INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Fortieth Meeting
October 18–19, 2019

IMFC Statement by Olaf Scholz
Minister of Finance and Vice Chancellor
Germany

Statement by Mr. Olaf Scholz

Minister of Finance and Vice Chancellor of the Federal Republic of Germany

to the International Monetary and Financial Committee

Washington, 19 October 2019

First, I would like to warmly congratulate Ms Kristalina Georgieva for being appointed to the position of Managing Director of the International Monetary Fund. Germany looks forward to continuing a close and constructive cooperation with the IMF to strengthen stability and resilience in the global monetary and financial system.

I. GLOBAL ECONOMY AND FINANCIAL MARKETS

GLOBAL ECONOMY

Global uncertainty has increased and is taking a toll on global growth. The already modest outlook for 2020 is threatened by downside risks, especially trade tensions, but also political uncertainty, geopolitical developments, and financial market risks. To restore trust and foster confidence, investment and growth, I agree with the IMF that it is **key to avoid further escalation and resolve trade tensions**. In case risks materialize and global growth weakens further, we should stand ready for coordinated policy responses to avoid a sharper downturn.

Many of today's pressing political issues cannot be dealt with successfully only nationally. This includes promoting free and fair international trade, protecting the environment and fighting climate change, supporting development in low-income countries, ensuring minimum social standards as well as avoiding tax dumping and financial regulatory arbitrage. To meet these global challenges, **we must all cooperate closely and strengthen the multilateral system,** also to restore confidence in international dialogue and institutions.

Combatting climate change is a major global challenge and Finance Ministers can play a vital role. Germany has been one of the founding members of the **Coalition of Finance Ministers for Climate Action** at the 2019 Spring Meetings, which can contribute to delivering on the goals of the Paris Agreement. In this regard, we welcome the IMF's analysis on the role of fiscal policies for implementing Paris climate strategies.

To ensure that **globalization benefits all citizens**, we have to pay more attention to the inclusiveness of growth. We have to fight inequalities of income, wealth, gender and opportunity. In this regard, sound public finances, efficient public investment, environmental sustainability, fair taxation, comprehensive financial regulation and oversight, as well as high-quality education and appropriate social security systems are essential. We have a unique opportunity for taking a significant step towards a fairer world with international corporate tax reform and will continue to advance this agenda.

Euro Area Developments

In June, the Euro Area made substantial progress in our work to **deepen the Economic and Monetary Union**. We agreed on a **revised treaty text for the ESM**. This will allow the ESM to serve as Common Backstop to the Single Resolution Fund, further bolstering the stability and credibility of the Banking Union. We will continue discussions about further steps to complete the Banking Union. We made the ESM's precautionary instruments more effective. In the future, the ESM will be able to help prevent otherwise healthy member states from being dragged into a crisis not of their own making. Last week we agreed on key elements of a new Budgetary Instrument for Competitiveness and Convergence in the Eurozone. For the first time, the Eurozone will have its **own fiscal instrument** to support reforms and investment in Member States that matter most from a Eurozone perspective. Intense dialogue between Germany and France and the support of other members made these steps possible and we will continue our cooperation going forward.

Germany

Germany's growth momentum has remained weak in the first half of 2019. External economic factors, such as subdued global growth and ongoing external risks are especially **affecting Germany's export-oriented industry**. Growth impulses are coming from rising fiscal expenditures, and domestic demand is further supported by an overall robust labor market. The German government aims for enhancing the economy's growth drivers and for strengthening social cohesion within the German society. To underscore this goal, general government investment rose by 8.6 % in the first half of 2019, compared with the same period of the previous year. We expect further significant growth going forward, especially to facilitate the transition to a low-carbon economy. Thus, **investment momentum remains high**.

With the **Climate Protection Program 2030**, the Federal Government is providing for additional investment and tax reductions for climate protection purposes. These measures amount to a total of 54 billion euros until 2023 and will ensure that Germany meets its responsibility under the Paris Climate Protection Agreement.

At the same time, Germany is **committed to sound public finances**. By continuing with balanced budgets until the end of the current financial planning period in 2023, our debt-to-GDP ratio is expected to fall below the 60% ceiling set out in the Maastricht Treaty by the end of 2019 – for the first time since 2002. In case of a significant downturn, Germany will have sufficient room for maneuver to stabilize its economy in addition to the automatic stabilizers.

Financial Sector

The financial system is more resilient than 11 years ago. However, we must remain committed to the **full, timely and consistent implementation and finalization of the post-crisis financial sector reforms**. The evaluation of these reforms should not lead to their rollback. Concerns remain over search for yield and the build-up of financial vulnerabilities in the low interest rate environment. A sudden deterioration in risk sentiment could expose these increased vulnerabilities. Monitoring risks is essential and proactive macroprudential policies that address some of the vulnerabilities can make the financial system more resilient. As we do not know where and when the next crisis will hit, it is important to be prepared and as Ben Bernanke put it in January 2009, “the world is too interconnected for nations to go it alone”. This statement is more relevant than ever.

International Tax Issues

The shift in global value chains and the rise of the digital economy call for further actions that **modernize the national and international tax system** and curb undesired base erosion and profit shifting. Germany actively promotes a global tax system that addresses these challenges. It is our priority to reach a globally agreed solution within the Inclusive Framework of the OECD. This means that we all have to act in the spirit of compromise. We expect viable proposals in 2020.

Germany supports the two-pillar approach the OECD is currently working on. Both pillars are essential parts of the package. We need solutions regarding the **reallocation of taxing rights and a global effective minimum tax**. We welcome that the German-French proposal for a minimum taxation is part of the international agreed solution. Internationally coordinated rules are crucial for avoiding fragmentation of international taxation.

II. International Financial Architecture and IMF Policies

IMF Resources

Germany remains committed to a strong, quota-based and adequately resourced IMF to fulfil its mandate. Given the important governance and funding role of quotas, the IMF is and should remain a quota-based institution. Against this backdrop, we regret that a quota increase and realignment in the context of the **15th General Review of Quotas** remains elusive given insufficient support for its approval. We expect progress towards this objective under the upcoming 16th General Review of Quotas.

We agree that it is important to secure an adequate level of resources for the Fund. We consider it crucial to do this in the framework of a multilateral approach, with a view to foster global cooperation in the interest of the stability of the international monetary and financial system, and to ensure an adequate burden sharing.

Pending a future quota increase, we deem it is essential to focus on the future and size of the New Arrangements to Borrow (NAB) as the second existing multilateral pillar. Germany is willing to engage in the discussion openly and constructively. We stand **ready to contribute our fair share** to the overall IMF resource envelope once broad support by and a fair burden sharing among shareholders regarding their contributions to the financing of the IMF is ensured. In this regard, Germany has already agreed to an extension of its 2016 bilateral borrowing agreement for the final year to facilitate the transition to a renewal and possibly an increase of the NAB.

Surveillance and Capacity Development

With the **Comprehensive Surveillance Review (CSR), the Review of Financial Sector Assessment Programs (FSAPs), and the initiative for an Integrated Policy Framework (IPF),** the IMF is in the process of updating its policies to better conduct its core surveillance mandate in the years to come. We are fully supportive of these processes and attach particular importance to reform measures that strengthen resilience and stability of members' economies. In particular, we look forward to the IPF as it represents a novel attempt to jointly consider the roles of monetary policy, exchange rate flexibility, macroprudential tools and capital flow measures, while taking country-specific circumstances into account. Incorporating diverse market imperfections should enrich the Fund's analysis of policy choices for member countries facing economic shocks.

Germany appreciates the Fund's excellent work in the area of **capacity development**. Aligning capacity building measures with the Fund's surveillance and program monitoring work remains an ongoing task and we recognize the Fund's continued efforts and achievements in that regard. We also highly appreciate the IMF's support of the G20 Compact with Africa initiative through its work on the ground. In this regard, we welcome coordinated effort as well as close collaboration with the AfDB and WBG.

Improving Debt Sustainability and Transparency / Remittances

Germany welcomes ongoing efforts and support by the IMF and the World Bank on **strengthening debt sustainability and improving debt transparency,** in particular in low-income countries. We consider debt transparency an important public good and encourage the Fund to continue its close monitoring of sovereign debt developments. In particular, we encourage the Fund to further follow-up on the implementation of the G20 Operational Guidelines for Sustainable Financing. We also consider it crucial for the Fund to further discuss the issue of collateralized sovereign debt and develop guidance on its treatment, not least with a view to protecting the IMF's preferred creditor status. Moreover, we look forward to the completion of the ongoing review of the Debt Sustainability Framework for Market Access Countries.

In order to make further progress in improving the environment for remittances, Germany welcomes the continued support by International Financial Institutions, including the IMF, with technical assistance.

HR Strategy /Compensation and Benefits Review

We are looking forward to the finalization of the compensation and benefits review and the new HR strategy. Both are important to make the Fund more efficient, while preserving its ability to attract highly qualified, motivated, and diverse staff to effectively fulfill the mandate of the Fund. We support increasing gender diversity in the Executive Board.