

Transcript

## **Heimo Scheuch Podcast, Episode 27**

Guest: Dr. Jörg Krämer, Chief Economist of Commerzbank

### **00:00:04 Heimo Scheuch**

Ladies and gentlemen, welcome to my podcast! I am Heimo Scheuch, CEO of Wienerberger, and I am particularly pleased today that Dr. Krämer has joined us, coming directly from Frankfurt. He is the Chief Economist of Commerzbank, and we have many current topics to discuss. One issue that concerns us greatly, not only in the German-speaking region but also in the entire EU, is the impact of high inflation on our economy and the monetary policy of our friends at the European Central Bank. From your perspective, which extends far beyond my limited view in the construction and supply sector, how do you see it?

### **00:00:49 Jörg Krämer**

Yes, we had very high inflation in the fall. Over 10% in the euro area; since last fall, inflation has been declining. This is mainly because energy prices are no longer rising as strongly. By the end of the year, inflation should continue to decrease because the increase or the inflation wave that originated from food prices is slowly subsiding, and the inflation wave caused by material scarcity will also gradually diminish. So the overall inflation rate will continue to decrease and may be around 3% by the end of the year. But does that mean the inflation problem is really fundamentally solved? Well, I don't believe so.

### **00:01:35 Heimo Scheuch**

If we look back a bit, we had the Corona crisis in Europe and worldwide, which led to a significant shortage of goods, and we can also feel the impact of inflation arising from that. Isn't that the case?

### **00:01:54 Jörg Krämer**

Yes, Corona certainly plays a role because it meant that services were closed, supplies were disrupted, and material flows were interrupted. This means that the economy could produce fewer goods and services, which automatically leads to scarcity and inflation. But that's only one side of the story. The other side is the response of economic policy to Corona because economic policy in America, as well as in the euro area, has injected a lot of money into the economy. In America, for example, unemployment benefits have increased by up to \$2,000 per month. Americans' incomes have grown in double digits. This means that policy has fueled overall economic demand. And when an artificially stimulated demand encounters a supply of goods and services that has shrunk due to Corona, the inflation becomes even higher. So it's not just Corona but also the economic policy response to Corona that explains why inflation has risen so sharply.

### **00:03:07 Heimo Scheuch**

And now, if I understand you correctly and may summarize it briefly, economic policy has intervened heavily, also out of a certain panic that demand will decrease, money has been printed, if I may put it that way. We had low interest rates. This means that there was a real upward price spiral due to increasing scarcity. Then, of course, something happened that nobody could have foreseen, the war in Ukraine and Russia's invasion of Ukraine, the whole gas debate, and the scarcity of energy once again. Actually, it wasn't a shortage in the end, but it was speculation that led to extremely high energy prices. That, of course, further fueled the whole situation. And I would like to add something else; the whole climate debate also overlaid it with the entire topic of the Green Deal, investment packages, etc., and quickly moving towards new sustainable energy sources. Have we overburdened Europe, especially the consumers?

**00:04:15 Jörg Krämer**

Yes, the consumer is naturally the one who suffers greatly. Consumer prices in the euro area have increased by about 16% since the outbreak of Corona. That means purchasing power has decreased by 16% due to inflation - that's a lot - and even the high wage increases we have seen recently in the public sector in Germany, let's say around 12%, are certainly very, very high, but they don't fully offset the loss of purchasing power caused by high inflation in the past 2-3 years. So, the consumer suffers from dwindling purchasing power, and that explains why retail sales in Germany, the price segment that has been falling until recently, unlike perhaps the automotive industry or other industries, have not recovered. Private consumption is suffering because people simply have less purchasing power due to high inflation.

**00:05:18 Heimo Scheuch**

I would like to come back to this topic later, but if we look at it this way, isn't the state the one benefiting with higher revenues?

**00:05:26 Jörg Krämer**

Yes, unfortunately, one has to say so. The state certainly benefits from high inflation, especially through higher value-added tax - that happens quickly. With a time lag, wages are also rising more strongly. Because we have a progressive tax rate, a larger portion of taxpayers naturally moves into higher tax brackets. So, it is clear that the state benefits from... benefits from inflation. There's also something else: government debt is quite high, and investors look at the ratio of government debt to gross domestic product. But if we have more inflation, the gross domestic product is also inflated, so the government debt relative to the inflated gross domestic product decreases. That means the government debt ratios decrease and even give the state more perceived room for further indebtedness.

**00:06:24 Heimo Scheuch**

Which naturally leads to... in my opinion, an important discussion that we should have in public: what happens with the money and how is it used?

**00:06:36 Jörg Krämer**

Yes, well, the money that the state uses is also a story in itself. State funds are needed. State funds are necessary to build infrastructure. This includes not only roads but also schools, public safety, and justice. Without them, companies cannot exist, and the economy cannot flourish - that is necessary! The issue is that the state invests too small a proportion in infrastructure. In Germany, there is a statistic that shows that depreciation of state assets and construction assets is still higher than gross investment. That means there is still a net consumption taking place. Not enough is being invested, even though the state has collected a lot of revenue. A significant amount is being spent on consumption and redistribution.

**00:07:37 Heimo Scheuch**

And here we are actually touching upon a very important topic. We have the discussion of the lost generation and people who no longer know how to deal with these issues. Perhaps it is also an appeal to the real decision-makers in the public sphere to invest more in the future and provide people with modern infrastructure. The issue of housing also plays a significant role in the German-speaking region, where it has become scarce

and very expensive due to the shortage. Berlin, Hamburg, Frankfurt, Vienna – all cities are suffering from this, and we need more housing. In this regard, it is the responsibility of the state to intervene now with social housing and infrastructure measures.

**00:08:19 Jörg Krämer**

Yes! A good infrastructure is also a quality of life. For example, when I'm in Switzerland and see how the trains run on time, unlike in Germany, it takes so much stress away. When I come out of the main train station in Zurich and see how well-maintained and orderly the infrastructure is, that is quality of life for people. It is a signal of trust to the people, it creates confidence, entrepreneurial spirit! It is very, very important for the state to invest more in infrastructure. It doesn't necessarily have to spend more overall; it needs to reallocate because that way it truly serves the citizens.

**00:08:59 Heimo Scheuch**

So, we already have some initial approaches on how to address the current situation - I don't want to call it a crisis because that's not in my vocabulary - but the situation, the economic one, which is marked by a downturn, and where we all hope we don't enter a recession. But we could counteract it through stronger investments in infrastructure.

**00:09:22 Jörg Krämer**

Yes, I believe in Germany, for example, it is an issue that the highway bridges, the highways, are in poor condition, and I think that's not just about money, by the way, it often has to do with lengthy approval processes. And Germany has shown with the LNG terminal in Wilhelmshaven. Something was built there in half a year, which usually takes 4 to 5 years. That means, in principle, Germany is capable of it, and if the federal government could really manage to transfer this pace to the renovation and construction of damaged and dilapidated highway bridges, then entrepreneurs and their employees would also see that things are moving, right?! And these are the signals of the future, these signals of confidence that we need - especially in the current time.

**00:10:08 Heimo Scheuch**

Now, I want to shift the focus from the state to the private sector. You mentioned the real income loss, the availability of income. We also see the high tax burden. I assume, and correct me if I'm wrong, based on what I've listened to carefully, you said, "we, specifically in the German-speaking region, need to prepare for higher interest rates for a while, they will not come down quickly," and that is something different for us because we are shaped by stability, and inflation is not the best thing for us in Germany, as you have also described it as a breach of trust. So, here I would say we need to explore new ways to improve private consumption and disposable income and give people more freedom to create and invest. Tax relief. Yes? No?

**00:11:05 Jörg Krämer**

So, in the medium term, taxes need to be reduced, I believe. Especially in the corporate sector, because many other countries have done it in recent years, and as a result, corporate taxes in Germany are already relatively high internationally. As for the citizens, they also need more leeway. Whether this can happen quickly, I doubt. But there must be the political will to not simply consume the increasing tax revenues in the next upswing, but to give something back to the citizens in order to increase their private leeway, because individuals can generally spend money better than politicians can spend it for them.

Transcript

**Heimo Scheuch Podcast, Episode 27**

Guest: Dr. Jörg Krämer, Chief Economist of Commerzbank

**00:11:50 Heimo Scheuch**

I believe there is no better conclusion than this, namely that individuals can spend money better than politicians, and this is also an important topic for the construction industry and its suppliers, like us: renovation, new construction, and of course, infrastructure, which would significantly contribute to reducing CO2 emissions and improving our contribution to climate change. These aspects would be favored here, and it would be great if we could stimulate all of this through private investment volume.

**00:12:23 Jörg Krämer**

Absolutely, private investments. Of course, we need both: private investments and public investments, as they provide a framework, but the state should only establish a framework through good infrastructure and then let the companies and the people operate within this framework, because they usually know better.

**00:12:42 Heimo Scheuch**

I don't think I can say anything better than that. Thank you, Dr. Krämer, for the conversation and for stopping by! All the best!

00:12:46 Jörg Krämer

Thank you too!