

Press release

Wiesbaden, 11 November 2015

The German Council of Economic Experts (GCEE) has published its **Annual Economic Report** entitled

Focus on Future Viability

The report concentrates on three themes: addressing the challenges posed by refugee arrivals, bolstering the architecture of the euro area, and creating conditions for stronger economic growth in Germany. *“Positive economic developments are likely to continue this year and next. But the arrival of refugees has made it even more important to ensure the future viability of Germany’s economy by fostering the right economic conditions,”* said Christoph M. Schmidt, chairman of the GCEE.

Economic recovery in Germany and the euro area is continuing, although the outlook has been clouded by weaker growth in emerging markets. As a result, the GCEE expects German gross domestic product (GDP) to grow by 1.7 % in 2015 and by 1.6 % in 2016. Euro area GDP is expected to grow by 1.6 % this year and by 1.5 % in the coming year.

Key economic indicators for Germany

	Unit	2013	2014	2015 ¹	2016 ¹
Gross domestic product ^{2,3}	%	0.3	1.6	1.7	1.6
Gross domestic product per capita ^{2,3,4}	%	0.0	1.1	1.3	1.1
Current account balance ⁵	%	6.4	7.4	8.4	8.3
Persons employed (domestic)	thousand	42 328	42 703	43 021	43 333
Persons employed, covered by social security ⁶	thousand	29 713	30 197	30 803	31 257
Registered unemployment ⁶	thousand	2 950	2 898	2 801	2 891
Unemployment rate ^{6,7}	%	6.9	6.7	6.4	6.6
Consumer prices ³	%	1.5	0.9	0.3	1.2
General government balance ⁸	%	- 0.1	0.3	0.7	0.2

1 – Forecast by the GCEE. 2 – Constant prices. 3 – Year-on-year change. 4 – Own calculations. 5 – In relation to nominal GDP. 6 – For 2013 and 2014: Federal Employment Agency. 7 – Registered unemployed in relation to civil labour force. 8 – Regional authorities and social security according to national accounts; in relation to nominal GDP.

The influx of refugees has shown that Germany is not immune to global problems. Given strong public finances and broad scope for efficiency-enhancing economic policy, foreseeable additional refugee-related expenditures appear manageable. The GCEE expects additional direct public outlays of €5.9 to €8.3 billion in 2015 and €9.0 to €14.3 billion in 2016 related to the inflow of migrants.

Successfully integrating recognised refugees requires considerable efforts in education and training. In addition to accelerating the processing of asylum applications, the barriers to entering the job market should be lowered. Recognised refugees looking for work should be treated

like long-term unemployed, who are temporarily exempt from the minimum wage. In addition, any increase in the minimum wage should be avoided.

In line with its July 2015 Special Report about the euro area, the GCEE emphasises the need for an insolvency mechanism for sovereigns to strengthen the “no bail-out” clause. It also stresses the need to end regulatory privileges for sovereign exposures to sever the nexus between sovereigns and banks. Further fiscal consolidation and structural reforms are essential to create a self-sustaining economic recovery. Low interest rates pose risks for financial stability and erode the business models of banks and insurers over the medium term. Relying only on macroprudential regulation cannot solve these problems. Therefore, the European Central Bank should slow down the expansion of its balance sheet or even phase it out earlier than announced.

Germany can only strengthen productivity growth if it focuses again on improving economic conditions. There is considerable scope for efficiency-enhancing economic policy, especially in areas like the labour market, education and training, competitiveness, energy, and taxation.

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The German Council of Economic Experts (GCEE) is an independent economic-policy advisory body. Its five members are Professor Christoph M. Schmidt (Chairman), Professor Peter Bofinger, Professor Lars P. Feld, Professor Isabel Schnabel und Professor Volker Wieland.

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