

Germany Business Forecast Report Q3 2014

<https://marketpublishers.com/r/GB735990044EN.html>

Date: May 2014

Pages: 42

Price: US\$ 1,195.00 (Single User License)

ID: GB735990044EN

Abstracts

Core Views

Consensus estimates on German real GDP growth have converged with our own 1.9% forecast for 2014, but we are now some way below consensus for 2015, forecasting growth of just 1.5% (compared to Bloomberg consensus of 2.0%). We estimate the Germany's current account surplus to have peaked in 2013, due to weakening demand in key export markets and eroding export competitiveness. However, narrowing of the surplus over the next five years will be limited by tight fiscal policy, which will in turn hamper the regional economic recovery.

German energy policy will continue to drive significant structural economic imbalances. While attempts to shield industry from the cost of transition towards renewable energy resources will curtail consumption, German industrial competitiveness will eventually suffer from higher energy costs. **Major Forecast Changes** We have made no major changes to our forecasts this quarter.

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BMI Political Risk Ratings

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Modest Ukraine Response To Weaken International Profile

Germany's muted reaction to the Ukraine crisis undermines the government's more assertive foreign policy stance. Reluctance to pursue a tougher line against Russia will be seen as a sign of Germany's weak geopolitical position by the US, Russia, and other EU peers.

Table: Political Overview

Long-Term Political Outlook

Difficult Decisions Ahead

Although it is one of the most stable countries in the world, Germany must make some difficult political choices over the next 10 years.

Some of these, such as how to deal with a rapidly ageing population, can be addressed without threatening political stability, while others, such as re-defining Germany's role in Europe, could prove more destabilising.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis

BMI Economic Risk Ratings

Economic Activity

Growth To Disappoint In 2015

German real GDP growth will disappoint in 2015, due to external demand weakness and structural/policy obstacles to more robust

domestic demand. Growth will still be increasingly driven by domestic consumption and investment at the expense of net exports, but

we are now some way below consensus estimates on real GDP for next year - at 1.5% compared with the Bloomberg consensus of

2.0%.

Table: Economic Activity

Balance Of Payments

Current Account Surplus To Remain Too Large

Germany's current account surplus is close to peaking. With export growth set to tail off in H214, and steadily rising import demand, we project the surplus to narrow to 7.1% and 6.7% of GDP in 2014 and 2015 respectively.

Table: CURRENT ACCOUNT

Fiscal Policy

Energy Policy Exacerbates Structural Imbalances

The transition towards renewable resources will continue to exert a sizeable economic cost on Germany despite recent energy reforms.

Attempts to shield industry from these costs will delay the process of economic rebalancing towards a more consumption-based growth

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The German Economy To 2023

Economy Losing Its Shine

Germany's economic prowess is set to fade over the next decade, as productivity gains are harder to come by and an aging population translates into slower real GDP growth. Nevertheless, the overall picture will remain one of relative economic stability, as increased domestic consumption replaces exports as a key driver of economic activity.

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