Annual Report 2020/21

Overcoming the Coronavirus Crisis Together; Strengthening Resilience and Growth – Key Messages

ECONOMIC SITUATION: RECOVERY DEPENDS ON THE COURSE OF THE PANDEMIC

✦ The global economy began a strong recovery following the major slump in spring. However, there has recently been a sharp increase in the number of infections in many places.

✦ In light of the renewed restrictions, the economic recovery in the affected countries is likely to regain momentum only after the second wave of infection subsides.

✦ The German Council of Economic Experts (GCEE) expects economic output to decline in Germany by 5.1% this year, and to increase by 3.7% in 2021.

STABILISATION POLICY AMID THE CORONAVIRUS CRISIS

✦ Monetary and fiscal policy reacted quickly to the crisis with very extensive support measures. Automatic stabilisers also play an important role.

✦ The Federal Government’s stimulus package is contributing to the recovery and will likely increase economic output temporarily by 0.7 to 1.3%, but some elements are not well targeted in all areas.

✦ Once there is a sustainable improvement in the economic situation in the future, the focus should be on the consolidation of public finances and on the normalisation of monetary policy.

EMERGING STRONGER FROM THE CRISIS TOGETHER

✦ The temporary Recovery and Resilience Facility enables the EU member states to invest in productivity and growth, thus facilitating structural reforms.

✦ The sustainability of public finances, an effective fiscal framework and the stability of the financial system are prerequisites for a Europe that will be resilient in the future.

✦ Strengthening the EU’s Single Market can increase resilience to future crises. More diversified supply chains and a European system of inventory management can contribute to this.

CLIMATE PROTECTION AS AN INDUSTRIAL POLICY OPPORTUNITY

✦ Commitments worldwide to reduce greenhouse gas emissions make structural change inevitable. This will create significant industrial policy opportunities.

✦ The reduction of distorting incentives through an energy price reform with simultaneous strengthening of carbon emissions pricing could increase the coordination function of the market.

✦ Complementary measures can address obstacles that delay the penetration of lower emission technologies, by increasing the steering effect of the pricing of carbon emissions.

PRODUCTIVITY GROWTH THROUGH INNOVATION: ADVANCING DIGITALISATION

✦ Private innovation spending in Germany is concentrated among large companies. Incentives for innovation and diffusion at small and medium-sized enterprises should be strengthened.

✦ Germany is well positioned in the development of digital technologies, but the framework conditions for digital services and business models should be improved.

✦ The pandemic has highlighted deficits in the digitalisation of public administration, healthcare and the education system. These should be reduced quickly and consistently.

DEMOGRAPHIC CHANGE: SUSTAINABLE RETIREMENT PROVISION

✦ Population ageing is creating a considerable sustainability problem for the statutory pension scheme.

✦ In the long term, linking the retirement age to rising further life expectancy could ease the sustainability problem. In the short term, the reinstatement of the ‘catch-up factor’, which was suspended in 2018, would help.

✦ Mothers’ Pension and Basic Pension reduce the risk of old-age poverty but are not well targeted. Better labour market integration and education are long-term options for preventing poverty.