GERMAN COUNCIL
of Economic Experts

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The German Council of Economic Experts (GCEE) is presenting its Annual Report 2017/18 to the German Chancellor today. The report is titled:

Towards a forward-looking economic policy

The German economy is experiencing a major upturn. The GCEE expects gross domestic product (GDP) to grow by 2.0 % in 2017 and 2.2 % in 2018. This puts the rate of expansion ahead of the potential growth rate of 1.4 %. Production capacities are over-utilised. For the euro area, the GCEE forecasts GDP growth of 2.3 % in 2017 and 2.1 % in 2018.

"*The solid economic situation provides an ideal opportunity to re-adjust economic policy in order to prepare Germany for the challenges of the future,*" commented the Chair of the German Council of Economic Experts, Christoph M. Schmidt.

Re-adjustment to enhance sustainability

The German budget surplus opens up space for growth-friendly reforms. A reform of the income tax should be used to return the increase in tax revenue from bracket creep, coordinated with the gradual abolition of the solidarity surcharge. The unemployment insurance contribution rate could be lowered by up to 0.5 percentage points. The consolidation of public finances to ensure sustainability should remain a top priority.

In order to boost the labour potential and counteract the shortage of skilled workers in certain occupations, measures should be taken to improve work-family balance and the labour migration opportunities open to specialists with occupational training. Education and training should equip employees with better skills to work in a digital world and to deal with structural change. A Digitalisation Commission should scrutinise regulations hindering innovation and identify need for reform.

In order to effectively reduce greenhouse gas emissions, a uniform CO_2 price should be used to ensure that the electricity, transport and heating sectors jointly contribute to emissions reduction. The Federal Government should work towards strengthening the EU Emissions Trading System (EU ETS) and including all emitters and sectors of final energy consumption.

Changing course in monetary policy, stability for the euro area

The recent extension of the ECB's bond purchase programme will further increase the degree of monetary policy expansion. Given the higher rates of growth and inflation and increased risks to financial stability, the ECB should publish a strategy for monetary policy normalisation and end the bond purchase programme earlier than planned. Furthermore, the Governing Council of the ECB should enhance its forward guidance communication to make it easier for market participants to form expectations and increase the effectiveness of monetary policy.

In order to strengthen the architecture of European Monetary Union, the complex set of fiscal rules could be simplified to feature two rules: an expenditure rule as an annual target and a structural deficit rule as a medium-term target. The further development of the European Stability Mechanism should under no circumstances turn it into a transfer mechanism. Rather, it should perform a monitoring function as part of a mandate for crisis prevention. There is no need for the creation of a fiscal capacity in the euro area or a European unemployment insurance scheme.

The completion of the Banking and Capital Markets Unions is also essential. Further risk-sharing should only be considered following risk reduction. In order to achieve this, it is essential for efforts to swiftly reduce non-performing bank loans to continue. Gaps in the European resolution regime must be closed to ensure that subordinated and senior creditor bail-ins cannot be circumvented.

Globalisation has brought about major increases in efficiency and welfare around the world. As a result, the new Federal Government should firmly reject calls for protectionist measures. In this context, measures should be taken to strengthen the multilateral trading system and conclude further free trade agreements.

Key economic indicators for Germany

	Unit	2015	2016	2017[1]	2018[1]
Gross domestic product[2,3]	%	1.7	1.9	2.0	2.2
Gross domestic product per capita[2,3,4]	%	0.9	1.0	1.4	1.8
Current account balance[5]	%	8.5	8.3	7.7	7.6
Persons employed (domestic)	thousand	43,069	43,638	44,298	44,810
Persons employed, covered by social security[6]	thousand	30,822	31,485	32,183	32,732
Registered unemployment[6]	thousand	2,795	2,691	2,561	2,473
Unemployment rate[6,7]	%	6.4	6.1	5.8	5.5
Consumer prices[3]	%	0.3	0.5	1.7	1.8
General government balance[8]	%	0.6	0.8	1.0	1.1

1 – Forecast by the GCEE. 2 – Constant prices. 3 – Year-on-year change. 4 – Own calculations. 5 – In relation to nominal GDP. 6 – For 2015 and 2016: 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 policymakers on questions of economic policy. The Council consists of five members, currently Prof. Dr Christoph M. Schmidt (Chair), Prof. Dr Peter Bofinger, Prof. Dr Lars P. Feld, Prof. Dr Isabel Schnabel, and Prof. Volker Wieland, Ph.D.

You can find the current Annual Report at: www.sachverstaendigenrat-wirtschaft.de

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