Germany

Outlook

	Average 10-14	2015	2016	2017	2018	2019	2020	2021	Forecasts 2022
GDP growth (%)	2.2	1.5	2.2	2.7	1.1	1.1	-4.9	2.8	3.2
CPI inflation (%)*	1.6	0.7	0.4	1.7	1.9	1.4	0.4	3.2	3.0
Fiscal balance (% of GDP)	-0.9	1.0	1.2	1.3	1.9	1.5	-4.3	-6.5(e)	-2.5
Primary fiscal balance (% of GDP)	1.2	2.4	2.3	2.4	2.8	2.3	-3.7	-5.9(e)	-2.0
Public debt (% of GDP)	79.5	72.2	69.3	64.7	61.3	58.9	68.7	71.4(e)	69.2
Reference rate (%)*	0.8	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Current balance (% of GDP)	6.7	8.7	8.7	8.0	8.1	7.6	7.1	6.7(e)	6.8

Notes: * Annual average. (e): estimate.
Source: CaixaBank Research, based on data from national statistical agencies, AMECO and the ECB (via Refinitiv).

- **The German economy closed 2021 with a quarter-on-quarter drop of 0.7%, which limited growth for the year as a whole to 2.8%, well below the EU average (5.2%).** The re-imposition of severe restrictions to stop the spread of the Omicron variant and global supply chain problems have hit Germany particularly hard. The industry is extremely important for the economy (24% of GDP), and the automotive industry (25% of the total) in particular has been one of the most affected due to the lack of supplies (over 90% of the sector acknowledged supply problems in Q4), explaining much of the decrease in activity at the end of the year. At the same time, the sharp rise in inflation (5.4% on average in Q4, the highest in almost 30 years) reduced household purchasing power, an aspect that led to a drop in retail and consumer goods (–1.5% quarter-on-quarter) in Q4.
- **Activity will remain weak at the start of 2022, but we expect a significant upturn in activity in Q2 and Q3.** The persistence of bottlenecks and the spread of Omicron will continue to hamper growth in the first months of the year. However, the availability of retroviral drugs should lead to a substantial improvement in health conditions in the coming months, which will reduce uncertainty and once again stimulate spending in a context where the savings rate will remain very high (12% of disposable income, still somewhat higher than its pre-pandemic average). Also, the bottlenecks should ease throughout the year, helping invigorate its industrial sector in a scenario where reactivation of the European and global economy would boost exports. Accordingly, we believe it likely that German GDP could grow at rates of around 1.5% per quarter in Q2 and Q3.
- **Risks for growth remain tilted to the downside.** While China continues with its zero-COVID policy, there is a high risk that problems with global supply chains will be more persistent than expected. In fact, the ECB points out that its negative impact will still be felt for much of 2022. It is still too early to consider COVID as an endemic disease like the flu, and the appearance of new variants must be monitored. In addition, in recent weeks a new risk factor has emerged: the crisis between Russia and Ukraine, whose potential for destabilising the region is high, given that Germany is highly dependent on imports of Russian natural gas (which represent 65% of total imports).

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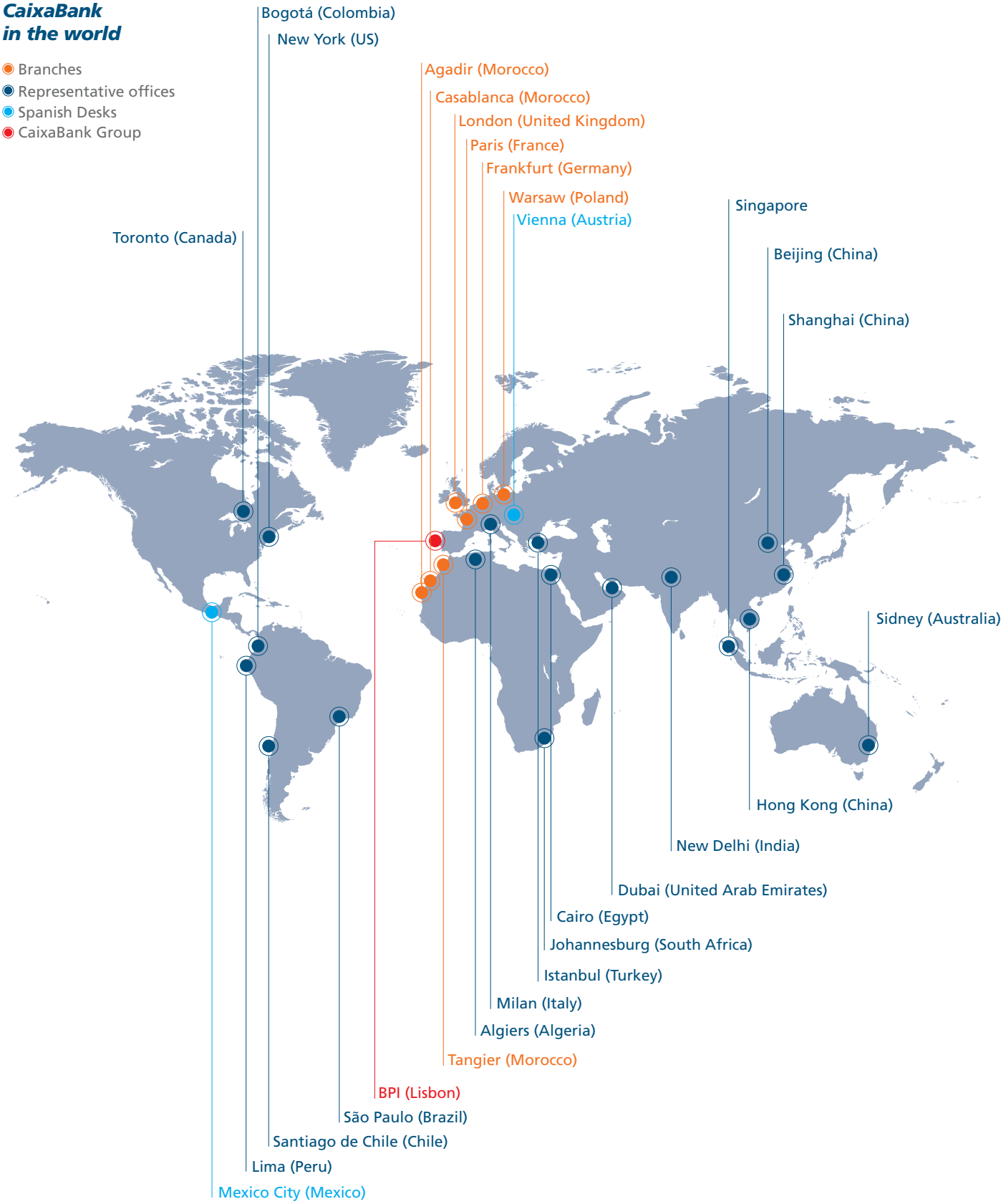

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