COMPETITIVENESS OF GERMANY ON NATIONAL ECONOMY LEVEL

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Konkurencieschopnosť Nemecka na národohospodárskej úrovni

Abstract: *The aim of the paper is to discuss the competitiveness of Germany's economy in the context of changing world economic market as well as in connection with demographic trends in Europe. Basic concepts (globalisation and competitiveness) are explained in the introductory part of the paper. The competitiveness of Germany's economy is discussed based on documents and reports on competitiveness and characterized in the paper in terms of its strengths and weaknesses. While its strengths include performance of businesses, enrolment to secondary schools, export, diversification, creditworthiness, and shortage of labour force, its weaknesses are taxes and social expenditures, prices of petrol and flexibility and adaptability in terms of the country's willingness to accept reforms.*

Keywords: *consumer expenditure, demographic trends, Federal Republic of Germany, European Commission (EC), globalisation, global competitiveness*

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Introduction

Globalisation is a concept frequently used in the recent two decades. The definition of this concept is rather difficult since globalisation is a complex process. There are several definitions in contemporary theory, which approach

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to the concept from various angles. According to one definition globalisation is a process, in which social interactions linking various localities in the way that the events going on in geographically different areas influence domestic events. Another way of defining the concept is to refer to it as a process of integrating society to a higher geographical level. It is a foreseeable process, which is necessary and natural, and it was ongoing also in the past – from the local to regional levels, from the regional to national levels. [1, p.7]

A characteristic feature of globalisation is an immense development of the world economy; globalisation moves the market, law and politics to a level that considerably complicates and determines the autonomy of individual states. It is a complex process, which brings advantages but involves the need for changes in some structures. Various groups perceive globalisation in different ways, which ensues from the contemporary state-of-the-art of these groups, and that, in turn, may be advantageous in relation to the globalisation process. However, there exist also groups that could suffer from a considerable damage by the process, and therefore are afraid of it. However, also in this case, we need to consider comprehensive and global outcomes of globalisation; favourable aspects considerably prevail over the unfavourable ones.

As mentioned before, despite the fact that globalisation is sometimes referred to as a phenomenon of recent years, it denotes the process that has been going on for a much longer time. At present, there is no agreement on when this process started. Opinions of the beginnings of globalisation vary. In some sources, the beginning of globalisation is traced back to the very beginning of civilisation, while other sources put it as late as at the beginning of the twentieth century. However, it is certain that it was in particular in the twentieth century that the globalisation related processes have increased and accelerated. This is owing to numerous stimuli, for instance the development of corporations surpassing national borders, development of international trade, fast development of information, as well as transport and telecommunication technologies. The twentieth century is also characteristic of an extraordinary fast growth of population and consumption. Technologies played a very significant role here.

Another important aspect of looking at globalisation is its relation to parallel processes or those that may affect it to some extent. At this point, it is necessary to mention the connection with the concept of internationalisation. Internationalisation influences countries by increasing their mutual relationships on the level of national spheres. Countries are separated by borders and by the time needed for overcoming the distance between them. This is the very difference between globalisation and internationalisation. In a globalised world, ideas and perceptions may spread immediately and within a very short time. The world is internationalised and at the same time globalised. Next phenomenon connected with globalisation is glocalisation. It is a phenomenon involving the strengthening of local structures. This is due to the nature of several factors, including for example ethnic, religious, national, but also natural factors, whose character helps us cope with globalisation. On the other hand, there is a reverse process: the need to identify with the nation, ethnic, religion, while culture is being globalised at the same time.

Other aspects that need to be mentioned are migration and a considerable development of information and communication technologies. While in the past people's migration region was rather limited by transport options, nowadays this barrier has been considerably shifted. Travelling options have also increased, and the price of transportation decreased. In the past, the migration territory was often restricted only to a given region or a continent. Migration is one of characteristic features of our period, and it is accompanied with meeting cultures, lifestyles, but also with the rise of various negative consequences, as for instance infectious diseases and xenophobia.

As mentioned earlier, information and communication technologies play a significant role in the globalisation process. Within a short time, data are disseminated all over our planet. Distances between countries are shortening and crises spill over from one area into others [2, p.11]. Globalisation increases international trade and overall economic links in the world, which has both favourable as well as unfavourable outcomes. These positive aspects include the rise in the standard of living and a more peaceful world arrangement, productivity of labour, decreasing unit costs, speed of innovations, modernisation of production and consumption structures, improved access to capital and additional effects resulting from the growth of intensity of trade exchange [2, p. 23]. The negative ones include, for instance, damaging the environment and in some parts of the world, increasing inequalities between inhabitants. A relatively frequent issue is that of the relationship between trade and the living environment. Advocates of international trade often argument by a more effective utilisation of available sources related to specialization on an international scale. They also mention a more effective way of the natural protection in the course of cooperation and permanently sustainable development. Globalisation critics, on the other hand, emphasise the rise in the consumption and related exploitation of resources, more waste, as well as the pollution caused by transport.

In today's globalised world, national economies are thus closer interconnected via their interactions. In connection with the earlier mentioned impacts of the world globalisation, which are reflected not only in the international cooperation on various levels, the question of countries' competitiveness is brought to the forefront. Although competitiveness is discussed mostly on a firm's level, recently, a greater attention has been paid to the evaluation of countries' competitiveness on a national economy level. "Problems of competitiveness not only surpassed the limits of the foreign trade issues and those on a firm's level; they mainly included the phenomenon of intensifying and accelerating technology innovations, which has become the chief driving force of globalisation, as well as the cause of economic and societal differentiation of countries, creating thus the barriers or problems in the process of regional and global integration" [13].

Likewise, in the literature an unambiguous definition of the concept of globalisation does not exist, nor does a clear definition of the concept of competitiveness. The easiest and the simplest way of defining competitiveness is that on the level of firm. "The contemporary and future ability and opportunity for business persons to create products, whose price and nonprice qualities will be more attractive than those of foreign and domestic producers". [8] "A firm is competitive if it is capable of producing products and services of better quality and at lower costs than its domestic and foreign competitors. It is a synonym of long-term profitability to reward employees and achieve higher yields for owners" [15]. This definition points to "factors that appear to be counterproductive on a nation-wide level given the aims of an increasing competitiveness on the nation-wide level as in particular the improvement of inhabitants' standard of living, a country's ecology conditions, and achievement of favourable balance of foreign trade" [13]. The difference between the aims of a firm's competitiveness and those of a country's national economy is the reason why many institutions deal with the evaluation of the state's economy as a whole.

Organizations that annually publish results of measuring and evaluation of competitiveness of separate countries include the World Economic Forum (WEF), International Institute for Management Development (IMD), OECD, World Bank, European Commission, and the International Monetary Fund, and many others.

2 Report on Global Competitiveness

The World Economic Forum (WEF) has been dealing with the evaluation of countries' competitiveness for three decades. Annually, it publishes the Report on Global Competitiveness, which contains the evaluation of the factors of permanent economic growth and permanent prosperity of individual countries' economies. According to the World Economic Forum, competitiveness is "a country's ability to achieve sustainable high GDP growth rates per an inhabitant. In global competitiveness reports, the WEF uses mainly the definition based on works of Michael Porter, according to whom the national competitiveness explores the ability of the national economy growth by means of a set of factors, policies and institutions, which determine the level of the given country's competitiveness"[17]. The WEF assesses competitiveness of individual countries by means of the global competitiveness index (GCI). "GCI demonstrates to what extent the national competitiveness is a complex phenomenon, which may improve only through a range of reforms in various areas, and these influence the country's productivity in the long-term. These range from public affairs and macroeconomic stability up to the effectiveness of production factors' markets, technology adoption, and innovation potential". [10]

The outcome of the Global Competitiveness Report for the year 2015 may be summarised in the following WEF recommendations:

- States have to increase their productivity if they want to overcome a slow global growth and ongoing high unemployment;
- Inadequate support of competitiveness deteriorates the countries' abilities to defend themselves against recession and other business cycle shocks;
- Switzerland, Singapore, Germany, and the United States focused on the innovation and talent – that is why, they occupy first positions in GCI assessments.

According to the GCI Report, there is direct connection between competitiveness of the national economy and its capability of promoting talents, acquiring and supporting them. In this respect, the countries occupying leading positions are equally successful according to this report. In many countries, however, people lack an adequate access to quality education and subsequently to further education, which results in a low flexibility of labour markets.

In the evaluation of GCI of countries, Germany took the fourth position, which means one-step upwards in comparison with the preceding year. [16] It means that Germany's position in international competition has improved. Only three countries are placed better, according to the most recent World Economic Forum ranking. However, the gap in the European Union continues to raise concerns.

Germany has worked to the top of the most competitive countries from the sixth position to the fourth one. It is preceded only by Switzerland, Singapore and Finland. The Federal Republic of Germany was thus listed in the global competitiveness index for the second time, ahead of the United States. According to the World Economic Forum, this situation was allegedly caused by an innovation ability of German enterprises. After a recently published SHF study, Switzerland has become the most competitive country in the world for the fifth time, followed by Singapore. Finland defended its third position and last year it became the most competitive in the Eurozone national economy.

While the succession in the first three places has not changed since the previous year, Germany has managed to move up two places in the ranking. In this way, the Federal Republic's lead is even ahead of the world economic superpower – the United States, which moved up by two places after a four-year stagnation.

Table 1

The Global Competitiveness Index of 10 Countries

GCI 2015-2016	State	GCI 2014-2015
1.	Switzerland	1
2.	Singapore	2
3.	USA	3
4.	Germany	5
5.	Holland	8
6.	Japan	6
7.	Hong Kong	7
8.	Finland	4
9.	Sweden	10
10.	Great Britain	9

Source: [16].

The reason for Germany's advancement among the five economically most successful countries is the innovation power and flexibility of the economy and an overall intact infrastructure. Experts of the World Economic Forum also highlight the size of the domestic market, progress of enterprises, and an effective market in products.

Structural Shortcomings

The World Economic Forum has determined twelve categories for the evaluation of competitiveness of countries, including also the macroeconomic environment and effectiveness of the labour market. When examining these magnitudes, Germany's structural shortcomings have come up to the surface, which avoided Germany from occupying the highest position in WEF evaluation. The subject of criticism has become the high tax burden and a strong regulatory effort on the part of authorities. This is reflected in the complicated nature of steps to be taken when setting up a new business. For the sake of comparison – in Finland three steps are necessary to set up a company, in Germany, as many as nine.

The WEF criticises a frozen labour market in Germany. Experts in particular point to an inadequate flexibility of wage policy and comparably high costs of decreasing the number of jobs, which hamper the creation of new jobs. The balance between the protection against the notice of employment termination and the protection of business interests is important in particular on the stage of a country's economic boom. In other countries, for instance in Great Britain, these conditions are better adjusted, according to the WEF Report.

Another problem pointed out in the WEF Report, is Germany's high state debt. Despite a favourable macroeconomic situation, the indebtedness quota accounts for over 80% of the economy's performance. According to the Maastricht criteria, which are essential for the Euro stability, this quota cannot exceed the limit of 60%.

The WEF assessed Germany's competitiveness on the national economy level in the Report on Global Competitiveness for the years 2015 – 2016 as follows:

Key indicators:

Population (in millions)	81,1
GDP (in USD bill.)	3,8595
GDP per capita (in USD)	47,590
GDP share on a world-wide scale in %	3.45

Table 2

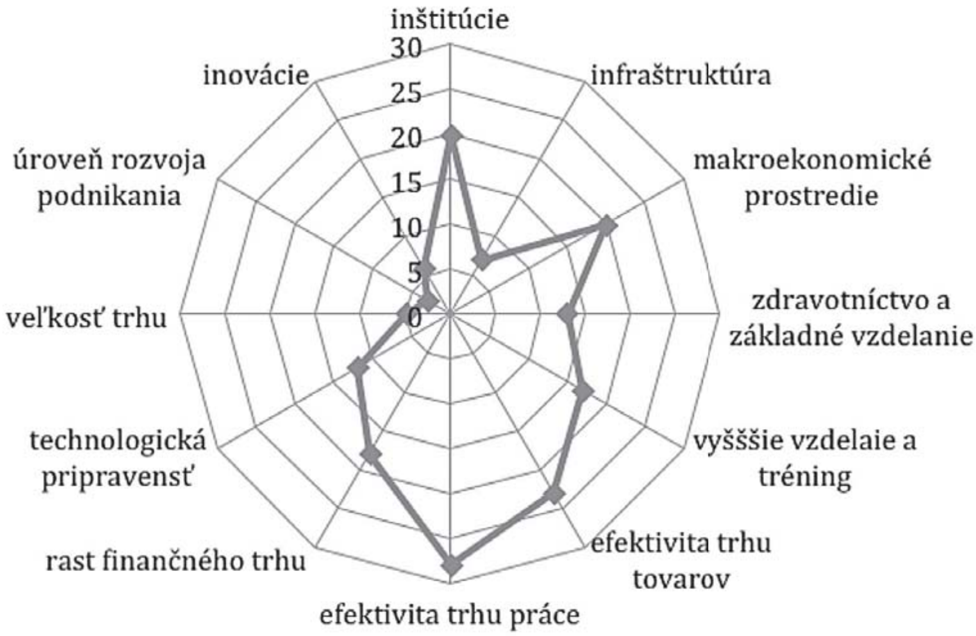
Germany's competitiveness on national economy level based on the Global Competitiveness Report for the years 2015 – 2016

GCI	**succession (of 140)**	**score – 7**
GCI 2015 – 2016	4	5,5
GCI 2014 – 2015 (of		
144)	5	5,5
GCI 2013 – 2014 (of 148)	4	5,5
GCI 2012 – 2013 (of 144)	6	5,5
Basic conditions (20%):	**8**	**6,0**
Pillar 1 – Institutions	20	5,2
Pillar 2 – Infrastructure	7	6,1
Pillar 3 – Macroeconomic environment	20	6,0
Pillar 4 – Health and primary education	13	6,5
Factors of efficiency increase (50%)	**10**	**5.3**
Pillar 5 – Higher education and training level	17	5.6
Pillar 6 – Goods market efficiency	23	4.9
Pillar 7 – Labour market efficiency	28	4.6
Pillar 8 – Growth of financial market	18	4,7
Pillar 9 – Technological readiness	12	6.0
Pillar 10 – Market size	5	6.0
Factors of innovation and sophistication (30%)	**3**	**5.3**
Pillar 11 – Business sophistication	3	5.7
Pillar 12 – Innovations	6	5.5

Source: own processing after [16].

Figure 1

Twelve GCI pillars



Source: own processing after [16].
Explanatory note: Inštitúcie – institutions; infraštruktúra – infrastructure; makroekonomické prostredie – macroeconomic environment; zdravotníctvo a základné vzdelanie – health and primary education; vyššie vzdelanie a tréning– higher education and training; efektivita trhu tovarov – goods market efficiency; efektivita trhu práce – labour market efficiency; rast finančného trhu – rise of financial market; technologická pripravenosť– technological readiness; veľkosť trhu – market size; úroveň rozvoja podnikania – business sophistication; inovácie – innovations.

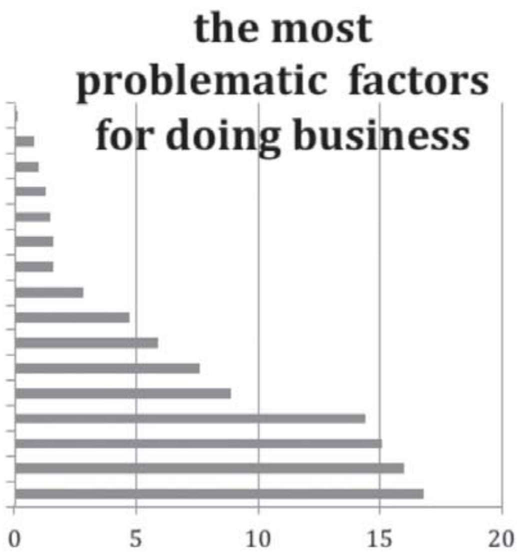
The most problematic factors for doing business:

Complicated tax rules	16.8
Inefficient government bureacracy	16.0
Tax rates sadzby	15.1
Restrictive work regulations	14.4
Access to capital	8.9
Inadequate education of labour force	7.6
Inadequate innovations	5.9
Inadequate moral on the labour market	4.7
Inadequate infrastructure	2.8
Rules in foreign currency	1.6
Unstable policy	1.6
Corruption	1.5
Criminality and thefts	1.3

Poor health condition of inhabitants	1.0
Inflation	0.8
Poor government stability/coup d'état	0.1

Source: own processing after [17].

Figure 2



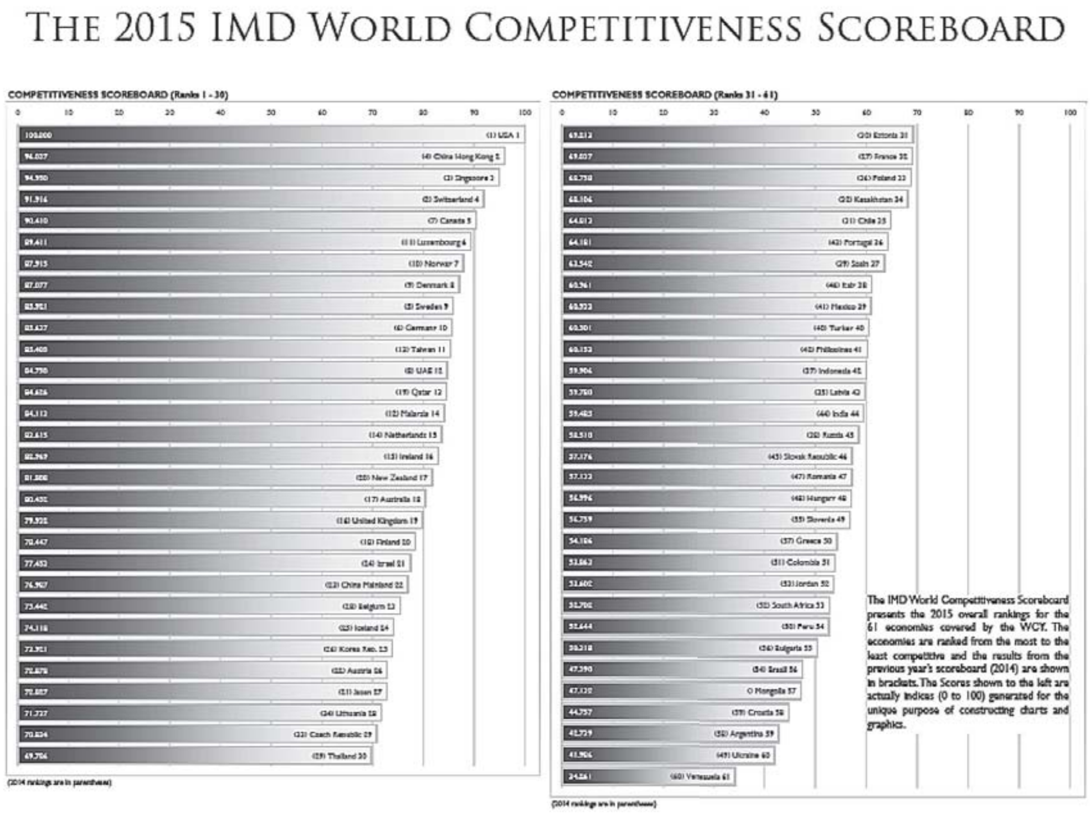
Source: own processing after [16].

In a detailed evaluation of individual pillars, Germany fared best in the evaluation of Pillar 11 – Business sophistication and Pillar 12 – Innovations.

The World Competitiveness Yearbook of Economies

The renowned International Institute for Management Development annually publishes The World Competitiveness Yearbook (WCY). **The Index of Countries' Competitiveness,** which was shortened for the first time in the year 1989, compares and evaluates 342 various categories associated in four basic areas – economic development, government effectiveness, effectiveness of enterprises, and infrastructure. Two thirds of the data are hard, objective data, as for instance statistics on each country; for the purposes of index, data are obtained from reports of international organizations. Subjective evaluations of the remaining factors in the index were acquired based on a survey with over 6,200 topmanagers from all the countries. The most important objective factors include the comparison of the level of economic growth, national wealth, flow of investment, balance of trade and balance of payment, employment, price level, state-of the art development and deficits of public budgets, productivity of labour, education, level of technology, research, health care, and many others. Further, top managers of significant enterprises evaluated the level of legislative environment, enforceability of the law, state interventions, corruption, foreign relations, influences of globalisation, value system, and others in a public opinion survey. [11]

Figure 3



Source: [11].

According to the IMD evaluation, Germany's economy is strong, however, not invulnerable. The best proof supporting the statement is the fact that according to a renowned international competitiveness scoreboard of the national economy (IMD) the competitiveness of the Federal Republic has declined. In comparison with the last year, the country has fallen by four tiers, from the sixth position to the tenth one. Germany has been overtaken by Canada and Luxembourg, together with two Scandinavian countries.

The International Institute for Management Development, a private Higher School of Economics in Swiss Lausanne (IMD) pointed to the fact as early as last year that Germany might soon drop out from the top ten. In the evaluation of the International Institute for Management Development (IMD), Germany dropped from the sixth position to the tenth one. Arturo Bris (IMD Director) explains the reason for the statement that Germany is part of the continent that is swaying in turbulences. To date, Germany's economic situation cannot be assessed in isolation. The IMD chart is based in two-thirds from hard economic data, as for instance economic growth and unemployment in Germany, which indicate that the country has so far managed to maintain a relatively good position. The country's image has, however, clearly deteriorated in the eyes of international decision-making powers, while it is these powers that stand for the remaining one-third of the evaluation criteria. A substantial share in this situation has also the Federal Government's economic policy. The latter considerably influences attitudes of managers inquired. This is reflected in the values measured by the World Bank in the area of favourable economic conditions, in founding firms and regulation of the labour market. Regarding the setting up of firms, Germany fell from the 29th position to the 35th one, and in terms of the labour market regulation from the 35th to the 41st position. According to international decision-making powers, Germany is endangered by the fact that the minimum wage, which has not changed in Germany from the beginning of the year, caused a decrease in the country's attractiveness for firms. This, in turn, deteriorates the country's image; firms avoid the country and there are fewer jobs as a result.

Since the year 2010, unit costs in Germany have risen by 9%. Therefore, Germany can continue to pretend its price competitiveness, obtained owing to the Agenda 2010 reform programme. In Germany, unemployment used to be high and wages were lagging behind the growth of productivity. However, nowadays wages are rising faster than the productivity, which is disadvantageous for the firms' price policy competitiveness.

What is Germany to do to improve its price competitiveness? Germany's situation has to be considered in an all-European context. Germany is an exporting country. If the European Union's health improves, so will the prospects of Germany. Perceiving the country's attractiveness for firms from the aspect of international decision-making powers would improve if the negotiation with the United States on free trade succeeded. Germany would manage to profit from that owing to its diverse industries. According to the statement of Arturo Bris, the IMD Director, the minimum wage endangers the economy's competitiveness. This also holds for employees who retire earlier or for fast rising energy costs. In the next ten up to twenty years, the prices in Germany for energy will be fourfold than those in the United States, which no industrial country can endure. Likewise, according to him, in the year 2015 the economic and political decisions of the government must not negatively influence Germany's position in the country ranking.

In addition to the problems mentioned, as for instance high energy costs, earlier retirement, and minimum wages, a real destructor of competitiveness is the tax policy. In comparison with the 61 examined national economies, Germany has taken the catastrophic 55th position.

Table 4

Natural gas, industry prices

year	I.	II.	III.	IV.	V.	VI.	VII.	VIII.	IX.	X.	XI.	XII.	average
2000	45,2	46,0	46,4	51,5	52,6	52,8	56,6	7,4	57,3	61,4	62,9	63,0	54,4
2001	67,9	67,9	68,7	71,6	71,8	71,7	70,5	69,7	69,6	65,5	64,5	64,3	68,6
2002	64,5	64,7	64,7	61,6	61,1	61,1	59,1	58,9	58,8	60,1	60,6	60,8	61,3
2003	65,8	66,1	67,2	68,6	68,7	68,6	69,2	69,4	69,7	68,0	67,3	66,8	68,0
2004	65,0	64,5	64,5	64,7	64,7	64,8	64,5	64,5	64,4	65,7	66,0	66,1	65,0
2005	69,2	70,0	70,2	73,9	74,9	74,9	76,4	76,8	77,1	81,6	82,3	82,7	75,8
2006	88,7	89,2	90,2	97,5	97,8	98,8	99,4	99,6	99,6	103,3	103,7	104,0	97,7
2007	103,4	103,3	102,7	98,0	97,8	97,3	93,4	93,6	93,5	94,4	94,9	95,9	97,4
2008	100,6	101,1	101,9	108,5	109,2	110,5	116,7	117,9	119,0	128,0	129,5	131,8	114,6
2009	131,7	131,3	129,9	113,1	111,6	109,1	96,0	96,3	96,1	90,9	90,8	91,4	107,4
2010	93,9	95,0	94,8	97,5	97,2	97,8	101,4	101,9	101,9	105,7	106,4	106,5	100,0
2011	107,9	108,1	108,3	110,5	110,9	110,9	116,5	117,5	117,3	124,1	124,7	124,8	115,1
2012	126,6	126,8	127,0	130,3	130,6	130,4	131,7	131,9	132,2	133,1	133,0	132,6	130,5
2013	132,4	132,5	132,5	131,3	131,3	131,2	129,9	129,4	129,3	128,2	127,6	127,5	130,3
2014	127,1	126,6	126,2	125,5	125,0	124,4	123,7	123,3	123,7	123,8	124,0	123,5	124,7
2015	121,4	120,6	121,2	117,8	117,6	116,9	114,3	113,8	113,0	110,6	109,2		

Source: [4].

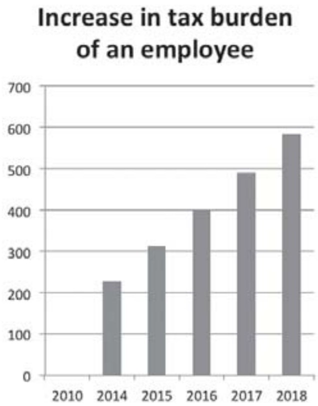
As shown in the table above, which depicts prices of natural gas for Germany's industry, the natural gas prices were continually rising during the years 2000 up to 2006. From the original value of €45.2, they rose to the value of €104.0. In the year 2007, the prices started to decline to the value of 95,9 and subsequently in the year 2008 they rose in comparison with the preceding year by €35,9 up to the value of €131,8. In the year 2009, the natural prices for industry again declined to the value of €91.4; in years 2010 – 2012 these prices were repeatedly rising and climbed up to the level of €132.6. During 2013 – 2015, we recorded a slightly decreasing trend, prices of natural gas for industry fell to the level of €109.2. Data for December 2015 and average vale of natural gas for industry for the year 2015 are not available.

Germany's weaknesses in competitiveness

Taxes and social expenditures

Relatively high contributions to social insurance are a competitive disadvantage for Germany. In this area, Germany occupies the 56th position. The IMD said that in order to support competitiveness, also the business profits would have to be taxed lower. In this area, the Federal Republic occupies the 53rd position. On an international scale, Germany belongs to the countries with the highest tax burden, which accounts for more than 30%. In addition, the burden of the consumption tax records a rising trend in Germany. In financial policy, Germany placed the fifty-fifth from sixty-one countries, namely despite surpluses in the state budget. This is because in Germany enterprises pay too high taxes, which damages their competitiveness. Although taxes can help the state budget, they are harmful in the value creation in businesses. An effective tax burden of enterprises in Germany far exceeds 30%, which is reflected in Germany' listing in the international scale of countries with the highest tax burden. Taxation of consumption is likewise high and continues rising. The following statistics reflects an increased tax burden of an employee under maintaining the purchasing power of wages, caused by a cold progression in the years 2010 up to 2018. In the model calculation, the employee earns annual wages of €30,000. If the earning rises under the influence of inflation and the wage purchasing power remains unchanged in the upcoming years, the employee will pay a higher tax.

Figure 4

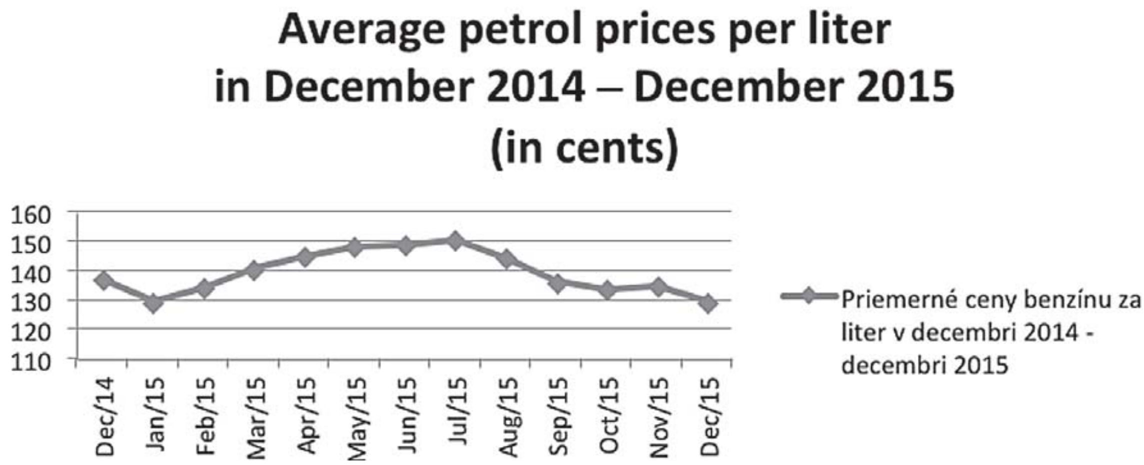


Source: own processing after [19].

Prices of petrol

In international comparison, petrol prices in Germany are very high, in particular based on high taxation, which means the forty-fourth position in this area for Germany. It is especially in comparison with the United States that the Federal Republic has a considerable disadvantage energy costs. The following statistics shows the development of petrol prices in Germany in the period from December 2014 up to December 2015. The data indicate average monthly values.

Figure 5



Source: own processing after data available at [19].

Explanatory note: Average prices of petrol per litre in December 2014 – December 2015

Flexibility and adaptability

Neither flexibility nor adjustability belong to the very strong points of Germany. Germany considers itself a country that is standing its ground and is less willing to accept reforms. In view of this partial aspect, Germany places the fourty-ninth. Germany can score high as far as the high value of co-workers is concerned. Four from five entrepreneurs are very satisfied with their employees. Thus, the Federal Republic of Germany is considered a reliable and exceptionally stable country. Investors also need not worry about their capital.

Germany's Strengths

Performance of businesses

As far as the productivity and performance in comparison with other countries is concerned, the Federal Republic of Germany is far ahead of others. The amount and quality of German small and medium-sized businesses are at the top. It is similar in the case of co-workers' productivity. Owing to education and professional training of co-workers within the international comparison, Germany placed the second. Industry factors that have secured Germany the fourth position in the competitiveness index include, apart from high quality standards, sophisticated production processes, also a high prevalence on world markets.

Competitiveness of German firms on international markets is definitely determined by the development of unit wage costs. In particular, in the Eurozone, where exchange rates no longer play any role; the key factors are wage development and productivity, in which these unit wage costs arise. The more these unit wage costs rise in comparison with other countries, the more endangered is the nation's competitiveness. To put it simply, the mechanism operates as follows: unit wage costs are calculated from wage costs per an employee in relation to the productivity of labour. Productivity is the result of every employee's work. The increase in wages under a constant productivity means that the enterprise loses in competitiveness. By contrast, when an enterprise's competitiveness rises, while wages remain unchanged, the enterprise's competitiveness increases.

To be able to analyse the development of competitiveness of member countries since the foundation of the European Monetary Union in the year 1999, it is very important to compare productivity and development of unit wage costs. During that period, in the United States the productivity rose the fastest, followed by Great Britain and Japan. Germany is placed at the bottom half and Italy lagging far behind it. The productivity in Germany is increasing in the long-term trend by approximately 1 to 1.5 percent annually. The 2008 – 2009 crisis resulted in a particularly rapid decline in productivity, as firms in this country largely kept their employees despite the decline in production. Even after the crisis, the productivity in this country increases only very moderately, due to a very strong increase in unemployment recorded in Germany in respect to the country's economic growth.

Enrolment to secondary schools

The education system is often part of political debates. Germany records the highest number of secondary school enrolments in comparison with the rest of the world. In this category, Germany occupies the first position.

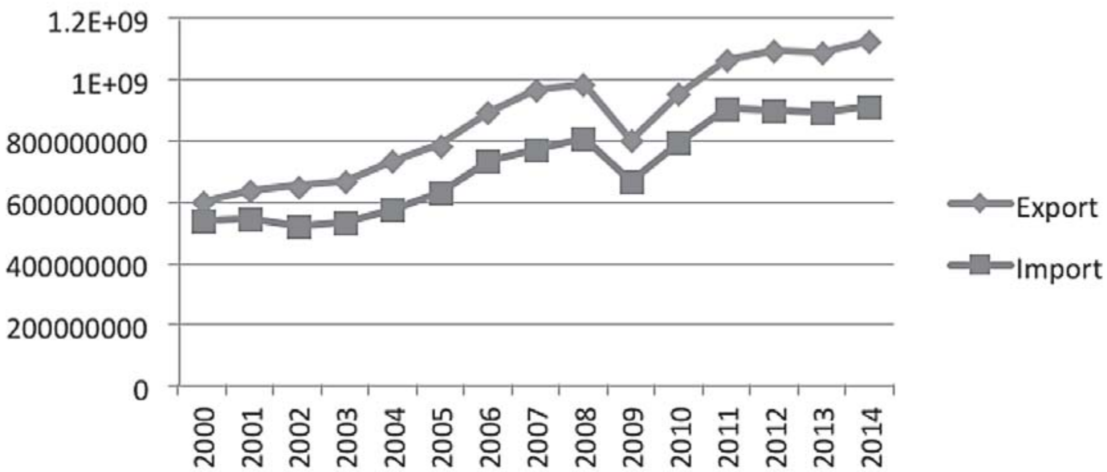
Export

Although Germany is no longer the largest world exporter, it is in particular the sale of commodities on international markets that remains to be a great advantage of the German economy. The Federal Republic of Germany occupies the third position as far as the export of goods, services and direct investments abroad are concerned. In August 2015, Germany's exports recorded the most significant decline in 6.5 years. This ensues from the data published by the German Bureau for Statistics of Destatis. After the seasonal adjustment, the export declined in August 2015 month-on-month by 5.2%, while in July it recorded the rise by 2.2%. The August decline is, according to Destatis, the highest since January 2009, when export declined by 6.9%.

A considerable decline was recorded in Germany also in the area of import. The imports declined in August by 3.1% after their rise by 2.3%. In August, the decline of imports was in turn the most considerable since November 2012. This development resulted in the decline in trade surplus approximately to 19.6 billion eur from 22.4 billion euros in the preceding month. Analysts anticipated the decrease in exports and imports; however, they expected a little more favourable data: their estimate was the decline in exports and imports by 1.2%. In the year-on-year comparison, the export in August continued to increase; however, its rate slowed down. While in July exports rose year-on-year by 6.3%, in August the rise reached 5%. In the case of imports, the growth slowed down from the July 6.2% to 4%. According to the German Bureau for Statistics data, exports as well as imports of Germany in November again recovered after the unfavourable October result. The exports in November rose by 0.4% on month-on-month basis, after it declined by 1.3% in the preceding month. Similarly, the import rose by 1.6% after its decline in October by 3.2%. Economists expected somewhat higher export growth, in particular by 0.5%, while in the case of import, they calculated only with a one-percent rise. Since the growth rate of imports significantly surpassed the growth of imports, the trade deficit on an adjusted basis declined to 19.7 billion euros. In October, Germany's foreign trade surplus achieved 20.5 billion euros. Exports in November rose by 7.7% year-on-year, which means a distinct acceleration of the growth rate after the growth reached 3.2% in October. The exports rose by 5.3% after a 3 percent year-on-year growth in October. On a non-adjusted basis, the trade surplus declined to 20.6 billion euros from 22.3 billion euros in the preceding month. The result is thus a little better than economists expected, i.e. the surplus of €20.2 billion. The following table provides a survey of Germany's exports and imports during the years 2000 – 2014.

Figure 6

Germany's exports and imports (2000 – 2014)



Source: own processing after [19].

Diversification

The German economy is highly diversified. In this country, there are headquarters of various industries, for instance of automobile, technology, or service sectors. In combination with a strong performing economy, this increases the attractiveness of the country. On the other hand, the danger increases that Germany might get in trouble due to problems in a single industry. A broad scale of the economy has secured Germany's second position.

Creditworthiness

It is especially important to highlight Germany's creditworthiness, as evaluated by the largest rating agencies USAS&P, Moody's and Fitch, with the resulting AAA evaluation. Owing to this, Germany places in the international comparison in the fourth position. According to S&P rating agency, creditworthiness of German bonds is top and Germany has proved that it is able to manage even the biggest economic problems. The government is expected to maintain the stabilisation course. The agency has favourably described the German economy as being modern as well as competitive.

Despite that, these strong points do not suffice to maintain a longterm economic miracle. Neither are they sufficient for Germany to be set as an example for the rest of Europe, and be competitive in order to motivate weaker European countries to reforms or better competitiveness. However, the Agency's statement does not imply for the German government, that it should be satisfied; on the contrary, it should be able to overcome even greater economic problems. Household consumption is going to rise only mildly, owing to minimum wages, and the demand for German products is declining also on the side of large trade partners. The S&P agency draws attention to the fact that it is forgotten that German banks have commitments amounting to cca 300 billion dollars in Eurozone crisis countries. Moreover, there is an extremely high burden of the Federal Republic of Germany, resulting from the bailing out of indebted European countries. Despite all of these comments, S&P agency assesses the creditworthiness of Germany as a stable one.

Table 4

Creditworthiness of European States

	S & P	Moody's	Fitch
Belgium	AA	Aa3	AA
Germany	AAA	Aaa	AAA
Estonia	AA-	A1	A+
Finland	AA+	Aaa	AAA
France	AA	Aa2	AA
Luxembourg	AAA	Aaa	AAA
Holland	AA+	Aaa	AAA

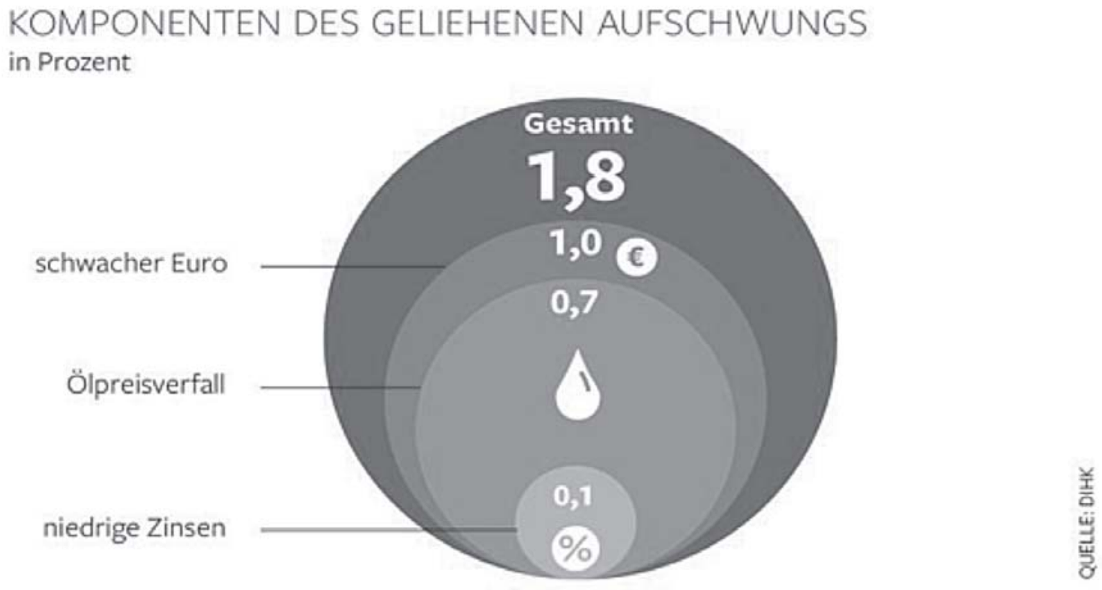
Source: own processing after [18].

Forecast of the German Chamber of Industry and Trade

A rising development and new jobs witness of Germany's economy good prospects for the future. However, as the German Chamber of Trade and Industry warns (DIHK), this development is so to say "borrowed", and without influencing the euro and the price of oil, it does not present a rosy picture.

Figure 7

Components of "borrowed" development in percentage



Source: [6].

Explanatory notes: Components causing boom in percentage: weak euro, oil price decline, low interests.

According to DIHK 2015 forecast, the German economy rises by approximately 1.8%; however, it is not Germany's merit. In that year Germany was expecting a stronger growth and 250,000 new jobs. The German Chamber of Trade and Industry (DIHK) changed its growth forecast for the year 2015 from 1.3% to 1.8%. However, there is no reason for euphoria: the digit 2 before the period is said to be some way off. DIHK refers to it as a "driven" development. A lower oil price would stimulate consumption; lower interests would support the boom in the building industry; weak euro would in turn support exports. Without these specific factors, little would be left from the growth, the German economy would then decline again to a "fluctuating boom" with the growth rate between 0.2% and 0.5%. Apart from that, the impact of these factors would be weakened.

The growth from two percent and higher would occur in the year 2016 only if there were more investments and if the state determined better general conditions. Finally, the very reverse would happen: the retirement age at the age of 63, maternity benefit, minimum wages, women's share, and the time spent on the family care would be a burden for Germany.

The DIHK forecast is based on the survey carried out with more than 23,000 enterprises. In the spring, these businesses estimated their trade prospects better than at the beginning of the year 2015. As a result, their exports might gradually increase. As indicated by the DIHK, the situation in crisis countries is currently improving in connection with the recovery of several crisis-stricken countries as for instance Spain. These important buyer countries again strengthen the position of German products on the market. [7]

Shortage of Labour Force

Although investment projects have become clear, the breakthrough is not going to occur despite obviously favourable funding conditions. The obstacles to this expensive development are unresolved conflicts in Russia and in the Middle East or a continuing hot Greek issue. This would be accompanied with dissatisfaction with the German economic policy.

Employers' complaints about the rising shortage of labour force are more and more frequent. As many as 39% of firms perceive that as the risk to trade – the figure has never been so high. Despite that, chambers calculate with 250,000 new jobs, which is 50,000 more than the number estimated at the beginning of the year.

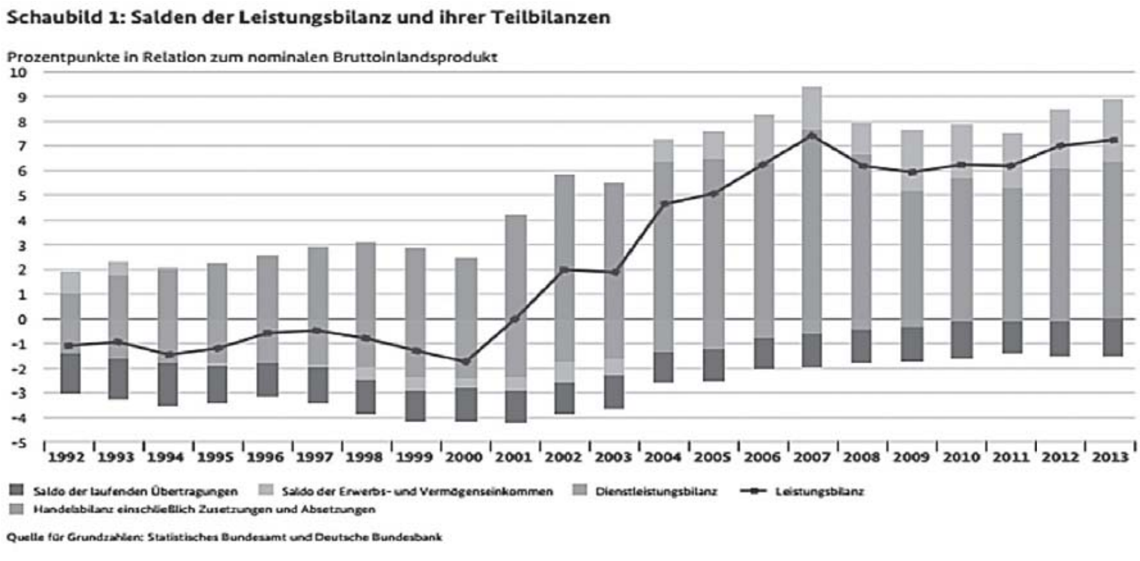
It might be possible, as the inhabitants would be rising again owing to immigration. The number of unemployed would decline by approximately 100,000. According to the DIHK, the rise of new jobs would be negligeable with regard to a strong growth. The risk of labour costs of 42% would also be on a record level. For businesses in the east of the country, the costs of 49% are even the highest of all. The reason for this development is that the structure of wages over €8.50 is most affected by a single legal minimum wage. [7]

In-depth Analysis of the German Ministry of Economy and Energy

In the year 2011, the process of prevention and correction of macroeconomic disequilibrium was put in place ("Macroeconomics Disequilibrium Procedure" – MIP). It serves for a timely disclosure and remedial measures of the wrong economic development, which has a negative influence on the operation of economic and monetary union. The Federal Government ascribes a great importance to the process and expresses support to the European Commission's consistent application of the macroeconomic disequilibrium process. The indepth European Commission's analysis is a benefit, through which it is possible to determine a negative trend of the last years. On 5 March 2014, the European Commission published in-depth analyses of economies for which the macroconomic disequilibrium is assumed. The disquilibrium was confirmed for 14 member states. According to the Commission, in three of them, it is the case of excessive disequilibrium and in three others an in-depth control is needed. Even in the case of Germany, disequilibriums detected. The Commission considers that disequilibriums are not excessive and it is not necessary to monitor them deeper.

Figure 8

Current account balance and its sub-accounts
Percentiles in ratio to nominal GDP



Source: [19].

Explanatory note: Balance of current transfers, Yield balance, Balance of services, Current account, Trade balance

In the in-depth analysis of Germany, the European Commission explored in particular the current account surplus, which reflects a high competitiveness of the German economy and is also an important asset to the country's economy. Despite that, since the year 2000 the demand on the German domestic market was low. Germany as one of the largest Eurozone countries with adequate financial resources at its disposal, was challenged to strengthen its growth potential and demand on its internal market.

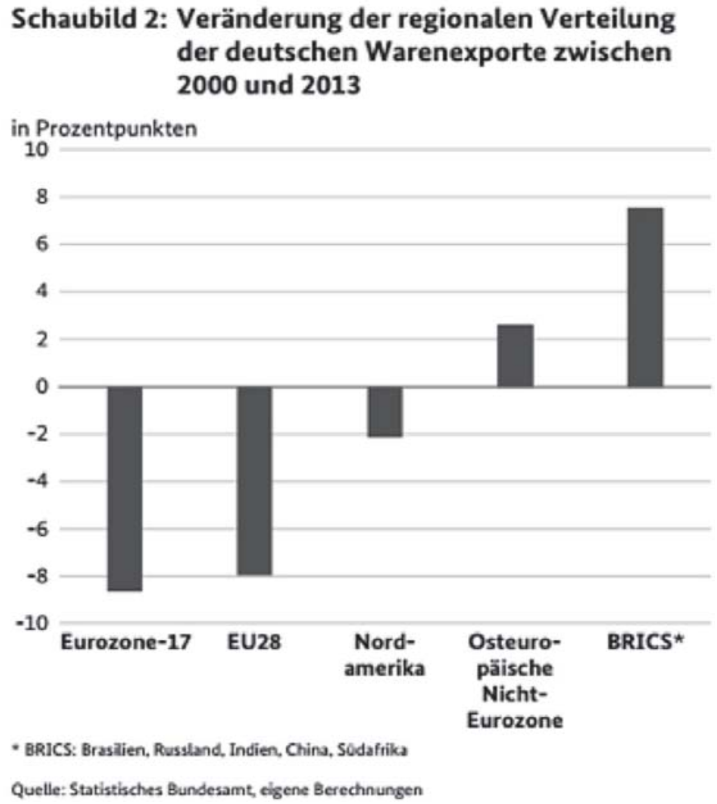
Similarly as the Commission, also the Federal Government considers the competitiveness of the German industry to be a backbone of the Eurozone. The aim of the Federal Government is to maintain and develop the industry base competitiveness on national and European levels. At the same time, it intends to foster public and private investment activities.

On the development of the German current account

The balance of the German current account rose in relation to the gross domestic product from the year 2000 till 2013 by approximately nine percentiles (compare Fig. 1). The Federal Government to a considerable extent agrees with the results of the Commission concerning the quantitative expression of the development of the German current account balance. One third of this increment (2.9 percentiles) comes from rising incomes from foreign activities. German businesses invested since the nineties mainly into central European and east European partner businesses and took care of growth and employment. One quarter of the increase (2.4 percentiles) can be accounted for by the decline in traditionally negative balance of goods and services. German providers became more effective. Germany was able to increase distinctly its incomes from licences and patents.

Figure 9

Change in regional distribution of German exports of goods for the years 2000 – 2013 in percentiles



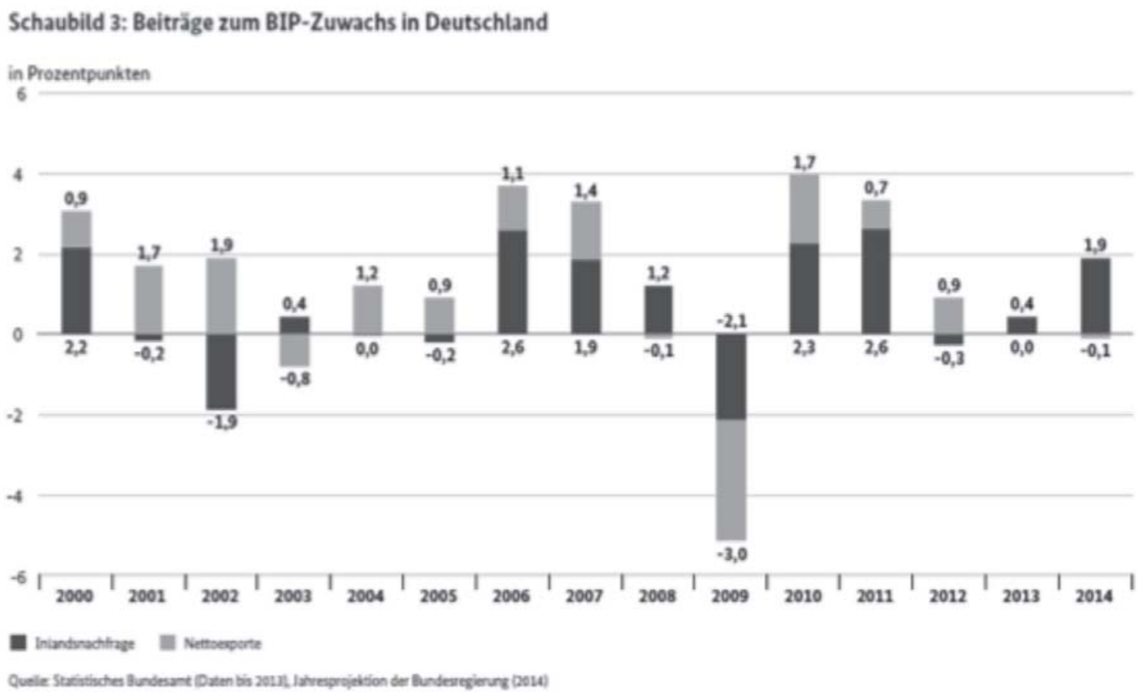
Source: own processing after [19].

Apart from that, Germany became the most attractive tourist destination. The remaining part if the increase (3.9 percentiles) is the contribution of trade balance. At the same time we can observe the shift of German exports from the Eurozone to fast developing threshold economies: while the share of BRICS countries on German exports increased by approximately by 7.6 percentiles since the year 2000 up to 2013, the share of EU countries decreased by approximately 8.7 percentiles (compare Figure 9). Since the year 2007 also the surplus of trade balance declined in comparison with the Eurozone by more than a half of 4.8 percentage to 2.1 percentage of the GDP. This may be ascribed also to the rise in imports (since the year 2007 by approximately 11.7 percent) outside the zone, which contributes thus to decreasing European disequilibrium.

In the following years, a more significant decline in the current account surplus was expected. In the annual projection for the year 2014, the Federal Government started from the increase in demand on the domestic market by 2.0 percent. The rise in the demand on the domestic market is expected at 1.9 percent, while the growth of net exports should be negative (compare Fig. 10). In the upcoming years, the Federal Government counted here with the decline of the balance on the current account. Likewise other institutions, as for instance the OECD and the European Commission expected a considerable decline in the current account surplus by the year 2015 to 7.3 percent of the GDP (OECD: 2014: 6.1 percent GDP, 2015: 5.6 percent GDP; Commission: 2014: 6.7 percent GDP, 2015: 6.4 percent GDP).

Figure 10

GDP increments in Germany in percentile - Demand for domestic market - net exports



Source: [19].

On possible causes of current account surplus

The European Commission in its indepth analysis discusses several causes of a continuous German current account surplus. The main reason of the development is to be, apart from the high competitiveness of the German economy, in particular a weak development of demand on the domestic market. Consumer expenditures as well as investments in Germany more distinctly lag behind the average development in the Eurozone.

Competitiveness

The Federal Government welcomes the estimate of the European Commission, according to which the competitiveness of German businesses is a cornerstone of the European economy. Likewise Germany's European trade partners profit from the success of German businesses on world markets. That is why the share of import of German exports, based on the Federal Office for Statistics data, with its 43% is relatively high, while 57.5 percent of all imports come from other EU states.

The Federal Government and the Commission both agree that the price competitiveness as the reason for the increase in the German current account plays only a minor role. [10] Moreover, the study, in which its authors assess the level of overall economic development shows, that the price elasticity of German exports is relatively low; German exports tend to react to changes in the world demand. Compare [3]

Competitiveness of the German economy has more or less improved in particular through nonprice factors. These also include traditional factors, as for instance the quality of German investment goods and presence on the fast-growing markets, but also an increasing orientation to services, innovation power and flexibility of German businesses. The *Innovation Scoreboard* of the European Commission evaluates Germany as the third most innovating national economy of the EU. In the year 2010, German businesses reported the highest number of patents per an individual at the European Patent Office, after Sweden. This innovation lead enables Germany a relative independence of price and currency fluctuation, as well as some tolerance in price policy.

Consumption expenditures in Germany

The Federal Government is of the same opinion as the European Commission that since the year 2000 the below-the-average increase in consumption expenditures, has been determined by a moderate development of wages in comparison with the Eurozone. Naturally, the influence of moderate wages in Germany on the surplus in the balance, according to the study worked out by the Commission, used to be smaller [9]. This can be explained against the background of extremely high unemployment, weak boom development and disadvantageous profitability of businesses in the first years of the period measured. Apart from that, in Germany, there were missing phenomena occurring in other EU member countries, namely the formation of bubbles and stimulation of consumption based on favourable credits. In comparison with the Eurozone, Germany has recorded a more favourable development of wages in recent years. According to the European Union forecast, since 2010, the per capita salary rose more distinctly than in the Eurozone. According to the Commission, this trend is to continue. A favourable development of labour situation in Germany implies support of domestic demand.

Another reason for a relatively weak consumption expenditure development is in higher savings caused by the demographic change. In addition, the European Commission views the rising ageing of Germany, accompanied with measures for improving resilience of the German pension system, as the reason for comparatively higher savings of private households in Germany. The Centre for European Economic Research (ZEW), (see monthly report of September 2012) indicate that since the year 2015, within thirty years the rate of private savings in the entire country's economy is going to decline by 10%. On the whole, ZEW expected a balance deficit, around 2% of the GDP value since the year 2033. German economic experts arrive at a similar conclusion in their study "Challenges of demographic changes" (May 2011). According to this study, 0.9% of the surplus of balance falls on basic demographic factors at the moment. In the course of years, the active balance will be decreasing, until it has assumed negative values by the year 2035.

In its in-depth analysis, the Commission draws attention to the influence of disequilibriums savings creation. Higher-income households record higher savings. If wage and salary inequalities increase, so will the savings creation under otherwise equal general conditions.

According to the Commission, the expenditures on consumption were reduced also by the latent increase in prices on the realty market. From the aspect of the Federal Government, the rising realty prices are not the aim towards which the Federal Government would strive. A moderate realty and rent prices have significantly contributed to the situation that households have at their disposal more funds from the available household income for other consumption expenditures. This is mainly due to a high share of rented households in Germany. Moreover, the German market in the rental contributes to a higher labour mobility, which operates in all price segments.

Stagnating investments

The European Commission considers below-the-average investment in

Germany as one of essential factors of the balance surplus. In international comparison, Germany has really a small level of investment, namely 17% of the GDP, while the average of the Organisation for Economic Cooperation and Development (OECD) is 20%. Gross capital investments have recently developed better than the Eurozone average. (See Fig. 4).

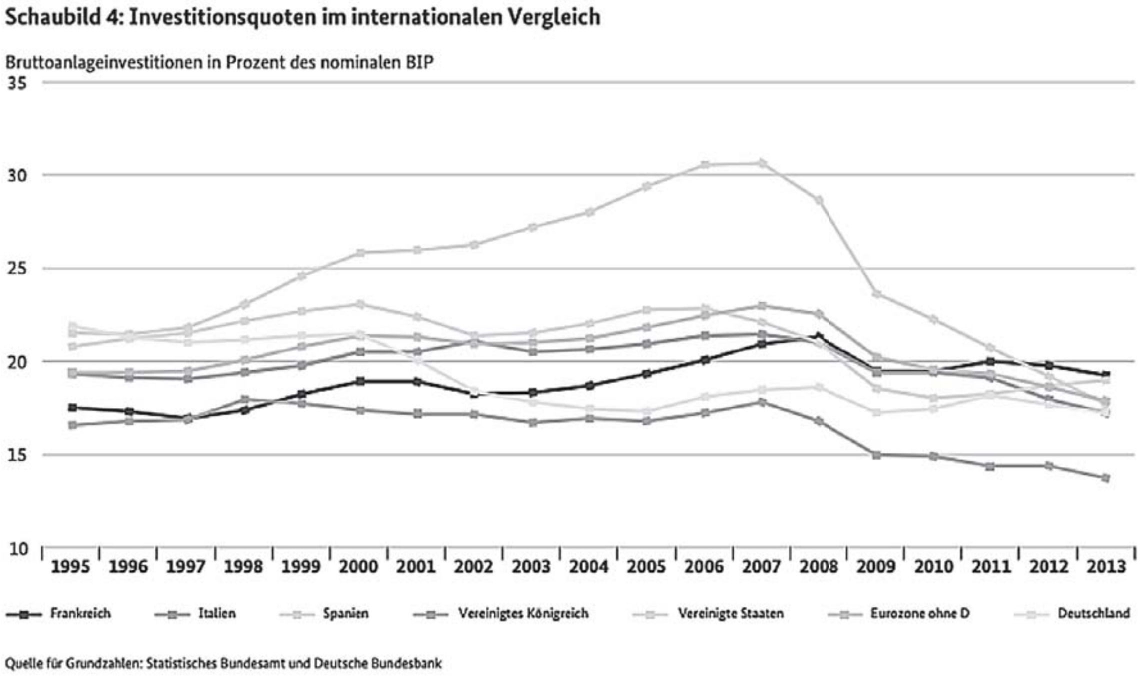
Since the threshold of the weakening of investments has been due to various causes:

- Weak investments into construction related to the boom after the re-unification: during 1995 and 2005 they declined by 5% to the value of 9% of the GDP, and since then they have recorded a very slow increase;
- An unfavourable economic condition in the first half of the last decade, in which the high unemployment and low business profits have weakened the demand for investment;
- Uncertainty caused by the global financial and economic crisis as well as the recent crisis in the Eurozone affects the open national economy by weakening investments. [12]

Figure 11

International Comparison of Investment Quota

Gross investments in percentage of nominal GDP



Source: [19].

Explanatory note: France, Italy, Spain, United Kingdom, USA, Eurozone except Germany, and Germany

The cessation of currency risk, convergence of credits in the Eurozone, as well as low inflation rates in Germany in comparison with those in the Eurozone, have favoured investments in other Eurozone countries rather than in Germany. These factors are described by the Commission's report above (current account surpluses in the EU) as essential factors decisive for the rising surplus balance of goods and services. By introducing the euro, interests of other EU countries (including credit interests), approached the low German level, as a result of which the costs of funding of German firms became relatively less advantageous in comparison with the funding of their European competitors. This resulted in the German capital flowing abroad. This factor, which neither the Federal Government considers significant, unfortunately plays only a secondary role in the current indepth analysis of the Commission.

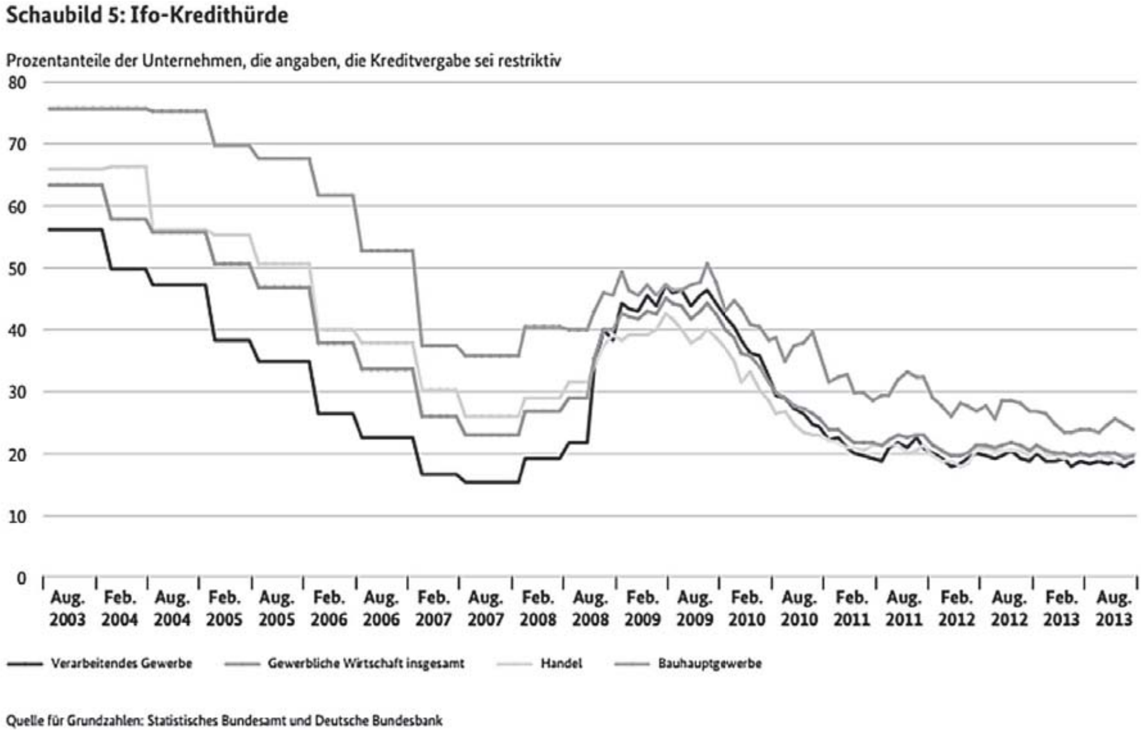
The Federal Government, however, identifies with the Commission's opinion that "under-pricing of risk" and distorted ratings of structured financial products produced before the start of the financial crisis, stimuli for investing German savings abroad (on the American realty market). Losses suffered during the financial crisis showed that capital export was connected with a considerable risk. [13]

In the first years after Germany's re-unification, considerable government investments were needed for the modernisation of East German infrastructure. After the cessation of these measures for the recovery, the level of public investments stabilised on a low level. Government investments in infrastructure have been renewed in connection with the consolidation of the budget in the most recent years. The Federal Government agrees with the Commission's opinion concerning the need for the investments.

The Commission emphasizes the need for applying a considerable debt relief of German firms. A rather weak investment activity of firms is, in fact, accompanied with a distinct decrease in the firms' indebtedness, or accumulating equity capital. This makes it possible in particular to numerous small and medium-sized firms in Germany to cushion deviations in the world economy and invest in the long-term and independently of possible deviations on capital markets. According to the Federal Government, this fairly strong capital position of many German firms thus contributed to the fact that the German economy managed to relatively fast overcome the economic and financial crisis. [12]

Figure 12

Ifo Credit Constraints



Source of data: [20].

In financing firms, in contrast to that, there are no visible obstacles from the supply side, which would explain a weak investment activity. The credit constraint of ifo company (see Figure 5), set up since the year 2003 recorded at the beginning some restrictions. Since then, however, there have been massive improvements in the accessibility of credits for German firms. Conditions for granting the credits are at present highly favourable. The Commission agrees with this opinion, too.

Conclusion

Germany is a country with open national economy. For this reason, also the development of the German balance of trade and services is considerably dependent on the development in other countries. According to a contemporary study [11], almost all the countries with a high share of industry record an active current account. This hinges mainly on the increased demand for industrial goods in fast developing threshold economies in recent years. However, this is obviously not considered in model calculations used by the Commission. This leads to the distortion of the share of surplus balance of goods and services, which is wrongly denoted as fundamental. In general, the Commission believes that the advance allocation of individual items of the current account was faulty, and the Commission is unable to account for them by means of their econometric model. The Federal Government does not accept this opinion.

The Federal Government, however, agrees with the opinion of the European Commission that Germany is to continue in strengthening intra-economic development forces. The coalition treaty for this purpose proposes a series of measures. They include the improvement of general conditions for private investment, introduction of legal minimum wages, as well as increasing investments in the area of public infrastructure – in particular in the transport sphere, where the increase in investments was by five billion euros. Apart from that, the German Federal countries should be bailed off the burden, amounting to six billion euros with the aim to support investments in the area of child care (in crèches and kindergartens) and education at elementary schools as well as schools of higher education.

Via these investments, the Federal Government endeavours to avoid the consumption of assets and shortage of finance, which could hamper the country's developmental potential. The improvement of possibilities of children care will also contribute to a stronger integration of women on the labour market. At the same time, based on the strong position of businesses, advantageous financial conditions as well as an expected rise in the world demand, a favourable development of private investments can be anticipated in the course of upcoming years.

Owing to favourable effects of the demand, these measures supported also by the European Commission contribute to strengthening the demand on domestic market as well as the demand for imports, and in this way the trend of current account surplus was decreased. However, precise effects on Germany's current account cannot be quantified in any case:

- Additional private and public investments in education, research as well as infrastructure will increase Germany's competitiveness. Apart from that, they stand for benefits for the domestic market demand.
- By introducing a minimum wage and a new arrangement of time job, the Federal Government will secure an adequate minimum protection in the entire Germany. Based on the estimate of the Federal Government, in the years to come, the favourable development of wages and salaries should continue. In any case, according to the European Commission studies the

influence of moderate wages on the current account surplus in Germany in the past was not sufficient. According to the German Federal Bank simulations, the rise of the wage level could have a very small influence on the current account surplus also in the future. [6]
- The European Commission demonstrated in one study [14] that the effects of reforms in the service sector on the balance of trade are not unanimous. We cannot exclude that further increase in the German economy's effectiveness and developmental potential can finally lead to a further increase in the balance of current account.
- The Federal Government agrees with the European Commission's opinion that the standing of the state budget is adequate and welcomes solid state finance. Therefore, measures that impact the public finance and stimulate the growth have to be refinanced in another place through commitments of stabilisation and growth package and against the background of continuously high state indebtedness.

The European Commission Indepth analysis [12] proves that causes of slowly receding surplus of the current account are diverse and complicated. Apart from other things, these causes also include high competitiveness of the German economy as well as a low comparative level of investment.

The Federal Government agrees with the European Commission's estimate, in which the strengthening of Germany's growth potential is assumed to be necessary. Along with the measures agreed on in the German Federal government coalition agreement of 2014 it can stimulate state investments and strengthen intra-economic growth trends. This way, Germany contributes also to offsetting the disequilibrium in Europe.

The competitiveness of the German economy has more or less improved in particular through nonprice factors. These also include traditional factors, for instance the quality of German investment goods and presence on the fast-growing markets, as well as an increasing orientation to services, innovation power and flexibility of German businesses.

Industry factors that have secured Germany the fourth position in the competitiveness index include, apart from high quality standards, sophisticated production processes, also a high prevalence on world markets.

Germany's creditworthiness is evaluated by the largest rating US agencies S&P, Moody's and Fitch, with the resulting AAA evaluation. Owing to this, Germany places in the international comparison in the fourth position. When discussing problems and future challenges of the Germany economy, it should be remembered that German banks have commitments amounting to approximately 300 billion dollars in Eurozone crisis countries. Moreover, an extremely high burden of the Federal Republic of Germany, resulting from the bailing out of indebted European countries has also to be taken into consideration. Despite that, S&P agency rates the creditworthiness of Germany as a stable one.

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