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July 12, 2021

**Statement by Mr. Palotai, Mr. Just, and Mr. Zaborovskiy on Germany  
(Preliminary)  
Executive Board Meeting  
July 14, 2021**

We thank staff for the well-written report, and Messrs. von Kleist, Merk, and Krahnke for their informative Buff statement. We commend the German authorities for their skillful use of the accumulated policy buffers to contain the economic fallout from the COVID-19 pandemic and promote a strong, green, and inclusive recovery, as well as for their international efforts to fight the pandemic, including via the ACT Accelerator and the COVAX Initiative. **We broadly concur with the main conclusions and thrust of the report, and associate ourselves with the statement by Mr. Pösö.** As the recent Article IV Consultation with Germany was concluded six months ago, we would like to add only a few points for emphasis.

**Regarding the balance of risks to the economic outlook,** we note that the pace of vaccination and containment of the more contagious variants of COVID-19 will be a key variable for the German economy's recovery in the next months. In this context, *we would appreciate staff's comments whether the authorities' goal to vaccinate 80 percent of the population by the end of summer 2021 is achievable, given that only over 54 percent are fully or partially vaccinated at the end of June.*

**As fiscal space remains substantial,** we welcome the authorities' focus on reasonable public investments into the digitalization of schools and administration; speedy internet connections, especially in rural areas; R&D; energy transition; and public infrastructure. However, the careful prioritization and effective implementation of these projects remain critical, particularly in the economic environment where raw material prices and firms' mark-ups are rising.

**Going forward, carefully phasing out support programs would be essential.** Crisis management and the efficiency of short-time work schemes have been crucial for preserving jobs and domestic demand. These schemes should be gradually suspended once the recovery

is firmly under way to avoid hindering the reallocation of the workforce to more viable businesses.

**Regarding the inflation rate**, we would suggest a more cautious approach than staff. Inflation may well moderate in 2022 after its peak, due to the exhaustion of one-off measures such as temporary VAT reductions. The actual speed of inflation for 2021 may be finally slightly higher than the 2.6 percent projected in the Report. *As Ms. Shortino and Senich in their Gray, we welcome staff's further comments on the one-off effects' duration and interplay.*

**On the external sector assessment**, we note that the bulk of the EBA-estimated gap for 2020 reflects the regression's residual and cannot be directly traced to the policy gaps. In this regard, we stress the importance of cautiously interpreting the model outcomes and ensuring the consistency of assessments in the cases with big unexplained residuals. *Staff's comments on how to achieve this are welcome.*

**The low profitability of banks is a persistent issue of the German financial sector.** We concur with staff that a certain consolidation, the greater use of digital technologies, completion of EA- or EU-wide financial infrastructure and enhancing non-interest revenues could bring some benefits to the German banks. However, staff's emphasis on the European Deposit Insurance Scheme or Capital Market Union to address the profitability issue is somewhat too strong in our view, especially against the existing regulatory environment, as well as the long-term low interest rates' dynamic.

**In the field of the criminal law**, we share staff's call for strengthening the protection for whistleblowers, as well as the law enforcement against legal persons involved in foreign bribe cases. In addition, we would welcome the enhanced efficiency of the German Financial Intelligence Unit, which analyzes and transmits reports of suspicions of AML/CFT criminal activities.

**Finally, we commend the authorities' ambitious climate action strategy, including the goal of reaching greenhouse gas neutrality already by 2045.** We welcome the respective plans outlined in the Buff statement and wish the authorities every success in their implementation.