German economy “hit hard” by global slowdown, IMF warns

In a new assessment of the country’s economic performance, the Fund warned: “The export-dependent economy has been hit hard by the slowdown in global demand.”

The report, released this week, added: “The country’s export dependence and financial openness make it particularly vulnerable to external shocks. Rising global protectionism, a more pronounced China slowdown or a no-deal Brexit would hurt exports and investment.”

In addition, “tighter global financial conditions could trigger sharp corrections in already stretched valuations across asset classes. In the medium-term, unfavorable demographics, low productivity growth, and the impending energy transition are expected to weigh on growth.”

Structural challenges are weighing on potential output as an aging population shrinks the labour force and productivity growth remains stubbornly low, the report said.

After several years of real GDP growth averaging over 2% annually, Germany’s economy slowed sharply in the second half of 2018, although it is expected to pick up by the end of this year, resulting in growth of 0.7% in 2019 and 1.7% in 2020.

The IMF paid credit to the strong economic performance of the past decade which has resulted in record low unemployment and healthy balance sheets. But Germany has adapted slowly to technological change and digitalization, while the energy transition poses major uncertainties for business investment.

Rising saving by firms together with fiscal consolidation after 2011 pumped up Germany’s current account surplus, but in the last two decades as unemployment fell and exports surged, wage growth lagged and households found their spending power tightening.

A rising share of national income has taken the form of profits retained by firms, whose ownership remains highly concentrated among the wealthiest households, and lower incomes have stagnated.

"Germany's key economic challenge is to raise its long-term growth potential while rebalancing its economy," the report said.

Strong wage growth and a reduction in taxes would "help the economy to rebalance" and also "boost the country's productive capacity."

At the same time, reforms to raise productivity and investment are needed to sustain growth and policymakers should focus on upgrading high-speed internet, e-government, supporting venture capital, and reducing uncertainty about energy policy, according to the Fund.

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