

PRESS RELEASE

German economy resilient despite prolonged shutdown: further recovery expected in the summer

- Germany's gross domestic product (GDP) is set to rise by 3.1 % in 2021. This represents a downward revision of the previous forecast by the German Council of Economic Experts (GCEE).
- The economy is likely to return to its pre-crisis level at the turn of the year 2021/2022. The GCEE expects the economy to grow by 4.0 % in 2022.
- The greatest risk going forward is posed by further developments in the coronavirus pandemic. Progress on vaccinations will be one of the key factors determining how swiftly the economy can normalise.

Wiesbaden, 17 March 2021 – Many countries – including Germany – remain firmly in the grip of the coronavirus pandemic. So far, however, the German economy has proved to be fairly resilient. Industrial production in particular is on an upward trajectory. In stark contrast to the situation last spring, international supply chains have remained largely intact and demand for goods from Germany is rising as the global economy continues its recovery. The economic situation in consumer-related services, on the other hand, remains tense.

Economic output in Germany is expected to contract by around 2 % in the first quarter of 2021 as a result of the renewed rise in infection rates in autumn 2020 and the restrictions that currently remain in place. The economy is likely to return to a path of recovery over the coming months as the vaccination campaign is accelerated as planned, the pandemic is contained and, consequently, restrictions are gradually eased. The GCEE is forecasting growth of 3.1 % (3.1 % adjusted for calendar effects) in gross domestic product for the current year. “Once we manage to get the level of infections under control and vaccinate larger sections of the population, the services sector that has been hit hard by the contact restrictions and closures – such as hospitality and stationary retail – is likely to bounce back. This should help to boost growth,” explains council member Achim Truger.

“Economic output is likely to return to its pre-crisis level at the turn of the year 2021/2022,” estimates council member Monika Schnitzer. Growth is expected to remain strong in 2022. This trend will be underpinned as consumer spending normalises and demand from abroad remains strong. The GCEE is forecasting GDP growth of 4.0 % for 2022 (4.1 % adjusted for calendar effects).

Consumer prices in Germany rose more sharply at the beginning of this year. The main factors at play here were the higher oil price, the introduction of carbon pricing in the transport and heating sectors, and the expiry of the temporary VAT cut. The rate of inflation in 2021 is likely to average 2.1 %, while consumer prices are expected to rise by 1.9 % in 2022.

Economic activity in the euro area is being curbed by the heightened infection rates and the resultant restrictions. The GCEE has therefore lowered its growth forecast for the euro area to 4.1 % for 2021. GDP is set to grow by 4.2 % next year. In December 2020 the European Central Bank (ECB) decided to extend and expand its expansionary monetary policy measures. The favourable financing conditions currently available in the euro area are likely to support economic growth until the end of 2022 despite the fact that banks have tightened their lending standards for companies in particular since the second half of 2020.

“The greatest risk to the German economy is posed by a potential third wave of infections, especially if it were to lead to restrictions or even plant closures in industry,” says council member Volker Wieland. The economy might perform better if the population is vaccinated more quickly than expected. In addition, stronger economic growth could emerge over the coming months if further progress is made in the medical treatment of COVID-19, digital technologies are used to trace infection chains more rapidly, new testing strategies are employed or more targeted measures are taken to protect vulnerable groups.

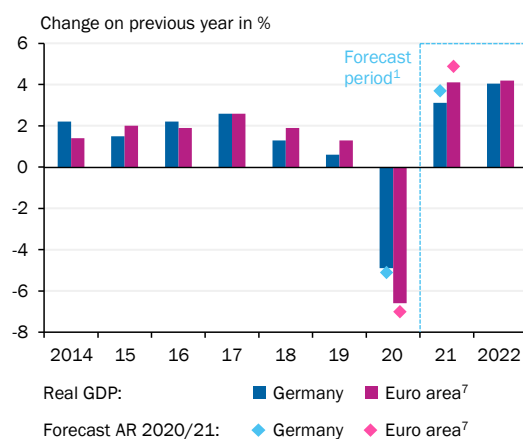
“For Germany to reach the EU target of vaccinating 70% of the population by the end of September 2021, the current number of daily vaccinations in vaccination centers must be increased by 50%. In addition, this would require general practitioners and specialists to be involved in the vaccination,” states council member Veronika Grimm.

Forecast by the German Council of Economic Experts

Key economic indicators for Germany

	Unit	2019	2020	2021 ¹	2022 ¹
Gross domestic product ^{2,3}	Growth in %	0.6	- 4.9	3.1	4.0
Gross domestic product, calendar-adjusted ^{2,3}	Growth in %	0.6	- 5.3	3.1	4.1
Current account balance ⁴	%	7.1	7.1	7.9	6.0
Persons employed (domestic)	Thousand	45,269	44,782	44,744	45,179
Persons employed, covered by social security	Thousand	33,518	33,578	33,767	34,245
Registered unemployment, stocks	Thousand	2,267	2,695	2,682	2,429
Unemployment rate ⁵	%	5.0	5.9	5.9	5.3
Consumer prices ³	Growth in %	1.4	0.5	2.1	1.9
General government budget balance ⁶	%	1.5	- 4.2	- 4.1	- 1.5

GDP in Germany and the euro area



1 - Forecast by the GCEE. 2 - Constant prices. 3 - Change on previous year. 4 - In relation to nominal GDP. 5 - Registered unemployed in relation to civil labour force. 6 - In relation to nominal GDP; regional authorities and social security according to national accounts. 7 - Forecast based on seasonally and calendar-adjusted quarterly figures.

Sources: Eurostat, Federal Employment Agency, Federal Statistical Office, own calculations

The German Council of Economic Experts is an independent academic body advising German policymakers on questions of economic policy. It was founded in 1963, and consists currently of the four members: Prof. Dr. Veronika Grimm, Prof. Dr. Monika Schnitzer, Prof. Dr. Achim Truger and Prof. Volker Wieland, Ph.D. The aim of its reports is to help form the opinions of all authorities responsible for economic policy as well as the general public.

Further information on the German Council of Economic Experts and its publications are available at: <http://www.sachverstaendigenrat-wirtschaft.de/en> or follow us on Twitter [@GCEE_en](https://twitter.com/GCEE_en).

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