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July 14, 2022

**Statement by Mr. Buissé, Mr. Roman, and Mr. Grossmann-Wirth on Germany  
(Preliminary)  
Executive Board Meeting  
July 18, 2022**

We thank staff for an insightful report, including the very timely Selected Issue paper and supplementary information document. We also thank Mr. Stephan and Mr. Krahnke for their informative Buff. We agree with the thrust of staff's appraisal, and we associate ourselves with Mr. Pösö's statement. We would like to offer the following remarks for emphasis and questions to staff:

**We agree with staff that the German economy was firming up before the war against Ukraine but that headwinds are now significant, including in relation to the tightening of gas supply.** The German economy, as many other countries in Europe and around the world, is facing higher energy costs, the worsening of supply chain disruptions and increased uncertainty. On energy security, we concur with staff and the German authorities that cooperation with other EU countries, including in the context of the REPowerEU, is key. We welcome the detailed analysis of the potential loss associated with a gas shutoff in the SIP (and the following supplementary information document). While we welcome the clarity on the specifications and assumptions used for the scenarios, caution remains warranted on the quantification of the impact. *Regarding the gas shutoff scenarios, could staff indicate whether they consider that they fully take into account the "demand side" effects of the assumed increase in gas prices (beyond the confidence effect)? Could staff also further detail their view and possible implementation advice on the auction mechanism for industrial gas consumers envisaged by the German government?*

**On fiscal policy, we agree with staff's assessment on the need to continue increasing public investment, while maintaining flexibility to extend targeted support if needed.** In line with Mr. Pösö's statement, we consider that past fiscal measures were key in limiting the economic and social fallout of the pandemic and are now helping vulnerable households and

firms to cope with high energy costs and potential gas shortages. Fiscal policy should remain flexible to extend additional targeted support if needed while promoting energy efficiency. We also share staff's recommendation that Germany needs to intensify public investment to enhance energy security and advance the energy transition, while taking into account raw materials and intermediate goods supply. An increase in investment and domestic demand will also contribute to the longer-term decrease of macroeconomic imbalances and would benefit Germany by allowing it to reduce its dependency on exports from third countries.

**On climate more specifically, we fully agree with staff and the authorities that a green investment push will be essential, together with adequate carbon pricing, to achieve climate targets.** We note staff's assessment, largely shared by the German authorities, on the role of the increase in public financing to leverage private financing, simplify administration, and strengthen coordination between different levels of government. *Could staff further present their view on the impact of the energy transition on the German industrial sector, particularly regarding the automotive sector in the face of various changes (decarbonization, electric cars)?*

**Regarding structural reforms on the labor market, we agree with staff and the authorities on the need to boost labor force participation and address demographic challenges.** As argued in the report and in Mr. Stephan and Mr. Krahnke's Buff, this will require efforts to promote up- and re-skilling of workers and to provide incentives to increase labor force participation, including through high-quality childcare facilities and increased participation of female workers. We also welcome the confirmation that the German government is working on further enhancing integration programs for migrants to facilitate their participation in the labor market.

**We share staff's assessment on the overall solid capitalization of the German banking sector, but also on new challenges and remaining risks.** We welcome the IMF's stress testing exercise and the finding that SIs and LSIs are resilient to severe shocks. At the same time, German banks' persistent low profitability remains a challenge. We take note of the German authorities' views on the potential activation of borrower-based measures only following a solid financial stability risk assessment. We support the call for a redesign of the Deposit Guarantee Schemes and Institutional Protection Schemes, in line with a European deposit insurance scheme (EDIS), in view of avoiding fragmentation and the weakening of the internal market for banking services.