

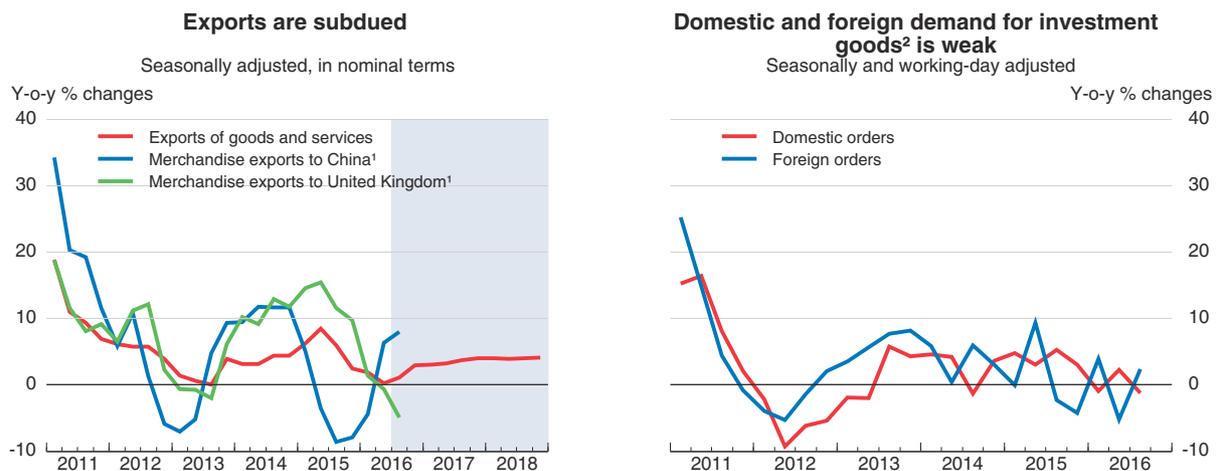
## GERMANY

Economic growth is projected to remain solid, as a robust labour market, low interest rates and a mildly expansionary fiscal stance underpin consumption and residential investment. Demand from emerging market economies and euro area countries is expected to strengthen only slowly, holding back business investment. The unemployment rate will remain at historic lows. The current account surplus will fall somewhat but will remain high.

Budgetary policy needs to provide even more support to counter subdued demand in the euro area and to address key structural weaknesses holding back inclusive growth. Reforms to remove barriers to entry and competition in professional services, in telecommunications, postal and rail transport services and crafts would strengthen entrepreneurship, productivity and investment. More effective requirements for banks to separate investment from retail banking, and stricter leverage ratio requirements would reduce financial market risks.

The structural budget deficit is projected to remain within the medium-term target and government debt will continue to fall. Higher spending on key education services and tax reform would boost inclusive and green growth. Training for immigrants and the supply of childcare and full-day primary schools need to improve. Social security contributions for low-pay workers should be reduced. Lowering the tax rate faced by second earners in a family would remove significant work and career barriers for women. Tax expenditures for activities that damage the environment should be phased out and more taxes on emissions of harmful air pollutants introduced. Real estate valuations for tax purposes should reflect market values, reduced VAT rates should be phased out and taxation of capital gains extended to residential real estate.

### Germany



1. Average of growth in July and August for 2016Q3.

2. Volume index of new orders.

Source: OECD Economic Outlook 100 database; and Statistisches Bundesamt.

Germany: **Employment, income and inflation**

Percentage changes

	2014	2015	2016	2017	2018
Employment	0.9	0.7	2.6	1.1	0.9
Unemployment rate <sup>1</sup>	5.0	4.6	4.2	4.2	4.1
Compensation per employee <sup>2</sup>	2.8	2.4	2.2	2.8	3.1
Unit labour cost	2.2	2.1	1.7	1.8	2.1
Household disposable income	2.3	3.1	2.5	2.8	3.2
GDP deflator	1.8	2.0	1.4	1.2	1.5
Harmonised index of consumer prices	0.8	0.1	0.3	1.4	1.7
Core harmonised index of consumer prices <sup>3</sup>	1.1	1.1	1.1	1.3	1.7
Private consumption deflator	0.9	0.6	0.5	1.2	1.5

1. As a percentage of labour force, based on national accounts.

2. In the total economy.

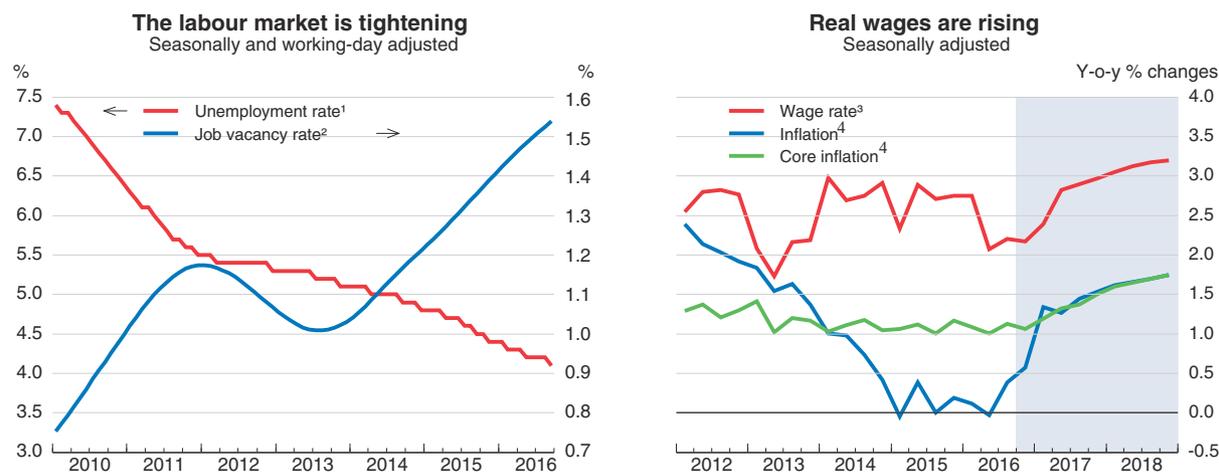
3. Harmonised index of consumer prices excluding food, energy, alcohol and tobacco.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438761>**External demand has weakened**

Economic activity decelerated in the third quarter, as subdued world trade and the slow recovery of the euro area weighed on exports. Foreign demand for investment goods, on which German industry is specialised, remained weak. Subdued exports are checking domestic business investment. By contrast, household demand remained vigorous. A robust labour market raised household incomes, boosting private consumption. Recent immigration and low interest rates spurred housing construction. Credit growth remained

## Germany



1. Population aged 15-74 years. Based on the German labour force survey.

2. Percentage of unfilled job vacancies relative to total employment.

3. Average nominal wage per employee. Projection from 2016Q3.

4. Harmonised consumer price index (HICP). Core HICP excludes energy, food, alcohol and tobacco.

Source: OECD Economic Outlook 100 database; and Statistisches Bundesamt.

StatLink  <http://dx.doi.org/10.1787/888933437641>

Germany: **Financial indicators**

	2014	2015	2016	2017	2018
Household saving ratio, net <sup>1</sup>	9.4	9.7	9.7	9.6	9.4
General government financial balance <sup>2</sup>	0.3	0.7	0.5	0.5	0.7
General government gross debt <sup>2</sup>	81.9	77.9	74.7	71.7	68.7
General government debt, Maastricht definition <sup>2</sup>	74.7	71.2	68.0	65.0	62.0
Current account balance <sup>2</sup>	7.4	8.5	9.2	8.8	8.7
Short-term interest rate <sup>3</sup>	0.2	0.0	-0.3	-0.3	-0.3
Long-term interest rate <sup>4</sup>	1.2	0.5	0.1	-0.1	-0.1

1. As a percentage of disposable income.

2. As a percentage of GDP.

3. 3-month interbank rate.

4. 10-year government bonds.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438777>

low, as regulation of mortgage lending tightened. House prices have broadly risen in line with rental prices and incomes.

Vigorous activity in employment-intensive services, such as in retail trade and restaurants, has boosted employment and wage growth and kept unemployment at historic lows. The inflow of refugees fell sharply in the course of 2016. However, most

Germany: **Demand and output**

	2015	2016	2017	2018	Fourth quarter		
					2016	2017	2018
	Current prices EUR billion	Percentage changes from previous year, volume (2010 prices)					
<b>GDP at market prices</b>	3 030.1	1.7	1.7	1.7	1.7	1.9	1.7
Private consumption	1 636.5	1.4	1.6	1.7	1.2	1.7	1.7
Government consumption	583.7	3.8	2.4	2.0	3.2	2.2	1.8
Gross fixed investment	602.4	2.0	1.4	2.3	0.8	2.3	2.3
Public	64.3	3.5	2.0	2.4	-2.9	2.7	2.3
Residential	177.3	3.6	2.9	3.3	3.4	3.2	3.2
Non-residential	360.8	1.0	0.6	1.8	0.1	1.7	1.9
Final domestic demand	2 822.6	2.0	1.7	1.9	1.5	2.0	1.9
Stockbuilding <sup>1</sup>	- 20.8	-0.3	0.0	0.0			
Total domestic demand	2 801.8	1.7	1.7	1.9	1.1	2.0	1.9
Exports of goods and services	1 415.4	2.7	2.7	2.8	3.7	3.0	2.8
Imports of goods and services	1 187.1	2.9	3.0	3.5	2.6	3.5	3.4
Net exports <sup>1</sup>	228.4	0.1	0.1	0.0			
<i>Memorandum items</i>							
GDP without working day adjustments	3 032.7	1.8	1.4	1.7			

Note: Detailed quarterly projections are reported for the major seven countries, the euro area and the total OECD in the Statistical Annex.

1. Contributions to changes in real GDP, actual amount in the first column.

Source: OECD Economic Outlook 100 database.

StatLink  <http://dx.doi.org/10.1787/888933438783>

refugees have yet to enter the labour market, once asylum procedures and first training measures are completed. Many are expected to do so in the coming two years.

### ***An expansionary fiscal stance and favourable financial conditions are boosting domestic demand***

The fiscal stance is projected to be mildly expansionary in 2017 and 2018, reflecting rising spending on the integration of immigrants, on long-term care benefits, on childcare facilities, and on investment (including broadband and social housing). The federal government will also increase transfers to fund local government investment and pension spending will rise automatically under entitlement rules. Higher spending on key education services and tax reform would boost inclusive and green growth. Training for immigrants and the supply of childcare and full-day primary schools need to expand further. More resources should be provided to schools with a relatively high share of pupils with disadvantaged socio-economic background. Planned increases in infrastructure spending may not be sufficient to maintain high-quality infrastructure in the long-term.

Financial market conditions are supportive of economic growth, reflecting very expansionary euro area monetary policy. Long-term interest rates on government debt dropped below zero and stock market prices rose. However, uncertainty about profitability of large, systemically important banks damps confidence, and this may be reinforced by their high leverage and the inherent difficulties in dealing with failing global systemically important financial institutions while avoiding a government bail-out. Restructuring the public *Landesbanken*, including through privatisation and focusing on core activities, could improve efficiency of lending and ensure that only banks with viable business models remain in the market.

Reducing barriers to entry in telecommunications, postal and rail transport services, in professional services and in some crafts would raise investment and productivity growth. Lower barriers for setting up a business, for example in construction-related crafts, would boost economic opportunities for immigrants, who are particularly likely to seek self-employment and employment in the construction sector. Lowering such barriers could help ease supply bottlenecks in the construction sector. Many refugees have poor German language skills and lack formal qualifications, and will not find jobs quickly. The government has expanded training opportunities and facilitated access to the education system. It has improved refugees' incentives to engage in training, for example by lowering legal barriers for refugees to take up jobs before their asylum request is processed.

### ***Domestic demand will be the main driver of growth***

Economic growth is projected to remain robust in 2017 and 2018, driven by private household demand and higher government spending. Strong domestic demand will push up consumer prices somewhat, as wages grow more strongly than productivity. The current account surplus will fall somewhat. Unemployment is expected to remain historically low. Subdued world trade and investment in key trading partners will keep export growth at a modest level and price competitiveness may weaken somewhat. Brexit-related weakness in the United Kingdom, Germany's third largest trading partner, will also damp exports. Notwithstanding fiscal easing, strong tax revenue growth and declining debt servicing costs are expected to raise the government surplus.

The exit of the United Kingdom from the European Union has increased uncertainty about trade and investment prospects. A sharp slowdown of activity in emerging market

economies and protracted weak demand in the euro area would weaken exports and investment. In the event of sharp losses among systemically important banks, financial market confidence could suffer substantially. On the other hand, some businesses have indicated they are considering shifting investment from the United Kingdom to Germany. Steps to implement reforms to complete the Single Market in the European Union and establish a more comprehensive banking union in the euro area could boost exports and the attractiveness of Germany as a location to invest.