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Statement by Wolfgang Schäuble, Minister of Finance,
Bundesministerium der Finanzen, Germany

On behalf of Germany

Statement by Mr. Wolfgang Schäuble
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to the International Monetary and Financial Committee
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I. Global Economy and Financial Markets

Global Economy and Eurozone

The global recovery is progressing at a moderate but steady pace. Risks to the outlook have declined tangibly in a short-term perspective reflecting reform progress and policy implementation in the Eurozone as well as the United States avoiding the fiscal cliff. However, medium-term risks remain elevated, and structural challenges have yet to be addressed in a durable manner. Heightened risks stem in particular from the debt overhangs and fiscal deficits in advanced economies. Delaying necessary adjustments would further aggravate risks for the prospects of a lasting and fundamentally sound global recovery. Fiscal and financial sector adjustments remain crucial to regain lost credibility and strengthen confidence. International cooperation remains crucial. At the current juncture, it is in particular the responsibility of the advanced economies, including Japan and the US, to follow-through with ambitious fiscal consolidation over the medium-term to reduce public debt ratios which in several cases have reached unsustainable levels. The commitment by advanced economies to a clear and credible downward path of general government debt levels could be strengthened by an agreement on an ambitious common debt reduction anchor. We take note of the far reaching monetary policy measures the Bank of Japan has adopted. This strategy needs to be followed up by comprehensive medium term fiscal consolidation measures and structural reforms to tackle underlying challenges of high public debt and low growth. But also the emerging market and developing economies have responsibility to avoid renewed imbalances and financial excesses. Exceptionally accommodative monetary policies support the global recovery. Yet, the time must be used wisely by governments to follow-through with decisive reforms and needed policy adjustments.

For the Eurozone the growth outlook for 2013 implies a slight improvement compared to 2012, with economic activity expected to pick up in the second half of the year. Further, significant progress has been achieved in fiscal consolidation over recent years, thereby fostering the foundation for growth. From 2009 to 2012, euro area countries, on average, reduced the deficit-to-GDP ratio by 2.8 percentage points. Fiscal adjustment in the Eurozone is continuing in 2013, and it is indeed crucial that efforts are maintained to restore sound fiscal positions.

Further, progress in restoring international competitiveness has been made. Unit labor costs and current account balances have started to undergo a correction process in most of the

countries that have been strongly affected by the crisis. The initiated structural reform processes in the labor market and other areas start to yield tangible results. Further structural reforms are essential for Eurozone countries to strengthen competitiveness, increase the flexibility of their economies and enhance their longer-term growth potential.

Germany

The German economy continued to grow in 2012 the third year in a row and remained one of the growth drivers of the Eurozone. Confidence indicators signal that after the temporary economic dip during the winter half year, growth is likely to pick up again in the course of the year 2013. The noticeable rise of domestic demand– driven by increasing employment and income– is expected to be the basis for Germany’s economic growth in 2013. Especially, private consumption will again play a substantial role in supporting growth this year, while investment in machinery and equipment is expected to post a decline on average– given the negative impact of 2012 figures on statistical calculations for 2013. However, this apparent decrease disguises what is expected to be a swift recovery in investment activity following a slow patch at the start of the year. The labor market situation in Germany is projected to remain favorable in 2013. The upward trend in employment continues albeit at a somewhat slower pace. Unemployment is increasingly likely to stay below the three-million mark on average.

Germany firmly adheres to a growth friendly consolidation path. While complying with the continued need for consolidation, government has boosted R&D investment and lowered old age pension contribution rates. The confidence created by sound public finances is the basis for sustainable growth. Germany remains firmly committed to honoring its role as the EU’s anchor of stability. Federal government has successfully met the requirements of the constitutional “debt brake”. Overall, all requirements on the European and international level have been fulfilled as well– and we will continue to do so in the future.

In 2013, we expect a general government deficit of 0.3 % of GDP because of weaker GDP growth, than in 2012 but a continued surplus in structural terms. As also confirmed by the IMF in the just published Fiscal Monitor the overall deficit widens this year as a result of the operation of the automatic stabilizers.

Financial Sector

Stress in financial markets has receded, also following the establishment of the ESM, the ECB announcement of the OMT, and further progress in program countries. Recent signs of stabilisation are welcome. It is now of the utmost importance that those members of the Eurozone which are still vulnerable demonstrate an unwavering commitment to economic reform. The repair of the banking sector is far from complete. Losses have to be absorbed,

deleveraging has to take place, and further bank restructuring lies ahead. At the same time, it is imperative that sufficient credit is available to the real sector, in particular for SME.

To send a signal against fragmentation of financial markets in Europe, quick progress in the area of European bank supervision and resolution is essential. While establishing an effective framework for European bank supervision is important to regain confidence, support banking sector repair and reduce risk concentrations within banks, cleaning up balance sheets to the extent necessary will include restructuring and resolving of banks over the coming years – without burdening the taxpayer. Against this backdrop, Europe is in need of an effective framework for an orderly restructuring and resolution of banks (not least across national borders) including a strong bail-in-instrument. Given the urgency, it is important that we concentrate on credible solutions that can be achieved and operate safely within a reasonable timeframe.

II. International Financial Architecture and IMF Policies

IMF Quotas and Governance

The quick implementation of the 2010 Quota and Governance Reform is of great importance for the credibility and legitimacy of the Fund and to facilitate the discussions on the 15th General Review of Quotas. Germany thus encourages all IMF members that have not yet ratified the reforms to complete their ratification swiftly.

Germany welcomes the timely completion of the IMF quota formula review by the IMF Executive Board. We underline the decision that discussions on the quota formula will be integrated with the discussions on the 15th General Quota Review with a view to finding an integrated package approach where no single elements will be discussed or decided on separately from other elements or from the broader context of the quota review. With regard to the legitimacy of the Fund it is crucial that the discussions and decision on the quota formula and the 15th General Review of Quotas will be fully anchored in the IMFC and the Executive Board where all IMF members are represented and that the outcome is acceptable to the wider IMF membership.

For the further discussions on the quota formula the four principles which underpinned the 2008 reform of the quota formula continue to provide the appropriate basis and should be applied rigorously. Furthermore, the formula should be based on verifiable and clear economic criteria and should be closely linked to the Fund's mandate. As openness is the very reason for the existence of the Fund and thus its building principle, Germany considers that openness should continue to play a prominent role in the quota formula with at least its current weight.

IMF resources

Germany welcomes the progress on the voluntary agreement to buffer IMF resources by USD 461 billion which was reached in 2012 to which Deutsche Bundesbank has contributed a credit line of €41.5 billion. We emphasize the importance of completing the implementation process swiftly and look forward to the finalization of the remaining bilateral agreements.

IMF surveillance

Germany welcomes the recent improvements in Fund surveillance, in particular the Fund's financial surveillance strategy which will contribute to enhancing financial sector stability. Furthermore, we look forward to the upcoming Spillover Report as well as to the second pilot External Sector Report. Both will play an important role in the Fund's multilateral surveillance activities. Germany welcomes the adoption of the IMF's institutional view on capital flows and the staff guidance note on this issue. This will help the IMF to operationalize the institutional view in its bilateral and multilateral surveillance activities. Germany also welcomes the IEO's evaluation on the IMF's role as a trusted advisor and encourages the Fund to implement the respective suggestions for improvements in order to further strengthen the IMF's important surveillance role in global crisis prevention. In this context, we call on all countries with overdue Article IV consultations or deficiencies in the provision of data to the IMF to fully cooperate with the Fund in line with their membership obligations.

Low-income countries

Germany welcomes the decision taken by the Executive Board in 2012 to ensure the longer term self-sustainability of the Poverty Reduction and Growth Trust (PRGT). The adoption of the three-pillar framework – comprising a base envelope in annual lending capacity, contingent measures if needed and the expectation that all modifications to low-income country (LIC) facilities would be designed in a manner consistent with maintaining self-sustainability – has been a major achievement that avoided a sharp decline in the PRGT's lending capacity. It is against this background that the Executive Board has recently decided on modifications to the Fund facilities for LICs and the framework for PRGT eligibility. We consider that the modified toolkit is appropriately flexible and tailored to the needs of different countries, while adhering to the principle of a self-sustainable PRGT.