

Press release

Kiel Institut für Weltwirtschaft

Mathias Rauck

12/12/2024

<http://idw-online.de/en/news844682>

Transfer of Science or Research
Economics / business administration, Politics, Social studies
transregional, national



Kiel Institute winter forecast: German economy likely to stagnate in 2025

The German economy does not gain momentum. There are currently no signs of a noticeable economic upturn. This is the conclusion of the Kiel Institute's winter forecast, according to which gross domestic product will only stagnate in 2025 (0.0 percent). In fall, the forecast was still at +0.5 percent. The main reasons for the downward revision are the expected US tariffs and the worsening crisis in German industry. GDP is expected to shrink by 0.2 percent in the current year (fall forecast: -0.1 percent). The recession has now also reached the labor market, with the unemployment rate likely to rise to 6.3 percent.

"Germany's weak potential growth is coming to light, and any unforeseen external disruptive factor can make the difference between a plus or a minus in economic output," says Moritz Schularick, President of the Kiel Institute.

The expected US tariffs are responsible for around half of the downward revision for next year, as the protectionist agenda of the new US administration means further headwinds for German trade.

Exports have already been unable to keep pace with global trade recently due to the declining competitiveness of companies. As a result, exports are likely to fall by almost 1 percent both this year and next year and will not increase again until 2026 (+1.8 percent).

The provisional budget management in Germany after the break-up of the governing coalition will only slightly dampen GDP by 0.1 percent in 2025. The early federal election means that the period of high economic and political uncertainty could be shortened by more than half a year.

"The crisis is largely a crisis of the manufacturing sector. It shows symptoms known from periods after massive macro shocks only. Capacity utilization is now 5 percentage points below the lows in normal recessions. The German economy is struggling with decreasing competitiveness mirrored by the sluggish overall economic performance, which hardly allows for any upward forces," says Stefan Kooths, Head of Forecasting at the Kiel Institute.

Read Reports now:

German Economy in Winter 2024: no recovery in sight:

<https://www.ifw-kiel.de/publications/german-forecast-in-winter-2024-no-recovery-in-sight-33588/>

World Economy in Winter 2024: subdued growth amid increased economic policy uncertainty: <https://www.ifw-kiel.de/publications/world-economy-winter-2024-subdued-growth-amid-increased-economic-policy-uncertainty-33586/>

A moderate expansion is not expected until 2026, when economic output is likely to increase by 0.9 percent, although a third of this is due to the greater number of working days.

Only weak impetus can be expected from private consumption. While private households' purchasing power increased by 1.3 percent this year, it will shrink slightly next year and increase only moderately in 2026.

Constructions will decline again in 2024 and 2025, having fallen by around 15 percent since 2020. Gross fixed capital investments gradually bottom out as financing conditions have somewhat improved.

Inflation will recede from 2.2 percent in the current and coming year to 2 percent in 2026.

Unemployment on the rise, budget situation remains tense

The overall economic weakness is leaving clear scars on the labor market and public finances.

The number of unemployed people has increased by 370,000 since summer 2022 (excluding Ukrainian refugees). The unemployment rate is likely to rise from 6 percent in the current year to 6.3 percent in the next two years.

Subject to a fiscal policy realignment by a new federal government, the general government deficit in 2025 and 2026 will be around EUR 5 billion and EUR 20 billion higher than expected three months ago. In relation to GDP, the fiscal deficit amounts to 1.9 percent and 2.1 percent respectively, after 2.3 percent in the current year.

The global economy is expected to grow by 3.2 percent this year and by 3.1 percent in each of the next two years. The trade policy of the new US government, the direction of the central banks and the economic development in China, where export prospects have deteriorated in view of the geopolitical situation, are likely to be decisive factors.

Read Reports now:

German Economy in Winter 2024: no recovery in sight:

<https://www.ifw-kiel.de/publications/german-forecast-in-winter-2024-no-recovery-in-sight-33588/>

World Economy in Winter 2024: subdued growth amid increased economic policy uncertainty: <https://www.ifw-kiel.de/publications/world-economy-winter-2024-subdued-growth-amid-increased-economic-policy-uncertainty-33586/>

Our subject dossier Economic Outlook (<https://www.ifw-kiel.de/topics/economic-outlook/>) provides an overview of all our forecasts.

Click here for more information on the Kiel Institute's Forecasting Center:

<https://www.ifw-kiel.de/institute/research-centers/macroeconomics/business-cycles-and-growth/>

Media Contact:

Mathias Rauck

Chief Communications Officer

T +49 431 8814-411

mathias.rauck@ifw-kiel.de

Kiel Institute for the World Economy

Kiellinie 66 | 24105 Kiel | Germany

Chausseestraße 111 | 10115 Berlin | Germany
T +49 431 8814-1
E info@ifw-kiel.de
www.ifw-kiel.de

contact for scientific information:

Prof. Dr. Stefan Kooths
Director Business Cycles and Growth
T +49 431 8814-579
stefan.kooths@ifw-kiel.de

Key Indicators Germany 2023 – 2026



	2023	2024	2025	2026
Gross domestic product (GDP), price-adjusted ¹	– 0.3	– 0.2	0.0	0.9
Gross domestic product, deflator ¹	6.1	3.0	1.8	1.6
Consumer prices ¹	5.9	2.2	2.2	2.0
Labor productivity (per hour worked) ¹	– 0.6	– 0.1	0.1	0.7
Employment (million)	46.0	46.1	46.0	46.0
Unemployment rate (percent) ²	5.7	6.0	6.3	6.3
<i>Percent of nominal GDP</i>				
Public sector net lending	– 2.6	– 2.3	– 1.9	– 2.1
Gross public debt	62.7	63.2	63.9	64.4
Current account balance	5.9	6.2	5.6	5.2

¹ Percentage change on previous year; ² As defined by the Federal Employment Agency. | Source: Federal Statistical Office, Fachserie 18, Series 1.2; Federal Employment Agency, Monthly Bulletin; Federal Employment Agency, Employment Statistics; shaded: Kiel Institute forecast, December 12, 2024

ifw-kiel.de

RESEARCH GROUP **BUSINESS CYCLES & GROWTH**

Key Indicators Germany 2023 – 2026
Kiel Institute for the World Economy