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Statement by the Hon. **JENS WEIDMANN**,
Governor of the Fund for **GERMANY**

Statement by the Hon. Jens Weidmann,
Governor of the Fund for Germany

Mr. Chairman,
Fellow Governors,
Ms. Lagarde,
Mr. Kim,
Ladies and Gentlemen,

I.

I would like to thank the management and staff of both the IMF and World Bank for the excellent organization of this year's annual meetings and their dedicated work throughout the year. I would also like to express our gratitude and appreciation to both institutions for their valuable assistance and support of the German G 20 presidency that has contributed to inspiring and fruitful discussions among the G 20 and allowed for important progress and results over the course of 2017.

II.

The world economy has firmed over the past 12 months and global growth has become more balanced both across countries and expenditure categories. Sentiment indicators have continued to come in strong, suggesting that the current pace of growth can be maintained in the near future, in line with the IMF's latest projections. These are good news. Still, demographic shifts and weak productivity trends weigh on longer-term growth perspectives, meaning there is no time for complacency. As pointed out in the current World Economic Outlook, the cyclical upswing provides a window of opportunity to push ahead with reforms. Even more importantly, we should refrain from measures which could dampen global productivity, especially inward-looking policies. Instead, we have to enhance the resilience of our economies, and we should re-examine our current macroeconomic policy mix. Monetary policy is still highly expansionary in many parts of the world. Given the progress that has been achieved towards their goals, some central banks have started to withdraw monetary policy stimulus. Other central banks may be contemplating such a move. Fiscal policies may also need to be adjusted in order to avoid unsustainable debt dynamics and to rebuild buffers.

III.

The German economy continues to be in a solid upswing. 2017 will be the fourth consecutive year with GDP growth exceeding potential output growth. In the meantime, the output gap turned perceptibly into positive territory. In the first half of the current year, growth gained further momentum and the upswing became more broadly based. In addition to consumption and housing investment, that had so far been major drivers of the recovery, industrial activity, exports and business investment contributed as well significantly to growth. Looking forward, the very high level of confidence of firms and households suggests that the upswing will continue in the second half of 2017. Domestic demand is expected to remain strong. Private consumption growth will be supported in particular by the ongoing strong rise in employment. And business investment growth will be sustained by the improved situation

and prospects of the industrial sector in conjunction with perceptibly above average capacity utilisation. Exports as well are expected to continue their recent upward momentum as indicated by elevated levels of export expectations in spite of the euro appreciation in the course of this year. However, a major economic policy challenge is to cope with the foreseeable ageing and shrinking of the domestic population and its impact on potential output growth in the medium term.

IV.

The generally improved macrofinancial environment has helped to reduce near-term financial stability risks. This is mainly due to better growth prospects of many euro area countries and emerging markets. Furthermore, political uncertainties in the European Union have recently decreased and better regulation and higher capital ratios has made most banking systems in advanced economies more resilient.

Yet, vulnerabilities persist. In the banking sector, weaknesses in business models and a high share of NPLs in some banks, especially in the euro area, still need to be addressed. And on financial markets the prolonged low interest rate environment has contributed to an extended “search for yield” behaviour. As a consequence, valuation levels in financial markets are elevated and point to a possible underestimation of underlying risks. Additionally, low financing costs have given incentives to increase debt levels. Hence, in some G20 economies a rising leverage of the nonfinancial private sector has already led to higher debt service ratios, despite still low interest rates. Furthermore, sovereign debt levels remain high, as well.

Thus, in spite of the favourable economic developments, market and some credit risks have increased in the low interest rate environment. A sudden adjustment of risk premia could therefore cause financial market turmoil and elevate refinancing costs of sovereign, corporate and household sectors.

V.

The IMF continues to play a key role in promoting the stability of the international monetary system. Effective surveillance is—and remains—the IMF’s most important tool for this purpose and thus for crisis prevention. By identifying vulnerabilities to economic and financial stability and providing sound analysis and appropriate policy recommendations on macro-critical issues, the Fund can play a crucial role as trusted advisor, encouraging policy efforts of member countries towards improving the resilience of their economies. In this context, I would like to call on the IMF to use its upcoming comprehensive surveillance review also for evaluating the effectiveness of its surveillance work in strengthening the resilience of member countries’ economies to deal with potential shocks and crises.

VI.

Of similar importance for promoting global stability is the Fund’s systemic role “to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.” (Articles of Agreement, Article I (v)).

In recent years we have seen a substantial strengthening of the various elements of the global financial safety net (GFSN). Not only have IMF resources been increased considerably, but also regional financing arrangements (RFAs) were strengthened and progress is being made in improving the collaboration between the IMF and RFAs. As a result, the GFSN is as strong as never before. With the IMF at its center and the only truly global element, complemented on a regional and national level, the GFSN has evolved into a multilayered structure that is capable of responding to specific needs and that has proven its reliability during past crises. I consider the diversity of the safety net architecture to be a source of strength, allowing for tailored responses to countries' needs and for flexibility in case of future crises which are hardly predictable. With this in mind, I caution against nurturing expectations of ever expanding resources available under the GFSN.

VII.

Germany is committed to work constructively towards an outcome of the 15th General Review of Quotas that is acceptable for the broad membership. To enable fruitful discussions of the 15th Review, an early assessment of the actual scope for a quota increase seems crucial as this would form the material basis for ensuing discussions on the quota formula and distribution. Germany reaffirms its commitment to a strong, quota-based and adequately resourced IMF in line with the IMFC Communiqué and the 2017 G20 Leaders' Declaration of Hamburg. We stand ready to consider plausible scenarios for a possible quota increase, to enable a realignment of quota shares and with a view to foster the quota based character of the Fund.

VIII.

We are fully confident that the Fund is well-equipped with its own resources that have been doubled in early 2016 to meet members' demand for balance of payments assistance under most circumstances, also within the medium-term. The quite comfortable resources level available to the Fund is illustrated by the facts that it was feasible to deactivate the NAB in early 2016 and that neither the bilateral credit lines of 2012, nor the subsequent credit lines of 2016, had to be activated yet. Moreover, the historical high of actual financial commitments to members was less than 40% of the total of the Fund's quota and NAB resources, even at the height of the global financial crisis.

For potential financing needs of the IMF due to systemic crises many members participate voluntarily in the New Arrangements to Borrow (NAB) which were renewed until 2022. In addition, when the Fund was seeking to maintain its lending capacity in October 2016 referring to elevated global uncertainties, several members and central banks, including the Deutsche Bundesbank, were ready to provide new temporary bilateral credit lines to the Fund as a third line of defense. These 2016 bilateral credit lines maturing in 2019, or 2020 at the latest, were deliberately based on a stronger governance structure that gives creditors a formal say in their activation. This addresses to some degree the governance gap resulting from the fact that only financial contributions to the Fund's quota resources are currently being reflected in voting rights in the Fund.

IX.

Germany welcomes the Fund's continued work on the issue of how countries can benefit from free movement of capital while shielding themselves from disruptive effects of volatile capital

flows by appropriate policies. In this context, continuing work to explore the interaction between capital flow measures and macroprudential measures as well as their effectiveness seems highly warranted. We also look forward to the new macroprudential database that will inform the discussion on these issues as well as on financial stability in general.

X.

The Fund's institutional setup and financing mechanism limit its ability to offer insurance-type facilities or long-term commitments. Moreover, insuring a large number of member countries for extended periods against liquidity risks could not only overburden the Fund financially, but also set questionable incentive. Overall, in order to maintain the Fund's catalytic role and preferred creditor status, it needs to be ensured that financial support by the IMF leads to a crowding-in, rather than a crowding-out of private investors.

We look forward to the upcoming review of the Fund's Flexible Credit Line and the Precautionary and Liquidity Line instruments, also with a view to address the continued prolonged usage of the FCL that was not originally envisaged. The IMF's fundamental principle of the revolving nature of Fund resources needs to be respected which ensures that resources made available to one country become available soon again for other members.

XI.

Over recent years sovereign debt restructuring issues have figured prominently on the Fund's agenda. The Fund has drawn important lessons and adapted its policy framework accordingly, including its lending policies. We strongly support the efforts to promote the existing contractual market-based approach in order to facilitate efficient and effective sovereign debt restructuring measures in case of need. In this regard, I welcome the IMF's important contribution in its advisory function to encourage the broader use of modified *pari passu* and enhanced collective action clauses (CAC) in new international sovereign debt issuances. We also support its ongoing work on possible options to achieve progress in introducing these new clauses also in the outstanding stock of sovereign debt.

We also welcome the Fund's analysis of state-contingent financing instruments, including GDP-linked bonds, and the IMF's advice to interested member countries on their possible use with a view to enhance the resilience of economies and the sustainability of debt. In this context, we also appreciate the recent improvements of the Debt Sustainability Framework for Low Income Countries and look forward to the upcoming review of the Fund's Debt Sustainability Analysis for Market Access Countries next year.