International Monetary and Financial Committee

Thirty-Ninth Meeting
April 12–13, 2019

IMFC Statement by Olaf Scholz
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Statement by Mr. Olaf Scholz

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to the International Monetary and Financial Committee

Washington, 13 April 2019

I. Global Economy and Financial Markets

Global Economy

Global economic growth has peaked while risks remain elevated. These **risks** include trade tensions, political uncertainty and financial market risks, all amidst high levels of private and public debt. It is in our hands to deal with them jointly and in an internationally coordinated manner to improve growth prospects.

We have to make sure that globalization works for all countries and for all our citizens. To achieve this, we have to pay much more attention to the **inclusiveness of our growth patterns and fight inequalities** of income, wealth and opportunity, wherever they exist. Sound public finances that provide room for maneuver during the next economic downturn, public investment conducive to sustained productivity growth as well as environmental sustainability, fair taxation, both at national and international levels, comprehensive financial regulation and oversight, and dependable and financially sustainable social security systems are central elements in this endeavor.

As the international community, we need to work together to **restore confidence in multilateral dialogue and institutions**, to meet the global challenges we are all facing together**.** This includes our strong commitment to work closely together on broader global challenges, based on universal respect for human rights and the rule of law, on multilateral treaties and international agreements, to achieve and sustain a level playing field.

Euro Area Developments

Last December, EU Member States accomplished a breakthrough, which will deepen Economic and Monetary Union and make the Euro Area more resilient during possible future downturns. For the first time, there is a political mandate for the Eurogroup to work on a budgetary instrument for competitiveness and convergence in the Euro Area. Euro Area Member States agreed on key features of the reform of the ESM, set up a work strand to develop a vision for the future of the Banking Union and agreed on concrete steps to advance the Capital Market Union.

A key catalyst for this breakthrough was the close cooperation between France and Germany as a basis for a broader consensus with all EU member states. We are continuing this close cooperation and are confident that we will make quick progress in the coming months together with all our EU partners.

GERMANY

In 2018, German real GDP grew by 1.4%. Subdued growth dynamics in the second half of the year were mainly caused by a moderation of global growth dynamics as well as by domestic constraints on production. For this year, a moderate continuation of the economic upswing can be expected. Strong labor market performance and rising incomes are pushing domestic demand – supported by fiscal expansion – while lower external demand will weaken growth dynamics.
The German government has made it its goals to enhance the German economy's growth drivers and future viability, and strengthen social cohesion within German society, while at the same time ensuring that public finances are sound. We are planning to continue with balanced budgets with no new borrowing until the end of the current financial planning period in 2023, thereby ensuring that the constitutional debt rules are complied with. Automatic stabilizers would respond in case of a downturn.

Partly as a result of this, the debt-to-GDP ratio will fall below 60% this year and will therefore be under the 60% ceiling set out in the Maastricht Treaty for the first time since 2002. Overall, German fiscal policy for 2019 envisages additional spending totaling 0.5% of GDP and tax cuts totaling 0.2% of GDP. General government investment reached a multi-year high of €78.9bn in 2018 and will continue to rise to new record levels in 2019 and the coming years. The investment priorities are in areas crucial for Germany's future, namely infrastructure, education, universities, research, and digital technology. With its fiscal policies, Germany also counteracts external downside risks to the economy.

Germany is facing its own multiple challenges, including demographic change, the phasing-out of coal mining and the production of electricity from coal, the assumption of added responsibilities at the international level with regard to security and development cooperation, and Germany's future financial contributions to the European Union budget. It is essential that German fiscal policy is and remains prepared for these challenges.

FINANCIAL SECTOR

We agree with the IMF analysis that medium-term risks to global financial stability remain elevated, also with a view to a geopolitical environment of heightened uncertainty. We should therefore remain vigilant. The European banking sector has built up buffers and is now more resilient to shocks than in the last crisis. This notwithstanding, we still see the need to further reduce risks in the Banking Union. In particular, potential risks to financial stability such as the elevated cyclical risks at large, the development of housing prices and, last not least, the Sovereign - Bank nexus need special attention. Macroprudential policies can address some of the vulnerabilities.

International Tax Issues

The change of global value chains and the rise of the digitalized economy have exposed weaknesses in the current global tax system. It has to be ensured that profits of multinational entities are taxed where they operate and create value. Current loopholes in the tax system allow many multinationals to avoid taxation and shift profits to low-tax jurisdictions. The fair taxation of the digitalized economy remains a pressing issue. Germany actively promotes a global tax system that addresses these challenges. It is our priority to reach a globally agreed solution at OECD-level. We expect viable proposals in 2020.

Germany supports the idea of implementing internationally aligned measures on minimum taxation. Thus, together with France we have launched a common proposal that would introduce a global effective minimum taxation. The IMF very recently also has provided solid arguments that speak in favor of such an approach.

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 role of quotas, the IMF is and should remain a quota-based institution. Against this backdrop, we regret that a quota increase might not garner the support needed for approval in the context of the **15th General Review of Quotas**. We expect progress towards this objective in the upcoming 16th General Review of Quotas.

We agree that it is important to secure an adequate level of resources for the Fund. We and our European partners aspire towards maintaining the current level of IMF resources, subject to satisfactory agreement on an adequate burden sharing. 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.

If a quota increase is not achievable, we deem it is essential to focus on the future and size of the 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 (1) that envelope is agreed to by a broad consensus among shareholders and (2) 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 is ready to consider 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, CONDITIONALITY AND Capacity Development

With the **Comprehensive Surveillance Review (CSR), the Review of Financial Sector Assessment Programs (FSAPs), and the Review of Conditionality and Design of Fund-Supported Programs** the IMF is in the process of deciding on crucial policy changes that will shape how the Fund intends to fulfil its core mandate for the years to come. We are fully supportive of these review processes and will actively provide input to the ongoing discussions. We attach particular importance to reform measures that strengthen resilience and stability, and which ensure success of IMF supported adjustment programs in achieving their statutory goals. Building on its core expertise, the Fund should tackle the identified weaknesses in a timely manner.

Germany appreciates the Fund's excellent work in the area of **capacity development**. Aligning capacity building measures with the findings of the Fund's surveillance and program monitoring work remains an ongoing task and we recognize the Fund's continued efforts in that regard.

Improving Debt Sustainability and Transparency

Germany strongly appreciates the Fund's contributions to the implementation of the 2030 Development Agenda. We welcome 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, as well as the review of the Debt Sustainability Framework for Market Access Countries. In order to advance the implementation of the 2017 G20 Operational Guidelines for Sustainable Financing, Germany supports the G20 initiative of a voluntary creditor self-assessment and looks forward to an assessment of respective policy options by the IMF and the World Bank. The work of the Fund to **support countries in fostering domestic resource mobilization** remains crucial. This helps to enhance debt sustainability. Against this background, Germany also welcomes the support by the IMF and the World Bank in the G20's efforts to **improve the environment for remittances** and their crucial support for the **Compact with Africa** initiative.

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 very important to make the Fund more efficient, while preserving its ability to attract highly-qualified, motivated, and also diversified staff to effectively fulfill the mandate of the Fund.