JOINT ECONOMIC FORECAST 1/2021
PRESS RELEASE

Essen, April 15, 2021

Pandemic delays upswing – Demography slows growth

In their spring report, the leading economic research institutes forecast an increase in gross domestic product of 3.7% in the current year and 3.9% in 2022. The renewed shutdown is delaying the economic recovery, but as soon as the risks of infection, particularly from vaccination, have been averted, a strong recovery will begin. The economy is likely to return to normal output levels around the start of the coming year.

“Economic output is likely to have dropped by 1.8% in the first quarter due to the continuing shutdown,” said Torsten Schmidt, Chief Economist at RWI – Leibniz Institute for Economic Research. The new wave of infections and the associated containment measures lead to the downward revision of the forecast for 2021 by 1 percentage point compared to the fall forecast 2020.

In their forecast, the institutes assume that the current shutdown will continue for the time being and that the most recent easing measures will be largely reversed. Further easing is not expected until the middle of the second quarter, with restrictions probably lifted by the end of the third quarter. “We expect a vigorous expansion of economic activities as the measures are gradually lifted over the course of the six months through the summer, especially in the services sector that was particularly affected by the pandemic,” Schmidt added.

Employment is also likely to gain momentum in view of the expected easing of restrictions. On average, employment is expected to rise by 26,000 over 2021. The rise is estimated at 539,000 over the coming year, with pre-crisis levels being reached in the first half-year. Unemployment levels are also expected to drop more sharply as the infection control measures are gradually lifted.

Public budgets are expected to show a deficit of 159 billion euros in 2021, slightly higher than in the previous year. Tax revenues are already rising again due to the economic situation. However, spending on vaccinations and tests is causing social benefits in kind to rise sharply. Moreover, government investment is likely to continue expanding, especially due to the funds available in investment programmes. In relation to GDP, the general government budget deficit is expected to remain roughly the same at 4.5% in 2021 and to drop significantly to 1.6% in 2022.

The coronavirus pandemic is leaving its mark on production potential as well. Current forecasts suggest that between 2020 and 2024, it is likely to be on average around 1.1% below the levels originally estimated prior to the Corona
In addition, there are already signs that Germany is facing a far-reaching demographic transition in the years ahead. The total workforce will shrink as the baby boomers reach retirement age, accompanied by a sharp rise in the proportion of older people. This will have serious consequences for growth potential: Projections indicate that the rate of growth potential is expected to decline by around one percentage point by 2030.

The further development of the pandemic remains the most significant downside risk to the outlook. Bottlenecks and delays may still occur in the delivery of vaccines and tests. Moreover, the emergence of new virus mutations might erode the effectiveness of vaccines, potentially halting the opening process and once again causing setbacks in the economic recovery.

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<td>2018</td>
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<tr>
<td>Real gross domestic product(^1)</td>
<td>1.3</td>
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<tr>
<td>Employment(^2) (1 000 persons)</td>
<td>44 868</td>
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<tr>
<td>Unemployment (1 000 persons)</td>
<td>2 340</td>
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<td>Unemployment rate BA(^3) (in %)</td>
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<td>General government financial balance(^6)</td>
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<tr>
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<tr>
<td>Current account balance</td>
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\(^1\) Percent change over previous year.
\(^2\) Domestic concept.
\(^3\) Unemployed person in percent of civilian labour force (Federal Employment Agency concept).
\(^4\) Consumer price index (2015=100).
\(^5\) Compensation of employees per hour worked by employees in relation to labour productivity.
\(^6\) On national accounts definition (ESA 2010).


The complete report will be available on April 15, 2021 at 10:00 a.m. www.gemeinschaftsdiagnose.de/category/gutachten/.

The Joint Economic Forecast was prepared by the German Institute for Economic Research (DIW Berlin), the ifo Institute (Munich), the Kiel Institute for the World Economy (IfW Kiel), the Halle Institute for Economic Research (IWH), and RWI (Essen).

**Appendix**

**Complete report (in German)**

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the German Federal Ministry for Economic Affairs and Energy. The following institutes participated in the spring report 2021:

- German Institute for Economic Research (DIW Berlin)
- ifo Institute – Leibniz Institute for Economic Research at the University of Munich in cooperation with the KOF Swiss Economic Institute at ETH Zurich
- Kiel Institute for the World Economy (IfW Kiel)
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
- RWI – Leibniz Institute for Economic Research in cooperation with the Institute for Advanced Studies Vienna

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