

Germany



Outlook

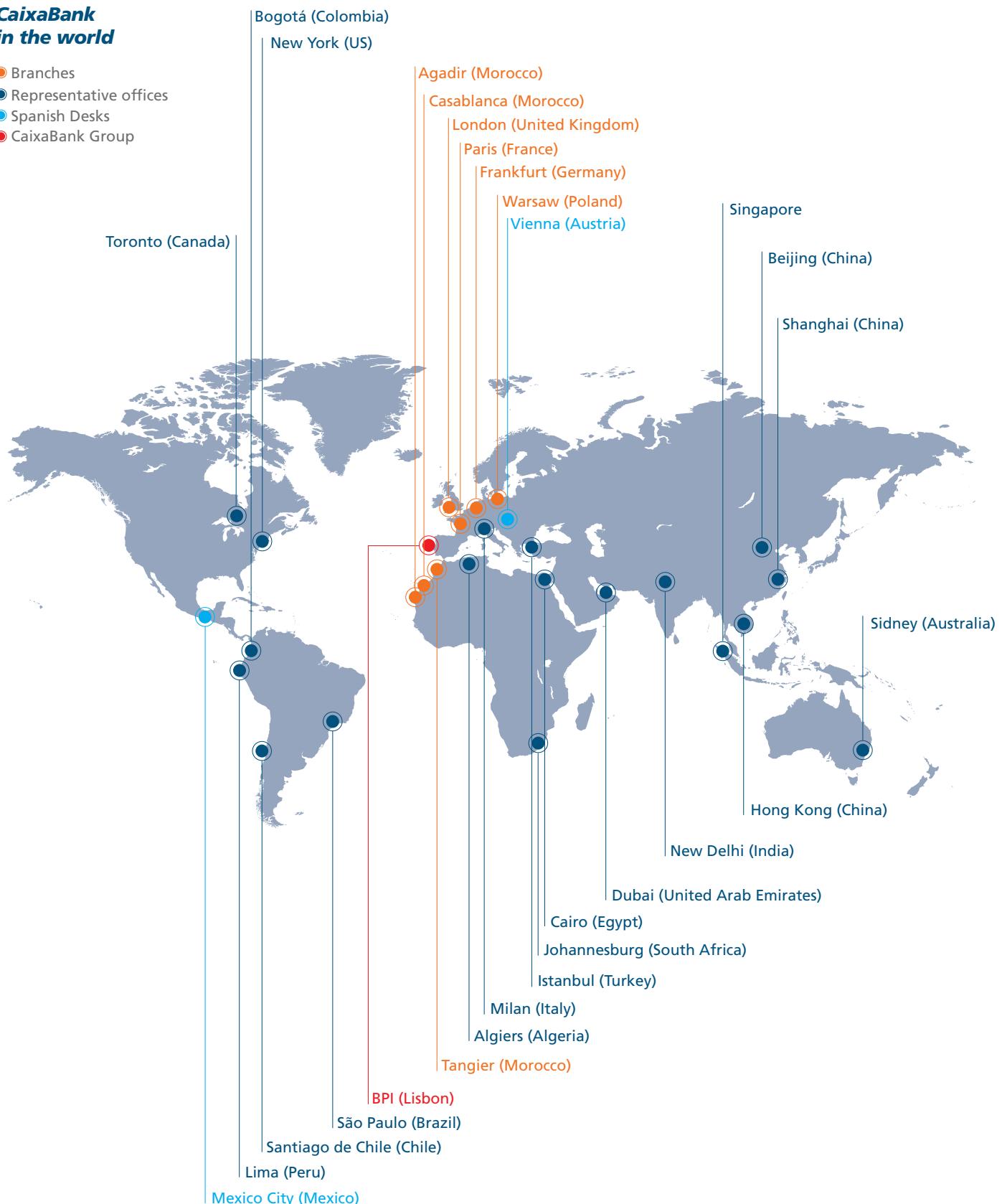
| | Average 11-15 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | Forecasts | 2022 | 2023 |
|-----------------------------------|------------------|------|------|------|------|------|------|-----------|------|------|
| GDP growth (%) | 1.7 | 2.1 | 3.0 | 1.1 | 1.1 | -4.9 | 2.9 | | 1.2 | 2.8 |
| CPI inflation (%)* | 1.5 | 0.4 | 1.7 | 1.9 | 1.4 | 0.4 | 3.2 | | 6.8 | 2.1 |
| Fiscal balance (% of GDP) | 0.1 | 1.2 | 1.3 | 1.9 | 1.5 | -4.3 | -6.5 | | -2.5 | -0.5 |
| Primary fiscal balance (% of GDP) | 2.1 | 2.3 | 2.4 | 2.8 | 2.3 | -3.7 | -5.9 | | -2.0 | -0.1 |
| Public debt (% of GDP) | 77.5 | 69.3 | 64.7 | 61.3 | 58.9 | 68.7 | 71.4 | | 69.2 | 68.1 |
| Reference rate (%)* | 0.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | 0.1 | 0.9 |
| Current balance (% of GDP) | 7.2 | 8.7 | 8.0 | 8.1 | 7.6 | 7.1 | 7.4 | | 6.8 | 6.9 |

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 surprised us positively in Q1 2022** by managing to grow by 0.2% (we expected a slight drop). However, this increase barely offsets the 0.3% drop in the previous quarter and leaves the economy still almost 1.0% below its pre-COVID level. Activity, significantly weakened by the impact of global bottlenecks, had barely returned to normal after the lifting of pandemic restrictions in late 2021, when the war broke out in Ukraine.
- **Germany is one of the most exposed economies in the euro area** to the conflict. Nearly 60% of its gas imports come from Russia, its industry consumes 37% of the total imported and almost half of this consumption is concentrated in the chemical, mining and food industries, key sectors of the German economy. Some international and national organisations, such as the Ifo Institute, agree that a 30% cut in gas imports would mean around a 2.3% drop in GDP. In this regard, the confidence indicators available for March and April show a significant correction and, in some cases, a return to values similar to those recorded at the start of the pandemic, and are also compatible with further falls in activity in the coming months.
- Likewise, China's commitment to its zero-COVID policy is worsening supply problems (80% of the manufacturing sector still acknowledges supply disruptions) and companies are suffering a significant increase in the cost of their inputs: in March, production prices recorded a record year-on-year increase of 31%. To salvage their results, companies will transfer part of this increase in costs to final prices, so in the short term, inflation will continue to be high, an aspect that will erode the purchasing power of households and determine their spending decisions. **This dynamic expected for inflation would also be influenced by wage negotiations**, such as that of the country's largest union, IG Metal, which intends to raise wages in the sector by 8.2% over the next year, fuelling fears of starting an inflationary spiral.
- Given this scenario, we consider that the risks to the German economy are tilted to the downside. We consider there is to be a high probability of a further decline in activity in Q2 2022, which would be followed by a less vigorous recovery in activity in the second half of the year than that forecast before the war. Consequently, **we have revised down our growth forecast for 2022 significantly, to 1.2%**. However, the **current uncertainty is far greater than usual** and we cannot rule out further downside surprises in economic growth and unexpected rises in inflation.

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