

Press release

Wiesbaden, 2 November 2016

The German Council of Economic Experts today submitted its Annual Report 2016/17 to Chancellor Angela Merkel. The report carries the title:

Time for reforms

The upturn in Germany and the euro area continues. The German Council of Economic Experts (GCEE) expects real gross domestic product in **Germany** to grow by 1.9% in 2016 and 1.3% in 2017, with the decline in growth primarily due to calendar effects. As the underlying growth momentum will remain essentially unchanged, the German economy will move further into overutilisation. The GCEE forecasts real growth for the **euro area** of 1.6% in 2016 and 1.4% in 2017.

The ECB's unusually expansionary monetary policy has been a key factor in the euro area upturn. However, the upswing cannot sustain itself given the considerable structural problems that persist in the region. There is little effort to reform and some member states lack the required budget discipline. ECB monetary policy masks these problems and increasingly threatens financial stability. The extent of monetary easing in the euro area is no longer appropriate given the region's economic recovery. Consequently, the ECB should slow down its bond purchases and end them earlier.

"The euro area member states should now use the tailwinds of the economic upturn to carry out structural reforms," said Christoph M. Schmidt, Chairman of the German Council of Economic Experts. *"Even the German Government did not sufficiently use the positive economic growth of the past few years for market-oriented reforms."*

Given this, the GCEE singled out a number of areas for reform in Europe and Germany.

Reforms for Europe:

- The principle of subsidiarity must be reinforced. More integration is needed in climate, asylum and domestic security policies. Fiscal, labour-market and social policy should remain sole responsibility of national governments.
- Delaying the integration of EU migrants into social security systems is appropriate. However, the four fundamental freedoms should not be called into question.
- The EU should conclude free trade agreements with Canada and the USA.
- The leverage ratio for banks should be increased to at least 5%. Higher ratios should be set for systemically important banks.
- There need to be rules for restructuring government debt in the event of crisis.

Reforms for Germany:

- Fiscal leeway should not be used for higher spending, but to reduce the debt ratio and to conduct tax reforms to increase efficiency.
- The statutory retirement age should be linked to longer life expectancy in the statutory pension insurance system. Moreover, occupational and private pension provision needs to be bolstered.
- Entrenched unemployment, low wage mobility and the need to integrate refugees require a flexible labour market, not more regulation.
- A more targeted education policy could improve equal opportunities and thus also income and wealth mobility.

Key economic indicators for Germany

	Unit	2014	2015	2016 ¹	2017 ¹
Gross domestic product ^{2,3}	%	1.6	1.7	1.9	1.3
Gross domestic product per capita ^{2,3,4}	%	1.2	0.8	1.1	1.2
Current account balance ⁵	%	7.3	8.4	8.8	8.2
Persons employed (domestic)	thousand	42,662	43,057	43,554	43,952
Persons employed, covered by social security ⁶	thousand	30,197	30,822	31,379	31,768
Registered unemployment ⁶	thousand	2,898	2,795	2,701	2,713
Unemployment rate ^{6,7}	%	6.7	6.4	6.1	6.1
Consumer prices ³	%	0.9	0.3	0.5	1.6
General government balance ⁸	%	0.3	0.7	0.6	0.4

1 – Forecast by the GCEE. 2 – Constant prices. 3 – Year-on-year change. 4 – Own calculations. 5 – In relation to nominal GDP. 6 – For 2014 and 2015: 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.

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The German Council of Economic Experts is an independent academic body advising German policy makers on questions of economic policy. The Council consists of five members (currently Prof. Dr. Christoph M. Schmidt (Chairman), Prof. Dr. Peter Bofinger, Prof. Dr. Lars P. Feld, Prof. Dr. Isabel Schnabel, and Prof. Volker Wieland, Ph.D.).

German Council of Economic Experts

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You will find the Annual Report 2016/17 at

<http://www.sachverstaendigenrat-wirtschaft.de/jahresgutachten-2016-2017.html>

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