IWH
Halle Institute for Economic Research
Member of the Leibniz Association

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Economic Outlook: German economy on a recovery path – Tailwinds from the global economy and fiscal policy

An increase in foreign demand has put the German economy on a recovery path in the first half of the year, despite higher energy prices. In the coming quarters, rising public investment is expected to support economic activity. According to the autumn forecast of the Halle Institute for Economic Research (IWH), gross domestic product (GDP) is projected to grow by 1.4% this year and by 0.8% in 2027. Economic recovery in eastern Germany is expected to be somewhat weaker. In June, the IWH economists had predicted growth of 0.9% for both this and the next year.

Global economic activity remains robust in late summer 2026. The key driver is a wave of investment triggered by the artificial intelligence boom. Most of these investments are being made in the United States. Exports are booming in countries that host major producers of the capital goods required for these investments. Meanwhile, oil prices have risen due to the conflict in the Gulf region. However they remain lower than during previous energy crises, particularly in real terms. The moderate reaction of energy markets is primarily due to weaker demand from China. Still, the higher inflation rates resulting from rising energy prices suggest that policy rates in the United States and the euro area are likely to be increased over the coming quarters. Fiscal policy in both economic regions is mildly expansionary this

Table
Forecast for Germany: Key Economic Indicators[a] for Germany, 2025–2028

	2025	2026	2027	2028
	percentage change over previous year (price adjusted)			
Germany	0.2	1.4	0.8	0.2
East Germany[a]	0.4	1.1	0.8	0.3
	percentage change over previous year in %			
hours worked	–0.8	0.0	–0.1	–0.7
hourly union wages	2.8	2.4	2.5	2.5
hourly actual wages	4.9	3.5	3.3	3.0
unit labour costs[b]	4.3	2.0	2.5	2.4
consumer price index	2.2	2.6	2.5	2.0
	1,000 persons			
employment (domestic)	45 878	45 681	45 639	45 617
unemployment[c]	2 948	2 994	2 985	2 891
	in %			
unemployment rate[d]	6.3	6.4	6.3	6.2
East Germany[a]	7.8	7.9	7.8	7.7
	in % of nominal GDP			
general government overall balance	–3.0	–4.0	–4.3	–4.5
current account balance	4.5	4.5	3.9	3.7

[a] East Germany including Berlin. – [b] Per hour (IWH calculations). – [c] Federal Employment Agency (BA) concept. – [d] Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).

Sources: Federal Statistical Office; 2026-2028: IWH forecast (closing date: September 3, 2026).

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The IWH Forecasting Dashboard (ForDas)

The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

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artificial intelligence, business cycle, China, consumption, crude oil, East Germany, economic growth, energy crisis, euro area, export, fiscal policy, forecast, Germany, global economy, gross domestic product, Gulf conflict, inflation, interest rates, investments, production, USA

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year but is expected to become more restrictive in 2027. Overall, the prospects for stable global growth are favorable, as the AI boom is likely to continue. However, no acceleration of growth is expected, partly because production capacities in industries benefiting from the boom are already operating at full capacity.

"The German economy is on a recovery path," says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. In the second quarter of 2026, gross domestic product increased markedly for the third consecutive quarter, as before largely driven by rising exports, following a declining trend that had persisted since early 2023. Employment, however, continues to fall, most notably in manufacturing. The sector therefore remains in crisis, even though data on value added and exports indicate that some firms are benefiting from the currently strong international demand. Little evidence of a recovery can yet be seen in the performance of other expenditure components during the first half of the year. Private consumption is being dampened by losses in purchasing power resulting from higher energy prices, while private investment in machinery and equipment in the second quarter is no higher than two and a half years earlier. In addition, low water levels on the Rhine weigh on manufacturing output, but water levels have started to rise again since mid-August. In the coming quarters public spending programmes are likely to translate into higher investment. The recent marked improvement in sentiment indicators, such as the Ifo Business Expectations Index, also suggests that the recovery is set to continue.

"Since the onset of the recent Gulf conflict, the risk of an energy crisis has become a significant downside risk to the economic outlook, particularly for Germany and Europe", says Oliver Holtemöller. Global supplies of liquefied natural gas have been tightened more severely by the substantial disruption of exports from Qatar than global oil supplies have been by the conflict. Europe remains dependent on natural gas imports, and gas storage levels are low compared with historical averages. In addition, Germany's recovery remains fragile because it has so far depended largely on stronger foreign demand. This source of support could weaken quickly, for example if the AI boom comes to an end or if German firms continue to lose competitiveness.

The extended version of this forecast contains two boxes (both in German):

Box 1: On the latest revision of the national accounts

Box 2: On the estimation of potential output

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The Halle Institute for Economic Research (IWH) – Member of the Leibniz Association was founded in 1992. With its four research departments – Financial Markets; Laws, Regulations and Factor Markets; Macroeconomics; Structural Change and Productivity –, IWH conducts economic research and provides economic policy recommendations, which are founded on evidence-based research. With the IWH's guiding theme "From Transition to European Integration", the institute's research concentrates on the determinants of economic growth processes with a focus on efficient capital allocation in a national and European context. Particular areas of interest for the institute are macroeconomic dynamics and stability, microeconomic innovation processes, productivity and labour markets, the dynamics of structural adjustment processes, financial stability and growth and the role of financial markets for the real economy.

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