Press Release

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VÖB Capital Market Forecast: Only slight economic recovery, interest rate cuts approaching

- Sluggish growth in the eurozone is slowly coming to an end
- Probability of first ECB interest rate cut in June has risen sharply
- ECB emphasizes data-dependent course and focuses on wage development

Frankfurt, Germany - The global economic environment is showing diverging trends. Supported by a strong labour market, the US economy is very robust, while the recovery in China is progressing more slowly. With wars in Ukraine and the Middle East, the geopolitical situation remains extremely tense. If the conflict in the Middle East escalates further and leads to a substantial rise in oil prices, the fragile global economy would be negatively impacted and the decline in inflation rates could be jeopardized.

In the eurozone, there are tangible signs that the sluggish growth that has persisted for over a year will come to an end in the course of this year. Germany is also likely to see a slight economic recovery, supported by falling inflation and higher wages. However, demand likely remains weak overall, while the shortage of skilled workers is becoming an increasingly serious burden for growth.

In this environment, VÖB capital market experts Manfred Bucher (BayernLB), Michael Klawitter (DekaBank), Birgit Henseler (DZ BANK AG), Ulf Krauss (Helaba), Dr. Thomas Meißner (LBBW) and Christian Lips (NORD/LB) expect German GDP growth to range between 0.2% and 0.8% for the year as a whole. For the coming year 2025, this trend is forecast to continue with growth rates between 1.0% and 1.6%.

Provided there are no new exogenous price shocks, the banks involved expect the German inflation rate to range between 2.0% and 3.0% over the next twelve months. In the eurozone, it is likely to be slightly lower. In the medium term, global megatrends such as de-globalization, de-carbonization and demographic developments could once again exert inflationary pressure.

There have recently been more and more signals from the ECB for an initial interest rate cut, while the US Federal Reserve is likely to wait a little longer in view of higher inflation rates. The VÖB capital market strategists jointly explain: "The probability of an interest rate cut in June has risen sharply recently. The easing of inflation rates provides the ECB with the necessary leeway for this. However, the ECB is emphasizing its data-dependent approach. How many interest rate cuts will follow over the rest of the year

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will therefore also depend on the development of wages and the risk of second-round effects."

The yields of capital markets in the US have risen noticeably in the year to date, whereas they had previously fallen. With the current geopolitical situation in mind, uncertainties on the markets are likely to remain high. The VÖB capital market experts expect yields to move sideways on average. The yield curve for German government bonds is likely to flatten by the end of the year.

The Association of German Public Sector Banks, VÖB, is an umbrella organization of the German banking industry. It represents the interests of 61 members, including the Landesbanken and the development banks of the federal and state governments. The member institutions of the VÖB have total assets of around 3,029 billion euros and therefore account for around a quarter of the German banking market. The public banks assume their responsibility for SMEs, companies, the public sector and private customers and are firmly rooted in their home regions in all parts of Germany. At 59 percent, the regular VÖB member banks are the market leaders in municipal financing and also provide around 22 percent of all corporate loans in Germany. VÖB is the only banking association that acts as an employers' association for its member institutions. The collective bargaining tasks, in particular the conclusion of collective agreements, are carried out by the Tarifgemeinschaft Öffentlicher Banken. Around 60,000 employees of VÖB member institutions belong to this association. Further information can be found at www.voeb.de

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