Germany

Outlook

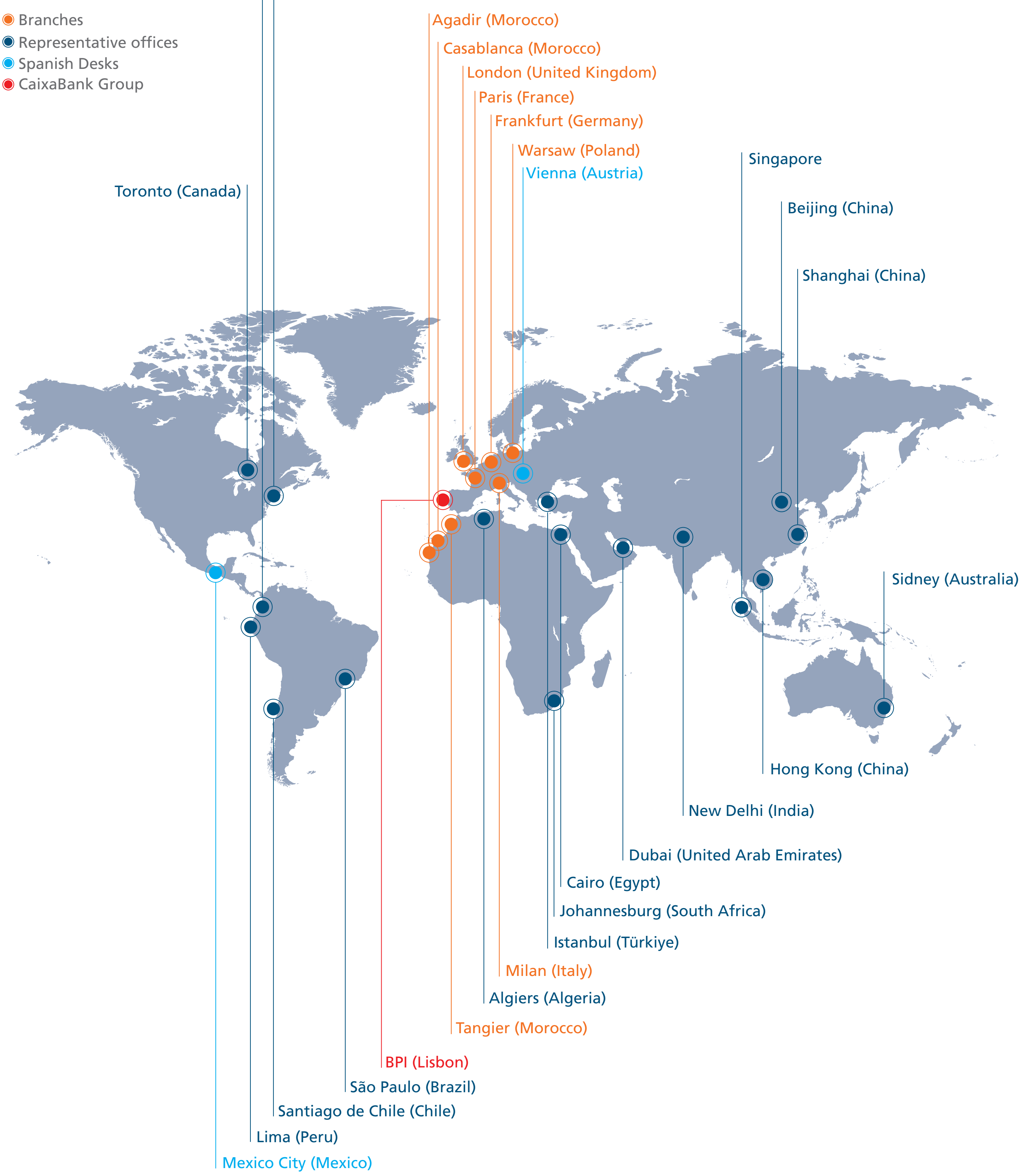
	Average 13-17	2018	2019	2020	2021	2022	2023	Forecast 2024	2025
GDP growth (%)	1.8	1.0	1.1	-4.2	3.1	1.9	0.0	0.2	1.2
CPI inflation (%)*	1.0	1.9	1.4	0.4	3.2	8.7	6.0	2.5	2.2
Fiscal balance (% of GDP)	0.8	1.9	1.5	-4.3	-3.6	-2.5	-2.5	-1.6	-1.2
Primary fiscal balance (% of GDP)	2.2	2.9	2.3	-3.7	-3.0	-1.8	-1.6	-0.6	-0.2
Public debt (% of GDP)	71.9	61.9	59.6	68.8	69.0	66.1	63.6	62.9	62.2
Reference rate (%)*	0.2	0.0	0.0	0.0	0.0	0.6	3.8	4.0	2.8
Current balance (% of GDP)	7.9	8.1	8.4	7.2	7.8	4.4	6.9	7.0	7.0

Note: * Annual average. CaixaBank Research forecast for GDP, CPI and interest rates; other variables, AMECO.
Source: CaixaBank Research, based on data from AMECO, Destatis and the ECB (via Refinitiv).

- **Germany started the year with higher growth than expected**. In fact, GDP grew by 0.2% quarter-on-quarter in Q1 2024, after falling by 0.5% in Q4. The result in Q1 is due to strongly performing construction (2.8% quarter-on-quarter vs –2.0% previously) and exports (1.1% vs –0.9% previously), against a backdrop of falling private and public spending and lacklustre investment in capital goods. Despite this positive start to the year, we do not believe that activity will pick up strongly this year and we expect growth to be fairly modest for several reasons.
- Firstly, **it will be challenging for growth in construction to be sustained or increased**, given the impact of interest rates that remain high amid sharp declines in housing prices (down more than 12% from their highs in Q2 2022). In this regard, since the end of 2022, the percentage of developers expressing concern about low levels of orders has soared (currently at a record high of 60%). Additionally, **fiscal policy will start to become tighter**, because in January this year Brussels reintroduced its fiscal rules and the German Constitutional Court reinstated the “debt brake” clause (limiting annual increases in structural deficit to 0.35% of nominal GDP).
- Furthermore, **Germany's industrial sector is facing major challenges** and a strong and sustained recovery will be difficult in the short term. Firstly, the energy crisis seems to have led to a **permanent loss of production capacity in the most energy-intensive sectors**. Natural gas prices (Dutch TTF benchmark) are now five times lower than the peaks reached after the outbreak of war in Ukraine, but production in the most energy-intensive sectors is still 12% below pre-war levels. Secondly, its flagship sector, the **automotive industry**, has **declined markedly** from its 2017 highs. We believe that this downward trend will continue, as German cars are losing market share to China, mainly in electric vehicles. These specific circumstances in the German industrial sector will limit the positive impact of any upturn in foreign demand on the economy as a whole.
- Meanwhile, **there is an ample room for improvement in household consumption**. The lower interest rates and inflation that we expect to see in the second half of the year may boost household spending, which also has a sizeable additional savings buffer, estimated at more than 360 billion euros, almost 9.0% of GDP.
- Overall, we expect the German economy's growth rate to remain fairly flat over the course of the year, growing at around 0.2% quarter-on-quarter, meaning that **the German economy will only narrowly avoid stagnation in 2024**.

Closing date of this edition: 31 May 2024

CaixaBank in the world



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