



## Make Frankfurt the heart of Europe

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The German economy is running like a well-oiled machine. Employment is rising steadily and, at 44 million, there have never been so many people in work. This is also true for the state of Hesse, where the most recent unemployment rate had fallen to 4.9 % and was thus below the national level of 5.6 %. Surveys indicate that, overall, Germans are very satisfied. But this was not always the case. Particularly in the years immediately after the introduction of the euro, Germany was regarded as the sick man of Europe – with a jobless rate - at times - of over 12 % in 2005. In those days, Germany was lambasted for its anaemic domestic economy.

Today, Germany is criticised for its strength. Even the new French President, Emmanuel Macron, who is also very popular here in Germany, played this card during the election campaign. Donald Trump actually claimed that we had “forced” the President of the ECB, Mario Draghi, to pursue an extremely loose monetary policy to give us competitive advantages on global markets.

After the elections, the tone of the debate became more subdued. In April, the US Treasury published its report into currency manipulation and neither Germany nor any other country were put in the dock. Empirical studies also show that the impact of exchange rates on trade flows only plays a minor role. Demand from importing countries is a considerably more significant factor. Consequently, in times when a country's economic growth is strong, its share of imports usually grows as well.

This also applies to Germany. Taking a look at the components that make up growth in German GDP reveals that the recovery has almost entirely been based on the domestic economy, especially on consumer spending and construction, for around the last two years. Net exports even had a negative contribution to growth in 2016, which simply means that imports were rising faster than exports. Accordingly, countries that export a lot to Germany have also benefitted. From the point of view of France, with a 17 % share we are the most important importing country. Now that Macron has paid his first visit to Chancellor Merkel, it seems that the harsh rhetoric was related to the election campaign and that the realisation is dawning that France also benefits from an economically strong Germany.

However, when it comes to certain decisions, there is only one winner. This is the case in respect of the location of European institutions and is particularly acute in Luxembourg and Brussels. Paris also plays host to an important institution in the shape of ESMA, the European Securities and Markets Authority. But Frankfurt is a winner, too. The decision to locate the European Central Bank (ECB) to the German financial centre led to the creation of 3,000 jobs alone. At the same time, the ECB is a magnet for other market players. The European Insurance and Occupational Pensions Authority (EIOPA), for example, is also located here. For this reason, in light of Brexit it would be a worthwhile aim for the German financial centre to host the European Banking Authority (EBA). This would give Frankfurt an opportunity to expand its role as the European hub of financial supervision and a merger of both institutions would leverage synergies. ■

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