1

US TRADE POLICY BURDENS THE ECONOMY – FISCAL PACKAGE PROVIDES IMPULSES

This is a translated version of the original German-language chapter "Zollpolitik belastet Konjunktur – Finanzpaket setzt Impulse", which is the sole authoritative text. Please cite the original German-language chapter if any reference is made to this text.

KEY MESSAGES

↘ The German economy continues to stagnate. Erratic and unpredictable US trade policy has a negative impact on economic development. Further escalation poses a considerable risk to the German economy.

↘ The expansive measures of the fiscal package and a gradual recovery in private consumption should support the German economy.

↘ The GCEE expects Germany's real gross domestic product to stagnate this year and increase by 1.0 % in 2026. For consumer price inflation, the council forecasts average annual rates of 2.1 % and 2.0 %, respectively.

EXECUTIVE SUMMARY

The global economy grew in line with long-term average rates in 2024. However, the erratic and unpredictable **US trade policy** and **the resulting sharp increase in uncertainty about trade policy are expected to significantly dampen global growth** over the forecast horizon. Inflation is likely to decline only gradually. The development of consumer prices, however, remains closely tied to uncertainties regarding future trade policy. In economies imposing import tariffs, these are likely passed on to consumer prices relatively quickly, leading to a renewed increase in inflation. In contrast, the decline in energy prices is likely to exert a dampening effect on inflation. The GCEE expects a **significant slowdown in global gross domestic product (GDP) growth from 2.8 % in 2024 to 2.1 % in both 2025 and 2026. Consumer prices** are likely to **rise** by **3.1 %** in 2025 **and 2.7 % in 2026**.

Real GDP in the euro area expanded only moderately last year. **Industrial activity remained subdued**, and exports noticeably lost momentum over the course of the previous year. In contrast, private consumption increased, supported by a robust labour market. **Towards the end of the forecast period, economic activity in the euro area** is **expected to gain momentum**. Currently, US tariffs on EU imports and continued uncertainty regarding the future direction of US trade policy are expected to weigh on exports and dampen investment activity. Nevertheless, the economy will be supported by a less restrictive monetary and fiscal policy over the course of the forecast period. The GCEE expects **real GDP in the euro area to grow by 1.1 % in both 2025 and 2026**, while **consumer prices are expected to grow by 2.2 % in 2025 and 1.9 % in 2026**.

The outlook for the German economy is shaped primarily by the effects of US tariff policies and the fiscal package. In contrast to the developments in the euro area and at the global level, the German economy is expected to stagnate in the current year. US import tariffs are expected to hit German exports hard, while a high level of uncertainty and weak orders in the manufacturing sector continue to weigh on private companies' willingness to invest. However, the outlook for Germany's real GDP in 2026 has improved following the Bundestag's approval of the fiscal package. Investment in construction is likely to expand significantly from 2026 onwards, in particular as a result of planned public infrastructure spending. In addition, defence spending is likely to boost public investment in military equipment throughout the forecast period. Real disposable income is projected to rise more strongly in 2026 than in the current year, providing additional support for private consumption. Overall, the GCEE forecasts that **German real GDP will stagnate in 2025** and **grow by 1.0 % in 2026**. Inflation rates continue to decline, meaning that consumer prices are expected to rise by 2.1 % in 2025 and by 2.0 % in 2026.

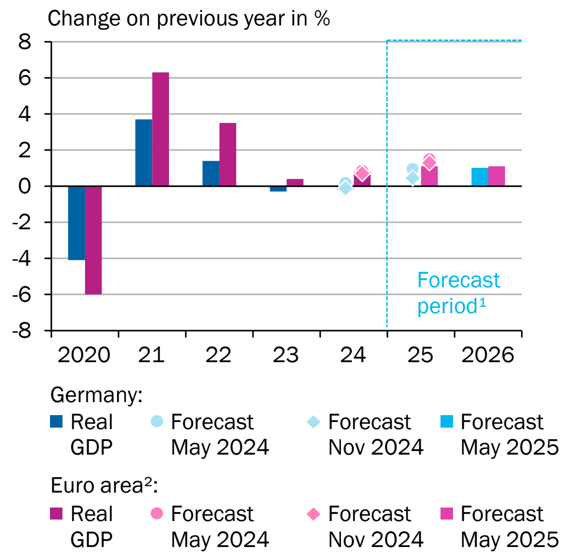
I. BRIEF SUMMARY

1. The German Council of Economic Experts (GCEE) expects Germany's real **gross domestic product** (GDP) to **stagnate in 2025, on average**. ↘ CHART 1 This represents a downward revision of 0.4 percentage points compared to the projection published in the GCEE Annual Report 2024/25. **In 2026, real GDP growth** is projected to be **1.0 %**. ↘ ITEMS 37 F. Inflation in Germany is likely to average at 2.1 % in 2025, broadly in line with the forecast in autumn 2024. The GCEE forecasts an inflation rate of 2.0 % for 2026. Core inflation is expected to be 2.6 % in 2025 and 2.3 % in 2026. ↘ ITEM 60

2. **Germany's economic situation** is currently **weak**. Some of the risks in the GCEE's last forecast have materialised, including an increasing weakness of the export economy. Exports fell sharply once again in the fourth quarter of 2024. ↘ ITEM 57 This development is likely to have been temporarily interrupted in Spring 2025 due to anticipation effects of announced US import tariffs. Exports are likely to decline again in the course of 2025. This outcome is likely to be due not only to higher US import tariffs, but also to continued weak foreign demand for German goods. This trend is reflected in low order backlogs, high levels of inventories and persistently low capacity utilisation in the manufacturing sector. ↘ ITEM 40 Furthermore, the high level of uncertainty about economic policy in Germany is likely to continue to dampen domestic demand for capital goods. ↘ ITEM 52 In addition, more and more companies in the manufacturing sector are reporting a deterio-

↘ CHART 1
Economic outlook for Germany and Europe

GDP in Germany and the euro area



Key economic indicators (in %)

	2024	2025[1]	2026[1]
Germany			
GDP growth[3]	– 0.2	0.0	1.0
Inflation rate	2.2	2.1	2.0
Unemployment rate[4]	6.0	6.2	6.1
Wage growth[5]	5.5	2.8	2.7
Budget balance[6]	– 2.8	– 2.5	– 3.4
Euro area			
GDP growth[2,3]	0.8	1.1	1.1
Inflation rate[7]	2.4	2.2	1.9
Global economy			
GDP growth[2,3]	2.8	2.1	2.1
Inflation rate	4.6	3.1	2.7

1 – Forecast by the GCEE. 2 – Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Constant prices. 4 – Registered unemployed in relation to civil labour force. 5 – Change of gross wages and salaries (domestic concept) per employees' hour worked. 6 – In relation to nominal GDP; territorial authorities and social security according to national accounts. 7 – Change of the Harmonised Index of Consumer Prices.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations ration in their international competitiveness. ↘ ITEM 41 In business services, gross value added has barely increased in the last two years.

3. **US import tariffs will have a negative impact on global economic activity** and **global goods trade** in the forecast period. ↘ ITEM 31 Since the inauguration of Donald Trump US trade policy has taken a protectionist turn. This will further increase the fragmentation of global trade in goods. Since April 2025, a minimum tariff rate of 10 % is applied to most goods from almost all US trading partners – tariffs on imports from China and on individual products, such cars, are even higher. ↘ ITEM 12 In the past, increases in prices of foreign goods due to US import tariffs have dampened GDP and productivity growth and increased inflation in the US. ↘ ITEM 12 The GCEE assumes that increases in US tariffs and retaliatory measures that have already come into force will remain in place. ↘ BOX 4 US trade policy remains volatile and uncertainty about its future course remains high, which is likely to have a negative impact on investment decisions of companies worldwide. The GCEE expects a significant slowdown in economic growth for the global economy, with a growth rate of 2.1 % in both 2025 and 2026. If the trade conflict escalated further, global and German economic output could be lower and inflation higher in many places than forecast by the GCEE. ↘ ITEM 33 ↘ BOX 3

4. **German industry** continues to **benefit little from the growth of the global economy**. German exports are expected not to expand until later in the forecast period, and even then only slightly. Although price competitiveness is likely to improve somewhat in 2025, uncertainty about future US trade policy and the dampening effect of US import tariffs are likely to persist. This development is likely to lead to a further decline in employment in the manufacturing sector. ↘ ITEM 62

5. The **development of domestic demand** was weak in 2024. Private consumption grew only slightly as the saving ratio continued to be elevated, ↘ CHART 2 ↘ ITEMS 48 F. so that the increase in real disposable income was only partially translated into higher spending by private households. In addition, investment demand declined, in particular due to lower investment in machinery and equipment. Economic policy uncertainty, which was significantly higher in Germany than in the euro area or globally, had a negative impact on investment and consumer sentiment. ↘ CHART 2 ↘ ITEM 42

   The household **savings ratio** is likely to **go down slightly** over the forecast period **and will therefore provide only a modest boost to private consumption**. ↘ ITEM 49 Compared to the pre-pandemic level, however, the saving ratio is likely to remain elevated, mainly because private households are compensating for real asset losses since 2022. **Investment** is likely to recover slowly, supported by better financing conditions. Recently weak investment demand should recover significantly in 2026 – based on positive impulses from the special fund for infrastructure and additional defence spending. This should primarily reduce the existing underutilisation of capacity in the manufacturing and construction sectors. However, prices could rise more sharply than expected if capacities, particularly in civil engineering, are insufficient or are not expanded quickly enough. Opportunities for a better development of domestic demand could arise

↘ CHART 2
Determining factors for the forecast

	Current situation	Forecast period	Opportunities and risks
Global trade policy	Trade policy restrictions are increasing; High trade policy uncertainty	Global trade in goods will expand weakly; Trade policy restrictions remain	**Risks**: Trade conflicts intensify and global trade in goods declines
Private domestic demand	Private consumption grows slightly; Investment demand weak	Real disposable income and capital formation will increase more strongly only in 2026	**Opportunity**: Household savings ratio falls more than expected
Fiscal and monetary policy	Falling interest rates; Weak government consumption	Fiscal package has expansive effects in 2026; Favourable interest rate environment supports construction investment	**Risk**: Price pressure in the construction industry higher than expected due to insufficient capacity

Source: own representation

in particular if the household savings ratio falls more than expected and supports private consumption. ↘ ITEM 70

6. Since the coalition of the SPD, Alliance 90/The Greens and the FDP, the so-called "**traffic-light coalition", fell apart in autumn 2024**, provisional budget management has restricted Germany's fiscal policy. In order to finance additional investment and defence spending, the Bundestag passed a **fiscal package** in March 2025 that is unprecedented in its scope since Germany's reunification. ↘ ITEM 43 Direct effects of the package are not expected to materialise until 2026, in particular through an **expansion of public investment in equipment and infrastructure as well as government final consumption expenditure**. However, business expectations in the construction industry have already improved. ↘ ITEM 55 Real disposable income of households is also likely to rise. This should provide an additional boost to private consumption in 2026. However, the fiscal package increases the risk that inflation remains high – especially if the additional expenditure creates price pressure, for example due to capacity bottlenecks or extensive public consumption expenditures. Measures planned in the coalition agreement, such as accelerated depreciation for equipment and a reduction in the electricity tax to the European minimum level for all industrial companies, could additionally stimulate corporate investment. ↘ ITEM 71

7. The central banks in advanced economies have **lowered** their **key policy rates several times** since mid-2024 due to falling inflation rates. ↘ ITEMS 27 F. **Monetary policy easing is likely to continue** in the forecast period. Nevertheless, monetary policy is expected to remain restrictive for longer. On the one hand, US import tariffs are likely to be passed on to consumer prices. ↘ ITEM 31 On the other hand, the German fiscal package may lead to price pressure in Germany. Accor-

ding to the futures markets, however, interest rates in the euro area are expected to decrease faster and more sharply than was assumed in the GCEE Annual Report 2024/25. ↘ ITEM 27

II. GLOBAL ECONOMY

8. **Global GDP growth** in 2024 was 2.8 % compared to the previous year, **roughly in line with the long-term average**. ↘ CHART 3 LEFT At 2.5 %, global trade in goods expanded at a much faster rate than in previous years. ↘ CHART 4 This increase was primarily driven by trade in goods between China and the rest of the world, while the euro area made a negative contribution to growth in global trade in goods, partly due to the weak performance of manufacturing. ↘ ITEM 18

In the forecast period, the import tariffs imposed by the US government since the beginning of 2025 ↘ BOX 3 as well as uncertainty about future **US trade policy** and any countermeasures taken by other major economies are likely to **weigh on the global economy** and **global trade in goods**. ↘ ITEM 14 The easing of monetary policy in the US, the euro area and the UK is likely to continue until the end of 2025 and slightly improve financing conditions over the forecast period. ↘ ITEM 28 Against this backdrop, the GCEE expects global GDP to grow at a significantly slower rate of 2.1 % in both 2025 and 2026 than in the previous year. ↘ TABLE 1 Global consumer price inflation is expected to be 3.1 % in 2025 and 2.7 % in 2026. ↘ ITEM 31

1. US tariff policies slow down global economy

9. The **global economy continued to expand at a moderate pace** at the end of 2024. ↘ CHART 3 LEFT Global GDP increased by 0.8 % in the fourth quarter compared to the previous quarter, which is roughly in line with the average of recent years. So far this year, there are signs of a slight slowdown in the pace of expansion. The recovery in global sentiment in the manufacturing sector – as evidenced by surveys of purchasing managers – has recently stalled. However, the services index is still well above the expansion threshold of 50 points. ↘ CHART 3 RIGHT

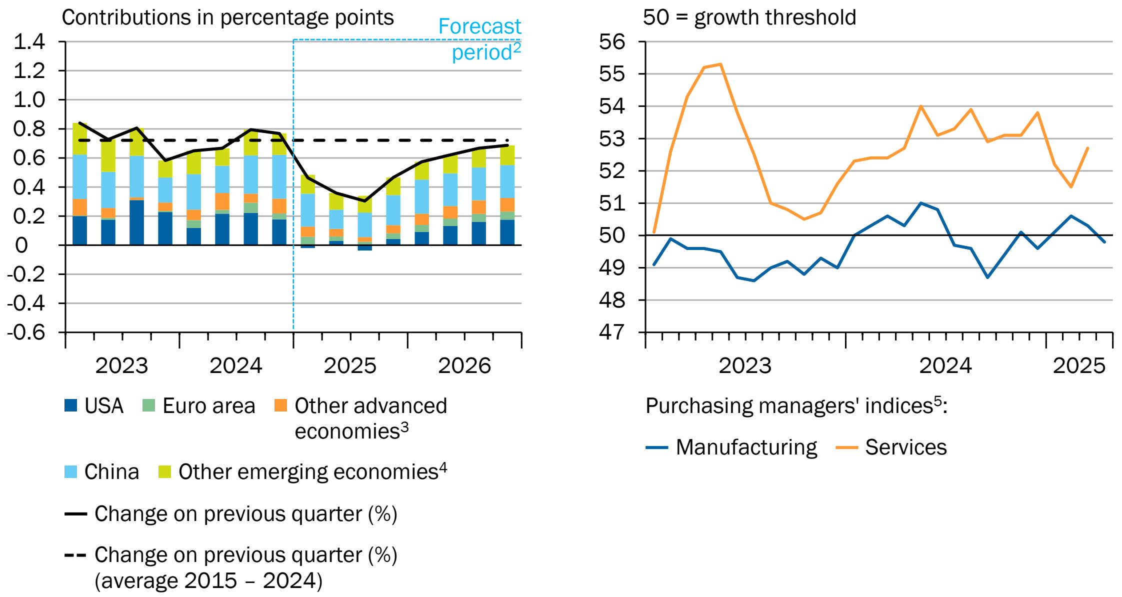
10. **Global industrial production** increased by 1.7 % last year, **expanding** much **faster** than in 2023 (1.0 %). ↘ CHART 4 LEFT However, the development differs significantly between various economic areas. Industrial production in the emerging markets and China in particular grew strongly by 3.9 % and 5.9 %, respectively. ↘ BOX 1 At the end of 2024, anticipation effects due to US trade tariffs are likely to have provided strong support for Chinese industrial production (Reuters, 2025a). By contrast, industrial production in the advanced economies fell by 0.6 %; the **decline was particularly pronounced in the euro area** (–2.9 %). ↘ ITEM 18 Particularly in Germany and Italy, industrial production fell significantly over the course of the year. ↘ ITEM 40 ↘ BOX 2

↘ CHART 3

Global growth and purchasing managers' indices

Global GDP growth[1] remains below the long-term average

Sentiment in the manufacturing sector deteriorated again in April



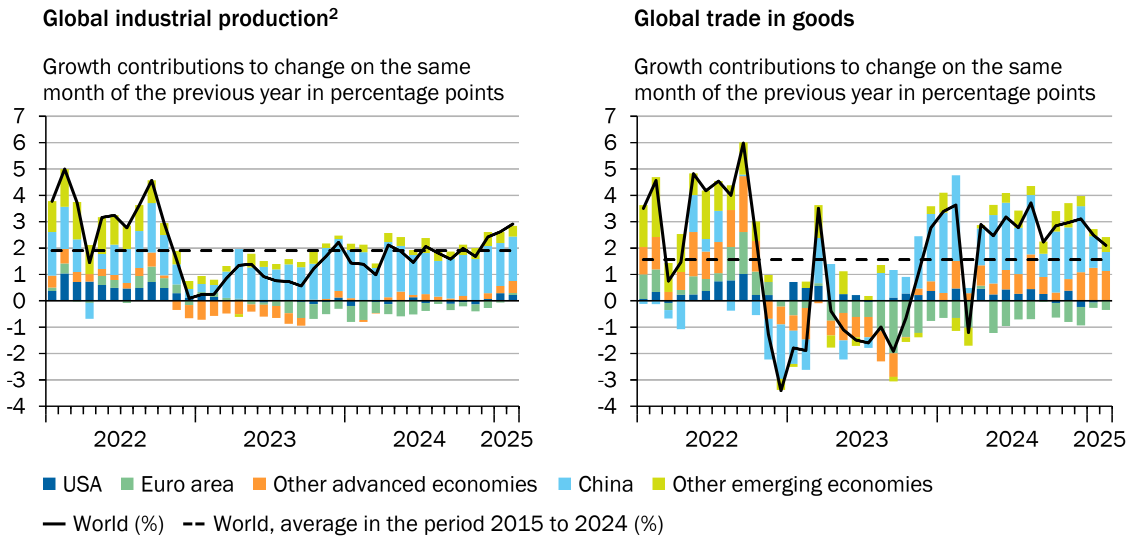
1 – Averages of seasonally adjusted quarterly values. Global GDP is approximated by the sum of the countries in Table 1 (total). 2 – Forecast by the GCEE. 3 – Definition as in footnote 9 in Table 1. 4 – Definition as in footnote 10 in Table 1. 5 – Global purchase managers's indices based on a monthly survey of purchasing managers and managing directors.

Sources: Eurostat, IMF, national statistical offices, OECD, S&P Global, own calculations

11. **Global trade in goods** recovered last year. Apart from a slump in March 2024, which was due to a sudden and one-off drop in Chinese imports, it **expanded** significantly **faster** than the average of previous years. ↘ CHART 4 RIGHT Positive contributions to global trade in goods came primarily from China ↘ BOX 1 and other emerging economies. ↘ CHART 4 RIGHT The advanced economies' contributions to growth in trade in goods were also predominantly positive – with the exception of the euro area. One reason for the decline in the euro area is likely to be **Germany's weak exports** (GCEE Annual Report 2024 items 60 ff.). ↘ ITEM 57 Following a decline in December, global container throughput, an early indicator for the development of global trade, recently recovered again (RWI, 2025).

12. Since Donald Trump took office, **US trade policy** has become **significantly more protectionist**. Since April 2025, the US government has imposed a minimum tariff of 10 % on most imports from almost all trading partners. Different tariffs apply to some products. **Imports of cars, steel and aluminium**, for example, are subject to a **higher tariff of 25 %**. In addition, the US government has drastically increased tariffs for China. According to calculations by the Peterson Institute, the **average tariff rate on imports from China** has **risen from around 20 % to around 124 %** (Bown, 2025). However, individual products such as smartphones and computers are exempt from the increases. In response, the Chinese government has also imposed tariffs on US imports and restricted the export of critical raw materials such as rare earths.

↘ CHART 4
Global industrial production and global trade in goods develop robustly in 2024[1]



1 – Change on same month of the previous year, price- and seasonally adjusted. Data and country definitions of the Dutch Centraal Planbureau (CPB). Country weights based on 2021 values. 2 – Excluding construction.

Sources: CPB, own calculations

In the past, import tariffs have often led to a dampening of GDP growth and productivity (Furceri et al., 2019). **US inflation rose in 2018** during Donald Trump's first term in office due to the **increase in US tariffs**, as these were **largely passed on to consumers** (Amiti et al., 2019; Cavallo et al., 2021). In addition, employment in the manufacturing sectors affected by tariffs did not increase, contrary to the US government's intentions (Flaaen and Pierce, 2019).

13. **US trade policy** is also **erratic and unpredictable**. At the beginning of April, the US government announced significantly higher tariffs for many trading partners. Tariffs of 20 % were planned for the EU, for example, but were suspended for 90 days immediately after coming into force. Uncertainty about the US government's future course is therefore high. This forecast assumes that the tariffs will remain at their current level. ↘ BOX 4

14. Various text-based indicators suggest that **global uncertainty** is currently **high**. ↘ CHART 5 For example, **trade policy uncertainty** has increased significantly with the election of Donald Trump as US President. At the current edge, it is higher than during his first presidency in the years 2017 to 2021 (GCEE Annual Report 2018 items 8 ff.). ↘ CHART 5 It is estimated that the investment activity of US companies fell by around 1.5 % in 2018 as a result of the increase in trade policy uncertainty (Caldara et al., 2020). During Joe Biden's presidency, trade policy uncertainty did not show any major spikes, but rose steadily from 2024 onwards.

In addition to uncertainty about trade policy, **uncertainty about global economic policy** is also heightened. It is at roughly at the same level in January 2025 as it was at the start of the coronavirus pandemic. The increased economic policy uncertainty could additionally dampen private consumption and investment activity in the forecast period (Gulen and Ion, 2016; Coibion et al., 2024; GCEE Annual Report 2024 item 43).

Global **geopolitical uncertainty** has increased noticeably since autumn 2023, but is well below the peak it reached in the wake of the Russian war of aggression against Ukraine (GCEE Annual Report 2022 item 3). In the past, geopolitical risks often led to an increase in defence spending, government debt and inflation (Iacoviello et al., 2024).

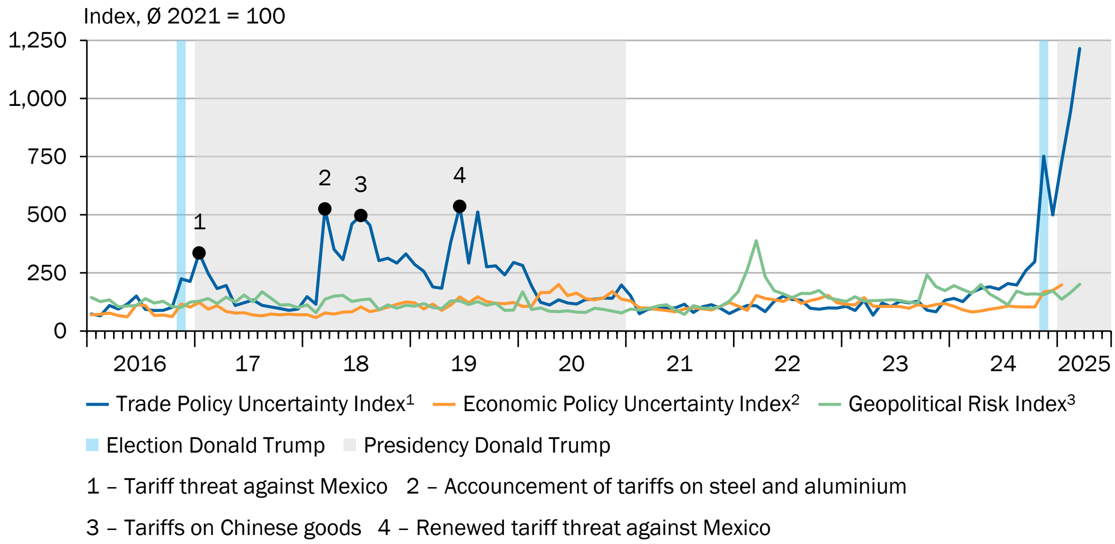
15. Owing to strong private consumption, the **US economy** grew **by 2.8 % in 2024 compared to the previous year on real terms**. Growth is likely to be significantly weaker in 2025. This is indicated by the negative growth rate in private investment as early as in the fourth quarter of 2024 and weak private consumption at the start of the year. The Federal Reserve's tight monetary policy is likely to further dampen investment demand. ↘ ITEM 27 Furthermore, US tariff policy is likely to have a negative impact on GDP growth in 2025 and 2026. Import tariffs are likely to lead to a noticeable rise in prices, ↘ ITEM 31 which will additionally dampen private consumption. ↘ BOX 1 According to the flash estimate from 30 April 2025, US GDP fell by 0.1 % in the first quarter of 2025 compared to the previous quarter. The main reason for this is likely to have been very high imports, which increased as a result of anticipation effects.

In the **UK**, GDP grew by 0.9 % in 2024, with growth being driven primarily by the services sector in the first half of 2024. The Bank of England's interest rate cuts

↘ CHART 5

Global uncertainty

Economic and trade policy uncertainty has risen sharply since the US presidential election in 2024



1 – The index measures the relative frequency of newspaper articles on trade uncertainty in seven major US daily newspapers. 2 – The index measures the relative frequency with which the words „uncertainty", „economy" and specific policy-related keywords appear together in newspaper articles. Index weighted by purchasing power-adjusted GDP for 21 countries. 3 – The index reflects the results of automatic text searches in ten newspapers in the United States. It is calculated based on the proportion of articles on negative geopolitical events in the total number of articles in each newspaper for each month.

Sources: Caldara and Iacoviello (2022), Caldara et al. (2020), Davis (2016), own calculations since the summer of 2024 are likely to have a stimulating effect over the forecast period. ↘ ITEM 27

16. The economy in **emerging economies** continues to develop positively, but growth in the forecast period is likely to be weaker than in the previous year due to US tariffs. ↘ TABLE 1 The **Chinese economy** grew by 5.0 % on a price-adjusted basis in 2024, thus achieving the government's growth target (The State Council, 2025). ↘ BOX 1 In particular, production increased in the 4th quarter of 2024. Anticipation effects in exports due to the expected rise in US tariffs and an economic stimulus package to strengthen private consumption are likely to have contributed to this. ↘ BOX 1 The **Southeast Asian emerging markets** of Indonesia, Malaysia and the Philippines once again recorded high growth rates of around 5 % in 2024.

↘ BOX 1

Focus: The major economies of the USA and China

The **US economy** grew by 0.8 % and 0.6 %, respectively, in the third and fourth quarters of 2024, adjusted for prices, seasonal and calendar effects, compared to the previous quarter. Growth was driven in particular by private consumption expenditure. Government consumption also supported growth. Seasonally adjusted growth in private capital formation has declined steadily since the second quarter of 2024 and was even negative in the fourth quarter of 2024, at –1.4 %, compared to the previous quarter. In the first quarter of 2025, US GDP shrank by 0.1 % compared to the previous quarter. The growth rate was therefore 0.5 percentage points lower than in the first quarter of 2024. US fiscal policy is tense due to a high debt-to-GDP ratio and a high deficit. A shutdown was averted in March 2025 with a transitional budget for the next six months. In March 2025, both overall inflation and core inflation fell slightly. Nevertheless, at 2.4 % and 2.8 % year-on-year, respectively, both remained above the Federal Reserve's inflation target. Rents and prices for services rose particularly sharply.

In 2025, **private consumer demand** is likely to provide significantly less **support for US growth than in the previous year.** Consumer sentiment has cooled noticeably in the first few months of 2025 (The Conference Board, 2025; UMich, 2025). Nevertheless, retail sales grew strongly in March after shrinking in January and growing only slightly in February. Sales in the automotive sector in particular recorded a significant increase in March. US tariffs are likely to further weaken private consumption due to the expected price increases in the second half of 2025. During Donald Trump's first term in office, higher tariffs on imports were at least partially passed on to consumer prices (Amiti et al., 2019; Cavallo et al., 2021). This is likely to have a significant negative impact on GDP growth, as private consumption in the US accounts for around 68 % of GDP. ↘ BOX 3 In addition, domestic policy reforms, such as staff cuts in the public sector, could have an additional negative impact on private consumption. Overall, the growth outlook is becoming noticeably gloomier compared to 2024. For the current year, the GCEE expects GDP growth in the US of 1.0 % compared to the previous year, which is mainly due to a strong positive statistical carry-over from 2024. For 2026, it expects moderate growth of 1.2 % due to continued subdued domestic demand and the effects of US trade policy. The expected increase in consumer prices, as measured by the Consumer Price Index, is likely to be 3.0 % and 2.7 % in 2025 and 2026, respectively.

According to official figures, the **Chinese economy** grew by 5.0 % on a price-adjusted basis in 2024, with the strongest growth in the fourth quarter at a price-, seasonally and calendar-adjusted rate of 1.6 % compared to the previous quarter. The economic stimulus package announced in September 2024 is likely to have stimulated private consumption at the end of the year. For example, it incentivised the purchase of durable goods such as household appliances, electric bicycles and cars (Reuters, 2025b). In addition, exports grew strongly in December 2024 due to anticipation effects in global trade in goods (Zhang et al., 2025). With Donald Trump taking office, the **trade conflict between China and the US** has **flared up again** (GCEE Annual Report 2018 items 8 ff.). Following the recent announcements of higher US import tariffs on Chinese goods, the Chinese government also significantly increased the tariff rate on US goods. ↘ BOX 3 Although both countries have reduced their interdependence in the past (Lovely and Yan, 2024) and Chinese exports to the US have declined significantly since 2018, the US remained the largest export market for Chinese goods in 2023 (UN, 2025). In March 2025, Chinese exports increased by 9.1 % on a seasonally adjusted basis compared to the previous month, after falling by 5.6 % in February. The crisis on the Chinese property market continued in 2024 (GCEE Annual Report 2023 item 13). Residential construction investment fell by 10.6 % in 2024 compared to the previous year. In the first quarter of 2025, Chinese GDP rose by 1.2 % compared to the previous quarter. Inflation in China remains at a very low level.

At the current edge, the **outlook for Chinese growth** is **neutral**. In March 2025, a further economic stimulus package was announced to strengthen private consumption, which is also intended to help cushion the impact of the trade conflict with the US (Slodkowski et al., 2025). However, it is to be expected that Chinese products will increasingly be sold on other markets and that **dependence on the US market will continue to decline.** At 50.5 %, the Chinese National Bureau of Statistics' Purchasing Managers' Index in the manufacturing sector was slightly above the growth threshold in March, while the Purchasing Managers' Index in the services sector stood at 50.3 %. Overall, the GCEE forecasts **Chinese GDP growth of 4.7 % and 4.6 % for the years 2025 and 2026 respectively.** ↘ TABLE 1 The GCEE forecasts inflation rates of 0.1 % and 0.5 % for the years 2025 and 2026 respectively.

17. Price-adjusted GDP in the **euro area** increased by 0.8 % in 2024 compared to the previous year. ↘ TABLE 5 It thus grew slightly faster than in 2023 (0.5 %). Exports noticeably lost momentum over the course of the year, while capital formation expanded following a decline during the first half of the year. In the fourth quarter of 2024, GDP increased by only 0.2 %, although this was partly due to lower changes in inventories (contribution to growth of –0.2 percentage points). ↘ CHART 6 Economic growth varied significantly between individual member states. For example, the strong expansion in Spain continued, while economic production declined in Germany. ↘ BOX 2

↘ BOX 2

Focus: Economic development in France, Italy, Spain and the Netherlands

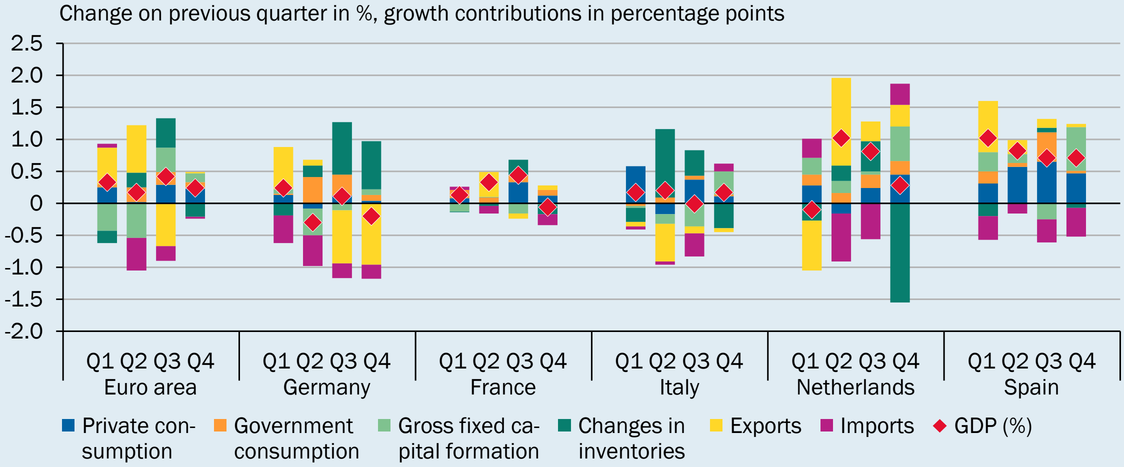
The **French economy** grew by 1.1 % in 2024, at a similar rate as in the previous year. While private and public consumption expanded, capital formation declined, particularly significantly in the second half of 2024. ↘ CHART 6 The decline in GDP in the fourth quarter of 2024 was largely due to changes in inventories. The outlook for 2025 is gloomy. In March 2025, the purchasing managers' indices in both the manufacturing and services sectors are below the growth threshold of 50 points. Against the backdrop of US tariffs on imports from the EU and the high level of trade policy uncertainty, exports and investment activity will remain subdued. By contrast, the economy is likely to be supported by private consumption, as the saving ratio of private households, which had risen sharply during the pandemic, will likely continue to decline. In addition, public budget deficits will only be consolidated slightly. The GCEE assumes that GDP in

France will increase by 0.6 % and 0.9 % in the next two years.

At 3.2 %, the **Spanish economy** grew significantly faster than the euro area as a whole in 2024. Growth was primarily driven by private consumption, but gross fixed capital formation also increased significantly in the fourth quarter of 2024. ↘ CHART 6 Employment increased last year and the unemployment rate fell by 1.3 percentage points over the course of the year. However, at 10.6 % in December 2024, it remained at a high level compared to the rest of Europe. The purchasing managers' index for services stood at 54.7 points in March, while the index for the manufacturing sector has been declining for several months and recently fell below the growth threshold of 50 points. The Spanish economy is likely to expand at a slightly lower rate in the future, but still at high growth rates compared to the rest of Europe (2.2 % and 1.6 % in 2025 and 2026, respectively).

↘ CHART 6

GDP expenditure[1] in the euro area in 2024



1 – Price-, seasonally and calendar-adjusted.

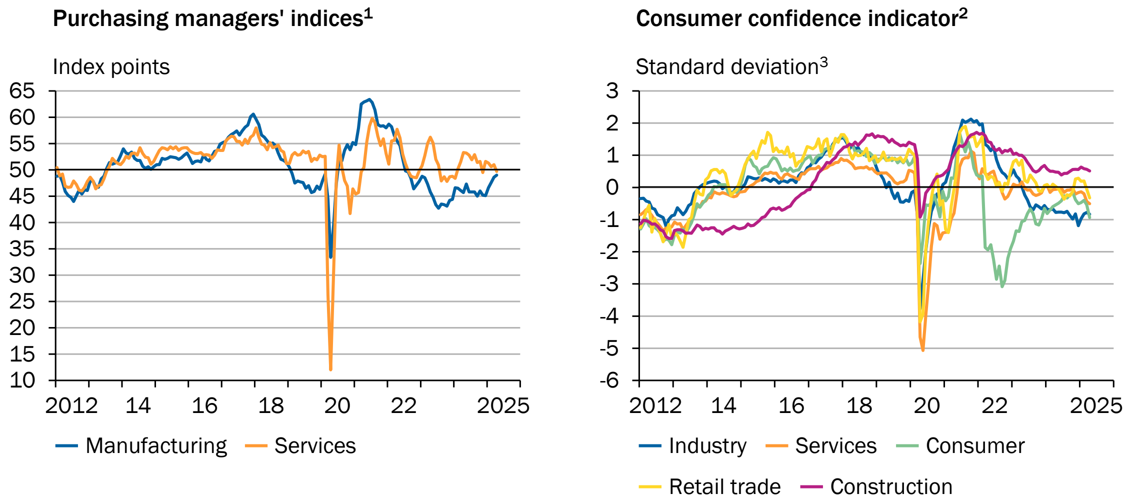
Source: Eurostat

The **Italian economy** grew by 0.5 % in 2024, although growth slowed noticeably over the course of the year. ↘ CHART 6 Private consumption increased over the course of the year, but was unable to compensate for the negative impulse from foreign trade. The outlook for the coming months is bleak. The Purchasing Managers' Index in the manufacturing sector has risen significantly in recent months. However, at 49.3 points in March, it was still slightly below the growth threshold of 50 points. Activity in the services sector is viewed more favourably (52.0 points). Against the backdrop of US tariffs on imports from the European Union, the economy is unlikely to gain much momentum in the further course of the year. The GCEE expects economic growth in Italy to reach 0.6 % in 2025. In 2026, GDP is likely to expand a bit more strongly at 0.7 %.

The **Dutch economy** grew by 0.9 % in 2024. Production grew particularly strongly in the second quarter of 2024 due to high exports. ↘ CHART 6 Private consumption also rose sharply in the second half of 2024, with the government also making a positive contribution to the expansion. The labour market continued to develop robustly. At 3.6 %, the unemployment rate in December 2024 was 0.1 percentage points lower than in December 2023. Although the Purchasing Managers' Index for the manufacturing sector recovered from its low point in autumn last year, it was still below the growth threshold of 50 points in April. The sentiment among consumers was even worse: according to surveys by the European Commission, consumer confidence continued its downward slide in the first four months of the current year. All in all, Dutch GDP is expected to grow by 1.2 % this year, followed by an increase of 1.1 % in 2026.

↘ CHART 7

Real-time and leading indicators for GDP growth in the euro area



1 – HCOB Eurozone Composite PMI Output Index. Purchasing Managers' Index (PMI) of the Hamburg Commercial Bank (HCOB). 2 – Sectoral confidence indicators from the European Commission's Business and Consumer Survey. 3 – Standard deviation from the average for the period January 1999 to April 2025.

Sources: European Commission, S&P Global, own calculations

18. At the start of 2025, **sentiment indicators do not** point to **greater economic momentum** in the euro area. The Purchasing Managers' Index for the manufacturing sector in the euro area rose again slightly in April 2025. ↘ CHART 7 LEFT At 49.0 points, however, it remains below the growth threshold of 50 points. The index for services declined and with a reading of 49.7 in April fell below the growth threshold. According to surveys conducted by the European Commission, consumers in the euro area are slightly more optimistic about their situation at the beginning of 2025 than they were at the end of last year. In April, however, consumer sentiment deteriorated markedly. ↘ CHART 7 RIGHT According to Eurostat's preliminary flash estimate, economic growth in the euro area in the first quarter of 2025 was still 0.4 % compared to the previous quarter.

Industrial production in the euro area has **fallen by 4.2 % since January 2022**. De Soyres et al. (2024) explain the persistent industrial weakness with two external developments. Firstly, production and exports in particularly energy-intensive economic sectors increased less strongly due to higher natural gas prices resulting from Russia's invasion of Ukraine. In Germany, around 70 % of companies use natural gas, and in all industries except the manufacture of wood and wood products, the share of natural gas in total energy consumption exceeds 22 % (GCEE Annual Report 2022 item 316). In the years 2017 to 2019, however, the rate of change in exports was not correlated with the natural gas intensity of an economic sector. Secondly, China has become less important as a market for companies from the euro area, as Chinese companies have become less dependent on foreign intermediate and capital goods – as desired by Chinese policy makers – and demand fewer goods from the euro area. In recent years, exports from the euro area to China have fallen in relation to economic output there. At the same time, Chinese companies have succeeded in gaining market share in the euro area.

In Germany, both the decline in exports and the increase in imports were more pronounced than in the rest of the euro area.

19. The **euro area economy** is likely to **develop little momentum** over the remainder **of 2025**, as the US tariffs on imports from the EU ↘ BOX 3 that have been imminent since the beginning of 2025 and have since been imposed, as well as uncertainty about the future course of US trade policy, will dampen exports and investment activity. In addition, employment growth is likely to lose momentum in the forecast period and real wages are no longer expected to rise quite as strongly. This will slow down the expansion of private consumption. Despite the upcoming need for consolidation in some member states, such France and Italy as part of the reformed EU fiscal rules (GCEE Annual Report 2024 item 27 and box 2), fiscal policy is likely to be more expansionary towards the end of the forecast period. This is due to the European Commission's plan to give member states more budgetary leeway to increase their defence spending (European Commission, 2025). Monetary policy of the European Central Bank (ECB) is somewhat less restrictive and will also have a supporting effect. The GCEE expects GDP in the euro area to increase by 1.1 % in both 2025 and 2026.

20. **Global GDP is likely to expand more slowly in the forecast period** than recently. The import tariffs already introduced by the US government are weighing on global trade in goods and economic activity, especially in the US and China (FGCEE, 2025). In addition, the volatile US trade policy is increasing uncertainty and dampening global investment activity. This is being counteracted by monetary policy easing by the major central banks, which is likely to continue until summer 2025 according to futures prices. ↘ BOX 4 ↘ CHART 9 The GCEE expects global GDP to grow by 2.1 % in both 2025 and 2026. Global trade in goods is expected to increase by 1.6 % and 1.4 % respectively in the same period.

↘ TABLE 1

Gross domestic product and consumer prices of selected countries

Country/country group	Weight in %[1]	Gross domestic product[2]			Consumer prices		
		Change on previous year in %					
		2024	2025[3]	2026[3]	2024	2025[3]	2026[3]
Europe	**28.1**	**1.4**	**1.4**	**1.4**	**5.6**	**4.5**	**3.7**
Euro area	16.5	0.8	1.1	1.1	2.4	2.2	1.9
including: Germany	4.7	– 0.2	0.1	0.7	2.5	2.4	2.0
France	3.2	1.1	0.6	0.9	2.3	1.1	1.7
Italy	2.4	0.5	0.6	0.7	1.1	2.0	1.8
Spain	1.7	3.2	2.2	1.6	2.9	2.5	2.0
Netherlands	1.2	1.0	1.2	1.1	3.2	2.9	2.3
United Kingdom	3.7	1.1	1.0	1.3	2.5	3.2	2.3
Russia	2.2	4.4	2.7	1.4	8.5	9.3	7.0
Central and Eastern Europe[4]	2.0	1.9	2.4	2.9	3.9	4.0	3.0
Türkiye	1.3	3.2	2.8	3.1	58.4	34.3	28.9
Other countries[5]	2.5	1.8	1.8	1.5	1.7	1.8	1.7
America	**36.9**	**2.6**	**1.1**	**1.2**	**6.9**	**3.9**	**3.1**
United States	29.3	2.8	1.0	1.2	2.9	3.0	2.7
Latin America[6]	3.2	0.8	1.5	1.4	47.0	11.7	6.9
Canada	2.2	1.5	1.4	0.9	2.4	2.3	2.1
Brazil	2.2	2.9	1.8	1.5	4.4	5.0	4.0
Asia	**33.2**	**4.4**	**4.0**	**3.9**	**1.5**	**1.2**	**1.4**
China	18.8	5.0	4.7	4.6	0.2	0.1	0.5
Japan	4.0	0.1	0.8	0.5	2.7	3.3	1.9
India	3.9	6.9	6.2	6.1	4.9	3.2	3.6
Asian advanced economies[7]	3.6	3.0	1.6	1.9	2.2	2.0	2.3
Southeast Asian emerging economies[8]	2.8	4.7	4.1	4.0	2.0	1.9	2.5
Total	**100**	**2.8**	**2.1**	**2.1**	**4.6**	**3.1**	**2.7**
Advanced economies[9]	65.5	1.9	1.1	1.2	2.6	2.7	2.3
Emerging economies[10]	34.5	4.6	4.1	4.0	8.3	3.9	3.4
memorandum:							
weighted by exports[11]	100	1.8	1.7	1.8	.	.	.
following IMF concept[12]	100	3.3	2.8	2.7	.	.	.
World trade[13]		2.4	1.6	1.4	.	.	.

1 – GDP (US dollar) of the named countries or country groups in 2024 as a percentage of total GDP of the named countries or country groups, corresponding to 90 % of the IMF country group weighted by US dollars and 85 % of the IMF country group weighted by purchasing power parities. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Forecast by the German Council of Economic Experts. 4 – Bulgaria, Czechia, Hungary, Poland, Romania. 5 – Denmark, Norway, Sweden, Switzerland. 6 – Argentina, Chile, Colombia, Mexico. 7 – Hong Kong, Republic of Korea, Singapore, Taiwan. 8 – Indonesia, Malaysia, Philippines, Thailand. 9 – Asian advanced economies, euro area, Central and Eastern Europe, Australia, Canada, Denmark, Japan, Norway, Sweden, Switzerland, United Kingdom, United States. 10 – Latin America, Southeast Asian emerging economies, Brazil, China, India, Russia, Türkiye. 11 – Total of all listed countries. Weighted by the respective shares of German exports in 2024. 12 – Weights according to purchasing power parities and extrapolated to the countries covered by the IMF. 13 – As measured by the Dutch Centraal Planbureau (CPB).

Sources: CPB, Eurostat, IMF, national statistical offices, OECD, own calculations

2. Inflation declines only slowly

21. **Consumer price inflation** declined only slowly in many major economies in the second half of 2024. It even rose again in some countries. ↘ ITEM 24 In particular, the continued **above-average price increases in the services sector** are contributing to sustained price pressure. Due to cold temperatures in Europe, wholesale prices for natural gas also rose slightly at the start of 2025. ↘ ITEM 22 The central banks of the major economies initiated an easing of their monetary policy in the summer of 2024 after consumer price inflation returned closer to their targets. In contrast to the ECB, however, the central banks in the US and the UK have recently suspended their interest rate cuts. ↘ ITEM 27 Higher US import tariffs are likely to contribute to an increase in the inflation rate in the US. ↘ ITEM 31 Inflation could also rise in countries that impose countermeasures. ↘ ITEM 31 Global consumer price inflation is likely to continue to weaken slightly in the forecast period, but at a much slower pace than before.

22. **The price of** North Sea Brent **crude oil** rose to an average of USD 78 per barrel in January 2025 as a result of US sanctions against Iran. The monthly average for April 2025 was just under USD 67 per barrel. ↘ CHART 8 LEFT Overall, the price of crude oil thus remains **below the level of the second half of 2024** and is likely to fall only slightly over the forecast period. Crude oil production will increase from the end of 2025 onwards, partly due to the lifting of OPEC+ production cuts. ↘ GLOSSARY Inventories of crude oil are likely to increase as a result and depress prices (EIA, 2025). **Wholesale prices for natural gas** in Europe were around € 36 per megawatt hour in April 2025, which is **higher** than in the same period last year. Cold temperatures in the winter half-year 2024/25 have led to gas storage levels in many European countries being significantly lower than the average of the last five years at this time (SFOE Switzerland, 2025). This is likely to increase European demand for natural gas over the course of 2025. Accordingly, the futures markets indicate a sideways trend in natural gas prices for 2025 before falling slightly in 2026.

23. **Prices for industrial raw materials increased somewhat** in February 2025 ↘ CHART 8 RIGHT In the USA, the prices of industrial raw materials rose by 1.9 % in the first quarter of 2025 compared to the previous quarter. The anticipation of higher US tariffs and the associated increase in demand is likely to have played a role in this development. By contrast, **prices for food and stimulants** have once again **risen significantly** since the start of 2025. This is mainly due to high price increases for coffee as a result of reduced supply. Droughts in Brazil and Vietnam, which together account for almost half of global coffee production, led to lower harvests.

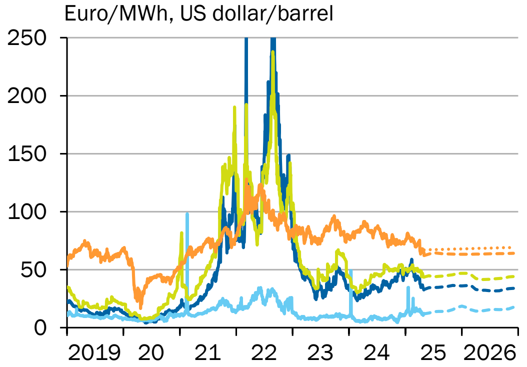
24. In the fourth quarter of 2024**, consumer price inflation** in the **major advanced economies** was between 1.9 % and 2.9 % **compared to the same quarter of the previous year**. In the **USA**, consumer price inflation in the 1st quarter of 2025 fell only slightly to 2.7 % compared to the same quarter of the previous year. High price pressure in services continues to contribute to this. In the **UK**, inflation in the first quarter of 2025 remained high at 2.8 % compared to

the same quarter of the previous year. As before, high prices for services and food contributed to inflation.

25. In 2024, the **euro area** recorded a year-on-year increase in the Harmonised Index of Consumer Prices (HICP) of 2.4 %, reaching its lowest level in three years at 2.1 % in the third quarter of 2024. In the first quarter of 2025, consumer prices rose by 2.3 % compared to the same quarter of the previous year. This means that the inflation rate was once again slightly above the ECB's target. As in the USA, persistently high service inflation, which totalled 3.7 % in the first quarter of 2025 compared to the same quarter of the previous year, contributed to this. In addition, food prices rose by 1.8 % in the same period, while energy prices increased by 0.4 %.

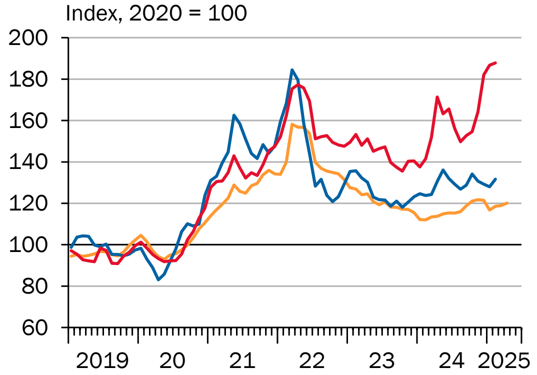
↘ CHART 8
Energy and commodity prices

Sideways movement of energy prices in the forecast period expected



Natural gas prices (Euro/ MWh):
Europe (EGIX THE)[1]
Futures prices[2]
USA (Henry Hub)[3,4]
Futures prices[2,4]
Northeast Asia (JKM)[4,5]
Futures prices[2,4]
Oil price Brent (US dollar/barrel):
Spot price
Futures prices[2]
Real constant price[6]

Prices for food and stimulants in particular have risen recently



FAO Food Price Index (FFPI, real)[7]
HWWI Commodity Price Indices[8]:
Industrial Raw materials
Food

1 – The European Gas Index (EGIX) is based on exchange trades with the respective current front month contracts of the Trading Hub Europe (THE). A front month contract is defined as a contract maturing in the next month that is traded on the futures exchanges. 2 – Average futures prices of the last 10 trading days for June 2025 and the following months, as of 2 May 2025. 3 – Prices are based on delivery at the Henry Hub in Louisiana. Official daily closing prices at 2:30 p.m. from the trading floor of the New York Mercantile Exchange (NYMEX) for a specific delivery month. Due to extreme cold in Canada and the USA, demand for natural gas temporarily rose sharply at the beginning of 2024. 4 – Price in US dollar/ MMBtu (1 million British thermal units) converted into €/MWh. For the conversion of the futures prices, the last available daily rate is used. 5 – Japan Korean Marker (JKM) is the Northeast Asia spot price index for LNG delivered ex ship to Japan and Korea. 6 – Oil price extrapolated with an annual inflation rate of 2 %. 7 – Food price index of the FAO (Food and Agriculture Organisation of the United Nations). Nominal price index deflated by the World Bank's Manufactures Unit Value (MUV) Index. In contrast to the HWWI index for food and beverages, prices for coffee and tea, which rose sharply in 2024, are not included in the FAO Food Price Index. 8 – US dollar basis and OECD import weighting scheme. The data is being calculated on weighting period average figures of the years 2017 to 2019 to exclude the crises years (2020–2021) from the calculation.

Sources: ECB, EEX, EIA, FAO, HWWI, ICE, LSEG Datastream, NYMEX, own calculations

26. **Chinese consumer price inflation** increased only slightly in the fourth quarter of 2024 and was only 0.5 % in January 2025 compared to the same month of the previous year. As in 2024, the high demand around the Chinese New Year celebrations increased inflation in the short term, but it then fell again to –0.7 % in February 2025. In the first quarter of 2025 as a whole, it was thus –0.1 % compared to the same quarter of the previous year. Low consumer confidence and continued weak domestic demand despite the economic stimulus package ↘ BOX 1 have generated little price pressure so far.

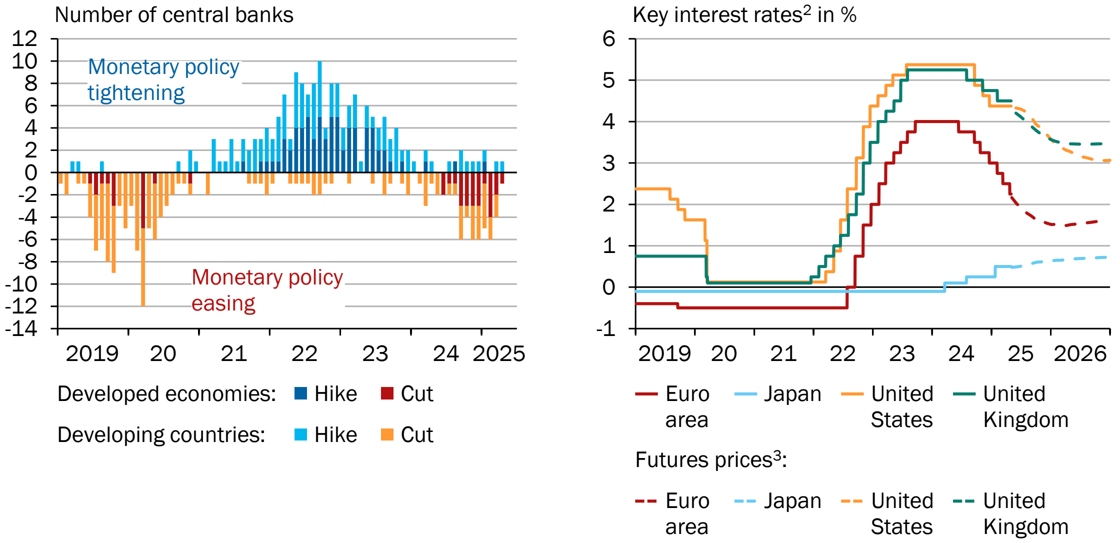
27. In mid-2024, the **central banks** of the G20 group initiated an **easing cycle** and subsequently cut key policy rates several times. ↘ CHART 9 LEFT The Bank of England lowered its policy rate three times to 4.5 %, most recently in response to rising domestic demand and the associated increase in inflation. ↘ ITEM 15 Since the beginning of 2025, the US Federal Reserve has paused the cycle of interest rate cuts previously initiated, having cut its key policy rate three times by a total of 1 percentage point in 2024. In April 2025, the **ECB** lowered policy rates by 25 basis points for the seventh time since June 2024, bringing the interest rate for the deposit facility to 2.25 %. ↘ CHART 9 RIGHT The ECB justified its decision by stating that **inflation** continues to **fall**. Inflation is likely stabilise at the ECB's two per cent target in the medium term. At the same time, growth prospects in the euro area have deteriorated (ECB, 2025a).

↘ CHART 9

Monetary easing at different speeds

G20[1] central banks predominantly in an easing cycle

Further easing of key policy rates expected for the euro area, the USA and the United Kingdom



1 – Excluding Saudi Arabia. Interest rate decisions for the euro area countries Germany, France and Italy are by the ECB.
2 – The considered key interest rates are the ECB deposit facility rate for the euro area, the BoJ Uncollateralised Call Rate Target for Japan, the federal funds rate for the United States and the bank rate for the UK. 3 – Market participants' expectations of central bank interest rates derived from Euro Short Term Rate (STR) Overnight Index Swaps implied forward interest rates for the 1-month Euro STR for the euro area, the Uncollateralised Overnight Call Rate (TONAR) Overnight Index Swaps implied forward rates for the 1-month Yen TONAR for Japan, the 30-day Federal Funds Futures for the United States and the overnight index swap forwards for the United Kingdom. Retrieved on 2 May 2025.

Sources: BIS, BoE, BoJ, CME, ECB, Fed, ICE, LSEG Datastream, LSEG Refinitiv, own calculations

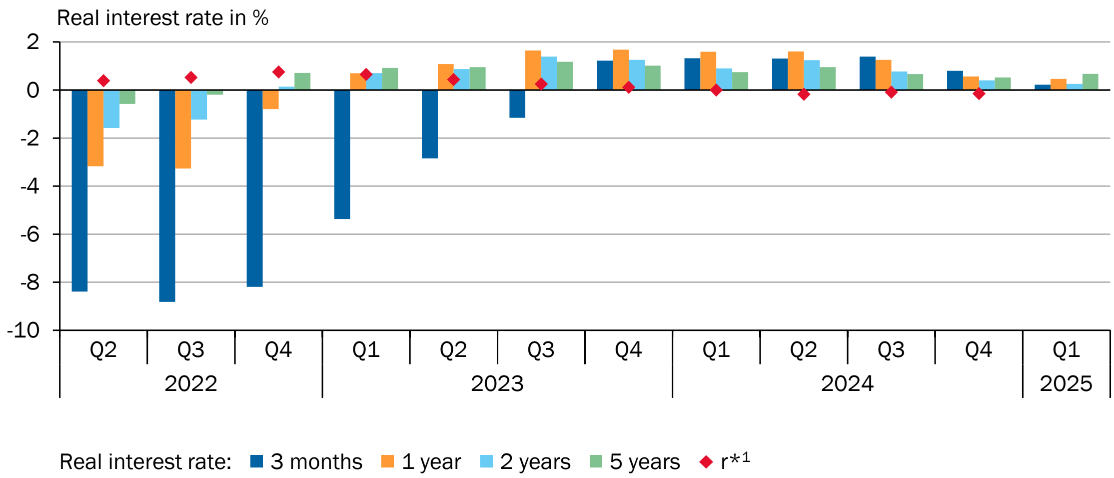
28. The **speed of future interest rate cuts** is **uncertain**. Central banks face the challenge that US tariff policies are likely to slow global economic growth. ↘ ITEM 31 At the same time, US tariffs and countermeasures could have an inflationary effect. The US Federal Reserve fears that it faces a stronger trade-off between low unemployment and price stability in the future. Further interest rate cuts are not expected in the US until the second half of 2025. The market expects around two further interest rate cuts in the euro area. Interest rates in the UK are likely to fall somewhat more sharply over the course of the year. ↘ CHART 9 RIGHT A comparison of real interest rates in the euro area with the estimated neutral real interest rate (r*) shows that although monetary policy is currently still slightly restrictive, following further interest rate cuts this will no longer be the case in the forecast period. ↘ CHART 10 In contrast, the Japanese central bank is likely to raise interest rates further from the current very low level, as Japanese inflation remains above the central bank's target.

29. According to the latest ECB survey, **financing conditions** for **new corporate loans** in the euro area **improved significantly** in the first quarter of 2025. The improvement can be attributed to falling interest rates and lower margins on loans. At the same time, however, banks have slightly tightened lending standards for corporate loans (ECB, 2025b). This development is driven in particular by German banks, which expect a poorer economic outlook. **Net demand for credit from companies** has **fallen slightly** despite the improved **financing** conditions.

Financing conditions for loans for house purchase have improved overall, also mainly driven by falling interest rates and margins. This has led to **a significant increase in demand for housing loans** (ECB, 2025b).

30. **The announcement of the fiscal package on the fourth of March** and the associated expectation of higher future spending on infrastructure and defence,

↘ CHART 10
Monetary policy is likely to become less restrictive in the forecast period



1 – r* is the real short-term interest rate expected to prevail when an economy is at full strength and inflation is stable. Estimation by NY Fed using the Holston, Laubach, and Williams approach.

Sources: ECB, Fed, own calculations

↘ BACKGROUND INFO 1 ↘ ITEMS 79 FF. has led to **an increase in yields on German government bonds**. Yields rose particularly at the long end of the yield curve, i.e. for German government bonds with a maturity of several years. For 10-year Bunds, for example, they rose by over 40 basis points in the days following the announcement. ↘ CHART 11 TOP Together with rising stock prices in Germany, an appreciation of the euro ↘ CHART 11 BOTTOM and stable prices for German credit default swaps ↘ GLOSSARY this suggests that the markets see the fiscal expansion as growth-enhancing (Petroulakis and Saidi, 2025). At the same time, the rise in yields is likely a reaction to a future increase in the supply of German government bonds and an associated decrease in convenience yields. ↘ GLOSSARY ↘ ITEM 130

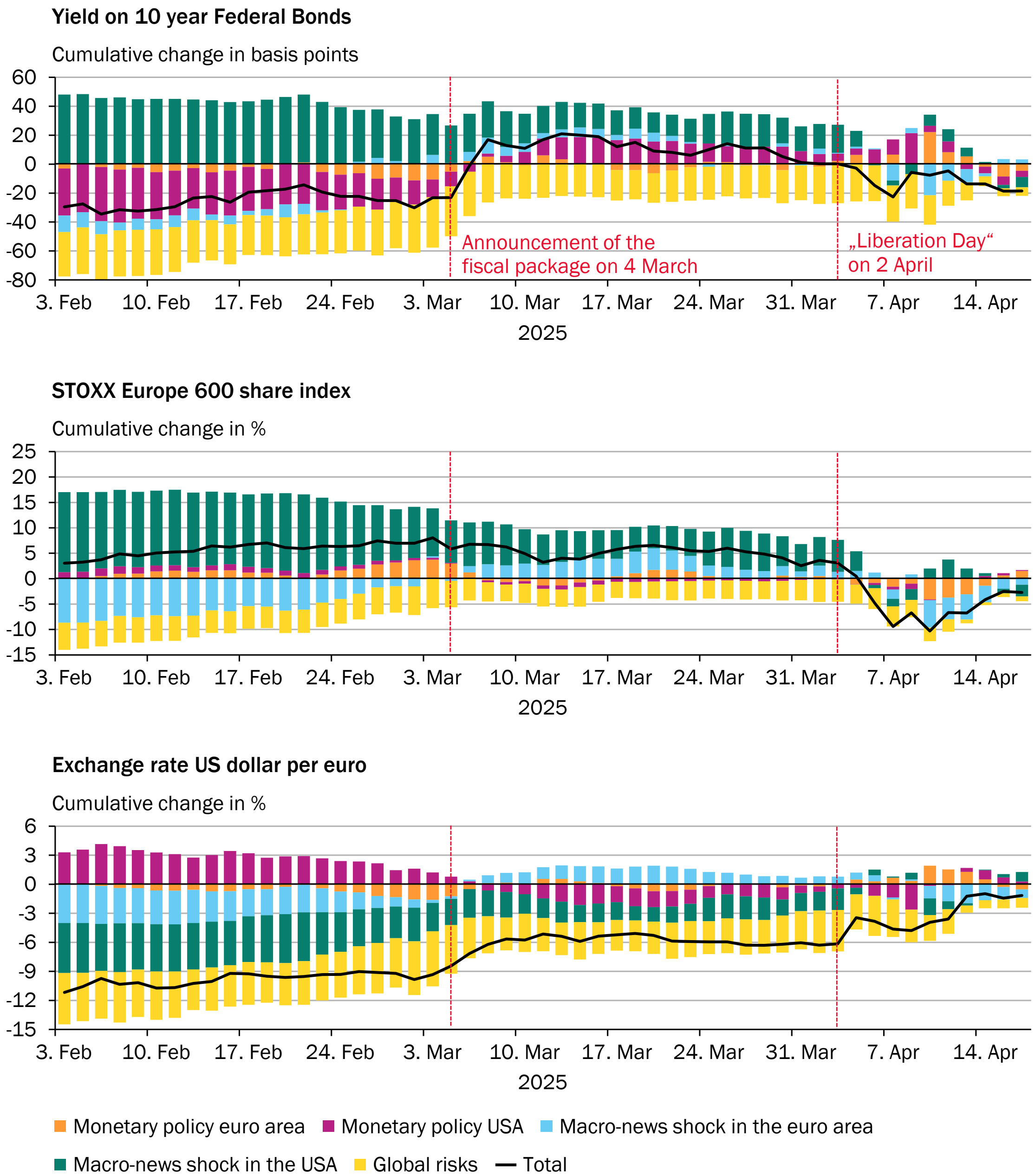
An estimate by the GCEE using an SVAR also indicates that **the announcement of the financial package was received** by the financial markets **as an expansionary stimulus**. A historical decomposition of the yield on 10-year German government bonds, the yield on the STOXX Europe 600 and the changes in the US dollar/euro exchange rate into economic drivers resulting from the model shows that the increase at the beginning of March was partly due to an expansionary macro news shock, which reflects news about macroeconomic developments. ↘ CHART 11 ABOVE

31. The **increase and expansion of US import tariffs** ↘ ITEM 12 is likely to have a different impact on price trends in the individual economies. In the US, the import tariffs are likely to lead to **considerable price pressure** within 12 months, as the increased import prices will be passed on to consumers. The scope of the tariff measures exceeds that of Trump’s first term in office, meaning that price pressure is likely to be higher. Amiti et al. (2019) estimate that the US import tariffs in 2018 led to additional price increases in the manufacturing sector of 1 percentage point. The companies affected largely passed the price increases on to private households. Continued upward pressure on inflation is likely to require a longer-lasting period of tight monetary policy than assumed in the 2024 GCEE Annual Report.

For other economies, the **development of inflation** is likely to depend largely on **the extent to which they impose counter tariffs**. Counter tariffs also lead to domestic price pressure there. During Trump’s first term in office, private households in countries that imposed counter-tariffs suffered real income losses (Amiti et al., 2019). Inflation in the euro area is likely to fall faster than previously forecast, as the US tariffs on Chinese imports maylead to trade diversion and increased sales of goods by Chinese companies in other markets (WTO, 2025).

32. The GCEE expects **global consumer price inflation** of 3.1 % **in 2025**. The high price pressure in advanced economies such as the US and the UK is likely to result in inflation dropping less sharply than assumed in autumn 2024. Consumer price inflation is likely to fall only slightly to 2.7 % in 2026.

↘ CHART 11
Markets expect expansionary stimulus from the fiscal package[1]



1 – Historical decomposition from SVAR as defined by Brandt et al. (2021) with daily changes in basis points of the 10-year Federal Bonds yield, daily changes in basis points of the spread of the 10-year Federal Bonds over the US treasury with the same maturity and daily percentage changes in the STOXX Europe 600, S&P 500 and the US/euro exchange rate. A restrictive monetary policiy shock in the euro area increases the Federal Bonds yield, the exchange rate and the spread and decreases the STOXX Europe 600. A restrictive monetary policy shock in the USA increases the Federal Bonds yield and decreases the exchange rate, the spread and the S&P 500. An expansionary macroeconomic news shock in the euro area increases the Federal Bonds yield, the STOXX Europe 600, the exchange rate and the spread. An expansionary macroeconomic news shock in the USA increases the Federal Bonds yield, the S&P 500 and decreases the exchange rate and the spread. A decline in global risk increases the Federal Bonds yield, the STOXX Europe 600, the S&P 500 and the exchange rate and decreases the spread. Cumulative contributions form 1 January 1999. First observation normalised to zero. Sample from 1 January 1999 to 16 April 2025.

Sources: LSEG Datastream, own calculations

3. Global economy: risks predominate

33. This forecast takes into account the effects of the tariffs introduced up to the second of May 2025 and that were not suspended again. ↘ BOX 4 However, there is a risk that **tariff barriers will increase more than expected during the forecast period**, for example if the EU or China take comprehensive countermeasures. This could reduce growth in global trade in goods and GDP in the affected economic areas even more than assumed in the forecast. ↘ BOX 3 In addition, higher tariffs would dampen investment activity and possibly lead to short-term price increases, particularly in the countries imposing tariffs. ↘ ITEM 31 ↘ BOX 4 If these price increases are reflected in consumers' inflation expectations, this could prompt central banks around the world to refrain from further interest rate cuts for the time being or even tighten monetary policy.

↘ BOX 3

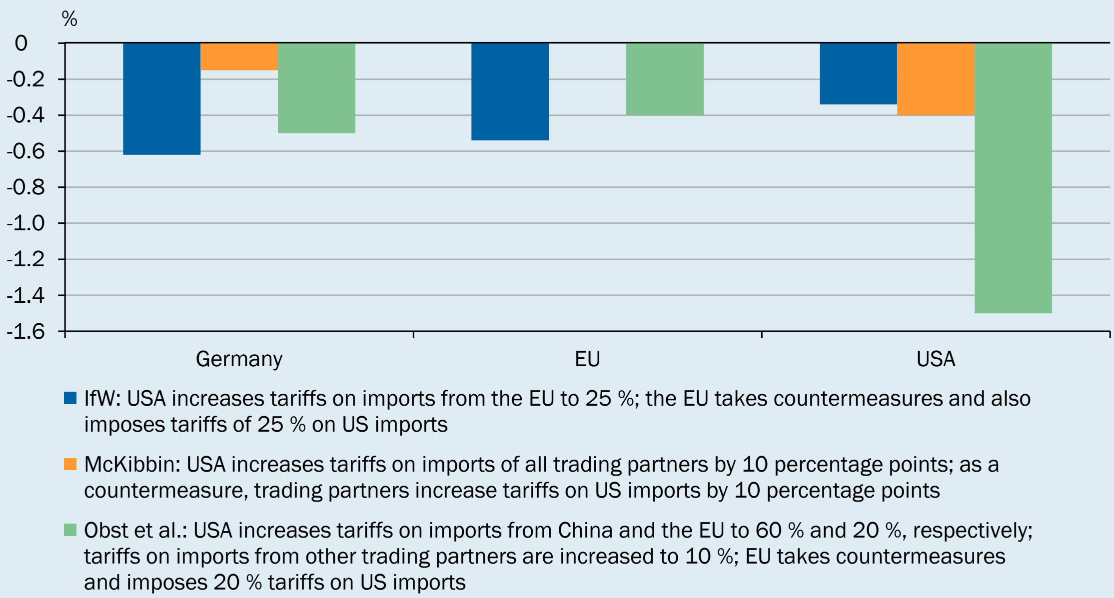
Focus: The possible consequences of an escalation of the trade conflict between the USA and the EU

The tightening of US trade policy that has already taken place is likely to have a negative impact on global economic activity and global trade in goods in the forecast period. A **further escalation of the trade conflict**, for example if the EU takes comprehensive countermeasures and increases tariffs on imports from the US, poses a **significant downside risk for economic development** in the affected economic areas. ↘ CHART 12

↘ CHART 12

Scenarios on the short-term effects of higher US tariffs

GDP, price-adjusted, change compared to baseline scenario



Sources: IfW (2025), McKibbin et al. (2024), Obst et al. (2024)

In the scenario analysed by Obst et al. (2024), the US significantly increases import tariffs for trading partners, some of whom respond with countermeasures. Such a **tightening of US trade policy** leads to a **significant decline in economic production**, especially in the USA itself.

GDP there falls by 1.4 % in the short term compared to the status quo, as consumers cut back on their consumption due to higher prices. The loss of production in the EU is significantly lower at –0.4 %. Given the greater importance of the USA as a sales market compared to other EU countries, the German economy would be slightly more affected (–0.5 %).

In a **more moderate scenario**, McKibbin et al. (2024) find **lower GDP declines.** In this study, the US economy is also hit the hardest: US GDP falls by 0.4 % in the short term compared to the status quo without tariff increases. In China and Germany, on the other hand, overall economic production only falls by 0.1 % and 0.2 % respectively. The study by the Kiel Institute for the World Economy (IfW) is limited to the effects of a trade conflict between the US and the EU (IfW, 2025). They assume tariffs of 25 % on US imports from the EU and countermeasures of the same amount by the EU. Based on calculations using the KITE trade model, US GDP could fall by 0.3 %. In the EU and Germany, on the other hand, GDP could fall by 0.5 % and 0.6 % respectively. According to the model, the automotive sector will be hit particularly hard in Germany, with nominal production falling by over 4 %. The global economy shrinks only slightly in this scenario (–0.1 %). Overall, an escalation of the trade conflict between the US and the EU would have considerable macroeconomic consequences. However, these would not be comparable to a deep recession, as was the case during the global financial crisis or the coronavirus pandemic, for example. However, due to the great importance of the US market for German companies, the German economy will be more severely affected than the EU as a whole.

34. **US fiscal policy faces major challenges** (IMF, 2024; Auerbach and Yagan, 2025; Fitch Ratings, 2025). A shutdown was averted in March 2025 with a transitional budget for the next six months. The rising debt-to-GDP ratio and the recent high deficits are weighing on US fiscal policy. This could limit flexibility in responding to economic shocks and other unexpected events (GAO, 2025). However, hasty or inappropriate austerity measures could reduce GDP growth. Due to the limited savings potential (Dynan, 2025), the intended austerity measures of the Government Efficiency Office (DOGE) are unlikely to be sufficient to prevent a shutdown.

35. As expected by financial markets, the **fiscal package** passed by the German Bundestag could have a **positive effect on economic development in the euro area**. ↘ ITEM 129 There is also the possibility that companies will adapt to new markets and business areas more quickly than expected in view of geopolitical tensions. In combination with the stimulus from the fiscal package, this could strengthen the economy in Europe.

36. An **increase in government demand as a result of the financial package could lead to an increase in price levels in the euro area**, particularly if production capacities in the construction industry do not expand. The price increases depend on the specific design of the fiscal package and the predictability of the associated measures. ↘ ITEM 118 Predictable and productivity-enhancing investments – in infrastructure, for example – can incentivise private capital formation, increase potential output and thus dampen price increases. The expansionary fiscal policy in Germany, on the other hand, could also increase inflation expectations and thus require tighter monetary policy by the European Central Bank. ↘ ITEM 131 The refinancing conditions of highly indebted member states could deteriorate as a result.

↘ BOX 4

Forecast assumptions

Wholesale prices for energy sources rose in Europe in the winter half-year 2024/25 ↘ ITEM 22 ↘ TABLE 2 in Germany, electricity prices in particular have risen significantly. Low electricity production from renewable energies led to increased use of gas for power plants in the fourth quarter of 2024. In the forecast period, **natural gas prices in Europe** based on forward prices are likely to be slightly **higher** in 2025 **than in 2024**, but then fall again. ↘ TABLE 2 For **Brent crude oil**, the futures markets suggest **falling prices** until the end of 2025. They are likely to stabilise in 2026. After rising in the first quarter of 2025, **wholesale prices for electricity in Germany** are likely to be lower over the course of the year and fall again on average in 2026.

The **global cycle of interest rate cuts** – based on the futures markets – is likely to **continue** in 2025. ↘ ITEMS 27 F. The ECB's deposit rate is likely to fall to 1.6 % in the fourth quarter of 2025 based on futures prices and remain at this level thereafter. ↘ TABLE 2 For the forecast period, the average **exchange rate level** of USD 1.12 per euro observed at the close of data in April 2025 is assumed to remain constant.

The forecast assumes that the **US tariffs and retaliatory measures** in force on the second of May 2025 **will remain** at their current levels, **but that a further tightening of US trade policy or countermeasures by other trading partners can be averted at the negotiating table.** At the same time, it is assumed that uncertainty about the future course of US trade policy will remain high.

↘ TABLE 2

Forecast assumptions[1]

	2023				2024				2025			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Oil price (Brent) US dollar/barrel	81.9	85.0	78.9	74.0	75.1	70.7	66.7	65.7	65.3	65.2	65.2	65.2
Gas price (EGIX THE) €/MWh	28.0	31.8	35.8	44.1	47.7	39.7	38.4	39.1	38.7	34.0	33.2	34.7
Electricity price (EEX Phelix) €/MWh	69.9	74.3	84.0	113.2	118.0	71.1	79.9	94.7	94.8	68.8	77.2	90.8
Overnight rate (ECB)[2] % p. a.	4.0	3.9	3.7	3.3	2.8	2.2	1.8	1.6	1.5	1.5	1.6	1.6
Exchange rate (ECB)[3] US dollar/€	1.09	1.08	1.10	1.07	1.05	1.12	1.12	1.12	1.12	1.12	1.12	1.12

1 – Values observed until 2025Q1; assumptions from 2025Q2 onwards. 2 – Deposit facility rate. 3 – The exchange rate will be projected from the second quarter of 2025 onwards using the average from April 2025.

Sources: ECB, EEX, ICE, LSEG Datastream, NYMEX, own calculations

III. GERMANY

37. The **German economy contracted** for the second time in a row in 2024. GDP fell by 0.2 % in the fourth quarter of 2024 when compared to the previous quarter and after adjusting for price, seasonal and calendar effects. Germany's real GDP also fell by 0.2 % compared to the previous year. Although global trade in goods is growing moderately, German industry is suffering from reduced competitiveness on international sales markets and is still hardly taking part in this growth trend (GCEE Annual Report 2024 items 38 ff.). The latest geopolitical developments are also weighing on the German industry. Exports of goods fell sharply in the third and fourth quarters of 2024. ↘ ITEM 57 **The continuing weakness of German manufacturing** is reflected in a further downward trend in industrial production. ↘ ITEM 40 Capacity utilisation in the manufacturing sector remains low and – together with increased economic uncertainty – is significantly dampening investment activity. ↘ ITEM 52

38. The German economy is likely to grow moderately again in 2026 for the first time since 2022. The **changes in international trade policy** and the **high level of trade policy uncertainty** are having a considerable negative impact on global trade in goods, which is likely to have a dampening effect on demand for German industrial goods. ↘ ITEM 58 The deterioration in the competitiveness of German industry is likely to continue and foreign trade is expected to grow only modestly. However, the **fiscal package** passed by the Bundestag in March 2025 should **provide a positive impulse** for the construction sector and the industrial activity from next year onwards. ↘ ITEM 43 Domestic demand is also likely to provide slight support over the course of 2025. ↘ ITEM 49 For the further forecast period, real disposable income is likely to rise more strongly than in 2025, providing an additional boost to private consumption. ↘ ITEM 48 The lower interest rate level in the euro area compared to 2024 should also improve financing conditions and slightly stimulate corporate investment in the forecast period. ↘ ITEMS 53 FF. Overall, the GCEE expects real GDP to stagnate in 2025. In 2026, growth is likely to amount to 1.0 %. ↘ TABLE 3

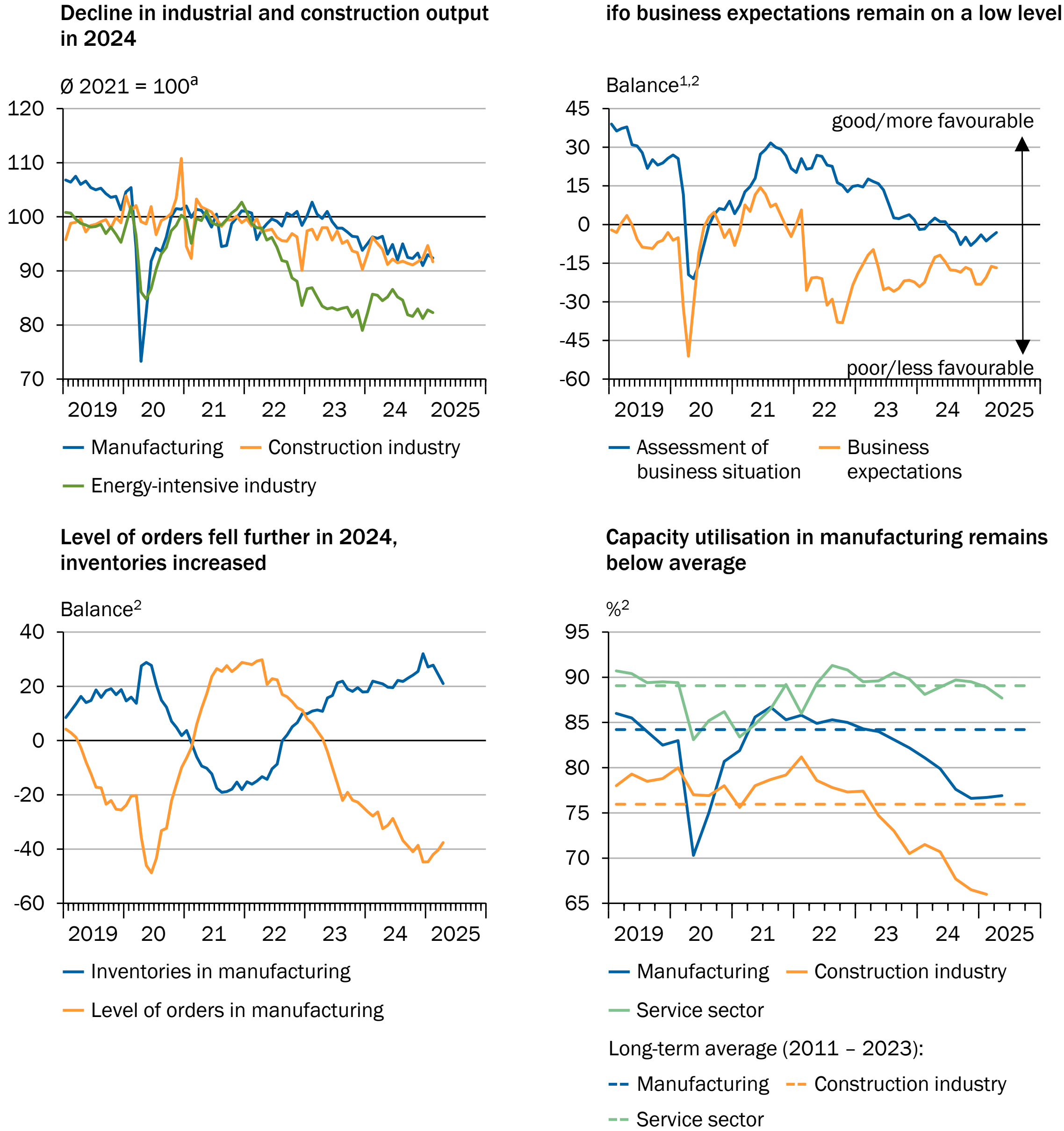
1. Real economy: recovery on the horizon

39. The German economy contracted by 0.1 % in the second half of 2024 compared to the first half of the year. Although real GDP grew slightly by 0.1 % in the third quarter of 2024 compared to the previous quarter, it fell again by 0.2 % in the fourth quarter. **The manufacturing sector had a dampening effect on growth**, contributing –0.1 percentage points to the negative growth of the overall economy in 2024. In particular, value added in the manufacturing sector declined in all four quarters of 2024. Production figures in the manufacturing sector, which largely determine gross value added in manufacturing in the short term based on the assumption of constant input ratios (GCEE Annual Report 2024 background info 1), indicate a slight improvement in the first quarter of 2025. According to the Federal Statistical Office's flash report, real GDP is likely to have grown by 0.2 % in the first quarter of 2025 compared to the previous quarter. Private

consumption expenditure and gross fixed capital formation are likely to have contributed to this outcome.

40. Production in the German manufacturing sector continued to decline in 2024. In December 2024, industrial production even reached its lowest level since May 2020. **Production in energy-intensive industries** in particular **fell sharply** in December 2024, while **production in the construction industry stagnated** compared to the previous month. ↘ CHART 13 TOP LEFT Declining exports of goods continued to contribute to the fall in industrial production in 2024. Accor-

↘ CHART 13
Economic indicators in Germany



1 – Business expectations in the next six months. Difference in the percentages of firms expecting/reporting an improvement and firms expecting/reporting a deterioration. 2 – Seasonally adjusted values. a – Volume index; seasonally and calendar-adjusted values.

Sources: European Commission, Federal Statistical Office, ifo Institute dingly, order backlogs in the manufacturing sector continued to fall, while inventories rose sharply. ↘ CHART 13 BOTTOM LEFT The weakness in industrial activity is also reflected in the low capacity utilisation and the poor assessment of the business situation in the manufacturing sector. ↘ CHART 13 BOTTOM RIGHT The companies surveyed in the manufacturing sector were more pessimistic about their future business in April 2025 than in the previous month (ifo Institute, 2025a). Although business expectations in the construction industry improved significantly in April 2025, they are still below the level of February 2022. The noticeable improvement in business expectations in the manufacturing industry in March 2025 is likely to be related to the fiscal package passed by the Bundestag. ↘ ITEM 43 In contrast, the US tariffs on goods imports from the EU introduced at the beginning of April 2025 are likely to hit German goods exports hard in the forecast period and thus continue to dampen the outlook for industrial production. Accordingly, business expectations in the manufacturing sector and in the economy as a whole deteriorated in April 2025. Overall, this does not speak in favour of a strong recovery in German industry in the forecast period. ↘ CHART 13 TOP RIGHT

41. One of the main reasons for the decline in industrial production and weak exports is the **reduced competitiveness of German industrial companies** compared to other countries. Since 2022, more and more companies in the German manufacturing sector have reported a deterioration in their competitive situation (Wollmershäuser et al., 2025). This is due, on the one hand, to the sharp rise in production costs compared to other countries and, on the other hand, to the weak productivity trend in German manufacturing (GCEE Annual Report 2024 items 44 ff.). In addition, there has been a shift in industrial value added from Germany to China and an increase in vertical integration by the Chinese industry (GCEE Spring Report 2024 box 7). Moreover, many emerging markets, especially in Southeast Asia, have been able to increase their export shares due to cost advantages over the advanced economies.

42. **The persistently high level of economic policy uncertainty** is weighing on economic activity in Germany (Berend and Jannsen, 2024; European Commission, 2024). Although uncertainty is heightened worldwide, ↘ ITEM 14 it is particularly high in Germany. ↘ CHART 17 LEFT Between August and November 2024, the uncertainty indicator for Germany from Baker et al. (2016), which is based on newspaper articles, almost doubled. After a slight decline between December 2024 and February 2025, the indicator rose again noticeably in March 2025. A high level of uncertainty is causing companies to **hold back on investment decisions** ("wait-and-see") and reducing private households' propensity to consume. Both have a negative impact on economic activity (Bloom et al., 2007; Giavazzi and McMahon, 2012; Coibion et al., 2024; European Commission, 2024).

Increasing uncertainty about future trade policy is also likely to have a negative impact on companies investment decisions. ↘ BOX 5 Trump's trade policy has been volatile since he took office. ↘ ITEM 12 Import tariffs, for example against Canada and Mexico, came into force at short notice in some cases and were also temporarily suspended in others.

↘ BOX 5

SVR analysis: Impact of uncertainty over US trade policy on Germany

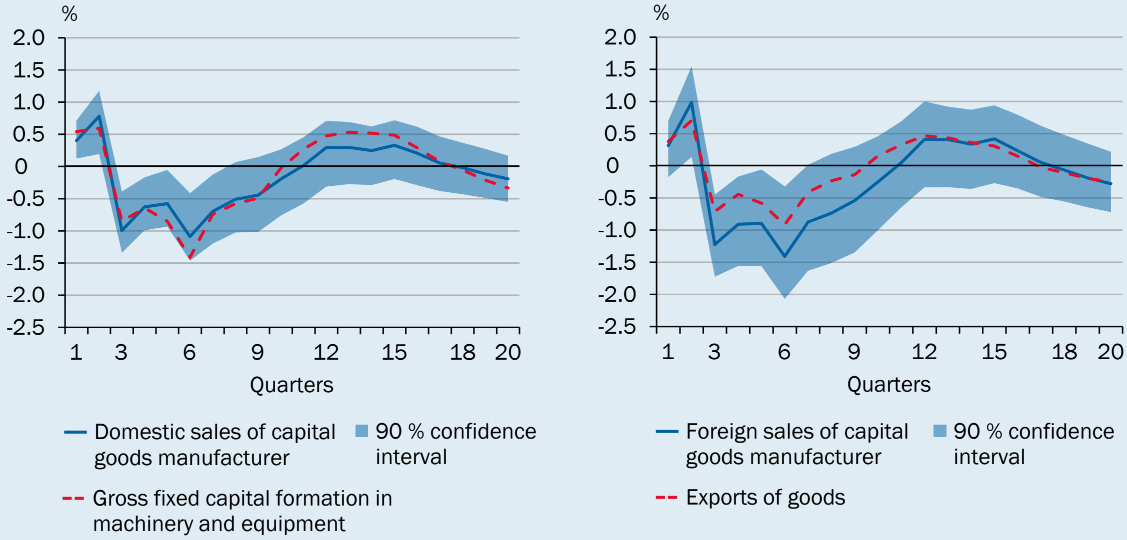
Tariff barriers to trade have increased significantly worldwide since the start of 2025. ↘ ITEM 12 The volatile US trade policy has also led to a significant increase in trade policy uncertainty. ↘ ITEM 14 Not only does the introduction of tariffs have a significant effect on the development of an economy, but **uncertainty about current trade policy** also has **a negative impact on capital formation and** thus **real GDP** (Ebeke and Siminitz, 2018; Steinberg, 2019; Caldara et al., 2020). For example, the increase in trade policy uncertainty during President Trump's first term in office was accompanied by a 1.5 % reduction in private gross fixed capital formation in the US (Caldara et al., 2020).

↘ CHART 14

Effects of an increase in trade policy uncertainty on the German economy[1]

Domestic sales of capital goods manufacturers and gross fixed capital formation in machinery and equipment

Foreign sales of capital goods manufacturers and exports of goods



1 – Impulse responses from SVARs with short-term restrictions, estimated with 4 lags on quarterly data from 1996 to 2024. In each estimate, trade policy uncertainty is first ranked and controlled for inflation and the interest rate in the euro area. When estimating the effect on domestic and foreign sales, the development of domestic and foreign sales is controlled for. Similarly, when estimating the effect of gross fixed capital formation in machinery and equipment and exports of goods, the development of gross fixed capital formatin in machinery and equipment and exports of goods is controlled for. Gross fixed capital formation in machinery and equipment, export of goods, domestic and foreign sales are logarithmised and adjusted using a third-degree polynomial. Confidence intervals are based on moving block bootstrap (Brüggemann et al., 2016) and bootstrap-after-bootstrap (Kilian, 1998) with 1,000 iterations, implemented in the R package svars (Lange et al., 2021).

Sources: Ahir et al. (2022), Deutsche Bundesbank, Federal Statistical Office, own calculations

The **effects of an increase in trade policy uncertainty** on central macroeconomic aggregates such as gross fixed capital formation and goods imports and exports can be empirically analysed using a **structural vector autoregressive models.** Trade policy uncertainty for Germany can be measured using a text-based index that evaluates the analyses of the Economist Intelligence Unit. According to the GCEE's estimates, an increase in trade policy uncertainty, such as in the fourth quarter of 2024, leads to a significant decline in exports and domestic capital formation. For example, domestic sales of manufacturers of capital goods fall significantly by around 1.1 % on average with a delay of around nine months in the event of an unexpected increase in the trade policy uncertainty index that is comparable to the increase in the fourth quarter of 2024. ↘ CHART 14 LEFT Domestic sales of capital goods manufacturers are strongly positively correlated with private fixed capital formation in machinery and equipment and are therefore a good indicator of their development. The foreign sales of capital goods manufacturers, which show a strong synchronisation with goods exports and are therefore a proxy for these, are falling somewhat more sharply, namely by around 1.4 % on average, with a similar time lag. ↘ CHART 14 RIGHT This dynamic is in line with the results of Caldara et al. (2020) and Arigoni and Lenarčič (2020), who carried out comparable analyses for the USA and the euro area. The variance decomposition of the forecast errors also shows that the increase in uncertainty can explain up to 25 % and 20 % of the change in domestic sales and foreign sales, respectively.

43. In March 2025, the Bundestag approved **a fiscal package** with an **amendment to the Basic Law** that is unprecedented in scope since German reunification. ↘ BACKGROUND INFO 1 ↘ ITEMS 75 FF. The fiscal package has already led to an improvement in business expectations, in particular in the construction industry. ↘ ITEM 55 An analysis by the GCEE shows that the rise in 10-year German government bonds is partly due to the fact that the economic expectations of market participants have improved. ↘ ITEM 30 From 2026 onwards, the financial stimulus provided by the fiscal package is likely to contribute to Germany's economic recovery. Public investment in equipment and infrastructure in particular is likely to expand. ↘ ITEM 53 This should reduce underutilisation in the manufacturing and construction sectors. ↘ CHART 13 BOTTOM RIGHT However, if capacity – particularly in civil engineering – is insufficient or expands only slowly, prices could rise more sharply than expected. ↘ ITEM 71 Overall, the GCEE anticipates a boost of around 0.5 percentage points to GDP in 2026.

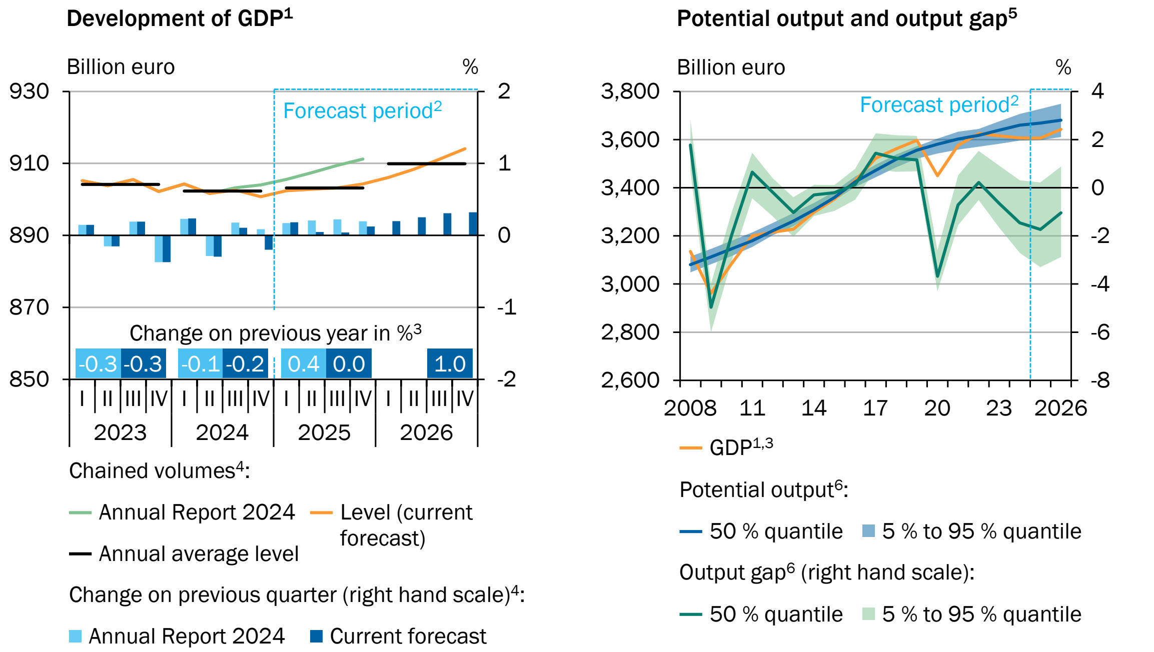
↘ BACKGROUND INFO 1

Scope of the fiscal package approved in March 2025

Following the federal elections, the CDU/CSU, SPD and Bündnis 90/Die Grünen parties have **increased fiscal space for defence spending and public investment** by reforming the fiscal constitution. Defence spending that exceeds 1 % of GDP can be financed by credit. ↘ ITEMS 85 FF. In addition, a new special infrastructure fund totalling 500 billion euros is meant to enable additional capital formation in infrastructure and climate protection over the next twelve years. ↘ ITEMS 94 FF. In the future, the federal states will be able to take on structural debt amounting to 0.35 % of GDP each year. So far, the federal states had no structural leeway for issuing debt within the framework of the debt brake. ↘ ITEMS 106 F.

44. **Real GDP growth in the first quarter of 2025** was 0.2 % compared to the previous quarter, according to the Federal Statistical Office's flash report of 30 April 2025. The available sentiment and real-time indicators display a mixed picture for the current macroeconomic situation. There are still no clear signs of recovery in the manufacturing sector, while business prospects in the construction industry are brightening. The positive sentiment among private consumers in the first quarter of 2025 is likely to continue in the following quarter. The **nowcast for the second quarter** points to real GDP growth of 0.0 %. Growth is likely to

↘ CHART 15
Expected economic development of the German economy



1 – Chained volumes, price adjusted, reference year 2020. 2 – Forecast by the GCEE. 3 – Not adjusted. 4 – Seasonally and calendar-adjusted. 5 – Estimate by the GCEE. 6 – Quantiles of the sample.

Sources: Federal Statistical Office, own calculations

increase very slowly over the course of the year. ↘ CHART 15 LEFT However, US trade policy and the related uncertainties are likely to significantly dampen growth in the forecast period. The GCEE, therefore, expects real GDP to stagnate in 2025. Due to the fiscal stimulus, however, real GDP growth is likely to pick up in 2026 and reach 1.0 %. Government final consumption expenditure, public gross fixed capital formation in machinery and equipment and public gross fixed capital formation in construction are likely to be the main contributors to this outcome. In contrast, exports and private gross fixed capital formation in machinery and equipment are likely to make only a small contribution to GDP growth in 2026.

45. At –1.7 %, the **output gap** is likely to be slightly larger in 2025 than in 2024. ↘ CHART 15 RIGHT The upturn in GDP growth is likely to narrow the output gap to –1.0 % in 2026. This is largely due to the positive impulse from the special infrastructure fund and additional defence spending. However, the estimate of potential output is subject to uncertainty (Ochsner et al., 2024). The 5 (95) % quantile is less than –3 % (greater than 0 %) in the forecast period and describes the possibility that the production gap is larger (smaller) than expected on average.

Final consumption expenditure

46. **Private consumption expenditure** continues to **recover** only **slowly**. In 2024, it expanded by 0.3 % in real terms compared to the previous year. This slight increase was primarily due to growth in the second half of 2024. Adjusted for prices, calendar and seasonal effects, private consumption expenditure grew

by 0.2 % and 0.1 % in the third and fourth quarters of 2024, respectively. In contrast to weak consumer spending, private households' incomes showed a strong upward trend in 2024. Real net wages and salaries rose by 3.2 % in 2024 compared to the previous. In addition, the increase in real disposable income in 2024 was particularly high at 1.7 % compared to the previous year. The last time such an increase was recorded was between 2015 and 2018. Overall, the strong upward momentum in real disposable income translated only partially into higher spending by private households.

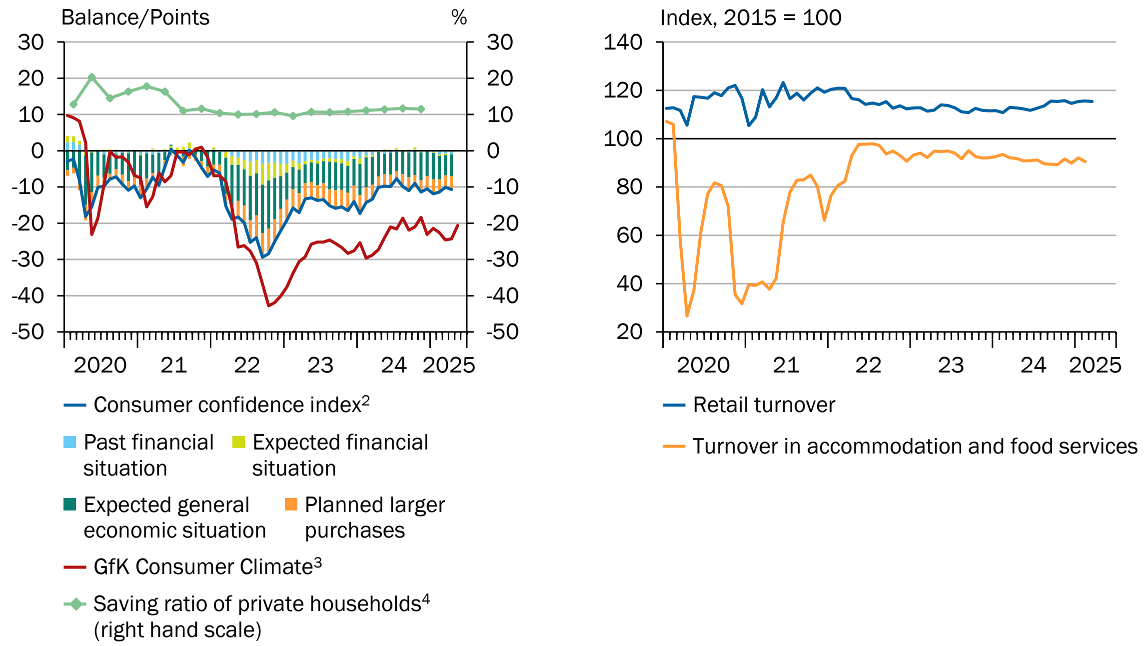
47. The **reluctance to consume** continues to be reflected in the **increased savings behaviour of private households**. The net savings rate rose to 11.4 % in 2024 after 10.4 % in the previous year, remaining **at a higher level** than the average of 10.1 % from the years between 2010 and 2019. One reason for this is probably that private households are currently still compensating for real asset losses incurred since 2021 (Bobasu et al., 2024). These losses were by no means offset between the second quarter of 2022 and the second quarter of 2024.

48. **Private consumption expenditure is likely to have increased in the first quarter of 2025**. This is signalled by price-adjusted retail sales, which rose by 0.2 % in the first quarter of 2025 compared to the previous quarter. In addition, price-adjusted turnover in the hotel and restaurant industry rose by an aver-

↘ CHART 16
Consumption indicators in Germany

Consumer confidence remains low[1]

Private consumption indicators continue to evolve upwards at the beginning of 2025[5]



1 – Seasonally adjusted values. 2 – The consumer confidence index and the saving propensity indicator are based on selected questions answered by consumers according to the Joint Harmonised EU Programme of Business and Consumer Surveys. They relate to the past or coming 12 months. 3 – Based on about 2,000 consumer interviews per month. 4 – Quarterly values. 5 – Price-, seasonally and calendar-adjusted values.

Sources: European Commission, Federal Statistical Office, GfK, own calculations age of 1.1 % in January and February 2025 compared to the average of the previous quarter. ↘ CHART 16 RIGHT

49. The **spending behaviour of private households** is likely to continue to be determined by **pessimistic expectations** in the current year. Consumer confidence, as measured by the GfK Consumer Confidence Index, remains well below the historical average since 1991. ↘ CHART 16 LEFT Survey-based savings intentions, which are an indication of the future savings ratio, have risen recently and remain at an elevated level. The subdued situation on the labour market, which is accompanied by lower wage growth, is likely to play an important role here. ↘ ITEM 64 Public investment and defence spending ↘ BACKGROUND INFO 1 agreed as part of the amendment to the Basic Law is likely to provide additional support for real disposable income due to rising demand, particularly in 2026. This should contribute to private consumption expanding slightly more strongly in 2026 than in 2025, but still remaining weak. Overall, private consumption expenditure is likely to grow by 0.4 % in the current year. An increase of 0.7 % is expected for 2026.

50. After two years of stagnation, **final government consumption expenditure rose strongly again in 2024** by 3.5 % in real terms compared to the previous year. The federal government's extra budgets made a noticeable contribution to the increase in public consumption in 2024, particularly in the fourth quarter of 2024. Social benefits in kind, such as health and long-term care insurance benefits, and intermediate consumption, such as ammunition purchases, also developed positively with annual average growth rates of 4.6 % and 4.0 % respectively compared to the previous year. Intermediate inputs for transport services once again grew at an above-average rate (7.7 %), while intermediate inputs for education fell slightly in real terms (–1.1 %).

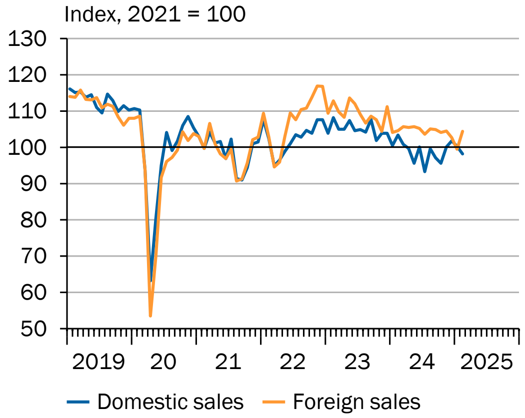
51. **At the beginning of 2025, real government consumption** is likely to develop **less strongly**. The federal government's provisional budget management is likely to dampen the development of government intermediate consumption. However, once the new government has been formed and the budget drawn up, government consumption is likely to provide an expansionary impulse. The adoption of the fiscal package in March 2025 is likely to have created the conditions for a dynamic increase in intermediate consumption, including in the area of military procurement, and a reduction in the pressure to consolidate in many local governments. On an annual average, real government consumption is likely to expand by 2.0 % and 2.2 % in 2025 and 2026, respectively.

Gross Fixed Capital formation

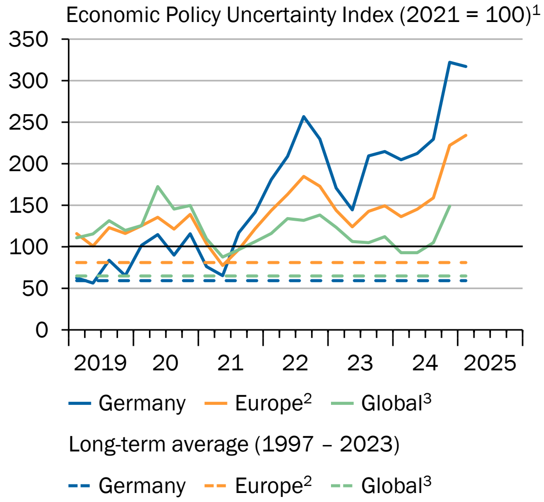
52. **Real gross fixed capital formation in machinery and equipment fell by 5.5 % in 2024 compared to the previous year**. While fixed capital investment in machinery and equipment fell by 5.9 % in 2024 compared to the previous year, fixed capital investment in vehicles fell by 4.7 %. The falling demand for equipment can first be explained by weak domestic demand. Accordingly, the decline in gross fixed capital formation in machinery and equipment since 2023 is reflected in the falling domestic sales of capital goods manufacturers. ↘ CHART 17 LEFT Secondly, foreign demand also remains weak. This is shown by the very low

↘ CHART 17
Investment indicators for Germany

Domestic business of capital goods manufacturers even weaker than foreign business in 2024



Economic Policy Uncertainty Indicator for Germany rises sharply



1 – The index measures the relative frequency with which the words „uncertainty“, „economy“ and specific policy-related keywords occur together in newspaper articles. 2 – Equally weighted average frequency in two newspapers each from Germany, France, Italy, Spain and United Kingdom. 3 – Index weighted with purchasing power-adjusted GDP for 21 countries.

Sources: Baker et al. (2016), Davis (2016), Federal Statistical Office, own calculations

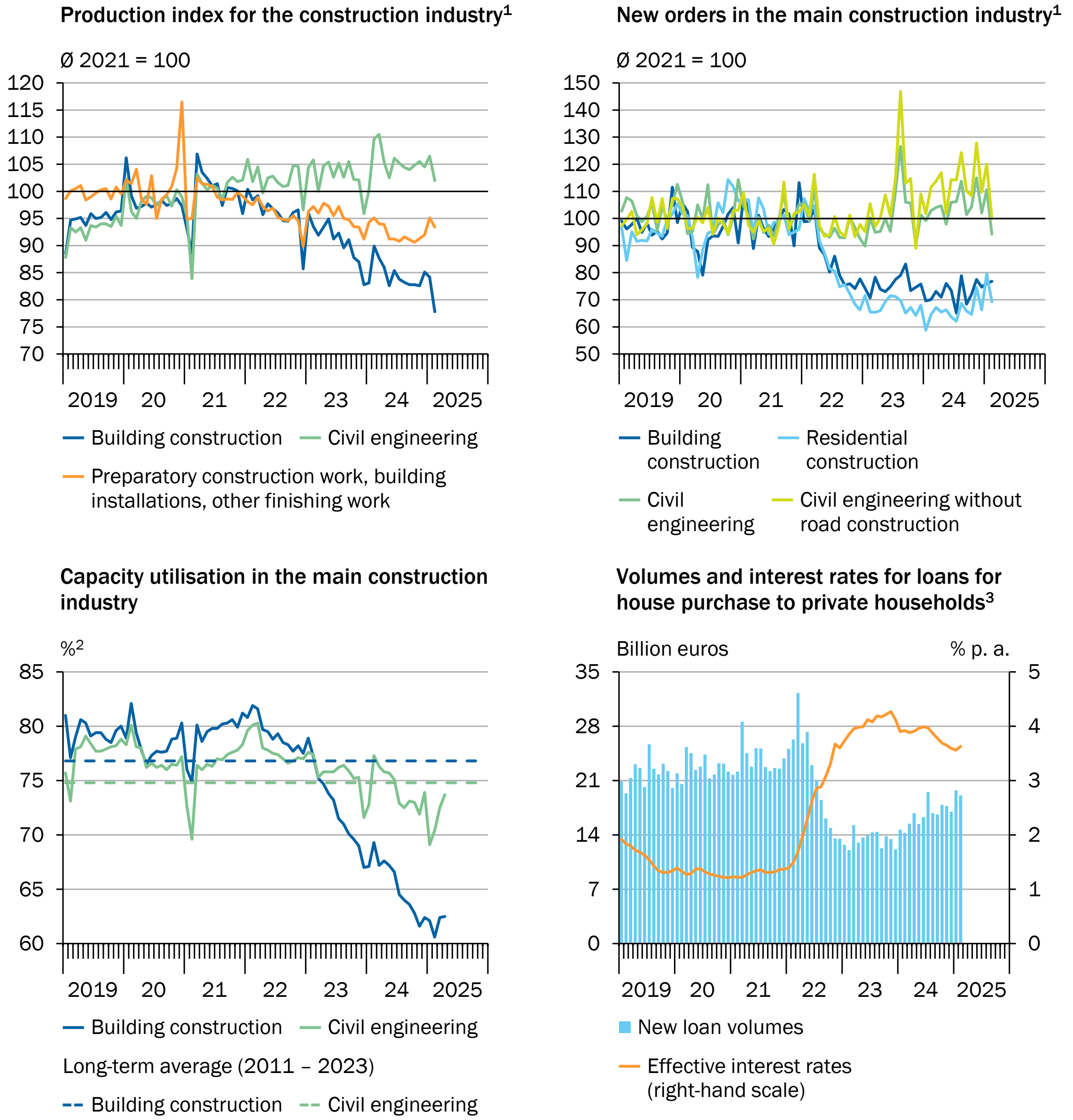
order backlogs in the manufacturing sector. ↘ CHART 13 BOTTOM LEFT The overall low capacity utilisation in the manufacturing sector is reducing the need for domestic companies to invest in new equipment. ↘ ITEM 40 In addition, higher interest rates compared to the preceding ten years and the continued heightened economic policy uncertainty (Berend and Jannsen, 2024; European Commission, 2024) are contributing to the reluctant investment behaviour of firms. ↘ CHART 17 RIGHT

53. Real gross fixed **capital formation in machinery and equipment** is likely to have **increased slightly** in the **first quarter of 2025**. While the production of capital goods fell by 0.3 % on average in January and February 2025 compared to the average of the previous quarter, domestic sales of capital goods manufacturers rose only minimally by 0.1 %. However, imports of capital goods are likely to have been a decisive factor. These increased by an average of 1.9 % in January and February 2025 compared to the average of the previous quarter in nominal, seasonally and calendar-adjusted terms. In the further forecast period, **public investment in military weapons systems** is likely to be a key factor driving the development of gross fixed capital formation in machinery and equipment. The Federal Government's increase in planned defence spending in March 2025 is likely to provide additional impulse for public gross fixed capital formation in machinery and equipment in particular. ↘ BACKGROUND INFO 1 In contrast, private fixed capital formation in machinery and equipment is likely to expand at a weaker rate in the forecast period. In 2025 in particular, low capacity utilisation in the manufacturing sector and the gloomy outlook for German goods exports in the wake of US tariffs will play a dampening role for corporate investment in machinery and

equipment. Private gross fixed capital formation in machinery and equipment is not expected to expand until 2026. Stronger demand from the euro area for German goods exports is likely to have a supporting effect here, as it will increase the demand for capital goods in Germany. Overall, real gross fixed capital formation in machinery and equipment is likely to decline again by 0.9 % in 2025, while it is expected to rise strongly by 4.4 % in 2026.

54. Real gross fixed **capital formation in construction** fell by 3.3 % in 2024 compared to the previous year. This was the fourth consecutive year of decline. This was mainly due to **lower capital formation in residential buildings**, which fell by 5.0 %. Capital formation in non-residential buildings fell by 0.5 % com-

↘ CHART 18
Indicators for the construction industry



1 – Volume index; seasonally and calendar-adjusted values. 2 – Seasonally adjusted values. 3 – Loan volumes and effective interest rates for new businesses.

Sources: Deutsche Bundesbank, Federal Statistical Office, ifo institute, own calculations pared to the previous year. Only **civil engineering supported fixed capital formation in non-residential construction**. The monthly production index for the construction industry, an indicator of gross fixed capital formation in construction, shows that civil engineering in particular increased significantly in 2024. ↘ CHART 18 TOP LEFT This includes the refurbishment measures of Deutsche Bahn and the expansion of the electricity grid. In contrast, the decline in gross fixed capital formation in construction is clearly reflected in the falling production in the finishing trade and in building construction, which has fallen sharply after an increase at the beginning of 2024. The continued high financing costs for residential construction projects and high construction material prices play a decisive role here.

55. Real gross fixed **capital formation in construction** is likely to have **increased** in the **first quarter of 2025**. Production in the construction industry expanded by 1.6 % on average in January and February 2025 compared to the average of the previous quarter. This increase was due to a sharp rise in production, particularly in the finishing trade, while production in building construction and civil engineering declined. In addition, capacity utilisation in the main construction sector in March 2025 began to reverse its downward trend in January and February 2025. On average, however, capacity utilisation in the main construction sector was low in the first quarter of 2025, particularly in building construction. ↘ CHART 18 BOTTOM LEFT Although the assessment of the business situation in the main construction sector improved slightly in the first quarter of 2025 compared to the previous quarter, it remains subdued (ifo Institute, 2025b). Overall, construction activity remains at a low level in the spring of 2025.

Gross fixed capital formation in construction is likely to **expand much** more strongly in the further forecast period **than in spring 2025**, with residential construction investment contributing to this development. The interest rate cuts implemented by the ECB since summer 2024 are likely to be responsible for this, particularly from the second half of 2025 onwards. This is also reflected in the further decline in effective interest rates for residential construction projects since mid-2024. ↘ CHART 18 BOTTOM RIGHT Incoming orders for residential construction do not yet show a strong trend reversal at the current margin. ↘ CHART 18 TOP RIGHT However, the stronger upward momentum in new lending for residential construction projects and in mortgage contracts reported to Schufa indicate a further increase in orders for residential construction (Boysen-Hogrefe et al., 2025). ↘ CHART 18 BOTTOM RIGHT Beyond that, fixed capital formation in civil engineering is likely to provide strong support for gross fixed capital formation in construction, especially in 2026. The expansion of the rail and electricity networks will play a key role in this, especially for public gross fixed capital formation in construction. This development is already signalled by the sharp rise in incoming orders in civil engineering since 2024. ↘ CHART 18 TOP RIGHT Nevertheless, the investment spending approved by the Federal Government as part of the new special infrastructure fund is only likely to provide a strong additional boost to gross fixed capital formation in construction – especially in civil engineering – in the later forecast period. Overall, there was already a noticeable improvement in business expectations in the main construction sector in March and April 2025. At the same time, rising demand for gross fixed capital formation in construction is likely to put additional pressure on prices throughout the entire construction industry. In 2025, real gross fixed capital formation in construction is likely to increase slightly by 0.3 %, while it is expected to grow strongly by 2.9 % in 2026.

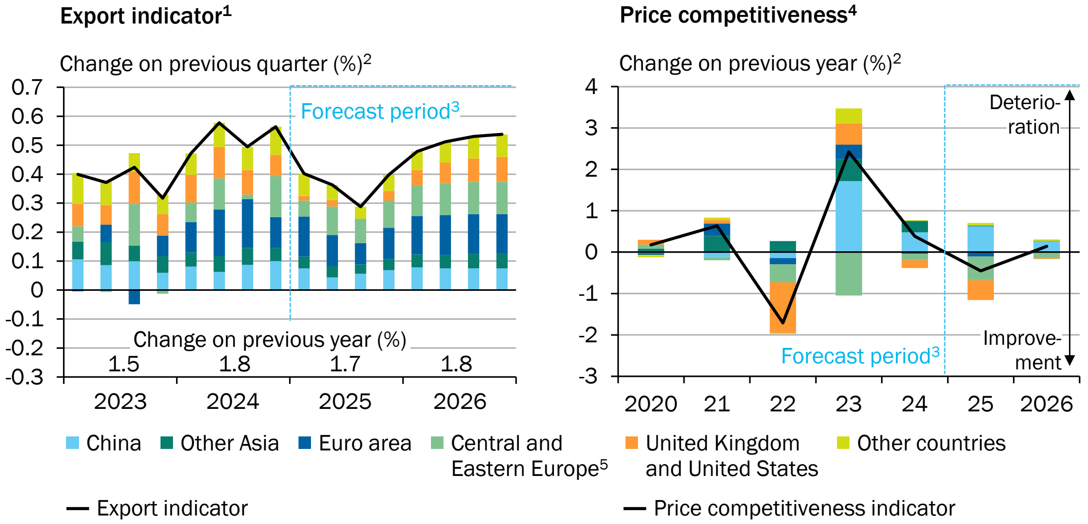
Foreign trade

56. **German exports** shrank again last year on a price-adjusted basis. Despite somewhat stronger growth in foreign markets ↘ CHART 19 LEFT exports fell by 1.1 % compared to the previous year. This continues a trend in which German exports are increasingly decoupled from the global economy (GCEE Annual Report 2024 item 61). One possible reason for this may be that German companies have lost price competitiveness over the past two years. ↘ CHART 19 RIGHT

57. **Exports of goods lost momentum over the course of 2024** and even fell noticeably in the second half of the year. Exports of services, on the other hand, were on a continuous upward trend. The same pattern can also be seen in German imports. Overall, these increased only slightly compared to the previous year (0.2 %). The increase was primarily due to the continued rise in services imports, which expanded by 4.3 % in 2024. In contrast, imports of goods fell by 1.5 %. ↘ CHART 20 RIGHT

58. Following the sharp decline in German exports in the second half of 2024, **German exports** are **only** expected to **recover towards the end of the forecast period**. Exports fell in nominal terms in January 2025, but recovered slightly in February. The truck toll mileage index, which is highly correlated with German

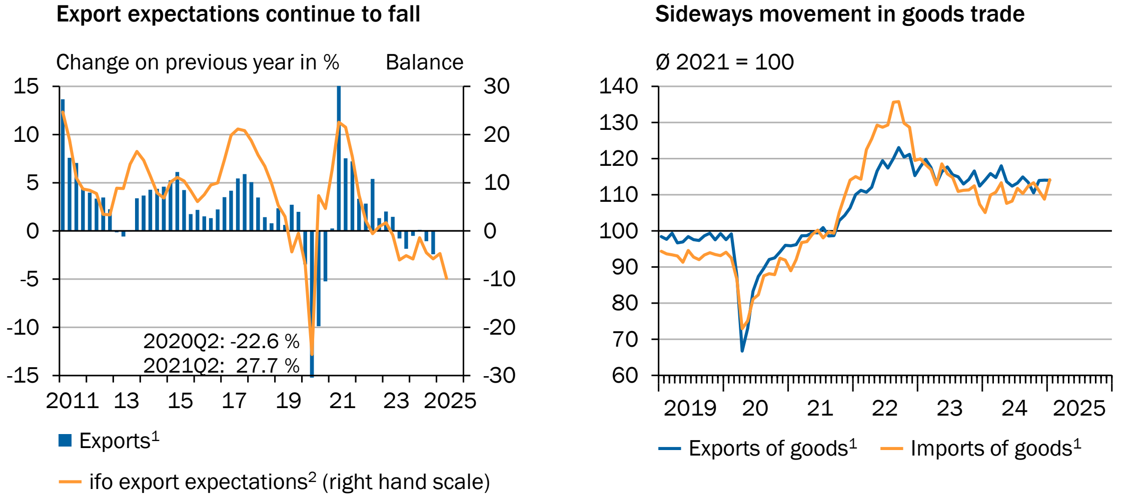
↘ CHART 19
Expected development of the external environment



1 – The indicator is based on the GDP growth of 50 trading partners. The weighting of each country corresponds to its share of German exports. Country definitions as in Table 1. Seasonally and calendar-adjusted. 2 – Growth contributions of the respective regions. 3 – Forecast by the GCEE for the export indicator and the price competitiveness indicator. 4 – The indicator is based on Germany's inflation rates relative to those of 37 trading partners as well as exchange rates and corresponds to the sum of contributions to growth; a positive change indicates reduced price competitiveness of German products. Calculation and country definitions based on the approach of the Deutsche Bundesbank. Forecast by the GCEE. 5 – Bulgaria, Czechia, Hungary, Poland, Romania.

Sources: Deutsche Bundesbank, national statistical offices, own calculations

↘ CHART 20
German foreign trade



1 – Seasonally and calendar-adjusted. 2 – Seasonally adjusted. Quarterly averages of the monthly values. The value for 2025Q2 only refers to the April value.

Sources: Federal Statistical Office, ifo Institute, own calculations

exports, stagnated in the first quarter. Ifo export expectations continued their downward trend at the beginning of the year and order backlogs for exports are close to the low observed at the beginning of the coronavirus pandemic. ↘ CHART 20 So far, there are few signs that exports to the US in the first quarter of 2025 have experienced strong anticipation effects due to impending tariffs on German goods. According to German foreign trade statistics, German companies even exported fewer goods to the US in nominal terms in January than in December; in February, however, exports were almost 5 % higher than in the preceding month.

Overall, **German exports** are likely to have **increased slightly in the first quarter**. However, against the backdrop of the 10 % US tariffs on imports from the EU imposed at the beginning of April, German exports are likely **to shrink over the remainder of 2025**. A **moderate recovery in exports** is only expected **in the later forecast period**. The GCEE expects exports to fall by 2.8 % in 2025, followed by an increase of 0.7 % in 2026. With growth rates of 1.5 % and 2.2 %, respectively, **imports** are likely to expand only moderately **in view of the weak export momentum and investment activity** and will only **pick up somewhat in the coming year**.

↘ TABLE 3

Key economic indicators for Germany

	Unit	2023	2024	2025[1]	2026[1]
Gross domestic product[2]	**Growth in %**	**– 0.3**	**– 0.2**	**0.0**	**1.0**
Final consumption expenditure	Growth in %	– 0.3	1.2	0.9	1.2
Private consumption[3]	Growth in %	– 0.4	0.3	0.4	0.7
Government consumption	Growth in %	– 0.1	3.5	2.0	2.2
Gross fixed capital formation	Growth in %	– 1.2	– 2.7	0.3	3.3
Investment in machinery & equipment[4]	Growth in %	– 0.8	– 5.5	– 0.9	4.4
Construction investment	Growth in %	– 3.4	– 3.3	0.3	2.9
Other products	Growth in %	4.7	3.9	2.0	3.0
Domestic demand	Growth in %	– 0.4	0.3	1.8	1.6
Net exports	Growth contribution in percentage points	0.1	– 0.6	– 1.8	– 0.6
Exports of goods and services	Growth in %	– 0.3	– 1.1	– 2.8	0.7
Imports of goods and services	Growth in %	– 0.6	0.2	1.5	2.2
Current account balance[5]	**%**	**5.6**	**5.7**	**3.6**	**3.2**
Persons employed (domestic)	**1,000**	**46,011**	**46,082**	**46,050**	**46,076**
Persons employed, covered by social security	**1,000**	**34,790**	**34,932**	**34,972**	**35,042**
Registered unemployment, stocks	**1,000**	**2,609**	**2,787**	**2,926**	**2,872**
Unemployment rate[6]	**%**	**5.7**	**6.0**	**6.2**	**6.1**
Consumer prices[7]	**Growth in %**	**5.9**	**2.2**	**2.1**	**2.0**
Budget balance[8]	**%**	**– 2.5**	**– 2.8**	**– 2.5**	**– 3.4**
Gross domestic product per capita[9,10]	**Growth in %**	**– 1.1**	**– 0.5**	**– 0.1**	**0.9**
Gross domestic product, calendar-adjusted[10]	**Growth in %**	**– 0.1**	**– 0.2**	**0.1**	**0.7**

1 – Forecast by the GCEE. 2 – Price-adjusted. Change on previous year. Also applies to all listed components of GDP. 3 – Including non-profit institutions serving households. 4 – Including military weapon systems. 5 – In relation to GDP. 6 – Registered unemployed in relation to civil labour force. 7 – Change on previous year. 8 – Regional auhorities and social security according to national accounts; in relation to GDP. 9 – Population development according to medium-term projection of the GCEE calculations. 10 – Price-adjusted. Change on previous year.

Sources: Deutsche Bundesbank, Federal Employment Agency, Federal Statistical Office, own calculations

2. Inflation falls faster than expected

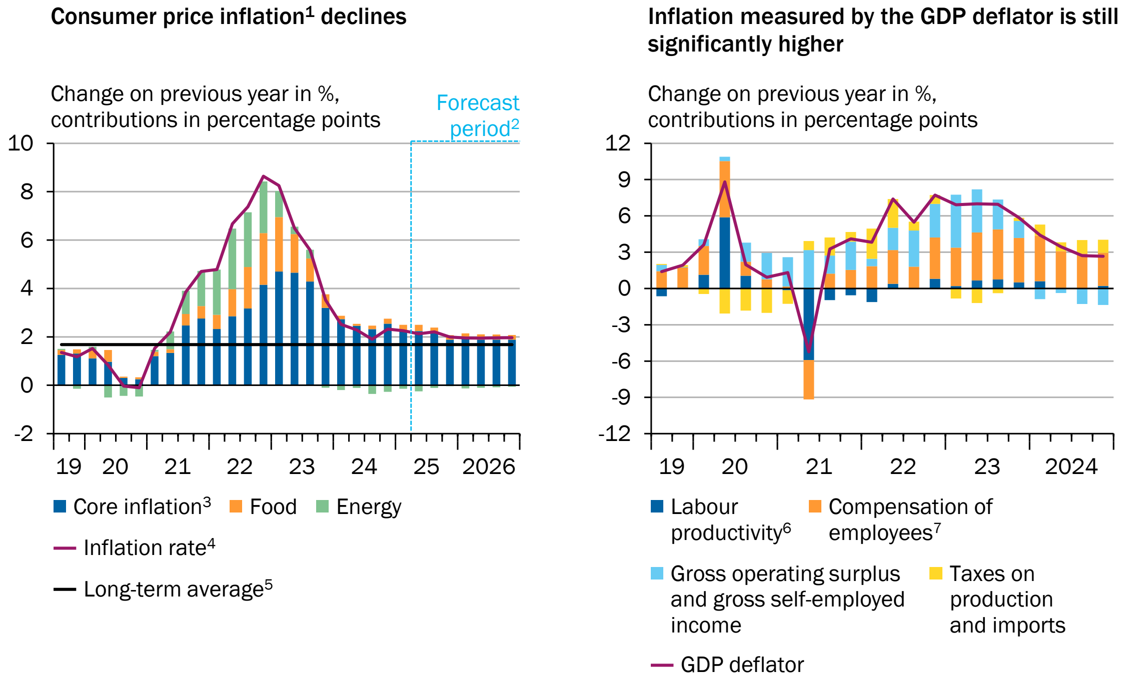
59. Measured by the national consumer price index, average annual **inflation in 2024** was **2.2 % compared to the previous year**. According to preliminary figures from the Federal Statistical Office, year-on-year inflation in April 2025 was 2.1 %, compared to 2.3 % in the first quarter of 2025. The **core inflation rate remains high**. In April 2025, it was 2.9 % year-on-year according to preliminary figures. In the first quarter of 2025, it was 2.8 %. The main drivers of core inflation continue to be service prices, which rose by 3.8 % year-on-year in 2024 and have fallen from 4.0 % year-on-year since the beginning of the year to 3.4 % most recently in March. In April 2025, however, service price inflation stood at 3.9 % according to preliminary figures. This increase is likely to be related to higher prices for flights and package holidays around Easter. The increase in service prices in February 2025, for example, was broad-based: It ranged from pas-

senger transport to catering services and rents, net of heating and other additional costs. ↘ CHART 21

60. Compared to the previous month, energy prices rose sharply in January 2025. The rise in crude oil prices around the turn of the year ↘ ITEM 22 and the increase in electricity prices since the end of October 2024 ↘ TABLE 2 played a key role in this. However, **energy price inflation** weakened between February and April 2025. Energy prices are likely to fall slightly over the remainder of the forecast period. ↘ TABLE 2 In contrast to services, price pressure for goods is also likely to decline over the course of 2025. This is mainly due to producer prices for non-energy goods, which did not increase significantly in the second half of 2024. In addition, goods from China are likely to be increasingly redirected to Europe as a result of the tariff conflict with the USA. This is likely to further dampen price pressure on goods prices in Germany.

In contrast, price pressure is expected to **continue** from **services**. In particular, unit labour costs have risen further in 2024. The passing on of these higher costs is likely to cause further price pressure in 2025. In addition, the decomposition of the GDP deflator shows that compensation of employees continues to make the largest contribution to inflation and that its share in overall inflation barely declined in the second half of 2024. ↘ CHART 21 Inflation is expected to average 2.1 % in 2025. In 2026, inflation is likely to be slightly lower at 2.0 %. Core inflation is likely to be 2.6 % in 2025 and 2.3 % in 2026. The GDP deflator is likely to rise by 2.2 % in each case.

↘ CHART 21
Inflation in Germany



1 – Based on seasonally and calender-adjusted data. 2 – Forecast by the GCEE. 3 – Overall index excluding food and energy. 4 – Consumer price index, seasonally and calender-adjusted. 5 – Average over the period from 1999 to 2022. 6 – Increases in labour productivity have a negative impact on the GDP deflator. 7 – According to the domestic concept.

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, own calculations

3. Economic weakness is reflected in the labour market

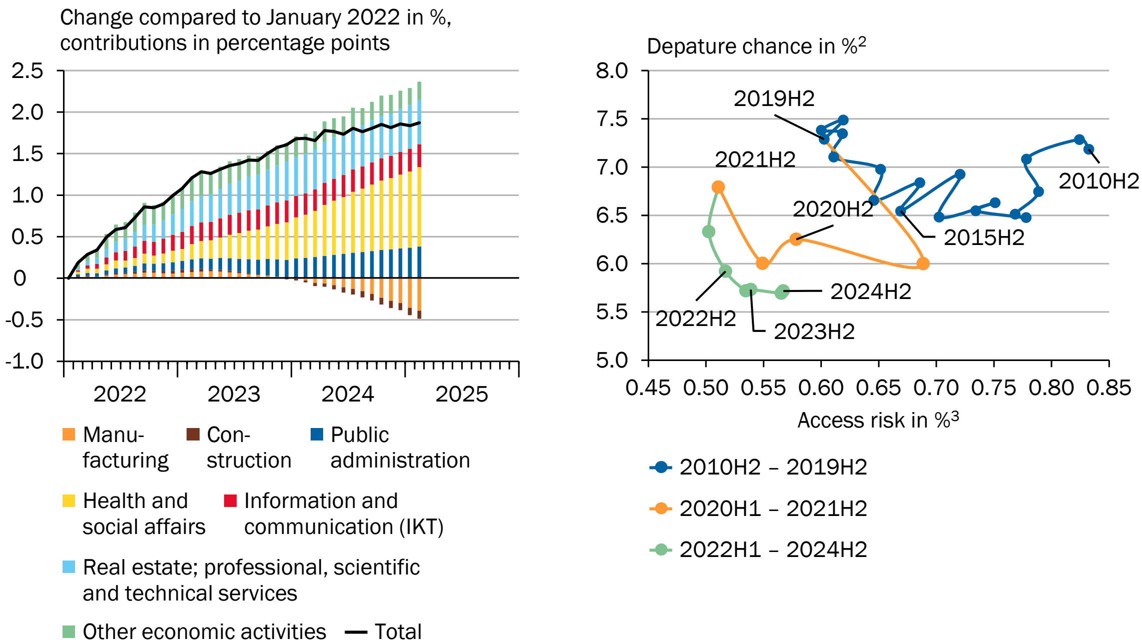
61. The unfavourable effects of the overall economy's weakness for the labour market are continuing. The **unemployment rate has continued to rise** and stood at a seasonally adjusted 6.3 % in April 2025. Seasonally adjusted employment has been declining slightly since the second quarter of 2024 and stagnated in the first quarter of 2025 compared to the previous quarter. Sectoral differences in the German labour market are particularly evident in employment subject to social insurance contributions. ↘ CHART 22 LEFT While it declines in the manufacturing sector, it continues to rise in the public administration, health and social services sectors in particular.

62. The **decline in employment subject to social insurance contributions in the manufacturing sector, which** has been **ongoing** since mid-2023, has accelerated significantly over the course of 2024. ↘ CHART 22 LEFT In addition, some companies have announced further job cuts. ↘ TABLE 10 APPENDIX However, extensive reduction programmes are usually spread over several years. The reduction in employment involved in such programmes is usually achieved by failing to fill

↘ CHART 22
Development of the labour market

Heterogeneous development in employment continues[1]

Recently low depature chance and increasing risk of unemployment



1 – Employees subject to social security contributions. Economic sectors according to the Classification of Economic Activities, edition 2008 (WZ 2008). 2 – Departure chance describes the chance of ending unemployment: it relates the number of people leaving unemployment due to taking up employment on the primary labour market (including in-company or external training) to the number of unemployed people in the previous month. 3 – Access risk describes the risk of becoming unemployed in the next month; it relates the number of people who were previously employed and subject to social insurance contributions in the primary labour market (including apprentices) to the number of people in employment in the previous month.

Sources: Federal Employment Agency, own calculations vacancies caused by natural fluctuation and retirement. Accordingly, transitions to unemployment in the manufacturing sector in 2024 increased significantly compared to the previous year at around 11 %, but moderately compared to the decline in employment. Companies' reluctance to hire is reflected in a significant decline in the number of vacancies (BA, 2025; Gürtzgen et al., 2025). A similar trend can also be seen in the number of people entering and leaving unemployment. ↘ CHART 22 RIGHT While the risk of entering unemployment decreased before the coronavirus pandemic began (blue line), there has been a decline in the chances of leaving unemployment in the past three years (green line).

63. Key **employment indicators**, such as the ifo Employment Barometer and the employment component of the IAB Labour Market Barometer, continue to **paint a pessimistic picture of future employment trends**. The number of people in employment is likely to fall slightly in 2025 and increase only slightly by 0.1 % in 2026. ↘ TABLE 4 The increasing risk of entering unemployment and the low chances of leaving unemployment suggest a further increase in unemployment in 2025. ↘ CHART 22 RIGHT The unemployment rate is therefore likely to reach 6.2 % in 2025. It is expected to fall to 6.1 % in 2026 as the overall economy recovers.

↘ TABLE 4
Labour market in Germany

	2023	2024	2025[1]	2026[1]	2025[1]	2026[1]
	Annual value				Change on previous year	
	1,000 persons				%	
Labour force[2]	47,136	47,391	47,426	47,401	0.1	– 0.1
Unemployed persons[3]	1,335	1,513	1,595	1,551	5.4	– 2.8
Employed persons[4]	46,011	46,082	46,050	46,076	– 0.1	0.1
Employees subject to social security contributions	34,790	34,932	34,972	35,042	0.1	0.2
Exclusively marginally employed[5]	4,198	4,180	4,111	4,070	– 1.7	– 1.0
Registered unemployed persons	2,609	2,787	2,926	2,872	5.0	– 1.8
Underemployment excluding short-time work[6]	3,448	3,577	3,710	3,641	3.7	– 1.8
Short-time work (Employment equivalence)	74	89	112	94	26.3	– 16.2
	Yearly averages in %				Percentage points	
Unemployment rate (FEA)[7]	5.7	6.0	6.2	6.1	0.2	– 0.1
Unemployment rate (ILO)[8]	3.0	3.4	3.5	3.4	0.1	– 0.1
	Change on previous year in %					
Collectively agreed wages (hourly concept)	3.7	4.8	2.6	2.5	.	.
Effective wages[9]	6.6	5.5	2.8	2.7	.	.

1 – Forecast by the GCEE. 2 – Unemployed and employed persons in their working age with residence in Germany (national concept); as defined by the national accounts systems. 3 – According to the measuring concept of the International Labour Organization (ILO). 4 – Employed persons in Germany independent of their residence (domestic concept). 5 – Employed workers with a monthly wage up to 556 euro (520 euro until 2023, 538 euro for 2024; § 8 Absatz 1 Nr. 1 SGB IV). 6 – According to the concept of underemployment by the FEA. 7 – Registered unemployed persons in relation to civilian labour force. 8 – Unemployed persons in relation to the civilian labour force, in each case persons in private households aged from 15 to 74 years. 9 – Gross wages and salaries (domestic concept) per employees' hour worked.

Sources: Federal Employment Agency (FEA), Federal Statistical Office, own calculations

64. The persistently weak overall economy is having a dampening effect on wage growth. **Effective wages** are expected to rise by 2.8 % in 2025 and 2.7 % in 2026. ↘ TABLE 4 Due to the slowdown in inflation, there will probably be a **slight increase in real wages** in both years.

4. Turning point in public finances

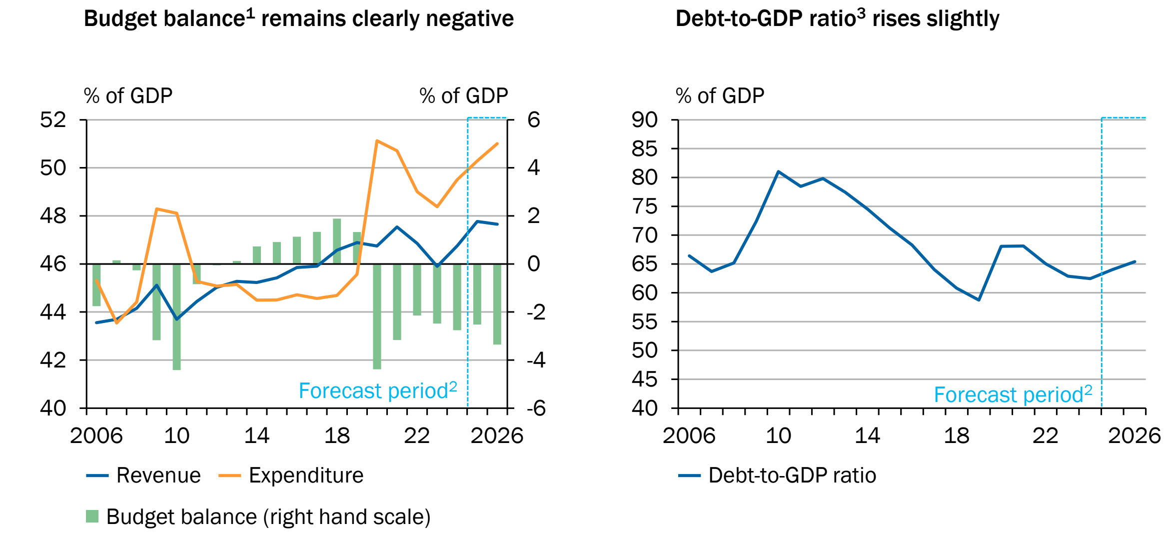
65. There is **less uncertainty** about the direction of fiscal policy in Germany **following the signing of the new Federal Government's coalition agreement**. Following the failure of the traffic light coalition in autumn 2024, **provisional budget management** applied to the 2025 federal budget. This is likely to have led to a **slightly restrictive** orientation of the federal government's **fiscal policy** at the beginning of 2025. The increases in social insurance contribution rates also have a restrictive effect. For example, the contribution rate for social long-term care insurance was raised by 0.4 percentage points at the beginning of 2025. At the same time, additional contributions for statutory health insurance will increase by an average of 0.8 percentage points.

66. The new Federal Government is expected to pursue an **increasingly expansive fiscal policy from mid-2025 onwards**. In March 2025, two parties from the old Federal Government and the previous opposition agreed on an **amendment to the Basic Law** that will allow the federal and state governments to take on significantly more debt than before. ↘ BACKGROUND INFO 1 The forecast assumes that the resulting **stimulus** will amount to **around 20 billion euros in 2026**, which will affect government consumption and public investment in equipment and buildings.

67. Government revenue is likely to grow faster than nominal GDP in 2025. ↘ CHART 23 LEFT In particular, **revenue from wage taxes and social insurance contributions** is likely to increase more strongly than gross wages and salaries as a result of **progression-related additional tax revenue** and adjustments of contribution rate. This will likely contribute to a **higher revenue ratio**. The expiry of the tax-free salary component (inflation compensation premium) will also likely increase government revenue. However, adjustments of collective wage agreements to the forecast inflation rates will likely have a dampening effect. In 2026, government revenue will likely increase roughly in line with gross domestic product. It is assumed that there will also be increases in contribution rates for statutory health insurance and social long-term care insurance in 2026. Profit-related taxes, on the other hand, are likely to show little momentum in 2025 and 2026, partly because the nominal reduction in the tax base will likely be reflected in revenues. Overall, the GCEE expects public **revenue to increase by 4.4 % and 3.0 % in nominal terms in 2025 and 2026 respectively**. ↘ CHART 23 LEFT

68. The increase in government spending is likely to continue in 2025 and 2026. ↘ CHART 23 LEFT It is true that the **provisional budget management will likely** interrupt the increase in government spending **in the first half of 2025**. The new Federal Government is expected to return to a more expansive course in the second half of the year. **Government intermediate consumption** and **pu-**

↘ CHART 23
Development of public finances



1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

blic investment are likely to increase from mid-2025 and in 2026 as a result of an **increase in military procurement**. **Public gross fixed capital formation in construction will** also **likely expand more strongly** due to the expansionary **effects of the March 2025 fiscal package**. ↘ ITEMS 114 FF. Overall, government spending will likely increase by 3.7 % in nominal terms in 2025 and 4.7 % in 2026.

69. The **general government budget deficit** in 2025 and 2026 is therefore likely to be –2.5 % and –3.4 % of GDP respectively. ↘ CHART 23 LEFT The **debt-to-GDP ratio** is expected to be 64.0 % of GDP at the end of 2025 and 65.4 % of GDP at the end of 2026. ↘ CHART 23 RIGHT

5. Opportunities and risks: private consumption and fiscal policy

70. **Private consumption** is likely to grow only moderately in the forecast period. ↘ ITEM 49 Additional positive impulse for private consumption could result from rising real wages since 2023. There is also a chance that economic policy uncertainty will decrease faster than expected once the new government takes office, which could stimulate private consumption more strongly (Coibion et al., 2024).

71. The **funds from the special fund for infrastructure could flow out faster** than assumed in the forecast. ↘ ITEMS 114 FF. If these funds are spent efficiently, the price effects could be lower and the real growth effects higher than assumed in the forecast. However, if demand increases unexpectedly quickly and strongly and exceeds production capacity, the higher outflow of funds could lead to **upward pressure on producer and consumer prices**. Inflation expectations in

Germany could also increase, meaning that interest rates could even rise again from summer 2025, thereby dampening the economic recovery. Furthermore, the 30 % depreciation rule for all capital goods agreed as part of the coalition agreement could boost private investment in machinery and equipment more strongly than assumed in the forecast over the remainder of the forecast period. In addition, the reduction of the electricity tax to the European minimum level could relieve the burden on industrial companies and thus additionally increase their willingness to invest.

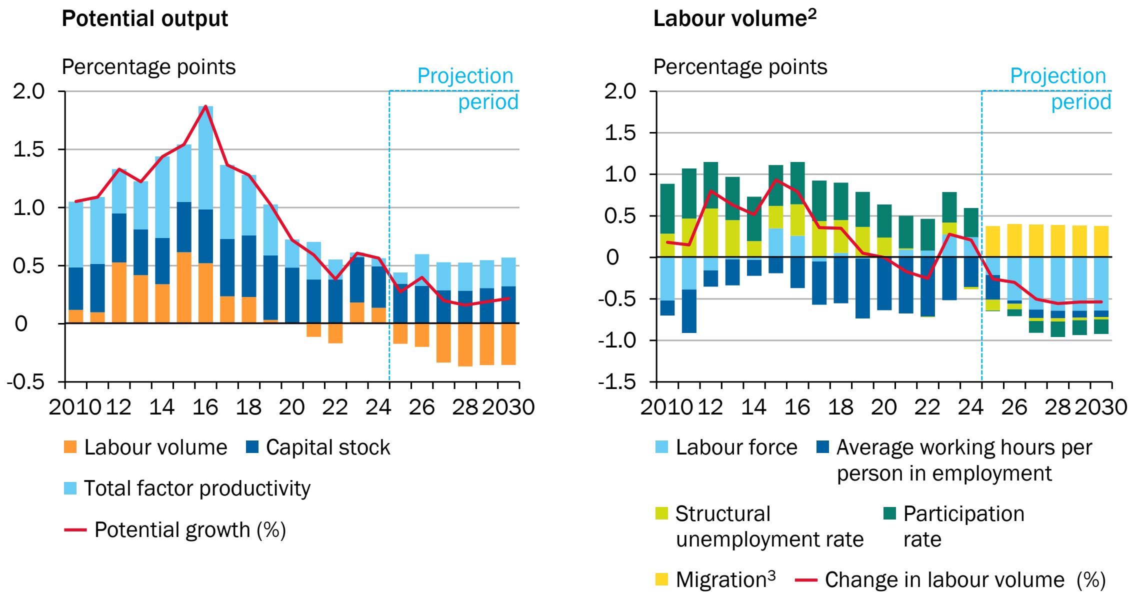
72. A **prolonged trade war between the US and the EU** could have a **severe impact on the German export industry, particularly the automotive industry**. A persistently high level of trade policy uncertainty could further burden the manufacturing industry in Germany and could reduce both investment in machinery and equipment and exports of goods. ↘ BOX 5 Overall, this could significantly worsen the already subdued outlook for German exports in 2026 and dampen the slight growth forecast in the following year. However, there could be an **opportunity** to **strengthen trade relations with China** and thus increase **trade in goods with China**. Consumer price inflation could then fall faster than assumed in the forecast period due to cheaper goods from China (Boysen-Hogrefe et al., 2025; Gemeinschaftsdiagnose, 2025).

6. Declining immigration weighs on Medium-term potential output

73. The GCEE estimates **growth in potential output** in **2025 and 2026 at 0.3 % and 0.4 % per year, respectively**. In the following years up to 2030, it is likely to be 0.2 % per year. ↘ CHART 24 Capital input is expected to make contributions to growth of 0.3 percentage points per year over the projection period. The contributions to growth from total factor productivity (TFP) are expected to be 0.1 and 0.3 percentage points in 2025 and 2026, respectively, and 0.2 percentage points per year in the remaining projection period up to 2030. From 2025 onwards, the **labour factor** is likely to **increasingly slow down the growth of potential output**. In 2025 and 2026, labour is expected to make negative contributions to growth of –0.2 percentage points each year. This decline will continue in the remaining projection period until 2030, reaching –0.3 percentage points in 2027 and –0.4 percentage points per year from 2028 onwards. In addition to **demographic ageing, declining net immigration** is also contributing to this. The GCEE assumes a net immigration of 325,000 people in 2025, which is around 122,000 people less than was projected in the 2024 GCEE Annual Report.

74. **Additional investment** as a result of the **fiscal package** ↘ BACKGROUND INFO 1 adopted by the Bundestag in March 2025 could increase the capital stock and thus potential output in the coming decades to a greater extent than currently projected. **However**, the **effect is likely to remain limited if dampening factors** such as the declining volume of labour and the low rate of TFP growth **persist**. However, the additional investment could strengthen innovation and be reflected in higher TFP growth rates (Tervala and Watson, 2022).

↘ CHART 24
Growth contributions of components to potential output and labour volume[1]



1 – Calculations by the GCEE. 2 – The output elasticity of labour is 0.66. 3 – Explicitly modelled from 2025; included in labour force until 2024.

Sources: Federal Statistical Office, own calculations

APPENDIX

↘ TABLE 5

Gross domestic product and consumer prices in the euro area

Country/ country group	Weight in %[1]	Gross domestic product (calendar-adjusted)[2]			Consumer prices (HICP)[3]		
		Change on previous year in %					
		2024	2025[4]	2026[4]	2024	2025[4]	2026[4]
Euro area[5]	**100**	**0.8**	**1.1**	**1.1**	**2.4**	**2.2**	**1.9**
including:							
Germany	28.4	– 0.2	0.1	0.7	2.5	2.4	2.0
France	19.3	1.1	0.6	0.9	2.3	1.1	1.7
Italy	14.5	0.5	0.6	0.7	1.1	2.0	1.8
Spain	10.5	3.2	2.2	1.6	2.9	2.5	2.0
Netherlands	7.5	1.0	1.2	1.1	3.2	2.9	2.3
Belgium	4.1	1.0	1.0	1.0	4.3	2.8	1.9
Ireland	3.5	1.2	8.5	2.4	1.3	2.0	1.8
Austria	3.2	– 1.3	0.2	1.1	2.9	3.4	2.2
Portugal	1.9	1.9	2.6	1.6	2.7	2.0	1.9
Finland	1.8	– 0.2	1.2	1.5	1.0	1.7	1.8
Greece	1.6	2.3	2.3	1.6	3.0	2.7	1.7
memorandum:							
Euro area without Germany	**71.6**	**1.2**	**1.5**	**1.2**	**2.3**	**2.1**	**1.9**

1 – GDP in the year 2024 as a percentage of the GDP of the euro area. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Harmonised Index of Consumer Prices. 4 – Forecast by the German Council of Economic Experts. 5 – Weighted average of the 20 euro area member states.

Sources: Eurostat, own calculations

↘ TABLE 6

Components of the forecast for GDP growth[1] (in %)

	2020	2021	2022	2023	2024	2025[2]	2026[2]
Statistical overhang at the end of the previous year[3]	0.1	2.6	1.1	– 0.1	– 0.2	– 0.2	0.1
Growth rate over the course of the year[4]	– 2.0	2.1	0.2	– 0.2	– 0.2	0.4	1.0
Annual rate of change of GDP, calendar adjusted	– 4.5	3.6	1.4	– 0.1	– 0.2	0.1	0.7
Calendar effect (in percentage points)	0.4	0.0	– 0.1	– 0.2	0.0	– 0.1	0.3
Annual rate of change of GDP[5]	– 4.1	3.7	1.4	– 0.3	– 0.2	0.0	1.0

1 – Price adjusted. 2 – Forecast by the GCEE. 3 – Percentage difference between the level of GDP in the last quarter of year t and the average level of quarterly GDP in the total year t, seasonally and calendar adjusted. 4 – Percentage change of the fourth quarter on the fourth quarter of the previous year, seasonally and calendar adjusted. 5 – Deviations in sums due to rounding.

Sources: Federal Statistical Office, own calculations

↘ TABLE 7

Contributions to growth of gross domestic product by expenditure components[1]
Percentage points

	2020	2021	2022	2023	2024	2025[2]	2026[2]
Domestic demand	**– 3.1**	**2.8**	**2.7**	**– 0.4**	**0.3**	**1.7**	**1.6**
Final consumption expenditure	– 2.6	1.9	2.8	– 0.2	0.9	0.7	0.9
Private consumption[3]	– 3.6	1.2	2.8	– 0.2	0.1	0.2	0.4
Government consumption	1.0	0.8	0.0	0.0	0.8	0.5	0.5
Gross fixed capital formation	– 0.6	0.1	0.0	– 0.3	– 0.6	0.1	0.7
Investment in machinery & equipment[4]	– 0.8	0.2	0.3	– 0.1	– 0.4	– 0.1	0.3
Construction investment	0.4	– 0.4	– 0.4	– 0.4	– 0.4	0.0	0.3
Other products	– 0.2	0.3	0.1	0.2	0.2	0.1	0.1
Changes in inventories	0.1	0.7	– 0.1	0.1	0.0	1.0	0.0
Net exports	**– 1.0**	**0.9**	**– 1.3**	**0.1**	**– 0.6**	**– 1.8**	**– 0.6**
Exports of goods and services	– 4.0	3.9	1.3	– 0.1	– 0.5	– 1.2	0.3
Imports of goods and services	3.0	– 3.0	– 2.6	0.3	– 0.1	– 0.6	– 0.9
Gross domestic product (%)	**– 4.1**	**3.7**	**1.4**	**– 0.3**	**– 0.2**	**0.0**	**1.0**

1 – Contributions to growth of price-adjusted GDP. Deviations in sums due to rounding. 2 – Forecast by the GCEE.
3 – Including non-profit institutions serving households. 4 – Including military weapon systems.

Sources: Federal Statistical Office, own calculations

↘ CHART 25

Components of German GDP[1]

1 – All components of GDP reported price-adjusted. 2 – Not seasonally and calendar-adjusted. 3 – Including military weapon systems. 4 – Including non-profit institutions serving households. 5 – Reference year 2020, seasonally and calendar-adjusted. 6 – Current forecast period. Forecasts by the GCEE.

Sources: Federal Statistical Office, own calculations

↘ TABLE 8

Key figures of the national accounts
Absolute values

	Unit	2024	2025[1]	2026[1]	2025[1]		2026[1]	
					1. half-year	2. half-year	1. half-year	2. half-year
Use of domestic product								
at current prices								
Final consumption expenditure	billion euro	3,233.1	3,321.8	3,431.3	1,619.4	1,702.4	1,669.8	1,761.5
Private consumption[2]	billion euro	2,271.8	2,326.1	2,388.5	1,134.4	1,191.8	1,162.8	1,225.7
Government consumption	billion euro	961.3	995.7	1,042.7	485.1	510.6	506.9	535.8
Gross fixed capital formation	billion euro	898.0	923.8	984.0	444.4	479.4	469.7	514.3
Investment in machinery & equipment[3]	billion euro	264.8	267.7	285.8	126.1	141.5	133.3	152.5
Construction investment	billion euro	464.7	479.8	511.6	233.8	246.0	247.1	264.5
Other products	billion euro	168.4	176.3	186.6	84.4	91.9	89.3	97.3
Domestic demand	billion euro	4,139.3	4,309.1	4,475.6	2,108.9	2,200.1	2,181.1	2,294.6
Exports of goods and services	billion euro	1,812.5	1,794.8	1,829.8	892.0	902.8	900.9	928.9
Imports of goods and services	billion euro	1,646.5	1,706.3	1,767.5	834.8	871.5	858.0	909.5
Gross domestic product	**billion euro**	**4,305.3**	**4,397.5**	**4,538.0**	**2,166.1**	**2,231.4**	**2,224.0**	**2,314.0**
Chained volumes								
Final consumption expenditure	billion euro	2,708.9	2,733.0	2,764.6	1,346.6	1,386.4	1,359.9	1,404.7
Private consumption[2]	billion euro	1,886.7	1,894.2	1,907.7	930.4	963.9	935.5	972.2
Government consumption	billion euro	822.8	839.6	858.1	416.8	422.9	425.2	433.0
Gross fixed capital formation	billion euro	711.1	712.9	736.7	344.8	368.1	353.7	383.1
Investment in machinery & equipment[3]	billion euro	226.0	224.1	234.0	105.9	118.2	109.4	124.5
Construction investment	billion euro	335.1	335.9	345.6	165.0	171.0	168.3	177.3
Other products	billion euro	153.1	156.2	160.9	75.0	81.1	77.3	83.6
Domestic demand	billion euro	3,454.6	3,517.1	3,573.5	1,732.4	1,784.7	1,754.4	1,819.1
Exports of goods and services	billion euro	1,509.5	1,466.8	1,476.4	730.9	735.9	729.5	746.9
Imports of goods and services	billion euro	1,354.5	1,374.8	1,405.5	674.6	700.1	685.8	719.8
Gross domestic product	**billion euro**	**3,606.9**	**3,605.9**	**3,640.9**	**1,787.2**	**1,818.7**	**1,796.5**	**1,844.4**
Price Development (deflators)								
Final consumption expenditure	2020=100	119.4	121.6	124.1	120.3	122.8	122.8	125.4
Private consumption[2]	2020=100	120.4	122.8	125.2	121.9	123.6	124.3	126.1
Government consumption	2020=100	116.8	118.6	121.5	116.4	120.8	119.2	123.7
Gross fixed capital formation	2020=100	126.3	129.6	133.6	128.9	130.3	132.8	134.3
Investment in machinery & equipment[3]	2020=100	117.2	119.4	122.2	119.1	119.8	121.8	122.5
Construction investment	2020=100	138.7	142.8	148.0	141.7	143.9	146.8	149.2
Other products	2020=100	110.0	112.9	116.0	112.5	113.2	115.6	116.3
Domestic demand	2020=100	119.8	122.5	125.3	121.7	123.3	124.3	126.1
Terms of Trade	2020=100	98.8	98.6	98.6	98.6	98.6	98.7	98.4
Exports of goods and services	2020=100	120.1	122.4	123.9	122.0	122.7	123.5	124.4
Imports of goods and services	2020=100	121.6	124.1	125.8	123.7	124.5	125.1	126.4
Gross domestic product	**2020=100**	**119.4**	**122.0**	**124.6**	**121.2**	**122.7**	**123.8**	**125.5**
Production of domestic product								
Employed persons (domestic)	1,000	46,082	46,050	46,076	45,931	46,169	45,940	46,212
Labour volume	million hours	61,372	61,218	61,192	30,218	31,000	29,991	31,201
Labour productivity (per hour)	2020=100	100.6	100.8	101.9	101.4	100.5	102.7	101.2
Distribution of net national income								
Net national income	billion euro	3,184.3	3,214.2	3,320.1	1,566.0	1,648.3	1,607.3	1,712.8
Compensation of employees	billion euro	2,353.8	2,434.5	2,513.7	1,169.9	1,264.5	1,206.3	1,307.4
Gross wages and salaries	billion euro	1,951.3	2,007.2	2,068.6	962.8	1,044.4	991.6	1,077.0
among them: net wages and salaries[4]	billion euro	1,362.8	1,383.4	1,429.7	658.5	724.9	680.3	749.4
Property and entrepreneurial income	billion euro	830.6	779.7	806.4	396.0	383.7	401.0	405.4
Disposable income of private households[2]	billion euro	2,506.3	2,559.1	2,624.2	1,270.4	1,288.7	1,300.8	1,323.4
Savings rate of private households[2,5]	%	11.4	11.1	11.0	12.6	9.6	12.5	9.4
For information purposes:								
Nominal unit labour costs[6]	2020=100	117.1	120.7	123.0	117.2	124.1	119.5	126.3
Real unit labour costs[7]	2020=100	98.1	99.0	98.7	96.7	101.1	96.6	100.7
Consumer prices	2020=100	119.3	121.9	124.2	121.3	122.5	123.7	124.9

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 5 – Savings relative to disposable income. 6 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 7 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

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

↘ TABLE 8 CONTINUED

Key figures of the national accounts
Change on the previous year in %

2024	2025[1]	2026[1]	2025[1] 1. half-year	2025[1] 2. half-year	2026[1] 1. half-year	2026[1] 2. half-year	
							Use of domestic product
							at current prices
3.9	2.7	3.3	2.7	2.8	3.1	3.5	Final consumption expenditure
3.0	2.4	2.7	2.2	2.6	2.5	2.9	Private consumption[2]
6.2	3.6	4.7	4.1	3.1	4.5	4.9	Government consumption
-0.2	2.9	6.5	1.1	4.5	5.7	7.3	Gross fixed capital formation
-3.9	1.1	6.8	-1.9	3.9	5.7	7.7	Investment in machinery & equipment[3]
-0.3	3.3	6.6	1.7	4.8	5.7	7.5	Construction investment
6.6	4.7	5.8	4.4	4.9	5.8	5.9	Other products
3.0	4.1	3.9	4.7	3.6	3.4	4.3	Domestic demand
-0.2	-1.0	2.0	-2.5	0.5	1.0	2.9	Exports of goods and services
-0.1	3.6	3.6	3.9	3.4	2.8	4.4	Imports of goods and services
2.9	**2.1**	**3.2**	**1.9**	**2.4**	**2.7**	**3.7**	**Gross domestic product**
							Chained volumes
1.2	0.9	1.2	1.0	0.8	1.0	1.3	Final consumption expenditure
0.3	0.4	0.7	0.2	0.6	0.5	0.9	Private consumption[2]
3.5	2.0	2.2	2.9	1.2	2.0	2.4	Government consumption
-2.7	0.3	3.3	-1.3	1.7	2.6	4.1	Gross fixed capital formation
-5.5	-0.9	4.4	-3.6	1.7	3.4	5.3	Investment in machinery & equipment[3]
-3.3	0.3	2.9	-1.0	1.5	2.0	3.7	Construction investment
3.9	2.0	3.0	1.7	2.4	3.0	3.1	Other products
0.3	1.8	1.6	2.2	1.4	1.3	1.9	Domestic demand
-1.1	-2.8	0.7	-4.5	-1.2	-0.2	1.5	Exports of goods and services
0.2	1.5	2.2	1.5	1.5	1.6	2.8	Imports of goods and services
-0.2	**0.0**	**1.0**	**-0.4**	**0.3**	**0.5**	**1.4**	**Gross domestic product**
							Price Development (deflators)
2.7	1.8	2.1	1.7	2.0	2.1	**2.1**	Final consumption expenditure
2.7	2.0	2.0	2.0	2.0	2.0	2.0	Private consumption[2]
2.6	1.5	2.5	1.1	1.9	2.4	2.5	Government consumption
2.6	2.6	3.1	2.4	2.8	3.0	3.1	Gross fixed capital formation
1.7	1.9	2.3	1.7	2.2	2.3	2.3	Investment in machinery & equipment[3]
3.0	3.0	3.6	2.8	3.2	3.6	3.7	Construction investment
2.6	2.6	2.7	2.7	2.5	2.7	2.7	Other products
2.7	2.3	2.2	2.4	2.2	2.1	2.3	Domestic demand
1.3	-0.2	0.0	-0.2	-0.2	0.1	-0.1	Terms of Trade
0.9	1.9	1.3	2.1	1.7	1.2	1.4	Exports of goods and services
-0.3	2.1	1.3	2.3	1.9	1.1	1.5	Imports of goods and services
3.1	**2.2**	**2.2**	**2.3**	**2.1**	**2.1**	**2.3**	**Gross domestic product**
							Production of domestic product
0.2	-0.1	0.1	-0.1	0.0	0.0	0.1	Employed persons (domestic)
-0.1	-0.2	0.0	0.1	-0.6	-0.8	0.6	Labour volume
-0.1	0.2	1.0	-0.5	0.9	1.3	0.8	Labour productivity (per hour)
							Distribution of net national income
1.6	0.9	3.3	0.9	1.0	2.6	3.9	Net national income
5.6	3.4	3.3	3.7	3.1	3.1	3.4	Compensation of employees
5.7	2.9	3.1	3.2	2.6	3.0	3.1	Gross wages and salaries
5.9	1.5	3.4	1.8	1.2	3.3	3.4	among them: net wages and salaries[4]
-8.1	-6.1	3.4	-6.7	-5.5	1.3	5.7	Property and entrepreneurial income
4.2	2.1	2.5	2.6	1.6	2.4	2.7	Disposable income of private households[2]
.	.	.	.	.	.	.	Savings rate of private households[2,5]
							For information purposes:
5.5	3.1	1.9	3.7	2.4	2.0	1.8	Nominal unit labour costs[6]
2.3	0.9	-0.3	1.4	0.4	-0.1	-0.5	Real unit labour costs[7]
2.2	2.1	2.0	2.2	2.1	2.0	2.0	Consumer prices

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 5 – Savings relative to disposable income. 6 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 7 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

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

↘ TABLE 9

General government revenues and expenditures and selected fiscal indicators[1]

	Billion euro			Change on previous year in %	
	2024	2025[2]	2026[2]	2025[2]	2026[2]
Total revenues	**2,012.9**	**2,100.6**	**2,162.5**	**4.4**	**2.9**
Taxes	994.8	1,022.3	1,042.6	2.8	2.0
Net social contributions	755.2	806.1	839.8	6.7	4.2
Sales	179.5	185.2	192.8	3.2	4.1
Other current transfers	31.3	33.8	34.2	7.8	1.1
Capital transfers	18.2	18.8	18.7	3.2	– 0.4
Property income	33.6	34.2	34.2	1.7	0.0
Other subsidies on production	0.2	0.2	0.2	0.0	0.0
Total expenditures	**2,131.6**	**2,211.3**	**2,314.8**	**3.7**	**4.7**
Social benefits other than social transf. in kind	703.2	736.0	757.7	4.7	2.9
Social benefits in kind	391.0	406.3	419.5	3.9	3.2
Compensation of employees	355.8	369.1	382.3	3.7	3.6
Intermediate consumption	283.0	292.5	318.3	3.3	8.8
Subsidies payable	54.4	54.3	54.1	– 0.2	– 0.4
Gross capital formation	124.8	131.3	147.7	5.2	12.5
Other current transfers	90.2	94.2	102.1	4.4	8.4
Capital transfers	83.7	78.4	80.1	– 6.3	2.2
Property income	45.4	49.4	53.1	8.7	7.6
Other taxes on production	0.3	0.3	0.3	– 0.4	– 1.1
Acquisitions less disposals of non-prod. assets	– 0.4	– 0.4	– 0.4	0.0	0.0
Budget balance	**– 118.8**	**– 110.8**	**– 152.3**	**x**	**x**
Fiscal indices (%)[3]			0.0		
Tax ratio[4]	23.5	23.6	23.3	x	x
Tax and contribution ratio[5]	39.9	40.8	40.7	x	x
Budget balance	– 2.8	– 2.5	– 3.4	x	x
Structural budget balance[6]	– 2.0	– 1.6	– 2.8	x	x
Structural primary balance[6]	– 1.0	– 0.5	– 1.6	x	x
Debt-to-GDP ratio[7]	62.5	64.0	65.4	x	x

1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – In relation to GDP. 4 – Taxes including inheritance tax and taxes entitled to the EU. 5 – Taxes including inheritance tax and taxes entitled to the EU, and actual social contributions. 6 – Based on the estimate for potential output. Calculated with a budget semielasticity of 0.504. The budget semielasticity measures by how many percentage points the relationship between budget balance and GDP changes in the event of a 1 % increase in GDP. 7 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

↘ TABLE 10

Announced job reduction programmes[1]

Employer	Industry	Scope	Period	Date of the announcement
VW	Automotive industry	35,000	by the end of 2030	Dec 2024
Deutsche Bahn	Transport/Logistics	30,000	by the end of 2029	Jul 2024
ZF	Supplier automotive industry	11,000 – 14,000	by the end of 2028	Jul 2024
ThyssenKrupp	Steel production	11,000	by the end of 2030	Nov 2024
Deutsche Post	Logistics	8,000	by the end of 2025	Mar 2025
Audi	Automotive industry	7,500	by the end of 2029	Mar 2025
Bosch	Supplier automotive industry	7,000	by the end of 2032	Jan 2025
DB Cargo	Transport/Logistics	5,000	by the end of 2029	Dec 2024
Commerzbank	Banking	3,300	by the end of 2028	Feb 2025
Ford	Automotive industry	2,900	by 2027	Nov 2024
Siemens	Conglomerate	2,850	by the end of 2027	Mar 2025
Schaeffler	Automotive industry/machinery	2,800	by 2027	Nov 2024
Goodyear	Supplier automotive industry	2,200 – 2,300	by the end of 2027	Nov 2023
Deutsche Bank	Banking	2,000	by the end of 2025	Mar 2025
Vodafone	Communication technology	2,000	by the end of 2026	Mar 2024
Porsche	Automotive industry	1,900	by the end of 2029	Feb 2024
ThyssenKrupp Automotive Body Solutions	Supplier automotive industry	1,800 (worldwide)		Mar 2025
Cariad	Supplier automotive industry	1,600	by the end of 2025	Mar 2025
Evonik	Chemistry	1,500	by 2026	Mar 2024
Michelin	Supplier automotive industry	1,500	by the end of 2025	Nov 2023
Continental	Supplier automotive industry	1,450	by the end of 2026	Feb 2025
Infineon	Chip manufacturer	1,300		Aug 2024
Miele	Household appliances	1,300	by the end of 2027	Jun 2024
Baywa	Trade	1,300	by the end of 2027	Dec 2024
Brose	Supplier automotive industry	700	by the end of 2025	Dec 2024
DPD	Logistics	700	by the end of 2025	Oct 2024
SMA Solar	Solar manufacturer	700	by the end of 2025	Nov 2024
Airbus	Aerospace technology	700	by mid-2026	Dec 2024
Phoenix Contact	Electrical engineering	600	by the end of 2026	Mar 2025
Adidas	Sportswear	500		Mar 2025
Coca-Cola	Beverages	500	by the end of 2025	Oct 2024
Lear Corporation	Supplier automotive industry	500	by mid-2025	Mar 2025

1 – Selected announcements with job cuts of at least 500 employees in Germany.

Sources: Deutsche Verkehrs-Zeitung, Merkur.de, Spiegel Online, Süddeutsche Zeitung, Tagesschau, Westfalen-Blatt

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