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Robust German economy in an uncertain international environment.

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- German GDP to increase by 1.8 percent (2015), 2.1 percent (2016), and 2.3 percent (2017).
- Strong consumption growth is driving economic activity
- Imports will grow faster than exports
- Risks that the German economy is overheating in the upcoming years have increased

German GDP is expected to increase by 1.8 percent (2015), 2.1 percent (2016), and 2.3 percent (2017). Economic activity is driven by consumer spending that increases in the upcoming years by about 2 percent per year due to strong increases in real disposable income. However, with firms operating at increasing utilization rates and a very stimulating environment for construction activity also growth in investment is expected to gain momentum. Exports will grow at a robust pace with the euro area showing solid GDP growth numbers. However, since imports will grow even faster than exports net exports will only contribute to GDP growth in the current year but not in 2016 or 2017. Nevertheless, Germany will experience an increase of its current account surplus that is in 2015 mainly due to terms of trade gains caused by the strong decline in oil price. The Labor market is still in good shape even though job increases have lost some momentum with the introduction of the minimum wage at the beginning of the year. However, higher net migration will more and more contribute to increasing employment numbers. Due to strong increases in public revenues, we expect budget surpluses to persist in the next three years and gross public debt to decline to about 63 percent (relative to GDP) in 2017. Given that the output gap is by and large closed and that potential output is growing at about 1.4 percent per year our forecast implies that the German economy is poised to overheating in the upcoming years. This comes with increasing risks for the built up of asset price bubbles and, hence, for financial stability given that interest rates will stay extremely low for another couple of years.

Table 1:

Key indicators 2014–2017

	2014	2015	2016	2017
Gross domestic product (GDP), price-adjusted	1,6	1,8	2,1	2,3
Gross domestic product, deflator	1,7	2,0	1,9	2,1
Consumer prices	0,9	0,3	1,1	2,0
Labor productivity (per hour worked)	0,4	0,8	1,5	1,3
Employment (1000 persons)	42 703	42 903	43 220	43 675
Unemployment rate (percent)	6,7	6,4	6,2	5,6
in relation to nominal GDP				
Public sector net lending	0,3	1,0	0,5	0,7
Gross public debt	74,4	70,5	66,9	62,8
Current account balance	7,6	8,8	9,0	9,0

GDP, consumer prices, labor productivity: percentage change on previous year; unemployment rate: 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: IfW forecast.

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