

– Presse release –

Wiesbaden, 7 November 2012

The German Council of Economic Experts (*Sachverständigenrat zur Begutachtung der gesamtwirtschaftlichen Entwicklung*) publishes today its [Annual Economic Report 2012/13](#) with the title

Stable Architecture for Europe – Need for Action in Germany

Some signs of hope have started to emerge in the euro crisis. The Fiscal Compact represents an important step forward towards a stable governance structure. Progress has been made, too, in the problem countries: the competitiveness of firms has improved, and current account deficits have been reduced. However, greater stability in the euro area has mainly been due to the non-standard monetary policy measures of the European Central Bank (ECB). In the process, the ECB has blurred the boundary between monetary policy and fiscal policy in a worrying way. Because monetary policy measures provide no more than a temporary fix, there remains a need for a fiscal solution, such as that developed by the German Council of Economic Experts with its proposal for a **European Redemption Pact**.

Crisis management has to be aligned with a stable long-term institutional framework. The Council's proposal "Maastricht 2.0" for a **stable architecture for Europe** rests on three pillars. The first pillar for fiscal stability is based on national responsibility as enshrined in the existing fiscal rules. The European Redemption Pact can perform an important bridging function in this regard. The pillar for a stable financial system, by contrast, requires European competencies for banking supervision and bank restructuring. For this reason, the Council cautions against an overhasty launch of the banking union. The crisis management pillar envisages an insolvency regime for member states, though this can only come into force after the debt overhang has been dealt with.

Notwithstanding all the initiatives aimed at overcoming the euro crisis, there is a continuing **need for action in Germany** in the field of economic policy. The change of course in energy policy has to be structured effectively and efficiently by, at the very least, harmonizing subsidies for renewable energies at a low level. In order to strengthen competition in the healthcare sector, greater use should be made of top-up contributions in the statutory health insurance system. A level playing field should be created in the taxation of businesses by introducing an allowance for corporate equity (ACE) for nominal capital to ensure neutrality of firms' financing choices. Reforms that have been implemented or initiated, especially in connection with the labour market and the pension system, should not be retracted.

The economic momentum in Germany has progressively slowed in the course of 2012 in the wake of the euro crisis. The Council projects that gross domestic product will grow by 0.8 % in 2012. The deceleration in the pace of economic activity in Germany is expected to bottom out in the fourth quarter of 2012. It is likely that the German economy will pick up a little during 2013. The average annual growth rate of GDP in 2013 should equal this year's figure of 0.8 %.

Key economic indicators for Germany¹⁾

	2009	2010	2011	2012 ²⁾	2013 ²⁾
Gross domestic product	- 5.1	4.2	3.0	0.8	0.8
Private consumption ³⁾	0.1	0.9	1.7	0.9	0.8
Government consumption	3.0	1.7	1.0	1.1	1.0
Investment in machinery & equipment	- 22.5	10.3	7.0	- 3.3	0.2
Buildings	- 3.2	3.2	5.8	- 0.4	2.1
Other investment	- 2.9	3.3	3.9	2.1	2.3
Total domestic demand ⁴⁾	- 2.5	2.6	2.6	0.0	0.8
Net exports ⁵⁾	- 2.9	1.7	0.6	0.8	0.0
Exports of goods and services	- 12.8	13.7	7.8	3.9	3.8
Imports of goods and services.....	- 8.0	11.1	7.4	2.5	4.2
Persons employed (domestic) ⁶⁾	40.37	40.60	41.16	41.57	41.75
Registered unemployment, stocks ⁶⁾	3.42	3.24	2.98	2.90	2.92
Persons employed, covered by social security ⁶⁾ ..	27.49	27.76	28.44	28.95	29.20
Unemployment rate ⁷⁾	8.1	7.7	7.1	6.8	6.9
Consumer prices ⁸⁾	0.4	1.1	2.3	2.0	2.0
General government balance ⁹⁾	- 3.1	- 4.1	- 0.8	0.1	- 0.1

1) Unless otherwise indicated: price-adjusted; change over previous year in percent (%).– 2) 2012: own estimate, 2013: forecast.– 3) Including non-profit institutions serving households.– 4) Domestic use.– 5) In percentage points.– 6) In thousand persons.– 7) Registered unemployed as % of entire civil workforce (employees, self-employed including unpaid family workers). Source: years 2009 to 2011 Federal Employment Agency (Bundesagentur für Arbeit).– 8) Consumer price index (2005 = 100), change over previous year in %.– 9) Net lending of the central, state and local governments and the social security system, as % of nominal gross domestic product.