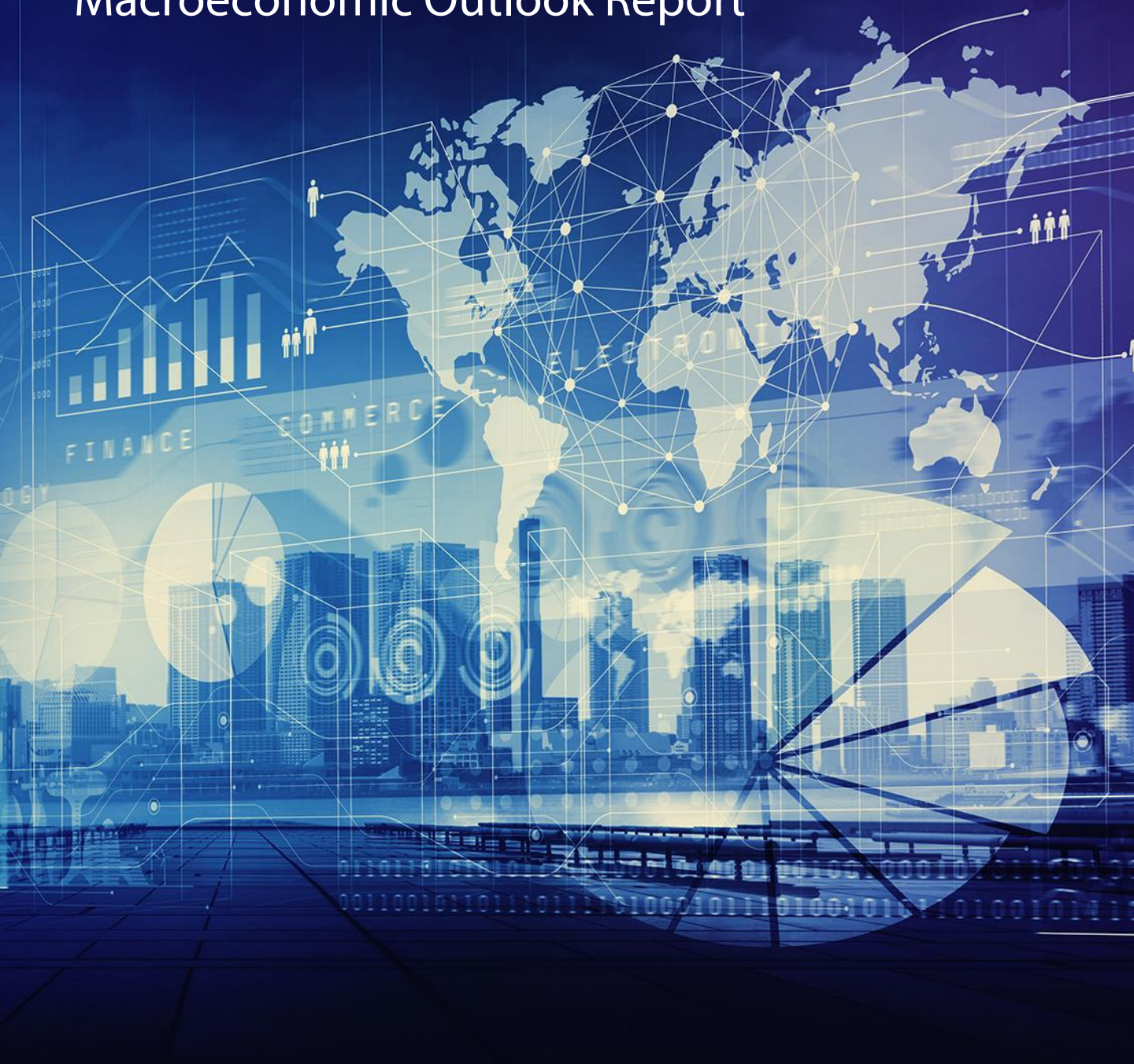


# Germany – 2Q22

## Macroeconomic Outlook Report



Design and Layout:

Marketing and Communication Department  
Management Solutions

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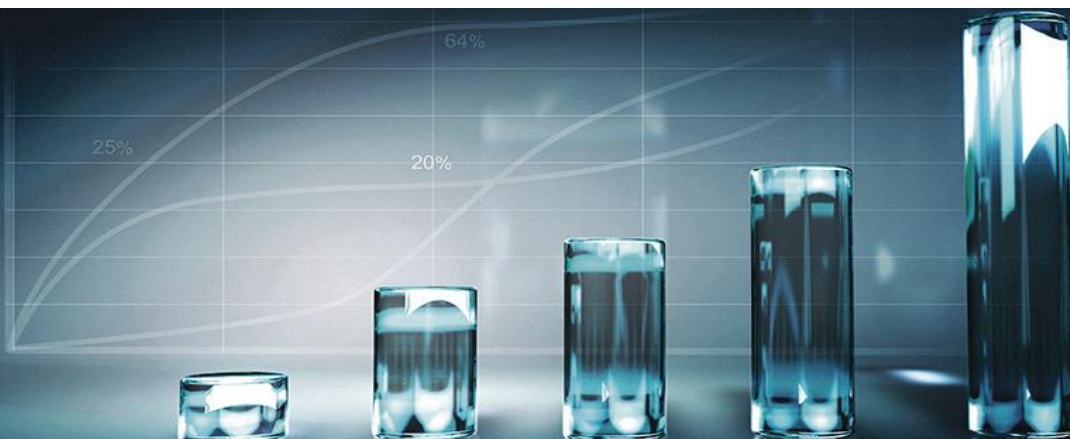
# 1. German macroeconomic view

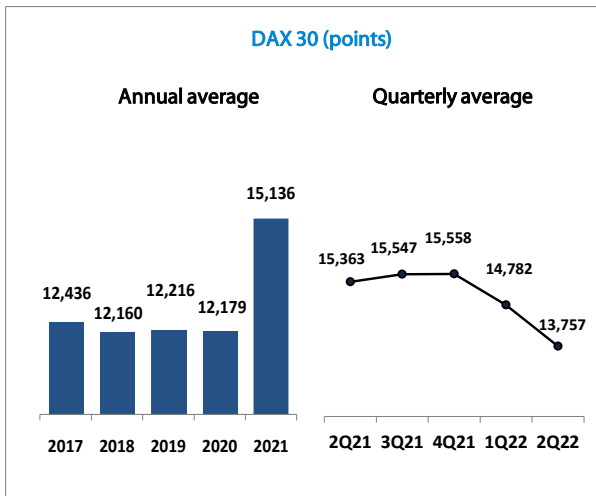
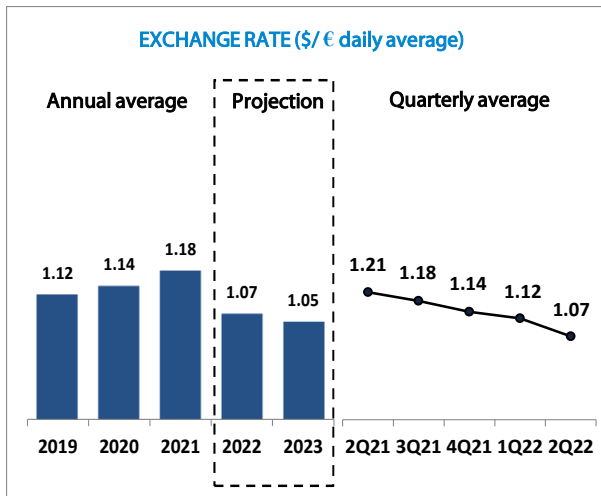
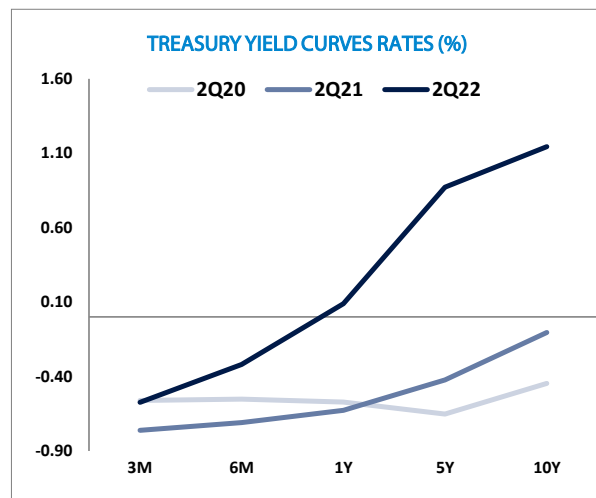
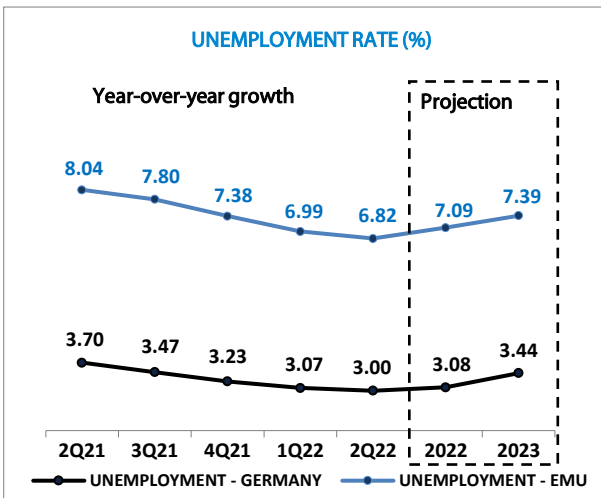
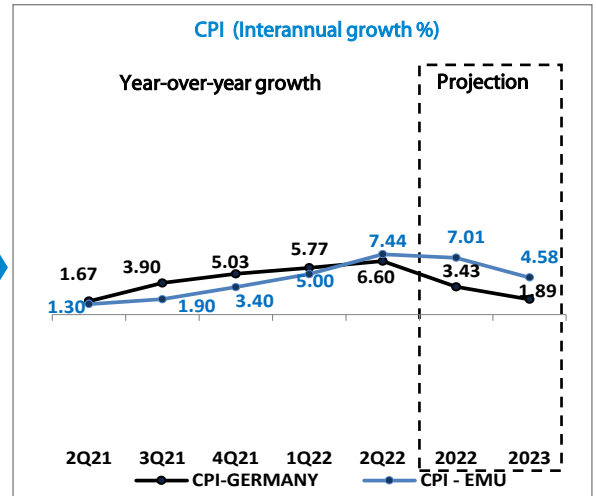
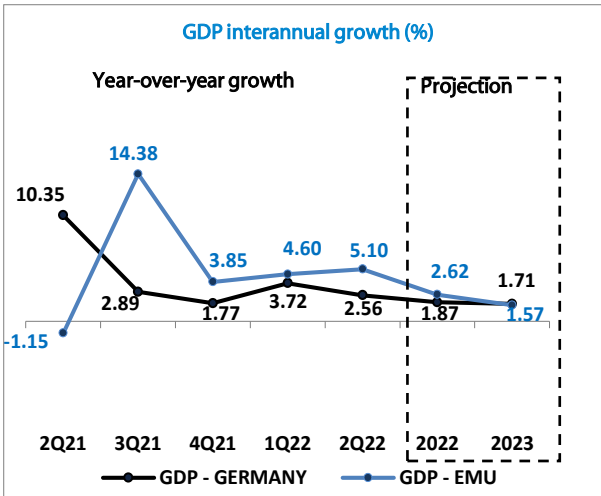
**The German economic output increased during 2Q22; however, the persistently high inflation and uncertainty of energy supplies and costs impacted the economy. This led to a public consumption decrease and could lead to a significant fall in economic output in the final quarter of 2022 and 1Q2023. The German economy could be on the brink of a recession.**

MAIN MACROECONOMICS INDICATORS ( Interannual growth %)							
INDICATOR	2Q21	3Q21	4Q21	1Q22	2Q22	2022	2023
<b>GDP</b>	<b>10.35</b>	<b>2.89</b>	<b>1.77</b>	<b>3.72</b>	<b>2.56</b>	<b>1.87</b>	<b>1.71</b>
DOMESTIC DEMAND	7.19	3.26	2.96	5.98	4.32	3.92	1.91
PRIVATE CONSUMPTION	6.64	1.43	2.42	8.61	6.91	3.43	1.89
PUBLIC CONSUMPTION	6.46	1.85	1.05	1.84	-2.92	-0.08	-0.75
GROSS FIXED CAPITAL FORMAT	7.67	-0.03	-2.38	0.91	-0.29	3.36	4.54
EXTERNAL DEMAND							
EXPORTS	27.11	7.53	6.69	2.63	2.13	1.41	4.95
IMPORTS	20.15	9.46	10.96	7.24	6.21	5.37	4.67
<b>INFLATION</b>							
<b>CPI*</b>	<b>1.67</b>	<b>3.90</b>	<b>5.03</b>	<b>5.77</b>	<b>6.60</b>	<b>3.43</b>	<b>1.89</b>
<b>LABOR MARKET</b>							
<b>UNEMPLOYMENT</b>	<b>3.70</b>	<b>3.47</b>	<b>3.23</b>	<b>3.07</b>	<b>3.00</b>	<b>3.08</b>	<b>3.44</b>
<b>EMPLOYMENT</b>	<b>0.08</b>	<b>0.66</b>	<b>0.94</b>	<b>1.54</b>	<b>1.67</b>	<b>2.14</b>	<b>0.59</b>

\*ECB inflation rate target: 2%.  
Source: Deutsche Bundesbank. Projections: OECD June 2022

- ▶ On the one hand industry and construction output have increased during the last months with the elimination of several coronavirus protective measures most likely providing a positive impact. On the other hand, price-adjusted sales in the retail sector have declined. Additionally, according to an analysis by the Deutsche Bundesbank, there are increasing signs of a slowdown in construction as well. Considering this, downward forces are likely to gain a significant pace in the upcoming quarters.
- ▶ The high energy prices and the global economic downturn are also taking their toll on German exporters. Exports surprisingly shrank by 0.5 percent. According to the BGA industry association, exporters are being squeezed from two sides: "High energy costs are pushing up the prices of German goods, which is making sales abroad more difficult. At the same time, German companies are being hit by persistent inflation, which is making it more expensive to buy goods abroad"
- ▶ Inflation in Germany rose more than in the previous quarter but still less than expected due to the fuel discount and the nine-euro ticket. The two relief measures of the "traffic light" coalition were initiated at the beginning of June to dampen the inflation rate.
- ▶ Despite the energy crisis and inflation, the German labor market has so far held up well. This was reported by the Federal Employment Agency in its monthly report on the unemployment rate. However, the labor market barometer of the Nuremberg Institute for Employment Research (IAB) fell compared with the previous month. The barometer is regarded as an early indicator of the situation in the German labor market. Although the experts continue to expect employment to grow, it will do so at a slower pace.







## 2. International overview

### LatAm, OECD and China

***The upward inflationary trend has determined the monetary policies of major global banks and the stagnation of economic growth during 2Q22.***

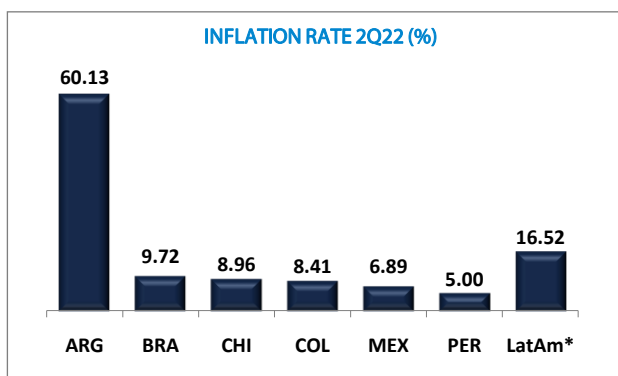
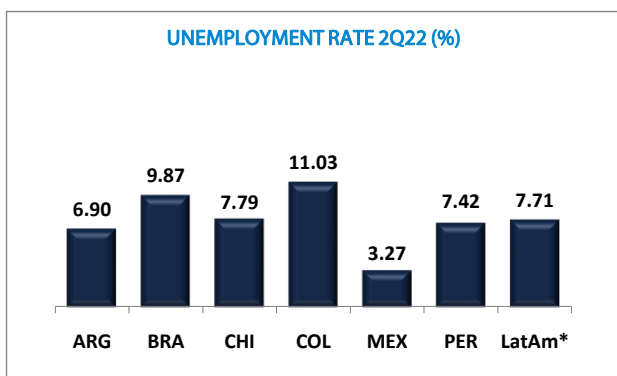
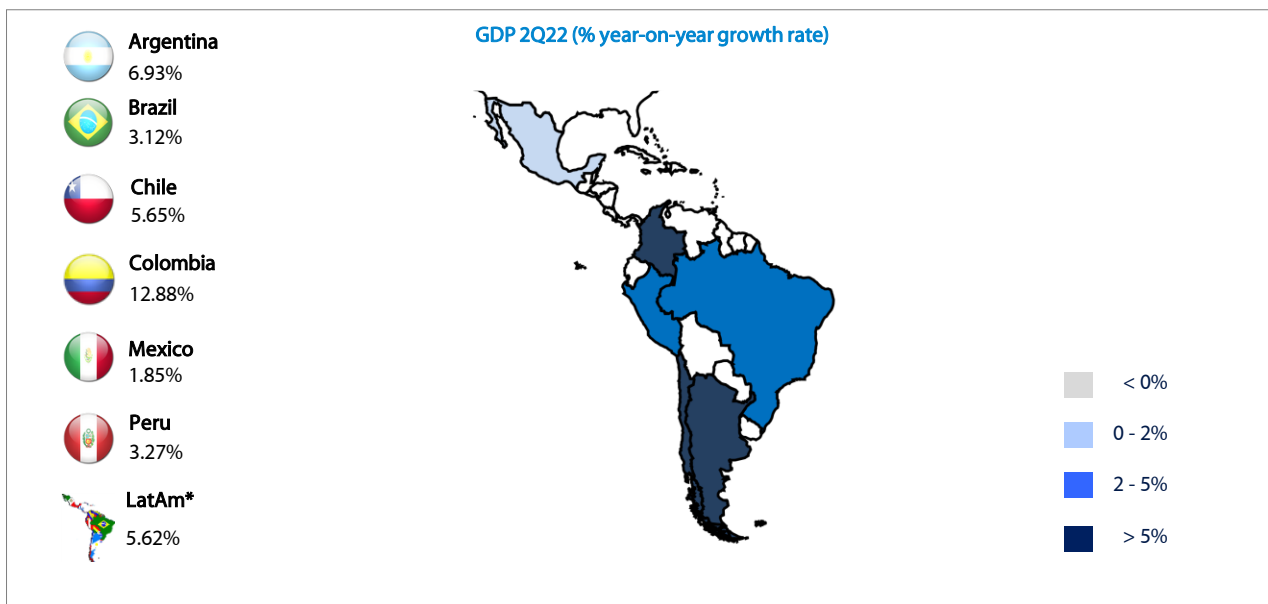
#### **Macroeconomic outlook**

- ▶ During the quarter, the global economic recovery continued after the most acute phase of the pandemic, albeit in a very uncertain environment. The main constraints on economic developments were the unfolding war in Ukraine, the slowdown in China, and the intensification of inflationary pressures in the short term, which affected the conduct of monetary policies at the global level. All this dampened households' purchasing power and increased firms' production costs.
- ▶ In this context, the Economic Commission for Latin America and the Caribbean (ECLAC) revised in October its forecast for the Latin American economy for 2022, raising the region's growth by 3.2% and cutting it to 1.4% for 2023. World trade dynamics are expected to be negatively affected by the war, which would lead to a decrease in Latin America's external demand. For its part, the European Commission has acknowledged a slower than expected economic recovery, affected by the outbreak of the war in Ukraine. Likewise, the Fed modified its previous projections for the US, predicting lower GDP growth of 2.3% in 2022 and 1% in 2023.
- ▶ During the second quarter of 2022, the labor market continued to recover from the economic consequences of the pandemic to near pre-pandemic levels. Most countries recorded declines in their unemployment rate compared to 1Q22. Mexico ranked as the country with the lowest unemployment rate (3.27%) while Colombia had the highest rate (11.03%) for Latam. Moreover, Spain reached a 12.48% unemployment rate during this quarter.
- ▶ In 2Q22, inflation increased in all the economies analyzed concerning 2Q21, with the highest rates in Argentina (60.13%), Brazil (9.72%), the United Kingdom (9.16%), and Spain (9.07%). The EMU registered an increase of 6.70 p.p. compared to 2Q21, reaching a rate of 8.60%. The average for Latam was 16.52%. China registered the smallest year-on-year increase, with inflation of 2.23%. Inflation grew at a very high rate due to the energy component. On the other hand, all economies contracted their labor markets, except Canada and China, which recorded slight year-on-year increases.
- ▶ Foreign trade in the G20 countries continued to grow in monetary terms on the back of higher commodity prices and inflation. Exports of the group of the world's 20 largest economies increased by 2.1 % from the previous quarter, while imports rose by 2.6 %. Exports of the European Union as a whole rose by 2 %, Latin America by 2.8 %, and North America by 1.5 % in the quarter.

#### **Financial sector**

- ▶ In response to rising inflation, central banks' monetary policy became more restrictive, and most central banks have raised interest rates significantly, reaching levels like those observed in 2017.
- ▶ On the fiscal side, public debt levels remained high in many countries. In a context of high demands for public spending, measures were required to strengthen fiscal sustainability and expand fiscal space by strengthening public revenues.
- ▶ In terms of their ratings, all OECD, China, and Latin American countries kept their ratings constant in the second quarter of the year, except for Chile, which moved from a Moody's rating of A1 to A2, and Mexico, which moved from a Moody's rating of Baa1 to Baa2 during this period.





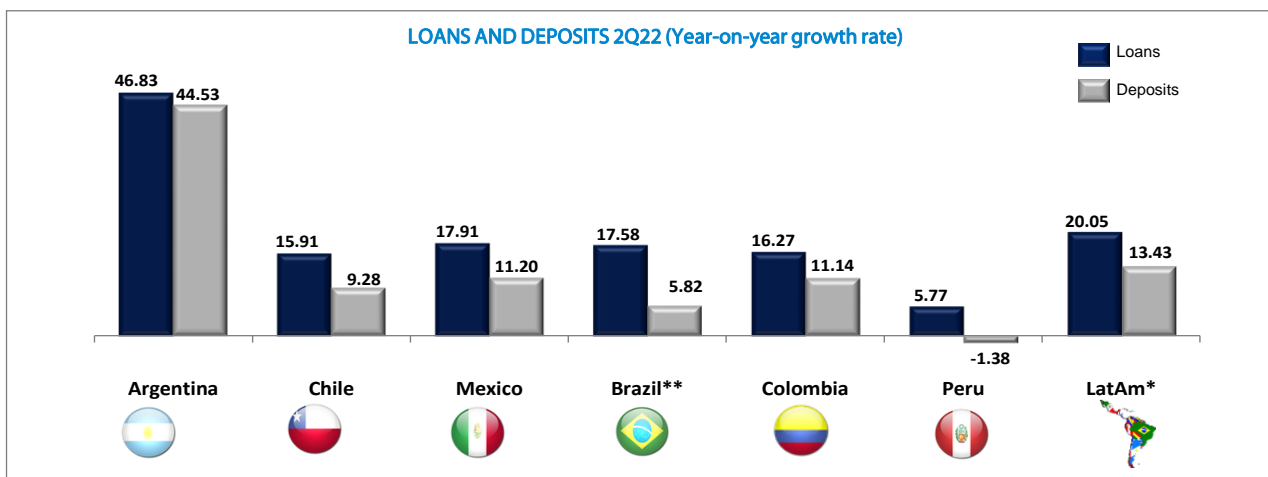
### LONG TERM RATES 2Q22

	MOODY'S		S&P		FITCH	
Argentina	Ca	—	CCC+	—	CCC	—
Brazil	Ba2	—	BB-	—	BB-	—
Chile	A2	▲	A	—	A-	—
Colombia	Baa2	—	BB+	—	BB+	—
Mexico	Baa2	▲	BBB	—	BBB-	—
Peru	Baa1	—	BBB	—	BBB	—











▲ Increase since 1Q22

— Constant since 1Q22

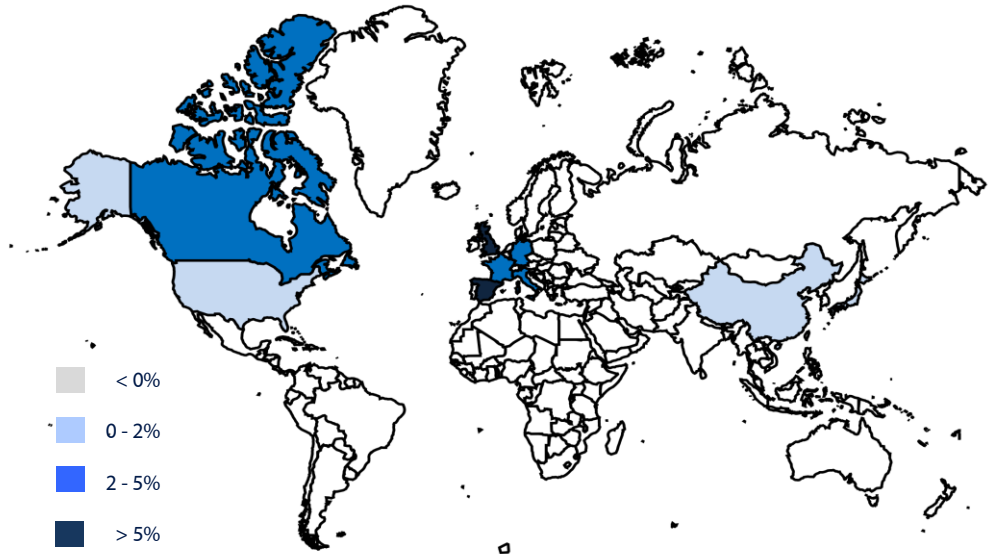
▼ Decrease since 1Q22



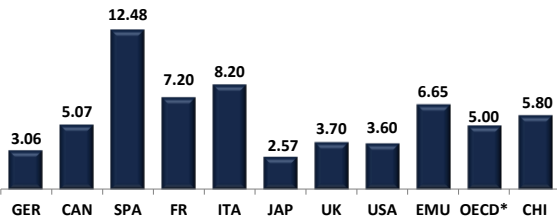
\*Latin America figures calculated as an average including Argentina, Brazil, Chile, Colombia, Mexico and Peru.  
 \*\*Most updated figures available at the date of the release correspond to 2Q22, except for Brazil's deposits (1Q22)

-  **Germany**  
2.56%
-  **Canada**  
4.56%
-  **China**  
0.40%
-  **France**  
4.01%
-  **Spain**  
6.78%
-  **Italy**  
4.70%
-  **Japan**  
1.40%
-  **EMU**  
4.25%
-  **UK**  
9.95%
-  **USA**  
1.70%

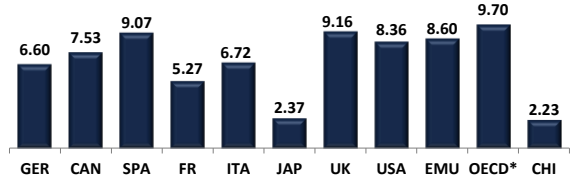
**GDP 2Q22 (% year-on-year growth rate)**



**UNEMPLOYMENT RATE 2Q22 (%)**



**INFLATION RATE 2Q22 (%)**

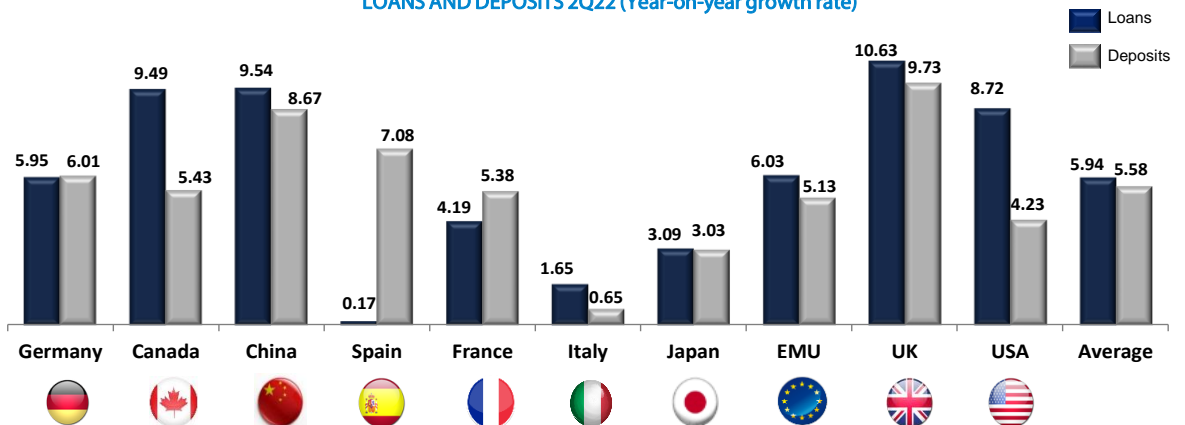


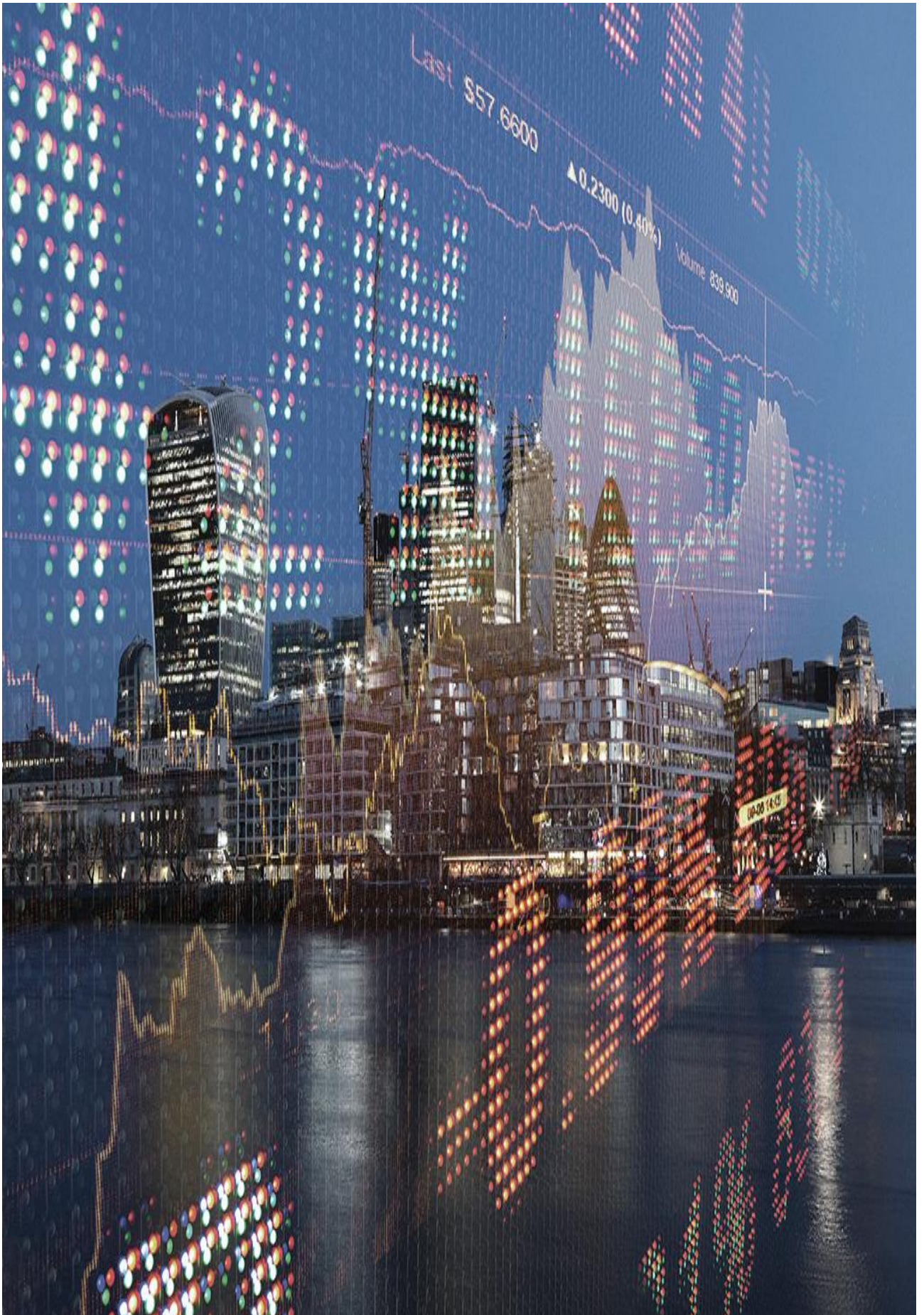
**LONG TERM RATES 2Q22**

	MOODY'S		S&P		Fitch	
Germany	Aaa	—	AAA	—	AAA	—
Canada	Aaa	—	AAA	—	AA+	—
China	A1	—	A+	—	A+	—
Spain	Baa1	—	A	—	A-	—
France	Aa2	—	AA	—	AA	—
Italy	Baa3	—	BBB	—	BBB	—
Japan	A1	—	A+	—	A	—
UK	Aa3	—	AA	—	AA-	—
USA	Aaa	—	AA+	—	AAA	—

- ▲ Increase since 1Q22
- Constant since 1Q22
- ▼ Decrease since 1Q22

**LOANS AND DEPOSITS 2Q22 (Year-on-year growth rate)**

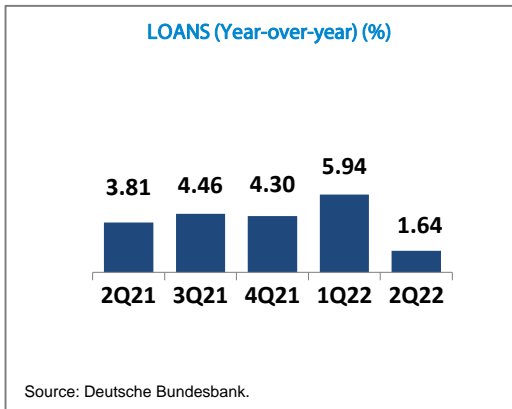




# 3. Banking sector: general overview

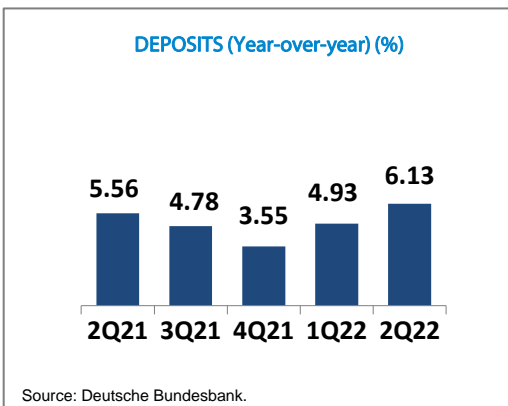
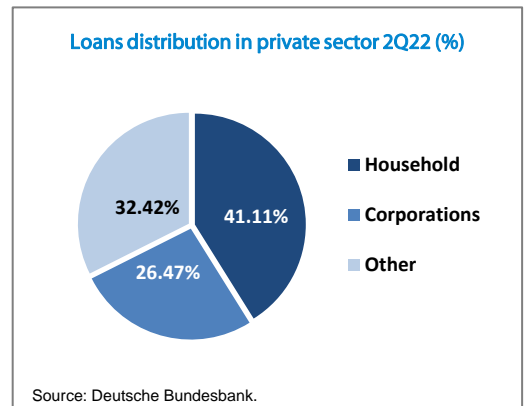
**According to Prof. Joachim Wuermeling of the Executive Board of Deutsche Bundesbank German banks are prepared for a recession but the higher inflation and the interest rate reversal pose additional risks. The biggest weakness of the German banking sector is the low profitability as this is extremely important for stability: higher profits lead to the ability to more easily cover losses or create buffers. This issue is caused by the unfavorable cost-to-income ratio. Nevertheless, the German institutions are still very well positioned as they have doubled their capital ratios since the financial crisis which they have at their disposal to absorb high levels of pressure.**

## German banking sector



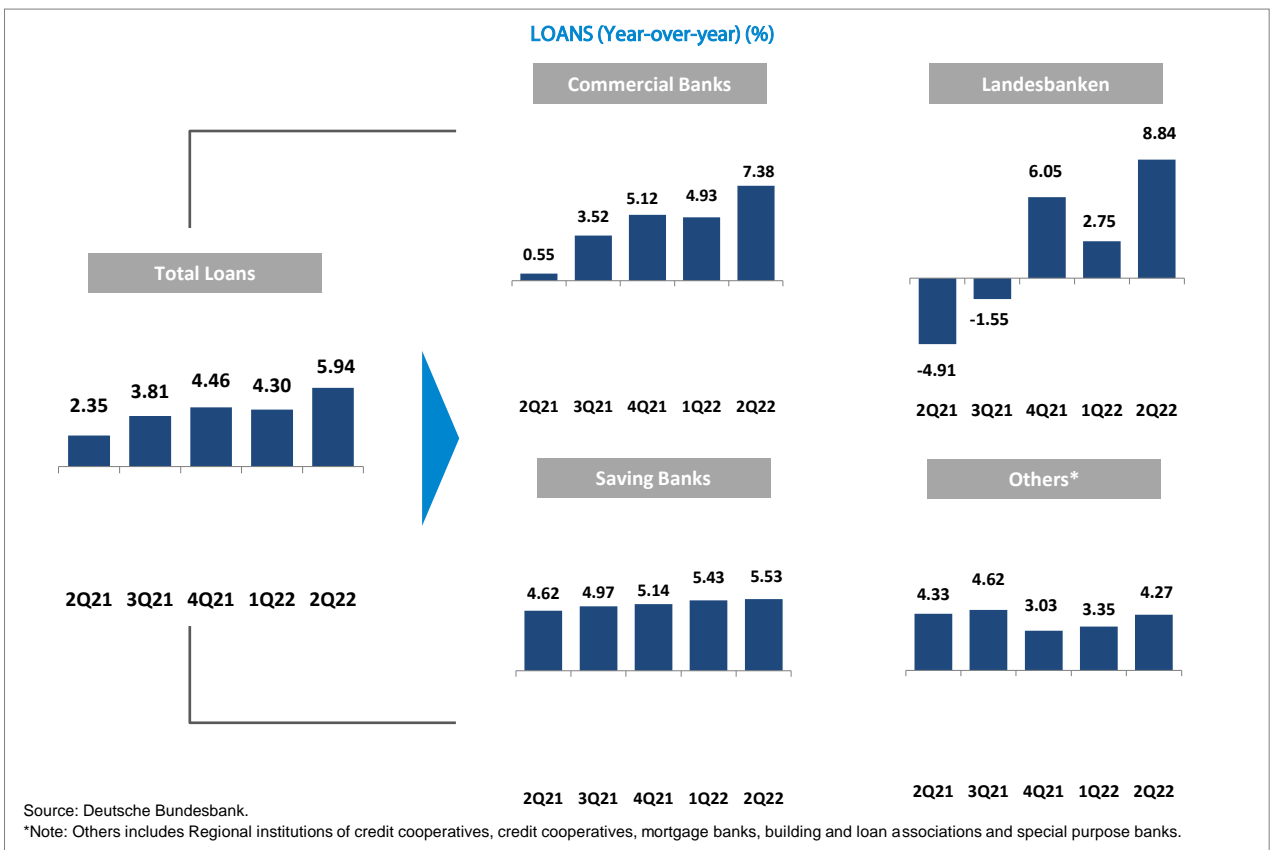
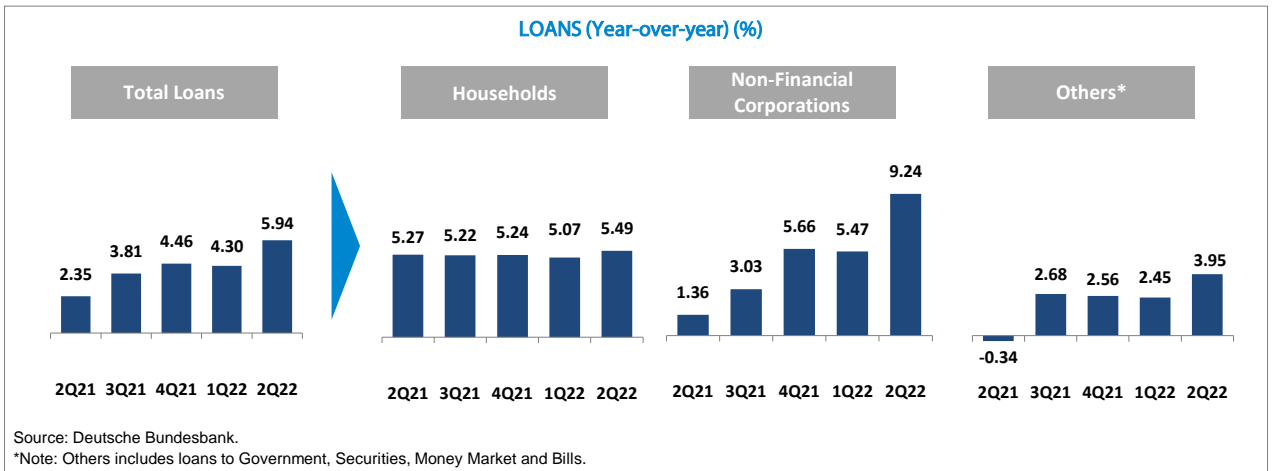
- ▶ The German Financial Stability Committee (AfS) considers the direct impact of the war in Ukraine on the German financial system to be limited. According to the Federal Ministry of Finance, this is the result of the committee's latest report for the Bundestag. The direct claims against debtors in Russia, Ukraine, and Belarus are low in total. However, the Russian attack on Ukraine at the end of February led to a sharp increase in uncertainty.
- ▶ The year-over-year loan growth rates decreased significantly reflecting both the increase in interest rates and the high uncertainty following the steep increase in energy prices and the linked high inflation rates.

- ▶ A large proportion of total loans within the private sector were granted to households. However, a decrease can be seen compared to the previous quarter. This is a direct consequence of inflation and the increase in interest rates.
- ▶ At the same time loans to corporations decreased also rather reflecting an increase in costs than in investments and being provided by commercial banks and Landesbanken.



- ▶ In contrast to the decrease in loan growth a steady increase was recorded concerning the year-over-year growth rate of deposits.
- ▶ Especially the y/y deposits of saving banks soared up to 19.81%, again reflecting the consequences of the war in Ukraine, the high increase in energy prices, and the decrease in spending of private households.

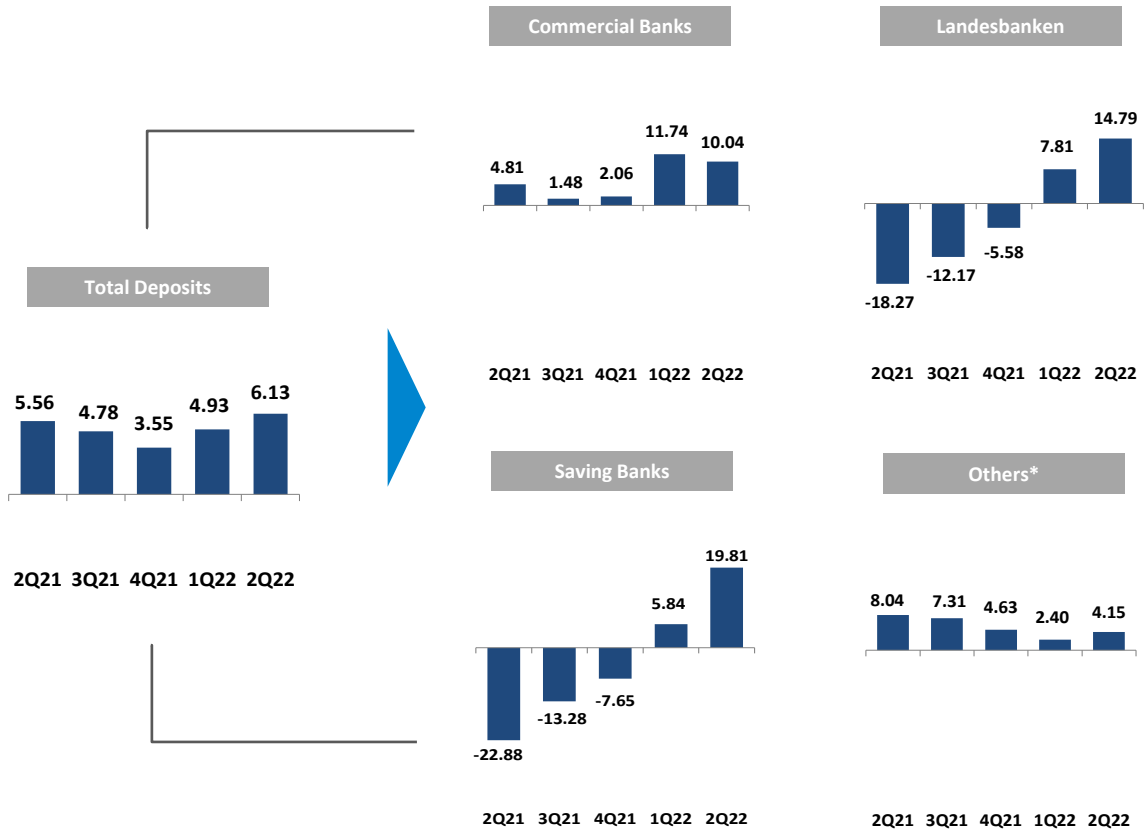
# Loans



# Deposits

By type of entity

DEPOSITS BY TYPE OF ENTITY (Year-over-year, %)



Source: Deutsche Bundesbank.

\*Note: Others includes Regional institutions of credit cooperatives, credit cooperatives, mortgage banks, building and loan associations and special purpose banks.

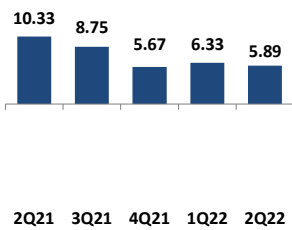


# Deposits

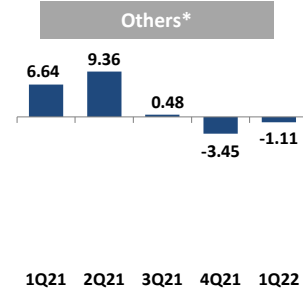
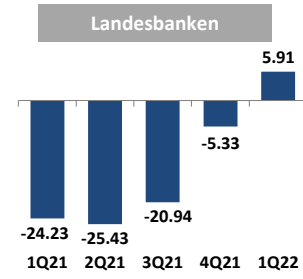
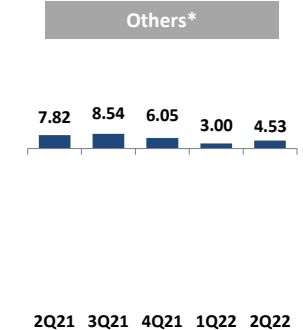
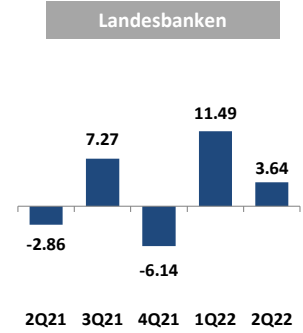
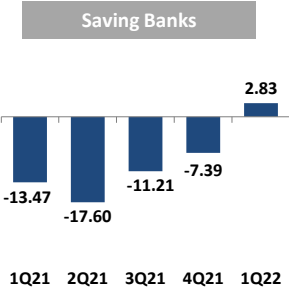
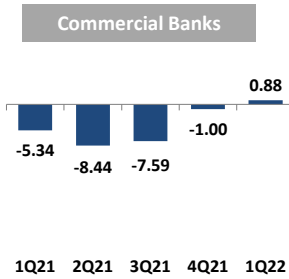
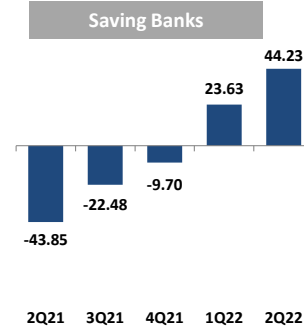
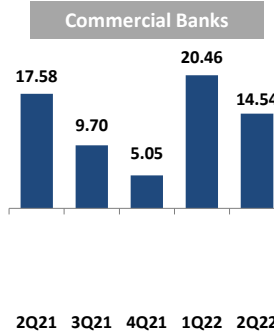
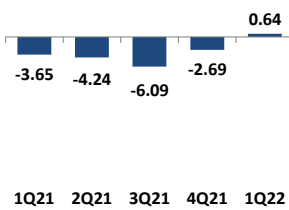
## By maturity

DEPOSITS BY MATURITY (Year-over-year, %)

### Total Sight Deposits



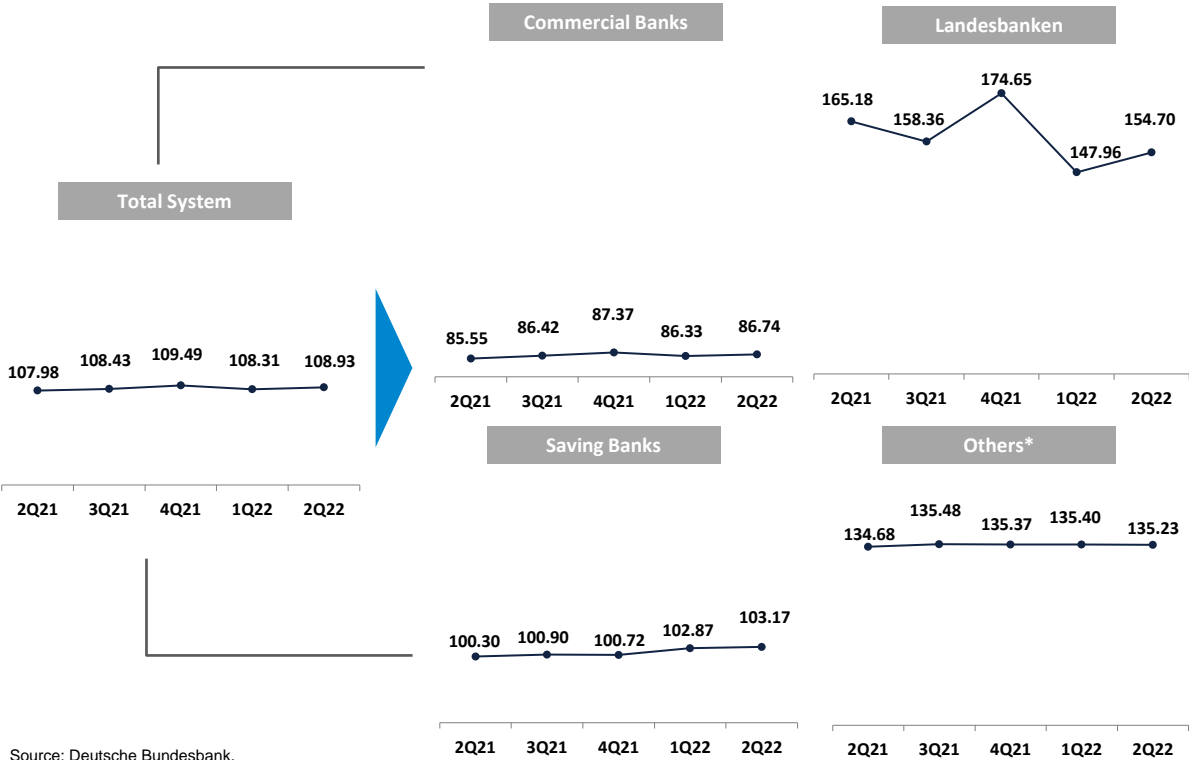
### Total Time Deposits



Source: Deutsche Bundesbank.

\*Note: Others includes Regional institutions of credit cooperatives, credit cooperatives, mortgage banks, building and loan associations and special purpose banks.

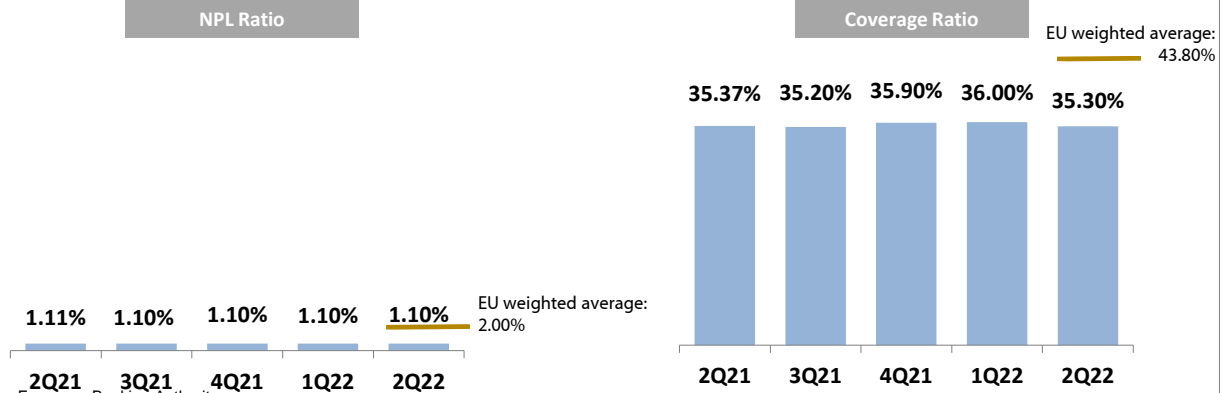
### TOTAL LOANS / TOTAL DEPOSITS (Quarterly, %)



Source: Deutsche Bundesbank.

\*Note: Others includes Regional institutions of credit cooperatives, credit cooperatives, mortgage banks, building and loan associations and special purpose banks.

### NON-PERFORMING LOANS RATIO AND COVERAGE RATIO (%)

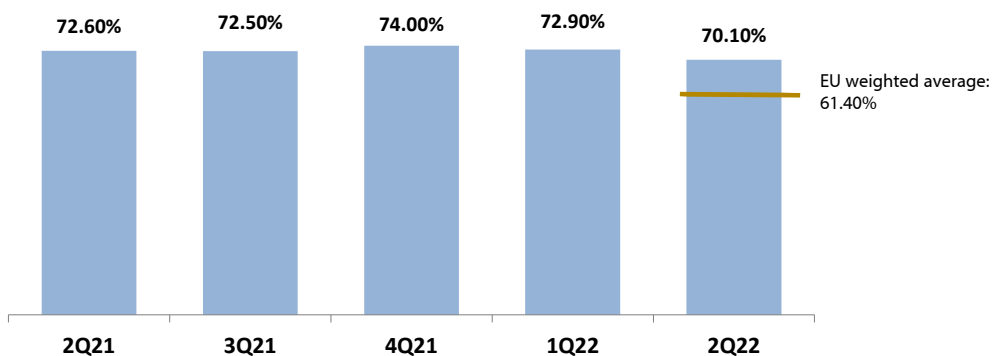


Source: European Banking Authority.

Note: Non-exhaustive analysis conducted by the EBA on the financial system of the country covering more than 80% of total assets. Entities considered in Appendix.

— Indicates EU weighted average as calculated by the EBA.

### EFFICIENCY RATIO (%)

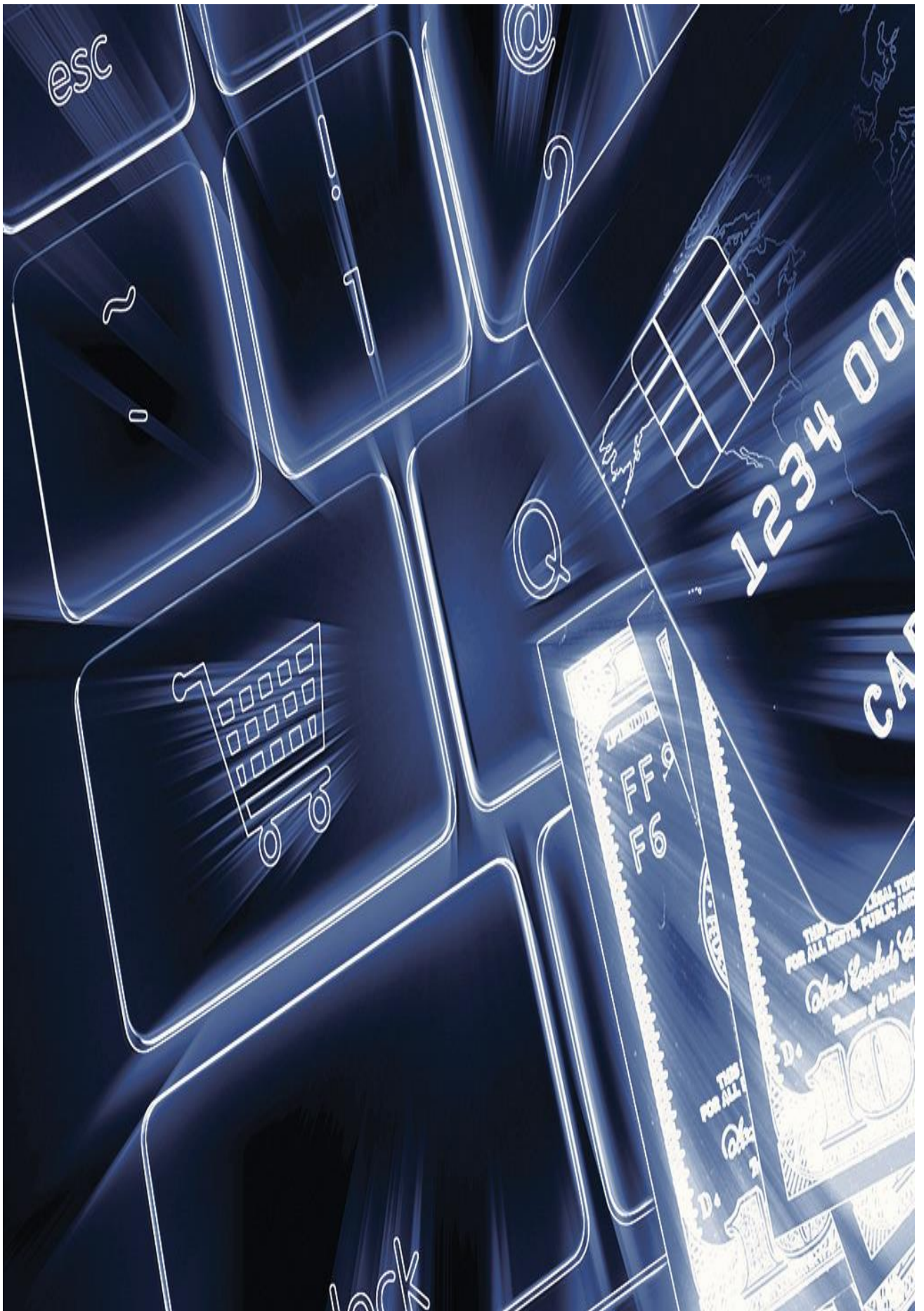


Source: European Banking Authority.

Note: Non-exhaustive analysis conducted by the EBA on the financial system of the country covering more than 80% of total assets. Entities considered in Appendix.







# 4. Appendix

## SOURCES

### MACROECONOMIC OVERVIEW

- ▶ Deutsche Bundesbank: [www.bundesbank.de](http://www.bundesbank.de)
- ▶ Destatis: <https://www.destatis.de/DE/Startseite.html>
- ▶ European Central Bank: <http://www.ecb.int>
- ▶ International Monetary Fund, IMF: <http://www.imf.org>
- ▶ Organisation for Economic Cooperation and Development, OECD: <http://www.oecd.org/home/>
- ▶ World Bank : <http://www.worldbank.org/>
- ▶ Standard & Poor's: <http://www.standardandpoors.com/>
- ▶ Fitch Ratings: <http://www.fitchratings.com/>
- ▶ Moody's: <http://www.moody.com/>
- ▶ Central Bank of the Republic of Argentina: [www.bcra.gov.ar](http://www.bcra.gov.ar)
- ▶ Central Bank of Chile: [www.bcentral.cl](http://www.bcentral.cl)
- ▶ Bank of Mexico: [www.banxico.org.mx](http://www.banxico.org.mx)
- ▶ Central Bank of Brazil: [www.bcb.gov.br](http://www.bcb.gov.br)
- ▶ National Administrative Department of Statistics of Colombia (DANE): <http://www.dane.gov.co/>
- ▶ Bank of the Republic of Colombia: <http://www.banrep.gov.co/>
- ▶ Central Bank of Venezuela: [www.bcv.org.ve](http://www.bcv.org.ve)
- ▶ Central Reserve Bank of Peru: [www.bcrp.gob.pe](http://www.bcrp.gob.pe)
- ▶ Handelsblatt: <https://www.handelsblatt.com/>
- ▶ Ausschuss für Finanzstabilität: [www.afs-bund.de](http://www.afs-bund.de)

## TELECOMMUNICATIONS

- ▶ Bundesnetzagentur: [www.bundesnetzagentur.de](http://www.bundesnetzagentur.de)

## BANKING SECTOR

- ▶ Deutsche Bundesbank: [www.bundesbank.de](http://www.bundesbank.de)
- ▶ European Banking Authority (EBA): <https://eba.europa.eu/>

### **Entities considered for Efficiency and NPL ratios:**

Aereal Bank AG, Bayerische Landesbank, Commerzbank AG, DekaBank Deutsche Girozentrale, Deutsche Apotheker- und Ärztebank eG, Deutsche Bank AG, Deutsche Pfandbriefbank AG, Deutsche Zentral-Genossenschaftsbank AG, Erwerbsgesellschaft der S-Finanzgruppe mbH & Co. KG, HASPA Finanzholding AG, HSH Nordbank AG, Landesbank Baden-Württemberg, Landesbank Hessen-Thüringen Girozentrale, Landeskreditbank Baden-Württemberg-Förderbank, Landwirtschaftliche Rentenbank, Münchener Hypothekbank eG, NORD/LB Norddeutsche Landesbank Girozentrale, NRW.BANK, Düsseldorf, State Street Europe Holdings, VW Financial Services AG, Westdeutsche Genossenschafts-Zentralbank AG.



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