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Germany**

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I. Global Economy and Financial Markets

Global Economy, Europe and Germany

The global economy has shown remarkable resilience against the backdrop of Russia's ongoing war of aggression against Ukraine and other adverse factors. We condemn in the strongest terms Iran's attack against Israel which risks provoking a dangerous regional escalation. We will continue to work to stabilize the situation and avoid further escalation.

Global growth has held up during a time of necessary monetary policy tightening around the globe and resulting tighter financing conditions. Emerging market and developing economies continue to lead global growth. This has helped reduce inequalities between countries, supporting global income convergence. We expect this positive trend to continue. However, global medium- and long-term growth prospects are below historic trends. That is why we should end the crisis mode of recent years and set the stage for future growth.

A new era of structural reforms will be necessary to lift growth prospects. The focus should be on reducing bottlenecks to private investment and increasing productivity through fostering innovation, including by embracing the benefits of artificial intelligence. Many structural reforms must be country-specific. But there are also common themes such as creating more effective labour markets and social safety nets, improving the investment climate, allowing capital and labour to flow to the most productive firms, and cutting red tape. Importantly, ambitious structural and other policy reforms need to take distributional aspects into account, because broad societal support is a prerequisite for successful implementation. Multilateral cooperation will remain essential for mastering common global economic challenges such as protecting open trade, resolving cases of acute debt distress and decarbonising our economies.

In Europe, the economy has held up better overall than anticipated. However, high inflation rates and the corresponding weakness in domestic demand have taken their toll, as has the decrease in external demand. Tightening monetary policy and fiscal policies – which was necessary in light of high inflation rates and the fiscal positions of some EU Member States – have also contributed to weak growth. On the other hand, abating price pressure over recent months, especially for energy goods, is set to support a gradual increase in economic activity this year. Recently, this has been demonstrated by a modest improvement in business and

consumer confidence. Going forward, in addition to other structural reforms, the EU and the euro area would greatly benefit from further enhancing the internal European market. In particular, progress should be made towards a deeper Capital Markets Union, as well as pursuing the green and digital transitions as drivers of growth and innovation, and improving the competition framework. We must also provide legal and institutional stability to enable companies to make future-oriented investments. If we want to be successful, especially against the background of increasing international competition, we must drastically reform, simplify and accelerate administrative processes.

Due to the high degree of openness and prior reliance on Russian energy, the German economy was highly exposed to substantial risks stemming from Russia's war of aggression against Ukraine. High inflation and the resulting sharp rise in interest rates have noticeably curbed domestic demand. Foreign demand was also weak. Still, the German economy proved to be much more resilient to the energy price shock and the suspension of Russian pipeline gas supplies than some had feared. In particular, the adaptability of German small and medium-sized enterprises to the adverse effects of the crises reflects their flexibility and innovation capabilities on a global scale. Providing an appropriate framework for Germany as a business location, especially for start-ups and small and medium-sized enterprises, as part of our economic and fiscal policy, will contribute to our competitiveness and economic growth. Therefore, we have recently passed a number of important new laws. The Growth Opportunities Act provides increased tax incentives for R&D and creates new incentives for investments in climate-friendly technologies. The Future Financing Act facilitates the mobilisation of capital for start-ups and small and medium-sized enterprises. The Skilled Immigration Act enhances immigration to Germany for skilled workers with vocational training and practical knowledge. Additional structural reforms will further enhance the framework conditions for business and investment activities.

Business and consumer confidence indicators are currently improving. The German economy is expected to recover moderately over the remainder of the year, driven mainly by private consumption. Lower inflation rates, significant wage increases, and a robust labour market are expected to lead to a noticeable rise in real income. This will further boost private consumption and thereby economic growth. This will further strengthen the labour market that has proven to be robust during the crises. Next year, foreign trade is also expected to pick up.

Financial Sector

Inflationary pressures have abated in many parts of the world. We have come a long way in our fight against inflation, but the last mile should not be underestimated. Fiscal policy should support monetary policy in achieving this goal.

The global financial system has proven resilient. But risks remain elevated as geopolitical tensions have increased, uncertainty around interest rates persists and the adjustment to higher rates continues. As a result, vulnerabilities have emerged, including in the commercial real estate sector and, to a lesser degree, in the residential real estate sector. Risks associated with climate change and cyber-attacks have also become more prominent.

The financial sector in Germany and the EU has remained resilient in the face of these challenges. Nevertheless, market participants and authorities have to remain vigilant and address the emerging risks. In our work to improve regulatory frameworks and the resilience of the financial sector, cooperation and coordination are crucial. We appreciate the international collaboration in these areas and value the Fund's contributions in this regard.

II. International Financial Architecture and IMF Policies

The IMF continues to provide important support to its members facing challenging macroeconomic circumstances. In recent years, the Fund's high-quality analysis and policy advice in surveillance, financial assistance and capacity development have helped members weather multiple shocks. Going forward, we trust that the Fund will continue to play an important role as one of the steadfast promoters of multilateralism and global economic and financial stability. This approach has been of great benefit to the membership. The Fund is well equipped to help members facing balance of payments problems with its tried and tested lending instruments and policies, in line with its mandate and catalytic role. While adapting to the new challenges the world is facing, the IMF is most effective when delivering on its core mandate, preserving its fundamental principles and key safeguards.

Germany welcomes the completion of the 16th General Review of Quotas, which strengthens the quota-based character of the IMF and secures the Fund an adequate level of own resources. We are working towards providing our consent to our quota increase, the rollback of the New Arrangements to Borrow and the amendment of our Bilateral Borrowing Agreement in good time, and encourage others to also submit their consent by the agreed deadline. Germany will work constructively on possible approaches for a limited realignment of quota shares under the 17th General Review of Quotas, based on fair and transparent criteria and broad burden-sharing. We welcome the decision to establish a 25th Chair in the IMF Executive Board, providing a third chair to represent the countries of sub-Saharan Africa, which will strengthen the voice and representation of emerging market and developing countries.

Over the past several years, the IMF has expanded its toolkit and provided financial support swiftly and in large quantity to help its members address severe balance of payments problems. But more than the size of its financing arrangements, it is the quality and credibility of its programmes that determine the Fund's success in helping countries overcome crises, correct imbalances, and restore macroeconomic stability on a sustainable basis. Adequate

programme conditionality and implementation remain the backbone of IMF programmes: they are crucial for the Fund's reputation and the necessary catalytic effect of its lending, and – last but not least – for ensuring that the country concerned benefits. Against this backdrop, the upcoming Review of Program Design and Conditionality and the Review of Access Limits is a priority for Germany. We look forward to a candid stocktaking of successes and weaknesses of IMF-supported programmes in terms of delivering macroeconomic adjustment to sustainably overcome balance-of-payments problems, underpinned by robust reform efforts and supported by financial assistance that is temporary, catalytic and in line with members' repayment capacities. The Review of Access Limits concerns another important element of the Fund's credit risk management. Access Limits need to be set in a prudent manner to fulfil their vital functions as effective thresholds for enhanced scrutiny under the exceptional access policy. Ensuring that IMF lending policy remains fit for purpose is a concern for the entire membership. We have to ensure that the IMF can successfully perform its role in line with its limited yet critical mandate while avoiding undue credit risk for the Fund.

We support IMF financial assistance to low-income countries to help address balance of payments problems, in line with the Fund's lending policies, resource envelope and debt sustainability requirements. To this end, Germany has contributed €180m of budgetary grants to the IMF's Poverty Reduction and Growth Trust (PRGT) Subsidy Account, on top of our contribution to the loan account. The contributions from a significant part of the membership have helped bolster available PRGT resources. The upcoming PRGT review should now set the course for re-establishing the PRGT's financial self-sustainability. It is crucial that the review takes a holistic view, with a focus also on lending policies, including access limits as well as the PRGT interest rate mechanism in an environment of higher SDR interest rates that have led to a surge in subsidies and of total subsidy costs. Moreover, seeing more countries graduating from PRGT eligibility would be a welcome signal of success of IMF engagement in low-income countries. It is also important to agree on realistic assumptions for the PRGT's overall lending capacity. Regarding the provision of additional resources, bilateral fundraising should remain the principal means of resource generation, and further efforts to broaden the donor base are required. Any options involving additional internal IMF resources need to be weighed very carefully and must not come at the expense of weakening the Fund's own financial integrity.

Going forward, it remains essential to ensure debt sustainability and to reduce the debt burden and vulnerabilities many members are facing. Correctly identifying and efficiently helping to resolve situations of unsustainable debt is key to the Fund's ability to support its members. We therefore attach great importance to the recently initiated review of the Debt Sustainability Framework for Low-Income Countries. The review should identify adequate safeguards against optimism bias, sharpen the Fund's ability to flag unsustainable debt situations before actual debt distress arises, and also reflect on how climate change can be taken into account. A broad debt perimeter should be maintained to ensure adequate debt assessments. We

appreciate the assistance provided by the IMF in debt restructuring cases under the G20 Common Framework for Debt Treatments. We also welcome the continued work on debt transparency which we consider key both for prevention and for resolution of debt distress. We support the use of programme conditionalities to make progress in this context.

We welcome the ongoing implementation of the IMF Climate Strategy and support a broader coverage of climate policies in the Fund's bilateral surveillance. We also welcome the high interest in programmes under the Resilience and Sustainability Trust (RST) to help members address macro-critical structural challenges in the context of climate change. Close collaboration with the World Bank is essential in this area. We also note that the first RST-supported reform programmes have faced some important challenges that merit deeper reflection during the upcoming Interim Review of the RST. Reform programmes need to become more ambitious, with higher access levels consistently underpinned by exceptionally strong cases. For the time being, we see good reasons to focus RST-supported programmes on climate change considering the strong demand for climate-related programmes as well as capacity constraints and limited expertise regarding other possible topical engagements at the IMF.

Effective risk management is essential in the current context of elevated global risks and various specific risks, including credit risks to the Fund. We emphasise the importance of adequate financial reserves, including a continued build-up of precautionary balances, serving as the first buffer against the Fund's increased financial exposure and risks.

Good governance, transparency in public financial management and effective anti-corruption frameworks are of critical importance for achieving the objectives in Fund-supported programmes and, more broadly, for sustainable longer-term economic development. We therefore welcome the completed AML/CFT Review and support the Fund in further mainstreaming financial integrity issues in its engagement with member countries. We are also in favour of an enhanced focus on the macroeconomic impact of AML/CFT.

We continue to support the Fund's work towards a more diverse and inclusive workforce and take positive note of recent recruitment efforts in this regard – although more remains to be done. Germany supports promoting gender diversity at the IMF Executive Board.