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Germany's Production Potential: Outlook and Current Challenges

CMTEA Workshop *Revival of the medium-term outlook in times of crisis*

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Outline

1. Medium-Term Outlook in Germany: Methodology
 2. Results: Current Projection from January 2013
 3. Recent Developments and Challenges
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1. Medium-Term Outlook in Germany: Methodology

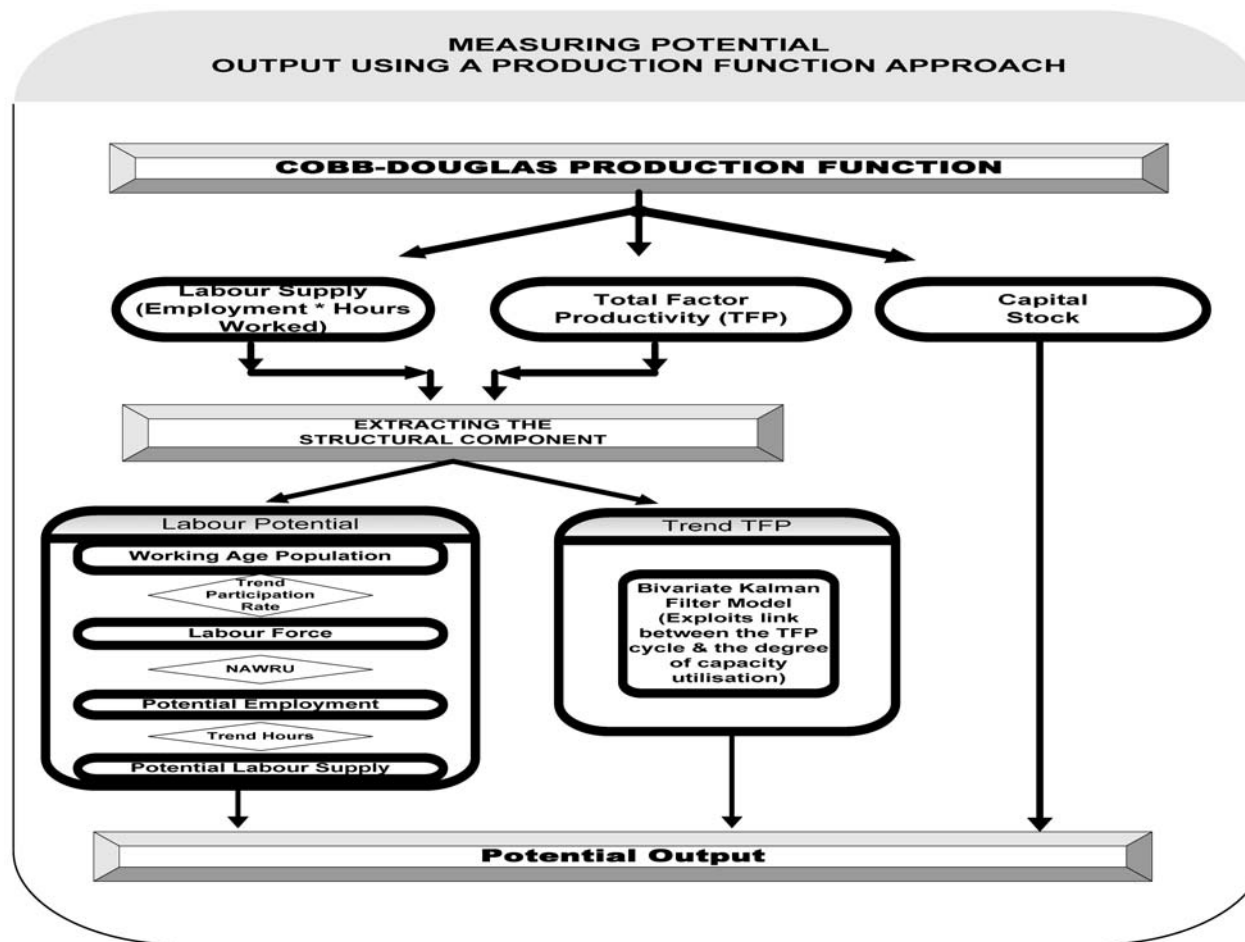


Estimations/projection of potential output are particularly relevant in the context of the...

- **...“Debt Break”:**
Starting in 2016 the structural deficit on the federal level is not allowed to exceed 0,35% of nominal GDP (until 2016: gradual decrease to 0,35%).
 - A cyclical component allows higher / lower net lending in times of negative / positive output gaps.
 - Relevant for medium term budgetary planning:
 - Medium-term outlook of GDP (and its components),
 - Output potential (and output gaps).
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- Estimating potential based on methodological framework of COM.
 - No equal treatment, modification of method of COM
 - Examples: Gross capital stock, univariate models...
 - Potential as econometric anchor for medium-term outlook of the demand side of the economy.
 - Output gap closure rule: Gap closed at end of projection horizon (linear decrease),
 - Simple extrapolation of trends.
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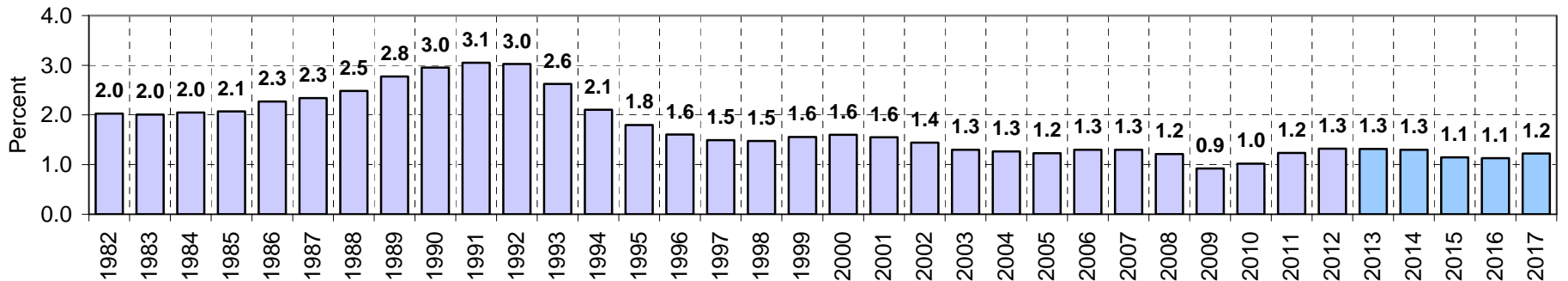
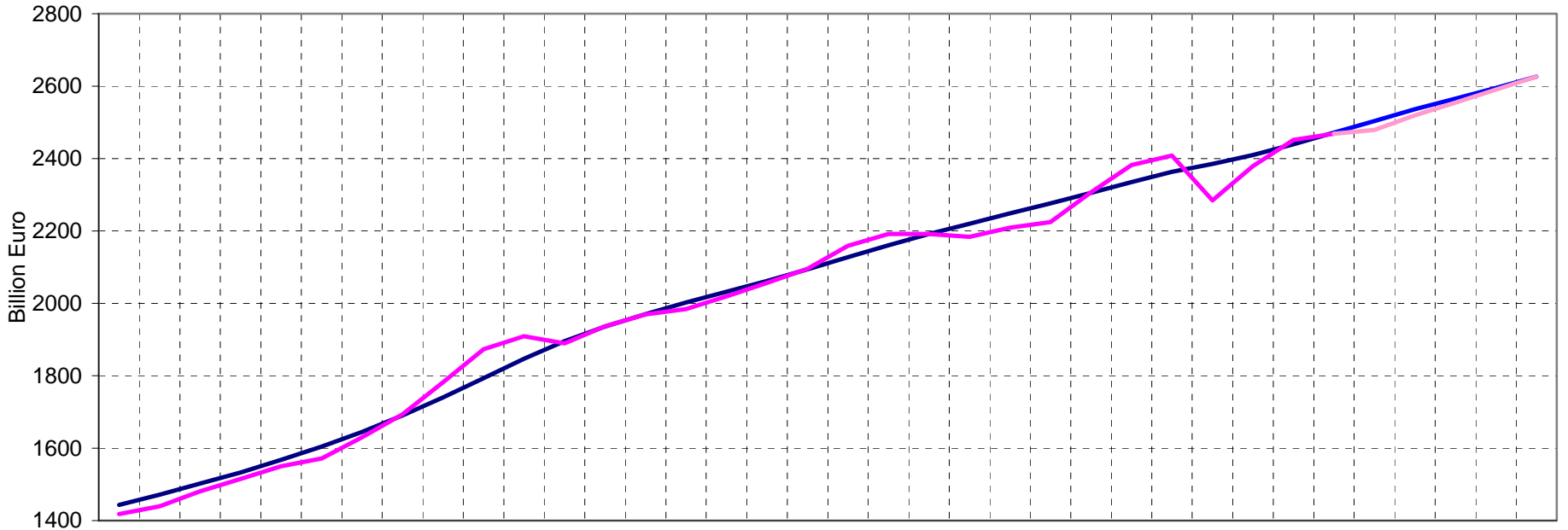
2. Results: Current Projection from January 2013



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Production Potential and GDP

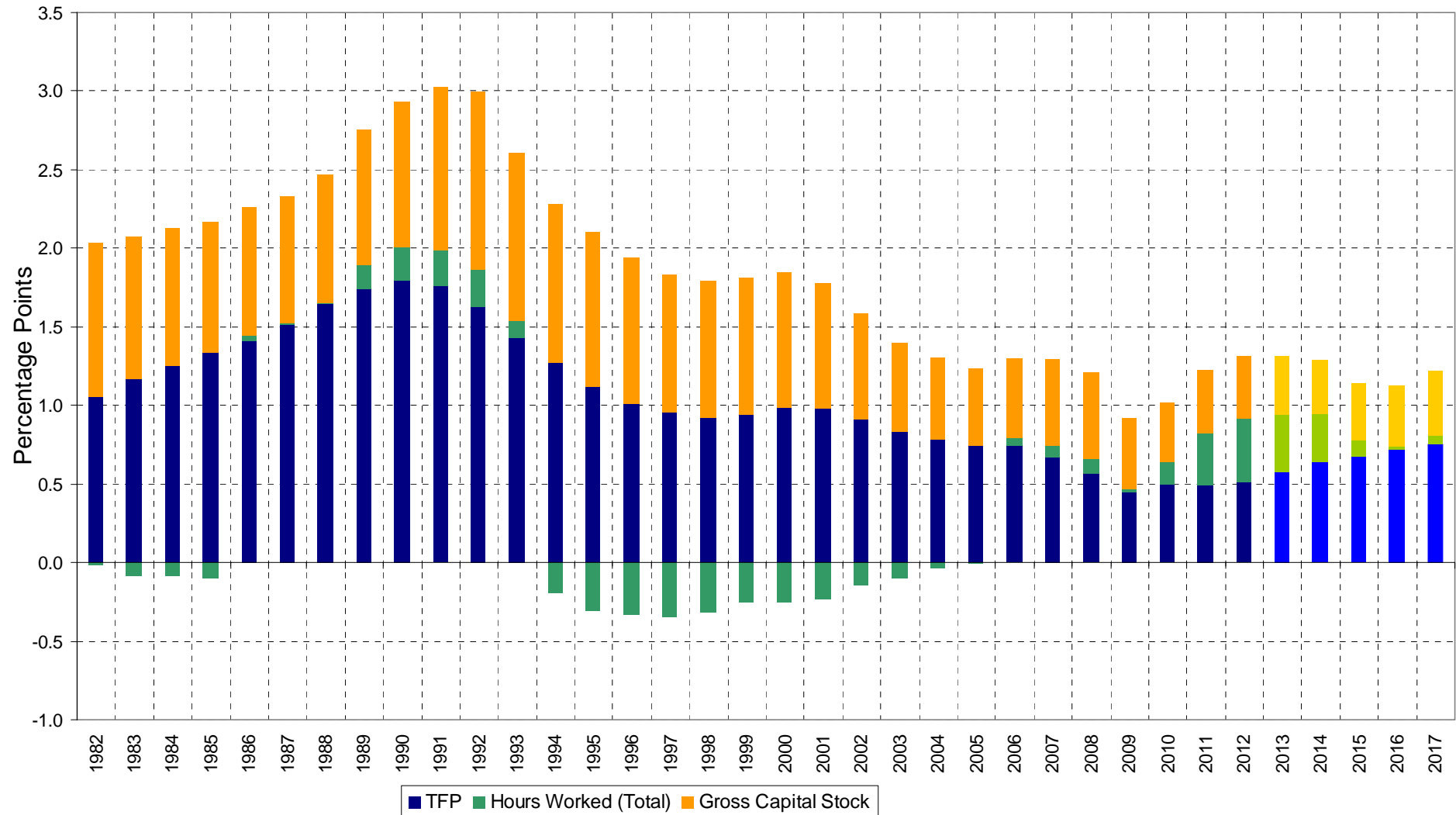


■ Potential Output (Volumes, Changes to previous year)

— Potential Output (Volumes)

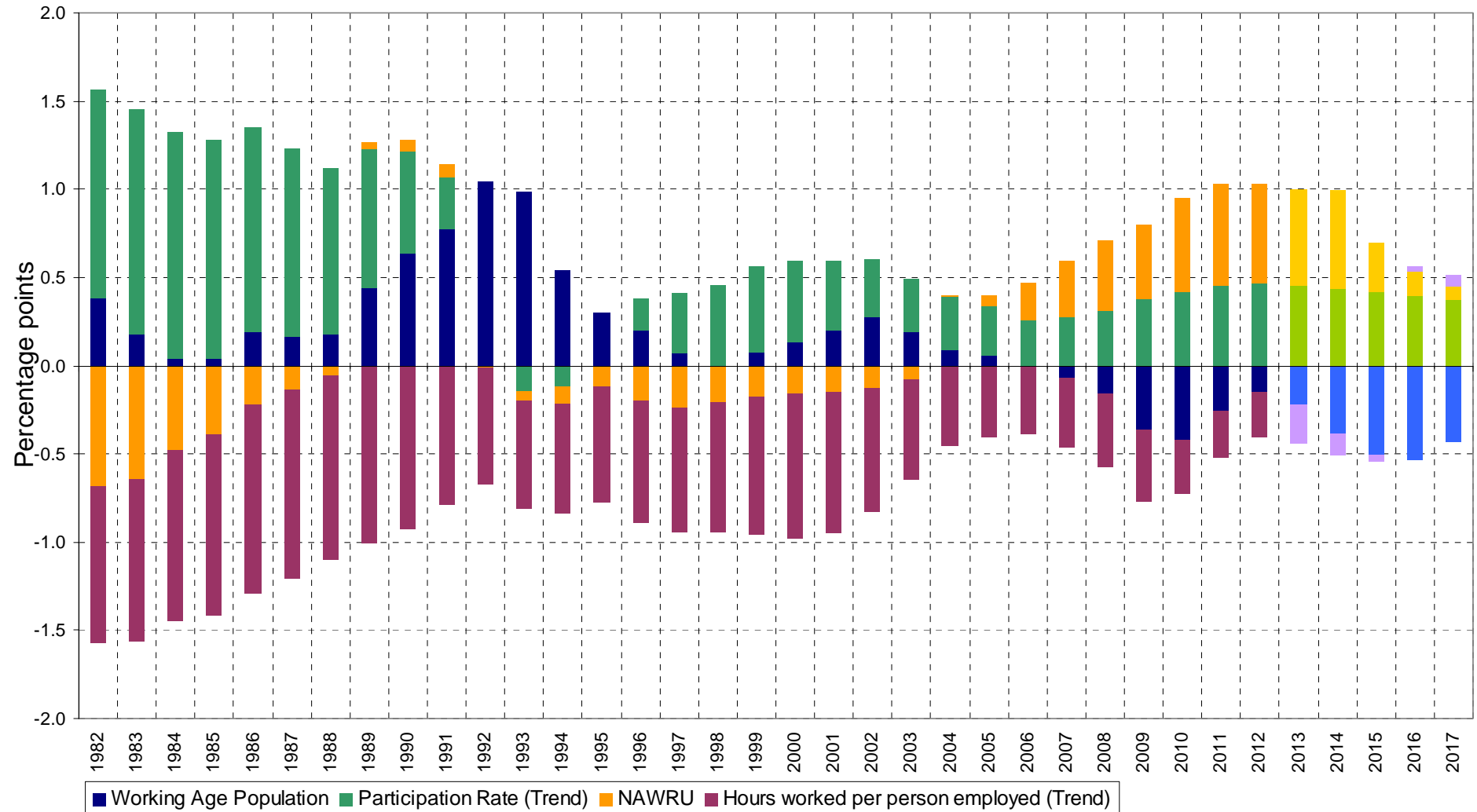
— GDP (Volumes)

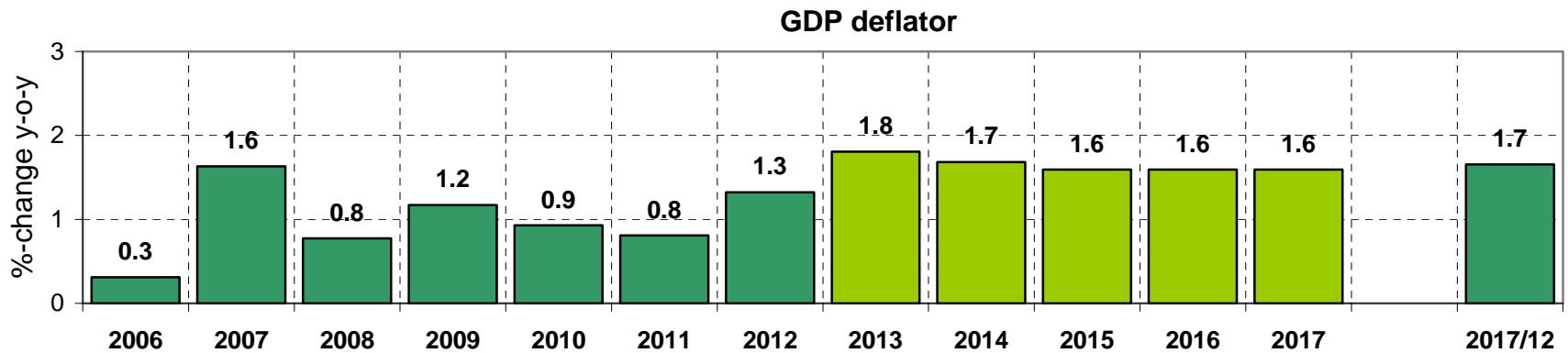
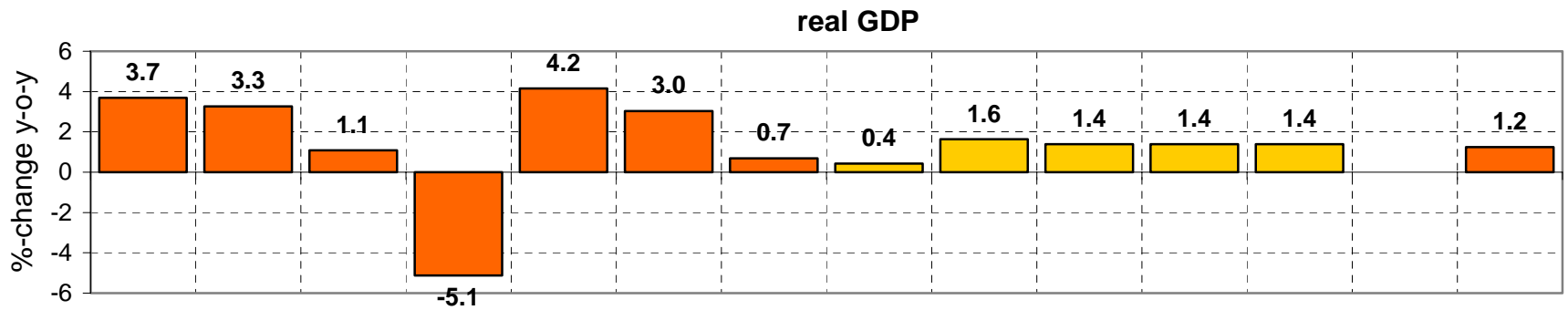
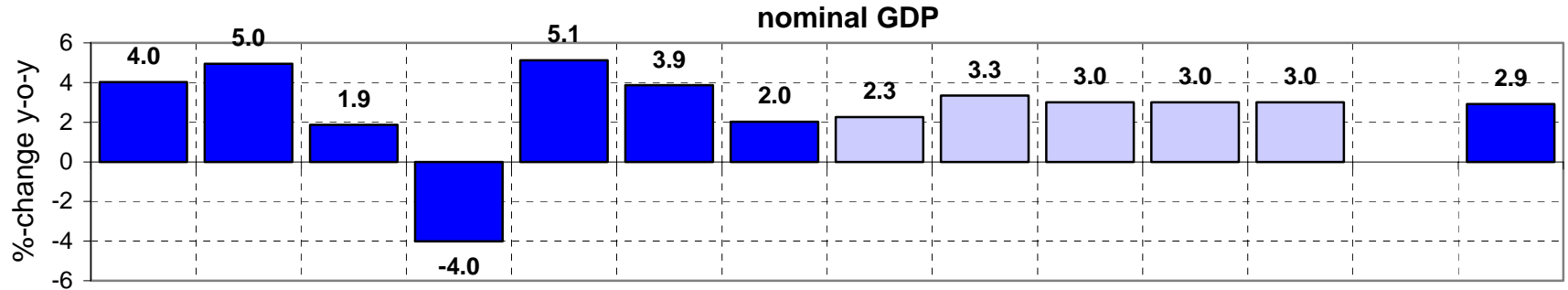
Contribution to Potential Growth





Contribution to Trend Hours Worked



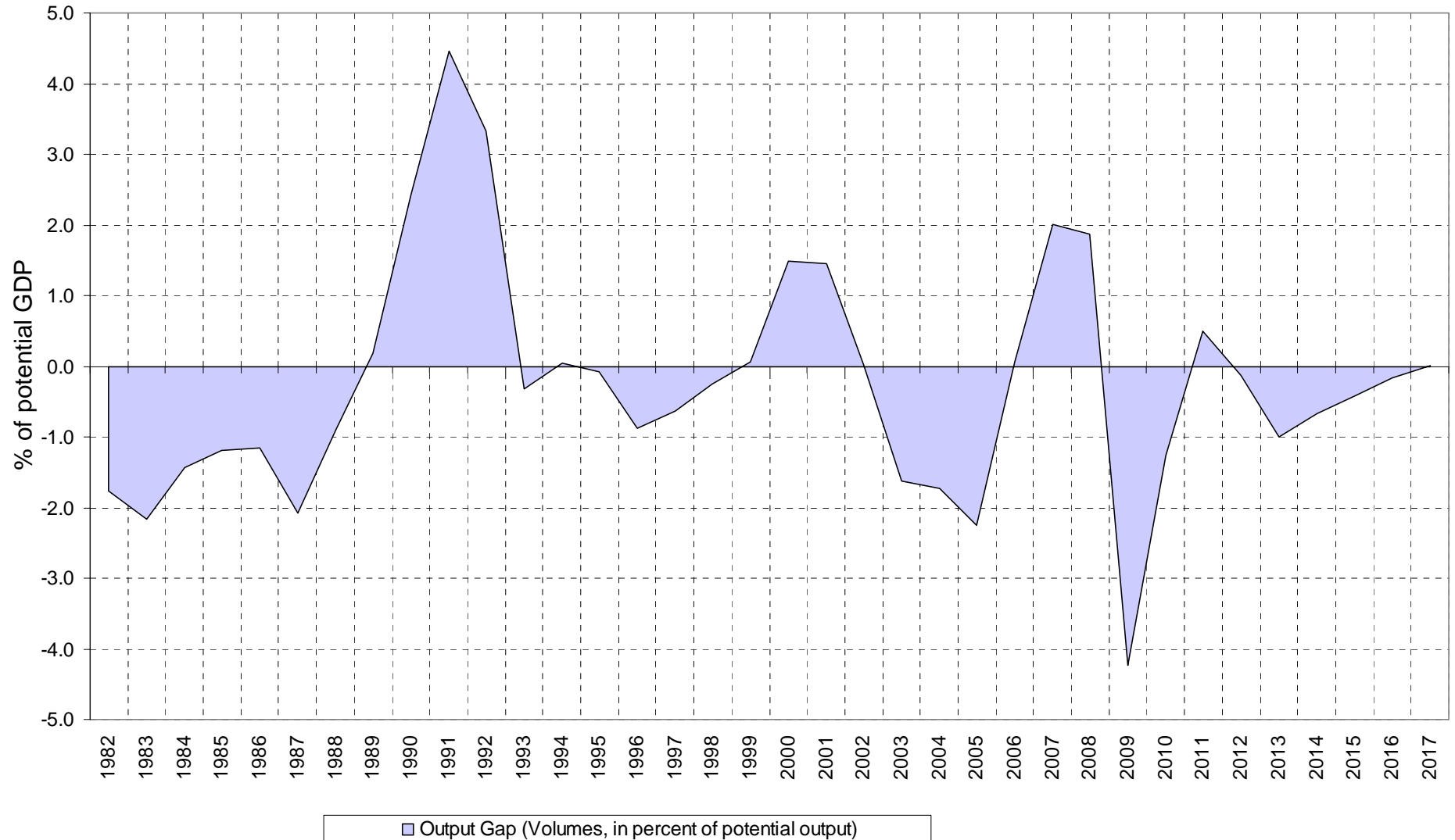




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Output Gap in Germany





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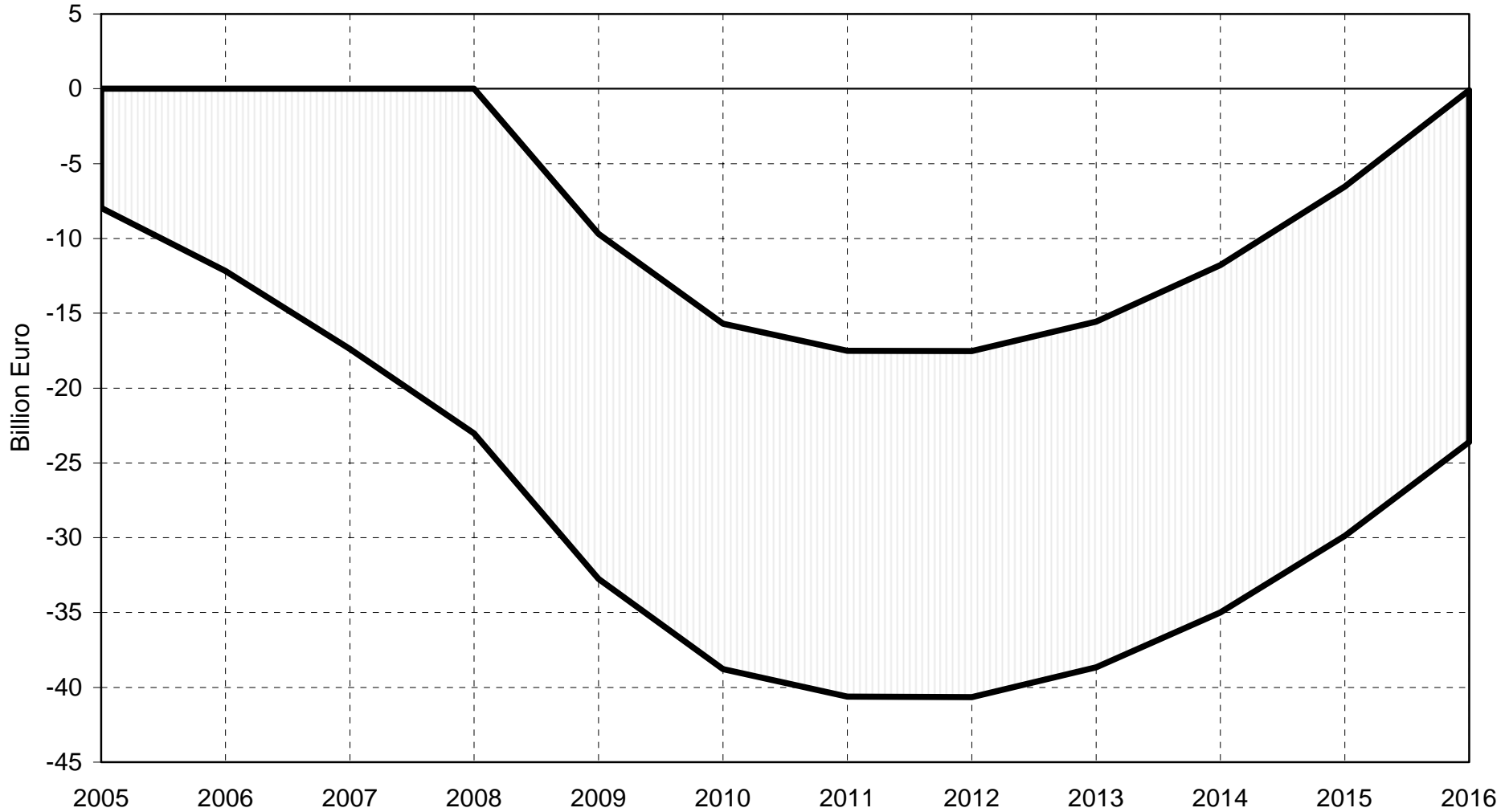
3. Recent Developments and Challenges



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Impact of the crisis on Germany's output potential

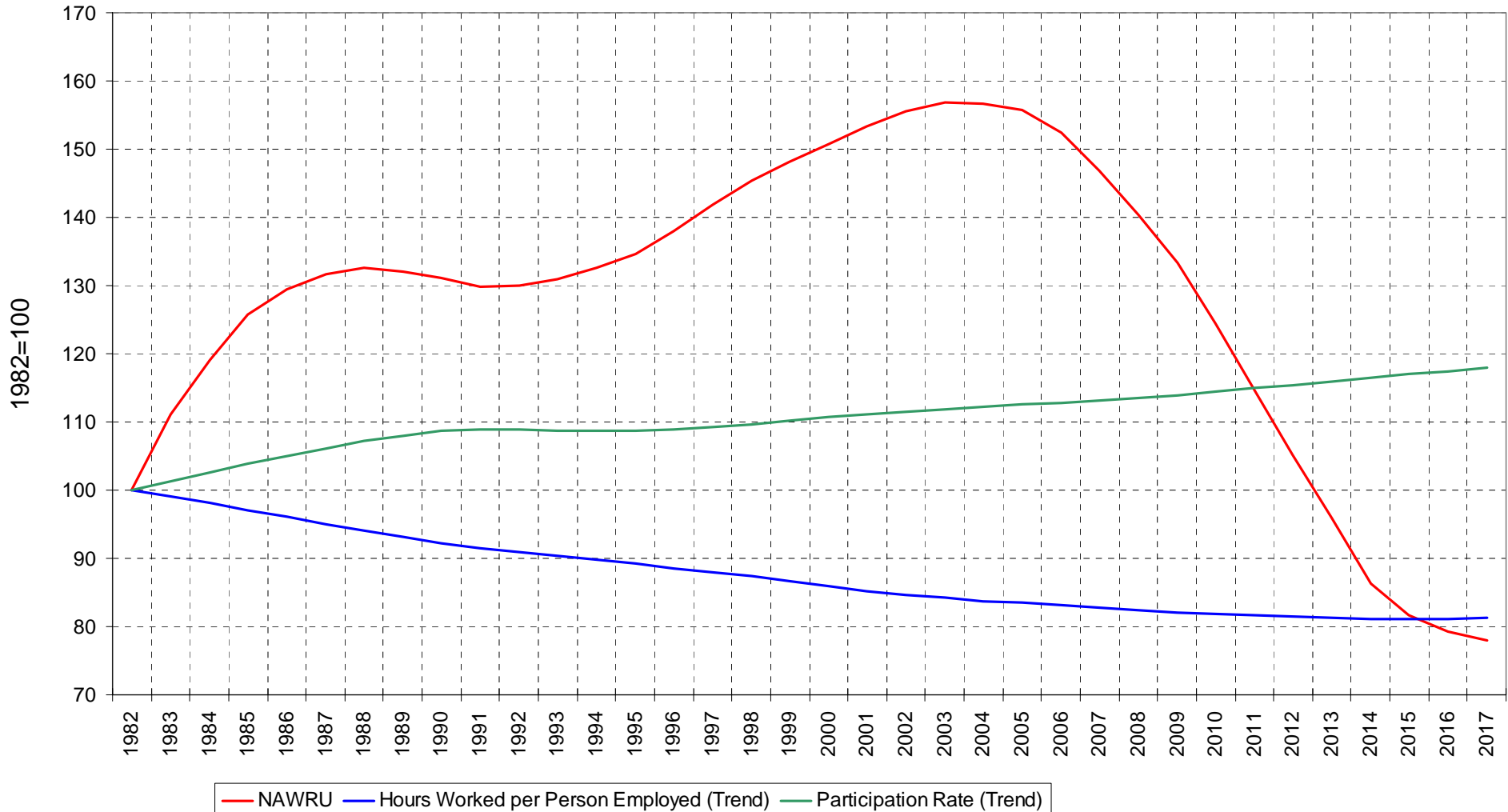




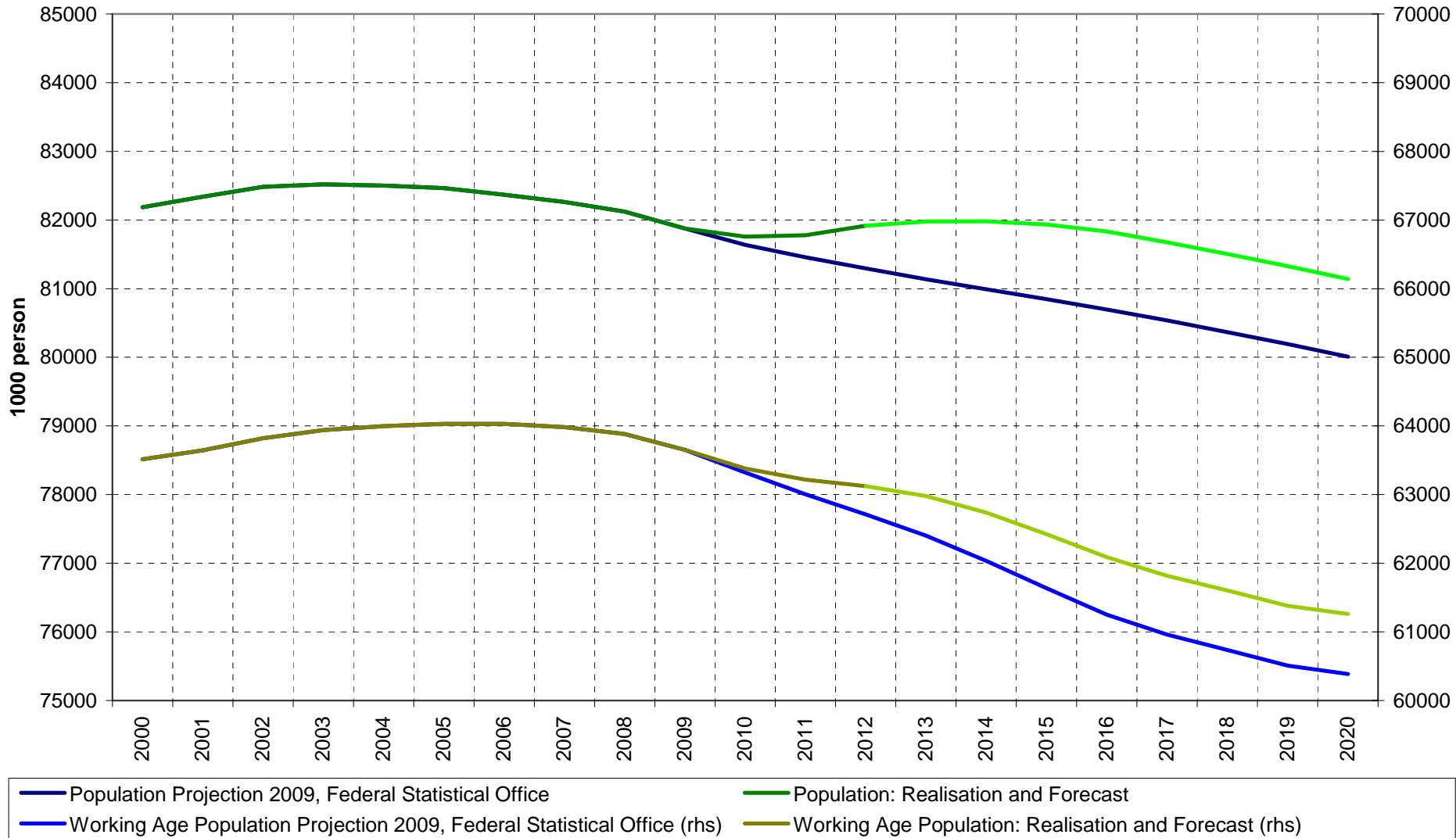
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Structural Unemployment, Participation and Hours Worked



Demography: (Working Age) Population

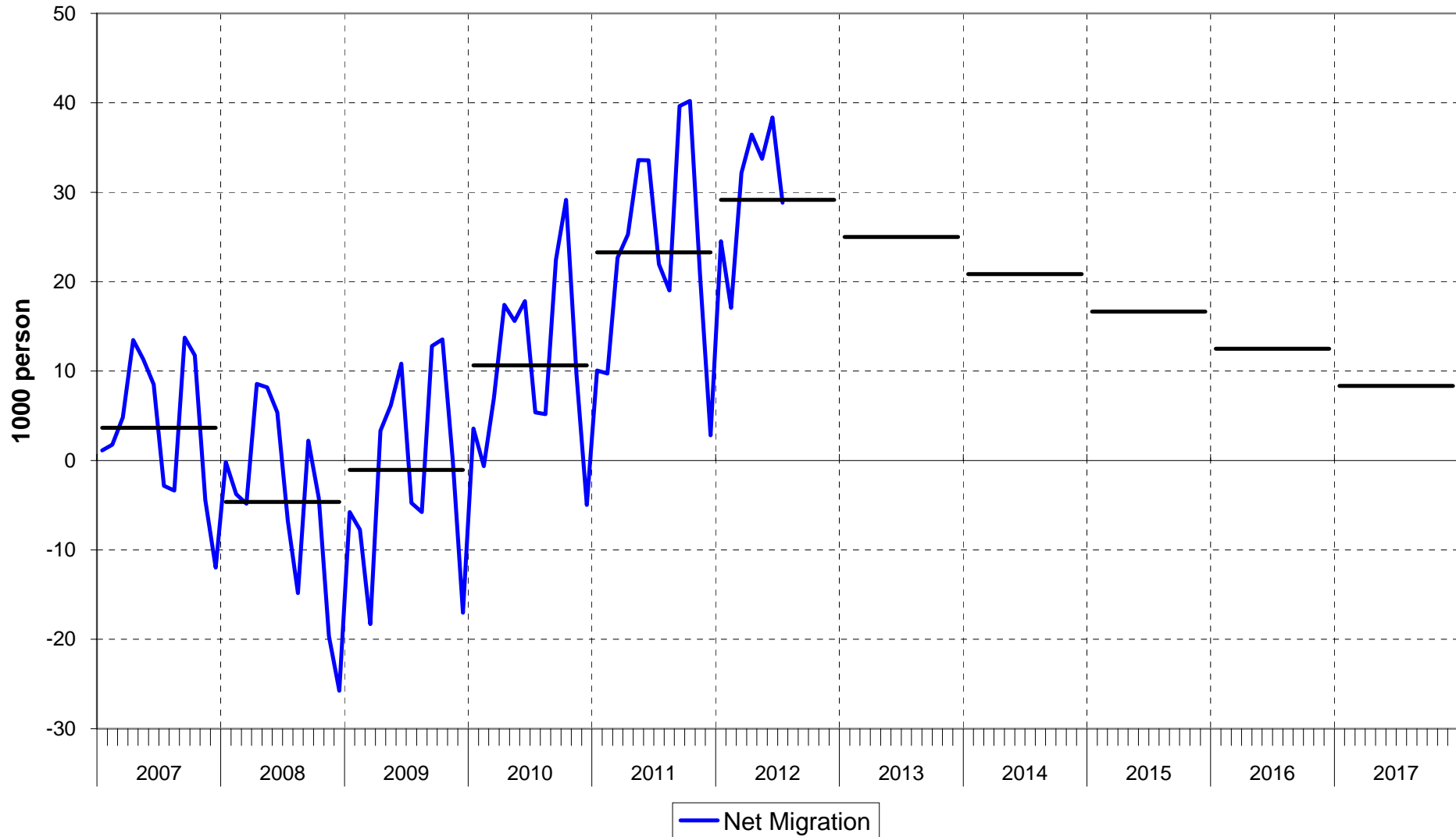




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Net Migration to Germany



Gross Fixed Investment

