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Fiscal outlook 2026+: Unpacking Germany's big spending plan

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- **Big in Berlin**: **A massive spending spree is underway to revitalize ageing infrastructure and bolster the nation's defense capabilities.** Following the loosening of the debt brake, the government has revealed an ambitious public spending agenda for the next five years. If implemented as planned, federal debt could increase by a stunning EUR 850 bn until 2029 (c. 20% of 2024 GDP). Though the intensions are clear, it remains to be seen whether the plan can be executed as rapidly as promised and whether it will have a longer-lasting positive effect on real GDP growth.

- **A first reality check: Fiscal expansion is certainly delayed in 2025, but will be a story for 2026.** A major reason is that the ramp-up in defense and public investment spending is proceeding more slowly than the government had hoped for. Because of the anticipated underspending at the federal level, we forecast that the general government deficit (national accounts) will remain broadly unchanged this year, at 2.6% of GDP (even slightly lower than the 2.7% in 2024). However, starting in 2026, the fiscal stimulus will build up, causing the deficit to widen visibly.

- **Despite a significant deficit increase in 2026/27, the fiscal expansion is still likely to fall short of government expectations.** Rather than the 4-5% deficit ratios predicted by the Finance Ministry for the general government, we foresee deficits of "only" 3.5% of GDP in 2026/27. Our lower forecast is explained by a much smaller 2025 base and the dampening effects from the anticipated +1.5% growth spurt on the cyclical deficit. Concurrently, we foresee the structural primary deficit to widen by 1.4 pp of GDP in 2026. The implied fiscal impulse could add about 1 pp to real GDP growth next year.

- **The deficit could ultimately peak at about 3.8% of GDP in 2029.** This "terminal" deficit forecast is in line with the government's forecast of 3.75%. We believe that the structural deficit could hit the 4% mark by then, given the probable full utilization of borrowing margins under the revised debt brake. However, from 2030, the structural deficit might decline again, as the front-loading of the SV IK will then expire and the easier national debt brake rules are unlikely to be permanently compatible with the stricter fiscal rules at the EU level.

- **Persistently low growth potential, high(er) consolidation needs.** While the fiscal expansion is likely to lead to a 'sugar rush', its impact on potential growth might be limited. This is because large parts of the extra debt will be used for higher social spending and subsidies. Already in 2027, the government needs to close a large financing gap in core budget areas that must be covered within the regular borrowing limit. Hence, the 2027 budget negotiations could become another test for government cohesion.

Big in Berlin: The government's big spending vision for 2025-29

Following the far-reaching loosening of the debt brake in the spring, the government has presented a massive, debt-financed multi-year public spending program in June/July (see here and here). The goal is, amongst other things, to upgrade the ageing public infrastructure and to raise the NATO quota to 3.5% of GDP. Now that the Bundestag has also passed the 2026 federal budget, we would like to recap the current status of budget planning for the next five years (2025-29).

Already this year, total federal spending is planned to rise from about EUR 520 bn (c. 12% of 2024 GDP) to above EUR 590 bn (13.2% of 2025F GDP) – an increase in nominal terms of almost 14% (see Figure 3). And for 2026, continuing at a much higher base, the federal government plans to ramp spending further up by almost 7% to above EUR 630 bn (c. 13.6% of 2026F GDP). In light of this, the government anticipates a drastic rise in its financial deficit. Specifically, it targets the combined deficit of the core budget, the Climate & Transformation Fund (KTF), the Infrastructure & Climate Protection Fund (SV IK), and the Federal Armed Forces Fund (SV BW) to expand from just about EUR 65 bn in 2024 to nearly EUR 150 bn in 2025 and more than EUR 180 bn in 2026. As a share of GDP, the deficit looks set to widen noticeably from 1.5% in 2024 to above 3% in 2025 and 4% by 2026. Even thereafter, it is targeted to stay above 3.5% (Figure 3).

Figure 3: The federal government's five-year fiscal plan (2025-2029)

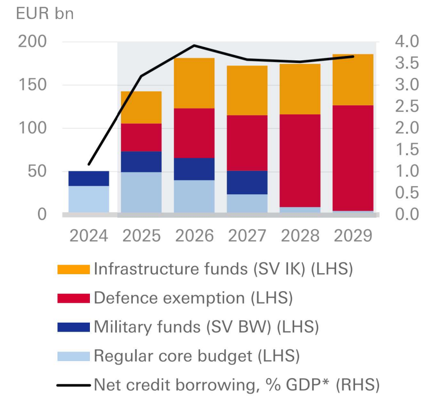
According to financial statistics	EUR bn 2024	2025	2026	2027	2028	2029	% GDP 2024	2025	2026	2027	2028	2029
Total consolidated expenditures (core budget, KTF, SV IK, SV BW)	**520**	**591**	**631**	**618**	**632**	**659**	**12.0**	**13.2**	**13.6**	**12.9**	**12.8**	**13.0**
o/w: Core budget*	466	503	525	508	546	572	10.8	11.3	11.3	10.6	11.1	11.3
o/w: Climate & Transformation Fund (KTF) (excl. federal subsidies)	37	27	23	26	28	28	0.9	0.6	0.5	0.5	0.6	0.5
o/w: Infrastructure & Climate protection Fund (SV IK)		37	58	57	58	59		0.8	1.3	1.2	1.2	1.2
o/w: Federal Armed Forces Fund (SV BW)	17	24	26	28			0.4	0.5	0.6	0.6		
Total consolidated revenue (core budget, KTF)	**459**	**441**	**448**	**445**	**458**	**473**	**10.6**	**9.9**	**9.7**	**9.3**	**9.3**	**9.3**
ow/: Core budget**	441	421	427	419	430	445	10.2	9.4	9.2	8.7	8.7	8.8
Tax revenues	375	387	387	401	412	424	8.7	8.7	8.4	8.3	8.3	8.3
Other revenues	66	34	39	19	18	21	1.5	0.8	0.8	0.4	0.4	0.4
ow/: KTF revenues from carbon pricing	19	21	21	26	28	28	0.4	0.5	0.5	0.5	0.6	0.5
Total consolidated financial balance (core budget, KTF, SV IK, SV BW)	**-65**	**-147**	**-184**	**-174**	**-175**	**-186**	**-1.5**	**-3.3**	**-4.0**	**-3.6**	**-3.5**	**-3.7**
o/w: Core budget	-25	-82	-98	-89	-117	-127	-0.6	-1.8	-2.1	-1.9	-2.4	-2.5
o/w: Off-budgetary funds (KTF, SV IK, SV BW)	-40	-65	-86	-85	-58	-59	-0.9	-1.5	-1.8	-1.8	-1.2	-1.2
Climate & Transformation Fund (KTF)***	-23	-4	-2				-0.5	-0.1	0.0			
Infrastructure & Climate Pprotection funds (SV IK)		-37	-58	-57	-58	-59	0.0	-0.8	-1.3	-1.2	-1.2	-1.2
Federal Armed Forces Funds (SV BW)	-17	-24	-26	-28			-0.4	-0.5	-0.6	-0.6		

** With the exception of expenditures for debt servicing on the credit market, transfers to reserves, expenditures to cover a cash deficit, and redemption expenditures resulting from non-structural revenues from repaid emergency funds. Excluding expenditures from budgetary clearing accounts. ** With the exception of revenues from loans from the credit market, withdrawals from reserves, revenues from cash surpluses, and coinage revenues. Excluding revenues from budgetary clearing accounts. ***Based on movements in reserves.*
Sources: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Indeed, a large part of this increase is attributable to the government's decision to enhance the country's defense capabilities and to modernize the ageing public infrastructure (See Figure 2, 4 and 5). In this context, there is the pledge to increase the NATO defense spending ratio to 3.5% of GDP by 2029 (2024 actual value: 2%). Ultimately, the big federal spend is made possible by the establishment of a debt-funded EUR 500 bn Infrastructure & Climate Protection Funds (SV IK) and the new debt brake exceptions for the credit-financed ramp-up in defense spending.[1]

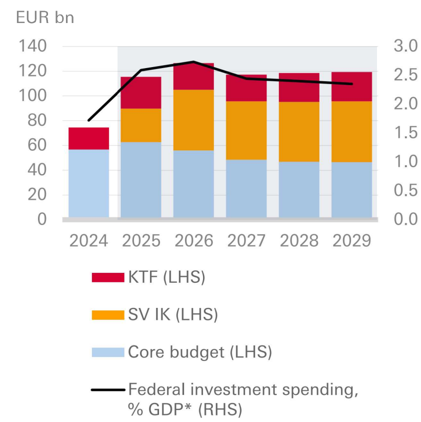
Mirroring the above deficit targets, the federal government's credit market borrowing is set to significantly increase in the coming years. Already for 2025, the government intends to ramp-up its net credit borrowing to over EUR 140 bn, which is roughly 3.2% of the projected 2025 GDP. This amount is nearly triple the EUR 50 bn borrowed in 2024. New borrowing in 2026 is projected to surpass EUR 180 bn, nearing 4% of GDP. Even in 2027-29, targets remain above 3.5% of GDP.

Figure 1: The government plans to borrow considerably more



** Based on the federal government's GDP forecasts.*
Source:Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 2: Ambitious federal investment spending plans



** Based on the federal government's GDP forecasts.*
Source: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

1 A front-loaded expenditure schedule is stipulated for the SV IK: Out of the total EUR 500 bn spanning 12 years, some EUR 270 bn (54%) is earmarked for the initial five years. As regards future defense/security spending, only 1% of GDP (currently EUR 43 bn) must be counted against the debt brake limits.

Figure 4: Federal defense and investment spending (2025-29)

	EUR bn						% GDP					
According to financial statistics	2024	2025	2026	2027	2028	2029	2024	2025	2026	2027	2028	2029
Total federal investment spending (excluding SV BW)	**75**	**116**	**128**	**117**	**119**	**120**	**1.7**	**2.6**	**2.8**	**2.4**	**2.4**	**2.4**
o/w: Core budget	57	63	58	49	47	47	1.3	1.4	1.3	1.0	0.9	0.9
o/w: Climate & Transformation fund (KTF)	18	26	22	22	23	24	0.4	0.6	0.5	0.5	0.5	0.5
o/w: Infrastructure & Climate Protection Fund (SV IK)		27	48	47	48	49		0.6	1.0	1.0	1.0	1.0
Total defense spending (national definition)	**74**	**94**	**116**	**129**	**144**	**160**	**1.7**	**2.1**	**2.5**	**2.7**	**2.9**	**3.2**
o/w: Core budget (spending by task area)	57	70	90	101	144	160	1.3	1.6	2.0	2.1	2.9	3.2
o/w: Federal Armed Forces funds (SV BW)	17	24	26	28			0.4	0.5	0.6	0.6		

Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 7: Net federal credit borrowing (2025-29)

	EUR bn						% GDP					
According to financial statistics	2024	2025	2026	2027	2028	2029	2024	2025	2026	2027	2028	2029
Total net credit borrowing (core budget, SV IK, SV BW)	**51**	**143**	**182**	**173**	**175**	**186**	**1.2**	**3.2**	**3.9**	**3.6**	**3.5**	**3.7**
o/w: Core budget	33	82	98	88	117	127	0.8	1.8	2.1	1.8	2.4	2.5
o/w: Off-budgetary funds (SV IK, SV BW)	17	61	84	85	58	59	0.4	1.4	1.8	1.8	1.2	1.2
Infrastructure & Climate Protection Funds (SV IK)		37	58	57	58	59		0.8	1.3	1.2	1.2	1.2
Federal Armed Forces Fund (SV BW)	17	24	26	28			0.4	0.5	0.6	0.6		
Total debt outstanding	**1,733**	**1,876**	**2,057**	**2,230**	**2,405**	**2,591**	**40.0**	**42.1**	**44.4**	**46.4**	**48.7**	**51.0**
o/w: Core budget	1,583	1,665	1,763	1,851	1,968	2,095	36.6	37.3	38.1	38.5	39.8	41.2
o/w: Off-budgetary funds	149	211	294	379	437	496	3.4	4.7	6.4	7.9	8.9	9.8

Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

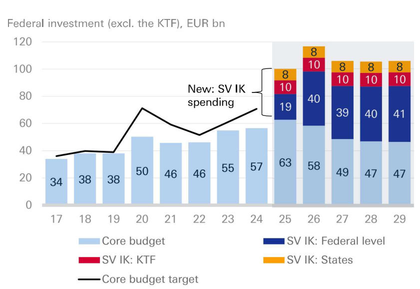
Should the big spending vision become true, federal debt outstanding could increase by almost 50% within just five years. Also, the federal debt-to-GDP ratio would jump sharply from "just" 40% in 2024 to over 50% (see Figure 7).

A first reality check for 2025

Ultimately, with its sizeable deficit projections, the federal government has raised high expectations in the financial markets regarding the future supply of federal debt securities. However, these may not be met as quickly as we explain below.

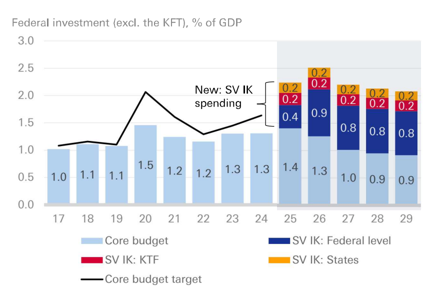
Large underspending on the 2025 horizon. Given the fiscal development so far this year, according to financial statistics data, total federal expenditures in the full-year 2025 are likely to increase far less significantly than budgeted in the fiscal law (for more see also our primer Tracking Germany's fiscal regime shift as well as the corresponding September and October updates). Above all, considerable underspending is emerging in defense expenditures – both in the core budget as well as at the level of the off-budgetary Federal Armed Forces Funds (SV BW) (see Figure 13). Moreover, the October tax estimate turned out somewhat more favorable than before, hinting higher than budgeted federal revenues in the order of EUR 5 bn. Solely for the above two reasons, the total federal deficit could turn out about EUR 20 bn lower than targeted. Should a surge in spending in Q4 fail to materialize, the federal budget is likely to turn out significantly better than planned.

Figure 9: Between investment spending aspiration and reality



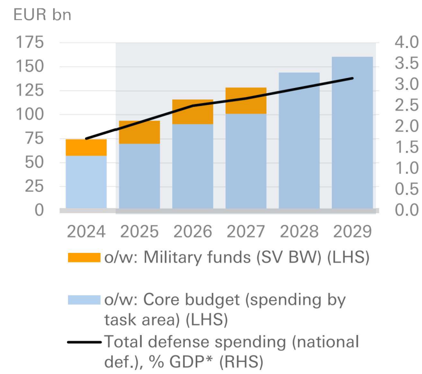
Source: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 10: The government seeks to boost investments without delay



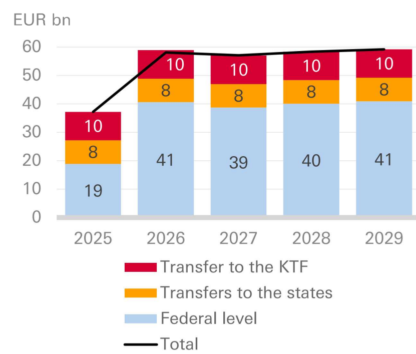
Source: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 5: Defense spending is targeted to rise to above 3% of GDP



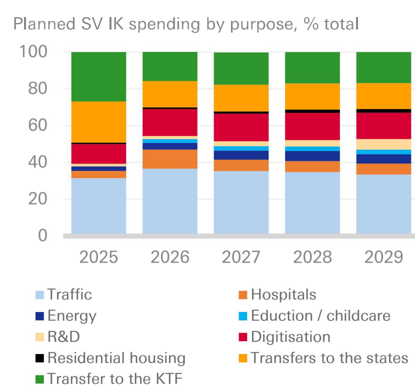
** Based on the federal government's GDP forecasts.*
Source: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 6: Front-loaded spending by the SV IK



Source : Federal Ministry of Finance, Deutsche Bank Research

Figure 8: Large chunks of the SV IK go the states and the KTF



Source : Federal Ministry of Finance, Deutsche Bank Research

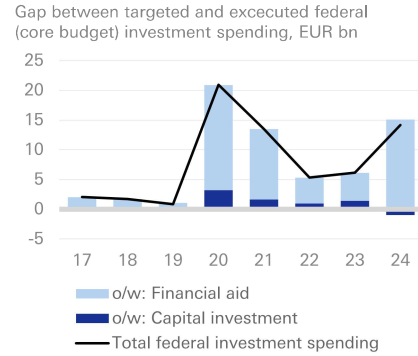
Slower than budgeted outflow of federal investment expenditures in recent years. Moreover, as has been common on average in recent budget years, there could be also a shortfall in federal investments (capital expenditures, financial aid). Since 2020, core budget investments have turned out lower than planned (see Figure 9, 10 and 11).In light of this, there is the potential of noticeable underspending at the level of the SV IK. However, an assessment of the further SV IK expenditure development is significantly more difficult to make.[2]

There, a total debt-funded spending of about EUR 37 bn is already projected for 2025 (ee Figure 1, 2 and 3). This sum is split into three parts: (1) just under EUR 19 bn which remains with the federal government, (2) EUR 10 bn that are redirected to the Climate & Transformation Fund (KTF), and (3) EUR 8.3 bn which are transferred to the sixteen federal states (see Figure 6 and 8).[3] Regarding the amount going to the states, they intend to pass on a large portion (presumably around 60% on average) to the municipal level, which is currently under significant budgetary pressure. With respect to the spending of federal monies assigned to the KTF and the states, no stipulations were made, implying that these funds are not obligatorily designated for investments or climate protection initiatives. This poses a risk that these funds will merely finance existing spending – and not higher investments (see also Deutsche Bundesbank and German Council of Economic Experts).

Uncertainties regarding fund outflows from the SV IK. In our view, it remains uncertain whether the government will indeed utilize the full amount in allocated SV IK credit for this year, even though a first larger tranche of about EUR 13 bn (roughly one-third of the annual target) was drawn in October.[4] As we reckoned before, we doubt that the federal government will be able to fully disburse its own EUR 19 bn share for 2025 in such a short time. Our assessment is grounded in the lackluster utilization of federal investment budgets between 2017 and 2024. Our calculations show that during this period, a cumulative expenditure shortfall of c. EUR 65 bn materialized between planned and actual implementation in the federal core budget (about EUR 8 bn per budget year) (see Figure 9, 10 and 11). In light of prevailing investment obstacles (such as high levels of bureaucracy, the escalating shortage of skilled workers, or time-consuming approval procedures), it remains doubtful whether all funds can indeed be disbursed at the fast pace envisioned.

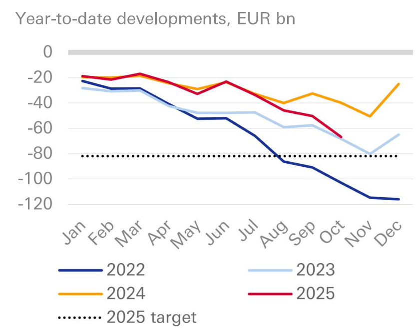
The KTF's 2025 allocations from the SV IK are arguably the most likely to be utilized, though primarily not for new spending, but to mainly cover a funding shortfall of a good EUR 9 bn (global under-spending item). And finally, with respect to the SV IK's allocation to the states, the Deutsche Bundesbank highlighted in its November Monthly Report that this requires, among other things, formal administrative agreements (which seem to be still pending). In any case, even if the funds for the KTF and the states were to be fully utilized this year, this would likely still have no major impact on the consolidated general government deficit. Why? As mentioned before, the KTF would probably only cross-finance expenditures already planned. And the states, too, would essentially use the funds to cover existing expenses and thus contain their own deficit, which would in turn offset the higher federal deficit.

Figure 11: Unspent investment funds



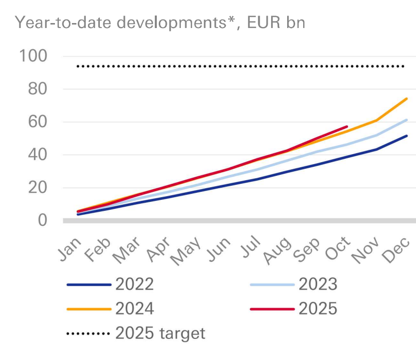
Data according to financial statistics
Source: Federal Ministry of Finance, Deutsche Bank Research

Figure 12: Federal core budget deficit



Data according to financial statistics
Source: Federal Ministry of Finance, Deutsche Bank Research

Figure 13: Lagging defense spending



* Core budget and SV BW. Data according to financial statistics
Source: Federal Ministry of Finance, Deutsche Bank Research

2 The purpose of the SV IK is to strengthen the public infrastructure (transport/hospital/energy/education/care), promote R&D, digitalization, housing construction and to fund additional climate protection measures (see figure 8).
3 Over the entire 12-year term, the EUR 500 bn (c. 11.2% of 2025F GDP) will be allocated as follows: (1) EUR 300 bn will remain with the federal government, (2) EUR 100 bn will go to the KTF, and (3) EUR 100 bn will be given to the federal states, who, in turn, intend to pass on portions to their municipalities.
4 As there are no monthly spending figures for the SV IK, but only borrowing data, it is impossible to determine if these represent actual outlays or simply the pre-financing of future expenses.

A possible total federal deficit shortfall of up to a good EUR 40 bn. Overall, the total consolidated federal deficit in 2025, as measured by financial statistics, could be considerably less than projected by the government.The Bundesbank's Monthly Report from November indicates that (1) the core budget deficit could fall short of the plan by EUR 15 bn, and (2) for the off-budgetary funds (comprising the KTF, the SV BW, the SV IK, and other units), only half of the budgeted sum, or about EUR 30 bn less, could actually be spent. On that basis, the total federal deficit could therefore be about EUR 45 bn lower than targeted, which is indeed quite close to our earlier estimate of a potential total deficit shortfall of around EUR 40 bn (see here).

Not canceled, just postponed: Fiscal expansion remains a story for 2026

Despite a likely significant underspending in 2025, the fiscal expansion might gain significant momentum in 2026. This is because with the adoption of the 2026 federal budget by the Bundestag in November the government can implement its fiscal projects from the very start of the new year, rather than having to operate under expenditure-dampening provisional budget management as it did during the first nine months of 2025.

Yet another likely federal deficit undershoot in 2026. However, we believe that the federal government's projected total deficit target of EUR 184 bn (c. 4.0% of 2026F GDP) (see Figure 3) is again unlikely to be met. This is firstly due to the planned deficit expansion starting from a much lower base, arising from the anticipated under-expenditure in 2025. Secondly, according to the plan, the deficit target is once again ramped-up by almost EUR 40 bn (vs. the 2025 target; c. 0.9% of 2026F GDP). Given the aforementioned reasons, it is doubtful whether such a substantial expansion can realistically be carried out, especially with a significant target deviation already apparent in 2025. Ultimately, further infrastructure and defense spending require a certain lead time for planning, authorization, and execution.

All in all, the federal deficit of 4.0% of GDP indicated by the government appears significantly overstated. In our view, the fiscal expansion is likely to take more time or, in our words, might be flatter initially. Primarily for this reason, the (national accounts) general government deficit-to-GDP ratio – which also includes the financial balances of the states, municipalities, and social security funds – is expected to rise significantly slower than reported by the Finance Ministry to the European Commission.

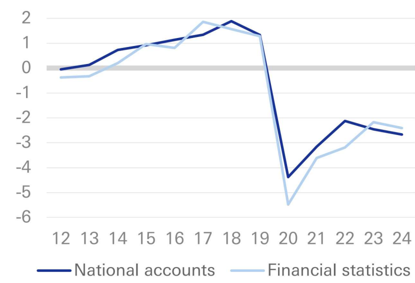
An outline of the possible general government deficit trajectory until 2029

What impact will the above federal budget developments have on the future trajectory of the general government deficit-to-GDP ratio (Maastricht ratio), a key metric for country comparisons among investors and a core component of the European Commission's European fiscal surveillance?

Translating financial statistics deficits into national accounts deficits. To answer this question, it is crucial to understand that deficit trends derived from financial statistics cannot be directly translated to the deficit recorded within the national accounts framework. This discrepancy stems from the differing accounting methodologies. Simply put, this is because financial statistics record cash flows (cash accounting principle), whereas national accounts record the government's

Figure 14: Two different concepts of measuring the government deficit

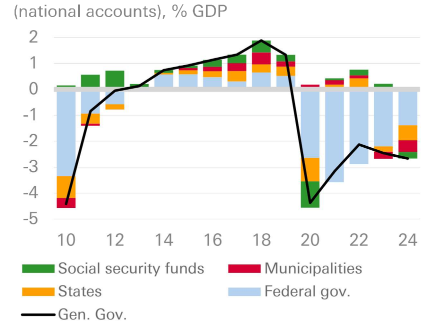
Gen. gov. financial balance: Financial statistics vs. national accounts, % GDP



Source : WEFA, Federal Statistical Office, Deutsche Bank Research

Figure 15: Decomposition of the national accounts gen. gov. deficit

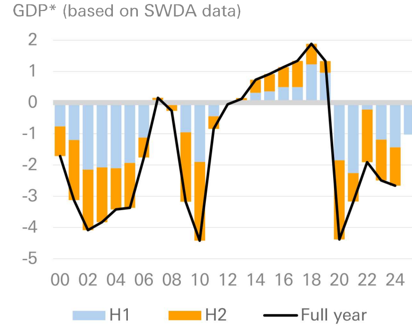
Financial balance of the general government (national accounts), % GDP



Source : WEFA, Federal Statistical Office, Deutsche Bank Research

Figure 16: H1 results indicate no deficit increase for 2025

Gen. gov. financial balance (national accounts), % GDP* (based on SWDA data)



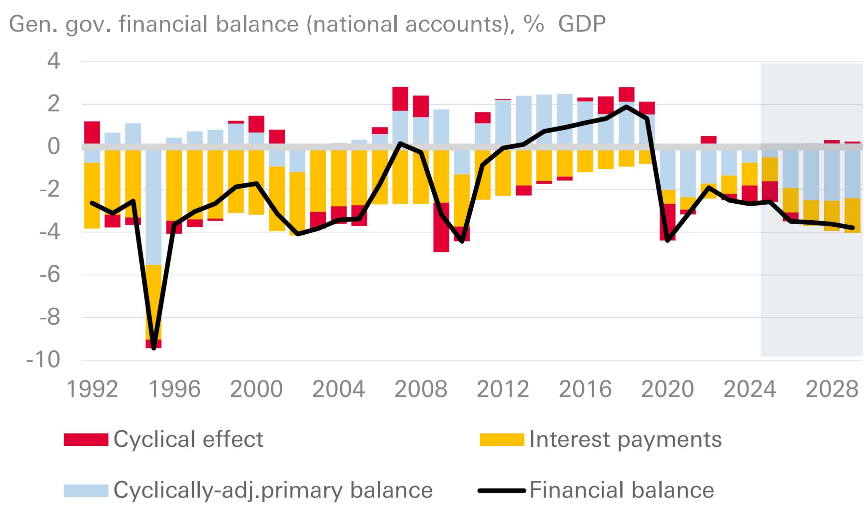
** H1 2025: Measured relative to our 2025F full-year GDP forecast.*
Source: WEFA, Federal Statistical Office, Deutsche Bank Research

revenues and expenditures on an accrual basis (accrual accounting principle).[5] For these reasons, there might be significant differences from time to time between the government deficit measured in financial statistics and that in national accounts. For instance, in the crisis years of 2020 and 2022, the deficit ratio measured according to financial statistics was more than a good 1 pp higher than the national accounts deficit. Conversely, last year's financial statistics deficit of "only" 2.4% was slightly lower than the national accounts deficit of 2.7% (see Figure 14). Often, some larger financial transactions (e.g., loan disbursements or repayments) are responsible for these differences.

Looking ahead to the coming five years, the German Stability Council indicated in its October 2025 assessment that general government deficits presented in national accounts are consistently expected to be significantly lower than those from financial statistics, this year and in future years. These differences will be mainly driven by the federal level (on average about 0.4% of forecast GDP).

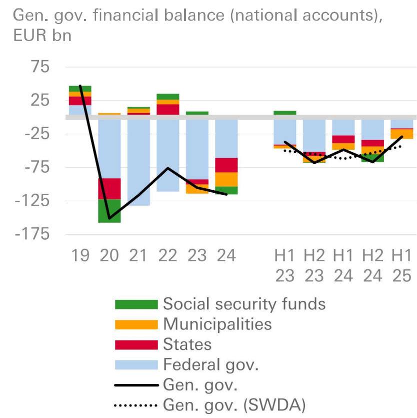
A broadly stable general government deficit ratio in 2025, followed by rising budget deficit to around 3.5% in both 2026/27. Since we project the federal deficit to rise only moderately this year, and given that the aggregated deficits of the other government levels (states, municipalities, and social security funds) might turn out to be slightly lower compared to last year, we foresee a broadly stable general government deficit (national accounts) at about 2.6% of GDP in 2025 (2024: 2.7%). This assessment also aligns with the national accounts results from the first three quarters, which indicate a moderate deficit development so far this year (see Figure 17, 18, 19 and 21).

Figure 20: DB projections: Heading for a 4% structural deficit ratio by 2029



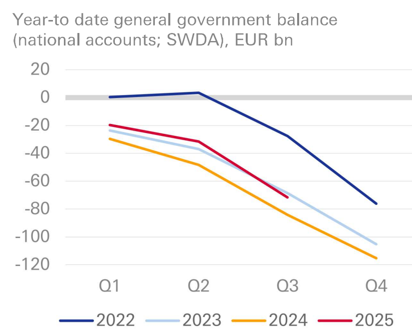
Source : WEFA, Federal Statistical Office, Federal Ministry of Finance, Deutsche Bank Research

Figure 17: The federal deficit narrowed noticeably in H1 2025



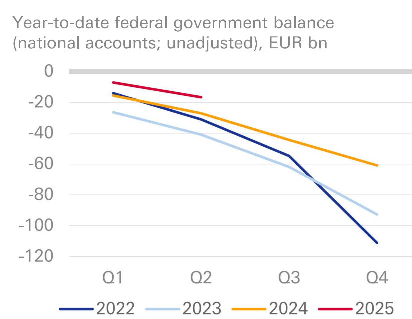
Source : WEFA, Haver Analytics, Federal Statistical Office, Eurostat, Deutsche Bank Research

Figure 18: Quarterly developments point to a lower deficit in 2025



Source : WEFA, Federal Statistical Office, Deutsche Bank Research

Figure 19: Federal deficit so far significantly lower than in 2024



Source : Haver Analytics, Federal Statistical Office, Eurostat, Deutsche Bank Research

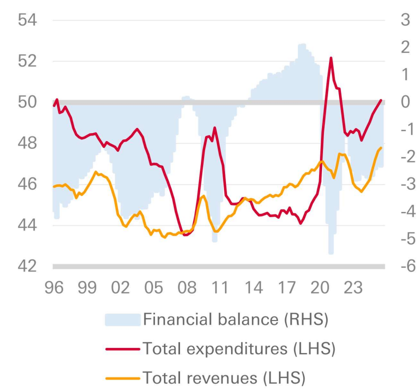
5 To convert financial statistics into national accounts numbers, a couple of major adjustments are made. This involves correcting for timing differences in recording expenditures/revenues and excluding financial transactions items (like loans disbursements/repayments or equity participations).

However, in 2026 the fiscal expansion is likely to gain significant momentum. Nonetheless, despite a noticeably rise in the federal deficit, the general government deficit is unlikely to get higher than 3.5% of GDP (see Figure 20 and 23). This is because the consolidated deficit of the other government levels might remain broadly flat compared to the previous year. Among the arguments against a higher deficit is that the intergovernmental transfers from the federal budget to the KTF and the states/municipalities (c. EUR 18 bn or about 0.4% of 2026F GDP) are only expected to trigger minor additional investment expenditure at the recipient levels. This is because there is no additionality requirement for the use of these federal transfers.

In other words: The deficit incurred by the federal government due to these provisions is likely to be at least partially offset by a deficit containment at the other government levels. In this context, we also assume that municipalities will over time reduce their currently high deficit (2024: EUR 21 bn; 0.5% of GDP). This is because, according to the budget law, municipalities are only allowed to incur debt up to the level of their net investments.The currently significantly higher deficits are therefore only possible because municipalities still possess sufficiently high financial reserves. However, these will be depleted soon, ultimately necessitating consolidation steps.[6]

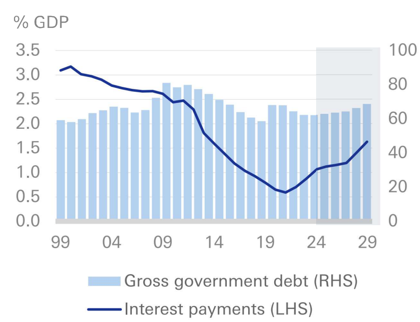
Figure 21: No deficit widening is currently apparent for 2025

Gen. gov. financial balance (national accounts), % GDP (based on rolling annual sums)



Source : WEFA, Federal Statistical Office, Deutsche Bank Research

Figure 22: The public debt ratio and interest burden are set to rise



Source : WEFA, Federal Statistical Office, Deutsche Bank Research

Figure 23: The deficit ratio looks set to rise to around 3.5% by 2026/27

DB projections for the gen. gov. (national accounting)

% GDP	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Fiscal balance	**-4.4**	**-3.2**	**-1.9**	**-2.5**	**-2.7**	**-2.6**	**-3.5**	**-3.5**	**-3.6**	**-3.8**
- Cyclical and one-off/temporary effects	-1.7	-0.3	0.3	-0.3	-0.9	-1.0	-0.4	0.2	0.3	0.3
= Structural fiscal balance	**-2.7**	**-2.8**	**-2.2**	**-2.2**	**-1.8**	**-1.6**	**-3.1**	**-3.7**	**-3.9**	**-4.0**
+ Interest payments	0.6	0.6	0.7	0.9	1.1	1.1	1.2	1.2	1.4	1.6
= Structural primary balance	**-2.0**	**-2.2**	**-1.5**	**-1.3**	**-0.7**	**-0.5**	**-1.9**	**-2.5**	**-2.5**	**-2.4**
Change in the structural primary balance (pp)	-3.5	-0.2	0.7	0.2	0.6	0.3	-1.4	-0.6	0.0	0.1
Gross general government debt	**68.0**	**68.0**	**64.4**	**62.4**	**62.2**	**62.8**	**63.5**	**64.2**	**66.1**	**68.5**

Source : WEFA, Federal Statistical Office, AMECO, OECD, Federal Ministry of Finance, DB Research

Figure 24: A short-lived cyclical growth spurt in 2026-27

Underlying macro assumptions

% yoy (unless stated otherwise)	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Real GDP	**-4.1**	**3.9**	**1.8**	**-0.9**	**-0.5**	**0.2**	**1.5**	**1.5**	**0.7**	**0.3**
Real potential GDP	0.3	0.9	0.3	0.7	0.6	0.4	0.4	0.4	0.4	0.4
Output gap (% GDP)	**-3.3**	**-0.5**	**1.0**	**-0.6**	**-1.7**	**-1.9**	**-0.8**	**0.3**	**0.6**	**0.5**
GDP deflator	**1.8**	**2.7**	**6.4**	**6.7**	**3.1**	**3.0**	**2.6**	**2.1**	**2.0**	**1.9**
Nominal GDP	-2.4	6.7	8.3	5.8	2.6	3.1	4.1	3.7	2.7	2.2
Implied interest rate (%)	**1.1**	**0.9**	**1.1**	**1.4**	**1.7**	**1.9**	**1.9**	**1.9**	**2.3**	**2.5**
Real implied interest rate (%)	-0.7	-1.7	-5.0	-4.9	-1.3	-1.1	-0.6	-0.2	0.2	0.6
Interest rate growth differential (pp)	**3.6**	**-5.4**	**-6.7**	**-4.1**	**-0.8**	**-1.2**	**-2.1**	**-1.7**	**-0.5**	**0.3**

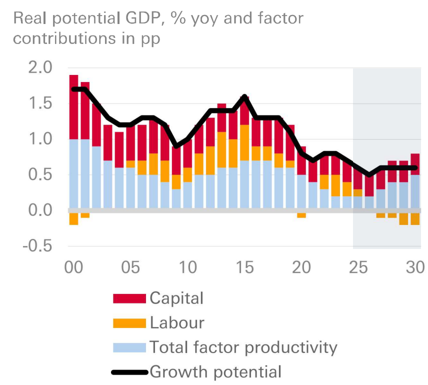
Source : WEFA, Federal Statistical Office, AMECO, OECD, Federal Ministry of Finance, DB Research

6 The consolidation could happen if states pass on substantial SV IK funds to municipalities, allowing them to reduce their structural deficits. Additionally, the states might use their new structural borrowing capacity to directly strengthen the financial position of the municipal level. Ultimately, the states are responsible for adequately financing their municipalities.

In 2027, yet again, the general government deficit is expected to remain broadly unchanged at about 3.5%. This is because a further significant rise in the structural deficit, mainly driven by the further ramp-up of the federal spending programs, will then be offset by a substantial improvement in the cyclical deficit (which will positively react to the anticipated economic upswing). The underlying reason is that the currently high output gap of an estimated -1.9% of GDP (under-utilization of the real economy's production capacities) is likely to have closed by then, thanks to fiscally-stimulated cyclical growth spurt (see Figure 23 and Figure 24).

A total fiscal impulse of about 2 pp of GDP between 2026 and 2027. Overall, we estimate that the fiscal impulse to the real economy might amount to around 2 percentage point (pp) of GDP over the two-year period 2026-27. Recall: The fiscal impulse is determined by the annual changes in the structural primary balance (excluding interest payments). In 2026 alone, the structural primary deficit could rise from 0.5% to 1.9% of GDP: A fiscal impulse worth 1.4 pp of GDP. Clearly, the imminent fiscal impulse will not exclusively come from higher defence and infrastructure spending. This is because a sizeable part of the government's new borrowing headroom will also be used for funding further public consumption (higher social spending, increased subsidies) as well as a package of tax relief measures (see also our later discussion). Although many of these fiscal measures will have a limited growth effect in the long term, they might still stimulate cyclical growth in the short term. Overall, we gauge that the fiscal stimulus could add about 1 pp to GDP growth next year (assuming a short-term multiplier of around 0.7).

Figure 25: The government estimates potential growth at just about 0.6%



Source : Federal Ministry of Finance, Deutsche Bank Research

Comparing our general government deficit projections to the street. As regards 2025, our deficit forecast of 2.6% of GDP lies in the middle range of the forecast spectrum: While the Bundesbank (~2%), the German economic research institutes (Joint Forecast) (2.2%) and the Council of Economic Experts (2.3%) expect a clear deficit reduction for this year, the Finance Ministry (MoF), in stark contrast, projects the deficit ratio to widen to about 3.25% (see also German Stability Council and German Draft Budgetary Plan 2026). Meanwhile, the 2025 forecasts of the IMF and the OECD more or less align with our assessment. Besides the Ministry of Finance, only the European Commission expects a rising deficit this year (see Figure 26).

Figure 26: Comparison of projections for the general government deficit

	% GDP						Difference in pp of GDP (vs. the MoF projections)				
	2024	2025	2026	2027	2028	2029	2025	2026	2027	2028	2029
Financial balance of the general government (according to national accounting terms)											
Federal Ministry of Finance (MoF)	**-2.7**	**-3.25**	**-4.75**	**-4.25**	**-3.75**	**-3.75**					
Deutsche Bank Research		**-2.6**	**-3.5**	**-3.5**	**-3.6**	**-3.8**	**0.7**	**1.3**	**0.7**	**0.1**	**0.0**
Deutsche Bundesbank (as of August)*		~-2	-3.5	-4.0			1.3	1.3	0.3		
German Economic Institutes (Joint Forecast)		-2.2	-3.1	-3.4			1.1	1.7	0.9		
German Council of Economic Experts		-2.3	-3.1				1.0	1.7			
European Commission		-3.1	-4.0	-3.8			0.2	0.8	0.5		
OECD		-2.5	-3.0				0.7	1.8			
IMF		-2.5	-3.4	-4.0	-4.0	-4.1	0.7	1.4	0.2	-0.3	-0.3

Source: Federal Ministry of Finance, Federal Statistical Office, European Commission, IMF, OECD, Deutsche Bank Research

** In the November 2025 report the Bundesbank noted that the deficit ratio is falling towards 2% in 2025, before increasing to more than 3% in 2026 and over 4% thereafter.*
Source: Federal Ministry of Finance, Federal Statistical Office, European Commission, IMF, OECD, Deutsche Bank Research

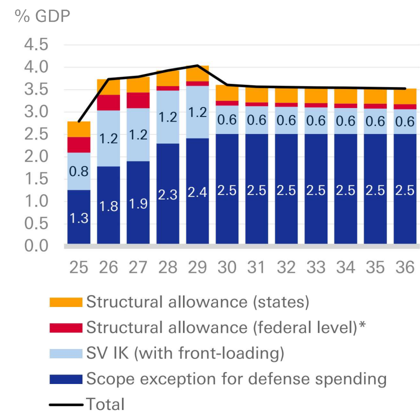
Our 2026 forecast also lies in the middle of the forecast range. On the one hand, it is lower than those of the government (4.75%) and the European Commission (4.0%), but on the other hand, it is higher than those of the Council of Economic Experts and the Economic Institutes (both 3.1%). In our view, the significantly diverging deficit forecasts are essentially attributable to differing assumptions regarding the future pace of fund disbursement for defense and infrastructure spending, which is indeed highly uncertain. In this context, we have assumed that defense and investment expenditures, at EUR 105 bn each, could also be significantly below their planned values of EUR 116 bn and EUR 128 bn, respectively, in 2026 (see Figure 3). What all forecasts agree on, however, is the assessment that the government's very high deficit projection for 2026 is unlikely to materialize.

The deficit could ultimately peak at about 3.8% of GDP in 2029. This "terminal" deficit gauge is similar to the government's forecast of 3.75% (see Figure 26).[7] The 3.8% hinges on the assessment that the structural deficit could hit the 4%-mark by then, given the probable full utilization of net debt brake borrowing margins under the financial plan.[8] These include: (1) a structural borrowing allowance for federal state (0.35% of GDP) minus the repayment obligations for the emergency loans (2020-23) and the extra debt raised by the SV BW commencing in 2028 (initially a good EUR 12 bn or about 0.25% of GDP); (2) the new structural borrowing allowance for the states (0.35% of GDP), (3) defense spending financed through credit under the new scope exception (c. 2.4% of GDP); and (4) additional debt-financed expenditures by the SV IK (c. 1.2% of GDP) (see figure 26).[9]

However, from 2030 onwards, the structural borrowing capacity might decline significantly for two reasons. Firstly, this is because the planned front-loading period for the SV IK might have concluded in 2029. This means that the remaining balance of about EUR 230 bn (from the total EUR 500 bn), if evenly distributed until the end of the SV IK term in 2036, will correspond to an annual amount of only about EUR 30 bn (c. 0.6% of GDP) by then. This will be only about half the amount of almost EUR 60 bn in the front-loading years (2025-29).

Secondly, it is questionable whether the government will be permitted to continue using its significantly expanded national credit margins within the new framework of EU fiscal rules beyond 2029. In the current Medium-Term Fiscal-Structural Plan (MTFSP) plan, which has been agreed with the EU Commission for the period 2025-29, this use is still permitted. However, it is only possibly because Germany can currently rely on a temporary EU exemption for higher credit-financed defense spending, amongst other things, which is however limited until 2028. Given the impending end of these EU exemptions, and in order to secure long-term debt sustainability, the Deutsche Bundesbank has made a proposal for the further development of the national debt brake. This proposes, among other things, that national defense spending should largely be financed again from 2030 onwards within the regular debt brake limits of the core budget (see also the Bundesbank's Q&A document on the reform debate). If implemented, this would significantly reduce the currently large credit margin in the future.

Figure 27: Schematic illustration of the new national debt brake limits



** corrected for the mandatory repayment obligations regarding the federal emergency loans (2020-23) and the extra debt raised by the SV BW.*
SV IK and scope exemption for defense spending: Figures for 2025-29 refer to the current five-year fiscal plan (2025-29).
Source: Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

7 However, the Advisory Board of the German Stability Council seems to see upside risks to this forecast. Specifically, it has noted that the Finance Ministry's fiscal projections initially depicted budgetary developments as too unfavorable and later as too favorable.

8 Depending on the actual ramp-up of defense and SV IK utilization, the structural deficit figures shown in figure 27 could be somewhat lower or higher.

9 The 2025-29 structural borrowing room illustrated in figure 27 assumes that (a) the additional defense expenditures (financed via the SV BW and the new scope exemption) and (b) the SV IK spending match the target figures as stated in the federal government's five-year financial plan (2025-29). From 2030 onwards, it is assumed that defense spending financed via the special exemption will stabilize at 2.5% of GDP, which would be consistent with a structural defense spending ratio of 3.5%.

Between a fiscal growth spurt and high(er) consolidation needs from 2027 on

Extra debts also used to close existing financing gaps and fund higher public consumption. As explained before, by amending the national debt brake rules in the spring, the government has created sizeable new borrowing opportunities for the coming years. The government pledged to dedicate all additional funds to modernizing the ageing public capital stock and strengthening national defense. Yet, a closer examination of the federal financial planning for 2025-29 indicates that a significant share of the new fiscal space is also used to close existing financing gaps in the core budget and to fund higher public consumption. This is made possible by the specific design of the new debt rules.

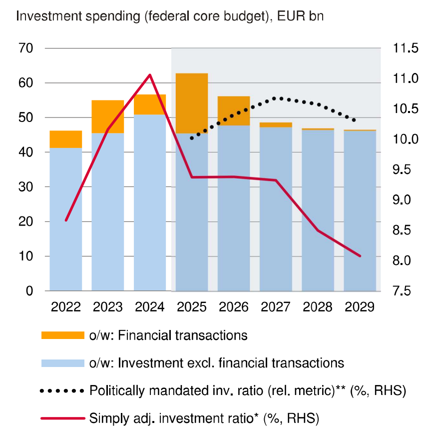
Firstly, with the newly introduced scope exemption rule (for defense/security spending), the federal government has created additional spending leeway in the core budget it can use for other consumption expenditures. This is because, in the future, only defense expenditures amounting to 1% of GDP (currently c. EUR 43 bn) will need to be financed within the regular structural borrowing limit (0.35% of GDP). However, since defense-related expenditures in 2024 already amounted to roughly EUR 60 bn, this results in an additional (permanent) core budget leeway for other spending items of up to almost EUR 20 bn (c. 0.4% of GDP).

Secondly, federal government can reduce its investment-related expenditures, previously financed through the core budget, to a lower mandated limit of 10% of spending. Therefore, it can outsource investment expenses previously financed from the core budget (or planned therein for the next few years) to the SV IK (see Figure 28 and Figure 29), creating additional leeway for other budget areas.

The politically mandated 10% investment quota for the core budget is relatively easy to achieve. This is because the relevant reference figure in the denominator (core budget expenditures) is not only adjusted for financial transactions, as in the numerator (federal core budget investment), but also for that portion of defense spending financed through the sectoral exemption. This last step results in a higher ratio. Furthermore, defense-related investments financed through the sectoral exemption are still included in the numerator. This calculation process means that the politically mandated (doubly adjusted) minimum quota is significantly higher than the (simply adjusted) investment quota which only removes financial transactions from the numerator and denominator. While the politically mandated minimum quota is only to be kept at or slightly above the required 10% threshold over the financial planning period, the simply adjusted quota decreases significantly, from just about 11% in 2024 to only 8% in 2029 (see Figure 28).

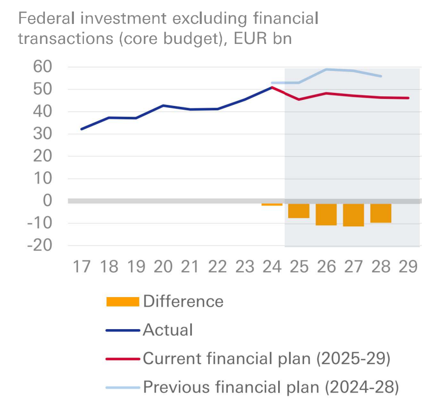
Anyway, the outsourcing of already planned investments from the core budget to the SV IK also becomes apparent when comparing the current government's financial plan with that of the previous government. It is evident that previously planned federal core budget investments have been reduced while social spending has been increased (see Figure 29 and Figure 30). Also, the budget of the Ministry of Transport shows that the planned core budget (investment) expenditures are to be reduced at the expense of the SV IK so that the ministry's total budget will only be slightly higher over the next years compared to the reference year 2024 (see Figure 32).

Figure 28: Core budget investments (excl. financial transactions) will be capped below EUR 50 bn



** Investments (excl. financial transactions) divided by total core budget expenditures (excl. financial transactions). ** Investments (excl. financial transactions) divided by total core budget expenditures (excl. financial transactions and defense spending funded under the scope exemption).*
Source: Federal Ministry of Finance, Deutsche Bank Research

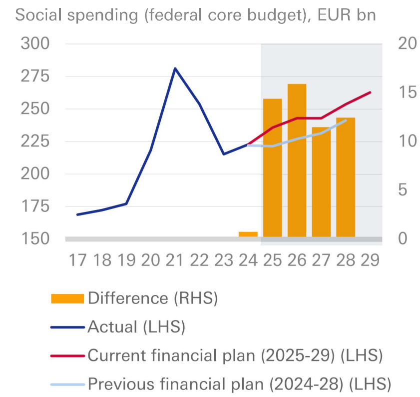
Figure 29: Federal investment in the current vs. previous financial plan



Source : Federal Ministry of Finance (Financial Reports 2025 and 2026), Deutsche Bank Research

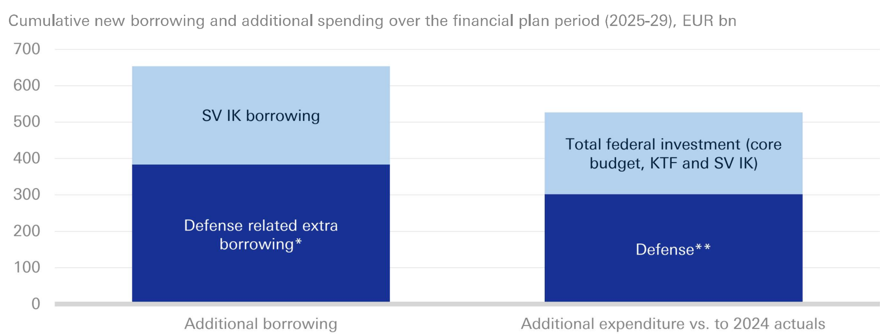
Over the entire financial planning period (2025-29), cumulative additional borrowing of a good EUR 650 bn is offset by significantly lower additional expenditures in defense/security and investments of less than EUR 530 bn (see Figure 31). This effectively means that loan funds of around EUR 125 bn (or c. 2.8% of 2025F GDP) are used for other expenditure items not related to additional defense/security and investment spending. Furthermore, considering that the SV IK funds of just over EUR 90 bn (c. 2.1% of 2025F GDP), transferred to the states and the KTF, are not subject to mandatory additionality requirements, it cannot be ruled out that significantly more than the above "lower bound" estimate of EUR 125 bn could ultimately be used for other expenditure purposes. Both the Deutsche Bundesbank (see the monthly reports of August 2025 and November 2025) as well as the German Council of Economic Experts have criticized that the new borrowing funds are apparently being used to a significant extent to create other budgetary leeway (i.e. in the area of public consumption such as social spending). This is problematic because higher consumption expenditures are not suitable for increasing the growth potential of the economy.

Figure 30: Social spending in the current vs. previous financial plan



Source : Federal Ministry of Finance (Financial Reports 2025 and 2026), Deutsche Bank Research

Figure 31: Large parts of the new credit space might be used to create other budgetary leeway

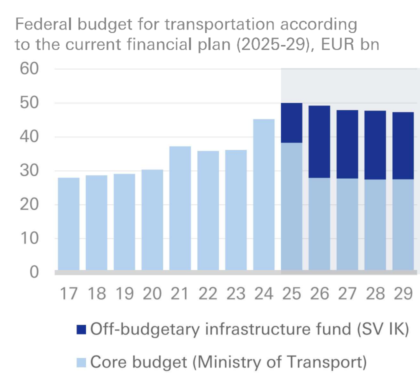


* Comprising the part of defense and security related spending which can be credit-financed under the new scope exemption; not including the additional debt-funded defense spending by the SV BW. ** Defense spending of the Defense Ministry (section 14) and other security related expenses (civil/disaster protection, intelligence services, IT security, aid for states attacked in violation of international law).
Source: Federal Ministry of Finance, Deutsche Bank Research

In light of this, we do not expect any significant strengthening of Germany's real growth potential, which has trended lower over the past decades to just about 0.5% (see Figure 25). Based on the average of forecasts by the German Council of Economic Experts, the German research institutes, and the European Commission, Germany's real growth potential looks to be "only" 0.4% by the end of this decade. The growth peak of 1.5% that we forecast for 2026/27 will therefore be short-lived. Already from 2028 onwards, growth is likely to be much lower gain. Specifically, we see growth easing back to "only" 0.7% in 2028 and 0.3% by 2029 (see Figure 24). This is problematic as such a low growth would certainly complicate the repayment of the incurred additional debt in the future.

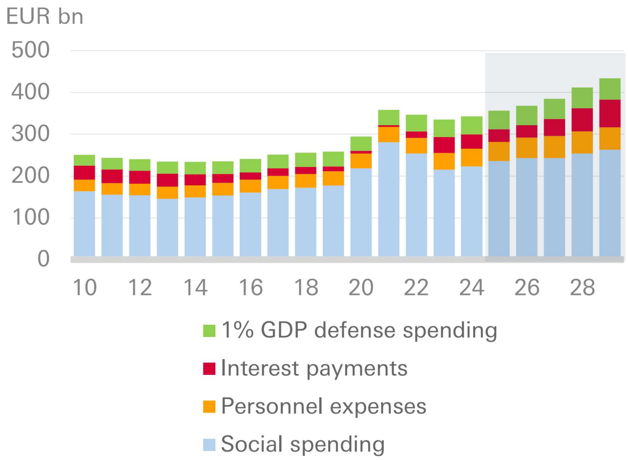
Sizeable consolidation needs ahead. The federal level is confronted with sizeable medium-term budget gaps that it will have to close ("consolidation efforts"). At first glance, this seems contradictory given the significantly loosened debt brake. However, this is explained by the fact that the expanded borrowing limits apply only to additional defense spending and investments financed by the SV IK. They do not extend to the rest of the core budget, which continues to be subject to a structural net borrowing limit of 0.35% of GDP.

Figure 32: Moderately up in total, but sharply down in the core budget



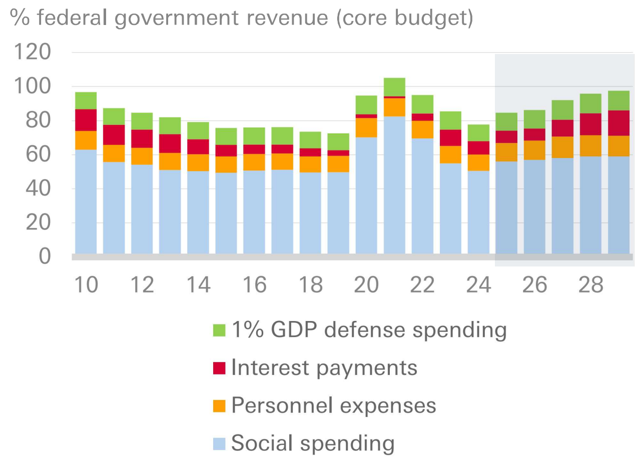
Source : Federal Ministry of Finance, Deutsche Bank Research

Figure 33: Petrified expenditures in the federal core budget are high ...



Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

Figure 34: ... and will claim an ever-higher share of the revenues



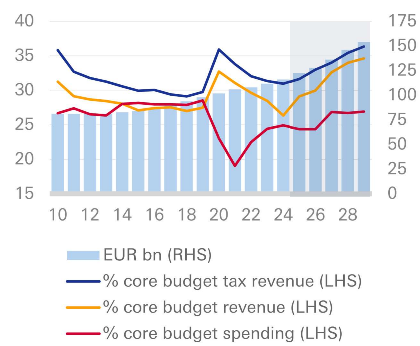
Source : Federal Ministry of Finance, Federal Statistical Office, Deutsche Bank Research

When presenting the draft federal budgets for 2025 and 2026 back in the summer, the Ministry of Finance estimated the cumulative consolidation need in the federal government's core budget at EUR 172 bn for the years 2027 to 2029 (approx. 3.9% of 2025F GDP). On average, this corresponds to just over 10% of planned core budget spending annually. Even if the federal government's consolidation amount could be reduced by a good EUR 7 bn annually due to the improved October tax estimate (nearly EUR 22 bn over period 2027-29), the underlying consolidation pressure will nonetheless remain high. Furthermore, the credit reserve of about EUR 10 bn, saved up for 2027 and still usable without being counted against the federal debt rule, only negligibly and temporarily alleviates the consolidation pressure in the core budget.

In the medium term, pressure on federal finances is likely to increase considerably further due to advancing population ageing and hence higher federal subsidies to the statutory pension insurance. Already in the 2025 budget, federal subsidies of EUR 122 bn (just under 25% of core budget expenditures) are planned, which in itself represents the largest single expenditure item in the core budget. By 2029, subsidies to the statutory pension insurance will rise to over EUR 150 bn, meaning that more than one third of the federal government's tax receipts must be used to stabilize the pension system by then (see Figure 35).

Given the continuously rising social, personnel, and interest expenditures, an increasingly larger portion of the core budget is likely to be predetermined by petrified" (non-discretionary) expenditure items (which are subject to the normal debt brake limits; see Figure 33). When adding the portion of defense spending (1% of GDP) that must still be financed within the normal structural borrowing allowance (of 0.35% of GDP), the share of earmarked expenditures in revenues is set to rise to almost 100% by 2029 (see Figure 34).

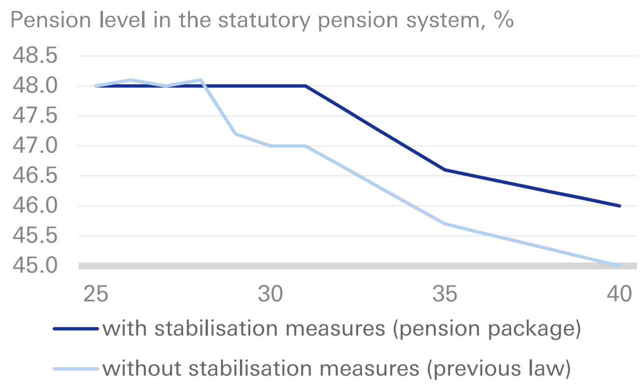
Figure 35: Federal subsidies to the statutory pension system



Source : Federal Ministry of Finance, Deutsche Bank Research

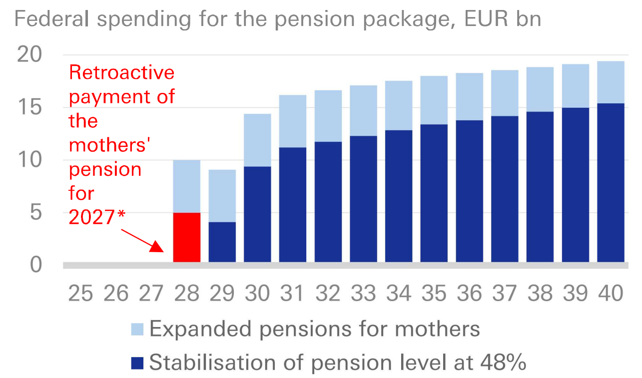
The pension package, which was passed in early December in the Bundestag and aims to both expand pensions to mothers as well as stabilize the pension level at the current 48% (see Figure 36), will lead to federal expenditures of c. EUR 200 bn until 2040. With that federal budget negotiations are unlikely to become any easier in the coming years. This is because, already by 2030 and 2031, c. EUR 15 bn per year will have to be covered from the federal core budget for this purpose (see Figure 37).

Figure 36: The government has decided to stabilize the pension level until 2031 ...



Source: Federal Ministry of Labour and Social Affairs, Deutsche Bank Research

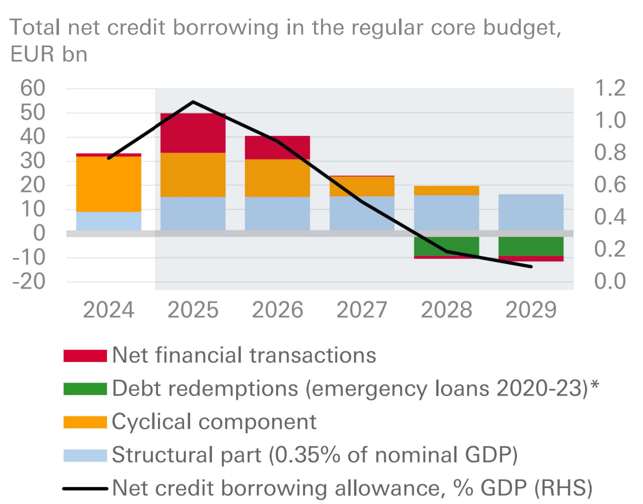
Figure 37: ... which will lead to c. EUR 200 bn of extra costs for the federal core budget until 2040



* due to technical reasons.
Numbers shown for the years 2032-34 and 2036-39 are interpolated values.
Source: Federal Ministry of Labour and Social Affairs, Deutsche Bank Research

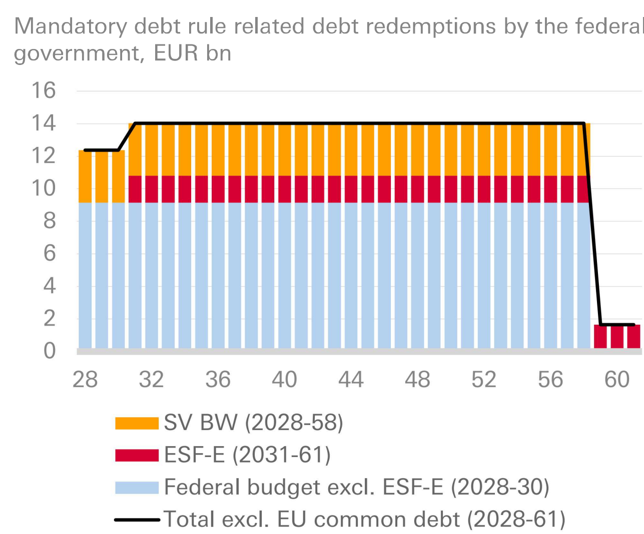
Finally, consolidation pressure will be further aggravated from 2028 onwards when the federal government's repayment obligations for (1) the loans taken out during the pandemic/energy-crisis years (2020-23) and (2) the EUR 100 bn of extra debts by the SV BW will start to commence. Initially, EUR 12 bn are earmarked for this, which will increase to EUR 14 bn by 2031 (see Figure 39).

Figure 38: Large parts of the regular structural borrowing allowance must be allocated from 2028 onwards ...



*Excluding the repayment rate for the SV BW (EUR 3.2 bn) which the Federal Ministry of Finance has reflected in a separate precautionary item in the financial plan.
2025/26: Budget law. 2027-29: Financial plan (see Financial Report 2026 as of September 2025).
Sources: Federal Ministry of Finance, Deutsche Bank Research

Figure 39: ... for the federal repayment obligations due to emergency loans between 2020-23



Source : Federal Ministry of Finance, Deutsche Bank Research

Until then, these debt redemptions (mandatory under the debt brake rules) are set to claim the largest part of the federal government's structural net credit borrowing allowance (0.35% of GDP), which is likely to be only about EUR 17 bn in 2028 (see Figure 38).

All in all, despite the planned record-high additional borrowing for 2025-29, the budgetary leeway is likely to become significantly tighter soon. This will necessitate a stronger prioritization within the core budget. And because interest payments will increase significantly due to higher federal debt, the fiscal leeway attached to primary expenditures is likely to be increasingly reduced over time. Against this backdrop, recent press reports reckoned that Ministry of Finance is for this reason considering the possibility of expanding the federal borrowing room further. Specifically, the ministry is examining whether interest expenses associated with the additional defense spending under the sectoral (defense) exemption could be also funded outside the normal debt brake.

Conclusion

Over the summer the German government has unveiled an ambitious, debt-financed spending plan for the current five-year financial planning period (2025-2029). A core objective is to modernize the ageing public infrastructure and bolster the country's defense capabilities. If this big spending vision becomes true, federal debt outstanding could swell by an impressive EUR 850 bn until 2029. Though the intensions by the government are clear, it remains to be seen whether the plan can be executed as quickly as promised and whether it will have a longer-lasting positive effect on economic growth.

Initially, we anticipate a delayed fiscal expansion in 2025, primarily because defense and public investment spending is ramping up slower than the government has budgeted for. Specifically, we forecast the general government deficit (national accounts) to remain largely unchanged at 2.6% of GDP in 2025, before visibly increasing from 2026 onwards. Although the deficit will rise next year, we believe the expansion will likely fall short of the government's own deficit expectations of as high as 4.75%. In contrast to the government, we project a deficit of "only" 3.5% of GDP. Looking further out, the deficit might stay stable at this level in 2027 before rising to a temporary peak of 3.8% by 2029.

As a substantial portion of the new borrowing space appears to be used for higher public consumption rather than productive infrastructure investments or defense spending, we remain skeptical that the growth potential will be strengthened. Essentially, we predict that the imminent fiscal expansion will only trigger a short-lived growth spurt of 1.5% in both 2026/27. Already from 2028 onwards, growth is likely to be much lower again, possibly easing back to just 0.3% by 2029. This is problematic as such a low growth would not suffice to create new fiscal room for maneuver, complicating the repayment of the incurred additional debt in the future.

Overall, despite the loosening of the debt brake, the federal government is confronted with high consolidation needs in its core budget for the period 2027-29. This is because rising fixed expenditures, such as subsidies for the statutory pension system or interest payments, will increasingly strain the core budget. In light of the narrowing budgetary scope, the 2027 budget negotiations (starting in H1 2026) could become another test for government cohesion.

Appendix 1

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