GERMAN COUNCIL of Economic Experts

PRESS RELEASE

Annual Report 2019/20: Dealing with Structural Change

- The German Council of Economic Experts (GCEE) has presented its annual report to the German Federal Government today, including its first report as the National Productivity Board of Germany.

- In view of the moderate economic outlook and the structural change underway, economic policy should strengthen the growth potential of the German economy.

- Real gross domestic product (GDP) in Germany is expected to grow by 0.5 % in 2019 and 0.9 % in 2020 (0.5 % each adjusted for calendar effects).

Wiesbaden, 6 November 2019 – The German Council of Economic Experts has presented its annual report entitled “Dealing with Structural Change” to the German Federal Government today. “In order to seize the opportunities presented by structural change, Germany does not need to reinvent its economic and industrial policy, but it should develop them further”, said Christoph M. Schmidt, chairman of the German Council of Economic Experts.

Economic outlook

The upswing has come to an end, but a widespread and deep recession is still unlikely. The weak economic momentum is expected to persist into next year at least. The GCEE forecasts real GDP growth of 0.5 % for the current year and 0.9 % for 2020 (0.5 % each adjusted for calendar effects).

Monetary policy is very expansionary already. It would have been better had the ECB not restarted its purchases of government bonds, as this policy could entail considerable risks to, for instance, financial stability. Germany’s fiscal policy is also expansionary and an additional economic stimulus package is not necessary. It is instead a matter of allowing the automatic stabilisers to take effect. The debt brake does not rule out new borrowing for this purpose and leaves scope for increasing public investment.

Persistently weak productivity growth

In Germany as well as many other developed economies, productivity has only grown at a slow pace for several years. Factors that explain this weak productivity growth include demographic change, the slow adoption of new technologies, a low level of business dynamism and weak investment activity.

Boosting structural change, while cushioning its consequences

Business dynamics in Germany have waned, which is reflected in a significant decline in the numbers of new enterprises founded and existing companies being closed. Policymakers should therefore set policy parameters that help foster entrepreneurial activity and innovation. This includes eliminating barriers to market entry and deficits in start-up financing, and promoting lifelong learning.

Germany employs social and regional policies to mitigate the adverse effects of structural change. The country has a high level of redistribution. Income inequality, as measured by the Gini coefficient of net income, has not increased significantly since 2005. This is the case despite an influx of immigrants that fall predominantly into the lower income brackets.

Promoting research and innovation

Modern industrial and regional policy should be understood primarily as research and innovation policy. “Industrial policy should be designed independently of sectors and technologies, and has to be evaluated on a regular basis”, said Christoph M. Schmidt. Mission-oriented industrial policy provides the opportunity to pursue major socially relevant objectives, such as greenhouse gas neutrality in Europe by 2050.

A single European market is important for scaling digital business models. The strategy for a European digital single market and the completion of the single market for services can create opportunities to this end. The banking and capital markets union could improve access to venture capital and reduce barriers to cross-border mergers. The risks from the business activities of new market participants such as FinTechs and BigTechs should be adequately regulated without hampering innovation.

Expanding and utilising potential in the labour market

Education is a prerequisite to raise income mobility and create equal opportunities. Early childhood education and lifelong learning are particularly important. Dormant potential can be leveraged by increasing the participation of women and older people in the labour market. Better coordination of the various instruments for basic income support could strengthen the work incentives for those with low earned income.

Increasing private and public investment

The prerequisite for private investment is a reliable economic policy framework with elements such as a functioning infrastructure and complementary public spending, in areas such as education. Moreover, uncertainties about the future of global free trade or climate and energy policy should be reduced in order to improve corporate planning and eliminate barriers to investment.

International coordination

Many of the challenges facing Germany require an internationally coordinated response. International, especially European, coordination should be promoted, particularly in research and development as well as climate protection. In contrast, reacting to global protectionist tendencies with own protectionist measures, such as implementing protective policies based on competition law, or strategically intervening against foreign competitors, would be the wrong approach.

Key economic indicators for Germany

	Unit	2017	2018	2019[1]	2020[1]
Gross domestic product[2,3]	%	2.5	1.5	0.5	0.9
Annual rate of change of GDP, calendar-adjusted[2,3]	%	2.8	1.5	0.5	0.5
Gross domestic product per capita[2,3,4]	%	2.1	1.2	0.2	0.7
Current account balance[5]	%	8.1	7.3	6.9	6.4
Persons employed (domestic)	thousand	44,248	44,854	45,225	45,360
Persons employed, covered by social security	thousand	32,234	32,964	33,424	33,641
Registered unemployment	thousand	2,533	2,340	2,272	2,317
Unemployment rate[6]	%	5.7	5.2	5.0	5.1
Consumer prices[3]	%	1.5	1.8	1.5	1.6
General government balance[7]	%	1.2	1.9	1.4	0.5

1 – Forecast by the GCEE. 2 – Constant prices. 3 – Change on previous year. 4 – Population development according to medium-term projection of the GCEE. 5 – In relation to nominal GDP. 6 – Registered unemployed in relation to civil labour force. 7 – In relation to nominal GDP; Regional authorities and social security according to national accounts.

Sources: Federal Employment Agency, Federal Statistical Office, own calculations

The German Council of Economic Experts is an independent academic body advising German policymakers on questions of economic policy. It was founded in 1963, and currently consists of five members: Prof. Dr. Christoph M. Schmidt, Prof. Dr. Dr. h.c. Lars P. Feld, Prof. Dr. Isabel Schnabel, Prof. Dr. Achim Truger and Prof. Volker Wieland, Ph.D. The aim of its annual report is to help form the opinions of all authorities responsible for economic policy as well as the general public.

Further information on the German Council of Economic Experts and its publications are available at: http://www.sachverstaendigenrat-wirtschaft.de/en or follow us on Twitter @GCEE_en.

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