INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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IMFC Statement by Christian Lindner
Minister of Finance of the Federal
Republic of Germany

Germany

Statement by Mr Christian Lindner
Minister of Finance of the Federal Republic of Germany
to the International Monetary and Financial Committee
Washington, April 21, 2022

Germany strongly condemns Russia's unprovoked and unjustifiable war of choice against Ukraine, which is a blatant violation of the fundamental principles of international peace and security and a breach of international law. President Putin, his government and supporters, and the enabling Belarusian regime, bear full responsibility for the social and economic consequences of the imposed sanctions. Germany will continue to work very closely with our international partners to support Ukraine directly and implement far-reaching sanctions on Russia and its accomplice Belarus. The Russian economy and its financing capacity have already been hit hard through sanctions.

I. Global economy and financial markets

Global economy, Europe and Germany

The earlier positive outlook for the global economic recovery is now subject to significant downside risks, notwithstanding the return to pre-crisis output levels in many economies following the pandemic. Russia's war against Ukraine has major repercussions across many parts of the global economy, pushing up already elevated prices in commodity and notably energy markets, as well as putting pressure on food prices and supply chains. The war also weighs on business and consumer confidence by increasing uncertainty and will lead to some restructuring of trade relationships. At the same time, pandemic risks persist; keeping the pandemic in check globally remains critical for the recovery. These challenges to the global outlook require a targeted recalibration of monetary and fiscal policy. The overall path to post-pandemic fiscal normalisation needs to be maintained with a view to rebuilding buffers in the medium term. Amidst elevated debt levels and divergent recovery paths across economies, some low- and middle-income countries are particularly vulnerable to higher prices for critical food and energy imports as well as to spill-overs from an eventual global monetary tightening. As a result, continued support to low-income countries from the global community remains key in this phase of the recovery.

The fundamentals of the EU and the Euro Area economy are strong. Therefore, while the economic impact of Russia's attack, especially higher energy prices and thus inflation, will add to risks stemming from ongoing supply chain problems, we still expect positive growth. For the German economy, leading economic research institutes and the German Council of Experts have revised their forecasts for GDP growth downwards (now in the range of 1.8 % to 3.1 %) and upwards for inflation (now in the range of 4.8 % to 6.1 %) for the current year.

All forecasts are subject to very high uncertainty. The federal government will publish its spring projection at the end of April.

The unprecedented Covid-19 pandemic has not yet been fully overcome, and Russia's war plunges the world directly into the next crisis. This calls for swift and bold action. Germany's fiscal policy focuses on three major priorities:

i. Tackling price pressures, building resilient public finances

The war and the associated supply chain problems intensify the problem of already high inflation, in particular through rising energy prices in Europe. High and volatile inflation threatens economic growth and weakens innovation. It also jeopardizes social cohesion, because low-income households and small and medium-sized enterprises are affected far more than others. This requires fiscal support. Supporting economic growth remains our priority in the short term. At the same time, it is paramount that public finances remain resilient and sustainable. This will require leaving the fiscal expansion mode and consolidate public finances as soon as possible while creating an environment conducive to "green" private sector development and job creation. In Germany, from 2023 onwards, we will limit net borrowing to the scope provided by the debt brake under constitutional law. In a similar vein, sustainable public finances in all EU member states are a cornerstone to ensure effective economic and fiscal policy. We are convinced that the best way to counteract a risk of stagflation is to increase productivity and production capacities and tackle supply chain disruptions, which would support higher economic growth and at the same time help to reduce pressure on prices.

ii. Action against the climate crisis and faster energy transition

The current situation demonstrates how dependency on Russian oil and gas, both in Germany and in other European countries, makes our economies vulnerable in times of crisis. We need to urgently reduce the dependency on Russian fossil fuels which offers also the opportunity to join all our forces and act resolutely against the climate crisis. We have to increase and speed up the production of renewable energy through large-scale investments in wind and solar power. Targeted public investment stimuli to unleash transformative private investment are even more important than before. Our climate action today will reduce climate adaptation costs as well as permanent losses and damages caused by higher temperatures in the future. We are determined to further incentivize the green transition via appropriate tools and we are convinced that carbon pricing remains the most efficient tool on the path towards achieving climate goals.

Effectiveness, efficiency and social acceptance are key aspects of the German climate policy. All revenues resulting from the newly introduced fuel emissions trading in the transport and heating sectors (non-ETS sector) will be returned in full to citizens and companies via the Energy and Climate Fund. In addition, vulnerable households receive support to counteract higher prices, for example by increased housing allowances.

iii. Building resilience against the pandemic

The pandemic is far from being over, as many countries still fight high infection rates. The recent tidal wave of COVID-19 infections driven by the Omicron variant has shown that no one is safe until everyone is safe. Ending the pandemic will only be achieved through sustainable and adequate funding of the ACT Accelerator in 2022. Therefore, Germany announced another 1.5 billion USD for ACT-A in March 2022, adding to its contribution of 2.6 billion USD in 2020/ 21. This makes Germany the second biggest contributor. We call for continued and strong contributions by the international community to the ACT-Accelerator.

Global cooperation

The challenges that Germany and Europa are facing – supply chain problems, diversification away from fossil fuels, and overcoming the pandemic - are ultimately global challenges and we need to address them together in the spirit of international cooperation and solidarity for peace and prosperity. Side by side with our partners in the G7 and beyond, we remain steadfast in our commitment to ensure strong support for Ukraine in meeting its immediate needs and rebuilding its future.

To drive forward the global fight against climate change effectively, the German G7 presidency promotes the establishment of an international, open and inclusive climate club. The overarching aim is to increase global climate ambition and accelerate the implementation of the Paris agreement by aligning ambitious climate policies and ensuring a level playing field that prevents competitive distortions and carbon leakage. The eminence of this has been yet again reinforced by the latest IPCC report.

To fight the pandemic, the German G7 presidency suggests to continue strengthening logistical aspects of vaccine absorption in recipient countries, as well as enhancing vaccine and therapeutics production in the global south.

Financial markets

With the onset of Russia’s war against Ukraine, volatility on financial markets increased significantly, but has recently abated somewhat. Importantly, western financial markets have functioned smoothly throughout. The current environment is characterised by high inflation, normalisation of monetary policy, and tightening global financial conditions. This could lead to the materialisation of risks related to the sovereign-bank-nexus in some countries. Accordingly, we support the Global Financial Stability Report’s recommendation that advanced and emerging market economies should consider introducing measures aimed at reducing incentives for banks to hold excessive sovereign debt.

Germany is monitoring the financial cycle closely. Macroprudential capital buffers of banks have been raised to preventively address potential risks to financial stability which have further built up during the pandemic. Overall, the German financial sector is well capitalized.

Nonetheless, Germany remains vigilant to further macro-economic developments and potential impacts on financial stability.

II. International financial architecture and IMF policies

The past two years have seen extraordinarily high levels of financial assistance committed and disbursed by the Fund to help member countries cope with the effects of the global pandemic. Looking ahead, above average lending is expected to continue, also in light of the effects of Russia's war against Ukraine and its spillovers including on energy, food, and commodity prices. At the same time, there is an urgent need to address significant structural challenges, including rising debt vulnerabilities, in many countries and it will therefore remain essential to continue the ongoing transition from IMF emergency lending towards regular Fund-supported programs.

Especially in times of economic turmoil and members' increased needs for financial support, it remains crucial to ensure the IMF's financial integrity and its ability to act and to preserve the Fund's unique financing mechanism. This requires strengthening the "seal of approval" of its adjustment programs and their catalytic function. Properly implementing lending standards and safeguards is key to keep rising credit and other financial risks in check. In this regard, we also emphasize the importance of an appropriate level of Precautionary Balances to protect the Fund's balance sheet.

We continue to attach the highest importance to ensuring that financial assistance provided by the Fund is used for its intended purpose. Good financial governance and combatting corruption are macro-critical and essential for the IMF to carry out its lending function in an effective manner, benefitting those in need and safeguarding the Fund's resources. Our contribution to the Fund's Crisis Capacity Development Initiative supports this priority area.

As an envisaged complement to the current IMF toolkit, the newly established Resilience and Sustainability Trust (RST) with its Resilience and Sustainability Facility (RSF) should have a strong focus on key structural issues in the context of climate change and pandemic preparedness. While the RST can play a significant role, the bulk of financing to pursue these objectives will necessarily have to be provided by other institutions and donors. We deem it important that the various safeguards to mitigate credit and liquidity risk for RST resources will be implemented fully.

A clear delineation of tasks between the Fund and other IFIs, while strategically collaborating based on their relative mandates and comparative advantages, avoids duplication of work and is especially important regarding the rapidly evolving emerging issues (climate, digital money, fragile and conflict-affected states, inclusion & gender). We welcome the Fund's recently endorsed strategies for integrating macro-critical aspects of emerging issues into its areas of expertise as well as its ongoing work to further deepen its macrofinancial surveillance. On the Fund's Strategy for fragile and conflict-affected states (FCS), we see the Fund's most important contribution in providing targeted policy advice and enhancing support for capacity development in priority areas, notably good governance, institution-building, and debt management. More generally, we consider it useful that the Fund make efforts to look more closely and more strategically at failed/defunct programs and apply lessons learned to future programs. Regarding addressing climate change and IMF surveillance, an in-depth coverage of mitigation policies of the largest greenhouse gas emitters should become a mandatory part of Article IV consultations, given their significance for the global climate. In this context, the IMF should continue to advocate carbon pricing mechanisms and the introduction of an international carbon price floor as efficient climate change mitigation policies.

Concerning international initiatives to address debt vulnerabilities, we welcome the achievements under the G20 Debt Service Suspension Initiative (DSSI). In light of rising debt burdens, the swift and effective implementation of the Common Framework (CF) is crucial to encourage eligible countries to move to the more structural approach of addressing debt vulnerabilities by requesting debt treatment through the CF and an Upper Credit Tranche quality IMF-supported program. We appreciate the IMF's contribution to help improve the efficiency of the CF in this regard. Both the IMF and the World Bank should support countries in difficult debt situations as much as possible and needed, including through Technical Assistance and advisory services. We furthermore welcome exploring options to improve debt restructuring processes for countries not covered by the CF.

More generally, we strongly support international efforts to strengthen debt transparency in both debtor and creditor countries. While the list of actions taken in this area is comprehensive, sizeable gaps remain. We thank the IMF for its important efforts to help countries strengthen debt transparency, especially through capacity development – to which Germany is a major contributor – to enhance countries' capacity to record, monitor, and consistently report on public debt.

We welcome the IMFs' update on its guidance on capital flow-related issues. Germany supports the inclusion of pre-emptive capital flow measures und macroprudential measures on inflows into the policy toolkit as it may enhance financial stability in certain cases. This pertains in particular to situations where other policy instruments may be insufficient, ineffective or too costly.

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

To conclude, over the past years the world has fallen from one major crisis into the next. It is particularly in these times, that we all become aware of the importance of multilateralism guided by the spirit of cooperation and solidarity. Russia's war against Ukraine is yet another reminder that it needs concerted global effort to tackle the key challenges of our time, be it a pandemic, climate change, inequality, or peace.