

PRESS RELEASE

Managing the Energy Crisis in Solidarity and Shaping the New Reality

- High energy prices are weighing on the German economy. The German Council of Economic Experts expects GDP to grow by only 1.7 % in 2022, and to decline by 0.2 % in 2023.
- In the short term, the energy shortage calls for expanded supply and by reduced energy use. In addition, measures to relieve households and companies of the strain of the high energy prices ought to be as targeted as possible.
- In the medium term, economic policy must aim to improve the supply of skilled workers and - in light of a changed geopolitical environment - reduce dependencies.

Wiesbaden, 09.11.2022 – The energy crisis and high inflation are placing a heavy burden on households and businesses in Germany. The economic situation requires measures to address the energy shortage and provide relief to households and firms. These measures must be as targeted as possible and financed without putting excessive strain on public finances. Changes in the geopolitical environment require Germany to reduce the dependencies in its supply chains. Structural and demographic change have made targeted improvements in continuing education and training as well as managed labour migration indispensable. In its Annual Report 2022/23, the German Council of Economic Experts (GCEE) discusses steps to "manage the energy crisis in solidarity" and "shape the new reality." The report was presented to the German government today.

In the first half of 2022, the rising consumption of services supported Germany's economic growth. Since the middle of the year, however, massive increases in energy and food prices have significantly reduced purchasing power and dampened private consumption. The energy crisis is also weighing on production, especially in energy-intensive industries, and the global slowdown is weakening export demand. Reflecting the deterioration in the economic outlook, the GCEE has lowered its forecast for 2022 and expects Germany's real gross domestic product (GDP) to increase by only 1.7 %. For 2023, it expects GDP to decline by 0.2 %. In 2023, however, exports and corporate investment should gradually recover. In addition, supply bottlenecks are expected to ease gradually and companies will process their high order backlog.

Consumer price inflation in Germany reached 10.4 % in October 2022, the highest level since the early 1950s. Energy prices have continued to rise since the beginning of the year. Higher production costs are increasingly being passed through to consumers, which drives core inflation. The GCEE expects an inflation rate of 8.0 % for 2022 and 7.4 % for 2023. High inflation rates dampen economic growth and can have a negative effect on the labour market. They can also distort companies' financing and investment decisions. "The ECB must continue to act decisively," explains council member Ulrike Malmendier. "The challenge will be to raise interest rates adequately to fight inflation without causing an excessive slump in economic activity."

Inflation burdens private households to different degrees. Poorer households have to cut their consumption more sharply because they spend a larger share of their net income on energy and food, which have strongly increased in price. The enormous price increases warrant comprehensive relief measures. However, many of the measures that have been adopted or are planned are not targeted enough. As it was the case with the fuel discount, they weaken incentives to save energy, or they also accrue to high-income households that would be able to cope with high prices. "The offset of the bracket creep in income taxation is fundamentally sound," says council member Achim Truger. "At present, however, the government should focus on providing targeted relief to lower and middle income groups, and public budgets should not be overstretched. Therefore, the offset of the bracket creep should be postponed." For a strictly limited period of time, high-income households could also be involved in financing the relief measures via an energy solidarity surcharge or an increase in the top tax rate. This would make the overall relief package more targeted and would help dealing with the energy crisis in solidarity.

To curb the rise in energy prices and fight the energy shortage, energy supply needs to expand and energy savings need to increase. High energy prices are a burden foremost on energy-intensive industries such as the metal industry or the production of glass and ceramics as well as energy-intensive products in the chemical industry. "Energy prices will stay elevated for a considerable time, which will accelerate the structural change in various industries and reduce their energy intensity more rapidly," explains Monika Schnitzer, chair of the council. "However, if the right course is taken, there is no need to fear a widespread de-industrialisation of Germany." The energy intensity of the German economy has declined significantly since the oil price crises of the 1970s, for two reasons: Less energy-intensive economic sectors have gained slightly in importance. Above all, energy efficiency has increased across various industries.

The coronavirus crisis and the Russian war of aggression have highlighted Germany's dependencies on other countries for energy and critical raw materials and products. In light of the changed geopolitical environment and the significant increase in associated risks, Germany and Europe need to increase their focus on strategic autonomy. "It is of foremost importance to reduce our dependencies and to increase the resilience of our value chains. We should, on the one hand, expand European production capacities and infrastructures and, on the other hand, diversify supply chains and the sources of supply of critical raw materials and energy sources," explains council member Veronika Grimm.

Germany was able to fund the relief measures in the energy crisis, the spending on energy security and defence capability as well as the Corona aid because the exemption clause of the German debt brake was applied. The energy crisis might have justified another exemption in 2023. Instead, the German government chose to expand the "Economic Stabilisation Fund", a Federal Special Fund, which might be more effective in restricting debt-financed expenditures to energy price relief. However, the resulting lack of transparency of the federal budget warrants a critical assessment. The debt-to-GDP ratio has risen significantly since the beginning of the Corona crisis. So far, this has not jeopardised the medium-term sustainability of the German budget. In the long term, Germany's public finances must be consolidated. In fact, the same holds for many EU member states in view of high debt ratios

and rising interest rates. A reform of the Economic and Monetary Union should ensure debt sustainability and the feasibility of government tasks.

"Although Germany is in a downturn, the labour market is robust. There is currently a shortage of skilled and even unskilled workers," states council member Martin Werding. "Without additional labour migration and continuing education and training, the shortage of skilled workers will persist and increase." Through reskilling and upskilling, employees affected by structural change can qualify for other jobs and avoid unemployment. Continuing education and training should be improved through nationwide quality standards and improved access to financing, for example, through an extension of educational leave. In addition, labour migration would benefit from a simplified equivalence assessment for qualifications, or its abolishment, in non-regulated occupations and from extending the Western Balkans regulation to selected other countries. Workers who are offered a job could then migrate to Germany more easily.

Managing the energy crisis in solidarity and shaping the new reality

Challenges, **goals** and **measures** discussed in the GCEE Annual Report 2022/23

Energy crisis and high inflation

Limit price increases

- Decisive monetary policy response [↗ ITEMS 132 F. AND 149](#)
- Expand energy supply in the short term [↗ ITEMS 333 FF.](#)
- Save energy [↗ ITEM 339](#)
- Targeted accompanying measures by national governments [↗ ITEMS 151 FF.](#)

Targeted cushioning of economic burden

- Targeted and incentive-compatible support measures for households [↗ ITEMS 195 F.](#)
- Support measures for companies that are viable in the long term [↗ ITEMS 342 FF.](#)
- Develop instruments for income-dependent direct transfers [↗ ITEM 194](#)

Finance support in solidarity

- Postpone elimination of bracket creep of income taxation [↗ ITEM 193](#)
- Temporary increase in the top tax rate or energy solidarity charge [↗ ITEM 198](#)

Stable economic and monetary union

Coherent, binding and counter-cyclical EU fiscal rules

- Focus on expenditure rule [↗ ITEMS 236 AND 264](#)
- Combine general debt ceiling with realistic reduction path [↗ ITEMS 238 AND 261 F.](#)

Financing of European projects (fiscal capacity)

- Increase own revenues of the EU and national contributions to the EU [↗ ITEM 266](#)
- Focus additional spending on areas with European added value [↗ ITEMS 254 F. AND 266](#)

Financial market integration: decoupling the sovereign-bank-nexus

- Risk-compliant equity backing after a transition period [↗ ITEMS 260 AND 267](#)
- Complete Banking and Capital Markets Union [↗ ITEMS 259 AND 267](#)

Structural change in manufacturing

Ensure supply with renewable energies

- Expand energy infrastructure [↗ ITEMS 529 FF.](#)
- Accelerate the expansion of renewables [↗ ITEMS 336 FF. AND 530 FF.](#)

Accelerate the decarbonisation of manufacturing

- Reduce price distortions in energy supply [↗ ITEM 341](#)
- Increase flexibility of energy demand [↗ ITEM 340](#)

Ensuring a skilled work force

Upskilling of domestic labour force

- Nationwide standards continuing education and training [↗ ITEM 406](#)
- Low-threshold and outreach guidance for the low skilled [↗ ITEMS 392 FF.](#)
- Expand (part-time) education leave [↗ ITEMS 398 FF.](#)

Facilitate labour migration

- Relax equivalence assessment for non-regulated professions [↗ ITEM 454](#)
- Extend the Western Balkans immigration regulation to selected other countries [↗ ITEM 452](#)
- Create service-oriented agencies for immigration [↗ ITEM 456](#)

Import dependencies and geopolitical tensions

Reduce dependencies

- Diversify energy imports and sources of critical raw materials [↗ ITEMS 506 FF.](#)
- Support diversification through strategic alliances and investment guarantees [↗ ITEMS 511 FF.](#)
- Expand European production capacities in strategically important areas [↗ ITEMS 524 FF.](#)

Increase strategic autonomy

- Pursue Open Strategic Autonomy [↗ ITEMS 536 F.](#)
- Apply countervailing measures against trade distortions [↗ ITEMS 538 FF.](#)

The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Dr. Veronika Grimm, Professor Dr. Dr. Ulrike Malmendier, Professor Dr. Dr. h.c. Monika Schnitzer (chair), Professor Dr. Achim Truger and Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

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](https://twitter.com/GCEE_en).

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