



Finance Group

German Savings Banks Association

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Embargoed until beginning of statement on 21st January 2025, 11 am

Statement by

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Online press conference on the economic forecast
Tuesday, 21st January 2025, Berlin

Draft of 20th January 2025

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Ladies and Gentlemen,

A warm welcome to all of you. Our economic forecast is the result of calculations by ten chief economists at the Savings Banks Finance Group. The forecast is also based on the experience gained by Savings Banks in their daily work with their business clients. Professor Dr Carsten Wesselmann, the chief economist of the Kreissparkasse in Cologne, will explain the findings in more detail in a few moments.

However, I would like to begin with the key messages:

1. Germany can do better. Our economy must get out of its paralysing stagnation and restore momentum. To this end, it will be absolutely crucial to rid ourselves of the shackles of bureaucracy and formulate a clear programme for economic growth.
2. Our country urgently needs massive investment to upgrade its crumbling and frequently obsolete infrastructure. This cannot be financed from current public budgets alone. For this reason, we also need to think about the “debt brake”, but in such a manner that new loans are permanently matched by new assets, so that one thing is very clear: each generation can only consume what it has earned.
3. The lion’s share of the capital needed for investments and innovations will have to come from private individuals. Germany and the European Union as a whole will therefore have to position themselves in such a way that investments of this kind become attractive for private individuals.

The Savings Banks are ready to support private capital by acquiring equity interests and granting loans to build up a new efficient capital stock.

Let me briefly explain these three points:

First: Overcoming the paralysis.

In 2025, Germany’s GDP will grow by a mere 0.2 percent, which is stagnation.

If the United States relies on protectionism under its new President and introduces customs duties on goods, Germany’s GDP growth could fall by between 0.3 and 0.6 percent. Then we will have a recession.

Moreover, even if inflation will probably amount to 2.3 percent this year, i.e. closer to the ECB’s envisaged target, the core rate – which includes consumer prices without energy, food, alcohol and tobacco – will remain at 2.5 percent. And that is relatively high.

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This is due, not least, to the shortage of skilled labour and high production costs.

So we are not just dealing with an economic dip, which we might sit out.

We are dealing with fundamental structural shortcomings which need to be tackled urgently.

In the past, things were easier by comparison:

- Cheap fossil fuels came from Russia.
- China was a low-cost producer of pre-products and an attractive sales market.
This, too, is at least being called into question:
today, China is an aggressive competitor.
- And security was provided by the United States, while we made a small contribution.
That is also over now.
We will have to plan significantly higher defence spending of our own.

Within a very short period of time, then, many things have to be changed at once and repositioned.

For this reason, Germany needs a new, stable government as soon as possible – a government capable of taking action and, above all, a courageous one, a government which will focus on urgent issues and not get bogged down in detailed bureaucratic questions.

And we need a population which understands one thing above all else:

- This is not the time for distributing anything.
- This is the time for us to develop something together
- and to shoulder additional burdens which, of course, need to be fairly shared.

The early general election in Germany provides a great opportunity for a new start.

But only

- if policymakers understand that what we need now is not promises and bad cheques but hard work and challenges,
- and if the political centre realises that any potential constructive majority must be used to achieve real change and that this will mean accepting difficult and honest compromises.

Secondly: We will need to renew infrastructure.

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Germany's infrastructure is no longer up to the standard required. In the past few years, many things have not been modernised. Things are crumbling. I would like to illustrate this by citing just two examples:

- Under the Online Access Act, all of the defined 581 administrative services should have been available online by the end of last year.
In fact, 404 of these services are still provided offline, and only 81 services have been fully digitalised.
In the field of families and children, not a single online access to administrative services is working.
- Second example:
In a recently conducted study, 59 percent of the local authorities which participated reported a "serious" or "significant" backlog in their investments in gyms.
62 percent said the same thing about their swimming pools.
33 percent made this statement about their sports grounds.
Without renovation, 16 percent of all outdoor pools and 14 percent of all indoor pools will probably have to be closed in the next three years.
50 percent of local authorities have already had to restrict the provision of sports activities; in 50 percent of those cases, this applied to many or all sports facilities.

Some may think that sport is not that important. If that is the prevailing attitude, we should not expect Germans to win any Olympic medals if the Olympic Games are held in Germany in 2036 or 2040.

And the same pattern applies to roads, bridges and schools.

We need to understand one thing:

We are living off what we accumulated in the past, and we are using up the assets that we should be preserving and handing over to the next generation.

Sustainability in the sense of intergenerational equity is an economic dimension which Germany can no longer recklessly neglect.

For this reason, it is essential to invest heavily in infrastructure at all levels of government, especially at local level.

This will require capital and a better balance between the assignment of tasks and revenues. In this context, our rural authorities, municipalities and counties will have to be strengthened.

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However, only a small part of that can be financed from current revenues. So there will be a need for loan financing.

However, what is important is that each euro of new debt must permanently be matched by a euro of additional assets.

In banking jargon, we talk about balance sheet extension.

What must not be allowed to happen is that new debt is raised and then the capital is used up within this generation, leaving only debt for the next.

These factors should be taken into account if our next parliament decides to address a moderate reform of the debt brake.

Thirdly: Mobilising capital

In September last year, former ECB President Mario Draghi identified an investment gap of EUR 800 billion across Europe in a report on the future of European competitiveness. This gap is equivalent to 4.5 percent the EU's economic output.

Germany could close the gap applying to our country on its own.

In the recent past, Germany's net savings have amounted to EUR 230 billion per annum, which is 6 percent of GDP. So there is enough capital.

Small and medium-sized enterprises have an equity ratio which is more than adequate – on average, approx. 37 percent. This also enables them to make expansion investments.

What is missing is – one is tempted to say “only” – one key factor: confidence in Germany as a place to do business.

This confidence is something that the new German government will have to build up. And quickly.

What will be needed for this purpose?

1. A clear commitment to feisty modernisation in this country now.
2. A bold political agenda that will focus more on performance and active responsibility. An agenda which asks every group to share in the burden. And imposes heavier burdens on stronger shoulders than on weaker ones.

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3. An invitation to domestic and foreign investors to invest their capital here.

The latter point has particularly high potential. Germany could close most of its investment gap on its own by employing private capital.

To this end, larger proportions of net savings would need to be deployed in Germany.

In German enterprises – more so than elsewhere – the conditions for this are good: ideas, willingness and availability of the capital required. What is needed, however, is a better framework.

Aside from good infrastructure, the other two factors are mobilisation of the labour market and a significant reduction in bureaucracy.

In his report, Mario Draghi also referred to a significant reduction in bureaucracy as a driver of growth.

In a letter to the President of the EU Commission a few weeks ago, the German Chancellor called for a general reduction in bureaucracy by 25 percent, and a reduction by 35 percent for small and medium-sized enterprises.

It is true that a lot of bureaucracy comes from Brussels.

However, Germany must also put its own house in order. In our country, the lack of plans for the future is all too often replaced by ever new additions to laws.

People seek safety in legislation. Instead, this makes it more and more difficult to really shape the future.

Nearly all the political parties standing in the German general elections mention cutting bureaucracy in their manifestos.

In the interest of our customers, we therefore expect policies to focus on three major priorities after the general election:

- Seriously reducing bureaucratic, regulatory and planning obstacles.
- Strengthening the labour market by mobilising people who are able and willing to work. Nearly 2.8 million people in Germany are without paid work.

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- Four out of ten parents would like to work longer if the necessary childcare services were available.
- And a systematic channelling of immigration into the labour market.

All of these resources are currently untapped – hidden capital ready to be mobilised.

Currently, everyone is waiting for somebody else to do something. Too few people are prepared to take responsibility and go that extra step.

The Savings Banks Finance Group is prepared to go extra steps.

- With 42 percent of all loans to enterprises in Germany, we are committed to investing in this country.
- We are willing to do more. The Savings Banks Finance Group has the financial assets to shoulder our share of investments in the future of this country.
- And we are also willing to co-finance large infrastructure projects. Our stake in the network operator TransnetBW, and our measures to open this financing project to our private customers, is just one case in point.

We believe in the future of this country. We are part of it.

And we will not run away either; we will shape the future here.

Let me sum up:

- Acting. Allowing.
- Government should not only talk, but act.
- In Europe, differences should be seen as a strength; we should not try to level out everything through bureaucracy.

In my view, these will be the most important challenges in the next legislative period in Berlin and Brussels.

Thank you very much for your attention.

I now hand over to Professor Dr Carsten Wesselmann, the chief economist of the Cologne Kreissparkasse. He will present details from our economic forecast.