

## Damaged by conflicts

**The conflict in the Middle East continues to dominate global politics and the outlook for the global economy right up to the present moment. Even though a peaceful resolution has now become more likely, the situation remains fragile for the time being.**

Over the past few months, the prolonged closure of the Strait of Hormuz has continued to drive up prices and negatively impact the remaining growth outlook for the year. Even if the conflict were to enter a resolution phase now, it will take quite some time for global logistics to return to normal. Infrastructure damage has been done, and tanker fleet capacities have been out of service for a long time. Many rerouted ships have yet to return to their usual routes.

In the first quarter of the year, the German economy still managed to surprise on the upside with real GDP growth of 0.3 percent, even though the quarter—which included March—was the first month of the war. However, the quarter was marked by numerous one-time factors. A closer look at the underlying structure reveals the country's persistent weakness in investment. In this publication, we place this within the context of the longer-term trend.

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## Damaged by Conflicts

Customers of savings banks and Landesbanken have experienced the economic impact of the Middle East conflict firsthand in recent months:

- Households have felt the economic impact most directly at the gas pump. There is a risk that these costs will be passed on further, for example in the form of higher food prices.
- Business customers have been and continue to be affected primarily on the cost side. This is particularly evident when it comes to energy costs. In addition, there is a growing concern that certain other intermediate goods may soon become expensive or even unavailable. Ammonia and helium, for example, rely heavily on unimpeded supply routes from the Middle East.
- Inflation and a wide range of financial market data - including exchange rates, stock prices, and yields on circulating securities, as well as, most recently, key interest rates - have been affected by the conflict. As a result, investors among our clientele are also facing new conditions.

With the framework agreement between Iran and the U.S. - which was recently signed and is now under negotiation - a peaceful resolution is once again within reach. It could correct and reverse the aforementioned negative impacts. However, the stability of the arrangements is far from certain at this point. Furthermore, a return to normalcy - for example, in the oil price - will take a considerable amount of time.

### **The duration of the closure of the Strait of Hormuz was and remains the key factor influencing scenarios for the global economy**

To this very day, the conflict in the Middle East continues to dominate global politics and the outlook for the world economy. With every day that the Strait of Hormuz remained closed, price pressures continued, leading to a decline in real purchasing power for consumers around the world. The economic downturn continued to take its toll—not least here in Germany—as the year progressed. Forecasts for the growth rates still expected for the full year were revised downward week after week.

In any case, the negative economic impact was felt by the oil- and gas-importing countries, which make up the vast majority of the global economy. A few countries, however, have benefited from the high world market prices for fossil fuels, including Russia, which is using the proceeds to finance its war. This boost came at a time when Russia is otherwise severely weakened militarily, politically, and economically. For the U.S., which is both an exporter and an importer of oil but whose domestic production slightly exceeds its domestic consumption—and thus has a slightly positive net position—the economic exposure was and remains relatively mild. Nevertheless, high energy prices were very noticeable for

*Many losers – few winners*

U.S. consumers, which means the Trump administration faces a significant political price to pay for its long-standing, haphazard approach in the Middle East.

The economies of Europe, East Africa, and Asia are particularly hard hit by high oil and gas prices. Many Asian countries, including the major players India and China, are direct buyers of energy resources from the Persian Gulf that are trapped in the bottleneck of transport routes. While China itself has fairly large buffer stocks, many other countries in the region have already experienced initial physical shortages of certain fuel categories since April.

*The main buyers of oil and gas from the Persian Gulf are Asian countries*

Brent crude oil price in USD



Source: German Stock Exchange

### Regional Variations in Impact and Responses

European countries, including Germany, which source the majority of their oil imports from other sources, were, by contrast, primarily affected indirectly by the rise in world market prices. However, as the closure of the Strait of Hormuz dragged on, there was a risk that Asian buyers would reroute their supply chains and increasingly turn to European suppliers, thereby creating competition there. With global transport capacities remaining tight overall, a certain amount of pressure from this side continues to persist for Europe. The decision to release Europe's strategic oil reserves very early in the current crisis—when there was still no physical shortage here—was a risky move. Now, however, it seems to be a stroke of luck that the strategy of using the reserves as a stopgap has paid off. After all, there is now the prospect of a resolution to the conflict, with the hope that the road will soon be secure, open, and passable again.

*Indirect effects on Europe, primarily through prices*

The link between the duration of the closure of the Strait of Hormuz and the extent of the economic fallout in terms of lost growth and inflation in 2026 is obvious: the longer it lasts, the worse it gets. The question is whether this relationship produces effects that are proportional to duration or even disproportionate. Given the physical bottlenecks that have loomed in the meantime—or have already begun in some regions—the latter is likely the case.

A brief disruption in supply, on the other hand, could have been weathered with very limited damage. The three and a half months that have passed have taken an increasingly heavy toll. This makes the now-announced resolution of the conflict all the more welcome. However, it is not yet a done deal. New escalations—such as those stemming from the conflict in Lebanon—are possible at any time. The interpretation of the agreement regarding the strait’s status under international law and the potential requirement to pay tolls still appears to be a point of contention among the parties to the conflict. In this regard, it remains necessary to consider the potential effects of continued or renewed closures of the Strait of Hormuz.

*There was a risk of disproportionate effects, particularly in the event of physical bottlenecks*

Only in the very long term—that is, after several years—would a permanent disruption of a large portion of supplies from the Persian Gulf be expected to result in disproportionately small effects and a mitigation of the damage. This is because other price-driven adjustments would then take place, such as the development of alternative transport routes and the accelerated adoption of renewable energy and electric propulsion. In the medium term, however—that is, over the next few months—a resurgence of the conflict would initially lead to a disproportionately worse situation.

So far, the U.S. and China in particular have responded to the price signals from the global market: the U.S. by increasing its own production and oil exports, and China by curbing its consumption. After all, someone has to fill the resulting supply gap when 20 percent of global oil and gas production has been offline for over three months now.

*The U.S. and China have closed the gap for now*

Despite the economic burden of the conflict, it is certainly accurate to say, in terms of its impact on the climate, that the closure of the Strait of Hormuz was one of the most effective climate protection measures of recent years. As a result, CO2 emissions from the burning of fossil fuels are not only reduced and diverted regionally, but are actually lowered at the crucial global level.

Unlike those regions that reacted very quickly to price changes by adjusting their purchasing plans, Europe has continued on its current course during the current crisis. In Europe, consumption has remained largely unchanged despite the course of the crisis so far. Here, the price increase has been partially cushioned by reductions in excise taxes, as has also been the case in Germany. The discussion has been largely dominated by issues of distribution and income effects, rather than allowing prices to fulfill their role in managing scarcity.

*Europe is addressing the effects on real income, but isn't really responding in terms of volume*

**Even with the opening of the strait now seeming more likely, the bottlenecks will ease only gradually**

Throughout nearly the entire duration of the conflict, the markets have held out hope for a peaceful resolution in the near future. News reports of allegedly imminent agreements have repeatedly led to brief periods of easing from time to time, causing the oil price to dip below the \$100 mark at times, including for an

extended period in early June. Following the announcement of the agreement on June 14, prices fell further toward \$80 per barrel.

Stock markets experienced some declines in March immediately after the outbreak of war. Since then, however, they have largely recovered in most countries and are now trading at valuations consistent with an expected post-peace-agreement period. Bond markets are showing somewhat stronger, more persistent, and more volatile movements. We will discuss the impact of the current conflicts on interest rates further below.

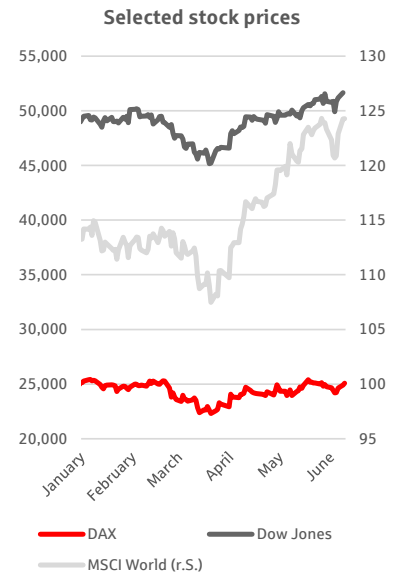
Savings bank customers—both as savers and as active investors in the market—must take all these changes into account in their financial planning. However, there is no reason to change the fundamentally sound strategy of taking a long-term approach to securities investments.

The reasoning behind the markets—which have remained fairly level-headed overall—was and remains this: In fact, both parties to the conflict have a strong interest in finding a solution. Iran is economically dependent on resuming its oil exports, and President Trump, above all, needs a political exit strategy from a situation that is painful for the U.S. and from a war that is highly unpopular in the U.S. At least with regard to the core issue of shipping routes, a mutually beneficial solution should be possible. However, the overall negotiating situation is complicated by the additional points of conflict surrounding Iran’s nuclear program and the fighting between Israel and Hezbollah.

However, it is also clear that even with the recently announced resolution of the conflict and the de facto reopening of the Strait of Hormuz, only a gradual recovery and return to normalcy can be achieved. The global market price for oil will not immediately bounce back to its pre-crisis level.

There are various reasons for this: Some of the oil and gas facilities (production facilities, refineries, and loading facilities) in the Gulf region have been destroyed or at least damaged. In addition, it will take some time to clear the mines so that shipping traffic on the main route in the middle of the strait can return to normal.

After all, there are significant accumulated shortfalls in the annual transport capacity of the tanker fleets that cannot be made up quickly. Large portions of the transport fleets were stranded in the Gulf for months. After the first few fruitless weeks, the ships waiting outside the Gulf were rerouted. As a result, many ships rerouted around the Cape of Good Hope and across the Atlantic to the Gulf of Mexico to refuel from the newly opened Texas oil wells. This required a long empty voyage. From there, it is also a very long loaded voyage to the Asian markets. On the longer routes, a larger capacity is tied up for a smaller volume of oil due to the longer travel time. And even after the Persian Gulf reopens, it will take quite some time for the ships to return to their old shipping lanes and for the congestion to clear.



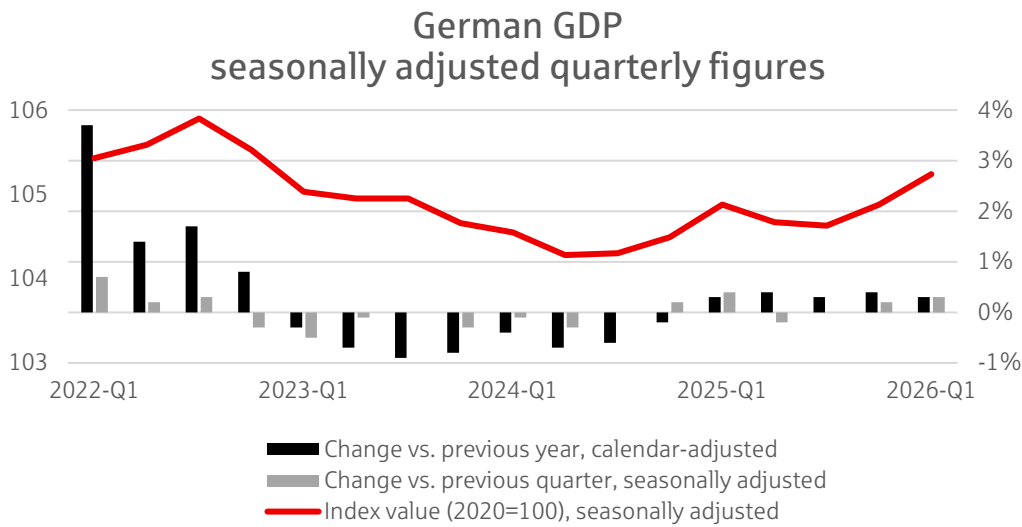
Source: Frankfurter Börse

*It will take time for the logistics situation to ease in the event of a peaceful resolution*

*Tanker Still Taking a Detour*

**The crisis is expected to peak in the second quarter of 2026—at first glance, Germany had still fared well in the first quarter**

In the national accounts, the full impact of the Middle East war will not be reflected until the second-quarter figures are released. In the first quarter, only one month—March—was affected by the war. But that was, after all, the most intense phase of the war, with the heaviest bombing.



Source: Destatis

By that measure, the German economy has, at first glance, performed surprisingly well. It was reported that real GDP grew by as much as 0.3 percent in the first quarter of 2026—a surprisingly strong result. In Germany, which has not seen high growth rates for years, growth of this magnitude is already considered a good figure. And looking ahead to the coming years, quarterly growth rates of this magnitude will also have to be regarded as encouraging. This is because, given the demographic outlook, the projected potential growth rates are barely above zero.

*0.3 percent growth in the first quarter, even though March was already a month of war*

In the first quarter of the year, a strong performance is particularly valuable in statistical terms, as it anchors the trend at a higher level and has a particularly strong impact on the annual growth figure. Combined with the statistical carryover, the positive calendar effect of the high number of working days in the current year, and finally the supportive influence of fiscal stimulus, a negative full-year GDP rate in 2026 is virtually out of the question. These technical factors set a lower bound; however, the outlook is not truly encouraging.

Looking ahead to the rest of the year, we must prepare for the possibility that the two middle quarters of the year could show negative results. The effects are likely to be concentrated in the second quarter of the year—the first quarter in which the negative impacts of the war in Iran were felt over the full three-month period. If the third quarter also remains weak, the technical definition of a recession could be met.

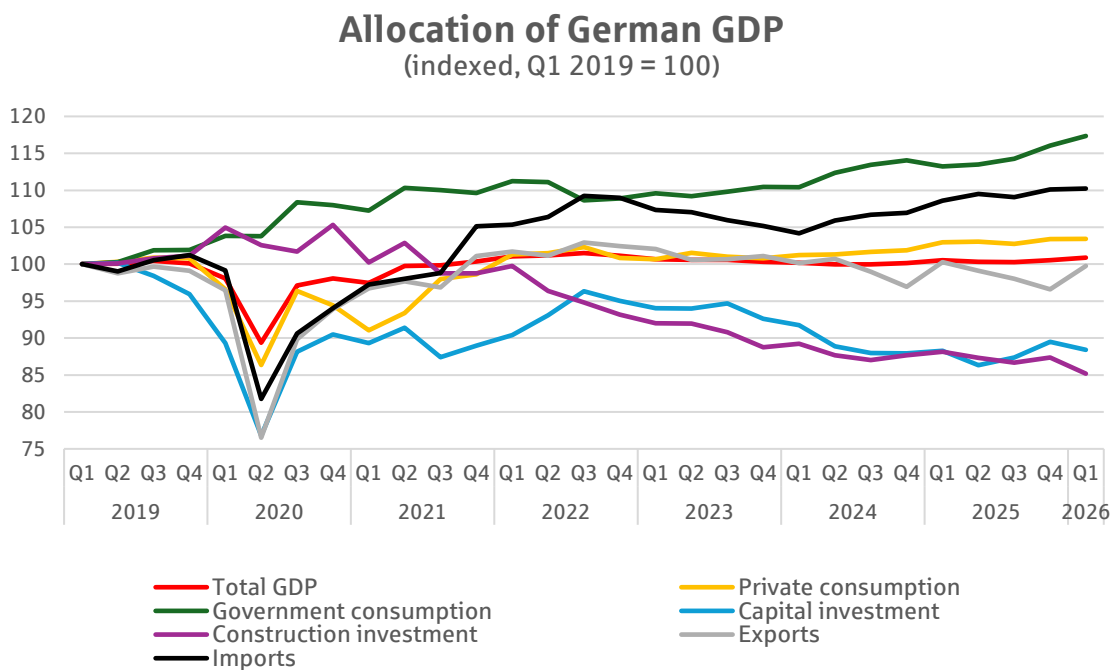
*A Recession Later This Year?*

### Trends in the structure of German GDP expenditure remain disappointing

The enthusiasm over the 0.3 percent growth achieved in the first quarter is therefore unlikely to last long. Upon closer inspection—that is, when analyzing the composition by expenditure components—the first-quarter performance is also quite disappointing. This sobering structural assessment applies not only to the current situation but also to its place within the medium-term trend.

The following figure shows the indexed trends of the key components of German GDP expenditure over the course of the crisis period in recent years. The trends, all set to a baseline of 100, begin with the pre-crisis year of 2019. This is followed by a series of shocks: the pandemic, the war in Ukraine—with its energy price shock and inflation—and trade conflicts.

*Divergence in the Long-Term Trend*



Source: Destatis, Indexing: Custom Conversion

All in all, German GDP stagnated over the seven-year period shown—one of the worst performances for this period in an international comparison. However, the overall stagnation in GDP masks widely divergent trends among its individual components.

*One of the worst performances by international standards*

Private consumption has largely recovered following the impact of the shutdowns during the 2020 pandemic and then again during the inflation spike in 2022. It is slightly above the average of all components and is now 3.4 percent higher than at the beginning of 2019. Most recently, in the first quarter of 2026, seasonally adjusted private consumption remained flat compared with the previous quarter.

Government spending has seen the strongest growth—driven in waves by each crisis intervention. It currently stands 17.4 percent above the level of seven years

*Government consumption as the fastest-growing component*

ago. At present, government demand is supporting the economic situation in the current and coming year.

The stimulus comes at a fortuitous time, at least in terms of timing. Its supportive effect is kicking in right now, during the shock. The spending was not initiated solely in response to the latest situation but was already in place. Thus, the usual time-lag problem associated with expansionary fiscal policy does not currently apply. However, it is highly questionable whether the ramping-up of spending is structurally supporting the right sectors and segments of the population that are currently suffering from high energy prices. In any case, an expansionary policy aimed at boosting demand is not the perfect remedy in the event of a supply shock, such as the one we are undoubtedly experiencing now. Rather, it could further fuel inflationary pressures.

Furthermore, the government spending noted above—which has long been growing at a disproportionately high rate relative to the medium-term trend—is, of course, unsustainable. The rising government share of the economy is increasingly shifting the nature of the national economy away from market-economy principles. The divergence of structural trends already highlights the need for reform and consolidation in Germany. The German government does not have a revenue problem; rather, it suffers from runaway spending. This spending burdens overall economic development primarily because it is not being used for investment purposes.

The idea that this will change with the new special fund is, so far, merely a statement of intent and a hopeful expectation. Initial official figures from the Federal Ministry of Finance in early June confirmed what was already known among experts: As of 2025, very few funds have actually been disbursed and spent under the programs. The programs are getting off to a very slow start. Added to this is the criticism that large portions of the sums allocated here are not truly “additional” measures, but rather, for the most part, projects that were already planned and are now simply taking advantage of the additional borrowing capacity. In the end, the only thing that may remain is the increased debt levels.

*So far, there are few signs of the infrastructure fund*

### **Investment in Germany: has been on a downward trend for a long time—and remains at current lows**

The figure above also illustrates how weak investment activity in Germany is from a structural and long-term perspective. The main investment categories listed here are construction and equipment. Both aggregates include government and private investment. In terms of volume, the latter dominates. However, this is all the more concerning given the weakness of the trend. It serves as evidence of how poorly companies rate Germany as an investment location. At the beginning of this year, investment in equipment was 11.6 percent lower than it had been seven years earlier. The decline in the most recent reported quarter at the beginning of 2026 is, admittedly, also a counter-movement to the upward surge at the end of 2025. Yet even with the best will in the world, it is difficult to discern any sign of a bottoming out over the last three reported quarters.

In the construction sector, the decline over the entire period under review amounts to as much as 14.2 percent. However, the current slump in the first quarter of 2026 can also be attributed to the impact of the particularly cold winter, which is not properly accounted for by the usual seasonal adjustment. Thus, there is some hope that construction activity in the second quarter will be able to make up for some of the lost value added.

*Weakness in the construction sector is being exaggerated by current weather conditions*

Nevertheless, overall investment volumes are very disappointing in terms of the long-term structural trend. Not only are they following the pattern of overall economic stagnation, but they are actually contracting noticeably. In theory, a growing capital stock should compensate for and substitute the labor factor, which is becoming scarcer due to demographic trends. Yet in Germany, both factors of production are dwindling at the same time.

German goods exports have moved sideways, with some fluctuations, over the seven-year period under review. Imports, meanwhile, have risen. On the one hand, this development could be interpreted as a reduction in imbalances and in Germany's abnormally high current account surplus. That is certainly a valid part of the story. However, it is also true that this masks the contraction of German industry and a significant loss of global market share. This suggests that Germany's export-oriented industry has lost its competitiveness.

*Structurally Weaker Foreign Trade:*

*Reduction of Imbalances and/or Loss of Competitiveness?*

### **Interpreting a temporary surge in foreign trade in the context of the inventory cycle**

There is currently a certain countertrend emerging. The trends in the chart above show a brief surge in foreign trade. Seasonally adjusted exports rose by 3.3 percent compared to the previous quarter. Positive GDP growth was due solely to strong exports. If one were to consider domestic consumption alone, value added would have contracted by 0.9 percent after adjusting for price and seasonal factors!

*Rebound in the inventory balance, which will still be very high in 2025,*

Mathematically speaking, however, this was also due to a very strong negative contribution to growth from changes in inventories, which fully accounts for the 0.9 percentage points of domestic economic contraction. This did not come as a complete surprise. We had already highlighted the fact that we entered 2025 with a strikingly high net increase in inventories as a key topic in the previous issue of "Information on the Economic Situation."

So, at the start of 2026, the countertrend began. And once again, the development in inventories should be viewed in the context of the trend in imports.

*Heading into the most recent supply crisis with high inventory levels*

This is because many of the inventories stem from imported goods that were initially stored or, conversely, withdrawn from storage. Imports, which nearly stagnated at just +0.1 percent in the first quarter, artificially inflated the foreign trade contribution amid expanding exports. However, the reported dichotomy between the domestic and foreign economies is exaggerated. When foreign trade

data and inventory withdrawals are considered together, the trend levels out more significantly.

Even though the drawdown of inventories has now weighed on growth figures, given global political developments, it can probably be considered a favorable circumstance that the German economy began 2026 with such high inventory levels. This is because, in the face of new supply bottlenecks caused by the war in the Middle East, the economy was initially able to draw on these stocks. However, this promises only limited relief for developments as the year progresses. Furthermore, it is, of course, difficult to deduce from the aggregate data whether the right goods—the very ones now facing supply disruptions—were actually stockpiled in the first place. Without the gift of prophecy, this will have been the case only in a few fortunate coincidences.

It remains uncertain what the international trade policy landscape will look like. Time and again, there are moves from the U.S. side, as well as new announcements and threats. Last summer’s “deal”—which was essentially a unilateral commitment by Europe—was recently reaffirmed by both sides. Prior to that, some of the U.S. tariffs had been ruled unlawful by U.S. courts. However, they were soon reinstated on a different legal basis. These regulations are temporary and are set to expire this summer. What happens after that remains to be seen. For the time being, Europe is primarily facing a “base tariff” of 10 percent and, across all goods, effective tariff rates in precisely this range.

*U.S. Tariff Regime  
Remains Unpredictable*

**Growth forecasts for the full year have been gradually revised downward—  
is this trend now reversing?**

Of course, none of this bodes well for the European and German economies. That is why growth forecasts by relevant analysts have been—and continue to be—revised downward. The main factor influencing this was the dependence on the duration of the closure of the Strait of Hormuz, as explained above. Consequently, the later a forecast was published, the lower the remaining growth rates tend to be.

While growth projections around the 1 percent mark were still the norm at the beginning of the year, the range has settled at about half that level since around Easter. The Joint Economic Forecast then projected 0.6 percent for the current year and 0.9 percent for the coming year. The most recent DIW summer forecast revised these figures down by one per mille each. The German Council of Economic Experts also projected 0.5 and 0.8 percent, respectively, as part of its partial publication in May—now in its third year—which is separate from the annual report.

GDP Forecast for Germany (in %)	2026	2027
group diagnosis	0.6	0.9
DIW	0.5	0.8
SVR	0.5	0.8
OECD	0.7	1.1
Buba	0.7	0.9
IWH	0.9	0.9

The OECD continued this trend with projections of 0.7 percent for 2026 and 1.1 percent for 2027 for Germany. However, it is important to note that the OECD presents rates adjusted for working days. In theory, therefore, one would need to apply an adjustment for the current year, which the OECD itself estimates at two per mille points. The OECD's projections thus fall toward the more optimistic end of the current range of forecasts.

*OECD Remains Fairly Optimistic About Germany for the Current Year*

Finally, as part of the Eurosystem's projections in mid-June, the Deutsche Bundesbank projected growth rates of 0.7 percent for 2026 and 0.9 percent for 2027. In this context, the central banks have projected growth rates of 0.8 percent for 2026 and 1.2 percent for 2027 for the euro area as a whole. It should be noted, however, that the growth figures for the euro area are currently being overshadowed by highly volatile one-time accounting developments in Ireland.

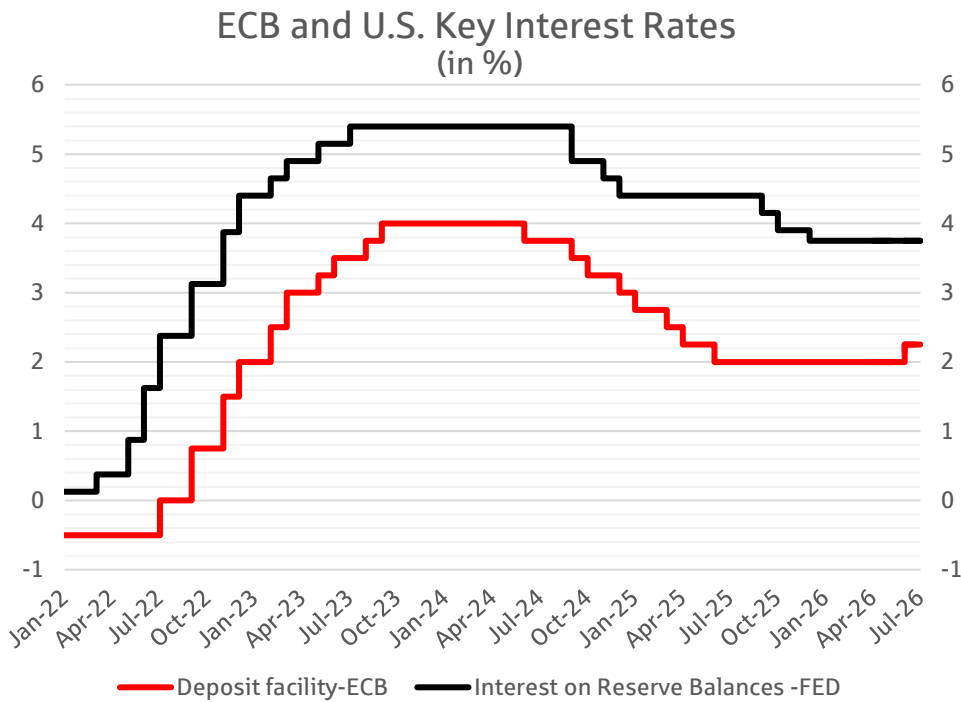
Recently, some of the more recent forecasts, such as that from the Halle Institute for Economic Research (IWH), had already taken a somewhat more positive stance—even before the recently announced resolution of the conflict. Structurally, it became apparent that many countries were able to cope with the shortage situation relatively well and flexibly. To put it simply: The impression was spreading that the global economy would be able to cope relatively well even with 80 percent of the usual volumes of oil and gas. And that would also have corresponding stabilizing effects on the German economy. The IWH had therefore already projected 0.9 percent growth for each of the two years of the forecast horizon. This would bring us almost back to the outlook at the beginning of the year.

### **ECB's Interest Rate Hike Is the Right Move Given the Risks**

At the European level, the economic recovery appears to be holding up quite well anyway. This certainly made it easier for the European Central Bank to decide to raise its key interest rate at its Governing Council meeting on June 11. After all, in the face of a supply shock, monetary policy is, in principle, always faced with the dilemma that it should actually support the negatively affected economy with low interest rates, but at the same time must counter the surge in inflation with rate hikes. Currently, and judging by the actual size of the rate hike, it appears that this trade-off has been clearly resolved.

*The Dilemma of Monetary Policy in the Face of a Supply Shock*

For savers and borrowers, this small, isolated interest rate adjustment will not result in any major changes. Of course, this tends to make loans more expensive. From a monetary policy perspective, this is also intended to bring about a slowdown that limits price increases. For savers, even more crucial than the interest rate is that the inflation trend be quickly reversed and brought back to the two percent target, in order to preserve the real purchasing power of their savings. The interest rate measure taken contributes to this.



Sources: ECB, Board of Governors of the Federal Reserve System

The ECB had already signaled quite clearly at its previous meeting that it intended to take action in June if the Strait of Hormuz were still closed at that time. The markets were prepared accordingly and had anticipated this move.

The ECB has also learned a hard lesson from its still-fresh experiences in 2022: At that time, following Russia’s invasion of Ukraine, the ECB faced a shock—which initially hit energy prices in a very similar way—but for a very long time “looked right through” the oil and gas prices and ultimately acted far too late. Second-round effects were already setting in at that time, and inflation expectations began to lose their anchorage.

*This time, the ECB wants to be “ahead of the curve”*

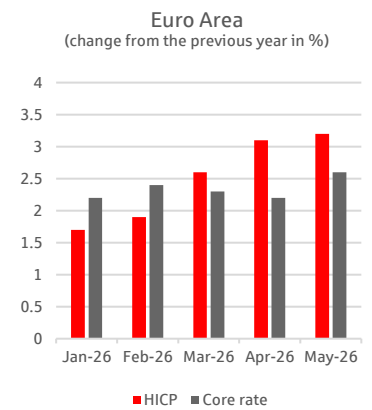
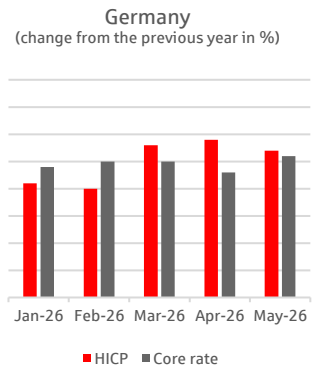
The ECB did manage to bring the situation under control by taking even more decisive action later on. But perhaps it wouldn't have been necessary to slam on the brakes and raise rates so sharply at the peak if it had started sooner.

In the current cycle and in the face of the new shock, the ECB is keen to get ahead of the curve sooner. However, the situations in 2022 and 2026 are not comparable in every respect—for example, in terms of the starting interest rate level. Back then, we were still emerging from negative interest rates and from central bank balance sheets that had ballooned to their peak. With so much “kindling” already in place, the spark of inflation ignited particularly strongly. Now, in the spring of 2026, the new shock, by contrast, has struck against a much more normal monetary policy backdrop. The chances of containing inflationary momentum with a more gradual monetary policy tightening are therefore better now.

However, inflation rates—even at their current levels—already indicate a need for action to counteract them. From March through May, inflation rates in Germany and the euro area, as measured by the overall consumer price index, climbed to roughly the 3 percent mark. Core inflation rates are naturally even more subdued, but even there, initial slight increases are becoming apparent. It is widely expected that food prices, in particular, could rise in the coming months. One possible channel for this is the growing scarcity of fertilizers, for which a significant portion of the global market supply of ingredients such as ammonia is currently stuck in the Strait of Hormuz.

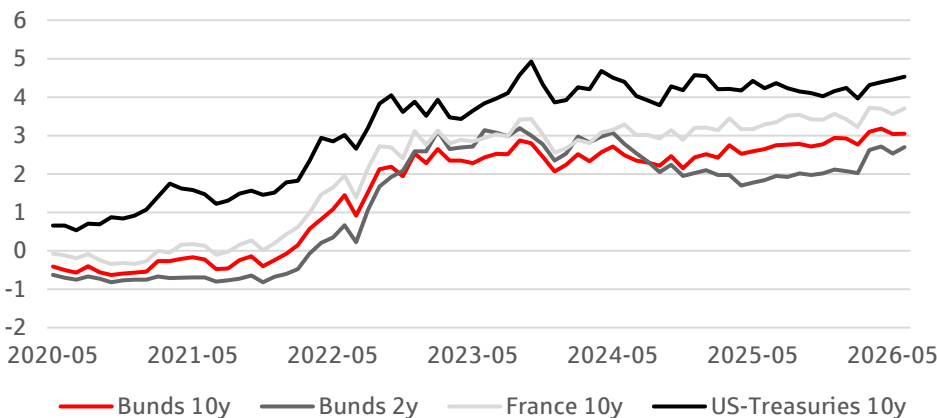
When it comes to inflation expectations, the trend—as inferred, for example, from market-price indicators such as the spread between inflation-indexed and non-indexed bonds—is twofold. For shorter maturities, such as those over two years, certain premiums can be observed. A temporary countermeasure in interest rate policy in response to temporarily slightly higher inflation rates is apparently considered necessary. For longer maturities, the differences are small or have been almost entirely absent so far. This is a good sign that the markets have confidence in the government’s stability-oriented policies.

However, there have also been some increases in yields for bonds with long remaining maturities. These are not necessarily inflation premiums, though. Rather, they reflect a combination of several factors that have recently been priced somewhat differently by the markets. For example, the neutral real interest rate is now estimated to be slightly higher, and concerns about the sustainability of high government debt in many countries are being taken more seriously. Yields on 10-year German government bonds have also settled back above the 3 percent mark in the wake of recent events. For other industrialized nations with higher debt-to-GDP ratios, yields are correspondingly higher.



Source: Eurostat

### Interest Rate Trends for Government Bonds (Yields to Maturity in %)



Source: German Federal Bank, Federal Reserve Bank of St. Louis, Agence France Trésor

All in all, the ECB’s latest interest rate decision was well-considered and understandable given the current environment. Should the agreement between

the conflicting parties in the Middle East—which was not yet known at the time—now prove to be sustainable, the pressure for further interest rate hikes would naturally subside. After all, this would eliminate the shock trigger. However, the question remains as to how much inflationary momentum may have already escaped the bottle in the meantime. Vigilance regarding the emergence of second-round effects remains essential.

### **Changes in Foreign Trade Prices Affect German Prosperity**

Given the current situation of prolonged stagnation in Germany and in light of the temporary energy price shock, it is mixed news that wage growth in Germany remains quite high. The Federal Statistical Office reported that real wages rose by 1.8 percent in the first quarter—note that this figure is already adjusted for inflation. In nominal terms, the increase compared to the same quarter of the previous year was 4.0 percent. Such growth rates are not supported by GDP trends or the (almost entirely absent) productivity growth.

While rising wages may still be good news for stabilizing private consumption amid the difficult economic situation, they represent yet another burden for employment prospects, the country's attractiveness as a business location for investment decisions, and its already weakened competitiveness. Moreover, the GDP trend actually overstates the scope for redistribution. The rise in energy prices resulting from the war in the Middle East has worsened the terms of trade—that is, the ratio of imported goods Germany can purchase with its export earnings (a negative terms-of-trade shock). This has further negatively impacted the country's prosperity.

The economic actors in the German economy will inevitably have to bear this burden. These losses cannot be prevented even through fiscal, monetary, wage, or redistributive policies; at best, they can be managed and gradually controlled. At most, a few particularly severe hardships could be alleviated. However, in all upcoming political reform measures, the restoration of market-based incentives, growth momentum, and competitiveness must take precedence over distributional considerations.

*Real wage growth in Germany remains very strong through the first quarter of 2026*

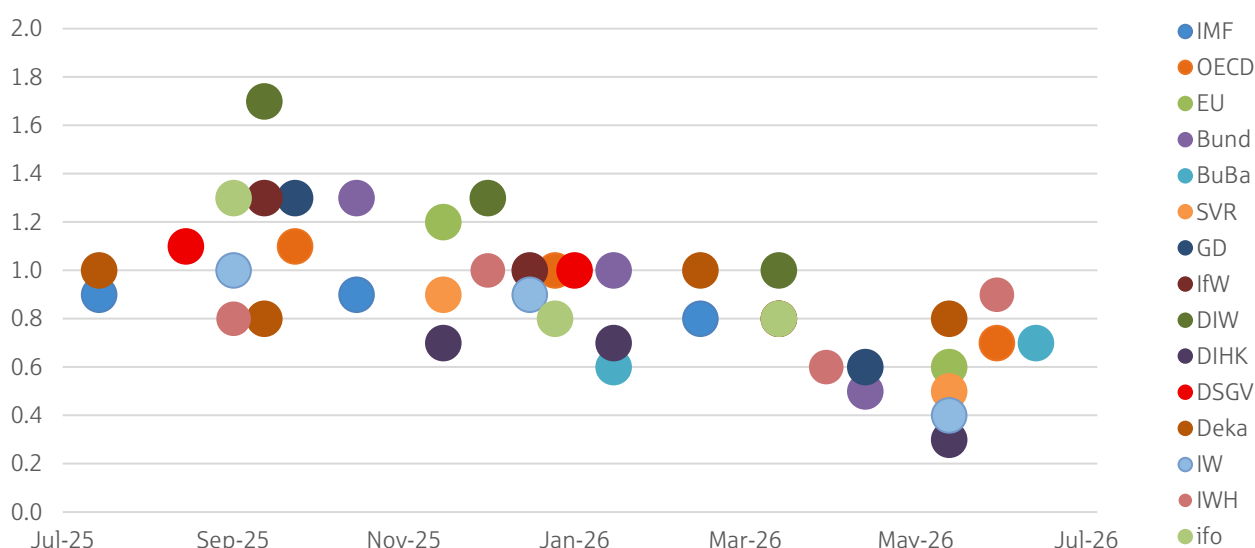
*Adjusted for changes in foreign trade prices, there is even less to distribute than the stagnant GDP*

### A. Growth of world economic regions, change on previous year

	2024	2024	2024
World trade volume	3.7 %	World trade volume	3.7 %
GDP – World	2.8 %	GDP – World	2.8 %
USA	2.8 %	USA	2.8 %
Japan	-0.2 %	Japan	-0.2 %
China	5.0 %	China	5.0 %
Euro area	0.9 %	Euro area	0.9 %
Germany	-0.5 %	Germany	-0.5 %

\* Prognosen des Internationalen Währungsfonds von April 2026.

### B. Forecasts for economic growth in Germany for 2026, in %



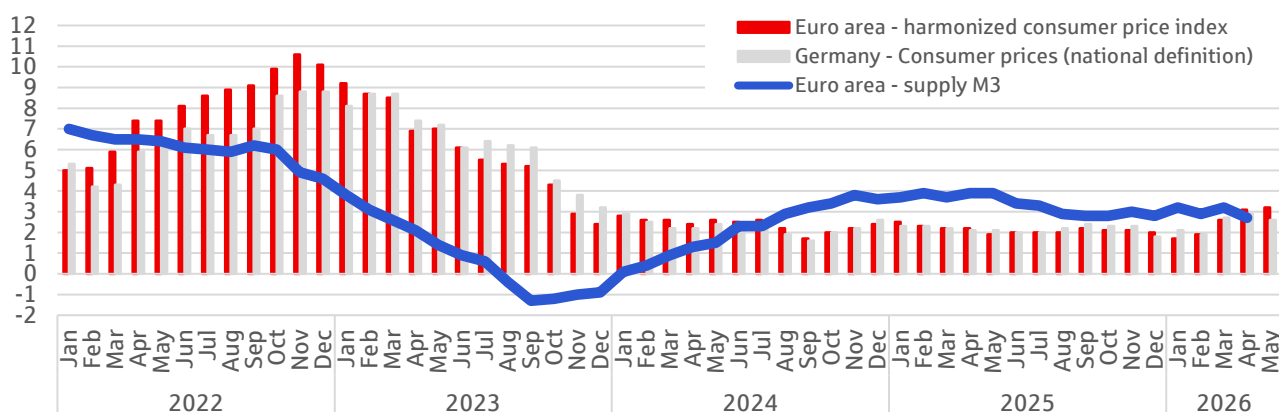
### C. GDP in Germany and the Euro Area

	Year 2025 real year-on-year	Q II – 2025	Q III – 2025	Q IV – 2025	Q I – 2026
		real change compared to the same quarter of the previous year and seasonally-adjusted real change vs. the previous quarter			
Euro area GDP	+1.4 %	+1.6 % +0.1 %	+1.4 % +0.3 %	+1.2 % +0.2 %	+0.3 % -0.2 %
Germany GDP	+0.2 %	+0.4 % -0.2 %	+0.3 % 0.0 %	+0.4 % +0.2 %	+0.3 % +0.3 %
Private consumption	+1.4 %	+1.7 % +0.1 %	+1.0 % -0.3 %	+1.5 % +0.6 %	+0.8 % 0.0 %
Gross capital investment	-0.5 %	-1.3 % -0.9 %	+0.3 % +0.1 %	+1.5 % +1.3 %	-0.8 % -1.5 %
Exports	-0.3 %	-2.4 % -1.2 %	-0.9 % -1.1 %	0.0 % -1.5 %	-0.3 % +3.3 %

Level, not rate of change; quarterly figures, seasonally-adjusted

Savings rate	10.5 %	10.2 %	10.6 %	10.3 %	10.1 %
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## D. Consumer prices and money supply M3, annual rates of change in %



## E. Monthly economic indicators Germany

	February	March	April	May	June
<b>Prices (national definition)</b>	Change compared to the same month of the previous year				
Consumer prices	1.9 %	2.7 %	2.9 %	–	–
– excluding food and energy (core inflation)	2.5 %	2.5 %	2.3 %	2.6 %	–
Producer prices for industrial products	–3.3 %	–0.2 %	1.7 %	–	–
Import prices	–2.3 %	2.3 %	5.3 %	–	–
<b>Sentiment indicators</b>					
ifo Business Climate Index	88.5	86.3	84.5	84.9	–
ZEW Economic Sentiment Survey	58.3	–0.5	–17.2	–10.2	10.5
<b>Incoming orders</b>	Change compared to the same month of the previous year				
Manufacturing industry	2.3 %	10.8 %	1.6 %	–	–
From within Germany	0.4 %	8.4 %	–2.9 %	–	–
From abroad	3.6 %	12.1 %	4.7 %	–	–
Capital-goods producers	3.8 %	9.3 %	–1.6 %	–	–
<b>Production</b>	Working-day-adjusted change compared to the same month of the previous year				
Overall manufacturing industry	–0.2 %	–2.8 %	–0.5 %	–	–
thereof: construction	–3.6 %	–1.5 %	2.6 %	–	–
thereof: industry	–0.9 %	–4.1 %	–2.1 %	–	–
<b>Foreign trade</b>	Change compared to the same month of the previous year				
Exports	1.6 %	6.6 %	3.7 %	–	–
Imports	0.6 %	10.4 %	6.3 %	–	–
<b>Labour market</b>	Unemployment rate, change in the jobless total compared to the same month of the previous year (1.000s)				
Unemployment rate (seasonally-adjusted)	6.5 %	6.4 %	6.4 %	6.3 %	–
Jobless total	+81	+54	+77	+31	–
Employed persons (with a place of work in Ger)	–148	–174	–184	–	–
Employees subject to social-security contributions	–16	+9	–	–	–

**F. Commodity, foreign-exchange and financial markets**

	February	March	April	May	June, 19
<b>Brent oil price in USD</b>	70.89	103.13	117.29	107.14	80.26
<b>Exchange rates</b>					
US-Dollar / EUR	1.1824	1.1558	1.1706	1.1673	1.1467
Japanese Yen / EUR	183.45	183.40	186.21	184.71	184.88
<b>Equity markets</b>					
DAX German benchmark share index, end-of-month	25.284	22.680	24.292	25.105	24.985
Change compared to the same month of the previous year	+12.1 %	+2.3 %	+7.9 %	+4.6 %	–
<b>Money-market and capital-market rates</b>					
Call money (€STR)	1.931 %	1.932 %	1.932 %	1.931 %	1.931 %
Current yield of German government bonds with a residual maturity					
– of one year	2.00 %	2.51 %	2.59 %	2.45 %	2.49 %
– of ten years	2.76 %	3.10 %	3.18 %	3.04 %	2.96 %
<b>Interest rates of credit institutions, in new business</b>					
Daily deposits of private households in D;	0.45 %	0.47 %	0.48 %	–	–
for comparison across the euro area as a whole	0.25 %	0.26 %	0.26 %	–	–
Deposits of private households up to 1 year in D;	1.85 %	1.89 %	1.94 %	–	–
for comparison across the euro area as a whole	1.78 %	1.82 %	1.87 %	–	–
Corporate loans of up to € 1 million over 5 years in D;	3.96 %	3.94 %	4.15 %	–	–
for comparison across the euro area as a whole	3.77 %	3.80 %	3.89 %	–	–

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