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January 11, 2021

**Statement by Mr. Hilbers and Mr. Hanson on Germany
(Preliminary)
Executive Board Meeting
January 13, 2021**

We thank staff for the interesting paper, and we thank Messrs. von Kleist, Merk and Buetzer for their insightful Buff statement. We commend the authorities with their strong 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 can be used to “build back better for the future”, by investing in productivity-enhancing measures and supporting a green recovery.

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

We support the continuation of policy support as long as the pandemic hampers economic activity. We note that Germany has been able to make use of the fiscal space it built up over the past decade. Support measures, including the *Kurzarbeit* scheme, have been proven effective in preventing unnecessary bankruptcies and job destruction, thereby protecting household and bank balance sheets. In the recovery phase, automatic stabilizers should operate fully as the phasing out of support measures is tailored to economic and medical developments. Labor market policies should shift focus to groups affected by the pandemic. The authorities pointed out that the rise in female unemployment is less pronounced in the national unemployment statistics than in the survey-based ILO data. *Can staff elaborate on the reasons for this difference?*

The government’s agenda of “building better for the future” rightly focuses on measures to support potential growth by addressing structural problems, investing in productivity-enhancing measures, and supporting a green recovery. In this vein, we welcome the “future package” the government has introduced in June to support green investment, digital infrastructure, and health care expenses.

We commend Germany’s ambitious emission reduction targets under the *Climate Action Programme 2030*. We noted that staff forecasts a rebound in inflation to 1.2 percent in 2021, which is lower than the ECB forecast of 1.8 percent. *What is the impact of the introduction of a CO2 pricing*

scheme in Germany, as mentioned in the Buff statement by Messrs. von Kleist, Merk and Buetzer, on the inflation forecast?

In the financial sector, support needs to be gradually wound down as the recovery picks up. Policymakers need to strike a balance between maintaining adequate support to enable banks to lend to viable firms while allowing unviable companies to exit. We agree with staff on the need to address the issue of profitability in the banking sector. We further call for continued monitoring of risks from commercial real estate, and we agree with staff's recommendation to close data gaps and expand macroprudential policy tools.