



INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE

Fifty-Third Meeting April 16–17, 2026

Statement No. 53-10

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Germany**

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to the International Monetary and Financial Committee
Washington, D.C., 17 April 2026

I. Global Economy and Financial Markets

Global Economy, Europe and Germany

We welcome the ceasefire that has been announced in the Middle East. We call on all involved parties to now reach a sustainable peaceful solution. We also call on Russia to immediately end its war on Ukraine. The IMF and the World Bank are well equipped with instruments and resources and we will support their efforts to, if necessary and within their mandates, help their members deal with the sometimes already severe economic aftermath of the conflict.

The global economy is facing fundamental shifts and has recently been exposed to severe supply-side shocks, both through Russia's ongoing war against Ukraine and the now halted conflict in the Middle East. If a lasting peace can be achieved, the extreme volatility in energy markets and the pressures on global trade flows and value chains should abate.

Global growth has so far proven to be remarkably resilient, but still faces strong down-side risks due to a mix of geopolitical tensions, still elevated energy costs, protectionist policies and extremely high uncertainty, against the backdrop of often limited fiscal space and elevated debt levels.

Strong multilateral cooperation remains crucial to address global challenges, including geopolitical tensions, geo-economic fragmentation and climate change. Deepening and broadening partnerships is essential to open pathways to shared prosperity. Open markets and international trade remain vital for innovation, growth and global prosperity, but tariffs and other trade-distorting policies are dampening growth and could lead to unintended consequences for all economies.

While the global disinflation process broadly remains on track, inflation dynamics differ across countries, and higher energy prices may slow, halt or even temporarily reverse disinflation in some economies. At the same time, structural challenges, including population ageing, the economic impact of climate change, weak investment and low productivity growth, continue to weigh on the medium-term growth outlook in many economies.

Structural policies that strengthen productivity growth remain key to improving economic prospects, in particular in Europe. Fiscal policies must be carefully calibrated. Supporting fiscal consolidation while prioritising forward-looking investment, including in energy resilience, infrastructure and the green transition, is increasingly important. Governments need to preserve debt sustainability.

Policies that promote flexible labour markets with effective social safety nets, improve the investment climate and allow capital and labour to move to the most productive firms remain essential. Reducing administrative burdens can further support economic dynamism.

The European economy has shown remarkable resilience over the last year, despite the significant challenges it has been exposed to. Labour markets have remained robust and inflation has come down to close to medium-term inflation targets. Hence, a modest upturn on the back of rising consumer spending and increased investments is within reach, but remains fragile. The European economy continues to face considerable and increasing headwinds. On top of the effects of the ongoing Russian war in Ukraine, the conflict in the Middle East has added significantly to the geopolitical risks and economic uncertainties that significantly cloud the outlook and may still dampen future growth prospects. In light of these risks, Europe remains committed to help ensure global economic stability and promote sustainable growth. Europe continues to champion free trade and a rules-based global trade order. Given developments, the diversification of trade relations and an ambitious bilateral trade agenda are now more important than ever for Europe.

To increase long-term growth and economic prospects, the European Union also needs to improve the attractiveness and competitiveness of the Single Market. Remaining internal barriers need to be removed swiftly to unlock its full potential. Reducing red tape and strengthening entrepreneurship and innovative activities 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. Further support will be provided with the next Multiannual Financial Framework.

The German federal government is committed to substantially enhancing Germany's growth environment, after several years of declining or stagnating GDP, driven partly by external factors such as the persistent economic consequences of Russia's war of aggression against Ukraine, ongoing geopolitical and geo-economic tensions and protectionism.

GDP had been expected to grow again in 2026 on the back of the fiscal stimulus from a substantial financing package, resulting in a strong growth of investments in infrastructure and defence. However, the conflict in the Middle East has noticeably increased downside risks, with a surge in energy prices, increased uncertainty and the ongoing blockade of important trade routes. It is currently still difficult to assess to what overall extent the recovery will be affected. It very much depends on further developments, in particular with regard to the supply and price of energy, and other supply chains. We will publish a new economic forecast in mid-April.

To strengthen the growth potential of the German economy, the federal government is pursuing a three-pronged strategy of investment, structural reforms and continued fiscal sustainability. The federal government is thus enabling an unprecedented increase in public investment. This year, a total of over €128.7 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. This corresponds to an increase of around 11.3% compared to the 2025 target figure. For 2027, we are planning to keep public investment at a high level at just under €120 billion. Combined with stronger private investment, which we are fostering through tax incentives and improved doing-business conditions, we are pushing ahead with the modernisation of our country and economy.

The fiscal scope created by the Special Fund for Infrastructure and Climate Neutrality is being used by the federal government to invest in the modernisation and targeted expansion of the public capital stock. Key areas of investment include transport infrastructure, digitalisation, hospitals, energy infrastructure and the construction of new housing.

We are committed to supporting our investment efforts with structural reforms, including reducing bureaucracy by 25%. In addition, the Modernisation Agenda for the Federal Government and Administration, adopted on 1 October 2025, sets the framework for achieving the necessary modernisation of the federal administration. With the Infrastructure Acceleration Act, the federal government aims to implement new transport infrastructure projects more swiftly, pragmatically and with less bureaucracy. To this end, the cabinet has adopted a draft law that significantly accelerates planning and approval processes for important new construction projects. Measures financed by the special fund will also be expedited.

We want to ensure competitive energy prices, accelerate planning and approval processes, and address 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 projection, the general government deficit is anticipated to rise to 4¾% of GDP in 2026. This increase in the government deficit is driven primarily by essential additional investment expenditures and investments in infrastructure, defence and security. Taking into account the escape clause for defence expenditure within EU fiscal rules, the relevant deficit would amount to 3¾% 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. As a result, the headline deficit is projected to decrease to 3¾% GDP by 2028; taking into account the escape clause it would amount to 2½% of GDP. The key approach to structural consolidation of the federal budget is to boost growth through

investments, reforms and growth-oriented prioritisation of spending. We will continue to pursue this course vigorously and decisively.

Financial markets have recently experienced a period of heightened uncertainty and volatility, due to the conflict in the Middle East. In addition, vulnerabilities remain due to high market valuations, expectations regarding AI's impact on business models, and the impact of geopolitical threats as well as new tariff regimes on economic growth. There is also an elevated risk of cyberattacks in the current environment. The global financial system therefore needs to be resilient in the face of a wide range of risks.

The financial sector in Germany has weathered the different stress periods well and continues to be resilient. The banking sector remains well capitalized and liquid. Bank profitability and asset quality are stable. Nevertheless, owing to the interconnectedness of the financial system, various developments, such as the growth of the global NBFIs sector, need to be closely monitored.

II. International Financial Architecture and IMF Policies

In these uncertain times, characterised by a series of shocks to the global economy, the IMF plays an indispensable role in the service of its member states. This pertains not only to its core surveillance activities, including high-quality analysis and country specific policy advice, but also to its important work in the field of capacity development and – if needed – temporary financial assistance. No less important is its role as an anchor in global economic policy debates and its steadfast support for multilateral engagement, with which it provides a much-needed counterweight to the diverse drivers of fragmentation and mercantilist policies. Germany remains fully committed to supporting the IMF in order to ensure its effectiveness, which is based on even-handedness, a spirit of cooperation and consensus-based decision-making. We trust that the Fund will continue to play an important role as one of the staunchest promoters of multilateralism and global macroeconomic and financial stability.

We also appreciate and underscore the Fund's important function in helping members deal with the severe economic disruptions that have and may still result from the conflict in the Middle East, including through policy advice and technical support to mitigate energy supply shocks. The extent to which the conflict will also lead to an additional demand for IMF financial assistance is difficult to assess at this stage, given the prevailing uncertainty.

However, we are reassured by the IMF's comprehensive and crisis-tested set of instruments, which can deliver needed financial support to members, in accordance with prudent lending standards and appropriate conditionality. We look forward to the upcoming Comprehensive Surveillance Review and the associated analytical work of the IMF on how to best adapt its surveillance in changing global circumstances. So far, the IMF has undertaken important preparatory work, most notably attempting to clarify the concept of macro-criticality for operational purposes. We look forward to the more substantive work to be presented over the

course of this year. In this context, the ongoing review of external sector assessments deserves special attention, as its findings will also help inform future surveillance activities. In addition, we see potential to further increase the scope and quality of the analysis of spillovers. We also deem it important that, where warranted, the IMF continues to focus on other identified challenges, such as the macroeconomic implications of climate change, or gender inequality, in cooperation with partners and without neglecting the Fund's core areas of expertise. We look forward to the Financial Sector Assessment Program (FSAP) Review, which should aim to enhance traction, focus and effectiveness. This can be achieved by sharpening the prioritisation and risk-based scoping of FSAPs and streamlining the process to make the best use of staff and national authorities' resources.

We remain committed to a strong, quota-based and adequately resourced IMF at the centre of the global financial safety net. We support the Diriyah Principles for Quota and Governance reforms as prepared by the IMFC Deputies and deem them a good basis for further discussions regarding the challenging topics at hand. We remain ready to constructively discuss these issues, including a limited realignment of quota shares to better reflect members' positions in the world economy, based on fair and broad burden-sharing. We welcome that many IMF members have already consented to their quota increase under the 16th General Review of Quotas and call on all others to complete their national procedures as soon as possible in order to secure the IMF's current resource envelope and its quota-based character.

Successful IMF lending programmes are key for overcoming crises and returning countries to a path of macroeconomic stability and sustainable economic growth. They are also necessary to enable repayments and thus preserve the IMF's financial soundness, to ensure that its unique financing mechanism remains functional. We welcome the progress on the Review of Program Design and Conditionality and look forward to the next stage involving the discussion on concrete proposals to improve the effectiveness of IMF lending. The priority is to preserve and, where needed, strengthen the catalytic effect of IMF support by ensuring strong ownership and designing effective programmes that credibly support adjustment and reform.

We welcome the particular focus on follow-up arrangements, which are often the result of unresolved issues in previous engagements. Another key task is to identify and better leverage synergies with IMF surveillance, both with a view to facilitating early engagement, and, where needed, preventing post-programme policy slippage and waning reform momentum. In the same vein, we need to ensure that the phasing of disbursements and purchases sets the right incentives for sufficiently deep and sustained policy efforts. As soon as the Review of Program Design and Conditionality is completed, we consider it of high importance and urgency to start deliberations on the review of the Exceptional Access Framework. A careful revision of the framework is needed to prevent overly high Fund exposure to individual countries and to contain risks both for the Fund and the respective member. Finally, we

welcome the recent decision to phase out the Short-Term Liquidity Line in 2027 in the interest of a streamlined and effective toolkit and encourage the Fund to continue streamlining its toolkit and evaluate instruments that are barely used.

The complex environment of interconnected risks calls for continued vigilance and a robust risk culture in the Fund. To this end, we advocate strengthening the Enterprise Risk Management policy framework with a holistic and forward-looking perspective and embedding it more firmly in the Fund's strategic decision-making. We particularly emphasise that already elevated credit risks to the Fund place a premium on efforts to safeguard the adequacy of its financial position, including a further steady bolstering of the IMF's precautionary balances. In addition, we encourage the Fund to make further progress in its cybersecurity maturity.

We appreciate the Fund's work on external imbalances, which also makes a valuable contribution to the G7 and G20 agendas. Our overarching message is that any assessment of "excess" imbalances should be predicated on identified distortive domestic policies. The Fund's External Balance Assessment (EBA) contributes significantly to our understanding of distortive drivers of imbalances. The model has important benefits in its multilateral consistency and its ability to assess the impact of certain policies (relative to a desirable level set by IMF staff). However, any normative interpretation based on the model reaches a critical limit when external imbalances cannot be linked to specific policies but are rather attributed to unexplained residuals. Policy recommendations derived from the model would gain credibility and effectiveness if specific distortions or unsustainable policies were identified. We fully support the Fund's ongoing work in this direction.

We welcome efforts to enhance the EBA methodology. However, we have reservations regarding the proposed benchmarking of net foreign assets as part of the EBA current account model. The proposal implies that past deviations from current account norms set by staff (irrespective of whether or not specific domestic policy distortions had been identified in the past) would translate into an assessment of "excess" imbalances today.

Addressing debt vulnerabilities requires a comprehensive approach that combines sound macroeconomic policies and stronger domestic revenue mobilisation, adequate concessional and multilateral financing, and, where appropriate, timely and orderly debt treatment. In this context, we emphasise the importance of strengthening the international debt architecture. We support efforts to improve the effectiveness, predictability and timeliness of the G20 Common Framework for Debt Treatments, including through enhanced coordination among official and private creditors, including at the GSDR. For countries with sustainable debt and ambitious reform agendas, we support continued efforts to advance a three-pillar approach that helps these countries strengthen their economic resilience, mobilise sustainable financing and restore fiscal space for sustainable and inclusive growth.

We also reaffirm the central role of the IMF and the World Bank in supporting countries facing debt challenges, including through their work on the Debt Sustainability Analysis, policy advice and technical assistance. We encourage the IMF and the World Bank to uphold their efforts to flag debt-related problems in member countries early on. In addition, greater debt transparency and improved data on public liabilities are essential to prevent debt distress and facilitate orderly and timely debt restructuring processes when needed.

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