

**EXECUTIVE  
BOARD  
MEETING**

SM/22/164  
Supplement 3

July 14, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Germany—Staff Report for the 2022 Article IV Consultation—Revised Draft Press Release**

Board Action: Executive Directors' **consideration** (Formal)

Additional Information: The text and table have been revised to ensure consistency with projections included in the staff supplement (SM/22/164, Sup. 2, 7/13/22).

Tentative Board Date: **Monday, July 18, 2022**

Publication: Yes\*

Questions: Ms. Celasun, EUR (ext. 34274)  
Ms. Mineshima, EUR (ext. 36156)  
Mr. Sher, EUR (ext. 37070)  
Ms. Zhou, EUR (ext. 39669)  
Ms. Lan, EUR ([tlan@imf.org](mailto:tlan@imf.org))

**\*Unless an objection from the authorities is received prior to the conclusion of the Board's consideration, the press release will be published.**





## IMF Executive Board Concludes 2022 Article IV Consultation with Germany

FOR IMMEDIATE RELEASE

**Washington, DC – July 18, 2022:** The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation<sup>1</sup> with Germany. This also included a discussion of the findings of the Financial Sector Assessment Program (FSAP) exercise for Germany.<sup>2</sup> The publication of the Staff Report and Financial System Stability Assessment (FSSA) bundles will be followed by publication of the FSAP Technical Notes underpinning the FSSA.

**Before Russia’s invasion of Ukraine, economic activity in Germany was firming up.** Auto production and services activity were picking up by late 2021 and early 2022 on easing semiconductor shortages and relaxation of pandemic restrictions. The war in Ukraine has created new headwinds, including a curtailment of gas flows from Russia, higher energy prices, scarcity of key intermediate inputs, weaker external demand and confidence, and tighter financial conditions. Growth is expected at 1.2 percent in 2022 and 0.8 percent in 2023, down from 2.9 percent in 2021. Surging energy costs are reducing the current account surplus and feeding into broad-based price pressures, with inflation expected to average 7.7 percent in 2022 and 4.8 percent in 2023.

**Uncertainty is very high, with risks to the baseline growth forecast skewed downward and risks to the inflation forecast skewed upward.** The greatest threat is a persistent shut-off of the remaining Russian gas exports to Europe, which could cause sizable reductions in German economic activity and increases in inflation. A prolonged war and resurging COVID-19 infections could also intensify supply chain disruptions. Persistently-high inflation and fears of a de-anchoring of inflation expectations can prompt major central banks to tighten policies faster than currently expected, potentially triggering a sharp tightening in financial conditions and corrections in asset prices. Over the medium term, a fragmentation of global economic supply chains related to the war could compound longstanding challenges related to decarbonization, population aging, infrastructure gaps, and digitalization.

**In response to surging energy prices, the government is expanding income support for vulnerable households, cutting fuel taxes, and providing liquidity support to firms.** However, the fiscal stance in 2022 is expected to be broadly neutral as COVID-19 relief measures are phased out. The debt brake rule is set to resume in 2023. To finance increased climate- and defense-related spending, the government has created

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<sup>1</sup>Under Article IV of the IMF’s Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country’s economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

<sup>2</sup>Under the FSAP, the IMF assesses the stability of the financial system, and not that of individual institutions. The FSAP assists in identifying key sources of systemic risk and suggests policies to help enhance resilience to shocks and contagion. In member countries with financial sectors deemed by the IMF to be systemically important, it is a mandatory part of Article IV surveillance, and in the case of Germany it is supposed to take place every five years. The last FSAP exercise took place in 2016.

extrabudgetary funds that are not bound by the debt brake rule. To secure energy supplies, the government is diversifying away from Russian oil, coal, and gas, establishing facilities to re-gasify liquified natural gas, and requiring operators to fill gas storage tanks before the winter.

**The war has so far had limited effects on the financial sector.** Overall, banks remain largely resilient to solvency and liquidity shocks. Since the last FSAP, the authorities have strengthened microprudential frameworks for banking and insurance, resolution planning, and crisis preparedness. However, low bank profitability remains a source of vulnerability, and stress tests identify shortfalls of capital and US dollar liquidity at some individual banks under adverse scenarios. Macroprudential institutions are well developed, and the authorities have tightened macroprudential policy this year. Nevertheless, house price valuations remain stretched and lending standards appear loose in certain segments.

### **Executive Board Assessment<sup>3</sup>**

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<sup>3</sup> At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.IMF.org/external/np/sec/misc/qualifiers.htm>.

**Germany: Selected Economic Indicators, 2020–23**

	2020	2021	Projections	
			2022	2023
<b>Output</b>				
		(unadjusted)		
Real GDP growth (%)	-4.6	2.9	1.2	0.8
Total domestic demand growth (%)	-4.0	2.3	2.2	0.7
Output gap (% of potential GDP)	-3.6	-1.6	-1.2	-1.2
<b>Employment</b>				
Unemployment rate (% ILO)	3.8	3.6	3.1	3.4
Employment growth (%)	-1.0	-0.7	1.6	-0.2
<b>Prices</b>				
Inflation (% headline, period avg.)	0.4	3.2	7.7	4.8
Inflation (% core, period avg.)	0.8	2.3	4.0	3.9
<b>General Government Finances</b>				
Fiscal balance (% of GDP)	-4.3	-3.7	-3.2	-1.8
Revenue (% of GDP)	46.5	47.9	47.1	46.9
Expenditure (% of GDP)	50.8	51.6	50.2	48.7
Public debt (% of GDP)	68.7	70.2	70.9	68.9
<b>Money and Credit</b>				
Broad money (M3) (end of year, % change) 1/	8.2	5.6		
Credit to private sector (% change)	4.9	5.4		
10-year government bond yield (%)	-0.5	-0.3		
<b>Balance of Payments</b>				
Current account balance (% of GDP)	7.1	7.4	5.7	6.2
Trade balance (% of GDP)	5.7	5.4	3.9	4.4
Exports of goods (% of GDP)	35.2	38.3	37.5	37.6
Volume (% change)	-9.0	10.0	1.9	4.2
Imports of goods (% of GDP)	29.6	32.9	33.7	33.0
Volume (% change)	-5.3	8.0	1.5	3.4
FDI balance (% of GDP)	-0.1	2.9	1.6	1.5
Reserves minus gold (billions of US\$)	64.0	99.2		
External Debt (% of GDP)	165.1	171.8		
<b>Exchange Rate</b>				
REER (% change)	1.3	0.9		
NEER (% change)	2.4	0.8		
Real effective rate (2005=100) 2/	96.7	97.6		
Nominal effective rate (2005=100) 3/	103.8	104.7		

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, Haver Analytics, and IMF staff calculations.

1/ Reflects Germany's contribution to M3 of the euro area.

2/ Real effective exchange rate, CPI based, all countries.

3/ Nominal effective exchange rate, all countries.