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Statement by Wolfgang Schäuble,
Federal Minister of Finance, Bundesministerium der Finanzen, Germany

On behalf of Germany

Statement by Mr. Wolfgang Schäuble
Minister of Finance of the Federal Republic of Germany
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I. Global Economy and Financial Markets

Global Economy and Euro Area

The global recovery is proceeding at a moderate pace. When putting the projection for global growth next year into perspective, we have to bear in mind that the crisis had its impact on potential growth. Moreover, we should accept that pre-crises growth rates had been distorted by unsustainable policies, excessive leverage, and exuberance in financial markets. Therefore, we cannot expect too much too soon and should furthermore avoid new bubbles. At the same time, we should not be overly gloomy. The IMF's global growth projection for 2014 is almost at the same level as the average growth rate for the years 2000 to 2013.

Risks to the global economic outlook remain on the downside, even as tail risks have subsided thanks to steadfast policy implementation, not least in the euro area. Heightened risks stem in particular from private sector debt overhangs and public debt at historical highs in advanced economies which exposes us to confidence shocks. In addition, the unexpectedly sharp slowdown in emerging market economies amid tighter external financing conditions could lead to new risks for the global outlook.

Thus, the necessary adjustments should not be postponed. Making progress toward sound public sector balance sheets and addressing reform challenges in product, labor, and financial markets is of the essence in advanced economies as well as in emerging economies and low income countries. Specific and credible medium-term fiscal consolidation plans will improve the prospects of a lasting and fundamentally sound global recovery and remain crucial to regain lost credibility and strengthen confidence. At the current juncture, it is in particular the responsibility of the advanced economies, including Japan and the US, to follow-through with ambitious fiscal consolidation over the medium-term to reduce public debt ratios in a durable manner. In Japan, additionally to the welcome decision to increase the consumption tax as planned, structural reforms tackling underlying challenges of high public debt and low growth should accompany consolidation. In the US, the fiscal stand-off has to be resolved without delay.

Accommodative monetary policies continue to support the global recovery. It would be wise to prepare for the unavoidable transition to more normal monetary conditions, while keeping a watchful eye on risks arising in the current low-interest rate environment.

The euro area is making important progress in surmounting the crisis. Recent data and confidence indicators show that growth is starting to pick up: In the second quarter 2013, euro area real GDP grew by 0.3% compared to the first quarter, marking the end of the recession. Further, market tensions in sovereign bond markets have receded. This demonstrates that confidence of markets, investors, and consumers is returning.

Policy action in several fields has laid the ground for this progress: Over the past years, significant progress has been achieved in fiscal consolidation. From 2009 to 2012, euro area countries, on average, reduced the deficit-to-GDP ratio by 2.7 percentage points. Fiscal adjustment in the euro area is continuing in 2013, and it is indeed crucial that efforts are maintained to restore sound fiscal positions. Further, progress in restoring competitiveness has been made. Unit labor costs and current account balances have started to undergo a correction process in countries that have been strongly affected by the crisis. The initiated structural reform processes in the labor market and other areas start to yield tangible results.

Continuing on the path of growth-friendly fiscal consolidation, combined with structural reforms, will not only allow further reducing market tensions and improving the economic situation, but will in the medium term lead to a modernization of the European economy. This process will make the European economy more robust and shock-resistant and thus contribute to improving global financial and economic stability.

Germany

After a weakening of economic activity in the winter 2012/2013, GDP grew markedly by 0.7% in the second quarter of 2013 in real terms. This marks the start of Germany's generally expected economic recovery. Consumption expenditure of households and fixed capital formation increased. The rise in private consumer spending was fuelled by a high level of employment and income increases. Forward looking indicators are performing very well pointing to a continuation of the economic recovery. Therefore, we expect GDP to grow by 0.5 % in real terms this year and by 1.6 % next year. Growth will be driven by domestic demand. Net exports are expected to have a negative growth contribution this year and a slight positive in 2014.

Germany's favorable economic situation is supported by a sound, growth-friendly fiscal policy which bolstered investor and consumer confidence and thus strengthened the foundation for sustainable growth, high employment, increasing disposable income, and robust tax revenue. Expenditure prioritization and growth-friendly spending, e.g. for research and development, education, and infrastructure, are key in this context. As recognized in the recently published Fiscal Monitor and during Germany's Article IV consultation, Germany is adopting a slightly accommodative fiscal stance in 2013. Against the background of a still high debt-to-GDP level and looming demographic challenges, the policy of growth-friendly consolidation will be continued as demonstrated in the draft budget for 2014 and the fiscal planning until 2017. Germany will maintain the current targets for the structural fiscal balance in compliance with the "debt brake" enshrined in the constitution and the commitments at the EU and euro area level while letting automatic stabilizers operate freely.

In addition, Germany's economic policy focuses on key areas to raise the country's growth potential: First of all the government is committed to implementing structural reforms in order to improve labour market participation, avoid skill shortages, intensify competition in product and service markets, further improve the tax system, and facilitate access to financing for SMEs. Targeted immigration, improved day-care facilities for children, and vocational training compacts are key pillars of Germany's policy to safeguard the supply of skilled labor. Secondly, there is broad consensus among political actors to grant priority to renewable energy sources. In order to achieve this target, the government is implementing measures to provide an appropriate legal framework for investors, improve the interaction of renewable and conventional energy sources, and limit costs while guaranteeing the security of supply.

Financial Sector

There are a number of transitions taking place at the global level which may impact financial stability and thus need to be observed vigilantly. Against that background it is very important that countries with vulnerabilities demonstrate a persevering commitment to economic reform.

Despite some progress the repair of the banking sector is not complete in the euro area. Balance sheets losses have to be absorbed, further deleveraging has to take place at the level of banks, sovereigns, corporates and households, and more bank restructuring lies ahead. At the same time, it is important that sufficient credit is available to the real sector, in particular for SMEs.

Legislative initiatives in the euro area such as the single supervisory mechanism and forthcoming single resolution mechanism including a strong bail-in-instrument will contribute to further stabilize the banking sector and reduce fragmentation. In this regard the asset quality review and stress test will be important to clean-up balance sheets and build confidence, and hence need to be credible, transparent, and treat countries and entities in a consistent manner. Every effort should be made to that end, including the establishment of credible backstops.

Over the coming years financial sector reforms will have to be implemented and put into practice – without burdening the taxpayer. Given the urgency, it is important that we concentrate on credible solutions that can be achieved within a reasonable timeframe.

II. International Financial Architecture and IMF Policies

IMF Quotas and Governance

The quick implementation of the 2010 Quota and Governance Reform is of great importance for the credibility and legitimacy of the Fund and to facilitate the discussions on the 15th General Review of Quotas. Germany thus encourages all IMF members that have not yet ratified the reforms to complete their ratification swiftly. Germany welcomes the timely completion of the IMF quota formula review by the IMF Executive Board and stands ready to an open and constructive discussion on the quota formula in the context of the 15th General Quota Review with a view to reach an agreement on an integrated package encompassing all elements by the agreed deadline of January 2014. With regard to the legitimacy of the Fund it is crucial that the discussions and decisions on the quota formula and the quota review will be fully anchored in the relevant IMF bodies where all IMF members are represented and that the outcome is acceptable to the wider IMF membership.

For the further discussions on the quota formula the four principles which underpinned the 2008 reform of the quota formula continue to provide the appropriate basis and should be applied rigorously. Furthermore, the formula should be based on verifiable and clear economic criteria and solid empirical data and should be closely linked to the Fund's mandate. As openness of economies is the very reason for the existence of the Fund and thus its building principle, Germany considers that openness should continue to play a prominent role in the quota formula, in line with the January 2013 agreement with an increase in its current weight if the variability variable were to be dropped. Discussions on the size of the Fund's quota volume within the 15th General Quota review should be based solely on a careful assessment of the need of the Fund for regular resources.

IMF Resources

For the time being we consider the size of the IMF's regular resources to be broadly adequate and sufficient for the Fund to fulfill its systemic role in the global economy in view of the pending quota increase which will also lead to a rebalancing of the regular resources and the emergency resources, i.e. the NAB and the Bilateral Borrowing Agreements 2012. We welcome the progress made with regard to implementing the bilateral borrowing agreements committed in 2012. We are looking forward to the rapid finalization and effectiveness of the remaining agreements.

Surveillance

Germany welcomes the ongoing work to further strengthen the Fund's surveillance which we consider its main role with a view to crisis prevention. In this context the upcoming 2014 Triennial Surveillance Review provides a good opportunity to assess the implementation of last year's integrated surveillance decision and to review the consistency and focus of the Fund's policy advice to its member countries. The deepening of financial sector analysis and the understanding of macro-financial linkages at both the national and global level need to be further pursued. The crisis has underlined the importance of sound public finances. This issue, which is also important in light of demographic developments in many countries, was emphasized in the current Fiscal Monitor of the Fund. Thus the Fund's advice to countries in this area should focus on achieving progress towards fiscal sustainability. Aiming at specific medium term fiscal policy targets which are not perceived as continuously moving targets can also enhance the credibility of authorities. Advice of the fund on institutional and cross-cutting issues should be likewise oriented towards solutions that are sustainable in the long run. Regarding the Fund's multilateral surveillance Germany welcomes the progress and further efforts in developing indicators of global liquidity conditions and their broader integration into the Fund's surveillance work.

Lending framework

Germany considers the Fund's current set of financing facilities broadly appropriate. The commitment and provision of the Fund's general resources should continue to be closely guided by the Fund's mandate. The principle of the temporary use and revolving nature of Fund resources should apply to precautionary arrangements, such as FCLs, in the same way as to non-precautionary arrangements. The upcoming review of precautionary financing instruments will provide a good opportunity to examine lending policies and commensurate risk mitigation measures.

IMF in low-income countries

The IMF-World Bank debt sustainability framework for low income countries as well as prudent debt management practices form an important basis to ensure debt sustainability. In this regard, we look forward to further discussions on the Fund's policy on debt limits in program countries with a view to providing sufficient flexibility for financing crucial development expenditures and investment while maintaining adequate safeguards against an accumulation of unsustainable debt. We further welcome the ongoing support of the IMF and the World Bank to strengthen the debt management capacity of low-income countries. The planned review and update of the IMF-World Bank "Guidelines for Public Debt Management" can help to take into account the experience to date. Furthermore we acknowledge the importance of promoting responsible sovereign lending and borrowing. Both creditors and debtors have their responsibilities for preventing unsustainable debt situations. On the Fund's lending framework for low-income countries, the agreement to use windfall gold sales profits to boost the concessional lending capacity for low-income countries has been instrumental to achieve the longer term self-sustainability of the Poverty Reduction and Growth Trust. In line with other European members, we call on all IMF members to pledge their part of the windfall gold sales profits in favor of the PRGT.