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IMFC Statement by Wolfgang Schäuble
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On behalf of Germany

Statement by Mr. Wolfgang Schäuble
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to the International Monetary and Financial Committee
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On behalf of the German government, I would first like to thank the Peruvian authorities for their outstanding hospitality during this year's Annual Meetings in Lima.

I. Global Economy and Financial Markets

Global Economy and Euro Area

Global growth remains moderate this year after a disappointing first half. For next year, we can expect higher economic growth in advanced and in emerging economies. However, global growth develops unevenly across regions and countries. Growth forecasts for the global economy have been revised downward several times in the last years. Increasingly it is acknowledged that medium- and long-term factors are at work which hold back more dynamic global growth and that growth rates of boom years are not an appropriate benchmark.

Financial and economic crises since the 1980s have shown that economic growth which relies too much on private or public debt is not sustainable. Excessive credit growth cannot solve structural problems. Instead it leads to financial crises and debt crises. And we know that such crises tend to be deeper and longer than usual economic slumps. Too much private and public debt and a lack of investor and consumer confidence are important impediments to the global economy.

Expansionary monetary and fiscal policy cannot solve structural problems. We begin to see the limits of expansionary macroeconomic policy more clearly. The effects of ultra-low interest rates and quantitative easing on economic growth appear to be less powerful than expected by many experts. Notably, countries with high public debt and deficits are struggling to recover. For three decades we have seen ever higher public debt ratios in advanced economies - accompanied by ever lower trend growth.

A steady fiscal and economic policy that provides a framework that is conducive to sustainable growth is a sounder and more successful approach than policy aiming at shortterm growth. After all, sustainable domestic demand is based on the sustainability of economic policy; without trust in the sustainability of policies and growth, investment and consumption suffer. Basic elements of the successful approach are solid public finances, structural reforms and sticking to rules and other commitments. This does not only apply to advanced but also to emerging market and developing economies.

In the euro area, the economic recovery remains on track: real GDP growth has been positive for nine quarters in a row. At the same time, consolidation efforts undertaken over the last couple of years have led to visible results. Moreover, unit labor costs and current account balances have improved substantially, and unemployment rates have been on a downward trend since mid-2013.

The European sovereign debt crisis has shown that in a Monetary Union loss of confidence can have dramatic effects. The developments in recent years drove home the point that public finances in the European Monetary Union need to live up to especially high standards. Loosening fiscal policy would not help the euro area to return to stronger growth, as several Member States still face substantial public deficits and high debt ratios. The combination of structural reforms and growth-friendly consolidation will strengthen confidence, foster employment, and increase the euro area's long-term growth perspectives.

Germany

The upswing in the German economy is continuing. The German government expects the economy to grow by 1.8% in real terms in 2015 and 2016. Domestic demand, in particular consumption in private households, continues to be an important driver of economic growth. Record employment and associated increases in income, as well as low interest rates and stable prices are key factors in this regard. Nevertheless, the current economic slowdown in emerging markets poses a certain downside risk to the German economic outlook.

Germany's growth-friendly fiscal policy continues to complement and support the favorable economic situation. The general government budget has been close to balance for three years in a row. Germany will stay on the path of sound public finances and stick to its balanced budget. Mastering the refugee situation is currently the top priority. It shows how important sound fiscal policies are to maintain a government's capacity to act. The federal government has just announced to allocate an additional amount of about 7 billion euros of additional public funds in 2015 and 2016 to support the federal states in Germany. Moreover, Germany will address this challenge also at the central level with necessary financial means.

Consolidation has also opened up leeway for tax relief and investment: The German government will implement measures to raise public investments by a total of 50 bn. € until 2019 to target areas like research and development, infrastructure and education which are crucial for fostering long-term growth. Additionally, the tax burden will be alleviated by 5 bn. € each year as of 2015 especially for low and middle income earners, families and single parents. Moreover, we are enhancing the investment environment in Germany by ensuring sound public finances, by making investments to enhance competitiveness, e.g. in transport infrastructure, and by ensuring a strong institutional framework.

Financial Sector

The balance between economic and financial risk taking has to be watched closely. Risks to global financial stability have recently emanated from emerging market economies as concerns about growth prospects have led to abrupt corrections in many financial markets. Market corrections may have been amplified by structural changes in market liquidity. Attentiveness is warranted and it is only reasonable to assume that further corrections might eventually take place. This could lead to considerable losses for market participants and have broader effects on the economy. Notably the less well-regulated segments of the financial sector may be an additional source of vulnerability and deserve heightened scrutiny. Overall, the current financial market environment poses an increasingly important challenge for policymakers and we will remain alert with regard to any emerging risk.

After the financial crisis in 2008, we have made important progress to build a stronger and more resilient financial system. In particular, though certainly not exclusively, we have improved the soundness of the banking sector. However, our job is not finished. Going forward, priorities are to continue to reduce risks within the banking sector; this includes addressing the "too-big-to-fail"-problem on a global level by defining the credible standards for additional loss absorbing capacity of systemically important institutions. Since systemically important banks are usually active in many different jurisdictions, we should aim to improve international cooperation and coordination in bank supervision and resolution. Also, we need to advance our efforts to appropriately monitor and supervise the shadow banking sector and reforming the over the counter (OTC) derivatives market will help to reduce systemic risk and increase transparency. Full and consistent implementation of internationally agreed reforms will be crucial to further strengthen the financial system. Beyond that, further steps have to be taken to ensure that financial stability is set on firmer ground. In this regard, we see merit in further exploring links between financial institutions and sovereigns and possible implications.

In the euro area, the Banking Union – one of the most ambitious projects in the recent history of the European Union – has made good progress: At the end of 2014, the Single Supervisory Mechanism and the Single Resolution Mechanism was put in place and the ECB has assumed responsibility for supervising the 123 largest banks in the euro area. In 2016, the Single Supervisory Mechanism will be complemented by a Single Resolution Mechanism for banks. The new bail-in instrument ensures that, in the future, shareholders and creditors will have to bear the resolution costs in the first place. It is now a priority that the agreed rules and regulations are rigorously implemented and applied by all Member States. Further mutualization of bank risks, for example by introducing a common European deposit guarantee scheme or by introducing a common backstop, should be considered only after additional measures have been effectively implemented to substantially reduce risks in the banking sector, including risks stemming from sovereign exposure and national policy decisions.

International tax system/ BEPS

The prevention of Base Erosion and Profit Shifting (BEPS) is on top of Germany's international tax agenda and plays a central role during our G7 presidency. So there is strong support for the BEPS project from Germany. It is a tremendous success that concrete and feasible recommendations for all 15 action items have been delivered in time. This is a milestone for international tax policy. Afterwards it will be crucial to ensure the effective implementation of the new international rules. More generally, we should strive to maintain the successful cooperation between OECD countries and non-OECD economies – particularly developing countries – in the "post BEPS" framework to be established by early 2016. Through the BEPS project we have reached an unprecedented level of international cooperation in tax matters that we should intensify further. Germany encourages the IMF to continue playing its role in this regard and to further examine important issues of international taxation as part of its bilateral and multilateral surveillance.

II. International Financial Architecture and IMF Policies

IMF Quotas and Governance

Given its great importance for the Fund's credibility and legitimacy, the swift implementation of the 2010 reforms remains essential. Letting the 14th General Review of Quotas enter into force would furthermore be conducive to preserving the Fund's character as a cooperative quota based institution. Consequently, all members that have not yet accepted the Fourteenth

General Review of Quotas and the 2010 Governance Reform should make every effort to complete their ratification process as soon as possible.

It is a major disappointment that the 2010 reform package has not yet been enacted. We are therefore open to consider possible interim steps that would help to achieve meaningful progress towards the agreed results of the pending reforms. Such steps, however, must not be seen as a substitute for the 2010 reforms whose full implementation remains the first priority. We encourage all member states to constructively engage in the ongoing discussions on possible interim steps so as to safeguard their implementation by December 2015, in line with the mandate given by the Board of Governors in its Resolution 70-1.

With a view to 15th General Review of Quotas the completion date had to be postponed to its statutory deadline of mid December 2015, due to the continued delay in implementing the 14th Quota Review. Germany stands ready to constructive discussions on all elements of the Review. This includes the quota formula which should continue to adequately reflect the unique role and mandate of the Fund. We reiterate our opinion that these discussions should form an integrated package, and that no decisions are to be taken in isolation.

IMF Resources

Germany attaches continuing importance to the IMF being adequately resourced to fulfil its mandate. With quota resources and resources of the New Arrangements to Borrow (NAB) at the current or the agreed level after implementation of the 14th General Quota Review, we consider the Fund to be comfortably equipped to cover actual and potential demand of the membership in the foreseeable future. Both, the volume of Fund's commitments under current financial arrangements as well as the level of IMF outstanding credit are substantially below their historic peaks from 2011 and 2012 in the aftermath of the global financial crisis. This change is reflected in a high one-year Forward Commitment Capacity (FCC) of currently more than USD 400 billion. Against this favourable liquidity situation, only partial activations of the NAB could be considered in the future, as needed.

Sovereign Debt Restructuring

Germany welcomes the Fund's ongoing work to draw lessons from recent sovereign debt restructurings. In particular, we strongly support efforts to strengthen the market-based contractual approach to ensure more timely and orderly sovereign debt restructurings in case of need. In this regard, we appreciate the increased use of the strengthened collective action and modified pari passu clauses in new issuances of international sovereign bonds, as highlighted by the progress report that the IMF presented to the G20 and the IMF board in September. In its advisory function, the IMF should continue to play an important role in further encouraging the use of the new bond clauses. Moreover, the Fund could contribute to exploring market-based ways to incorporate these clauses into the outstanding stock of international bonds. We also look forward to future work by the IMF on its exceptional access framework, its lending into arrears policy and official sector involvement. Any potential modifications of the Fund's lending framework should, fully respect the Fund's mandate as well as its catalytic role and its financial integrity.

IMF Surveillance

Germany remains fully supportive of the Fund's efforts to strengthen its surveillance activities. This is in our view one of the core functions of the IMF and the primary tool of the Fund for crisis prevention. Thus, we welcome the continued implementation of the recommendations of the 2014 Triennial Surveillance Review. Duly integrated bilateral and multilateral surveillance, the integration of financial and real sector analyses as well as enhanced risk analysis - through the use of alternative risk scenarios and the adaptation of the balance sheet approach - will facilitate the analysis of potential shock transmission across sectors and borders. This would contribute to providing a solid basis for the IMF's role as a trusted advisor to its member countries and could further strengthen credibility and traction which hinge crucially on the perceived quality and relevance of the Fund's advice.

International Monetary System

We are looking forward to the forthcoming discussion in the Fund on the international monetary system. The IMF is perfectly placed to take stock of the working of the IMS and also its own role in this context. Part of this exercise will be a review of the global financial safety net architecture. We welcome the opportunity to discuss its adequacy for todays interconnected world. The IMF represents one of the important pillars within this multi-layered system and it seems worthwhile to us to continually search for ways to make its functioning more efficient. The global financial safety net has undergone a significant expansion since the outbreak of the global crisis with massive increases of IMF resources, far reaching changes in its lending instruments, the expansion or even new inception of Regional Financial Arrangements, like eg the European Stability Mechanism, and additional measures like the ad hoc extension of bilateral swap lines by central banks as appropriate and needed. In our view the current resource endowment of the Fund can be considered adequate, especially as the emergence of more and better funded Regional Financial Arrangements lessens the burden on the IMF. Moreover, we do consider strengthening the resilience of economies by sustainable domestic policies to be the cornerstone and first priority for enhancing the stability of the international monetary system.

SDR basket review

The upcoming review of the method of valuation of the special drawing right (SDR) will focus on the renminbi's eligibility for inclusion in the SDR basket. We are open to consider a broadening of the SDR basket that adequately reflects shifts in the relative importance of currencies in the world trading and financial system. The assessment should be based on the existing criteria and safeguard the role of the SDR as an international reserve asset. We are looking forward to the results of the thorough assessment of these criteria which is currently under way, and will inform the Executive Board's ultimate determination of the SDR basket.

IMF Involvement in Fragile States and German Support for METAC

We welcome the stepped-up involvement of the IMF in fragile states and see increased technical assistance in these countries as an important contribution to their stabilization. In this regard we are happy to announce that Germany intends to contribute to the Middle East Technical Assistance Center of the IMF (METAC) subject to the consent of the German parliament.

Sustainable Development and Financing for Development

The Post-2015 Development Agenda is an important guideline for the way forward. We welcome the IMF's support in implementing this agenda. Going forward, it is important that the IMF focusses its activities on its mandate and supports the development objectives mainly through surveillance and capacity building while respecting the primary competences and the comparative advantage of international development institutions in the broader context of supporting developing countries. E.g. the IMF can play a helpful role in providing guidance how to mobilize domestic resources and how to use these funds effectively.