



# INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

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**Statement by Mr. Lindner  
Germany**



**Statement by Mr Christian Lindner**  
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**to the International Monetary and Financial Committee**  
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Following the devastating earthquakes in Afghanistan and Morocco as well as the floods in Libya, Germany expresses its solidarity with the Afghan, Moroccan and Libyan people and offers condolences to the families of the victims.

**I. Global Economy and Financial Markets**

*Global Economy, Europe and Germany*

The global economy is still navigating through troubled waters. Growth prospects are weak and downside risks remain elevated. Russia's illegal and unjustified war of aggression against Ukraine still weighs heavily on the world economy. Ending the war remains essential to improving the prospects for the global economy. Germany continues to profoundly condemn this war and calls on Russia to cease its attacks immediately. Germany condemns the barbaric terrorist attack on Israel in the strongest possible terms. We stand in solidarity with Israel.

Looking ahead, the weak growth prospects, still stubbornly high inflation as well as elevated and often still rising debt levels are reasons for concern - and this amidst generational challenges including rapidly increasing economic costs of climate change. Therefore, effective ways to maintain and raise productivity growth, to protect the international trading system, and to mobilize sufficient investment for the net zero transition are more important than ever.

This is also why we need faster progress and more ambition to improve multilateral cooperation, including on international debt, a renewed structural reform agenda and appropriate fiscal strategies to preserve and rebuild buffers. This includes restraining public spending where possible and increasing domestic revenues where appropriate.

Despite some signs of receding price pressures over the past months, inflation in many countries remains elevated. In addition, excessive supply restrictions of key commodities by main producers could risk fueling new global price shocks. Monetary policy needs to stay restrictive as long as necessary to bring inflation back to target levels. Also, fiscal policy must play its part by supporting monetary policy in the context of high inflation and tighter financing conditions.

Growth in the EU economies continues to prove resilient, despite the fallout of the war in Ukraine. National labor markets remain robust. A strategy of growth-friendly fiscal

consolidation combined with structural reforms is warranted, thereby raising the European economies' growth potential and resilience to future challenges. Absent renewed energy price shocks, countries should strive to wind down energy support measures where possible, using the related savings to facilitate lasting deficit and debt reductions.

In Germany, the economy has also shown fundamental resilience. Nevertheless, growth prospects are currently subdued due to high inflation, weak external demand, and the interest rate increases. The worsening of sentiment indicators underlines strong headwinds for the economy, in particular in the manufacturing sector. This sector is markedly affected by current conditions due to its high degree of export orientation and integration into international value chains, especially in the area of capital goods. Next year a recovery of economic activity led by private consumption is expected. Headline inflation has moderated noticeably from its exceptionally high levels and is projected to decline further, while nominal wages are increasing. Therefore, a rebound of real incomes should bolster private consumption.

As in 2023, the federal budget will comply with the regular borrowing limit of the constitutional German debt rule in 2024. As a result, German fiscal policy will provide a moderately restrictive impulse in the coming year thus supporting monetary policy. After years of high fiscal deficits during the crises, it is now crucial to consolidate the federal budget and gradually reduce the debt ratio, thereby re-building buffers and accounting for higher debt-servicing costs over the medium- and long-term. Investing in a modern, digital and climate-neutral German economy and at the same time ensuring sound public finances will be achieved by consistent and ongoing prioritization of expenditures. Investments and other future-oriented spending will increase significantly to address medium- and long-term challenges like demographic change, decarbonization or sluggish productivity growth. Accordingly, for 2024 and beyond, the investment share of total federal spending will rise from 10 % in the pre-crisis years to above 12 %.

### *Financial Markets*

Uncertainties persist regarding the further development of inflation, interest rates, real estate sector developments, the global economy and geopolitical tensions. Therefore, market participants need to remain vigilant with respect to these developments and potential risks arising. Prudent risk and liquidity management and high regulatory standards contribute to resilient financial markets. With regard to the turbulences in March 2023, we support ongoing lessons learned that are being analyzed by international institutions.

Both, the EU and the German banking sectors have remained resilient as shown by the EU-wide stress test results. Banks have strong capital and liquidity positions. Furthermore, Germany has already taken preventive action by raising macroprudential capital buffers for

banks in order to further strengthen the overall resilience. German and European authorities remain vigilant and will closely monitor developments in the financial sector.

## **II. International Financial Architecture and IMF Policies**

The IMF continues to provide important support to its members facing challenging macroeconomic circumstances in the wake of severe shocks to the world economy. In this environment, the Fund's high-quality analysis and the resulting policy advice, as well as its deployment of capacity development are even more valuable than in more tranquil times. In addition, its steadfast promotion of multilateralism and its values are of great service to the global economy, for the benefit of all countries. In case of members facing balance of payments problems, the Fund should continue to make full use of its tried and tested lending instruments and policies to help members requesting support, in line with its mandate and catalytic role.

We welcome the progress in discussions on the 16th General Review of Quotas, with the aim to reach a conclusion by December 15th, 2023. We reiterate our commitment to a strong, quota-based, and adequately resourced IMF at the centre of the Global Financial Safety Net. Against the backdrop, we support a quota increase to at least maintain the Fund's current resource envelope after the Bilateral Borrowing Agreements expire end 2024. We remain open to a limited ad hoc increase, based on fair burden sharing but we could also go along with just an equiproportional distribution of a quota increase in the spirit of consensus. We caution against linking the quota review with other IMF policy issues as this would add further complexity and could unduly prejudice decisions on policy issues that still need to be thoroughly discussed on their own merits.

We welcome the Fund's supportive role in the context of a more coordinated communication on debt restructuring during the implementation of the Common Framework. We welcome continued work on how to strengthen debt transparency and support the use of Fund conditionality in this area. When assessing debt sustainability, realistic assumptions are of critical importance to avoid debt restructurings that are "too little" and come "too late". Where debt is unsustainable and creditor coordination is challenging, strong safeguards for Fund resources as well as clear incentives for all parties involved to reach a sustainable and fair solution in a timely manner are of the essence.

We welcome the ongoing implementation of the IMF Climate Strategy. We encourage Fund staff to fully operationalize this strategy to ensure that an in-depth coverage of climate policies will be fully integrated in the Fund's surveillance. We also welcome the operationalization of the Resilience and Sustainability Trust to support ambitious reforms that help members in their fight against climate change and contribute to longer-term balance of payments stability. Regarding the identification of country-specific reform priorities, we emphasize the key importance of close collaboration with the World Bank.

Good governance, transparency in public financial management and effective anti-corruption frameworks are macro-critical issues in many member countries. Progress in these areas is indispensable for economic development. The use of country-specific conditionality in Fund-supported programs can mitigate risks to the Fund's resources and reputation and help countries in their fight against the misuse of their scarce financial resources. We welcome the ongoing AML/CFT Review. It is important that the Fund continues to promote improvements in member countries' AML/CFT frameworks and to take reform needs duly into account when assessing eligibility to precautionary facilities.

The IMF has adapted its lending toolkit on numerous occasions over the past few years. Temporary modifications in response to specific challenges, for example the creation of the Food Shock Window, have demonstrated the IMF's ability to adjust quickly and to respond to specific challenges. The recently completed review of the precautionary facilities also resulted in substantial modifications. Going forward, the application of this new framework will need to be closely monitored and, in due course, carefully reviewed to assess its effectiveness in delivering improved outcomes.

Today the IMF lending toolkit is more flexible than ever before, comprising a wide range of instruments, both financial and non-financial, to help members in addressing potential or actual balance of payment needs. Discussions on how to improve the toolkit will continue. We look forward to the forthcoming Review of Conditionality as an important opportunity to discuss how to improve the success of IMF-supported programs. In this context, it is also important to acknowledge the benefits of a parsimonious toolkit. To be effective and sustainable in fulfilling its primary role as a monetary institution to help members solve balance of payments problems, IMF lending must continue to be catalytic. Especially in the face of high debt, this requires maintaining appropriate lending standards and preserving the IMF's "seal of approval". It is of the essence that the IMF's financial integrity is safeguarded, in a global environment where not only the Fund's membership is confronted with multiple shocks and higher uncertainty but also the Fund itself. The Fund has to remain "fit for purpose" for the entire membership and the stability of the international monetary system. Therefore, we emphasize the importance of adequate financial buffers, including a continued build-up of precautionary balances that are the first such buffer against the Fund's currently elevated financial risks. We also stress the importance of preserving the Fund's gold holdings as they provide the Fund's balance sheet with fundamental strength. Especially in the current context of elevated global risks and risks to the Fund, we call for continued efforts to deepen the Fund's risk management capacities to support risk-informed decisions in the Fund's core areas.

We continue to endorse strong support for low-income countries in the coming years, in line with the Fund's lending policies, resource envelope, and debt sustainability requirements. To ensure continued support by the Poverty Reduction and Growth Trust (PRGT) to low-income

countries, we welcome further fundraising contributions to close the PRGT subsidy gap, especially by members that have not contributed so far and in line with fair burden sharing. In the context of the upcoming PRGT review, we look forward to a holistic set of measures revisiting PRGT lending policies to ensure self-sustainability, including a review of the PRGT interest rate mechanism. This is necessitated by an environment of high interest rates that has led to a surge in subsidies provided in PRGT loans, impacting the PRGT's financial self-sustainability further. Any options involving additional internal resources to reach PRGT self-sustainability need to be weighed very carefully and must not come at the expense of weakening the Fund's financial integrity.

We support the Fund's work on diversity and inclusion and promote gender diversity in the IMF Executive Board.