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GRAY/21/1990

July 13, 2021

**Statement by Mr. Jin and Ms. Yang on Germany
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021**

We thank staff for the well-written report and Mr. von Kleist, Mr. Merk, and Mr. Krahnke for the helpful Buff statement. We commend the German authorities for effectively mitigating the impact of the COVID-19 crisis and supporting the economic recovery. As the growth path is subject to large uncertainties with downside risks, continuous efforts to fully overcome the pandemic and to sustainably stabilize the economy remain top priorities. We broadly agree with staff's appraisal and would like to limit our comments to the following for emphasis.

On fiscal policy. We welcome the authorities' continued fiscal efforts to support households and businesses, and such support should remain in place until the recovery proves sustainable. Germany has significant fiscal space to frontload public investment while keeping debt levels under control. A broad-based public sector investment initiative is critical to boost growth potential, facilitate structural transformation, and reduce external imbalances. In this regard, we appreciate the draft 2022 federal budget and medium-term fiscal plan envisaging high levels of government investment, and emphasize the importance of overcoming capacity constraints in implementing public investment. We recognize that Germany's long-established job-retention program, Kurzarbeit, has played an important role in containing unemployment, supporting disposable income, and stabilizing domestic demand. Additional measures to assist marginal and self-employed workers who do not have access to Kurzarbeit should supplement the safety net for those groups.

On climate actions. The cabinet's approval of amendments to the Climate Change Act indicates the government's aggressive ambitions for meeting emissions targets. We agree with staff that a well-specified carbon pricing schedule should be complemented with sectoral instruments, such as stricter regulations, as well as increased public investment in green infrastructure and technologies. Meanwhile, to mitigate the adverse impact of higher

carbon prices on households, re-distributing revenues generated by the sale of emission rights and other protection measures to benefit lower-income households are essential. *We would like to know the effectiveness and efficiency of the mitigating measures. The staff report highlights the neutral distributional impact of rising carbon prices, particularly the progressive indirect effects, and we would appreciate a more detailed analysis on this. We also note the varying opinions on feebates between staff and the authorities. Staff elaboration would be welcome.*

On financial sector measures. While bankruptcies and financial losses have been contained so far, lingering risks warrant close monitoring. Lifting the insolvency moratorium to facilitate resource reallocation should be accompanied by targeted support for viable firms. To preserve lending capacity and loss absorption ability, we see merit in specifying timetables for banks to rebuild buffers and limit dividend payouts and share buybacks until the recovery gains momentum. We stress the need for innovation in business models and financial architecture reforms at the European level to address the long-standing issue of weak bank profitability. The recent legislations to reduce data gaps, address auditing shortcomings, and strengthen oversight of nonbanks are commendable.

Finally, we appreciate Germany's contribution to the ACT Accelerator and the COVAX initiative, which demonstrate its strong commitment to multilateralism.

With these remarks, we wish the authorities every success in their policy endeavors.