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New HWWI-Forecast

Iran Conflict and Weak Reform Progress Weigh on the German Economy

Hamburg, – 8th June 2026 – After a strong start to the year for the German economy, the outlook for growth and inflation has deteriorated significantly since the end of February due to the Iran war, particularly because of the closure of the Strait of Hormuz and the resulting increase in energy prices. The closure of the Strait of Hormuz has now lasted longer than initially expected. In addition, the erratic U.S. tariff policy is noticeably dampening German export activity. Business sentiment has also been weakened by domestic issues, especially because the reform process has progressed only slowly and has been overshadowed by disagreements within the coalition government. The further course of the Iran conflict remains uncertain, and the planned reforms carry considerable potential for conflict. Even if the Strait of Hormuz becomes navigable again soon and oil and gas prices decline, the increase in energy costs is likely to continue affecting the economy for some time. Moreover, the subdued sentiment among investors and consumers is expected to lead to continued restraint. Only government consumption spending and fiscal programs for infrastructure and defense are providing positive impulses. Under these conditions, the German economy is expected to grow by only just under $\frac{3}{4}$ % this year. In 2027, provided that the Iran war ends and reform policies are implemented more consistently, real gross domestic product could grow by $1\frac{1}{4}$ %.

Consumer price inflation has recently approached 3 %, mainly because energy prices have risen significantly. These higher energy costs are likely to continue generating upward pressure on prices, even though the fuel tax rebate has temporarily moderated inflation. Under the assumptions of this forecast, however, the inflation rate would soon pass its peak. On average, inflation in 2026 would then amount to somewhat more than 2½ %. In 2027, it could move back toward 2 %.

This forecast is subject to considerable risks. The further development of the U.S.–Iran conflict remains uncertain. A prolonged closure of the Strait of Hormuz would further reduce growth prospects and increase inflationary risks. In addition, doubts are growing as to whether the coalition government will consistently implement the announced structural reforms and make effective use of the opportunities for additional borrowing to finance investment.

Table 1: Key figures of the forecast

	2023	2024	2025	2026	2027
GDP, real (in % compared to previous year)	-0,9	-0,5	0,2	0,7	1,3
Consumer prices (in % compared to previous year)	5,9	2,3	2,2	2,6	2,0
Unemployed (millions of people)	2,61	2,79	2,95	3,00	2,90
Government net lending (as % of GDP)	-2,5	-2,7	-2,8	-3,8	-3,9
Current account balance (in billion euros)	232,8	255,1	202,7	190,0	190,0

Sources: Federal Statistical Office; Deutsche Bundesbank; Federal Employment Agency; 2026 and 2027 forecasts by HWWI.

A detailed forecast can be downloaded via the following link: https://www.hwwi.org/wp-content/uploads/2026/06/HWWI-Konjunkturprognose_2-2026.pdf

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