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January 11, 2021

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

We thank staff for the well-written report and Mr. von Kleist, Mr. Merk, and Mr. Buetzer for their informative Buff statement. We are in broad agreement with the thrust of the staff appraisal and take positive note of the authorities' concurrence with staff's key findings and recommendations. We commend the authorities for their timely, proactive and large-scale policy response to the crisis through a broad range of measures to mitigate the crisis' impact on employment and incomes. *Germany is seemingly in the woes of the next wave of the pandemic. Is its likely impact adequately reflected in staff's projections for 2021-22? We would have also expected a deeper assessment of Brexit and in particular the impact of the recent UK-EU trade deal on Germany's export-oriented economy.*

Germany entered the crisis with significant fiscal and external buffers that, together with the working of automatic stabilizers and the temporary suspension of the debt brake, allowed for large-scale fiscal support to maintain consumption and employment, without a significant increase in debt (which in any case will be temporary). The fundamental strength of Germany's fiscal position should enable the authorities to err on the side of caution and maintain support until the crisis abates and a sustainable economic recovery takes hold. We welcome the authorities' intentions to withdraw the temporary support measures in a calibrated and well-sequenced manner in order not to jeopardize the recovery. A strong fiscal-led recovery in the short run would also facilitate external rebalancing and will likely have significant positive external spillovers. Staff suggest (in ¶24 of the staff report) a menu of contingency fiscal measures that could be deployed if the recovery stalls. In our view, some of the measures—notably, narrowing the labor tax wedge and expedited public investment in infrastructure and technology—would be prudent under any circumstances, and could be fiscally accommodated. More importantly, looking beyond the near term, these measures together with “building for future” initiatives would help raise Germany's potential output growth and help address its other long-term challenges.

The *kurzarbeit* program proved effective in protecting employment and limiting long term scarring, and we agree with staff that it should remain a central pillar of the labor market. Similar to other temporary support measures, the tightening of *kurzarbeit* parameters should be closely synchronized with the recovery of employment and in line with the changing requirements of a labor market that is likely to emerge from the crisis. We strongly welcome the authorities' emphasis on facilitating the employment of vulnerable groups—young and old workers, and women—that would not only boost consumption, but would also increase labor supply and help increase the economy's growth potential. Germany's active labor market policies, including its apprenticeship and training programs, are exemplary.

German banks' large capital and liquidity buffers, together with exceptional measures introduced during the crisis, have helped soften the crisis' impact on the banks' balance sheets so far. We take positive note of staff's assessment that banks are strong enough to withstand the expected sharp rise in corporate bankruptcies in the aftermath of the crisis. We agree with staff that triage of distressed firms should be implemented cautiously as the temporary borrower protection measures are rolled back in order not to aggravate the employment situation and hinder the recovery. Close monitoring of financial sector developments will be important as the sector emerges from the crisis. German banks are highly exposed to the real estate market and the supervisory authorities have to remain vigilant of the impact on banks' balance sheets of a possible sharp correction of house prices and the continued downturn in commercial real estate (CRE) values that had begun well before the crisis—CRE prices probably already reflect any gains associated with Brexit. *We would welcome staff's elaboration on the nature of data gaps on real estate loans and a comparison of such data deficiencies between Germany and its EU peers. Could staff also briefly comment on the diversity of CRE financing structures and their bearing on the design of macroprudential instruments?*

We commend Germany's strong commitment to multilateralism as borne out in the statement of Mr. von Kleist, Mr. Merk, and Mr. Buetzer. We expect an equally strong commitment by other leading economies. Globalism has lifted hundreds of millions of people out of poverty in the last few decades; a quick return to globalism will help sustain the world economic recovery and support the fight against global poverty beyond this crisis. Germany's notable success in integrating refugees into its economy and society is highly commendable.

Germany has made significant contributions to the global effort to combat the COVID-19 virus, including the pioneering role of German scientists in the development of the first vaccines. Germany also deserves recognition for its significant financial contributions to the UN, WHO and other international agencies that are helping the developing countries fight the pandemic.

We strongly welcome Germany's commitment to the Fund and the planned financial contributions to the PRGT, the CCRT and capacity development that would collectively greatly benefit the low-income countries fight poverty and exclusion. We encourage other major creditor countries to follow suit.

We wish the German authorities all the success.