# Germany

## Outlook

| | | | | | | | | Forecast | |
|---|---|---|---|---|---|---|---|---|---|
| | Average 12-16 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
| GDP growth (%) | 1.4 | 3.0 | 1.0 | 1.1 | -4.1 | 2.6 | 1.9 | -0.1 | 1.2 |
| CPI inflation (%)* | 1.1 | 1.7 | 1.9 | 1.4 | 0.4 | 3.2 | 8.7 | 6.0 | 2.9 |
| Fiscal balance (% of GDP) | 0.5 | 1.3 | 1.9 | 1.5 | -4.3 | -3.7 | -2.6 | -2.3 | -1.2 |
| Primary fiscal balance (% of GDP) | 2.2 | 2.4 | 2.9 | 2.3 | -3.7 | -3.2 | -1.9 | -1.5 | -0.3 |
| Public debt (% of GDP) | 75.0 | 64.6 | 61.3 | 59.6 | 68.7 | 69.3 | 66.3 | 65.2 | 64.1 |
| Reference rate (%)* | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 3.8 | 4.0 |
| Current balance (% of GDP) | 7.7 | 8.0 | 8.1 | 7.7 | 7.1 | 7.4 | 4.0 | 5.8 | 5.6 |

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 had a disappointing start of the year**, falling 0.3% quarter-on-quarter in Q1 2023, after –0.5% in Q4 2022. This result is explained by the drop in private consumption (–1.2% vs. –1.7%) and, above all, public consumption (–4.9% vs. 0.2%), while the growth in gross capital formation (3.0% vs. –2.6%) and the contribution of the foreign sector (0.7 pp vs. 0.5 pp) stand out as positive. The behaviour of various business confidence and climate indicators is affecting the high degree of uncertainty surrounding the current scenario, although everything points to activity continuing to be supported by the **good performance expected in the services sector**. In addition, the favourable evolution of the weekly activity indicator allows us to trust that growth in Q2 may be positive (we estimate 0.2% quarter-on-quarter).
- It is important to point out that despite the modest behaviour of activity, **the job market continues to show considerable strength**: in March, the employment hit an all time high of over 45.7 million people, the unemployment rate fell to a minimum of 2.8% and various sectors continued to report labour shortages. In this context, wages have increased and, in February, they reached a year-on-year growth of 6.5% (2.4% in December), which, in any case, continues to be lower than the increase in inflation (7.6% in April). However, the outlook that inflation will continue to decline will improve household purchasing power, which, added to the option of resorting to part of the «extra» savings accumulated during the pandemic that families still have (equivalent to almost 2.5% of their gross income), will cover their expenses over the coming months.
- Regarding **the evolution of public accounts, the outlook is quite positive**. The European Commission's Spring Forecast expects a 2.6% drop of GDP recorded in 2022, to 2.3% in 2023 and to 1.2% in 2024. This forecasts include the impact on public accounts of the measures adopted to limit the impact of increased energy prices (around 1.2% of GDP in 2023), which will gradually be eliminated in 2024. In fact, given the favourable forecasts for crude oil prices, and especially for natural gas, it is estimated that from the «shield» of 200 billion euros approved in September last year (4.9% of GDP), only around a quarter would be used. However, the evolution of the fiscal deficit in 2023 will be favoured by the complete suppression of the emergency measures adopted during the pandemic, which represented almost 0.8% of GDP in 2022. In this context, public debt to GDP ratio will continue to decline from the peak of 69.3% reached in 2021. At the end of 2023, they could be just above 65%, and may continue to drop to 64% at the end of 2024.

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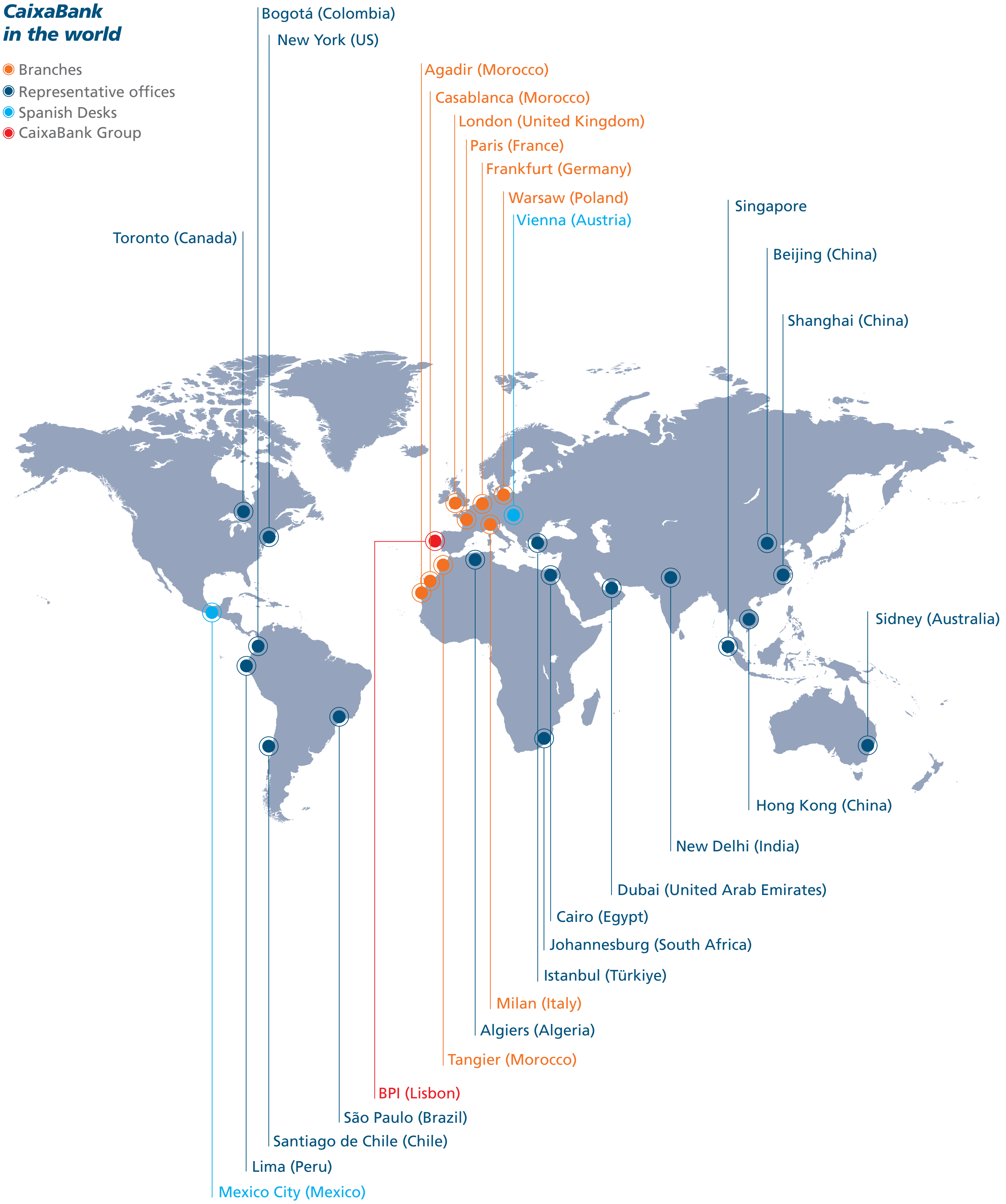


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