

**FOR  
INFORMATION**

FO/DIS/21/99

July 13, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Germany—Statement by the European Central Bank Representative**

Board Action: Executive Directors' **information**

Additional Information: For the Executive Board discussion on Germany to be held on Wednesday, July 14, 2021.



July 12, 2021

**Statement by Rasmus Rueffer (ECB representative) and Kleopatra Nikolaou  
on Germany – 2021 Article IV Consultation  
(Preliminary)**

**IMF Executive Board Meeting**

July 14, 2021

We thank Mr. von Kleist, Mr. Merk, and Mr. Krahnke for their informative Buff statement and Staff for their report. We associate ourselves with the Statement of Mr Pösö and would like to highlight the following issues:

**We broadly concur with Staff on the performance of the German economy and its short-term outlook, while noting that Staff’s projections are significantly more cautious on medium-term growth compared to the Eurosystem.** We share Staff’s assessment that the German economy performed relatively well during the pandemic and is poised for a robust recovery in the second half of 2021. The recovery is expected to be driven by continued growth in exports, as production bottlenecks in industry are resolved, and a strong increase in private consumption, supported by the partial release of pent-up household savings, in parallel with the re-opening of contact-intensive services. While the 2021 outlook for GDP growth is very similar to ours, Staff’s projections are significantly more cautious on the expected GDP dynamism in 2022, related to a less pronounced decline in the savings ratio. Instead, the faster decline in the saving ratio in 2022 entailed in the latest Eurosystem projections takes into account the survey evidence collected by the Bundesbank regarding the amount of savings that is expected to be spent in the near future. We broadly agree with Staff on substance as regards nominal developments up to 2022, stressing that inflation projections remain subject to considerable uncertainty, including notably the energy component and the impact of government support measures on compensation. In addition, we broadly agree with Staff’s assessment of Germany’s real exchange rate and current account surplus. The latter is still larger than warranted by economic fundamentals, although the reliability of any normative quantitative assessment is, as in other countries, significantly hampered by the impact of the pandemic. It may also be worth recalling that, as in previous years, the current account gap cannot be traced to any *domestic* policy gaps in Germany.

**We broadly agree with Staff’s assessment of the risks surrounding the growth outlook and the potential for scarring effects, although we see more scope for upside risks in 2022.** As Staff suggests, upside risks include better than expected external demand. However, we see more scope for upside risks in Staff’s growth projections for 2022, given the potential of a stronger unfolding of pent-up domestic demand. As regards downside risks, those posed by the developments in the pandemic and

supply shortages are indeed the most relevant for the near term. Beyond the near-term horizon, we share Staff's assessment that scarring effects on human and physical capital appear likely, implying a moderate reduction in the level, rather than the growth rate, of potential GDP.

**We share Staff's recommendation that fiscal policies should provide sufficient support, and as recovery firms up, the focus should shift to transforming the economy.** Emergency measures should be calibrated in line with the evolution of the pandemic and the related lock-down measures to ensure continued income support for households and firms. Once the recovery takes hold, the government should focus on the quality of public finances and accelerate government investment to increase the country's growth potential. In particular, we agree that public investment should be geared towards the green and digital transformations of the economy. In this context, we welcome the recommendations from IMF staff on how to close the digital and infrastructure gaps whilst enhancing the effectiveness and efficiency of policies aimed at reaching climate objectives.

**We agree with Staff's analysis on the financial sector and note that, the strength of the banking system notwithstanding, risks to economic recovery and rising vulnerabilities warrant close monitoring.** Staff's risk analysis largely coincides with that of the ECB. German banks have so far weathered the COVID shock relatively well, but bank capital could diminish significantly if the economic recovery falters. Certain metrics already indicate a weakening of bank asset quality, but NPL ratios are still very low compared to other euro area countries. As policies have been crucial in supporting borrowers and banks and in helping averting credit supply constraints, their phasing-out might lead to a deterioration of asset quality, potentially restraining banks' risk bearing and financing capacities especially in case the recovery should fall short of current expectations. Going forward, low bank profitability amid expected asset quality deterioration, the continued rise in house prices leading to overvaluation, and a potential underestimation of past credit risk (low and declining risk-weights and provisioning) pose medium-term vulnerabilities that have the potential to amplify losses and challenge financial stability in adverse scenarios.

**We broadly agree with staff's recommendations on the financial sector.** Support programs continue to be necessary but will need to adapt to evolving circumstances. Gradual stage-dependent phase-out of government support measures, depending on the recovery path, seems warranted. In addition, support extensions should be targeted to the most impacted sectors and adversely affected firms, which are viable. Moreover, we also agree that vulnerabilities in real estate markets call for close monitoring and addressing remaining data gaps. Additionally, if residential real estate vulnerabilities continue to build up, a tightening of macroprudential policy could be considered. When tightening macroprudential policy, policymakers should also be mindful of possible residual downside risks (e.g. in relation to the phase-out of support measures) and of the potential dampening effects of some policies on credit in the near term. Finally, we agree that supporting usability of capital buffers, also via targeted communication, remains a key priority for the next months.

**Regarding ML/TF, the ECB views positively the enhanced information sharing between AML/CFT and prudential supervisors that followed EU law amendments introduced in 2019.** We would like to note that following these changes and in cases where the supervisory cycle followed transposition into national law, the information shared is being integrated into prudential supervisory activities.