

## Chancellor Merkel Warns against Complacency about Risks of Future Financial Crisis

28 January 2011

- Not all mechanisms yet in place to prevent another global financial crisis
  - Germany stands firmly behind the euro
  - Europe's biggest economic problem is its indebtedness
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- More information on the World Economic Forum Annual Meeting 2011: <http://www.weforum.org>

**Davos, Switzerland, 28 January 2011** – Federal Chancellor of Germany Angela Merkel warned participants at the World Economic Forum against complacency about the risks of a further financial crisis, saying that all the international mechanisms needed to prevent another crash are not yet in place.

Addressing the 41st Annual Meeting, she stressed that Germany stands firmly behind the euro and will continue to defend the embattled currency. But she added that currency markets need to be convinced that Europe is taking all the necessary steps to tackle its debt problems.

The international community was able to “prevent the worst” following the global financial crisis, the Chancellor declared.

“But can we safely say that we can prevent further crises from happening? Do we have the necessary mechanisms in place to ensure sustainable growth globally? We have laid down the groundwork, but we are not there yet. What we have done is not yet sufficient,” she warned.

The risk is that, now that the crisis is no longer dominating newspaper headlines, the international community, including the G20, will lose any sense of urgency. “That is the danger. We still have an enormous job to do.”

More regulation is required and “every financial player has to be made subordinate to supervision,” she said. “We have not yet truly coordinated the national responses.”

She said that the French presidency of the G20 marks the transition from crisis mode to a stage where the world needs to learn to work together. There are three principal areas on which this work should focus.

“We need to look at currencies. Exchange rates must reflect the fundamental data of individual countries. We also need to see that imbalances are not allowed to play themselves out unrestrained,” the Chancellor declared.

The second point is free trade. "The most worrying point about the crisis is that there are certain indications of protectionist policies. The conclusion of the Doha Round is of utmost importance. We are literally metres away from the finishing line. But if we do not reach it, then decades will go by without this opportunity offering itself again," she warned.

Finally, volatile commodity prices are hurting buyers and sellers. "We need to set up a more transparent system. There has to be fair access to commodities," she affirmed.

Turning to Europe, the Chancellor said that the roots of the continent's economic problems lay in excessive debt. "We now have a clear crisis of indebtedness. But let me tell you, there is no crisis of the euro as such. This is a debt crisis."

"Let me say this very clearly again. The euro is our currency. And it is much more than just a currency. It is the embodiment of Europe today. Should the euro fail, Europe will fail. We are going to defend the euro," the Chancellor said.

Although people are quick to blame speculators, speculation "has a root in reality," she said. "This is why we have to do away with the root causes of the speculation. The markets are not yet confident that this high debt will be reduced once growth picks up. That confidence is not yet there."

But she refused to be drawn when asked by Klaus Schwab, Founder and Executive Chairman of the Forum, what the rate of the euro should be. "I do not want to interfere. That is done through market forces."

Protection of the euro needs to be linked with charting a new European course, involving tighter political coordination, the Chancellor argued. At the end of the day, it comes down to competitiveness. "We are not competitive enough in Europe."

Over 1,400 business leaders are taking part in the Annual Meeting. Participants also include over 35 heads of state or government, with 19 of G20 governments represented at ministerial level or higher. They are joined by government ministers, central bankers, top officials from international organizations, labour leaders, religious leaders, representatives of civil society, media and leading academics.

## Notes to Editors

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