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2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GERMANY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with Germany, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its July 8, 2019 consideration of the staff report that concluded the Article IV consultation with Germany.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 8, 2019, following discussions that ended on May 17, 2019, with the officials of Germany on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on June 20, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Germany.

The document listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2019 Article IV Consultation with Germany

On July 8, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Germany.

After several years of real GDP growth averaging over 2 percent annually, Germany's economy slowed sharply in the second half of 2018, reflecting a slowdown in global demand and temporary disruptions affecting the auto and chemical industries. This reduced growth to 1.5 percent in 2018. Nonetheless, unemployment hit a new record low, pushing wage growth up above 3 percent, and investment remained strong. As in other advanced economies, inflation pressures remained subdued, with core inflation at 1.6 percent by the end of 2018. The general government recorded a fifth consecutive year of fiscal surplus which, at 1.7 percent of GDP, was its largest in nearly 30 years, reflecting revenue overperformance as well as underspending. The current account surplus declined to 7.3 percent of GDP (down from 8.0 percent in 2017), reflecting a narrowing of the goods trade balance. Credit grew broadly in line with GDP in 2018, but new lending to nonfinancial corporations was increasingly channeled to relatively riskier firms while lending standards were eased. Prices of residential and commercial real estate continued to rise rapidly, especially in dynamic urban areas. The "low-for-long" interest rate environment is putting further pressure on the financial sector's profitability, adding to the challenge of high costs and slow progress with restructuring.

Germany's economic outlook assumes a gradual return of output to trend this year, but it is subject to significant uncertainty. The country's export dependence and financial openness make it particularly vulnerable to external shocks. Rising global protectionism, a more pronounced China slowdown or a no-deal Brexit would hurt exports and investment, while tighter global financial conditions could trigger sharp corrections in already stretched valuations across asset

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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classes. In the medium-term, unfavorable demographics, low productivity growth, and the impending energy transition are expected to weigh on growth.

Executive Board Assessment[2]

The Executive Directors commended the German authorities for their skillful economic management, which has underpinned growth, strengthened the fiscal position, and reduced unemployment to a historically low level. Directors noted the recent economic slowdown and downside risks that weigh on growth prospects. They highlighted long-term challenges from unfavorable demographics and weak productivity growth, as well as external risks surrounding trade tensions and the Brexit process. Addressing these challenges and external imbalances would be a priority going forward.

Directors observed that, while external imbalances are starting to unwind amid faster wage growth, Germany's large current account surplus partly reflects high corporate savings, widening top income inequality, and compressed household consumption. Directors thus saw a need for forceful policy measures to ensure that the benefits of strong economic performance are broadly shared. Continued faster wage growth and boosting disposable income through the tax and benefit system would be helpful in this regard.

Directors welcomed the moderate fiscal expansion this year. While acknowledging the importance of maintaining adequate buffers to prepare for aging population and potential contingent liabilities, most Directors encouraged the authorities to continue to use the available fiscal space to bolster potential growth and facilitate rebalancing. To this end, they recommended investments in infrastructure, tax measures to raise disposable income for low-and middle-income households, incentives to promote labor force participation by female and elderly workers, and tax credit for further research and development. Directors welcomed the authorities' readiness to consider additional fiscal stimulus in the event of a severe economic downturn. They also commended the authorities for their commitment to promote fair and competitive corporate taxation and seek collaborative solutions to international tax issues.

Noting weak labor productivity growth and supply-side constraints in both labor and capital, Directors stressed the importance of expediting structural reforms to promote innovation, investment, and competition, also in business services and regulated professions. They encouraged upgrading Germany's digital infrastructure, implementing the e-government strategy, and improving access to venture capital. Directors observed that Germany is on track to meet its renewable energy target and welcomed the authorities'

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

consideration of a carbon tax and carbon pricing as part of their strategy for curbing greenhouse gas emissions.

Directors welcomed the progress in implementing the FSAP recommendations. They noted low profitability in both the bank and life insurance sectors, elevated macro-financial vulnerabilities, and rapidly rising real estate prices in dynamic cities. Directors underscored the need to monitor interest rate risk and accelerate restructuring efforts to durably enhance financial sector resilience. They welcomed the activation of the counter-cyclical capital buffer and encouraged further steps to address data gaps that would enable a fuller assessment of potential financial stability risks. They also supported expanding the macroprudential toolkit, including tools for the commercial real estate market.

Directors appreciated Germany's voluntary participation in the Fund's enhanced governance framework on the supply and facilitation of corruption. They commended the authorities for taking strong anti-bribery enforcement actions and welcomed their commitment to continuing efforts in this area.