Germany

Outlook

	Average 11-15	2016	2017	2018	2019	2020	2021	Forecasts 2022	Forecasts 2023
GDP growth (%)	1.7	2.1	3.0	1.0	1.1	-4.1	2.6	1.6	-0.2
CPI inflation (%)*	1.5	0.4	1.7	1.9	1.4	0.4	3.2	8.0	5.2
Fiscal balance (% of GDP)	0.1	1.2	1.3	1.9	1.5	-4.3	-3.7	-2.5	-1.0
Primary fiscal balance (% of GDP)	2.1	2.3	2.4	2.8	2.3	-3.7	-3.1	-2.0	-0.5
Public debt (% of GDP)	77.1	69.0	64.6	61.2	58.9	68.7	69.3	66.4	64.5
Reference rate (%)*	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.6	2.2
Current balance (% of GDP)	7.2	8.7	8.0	8.1	7.6	7.1	7.4	4.3	4.2

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

- **Germany grew a modest 0.1% in Q2 2022**, after the quarterly growth for Q1 2022 was revised up significantly to 0.8% from 0.2%, and faces a difficult second half of the year. Like the rest of Europe, the evolution of the war in Ukraine and the energy-related measures that Russia adopts will be decisive in the coming months. At the time of going to press, there has been a total disruption in the supply via Nord Stream 1. The zero probability that it will be resumed in the coming months due to the rupture of Nord Stream pipelines 1 and 2 will exacerbate the energy crisis that Europe is already experiencing.

  To limit the negative impact of a possible total disruption in the supply of gas, the European Commission came up with a series of measures that include ensuring a gas reserve level of at least 90% of total capacity in November, while establishing a mandatory reduction in electricity consumption of 5% during 'peak' hours, and setting a voluntary target of 10%.

- As pointed out previously, **Germany is one of the most vulnerable euro area economies** in this context: gas represents almost 28% of its energy consumption and close to 60% of its gas imports come from Russia. Germany is striving to meet the targets set by the Commission (it can already cover almost 80% of its gas reserves), but even if it managed to cover 100%, these reserves would barely cover three months of normal consumption. Germany will almost inevitably reduce its gas consumption and industry will bear the brunt of this reduction.

- In addition, and as in the rest of Europe, high energy and food prices are driving inflation to record highs, diminishing the purchasing power of households and limiting the ability of companies to transfer to final prices the increase in costs they have been assuming, which is hurting their margins. In this context, Germany is preparing a new emergency plan of 200 billion euros (around 5.0% of GDP), with its key point being to impose a cap on gas and energy prices. This plan has sparked criticism from its European partners due to the impact it may have on competition: the least indebted countries are in a position to support their companies much more, putting them at an advantage compared to other economies with higher debts.

- In short, **the outlook for the German economy has deteriorated significantly** and everything points to a drop in activity as early as Q3 2022, which would last at least until next spring, resulting in a decline in GDP in 2023 of 0.2%. The uncertainty of this situation remains very high and the risks continue to be concentrated on the downside in growth and on rising inflation.

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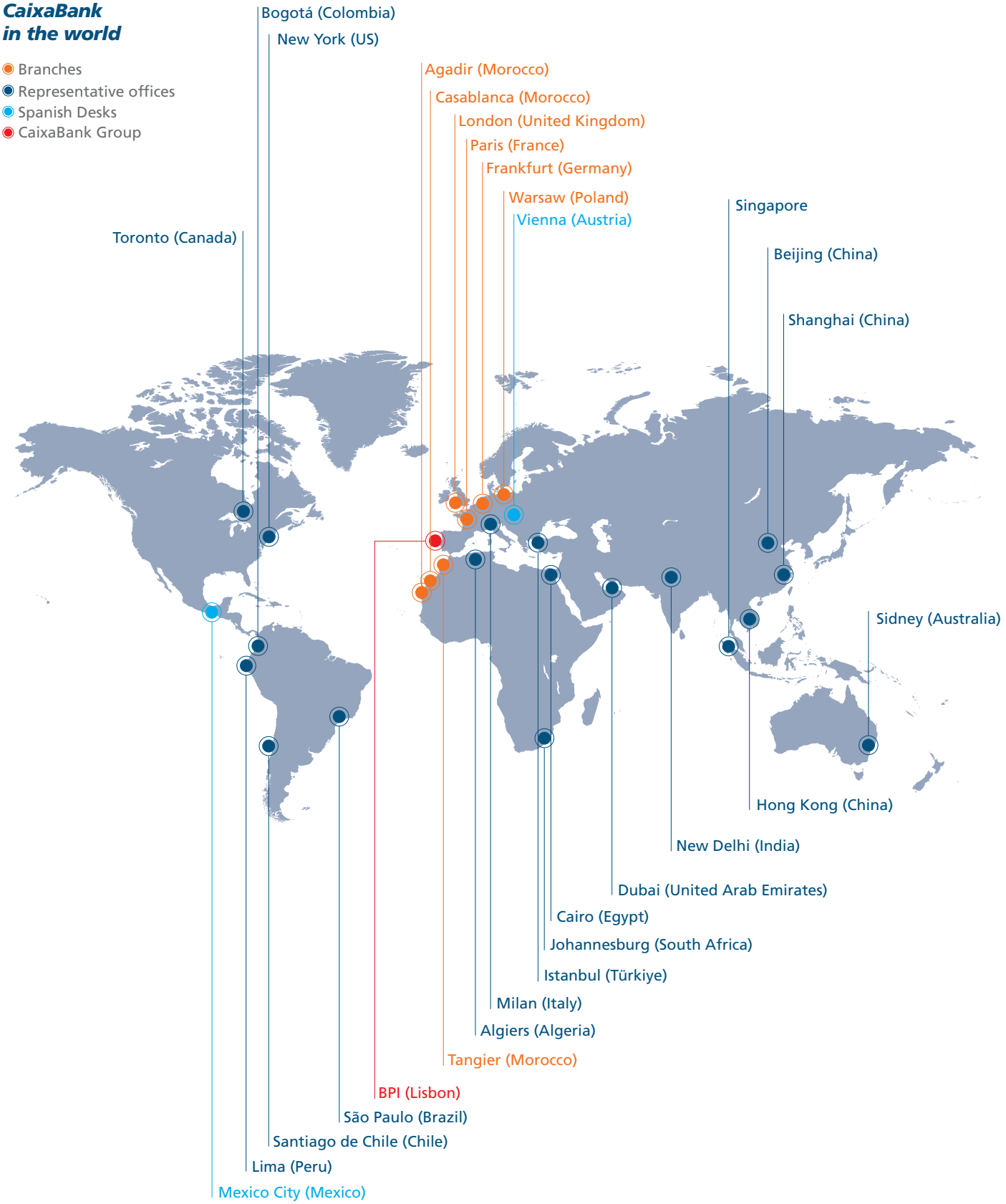

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