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I. Global Economy and Financial Markets

Global Economy, Europe and Germany

The global economy is undergoing a period of transition due to shocks, especially Russia's invasion of Ukraine. Global growth continues to be weighed down by geoeconomic tensions and persisting uncertainty regarding trade policies and their impact on prices, investment and consumption. Global trade flows and value chains are adjusting to these changing circumstances. The global disinflationary process remains on track overall, with noticeable disparities between countries and persistent inflationary pressures in many economies. The continued strength of global growth projections for the current year is likely due to temporary factors. Moreover, long-term structural challenges such as population aging, the impacts of climate change as well as weak investment and low productivity growth continue to dampen the medium-term outlook.

Structural policies that focus on lasting improvements of productivity growth are key to lifting global economic prospects. At the same time, supporting fiscal sustainability through the prioritisation of future-oriented investment is becoming even more critical. Fiscal policies need to be well-calibrated to preserve debt sustainability and rebuild fiscal buffers, while taking account of unique country contexts and fiscal realities. Overarching themes such as fostering flexible labour markets with effective social safety nets, improving the investment climate to allow capital and labour to flow to the most productive firms, and cutting red tape remain universal. To complement national policies, it is essential to cooperate multilaterally to tackle global challenges, to address divergences between advanced, emerging and developing economies, and to decarbonise our economies. We need to strengthen economic ties through fair, rules-based cooperation. Open markets and international trade are essential for innovation, growth, and global prosperity. Tariff measures and other trade distorting policies drag on growth and come with unintended consequences for most economies. Reducing trade barriers is therefore in everyone's economic interest.

The European economy has shown remarkable resilience this year, despite the significant challenges it has been exposed to. Labour markets have remained robust and, with inflation now close to the landing zone, we are expecting the recovery in households' disposable incomes to stimulate consumer spending, and improved financing conditions to support investment. Nevertheless, the European economy is still facing considerable headwinds.

Geopolitical risks and uncertainties are still clouding the outlook, and growth prospects remain somewhat subdued. In light of these risks, the European Union remains dedicated to ensuring economic stability and promoting sustainable growth and committed to championing free trade and a rules-based global trading order. The diversification of trade relations and an ambitious bilateral trade agenda are more important than ever.

In order to increase long-term growth and economic prospects, however, the European Union also needs to continue working on improving the attractiveness and competitiveness of the single market. Internal barriers in the single market need to be removed in order to unlock its full potential. To that end, the European Union is currently working on reducing administrative burdens as well as on strengthening entrepreneurship and innovative activities that are key for European competitiveness.

Structural reforms that focus on improvements in productivity growth are also crucial. The European Union has recognised the importance of national structural reforms and supports their implementation via country-specific recommendations, the reformed Stability and Growth Pact, and the Recovery and Resilience Facility, and also proposes to do so with the next Multiannual Financial Framework.

Moreover, with the ReArm Europe/Readiness 2030 initiative, the European Commission and the EU High Representative for Foreign Affairs and Security Policy have provided a framework for supporting multilateral defence cooperation and reducing supply chain dependencies. It will improve financing conditions to allow for the necessary investments and will strengthen the European defence industry, in order to make Europe more resilient. One important element is the activation of the national escape clause in the Stability and Growth Pact to facilitate the transition to higher defence expenditure by EU member states through temporary flexibility, while preserving fiscal sustainability.

The German federal government is committed to substantially enhancing Germany's growth environment after two years of declining gross domestic product (GDP) in real terms, partly driven by the consequences of Russia's war of aggression against Ukraine and the ensuing energy crisis.

In its current macroeconomic projection from early October, the federal government expects real GDP to only change slightly (0.2 %) for the current year given – among other factors – the dampening effects from ongoing changes in the global trade environment. In 2026 (1.3 %) and 2027 (1.4 %), economic output is expected to grow again on the back of the fiscal stimulus from our financing package, especially as a result of investments in infrastructure and defence.

To strengthen the growth potential of the German economy, the federal government is pursuing a three-pronged strategy of investment, structural reforms, and continuing fiscal sustainability. The federal government is thus enabling an unprecedented increase in public investments. This year, a total of over €115 billion will be made available for public

investment from the new special fund for infrastructure and climate neutrality, the Climate and Transformation Fund, and the core budget. That is around €40 billion more than last year. For 2026, we are planning a further increase in public investment to just under €127 billion. Combined with the strengthening of private investments, e.g. by providing tax incentives and improving doing-business conditions, we are pushing ahead with the modernisation of our country and economy.

We are committed to supporting our investment efforts with structural reforms. These reforms include reducing bureaucracy, ensuring competitive energy prices, accelerating planning and approval processes, and addressing labour shortages. This will also ensure that public investments can be realised swiftly and efficiently.

Finally, we are prioritising spending to ensure fiscal sustainability and efficiency. This is a key task for the coming years. According to the latest fiscal projections, the general government deficit is anticipated to rise to 4 $\frac{3}{4}$ % of GDP by 2026. This increase in the government deficit is primarily driven by essential additional expenditures on investment, infrastructure, defence, and security. Taking into account the escape clause for defence expenditure in the European fiscal rules, the deficit would amount to 3 $\frac{3}{4}$ % of GDP. To reduce this deficit, we are actively working on stimulating economic growth and implementing a prioritisation strategy for public spending. This is included in our budget consolidation path. Subsequently, the deficit is projected to decrease to 3 $\frac{3}{4}$ % of GDP by 2028; taking into account the escape clause it would amount to 2 $\frac{1}{2}$ % of GDP. The key approach to structural consolidation of the federal budget is to strengthen growth through investments, reforms and growth-oriented prioritisation of spending. We will continue to pursue this course vigorously and decisively.

Financial Sector

Following the stress episode in April 2025, global financial conditions have eased and asset prices recovered. But there continue to be elevated risks to financial stability due to high uncertainty, geopolitical tensions, trade policies, and pressures on sovereign debt markets. Risky asset prices are vulnerable to sharp corrections, which could be amplified by market-based finance. Tariffs and structural economic challenges could weigh on growth and re-kindle inflation. The global financial system therefore needs to be prepared to deal with a range of risks.

The financial sector in Germany weathered the stress episode in April 2025 well and continues to be resilient. The banking sector is well capitalised and liquid. Bank profitability is high. In light of the interconnectedness of our financial systems, solid international regulatory standards and international cooperation are key in order to limit risks to financial stability and to ensure that potential shocks can be absorbed. We appreciate the Fund's work in this area.

II. International Financial Architecture and IMF Policies

The IMF is the cornerstone of global monetary cooperation, the guardian of the global monetary system, and a crucial promoter of sound policies by member countries and multilateral collaboration. It also provides a truly global financial safety net for the benefit of its entire membership. Sound Fund policies allow it to serve as an independent and trusted advisor for its members in its surveillance and capacity development activities, and to offer temporary financial assistance to support efforts to address balance of payment problems, all of which are key elements in promoting global stability. Regarding the broader discussion about the IMF's activities, we welcome a critical reflection on the core competencies of the Fund and on where it has a clear comparative advantage. The guiding principles should continue to be the mandate of the Fund as a monetary institution, the macro-criticality of the issues at hand and the need to avoid duplicating work already being done by other institutions. A sharper focus on the Fund's core mandate would reinforce its impact, support its credibility and the quality of its work on core issues, and create space for other multilateral actors to operate within their respective domains, thereby streamlining international efforts and avoiding duplications.

We look forward to the upcoming Comprehensive Surveillance Review (CSR), the Financial Sector Assessment Program (FSAP) Review and the associated analytical work by the IMF on how best to adapt its surveillance to changing global circumstances. On the whole, we believe the Fund to be on the right track. Nevertheless, continued efforts to ensure further improvement are essential. Especially in politically tense times, a well-founded analysis by the Fund can be extremely helpful for discussing economic developments in a constructive and fact-based manner and for providing sound policy advice.

In this regard, it seems that external sector assessments and the analysis of spillovers continue to deserve special attention. On global imbalances, we encourage the Fund to deliver the appropriate level of candour regarding distortive practices (e.g. the excessive use of industrial policies) as well as the required economic nuance and careful reading of the broader macroeconomic setting driving external positions. In order to gain traction with its policy advice, the Fund's advice should focus on supporting corrective measures to address unsustainable macro policies and on concretely identifying distortions that hinder a market-driven adjustment of current account imbalances.

In addition, a further clarification of the concept of "macro-criticality" could be useful in this context, which must also allow for the concept to incorporate new challenges. This also includes the macroeconomic implications of climate change, gender policies and inequality. On climate change, we appreciate the Fund's work in support of its members addressing the macroeconomic implications. We encourage the Fund to continue this valuable work in line with its climate strategy, based on the key principles of macro-criticality and efficient division of labour with other institutions.

Regarding the FSAP Review, we welcome the focus on the impact and effectiveness of the FSAPs. Strengthening the risk-based scoping of FSAPs and tailoring them to the specific circumstances of each jurisdiction is likely to enhance the traction of the Fund's bilateral financial surveillance and improve the efficiency of FSAPs.

We remain committed to a strong, quota-based and adequately resourced IMF at the centre of the Global Financial Safety Net (GFSN). We agree with the envisaged approach and timeframe regarding quota and governance reforms as well as the 17th General Review of Quotas (GRQ) as laid out in the Diriyah Declaration, and we look forward to the establishment of guiding principles in this context. In this respect, we remain ready to discuss a limited realignment of quota shares to better reflect members' positions in the world economy, based on fair and broad burden-sharing among all advanced and other over-represented economies. We call for a swift implementation of the 16th GRQ. Members who have not done so yet should therefore finalise their domestic procedures as swiftly as possible.

The IMF continues to play a central role in the GFSN by standing ready to provide lending when needed to support countries' efforts to address their balance of payments problems in a sustainable manner. Owing to its unique financing mechanism and near-universal membership, the IMF has a substantial capacity for global risk-sharing, rendering it the only truly global layer of the GFSN. Its usefulness, however, does not only depend on the Fund's financial capacity, but predominantly on the success of Fund programmes. At the same time, high demand for IMF financial support over the past several years, accommodated by modifications to the IMF's lending framework, has resulted in an increase in credit risks for the Fund, as a rising proportion of the lending portfolio is exposed to countries that are at a high risk of sovereign debt distress. Against this backdrop, we welcome the fact that work on the Review of Program Design and Conditionality is now well underway. Part of a candid stocktaking of the performance of IMF lending is the recognition that many programmes are not being completed as planned, with some going off track shortly after inception, resulting in outcomes that fall short of expectations, and giving rise to problematic incidences of recurring use of Fund resources. We are convinced that IMF programmes can perform better at tackling balance of payments problems through timely policy adjustment underpinned by well-targeted conditionality and strong ownership. With fiscal buffers depleted in many countries amidst a challenging macroeconomic environment, designing credible and effective programmes is more essential than ever in order to achieve sustainable outcomes and secure trust in the IMF and its role as a catalytic lender. Moreover, with regard to the IMF's toolkit as a whole, we see the need to maintain a clear focus and, in this vein, see merit in streamlining the toolkit and phasing out facilities that are barely used.

In view of the elevated credit risks to the Fund, a clear focus on its financial integrity is of paramount importance. Accordingly, we strongly advocate for continued vigilance and sound risk management practices, including strengthening the Enterprise Risk Management policy

framework. To this end, further bolstering the IMF's precautionary balances is needed to safeguard the adequacy of its financial position.

We welcome the progress made in the implementation of the G20 Common Framework for Debt Treatments, but regret that further demand from low-income countries with debt sustainability challenges is currently not forthcoming. We see the rising share of debt owed to multilateral creditors in many low-income countries as an important risk signal and a cause for concern. We encourage the IMF and the World Bank to further enhance their efforts to flag debt-related problems in member countries early on. This should be reflected in the ongoing Review of the Debt Sustainability Framework for low-income countries.

We welcome efforts to further advance the debt transparency agenda, particularly through improved creditor-debtor data reconciliation and by strengthening the debt management capacity of debtor countries. Greater debt transparency is also essential to enable timely and effective action in cases of debt restructuring.

Regarding the IMF's and World Bank's three-pillar approach to addressing high debt service burdens, we support the focus on domestic resource mobilisation. At the same time, we caution that liquidity challenges can be difficult to distinguish from solvency issues. Sustaining the momentum to proactively address solvency issues in low-income countries is necessary. We also see a strong supportive role for the G20 Compact with Africa in attracting private sector financing based on strengthened institutional frameworks and stability-oriented reforms.

Finally, Germany welcomes the importance the Fund attaches to diversity, gender equality and inclusion, and supports the medium-term voluntary objectives on gender diversity at the IMF Executive Board.