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HIGH ENERGY PRICES WEIGH ON THE CYCLICAL RECOVERY

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KEY MESSAGES

↘ Energy prices have risen sharply as a result of the war in Iran. The increase weighs on the cyclical recovery in Germany and leads to a significant rise in consumer prices.

↘ GDP growth in Germany will be driven largely by rising public expenditures during the forecast period.

↘ The GCEE expects Germany's real GDP to grow by 0.5 % in 2026 and 0.8 % in 2027. Consumer price inflation is expected to rise by an annual average of 3.0 % and 2.8 % respectively.

EXECUTIVE SUMMARY

With the outbreak of the Iran war on 28 February 2026, the economic environment for the global economy has deteriorated. The significant negative energy supply shock has led to a sharp rise in energy prices since March 2026. This is likely to cause consumer price inflation to rise significantly. According to current expectations on the futures markets, the price of crude oil is expected to fall again, but remain elevated over the forecast period. Global trade is expected to grow only modestly in 2026. The GCEE expects growth of global gross domestic product (GDP) to slow to 2.3 % in both 2026 and 2027. Global consumer prices are expected to rise by 3.5 % and 2.8 % in 2026 and 2027 respectively.

The energy supply shock is dampening the economic recovery in the euro area. Against this backdrop, consumer confidence deteriorated significantly in March and April 2026. Added to this is the continued volatility of US trade policy. Although the effective tariff rate on European Union exports of goods to the US has fallen slightly following the US Supreme Court ruling, trade policy uncertainty remains high. GDP in the euro area is expected to grow by 0.7 % in 2026 and 1.0 % in 2027. Consumer prices are forecast to rise by 3.0 % in 2026 and 2.6 % in 2027.

High energy prices weigh on the cyclical recovery in Germany. GDP growth is expected to accelerate only slightly this year compared with the previous year. The sharp rise in energy prices will significantly dampen growth in private household consumption expenditures over the forecast period compared with 2025. Private investment in machinery and equipment is expected to fall again in 2026 compared with the previous year, whilst private residential construction investment is expected to expand slightly. Infrastructure and defence expenditure under the fiscal package is expected to boost GDP growth noticeably over the forecast period. In addition, government consumption is expected to expand strongly. The GCEE expects German GDP to grow by 0.5 % in 2026 and 0.8 % in 2027. Consumer prices are expected to rise by 3.0 % in 2026 and 2.8 % in 2027.

I. SUMMARY

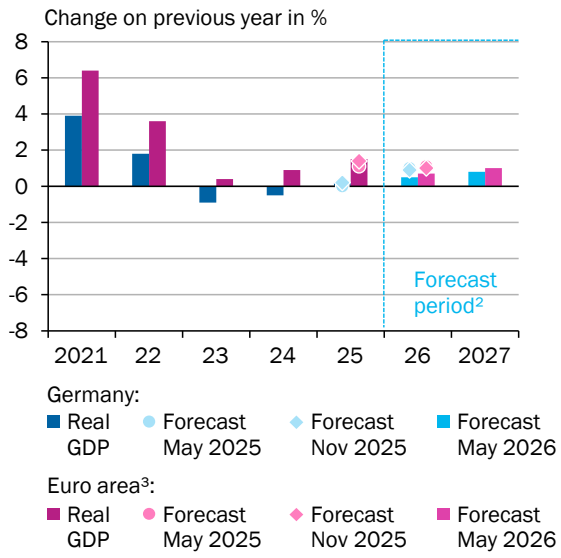
1. The GCEE forecasts a **real increase in Germany's gross domestic product (GDP) of 0.5 % in 2026**. ↘ CHART 1 This puts the growth forecast 0.4 percentage points below the forecast in the GCEE Annual Report 2025. GDP growth of **0.8 %** is projected for **2027**. Inflation is expected to average 3.0 % in 2026, which is 0.9 percentage points higher than forecast in autumn 2025. An inflation rate of 2.8 % is expected in 2027. Core inflation is expected to be 2.3 % in 2026 and 2.9 % in 2027.

2. The **German economy** remains in a **period of weakness**. Industrial production fell again in 2025 compared to 2024. Furthermore, production in the services sector declined in the second half-year of 2025. However, it recovered in January, at least in the short term. Capacity utilisation in the manufacturing sector and in building construction is below capacity. Due to the Iran war, shipping traffic in the Strait of Hormuz has largely ground to a halt. As a result, prices for fossil fuels and other products such as wheat and fertilisers have risen sharply. ↘ ITEMS 19 F. This is having a dampening effect on GDP growth over the forecast period. Nevertheless, GDP growth in 2026 and 2027 is expected to increase compared to 2025. This is due in particular to the expected **rise in government expenditures** under the fiscal package adopted in March 2025. ↘ CHART 2 ↘ ITEM 45 Furthermore, leading indicators in residential construction are pointing slightly upwards. ↘ ITEM 53

↘ CHART1

Economic outlook for Germany and Europe

GDP[1] in Germany and the euro area



Key economic indicators (in %)

	2025	2026[2]	2027[2]
Germany			
GDP growth[1]	0.2	0.5	0.8
Inflation rate	2.2	3.0	2.8
Unemployment rate[4]	6.3	6.4	6.2
Wage growth[5]	4.5	3.5	3.4
Budget balance[6]	– 2.7	– 3.7	– 4.3
Euro area			
GDP growth[1,3]	1.5	0.7	1.0
Inflation rate[7]	2.1	3.0	2.6
Global economy[8]			
GDP growth[1,3]	2.7	2.3	2.3
Inflation rate	3.0	3.5	2.8

1 – Constant prices. 2 – Forecast by the GCEE. 3 – Values are based on seasonal and calendar-adjusted quarterly figures. May 2025 and November 2025 forecasts without Bulgaria. 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. 8 – Aggregation according to the weights in Table 1.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations

3. **Global GDP is expected to grow at a slower rate over the forecast period than the long-term average for the years 2016 to 2025.** ↘ ITEM 17 The de facto blockade of the Strait of Hormuz has caused energy prices to rise sharply. Over the forecast period, this is likely to increase global consumer price inflation and weaken the global economy. ↘ ITEMS 10 AND 19 The European Central Bank (ECB) is likely to respond to rising inflation with a more restrictive monetary policy, which would worsen financing conditions in the euro area. ↘ ITEM 28 The protectionist US trade policy is likely to further slow down global trade in goods and dampen global output growth. ↘ ITEM 13 For the global economy, the GCEE forecasts GDP growth rates of 2.3 % in both 2026 and 2027, indicating a slowdown in the global economy.

4. The sharp **rise in energy prices** following the war in Iran is weighing heavily on economic development in Germany. Rising costs for fossil fuels and intermediate inputs are driving up firms' production costs. This further reduces industrial production, which is already in decline, and hampers private investment activity. At the same time, the slowdown in the global economy is weighing on the German export sector. Sentiment among German firms has deteriorated significantly. The ifo Business Climate Index fell in April 2026 to its lowest level since May 2020 (ifo Institute, 2026a). The GCEE assumes that higher domestic energy prices will increasingly be passed on to consumers over the forecast period, causing the inflation rate to rise and real household incomes to increase only slightly. This is likely to weaken real private consumption.

5. The **German export sector** has **lost competitiveness** in recent years. This is clearly evident in the weak exports of goods to countries outside the European Union (EU). ↘ ITEM 56 On the one hand, German exports have become more

↘ CHART 2
Determining factors for the forecast

	Current situation	Forecast period	Risks
Energy prices	Energy prices rise sharply following the Iran war	Higher energy prices significantly raise inflation and dampen global GDP growth	Supply constraints stronger; inflation higher than expected
Foreign trade	US trade policy remains uncertain after the Supreme Court ruling; German exports remain weak	Uncertainty remains elevated; exports stagnate in 2026	Further escalation of US protectionist trade policy
Fiscal policy	Defence spending increases	Public infrastructure investment and defence spending increase	Infrastructure investment prices rise more strongly than expected

Source: own representation

expensive as a result of US trade policy. On the other hand, the euro has appreciated significantly against the US dollar since the beginning of 2025. ↘ ITEM 29 German exports of goods to the US fell by 8.9 % in nominal terms in 2025 compared to the previous year. ↘ ITEM 56 Declines were recorded primarily in exports of motor vehicles and machinery. Furthermore, industrial products from China pose significant competition for German goods on international markets due to their comparatively low prices. ↘ ITEM 42 Nominal German exports of goods to China have been declining since 2023.

6. The **additional government expenditure** under the fiscal package is likely **to provide decisive support for German GDP growth** over the forecast period. ↘ ITEM 45 This primarily comprises public investment in defence and infrastructure. Furthermore, government consumption is expected to expand strongly. Due to high government expenditure, the fiscal deficit and the government debt-to-GDP ratio are likely to rise over the forecast period. After reaching 3.7 % of GDP in 2026, the fiscal deficit is expected to amount to 4.3 % of GDP in 2027. The debt-to-GDP ratio is expected to rise to 65.4 % of GDP in 2026 and to 67.5 % of GDP in 2027. However, factors dampening potential growth, in particular the decline in the volume of work, cannot be offset by additional public spending. ↘ ITEM 76

7. In this forecast it is assumed that the price of crude oil will develop over the forecast period in line with the forward prices prevailing as at the cut-off date of 1 May 2026. ↘ BOX 4 However, given the upheavals in the Gulf region, the supply of crude oil and liquefied natural gas could be significantly constrained over a prolonged period, and the price of crude oil could remain above current futures prices for longer. The **forecast** is therefore **subject** to **considerable risks**. To account for this high level of forecast uncertainty, a supplementary scenario for German GDP and inflation is considered, which reflects an alternative development in the crude oil price. ↘ BOX 7 In this risk scenario, it is assumed that the crude oil price rises to 120 US dollars per barrel in May 2026 and remains at this level until October 2026. It is also assumed that the crude oil price will fall again from November 2026 and dip below the 100 US dollars per barrel mark in the second quarter of 2027. The GCEE estimates that, in this scenario, GDP is likely to grow by 0.2 % in 2026 and by 0.5 % in 2027. Consumer price inflation is then expected to stand at 3.5 % in 2026 and 3.2 % in 2027.

II. GLOBAL ECONOMY

8. Despite the protectionist and erratic US trade policy, the global **economy proved** to be **largely resilient** in 2025. Global real GDP grew by 2.7 % year-on-year, which was roughly the same rate as in 2024. Global consumer price inflation stood at 3.0 % in 2025. Global trade in goods expanded by 4.2 %, significantly more than in previous years. This increase was primarily attributable to imports into the US and other advanced economies ↘ GLOSSARY due to front-loading effects in the first quarter of 2025. ↘ ITEM 12

   Since March 2026, the war in Iran **has been causing significant disruptions in global energy markets**, which are increasingly weighing on the world economy. ↘ ITEM 10 The global shortage of fossil fuels due to the de facto blockade of the Strait of Hormuz is likely to increase production costs and consumer prices. ↘ BACKGROUND INFO 1 Higher energy prices had already translated into higher consumer prices worldwide by March 2026 and are likely to drive up prices further in the coming months. Over the forecast period, this is likely to dampen private household consumption expenditures in particular, and thus the overall economy. ↘ BOX 1 Financial markets expect central banks, particularly the ECB, to respond with interest rate hikes. ↘ ITEM 28 This is likely to worsen financing conditions in the euro area. Furthermore, US import tariffs are likely to continue to dampen global trade in goods. Although the Supreme Court ruling has declared a large proportion of the import tariffs imposed by US President Donald Trump to be unlawful. ↘ BACKGROUND INFO 2 The average tariff burden on US imports, however, remains higher than in 2024. Overall, these factors are likely to dampen global trade in goods and global real GDP growth. Global real GDP is expected to rise by 2.3 % in both 2026 and 2027. Global consumer price inflation is expected to be 3.5 % in 2026 and 2.8 % in 2027.

1. Rising energy prices are holding back the global economy

9. The global economy grew strongly in 2025 despite the protectionist stance of US trade policy. Following weak output growth in the first quarter of 2025, real GDP rose by 0.8 % in the previous quarter of 2025 and then by 0.8 % in both the second and third quarters of 2025. Output growth was thus **slightly above the average of 0.7 % for the years 2016 to 2025**. ↘ CHART 4 LEFT The US economy contributed significantly to this outcome, expanding at above-average growth rates in the second and third quarters of 2025. Following the dampening effects of high trade policy uncertainty in spring 2025, the normalisation of private household consumption expenditures in the US contributed significantly to this development. The slowdown in the global economy in the fourth quarter of 2025 is linked, among other things, to the negative impact of the US government shutdown on US real GDP growth. ↘ BOX 2

Global output growth was also driven by GDP growth in China and other emerging markets ↘ GLOSSARY. ↘ CHART 4 LEFT China's contributions to growth in 2025 are attributable in particular to the expansion of final consumption expenditures and the positive contribution of net exports. Furthermore, other emerging market economies, particularly India, provided supportive impetus for the global economy.

↘ BACKGROUND INFO 1

The importance of the Strait of Hormuz to the global economy

The Strait of Hormuz is one of the key maritime chokepoints for global trade. For the states of the Gulf region, it represents the most important export route for energy resources. In 2024, around 20 % of global oil and petroleum product consumption, as well as approximately 20 % of globally traded liquefied natural gas, passed through the Strait of Hormuz (EIA, 2026). The majority of these energy shipments are destined for Asia, particularly China, India and the Republic of Korea, whilst Europe and the US import only small quantities directly (EIA, 2025; Grimm et al., 2026). Bangladesh, India and Pakistan in particular are vulnerable to disruptions to shipping traffic in the Strait of Hormuz due to their high import share of liquefied natural gas from the Gulf region (EIA, 2026). The options for bypassing the Strait of Hormuz are limited and, in the form of pipelines, exist only for oil (EIA, 2026; Grimm et al., 2026). In addition to energy sources, around a third of the world's fertiliser shipments, the production of which requires vast amounts of gas, are transported through the Strait of Hormuz (Grimm et al., 2026; UNCTAD, 2026). Furthermore, more than 70 % of exported hydrocarbon derivatives, which are often used as precursors in the petrochemical industry, and around 30 % of traded noble gases (excluding argon), which are used in semiconductor manufacturing and laser technology, among other applications, pass through this route (IfW Kiel, 2026).

10. The outbreak of the Iran War and the de facto blockade of the Strait of Hormuz led to a sharp rise in energy prices. ↘ BACKGROUND INFO 1 Around 20 % of global oil and petroleum consumption, as well as around 20 % of the world's supply of liquefied natural gas, is shipped through the Strait of Hormuz. The shortage of crude oil and natural gas expected in the coming months is likely to dampen the global economy, particularly in 2026. Calculations by the GCEE show that a negative oil supply shock, which increases the price of crude oil by 60 % as in March 2026, leads to a decline in global industrial production of around 3 % after six months and a decline of around 5 % after 24 months. ↘ BOX 1 Furthermore, an unexpected tightening of global oil supply weighs on private household consumption expenditures because it raises consumer prices and thus reduces the real disposable income of private households. According to the GCEE's calculations, consumer confidence and real retail turnover in OECD countries are likely to fall by around 2 % after twelve months in response to the oil supply shock.

↘ BOX 1

SVR Analysis: Transmission of oil supply shocks to the real economy

An unexpected shortage of globally traded crude oil volumes and an immediate rise in the price of crude oil constitute a supply shock. The de facto blockade of the Strait of Hormuz since March 2026 is likely to lead to a shortage of globally available crude oil in the coming months, which was already signalled by a rise in the price of crude oil at the beginning of March. A higher crude oil price, caused by a lower volume of available crude oil, leads to a rise in inflation and a dampening of activity in the overall economy.

The empirical literature identifies several key transmission channels through which an oil supply shock affects the real economy. Firstly, there is a direct cost channel. Rising crude oil prices increase the cost of intermediate inputs for the production of goods and raise firms' marginal costs, particularly in energy-intensive sectors. This leads both to higher goods prices and to a reduction in production (Hamilton, 1983; Kilian, 2009). Secondly, private households are affected via the income channel. Higher energy prices reduce the real purchasing power of private households, as a larger proportion of disposable income must be spent on energy sources. This leads to a weakening of demand for other goods and thus weighs on domestic economic momentum. Thirdly, a sustained rise in oil prices increases inflation expectations (Anderl and Caporale, 2024) and heightens uncertainty regarding future cost developments. This has a dampening effect on company gross fixed capital formation (Elder and Serletis, 2010; Kilian and Vigfusson, 2011). At the same time, central banks typically respond to increased inflationary pressure with a more restrictive monetary policy, thereby further exacerbating the negative economic effects (Blanchard and Galí, 2007; Kilian and Lewis, 2011).

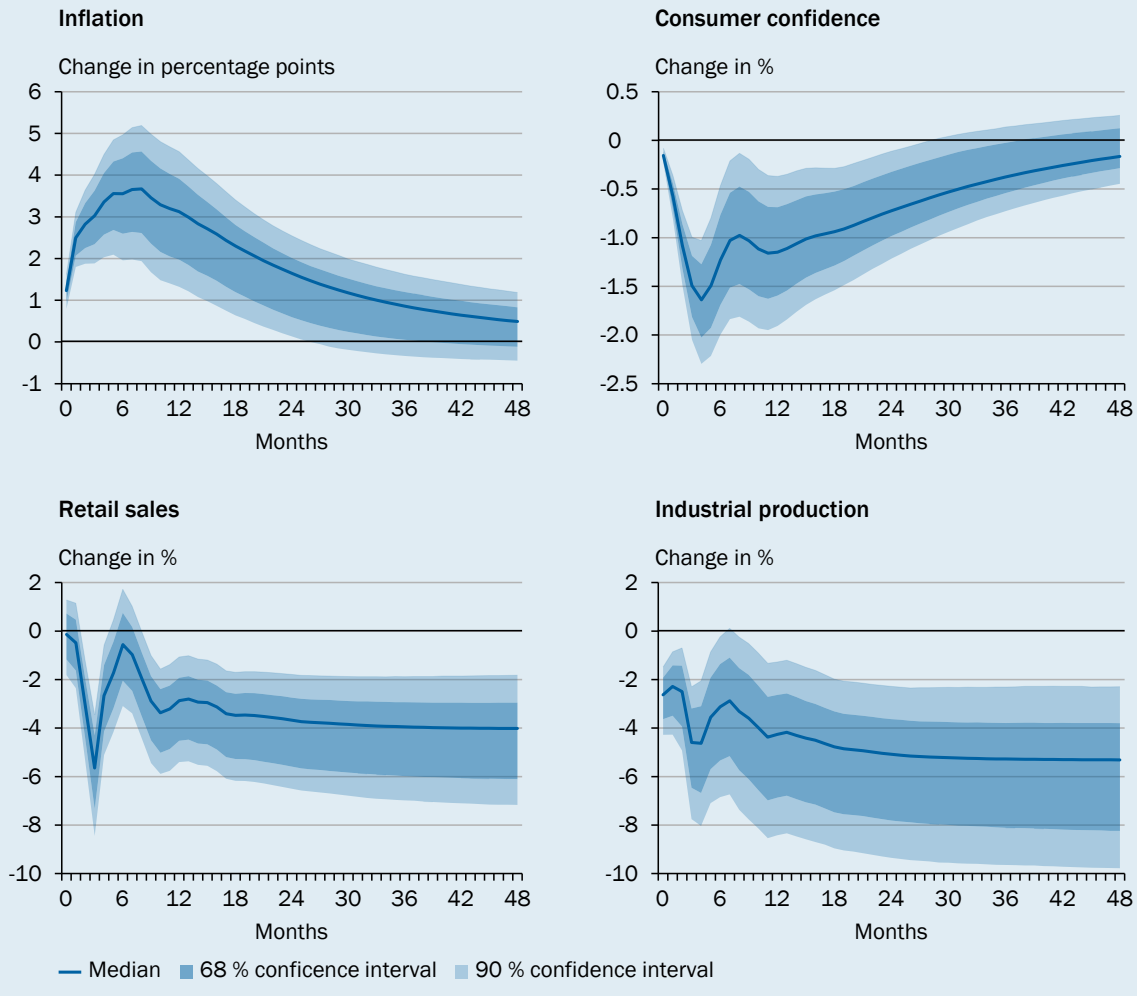
The GCEE has examined how key global macroeconomic variables react to an oil supply shock such as the one currently occurring. To this end, the models by Känzig (2021) and Forni et al. (2025) are used. Känzig (2021) constructs an econometric instrument that captures unexpected changes in crude oil futures prices around OPEC ↘ GLOSSARY announcements. This captures exogenous changes in expectations regarding future oil supply, which lead directly to a reaction in the crude oil price. Subsequently, anticipated oil supply shocks („oil supply news shocks") are identified using a structural vector autoregression (Proxy-SVAR) based on instrumental variables. These structural shocks are not attributable to current changes in production, but to new information regarding future supply developments. The results of Känzig (2021) show that news of a future shortage in oil supply leads immediately to rising oil prices, whilst actual global oil production only declines after a delay and crude oil inventories in OECD countries initially increase for precautionary reasons. In the US, these exogenous changes in expectations lead to stagflationary effects. Thus, US industrial production declines only after a delay, whilst consumer prices and inflation expectations in the US rise.

Using the model developed by Känzig (2021), the GCEE analyses how negative oil supply shocks (as in Forni et al., 2025) affect the global economy. An unexpected oil supply shock that increases the price of crude oil by around 60 %, as in March 2026, leads to an immediate decline in global industrial production of 3 % and a 5 % decline after 18 months. Real retail turnover and consumer confidence in OECD countries fall by 3 % and 1 % respectively after twelve months. Consumer price inflation in OECD countries rises immediately by around 1 percentage point, and the impulse response reaches a median increase of 3 percentage points after twelve months. ↘ CHART 3 The rise in consumer prices is primarily attributable to the increase in the energy price sub-index.

↘ CHART 3

Macroeconomic effects of an oil supply news shock on the global economy

Impulse response functions following a 60 % rise in the price of crude oil in response to an oil supply news shock[1]

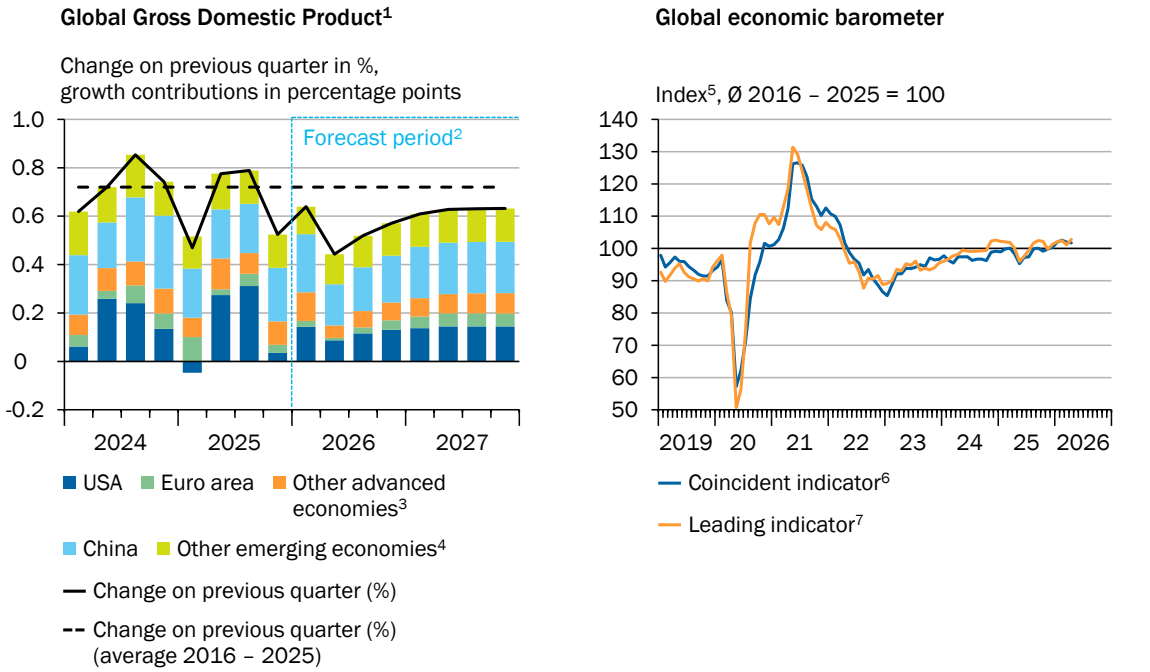


1 – The vector autoregression was estimated for the period from January 1974 to June 2025 using twelve lags and the following time series: nominal crude oil price (WTI spot price), global crude oil production, crude oil inventories in OECD countries, world industrial production, consumer confidence in OECD countries, retail sales in OECD countries and consumer price inflation in OECD countries. The time series on global industrial production covers industrial production in OECD countries, Brazil, China, India, Indonesia, Russia and South Africa. The time series was originally used in Baumeister and Hamilton (2019) and is continuously updated. All time series (except for the inflation rate) are included in the vector autoregression as logarithmic levels. The inflation rate is included in the vector autoregression as a percentage and as a year-on-year change. The econometric instrument used to identify the structural shock originates from Känzig (2021) and was most recently updated for the period from July 1983 to June 2025. The response of the nominal crude oil price (WTI) to the identified oil supply shock is normalised to a 60% increase. The results of the asymmetric oil supply shocks, which only trigger increases in the crude oil price, are based on the approach of Forni et al. (2025).

Sources: Baumeister und Hamilton (2019), EIA, Fed, Federal Statistical Office, Forni et al. (2025), IMF, Känzig (2021), LSEG Datastream, OECD, own calculations

11. At the beginning of 2026, **signs of** a **mildly expansionary trend in the global economy** began **to emerge**. The KOF Institute's global economic barometers – a system of indicators for the global economy comprising aggregated time series – recorded a slightly above-average expansionary phase between November 2025 and April 2026. ↘ CHART 4 RIGHT Since March 2026, however, the coincident indicator and the leading indicator have been moving in different directions. The coincident indicator most recently fell in April 2026 for the second consecutive time, whilst the leading indicator rose again following a slight decline in March 2026 (KOF, 2026). The coincident indicator thus suggests that the heightened geopolitical uncertainty arising from the war in Iran is likely to dampen global GDP in the second quarter of 2026. The leading indicator, which provides insight into the next six months, continues to signal a slightly upward trend in the global economy.

↘ CHART 4
Global economic activity



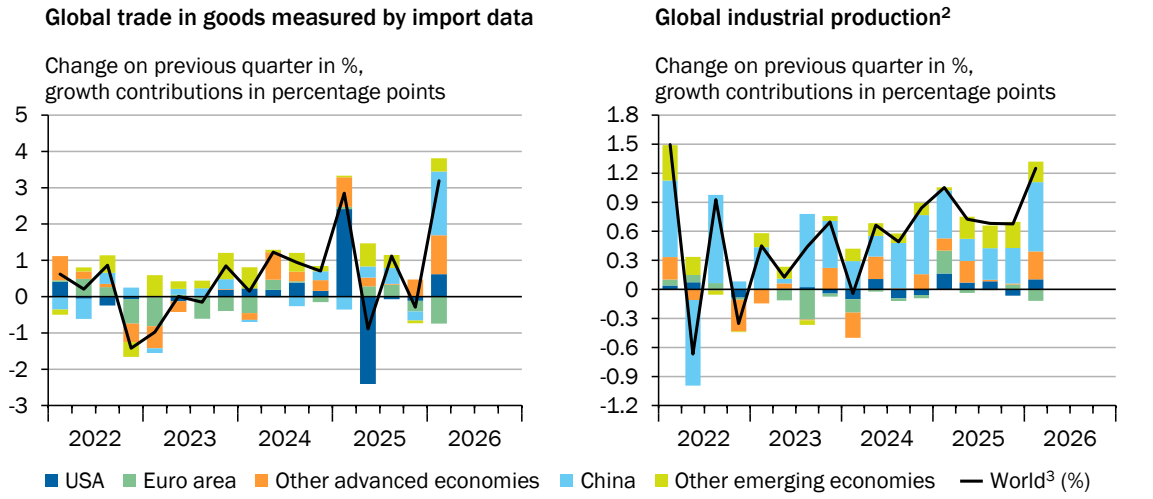
1 – Averages of seasonally adjusted quarterly values. Global GDP is approximated by the sum of the countries. 2 – Forecast by the GCEE. 3 – Australia, Canada, EU less euro area, Hong Kong, Japan, Norway, Republic of Korea, Switzerland, Singapore, Taiwan and United Kingdom. 4 – Argentina, Brasil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Philippines, Russia, Thailand and Turkey. 5 – Long-term mean equal to 100 and long-term standard deviation equal to 10. 6 – The coincident indicator reflects the current economic situation of the global economy and is based on the correlation and synchronisation of more than 1,000 time series from economic trend surveys with the respective GDP time series of over 50 countries. 7 – The leading indicator signals the development of the global economy in around six months' time and is based on the leading characteristics of more than 600 time series with the respective GDP time series of over 50 countries.

Sources: Abberger et al. (2022), Eurostat, IMF, KOF Institute, national statistical offices, OECD, own calculations

12. **Global trade in goods continued to grow strongly in 2025** despite higher US import tariffs. Overall, world trade rose significantly in 2025, up 4.2 % on the previous year. This increase was largely driven by higher imports in the US and other advanced economies in the spring of 2025. By the fourth quarter of 2025, a slowdown in world trade was already becoming apparent. On average for January and February 2026, world trade, as measured by the trend in global imports, rose nevertheless by 3.2 % compared with the fourth quarter of 2025. ↘ CHART 5 LEFT **Global industrial production** rose **strongly in 2025, up 3.2 % year-on-year**. Following a slowdown in the second and third quarters of 2025, the growth rate of industrial production accelerated globally in the fourth quarter of 2025, particularly in China and other emerging markets. On average for January and February 2026, global industrial production rose by 1.3 % compared with the previous quarter's average, growing even more strongly than in previous quarters. However, as a result of the war in Iran, global industrial production and world trade are likely to expand at a significantly weaker pace over the remainder of the forecast period than at the start of 2026. ↘ CHART 5 RIGHT

↘ CHART 5

Global trade in goods and world industrial production[1]



1 – Data and country definitions of the Dutch Centraal Planbureau (CPB). Country weights based on 2021 values. Change on previous quarter, price- and seasonally adjusted. Based on quarterly averages of monthly values. For 2026Q1: average of January and February. 2 – Excluding construction. Production-weighted. 3 – Includes the volume of goods trade in 81 countries and just under 96 % of global goods trade, and industrial production in 85 countries and around 96 % of global industrial production.

Sources: CPB, own calculations

↘ BOX 2

Focus: The major economies of the US and China

In 2025, the US economy grew by 2.1 % compared to the previous year in real terms. As a result, US real GDP grew at a slower rate in 2025 compared to 2023 (2.9 %) and 2024 (2.8 %). Following the front-loading and rebound effects resulting from US trade policy in the first half of 2025, private household consumption expenditures were the main contributor to the rise in real GDP growth from the second quarter of 2025 onwards. In the fourth quarter of 2025, the government shutdown led to a sharp decline in government final consumption expenditures. ↘ CHART 6 LEFT In terms of gross fixed capital formation, investment in artificial intelligence (AI), such as in data processing equipment, software and data centres, contributed an average of 1 percentage point to contributions to growth in US real GDP from the first to the third quarter of 2025 (Rubinton and Patro, 2026). On the expenditure side, private household consumption expenditures made the largest contributions to GDP growth. This is largely attributable to the trend in disposable income (FRED, 2026). Furthermore, wealth effects arising from high property and share prices are likely to play a significant role in the high levels of private household expenditures in the US (Oxford Economics, 2025). Consequently, the savings rate for private households has been falling slightly since 2024. On the production side, all major sectors of the private sector, but particularly services, contributed to real GDP growth in 2025. ↘ CHART 6 RIGHT Employment growth has slowed over the course of 2025. This is likely to be partly linked to the US government's changed immigration policy (Mongey, 2025). The unemployment rate stood at 4.3 % in March 2026, slightly higher than in the previous year.

In the first quarter of 2026, real GDP growth in the US rose by 0.5 % compared to the previous quarter, according to the flash estimate. Private household consumption expenditures, gross fixed capital formation and government consumption expenditures were the main contributors to this output growth. Over the remainder of the forecast period, economic growth in the US economy is likely to weaken. Whilst gross fixed capital formation linked to the AI boom is expected to continue to underpin the US economy, the outlook is now significantly shaped by the war in Iran. Higher energy prices are eroding the purchasing power of private households, increasing firms' production costs and intensifying inflationary pressures. Consequently, private household consumption expenditures in the US are likely to be particularly affected by the oil supply shock over the forecast period. Although the US economy's dependence on foreign crude oil supplies has declined since the late 2010s, its high dependence on world market prices remains, as crude oil is a globally traded commodity. Rising energy prices are likely to be passed on largely to end consumers. Overall, the GCEE expects US real GDP to rise by 1.9 % in both 2026 and 2027. Consumer price inflation is expected to be 3.6 % in 2026 and 2.9 % in 2027.

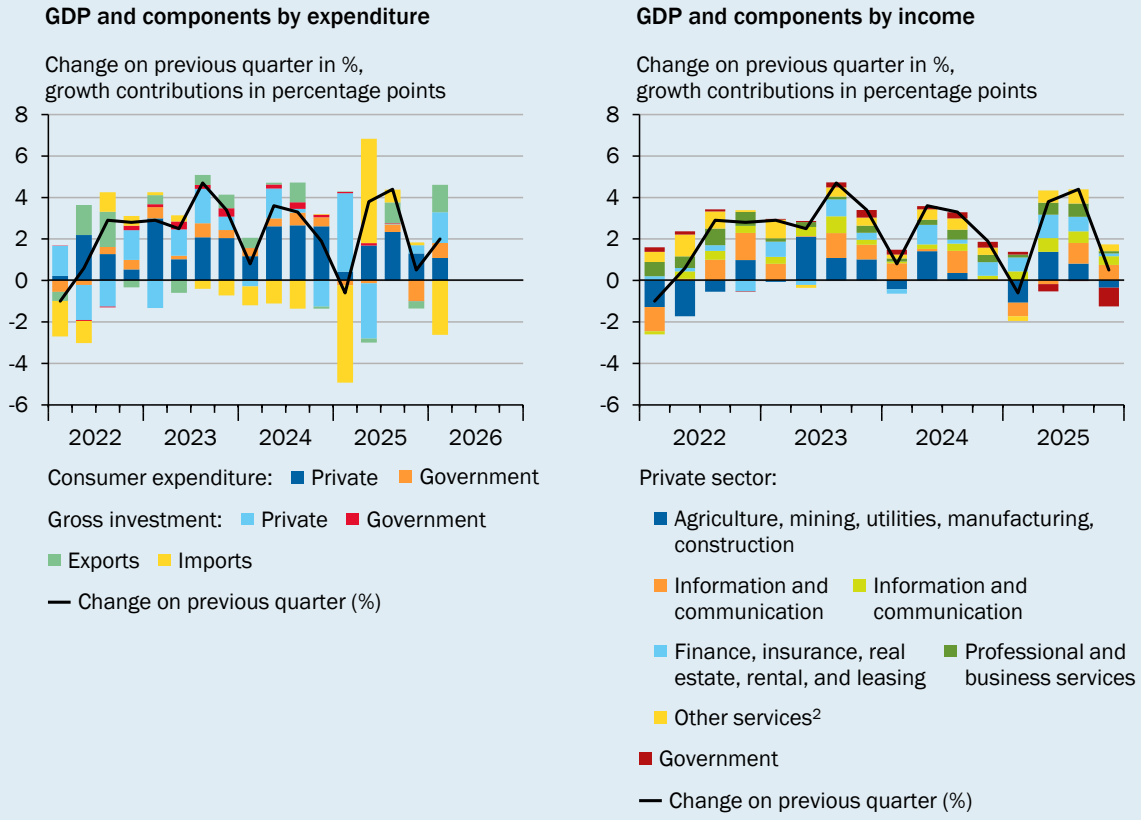
According to official figures, the Chinese economy grew by 5.0 % year-on-year in 2025. On the expenditure side, final consumption expenditures in particular contributed to GDP growth. Net exports and gross fixed capital formation also provided additional support. The rise in exports is primarily attributable to continued strong growth in exports to Asia and Europe, whilst exports to the US fell sharply. On the production side, industrial production growth rates slowed over the course of 2025.

In the first quarter of 2026, China's seasonally and price-adjusted GDP rose by 1.3 % compared to the previous quarter. Over the remainder of the forecast period, the economic outlook for the Chinese economy is somewhat more subdued than in previous years. Whilst output growth continues to be driven by exports and government support measures, domestic demand and, in particular, the property sector remain weak. The war in Iran represents a negative external supply shock. As a major net importer of crude oil, China is affected by rising energy prices, which are likely to increase production costs and dampen overall economic demand slightly. At the same time, the slowdown in the global economy is likely to have a negative impact on foreign demand for Chinese goods. However, this vulnerability is limited by a comparatively diver-

sified energy supply, strategic reserves and the Chinese economy's lower oil intensity compared to other economies. Overall, Chinese real GDP is expected to grow by 4.5 % in both 2026 and 2027. Consumer price inflation is expected to be 0.7 % in 2026 and 0.2 % in 2027.

↘ CHART 6

Breakdown of US GDP by expenditure and income[1]



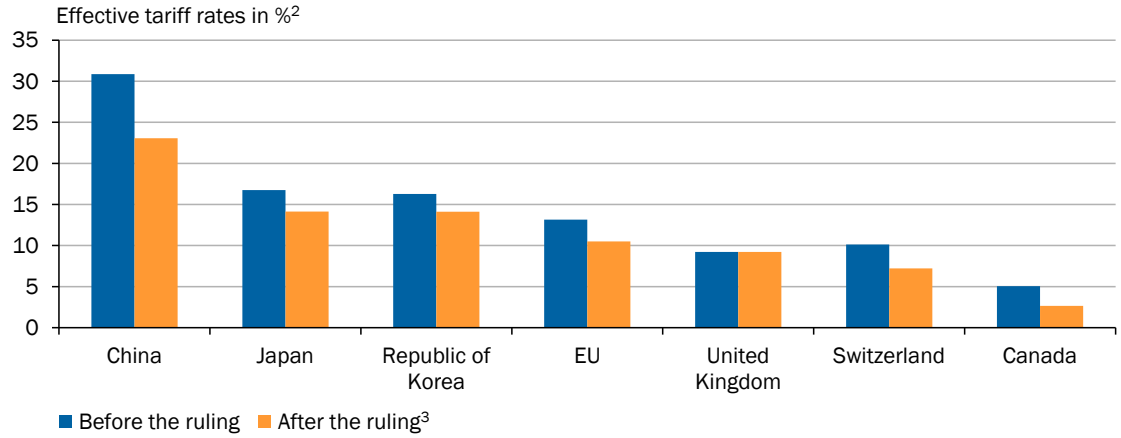
1 – Seasonally adjusted values. 2 – Including educational services; health care and social assistance; arts, entertainment, and recreation; accomodation and food services.

Sources: BEA, own calculations

13. At the end of February 2026, the **US Supreme Court ruled that** the **tariffs** imposed by US President Trump last year under the International Emergency Economic Powers Act (IEEPA) **were illegal**. However, product-specific tariffs, such as those on cars, steel and aluminium, remain in place. ↘ BACKGROUND INFO 2 In response to the court ruling, the US government has imposed a uniform tariff rate of 10 % on goods from all trading partners. Whilst the effective tariff rate for imports from the EU has fallen only slightly, imports from China, Switzerland or Canada into the US are now subject to significantly lower tariffs. ↘ CHART 7 Compared to autumn 2025 (GCEE Annual Report 2025 chart 6), however, tariffs on goods from China and Switzerland were already lower, as the US had negotiated agreements with both countries after the data cut-off date for the GCEE Annual Report 2025 (The White House, 2025a, 2025b).

↘ CHART 7

Impact of the SCOTUS ruling[1] on tariff rates for selected US trading partners



1 – SCOTUS-Supreme Court of the United States. 2 – As of 1 May 2026. The average effective tariff rate is calculated as the sum of the tariff rates for various product groups, weighted by their share of total import volume in 2024. As the calculation is based on import values from 2024, it does not take into account any substitution effects triggered by changes in tariffs. 3 – The tariffs on steel, aluminium and copper, which were adjusted at the beginning of April 2026, have not been taken into account in the calculations, as they relate in part to the metal content or geographical origin of the processed metals and cannot be estimated on the basis of the trade data used. Automotive tariffs threatened on 1 May have not been taken into account.

Sources: Fitch Ratings, Trade Map (International Trade Centre, www.trademap.org), United States International Trade Commission, own calculations

Uncertainty regarding US trade policy is likely to have increased once again as a result, although an indicator of trade policy uncertainty based on newspaper reports has so far not spiked (Caldara et al., 2020). On the one hand, the new 10 % tariff rate initially applies for only 150 days and is also being challenged in court (Clark, 2026). On the other hand, Trump had already threatened a higher tariff rate back in February 2026. An increase in trade policy uncertainty hampers company investment activity because firms postpone investment decisions and financing costs rise due to unclear business prospects (Caldara et al., 2020; Correa et al., 2023; GCEE Spring Report 2025 box 5)

↘ BACKGROUND INFO 2

Current state of US trade policy

Most of the US tariffs introduced in 2025 were ruled illegal by the Supreme Court in February 2026. Since February 2025, the US government has imposed various country-specific tariffs under the IEEPA. This Act allows the US President to regulate trade in goods in cases of an ‘unusual and extraordinary national emergency’ (e.g. in the event of foreign threats). However, the Supreme Court ruled that this authority does not extend to the imposition of tariffs. To circumvent the ruling, US President Trump, based on Section 122 of the Trade Act of 1974, imposed a base tariff of 10 % (coupled with the threat of an increase to 15 %) on almost all imports. This legal basis permits tariffs to combat balance of payments deficits, though their validity is limited to 150 days (until July 2026). Furthermore, the US government has launched new investigations to justify country-specific tariffs (e.g. against the EU or China) on the grounds of unfair trade practices or overcapacity. In the long term, this is intended to replace the IEEPA tariffs that have been abolished.

The tariffs on steel, aluminium and certain technology sectors (such as semiconductors) are not affected by the Supreme Court ruling. Their legal basis is Section 232 of the Trade Expansion Act of 1962, which explicitly provides for the protection of „national security“ as a justification.

14. **GDP growth in the euro area increased last year.** In 2025, GDP rose by 1.5 % (2024: 0.9 %). Whilst gross fixed capital formation grew strongly, having contracted in 2024, net exports made a negative contribution to GDP growth. In line with the stronger investment activity, industrial production recovered last year following a prolonged period of weakness. In the first two months of the current year, however, momentum in this sector lost steam despite positive sentiment indicators. According to Eurostat's flash estimate, GDP in the euro area rose by 0.1 % in the first quarter of 2026, adjusted for price, calendar and seasonal effects, and thus at a slightly slower pace than in the final quarter of 2025. Developments varied considerably across the major economies of the euro area. In Spain, the strong expansion continued, albeit at a slower pace, whereas economic momentum remained subdued in France and Italy. ↘ BOX 3

↘ BOX 3

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

The French economy has recently shown only modest output growth. In the fourth quarter of 2025, GDP rose by 0.2 % in the previous quarter, adjusted for price, seasonal and calendar effects. The annual average growth rate for 2025 was 0.9 %. In the final quarter, net exports made a positive contribution to growth, whilst domestic demand expanded only modestly and inventories declined. ↘ CHART 8 LEFT In the first quarter of 2026, economic output stagnated, with both private consumption and gross fixed capital formation declining. Leading indicators also point to only weak economic momentum for the second quarter of 2026. The INSEE business climate indicator stood at 94 points in April 2026, below its long-term average. The economy is, however, likely to be supported over the forecast period by the recently reached budget compromise. This provides for only limited consolidation. Accordingly, the public deficit is expected to amount to around 5 % of GDP in the current year, and thus be only slightly lower than in the previous year. Real GDP is expected to grow by 0.5 % and 0.8 % in the current and coming year respectively.

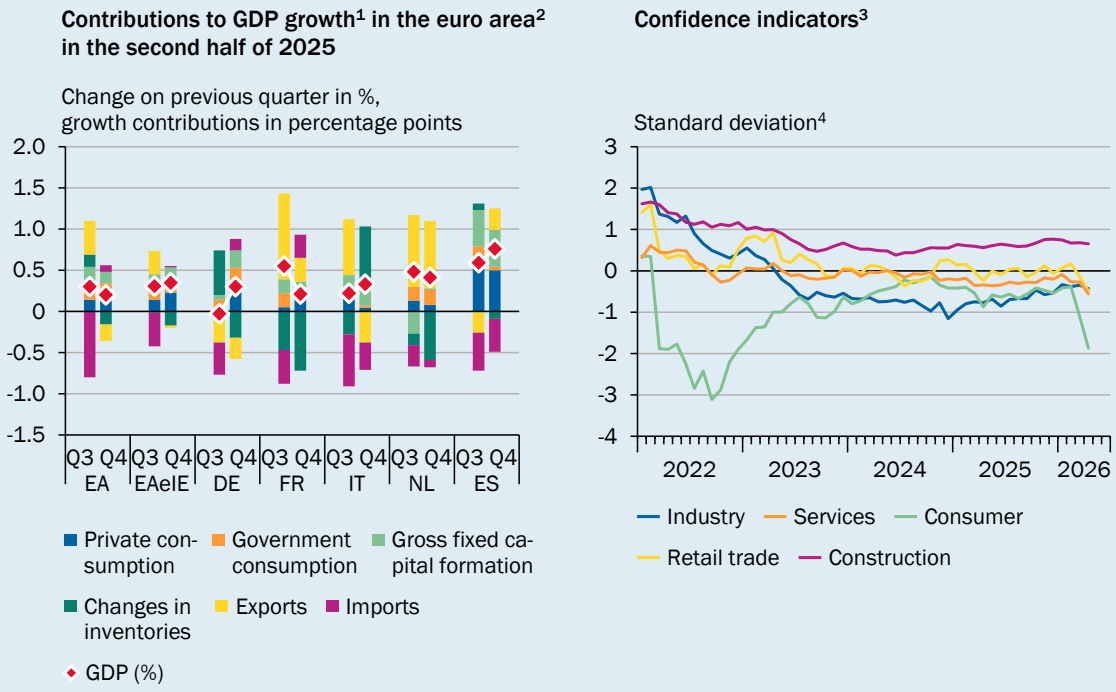
Macroeconomic momentum in Italy remains subdued, but has recently shown signs of a slight stabilisation. Annual average GDP growth for 2025 GDP stood at 0.7 %, slightly lower than in 2024. In the fourth quarter of 2025, seasonally and calendar-adjusted GDP rose by 0.3 % compared with the previous quarter. This expansion was primarily driven by domestic demand. ↘ CHART 8 LEFT Investment activity continued to develop dynamically, not least due to the use of EU funds from the Resilience and Recovery Facility (European Commission, 2025). By contrast, net exports remained subdued against the backdrop of a weak international environment. Looking ahead, private consumption is likely to be dampened by the rise in energy prices resulting from the oil supply shock. This is indicated by the sharp decline in consumer confidence in March and April 2026. Against this backdrop, the GCEE expects real GDP to grow by 0.5 % in both 2026 and 2027.

The Spanish economy continues to expand strongly. In 2025, annual average real GDP growth stood at 2.8 %. At the end of the year, GDP rose by 0.8 % in the previous quarter, real, seasonally and calendar-adjusted. Private consumption, in particular, is developing dynamically

against a backdrop of rising employment and strong growth in real disposable income. ↘ CHART 8 LEFT A significant contribution to this have been the high levels of immigration in recent years. According to estimates, since 2022 around half of overall output growth has been attributable to the expansion of the foreign labour force (Carrasco and Torres, 2026). By contrast, net exports contributed to dampening GDP growth, as imports rose significantly in the wake of strong domestic demand. According to the flash estimate, GDP rose by 0.6 % in the first quarter of 2026. The economic expansion is expected to slow in the coming months, although consumer confidence in Spain has not yet fallen as sharply as in other euro area countries, compared to non-euro area countries, despite rising energy prices. Real GDP is expected to grow by 2.2 % and 1.9 % in 2026 and 2027 respectively, thus continuing to show above-average output growth compared to other major economies in the euro area.

↘ CHART 8

Gross domestic product and leading indicators in the euro area



1 – Price-, seasonally and calendar-adjusted. 2 – EA-Euro area with 21 Member States, EAeIE-Euro area excluding Ireland, DE-Germany, FR-France, IT-Italy, NL-Netherlands, ES-Spain. 3 – Sectoral confidence indicators from the European Commission's Business and Consumer Survey. 4 – Standard deviation from the average for the period January 1999 to April 2026.

Sources: European Commission, Eurostat, own calculations

Macroeconomic performance of the overall economy in the Netherlands proved robust last year. Real GDP grew by an annual average of 1.8 % in 2025. In the fourth quarter of 2025, seasonally and calendar-adjusted GDP rose by 0.4 % compared to the previous quarter. Output growth was driven primarily by net exports and government consumption. ↘ CHART 8 LEFT Exports of goods rose significantly once again, whilst imports increased only slightly. The sharp rise in government spending is likely to be attributable in part to significant additional expenditure in the defence sector. By contrast, domestic private demand remained subdued. Although real incomes rose again, private consumption expanded only moderately, not least due to a continued high savings rate. In the first quarter of 2026, economic output rose only slightly (0.1 %), primarily due to stagnating private consumption. The sharp decline in consumer confidence up to and including April 2026 and the energy-price-related losses in purchasing power expected

over the forecast period point to continued subdued private consumption. Overall, therefore, a slowdown in economic momentum is to be expected. The GCEE forecasts real GDP growth of 0.9 % in 2026. In 2027, GDP growth is then expected to reach 1.2 %.

15. **In recent months, the European Commission has concluded negotiations on trade agreements with the Mercosur states, India and Australia** (European Commission, 2026a, 2026b, 2026c). Whilst the agreements with India and Australia still require ratification by the Member States and the European Parliament, the agreement with the Mercosur countries has been provisionally applied since 1 May 2026. However, the outcome of further pending approval processes is subject to uncertainty. In the case of India, the removal of tariffs and other trade barriers would in any case take place gradually over a transition period of up to 15 years (European Commission, 2026b). During the forecast period, therefore, the trade agreements with India and the Mercosur states are unlikely to have any significant impact on GDP growth or external trade in the euro area (Deutsche Bundesbank, 2026a). One reason for this is not least that trade between the EU and the countries concerned has so far been limited. For example, exports to India, the Mercosur countries and Australia accounted for just under 3 % of Germany's total exports in 2025 (Federal Statistical Office, 2026a).

16. **The economic recovery in the euro area has been disrupted by the energy supply shock.** ↘ ITEM10 According to the European Commission's survey-based indicator, consumer confidence deteriorated significantly in March and April 2026, reaching its lowest level since December 2022. ↘ CHART 8 RIGHT Furthermore, business sentiment in the trade and services sectors has deteriorated. However, the sharp rise in energy prices ↘ ITEM 27 in the wake of the Iran war, as well as uncertainty over US tariff policy, are dampening private consumption and company investment activity. On the other hand, the economy is likely to be supported by additional government spending, particularly in the defence sector in member states such as Germany and the Netherlands. Overall, fiscal policy is expected to be slightly. According to the IMF's forecast, the structural budget deficit in the euro area is expected to increase by 0.2 percentage points in both the current and coming year. The GCEE forecasts seasonally and calendar-adjusted annual average GDP growth rates of 0.8 % and 1.2 % for the euro area excluding Germany in the current and coming year respectively.

↘ 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 %					
		2025	2026[3]	2027[3]	2025	2026[3]	2027[3]
Europe	**29.2**	**1.6**	**1.0**	**1.3**	**4.6**	**4.9**	**4.0**
Euro area[4]	16.9	1.5	0.7	1.0	2.1	3.0	2.6
including: Germany	4.7	0.3	0.4	0.6	2.3	3.1	2.8
France	3.2	0.9	0.5	0.8	0.9	2.6	2.3
Italy	2.4	0.7	0.5	0.5	1.6	2.9	2.8
Spain	1.8	2.8	2.2	1.9	2.7	3.1	2.5
Netherlands	1.3	1.8	0.9	1.2	3.0	2.7	2.6
United Kingdom	3.8	1.4	0.9	1.1	3.4	3.1	2.6
Russia	2.4	0.9	1.2	1.0	8.7	6.5	6.0
Central and Eastern Europe[5]	2.0	2.4	2.1	2.3	4.0	4.4	3.2
Türkiye	1.5	3.6	2.9	3.2	34.9	35.2	26.1
Other countries[6]	2.5	1.7	1.6	1.5	1.6	1.7	1.7
America	**36.4**	**2.1**	**1.8**	**1.9**	**3.5**	**4.1**	**3.4**
United States	28.9	2.1	1.9	1.9	2.7	3.6	2.9
Latin America[7]	3.1	2.0	1.3	2.1	11.8	10.0	7.7
Canada	2.2	1.7	1.0	1.5	2.1	2.7	2.3
Brazil	2.1	2.6	2.1	2.1	5.0	4.3	4.0
Asia	**32.7**	**4.6**	**4.2**	**4.0**	**1.0**	**1.7**	**1.3**
China	18.5	5.0	4.5	4.5	0.0	0.7	0.2
Japan	4.2	1.2	0.5	0.8	3.2	1.9	2.3
India	3.7	7.3	6.9	6.5	2.2	4.7	3.6
Asian advanced economies[8]	3.6	3.7	4.5	2.2	1.7	2.4	2.3
Southeast Asian emerging economies[9]	2.8	4.5	4.0	4.4	1.4	2.8	2.5
Total	**100**	**2.7**	**2.3**	**2.3**	**3.0**	**3.5**	**2.8**
Advanced economies[10]	65.8	1.9	1.5	1.5	2.5	3.1	2.6
Emerging economies[11]	34.2	4.4	4.0	4.0	3.9	4.3	3.2
memorandum:							
weighted by exports[12]	100	2.1	1.7	1.8	.	.	.
following IMF concept[13]	100	3.3	3.1	2.8	.	.	.
World trade[14]		4.2	2.3	1.6	.	.	.

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 – Consumer price inflation is based on the HICP. 5 – Czechia, Hungary, Poland, Romania. 6 – Denmark, Norway, Sweden, Switzerland. 7 – Argentina, Chile, Colombia, Mexico. 8 – Hong Kong, Republic of Korea, Singapore, Taiwan. 9 – Indonesia, Malaysia, Philippines, Thailand. 10 – Asian advanced economies, euro area, Central and Eastern Europe, Australia, Canada, Denmark, Japan, Norway, Sweden, Switzerland, United Kingdom, United States. 11 – Latin America, Southeast Asian emerging economies, Brazil, China, India, Russia, Türkiye. 12 – Total of all listed countries. Weighted by the respective shares of German exports in 2024. 13 – Weights according to purchasing power parities and extrapolated to the countries covered by the IMF. 14 – As measured by the Dutch Centraal Planbureau (CPB).

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

17. **The global economy is expected to weaken slightly over the forecast period.** This slowdown is largely caused by the energy supply shock resulting from the war in Iran. Higher energy prices have been driving up inflation since March 2026 and are likely to dampen private household consumption expenditures in particular over the forecast period. Furthermore, the persistently high US import tariffs are weighing on global trade in goods. Accordingly, global GDP is expected to remain below its long-term average over the forecast period. This forecast assumes that prices for crude oil and natural gas will fall slightly over the forecast period in line with the respective futures prices, but will remain at elevated levels. ↘ BOX 4 With regard to US import tariffs, it is assumed that there will be no further tightening of US trade policy. Overall, the GCEE expects global GDP to rise by 2.3 % in both 2026 and 2027. Global trade in goods is expected to grow by just 2.3 % in 2026. In 2027, however, it is expected to expand at a weaker rate of 1.6 %. ↘ TABLE 1

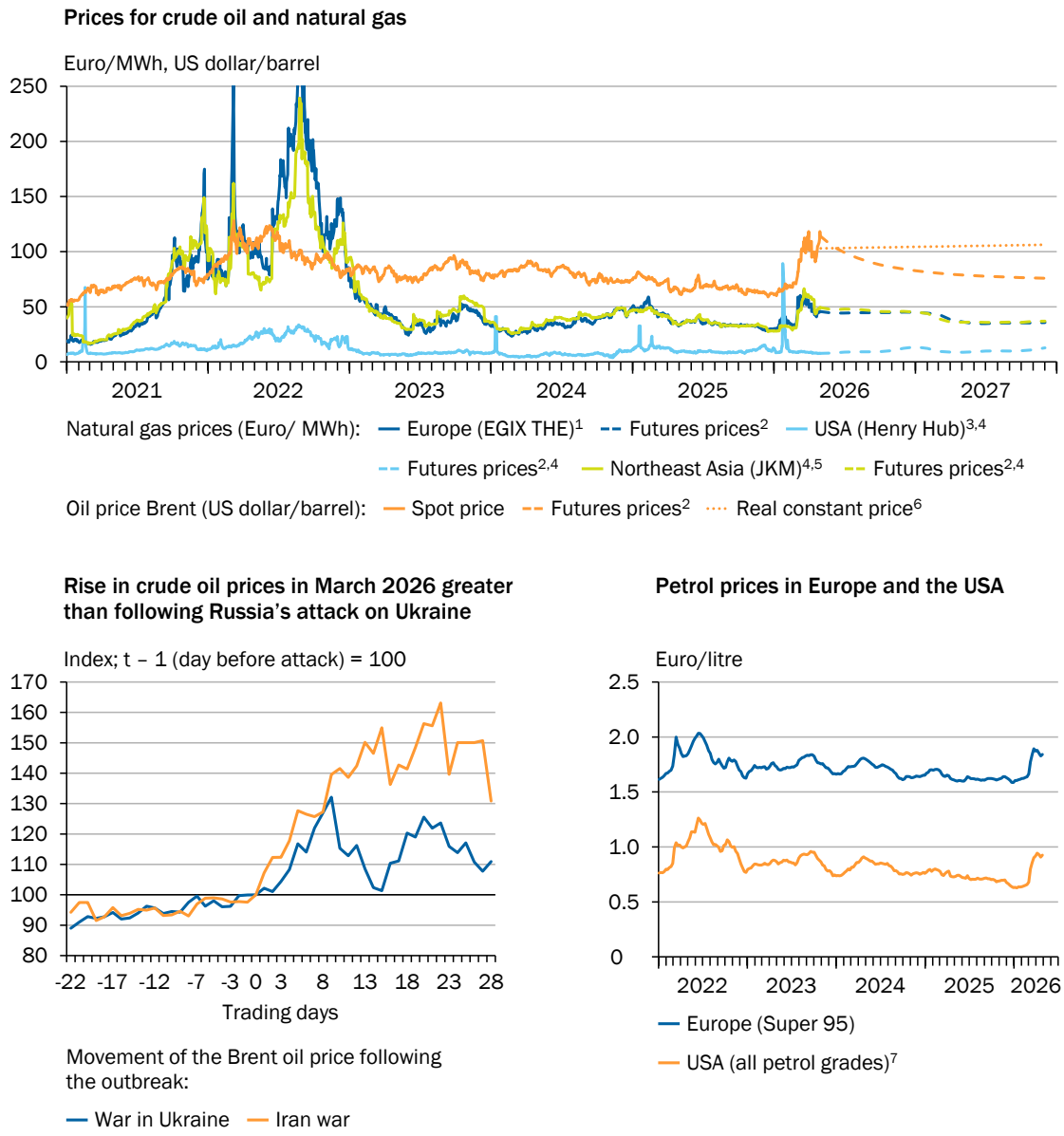
2. Higher energy prices are raising consumer prices worldwide

18. **Global consumer price inflation** averaged 3.0 % in 2025 and **stood at 3.0 % in the first quarter of 2026** compared to the same quarter of the previous year. The war in Iran and the de facto blockade of the Strait of Hormuz ↘ BACKGROUND INFO 1 have severely constrained the supply of fossil fuels and led to significant price increases. ↘ ITEMS 19 F. As a result, consumer price inflation rose significantly in many economies in March 2026 and is likely to remain elevated. ↘ ITEMS 24 AND 31 Furthermore, higher service prices continue to drive inflation in many advanced economies. The monetary policy stances of the central banks of the largest economies continue to diverge. ↘ ITEM 28 Whilst the ECB has kept its key policy rate unchanged since summer 2025, the Bank of England cut its key policy rates in December 2025 and the Federal Reserve did so in September, October and December 2025.

19. The **price of Brent crude oil** rose to an average of USD 99 per barrel in March 2026 and stood at an average of USD 102 per barrel in April 2026, just above the USD$ 100 mark. ↘ CHART 9 TOP The crude oil price had last crossed this threshold following Russia's attack on Ukraine. Compared to the previous month, the crude oil price rose by 43 % in March 2026. This sharp increase is attributable to the de facto blockade of the Strait of Hormuz, through which around 20 % of global oil and petroleum product consumption is shipped. ↘ BACKGROUND INFO 1 In response to the Iran War, the 32 member states of the International Energy Agency (IEA) announced on 11 March 2026 that they would release strategic oil reserves at a historic level of 400 million barrels (IEA, 2026). This corresponds to the volume of crude oil and petroleum products that was typically transported through the Strait of Hormuz within 20 days prior to the Iran war (OECD, 2026). Following Russia's attack on Ukraine, a total of 240 million barrels were released by the IEA and the US in March and April 2022 (IEA, 2022). The price rise in March 2026 significantly exceeds the price rise following the Russian attack. ↘ CHART 9 BOTTOM LEFT

20. **Wholesale prices for natural gas** in Europe averaged around 54 euros per megawatt hour (MWh) in March 2026, which was around 11 euros higher than in the same month the previous year. ↘ CHART 9 TOP In the first two months of 2026,

↘ CHART 9
Focus on energy prices



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 2026 and the following months, as of 1 May 2026. 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 and 2026. 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 – Weighted average based on sampling of approximately 900 retail outlets, 8:00 a.m. Monday.

Sources: ECB, EEX, EIA, European Commission, ICE, LSEG Datastream, NYMEX, own calculations

the average European natural gas price was still just under 35 euros per MWh. The average natural gas price in North-East Asia also rose to around 54 euros per MWh in March 2026, having averaged just under 31 euros per MWh in January and February 2026. The rise in natural gas prices in Europe and North-East Asia since the start of 2026 was driven in January by the extreme cold wave in the northern hemisphere and subsequently by the global shortage of natural gas supply due to the war in Iran. Before the war began, around 20 % of globally traded liquefied natural gas was shipped through the Strait of Hormuz, which has since been blocked. In April 2026, natural gas prices in Europe fell slightly, averaging 46 euros per MWh. In North-East Asia, the average price of natural gas remained constant at 52 euros per MWh in April 2026.

21. Over the forecast period, **prices for crude oil and liquefied natural gas** in Europe and North-East Asia are expected to remain **significantly higher**. Reduced supply due to destroyed production facilities is likely to contribute to this over the forecast period (Dahan et al., 2026). According to futures prices, the crude oil price is expected to remain above 100 US dollars per barrel until June 2026 and only then begin to decline slowly. ↘ CHART 9 TOP In April 2027, the crude oil price is expected to fall below USD 80 per barrel for the first time, in line with expectations on the futures markets, and to decline to around USD 76 per barrel by the end of the forecast period. For natural gas in Europe, forward prices suggest that the natural gas price is likely to remain above 44 euros per MWh until February 2027 and only then fall to as low as 35 euros per MWh. ↘ CHART 9 TOP

In the US, natural gas prices are expected to rise only slightly over the forecast period leading up to the winter of 2026/27. ↘ CHART 9 TOP Natural gas prices in the US are largely decoupled from those in Europe and North-East Asia. On the one hand, the US is a net exporter of natural gas. On the other hand, liquefied natural gas export facilities in the US were already operating at high capacity even before the Iran war, meaning that the short-term export of additional volumes is limited (EIA, 2026; Grimm et al., 2026).

22. **Disruptions in the markets for crude oil and liquefied natural gas** generally lead to **price increases in all regions across the globe**, as these commodities are traded globally. In the short term, however, the economically dampening effects could vary by region. In particular, the Asian advanced economies and the Southeast Asian emerging economies are, in some cases, heavily dependent on oil and gas imports from the Middle East (Adrian et al., 2026; Jones, 2026). Trade flows and sources of supply are likely to take some time to adjust. During this adjustment process, economies with greater solvency, such as the EU and the US, are likely to absorb a larger share of the globally available volumes, meaning that the impact is likely to be felt more acutely in Asia. ↘ BACKGROUND INFO 1

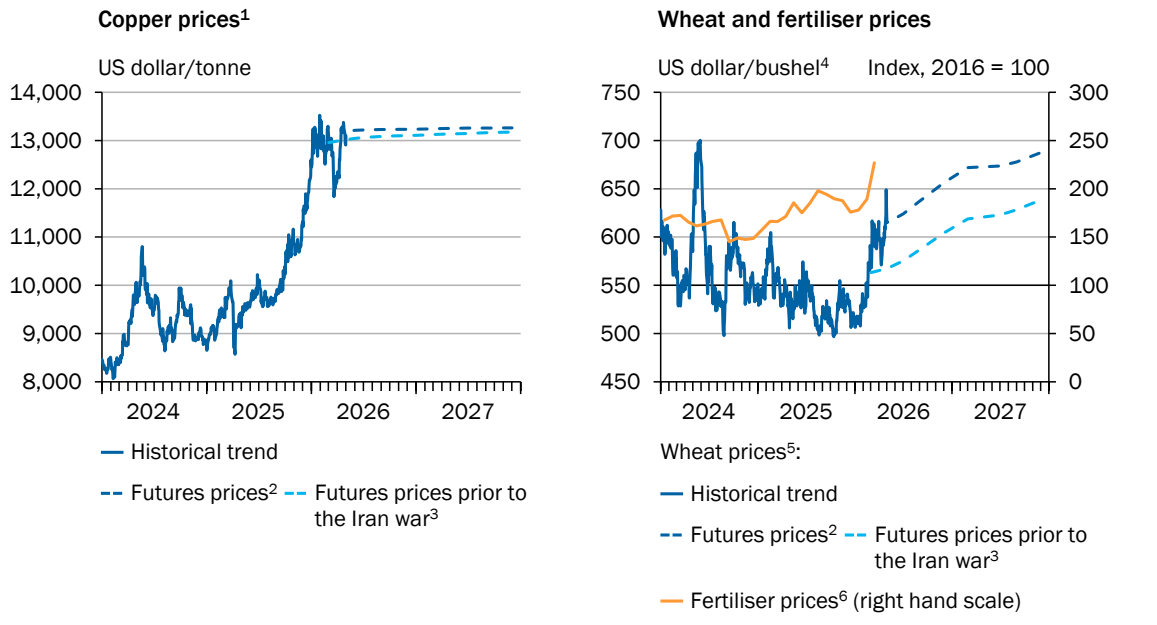
23. **Prices for other commodities** have **remained at similar levels or risen** compared to January 2026. The average price of **copper** in April 2026 was around USD 12,890 per tonne, having fallen in March 2026. The futures price curve for the last ten trading days has shifted slightly upwards compared with the futures price curve prior to the start of the Iran war. ↘ CHART 10 LEFT There are also signs of price pressure in food commodities. The average price of **wheat** in

April 2026 was just under 16 % higher than the average price in January 2026. ↘ CHART 10 RIGHT Higher prices for energy and, in particular, fertilisers are likely to be responsible for this increase (FAO, 2026). Fertiliser prices rose by just under 20 % in March 2026 compared with the previous month. ↘ CHART 10 RIGHT Around a third of seaborne fertiliser production was shipped through the Strait of Hormuz before the start of the Iran war. Furthermore, the most important raw material for the production of nitrogen fertiliser is natural gas. Forward prices for urea fertilisers, for example, have already risen sharply. Consequently, the forward price chart for wheat on the financial markets has shifted upwards. ↘ CHART 10 RIGHT

24. **Consumer price inflation rose in March 2026**, in some cases **sharply**, in many economies **worldwide**. In the US and the UK, it stood at 3.3 % year-on-year in March 2026. In the euro area, the Harmonised Index of Consumer Prices rose by 2.6 % year-on-year in March 2026. Higher prices for fossil fuels are usually passed on to consumers quickly, for example in the cost of fuel. ↘ CHART 9 BOTTOM RIGHT Further price rises are likely to follow when private households renew their energy supply contracts (GCEE Economic Outlook 2022 box 3) and firms pass on price increases for intermediate goods and production to private households. ↘ ITEM 31

Before the start of the Iran war, **trends** in **consumer price inflation varied across** the major advanced economies. Although inflation in the US, the UK and the euro area declined in January and February 2026 compared with the fourth quarter of 2025, in February 2026 year-on-year inflation in the US (2.4 %)

↘ CHART 10
Focus on commodity prices



1 – Metals traded at the London Metal Exchange (LME). 2 – Average futures prices of the last 10 trading days for May 2026 and the following months, as of 1 May 2026. 3 – Average forward prices over the ten trading days from 16 to 27 February 2026 for March 2026 and subsequent months. 4 – An American unit of measurement used to determine the volume of a commodity (e.g. grain); it is equivalent to 60 lbs (27.216 kg). 5 – Wheat traded at the Chicago Board of Trade (CBOT). 6 – Monthly figures, not seasonally adjusted.

Sources: CBOT, IMF, LME, own calculations

and the UK (3.0 %) was still significantly higher than the 1.9 % recorded in the euro area. ↘ ITEM 27 In the US and the UK, inflation continues to be driven largely by nominal wage growth and a correspondingly sustained rise in service prices (BoE, 2026; de Soyres et al., 2026).

25. **In the US,** the **pass-through of higher US import tariffs to goods prices** is likely **not yet complete**. According to estimates by the Yale Budget Lab (2026), by January 2026 inclusive, US tariffs are expected to have been passed on to the prices of imported consumer goods by between 46 % and 86 % for goods excluding energy and food, and by between 51 % and 115 % for durable goods. Prices for imported core goods and for durable goods in the Personal Final Consumption Expenditures Index (PCE) rose by 1.5 % each in 2025 up to and including January 2026, and are thus significantly higher than the corresponding figures for the previous year. In November 2025, the US government reduced US import tariffs on certain foodstuffs due to the ongoing rise in prices (Shalal and Lawder, 2025). However, the continued sharp rise in food prices up to and including February 2026 suggests that the pass-through is continuing (BLS, 2026).

26. **China's inflation rate** stood at 1.0 % year-on-year in March 2026. Although this marks **the second-highest level in three years**, the rise in prices is lower than in other economies. In February 2026, consumer prices had risen significantly by 1.3 % year-on-year due to the start of the Chinese New Year and the associated traditional holiday period. Chinese producer prices rose by 0.5 % year-on-year in March 2026, marking the first increase in three years. This rise is largely driven by higher energy prices. Producer prices had previously been falling since October 2022, reflecting subdued domestic demand and the significant expansion of production capacity in China (GCEE Annual Report 2025 item 14).

27. **Inflation in the euro area has risen significantly**. After inflation fluctuated around 2 % year-on-year in the second half of 2025 and even fell to 1.7 % in January 2026, inflation has recently risen noticeably due to energy prices. In March 2026, overall consumer price inflation stood at 2.6 %. Whilst service prices continued to rise at rates of over 3 %, the sharp increase was primarily attributable to energy prices. These rose by just under 5 % compared with the previous year. In February, they had still been around 3 % below their previous year's level. According to the flash estimate, this trend continued in April 2026. Inflation rose to 3.0 % and energy prices rose by 10.9 % compared to the previous year. Against the backdrop of futures prices for crude oil and natural gas, price inflation is likely to rise significantly for some time during the forecast period. In line with expectations in the futures markets, crude oil prices are set to ease gradually over the forecast period. ↘ ITEM 21 Consequently, petroleum products such as motor fuels are likely to become cheaper again at a slow pace. Prices for other energy sources such as electricity or natural gas, which are typically procured at fixed rates over longer terms, are likely to be reflected in price statistics only with a delay (Grimm et al., 2023, 2026; GCEE Economic Outlook 2022 box 3). However, the rise in electricity prices could be less pronounced in European Member States such as France or Spain, where electricity production is less dependent on gas (Grimm et al., 2026). Over the forecast period, more expensive energy is also likely to increasingly feed through to stages of production and other product groups, pushing

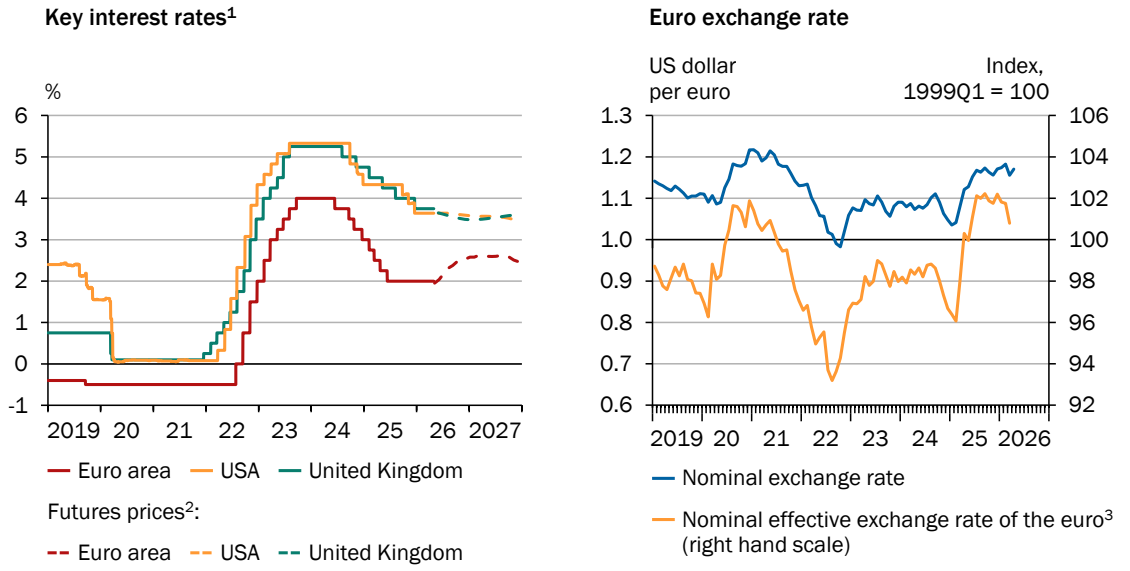
up the core inflation rate, which currently stands at 2.2 %. Calculations by the ECB suggest that a 1 % increase in the prices of intermediate goods in the producer price index raises the prices of non-energy industrial goods in the consumer price index by 0.3 % over a twelve-month period (Koester et al., 2021).

28. **Since the start of 2026,** the central banks of the US, the UK and the euro area have kept their **key policy rates unchanged**. ↘ CHART 11 LEFT In the second half of 2025, some central banks had actually cut their key policy rates. Whilst the ECB's key policy rate has remained unchanged at 2.0 % since June 2025, the Federal Reserve cut its key policy rate three times in a row in September, October and December 2025. On 1 May 2026, the Federal Funds Rate stands between 3.5 % and 3.75 %. The Bank of England last cut its key policy rate in December 2025 to 3.75 %. ↘ CHART 11 LEFT

As a result of the war in Iran and the sharp rise in prices for fossil fuels, **expectations regarding the trend in key interest rates** on the financial markets were **revised significantly upwards**. At the start of 2026, futures markets were still anticipating a Federal Funds Rate falling to 3 % in 2027 and a constant interest rate by the Governing Council of the ECB of around 2 % throughout the forecast period. On average for the second half of April 2026, the futures markets now expect the ECB interest rate to rise by around 60 basis points. ↘ CHART 11 LEFT By contrast, financial markets expect the US key policy rate to remain constant in 2026 and to fall slightly in 2027. This reflects the fact that higher consumer prices are anticipated in both economies and that central banks are expected to adjust

↘ CHART 11

Monetary policy and exchange rates



1 – The considered key interest rates are the ECB deposit facility rate for the euro area, the federal funds rate for the United States and the bank rate for the UK. 2 – Market participants' expectations of central bank interest rates derived from the 30-day Federal Funds Futures for the United States, Euro Short Term Rate (STR) Overnight Index Swaps implied forward interest rates for the 1-month Euro STR for the euro area and the overnight index swap forwards for the United Kingdom. Retrieved on 1 May 2026. 3 – Against the currencies of the euro area's 17 most important trading partners.

Sources: BoE, CBOT, Deutsche Bundesbank, ECB, Fed, LIFFE, LSEG Workspace, own calculations

their policies. If the interest rate differential between the euro area and the US narrows as expected in the futures markets, this will support the euro. Demand for euro-denominated assets, such as government bonds, would rise as the relative attractiveness of US assets declines.

29. The **euro appreciated significantly** against the US dollar **in 2025**, **rising** by 11.7 %. ↘ CHART 11 RIGHT At the same time, the US dollar depreciated against currencies in the rest of the world. The nominal effective exchange rate of the euro against a weighted average of 17 major trading partners rose by 5.7 % in 2025. ↘ CHART 11 RIGHT Unlike a bilateral exchange rate, this measure takes into account not only the change against a single currency, but against various currencies weighted by trade with the respective countries, and is therefore more representative (Deutsche Bundesbank, 2025a). The increases in both measures indicate a strain on the euro area's export economy.

Much of **the euro's appreciation in the second quarter of 2025** can be attributed to a decline in risk appetite towards the US dollar and an improvement in sentiment towards the euro (Lane, 2026). A breakdown of the sideways movement of the euro-dollar exchange rate in the fourth quarter of 2025 by the Deutsche Bundesbank (2026b) shows that a more positive assessment of the economic situation and energy supply in the euro area supported the euro. For the forecast period, it is assumed that the euro-dollar exchange rate will correspond to the level observed in April 2026 of 1.17 US dollars per euro. ↘ BOX 4

30. Despite the ECB's key policy rate remaining unchanged, **financing conditions in the euro area** continued **to deteriorate** in the first quarter of 2026. In particular, this applies to loans **to enterprises**: According to the ECB's latest Bank Lending Survey (2026a), banks significantly tightened their credit standards (i.e. their internal guidelines and loan approval criteria) for large as well as small and medium-sized enterprises. This tightening was more pronounced than expected at the start of the year and more than three times as high when compared to the average since 2014. Among the four major economies of the euro area, such a tightening occurred in Germany, France and Spain, whilst banks in Italy left their credit standards unchanged. According to the banks surveyed, the main drivers of this development are increased risks regarding the economic outlook, increased sector- and company-specific risks, as well as a lower level of risk tolerance on their part. In this context, several banks emphasised geopolitical tensions and rising energy prices.

The picture was more nuanced regarding loans to private households: While banks raised credit standards for mortgage loans only slightly, they tightened them significantly for consumer loans. The latter primarily reflects banks' increased assessment of risk regarding borrowers' creditworthiness as well as their reduced risk tolerance. For the second quarter of 2026, the banks surveyed expect a further, in some cases marked, tightening of their credit standards across all three loan categories. Eventually, they expect regulatory and supervisory measures, such as higher macroprudential capital buffers in individual euro area member states, to have a tightening effect on credit standards in 2026 as well (ECB, 2026b).

31. **Consumer price inflation** is likely to remain **significantly elevated** worldwide **until spring 2027**, particularly in those economies heavily dependent on oil and gas imports. The reason for this is the pass-through of the sharp rise in prices for fossil fuels in March 2026. ↘ ITEMS 19 FF. In the short term, the rise in the energy component is pushing up consumer prices. Additional price pressure is likely to arise for foodstuffs due to the rise in fertiliser prices. ↘ ITEM 23 Over the remainder of the forecast period, goods whose production requires crude oil or natural gas are also likely to become more expensive due to higher production costs. ↘ ITEM 24 Overall, the GCEE forecasts global consumer price inflation of 3.5 % for 2026. In 2027, the rise in consumer prices worldwide is expected to be lower again at 2.8 %, as prices for fossil fuels are likely to continue to normalise. ↘ ITEM 21 In the euro area, consumer price inflation is expected to rise to 3.0 % in 2026 and stand at 2.6 % in 2027.

3. Risks: Persistently high energy prices and disruptions to supply chains

32. In the wake of the war in Iran, the **availability of crude oil and liquefied natural gas** could remain **significantly constrained over the forecast period**. Consequently, the cumulative shortfall in energy production in the Gulf states over the forecast period could dampen global energy supply more than expected. There is therefore a risk that prices for fossil fuels, particularly crude oil, will hardly fall at all during the forecast period, contrary to expectations on the futures markets. ↘ ITEM 21 If prices for crude oil and liquefied natural gas remain elevated, private households would have to spend an even larger share of their disposable income on energy than in the baseline scenario. This could dampen real private consumption expenditures even more than previously assumed. ↘ BOX 1 At the same time, pressure on firms to pass on higher prices for inputs and energy to private households could intensify. Both factors could lead to consumer prices rising much more sharply than forecast globally and to an intensification of overall economic activity, particularly in terms of private household consumption expenditures, compared to expectations.

33. So far, standard indicators do not yet suggest that supply chains are under pressure (Caldara et al., 2025; New York Fed, 2026). In individual markets, such as those for wheat and fertilisers, however, sharply rising prices point to potential bottlenecks. ↘ ITEM 23 The blockade of the Strait of Hormuz and rising security costs in maritime transport have already led to a shortage in the global supply of crude oil and liquefied natural gas. ↘ ITEMS 19 F. This could lead to delays and shortages of petrochemical intermediates, such as fertilisers ↘ ITEM 23 and plastics, as well as energy-intensive raw materials, such as metals and chemical products. A **more severe shortage of fertilisers** than assumed in the forecast could significantly hamper agricultural production over the forecast period, thereby pushing up food prices more than expected. In addition, there could be a physical shortage of fuels. As a result, procurement costs could rise more sharply than anticipated. This could **translate into rising production costs across the entire value chain** and exert additional upward pressure on consumer price inflation.

34. Rising gross fixed capital formation in the area of artificial intelligence (AI) and positive wealth effects from high stock market prices on private household consumption expenditures contributed to real GDP growth in the US in 2025, ↘ BOX 2 whilst also supporting the global economy. However, a possible **overestimation** of **the business potential of technology firms** in the US poses a risk to the global economy. A dampening of expectations regarding the economic use of AI, beginning during the forecast period, could cause an abrupt correction in the valuation of technology firms and trigger significant turmoil in the financial markets. The likelihood of such a correction is further increased by the current high energy prices, as the use of AI is very energy-intensive. The resulting financial market turbulence could not only jeopardise the financial stability of the global economy during the forecast period, but also have implications for the macroeconomy. Investment in the technology sector could decline significantly, manifesting as a rapid and sharp contraction in investment in machinery and equipment in the US and in exports of capital goods from Asian industrialised countries. Furthermore, as many private households, particularly in the US, have significant exposure to the stock market, such price falls could lead to losses in wealth and, consequently, to a sharp decline in private household consumption expenditures.

↘ BOX 4

Forecast assumptions

Prices for fossil fuels rose significantly in March 2026 as a result of the war with Iran and the de facto blockade of the Strait of Hormuz. ↘ ITEM 19 ↘ BACKGROUND INFO 1 However, the increase for the first quarter of 2026 as a whole is moderate on a quarter-on-quarter basis, as prices in January and February 2026 tended to be below average compared to the previous year. In April 2026, the price of crude oil stood at 102 US dollars per barrel. Although the price is expected to fall over the course of the year in line with futures market expectations, crude oil is still likely to cost just under 82 US dollars per barrel in the first quarter of 2027 and fall to only around 76 US dollars per barrel by the end of the forecast period. ↘ TABLE 2 Wholesale gas prices in Europe stood at around 46 euros per MWh in April 2026. Up to and including the first quarter of 2027, forward prices remain elevated, with quarterly averages of just over 44 euros per MWh. ↘ TABLE 2 It is not until the second quarter of 2027 that prices on the futures markets are expected to approach 35 euros. The wholesale price for electricity in Germany also rose in March 2026. This is partly due to higher costs for electricity production by gas-fired power stations. Forward prices for electricity will return to normal from 2027 onwards. ↘ TABLE 2

The ECB's deposit rate has remained unchanged since June 2025, unlike that of the Federal Reserve in the US. ↘ ITEM 28 The futures markets expect the key policy rate to rise by around 60 basis points by the first quarter of 2027 and to remain at this level for the remainder of the forecast period. ↘ TABLE 2 The euro-US dollar exchange rate stands at 1.17 US dollars per euro in the first quarter of 2026, having changed little since the sharp appreciation in the summer of 2025. ↘ ITEM 29 For the forecast period, the average exchange rate observed at the cut-off date in April 2026 of 1.17 US dollars per euro is projected to remain constant.

In line with expectations on the futures markets, the forecast assumes that the disruptions on global energy markets will ease over the course of the year. It is also assumed that there will be no further tightening of US trade policy and that the tariff agreements concluded to date will be adhered to worldwide.

↘ TABLE 2

Forecast assumptions[1]

	2025				2026				2027			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Oil price (Brent)[2]												
US dollar/barrel	75.1	66.9	68.2	63.1	78.1	106.8	94.8	86.1	81.5	78.9	77.2	76.2
Gas price (EGIX THE)[2]												
€/MWh	47.7	36.7	34.0	31.4	41.5	44.0	44.5	44.9	44.1	36.5	35.1	35.5
Electricity price (EEX Phelix)[2]												
€/MWh	118.0	77.4	89.6	136.2	136.2	81.5	92.4	109.5	106.5	76.4	84.2	96.6
Overnight rate (ECB)[2,3]												
% p. a.	2.8	2.3	2.0	2.0	2.0	2.0	2.4	2.5	2.6	2.6	2.6	2.5
Exchange rate (ECB)[4]												
US dollar/€	1.05	1.13	1.17	1.16	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17

1 – Values observed until 2026Q1; assumptions from 2026Q2 onwards. 2 – The assumptions are based on the average future prices for the past ten trading days, as of 1 May 2026 3 – Deposit facility rate. 4 – The exchange rate will be projected from the first quarter of 2026 onwards using the average of daily values in April 2026.

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

III. GERMANY

35. Following the recessionary years of 2023 and 2024, the German economy grew by 0.2 % in real terms last year. This increase was primarily driven by private household consumption expenditures. **German goods exports** fell for the third consecutive year. **Gross fixed capital** formation remained **weak**, and **capacity** utilisation in **the manufacturing sector** and **building construction is below capacity** (ifo Institute, 2026b). In addition to the persistently turbulent geopolitical environment and US trade policy, the declining competitiveness of German industrial goods is weighing on the economy. ↘ ITEM 42

36. The slight improvement in Germany's economic performance that was beginning to emerge at the start of 2026 is now being dampened by another shock. The war-induced blockade of the Strait of Hormuz is having a severe impact on global energy markets. German GDP is expected to grow only slightly again over the forecast period due to **higher energy prices.** ↘ ITEMS 19 F. On the one hand, gross fixed capital formation is likely to expand at a subdued pace. ↘ ITEMS 53 F. On the other hand, the passing on of higher energy prices to consumer prices is likely to lead to a loss of purchasing power among private households and weaker consumer sentiment. Private consumption is therefore expected to expand significantly more slowly over the forecast period than in the past year. ↘ ITEM 50 Furthermore, the slowing global economy ↘ ITEM 17 is likely to continue to dampen goods exports over the forecast period.

However, **public expenditure** under the fiscal package adopted in March 2025 is having a supportive effect. ↘ ITEM 45 This is likely to lead to noticeable growth in public civil engineering during the entire forecast period and to investment in machinery and equipment. ↘ ITEMS 53 F. Government consumption is also expected to expand strongly. Furthermore, leading indicators in private residential construction are pointing upwards. The GCEE expects **German GDP to grow by 0.5 % in 2026 and by 0.8 % in 2027**. Of this, 0.3 percentage points in 2026 and 0.1 percentage points in 2027 are attributable to the calendar effect. **Consumer price inflation is expected to stand at 3.0 % in 2026** and **2.8 % in 2027**. Core inflation is expected to be 2.3 % in 2026 and 2.9 % in 2027.

37. This forecast assumes that the price of crude oil will develop over the forecast period in line with the forward prices prevailing at the cut-off date of 1 May 2026. ↘ BOX 4 However, given the turmoil in the Gulf region, the availability of crude oil and liquefied natural gas could be significantly constrained over a prolonged period, and the price of crude oil could remain above current expectations on the futures markets for longer. The **forecast** is therefore **subject** to **considerable risks**. To account for this high level of forecast uncertainty, a supplementary scenario for German GDP growth and inflation is considered, which reflects an alternative development in the crude oil price. ↘ BOX 7 This scenario assumes that the crude oil price will rise to 120 US dollars per barrel in May 2026 and remain at this level until October 2026. It is also assumed that the crude oil price will fall again from November 2026 and dip below the 100 US dollar per barrel mark in the second quarter of 2027. The GCEE estimates that, under these conditions,

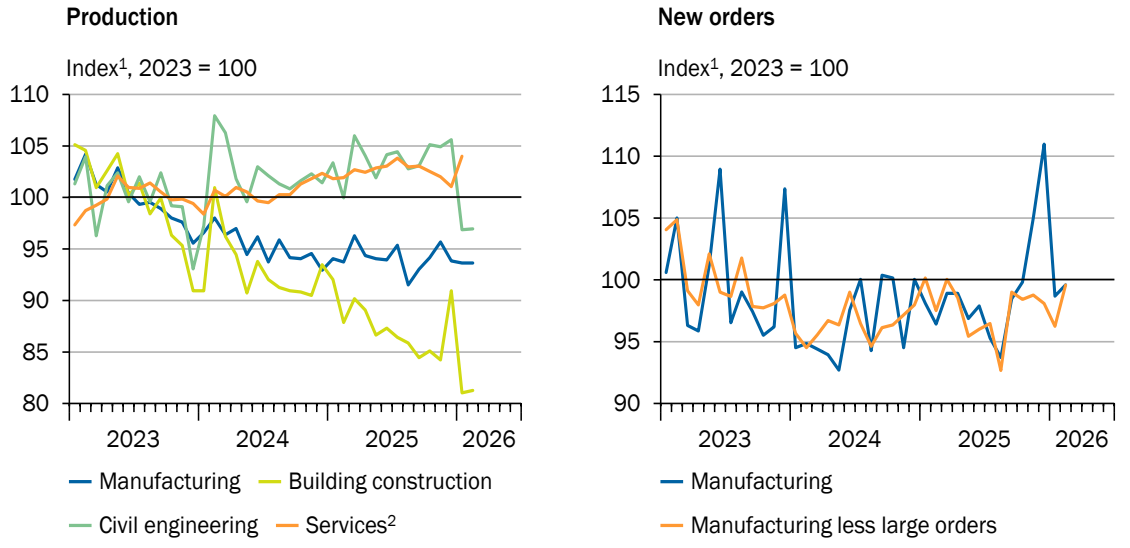
GDP is likely to grow by only 0.2 % in 2026 and by 0.5 % in 2027. Consumer price inflation is then expected to stand at 3.5 % in 2026 and 3.2 % in 2027.

1. Real economy: Cyclical recovery under difficult conditions

38. The **economic situation in Germany remains weak** at the start of 2026, despite slight signs of improvement. ↘ CHART 12 LEFT Manufacturing production has largely stagnated since mid-2024. The weakness in production, which has been a persistent trend since mid-2018, is evident across the manufacturing sector (GCEE Annual Report 2025 items 40 f.). Service sector production declined between September and December 2025. The recovery in January is attributable in particular to business-related services. Here, production in the transport and storage sectors, as well as in information and communication, increased significantly. However, business expectations in the services sector declined markedly in March and April 2026 and slumped sharply in April, particularly in road freight transport (ifo Institute, 2026b).

The situation in the construction industry improved somewhat by the end of 2025. Production in civil engineering has been on an upward trend since autumn 2024, and initial signs of an upturn were also visible in building construction in December 2025. The positive developments in construction were interrupted by the low temperatures in January and February 2026, but are likely to continue in a more subdued form for the remainder of 2026. The sharp rise in energy prices is likely to significantly dampen construction production.

↘ CHART12
Economy indicators



1 – Volume index; seasonally and calendar-adjusted values. 2 – Contains transportation and storage; accommodation and food service activities; information and communication; real estate activities; professional, scientific and technical activities; administrative and support service activities.

Sources: Federal Statistical Office, own calculations

39. **The sharp rise in energy prices** due to the war in Iran and their spillover into the real economy ↘ BOX 1 are likely to dampen German GDP over the forecast period. Business expectations deteriorated significantly again in March and April across all economic sectors compared with those in February 2026. In energy-intensive sectors such as the chemical industry, business expectations have fallen particularly sharply (ifo Institute, 2026b). Here, production has already contracted significantly in the wake of Russia's war of aggression against Ukraine and has remained at a low level ever since. The GCEE has used a structural vector autoregression to examine the effects of an oil supply shock on the German economy, corresponding to a price rise of around 60 % in March 2026. ↘ CHART 13 The analysis shows that such a structural shock leads directly to significantly higher consumer price inflation, deteriorating consumer sentiment and falling retail turnover. The rise in consumer price inflation is driven in the short term by increases in the sub-indices for energy and food. This is likely to weaken real private consumption over the forecast period. Industrial production falls in response to the oil supply shock because the prices of imported raw materials rise. ↘ ITEM 60

    Compared to other bottlenecks on sea routes, the direct **impact** of **the Strait of Hormuz** ↘ BACKGROUND INFO 1 **for German foreign trade** is **relatively low** (Bodenschatz et al., 2026). Less than 1 % of total German imports and exports pass through this strait (Bodenschatz et al., 2026; Bodenschatz and Flach, 2026).

40. The **manufacturing sector continues to perform weakly**. Since 2023, price-, seasonally and calendar-adjusted gross value added has expanded in only one quarter. Industrial production fell in December 2025 and has stagnated ever since. ↘ CHART 12 LEFT Following a sharp rise at the end of 2025, order intake in the manufacturing sector fell significantly in January 2026 and recovered only slightly in February. ↘ CHART 12 RIGHT Adjusted for large orders, order intake in the manufacturing sector has been stagnating since January 2024. In February 2026, they rose slightly. The strong growth in order intake, including large orders, at the end of 2025 came from both domestic and foreign sources.

41. Since 2025, the protectionist and uncertain nature of US trade policy, ↘ ITEM 13 as well as the appreciation of the euro, have been weighing on German exports of goods to the US. ↘ ITEM 29 As a result, exports to the US fell by 8.9 % in 2025 compared with the previous year. ↘ ITEM 56 The decline was particularly sharp for motor vehicles. With the US Supreme Court ruling and the currently applicable base tariff, ↘ BACKGROUND INFO 2 the conditions for German exports to the US is likely to have changed only slightly. However, the renewed rise in trade policy uncertainty is likely to have a negative impact on firms' investment decisions.

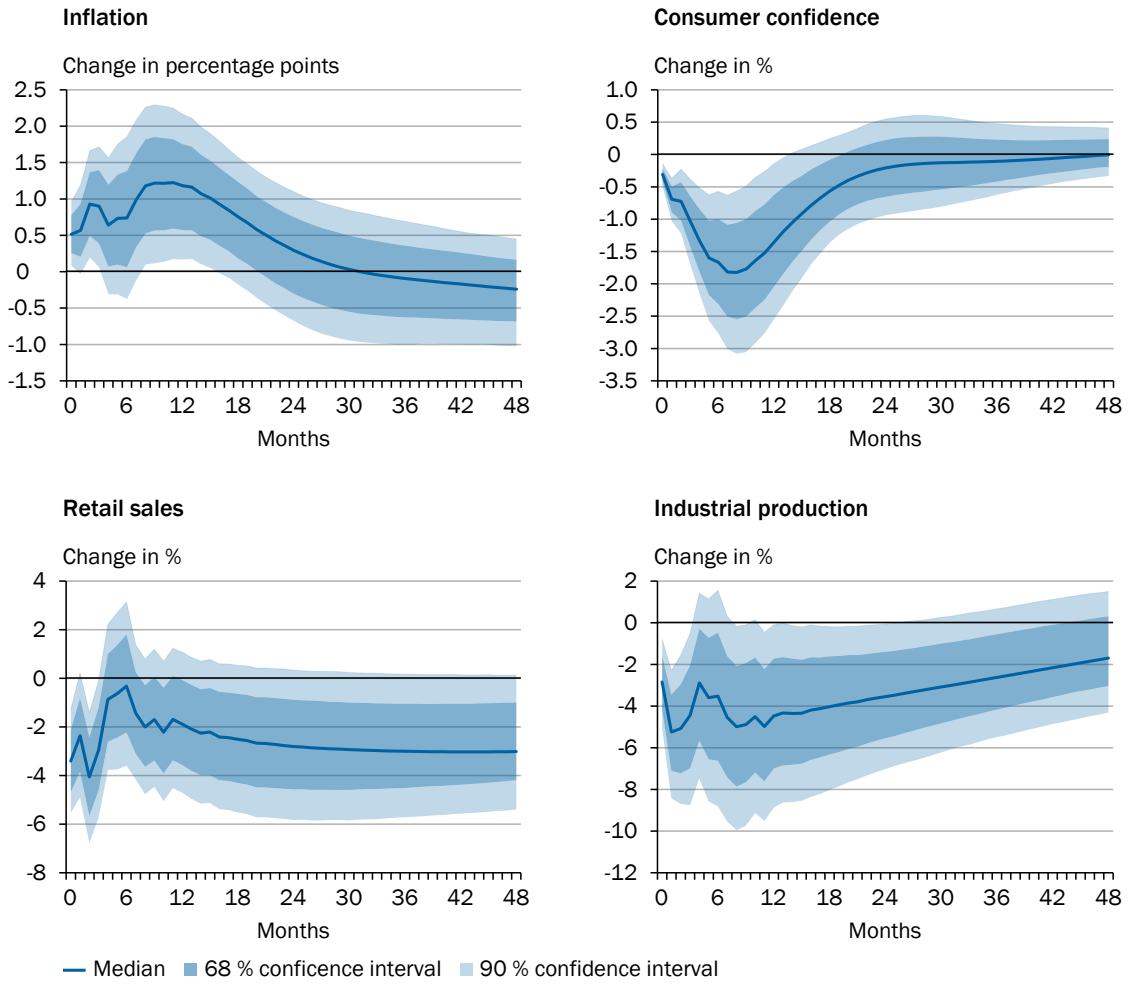
42. The **weakness of German goods exports** to countries outside the EU is weighing on the domestic manufacturing sector. Whilst goods exports to EU countries rose by 4.2 % year-on-year in 2025, they fell by 2.7 % to countries outside the EU. Competition from Chinese industrial firms is likely to dampen German exports to both China and other countries. ↘ BOX 5 In 2025, only around 5.2 % of German exports went to China. In 2019, this share was still 7.2 %. **China's export structure is increasingly aligning with that of Germany**. Consequently, firms from both countries are competing more intensely for sales of goods in the mechanical engineering and vehicle manufacturing sectors. At the

same time, **export prices for Chinese goods in US dollars** have fallen **significantly since 2022**. In 2025, they were 16.5 % lower than in 2022, whilst German export prices for goods in US dollars rose by 10.6 %.

↘ CHART 13

Macroeconomic effects of an oil supply news shock on the German economy

Impulse response functions following a 60 % rise in the price of crude oil in response to an oil supply news shock[1]



1 – The vector autoregression was estimated for the period from January 1974 to June 2025 using twelve lags and the following time series: nominal crude oil price (WTI spot price), global crude oil production, crude oil inventories in OECD countries, world industrial production, industrial production in Germany, consumer confidence in Germany, retail sales in Germany and consumer price inflation in Germany. The time series on world industrial production comprises industrial production in the OECD countries, Brazil, China, India, Indonesia, Russia and South Africa. The time series was originally used in Baumeister and Hamilton (2019) and is continuously updated. All time series (except for the inflation rate) are included in the vector autoregression as logarithmic levels. The inflation rate is included in the vector autoregression as a percentage and as a year-on-year change. The econometric instrument used to identify the structural shock originates from Känzig (2021) and was most recently updated for the period from July 1983 to June 2025. The response of the nominal crude oil price (WTI) to the identified oil supply shock is standardised to a 60% increase. The results of the asymmetric oil supply shocks, which only trigger increases in the crude oil price as a response, are based on the approach of Forni et al. (2025).

Sources: Baumeister und Hamilton (2019), EIA, Fed, Federal Statistical Office, Forni et al. (2025), IMF, Känzig (2021), LSEG Datastream, OECD, own calculations

↘ BOX 5

SVR Analysis: German and Chinese exports of goods

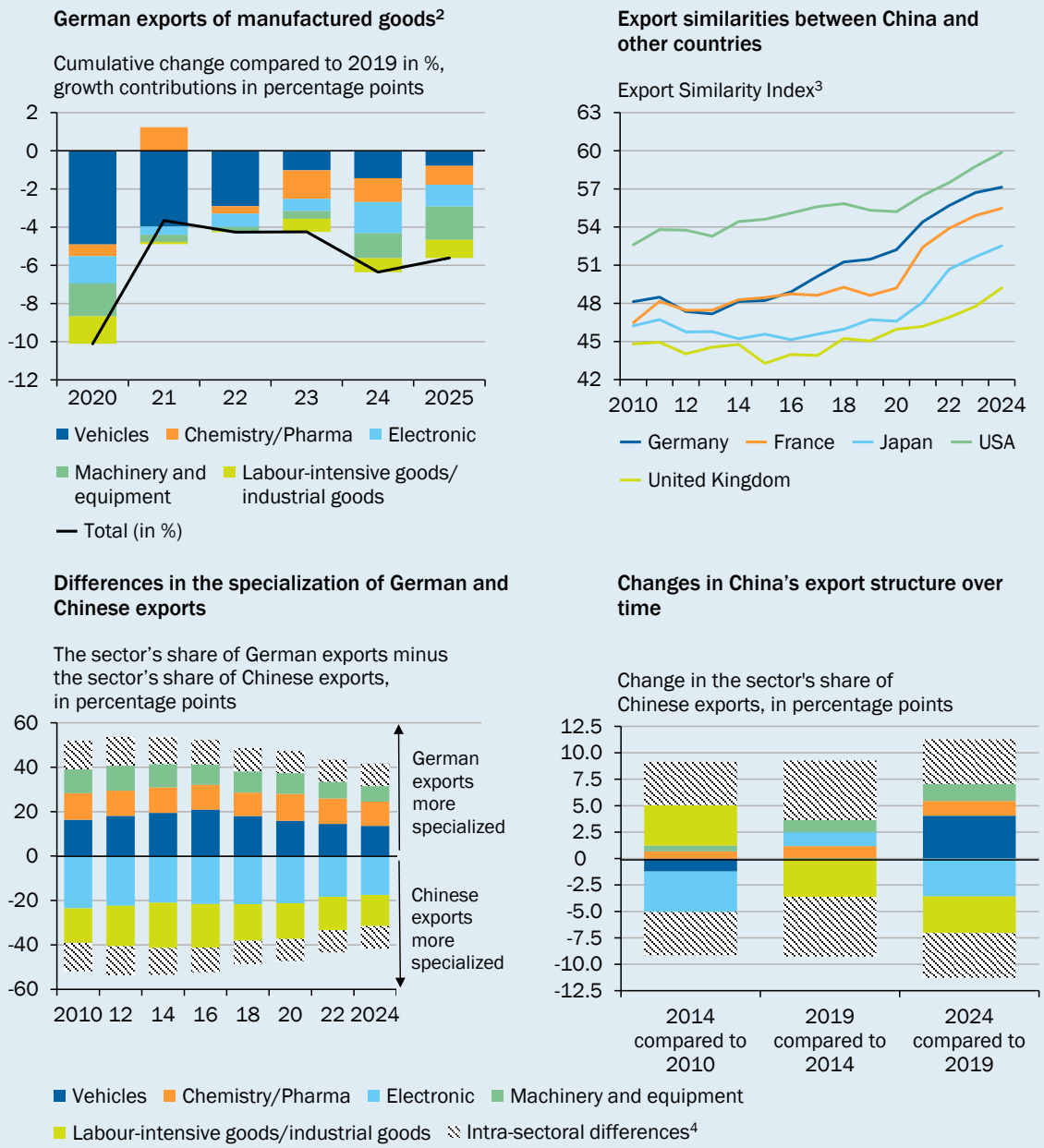
Germany's export-oriented industry is increasingly losing touch with the global economy. The share of German exports in global trade in goods has fallen from 8.3 % in 2016 to 6.7 % in 2025. Furthermore, data from German foreign trade statistics show that real exports of goods from the manufacturing sector have fallen in almost all sectors compared with 2019. ↘ CHART 14 TOP LEFT

One reason for the weakness of German goods exports is likely to be the strong competition from Chinese industrial firms. China is aligning its export structure with that of major industrialised countries. This can be demonstrated by the development of the export similarity index. ↘ CHART 14 TOP RIGHT The export similarity index measures the degree of overlap between the export structures of two countries by product group. It takes values between 0 (completely different export profiles) and 100 (identical export profiles) (Finger and Kreinin, 1979). The convergence of German and Chinese export structures is primarily attributable to the mechanical engineering and automotive industries. In both sectors, Germany continues to exhibit a higher degree of specialisation than China, i.e. their share of total German exports is higher than the corresponding share of Chinese exports. However, the difference in specialisation has narrowed over time and has decreased noticeably since 2016, particularly in vehicle manufacturing. ↘ CHART 14 BOTTOM LEFT

In particular, China's export structure has changed over the past 15 years, ↘ CHART 14 BOTTOM RIGHT whilst Germany's export structure has shown significantly less dynamism. In China, for example, the share of labour-intensive manufactured goods such as clothing or textiles fell significantly compared with 2014. At the same time, the share of products from the chemical industry, mechanical engineering and vehicle manufacturing has risen compared with 2019. Furthermore, shifts are also becoming apparent within the sectors. In the electronics sector, for example, there is a shift from the final assembly of electronic products (e.g. telecommunications devices, including smartphones) to technology-intensive electronic components such as semiconductors. ↘ CHART 14 BOTTOM RIGHT

↘ CHART 14

German and Chinese exports of manufactured goods[1]



1 – Without food industry. 2 – According to foreign trade statistics, exports in 1,000 euros at volume measures, reference year 2021. 3 – The export similarity index measures the overlap between the export profiles of two countries by product group, in this case at the SITC 3-digit level. 4 – The product groups at the SITC 3-digit level are colour-coded by sector. Fully coloured bars show the net difference at sector level. The shaded area captures intrasectoral differences where higher shares of individual product groups (e.g. road vehicles) are offset by lower shares of other product groups (e.g. ships) within the same sector (vehicles).

Sources: Federal Statistical Office, UN Comtrade, own calculations

43. The **situation in the main construction sector** differs between building construction and civil engineering. Whilst production in civil engineering is expanding due to rising government contracts, it is significantly weaker in building

construction, and particularly in residential construction. ↘ CHART 12 LEFT The strong expansion in civil engineering is largely attributable to the development of rail infrastructure, as well as power lines, cable routes and fibre-optic infrastructure. In building construction, residential construction in particular is in decline. With the expansion of public infrastructure spending through the Special Fund for Infrastructure and Climate Neutrality (SVIK), gross fixed capital formation in civil engineering is likely to continue to rise over the forecast period. In civil engineering, capacity utilisation stood at 72.8 % in April 2026, 3.3 percentage points lower than the average for the years 2016 to 2025 (ifo Institute, 2026b).

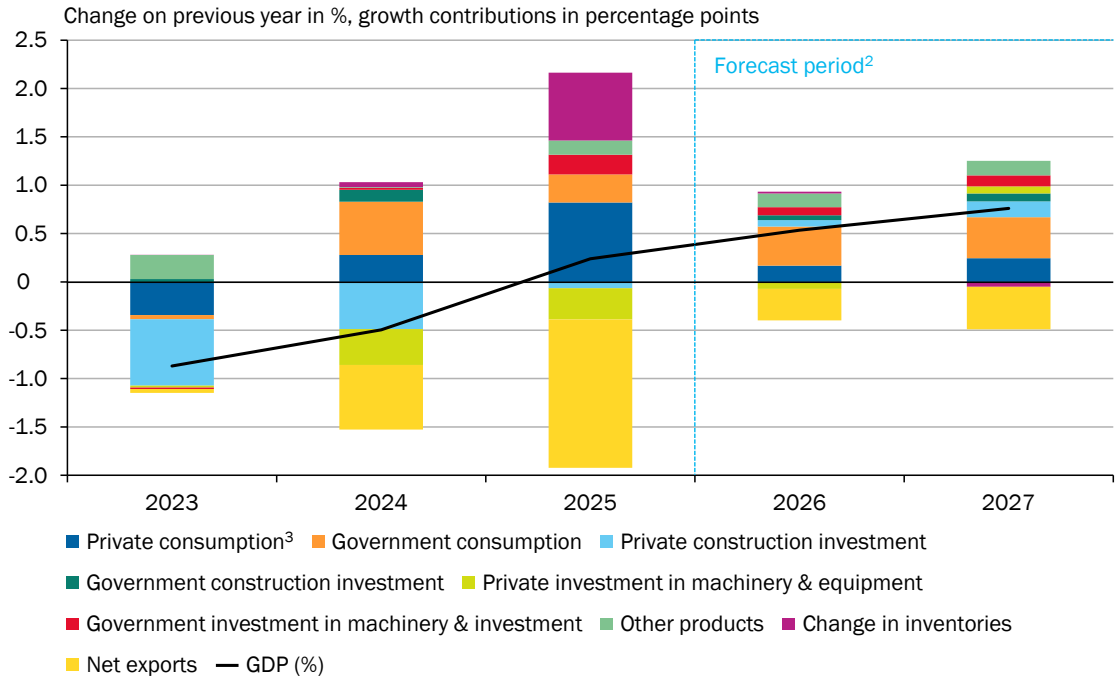
44. Capacity utilisation in the two sectors of the main construction industry currently varies. Whilst capacity utilisation in civil engineering is only slightly below the long-term average, it is significantly below it in building construction (ifo Institute, 2026b). To examine the extent to which **construction firms operate across sectors**, the GCEE analysed microdata from the Monthly Report on the Construction Industry. In 2025, around 12 % of all firms in the main construction sector were active in both civil engineering and building construction. This proportion has fallen slightly compared with 2016, when it stood at around 15 %. Since 2018, the proportion of working hours spent on civil engineering within these firms has risen slightly, from 50 % in 2018 to 55 % in 2025. Furthermore, the analysis shows that shifts in capacity from building construction firms towards civil engineering activities occur only to a very limited extent. In 2025, just under 4 % of firms that were exclusively active in building construction in 2016 also carried out working hours in civil engineering. Accordingly, it is not to be expected that spare capacity in building construction will be utilised to a relevant extent for production in civil engineering and thereby be able to noticeably counteract the expected rise in prices in public construction.

45. **Government expenditure under the fiscal package adopted in March 2025** is likely to be of great significance **for the German economy** during the forecast period. Expenditures from the fiscal package are expected to rise during the forecast period, thereby supporting domestic demand. The GCEE estimates that the funds from the fiscal package spent during the forecast period are likely to contribute around 0.3 percentage points to GDP in both 2026 and 2027. ↘ ITEM 69 ↘ BOX 6

46. Developments in the labour market are characterised by the current economic downturn. A rapid recovery in labour demand is not yet in sight. Prospects for exiting unemployment are currently poor due to reluctance to hire new staff, particularly among smaller firms. In the manufacturing sector, employment is being reduced, mainly through natural turnover and retirement. As a result, age-related departures are not currently being fully replaced. Due to the continuing weak demand for labour and the demographic decline in the labour force, the number of people in employment is likely to fall slightly in the two forecast years. The unemployment rate is not expected to fall slightly until 2027. ↘ ITEM 67

↘ CHART 15

Growth contributions to the German GDP[1]



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

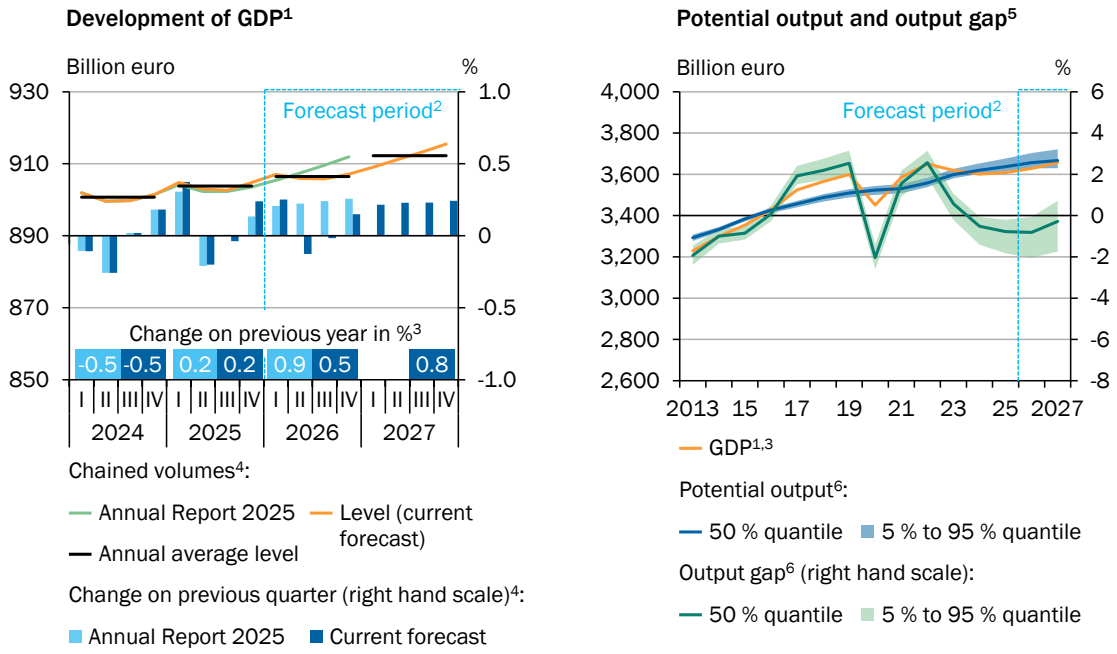
Sources: Federal Statistical Office, own calculations
© Sachverständigenrat | 26-071-01

47. In **2026**, **German real GDP** is expected to grow by **0.5 % and by 0.8 % in 2027**. ↘ CHART 15 AND ↘ TABLE 3 In the first quarter of 2026, price-, seasonally and calendar-adjusted GDP grew by 0.3 % in the previous quarter, according to the flash estimate published by the Federal Statistical Office on 30 April 2026. ↘ CHART 16 LEFT Private household consumption expenditures and government final consumption expenditures, as well as exports, are likely to have supported this growth. A breakdown of the forecast GDP growth by underlying expenditure aggregates shows that the largest contributions to growth over the forecast period will come from government consumption. Investment in machinery and equipment, which is rising significantly compared to 2023 and 2024, is also making a positive contribution to growth. ↘ CHART 15

48. The **output gap** is expected to be –0.8 % in 2026 and –0.3 % in 2027. ↘ CHART 16 RIGHT However, the estimate of potential output is subject to uncertainty. The range of the 5th to 95th quantiles encompasses –1.7 % and 0 % in 2027, meaning there is a possibility that the output gap could be significantly larger or close during the forecast period.

↘ CHART 16

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

Final consumption expenditures

49. **Private household consumption expenditures** expanded **strongly last year**, rising by 1.6 % in real terms compared with 2024. This sharp increase was accompanied by a decline in the savings rate from 11.3 % in the fourth quarter of 2024 to 10.3 % in the fourth quarter of 2025. In the meantime, real disposable income rose by just 0.5 %, having expanded much more strongly by 1.6 % in 2024. ↘ CHART 17 LEFT Real mass income rose by 1.4 % year-on-year in 2025. This was driven by the significant rise in net wages and salaries as well as monetary social benefits. Compared to mass income, disposable income performed more weakly, particularly due to a sharp decline in operating surpluses in the first quarter of 2025. Despite a continued subdued consumer climate ↘ CHART 17 RIGHT among private households, private household consumption expenditures rose by 0.5 % in the fourth quarter of 2025, seasonally and calendar-adjusted, compared with the previous quarter. In particular, higher expenditures on housing, water, electricity and fuel, as well as on insurance firms and financial services, are likely to have contributed to this trend.

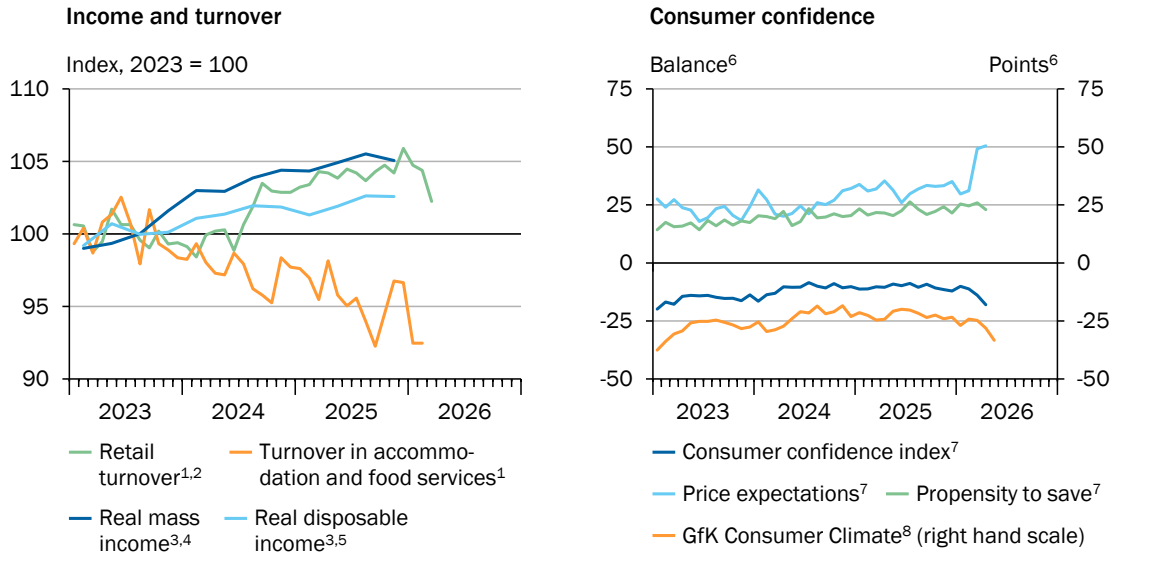
50. Seasonally and calendar-adjusted retail turnover fell by 1.1 % in the first quarter of 2026 compared to the previous quarter's average. ↘ CHART 17 LEFT In addition, seasonally and calendar-adjusted turnover in the hotel and restaurant industry fell by 3.6 % on average in January and February 2026 compared to the previous quarter's average. New private car registrations also declined in the first quarter of 2026. According to a flash estimate from the Federal Statistical Office, private

household consumption expenditures are nevertheless likely to have supported GDP growth in the first quarter of 2026.

Over the remainder of the forecast period, nominal disposable income is expected to rise only moderately. Consumer prices, which are rising sharply in the wake of higher energy prices, are likely to significantly erode the purchasing power of private households and thus reduce real income growth. Consumer price inflation stood at 2.7 % and 2.9 % in March and April 2026 respectively, having been 1.9 % in February 2026. ↘ ITEM 62 In addition, private households' price expectations rose significantly in March 2026. ↘ CHART 17 RIGHT Higher inflation is likely to persist in 2026 and ease slightly in 2027. Against this backdrop, the GCEE expects real income growth for the current and coming year to be just 0.1 % and 0.5 % respectively. Overall, real **private household consumption expenditures** are likely **to grow significantly less during the forecast period than in 2025**. For **2026**, the GCEE expects an increase of **0.3 %** and **in 2027** an increase of **0.5 %** year-on-year.

51. **Government final consumption expenditures rose by 1.3 % in 2025 compared to the previous year.** The main reason for the rise in government final consumption expenditures in 2025 was the increase in social benefits in kind, particularly expenditure on health and care as well as hospital services. Overall, nominal social benefits in kind rose significantly by 7.3 %. Compensation of employees in the public sector also rose sharply by 7.5 % compared to the previous year.

↘ CHART 17
Consumer indicators in Germany



1 – Volume index, seasonally and calendar-adjusted. 2 – Real index excluding the trade in motor vehicles. 3 – Seasonally adjusted, quarterly figures.Deflation is based on the deflator of final consumption expenditure. 4 – Net wages and salaries including monetary social benefits less social security contributions and consumption-related taxes. Deflation is based on the deflator of final consumption expenditure. 5 – Disposable income of private households. 6 – Seasonally adjusted figures. 7 – The Consumer confidence index and the indicators on price expectations and propensity to save are based on selected questions answered by consumers according to the Joint Harmonised EU Programme of Business and Consumer Surveys. They each refer to the coming 12 months. 8 – Based on about 2,000 consumer interviews per month.

Sources: European Commission, Federal Statistical Office, GfK, own calculations

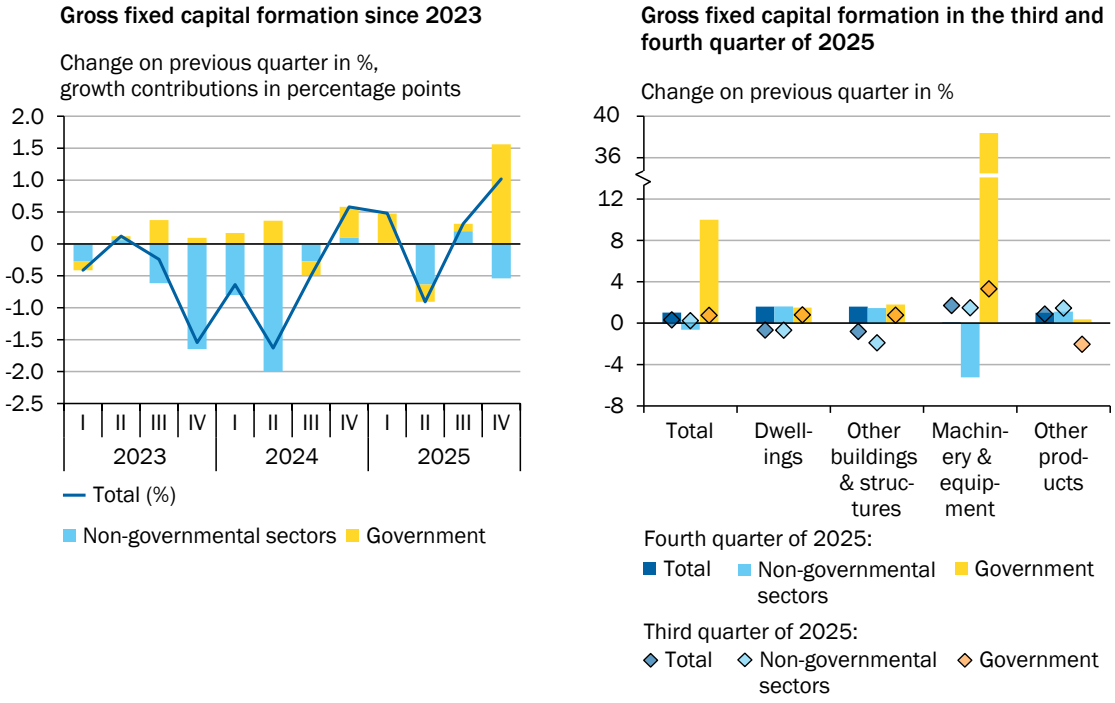
Government final consumption expenditures are expected **to rise** further over **the forecast period**, although the increase in the first quarter of 2026 is likely to remain limited due to the strong increases in the previous quarter. Government final consumption expenditures are expected to rise primarily due to higher intermediate consumption accompanying investment in machinery and equipment related to defence systems, as well as higher expenditures in the health sector. Although the compensation of employees is expected to grow over the forecast period, wage settlements in 2026, with an increase of 2.8 %, will be significantly lower than in the previous year. Staffing increases, particularly in the defence sector and in healthcare, are likely to play an important role in determining the compensation of employees. On an annual average, real **government consumption** is expected to rise by **1.8 %** in both **2026** and **2027**.

Gross fixed capital formation

52. In 2025, **gross fixed capital formation fell by 0.2 %** year-on-year **in real terms**, marking the fourth consecutive year **of decline**, with private investment in particular performing weakly. ↘ CHART 18 LEFT Public investment, by contrast, expanded strongly in 2025. The decisive factor here was a sharp rise in investment in machinery and equipment, which is likely to have been largely in the defence sector and attributable to the Bundeswehr Special Fund. ↘ CHART 18 RIGHT For example, a three-digit number of new Puma infantry fighting vehicles and at least two P-8A Poseidon combat aircraft were delivered to the Bundeswehr (Bundeswehr, 2025). However, government investment in machinery and equipment in 2025

↘ CHART 18

Private and public gross fixed capital formation[1]



1 – Seasonally, calendar and price adjusted.

Sources: Federal Statistical Office, own calculations
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accounted for only around 13 % of investment in machinery and equipment and was unable to fully offset the decline in private investment in machinery and equipment. Among investment in construction, real non-residential construction investment expanded in 2025 due to private sector impetus. Public non-residential construction investment stagnated compared to the previous year.

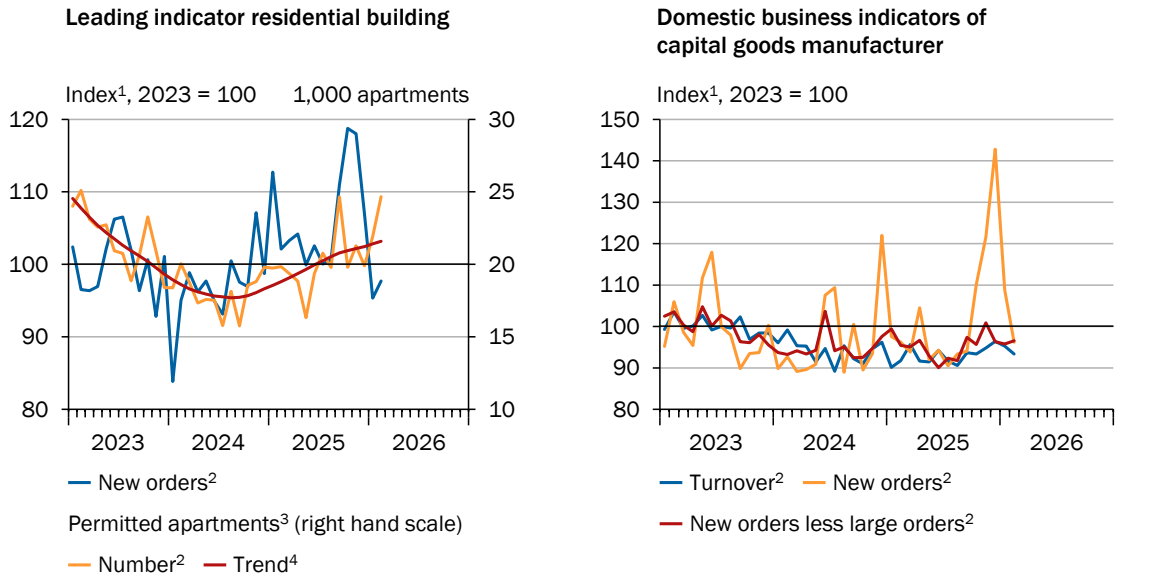
Price-, seasonally and calendar-adjusted gross fixed capital formation rose by 1.0 % in the final **quarter of 2025**. ↘ CHART 18 RIGHT The strong growth in investments in construction of 1.6 % came from both the private and public sectors. Despite a high growth rate in public equipment investment, **investment in machinery and equipment** expanded only slightly overall.

53. **Investment in construction is likely to have fallen in the first quarter of 2026** due to the exceptionally low temperatures in January and February. This is indicated by the low capacity utilisation in January and February (ifo Institute, 2026b) and the decline in construction production in January and February 2026 compared with the fourth quarter of 2025. ↘ CHART 12 LEFT

Over the remainder of the forecast period, rising public infrastructure spending is likely to be reflected in higher investment in civil engineering. Furthermore, private residential construction is also expected to expand. Building permits for residential properties have been on an upward trend since mid-2024 ↘ CHART 19 LEFT and the order book in residential construction has been rising in its trend since the start of 2025. In January 2026, however, new orders fell significantly and recovered only slightly in February. Furthermore, business expectations in the main construction sector deteriorated significantly in April 2026 as a result of the war in Iran (ifo Institute, 2026b). The effective interest rate on home construction loans to private households stood at 3.9 % in February 2026, slightly higher than the previous year's average. Interest rates on home construction loans are also likely to rise in the event of a key interest rate hike, ↘ ITEM 28 thereby worsening financing conditions. Furthermore, the energy supply shock is driving up the cost of key building materials such as bitumen. The GCEE expects **real investment in construction** to expand **by 1.1 % in 2026** and **by 2.3 % in 2027** compared with the previous year.

54. Private and public investment in machinery and equipment is likely to have moved in opposite directions in the first quarter of 2026, as in the previous quarter. Public investment in machinery and equipment is likely to have fallen significantly following the sharp rise in the fourth quarter of 2025. This is suggested, for example, by the significantly lower outflow of funds from the Bundeswehr special fund compared to the previous quarter. In contrast, a positive rebound is expected in investment in machinery and equipment following the weak previous quarter. Overall, however, **gross fixed capital formation is** likely **to have fallen in the first quarter of 2026**. Production and domestic turnover by capital goods manufacturers declined on average in January and February compared with the average for the fourth quarter of 2025. The sharp rise in energy prices following the war in Iran is likely to have had a negative impact on industrial production since March 2026 ↘ CHART 13 BOTTOM RIGHT and thereby dampened private investment in machinery and equipment.

↘ CHART 19
Indicators for gross fixed capital formation



1 – Volume index. 2 – Seasonally and calendar-adjusted values. 3 – Building permits granted for apartments (new construction and construction work on existing buildings) in residential and non-residential buildings. 4 – Seasonally adjusted values.

Sources: Federal Statistical Office, own calculations

55. Over the remainder of the forecast period, public investment in machinery and equipment is expected to expand significantly due to rising investment in military weapon systems. This is already indicated by the major orders received by capital goods manufacturers at the end of 2025. ↘ CHART 19 RIGHT **Private investment in machinery and equipment,** by contrast, is expected to grow only modestly. Domestic order intake at capital goods manufacturers, adjusted for major orders, has been stagnating in trend terms since the start of 2024 and has recently increased only slightly. Furthermore, higher energy costs are likely to act as a dampener. Calculations by the GCEE show that an oil supply shock accompanied by a rise in the oil price of around 60 %, such as that observed in March 2026, would reduce German industrial production immediately by around 2.8 % and by around 3.5 % after approximately two years. ↘ CHART 13 BOTTOM RIGHT This is likely to have a particularly negative impact on investment in machinery and equipment in 2026. Consequently, business expectations among capital goods manufacturers deteriorated significantly in March and April (ifo Institute, 2026b). A sustained recovery in private investment in machinery and equipment is not expected until later in the forecast period. For 2026, a real increase in investment in machinery and equipment of 0.2 % is anticipated. In 2027, the GCEE expects growth in real investment in machinery and equipment of 3.1 %.

Foreign trade

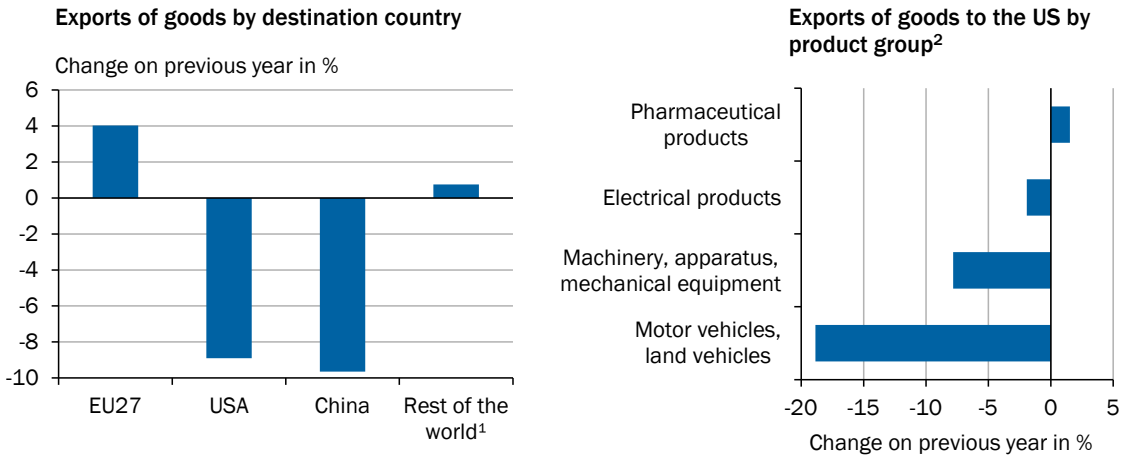
56. **In 2025,** real **exports fell** by **0.4 % compared to the previous year**. Whilst exports of goods fell by 1.0 %, exports of services rose significantly by 1.2 %. Over the course of the year, the momentum of goods exports was strongly influenced by US tariff policy.

According to figures from the monthly foreign trade statistics, which allow for a breakdown of nominal exports by destination market and product group, exports of goods to the EU were the main driver of growth, whereas exports of goods to the US and China fell significantly and those to the rest of the world continued to perform weakly. ↘ CHART 20 LEFT An analysis of the four main product groups shows that exports of motor vehicles were particularly hard hit by US import tariffs in 2025. ↘ CHART 20 RIGHT In 2025, they were 18.9 % lower than in the previous year.

57. **Exports are likely to have risen in the first quarter of 2026.** This is indicated by the price-, seasonally and calendar-adjusted goods export data published by the Deutsche Bundesbank. These rose by 0.9 % in January and February 2026 compared to the previous quarter's average. In the second quarter of 2026, exports are likely to decline compared with the previous quarter as a result of the impact of the war in Iran. ↘ ITEM 10 German exports are thus likely to be dampened in particular by the negative impact on global industrial production and significantly weaker consumer confidence. ↘ BOX 1 Although sentiment in the German export sector improved slightly in April 2026, the outlook for the coming months remains subdued (ifo Institute, 2026c).

Over the remainder of the forecast period, German exports are likely to grow only modestly despite continued expansion in sales markets. ↘ CHART 21 LEFT Improved foreign orders in the manufacturing sector could provide a supportive effect. This rose sharply in November and December 2025 due to large orders. ↘ ITEM 40 Following a reversal in January, they rose again in February 2026 and ultimately stood 4.4 % above the level of the same month of the previous year. The further development of goods exports to the US, as the most important trading partner among third countries, could, however, remain subdued due to the continuing high US import tariffs. ↘ ITEM 13 Furthermore, strong competition from Chinese industrial firms on international markets is likely to persist, ↘ BOX 5

↘ CHART 20
Trends in German goods exports in 2025



1 – Calculated as the difference between total exports and exports to the EU27, the US and China. 2 – The four largest commodity groups by value in 2024 are shown, according to the commodity classification of foreign trade statistics (2-digit level).

Sources: Federal Statistical Office, own calculations

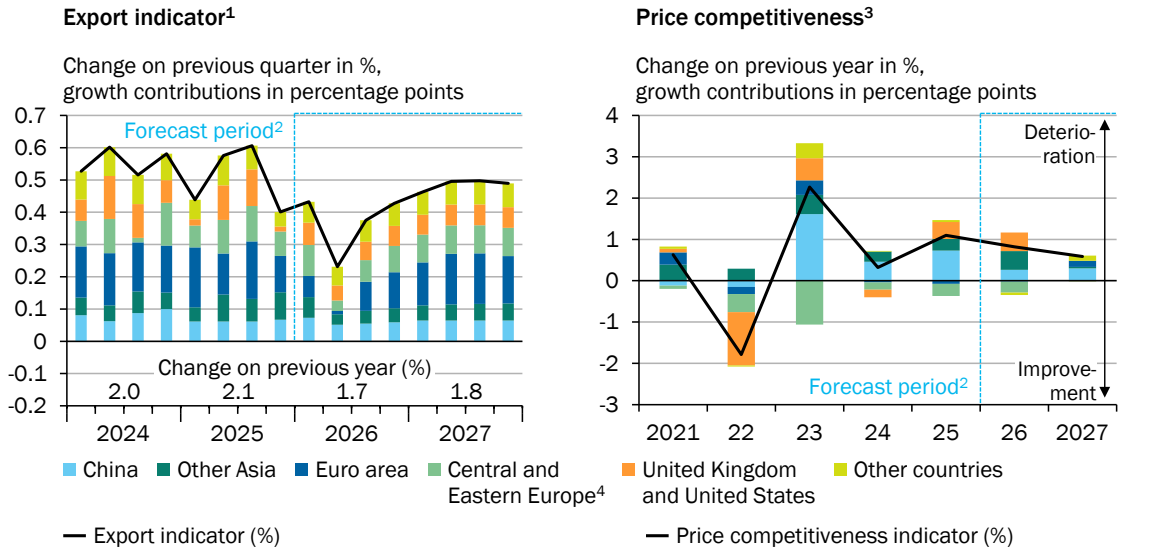
and the appreciation of the euro is likely to continue to weigh on price competitiveness. ↘ CHART 21 RIGHT ↘ ITEM 29 Due to the negative statistical overhang from 2025 amounting to 0.9 % and the slight increase in exports of 0.3 % over the course of 2026, exports are expected to stagnate on an annual average in 2026 and to increase by 0.9 % year-on-year in 2027.

58. **In 2025**, real **imports** rose **sharply by 3.6 %** compared to the previous year. Imports of goods increased significantly more strongly at 4.8 % than imports of services at 0.9 %. As with exports, the momentum of imports during the year was strongly influenced by US trade policy. According to the monthly foreign trade statistics, China accounted for the strongest demand among Germany's most important import partners. Imports from China rose by 9.3 % year-on-year. Among the most important imported goods, toys, clothing and motor vehicles recorded the highest growth rates.

59. **Imports are likely to have declined in the first quarter of 2026.** This is implied by the price-, seasonally and calendar-adjusted goods import data published by the Deutsche Bundesbank, which show a 2.6 % decline in goods imports in January and February 2026 compared with the previous quarter's average. In the second quarter of 2026, the sharp rise in energy prices resulting from the war in Iran is likely to further dampen imports compared with the previous quarter. ↘ ITEM 10

↘ CHART 21

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 – Forecast by the GCEE for the export indicator and the price competitiveness indicator. 3 – 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. 4 – Czechia, Hungary, Poland, Romania.

Sources: Deutsche Bundesbank, national statistical offices, own calculations

Imports are expected to rise over **the** remainder **of the forecast period**. This is partly due to the sharp increase in gross fixed capital formation in machinery and equipment, which is stimulating demand for foreign defence goods. The continued strength of the euro is likely to underpin the growth in imports. By contrast, private gross fixed capital formation in machinery and equipment, which is performing weakly, is unlikely to provide much of a boost. ↘ ITEM 55 Imports carry over a positive statistical overhang of 0.6 % from the previous year. Over the course of the year, imports are expected to rise by 0.1 %, resulting in average growth of 0.8 % for 2026. In 2027, imports are expected to increase by 2.0 % compared to the previous year.

60. The rise in energy prices resulting from the war in Iran is expected to lead to a significant increase in **import prices**. ↘ ITEM 10 These rose by 3.6 % in March 2026 compared to the previous month. On an annual average, import prices are expected to rise by 5.4 % in 2026 and by 2.2 % in 2027. The resulting rise in domestic production costs is expected to be passed on by firms, at least in part, to their customers through higher prices. This is also likely to lead to a noticeable increase in **export prices**. These are expected to rise by 3.1 % in 2026 and by 1.8 % in 2027.

61. **The currently expected sharper rise in import prices relative to export prices represents a deterioration in the terms of trade.** This reduces the purchasing power of domestic output, as a given volume of exports can purchase fewer imports. This implies a loss of real income. In contrast to real GDP as defined by the national accounts, command-basis GDP reflects this loss of real income, ↘ BACKGROUND INFO 3 as it takes into account the purchasing power of domestically generated income. Accordingly, the forecast growth in command-basis GDP is lower in both 2026 (–0.3 %) and 2027 (0.6 %) than the real GDP growth according to the national accounts definition.

↘ TABLE 3

Key economic indicators for Germany

	Unit	2024	2025	2026[1]	2027[1]
Gross domestic product[2,3]	**Growth in %**	**– 0.5**	**0.2**	**0.5**	**0.8**
Final consumption expenditure	Growth in %	1.1	1.5	0.8	0.9
Private consumption[4]	Growth in %	0.5	1.6	0.3	0.5
Government consumption	Growth in %	2.6	1.3	1.8	1.8
Gross fixed capital formation	Growth in %	– 3.3	– 0.2	1.3	2.8
Investment in machinery & equipment[5]	Growth in %	– 5.4	– 1.9	0.2	3.1
Construction investment	Growth in %	– 3.4	– 0.6	1.1	2.3
Other products	Growth in %	0.2	3.8	3.5	3.6
Domestic demand[3]	Growth in %	0.2	1.8	0.9	1.2
Net exports	Growth contribution in percentage points	– 0.7	– 1.5	– 0.3	– 0.4
Exports of goods and services	Growth in %	– 2.1	– 0.4	– 0.0	0.9
Imports of goods and services	Growth in %	– 0.6	3.6	0.8	2.0
Current account balance[6]	**%**	**5.9**	**4.5**	**3.4**	**3.0**
Persons employed (domestic)	**1,000**	**45,987**	**45,982**	**45,905**	**45,875**
Persons employed, covered by social security	**1,000**	**34,934**	**34,963**	**34,982**	**35,002**
Registered unemployment, stocks	**1,000**	**2,787**	**2,948**	**2,997**	**2,936**
Unemployment rate[7]	**%**	**6.0**	**6.3**	**6.4**	**6.2**
Consumer prices[8]	**Growth in %**	**2.2**	**2.2**	**3.0**	**2.8**
Budget balance[9]	**%**	**– 2.7**	**– 2.7**	**– 3.7**	**– 4.3**
Gross domestic product per capita[10,11]	**Growth in %**	**– 0.8**	**0.2**	**0.7**	**0.9**
Gross domestic product, calendar-adjusted[11]	**Growth in %**	**– 0.5**	**0.3**	**0.3**	**0.6**

1 – Forecast by the GCEE. 2 – Price-adjusted. Change on previous year. Also applies to all listed components of GDP. 3 – As the expenditure-side composition of the revisions to GDP in 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems. 6 – In relation to GDP. 7 – Registered unemployed in relation to civil labour force. 8 – Change on previous year. 9 – Regional auhorities and social security according to national accounts; in relation to GDP. 10 – Population development according to medium-term projection of the GCEE calculations. 11 – Price-adjusted. Change on previous year.

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

↘ BACKGROUND INFO 3

Command-basis GDP

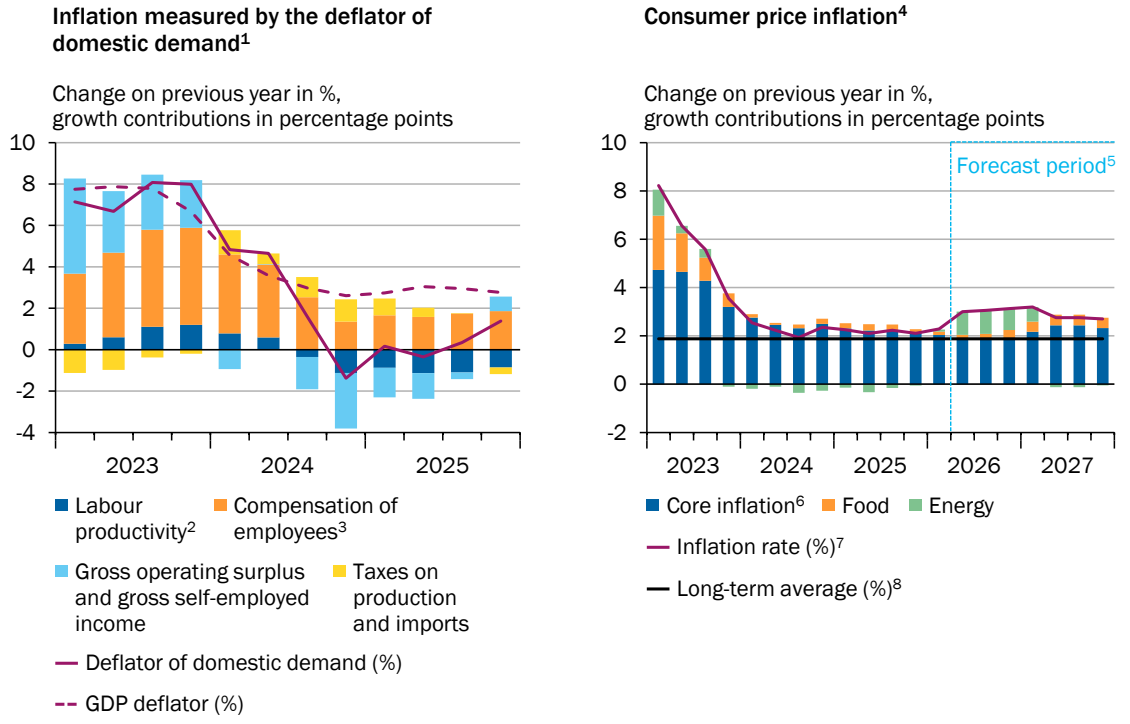
Command-basis GDP is a measure of a country's economic output that takes into account not only the quantities produced but also changes in the terms of trade (i.e. the ratio of export prices to import prices). Whilst real GDP measures only the volume of domestic production, command-basis GDP shows how the purchasing power of the goods produced changes when foreign trade prices shift. If, for example, import prices rise relative to export prices, a country can purchase fewer goods from abroad with the same volume of production. Consequently, command-basis GDP then falls more sharply than real GDP. Command-basis GDP therefore serves to better reflect the actual effect of foreign trade developments on purchasing power, and is relevant for open economies such as Germany in times of high

foreign trade price volatility. The calculation of command-basis GDP is based on adjusting nominal GDP for price changes using the domestic use deflator, as this captures the price trends of goods consumed using income generated domestically.

2. Inflation rises due to energy prices

62. **Inflation in Germany has surged as a result of the energy price shock following the Iran war.** Having fluctuated around the 2 per cent mark at the start of the year, inflation has recently risen sharply. In March, consumer prices were 2.7 per cent higher than a year earlier. ↘ CHART 22 RIGHT This development was driven by energy prices, which rose by 7.2 %. In February, they had still been 2 % below their level of the previous year. Heating oil and fuel in particular became significantly more expensive compared with February (40 % and 15 % respectively), whereas prices for other energy sources such as natural gas and electricity have not yet reacted to the energy price shock. According to the flash estimate, inflation continued to rise in April: year-on-year, energy prices were 10.1 % higher than the previous year, whilst consumer prices overall rose by 2.9 %. Meanwhile, the year-on-year increase in the consumer price index excluding food and energy ('core inflation rate') edged back slightly. This was due to prices for services, which rose by only 2.8 %, the lowest rate in four years.

↘ CHART 22
Inflation in Germany



1 – As of February 2026 2 – Increases in labour productivity have a negative impact on the deflator of domestic demand. 3 – According to the domestic concept. 4 – Based on seasonally and calendar-adjusted data. 5 – Forecast by the GCEE. 6 – Overall index excluding food and energy. 7 – Consumer price index, seasonally and calendar-adjusted. 8 – Average over the period from 1999 to 2025.

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

63. **Consumer price inflation** will rise **significantly over the forecast period**. According to current futures prices, world market prices for crude oil and natural gas will peak in the summer and then gradually decline. However, even at the end of the forecast period, they will still be above the level that had been expected before the outbreak of the Iran war. ↘ ITEM 21 Whilst prices for certain energy sources, such as fuels have already risen significantly, natural gas and electricity are likely to become more expensive only after a certain delay, when existing contracts expire or are adjusted (GCEE Economic Outlook 2022 box 3). Increasingly, more expensive energy and intermediate goods will also lead to sharper price rises for other consumer goods and noticeably increase the core rate. Added to this are rising food prices. The de facto blockade of the Strait of Hormuz has also disrupted global trade in fertilisers, leading to a sharp rise in prices, ↘ ITEM 23 which is likely to persist over the forecast period. This is currently indicated, for example, by sharply risen forward prices for urea fertiliser. By contrast, the appreciation of the euro over the past year has a dampening effect on prices, ↘ ITEM 29 meaning that prices for imported industrial goods excluding energy are likely to rise less sharply than last year. Calculations by the Deutsche Bundesbank suggest that a one-percentage-point increase in the effective exchange rate reduces consumer price inflation by 0.1 % (Deutsche Bundesbank, 2025b). The GCEE expects consumer prices to rise by 3.0 % this year. In 2027, inflation is likely to ease slightly to 2.8 %. The core rate is expected to be 2.3 % this year and to rise to 2.9 % next year.

64. Import prices, which have risen significantly since March 2026, have varying effects on different measures of price trends in Germany. ↘ CHART 22 Whilst the consumer price index and the deflator for final domestic use capture price trends for goods used domestically, the GDP deflator measures price trends for goods produced domestically. A rise in the price of imported goods, such as energy, increases both the consumer price index and the deflator for final domestic use. Such a price rise, however, does not have an upward effect on the GDP deflator.

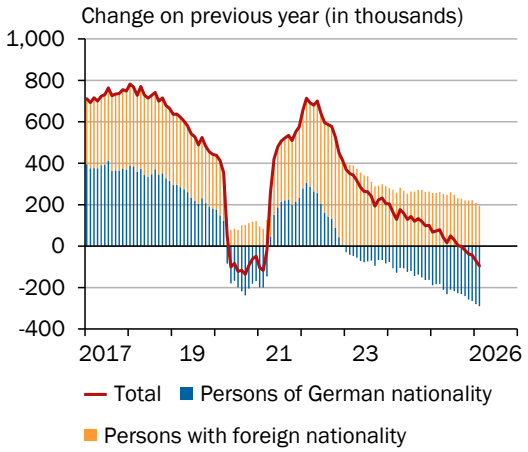
3. Demographic change is shaping the labour market

65. Developments in the labour market continue to be **shaped** by the **economic downturn and, increasingly, by demographic change**. In the first quarter of 2026, the number of people in employment fell by 0.1 % on a seasonally adjusted basis compared with the previous quarter. Seasonally adjusted employment subject to social insurance contributions fell slightly in February 2026 compared with the previous month. For some time now, the growth in employment subject to social insurance contributions has been driven exclusively by people without German citizenship, whilst the number of employees with German citizenship has been falling steadily. ↘ CHART 23 TOP LEFT Public administration, the manufacturing sector and social services are particularly hard hit by demographic change. ↘ CHART 23 TOP RIGHT In the manufacturing sector, the economic downturn is resulting in substantial job losses, primarily because positions vacated through natural turnover and retirements are not being refilled rather than through layoffs. The seasonally adjusted unemployment rate has risen slightly recently and stood at 6.4 % in April 2026.

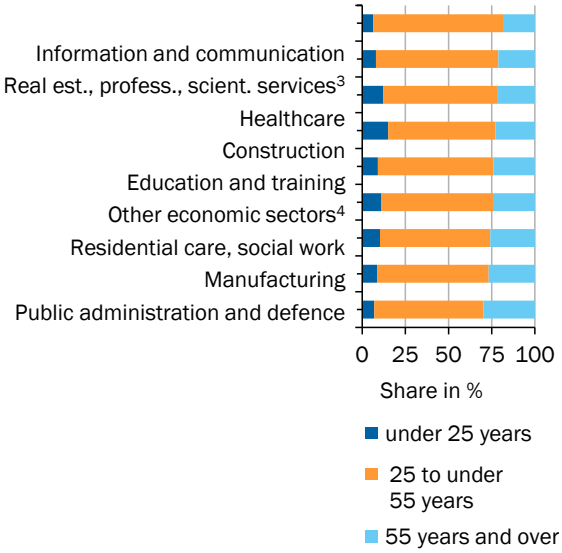
↘ CHART 23

Labour market developments

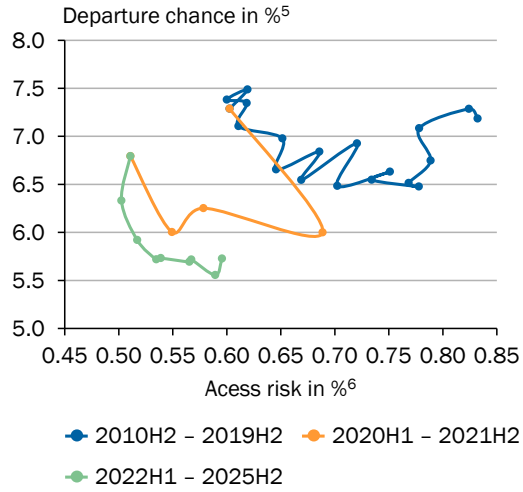
Employment trends by nationality[1]



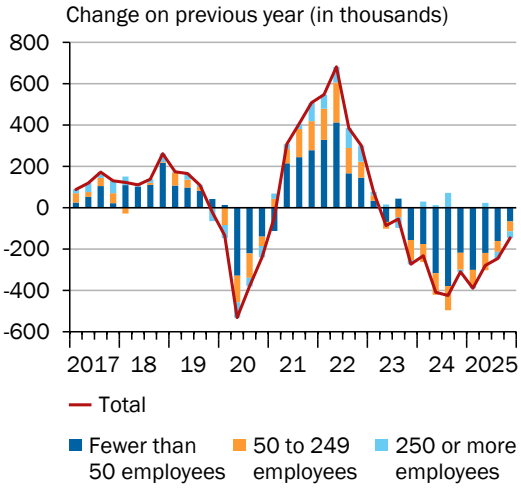
Age distribution by selected economic sectors in 2025[2]



Unemployment: Probability of leaving and risk of entering



Vacancies by company size[7]



1 – Employees subject to social security contributions; seasonally adjusted figures. 2 – Employees subject to social security contributions as at 30 September 2025; economic sectors according to the Classification of Economic Activities, 2008 edition (WZ 2008). 3 – Real estate, professional, scientific and technical services. 4 – Agriculture, forestry and fishing; mining and quarrying; energy supply; water supply; sewerage, waste management and remediation activities; wholesale and retail trade; maintenance and repair of motor vehicles; transport and storage; accommodation and food service activities; Financial and insurance services; Other (economic) services; Arts, entertainment and recreation. 5 – 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. 6 – 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. 7 – By number of employees subject to social insurance contributions in the enterprise.

Sources: Federal Employment Agency, IAB, own calculations

66. Looking at inflows and outflows from unemployment, it is clear that the **risk of becoming unemployed** is **relatively low**. ↘ CHART 23 BOTTOM LEFT However, firms' reluctance to hire means that the chances of leaving unemployment are also low. A look at company size categories shows that a decline in job vacancies is particularly evident among smaller firms. ↘ CHART 23 BOTTOM RIGHT

67. Employment indicators such as the ifo Employment Barometer or the IAB Labour Market Barometer suggest that a **rapid recovery in labour demand** is **not currently foreseeable**. Furthermore, the total labour force is set to decline for demographic reasons. This is primarily due to low net immigration during the forecast period. ↘ ITEM 77 The number of people in employment is therefore likely to decline slightly in both 2026 and 2027. ↘ TABLE 4 The unemployment rate is expected to rise slightly to 6.4 % this year and fall to 6.2 % in 2027. ↘ TABLE 4

68. Following a 1.9 % increase in 2025, real wages will have almost returned to their 2019 levels by the end of 2025, prior to the onset of the COVID-19 pandemic (Federal Statistical Office, 2026b). **However, wage growth is set to slow over the forecast period**. Collective agreement wages are expected to rise by 2.8 % this year and by 2.9 % in 2027. ↘ TABLE 4 Real earnings are expected to rise by 3.5 %

↘ TABLE 4

Labour market in Germany

	2024	2025	2026[1]	2027[1]	2026[1]	2027[1]
	Annual value				Change on previous year	
	1,000 persons				%	
Labour force[2]	47,320	47,482	47,425	47,306	– 0.1	– 0.3
Unemployed persons[3]	1,490	1,652	1,674	1,585	1.4	– 5.3
Employed persons[4]	45,987	45,982	45,905	45,875	– 0.2	– 0.1
Employees subject to social security contributions	34,934	34,963	34,982	35,002	0.1	0.1
Exclusively marginally employed[5]	4,180	4,121	4,048	4,015	– 1.8	– 0.8
Registered unemployed persons	2,787	2,948	2,997	2,936	1.6	– 2.0
Underemployment excluding short-time work[6]	3,577	3,627	3,662	3,583	0.9	– 2.1
Short-time work (Employment equivalence)[7]	87	90	71	54	– 21.5	– 24.2
	Yearly averages in %				Percentage points	
Unemployment rate (FEA)[8]	6.0	6.3	6.4	6.2	0.1	– 0.1
Unemployment rate (ILO)[9]	3.4	3.8	3.8	3.6	0.0	– 0.2
	Change on previous year in %					
Collectively agreed wages (hourly concept)	4.8	2.7	2.8	2.9	.	.
Effective wages[10]	5.3	4.5	3.5	3.4	.	.

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 in accordance with § 8 Absatz 1 Nr. 1 SGB IV. 6 – According to the concept of underemployment by the FEA. 7 – Since 2025 forecast by the GCEE. 8 – Registered unemployed persons in relation to civilian labour force. 9 – Unemployed persons in relation to the civilian labour force, in each case persons in private households aged from 15 to 74 years. 10 – Gross wages and salaries (domestic concept) per employees' hour worked.

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

in 2026 and by 3.4 % in 2027. This means that the high wage drift seen in 2025 will decline over the forecast period. Due to rising inflation, real wage growth is likely to remain modest over the forecast period.

4. Expansionary fiscal policy stance

69. The expansionary course, which began with the expenditure of funds from the SVIK and the exemption rule for defence spending in the second half-year of 2025, is likely to intensify in 2026 and continue to be significantly shaped by these measures. Tax reliefs, primarily from the 2025 Tax Amendment Act and the Immediate Tax Investment Programme, and subsidies from the Climate and Transformation Fund (KTF) reinforce this momentum. Contractionary fiscal impulses, primarily due to rising supplementary contribution rates to statutory health insurance (GKV) and rising contribution rates for social long-term care insurance (SPV), are relatively weaker in comparison. The expansionary course is likely to continue in 2027. This is reflected in a declining structural general government balance over the forecast period. ↘ BOX 6

↘ BOX 6

Background: Real economic effects of the fiscal package in 2026 and 2027

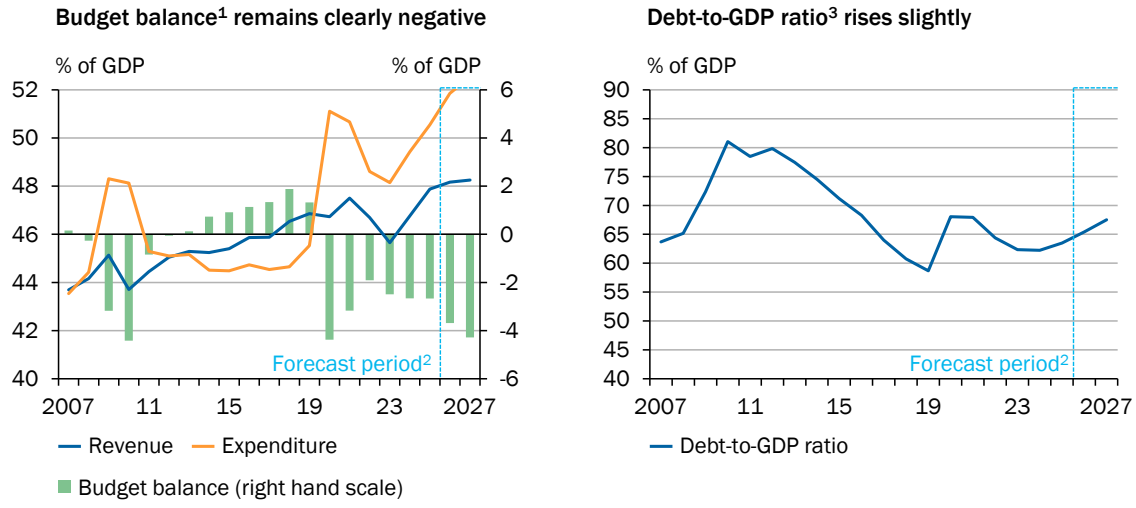
In its 2025 Annual Report, the GCEE presented a detailed assessment of the macroeconomic effects of possible expenditure paths for the SVIK and for the exemption rule for defence spending (GCEE Annual Report 2025 items 109 ff.). The simulations show that the effects on the overall economy depend largely on two factors: the degree of additionality relative to expenditures already planned, and the use of the funds for investment purposes. To achieve the greatest possible growth impact, the funds must be used for additional investment.

Against the backdrop of recent developments in cash outflows, the projections for 2026 and 2027 can be updated. Compared with the assumptions in the GCEE Annual Report 2025, this results in two significant changes. Firstly, the outflow of funds under the exemption rule is likely to be higher than previously assumed, particularly for investment in machinery and equipment. Secondly, there was no outflow from the SVIK of funds allocated to the federal states up to and including the first quarter of 2026.

Consequently, the short-term growth effects of the fiscal package have shifted compared with the previous assessment. The higher outflow of funds under the exemption rule boosts the stimulus for the overall economy in the short term, whilst the absence of outflows to the federal states to date dampens it. Overall, the contribution to growth of the fiscal package in 2026 is expected to remain unchanged from the forecast in the GCEE Annual Report 2025 and amount to 0.3 % of GDP. For 2027, a contribution to growth of 0.3 % of GDP is anticipated.

70. Government revenue is expected to increase by 3.5 % in nominal terms in 2026, which is 0.6 percentage points higher than the growth in GDP. ↘ TABLE 9 In 2027, government revenue is expected to increase by around 3.6 % in nominal terms, which is 0.2 percentage points higher than the growth in GDP. These increases are driven by strong growth in the wage tax and rises in contributions to the GKV and SPV schemes. At the same time, tax relief measures – including those under the Tax Development Act, the Immediate Tax Investment Programme and the

↘ CHART 24
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

reduction in VAT for the hospitality sector – are supporting the expansionary fiscal stance over the forecast period.

71. Overall, **government expenditure** will increase by 5.5 % and 4.8 % in nominal terms in 2026 and 2027 respectively. Government consumption is rising primarily due to higher intermediate consumption accompanying investment in machinery and equipment for defence, and due to the sharp rise in social benefits in kind in the health and care sectors. In addition, government expenditure is rising due to higher investment, particularly in the defence sector, additional investment grants from the SVIK, and higher subsidies from the KTF, which has been topped up with SVIK funds, for example to stabilise grid fees from 2026 onwards.

72. **The general government budget balance is expected to decline over the forecast period due to expansionary fiscal policy.** ↘ CHART 24 LEFT After –3.7 % in 2026, it will amount to –4.3 % of GDP in 2027. Consequently, the structural budget balance is expected to deteriorate by 1.0 percentage points to –3.3 % in 2026 and by 0.8 percentage points to –4.1 % in 2027. The debt-to-GDP ratio is expected to rise to 65.4 % of GDP in 2026 and to 67.5 % of GDP in 2027. ↘ CHART 24 RIGHT

5. Risks: Persistently high energy prices and protectionist US trade policy

73. The **uncertainty surrounding the duration and impact of the war in Iran** on the German economy poses a significant risk to this forecast. There is a risk that world market prices for crude oil and natural gas will remain higher over the forecast period than assumed based on futures prices at the cut-off date. ↘ BOX 4

To account for this high level of forecast uncertainty, a supplementary scenario for German GDP and inflation is considered, which reflects an alternative development in the price of crude oil. ↘ BOX 7 In this scenario, it is assumed that the crude oil price will rise to US$120 per barrel in May 2026 and remain at this level until October 2026. It is also assumed that the crude oil price will fall again from November 2026 and dip below the US$100 per barrel mark in the second quarter of 2027. The GCEE estimates that, under these less favourable conditions, GDP could grow by just 0.2 % in 2026 and 0.5 % in 2027. Consumer price inflation could then stand at 3.5 % in 2026 and 3.2 % in 2027.

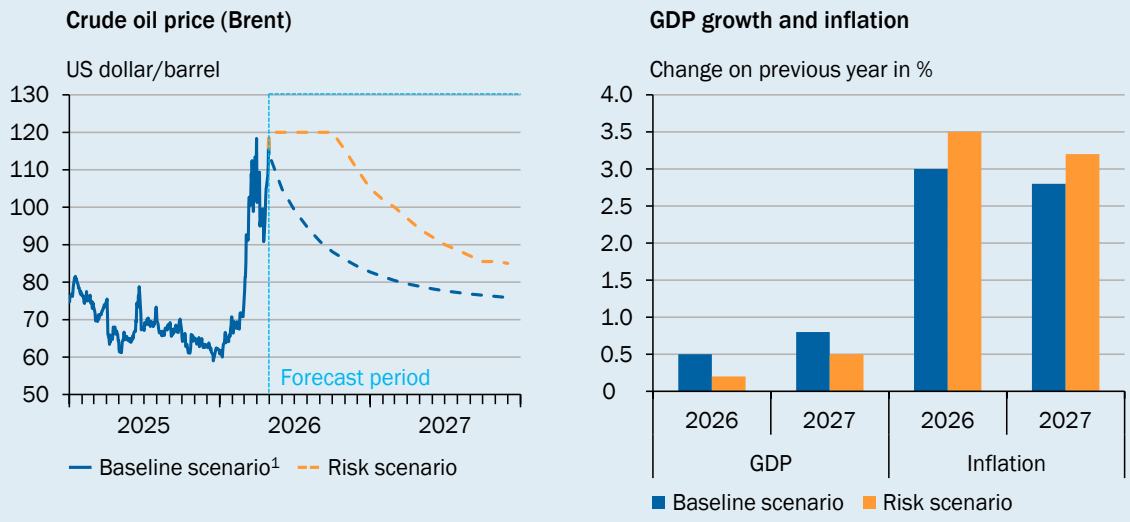
↘ BOX 7

SVR scenario analysis: The German economy over the forecast period

This forecast assumes that the price of crude oil will develop over the forecast period in line with the futures prices applicable as at the data cut-off date of 1 May 2026. ↘ BOX 4 This scenario is referred to below as the baseline scenario. ↘ CHART 25 LEFT However, the availability of crude oil and liquefied natural gas could be significantly constrained over a prolonged period, and the price of crude oil could remain above current expectations on the futures markets for longer. ↘ ITEM 32 The forecast is therefore subject to considerable risks. For this reason, a risk scenario is also considered, in which a higher crude oil price is assumed. It is assumed that the crude oil price will rise to 120 US dollars per barrel in May 2026 and remain at this level until October 2026. It is also assumed that the crude oil price will fall again from November 2026 and fall below the 100 US dollar per barrel mark in the second quarter of 2027. ↘ CHART 25 LEFT

↘ CHART 25

Scenario projections for the German economy over the forecast period



1 – Data observed up to April 2026; from May 2026 onwards, average futures prices of the last 10 trading days, retrieved on 1 May 2026.

Sources: LSEG Workspace, NYMEX, own calculations
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In such a risk scenario, a significantly greater dampening of private consumption is to be expected than assumed in the baseline scenario. Calculations by the GCEE show that consumer confidence and retail turnover in Germany would decline immediately and noticeably as a result of an oil price shock. ↘ CHART 13 TOP RIGHT AND BOTTOM LEFT Should negative oil supply shocks occur again in the second and third quarters of 2026 in the wake of the war with Iran, this is likely to

have a rapid and lasting negative impact on private consumption. In addition, higher energy prices would significantly increase consumer price inflation from the third quarter of 2026 onwards compared with the baseline scenario. Overall, GDP could grow by 0.2 % in 2026 and 0.5 % in 2027 under this scenario. Consumer price inflation could stand at 3.5 % in 2026 and 3.2 % in 2027.

74. There is a risk that the **trade conditions** for German exports of goods to the US could deteriorate further over the forecast period or that trade policy uncertainty could increase. For instance, higher US import tariffs could be used more extensively to pursue foreign and geopolitical objectives. Indications of this were provided, for example, by the threats of punitive tariffs against Germany and other EU member states made in January 2026 in connection with the Greenland conflict. Significantly higher tariffs could dampen German exports to the US. Furthermore, renewed sudden announcements of tariffs with unclear implementation and legal enforceability could further increase trade policy uncertainty and weigh on private gross fixed capital formation in machinery and equipment.

75. As funds from the SVIK are disbursed, demand for construction services could place a greater strain on existing production capacities in civil engineering than assumed in the forecast, thereby creating additional price pressure. There is also a risk that the rise in energy prices will feed through to construction prices more quickly and to a greater extent than anticipated. This could particularly affect energy-intensive intermediate inputs such as steel, as well as petroleum products such as bitumen. In both cases, **real public civil engineering investment** could **turn out to be lower** than forecast.

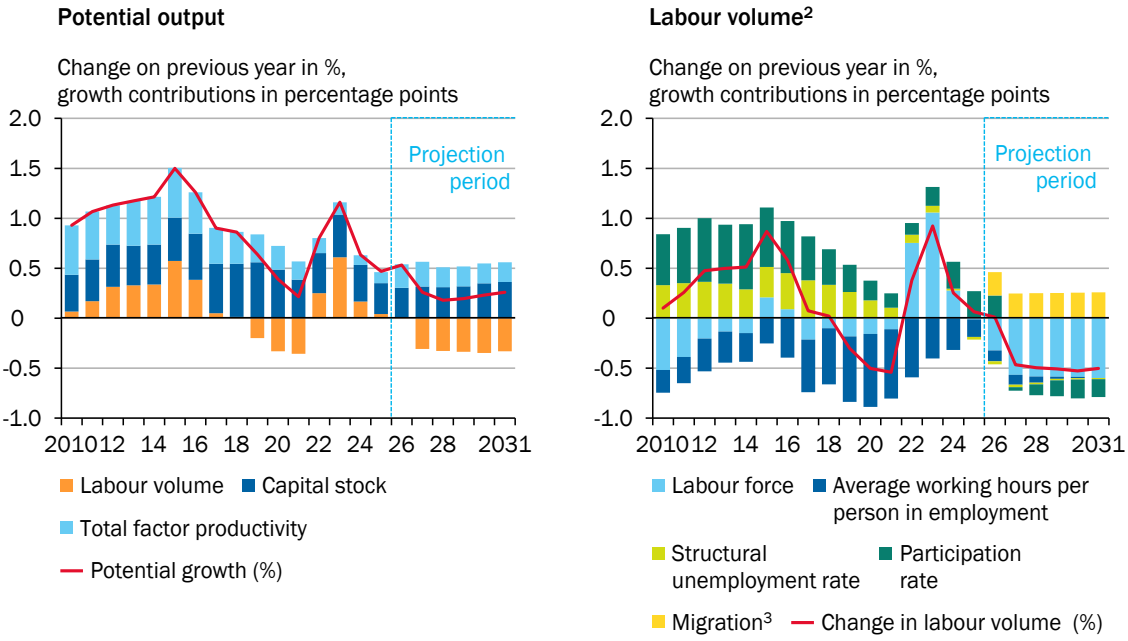
6. Potential output: capital formation as a support, demographics as a burden

76. **The GCEE estimates a potential output growth of 0.5 % and 0.3 % in 2026 and 2027, respectively.** In the following years until 2031, growth will slow significantly and is likely to be only around 0.2 % to 0.3 % per year. ↘ CHART 26 LEFT The annual contributions to growth from capital input are expected to rise slightly from 0.3 to 0.4 percentage points during the projection period. Total factor productivity (TFP) is expected to contribute around 0.2 percentage points per year during the projection period. Over the entire projection period, the labour input is expected to dampen potential output growth. ↘ CHART 26 RIGHT No contribution from the volume of labour is expected for 2026, and a negative contribution of 0.3 percentage points is expected for 2027. Over the remainder of the projection period up to 2031, the decline amounts to around 0.3 percentage points per year.

77. **For its current report, the GCEE is using the 16th coordinated population projection for the first time** ↘ BACKGROUND INFO 5 to produce the medium-term growth projection. In last year's GCEE Annual Report 2025, the GCEE assumed a net migration of 210,000 people for 2025, which would decline linearly

↘ CHART 26

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 2026; included in labour force until 2025.

Sources: Federal Statistical Office, own calculations
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to 150,000 people per year by 2032 and then remain constant at that level. In the current report, however, a constant net migration of 200,000 people per year is assumed from 2026 onwards. Thus, this assumption corresponds to a scenario between variants W1 and W2 of the 16th coordinated population projection. For birth rates and life expectancy, the medium ('moderate') variants G2 and L2 of this projection are used.

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 %					
		2025	2026[4]	2027[4]	2025	2026[4]	2027[4]
Euro area[5]	**100**	**1.5**	**0.7**	**1.0**	**2.1**	**3.0**	**2.6**
including:							
Germany	28.0	0.3	0.4	0.6	2.3	3.1	2.8
France	18.7	0.9	0.5	0.8	0.9	2.6	2.3
Italy	14.2	0.7	0.5	0.5	1.6	2.9	2.8
Spain	10.6	2.8	2.2	1.9	2.7	3.1	2.5
Netherlands	7.4	1.8	0.9	1.2	3.0	2.7	2.6
Belgium	4.0	1.0	0.5	1.1	3.0	3.5	2.8
Ireland	4.0	12.4	– 2.5	1.9	2.1	3.1	2.0
Austria	3.2	0.7	0.5	1.1	3.6	2.7	2.2
Portugal	1.9	1.9	1.2	1.6	2.2	3.0	2.2
Finland	1.8	0.2	1.3	1.3	1.8	2.3	2.0
Greece	1.6	2.2	1.9	1.7	2.9	3.8	2.2
memorandum:							
Euro area without Germany	**72.0**	**2.0**	**0.8**	**1.2**	**2.1**	**2.9**	**2.5**

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 21 euro area member states.

Sources: Eurostat, own calculations
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↘ TABLE 6

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

	2021	2022	2023	2024	2025	2026[2]	2027[2]
Statistical overhang at the end of the previous year[3]	2.5	1.0	– 0.1	– 0.2	0.1	0.1	0.1
Growth rate over the course of the year[4]	2.4	0.8	– 0.8	– 0.2	0.4	0.3	0.9
Annual rate of change of GDP, calendar adjusted	3.9	1.9	– 0.7	– 0.5	0.3	0.3	0.6
Calendar effect (in % of GDP)	0.0	– 0.1	– 0.2	0.0	– 0.1	0.3	0.1
Annual rate of change of GDP[5]	3.9	1.8	– 0.9	– 0.5	0.2	0.5	0.8

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
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↘ TABLE 7

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

	2021	2022	2023	2024	2025	2026[2]	2027[2]
Domestic demand[3]	**3.1**	**3.0**	**– 0.8**	**0.2**	**1.8**	**0.9**	**1.2**
Final consumption expenditure	1.7	3.4	– 0.4	0.8	1.1	0.6	0.7
Private consumption[4]	1.0	3.3	– 0.3	0.3	0.8	0.2	0.2
Government consumption	0.7	0.1	0.0	0.6	0.3	0.4	0.4
Gross fixed capital formation	0.2	0.0	– 0.4	– 0.7	0.0	0.3	0.6
Investment in machinery & equipment[5]	0.3	0.3	0.0	– 0.4	– 0.1	0.0	0.2
Construction investment	– 0.4	– 0.5	– 0.7	– 0.4	– 0.1	0.1	0.2
Other products	0.3	0.1	0.3	0.0	0.2	0.1	0.1
Changes in inventories[3]	1.2	– 0.4	0.0	0.1	0.7	0.0	0.0
Net exports	**0.8**	**– 1.2**	**0.0**	**– 0.7**	**– 1.5**	**– 0.3**	**– 0.4**
Exports of goods and services	4.0	1.7	– 0.7	– 0.9	– 0.2	0.0	0.3
Imports of goods and services	– 3.2	– 2.8	0.6	0.2	– 1.4	– 0.3	– 0.8
Gross domestic product[3] (%)	**3.9**	**1.8**	**– 0.9**	**– 0.5**	**0.2**	**0.5**	**0.8**

1 – Contributions to growth of price-adjusted GDP. Deviations in sums due to rounding. 2 – Forecast by the GCEE. 3 – As the expenditure-side composition of the revisions to GDP in 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems.

Sources: Federal Statistical Office, own calculations

↘ TABLE 8

Key figures of the national accounts

Absolute values

	Unit	2025	2026[1]	2027[1]	2026[1]		2027[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	3,384.2	3,512.9	3,645.3	1,714.2	1,798.6	1,772.9	1,872.4
Private consumption[2]	billion euro	2,377.9	2,456.6	2,537.1	1,199.6	1,257.0	1,234.8	1,302.3
Government consumption	billion euro	1,006.4	1,056.2	1,108.2	514.6	541.6	538.1	570.2
Gross fixed capital formation	billion euro	908.0	946.9	1,003.4	452.7	494.2	480.7	522.7
Investment in machinery & equipment[3]	billion euro	267.2	273.6	288.3	128.4	145.2	135.4	152.9
Construction investment	billion euro	461.8	483.0	512.7	233.1	249.9	248.6	264.1
Other products	billion euro	179.0	190.2	202.5	91.1	99.1	96.8	105.7
Domestic demand[4]	billion euro	4,364.5	4,545.4	4,731.6	2,219.8	2,325.6	2,305.6	2,425.9
Exports of goods and services	billion euro	1,807.4	1,862.0	1,911.5	916.1	945.8	944.6	966.9
Imports of goods and services	billion euro	1,702.1	1,808.9	1,886.1	875.9	933.1	917.8	968.3
Gross domestic product[4]	**billion euro**	**4,469.8**	**4,598.4**	**4,757.0**	**2,260.0**	**2,338.4**	**2,332.4**	**2,424.6**
Chained volumes								
Final consumption expenditure	billion euro	2,754.0	2,774.8	2,799.1	1,369.8	1,405.0	1,376.0	1,423.1
Private consumption[2]	billion euro	1,926.8	1,932.9	1,941.7	952.3	980.6	952.4	989.4
Government consumption	billion euro	827.5	842.3	857.9	417.7	424.6	423.9	434.0
Gross fixed capital formation	billion euro	700.8	710.0	730.1	340.8	369.2	351.3	378.8
Investment in machinery & equipment[3]	billion euro	224.1	224.5	231.5	105.5	119.0	108.9	122.7
Construction investment	billion euro	322.6	326.3	333.9	158.7	167.6	163.1	170.8
Other products	billion euro	158.3	163.9	169.8	78.5	85.4	81.2	88.6
Domestic demand[4]	billion euro	3,519.9	3,551.5	3,594.6	1,749.0	1,802.5	1,765.3	1,829.3
Exports of goods and services	billion euro	1,485.3	1,484.6	1,497.4	736.4	748.2	742.3	755.1
Imports of goods and services	billion euro	1,393.6	1,404.9	1,433.1	689.0	715.9	699.7	733.3
Gross domestic product[4]	**billion euro**	**3,608.8**	**3,628.7**	**3,656.3**	**1,795.1**	**1,833.7**	**1,806.6**	**1,849.8**
Price Development (deflators)								
Final consumption expenditure	2020=100	122.9	126.6	130.2	125.2	128.0	128.8	131.6
Private consumption[2]	2020=100	123.4	127.1	130.7	126.0	128.2	129.7	131.6
Government consumption	2020=100	121.6	125.4	129.2	123.2	127.6	126.9	131.4
Gross fixed capital formation	2020=100	129.6	133.4	137.4	132.8	133.9	136.8	138.0
Investment in machinery & equipment[3]	2020=100	119.2	121.9	124.5	121.8	122.0	124.4	124.7
Construction investment	2020=100	143.1	148.0	153.5	146.9	149.1	152.4	154.6
Other products	2020=100	113.1	116.1	119.2	116.1	116.1	119.1	119.4
Domestic demand[4]	2020=100	124.0	128.0	131.6	126.9	129.0	130.6	132.6
Terms of Trade	2020=100	99.6	97.4	97.0	97.9	97.0	97.0	97.0
Exports of goods and services	2020=100	121.7	125.4	127.7	124.4	126.4	127.3	128.1
Imports of goods and services	2020=100	122.1	128.8	131.6	127.1	130.3	131.2	132.0
Gross domestic product[4]	**2020=100**	**123.9**	**126.7**	**130.1**	**125.9**	**127.5**	**129.1**	**131.1**
Production of domestic product								
Employed persons (domestic)	1,000	45,982	45,905	45,875	45,794	46,017	45,766	45,984
Labour volume	million hours	61,259	61,092	60,996	30,059	31,032	29,907	31,089
Labour productivity (per hour)	2020=100	100.9	101.7	102.6	102.4	101.2	103.5	101.9
Distribution of net national income								
Net national income	billion euro	3,307.2	3,402.4	3,539.6	1,647.2	1,755.2	1,709.6	1,829.9
Compensation of employees	billion euro	2,477.1	2,566.2	2,660.4	1,232.0	1,334.1	1,275.6	1,384.8
Gross wages and salaries	billion euro	2,037.2	2,108.6	2,184.3	1,010.0	1,098.6	1,045.1	1,139.2
among them: net wages and salaries[5]	billion euro	1,407.4	1,444.0	1,483.3	685.9	758.0	703.6	779.7
Property and entrepreneurial income	billion euro	830.1	836.2	879.2	415.1	421.1	434.0	445.1
Disposable income of private households[2]	billion euro	2,589.1	2,670.3	2,759.3	1,317.5	1,352.7	1,360.3	1,398.9
Savings rate of private households[2,6]	%	10.3	10.1	10.1	11.0	9.2	11.2	9.0
For information purposes:								
Nominal unit labour costs[7]	2020=100	122.5	125.8	129.0	122.3	129.2	125.4	132.6
Real unit labour costs[8]	2020=100	98.9	99.3	99.2	97.1	101.3	97.1	101.1
Consumer prices	2020=100	121.9	125.5	129.0	124.6	126.5	128.3	129.9

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – 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 %

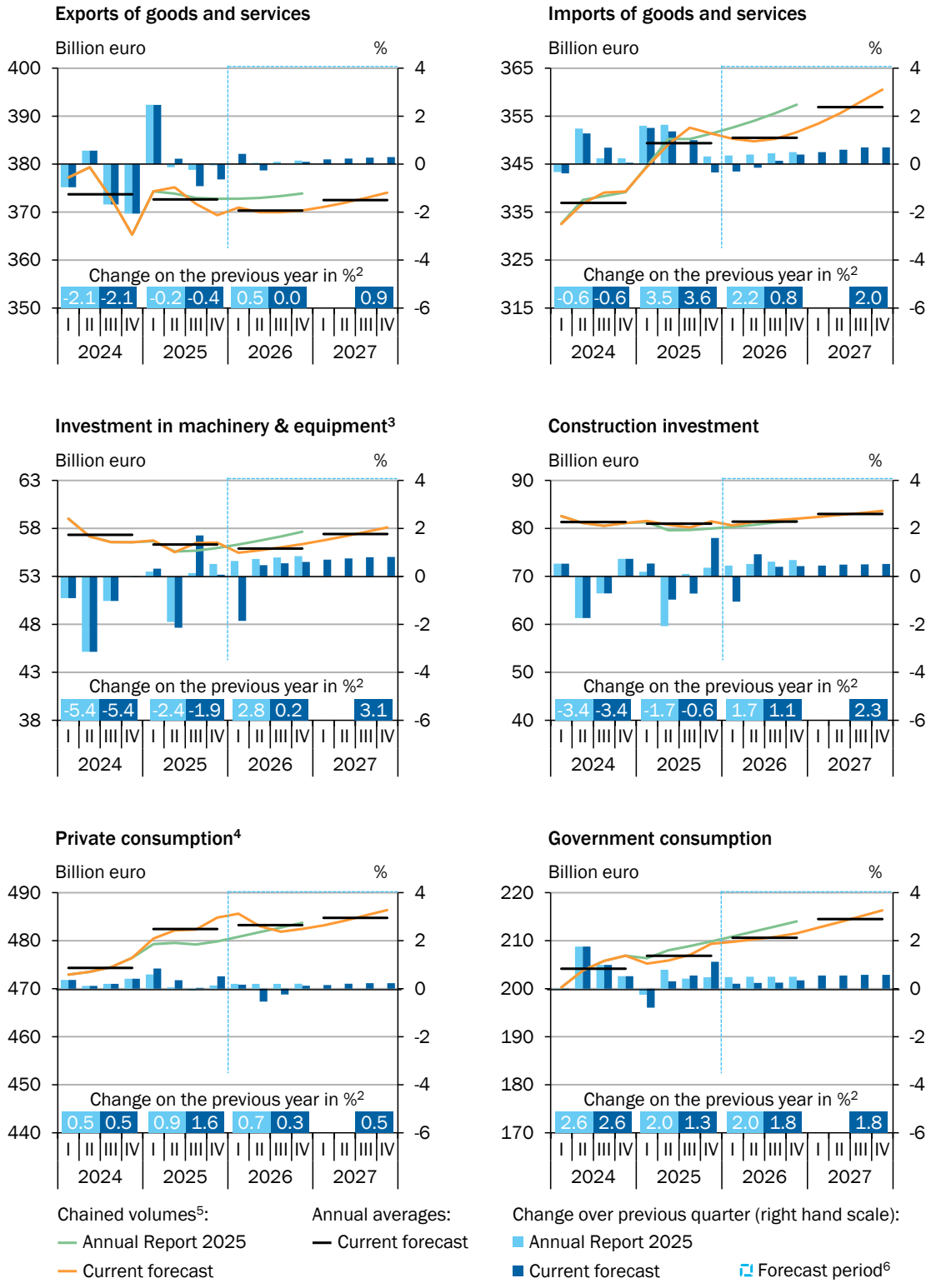
2025	2026[1]	2027[1]	2026[1]		2027[1]		
			1. half-year	2. half-year	1. half-year	2. half-year	
							Use of domestic product
							at current prices
4.6	3.8	3.8	4.1	3.5	3.4	4.1	Final consumption expenditure
4.2	3.3	3.3	3.5	3.1	2.9	3.6	Private consumption[2]
5.7	5.0	4.9	5.5	4.4	4.6	5.3	Government consumption
2.5	4.3	6.0	3.3	5.2	6.2	5.8	Gross fixed capital formation
0.0	2.4	5.4	1.5	3.2	5.5	5.3	Investment in machinery & equipment[3]
2.5	4.6	6.1	3.1	6.0	6.6	5.7	Construction investment
6.6	6.3	6.4	6.5	6.1	6.2	6.6	Other products
4.8	4.1	4.1	4.4	3.9	3.9	4.3	Domestic demand[4]
0.8	3.0	2.7	1.2	4.9	3.1	2.2	Exports of goods and services
4.4	6.3	4.3	4.9	7.6	4.8	3.8	Imports of goods and services
3.3	**2.9**	**3.4**	**2.8**	**2.9**	**3.2**	**3.7**	**Gross domestic product[4]**
							Chained volumes
1.5	0.8	0.9	1.1	0.4	0.5	1.3	Final consumption expenditure
1.6	0.3	0.5	0.7	0.0	0.0	0.9	Private consumption[2]
1.3	1.8	1.8	2.1	1.5	1.5	2.2	Government consumption
-0.2	1.3	2.8	0.5	2.1	3.1	2.6	Gross fixed capital formation
-1.9	0.2	3.1	-0.6	0.9	3.2	3.0	Investment in machinery & equipment[3]
-0.6	1.1	2.3	-0.1	2.3	2.8	1.9	Construction investment
3.8	3.5	3.6	3.7	3.4	3.5	3.7	Other products
1.8	0.9	1.2	1.2	0.6	0.9	1.5	Domestic demand[4]
-0.4	0.0	0.9	-1.0	0.9	0.8	0.9	Exports of goods and services
3.6	0.8	2.0	1.1	0.6	1.6	2.4	Imports of goods and services
0.2	**0.5**	**0.8**	**0.3**	**0.7**	**0.6**	**0.9**	**Gross domestic product[4]**
							Price Development (deflators)
3.1	3.0	2.9	2.9	3.1	2.9	**2.8**	Final consumption expenditure
2.6	3.0	2.8	2.8	3.2	2.9	2.7	Private consumption[2]
4.4	3.1	3.0	3.3	2.9	3.0	3.0	Government consumption
2.7	2.9	3.1	2.8	3.1	3.0	3.1	Gross fixed capital formation
2.0	2.2	2.2	2.1	2.3	2.1	2.2	Investment in machinery & equipment[3]
3.1	3.4	3.7	3.2	3.6	3.7	3.7	Construction investment
2.6	2.7	2.7	2.7	2.6	2.6	2.8	Other products
2.9	3.2	2.8	3.2	3.3	2.9	2.8	Domestic demand[4]
0.4	-2.2	-0.4	-1.6	-2.8	-0.9	0.0	Terms of Trade
1.2	3.1	1.8	2.2	4.0	2.3	1.3	Exports of goods and services
0.8	5.4	2.2	3.8	7.0	3.2	1.3	Imports of goods and services
3.0	**2.3**	**2.7**	**2.5**	**2.1**	**2.5**	**2.8**	**Gross domestic product[4]**
							Production of domestic product
0.0	-0.2	-0.1	-0.2	-0.1	-0.1	-0.1	Employed persons (domestic)
-0.2	-0.3	-0.2	-0.2	-0.3	-0.5	0.2	Labour volume
0.4	0.8	0.9	0.6	1.1	1.2	0.7	Labour productivity (per hour)
							Distribution of net national income
3.3	2.9	4.0	2.9	2.8	3.8	4.3	Net national income
5.1	3.6	3.7	3.9	3.3	3.5	3.8	Compensation of employees
4.6	3.5	3.6	3.8	3.2	3.5	3.7	Gross wages and salaries
3.8	2.6	2.7	3.0	2.3	2.6	2.9	among them: net wages and salaries[5]
-1.4	0.7	5.1	0.0	1.4	4.5	5.7	Property and entrepreneurial income
3.1	3.1	3.3	3.4	2.9	3.2	3.4	Disposable income of private households[2]
.	.	.	.	.	.	.	Savings rate of private households[2,6]
							For information purposes:
4.5	2.6	2.6	3.2	2.1	2.5	2.6	Nominal unit labour costs[7]
1.5	0.3	-0.1	0.7	0.0	0.0	-0.2	Real unit labour costs[8]
2.2	3.0	2.8	2.7	3.2	3.0	2.7	Consumer prices

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – 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

↘ CHART 27

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 9

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

	Billion euro			Change on previous year in %	
	2025	2026[2]	2027[2]	2026[2]	2027[2]
Total revenues	**2,140.2**	**2,215.0**	**2,295.4**	**3.5**	**3.6**
Taxes	1,031.5	1,059.6	1,093.9	2.7	3.2
Net social contributions	822.9	864.7	904.2	5.1	4.6
Sales	199.7	208.6	217.9	4.5	4.5
Other current transfers	30.1	31.5	32.7	4.4	3.8
Capital transfers	24.9	18.9	14.8	– 24.2	– 21.9
Property income	30.8	31.5	31.7	2.3	0.4
Other subsidies on production	0.2	0.2	0.2	0.0	0.0
Total expenditures	**2,259.3**	**2,384.6**	**2,499.1**	**5.5**	**4.8**
Social benefits other than social transf. in kind	749.5	783.4	811.6	4.5	3.6
Social benefits in kind	414.9	439.5	461.7	5.9	5.1
Compensation of employees	384.3	397.7	412.2	3.5	3.6
Intermediate consumption	289.1	305.7	323.6	5.7	5.9
Subsidies payable	53.9	58.9	62.8	9.4	6.5
Gross capital formation	144.8	156.3	172.2	7.9	10.2
Other current transfers	95.3	107.3	110.0	12.6	2.5
Capital transfers	78.4	83.3	88.3	6.3	6.1
Property income	49.5	52.7	56.9	6.5	8.0
Other taxes on production	0.4	0.4	0.4	0.4	0.7
Acquisitions less disposals of non-prod. assets	– 0.6	– 0.6	– 0.6	0.0	0.0
Budget balance	**– 119.1**	**– 169.5**	**– 203.7**	**x**	**x**
Fiscal indices (%)[3]					
Tax ratio[4]	23.6	23.4	23.2	x	x
Tax and contribution ratio[5]	40.8	41.0	41.1	x	x
Budget balance	– 2.7	– 3.7	– 4.3	x	x
Structural budget balance[6]	– 2.3	– 3.3	– 4.1	x	x
Structural primary balance[6]	– 1.2	– 2.2	– 2.9	x	x
Debt-to-GDP ratio[7]	63.5	65.4	67.5	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

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