

OVERCOMING SLUGGISH GROWTH – INVESTING IN THE FUTURE

Annual report 2023/24

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Heidelberg University, 23 Januar 2024

The presentation reflects the personal opinion of the authors and not necessarily that of the German Council of Economic Experts.



SACHVERSTÄNDIGENRAT
*zur Begutachtung der
gesamtwirtschaftlichen Entwicklung*

Who are we?

What is the mandate of the German Council of Economic Experts?



Who we are

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Prof. Dr. Dr. h.c. Monika Schnitzer
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Prof. Dr. Achim Truger



Prof. Dr. Martin Werding

Scientific staff



Office

Office manager
7 employees

Interns

Goals and mandate

Founded in 1963 by law

Goals

- Supporting the government in **analysing economic problems**
- Reduce the influence of vested interests by **informing the public**

Mandate

- Periodic **assessment** of the overall economy (incl. **forecast**)
 - **GCEE Annual Report** in November and since 2014 an **update** in March
 - Additional **special reports** (on initiative or commissioned by the federal government)
- Identifying undesirable developments and ways to avoid them
- **Independent**, only bound by legal mandate

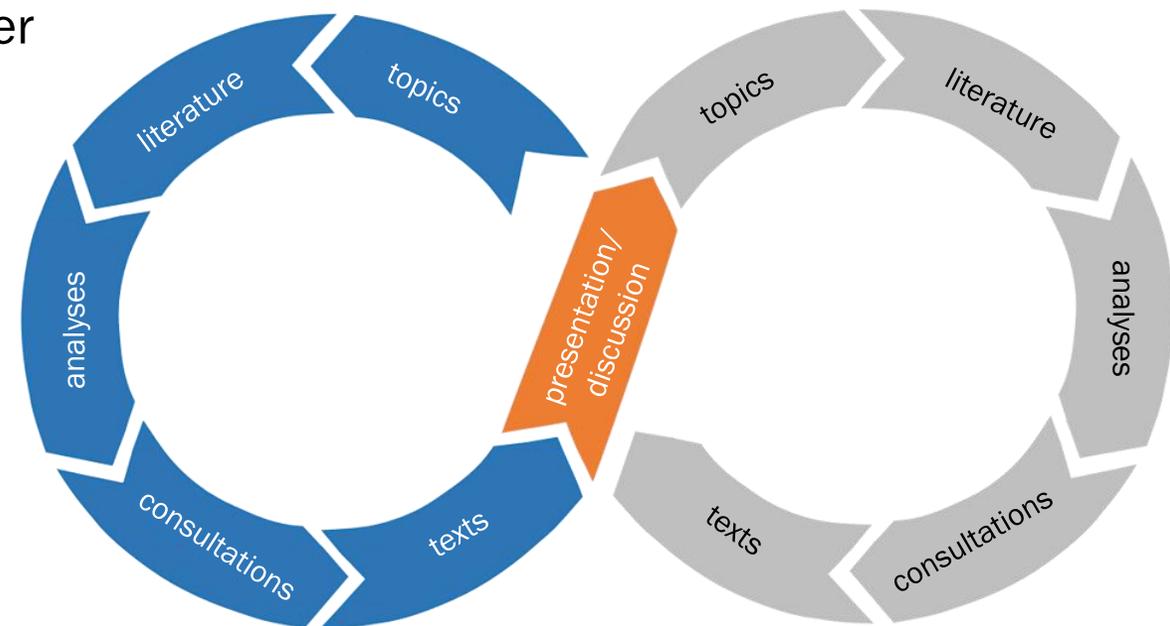
How is the GCEE Annual Report produced?

Identifying topics in the first half of the year

- Discussion of possible topics / work on analyses
- Consultation with key players (ministries, Bundesbank, associations, etc.)

„Campaign“ from September to November

- Weekly meetings
- Completion of the forecast usually one week before printing process





Structure of the Annual Report 2023/24

1
Economic recovery
delayed

2 Strengthening
potential growth
through investments

3 Capital market
in Germany
and the EU

4
Reforms in the
tax-transfer system

5
Demographic ageing
and pension reforms

6 Modern data
infrastructure
for more informed
decisions

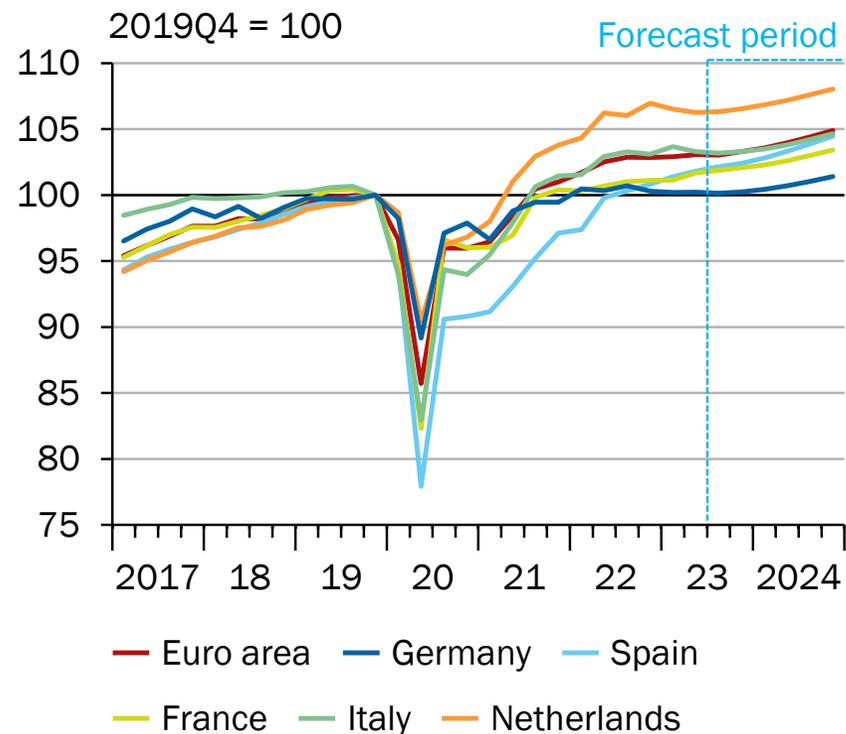
A large industrial ship, possibly a container ship, is docked at a port. The ship is dark-colored and has "DOCK 11" written on its side. In the background, several large cranes are visible, some of which are yellow. The water is calm, and the sky is overcast. The foreground shows a rocky shoreline.

ECONOMIC RECOVERY DELAYED

Is Germany the sick man of Europe?

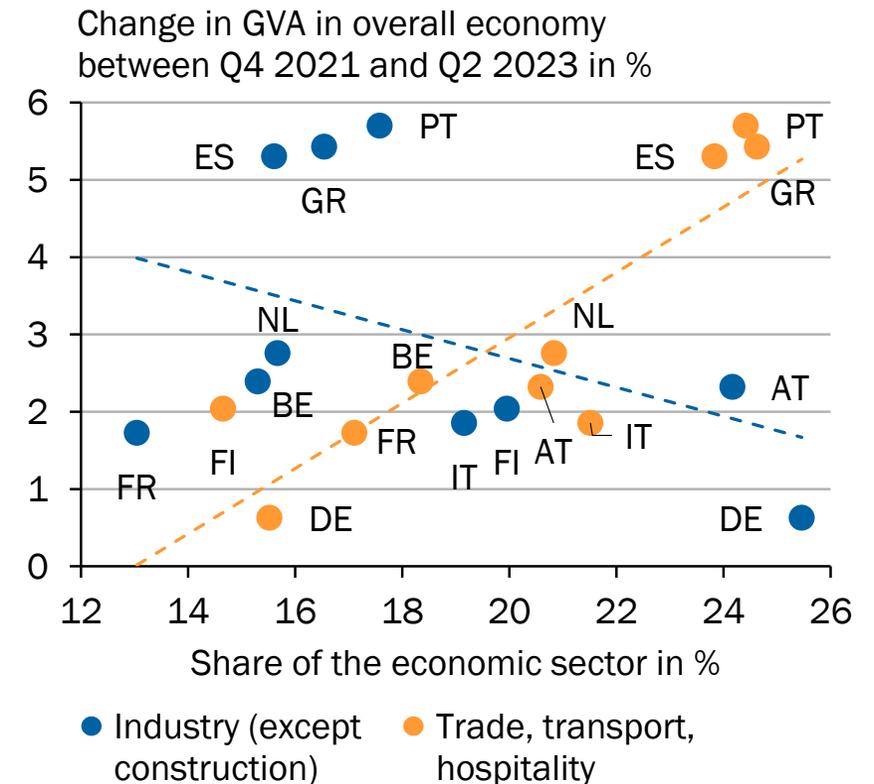
From the energy crisis to weak growth

Germany recorded the lowest cumulative growth in the euro area since 2019Q4



Sources: Eurostat, own calculations
© German Council of Economic Experts | 23-321-07

Germany was strongly affected due to high share of industry, but other sectors were also weak



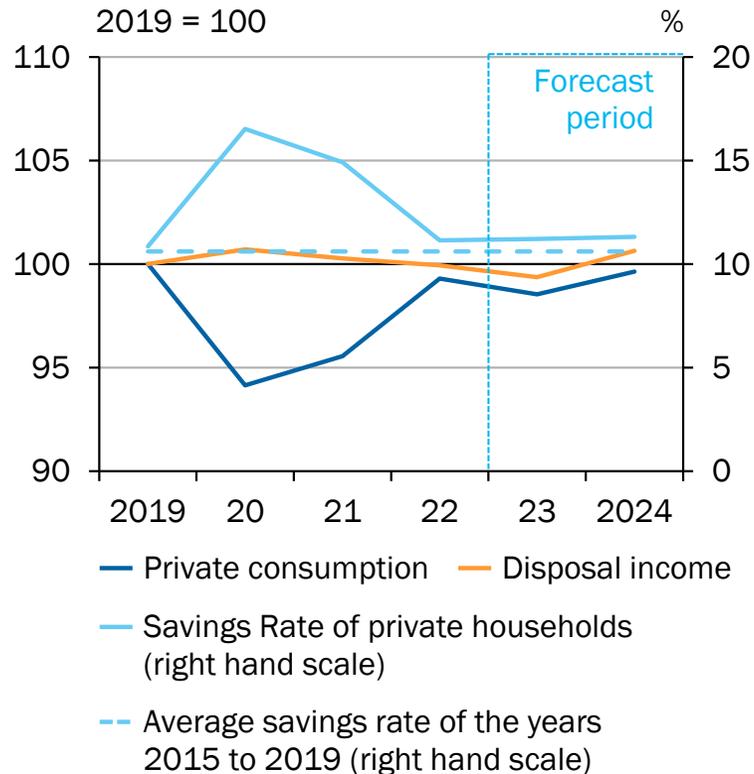
Sources: Eurostat, own calculations
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Determining factors for the forecast

	Initial situation	Forecast assumptions	Risks
Real income	Real income losses weaken consumption	Recovery in real incomes boosts consumption	Income growth does not translate into consumption
Global economy	Trading volume falls, order backlogs support	Weak exports, low competitiveness	China and the tense global political situation
Monetary policy	Strong monetary policy tightening	Expiring tightening, delayed monetary policy effects	Strength of the effect of monetary policy tightening

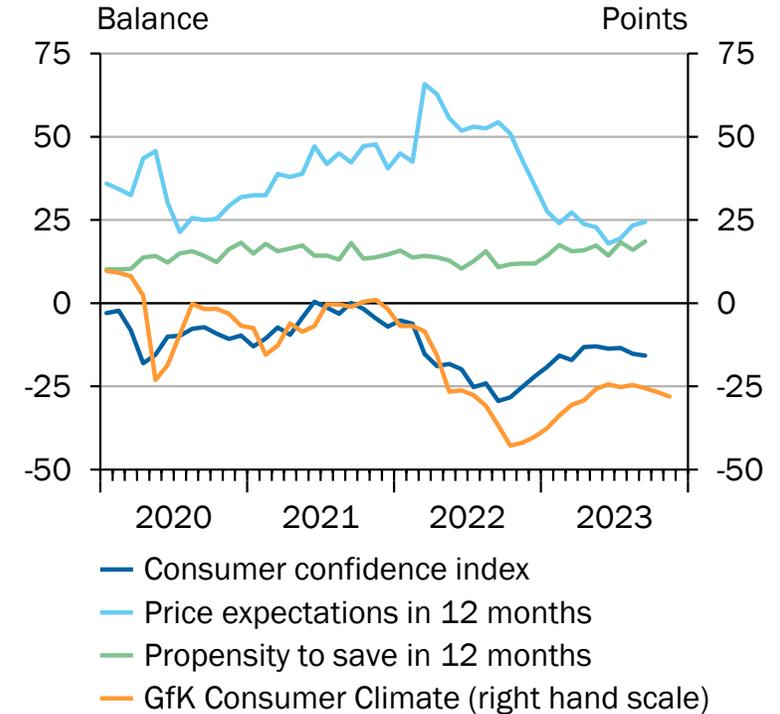
Domestic consumer demand recovers due to rising real incomes

Stable labour market and rising incomes should support consumption in 2024



Sources: Federal Statistical Office, own calculations
© German Council of Economic Experts | 23-489-01

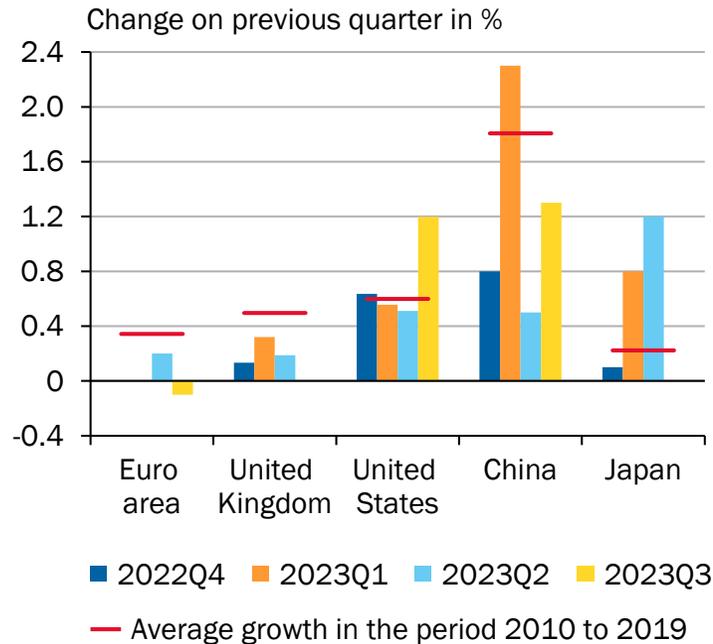
Low consumer confidence – Risk: cautious spending behaviour



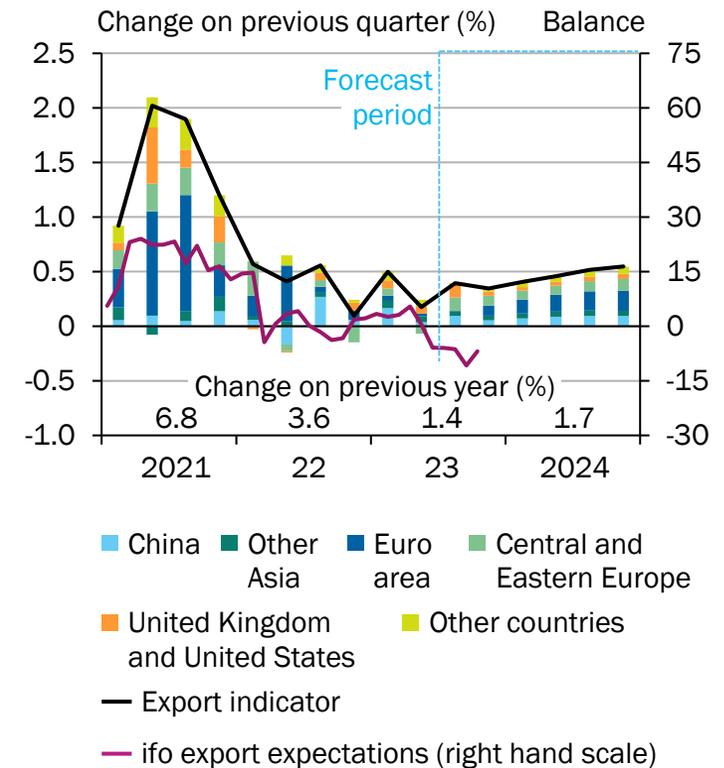
Sources: European Commission, GfK
© German Council of Economic Experts | 23-212-01

Hardly any impetus from the global economy

Only US economy is supportive,
low growth in China and the euro area dampens



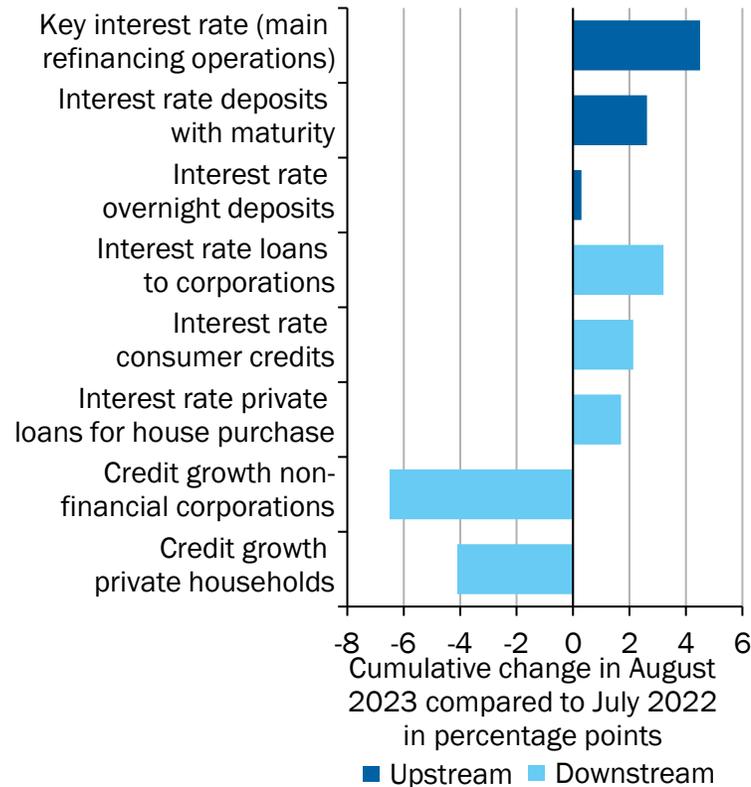
Subdued export expectations – export indicator
expected below long-term average (2.7%)



Restrictive monetary policy

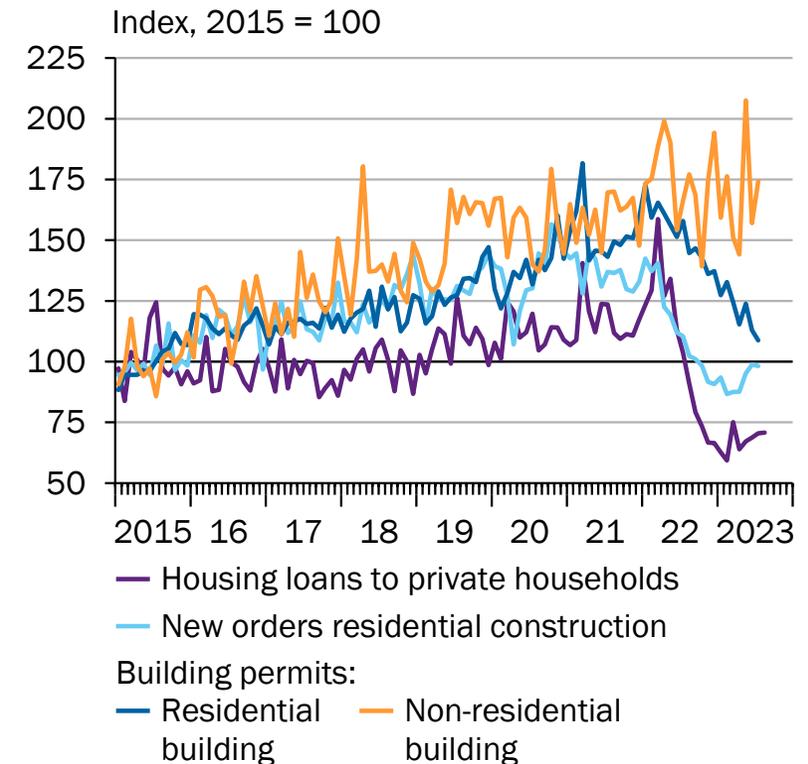
Increases financing costs – curbs (construction) investments

Restrictive monetary policy has increased financing costs at all levels



Sources: Deutsche Bundesbank, ECB, own calculations
© German Council of Economic Experts | 23-459-06

Construction has collapsed and is likely to have a significant dampening effect in 2024

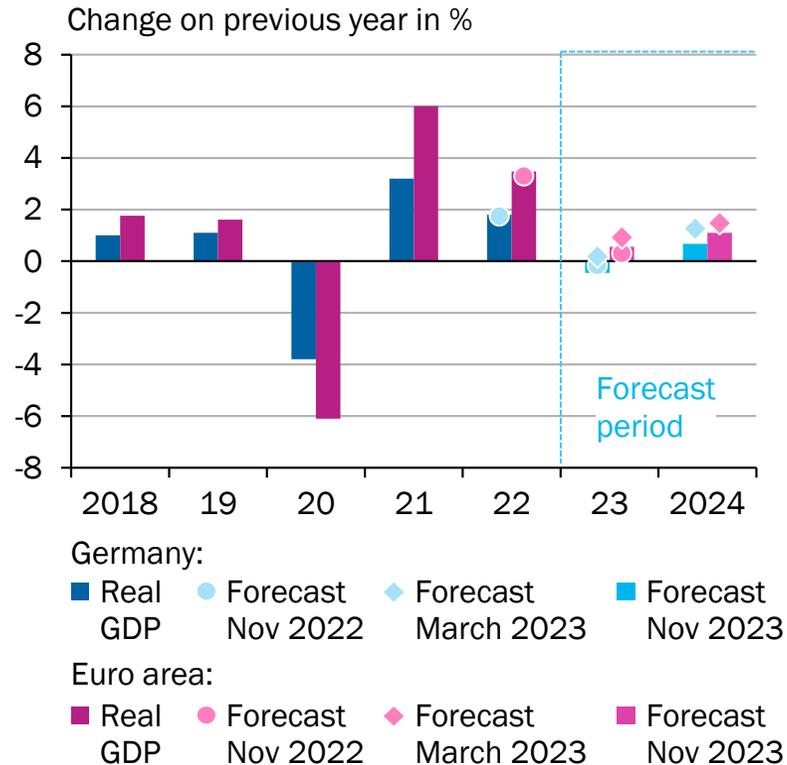


Source: Deutsche Bundesbank
© German Council of Economic Experts | 23-445-02

Economic recovery delayed

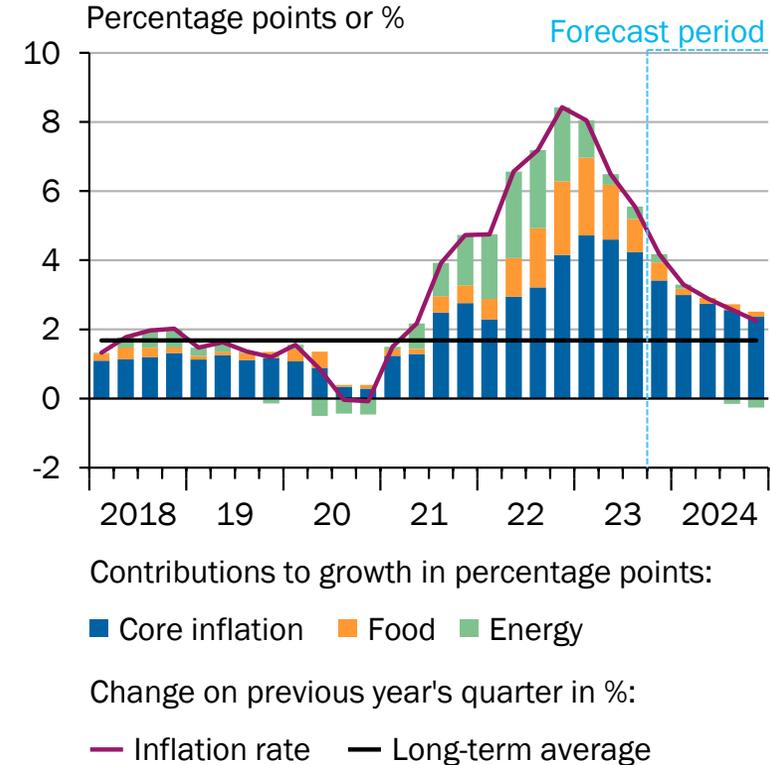
Consumption supports – investments and net exports dampen

Expectations for 2023 and 2024 worsened – slight recovery in 2024 (+0,7 %)



Sources: Eurostat, Federal Statistical Office, own calculations
 © German Council of Economic Experts | 23-485-01

YoY inflation declines to 2.1 % at the end of 2024 – core inflation is expected to be 2.9 %



Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations
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**OVERCOMING SLUGGISH
GROWTH –
INVESTING IN THE FUTURE**

Tackling current challenges

Five challenges

Goals

Measures

Low potential output growth

Fragmentation and low liquidity of capital markets

Rising poverty risk due to stagnating lower incomes

Growing financing needs of the statutory pension insurance scheme (GRV)

Insufficient national research data infrastructure in Germany

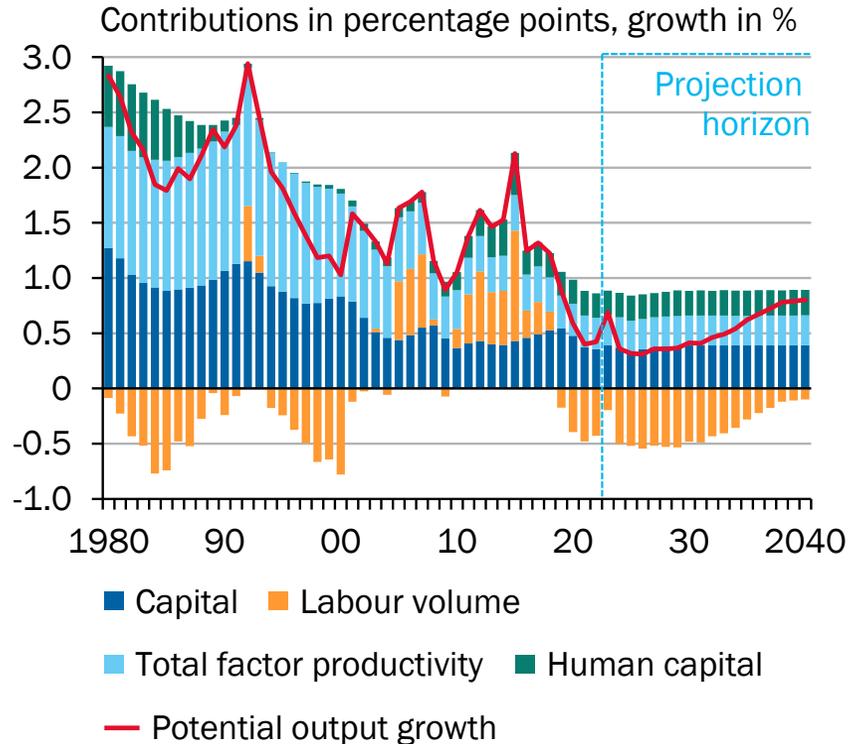
Weak potential growth



Weak potential growth

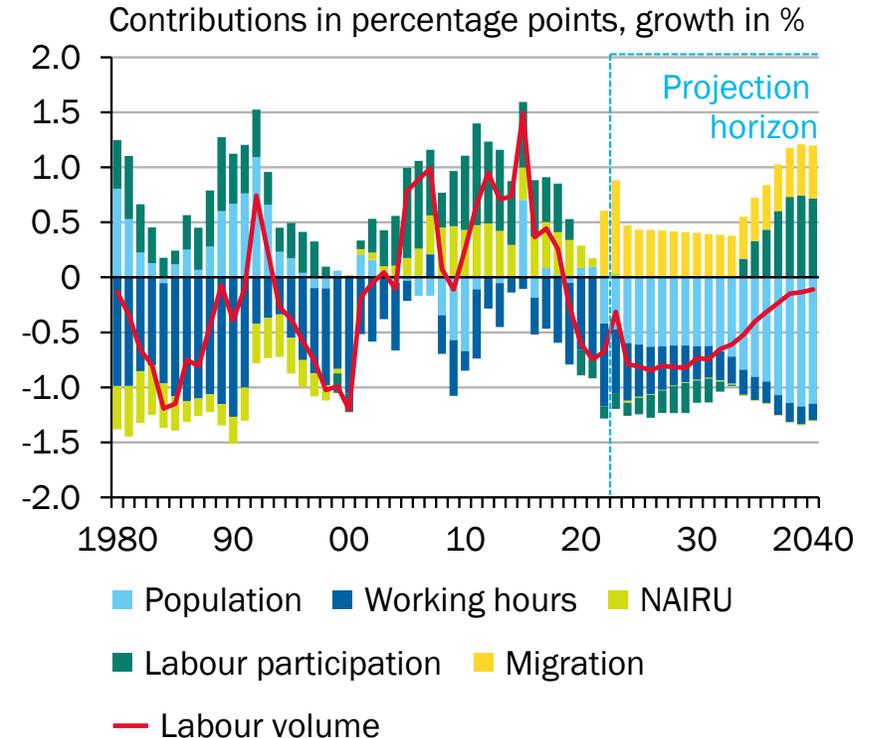
Germany faces the threat of long-term weak growth

Potential growth at a historic low in the coming years



Sources: Federal Statistical Office, own calculations
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Demographics cause labour volumes to shrink – migration can only partially compensate for this

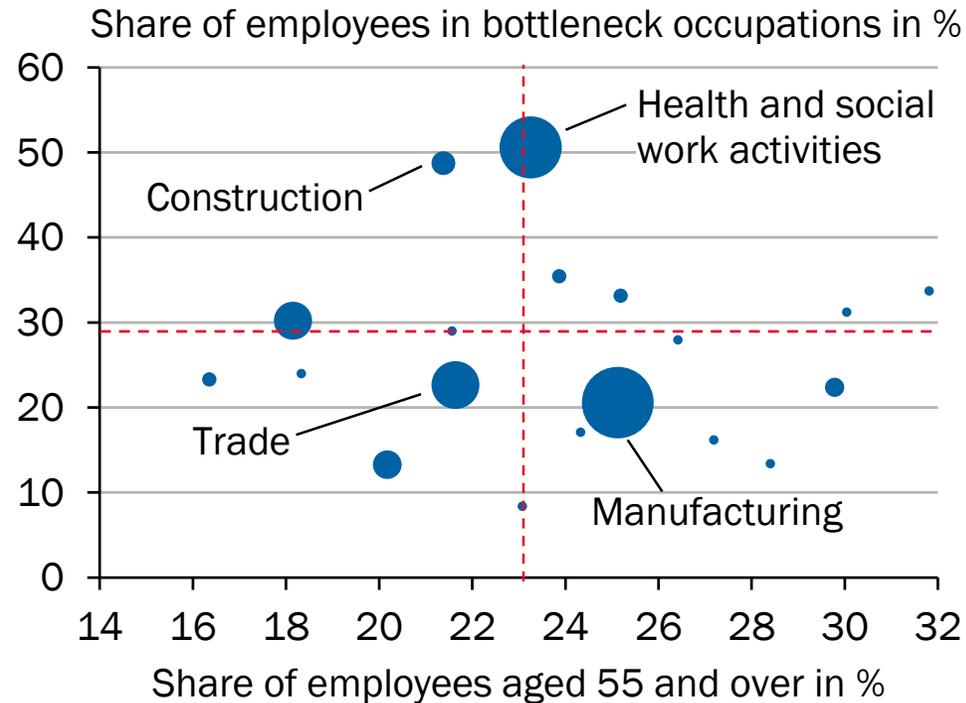


Sources: Federal Statistical Office, own calculations
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Labour shortages

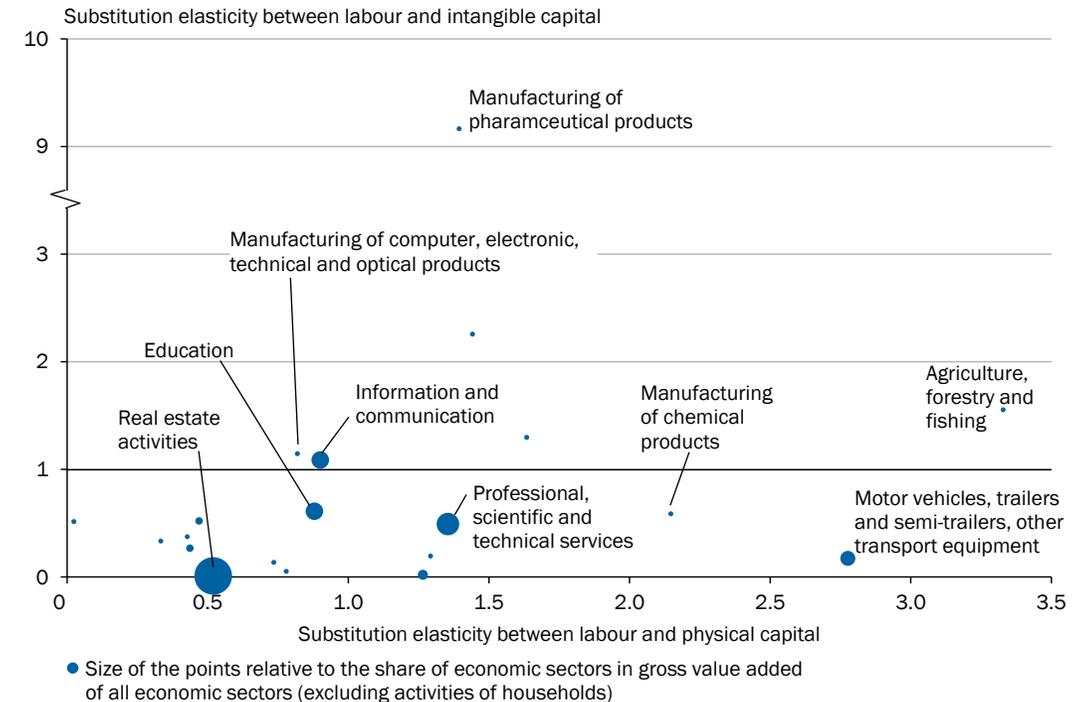
Different effects on economic sectors

Economic sectors with older employees and shortages of skilled labour particularly hard hit



Sources: Federal Employment Agency, own calculations
© German Council of Economic Experts | 23-491-01

Substitution within and reallocation between sectors support adaptation



Sources: Bontadini et al. (2022), EU KLEMS, Federal Statistical Office, own calculations
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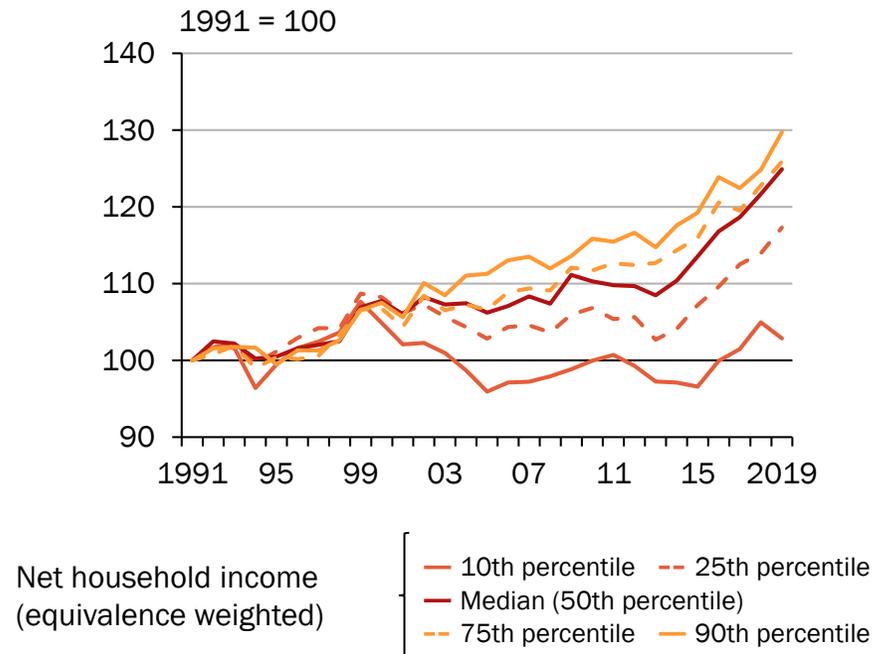
Rising risk of poverty and stagnating lower incomes



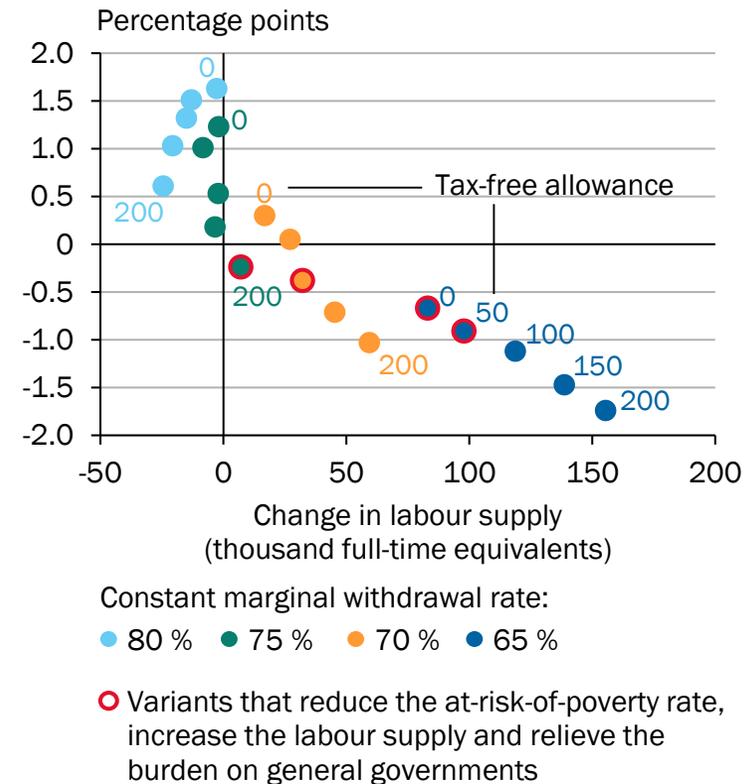
Reduce poverty risk by basic income support reform

Consolidate benefits and lower transfer withdrawal rates

Lower net incomes have stagnated since 2000 –
at-risk-of-poverty rate rose to just under 17 %



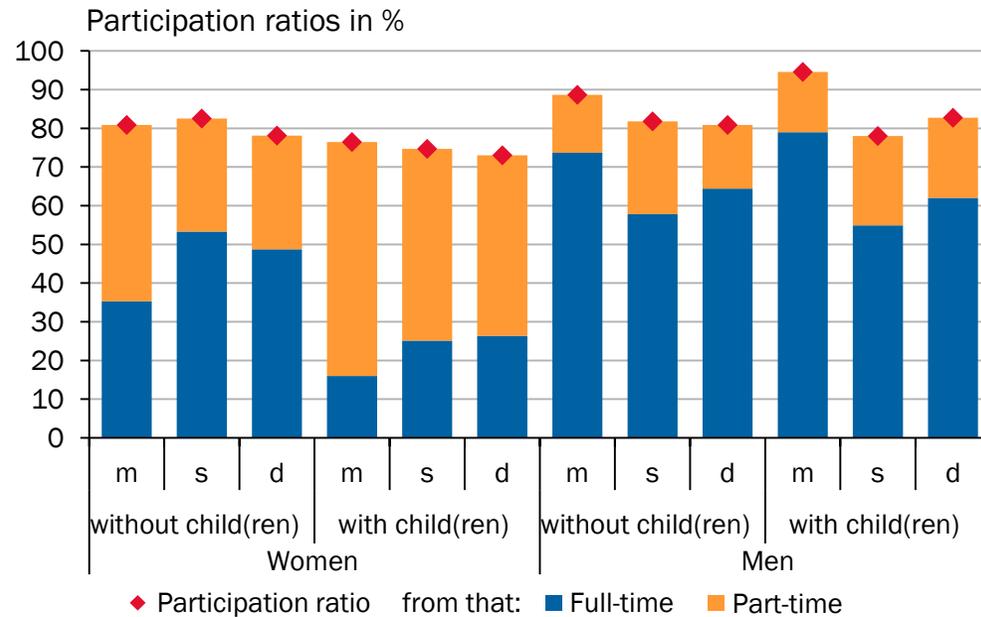
Low transfer withdrawal increases employment
incentives and reduces poverty risk



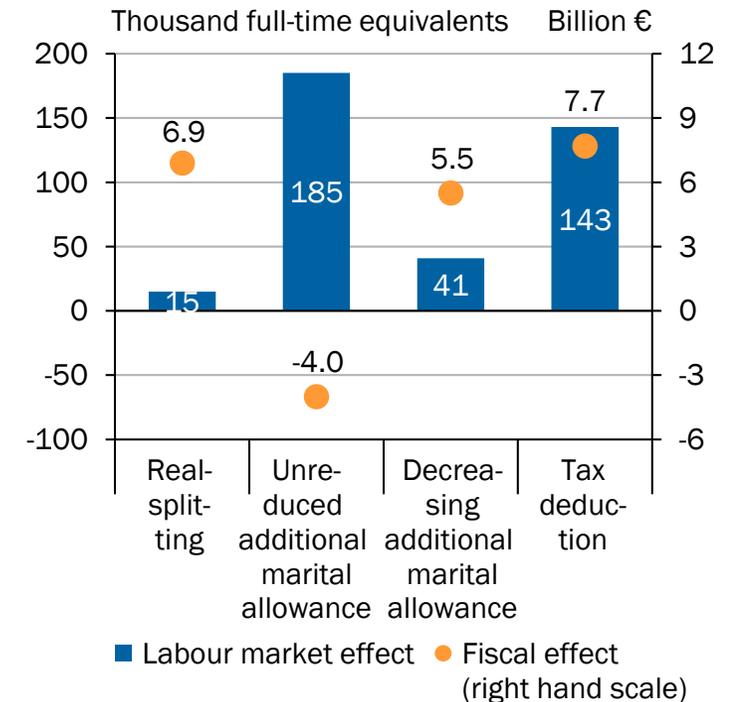
Better employment opportunities and incentives

Expand and improve childcare – reform the marital tax-splitting system

Married women and women with children often work part-time



Reform of marital tax-splitting can significantly increase female labour force participation



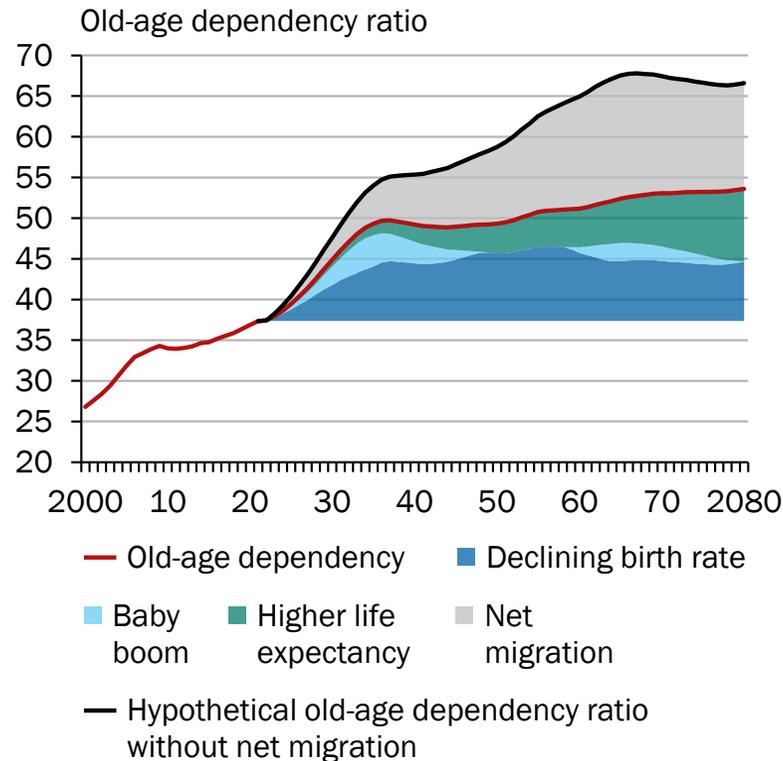


Increasing funding requirements in the GRV

Demographic ageing increases funding needs of GRV

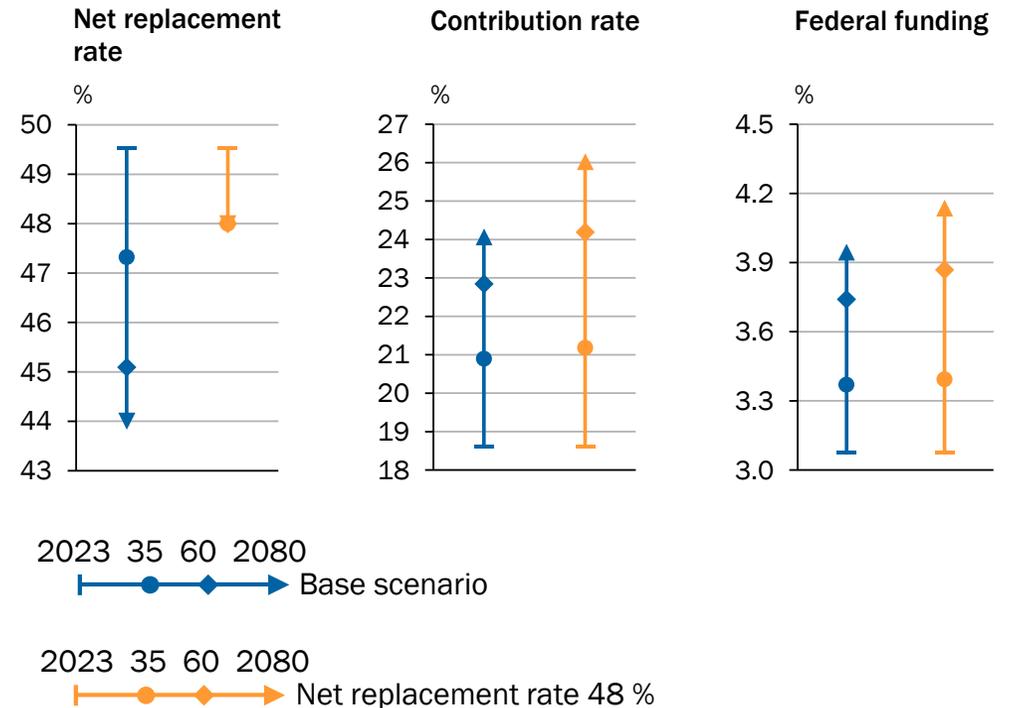
Working population is currently disproportionately burdened

Old-age dependency ratio rises sharply by 2035 – Ratio of pensioners to contributors increases



Sources: Human Mortality Database, SIM.21, Federal Statistical Office, own calculations
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Pension level falls despite rising contributions – holding line further increases financing burden

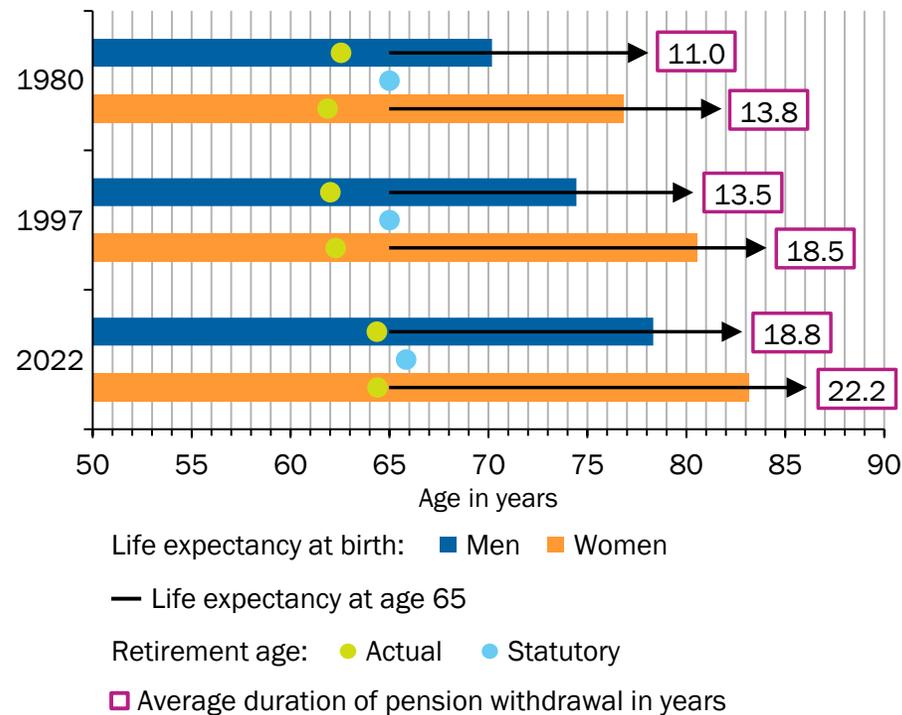


Sources: SIM.21, Federal Statistical Office, own calculations
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Stabilise the financing of the GRV in the long term

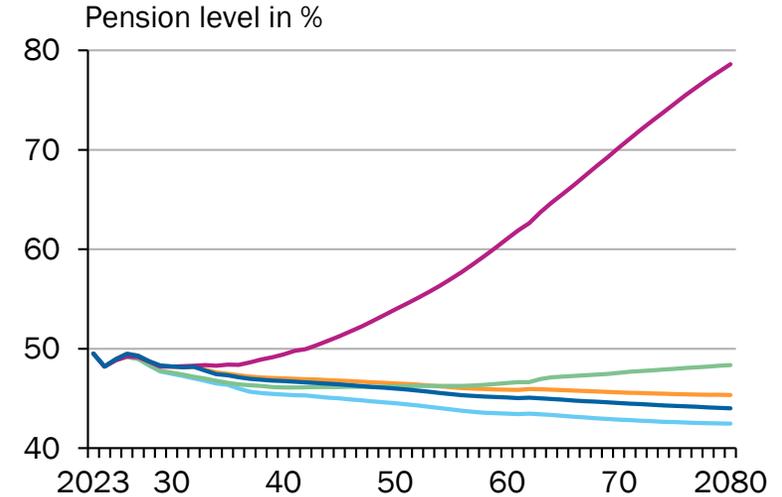
Dynamic retirement age – funded pensions

Longer life expectancy has increased more than retirement age – linking as a solution



Sources: German Pension Insurance, Federal Statistical Office
 © German Council of Economic Experts | 23-154-03

Pension level for the standard pension can be stabilised even without capital cover



Measure	■	■	■	■	■
Increase in the standard retirement age		✓	✓	✓	✓
Adjustment of the sustainability factor			✓	✓	✓
Progressive pension calculation (curbing expenditure)				✓	✓
Supplementary capital cover					✓

Source: SIM.21
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