChrysler and UNEP, before I came here. During that conference, I was approached by some people, and they said: "So you are from ADB." And we chatted a little bit and they were surprised to learn that European countries are also ADB shareholders, which in turn surprised me. The United States and Japan are the two major shareholders. Their voting power is 12.9 percent each. The European countries' cumulative voting power is almost 17.6 percent. Altogether, the developed countries' voting power is about 60 percent. So you see your importance in ADB. ADB is the strategic partner of Europe; ADB is your bank.

I think you can do a lot in Asia through ADB, directly or indirectly. President Haruhiko Kuroda, who took over as the President of ADB in February 2005 – he is the former Vice Minister of Finance of Japan – has a vision of promoting regional integration and cooperation in Asia by promoting, for instance, regional bond markets and many, many other areas.

In this regard we should take a look at what European countries can offer to Asia.

First of all, we in Asia can learn from your experience in regional cooperation and economic integration. Certainly, Asia is a region which is more diverse than Europe in many areas. I think it is a tough challenge for Asian countries to go as far as the

European countries do in terms of economic integration. But I think we can achieve that in the long run.

Secondly, European countries have very strong macroeconomic policies, including monetary policies, very strong governance and legal frameworks. In today's world people talk about the magic of the market economy. There are just a couple of countries in this world which are *not* market economies. But let me ask you one simple question: How many market economies in today's world are really successful? If the answer is "not many", then we should understand that market economy is a necessary but not sufficient condition. Only when a market economy operates on the basis of rule of law and good governance can this economy succeed. And in this regard I believe Asian economies have a lot to learn from European countries.

Thirdly, the European corporations are very active in Asia – in my country, the People's Republic of China, and in our neighboring countries. Your corporate strength, I think, is something which we in Asia also have to learn. You set a model for Asian corporations to learn from, emulate and to compete with. You enjoy the cutting edge in science and technology. You lead many fields in providing new products, to say nothing of the banking sector. A sound, healthy banking sector is important for Asian economies. In this regard, you can also contribute more to Asia.

The next question is: "What can the Asian countries, what can Asia in its totality offer to the European countries?"

First of all, business opportunities. It is very important for everybody to understand that the Asian countries will be offering more opportunities for the European countries as the Asian countries maintain very high growth rates in a range of six, seven, eight or even nine per cent. It is going to be an important export market for goods and services from European countries.

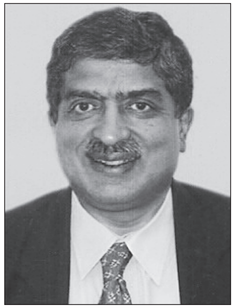
And we have a new dimension, which is security cooperation. For instance, we can cooperate in fighting against terrorism, in fighting against financing terrorism and money laundering. When we work together as a team we can be more effective, we can build a greater, more integrated market.

The Asian Development Bank is committed to poverty reduction, which is its overarching goal. But I do not believe that we can achieve poverty reduction in Asia, which is still home to two-thirds of the world's poor, by working very narrowly on poverty. Only through broad-based economic development, only through a balanced development program of promoting both economic development and social development can we achieve better progress in this regard. We are committed to working along these lines.

Finally, I would like to pick up a point raised by my friend Mr. Jean Lemierre with regard to energy. I think that he is certainly right in alerting us to the energy situations in Asia and in Europe, but I do not think we can only compete. I think we can cooperate. Because energy efficiency and conservation is an important area. Europe can offer a lot of experience in producing more energy efficient motor vehicles or machinery. We can work together to explore opportunities in finding renewable energies. For instance, in the Magdeburg meeting some experts discussed biofuel. In India, we can plant Jatropha, which is a very important source of biofuel. We can also work together. I do not think competition is the only issue here. In the final analysis, there is vast potential for Eurasian cooperation.

Thank you very much.

Corporates Strengthening Eurasian Ties



Nandan M. Nilekani

I am extremely delighted to be standing here, deliberating on a theme that in many ways has existed for the last five centuries and that still continues to be relevant and challenging to today's geo-political status.

Today, the West is becoming more and more aware of the great potential of India and China. However, it is worth mentioning that for much of history India and China have been the two largest economies in the world - and that was true already in the early 1800s. India and China also accounted for almost three-quarters of the world’s population and income. The re-emergence of these two economic superpowers should therefore come as no surprise.

The starting point for liberalization for both China and India was around 1991-92. Though the two countries started with similar economic indices two decades back, China's economy is more than twice as large as India's. China invites almost $60 billion of foreign direct investment against India's $5 billion. China continues to grow at 9-10% while the Indian rate stands at around 7-8%. India has a young and growing working population. A CLSA survey lumps the two giants together into a single economy and says that by 2020 the combined entity will consume half of the planet’s natural resources and serve both as factory and back-office to the world.

So what does this mean for corporates in developed economies? The challenges faced by India and China are at the same time the real opportunities for Western corporates. Somewhere along the road the Indian and Chinese “middle class” will constitute the biggest market ever seen in the world.

Today, India still requires huge investments to develop its basic infrastructure. The commercial viability of infrastructure projects financed by the private sector has been tested successfully. FDI in the real estate market has increased. The financial sector including insurance is gradually opening up. Foreign funds have snapped up shares in recent months, driving the stock market index to record highs. Private equity funds are pouring billions into ventures. The telecom sector is among the fastest growing in the world, adding almost 2 million new customers every month. And there is still a huge untapped population. Retail, aviation, tourism and education are some of the many sectors that offer potentially rewarding business opportunities. Agriculture, food-processing, bio-technology, energy, construction (both housing and commercial), shipping, ports - the list is endless.

The government is today cautiously open to large investments. However, in due course the business environment will become even more benign for foreign investments. The legal system is more robust than it appears to be. The communication network is reaching the remote corners of the country as are the electricity and water supply. A large pool of skilled labour – including managers – is waiting to be tapped. Every year a large number of students graduate from various universities. R&D centres are involved in fundamental research. By 2020, India will have an additional working population of 47 million. For a corporate with a vision, India is just waiting to happen.

In China, the revamping of financial services and the legal support system is inevitable. These are great opportunities for bringing in global practices to the world's third largest economy. Most of the opportunities mentioned previously for India are equally applicable to China as well.

So far, Europe as a collective group – with the exception of the UK – has not leveraged the global opportunities as effectively as the United States. The offshoring pattern looks like a wave moving eastward within Europe. Although offshoring to Eastern Europe does provide corporations with the valuable experience of operating in a global model in combination with the comfort of physical proximity, such a business model will not support any growing scale of operations. Companies also forego the opportunity of access to a large market.

What does this mean for European banks and financial institutions? As firms outside the financial sector move to leverage opportunities in Asia, this also creates immense chances for European banks to take their services to new geographical boundaries. The financial services industry is evolving in India, and it is evolving fast. Commodities exchanges were set up less than two years ago after the government deregulation allowed this to happen. The two fully electronic exchanges today settle a daily volume of $1.5 billion in futures contracts. Turnover is expected to rise to $15 billion a day by 2012. After NYMEX, the MCX (Multi Commodity Exchange) is the No. 2 trader in silver, beating TOCOM (Tokyo Commodity Exchange). Also, retail banks have been given more freedom to manage and restructure their operations. This has resulted in a significant rise of their valuation and increased banks' M&A activity in the last few years. New products and services are being offered to corporates and individuals. However, compared with European banks, there is still a gap to bridge with respect to the level of sophistication, use of technology and variety of delivery channels. As the Western markets get saturated, additional growth opportunities will certainly arise in the large, high-growth Asian economies.

Some roadblocks still exist in terms of red tape and reservations about FDI flowing into new sectors. There are constant debates on the limits of foreign equity participation. However, countries that are on the fast growth track are on a one-way street. These roadblocks are destined to be eliminated, making it more attractive for financial institutions to invest in Asia.

There are, of course, social challenges that need to be addressed while exploring these opportunities. This will require the coming together of minds and ideas to continue the creation of wealth and value, not only for Asia but for the developed economies as well. Innovation in business models will be key to creating value. Revenues from the licensing of patent rights have increased from $15 billion in 1990 to over $110 billion today. As the demographics in Europe change gradually, it is vital to support industry to adopt new models. Europe has to evolve and prepare itself for the challenges of the coming decade.

Let me conclude by saying that the world is at a turning point. The way we do business globally and the partners with whom we do business are changing dramatically. If we as corporates do not realize this change and adapt to it appropriately we are going to make it difficult for ourselves. On the brighter side: we never had so many options, so many new markets to target, and so much upside potential for those willing to take these opportunities. Think about it!

Corporates Strengthening Eurasian Ties

Heinrich Weiss

Over the last few years, the People's Republic of China has developed into an extremely important economic market and partner for European companies.

For almost 20 years now, the national economy of China has shown real growth rates in the gross national product of 7-10% per annum. The development of a functioning market economy from a socialist planned economy in the People's Republic of China is one of the most significant events of recent history and, in view of these growth rates of the past few years, has surprised even the so-called "experts".

Having started with Deng Xiaoping's policy of opening and reform, which began on a large scale with the importing of technological know-how and continued into today's technocratic, western-style government, the "sleeping giant" has evolved more and more into a market economy. During this long period, the People's Republic has never changed the overall direction of its policies but only has adjusted the speed of the reforms. Whereas in the western democracies a change in strategy takes place after each election, China has maintained its course over the years and continues to do so. This remarkable pace of development was retarded somewhat only by the dreadful Tiananmen catastrophe.

For the future development of China there are five significant points in the recently adopted new Five-Year Plan.

First of all, domestic demand must be expanded in order to benefit economic growth. The standard of living of the population must be raised. This also incorporates adequate fiscal and financial policies and the monitoring of investment activities to protect against overheating of the economy.

Secondly, through the application of advanced technology it is intended to increase the level of productivity in the economy. It is also planned that industry, being the driving force of the country's economy, shall provide a higher level of support to agriculture and that the booming coastal areas shall increasingly assist those provinces in the interior of the country which are still characterised by weak infrastructure.

In addition, China will be reinforcing its own ability for technical innovation. There will be greater encouragement of the spirit of innovation in Chinese industry, with attention being paid to the protection of intellectual property. Enhanced priority will also be given to the education sector. It is planned to allocate more resources to education, to reform the educational system and to introduce compulsory schooling on a general scale.

Superimposed on all these aspects will be a "grand design" of a harmonious society in which consideration will be given to the fundamental interests of the people. China has defined the characteristics of this society as being democracy, the rule of law, justice, solidarity, honesty, order and respect for the environment.

The general direction of developments over the next few years will be characterised by the manner in which problems, both present and emergent, are going to be dealt with. There is a high level of concealed unemployment owing to the continuing large number of state-owned companies which have still not been privatised. Furthermore, the various social problems, such as demographic trends, the absence of an adequate social security system and the migration of agricultural labourers into the towns and cities represent potential factors for conflict within society.

Chinese society has already undergone a drastic change, and for many people life has altered radically while the political system has remained officially unchanged. Even so, a change towards more democracy is clearly visible within the Communist Party and these are manifested in the formation of the various "wings" in the Party. The times of quasi-dictatorial leadership are long past.

The ongoing process of democratisation in China will be realised at a slow pace. Since the majority of Asian people reject western style of government owing to the smaller degree of state control and the strong influence of the media.

China will be adhering to its policy of opening, it will be strengthening its cooperation also with the EU and, as regards domestic policy, it will be introducing the urgently needed reforms for the strengthening of social security, public welfare and an overall harmonious society.

Financial Markets: Shared Responsibility

Herbert Walter

Excellencies, Ladies and Gentlemen,

Welcome to our next panel: *"Financial markets: Shared responsibility"*.

After an excellent lunch we can now reconvene to discuss the financial aspects of the bull-tiger relationship.

As we have learned this morning bulls and tigers may be a strange pair. The question is not whether the bull will fall victim to the tiger – but how they can come together to combine strength and speed.

The idea of a new Pacific era is now well established. But it appears to be mostly confined to the real economy. Financial markets in Asia are still lagging behind.

But in Europe, the opposite seems to be the case. An economy struggling to come to terms with globalisation. But is the financial sector bouncing back with the help of the euro and financial market integration?

This is the backdrop for our panel: It's obvious that Europe and Asia have got to work together. Global stability surely needs more than just the American pillar. It's got to have a European and Asian dimension as well.

At the moment, things still look pretty good.

- Financial institutions are cashing in on the good health of the global economy and financial markets.
- Most corporates also seem happy with low borrowing costs.
- And even central bankers have been relatively cheerful for quite a while! Is this perhaps because globalisation is putting a lid on inflation?

But what about the future?

Well, <u>first</u> and foremost, we're seeing large global imbalances, and they seem to be growing:

- Can we expect a worst case scenario?

- Could we see a disorderly decline of the dollar?

- And turmoil in financial markets?

The IMF and our chief economists as well have often warned of this – but the dollar is in fact strengthening against the euro and the yen.

A second concern is that high levels of liquidity have increased the market's appetite for risk. This is driving risk premiums down to record-low levels. And other investments are soaring, especially raw materials and real estate.

With monetary policy set to be tightened these markets might well collapse.

Alan Greenspan has already warned in one of his clearer statements: "History has not dealt kindly with the aftermath of protracted periods of low risk premiums".

- Do our panellists worry about this?

- And what do *they* think should be done to prevent it from happening?

Ladies and Gentlemen,

let me introduce my colleagues here on the panel – first, our guests from Asia:

- Zeti Akhtar Aziz,
  Governor and Chairman of the Central Bank of Malaysia for the last five and a half years.
  She is one of the architects of Malaysia's economic rebirth after the Asian crisis.

- Eiji Hirano,
  Appointed Assistant Governor of the Bank of Japan in 2002. He is a familiar face at all important international central bank meetings. Some call him the "foreign minister" of the Bank of Japan.

To put forward the European view we have:

- Jean-Claude Trichet,
  President of the European Central Bank since 2003. As one of the pre-eminent figures in European finance, he has been shaping European monetary policy for nearly the last 20 years.

And for the global perspective we have:

- Rodrigo de Rato,
  Managing Director of the International Monetary Fund since June last year.
  Mr. de Rato is also well remembered as a driving force behind the "Spanish success story" as well as the euro.

Mr. de Rato:

In one sense we are relieved that you are with us today. If the Managing Director of the IMF can find time to be here, it must be a clear sign that a major financial crisis is not in the making!

We are looking forward to hearing your views.

Let's now turn from the global to the *European* perspective.

Mr. Trichet:

At the tender age of "almost seven", the ECB already has a remarkable record of achievement. It cannot be easy to manage a single currency of 12 economies and to deal with 12 different governments as well.

We await your views with great interest. And I don't think anybody would object if you want to touch on the interest-rate outlook.

From Europe we now move to Asia:

Dr. Zeti,

Malaysia - following China's lead - recently ditched its link to the dollar and shifted to a managed float. This move has helped to dampen criticism of Asian central banks. But do you think this is enough to have a tangible impact on the external imbalances?

Staying in Asia, we come to our next panellist,

Mr. Hirano from Japan.

Mr Hirano, Japan still seems to live in a different world. We all fret about the return of inflation. But in Japan, after seven years of deflation, that would be positively welcome. So seen from that distinctive Japanese perspective, we are eagerly looking forward to your thoughts.

Thank you very much.
Now the floor is open for questions.

Financial Markets: Shared Responsibility

Rodrigo de Rato

Thank you for inviting me to speak today. It is a pleasure to be here in this distinguished company.

In recent years there have been fundamental changes in financial markets. Non-bank financial intermediaries have grown dramatically at the expense of banks. Institutional investors are playing an increasingly important role in capital markets. Financial market innovation and integration are proceeding rapidly. Indicators that were once reliable are becoming ambiguous: for example, Alan Greenspan has recently suggested that the slope of the yield curve is no longer a useful gauge of the U.S. economy. And huge transfers of risk are taking place, not only between countries but also from financial institutions to other sectors. Substantial financial risk now lies with the household sector, to the extent that the household sector has become "the shock absorber of last resort." All of these developments have profound effects on modern economies.

The theme of this panel is shared responsibilities for financial sector stability. I would like to talk about the impact of the changes I've described, and also of globalization more generally, on the responsibilities of the private sector, of governments and of international financial institutions in promoting and protecting global financial stability. I should also emphasize that financial stability is not just important in itself, but because financial instability can have significant and adverse effects on the real economy. This is one reason why I am encouraging the IMF to deepen its knowledge of and engagement in financial sector issues. Globalization of financial markets has great potential benefits for economies, but also considerable risks, and the IMF needs to be able to give its members good advice on how to maximize those benefits and minimize those risks.

The public sector, in which I include governments, central banks, financial sector supervisors and international financial institutions, have responsibilities in at least three areas. First, they must promote macroeconomic stability, at both the national and at the global level. Second, the public sector has to provide a supervisory and regulatory framework that is conducive to well-functioning and stable financial markets. Third–and this is perhaps the most difficult task–the public sector must understand the constantly changing world of international financial flows, be alert to possible sources of instability, and act appropriately to confront them. Let me take each of these responsibilities in turn.

At the national level, the responsibilities of governments and central banks for macroeconomic stability are clear. Governments must set fiscal policy in a responsible way. Central banks should keep inflation down, and should be predictable and consistent in their monetary management. And recently, central banks all over the world have been doing a good job at this, growing in both independence and skill in combating inflation. But as monetary authorities focus on holding down inflationary expectations, it is particularly important that they give clear signals of their intentions, to avoid unnecessary volatility in financial markets.

At the global level, responsibilities are less clear, and too often governments point fingers at other countries to justify inaction in their own. As a result, while some tentative steps have been taken, much more needs to be done. This is of concern, because global imbalances have grown large, and there is a real risk of a disorderly adjustment to them. But there is also a large pay-off from action, and all of the actions that are necessary are in the interests of the countries that need to take them as well as in the broader international interest. Fiscal adjustment in the United States would make an important contribution to reducing global imbalances and would leave the U.S. fiscal system better placed to cope with the pressures of an aging population. European governments can promote better growth performance in their own economies and sustainable global growth by reducing the rigidities prevailing in labor, product and service markets. This would also improve their economies' resiliency to shocks, including a sudden unwinding of imbalances. In emerging Asia, there is scope for greater exchange rate flexibility and increased domestic demand. The recent moves by China and Malaysia toward greater exchange rate flexibility are welcome, and I hope the authorities will use the flexibility afforded by their new arrangements, and that other countries in Asia that have been allowing more flexibility in their exchange rates will continue to do so.

Obviously the IMF has an important role in advising our members on this, through our surveillance of individual countries' economies and our work on the global economy. In order to make our surveillance work more effective, we are taking steps to sharpen the focus of our policy advice, including deepening our coverage of financial sector issues in Article IV Consultations. We also plan to enhance our monitoring of emerging market economies' vulnerability to crises and consider again the possible role of fund financing commitments in crisis prevention. Our aim is to help all of our members deal with the most pressing issues of macroeconomic stability and the challenges of globalization.

The public sector's responsibilities for the supervisory and regulatory framework are well-understood, but in carrying out these responsibilities governments and central banks need to adapt as financial markets evolve. For example, as asset management companies, including hedge funds, grow further in significance, governments will need to go beyond banking and insurance regulation, and address new issues of transparency and disclosure and problems of conflict of interest. Regulators and supervisors also have to remain alert to contagion effects. The IMF has a role to play in advising on supervisory and regulatory frameworks, including through the Financial Sector Assessment Program. The FSAP has now become such an established and valued feature of the work of the IMF and World Bank that it's easy to forget that it seemed quite radical when it was first started. I am very pleased that so many countries—especially here in Europe—have now undertaken the FSAP. We will continue to refine the FSAP process to further enhance its usefulness to our members.

Monitoring the global financial system is perhaps the most difficult task for governments and for the IMF. But it is essential that we understand the global asset allocation process and be able to detect potential problems that could lead to financial crises. Policy makers need to be able to assess the likelihood of abrupt changes in capital flows that might undermine the financing of payments imbalances or the stability of emerging market economies. And international organizations should try to develop radar screens that can show policy makers upcoming problems before they are imminent. I would like the Fund to step up its work in this area. In particular we need to integrate our work on financial markets more closely with our economic advice to individual countries. We also need to draw on knowledge gained through country surveillance and interactions with policy makers and market participants, including professionals like yourselves, to help us form a global view of financial market developments.

Let me turn now to the responsibilities of the private sector. These include sound risk management practices, due diligence, and professional credit and risk analysis. I would also highlight the importance of corporate governance, including checks and balances within institutions, not only in the banking sector, but also in the asset management sector.

This leads me to an area where governments and the private sector have a shared responsibility. As Pay-As-You-Go systems diminish in importance, defined benefit pension plans become rarer, and diversification becomes essential for individual savers as well as companies, so an education on financial markets, especially on the trade-off between risk and reward, becomes more important. But this education is not only the responsibility of governments. If they are wise, private companies will recognize that they also have a responsibility to educate their clients. If they do not, then losses are likely to be greeted not just with disappointment but with anger, which will inevitably translate into pressure for public intervention. There is a long history, in both the banking sector and more recently in the area of accounting standards of events that cause losses to the public triggering intervention by legislatures, and this might be of a form quite unwelcome to the private financial sector. Transparency, consumer education, and sound corporate governance are all in the interests of financial sector businesses as well as their consumers.

I want to end on an optimistic note, because I see a number of very positive developments in financial markets. I see strong efforts to improve risk management. I see increased efforts to transfer knowledge and strengthen corporate governance in the financial sector. I see welcome concerted efforts by the private and public sector to head off crises. And I see much promise in meetings like this one: in free exchanges of views between the public sector and private sector practitioners. Understanding of problems and consensus on action begins with such exchanges. So once again I am very pleased to be here, and I look forward to hearing your views.

Financial Markets: Shared Responsibility

Jean-Claude Trichet

It is a great pleasure for me to attend this European Banking Congress and to take part in this panel discussion on financial markets together with such a prominent group of speakers.

The title of the panel, "Shared Responsibility", is particularly apt, given the reality of today's world economy, where the long-standing process of economic and financial integration requires policy-makers to share responsibility in order to ensure that the benefits of integration are spread evenly across the globe and that the inevitable adjustment costs are properly addressed. To take on this responsibility, the international community needs firm governance. This requires solid institutional foundations and policies, which we often refer to as the "international financial architecture".

The series of financial crises that marked, in particular, the period 1994-2002 led the international community to recognise the need to strengthen financial architecture as a core priority.

I was myself the witness of this major structural change in the global financial architecture at the end of the 90's and beginning of the years 2000. I see four main principles at work:

- first, the full recognition that all economies, whether industrialised or emerging, that have a systemic economic and financial influence at a global level must be part of the informal exchange of views and of the new processes of global governance;
- second, the full recognition that many improvements in global governance must rely upon the dissemination not only of appropriate prudential rules to be enforced by surveillance authorities but also of voluntary standards and codes to be adopted by economic agents of the private sector ;
- third, the understanding that any improvement of the institutional framework, whether in the domain of banking supervision in particular, and of insurance or securities sectors prudential surveillance, as well as in the domain of the conditionality of International Financial Institutions, has to take account of the optimal

governance of the global integrated economic and financial system that we have been progressively developing;

- and fourth, the idea that in the present world where globalisation and scientific and technological changes are triggering very rapid changes, not only the quality but also the speed of the decision making process at a global level is essential.

These four principles have inspired all major changes that have recently been introduced in the global financial architecture: the creation of the G20, the working out of global standards and codes, the creation of the Financial Stability Forum, the frequency of the Global Economy meetings at the level of Central Bankers, the strengthening of links between all responsible entities, the improvement in the IMF surveillance, the changes in the monitoring by International Financial Institutions.

One of the most important consensus that has developed thanks to the work of these new formal and informal processes and entities has been the necessity to improve transparency. Let me now elaborate on this aspect – i.e. transparency - to which I attach particular importance. One of the weaknesses identified during the financial crises of the 1990s was that there had been considerable information asymetries between local authorities, market participants and the international financial institutions. Since then, the IMF has made considerable progress towards increased transparency and now publishes very valuable information on, for example, internationally agreed standards and codes. The ability of investors to assess information on the adherence of countries and their financial institutions to standards and codes facilitates risk management and leads to enhanced market discipline. As a result, yield spreads show investors' greater ability to distinguish between assets with different risk/return characteristics. This does not, of course, mean that there is no more room for improvement. For instance, further progress still needs to be made with regard to the way in which countries report information to the IMF on official foreign exchange reserves. This is all the more important at a time when reserves have been building up at an unprecedented pace since 2002.

Improvements in the area of transparency have not been limited to the public sector. Market participants have themselves also adopted a pragmatic, voluntary and market-based approach in developing a transparent code of conduct. This work has produced significant results, the most important of which is the finalisation of the "Principles for stable capital flows and fair debt restructuring in emerging markets". This initiative has already gained support, for example, from the G20 group, which stated one year ago that the Principles provide a good basis for strengthening crisis prevention and enhancing the predictability of crisis management.

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While all these new initiatives have significantly contributed to the strengthening of the international financial architecture, I should emphasise that in a constantly changing world we have to remain alert and ready to adapt our institutions and policies.

In this respect, Rodrigo de Rato has recently taken a very important step with regard to the IMF's medium-term strategy, i.e. the definition of the Fund's priorities in the years to come. I broadly share the vision of the Managing Director, who has outlined the new challenges that IMF member countries are facing in an increasingly globalised world.

In this context, I would like to highlight one area of the IMF strategic review which, from my perspective, is also one of the most important: *macroeconomic surveillance*. The IMF is well placed to conduct surveillance, including the monitoring of the spillover effects arising from the ever-growing trade and financial linkages between its member countries. Even though the list of objectives pursued by IMF surveillance has expanded over time, the IMF's primary goal – which coincides with its original mandate – is to look after the international monetary and financial system and promote its stability. And I do believe that the current global imbalances have reinforced the case for this primary goal to be at the forefront of the Fund's work. I therefore support the recent efforts made by the IMF to place more emphasis on global surveillance.

We are in a situation where the global economy is expanding at a comfortable pace but, at the same time, we face external imbalances which have been significantly widening in certain core economies since 2002. These imbalances represent a downside risk to the global economy, but the international community fortunately shares the diagnosis of the situation as illustrated, for example, by the G7 statements I have been signing in recent years. We have repeatedly called for action to address global imbalances and have agreed on homework that each of us should embark on. In practice this means a number of measures to increase the savings rate in the United States, structural reforms aimed at enhancing growth potential and market resilience here in Europe and in Japan, and increase domestic investment and/or consumer spending in the economies characterised by persistent current account surpluses (which now also includes most oil-exporting countries). Moreover, exchange rate flexibility is desirable for major emerging market countries and regions that lack such flexibility, as this would contribute to a better functioning of the global economy and would help, in particular, to limit any further build-up of global financial imbalances. The exchange rate reforms introduced by the Chinese and Malaysian authorities in July 2005 are, in this respect, a welcome step towards greater exchange rate flexibility in the East Asian region.

But it is not enough for us to agree on the diagnosis of global imbalances and the initial measures to be taken to facilitate their adjustment. We all have to step up our efforts to *further execute* the agreed measures. I therefore call for the resolute implementation of these measures by all partners involved, and for the IMF to further strengthen its supporting role in monitoring such implementation.

I am pleased to observe that this analysis of the main challenges for the global economy is shared by our Asian friends. This was confirmed – just last week, here in Frankfurt – by our discussions during the second high-level seminar bringing together the central banks of the Asia-Pacific region and the euro area, an event now taking place once a year in order to foster policy dialogue between these two important regions of the world.

Besides reviewing recent macroeconomic and financial developments and discussing the related policy issues, we also focused on the experiences of the EU and Asia-Pacific countries with regard to surveillance conducted at the *regional* level. It was not by chance that we dealt with this topic: our regions are in fact the two most economically integrated in the world, as is shown, for instance, by the relative importance of intra-regional trade.

The experiences of Europe and the Asia-Pacific region with regard to regional surveillance present some important differences, but also similarities. Beginning with the differences, it is true that we Europeans started in the 1960s with simple peer reviews, as is currently the case within the Asia-Pacific region; but we then made substantial progress, with fully fledged and binding surveillance of economic policies now enshrined in Europe's economic and monetary constitution – the Maastricht Treaty of 1992. Moreover, while the European experience was mainly driven by public initiatives and supranational institutions, the main drivers in the Asia-Pacific region are market forces and the need to integrate into the global economy, as illustrated by the development of a regional production line for world markets.

Despite these differences, policy-makers in Europe and the Asia-Pacific region do agree that regional surveillance is an instrument that can usefully *complement* IMF surveillance, but should by no means replace it. We also agree that these two dimensions of surveillance can usefully *interact* to deliver stability in the global economy, but at the same time we acknowledge that more work needs to be done to harmonise them properly.

Thank you for your attention.

Financial Markets: Shared Responsibility

Zeti Akhtar Aziz

It is my honour to join this Central Bank panel in this year's Frankfurt European Banking Congress, which has chosen the theme Eurasia – Bull meets Tiger.

Reference has already been made by previous speakers to the increased risks that the current prevailing global imbalances impose on the international financial system. The specific issue for this panel - "Financial markets: Shared Responsibility" suggests that a global solution is needed to address the problem of global imbalances, and that the burden of adjustment needs to be a shared responsibility.

There is already a general consensus on the necessary structural adjustments that need to be made by the respective regions, namely, the United States, Europe and Asia. By the very nature of structural adjustments, it involves structural reforms, institutional developments and shifts in the relative significance of economic segments and structures. These adjustments and reforms cannot be expected to occur within a short period of time. While there is concern whether there will be the commitment, the political will and the discipline to undertake these reforms and changes, the more immediate concern is that during the transition, sudden and abrupt adjustments may take place in the financial markets, with adverse implications on the world economy.

I would like to take this opportunity to discuss these issues from the perspective of Asia in general and emerging market economies in particular. More specifically, what might be the role that Asia could have in the adjustment process? Several issues have already been cited as constraints to the process of adjustment. The relative lack of strength in domestic demand outside the US; the large gap between saving and investment in major regions of the world; and the fragmented structure of global capital intermediation that hinders surplus regions from financing productive investments within their region. On all these fronts, significant initiatives are underway in the Asian region to address these issues and substantive progress has already been achieved in contributing to the global adjustment process.

Asia, with more than half the world's population and a growth performance that has been, on average, one-and-a-half times higher than the global average, is becoming increasingly more important in the world economy. While Asian economies have many common characteristics, they are less homogeneous compared to the European economies. The main common feature of Asian economies is its high degree of openness and export orientation. On average, total trade as a percentage of GDP is 95%. A more recent emerging phenomenon is the growing significance of intra-regional trade. Intra-regional trade now accounts for more than 50% of Asia's total trade. A second distinctive and important feature of most Asian economies is the high degree of flexibility of the economies in adjusting to changing global conditions and in dealing with external shocks. This high degree of economic flexibility has been an important factor in sustaining the region's growth performance and in facilitating rapid recovery from shocks, including from the 1997-98 financial crisis.

While in the past, high economic performance of Asia was driven by the export orientation growth, greater focus is now being accorded in the recent decade to strategies geared toward building the capacity of domestic demand. In particular, increased emphasis has been placed on promoting the role of consumption. Reflecting the success of this policy, the savings rate that exceeded 40% of GDP in several of the Asian economies in the 1990s, (in Malaysia the rate was 42% of GDP) has now trended towards 30%. Private consumption as a percentage of domestic demand has increased from 77% in 1995 to 85% currently. It is projected that by 2010, this will reach 90%. In most economies, fiscal consolidation has also continued, thus reducing the budgetary deficits and the level of public indebtedness, while enhancing the role of the private sector in the economy.

Significant initiatives are also underway to increase the contribution of private investment to growth and to secure new areas of growth. Reforms have been undertaken to boost the investment climate by reducing the cost of doing business and improving the supporting infrastructure. These initiatives will continue to be on-going priorities in the region.

These trends have increased the potential for Asia to contribute to the rebalancing of global growth and thus towards the global adjustment process. This process has been strengthened by several factors. Firstly, the conscious policy measures that have been implemented to promote domestic consumption and investment. Secondly, the cumulative domestic demand of the regional economies in an environment of rising incomes has represented a significant regional market that has fuelled the expansion of intra-regional trade which has, in turn, resulted in a mutually reinforcing process that has strengthened further the regional growth. While the measures to spur regional demand are also being forged though various regional free trade agreements (ASEAN FTA; ASEAN-China FTA and ASEAN-India FTA), the region is also outward looking to strengthen its relations with other parts of the world. The series of reforms being pursued are thus aimed at strengthening the capacity of the region to emerge as a stronger source of global demand.

A further reinforcing factor for Asia to emerge as a stronger source of global demand is its favourable demographic structure. Asia has the largest share of the world's population, coupled with a young demographic structure, thereby providing a future source of domestic demand. With the growing income levels, the middle-income groups in China, India, Korea and ASEAN have been increasing and will position Asia as one of the largest markets in the world going forward.

In many respects, the rising trend in intra-regional trade in Asia mirrors developments in Europe. Intra-regional trade in Europe has always been significant, and became increasingly important in the 1990s, rising from 53% in 1985 to surpass 60% in 2004. Since the 1970s, a central feature of Europe's cooperative efforts in the context of increased economic interdependence within the region was exchange rate stability. Exchange rates in Europe evolved, beginning with a fixed parity arrangement among European currencies, within the broader framework of a free float against the other international currencies. The evolution of the exchange rate arrangement has culminated in a common currency in the European Union.

While a single currency is a remote possibility for Asia, exchange rate stability in relation to the currencies of its major trading partners is even more important to Asian economies because of its higher degree of openness both in terms of trade and financial flows and also in view of the relatively smaller size of several of the Asian economies. On account of these factors, the region is rendered more vulnerable to sudden and large swings in exchange rates. While progress has already been made to strengthen the financial markets in the Asian region, Asia still needs to develop the capacity to manage the volatile financial flows and the consequent large swings in the exchange rate.

This brings us to the call being made for Asia to adopt more flexible exchange rate regimes, with the suggestion that the exchange rate should be allowed to appreciate and thus contribute towards reducing the global imbalances. It needs to be recognised that Asia's comparative advantage is not derived from the exchange rate. Wages, prices and other costs are significantly lower in Asia. It is precisely for this reason that multinationals have relocated their operations to Asia. Furthermore, studies have in fact shown that Asian currencies would have to appreciate by 50 to 60% to have any discernible impact in reducing the global imbalances. Any such adjustment within a short period of time would not only lead to significant economic dislocation in Asia, but also precipitate unstable financial market conditions. Given the increased international integration of Asia with the rest of the world, the destabilising financial market conditions would not be contained within the region but can be expected to have its contagion effect on the international financial markets.

What has been important is that while external price stability has been pursued in Asia has, it been accompanied by internal flexibility to adjust to changing conditions. In fact, Asia's strong performance has been due in part to its economic flexibility – the ability for resources to shift to new areas of comparative advantage in response to changing conditions and new opportunities in the global economy. In particular, there is a high degree of labour and capital mobility. Significant investments in training and education have allowed labour to adjust and become more mobile. This has played a large part in enabling rapid industrialisation and in shifting to higher value added activities. Capital has also shown greater mobility, expanding the potential for the economies to adjust. Many of the Asian countries have actively identified and developed new sources of growth, leveraging on their respective resource advantages and new technologies to move up the value chain. There have also been greater moves toward removing rigidities and transitioning toward greater market orientation and competition.

On the financial front, significant progress has been made in Asia in strengthening the financial sectors (banking system and capital markets). This increases the region's capacity to intermediate funds within the region. The regional banking systems as a whole have increased their resilience and ability to manage risks as reflected in the indicators of profitability, asset quality and capital adequacy, all which have generally strengthened. The renewed strength in the banking systems is mainly underpinned by the recapitalisation programmes; consolidation through mergers; and improvements in banking supervision and regulation. Similarly, in the capital markets, initiatives have been taken to improve the standards of corporate governance and the development of the necessary infrastructure to promote the capital markets.

In this respect, regional financial ties underpin the reforms particularly in the intermediation of capital and for rechanelling for productive investment within the region. The implementation of the Asian Bond Funds (ABF1 and ABF2) marks a significant step in future financial integration as part of the foreign reserves are invested in Asian sovereign bonds. The introduction of ABF2 Funds as a new asset class in Asia, together with infrastructural improvements and tax and regulatory reforms, can be expected to contribute towards the broadening and deepening the bond markets in the region over time. A further step towards increasing market integration within the region, especially in the context of equity markets, has been the recent launch of the FTSE/ASEAN – 40 Index. These market driven cooperative efforts are also expected to contribute to more efficient financial intermediation in the region over the long-term. Also, as most regional members' markets are small, building a region-wide financial market would increase the potential for the region to become more attractive to both global and regional investors.

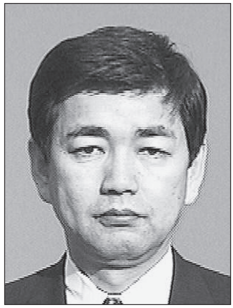
Finally, a further issue raised for this session relates to the sustainability of the financing of the current account deficits, particularly in the United States. It has been maintained that Asia as a region that has surplus savings and more recently the Middle East, have engaged in such financing. The concern is if this trend should reverse. In the current environment, the US financial markets are the largest financial markets in the world. It allows for large transactions to occur with minimal impact on market stability. The numbers of players, turnover, and frequency of issues are unmatched in any market. It also has greater diversity of investment opportunities in the different asset classes. This is a major reason prompting investment in these markets. The further development of non-dollar markets are therefore necessary to facilitate more balanced global investment activities and thus reduce the potential for any concentrated buildups that would be prone to risks of instability should reversals occur. Indeed, Europe can contribute significantly in this area.

More recently, successive upward adjustments in interest rates in the United States have in fact caused the dollar to strengthen significantly. Further increases in interest rates will continue to reinforce this trend as the interest rate differential between dollar and non-dollar-denominated assets widens. As to the direction of financial flows, in the final analysis, it will be the policies and developments in the economies receiving such financial flows that would be important in determining the investment climate and in preserving the stability of its financial markets.

The problem of global imbalances, by its very nature, requires a global solution, and a shared responsibility to ensure its orderly resolution. A gradual and co-ordinated global approach is necessary to avoid destabilizing adjustments. The Asian region recognizes its role in this adjustment process, and policy measures have been introduced to facilitate the adjustment, by enhancing domestic demand-led growth and strengthening the financial systems in Asia. At the same time, strategies aimed at reducing vulnerability and strengthening resilience have also been important so as to manage the emerging risks arising from the process of adjustment. This combination of actions would enhance the prospects of stability in financial markets.

The bull had the benefit of more than half a century to achieve the level of economic and financial development and integration today. The tiger should also be allowed some time to achieve this and assume its place in the global economy.

Financial Markets: Shared Responsibility



Eiji Hirano

The policy challenges we now face in the global financial markets require global efforts with a shared responsibility. What role should a central bank play in this process? The answer to this question is inseparable from the conceptual foundations of monetary policy, which change over time along with the world we live in. This is why I wish to begin my remarks today with a brief history of the framework for monetary policy, before offering you my personal views on the current challenges for central banks, especially in their relations with financial markets.

Today all of you would surely agree that monetary policy should aim at achieving price stability. Nevertheless, this view is not set in stone. In fact, since the Second World War, conceptual foundations of monetary policy have changed every twenty years or so. The starting point was the Bretton Woods system. Monetary policy as William McChesney Martin Jr. had known was something quite different from what Alan Greenspan is practicing today. Back then, under the network of exchange rates anchored to the U.S. dollar and gold, U.S. monetary policy strongly influenced, or even determined, monetary policy around the world. Every central bank except the Federal Reserve operated with the exchange rate as its nominal anchor, and the Bank of Japan was no exception. In a number of instances, balance of payments concerns constrained monetary policy.

A new era dawned with the collapse of the fixed exchange rate system in the early 70s. When exchange rates were floated, central banks lost their nominal anchors for monetary policy. At the same time, many central banks became preoccupied with the transmission of monetary policy through the exchange rate channel. The period of the 70s and 80s, however, was not a happy one for central banks, as prices, interest rates, growth and exchange rates fluctuated sometimes wildly.

One highlight during the two decades of instability was the Plaza Accord of 1985 by the Group of Five. The Accord emphasized the role of exchange rate adjustments for correcting the then prevailing serious current account imbalances. In hindsight, it was a rather unfortunate last-ditch attempt to trade exchange rate stability for monetary stability.

The less-than-satisfactory economic performance during the 70s and 80s ushered in the next phase of policy. Two ideas emerged. The first concerned policy coordination or cooperation. It became widely recognized that each country must pursue macroeconomic stability according to its own priorities, instead of trying to pass the blame onto others. The other was the recognition that price stability is essential for sustained growth. In other words, monetary policy should contribute to growth through maintaining price stability. The adoption of inflation targeting by many central banks obviously reflects such thinking.

The disinflationary environment during the past decade is at least partly attributable to this focus on price stability in conducting monetary policy. However, new dynamics unleashed by global structural changes are also at work. The development of information and telecommunication technology is increasingly integrating markets. Globalization has entailed global competition. The growing presence of emerging market economies – the old Communist Bloc countries and the Asian Tigers – has increased competitive pressures in global markets for labor, goods and services. One could even say that the age of mega-competition is providing central banks with a disinflationary windfall in their pursuit of price stability.

In this disinflationary environment, however, central banks are not immune to policy challenges. In fact, such challenges are enormous. Most notable are those associated with asset prices and financial markets. It would appear that markets for assets, such as stocks and housing, are becoming increasingly important drivers of real economic activities. Several episodes remain fresh in our memories, where volatile asset prices inflicted significant damage on the economy and sometimes on the financial system. The formation and bursting of the Japanese Bubble Economy from the late 80s is one example. The Tech Bubble of the late 90s and the frothy housing market of some countries are somewhat less dramatic cases in point.

The fluctuations in asset prices are heavily influenced by developments in financial markets. The Japanese bubble was fueled by a staggering expansion of bank credit. The global Tech Bubble of the 1990s was aided and abetted by innovations in capital markets. The booming housing markets are supported by new financing instruments. Not only can people finance their houses in efficient ways, but they can also take out cash when its value appreciates. Today, the houses where people live have practically become investment vehicles similar to bonds and stocks.

Furthermore, the global mobility of capital has strengthened the linkages between national markets. In this world, disturbances in one corner of the world can quickly spread to neighboring economies and beyond. The Asian Financial Crisis of the late 90s is a painful reminder.

The impacts of financial forces on the real economy are likely to become even stronger. Financial assets are being accumulated at a faster rate than the growth of the real economy. The trend is accelerated by the global drive towards more liberalized financial markets and the development of new financial products and markets alongside advances in information technology. Credit derivatives markets, which expanded spectacularly in the last few years, offer one typical example of the ever-expanding financial frontier.

Such a rapid development of financial technologies and markets cuts both ways. On the positive side, financing will be more readily available, which provides strong support to real economic activities. It enables the redistribution of risks, which in turn enhances the resilience of economies against shocks. The financial markets have, without doubt, made it easier for the global economy to absorb higher oil prices without visible disruptions. Emerging market economies are also benefiting from increased global capital flows.

On the other hand, today's sophisticated financial markets can sustain greater imbalances than in the past. There is a risk that greater imbalances may release greater disruptive forces when they correct. A manifestation of globalizing financial markets is the decline in home bias. Increasing capital flows have enabled countries to run and finance larger current account deficits than would be the case otherwise. But the flip side is the extremely low rate of savings facilitated by the development of cash extraction techniques from housing investment. Furthermore, there is always a potential danger of misallocation of capital flowing into emerging markets.

Financial forces, for better or worse, will amplify the cyclical forces of real economic activity. When the sailing is smooth, with firmly anchored expectations, they become powerful tailwinds for the economy. Once in a storm, however, the economy can be pushed deeper and deeper into distress. Imbalances can be sustained with ease under benign global conditions, but there is always a possibility that expectations can change quickly with devastating results. The risk is that the forces unleashed in the correction process can break any weak links in the global economy. This is a concern for all of us, because as the world becomes smaller we are becoming more interdependent.

What are the implications for policy?

Given the possibility of heightened volatility in financial markets and recognizing the potentially destructive amplifying forces of money flows, monetary policy becomes all the more important for its role in stabilizing price expectations. This is obvious in today's context, where higher inflation expectations can quickly undermine the benign picture of the global economy.

While price stability is an essential condition for maintaining stable growth, it is not by itself sufficient to guarantee stability. Imbalances and hence risks of disorderly adjustments can still widen under stable prices. What can and should be done to mitigate such risks is still an unresolved question for central bankers. The next twenty years of monetary policy thinking will no doubt focus on this complementary element to price stability.

At the same time, against the backdrop of deepening linkages between markets and economies, the monitoring and management of potential flashpoints in the global economy must become a collective responsibility. For a start, we must redouble our efforts to mitigate global imbalances. We should also be imaginative in preparing for containing damages when one or two weak links are broken. This is a shared responsibility for all of us, including not only central banks and governments, but also other actors such as private market players and international institutions.

With that, I would like to conclude my brief presentation. Thank you for your attention.

Closing Remarks

Klaus-Peter Müller

Ladies and Gentlemen,

I will be very brief. The 15th Frankfurt European Banking Congress is coming to an end. I hope that once again we were able to provide you with valuable ideas and insights worthwhile to reflect upon. Many of these relate not only to the programme but, of course, also to the conversations and the contacts on the edge of such a congress – and that plays an important role.

The success of the Frankfurt European Banking Congress is very much determined by the contributions of our speakers and panellists. And so before concluding, let me thank the speakers and the panellists on behalf of all of us here today, not at least on behalf of my two colleagues. Thank you very much.

At the same time, I wish to thank all those – in front of and behind the scenes – whose efforts have ensured that this event could run so smoothly.

Next year's event will take place on November 17th. I look forward to seeing you again on that occasion. I remind those of you who like to dance of the Gala tonight starting at 7 pm. For the others, have a safe trip home. Thank you, auf Wiedersehen and goodbye.

Information about the EBC

The Frankfurt European Banking Congress (EBC) premiered in 1991 on the initiative of the International Bankers Forum Frankfurt (IBF). Since 1992, the congress has been hosted annually by Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as by the Deutsche Bundesbank, the City of Frankfurt and the IBF. Each year, the chairmen of Commerzbank, Deutsche Bank and Dresdner Bank take turns in officially hosting the EBC. Traditionally, the EBC takes place on the Friday prior to the very last Friday in November at the Alte Oper Frankfurt.

The EBC aims at providing a forum for open and forward oriented discussion of European issues, their role in the world of politics and financial markets. European politics and finance are discussed by leading decision makers and eminent heads-of-state in three panel discussions. The first panel brings together political leaders, the second panel top bankers, and the final panel governors of central banks. Topics and speakers for each year's event are chosen by the EBC's steering committee.

Today, the EBC is among Europe's most prestigious banking congresses. The EBC is an established meeting place for high level representatives from politics, business, finance, and academia and attracts every year approximately 1,000 delegates and 300 press representatives from more than fifty countries to the Alte Oper in Frankfurt. Admission to the congress is by personal invitation only.

The steering committee of the Frankfurt European Banking Congress consists of members of Germany's three leading banks based in Frankfurt - Commerzbank, Deutsche Bank, and Dresdner Bank - as well as representatives of the Deutsche Bundesbank, the City of Frankfurt and the International Bankers Forum. The steering committee meets regularly and is the sole organ responsible for the EBC's structure and content.

Further information about the EBC can be obtained from the

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Hartmut Schwesinger
President and Chief Executive Officer
FrankfurtRheinMain – International Marketing of the Region

Norbert Walter
Chief Economist
Deutsche Bank Group, Frankfurt

List of Speakers (1991 – 2005)

Surname	First name	Organisation	Year
Abelein	Manfred	European Bank for Reconstruction and Development	’91
Achleitner	Paul	Allianz AG	’00
Ackermann	Josef	Deutsche Bank AG	’02 -’05
Alexander of Weedon, Lord	Robert	National Westminster Bank plc	’95
Alphandéry	Edmond	Ministère de l’Economie et du Budget, France	’93
Andersen	Bodil Nyboe	Danmarks Nationalbank	’97
Arthuis	Jean	Ministère de l’Economie, des Finances et du Plan, France	’96
Aznar	José María	Prime Minister, Spain	’99
Bäckström	Urban	Sveriges Riksbank	’96
Bangemann	Martin	European Commission	’92
Balcerowicz	Leszek	Minister of Finance, Poland National Bank of Poland	’98, ’01
Baldassarri	Mario	Vice Minister of Economy and Finance, Italy	’05
Barre	Raymond	Mayor of Lyon, France	’97*
Bischoff	Manfred	DaimlerChrysler	’99
Blessing	Martin	Commerzbank AG	’03
Breuer	Rolf-E.	Deutsche Bank AG	’97-’01
Brittan	Sir Leon	European Commission	’98
Brodsky	William J.	Chicago Mercantile Exchange	’94
Brok	Elmar	European Parliament	’95
Bryan	Lowell L.	McKinsey & Company, Inc.	’96
Bürkner	Hans-Paul	The Boston Consulting Group	’96,’03
Burggraf	Nikolaus	City of Frankfurt am Main	’05*
Buxton	Andrew R. F.	Barclays Bank	’98
Cartellieri	Ulrich	Deutsche Bank AG	’91
Caruana	Jaime	Basel Committee on Banking Surpervision, Banco de España	’04
Cavallo	Domingo Felipe	Fundación Mediterránea	’97
Christophersen	Henning	European Commission	’91, ’02
Ciampi	Carlo Azeglio	Minister of Treasury, Budget and Economic Planning, Italy	’96
Corcóstegui	Ángel	Banco Santander Central Hispano S.A.	’00

* Dinner Speaker

Surname	First name	Organisation	Year
Crockett	Andrew D.	Bank for International Settlements	’94, ’98, ’99
Dallara	Charles H.	The Institute of International Finance	’04
Davies	Howard	The Financial Services Authority	’00
Davignon, Viscount	Etienne	Société Générale de Belgique	’95
Dervis	Kemal	State Minister, Turkey	’01*
Doerig	Hans-Ulrich	Credit Suisse	’93
Duisenberg	Willem F.	European Central Bank	’97-’01
Eichel, MP	Hans	Minister President of Hesse,	’91
		Minister of Finance, Germany	’99
Enger Lahnstein	Anne	Center Party, Norway	’95
Fagiolo	Silvio	Ambassador of Italy, Berlin	’04
Fahrholz	Bernd	Dresdner Bank AG	’00 -’02
Fazio	Antonio	Banca d’Italia	’96, ’04
Ferrer	Carlos	Ferrer International S.A.	’94
Fini	Gianfranco	Deputy Prime Minister, Italy	’03
Fischer, MP	Joschka	Federal Minister for Foreign Affairs, Germany	’00,’03
Floether	Karl-Heinz	Accenture	’03
François-Poncet	Jean	French Senate, France	’97
François-Poncet	Michel	Banque Paribas S.A.	’95
Freeman	Ron	European Bank for Reconstruction and Development	’93
George	Sir Edward A. J.	Bank of England	’93, ’95
Greenspan	Alan	U.S. Federal Reserve System	’98, ’04
Gronicki	Mirosław	Minister of Finance, Poland	’04
Gronkiewicz-Waltz	Hanna	National Bank of Poland	’93
Hambrecht	Jürgen	BASF	’05
Harney	Mary	Minister for Enterprise, Trade and Employment, Ireland	’98
von Hauenschild	Caspar	Bayerische Vereinsbank AG	’91
Heikensten	Lars	Sveriges Riksbank	’03
Hirano	Eiji	Bank of Japan	’05
Howe	Robert M.	IBM Corporation	’96

* Dinner Speaker

Surname	First name	Organisation	Year
Howe of Aberavon, Lord	Geoffrey	Former Foreign Secretary, United Kingdom	’96*
Hübner	Danuta	Minister for European Integration, Poland	’02
Hüppi	Rolf	Zurich Financial Services	’99
Iozzo	Alfonso	Istituto Bancario San Paolo di Torino	’91
Iwata	Kazumasa	Bank of Japan	’04
Járai	Zsigmond	Minister of Finance, Hungary	’99
Jeancourt-Galignani	Antoine	Banque Indosuez	’92
Jin	Liqun	Asian Development Bank	’05
Jin	Renqing	Minister of Finance, People’s Republic of China	’04
Kallas	Sjim	Minister of Finance, Estonia	’01
Kempe	Frederick	The Wall Street Journal Europe	’93
Klaus	Václav	Prime Minister, Czech Republic	’97
Koch	Roland	Minister President of Hesse	’02
Koch-Weser	Caio K.	Federal Ministry of Finance, Germany	’05*
Kohl	Helmut	Chancellor, Germany	’96
Kohlhaussen	Martin	Commerzbank AG	’92-’00
Kohn	Donald L.	The Federal Reserve System	’02
Kopper	Hilmar	Deutsche Bank AG	’92-’96
Kostrzewa	Wojciech	BRE Bank	’01
Kraus	Adolf	Schröder Münchmeyer Hengst & Co	’91
Lagayette	Philippe	Caisse de Dépôts et Consignations	’93
Lamfalussy, Baron	Alexandre	European Monetary Institute Université catholique de Louvain	’94-’96, ’00, ’02
László	Csaba	Minister of Finance, Hungary	’03
Lefebvre	Olivier	Euronext	’02
Leigh-Pemberton	Robin	Bank of England	’92
Lemierre	Jean	European Bank for Reconstruction and Development	’01, ’04, ’05
Lindh	Anna	Minister for Foreign Affairs, Sweden	’01
Liener	Gerhard	Daimler Benz AG	’93
Lim	Hng Kiang	Second Minister for Finance, Singapore	’02
Maas	Cees	ING Groep NV	’95, ’00*
Mallinckrodt	George W.	Schroders PLC	’92
Marsh	David	Financial Times	’92

* Dinner Speaker

Surname	First name	Organisation	Year
Martini	Eberhard	Bayerische Hypotheken- und Wechsel-Bank AG	’91
McDonough	William J.	Federal Reserve Bank of New York	’94
Mentré	Paul	Banque C.S.I.A.	’91
Mikloš	Ivan	Deputy Prime Minister and Minister of Finance, Slovak Republic	’04
Monti	Mario	European Commission	’94, ’99
Müller	Horst	Dresdner Bank AG	’03
Müller	Klaus-Peter	Commerzbank AG	’91, ’01-’05
Müller-Vogg	Hugo	Frankfurter Allgemeine Zeitung	’98
Naumann	Klaus	General, retired	’99*
Ng	Kok Song	Government of Singapore Investment Corporation	’97
Nilekani	Nandan M.	Infosys Technologies	’05
Nonnenmacher	Günther	Frankfurter Allgemeine Zeitung	’95
Obolensky	Arianne	Ministère de L’Economie et du Budget, France	’92
Ogata	Shijuro	Yamaichi Securities Co. Ltd.	’91
Olechowski	Andrzej	Minister of Foreign Affairs, Poland	’94
Orbán	Viktor	Prime Minister, Hungary	’98*, ’00
Padoa-Schioppa	Tommaso	European Central Bank	’02
Papademos	Lucas D.	Bank of Greece	’99
Prodi	Romano	European Commission	’92, ’98, ’00, ’02
Profumo	Alessandro	UniCredito Italiano	’01
Quinn	Ruairi	Minister for Finance, Ireland	’96
de Rato	Rodrigo	Ministerio de Economía y Hacienda, Spain	’96
		International Monetary Fund	’05
Rau	Johannes	President, Germany	’02
Repše	Einars	Bank of Latvia	’01
Richardson	James	Cisco Systems Inc.	’00
Rolander	John S.	Gemini Consulting	’96
Röller	Wolfgang	Dresdner Bank AG	’92
Roth	Jean-Pierre	SBN Swiss National Bank	’03
Roth	Petra	Mayor, City of Frankfurt am Main	’95-’05

* Dinner Speaker

Surname	First name	Organisation	Year
Roth	Wolfgang	European Investment Bank	’93
Rudloff	Hans-Jörg	Barclays Capital	’03
Sampaio Malan	Pedro A.	Minister of Finance, Brazil	’99
Sanio	Jochen	Federal Financial Supervisory Authority	’04
Sarrazin	Jürgen	Dresdner Bank AG	’93 - ’97
Schäuble	Wolfgang	Group of the Christian Democratic Union/ Christian Social Union	’97
Schlesinger	Helmut	Deutsche Bundesbank	’91, ’92
Schmögnerová	Brigita	Minister of Finance, Slovak Republic	’01
von Schoeler	Andreas	Mayor, City of Frankfurt am Main	’91 - ’94
Scholey	Sir David	S.G. Warburg Group plc	’93
Schulmann	Horst	Landeszentralbank in Hessen	’92
Schüssel	Wolfgang	Federal Chancellor, Austria	’01
Seifert	Werner G.	Deutsche Börse AG	’00, ’02
de Silguy	Yves-Thibault	European Commission	’95
Simon of Highbury, Lord		Ministry for European Trade and Competitiveness, United Kingdom	’97
Simmons	Hardwick	The Nasdaq Stock Market	’02
Sobchak	Anatoly	Major, City of St. Petersburg	’91
Strutz	Wolfgang	BHF-BANK Aktiengesellschaft	’91
Tănăsescu	Mihai Nicolae	Minister of Public Finance, Romania	’01
Taylor	Charles R.	The Group of Thirty	’94
Thalwitz	Wilfried P.	The World Bank	’92
Thiemann	Bernd	DG Bank	’91
Thygesen	Niels	University of Copenhagen	’92
Tietmeyer	Hans	Deutsche Bundesbank	’93 - ’98, ’04*
Titzrath	Alfons	Dresdner Bank AG	’91
Tošovský	Josef	Czech National Bank	’91
		Bank for International Settlements	’01
Trichet	Jean-Claude	Banque de France	’94*, ’97
		European Central Bank	’03*, ’03 - ’05
Tůma	Zdeněk	Czech National Bank	’03
Verheugen	Günther	European Commission	’01
Viermetz	Kurt F.	J.P. Morgan & Co. Incorporated	’93
Volcker	Paul A.	Federal Reserve Bank of the United States of America	’97
Vita	Guiseppe	Schering AG	’98
Wagner	Udo N.	ABB Asea Brown Boveri AG	’94

* Dinner Speaker

Surname	First name	Organisation	Year
Walter	Bernhard	Dresdner Bank AG	’98, ’99
Walter	Herbert	Dresdner Bank AG	’04-’05
Walter	Ingo	New York University Salomon Center	’92
Weber	Axel A.	Deutsche Bundesbank	’04-’05
Weiss	Heinrich	SMS group	’05
Welteke	Ernst	Deutsche Bundesbank	’99-’01, ’03
Weston	John Pix	British Aerospace	’99
Yamaguchi	Yutaka	Bank of Japan	’02
Yavlinsky	Grigory	EPICENTER	’95*
Zeti Akhtar Aziz		Central Bank of Malaysia	’05

* Dinner Speaker

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