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**Statement by Mr. Chodos, Mr. Lischinsky, and Mr. Morales on Germany  
(Preliminary)  
Executive Board Meeting  
January 13, 2021**

We thank staff for the clear report and Mr. von Kleist, Mr. Merk, and Mr. Buetzer for their insightful Buff statement. Germany's response to the challenges from the pandemic have been highly effective thanks to a decisive public health response and the swift use of its fiscal space. Timely public health measures have resulted in low fatality rates, but as in other countries in Europe, the ongoing new wave of infections has led to a partial and selective lockdown, highlighting the challenge of keeping the economy open while containing the spread of the virus.

**Germany appropriately used its ample fiscal space to combat the pandemic and mitigate its impact, as highlighted by Mr. von Kleist, Mr. Merk, and Mr. Buetzer in their statement.** In addition, Germany faced the challenges of the pandemic from a position of strength, with declining unemployment, rising personal income, stronger investment, and improved labor market conditions supporting a pick-up in economic activity. Germany's large private and public savings-investment surplus allowed the government to inject a sizable fiscal stimulus, estimated at 6.1 percent of GDP, mitigating the decline in households' income, also partly offset by the use of private savings. The ambitious fiscal package amounts to 30 percent of GDP including loan guarantees, contributing to a less severe economic contraction relative to European peers, although the impact on GDP was still significant. Moreover, a large share of firms may have difficulties recovering from the crisis, and the economy remains vulnerable to adverse external demand shocks.

**We commend the authorities for accommodating new borrowing by relaxing the political commitment to no new borrowing by the federal government.** Also, the planned 2021 budget maintains considerable demand support. In particular, we welcome the ramping up of public investment, especially in green energy and digitalization. Moreover, we agree with staff and the authorities on the need to maintain the suspension of the debt brake rule to ensure the continuity of fiscal support. We encourage the authorities to consider additional measures if the economic situation deteriorates, including providing liquidity support to firms in contact-intensive sectors, alleviating the

tax burden for low- and middle-income households, maintaining high priority public investment, and increasing R&D incentives.

**The enhancement of Germany's short-time work program ("Kurzarbeit") has successfully helped contain a rise in unemployment.** The number of short-time workers increased to 6 million at the peak (a quarter of the labor force), and Kurzarbeit benefits combined with other government transfers helped mitigate the impact of the crisis on household income. The expansion of the Kurzarbeit program has also helped firms to retain human capital to avoid the costs of separation, re-hiring and training, limiting scarring risks. Reflecting the priority appropriately given by the German government to job preservation, expansion, and relaxation measures allowed for a higher number of eligible firms and workers, while waiving social security contributions to be paid by employers. Looking ahead, policies to support workers and facilitate efficient allocation of labor should take priority.

**The performance of Germany's banking system has been mixed.** Banks' capital adequacy has strengthened, and foreign exposures and leverage ratios have declined. However, profitability remains low, and Landesbanken still show subdued performance as a result of long-standing inefficiencies. While the financial stress level has increased only moderately, new lending picked up on the back of eased financial conditions, including through the pandemic emergency purchase program (PEPP). In addition, the German authorities introduced loan guarantees through development banks, allowed banks to use countercyclical capital buffers to complement ECB-issued regulatory and operational relief, and introduced a debt service moratorium for household debt. We caution the authorities about hidden credit risks that may materialize once special policy support is removed.

**We would like to highlight German health care spending not only domestically but for the global community,** particularly in contributing to the provision and fair distribution of vaccines across the world. The country provided US\$ 600 million to the WHO in 2020 and to the GAVI vaccine alliance US\$ 1,200 million, half during 2020 and the other half for the period 2021 to 2025. The country has also provided US\$ 424 million to the United Nations humanitarian system.

With these comments, we wish the authorities and people of Germany the best in their endeavors.