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Professor Kurt Biedenkopf - State President of Saxony - Germany - October

31, 1997

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THE WORLD BANK

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Telephone: 202-473-1000 Internet: www.worldbank.org Meeting: Professor Kurt Biedenkopf State President of Saxonia

Friday, October 31, 1997 3:30 - 3:50 p.m. MC 12-755 Meeting Room (Beside Mr. Sandstrom's Office)

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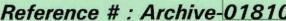
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E. COMMENTS:

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The World Bank Washington, D.C. 20433 U.S.A.

MARK MALLOCH BROWN Vice President External Affairs

October 30, 1997

Mr. James D. Wolfensohn

Jim:

Your Meeting with Prof. Dr. Kurt Biedenkopf Minister-President of Saxony, Germany

Professor Biedenkopf is a great old man of Germany's Christian Democratic Union (CDU) and very much a "counterweight" to Chancellor Kohl, who has been a great political rival within the same party. Born in 1930, Biedenkopf has held many positions in the CDU, parallel to his career as a Professor of Law. During the transition prior to German unification in 1990, he served as a Guest Professor of Law at the University of Leipzig and led the CDU in Saxony. In October 1990 he was elected Minister-President of the State of Saxony, with an absolute majority, and he remains in that position after reelection in 1994.

During this visit to Washington, he will also meet with Michel Camdessus to discuss the EMU process. In September, Biedenkopf was quoted in the Financial Times as warning against a hasty introduction of the euro, suggesting that EU exchange rates should be fixed for five years before monetary union in order to achieve greater balance between economies and ensure long-term stability. These remarks countered Chancellor Kohl's policy of support for EMU within the January 1, 1999 launch date and broke CDU unity.

He also plans to visit Georgetown University, which awarded him an honorary Doctor of Law in 1978. He will be accompanied by his Personal Assistant, Mr. Thomas Rechertien; Mr. Schoenfelder from the German Embassy, and by Mr. Schaffer, Executive Director.

Most recently, at the CDU party congress in Leipzig this past month, Biedenkopf backed the "Young Turks" of the CDU who wonder if the time has come to change the party leadership away from 67-year old Kohl. Kohl has led the CDU since 1973 and been Chancellor since 1982. (AFP wire report, October 12).

We understand from the German Embassy that his main topic of interest for this meeting with you is **globalization**. We are providing him a German translation of your Annual Meetings speech, as your vision of the Bank's role in promoting inclusion in the globalizing economy. You should also know that Biedenkopf is quoted in a new book by John Newhouse (former New Yorker writer and now a guest scholar at the Brookings Institution) entitled <u>Europe Adrift</u>, as saying "the end of a plausible, visible threat from the East means that the cohesive force that held Europe together has gone."

During previous visits to the Bank in 1993 and 1994, when Professor Biedenkopf met with Lew Preston and others, he was, not surprisingly, largely interested in transition issues, given his leadership of the former East German state of Saxony, which borders on the Czech Republic and Poland. Saxony is the most densely populated and most industrialized of the former East German states. With population of 4.9 million, two of the most prominent cities in the new States are located in Saxony: Leipzig, which was one of the main centers of non-violent resistance to the Communist regime; and Dresden, now the state capital. Historically, Saxony was the birthplace of the Johann Sebastian Bach, as well as the philosopher and mathematician Gottfried Wilhelm Leibniz, and composers Robert Schumann and Richard Wagner.

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Germany: Economic and Political Background

The German economy's slow expansion is picking up steam. After growing by 1.9% in 1995 and 1.4 % in 1996, growth could reach at least 2.25 % in 1997. Observers have perhaps been too quick to cast Germany in a new role as the "sick man of Europe", as the Financial Times suggested this summer might be fitting. Nevertheless, the problems Germany presently faces remains acute.

Even the good news has its bad side. Export-driven growth is reducing Germany's current account deficit but it is not stimulating job creation. Unemployment could touch over 4.38 million people in 1997, or 11.4 % of the labor force, and the percentage is closer to 18% in the eastern Länder. Growth is, on the other hand, stimulating inflation, which reached the Bundesbank "ceiling" of 2% in August. The central bank has been holding fire, fueling speculation about Germany's monetary policy in other European countries, where growth is also just beginning to accelerate and the consequences of a hike in German interest rates are feared. German companies are investing abroad, not at home, despite the growing productivity of German labor in the western Länder. And according to a recent report, foreign investment in Germany is declining for the first time since the Second World War.

Weaker tax and social security revenues compelled the government to draft a supplementary budget in July which adds DM 21 billion to the expenditure of the Labor and Social Affairs Ministry and envisages DM 17.9 billion in supplementary borrowing. The consequences for the budget deficit are still uncertain. With damages from flooding this summer now estimated at over DM 1 billion, the cost of disaster relief could also make the deficit swell. But technical decisions taken in the Eurostat offices in Luxembourg this summer about the calculation of public sector debt may bring it back down again. The IMF reportedly says that Germany deficit will be no higher than 3.1% in 1997 and could even reach the monetary union target of 3%. Such encouragement is welcomed in Bonn, where the government is under considerable pressure concerning its participation in Europe's future single currency and continues to adhere to a strict interpretation of the Maastricht Treaty.

Domestic concerns about Europe are not limited to EMU. The cost of Germany's EU commitments is another source of domestic debate. In 1996, Germany's net contributions to the European Union's budget represented 0.6% of its GNP. The government says that if burden-sharing were fair, Germany would contribute no more than 0.4%. It wants to lower its contribution to that level by 2000. The coalition

Data in this note are often "latest available", mainly from national sources, and not necessarily the same as the data presented in the historical "Basic Statistics".

government of Chancellor Kohl faces a host of other pressures. Its tax reform plans have been rejected by the opposition-dominated Bundesrat (upper house); chances that it will be salvaged during the continuing "conciliation" process are slim. Finance Minister Waigel's decision to leave his ministry after this term have left the government looking like a lame duck, and fanned infighting within the coalition. General elections will be held in the autumn of 1998; with the virtual collapse of tax reform and the conciliation process between the opposition and the government, the race is already on.

At \$7.5 billion, German ODA registered a rise in real terms of 3.8% compared to the previous year. The ODA/GDP ratio rose from 0.31 to 0.32%. This shift seems to have been due to fluctuations in disbursements to regional development banks and does not indicate a substantial upward trend. In the revised 1997 and 1998 budgets, the spending of the Ministry for Development Cooperation (BMZ) is slated to drop in nominal terms (from DM 7.7 billion to 7.6 billion).

bcc: Messrs./Mmes. S. Sandström (EXC); A. El Maaroufi, N. van Praag, C. von Monbart (EXTEO); D. Koehler (EXTOP); D. Theis (EXTME); P. Donovan (FRMDR); J. Kirby-Zaki (EXTVP)