



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Lindner  
Germany**



**Statement by Mr Christian Lindner**  
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**to the International Monetary and Financial Committee**  
**Washington, April 14, 2023**

Germany continues to strongly condemn Russia's illegal, unprovoked and unjustifiable war of aggression against Ukraine and calls on Russia to cease its brutal attacks immediately.

**I. Global Economy and Financial Markets**

*Global Economy, Europe and Germany*

Although global growth prospects have improved slightly, the war of Russia in Ukraine still weighs heavily on the global economic outlook and risks remain elevated. Russia ending its war would be the single-most important measure to improve the prospects for the global economy. Given ongoing price pressures, an appropriately tight monetary stance to fight inflation remains of the essence. Moreover, fiscal policy should be in line with fiscal rules and not thwart the stance of monetary policy.

Despite challenging circumstances, GDP in Germany grew by 1.8 % in 2022. This can be attributed to the swift adjustment of companies and households to higher energy prices, economizing on energy consumption, and our fiscal stabilization efforts that are designed to cap energy prices and still maintain energy saving incentives. High energy prices and inflation did, however, increasingly weigh on economic activity towards the end of last year. Leading research institutes forecast GDP growth in the range of –0.1 % and 0.5 % for 2023 (and in the range of 1.4 % and 1.9 % for next year). We expect inflation to decline over the course of this year, but still to remain around 6 % as the yearly average. Uncertainty about the outlook remains rather high.

The federal budget for 2023 marks the first step in the transition to the normalization of our fiscal policy. The return to the regular upper net borrowing limit of the German debt brake from 2023 onwards is an important signal regarding the prudence and sustainability of German fiscal policy and public finances. With record investments planned in the federal budget for 2023, the federal government is opening a decade of investments in a modern, digital and climate-neutral German economy through consistent and ongoing prioritization of expenditure.

Given a strong labor market and fully utilized capacities, a continued expansionary fiscal policy would trigger inflationary competition for scarce resources, counteracting restrictive monetary measures. It could also crowd out private investment. After the successful short-term stabilization measures, the federal government is pursuing supply-oriented fiscal and

economic policies with the aim to mobilize private investment, strengthen the labor market, increase productivity growth, and thereby also reduce inflationary pressures. Above all, it is important to create an even more attractive environment for innovative companies and to strengthen Germany as a business location in general. The federal government has therefore set itself the goal of ensuring a competitive tax system and a modern government with accelerated and digitized procedures.

In the EU and the Euro Area, the economy has recovered strongly following the pandemic and so far, has weathered the economic consequences of Russia's war of aggression against Ukraine, in particular regarding the energy price shock. The economy entered 2023 on a healthier footing than previously expected despite high inflation. Labor markets are performing strongly, with the unemployment rate at low levels. Growth is nevertheless expected to remain subdued in 2023 and to pick up gradually in 2024. While uncertainty surrounding the outlook remains elevated, notably in relation to geopolitical and energy related factors, risks to growth appear more balanced than previously. Prudent fiscal policies should aim to ensure medium-term debt sustainability, while raising potential growth in a sustainable manner and forcefully addressing the green and digital transition and resilience objectives through investment and reforms while also facilitating the effective transmission of monetary policy in a high inflation environment.

For the EU, now is the time to embrace structural policies that safeguard our future by establishing an environment that sets the stage for the green and digital transition of our economies. Germany and the EU pursue an ambitious climate policy with the goal of transition to carbon neutrality by mid-century. To meet this objective, a mix of instruments is being used. Key pillars are carbon pricing, regulatory instruments as well as targeted support measures such as a marked ramp-up of green technologies. Germany has created the climate and transformation special fund (KTF) to provide funding for climate protection and environmentally friendly, reliable and affordable energy supplies. For this purpose, around 178.1 billion euros have been budgeted for the period between 2023 and 2026, with 36.0 billion euros available for 2023 alone.

### *Financial Markets*

Latest developments in the banking sector have highlighted the potential risks that must be anticipated in global financial markets when moving from an ultra-low to a rising interest rate environment, especially in the current macroeconomic environment. The events have markedly increased uncertainty and led to increased volatility in financial markets.

Overall, the global financial system has proven its resilience. However, authorities must continue to closely monitor the financial system as a whole, at the global, regional and national level. Recent events underline the importance of high regulatory standards and the availability and use of macroprudential toolkits.

Concerning the euro area banking sector, we fully agree with the recent ECB statement that the sector is resilient, with strong capital and liquidity positions. In any case, the policy toolkit

is fully equipped to provide liquidity support to the Euro Area financial system if needed and to preserve the smooth transmission of monetary policy.

The same applies to the German banking sector. German banks have strong capital and liquidity positions, the sector is resilient, not least due to its diversity. Furthermore, Germany took preventive action about a year ago by raising macroprudential capital buffers for banks. These buffers are an additional safeguard which further strengthens the German banking sector. German and European authorities are in close contact and remain vigilant regarding further developments.

## **II. International Financial Architecture and IMF Policies**

The IMF deserves high recognition for the support it provides to its members facing challenging macroeconomic circumstances in the wake of severe shocks to the world economy. In this environment, the Fund's high-quality policy advice in its surveillance and efficient deployment of capacity development continue to play a critical role. Within its mandate, the Fund should continue to make full use of its tried and tested lending instruments and policies to help members requesting support.

We welcome and support the ongoing work and discussions on the 16<sup>th</sup> General Review of Quotas, with the aim to reach a conclusion by December 15, 2023. We reiterate our commitment to a strong, quota-based and adequately resourced IMF at the centre of the Global Financial Safety Net. In this context, we note that the current General Resources Account resource envelope has continued to prove its adequacy even in a phase of multiple severe global economic challenges. We commend the IMF staff's tireless efforts to reach out to the membership in order to support a broad consensus. As in the past, decisions related to all elements of the quota review have to be considered as an integrated package. The process and outcome of the quota review should be fully anchored in the relevant IMF bodies and need to take into account the interests of the entire membership of the Fund.

We consider the Fund's lending architecture as broadly adequate and the Fund well set up to respond effectively and swiftly to potential future crises. We look forward to upcoming reviews of the lending toolkit including the use of precautionary instruments with a view to having a parsimonious, transparent and effective toolkit to help solving a member's balance of payments problem and achieving medium-term external viability while fostering sustainable economic growth. In addition, structural reform needs must be swiftly and decisively addressed also in the context of precautionary arrangements. Moreover, the core principles of IMF lending have to be safeguarded also with the use of precautionary instruments. This puts a constraint on the level and the duration of use of precautionary instruments that the Fund can shoulder while maintaining its catalytic role, the revolving nature of its resources, and its financial integrity. We also look forward to deeper ex-post analyses of the IMF's crisis lending and its other support measures (including the Catastrophe Containment and Relief Trust) in the context of the COVID pandemic, in order to distil useful lessons on how to best support members going forward. Such lessons need to appropriately account for the rise in debt vulnerabilities, in many

countries, recognizing that Fund lending cannot be regarded as a substitute for necessary debt restructuring or financing from non-super senior sources.

We are concerned about rising debt vulnerabilities, especially in low-income countries. Successful sovereign debt restructurings require effective cooperation between all stakeholders, including agreement on key principles and timelines. We commend the IMF for its proposals to accelerate the implementation of the G20 Common Framework for Debt Resolution and its efforts to build consensus among key creditors through the complementary Global Sovereign Debt Roundtable. We also emphasize the importance of IMF debt sustainability analyses (DSAs). Not only do prudent DSAs constitute a key safeguard for IMF resources, they also provide an important public good by independently assessing the potential need for and scope of a debt restructuring. The key challenge is to achieve sustainability through a prudent approach which avoids an optimism bias, and thus addresses the longstanding issue that debt restructurings tend to happen “too little, too late”. Where debt is unsustainable, adequate financing assurances from creditors need to remain a precondition for IMF financial support to uphold key principles of Fund lending and to protect its resources, but also to avoid distorting creditors’ incentives. In addition, we strongly support international efforts to strengthen debt transparency by debtors and creditors, and encourage the IMF to make full use of available tools in this regard.

As a multilateral institution, the IMF plays an important part in addressing, within its mandate, the immense global policy challenges posed by climate change. Thus, we strongly welcome the ongoing implementation of the Fund’s climate strategy. We encourage the Fund to make further progress in considering climate change as a macro-critical issue in a more systematic manner in the Fund’s core activities. Regarding the Fund’s surveillance, an in-depth coverage of mitigation policies of the largest greenhouse gas emitters should become a mandatory part of Article IV consultations. In addition, we welcome the operationalization of the IMF-administered Resilience and Sustainability Trust (RST). Going forward, a prudent and efficient use of limited RST resources is key. Close cooperation with international organizations, especially the World Bank, to identify effective reform measures accompanying financing from the RST is crucial to leverage expertise and avoid duplication of work.

It remains critical, for the Fund as an institution and for borrowing members, to ensure that financial assistance by the Fund is used for its intended purpose. Good governance, transparency and anti-corruption are macro-critical. They are essential conditions for sustainable economic development especially benefiting the most vulnerable. They mitigate risks to the Fund’s resources and its reputation and help donors with regard to providing financial assistance. The Fund should therefore continue to require specific governance commitments as part of IMF-supported programs and closely monitor their implementation.

We endorse continued strong support especially for low-income countries in the coming years, in line with the Fund’s lending policies, debt sustainability requirements and resource envelope. To this end, and for a financially robust and self-sustained Poverty Reduction and Growth Trust (PRGT) financing framework, it is vital to mobilize substantial additional donor contributions

for the PRGT. This can be achieved through a broadened donor base, without focussing too narrowly on specific financing modalities. We thus encourage a broad participation and a fair burden sharing among the Fund's members in the ongoing fundraising round, within members' means, choice of contributions and legal frameworks. The same holds true for the RST. Germany has already made very substantial contributions to the PRGT and RST from the federal budget. We see no scope for using additional internal resources of the Fund, to support the IMF-administered Trust Funds. As shareholders, we need to ensure continued trust in the Fund's financial integrity, given the extraordinarily high financial risks to the Fund. Meanwhile, elevated credit risks and resource constraints require a prudent and judicious implementation of lending policies.

Effective risk management is fundamental for the Fund, especially in the current environment of elevated global economic risks. We call for continued efforts to deepen the Fund's risk management capacity and to refine the risk tolerance framework in a timely manner, to support responsible risk-based decision making in fulfilling the Fund's mandate. We emphasize the importance of adequate financial risk buffers, with the agreed continued steady build-up of precautionary balances being a key priority, given increased lending risks.

We welcome the Fund's continued work on diversity and inclusion. We support advancing the work of the Working Group on Gender Diversity towards enhancing gender diversity in the IMF Executive Board.