Pressrelease

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Major challenges: Germany's growth contribution within the EU will be halved to only 11 percent in the 2020s

- *"Germany in 2030 – rollator and robotics" demography and digitalisation event presented by BayernLB and EY*
- *The German economy will grow by only around 1.5 percent a year in the coming decade*
- *Demographic ageing is the biggest impediment*
- *The productivity potential of digitalisation might be overrated*
- *Digitalisation puts the financing of social security systems geared to earned income under pressure*

Munich – Germany has presumably been Europe's growth engine for a very long time and according to EY and BayernLB Research, the German economy will continue to grow by a good two percent on average in the next two years. However, economists of both institutions expect the German economy to expand only by 1.5 percent a year at best in the decade beginning in 2020. Germany's contribution to the European Union's growth would therefore more than halve from 23 percent in this decade to only 11 percent.

"We will not be able to compensate for demographic ageing, which will gain momentum from around 2025 onwards. It is still unclear how much digitalisation will really help us to become more productive across the board," commented Michael Böhmer, partner at auditing and consultancy company EY, speaking at the "Germany in 2030 – rollator and robotics" event by BayernLB and EY in Munich.

According to official projections, Germany will lose around 10 percent of its workforce just because of demographic ageing. For Holger Bonin from the Institute of Labour Economics there is no reason for defeatism: "Germany must use the available labour potential even more effectively. It is relatively easy to better integrate women and elderly people into the la-

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bour market.” Thomas Marquardt, global head of human resources at Infineon Technologies added, “It's up to us to actively pursue digitalisation and to deal with demographic change. When it comes to remaining innovative, we must continue to invest in people – including their experience and the creativity of the human mind.” Oliver Ehrentraut, pension systems expert at Prognos AG, points out that demographic change cannot be prevented by instigating reforms. Instead, society can only react to it by implementing sustainably financed systems that secure pensions and health care. The welfare state needs an update.

A brief glance at the productivity trend shows that the impact of digitalisation has so far not spread to all areas. For around 15 years, the average increase in labour productivity per hour has only been 1 percent. Two decades earlier, the rate amounted to more than 2 percent. In the 1970s, when digitalisation was still far away, the rise in labour productivity even reached almost 4 percent.

A major task facing politicians is to provide the necessary digital infrastructure. This is reflected in the investment plans of both the German federal and the state governments. Albert Füracker, Bavarian State Minister of Finance, emphasises, “in Bavaria alone, we will invest a total of around EUR 5.5 billion by 2022 and therefore foster an excellent environment for the digital boom compared to the rest of Germany.”

Both organisers, EY and BayernLB, see particular potential in the field of artificial intelligence, which is already a reality today, in order to compensate for the decreasing number of employees. Yilmaz Alan, partner and artificial intelligence expert at EY, emphasises that, for example, every modern smartphone is equipped with a learning component. Enormous potential can be leveraged from progress in this field. By contrast, a great risk comes from the increasing disempowerment of the individual by computers which either prepare "bite-sized" pieces of information or even make completely independent decisions.

With the increasing digitalisation of processes, an ever smaller portion of total economic value added is derived from the labour factor. To Jürgen Michels, chief economist at BayernLB, this means, “increasing digitalisation will result in serious problems when it comes to financing our social

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security systems, which is geared to earned income." Manuel Andersch, cryptocurrencies analyst at BayernLB, thinks that "programmable money", such as Bitcoin and other cryptocurrencies, represent the suitable currency for machines and artificial intelligence. If completely anonymous cryptocurrencies should prevail, national authorities will face major challenges in collecting taxes.

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