

„Reforms and Social Changes in German society as an Outcome of the Crisis“

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Agenda

1. Before the crisis
2. During the crisis
3. After the crisis
4. Outlook & challenges

1. Before the crisis

Germany had severe domestic structural problems during the 1990s:

- inflexible working regulations
- high unemployment rate
- high taxes and a high social security contribution ratio, which was directly linked to the income tax

„Agenda 2010“ between 2003-2005 by the SPD/Grüne was largest cut into the German system of social security since WWII

- tax cuts (such as a 25% reduction in the basic rate of income tax)
- big cuts in the cost absorption for medical treatment
- drastic cuts in pension benefits and in unemployment benefits alike
- beginning in 2005 unemployment figures have been falling and, in May 2007, unemployment was at 3.8 million people, a 5½ year low

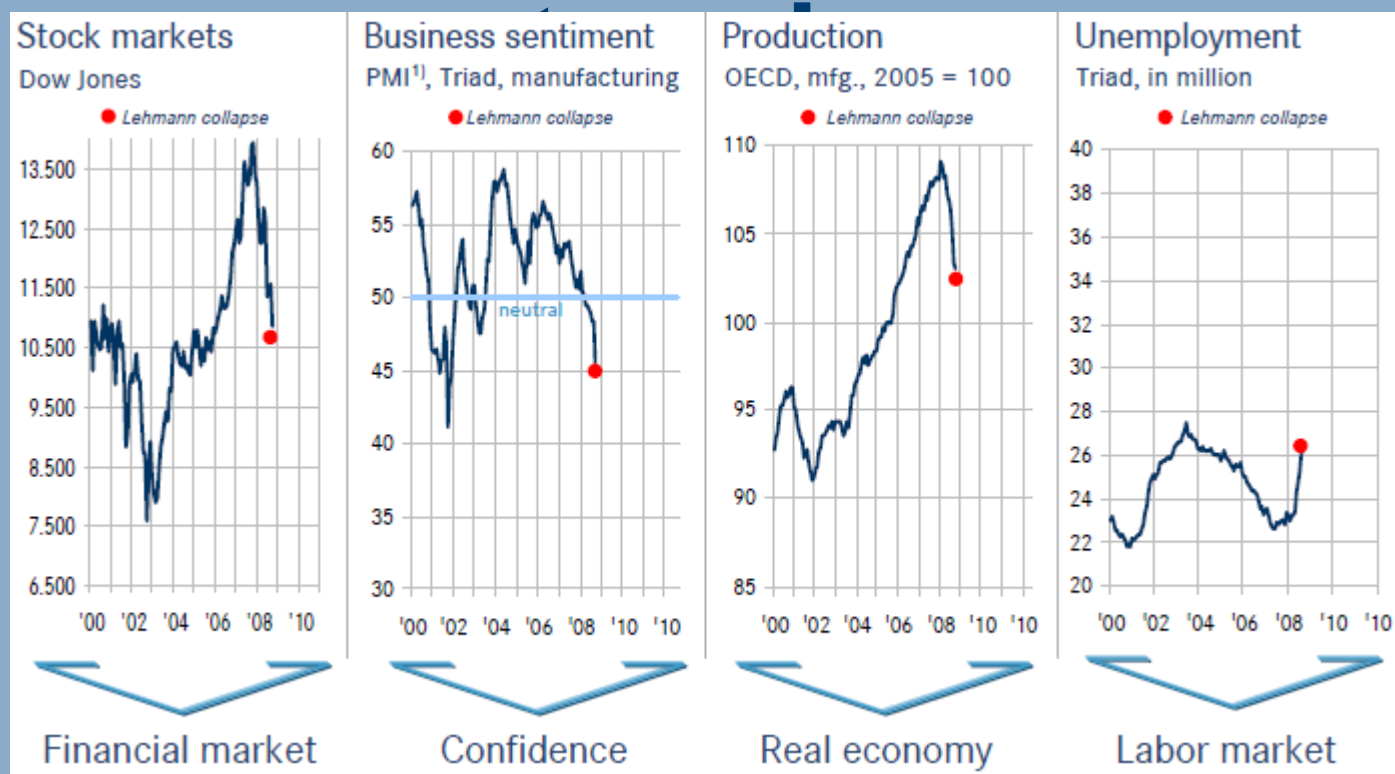
Government coalition of CDU/SPD

- raising the retirement age from 65 to 67 years

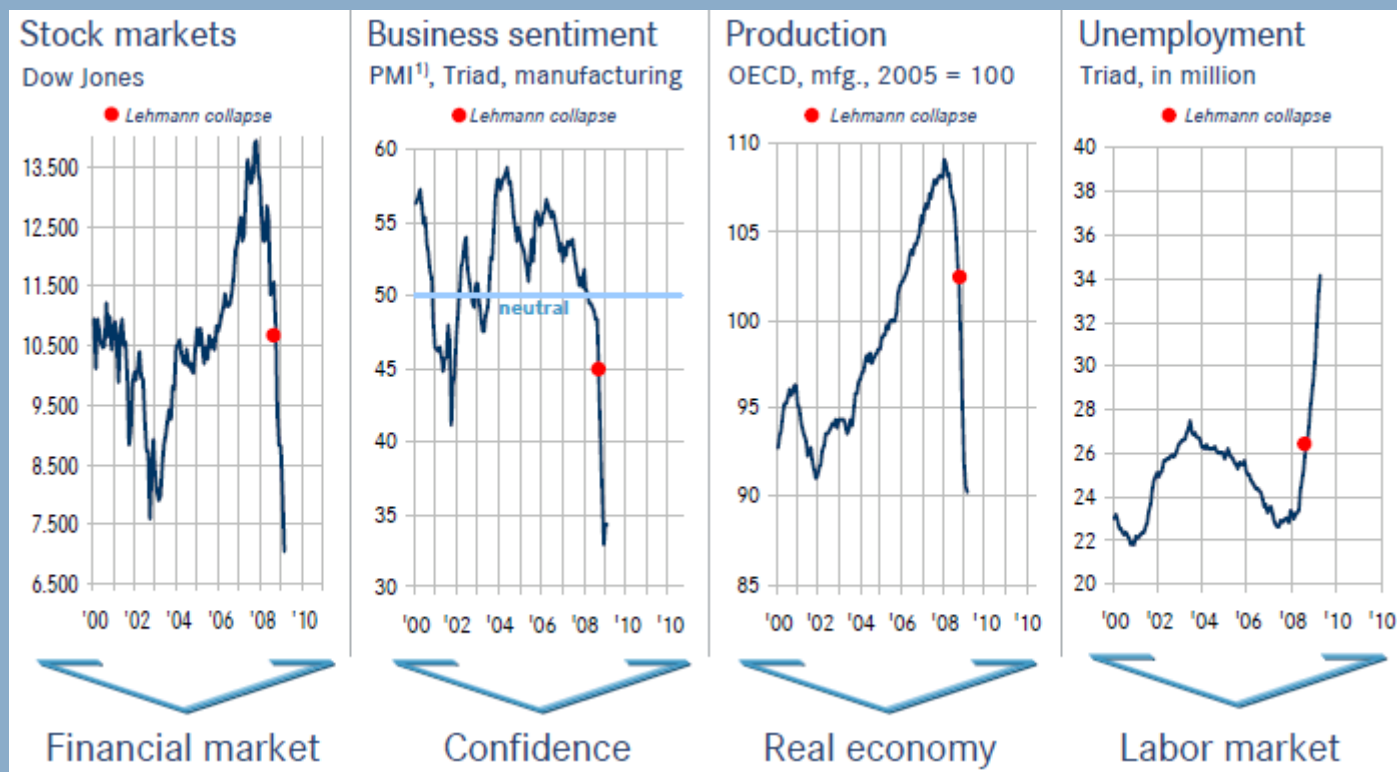
In 2007 Germany was on a sound upward path:

- important structural reforms had been successfully implemented
- these were bold labour market reforms, which modernised the labour market structure and lowered the employment threshold of economic growth
- adjustments in the social security systems, in particular the pension system
- the structural reforms paved the way for further necessary market-based corrections, for example in wage setting and intra-plant working-time flexibility

Even before Lehman the global economy had been on a cyclically declining trend...



...but the “Lehman-shock” accelerated the worsening



2. During the crisis

Time for superlatives – time for panic...

02/20/2008
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Worst Financial Crisis since 1931?
German State-Owned Banks on Verge of Collapse
By Wolfgang Reuter
The German government has had taxpayers' money after their move on subprime investments. But consequences could be disastrous

IWF-Schätzung
Finanzkrise kostet 2200 Milliarden Dollar

Absatzeinbruch
EU-Kommissar Verheugen warnt vor Sterben großer Autobauer
Deutsche Banken sitzen auf Giftpapieren in IV
Top-Ökonom Rogoff zur Finanzkrise
Finanzkrise **"Was gerade vor sich geht, ist unvorstellbar"**

Superreiche verlieren rund ein Drittel ihres Vermögens

Konjunkturkrise
IWF erwartet schärfste Weltrezession der Nachkriegszeit

Financial crisis
Downturn
Economic disaster looming
Recession Forecast
Crash!
Bust!

Dollar exchange rate
CREDIT CRUNCH
CAPITAL INVESTMENT
Financial crisis
Downturn
Economic disaster looming
Recession Forecast
Crash!
Bust!

Merkel's psychology

- priority was to built up trust within the society as well as in the financial market and their institutions
- Oct. 08: Merkel and Steinbrück guarantee bank savings
- Oct. 08: the government rescues the HRE with a bank guarantee » „to big to fail“
- Jul. 09: deposit protection fund was increased fom 20.000 € to 50.000 €

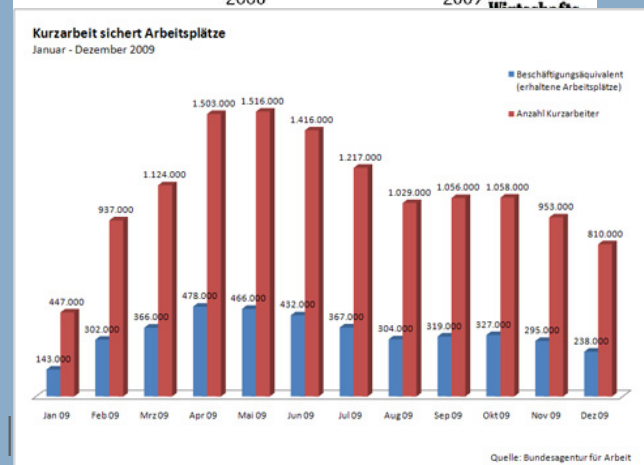
- at first » crisis management

1st stimulus package (Nov. 08)

- boost to finance investments with a total capacity of 32 billion €
- short-term working benefit (Kurzarbeit) was extended to 18 month, later 2009 to 24 month
- developement of the road system
- 3 billion € additionally in a top-up benefit program for weak local governments for infrastructure investments
- remission of charges for the motor vehicle tax for 1 year for buying a new car
- financial support for building refurbishment with a total of 3 billion €

short-term working benefit

- run in 2009 with a budget of 5.1 billion €
- replaced some of the lost income of over 1.4 million workers
- according to the OECD the program had saved nearly 500,000 jobs during the recession
- besides helping to avoid mass-layoffs, the program also kept skilled work groups together

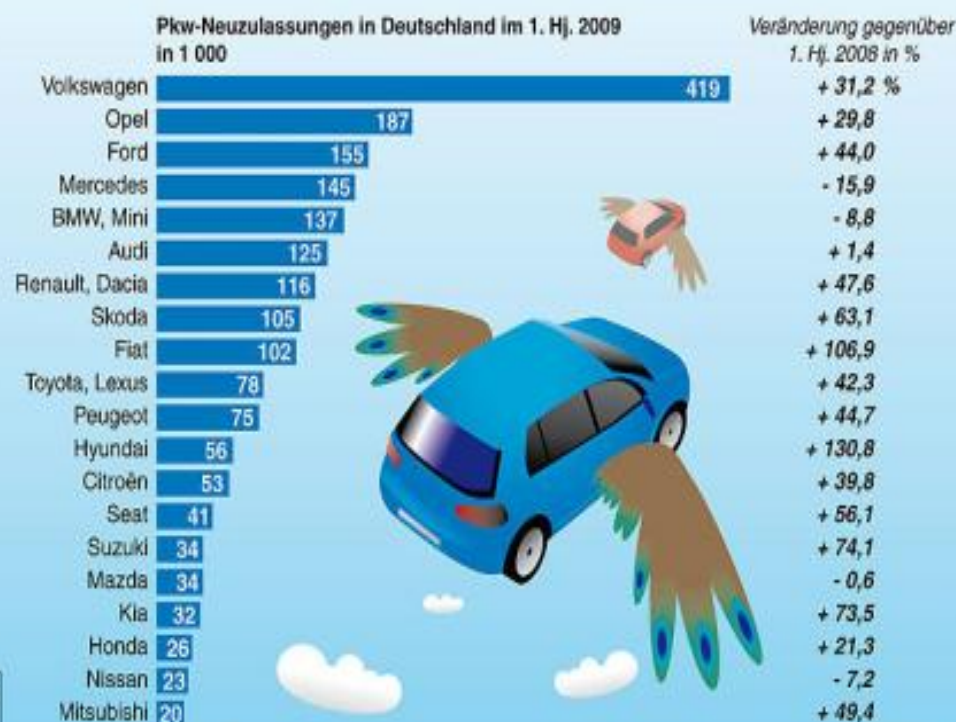


2nd stimulus package (Jan. 09)

- boost to finance investments with a total capacity of 50 billion €
- income tax reduction with a total of 9 billion €
- raising of the basic tax-free allowance
- reduction of the initial tax rate
- reduction of the health insurance contributions from 15,5 to 14,9%
- one time payment of 100 € as child-care allowance
- Investments in the education infrastrucur
- „cash for clunkers program“ » 2.500 € for old cars if people by a new car
- credit guarantee programm for major enterprises up to 100 billion €

„cash for clunkers program“

Abwrackprämie beflügelt Automarkt



© Globus

Quelle: KBA

Hälfte ausgeschöpft

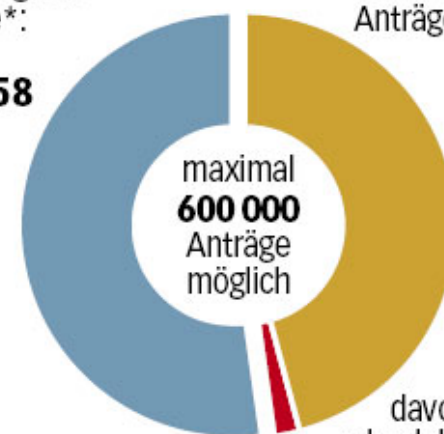
Stand der eingereichten Anträge auf die Abwrackprämie

noch mögliche Anträge*:

313 058
(52%)

bereits eingereichte Anträge:

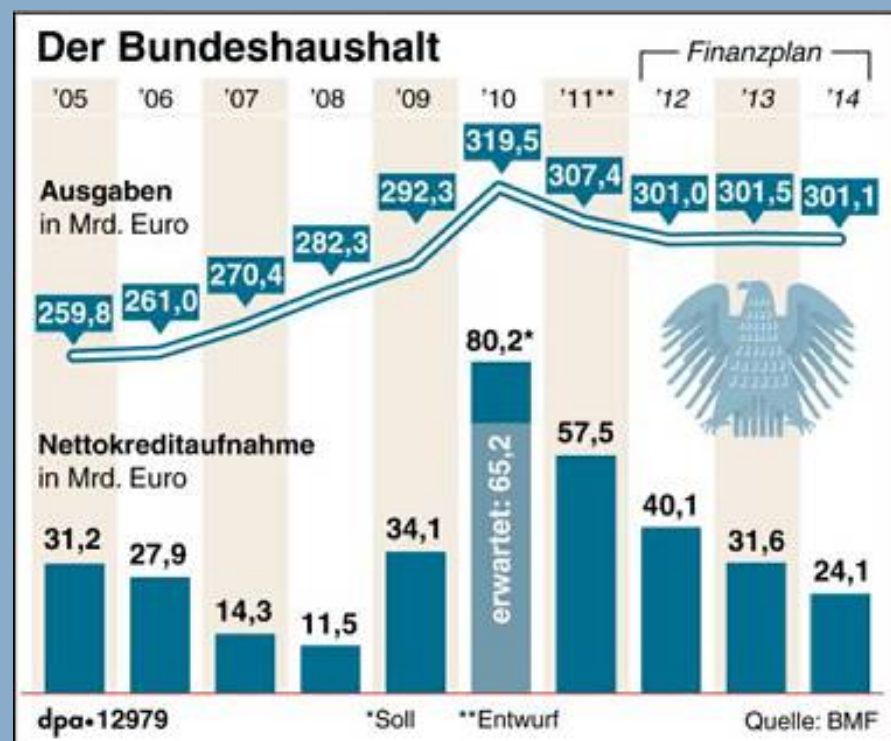
286 942
(48%)



davon vorerst abgelehnte Anträge:
11 478**

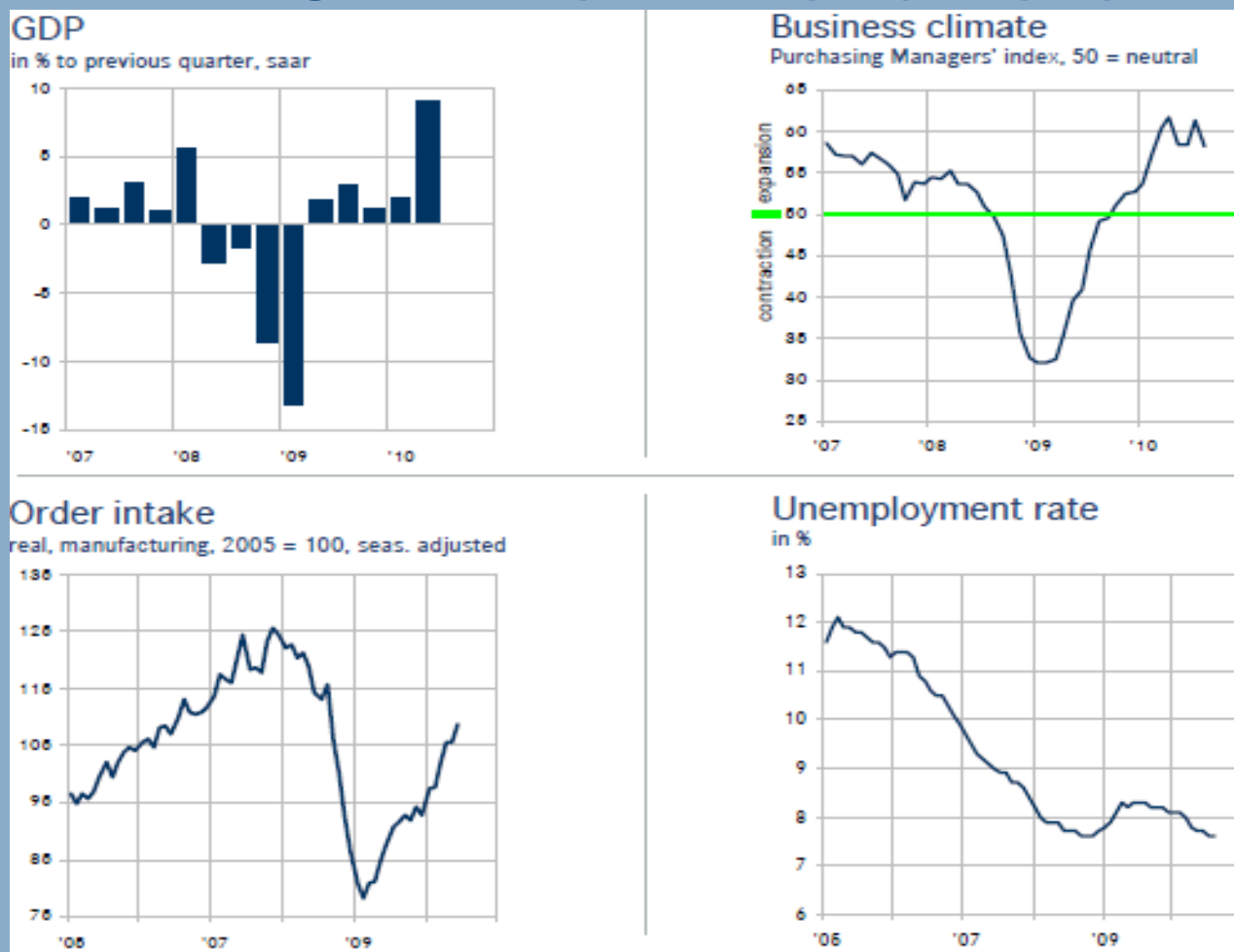
* ohne Rückläufe aus endgültig abgelehnten Anträgen;
** Schätzung, entspricht 4% aller bisherigen Einreichungen; Stand: 19. März 2009; Quelle: Bundesamt für Wirtschaft und Ausfuhrkontrolle

Federal debt-limit



- Federal debt-limit in order to secure a balanced budget
- debt-limit at the state level in Germany

3. After the crisis

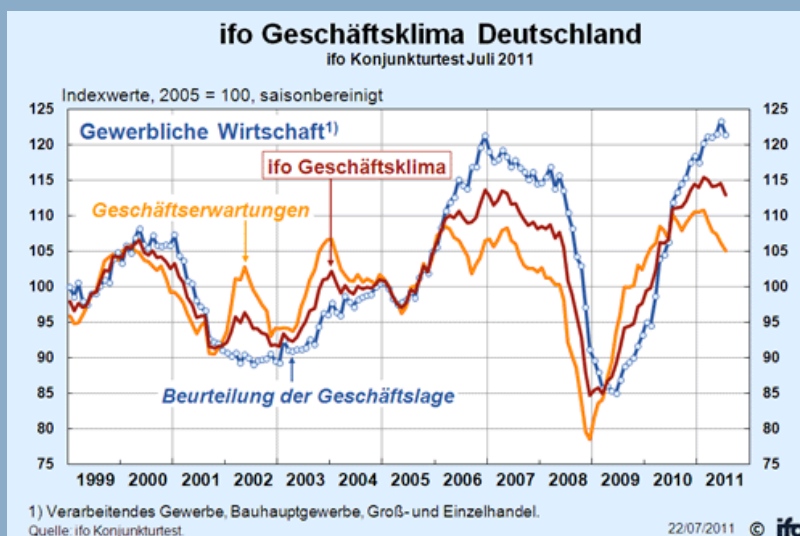


- Merkel: „We will be stronger after the crisis, than before“
- mixed results:
- Germany got through the crisis quite smooth
- unemployment rate is below 7%, annual growth rate 3,5% (2010) and 3% (2011)

- still a lack in the banking supervisory authority
- there is still no real european rating agency
- „to big to fail“ is still possible
- dept crisis is not solved » no balanced budget yet

4. Outlook & challenges

- € crisis is not only a greek or portugese problem – its a european and therefore a german problem
- „double dip“ still possible



Thank you for your attention!



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Mark Hauptmann, M.A. | Klaipeda, Lithuania | Fr 29.07.2011