



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Olaf Scholz
Minister of Finance
Germany**

Statement by Mr Olaf Scholz
Minister of Finance of the Federal Republic of Germany
to the International Monetary and Financial Committee
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I. Global economy and financial markets

Global economy, Germany and Europe

We stand at a critical juncture in this crisis as both the global and our domestic economies provide a mixed picture. Vaccine developments give us hope, but mutations resulting in new, more infectious virus variants underscore risks. In Germany, we still have to uphold contact restrictions, but medium-term economic prospects look much brighter. The IMF's upward correction of global growth backs this assessment. The German economy has weathered the crisis fairly well so far, notably thanks to industrial production and labour market resilience.

We will continue our strong policy support to fight the crisis and to protect lives and livelihoods until the pandemic is under control and economic recovery is firmly underway. Accordingly, we will avoid a premature withdrawal of support. Our recently announced budget reflects the necessity of further fiscal support throughout this year and next year. We have also extended key SME support programmes. To reduce uncertainty, the liquidity assistance provided by the German promotional bank will be available at least until year-end, together with the guarantee and recapitalisation facilities of our economic stabilisation fund. Looking ahead, some sectors are likely to recover more slowly than others. Our support to businesses and households continues to be guided by the objectives of protecting well-diversified economic structures and preserving jobs.

Building on the experience of previous crises, Kurzarbeit (Germany's short-time work programme) has served as an effective instrument to safeguard income and jobs. The programme's simplified access and enhanced benefits will be maintained. Further measures for skills development have been introduced, along with improved incentives for training on the job and subsidies for apprenticeships. Where appropriate, we provide assistance for job transition in order to alleviate the risk of rising inequalities over the long term.

Our recovery strategy places a priority on increasing both public and private investment, notably to support a green and digital transition. We raised federal public investment spending in 2020 by about a third compared to 2019 and are maintaining this focus.

At the European level, finance ministers have acted in solidarity, with a strong commitment to the close coordination of national fiscal policies. Our overall objective has been to mitigate

the impact of the Covid-19 shock and to pave the way for a swift recovery. Uncertainties remain high, so a supportive fiscal policy in the EU continues to be the right course of action. Once the recovery is firmly underway, we need to implement credible medium-term fiscal strategies that avoid cliff effects as well as permanent burdens on national budgets. Our policy focus should then shift towards supporting a sustainable recovery and increasing potential growth in member states by implementing structural reforms and targeted investments in the green and digital transition. Recovery and Resilience Facility grants will be used for this purpose as well.

To set the stage for sustainable and equitable growth, there is one clear global priority: to advance global public health by effectively containing the virus. We must act together in order to speed up vaccine production and deployment. Only a multilateral approach will enable us to overcome this pandemic. Hence, Germany is strongly committed to the ACT Accelerator and the COVAX initiative. Germany is currently the largest donor to these initiatives, with contributions totalling EUR 2.2 bn. In addition, the European Commission is contributing another EUR 1 bn to COVAX. Germany urges more countries to provide financial support to help the ACT Accelerator achieve its goal of ensuring the rapid distribution of vaccines, therapeutics and diagnostics.

Financial sector

Germany's swift policy support has successfully mitigated the economic impact of the pandemic. In addition to a wide range of fiscal measures, Germany has taken several macroprudential, regulatory and supervisory measures to ensure financial stability and dampen the negative economic effects of the pandemic. The countercyclical capital buffer was fully released to support banks' ability to finance the real economy. Furthermore, in order to ensure that banks have the capacity to absorb losses and to support the economy through lending, supervisors are calling on banks to refrain from – or at least limit – dividends and share buy-backs. These measures have helped to prevent the crisis from spreading to the banking sector and have bolstered financial stability. On top of that, the regulatory reforms that we adopted after the global financial crisis and the macroprudential policy tools that we are using have made the financial sector more resilient.

Nevertheless, the real economy still faces a high level of uncertainty. Insolvencies are still near an all-time low, partly due to a moratorium on the obligation to declare insolvency under certain circumstances. We must continue to closely monitor the stability of the banking sector and the financial system as a whole, at the national, European and global level. We welcome continued international coordination to avoid unintended cliff effects.

II. International financial architecture and IMF policies

Since the onset of the crisis, the IMF has impressively demonstrated its ability to act swiftly, support its membership and adapt flexibly to changing circumstances. The temporary crisis measures taken by the IMF, including the expanded access to its emergency financing instruments, have contributed significantly to cushioning the immediate economic effects of the pandemic. As the focus turns to stabilization and eventual recovery, extraordinary temporary measures should be gradually phased out and financial support should be shifted to regular, upper credit tranche-quality IMF programmes that address underlying problems.

Low-income countries have been hit especially hard by the pandemic, also because many entered the crisis with severe pre-existing vulnerabilities, including limited borrowing capacity and high debt levels. Against this background, we support the current review of options on how best to assist these countries in meeting their financing needs. We consider it essential to preserve the catalytic effect of IMF lending in light of its mandate and in recognition of the fact that a rising share of senior debt can put the receiving country as well as the IMF in a challenging position. The IMF is in a unique position to support its members, thanks to its technical expertise in designing credible programmes that lead towards sustainable macroeconomic positions and that help give other lenders, donors and investors the confidence to maintain or expand their financial exposure. This puts a premium on finding the appropriate mix of financial support from the IMF, other international institutions, bilateral instruments and the private sector. Germany continues to support an adequately resourced IMF Poverty Reduction and Growth Trust (PRGT) as well as the IMF Catastrophe Containment and Relief Trust (CCRT). We have made significant bilateral contributions to both since the onset of the pandemic. That said, it is critical to ensure that the funds provided are effective in achieving their goals, including support for the most vulnerable. Hence, domestic reforms that, among other things, promote good governance and fight corruption will need to be pursued vigorously. Capacity development will play a key role. The IMF should coordinate closely with the World Bank, other MDBs and development partners to ensure coherence and avoid overlaps.

We fully support the G20 debt initiatives. The Common Framework should be implemented fully and in a timely manner, with the IMF playing a key role in its operationalization in close cooperation with the World Bank. It is essential that private creditors participate at least on comparable terms as the official sector in debt treatments under the Common Framework. On this basis, we stand ready to support a final extension of the Debt Service Suspension Initiative for eligible countries until the end of 2021. At the same time, we strongly encourage the countries to make use of the benefits of an upper credit tranche IMF-supported programme. This could also pave the way for a more permanent solution of solvency problems via debt treatments under the Common Framework. Further progress on debt transparency/disclosure and stepped-up IMF technical assistance in debtor countries are a priority for ensuring more sustainable debt treatments.

We support the IMF's plan to propose a new general SDR allocation of 455 bn (approximately USD 650 bn) to address a long-term global need to supplement existing reserves. Given the sizeable volume of the envisaged allocation, we deem it important that newly allocated SDRs are not considered to be a substitute for regular, conditionality-based IMF lending programmes. We welcome the IMF's proposals to enhance the transparency of SDR transactions. To help safeguard the liquidity of SDRs and enhance international burden-sharing, we encourage countries with a strong reserve position that do not yet have a Voluntary Trading Arrangement to establish such an arrangement with the IMF. We emphasize that any on-lending of SDRs to the PRGT or a similar trust can only take place on a voluntary basis. Germany has contributed considerably to the PRGT and the CCRT via its federal budget and cannot on-lend its SDR allocations, due to domestic legal provisions.

We welcome the upcoming discussion of the Comprehensive Surveillance Review. We are in favour of strengthening surveillance as the Fund's primary contribution to crisis prevention by advising countries on how best to improve their resilience. This will set the stage for improved surveillance by the Fund in such important areas as macro-financial surveillance as well as digitalization and equitable growth. Going forward, we would encourage the Fund to place a stronger focus on the challenges caused by rising income inequality. Moreover, the IMF's surveillance activities should consistently cover climate change and mitigation issues, where macro-critical and with a particular emphasis on the size of spill-overs and country-specific vulnerabilities. In this regard, we welcome the ongoing work to refine the analytical tools that are used to support the Fund's climate-related activities – including Financial Sector Assessment Programmes and the analysis of transition risks.

Overall, we believe that the Fund's close collaboration with other organizations is crucial for leveraging expertise in line with each institution's mandate. We also support increasing gender diversity on the IMF Executive Board.