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## **VÖB Capital Market Forecast: Slow recovery in Germany, global uncertainties continue to weigh on the market**

- Global economy impacted by tariff disputes
- Germany shows signs of an economic turnaround
- ECB nearing end of interest rate cuts – Capital market interest rates with -slight upside potential

Frankfurt - The global economy is caught between geopolitical crises and ongoing trade conflicts. The erratic US tariff policy continues to pose a risk of recession, while concerns about a rise in inflation remain. Global uncertainties continue to cause volatility on the markets. This was the assessment of capital market experts Manfred Bucher (BayernLB), Michael Klawitter (DekaBank), Birgit Henseler (DZ BANK AG), Ulf Krauss (Helaba), Dr. Jens-Oliver Niklasch (LBBW) and Christian Lips (NORD/LB), who gave an outlook on the further development of the economy and financial markets at a press conference of the Association of German Public Sector Banks (VÖB) on Wednesday.

### **Global economy: Trade policy remains a major factor of uncertainty**

The US is struggling with the consequences of its own customs policy: After a weak start to the year, experts expect the US economy to grow by around 1 to 1.5% in 2025, accompanied by persistently high inflation. The Fed is likely to ease monetary policy only cautiously despite the pressure exerted by US President Trump. The eurozone is benefiting from fiscal stimulus and improved economic sentiment, showing a predicted growth of 0.6% to 1.2% in 2025.

### **Germany: Hope for a sustainable recovery**

Germany is showing signs of economic stability for the first time in a long while. Positive GDP data (Q1: +0.4%), fiscal stimulus and the ECB's interest rate cuts have the potential to stimulate the economy. Accordingly, business sentiment has recently brightened somewhat. A break from the prolonged period of stagnation is now within reach. Nevertheless, downside risks remain: unresolved trade disputes, the recent armed conflicts in the Middle East and uncertainties in budget and pension policy. Overall, the VÖB experts still expect the economy to largely stagnate in 2025, while GDP growth of between 1.0% and 1.5% is forecast for 2026.

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### **Monetary and interest rate policy: ECB at the end of its easing course**

With its recent cut in the deposit rate to 2.0%, the ECB has largely concluded its easing policy. A monetary policy pause is expected at the July meeting. The ECB is now in fine-tuning mode at the end of the rate-cutting cycle. The VÖB analysts expect at most one more moderate cut in the second half of the year. The ECB's main focus is on possible geopolitical inflation risks and the economic impact of the trade disputes.

### **Capital markets: Yields rising moderately, volatility remains high**

The escalation in the Middle East has not led to a safe-haven effect in bond markets with falling yields so far. This was countered by concerns about an increase in crude oil prices. VÖB capital market experts expect Bund yields to rise to up to 3.0% over the next twelve months, driven by an increase in government debt and the link to US Treasury yields. The ongoing uncertainty surrounding US tariffs and geopolitical crises are likely to lead to short-term market fluctuations.

*The Association of German Public Sector Banks, VÖB, is an umbrella organization of the German banking industry. It represents the interests of 64 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 57 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.*

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