

**FOR
INFORMATION**

FO/DIS/16/93

June 23, 2016

To: Members of the Executive Board

From: The Secretary

Subject: **Germany—Statement by the European Central Bank Representative**

Board Action:

Executive Directors' **information**

Additional Information:

For the Executive Board discussion on Germany to be held on Friday, June 24, 2016.

June 23, 2016

**Statement by the ECB Representative on
Germany – Article IV consultation**

(Preliminary)

IMF Executive Board Meeting

24 June 2016

We thank staff for the report and Mr. Meyer for his comprehensive and insightful Buff statement. We fully associate ourselves with the gray issued by Mr. de Villeroché and would like to briefly elaborate on a few aspects.

We broadly agree with staff's assessment of the outlook for economic activity. We broadly share staff's expectations as regards price developments. At the current juncture, stronger wage growth in Germany, adjusted for productivity developments, than in the euro area as a whole would usefully contribute to economic rebalancing in Germany and, more generally, in the euro area. In that context, we expect a stronger link between wage growth and price developments than staff does, and thus we also project a stronger impact on relative price competitiveness from a given adjustment in wages. In general however, we expect wage growth to be somewhat more moderate compared to staff's projections.

We support staff's emphasis on the importance of structural policies to close the savings-investment gap and agree that there is a need to boost investment. The latter would trigger an increase in aggregate demand and, as a by-product, would contribute to a narrowing of the large current account surplus. The demographic challenges ahead call for further measures to enlarge the labour force. While we share the assessment that in the current favourable economic conditions the employment impact of the minimum wage seems negligible, it could become a binding constraint in more adverse cyclical conditions and may inhibit the employment of refugees. The authorities should monitor this closely and, if necessary, take appropriate measures, possibly along the lines suggested by staff.

We concur with staff that there is large room to improve competition in sheltered service sectors, in particular professional services and network industries. We also encourage the authorities to improve the business environment and increase private investment in particular as regards R&D. In addition, a more efficient system of corporate taxation, further reducing the administrative burden for SMEs, and increasing availability of online public services could increase investment incentives.

We broadly share the staff's view as regards fiscal policies. The existing public investment gap in Germany should be addressed by using available fiscal space while remaining within the limits of national and European fiscal rules, which remain important in view of the relatively large ageing-related fiscal burden projected for the medium and long term.

We agree that the financial sector is resilient and share the view that the low interest rate environment entails risks in particular for those institutions characterized by traditional business models and low efficiency. In this context, we agree that a number of banks need to revise their business models and cost structures to address their low profitability. As regards potential vulnerabilities in the real estate sector, a close monitoring of the situation and the on-going legislative preparations for appropriate macroprudential instruments are warranted.

We overall share staff's assessment of banking supervision. We agree with staff that the new supervisory framework constitutes a significant improvement. We also agree with the need for improving supervisory data, for prior supervisory approval for significant transfer of ownership, and for a better framework to monitor and supervise related-party risk in Germany. We however feel that a more positive rating as regards the supervision of operational risk might have been appropriate.