



By: TA | AP Insight

# German growth will be lower due to energy disruptions



German growth forecasts for 2026 and 2027 were cut by experts on Wednesday as governments across Europe implement measures aimed at reducing the price impact of the Iran war.

A group of five economic institutes predict German gross domestic product will expand by 0.6% this year – less than half the 1.3% they forecast in September – and by 0.9% in 2027, down from 1.4%.

The economic outlook was below the **government's own forecast**, issued two months ago, of 1% and 1.3% growth, respectively.

The Iran war has created an unwelcome new obstacle to growth across Europe.

The annual **inflation rate** in the 21-nation euro area sped up to 2.5% in March from 1.9% the previous month.

It was powered by a 4.9% increase in energy prices as the war and the blocking of the Strait of Hormuz sent fuel costs higher.

“This energy price shock is hitting a German economy in which a recovery set in last year after a several-year downturn,” said Timo Wollmershäuser, an expert with the Munich-based Ifo institute, one of those that issued the joint forecast for Europe’s biggest economy.

It “will dampen this recovery in Germany, but should not completely stop it,” he added, pointing to planned government **spending on defense** and infrastructure as one stabilizing factor.

Germany's output grew 0.2% last year after shrinking for the two previous years.

## Fuel prices

Wollmershäuser argued against “short-term activism,” in particular a government-mandated cut to fuel prices, which he argued would be “costly, benefit many people who don't need relief, distort the signal of scarcity

from the price and keep up demand for crude oil.”

Germany's response so far has been relatively cautious. On Wednesday, legislation took effect that allows gas stations to raise prices only once a day, at midday, an attempt to end cost gyrations at the pump.

It also gives the national antitrust authority more powers to act against excessive fuel prices.

Some European countries have already gone further, even as the European Union's executive commission urges members to “consider the promotion of demand saving measures” and “refrain from taking measures that may increase fuel consumption.”

## The EU's energy commissioner warned that oil and gas prices won't return to normal levels soon

Poland has this week implemented temporary measures including maximum fuel prices set daily by authorities, with the threat of fines ranging up to 1 million zlotys (\$268,000) for companies that sell above the price cap. It also is temporarily cutting taxes on fuel.

Cuts to taxes on fuel were due to go into effect Wednesday in Austria, reducing prices at the pump.

Sweden's government is proposing lower taxes on gasoline and diesel starting May 1.

It already took action on another front Wednesday, halving value-added tax on food and drinks in stores or bought to take away from restaurants from 12% to 6%.

Latvia and Lithuania plan to cut duties on diesel. Non-EU Norway on Wednesday implemented temporary cuts in fuel tax that the country's parliament forced in a vote last week.

Still, the EU's energy commissioner warned on

Tuesday that **oil and gas prices** won't return to normal levels soon even if peace comes quickly in the Middle East.

## Structural reforms

Wollmershäuser said the German forecast was based on an assumption that the Strait of Hormuz will be passable again in the second quarter and energy prices will drop from summer onward, “but without reaching the prewar level.”



*The conflict in the Middle East is increasing the pressure on German politicians to tackle structural reforms forcefully - Katherina Reiche*

The disruption comes as Chancellor Friedrich Merz's governing coalition mulls far-reaching reforms to overcome Germany's deeper problems — such as high production costs, lagging private investment and increasingly costly health and pension systems — and boost long-term growth.

Economy Minister Katherina Reiche said the message from the latest growth forecast is clear: “The conflict in the Middle East is increasing the pressure on German politicians to tackle structural reforms forcefully.”