Germany

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	Forecasts 2021	Forecasts 2022
GDP growth (%)	2.2	1.5	2.2	2.6	1.3	0.6	-5.3	3.2	2.2
CPI inflation (%)*	1.6	0.7	0.4	1.7	1.9	1.4	0.4	1.0	1.5
Fiscal balance (% of GDP)	-0.9	1.0	1.2	1.4	1.8	1.5	-6.0(e)	-4.0	-2.5
Primary fiscal balance (% of GDP)	1.2	2.4	2.3	2.4	2.8	2.3	-5.3(e)	-3.4	-1.9
Public debt (% of GDP)	79.5	72.2	69.3	65.1	61.8	59.6	71.2(e)	70.1	69.0
Reference rate (%)*	0.2	-0.2	-0.4	-0.4	-0.4	-0.4	-0.5	-0.5	-0.5
Current account balance (% of GDP)	6.6	8.6	8.5	7.8	7.4	7.1	6.0(e)	6.3	6.1

Notes: * Annual average. (e) estimation.
Source: CaixaBank Research, based on data from national statistical agencies and the IMF.

- **The German economy has been less badly affected by the pandemic than other European countries thanks to the combination of an effective health response and a number of substantial fiscal measures** that have helped mitigate the COVID-19 shock. However, the economy is still below its pre-crisis level and the new restrictions imposed to counteract the new waves of the coronavirus may lead to the economy losing traction in the short-term. We expect the economy to gradually recover in the coming years and reach its pre-crisis level at the end of 2022. The distribution of a COVID-19 vaccine in 2021 may lead to a quicker recovery. Nevertheless, there are also downside risks, including another global economic slowdown (e.g. due to further waves of the virus or the uneven distribution of vaccines in different regions), which may hit the German economy due to its dependence on exports.

- **Real shock of COVID-19.** Germany is one of the European countries that has been least hit by the economic shock caused by COVID-19. The country managed to handle the health crisis with a high testing and hospital capacity, resulting in a far lower mortality rate than the EU average. As a result, the virus containment measures were less strict than in other European countries and, consequently, the decline in activity in the first half of 2020 was also lower. The economy also recovered more quickly than expected in Q3, when GDP recovered to just 4% below its pre-crisis level. However, the subsequent waves of the coronavirus have hit Germany hard, and the authorities have been forced to adopt far stricter containment measures than in the first half of 2020. This may lead to an economic slowdown, which is expected to be short-lived. During 2021, the distribution of a vaccine against COVID-19 may make additional restrictions unnecessary, thus ensuring the gradual recovery of the economy without further contractions. However, the economic impact of the pandemic may be long-lasting and we cannot rule out a rise in unemployment and bankruptcies, which have been limited so far.

- **Economic policy response**
  - **Domestic fiscal policy.** During the crisis, the German government announced a set of packages with a substantial number of fiscal measures which have helped to mitigate the worst of the economic shock. In total, these measures amount to more than 30% of GDP, making Germany one of the countries with one of the biggest fiscal responses. These include the guarantee facilities provided to banks to support the liquidity of German businesses, the short-time working schemes (*Kurzarbeit*), the extension of unemployment benefits, the temporary reduction in VAT and a green and digital investment programme worth 50 billion euros. Although actual expenditure has been below 30% of GDP to date, the announcement and availability

Outlook *(continued)*

of these measures mean that there is a source of liquidity for businesses and households, with a positive effect on economic confidence. We expect the public deficit to stand at around 6% of GDP in 2020, before falling in 2021 and 2022. Consequently, public debt should increase to around 71% of GDP in 2020, a low level compared with the euro area's main economies.

- **Monetary policy.** The launch of the ECB's asset purchase programmes has helped to maintain German borrowing rates at very low levels and we expect this to continue over the coming quarters. Through TLTROs, bank loans at low interest rates, the ECB is also seeking to help reduce the risk of a severe impact on credit in the German economy.
- **European policy.** During the crisis, the EU approved a set of aid packages to member states. These measures include loans from the SURE fund to pay for work schemes (of which Germany is yet to avail itself) and the European Recovery Plan (or NGEU), from which Germany may receive around 23 billion euros in grants (0.7% of GDP) between 2021 and 2026.

- **Medium-term outlook.** It will be essential to increase productivity, which was already weak before this crisis, to avoid economic stagnation and a too-slow recovery after this latest crisis (which, in turn, may hinder the potential of the economy). Before this crisis, it was already obvious that German industry already required modernisation before this crisis, and, in this regard, it is very important that the green and digital investment programme is implemented properly as it has the potential to increase German productivity.

Main risks

- **Foreign sector.** Germany is one of the countries with the highest current account surplus and, therefore, the growth of its economy is highly dependent on global growth and that of its main trading partners. In this regard, a further escalation of trade tensions with the US or China, additional waves of the virus and the uneven distribution of vaccines in important export markets represent a material risk to the German economy.

- **Long-term growth.** Given the failure to properly harness green and digital investment, the German economy's shift to a new production model, which is imperative given the falling productivity and growing demographic pressure on the welfare state (on pensions in particular), may not be implemented successfully and it may hinder any possibility of long-term growth.

	Rating	Last changed	Outlook	Last changed
STANDARD & POOR'S	AAA	13/01/12	Stable	13/01/12
MOODY'S	Aaa	29/04/93	Stable	28/02/14
FitchRatings	AAA	08/10/94	Stable	11/06/07

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".

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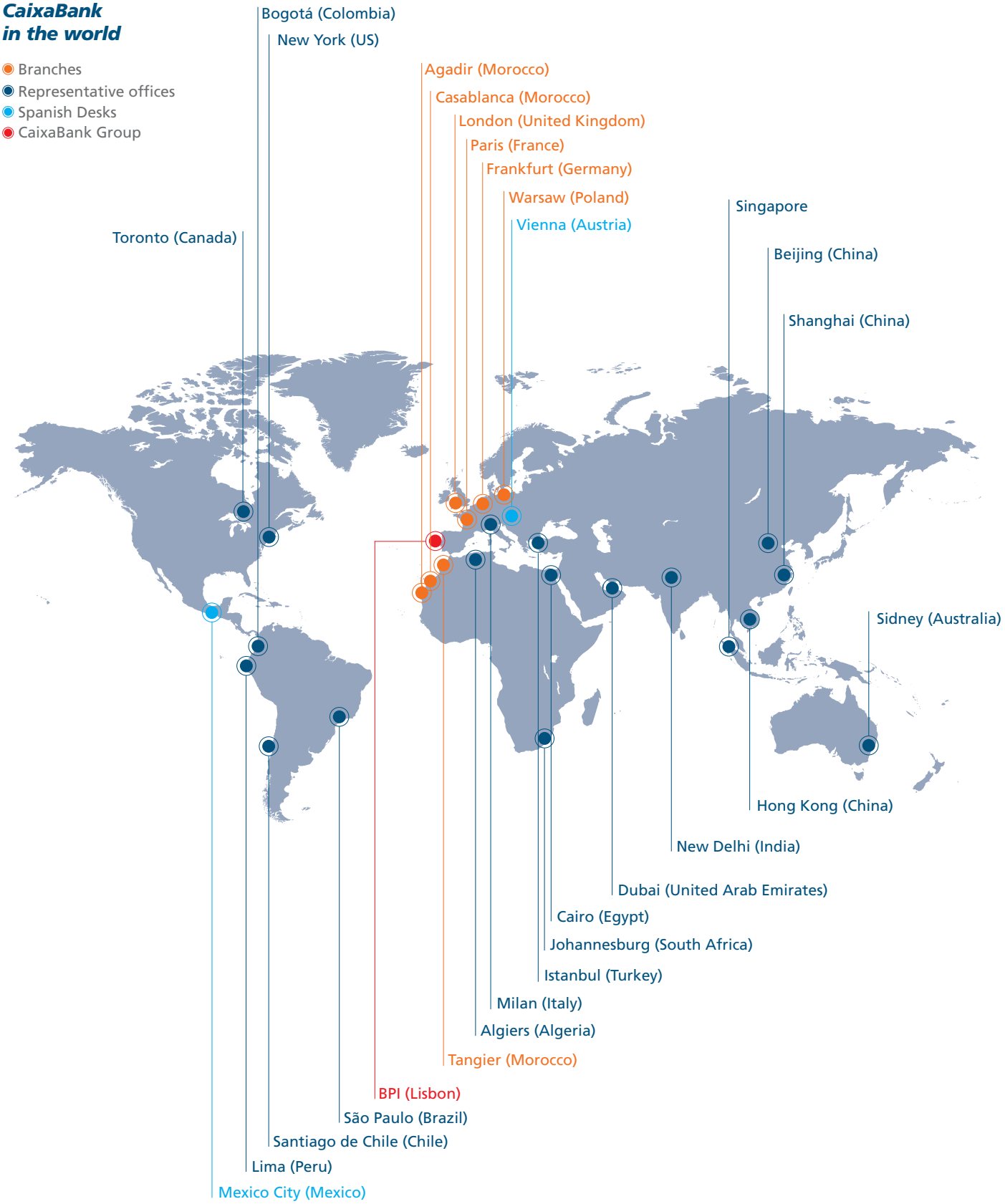

Frankfurt representative office

Neue Mainzer Straße 66-68 17 Floor
FRANKFURT AM MAIN

Director: Reinhard Messerschmidt
Tel. (+49) 6 91 3014 60890

CaixaBank