



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**IMFC Statement by Olaf Scholz
Minister of Finance
Germany**

Statement by Mr. Olaf Scholz

Minister of Finance of the Federal Republic of Germany

to the International Monetary and Financial Committee

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I. Global Economy and Financial Markets

Global Economy and Europe

The global spread of COVID-19 is first and foremost a human tragedy that has hit humankind without warning. It also casts a dark shadow over the world economy. Around the globe, governments, central banks and regulators are taking the measures necessary to mitigate economic effects of the COVID-19 pandemic as much as possible.

As individual countries, our responses have been forceful. Now is the time for us to prove that we stand together as a global community. Disputes should be put aside, including in the area of trade. International cooperation is essential in effectively managing this pandemic and its economic fallout. In this crisis, one simple truth has become clearer than ever: we depend on each other. Narrow self-interest will not help us. Solidarity will.

This economic downturn highlights the importance for governments to generate sufficient resources in order to cope with crises. Therefore, our work on corporate taxation and the commitment to agree on a global solution for corporate tax reform this year remains important.

To counter the economic impact of the pandemic at the European level, Ministers of Finance acted together in solidarity. They agreed on a crisis response consisting of three elements. First, the European Investment Bank (EIB) Group works on creating a pan-European guarantee fund, which could support EUR 200 bn of financing for companies throughout the EU, with a focus on SMEs. Second, to protect workers and employment, a temporary EU instrument supporting member states will be established that can grant loans on favorable terms of up to EUR 100 bn. Third, to make use of and adapt existing safety nets in the euro area and the EU, the European Stability Mechanism (ESM) is going to establish a Pandemic Crisis Support, based on the existing ECCL precautionary credit line, with a volume of up to 2% of 2019 GDP as a benchmark (potentially more than EUR 200 bn overall). Ministers of Finance also agreed to activate the general escape clause of the EU fiscal framework. This

clause was put in place precisely for this kind of severe economic downturn in the Union as a whole. It allows European countries to undertake the necessary fiscal measures well beyond the budgetary requirements that would apply in non-crisis times. The Commission has issued a temporary state-aid framework to facilitate public support to companies, aimed at mitigating the impact of the crisis on the private sector. Measures taken at the European level also include a €37 bn investment initiative for health care systems, SMEs and other vulnerable parts of the economy. The ECB has launched a Pandemic Emergency Purchase Programme (PEPP), with an overall volume of €750 bn.

Germany

Over and above the efforts to stabilize the economy, our priority is to slow the spread of the virus and to ensure the best-possible medical care for those in need. Therefore, the German Government is significantly stepping up financing for hospitals, also creating capacity to treat some COVID-19-patients from severely affected neighboring countries.

The crisis is affecting all sectors of the German economy. The labor market is increasingly under pressure. The eventual magnitude of the economic impact is highly uncertain and depends on the further course of the pandemic.

We have put in place a comprehensive package of measures to support the economy in a decisive and targeted manner. The short-time work scheme helps to protect people's jobs and incomes. We are deploying our fiscal capacity to provide immediate financial assistance to private households, the self-employed, small and medium-sized businesses and larger companies. Credit programs provided by Germany's development bank KfW have been expanded, backed by federal guarantees. Targeted tax measures provide additional liquidity for firms and individuals. An immediate assistance program provides grants to small businesses fast and efficiently. To enable large-scale support measures and strengthen companies' equity if needed, the federal government has set up a comprehensive stabilization fund. Fiscal measures so far add up to well over 10 percent of GDP.

Financial Sector

The large uncertainty regarding the duration and impact of the shock, the economic impact of measures to contain the pandemic and the depth and length of the recession also affect financial market participants. Fortunately, prudent financial regulation and supervision as well as macroprudential policy have made the financial sector more resilient. We will use the existing flexibility of the regulatory framework to the extent necessary to deal with this extraordinary situation. Germany's swift fiscal measures aim at supporting real sector firms and households through tailored programs thereby also reducing uncertainty for financial sector participants. Ultimately, this will help to avoid a spread of the crisis to the banking sector and to ensure financial stability. Going forward, it will be essential to continue to monitor closely the stability of the banking sector and the financial system as a whole,

nationally, on the European level, and globally. Germany is determined to respond effectively to any serious risks to financial stability.

II. International Financial Architecture and IMF Policies

We are facing the most severe crisis since the inception of the Bretton Woods system. There are three priorities now. Firstly, we need to address urgent liquidity needs before they become solvency problems. Secondly, we should help dampen the magnitude and alleviate the effects of the massive capital outflows that affect emerging economies. Thirdly, we must not leave the more vulnerable countries to their own fate.

Germany strongly welcomes and supports the pivotal role that the IMF – in close cooperation with the World Bank and other relevant institutions – plays in addressing the unprecedented challenges of the COVID-19 pandemic for its member countries and the world economy.

The comprehensive, flexible and well-proven set of current lending instruments enables the IMF to respond to the crisis quickly, by providing targeted financial assistance and its comprehensive expertise to countries in need. We welcome that the Rapid Credit Facility (RCF) and the Rapid Financing Instrument (RFI) were temporarily strengthened and several disbursements have already been made. In addition, we support exploring further adjustments to the IMF's toolkit for the current crisis as necessary and appropriate, and advise to focus on solutions that can be achieved quickly. Time is of the essence now. At the same time, it is important that governance issues are adequately addressed, so that emergency financing benefits those in need.

With the agreement on an IMF resource package at the 2019 Annual Meetings, the IMFC has set a solid basis for maintaining a strong, quota-based and adequately resourced IMF to preserve its role in the Global Financial Safety Net. Germany stands firmly by its commitments to contribute to this package. The Deutsche Bundesbank has already notified the Fund of its consent to the revised NAB decision including the doubling of its NAB credit line and is ready to sign its new temporary Bilateral Borrowing Agreement in due course. We encourage other participants to expedite their approval.

Germany is also open to discuss a moderate general SDR allocation. We are worried about emerging market capital outflows at an unprecedented scale. Our efforts to mitigate outflows should also involve the private sector. Therefore, we have suggested that the IMF, together with other IOs, invite private sector financial actors to join forces with IOs and national authorities to dampen capital outflows.

In addition, Germany, like many other members, continues to support low income countries in particular through dedicated initiatives. We plan to participate in the IMF/WBG initiative of a debt moratorium that helps the poorest countries redirect resources to fund health systems and

to stabilize their economies. We are also committed to contribute up to 80 million EUR to the IMF's Catastrophe Containment and Relief Trust to help the poorest countries reduce their debt obligations.

Apart from financial assistance, the IMF will need to focus on its surveillance mandate even more strongly in the years to come, making use of the lessons learned in the current crisis for strengthening economic and financial resilience of economies. The pending Comprehensive Surveillance Review (CSR) and the Review of Financial Sector Assessment Programs (FSAPs) are key in this regard. Moreover, addressing sovereign debt issues, including on a more forward-looking basis, will be a pivotal task for the Fund in the aftermath of the crisis. Germany therefore continues to strongly support the work on the IMF-WBG multipronged approach for addressing emerging debt vulnerabilities and enhancing debt transparency, which has become even more important.