



To the point!

Cross-Asset- and Strategy-Research

In Germany, pessimism reigns supreme

The government can turn the crisis into an opportunity

Germany is in recession. At least the economy did not contract further in the second quarter. Nevertheless, we are at the bottom of the growth league among the developed economies. The situation is not good. But the mood is even worse. This can be seen not only in the weak values for consumer confidence or expectations of business leaders.

Trust in political institutions is at risk

Almost more dramatic is the recent collapse of confidence in our political system. Political apathy has reached new highs. According to a survey by polling firm Forsa, only 50% of eligible voters would have voted for the parties represented in the Bundestag in July (not including the extreme right-wing AfD, which is being monitored by the Office for the Protection of the Constitution). If the non-voters were a party, they would have the highest share of the vote at 28%. Increasingly, politicians and parties are not seen as part of the solution, but as the central problem. This is what 32% of citizens said. Only "economy and inflation" was seen as a bigger problem.

Recession as the "New Normal"?

The latest survey of family businesses suggests an "investment strike." And not just because of weak new orders. But also because, in addition to the well-known shortage of skilled workers, overregulation and the unpredictability of economic policies are seen as key obstacles for the business location (see figure).

One thing is clear: things cannot go on as they are. For demographic reasons, we will lose about one percent of the working population on a net basis in the coming years. And this every year.



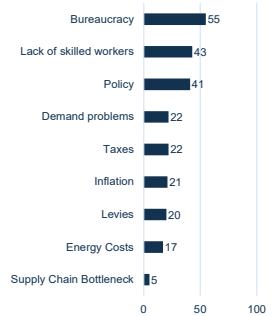
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Pessimism reigns everywhere

What are the biggest barriers to investment?



Source: LBBW Research, Die Familienunternehmer, Survey 3rd quarter (selected responses, in %, up to three responses possible)

At the same time, productivity growth has been trending downward since the financial crisis and is now well below 1% per year. Seen in this light, Germany's potential growth rate is close to zero. This threatens to make the recession the "new normal."

Politics can regain lost trust

But it doesn't have to be that way. The government should use the summer break to take another look at the coalition agreement. There, they would find many a project that would not only help the conditions for businesses in Germany get back on their feet, but could also restore citizens' faith in the reliability of politics.

"Cutting red tape" appears no fewer than 26 times in the coalition agreement. Clear announcement: "We will bring a new bureaucracy relief law on the way, which relieves the economy, citizens and administration compared to the previous bureaucracy." And: "The administration should become more agile and digital".

Go for it! In fairness, it must be conceded that the coalition has long been preoccupied with putting out fires due to war and the energy crisis. But this explanation (excuse?) is now no longer valid. The coalition partners still have time to reflect on their joint plans. The next election is not for another two years. So it's not even half-time yet. The coalition can still become "historic" by introducing reforms that help overcome Germany's weak growth; that lead to businesses and citizens regaining confidence. And that allows the country to escape economic relegation.

Or it can continue as before. If there is any will left in the coalition to shape things, now is the time it must deliver.

Potential growth is far too low

The coalition still has time to become a reform government

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