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**Statement by Mr. Hilbers and Mr. Milutinovic on Germany  
(Preliminary)  
Executive Board Meeting  
July 14, 2021**

We thank staff for the excellent paper, and we thank Messrs. von Kleist, Merk and Krahnke for their insightful Buff statement. We commend the authorities' effective response to the health and economic crisis, and we agree with staff and the authorities that the policy support in the recovery phase of the crisis could enhance productivity and facilitate the structural transformation to a digital, green and inclusive economy.

We associate ourselves with Mr. Poso's statement and wish to make the following points for emphasis.

**We support the continuation of policy support with gradual withdrawal of measures as recovery becomes entrenched.** Germany has used its ample fiscal space for support measures that have proven effective in preventing unnecessary bankruptcies and job destruction, thereby also protecting household and bank balance sheets. As the economy reopens, support measures can gradually be phased out to allow extensive automatic stabilizers to operate fully. However, given the continued high uncertainty, flexibility in the timing of withdrawal remains crucial. Labor market policies should shift focus to those most affected by the crisis, such as marginal workers and the self-employed, and tackle a strong hiring rate decline. Therefore, we welcome the extension of apprenticeship subsidies and the new program for the self-employed, and we support training programs and the reduction of the tax wedge for low-income earners.

**Structural policies could significantly improve productivity and raise potential growth.** We agree with staff that frontloading public investment through the RRP could entrench the recovery and address the infrastructure and digitalization gaps. In addition, incentivizing innovation, improving firms' access to venture capital, and cutting red tape and compliance costs could support private investment and facilitate structural transformation of the economy. *Staff comments on the impact of potential structural shifts in global supply chains and the recent global supply bottlenecks on the export-oriented German industry are welcome.*

**The financial sector requires close monitoring of rising vulnerabilities and balanced support to viable firms.** As the rise in bankruptcies in early 2021 could be exacerbated by the expiration of insolvency moratoria, we support targeted liquidity measures to viable firms and efficient restructuring procedures. Furthermore, we agree with staff that rising insolvency requires clear supervisory guidance that allows banks to build back capital buffers to prevent capital erosion that could curb new lending.

**Rising real estate prices call for the extension of macroprudential tools and supply-side measures.** Vulnerabilities in the housing market require close monitoring, closure of data gaps, and expansion of the macroprudential toolkit. Supply measures such as social housing investment should also be considered, given the persistent under-supply of new housing and rising housing affordability concerns.

**We commend the authorities' ambitious emission reduction targets under the Climate Action Program 2030.** Moreover, we agree with staff that carbon pricing could be complemented with sectoral instruments, investment in green infrastructure and income-based climate protection measures. *How does staff assess the impact of carbon pricing on the inflation projections?*