Dr. Ferdinand Fichtner, Head of the Department of Forecasting and Economic Policy at DIW Berlin

SEVENT QUESTIONS TO FERDINAND FICHTNER

»A Brexit would significantly dampen Germany's economic growth«

1. Mr. Fichter, the German economy has recently been experiencing a moderate upswing. Can we expect more momentum in the future? Germany's economic development is overall very stable. Although the strong start at the beginning of the year was followed by a somewhat weaker second quarter, we are expecting steady, moderate growth and a very balanced development of the German economy for the second half of 2016.
2. What kind of growth rates do you project? We are expecting a growth rate of 1.7 this year and 1.4 percent next year, which means that from a numbers perspective, development will cool off to an extent. However, this is also due to the fact that we have fewer workdays next year: in 2016, many public holidays fall on a weekend, but this is not the case in 2017. If next year had the same number workdays as this year does, the growth rate would also amount to 1.7 percent instead of the 1.4 percent we are predicting.
3. Is growth in Germany still supported by domestic demand? Germany's strong development is still driven by very powerful domestic demand. Private consumption in particular has seen positive development, partly due to the markedly favorable labor market situation and corresponding salary increases. Foreign trade—that is, exports—is also developing quite vigorously.
4. What is the current situation for German exports? At the beginning of the year, global economic development experienced some volatility: there was significant uncertainty surrounding the Chinese economy as well as that of many other emerging countries. We predict that this situation will improve somewhat over the forecast period, and that German exports will gain some momentum as well. Overall, things are looking pretty good for German exporters.
5. Is the threat of a Brexit having any negative effects at the moment? We assume that the uncertainties related to the Brexit are already having an impact, because uncertainty always gives way to negative effects, especially with regard to investment. At the moment, this effect is probably limited to the UK—that is, less capital is being invested in the UK, which is dampening economic development. I would say that the impact up until now has been relatively minor for Germany and the rest of the EU.
6. What kind of impact would the Brexit have on Europe and Germany? In the time between the referendum and the UK's actual exit from the EU, growth in the UK would likely be lower than it otherwise would have been. Weaker growth in the UK will likely lead to weaker imports, and that means weaker exports for countries like Germany that export to the UK. The UK is a very important trading partner for Germany, and in this respect we can imagine that next year's German GDP growth would be roughly half of a percentage point less than it would have been had the UK decided to remain in the EU.
7. How much is the refugee influx into Germany burdening public finances? Even though refugee-related expenditure is relatively high, the situation of public finances is quite favorable. However, expenditure is significantly lower than we were assuming even three months ago, because the number of refugees has declined markedly. Despite this, the public surplus for this year and the next will be in the double-digit billions.

Interview by Erich Wittenberg

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