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IMFC Statement by Christian Lindner
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Germany

Statement by Mr Christian Lindner
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to the International Monetary and Financial Committee
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Germany strongly condemns Russia’s unprovoked and unjustifiable war of aggression against Ukraine. President Putin, his government and supporters, and the enabling Belarusian regime, bear full responsibility for the human suffering and the economic loss of the war and the sanctions response. We stand by Ukraine and all countries suffering from the global repercussions of this terrible war. The single most effective measure to significantly improve the bleak outlook would be if Russia stopped the war.

I. Global economy and financial markets

Global economy, Europe and Germany

Russia’s war against Ukraine is causing major global economic disruptions, leading to a much lower growth and higher inflation outlook for the global economy in the short-to-medium term. Russia´s war has pushed upwards already elevated prices in commodity markets, notably in the energy and food markets. The war has also further aggravated supply chain bottlenecks. The resulting inflationary dynamics are contributing to a rise in costs for businesses and are depressing real incomes of consumers, whilst also severely eroding market confidence.

Both monetary and fiscal policies need to respond appropriately to these unusually adverse economic conditions. Targeted fiscal policy is required to cushion the effect of high energy costs on the economy, support vulnerable groups and alleviate supply-side constraints. Policy measures have to be designed in a way that avoids further fuelling inflation, maintains sustainability of public finances and preserves market price signals.

Amidst elevated debt levels and a significant terms-of-trade shock for commodity-importers resulting directly from Russia´s war of aggression, more and more low- and middle-income countries are pushed further towards debt distress. Spill-overs from global monetary tightening might further aggravate this situation. Therefore, the G20 Common Framework needs to be urgently implemented, to enable timely and orderly solutions. Continued support of low-income countries by the global community will remain important to address these risks.

Russia´s war of aggression against Ukraine bears significant challenges for the European Union and the Euro Area. Nevertheless, economic resilience and in particular employment remain strong. European governments' fiscal policies need to remain mindful of high inflation and fiscal sustainability.

Against this challenging backdrop, growth forecasts for the German economy have been revised downwards (now in the range of 1.1% to 1.6% for this year and -1.4% to 0.8% for next year) while inflation projections have been revised upwards (around 8% for the current year and mostly around 9% for next year). However, all forecasts are subject to very high uncertainty at the current juncture.

An accelerated, clean and sustainable energy transition is a critical part of our policy response in the fight against climate change. We are investing in increased energy security, whilst ensuring that the transition towards net zero positively impacts jobs, growth, fairness and the environment.

Financial Markets

Since April 2022, we have seen further tightening of financial conditions in line with significant changes in the macroeconomic environment. We observed high uncertainties in global financial markets and high volatility in certain market segments. This environment could eventually test the resilience of the global financial system against the backdrop of vulnerabilities that continue to build up. High debt levels in the sovereign, non-financial corporate and household sectors could become a concern, in particular with a view to a marked sovereign-banking-nexus. A broad-based rise in credit losses could test the resilience of banking sectors and, in some cases, highlight the vulnerabilities arising from the sovereign-bank nexus. We must continue to closely monitor the financial system as a whole, at the global, European and national level.

Overall, the German banking sector is well capitalized with a low share of non-performing loans. Nevertheless, macroprudential capital buffers of banks have been raised to preventively address potential risks to financial stability. Germany remains vigilant to further macro-economic developments, and potential impacts on financial stability.

II. International Financial Architecture and IMF Policies

We strongly welcome the new Food Shock Window as a temporary addition to the emergency lending toolkit that can swiftly support countries adversely affected by the economic repercussions of Russia's war. The new window is an important contribution to the international coordinated efforts to mitigate the food shock on member states' economies, demonstrating the Fund's readiness to act, when needed. Going forward, the Fund must continue to play its critical role in crisis prevention and resolution by providing high-quality policy advice in its surveillance and effective capacity development, whilst being prepared to make full use of its well-established lending instruments and policies to help members address their balance-of-payments problems and correct macroeconomic imbalances. There are important conditions for Fund lending to be effective in helping to restore macroeconomic stability in member countries. First, the Fund's financial engagement can facilitate, but cannot substitute for appropriate policy reforms that address root causes of instability, which in many cases are structural. This underscores the priority to focus Fund lending on Upper-Credit-Tranche (UCT)-quality programs that can effectively guide the implementation of critical macroeconomic policies and structural reform agendas, thereby acting as *seal of approval* and catalysing further financing from external sources. Second, debt sustainability and a sufficient capacity to repay the Fund are key safeguards and prerequisites for the temporary use of Fund resources. Third, for the Fund to continue to play its stabilizing role, the integrity of its resources and financing mechanism needs to be preserved by limiting lending risks for the Fund. Therefore, appropriate lending policies and safeguards as well as adequate risk mitigation have to be ensured by the Fund.

We are looking forward to the operationalization of the Resilience and Sustainability Trust (RST) and the Resilience and Sustainability Facility (RSF), which will complement existing lending instruments. The RSF should focus on longer-term structural issues in the context of climate change and pandemic preparedness. RST lending would thus add to other institutions' and donors' financing activities in this area. A sufficiently strong group of contributors to the RST will be key. Germany has made a substantial pledge to the RST from the federal budget.

We continue to support the prudent two-step funding strategy for the PRGT and welcome the ongoing fundraising efforts by the Fund in this regard. Germany continues to contribute substantially to the PRGT loan and subsidy accounts, alongside its support to the Fund's CCRT and the Fund's various CD initiatives:

Progress concerning international initiatives to address debt vulnerabilities has become increasingly urgent in light of heightened global debt vulnerabilities and the increasing number of countries in or close to debt distress. We welcome Zambia's recent progress under the G20 Common Framework for Debt Treatment (CF) beyond the Debt Service Suspension Initiative (DSSI) and support the efforts to strengthen and accelerate the implementation of the CF. We strongly appreciate the IMF's contribution in this regard. Both the IMF and the World Bank should support countries in difficult debt situations as needed, including through technical assistance and capacity building. More generally, we strongly support international efforts to strengthen debt transparency by debtors and creditors, including on collateralized lending. While many actions are being taken in this area, sizeable gaps remain. We thank the IMF for its important efforts to help countries strengthen debt transparency, especially through capacity development – to which Germany remains a major contributor – to enhance countries' capacity to record, monitor, and consistently report on public debt. We also look forward to the Board meeting on ongoing initiatives and reform options to "make public debt public".

Climate change constitutes an immense global policy challenge that requires international cooperation. Given its near-universal membership, the Fund needs to continue to play a meaningful part in addressing the challenges ahead. Thus, we welcome the Fund's increasing work on macro-critical climate change issues. Within the Fund's surveillance, an in-depth coverage of mitigation policies of the largest greenhouse gas emitters should become a mandatory part of Article IV consultations. Further, we highly encourage a strong collaboration with other international organizations, especially the World Bank, to leverage expertise and avoid a duplication of work.

We welcome the ongoing work and discussions on the 16th General Review of Quotas, with the aim to reach a conclusion by December 15th 2023. We reiterate our commitment to a strong, quota-based and adequately resourced IMF at the center of the Global Financial Safety Net. We note that the current GRA resource envelope has proven quite comfortable even under severe global economic stress, with still limited actual use of available Fund quota resources in recent years. We consider this to be a positive sign regarding the increased resilience of economies and the ability of countries to cooperate and act appropriately to deal with the challenges of crises. As in the past and with a view to gain a broad consensus, decisions related to all elements of the quota review have to be considered as an integrated package. The process and outcome of the quota review should be fully anchored in the relevant IMF bodies and need to take into account the interests of the entire membership of the Fund.

We continue to attach the highest importance to ensuring that financial assistance by the Fund is used for its intended purpose. Good governance and combatting corruption are macro-critical issues. They are thus potentially highly relevant for the Fund's surveillance and capacity development, and essential for the IMF to carry out its lending function in an effective manner, safeguarding the Fund's resources. Highest standards of institutional governance as well as data and analytical integrity must continue to guide the Fund's work with its membership in an evenhanded, impartial and transparent manner. We thank the independent panel of External Experts led by Jens Weidmann for their report on the Funds's dispute resolution system. We look forward to the implementation of measures and policy changes under the ongoing Institutional Safeguards review.

We call for continued efforts to deepen the Fund's risk management capacities, to support risk-informed decisions including in the Fund's core areas and a binding risk tolerance framework. In the context of deteriorating economic outlook, credit risks from lending have increased. We therefore emphasize the importance of an appropriate level of Precautionary Balances and encourage further strengthening.

We support the Fund's work on diversity and inclusion and on promoting gender diversity in the IMF Executive Board.