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**Statement by Mr. Tanaka, Mr. Chikada, and Mr. Nagase on Germany
(Preliminary)
Executive Board Meeting
January 13, 2021**

We thank staff for the informative report and Mr. von Kleist, Mr. Merk, and Mr. Buetzer for the insightful buff statement. Thanks to the authorities' timely and vigorous policy responses as well as its strong fiscal position prior to the crisis, Germany countered the first wave of the COVID-19 pandemic relatively well. However, a new wave of infections is inflicting negative impacts on its economy and the pace and extent of the recovery remain subject to significant uncertainty. The German authorities need to continue providing necessary policy support for the economy and mitigate scarring effects while steadily tackle its long-term challenges.

We welcome that the German authorities and staff conducted this Article IV consultation under the current difficult situation. It enabled us to better understand the recent developments, its outlook, risks and policy priorities. We also commend Germany's commitment to rules based multilateral trading system and its notable contributions to the PRGT, CCRT, and the Fund's capacity development activities notwithstanding its own challenges.

Fiscal Policy and the Economy

Strategic use of the fiscal policy space continues to be the key to tackle the crisis and to build better for the future. We positively note that the German authorities' swift and sizable fiscal measures in coordination with other policies have played a critical role in this crisis and well supported its economy. We agree with staff's view that the fiscal policy should remain sufficiently accommodative and the authorities

should stand ready to deploy additional measures if needed. *Related to this point, while we agree with staff's assessment on the economy, we wonder why German manufacturing PMI remains noticeably strong (Figure 9), which also seems to contradict other economic indicators, and welcome staff's elaboration.* We also support staff's recommendations that fiscal policy should be deployed to address long-existing structural challenges such as boosting potential growth.

Financial Sector Policy

The authorities should keep careful balance between supporting intermediation function of the financial sector and unwinding extraordinary support measures.

We welcome that various financial measures taken by the authorities, including loan guarantees and debt service moratoria, have supported firms and households to weather the crisis. These measures, however, could have significant fiscal costs if the crisis is protracted. To safeguard financial stability, we concur with staff that the authorities should ensure a smooth transition by continuing targeted support for firms that are crucial for the economy to function, while facilitating the exit of unviable companies; and the authorities should encourage banks to rebuild capital buffers gradually and tackle the long-standing issue of low profitability. *Even though implementing such triage as well as addressing banks' low profitability is challenging, we are still interested in hearing from staff about the authorities' plan and staff's advice on these fronts.*

The authorities should also closely monitor the development of the real estate market and its ramifications to the financial system as the pandemic has elevated uncertainty surrounding the market. Further efforts to enhance audit regulation and strengthen the AML/CFT systems are also needed.

Labor market policies

Mitigating labor market scarring would be crucial for the German economy. In this sense, we commend staff's effort to analyze the impact of the crisis on German labor market and the authorities' policy responses, including the BOX 2 for the Kurzarbeit. We support staff's recommendation that the authorities should facilitate efficient resource reallocation once the crisis abates and put emphasis on promoting training to upgrade skills and increase the employability of workers. On the other hand, we took note that the authorities cautioned that it was still too early to identify any long-lasting scarring effect. We would like staff to continue to closely monitor the development and provide necessary policy advice to the authorities if needed.