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IMFC Statement by Wolfgang Schäuble
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On behalf of Germany

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to the International Monetary and Financial Committee

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I. Global Economy and Financial Markets

Global Economy and Euro Area

The global economy continues its recovery. Global growth can be expected to increase this year and next year. Lower oil prices and the very low interest rate environment are supportive of economic growth. The expected global growth rates for 2015 and 2016 are only slightly below the long-term average since the year 2000 or the quarter century before the financial crisis. Growth rates of boom years preceding the crisis would not be an appropriate benchmark. Inflation can be expected to pick up considerably in 2016 compared to 2015 in advanced economies. However, the global recovery is uneven across regions and countries. Growth in advanced economies is expected to pick up this year, whereas growth expectations for emerging market and developing economies are slightly lower for this year. Important factors are the different impacts of oil prices on oil importers and exporters, revisions of trend growth, progress in deleveraging, economic flexibility and structural reforms.

Risks to the global economic outlook are now more balanced compared to October 2014. The positive impact from lower oil prices could be stronger than anticipated, downside risks have decreased after a series of downward revisions and the recovery in the euro area is strengthening. However, downside risks must be monitored carefully. In particular, corrections of financial markets with negative consequences for the real economy are an important risk especially in light of elevated asset prices and low spreads. The strength of the U.S. dollar could put those debtors under stress, which have borrowed in U.S. dollar but do not have sufficient U.S. dollar revenues. Stronger than anticipated energy price increases also cannot be excluded.

The high level of private and public debt in many countries remains an obstacle to more dynamic and sustainable growth. It also limits options for economic policy, and buffers remain low in case downside risks should materialize. Expansionary monetary and fiscal policies have succeeded in alleviating the immediate impact of the crisis. However, as the acute crisis has passed continued expansionary monetary and fiscal policies do not provide permanent solutions, but rather the negative side-effect start to prevail. In addition to continued growth in debt, expansionary policies may create new risks to financial stability, reduce incentives for deep reforms and overall may contribute to a new crisis.

Instead, priority must be given to a solid and stability-oriented fiscal policy, and structural reforms that facilitate a sustainable increase of potential growth through improved business conditions, private investments, increasing labor force participation and better education. It is time to pursue reliable policies and strengthen confidence of consumers and investors. This includes abiding by the rules we agreed on fulfilling our commitments: the structural reform commitments including labor and product market reforms but also the fiscal strategies of G20 members that are part of the Brisbane Action Plan must be implemented rigorously. The Brisbane Action Plan should be complemented by even more ambitious reforms. In particular, advanced economies should stick to their commitments to bring debt levels on a sustainable path.

In the euro area, reforms are paying off and the economic recovery is proceeding: real GDP growth has been positive for seven quarters in a row. At the same time, consolidation efforts undertaken over the last couple of years have led to visible results. From 2010 to 2014, euro area Member States, in aggregate, reduced the deficit-to-GDP ratio by more than 3 percentage points. Unit labor costs and current account balances have improved substantially. Unemployment rates have been on a downward trend since mid-2013.

The recovery is expected to strengthen and broaden going forward. However, several Member States still face substantial public deficits and high debt ratios. Therefore, also in the euro area it is of utmost importance to continue on the path of growth-friendly fiscal consolidation. Moreover, structural reforms, both in labor and product markets, have to play a key role in the current context. The combination of growth-friendly consolidation and structural reforms will strengthen confidence, foster employment, and increase the euro area's long-term growth perspectives.

Germany

The German economy developed robustly in a difficult economic environment. Real GDP grew by +1.6 percent in 2014 after only +0.1 percent in 2013. The recovery of the German economy will continue this year. Domestic demand remains to be the main driver of economic growth. In particular, household consumption is going to expand vigorously underpinned by a favorable development of wages and employment. Against the background of a gradual global recovery, we also expect an increase of investments. Low energy prices are associated with cost reductions for companies and a strengthening of purchasing power of consumers.

The German government annual projection in January forecasted 1.5 percent GDP growth for 2015 (2016: +1.6 percent). But economic indicators now show a better picture than at the end of 2014 and at the beginning of this year. Thus, a number of national and international institutions revised their forecasts of GDP growth upwards. The German government forecast will be updated on April 22.

Germany's growth-friendly fiscal policy complements and supports the favorable economic situation. The federal government budget was balanced – for the first time since 1969. The overall and the structural balance of the general government budget was again positive in 2014 based on national accounts data. Germany is determined to use the current positive economic development to speed up necessary debt reduction – fully in line with the IMF's call in its recent Fiscal Monitor for a symmetric fiscal policy over the business cycle, which includes building fiscal buffers during better times. Fiscal consolidation is no end in itself but necessary to maintain such policy buffers, preserve market confidence, and prepare for demographic challenges.

At the same time, Germany is increasing public investments on all government levels. Accordingly, Germany has decided in 2014 to invest an additional 10 bn EUR between 2016 and 2018 and has additionally decided this year to support public investments of municipalities with another 5 bn EUR.

Financial Sector

The balance between economic and financial risk taking has to be watched closely. Overall, risks to financial stability have increased as the adverse impact of key developments such as the U.S. dollar appreciation and lower commodity prices is concentrated on particular sectors and economies. Some asset valuations continue to be stretched in a very low interest rate environment and both price and non-price indicators point to possible exuberances in some markets. Monetary policy normalization in the US will test the resilience of the financial sector. Shocks could be exacerbated by lower market liquidity in foreign exchange and fixed income markets. In this context, the less well-regulated segments of the financial sector may be a source of vulnerability and deserve heightened scrutiny. The current financial market environment poses an increasingly important challenge for policymakers who need to remain alert with regard to any emerging risk.

After the financial crisis in 2008, important progress has been made to build a stronger and more resilient financial system. In particular, though certainly not exclusively, the soundness of the banking sector has been strengthened. However, the job is not finished. Going forward, priorities are to continue to address the "too-big-to-fail"-problem on a global level by defining the terms and conditions for additional loss absorbing capacity of systemically important institutions. Since systemically important banks are usually active in many different jurisdictions, there is a need to improve international cooperation and coordination in bank supervision and resolution. Also, advancing our efforts to appropriately monitor and supervise the shadow banking sector and reforming the over the counter (OTC) derivatives market will help to reduce systemic risk and increase transparency. Full and consistent implementation of internationally agreed reforms will be crucial to further strengthen the financial system. It is welcome that the regulatory treatment of sovereign debt is now being discussed by the Basel Committee of financial regulators. Ending the preferential treatment of sovereign debt would help to realign risk and return. In the euro area, the Banking Union – one of the most ambitious projects in the recent history of the European Union – has made good progress: On 4 November 2014, a central element of the Banking Union was put in place. On that day, the ECB assumed responsibility for supervising the 123 largest banks in the euro area. Prior to that, the ECB had completed its Comprehensive Assessment in October 2014. In 2016, the Single Supervisory Mechanism will be complemented by a Single Resolution Mechanism for banks. Finally, the new regulatory framework for bank resolution in the European Union is an important step away from bail-outs paid by taxpayers. The new bail-in instrument ensures that, in the future, shareholders and creditors will have to bear the resolution costs in the first place.

International tax system/ BEPS

The prevention of Base Erosion and Profit Shifting (BEPS) is on top of Germany's international tax agenda. It is also playing a central role during our G7 presidency. So there is strong support for the G20/OECD-BEPS project from Germany. We expect the finalization of this ambitious project by the end of this year, with concrete and feasible recommendations for all 15 action items. Afterwards it will be crucial to ensure the effective implementation of the new international standards and to maintain the successful cooperation between OECD states and non OECD economies – including developing countries - as "post BEPS". Germany encourages the IMF to continue playing its role in this regard and to further examine important issues of international taxation as part of its bilateral and multilateral surveillance.

II. International Financial Architecture and IMF Policies

IMF Quotas and Governance

The swift implementation of the 2010 reforms is crucial for the Fund's credibility and legitimacy. Moreover, letting the 14th General Review of Quotas enter into force would help to preserve the Fund's character as a cooperative quota based institution. We welcome that the IMF has started discussions on possible interim steps to achieve meaningful progress towards the results of the pending 2010 reforms, in line with the mandate given by the IMFC in October 2014. Such steps, however, should not be seen as a substitute for the 2010 reforms. The implementation of the 2010 reforms, which have been ratified by Germany already in May 2012, should remain the first priority. We encourage all member states to constructively advance the ongoing discussions on possible interim steps towards the 2010 reforms so as to complete the discussions by June 2015, in line with the mandate given by the Board of Governors in its resolution 70-1.

We took note of the postponement of the deadline for completing the 15th General Review of Quotas to mid December 2015, which has become necessary due to the continued delay in implementing the 14th Quota Review. Germany remains committed to constructive discussions on all elements of the 15th General Review of Quotas, including on the quota formula, which should, however, continue to adequately reflect the unique role and the mandate of the Fund. We reiterate our view that these discussions form an integrated package and that no decisions are to be taken in isolation. With a view to the legitimacy of the Fund we consider it essential that the discussions and decisions on the elements of the quota review are fully anchored in the relevant IMF bodies where all members are represented. By the same token, the outcome must be in line with the interests of the wider IMF membership from all regions.

IMF Resources

Germany considers it important that the IMF is adequately resourced to fulfil its mandate. In our view, the Fund is well-equipped with financial resources coming from quotas and the New Arrangements to Borrow (NAB). The volume of the Fund's commitments under the current financial arrangements is decreasing from their historic peak in mid-2011, and so does the level of IMF outstanding credit since March 2012. The Forward Commitment Capacity of currently about 300 bn. USD gives sufficient confidence that the Fund will be able to cover actual and potential demand for financial resources in the foreseeable future.

Sovereign Debt Restructuring

Germany welcomes the Fund's ongoing work to draw lessons from recent developments in sovereign debt restructuring and their implications for its policy framework. We strongly support efforts to strengthen the existing contractual, market-based approach in order to facilitate efficient and effective sovereign debt restructuring measures in case of need. In this regard, we welcome the IMF's decision to support and encourage - in its advisory function - the use of a modified Pari Passu Clause and enhanced collective action clauses (CAC) in new international public debt issuances while refraining from taking sides in debt disputes.

We look forward to the continuation of the discussions on the Fund's lending framework as well as the other areas as identified in the May 2013 and June 2014 Board discussions on issues related to sovereign debt reprofiling and restructuring. With regard to possible modifications to the Fund's lending framework, we see it as crucial that the Fund's mandate as well as its catalytic role and financial integrity are fully respected, when the IMF has to step in with high access financial programs. Overall, as work on sovereign debt restructuring issues is complex, a thorough analysis and further discussions, that include key stakeholders, are important.

IMF Surveillance

Germany continues to support the ongoing efforts to strengthen surveillance as a core function of the IMF and the primary tool of the Fund for crisis prevention. We welcome the Managing Director's Action Plan for strengthening Surveillance and the specific proposals for the implementation of the recommendations of the 2014 Triennial Surveillance Review (TSR). This concerns importantly the better integration of insights under bilateral and multilateral surveillance exercises. The adaptation of enhanced internal work procedures to link the key messages of the IMF flagship products with the work of other departments will serve to enrich the analysis. Likewise a deepened risk analysis - through the use of alternative risk scenarios and the adaptation of the balance sheet approach - will facilitate the analysis of potential shock trans-mission across sectors and borders.

The integration of financial sector analysis has made considerable progress over the last years, yet important challenges remain. Financial and real sector analyses still need to be consistently integrated. Here the plan to focus more prominently on financial sector issues for a number of upcoming Article IV consultations is a promising approach to transform the goals formulated in the 2014 TSR into operational practice.

Germany also appreciates the Funds endeavour to tailor its policy advice to specific country circumstances while at the same time aiming for more cohesive and expert policy advice and evenhandedness. This will serve to increase the Funds traction among its membership, which crucially hinges on the perceived quality and relevance of Fund analysis and policy recommendations.

We emphasize the importance of regular consultations between the Fund and all its members, which are part of the obligations of IMF membership. Excessive delays of Article IV consultations or deficiencies in the provision of data undermine the integrity of the surveillance process. Against this background, we welcome that the Executive Board of the Fund explores more meaningful action that could be taken to address these delays and uphold the responsibilities of IMF membership. There also remains the need to increase the ownership, traction and transparency of IMF surveillance through the timely publication of surveillance reports.

SDR basket review

Germany is looking forward to the forthcoming review of the method of valuation of the special drawing right (SDR). The SDR basket composition should continue to reflect the role of currencies in the global trading and financial system. The assessment of the SDR currency basket composition and related issues should follow clear and transparent criteria and potential changes to the SDR basket should be consistent with the purpose and the role of the SDR.

IMF Involvement in Fragile States and Fight against Ebola

We welcome the stepped-up involvement of the IMF in fragile states and see increased technical assistance in these countries as an important contribution to their stabilization. Furthermore, we welcome progress made by international organizations to assist affected countries in dealing with the economic impact of the Ebola crisis and enhancing risk management capacity for future global health emergencies. In particular, we welcome the stepped-up assistance of the IMF in the countries that have been most affected by the pandemic. We see the recent creation of the IMF Catastrophe Containment and Relief Trust (CCR) as an important step towards providing faster relief to countries that are hit by pandemics in the future. In this regard we are happy to announce that Germany intends to contribute 30 Mio. USD to the new fund subject to the consent of the German parliament.

Sustainable Development and Financing for Development

2015 is a crucial year for the global development agenda. The IMF should support the objectives within the possibilities of its mandate through surveillance and capacity building. The IMF needs to remain focused on playing its role and should not introduce new conditionality or financing facilities with reference to sustainable development which can be best supported by the MDBs.