INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Fifty-First Meeting
April 24–25, 2025

Statement No. 51-1

Statement by Mr. Kukies
Germany

Statement by Mr Jörg Kukies

Finance Minister of the Federal Republic of Germany

to the International Monetary and Financial Committee

Washington, D.C., 25 April 2025

I. Global Economy and Financial Markets

Global Economy, Europe and Germany

Rising trade tensions are threatening to undermine prosperity. Although the global economy has demonstrated resilience over the past few years within a context characterised by high uncertainty and successive shocks, such as Russia's invasion of Ukraine, a steep increase in trade measures will put the global division of labour and value chains under significant strains and thus dampen growth perspectives. Uncertainty about the future outlook is exceptionally high. The global disinflationary process has so far been on track, with inflation targets within reach for many central banks around the world. Still, inflationary pressures persist in many economies, and threats to disinflation have increased in some countries. Moreover, long-term challenges such as ageing populations, the impacts of climate change, weak investment and low productivity growth are weighing on the medium-term outlook.

To lift global economic prospects, it is crucial to create a more stable and predictable policy environment. We need to avoid an escalation of trade restrictions. Instead, we need to strengthen economic ties through fair, rules-based cooperation within a framework of trusted multilateral institutions. Open markets and international trade are essential for innovation, growth, and global prosperity. Tariff measures drag on growth and come with unintended consequences for all sides. Reducing trade barriers is therefore in everyone's economic interest. It is essential to cooperate multilaterally to tackle global challenges, to address divergences between advanced, emerging and developing economies, and to decarbonise our economies. By doing so, we can reduce uncertainty and foster stronger, more sustainable growth. Structural policies that focus on lasting improvements in productivity growth are key in this regard. At the same time, supporting fiscal consolidation through prioritising future-oriented expenditures becomes even more critical in times of frequent shocks. Fiscal and monetary policies need to be well-calibrated to avoid a reacceleration of inflation, to preserve debt sustainability, and to rebuild fiscal buffers.

In Europe, a cyclical rebound has been well under way. Labour markets remain robust while declining inflation is aiding the recovery in households' disposable incomes and improving financing conditions that will support investment. Nevertheless, geopolitical risks and uncertainties are now significantly clouding the outlook.

In light of these risks, Europe remains dedicated to ensuring economic stability and promoting sustainable growth. In order to increase long-term growth and economic prospects, the European Union needs to improve the attractiveness and competitiveness of the single market.

Some legislative measures have already been taken at EU level to reduce the bureaucratic burden and associated costs for firms. Further steps are necessary: we are fully committed to pursuing deepened and more integrated capital markets, to increasing the skilled work force, and to promoting research and innovation, while continuing the green and digital transformations. Moreover, the European Commission and the EU High Representative for Foreign Affairs and Security Policy recently presented their "White Paper for European Defence – Readiness 2030". It provides a framework for supporting multilateral defence cooperation, reducing supply chain dependencies and improving the conditions for the necessary investment in the European defence sector, in order to make Europe more resilient. One important element is the activation of the national escape clause in the Stability and Growth Pact to facilitate the transition to higher defence expenditure by EU member states through temporary flexibility, while preserving fiscal sustainability.

The German economy has stagnated over the last couple of years. The repercussions of the recent severe economic shocks, in particular the pandemic and high energy prices caused by Russia's war of aggression against Ukraine, have weighed on growth. Although the labour market remains robust, structural issues – such as demographic trends, loss of competitiveness in key export markets, and weak investment – continue to promote stagnation.

Therefore, we have and will continue to take decisive action to support modernisation and growth, in order to bring our economy back on a sustainable growth track. With the recently agreed adjustments to the German constitution, our fiscal policy is being re-calibrated. A €500 billion special fund will enable additional investments in infrastructure and to achieve climate neutrality by 2045. Expenditures on defence and related areas which exceed a combined total of 1% of GDP will be exempt from the debt brake rule, thereby enabling us to reinforce NATO's European pillar. Together with the increased scope for structural new borrowing (up to 0.35% of GDP) by the federal states (*Länder*), these measures are an integral component of a comprehensive growth and investment package. To further improve growth potential and increase economic resilience, the package will be accompanied by extensive structural reforms, including labour supply incentives, and efforts to cut red tape. This holistic approach will also play a crucial role in ensuring the long-term sustainability of public finances.

Financial Sector

Vulnerabilities in the global financial system continue to be elevated, and recent geopolitical developments point to further downside risks. Heightened policy uncertainty and the proliferation of trade measures has increased market volatility against the backdrop of existing vulnerabilities in the real estate sector, an increasing number of cyber-attacks, and risks related to climate change. Regulators and supervisors around the world should remain vigilant to safeguard global financial stability. International cooperation will remain crucial in this regard.

The financial sector in Germany and the EU will remain a global anchor of resilience in the face of these challenges. Regulatory reforms in response to the global financial crisis have been an important element in creating a safe and stable financial system. In this context, a timely and more consistent implementation of international regulatory standards, such as Basel III, would ensure a level playing field across all jurisdictions.

II. International Financial Architecture and IMF Policies

The IMF has been a strong advocate and shining example of multilateral, rules-based cooperation. It continues to be indispensable and remains an important cornerstone for the stability of the international monetary system. By remaining flexible and taking swift and decisive action when necessary, the IMF has successfully helped its membership to weather recent crises and maintain macroeconomic and financial stability. Its mandate to promote global monetary cooperation as well as financial and economic stability benefits the entire membership. Germany remains fully committed to the unique role of the Fund in providing tailored policy advice, capacity development, and – if needed – temporary financial assistance to support countries' reform and adjustment efforts. We welcome the IMF's renewed focus on the core areas of its expertise, namely safeguarding macroeconomic stability and balance-of-payments sustainability, helping build resilience and address shared economic challenges, and advancing multilateral cooperation. We encourage the IMF to remain guided by the well-established concept of macro-criticality to identify important policy challenges in its member countries where its advice and support can be especially helpful.

The IMF's surveillance work remains at the heart of its mandate and should be further strengthened to prevent crises in member countries. We look forward to the upcoming Comprehensive Surveillance Review which should cement the IMF's role as a trusted and impartial advisor. The review should focus on strengthening the resilience of its member countries; improving financial surveillance, including of spillovers in the financial system; and analysing the consequences of digital money and AI. In addition, the IMF should continue to strive for closer integration of bilateral and multilateral surveillance. Furthermore, we look forward to the Financial Sector Assessment Program Review. Diligent and thorough risk-based assessments are essential, especially for members with systemically important financial sectors in times of high interconnectedness.

We call on all IMF members to finalise their domestic procedures and swiftly implement the quota increase under the 16th General Review of Quotas. Germany concluded the necessary steps last summer. Once the quota increase is implemented, we are ready to constructively discuss a limited realignment of quota shares to better reflect members' positions in the world economy as part of the 17th General Review of Quotas. The current quota formula delivers well on this objective. Any realignment should be based on fair and broad burden-sharing among all advanced economies.

In recent years, members have relied heavily on IMF financial support, and the Fund has demonstrated its agility by frequently adapting its lending toolkit. As a result, the complexity of the lending toolkit has increased considerably. To maintain a clear focus, we see merit in streamlining the toolkit and assessing the need for facilities that are barely used. The upcoming reviews of IMF conditionality and the exceptional access frameworks provide important opportunities to further enhance the effectiveness of IMF lending. We would welcome a strong focus on well-designed programmes that support ambitious structural and institutional reform agendas, good governance, transparency, and sound public financial management, including domestic resource mobilisation. Appropriate conditionality has an important role to play here.

Members should be enabled to regain macroeconomic stability and balance of payments sustainability over the course of their IMF programme. Ensuring timely repayment and avoiding protracted dependence on IMF financial assistance should be prioritised. Within the Fund, we strongly advocate for continued vigilance and sound risk management practices, including strengthening the Enterprise Risk Management policy framework. Elevated credit risks to the Fund necessitate a clear focus on its financial integrity. To this end, further bolstering the IMF's precautionary balances is needed to safeguard the adequacy of its financial position.

Addressing debt-related challenges through domestic resource mobilisation and, where appropriate, through timely debt restructurings remains key to invigorate growth and macroeconomic stability in many low- and middle-income countries. In its advisory role, the Fund should help mitigate the long-standing "too little, too late" problem in sovereign debt restructurings. Candid debt-sustainability analyses based on prudent macroeconomic assumptions are needed. The upcoming review of the Debt Sustainability Framework for low-income countries by the Fund and the World Bank should be guided by these principles.

We welcome the progress in implementing the G20 Common Framework for Debt Treatments, but think it could be further improved, to increase efficiency, effectiveness and timely delivery. We support the renewed momentum for domestic resource mobilisation under the IMF's and World Bank's three-pillar approach to liquidity pressures. However, we caution that liquidity challenges can be difficult to distinguish from solvency issues. We see a strong supportive role for the G20 Compact with Africa in attracting private sector financing based on strengthened institutional frameworks and stability-oriented reforms in member countries.

Based on the key principles of macro-criticality and efficient division of labour with other institutions, the Fund should continue to support its members to address the macroeconomic implications of climate change. In recent years, the Fund's engagement on climate-related risks has helped safeguard economic and financial stability, including by addressing risks to the balance sheets of banks and insurers, providing policy advice for climate mitigation and building resilience to climate shocks.

Finally, Germany welcomes the Fund's ongoing efforts to enhance diversity, gender equality and inclusion, and looks forward to continued progress in advancing these objectives. We fully support the medium-term voluntary objectives on gender diversity at the IMF Executive Board.