Moody's Analytics

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MOODY'S ANALYTICS GERMANY OUTLOOK 2014

DOMESTIC DRIVERS GAINING GROUND, BUT LABOUR MARKET REFORMS TAKE WRONG TURN

LONDON,15 May 2014 — Moody's Analytics, a leading independent provider of economic forecasting, has released its latest Outlook for Germany. According to the report, Germany will record 1.8% growth in 2014 and 2% in 2015.

Although this will pull Germany out from a double-dip slump, Moody's Analytics believes the government will need to step up its efforts to introduce much-needed reforms over the next two years to ensure sustainable long-term growth. "Germany has relied heavily on exports for its growth, but domestic drivers are now gaining ground. This represents a major shift in growth drivers, and the time is right for the government to redirect its focus on domestic demand-boosting measures, especially as the country's excessive current account surplus limits growth through exports," says Anna Zabrodzka, economist at Moody's Analytics.

In particular, lending to non-financial enterprises remains subdued and may reflect German firms' reluctance to expand or establish startups given the high tax burden. Germany has the second highest tax wedge -- a measure of the difference between labour costs to the employer and the net take-home pay of the employee -- among the 34 OECD member countries. Moreover, progressive thresholds, which result in higher taxes the more a person earns, are not automatically adjusted by the rate of inflation, which pushes middle income German households into automatic tax rises.

Moody's Analytics notes that the federal government looks set to achieve a balanced budget in 2014 for the first time in 40 years, thanks to strong tax revenues and record-low borrowing costs. Finance Minister Wolfgang Schäuble has said that from 2015 onwards the government will not require any new borrowing. With such sound budgetary health, the government could introduce long-term structural reforms to enhance growth.

However, critics of Germany's new coalition government have argued that its new reforms are effectively moving the country backwards, and that it is free-riding on the deep structural reforms introduced 15 years ago. Moody's Analytics argues the government's most recent proposals, including lowering the retirement age and introducing a nationwide minimum wage, are effectively undoing earlier progress and will increase the burden on German businesses and households.

For more information, visit Moody's Analytics Dismal Scientist.

About Moody's Analytics

Moody's Analytics helps capital markets and risk management professionals worldwide respond to an evolving marketplace with confidence. The company offers unique tools and best practices for measuring and managing risk through expertise and experience in credit analysis, economic research and financial risk management. By providing leading-edge software, advisory services and research, including proprietary analyses from Moody's Investors Service, Moody's Analytics integrates and customizes its offerings to address specific business challenges. Moody's Analytics is a subsidiary of Moody's Corporation (NYSE: MCO), which reported revenue of $3.0 billion in 2013, employs approximately 8,400 people worldwide and has a presence in 31 countries. Further information is available at www.moodysanalytics.com.

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