

– Presse release –

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The German Council of Economic Experts presents its **Annual Economic Report 2013/14** today. It is entitled

Against a backward-looking economic policy

The present economic situation and Germany's healthy position compared to the euro area's crisis countries seem to have obstructed many politicians' view of the **major future challenges**. Measures currently under discussion, such as the mothers' pension (*Mütterrente*), raising low pensions and allowing broad exemptions to the new retirement age of 67, will largely be shouldered by future generations. Future challenges will be far more difficult to overcome if the **Agenda 2010 reforms become diluted or reversed in some cases**. The same holds for measures which hurt growth and job creation, such as minimum wages and tax increases.

Instead, the reform progress made in the past should be safeguarded and the economic conditions further improved. In light of the impending demographic change, this **forward-looking economic policy** is necessary to strengthen Germany's economic growth and to ensure the viability of public finances and the social security systems. The German government should not give the impression that it expects – or even demands – painful adjustment processes from other countries, but shies away from unpopular measures for Germany. The Annual Economic Report shows **numerous starting points** for German policy to set an example and thus assume responsibility.

The **German labour market** must be strengthened in order to meet the impending challenges. However, the minimum wage, and the restriction of temporary employment and limited employment contracts serve to weaken the labour market and cause new ratchet effects. In fiscal terms, the currently favourable one-time factors and demographic situation should be used to consolidate **public finances**. As regards **energy policy**, a moratorium from the Renewable Energy Act (EEG) would provide the necessary breathing space to finally develop a conclusive overall concept for the energy transition.

The euro crisis has calmed considerably since the European Central Bank (ECB) announced the Outright Monetary Transactions (OMT) programme. The ECB continues to stabilise the euro-area member states hit by recession along with the European financial system. It also assesses banks, in preparation for the **banking union**, for potential bad debts which will then have to be cleared with national responsibility. Binding burden-sharing rules for cross-border banks need to be agreed between member states as soon as possible in order that the ECB can conduct thorough assessments. Each member state must also establish a national bank rescue fund to deal with national bad debts. If a member state is unable to do this, the European Stability Mechanism (ESM) will provide funds for which that **country would be liable**.

The increase in **global economic output** is likely to accelerate from 2.2% this year to 3.0% next year. Due to the year's weak start, experts anticipate a growth rate of -0.4% in **euro-area** GDP for 2013. A rate of 1.1% is expected for 2014. The upturn now evident is buoyed by the very expansionary monetary policy in many countries, but is not yet able to sustain itself given the high levels of debt remaining. Against this backdrop, the economic situation in **Germany** is likely to brighten in 2014; GDP growth will be just 0.4% in 2013, but 1.6% in 2014.

Key economic indicators for Germany¹⁾

	2011	2012	2013 ²⁾	2014 ²⁾
Gross domestic product	3.3	0.7	0.4	1.6
Private consumption ³⁾	2.3	0.8	1.0	1.4
Government consumption	1.0	1.0	0.9	1.1
Investment in machinery & equipment	5.8	- 4.0	- 2.6	6.2
Buildings	7.8	- 1.4	- 0.2	4.1
Domestic uses	2.8	- 0.3	0.8	2.0
Net exports ⁴⁾	0.7	0.9	- 0.3	- 0.2
Exports of goods and services	8.0	3.2	0.2	5.2
Imports of goods and services.....	7.4	1.4	1.0	6.3
Persons employed (domestic) ⁵⁾	41.15	41.61	41.86	42.11
Registered unemployment, stocks ⁵⁾	2.98	2.90	2.95	2.95
Persons employed, covered by social security ⁵⁾	28.44	28.99	29.37	29.68
Unemployment rate ⁶⁾	7.1	6.8	6.9	6.8
Consumer prices ⁷⁾	2.1	2.0	1.5	1.9
General government balance ⁸⁾	- 0.8	0.1	0.1	0.0

1) Unless otherwise indicated: price-adjusted; Change compared with previous year in percent. – 2) Forecast by German Council of Economic Experts. – 3) Including Non-profit institutions serving households. – 4) In percentage points. – 5) Million persons. – 6) Unemployment rate referred to entire civil sector workforce (employees, self-employed including unpaid family workers). Source: years 2008 to 2010 Federal Labour Office (Bundesagentur für Arbeit). – 7) Consumer price index (2010 = 100); Change compared with previous year in percent. – 8) Net lending of central, state and local governments and social security funds, as percentage share of nominal gross domestic product.