

– Press Release –

Wiesbaden, November 13th 2009

The German Council of Economic Experts (GCEE) is releasing today its [Annual Report 2009/10](#) on Germany's economic outlook and policy challenges. The title of this year's report is "Die Zukunft nicht aufs Spiel setzen" (Securing the future through responsible economic policies). In addition, the Council publishes a special report focusing on the resilience of the German economy to international shocks ("Deutschland im internationalen Konjunkturzusammenhang").

I.

After a deep and dramatic decline in economic activity, the German economy has stabilized. During the remaining months of 2009 and in 2010 we expect a slow recovery. In spite of recently improving conditions in the real and the financial sector, real GDP will decline by 5.0 percent in 2009. In 2010, growth is projected to reach 1.6 percent.

Though the recession has ended technically, output is expected to remain below potential for an extended period of time. Against this backdrop, the recent resumption of growth should not give rise to overly optimistic views of Germany's economic prospects. Most importantly, there is no scope for additional spending measures or tax cuts. The recovery is weak and yet not self-sustaining and risks are still tilted to the downside. In particular, impaired credit markets may constrain the recovery process and rising unemployment will act as a drain on consumption.

II.

The primary challenge for the new government is to prepare an exit from the extraordinary measures taken to tackle the crisis that does not compromise the fragile recovery. Starting in 2011, forceful fiscal consolidation measures will have to be implemented. Without drastic spending cuts, tax increases will be inevitable. In Europe, it would be vital to formulate a coordinated exit strategy. This endeavour necessitates a credible and institutionalized amendment of the current Stability and Growth Pact. Such a "Consolidation Pact" would also facilitate the ECB's task of phasing out its stimulus measures.

In the financial sector, the exit strategy has to be two-pronged. Explicit support has to be withdrawn gradually and wide-ranging reforms have to be put in place to end implicit public guarantees. This requires devising a robust regime to restructure and, if necessary, close systemic financial institutions. Moreover, financial regulation and supervision have to be overhauled fundamentally, both with regards to content and institutional structure.

III.

To prevent a permanent decline in economic growth and to secure Germany's economic future, exit policies have to be complemented with measures that boost investment. In particular, additional efforts are needed to increase educational attainment and fairness as well as innovative capacity. The process of increasing the attractiveness of doing business in Germany has to be continued through additional labour market reforms and adjustments to the tax code.

IV.

As it stands, the coalition agreement between CDU, CSU and FDP lacks a comprehensive exit strategy. Concrete steps to reduce structural deficits are missing. Instead, the new government proposes a mix of tax cuts and spending measures. The agreement is silent on how to manage the balancing act between fiscal consolidation, tax reduction and public investment. Consequently, it remains to be shown that the government is fully prepared to rise to this challenge.

Ultimately, an economic policy that does not address the need for fixing public finances and that fails to create fiscal room for investments in education and innovation runs the risk of jeopardizing Germany's economic future.

Table 1

Key economic indicators for Germany¹⁾

	2006	2007	2008	2009 ²⁾	2010 ²⁾
Gross domestic product	3.2	2.5	1.3	- 5.0	1.6
Private consumption ³⁾	1.3	- 0.3	0.4	0.8	- 0.1
Government consumption	1.0	1.7	2.1	2.2	1.8
Investment in machinery & equipment	11.8	11.0	3.3	- 20.9	1.5
Buildings	4.6	0.0	2.6	- 0.4	1.2
Other investment	8.9	6.5	5.3	4.2	2.5
Total domestic demand ⁴⁾	2.2	1.0	1.7	- 1.8	0.7
Exports of goods and services	13.0	7.5	2.9	- 14.7	6.3
Imports of goods and services.....	11.9	4.8	4.3	- 9.0	4.5
Persons employed (domestic) ⁵⁾	39.08	39.72	40.28	40.27	39.65
Persons employed, covered by social security ⁵⁾ .	26.37	26.94	27.51	27.49	26.93
Registered unemployment, stocks ⁵⁾	4.49	3.78	3.27	3.43	3.97
Unemployment rate ⁶⁾	10.8	9.0	7.8	8.2	9.4
Consumer prices ⁷⁾	1.6	2.3	2.6	0.3	1.2
General government balance ⁸⁾	- 1.6	0.2	0.0	- 3.0	- 5.1

1) Unless otherwise indicated: price-adjusted (changes over previous year); Change over previous year in percent (%).–
 2) 2009: own estimate, 2010: forecast.– 3) Including private non-profit organisations.– 4) Domestic use.– 5) Number of persons in thousands.– 6) Unemployment rate referred to entire civil sector workforce (employees, self-employed including unpaid family workers). Source: years 2006 to 2008 Federal Labour Office (Bundesagentur für Arbeit).– 7) Consumer price index (2005 = 100), Change over previous year in %.– 8) Net lending of the central, state and local governments and the social security system, as % of nominal gross domestic product.

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