

# Editorial



Dr Gustav A. Horn,  
Head of the Department of Macroeconomic  
Analysis and Forecasting, asks:

"Where is the economic upturn?"

*Recent forecasts have grown more and more optimistic. They reflect the increasing optimism among firms and financial markets that things will improve next year. Latest figures particularly from the US and other regions, such as Asia, indicate beyond doubt that the global economy is picking up speed. The euro area will benefit from that despite the recent appreciation of the euro. Even more than for the average of euro area countries, Germany should improve its export performance in the near future. First signs are already visible. This is no surprise, since the competitiveness of German exports is high given that German wages and prices have risen considerably less than in all major industrial countries with the notable exception of Japan. While prospects of foreign demand look reasonably promising, domestic demand is still the main weakness of the German economy. One can only hope that there will be some positive spillovers from foreign demand, especially on investment. But domestic sources of an upturn remain weak. Of special concern are implications of fiscal policy. On the one hand the earlier than planned reduction of tax rates should stimulate demand. On the other hand cuts of subsidies to private households as well as rises in the effective tax rate and social security contributions lead to the opposite. Since some of the restrictive impulses will occur in 2005 or 2006 the outlook for the time beyond 2004 remains clouded.*

*Presently German households lack the confidence to consume. Debates on imminent social security cuts and the still dismal situation on the labour market are the main obstacles to a sustainable acceleration of economic activity. Only when this confidence is restored will an economic upturn occur. To achieve that, a coherent strategy of fiscal policy is necessary. The government has to make up its mind whether it will give priority to balancing the budget or to stimulating the economy. Both targets cannot be fulfilled at the same time. What is desperately needed at the moment is for the economy to enter a higher path of activity. Therefore all different levels of government should put more emphasis on the latter. There are signs of hope that this is going to happen. But nothing is definite so far, and that in itself is a drawback for an economic upturn. A fundamental change for the better, a real upturn, will only come when a clear commitment to stimulating the economy is in place.*

