Germany

Outlook

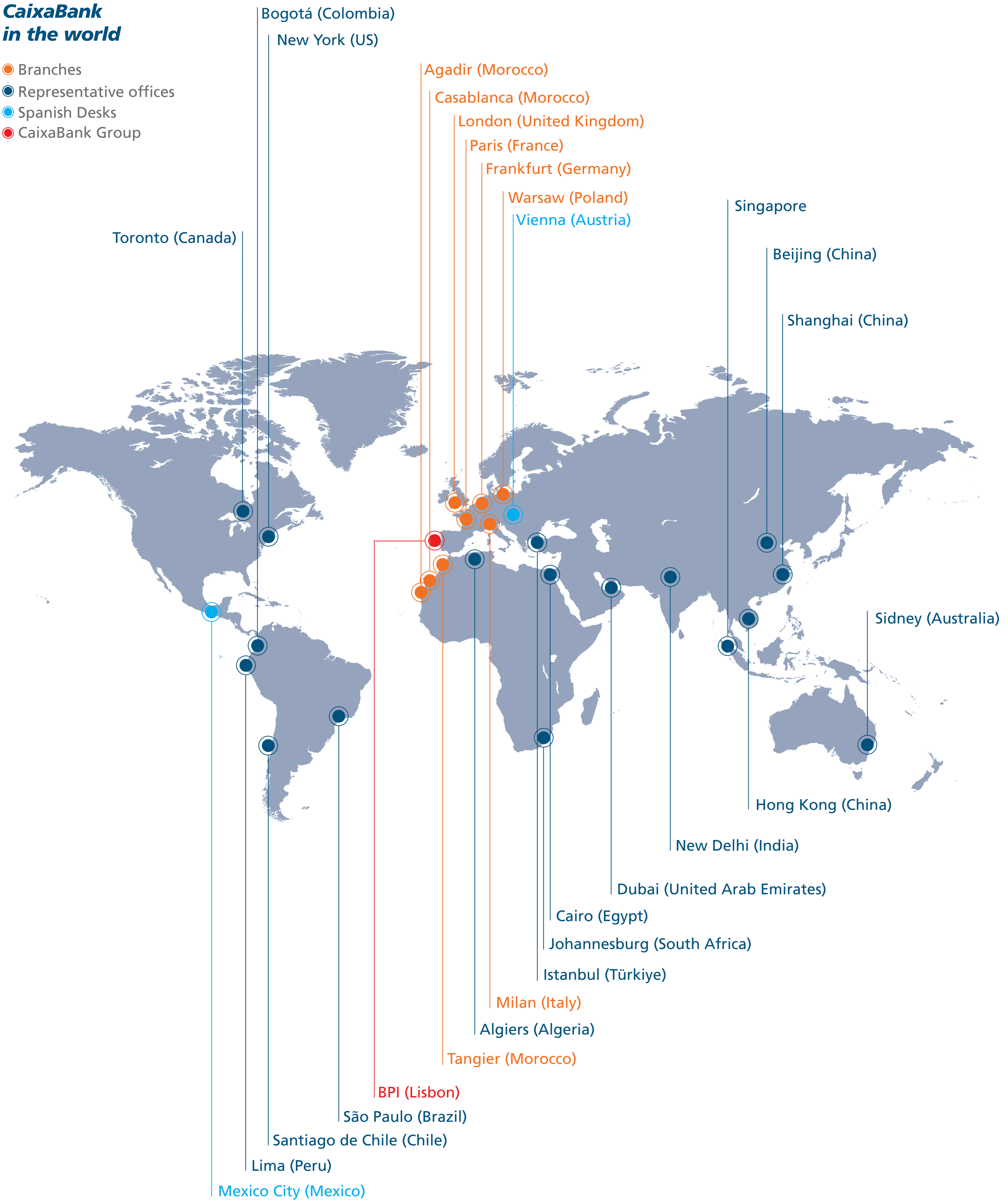
	Average 13-17	2018	2019	2020	2021	2022	2023	Forecast 2024	Forecast 2025
GDP growth (%)	1.8	1.0	1.1	-4.2	3.1	1.9	–0.1	0.2	1.3
CPI inflation (%)*	1.0	1.9	1.4	0.4	3.2	8.7	6.0	2.5	2.2
Fiscal balance (% of GDP)	0.8	1.9	1.5	-4.3	-3.6	-2.5	-2.2	-1.6	-1.3
Primary fiscal balance (% of GDP)	2.2	2.9	2.3	-3.7	-3.0	-1.8	-1.4	-0.7	-0.4
Public debt (% of GDP)	71.9	61.9	59.6	68.8	69.0	66.1	64.8	63.6	62.7
Reference rate (%)*	0.2	0.0	0.0	0.0	0.0	0.6	3.8	4.1	3.1
Current balance (% of GDP)	7.9	8.1	8.4	7.2	7.8	4.4	6.0	6.5	6.5

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 ended 2023 on a disappointing note**. GDP fell by 0.3% quarter-on-quarter in Q4, which, coupled with the weakness shown during the rest of the year, resulted in an average change in GDP of –0.1% in 2023. This decline in GDP shows that there was widespread weakness in the economy. High inflation and interest rates hit private consumption, which fell by 0.6% over the year, and investment in construction, which dipped by 2.2%. Furthermore, weak global demand caused exports to fall by 1.7% over the year.
- **Risks are on the downside with further falls in GDP at the start of 2024**, the Bundesbank has warned. In fact, in February, the composite PMI fell to 46.1 points, hampered by a manufacturing sector that has been in contractionary territory for 20 consecutive months and a services PMI that has been below 50 points for 5 months in a row. Moreover, the low levels of business confidence (the Ifo Business Climate Index stood at 85.5 points in February, versus the 100 points that are compatible with growth and close to its long-term average) and consumer confidence, at a one-year low, suggest that Q1 will hold few positive surprises. Additionally, the Red Sea conflict (almost 23% of imports from Asia are transported to Europe by sea, mostly via the Red Sea) is causing delays in deliveries of goods and making them more expensive, which is an added obstacle for German industry.
- **The outlook for the year is that activity will follow an upward trend**. Falling inflation and the expected drop in interest rates from June onwards will enable a recovery in household investment and consumption, which also have a substantial savings buffer (the savings rate was 20.6% of gross disposable income in Q3 2023, compared to an average pre-COVID rate of 17.5%). We also do not anticipate significant stress in energy markets in our forecast horizon (we expect gas prices to remain fairly stable this year at between 27 and 35 euros/MWh), which will be a relief for households and industry.
- **The easing of monetary conditions and lower inflationary pressures will offset the effects of a tighter fiscal policy**. The German Constitutional Court ruled on a couple of issues that forced the government to redraft its budgets for this year. Firstly, it ruled that unspent funds allocated to programmes designed to mitigate the economic impact of COVID and the war in Ukraine could not be reallocated to fund other types of expenditure, such as green economy projects. Secondly, it reinstated the «debt brake» clause in January this year, which limits the annual increase in structural deficit to 0.35% of nominal GDP.

Closing date of this edition: 19 March 2024

CaixaBank in the world



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