IWH Halle Institute for Economic Research
Member of the Leibniz Association

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Oil price shock threatens recovery in Germany

Globally rising energy prices in the wake of the new Gulf War are clouding the outlook for the German economy. Nevertheless, increased public expenditure is expected to support economic activity both this year and next. According to the spring forecast of the Halle Institute for Economic Research (IWH), output is projected to grow by 0.7% in 2026 and by 1.0% in 2027. We expect similar rates of expansion for East Germany. In December, the IWH economists had predicted growth of 1.0% for both 2026 and 2027.

Table
Forecast for Germany: Key Economic Indicators[a] for Germany, 2024–2027

	2024	2025	2026	2027
	percentage change over previous year (price adjusted)			
Germany	–0.5	0.2	0.7	1.0
East Germany[a]	–0.1	0.4	0.7	0.9
	percentage change over previous year in %			
hours worked	–0.2	–0.2	0.2	0.2
hourly union wages	4.7	2.8	2.6	2.6
hourly actual wages	5.3	4.5	3.1	3.1
unit labour costs[b]	5.6	4.5	2.5	2.4
consumer price index	2.3	2.2	2.7	2.1
	1,000 persons			
employment (domestic)	45 987	45 982	45 994	45 968
unemployment[c]	2 787	2 948	2 941	2 875
	in %			
unemployment rate[d]	6.0	6.3	6.3	6.1
East Germany[a]	7.5	7.8	7.8	7.6
	in % of nominal GDP			
general government overall balance	–2.7	–2.7	–3.6	–3.9
current account balance	5.8	4.4	3.6	3.5

[a] East Germany including Berlin. – [b] Per hour (IWH calculations). – [c] Federal Employment Agency (BA) concept. – [d] Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).

Sources: Federal Statistical Office; from 2026: IWH forecast (as of March 9, 2026).

In spring 2026, the **global economy** is entering turbulent waters, as the outbreak of war in the Gulf has driven the price of Brent crude above 100 U.S. dollars per barrel. This price shock is hitting a world economy that has thus far proved remarkably resilient in the face of sharp U.S. tariff increases – a resilience that extends to global trade and, in particular, to China's export industry. In the United States, economic activity is being propelled by investments in the tech sector, and key interest rates are expected to decline. In addition, fiscal policy in the U.S. – as well as in Germany and Japan – is expansionary this year. In the euro area, momentum remains modest, but it continues to be supported by rising real wages and relatively favourable financing conditions. This forecast assumes that energy prices will fall significantly

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The IWH Forecasting Dashboard (ForDas)

The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

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in the second half of 2026. Global output is projected to grow by 2.6% in both 2026 and the following year.

The Gulf War is worsening the outlook for the **German economy** as well: Rising energy prices will be weighing on household incomes and pushing up production costs. But this forecast assumes that prices will fall again in the second half of 2026. Under these conditions, the effect on German inflation in 2026 amounts to roughly 0.5 percentage points, and the drag on real economic activity remains limited. Economic growth this year and next will be supported by higher public spending on defense and infrastructure investment. Thereafter, however, fiscal policy will need to shift toward consolidation. "Additional support for the economy this year is likely to come from stabilizing exports, as no further renewed headwinds from U.S. tariff policy are expected and the global economy is projected to remain robust", says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. In the first half of 2026, however, the recovery is likely to be subdued, partly because higher energy costs will dampen private consumption, and cold weather at the beginning of the year is expected to curb construction activity in the first quarter. In the second half of the year, the recovery should gain somewhat more momentum.

The war in the Gulf and, in particular, the resulting rise in energy prices represent a significant risk to the economic outlook. These prices could remain elevated for longer than assumed here – for instance, if tankers continue to face excessive risks when passing through the Strait of Hormuz. Because both liquefied natural gas and crude oil are traded on integrated global markets, it matters little that Europe has so far imported relatively little gas from the Gulf region. A sustained increase in energy prices in Europe would push inflation higher and could potentially prompt the ECB to tighten its monetary stance. However, if the end of the war were to lead to Iran's reintegration into global trade, positive medium-term effects on the German economy would also be conceivable.

The extended version of this forecast contains a box on the estimation of potential output (in German).

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