

GERMANY

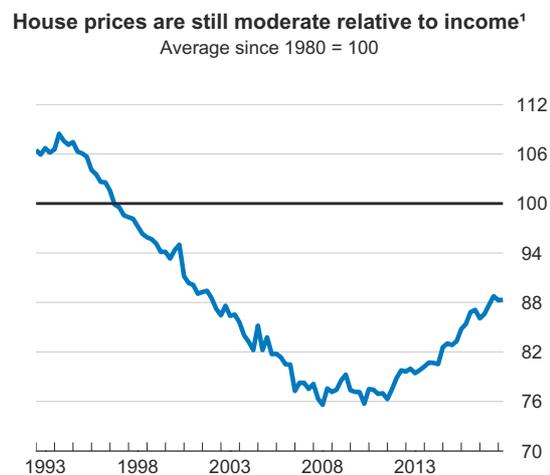
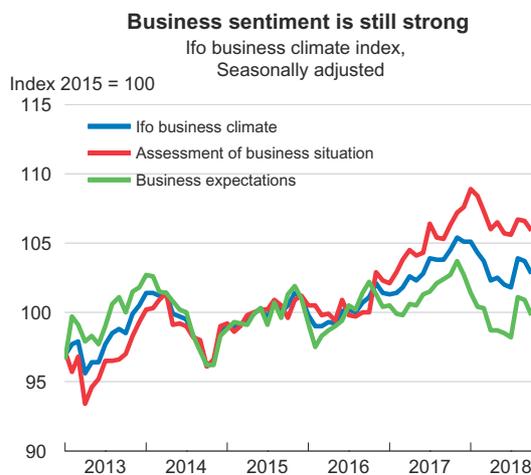
Economic growth is projected to decline but remain solid, backed by strong job creation and a fiscal stimulus. Trade-related uncertainties and moderating world demand will weigh on exports. Private consumption will accelerate due to strong wage growth and fiscal measures that increase household disposable income. Low interest rates, high capacity utilisation and growing housing demand will support residential and business investment. The current account surplus will fall as stronger domestic demand fuels imports.

Strong cyclical revenue growth will keep the fiscal balance in surplus. Fiscal space should be used to increase spending on education, high-speed broadband and low-emission transport infrastructure, which would strengthen productivity growth and inclusiveness. Tax reductions for low-wage and second earners along with higher environmental and real estate taxes would promote greener and more inclusive growth. Strengthening lifelong learning would help workers cope with technological changes and prepare for the future of work.

Economic growth is driven increasingly by domestic demand

Strong export growth came to a halt in 2018, on the back of uncertainties about trade policies. Moreover, new emission tests caused delays in car production. However, business confidence and the appetite for investment are still strong due to high capacity utilisation and low credit costs. Immigration, rising household incomes and low interest rates have boosted housing demand and construction. House prices have risen markedly, especially in urban areas where the supply of buildable land is scarce and inflexible. As a result, access to affordable housing is increasingly difficult for lower and middle-income households in booming cities. While national aggregate house prices are still low by historical standards, residential property is starting to look overpriced in some booming urban areas. Mortgage

Germany



1. The ratio of nominal house prices to nominal disposable income per head normalised by the long-run average since 1980.
Source: Ifo Business Survey, October 2018; and OECD, Analytical House Price database.

Germany: **Demand, output and prices**

	2015	2016	2017	2018	2019	2020
	Current prices EUR billion	Percentage changes, volume (2010 prices)				
GDP at market prices	3 046.0	2.2	2.5	1.6	1.6	1.4
Private consumption	1 631.1	1.9	2.0	1.2	1.8	1.7
Government consumption	587.4	4.0	1.6	1.2	2.5	1.8
Gross fixed capital formation	604.1	3.4	3.6	3.0	2.5	2.2
Final domestic demand	2 822.6	2.6	2.3	1.6	2.1	1.8
Stockbuilding ¹	- 19.6	0.3	-0.1	0.3	0.1	0.0
Total domestic demand	2 803.0	2.9	2.2	2.0	2.2	1.8
Exports of goods and services	1 425.3	2.1	5.3	2.5	2.9	3.2
Imports of goods and services	1 182.3	4.0	5.3	3.6	4.4	4.4
Net exports ¹	243.0	-0.5	0.4	-0.2	-0.4	-0.3
<i>Memorandum items</i>						
GDP without working day adjustments	3048.9	2.2	2.2	1.6	1.6	1.8
GDP deflator	—	1.4	1.5	1.9	2.2	2.3
Harmonised index of consumer prices	—	0.4	1.7	1.9	2.2	2.2
Harmonised index of core inflation ²	—	1.1	1.3	1.3	1.8	2.2
Unemployment rate (% of labour force)	—	4.2	3.8	3.4	3.0	2.7
Household saving ratio, net (% of disposable income)	—	9.8	9.9	9.9	9.9	9.9
General government financial balance (% of GDP)	—	0.9	1.0	1.6	1.1	1.0
General government gross debt (% of GDP)	—	76.1	71.4	68.1	65.8	63.7
General government debt, Maastricht definition (% of GDP)	—	68.0	63.8	60.5	58.1	56.1
Current account balance (% of GDP)	—	8.5	8.0	7.7	7.2	6.8

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

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

Source: OECD Economic Outlook 104 database.

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lending has only grown in line with income, and household indebtedness, which is moderate relative to other countries, has been stable.

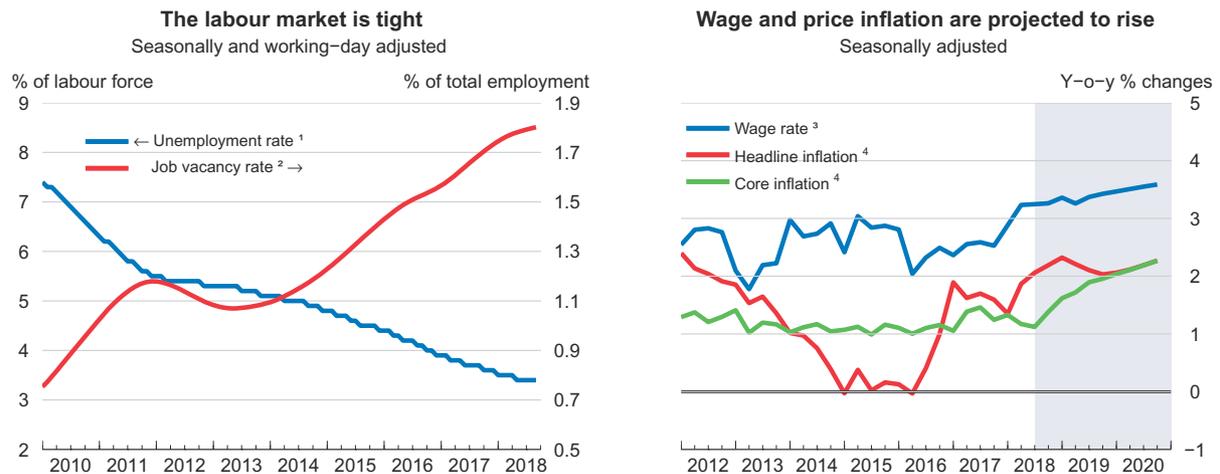
Vigorous employment gains have pushed the unemployment rate to a record low, while the number of vacant jobs has continued to rise, in particular in long-term care and construction. The strong labour market has resulted in a broad-based wage growth, which supports private consumption. Job quality has also improved as the number of full-time permanent contracts has grown strongly. Headline inflation has picked up recently on the back of higher energy prices, but the core inflation rate remains modest.

Fiscal policies should aim to improve productivity growth and inclusiveness

Fiscal policy is supporting the expansion. Child tax allowances and benefits are increasing along with pensions for mothers, while social contributions will be lower, in particular for low-paid jobs. The government plans to invest 37.9 billion euros per year from 2019 in infrastructure, education, housing and digital technology. A fund of 2.4 billion euros was set up to expand high-speed broadband and support municipalities' investment in digital infrastructure in schools. Such discretionary tax cuts and spending increases will reduce the government budget balance in 2019 and 2020.

Most of these fiscal measures are appropriate, as they promote long-run growth and inclusiveness. However, subsidies for families who want to buy homes are likely to further

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.
4. Harmonised consumer price index (HICP). Core HICP excludes energy, food, alcohol and tobacco. Projection from 2018Q4 for HICP and core HICP.

Source: OECD Economic Outlook 104 database; and Statistisches Bundesamt.

StatLink  <http://dx.doi.org/10.1787/888933876708>

fuel an already booming housing market, which suffers from labour shortages and insufficient flexibility of supply. This would further complicate access to affordable housing for lower-income households. It would be preferable to concentrate on further investment in education and infrastructure that contributes to productivity growth and inclusiveness. Providing more opportunities for young children from disadvantaged socio-economic backgrounds to enrol in high-quality childcare and increasing places in full-day primary schooling will improve human capital in the long term, while making it easier to reconcile family life and longer working hours, especially for women. The government has committed to introduce a legal guarantee of full-day primary schooling by 2025. Financial support for municipalities' investment in physical and digital infrastructure needs to be coupled with simpler procedures to draw on the funds and technical support from federal or regional governments to plan and manage infrastructure projects.

Economic growth will remain solid

Economic growth will decline due to slower growth of external demand and higher uncertainty. It will, however, remain solid, supported by strong private consumption and expansionary fiscal policy. Capacity constraints and labour shortages will constrain production, especially in the construction sector, increasing wage and price inflation. Strong domestic demand will continue to contribute to dynamic import growth and thereby narrow somewhat the large current account surplus. A further rise in protectionism would weigh on economic growth and employment, particularly if it involved slower growth in China or tariffs on Germany's car exports. Renewed financial market turbulence and economic shocks in large European economies would also reduce exports. On the other hand, successful integration of immigrants into the labour market, improved education and training, and an increase in women's working hours as a result of recent reform efforts can alleviate labour shortages and allow companies to expand production.