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IMFC Statement by Olaf Scholz
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Statement by Mr. Olaf Scholz

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I. GLOBAL ECONOMY AND FINANCIAL MARKETS

GLOBAL ECONOMY

Global economic growth remains strong. However, risks have increased, not least financial market risks, inter alia driven by a long period of extremely expansionary monetary policy and by high levels of private and public debt. Increased geopolitical risks can be alleviated if handled carefully and with due regards for the legitimate concerns of all.

In this environment it is of utmost importance to nationally ensure **strong, sustainable, balanced and inclusive growth**. Good governance regarding taxation, education and health and social security systems are key. We also have to strengthen the resilience of our economies. This means we have to built-up fiscal buffers, reduce debt and avoid procyclical fiscal policy. What international cooperation needs to aspire to is a **global economic rules base** that is

- anchored in universal standards,
- based on multilateral treaties and international agreements,
- delivered through sound international institutions,
- resulting in a level playing field and thus
- making the global economy work for all.

This aspiration should be the commitment of all countries. Following this approach we continue our particular engagement for reform-minded African countries through the **Compact with Africa initiative**.

EURO AREA DEVELOPMENTS

The enforcement of the stability and growth pact and compliance with the common fiscal rules remain key for bringing debt levels down and building up fiscal buffers.

For the reform of the Eurozone, in particular the reform of the ESM and the completion of the Banking Union, France and Germany have presented a balanced approach which is a good starting point for the further work. **Further strengthening and deepening the European Monetary Union remains a priority**. A strong Union, which is able to face the challenges ahead, is in all our interests. In the future, the European Stability Mechanism (ESM) should have an enhanced role in designing and monitoring programs and should have the capacity to assess the overall economic situation in Member States of the European Union to contribute to crisis prevention. This entails a close cooperation between the ESM and other institutions. The existing framework to promote debt sustainability should be improved and precautionary instruments should be made more effective. **Conditionality should remain the underlying principle of all ESM instruments**.

With regard to the **Banking Union**, the Franco-German approach contains clear steps towards risk reduction and a potential frontloading of the common backstop for the Single Resolution Fund before 2024. Risk reduction must, in particular, consist of the **reduction of non-performing loans, the build-up of bail-in buffers and the improvement of insolvency regimes, where necessary.**

Additionally, we will work with our European partners to promote competitiveness, convergence and stabilization in the euro area. **Sound public finances** at the national level could be complemented through a macroeconomic stabilization function at the European level without transfers. A **European Unemployment Stabilization Fund** could be a possible way forward.

GERMANY

Economic conditions in Germany remain favorable and strong economic growth, mainly driven by domestic demand, is projected to continue. This is also mirrored by continued employment growth and substantial wage increases. The German fiscal position remains sound and according to current projections, in 2019, the debt to GDP ratio will fall below the Maastricht threshold of 60 % of GDP for the first time since 2002.

Against this background Germany will **continue its growth- and future-oriented fiscal policy trajectory,** with a total of additional fiscal measures of about 4 % of GDP until 2022. The federal government is prioritizing **investments in the fields of education, digitalization and housing** so as to ensure long-term sustainable growth. Germany will balance fiscal policies that ensure sustainable long-term growth, while ensuring the resilience of public finances, to safeguard against aging, future changes of the business cycle and rising interest rates.

In the face of increasing public investment, robust domestic demand and a favorable situation on the labor market, **domestic economic conditions for a gradual reduction of the German current account surplus are in place**. In this context, Germany advocates a **more comprehensive and nuanced debate of global imbalances**. The German current account surplus is not driven solely by one-sided domestic policies. Analyses indicate that expansionary policies of major global trade partners as well as drivers of the capital account play a sizeable role. As member of the Euro area, Germany is subject to the ECB's monetary policy. Therefore, it is above all the aggregate Euro area countries' current account that should inform the discussion on global imbalances. With a surplus of + 3.5 % (in terms of GDP, 2017), most of which is also according to Fund analysis warranted by fundamentals, there is currently no evidence for major concerns with regard to the Euro area's external position.

Financial Sector and Digital Finance

Much progress has been made a decade after the Global Financial Crisis. Reforms contributed to a more **resilient financial system.** Banks have built higher and better-quality capital and liquidity buffers, supervision has been harmonized and strengthened. A macroprudential framework has been built up and continuously strengthened. However, further progress is needed with regard to the full, timely and consistent implementation and finalization of the post-crisis reforms. Therefore, global policy **coordination** remains essential. As these reforms mature, 10 years after the collapse of Lehman Brothers is a good moment to look back: we support the **evaluation of reforms** - however this should not lead to a rollback of reforms. Only a well monitored and responsibly regulated financial sector will be resilient enough to provide a sound basis for sustainable growth.

Increasing uncertainties regarding the resilience of **emerging market economies** could intensify the reversal of capital flows, which already poses challenges for countries facing external financing risks, possibly affecting the global risk appetite.

There are abundant opportunities linked to **technological and financial innovations**, which could contribute to global growth. They have the potential to improve the efficiency of the financial system and the economy more broadly. At the same time, the **digital transition creates challenges** for individuals, businesses, and governments, which have to be addressed internationally, especially in the field of FinTech, Cyber risk and Crypto-Assets. In these areas, international work has already made progress in recent months, however must be continued and intensified. Therefore, **global policy coordination remains essential**. The Bali FinTech agenda contains noteworthy steps, which could be considered by countries as they seek to develop their policy responses to fintech.

International Tax Issues

The taxation of the digital economy deals with two different issues: The first one is **base erosion and profit shifting** which is still a matter of concern despite the significant achievements of the G20/OECD BEPS Project. The second issue is the **reallocation of taxing rights** on the basis of value creation by users. The OECD and interested countries are working on these issues, also supported by the IMF. International solutions for the taxation of the digital economy need be found at G20/OECD level swiftly. It is key for a fair and global international tax system to **avoid further uncoordinated unilateral actions** and to prevent increasing fragmentation of the international tax rules.

II. INTERNATIONAL FINANCIAL ARCHITECTURE AND IMF POLICIES

Germany supports a strong position and active role of the IMF in the international financial architecture in order to successfully pursue its mandate to promote the stability of the international monetary system.

To strengthen resilience and stability of economies, the IMF plays a crucial role. Germany welcomes the report of the **Eminent Persons Group** on Global Financial Governance which provides a broad analysis and several proposals for improvements in the areas of development financing, global financial resilience and governance of the G20 and the IFIs. We look forward to further discussing the quite rich report.

15TH GENERAL REVIEW OF QUOTAS/ IMF RESOURCES

Germany reaffirms its commitment to a **strong, quota-based and adequately resourced IMF at the centre of the GFSN. Germany** supports a quota increase as part of the 15th General Review of Quotas. We are thus open to discuss plausible scenarios for the adequacy of the Fund's quota resources.

The IMF also plays an important role by giving advice to its members on how to benefit from free movement of capital and shield themselves with appropriate policies from disruptive effects of volatile **capital flows**. We encourage the Fund to collaborate closely with the OECD on capital flow issues.

GLOBAL FINANCIAL SAFETY NET (GFSN)

The GFSN is an important complement to countries' domestic policy measures to prevent and manage crises. However, it neither can nor should replace the responsibilities of sovereign countries for the prosperity and resilience of their economies. We consider it important to better acknowledge that the **GFSN has been considerably strengthened over recent years**, and is financially stronger than ever. The IMF as the truly *global* financial safety net offers its members reliable access to its financial resources in case of a balance of payments need. Regional financing arrangements (RFAs), MDBs, bilateral swap lines of major central banks and the Fund's Poverty Reduction and Growth Trust (PRGT) provide further reliable sources of external financing to targeted groups of countries in line with their specific mandates. Moreover, **sufficient own reserves provide a solid cushion for countries in case of need**.

SURVEILLANCE/LENDING/Capacity Development

The IMF's reputation as a trusted advisor is at least as important as its financial support to allow the Fund to successfully pursue its mandate. Convincing analysis and policy recommendations are crucial in the context of surveillance. When it comes to financial assistance, successful IMF programs are of the essence.

Thus, the upcoming review of conditionality should achieve improvements to **make IMF programs more successful in meeting their statutory goals**, above all to solve a balance of payment problem.

Fund supported programs need to **respect the Fund's catalytic role** and crowd-in rather than crowd-out or disincentivise private sector financial engagement.

We fully support the IMF's activities providing Capacity Development (Technical Assistance (TA) and training) to its membership. Improving the design and implementation of members' economic policies, and institutions is crucial. Against this background we strongly encourage progress in **better integrating the Fund's lending and surveillance activities with its TA activities**. We look forward to the upcoming review of the Fund's Capacity Development Strategy including a strategic plan for the Fund's activities in the coming 3-5 years.

IMPROVING DEBT SUSTAINABILITY, SUSTAINABLE DEVELOPMENT AND FINANCING FOR DEVELOPMENT

Germany 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. 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 would welcome the early identification of respective policy options by the IMF and the World Bank. In order to strengthen debt sustainability, the work of the Fund to **support countries in fostering domestic resource mobilization** remains crucial. 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**.

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.