Press Release

**CFS survey on "Economic crisis and financial stability in Europe"**

# German financial sector expects a recession and sustained high inflation rates / Banks to remain stable

FRANKFURT, 3 November 2022

**Background:**

Europe's economy has been facing enormous challenges since the outbreak of war in Ukraine: high inflation rates, soaring energy prices and falling growth rates could plunge Europe into a severe recession. Extensive packages of measures have been initiated in Germany and in many other European countries to mitigate the impacts on the population. The question therefore arises as to whether a recession is likely in Germany in the coming year and how inflation is expected to develop. Due to large-scale government aid programmes, there are increasing concerns about a return of the sovereign debt crisis that has afflicted the European Union since 2010. Against this background, the stability of the German banking sector is also under discussion.

**Survey results:**

A survey of financial industry professionals and managers conducted by CFS showed that over 90% of respondents expect a recession in the coming year. More than half anticipate a (price-adjusted) decline in Germany's GDP of up to 2%. More than 19% expect an even starker decline in economic output. "This means that the financial experts are clearly more pessimistic than the leading economic institutes, which only forecast slightly negative growth (-0.2%) for 2023 in their current joint diagnosis (autumn report)," says Professor Volker Brühl, Managing Director of the Center for Financial Studies. "Naturally, a recession would also impact the banks' earnings situation."

Nevertheless, 78% of survey respondents believe that, even in a severe recession, the stability of German banks would not be threatened. Professor Brühl affirms this view: "European banks have become far more resilient in recent years and are well equipped to withstand a recession. This is also confirmed in the latest stress tests by the banking supervisory authorities."

In September, the inflation rate in Germany stood at 10.0%, in the Eurozone at 9.9%. The ECB is attempting to combat the high levels of inflation by raising interest rates. At the same time, the euro is losing ground against the US dollar and government debt is rising in the euro area. "Despite the ECB's repeated assurances to the contrary, an overwhelming majority of more than 90% of participants do not believe that the central bank will succeed in achieving its medium-term inflation target of 2% again in the next two years," explains Hubertus Väth, Managing Director of Frankfurt Main Finance. "This shows a change in inflation expectations that must be of concern to the ECB." In fact, a majority of 55% of panelists believe that it is likely or even very likely that Europe could experience a sovereign debt crisis similar to the one experienced in the years starting from 2010 again. "Recent events in the UK have shown how sensitive the markets currently are to more debt," comments Hubertus Väth, Managing Director of Frankfurt Main Finance.

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The results are based on a quarterly management survey in the German financial sector.

The Center for Financial Studies (CFS) conducts independent and internationally-oriented research in important areas of Financial and Monetary Economics, ranging from Monetary Policy and Financial Stability, Household Finance and Retail Banking to Corporate Finance and Financial Markets. The CFS is also a contributor to policy debates and policy analyses, building upon relevant findings in its research areas. In providing a platform for research and policy advice, the CFS relies on its international network among academics, the financial industry and central banks in Europe and beyond.

**We would like to thank Frankfurt Main Finance e.V. for financially supporting the project.**

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