

PRESS RELEASE

## Between hope and fear: Economic weakness and opportunities of the fiscal package, bureaucratic obstacles and structural change

- Germany is still in a phase of economic weakness. GDP is expected to stagnate this year and grow by 1.0 % in 2026.
- If the funds from the fiscal package are spent on additional investment, this will increase growth in the medium term. Debt-financing public consumption should be avoided, and institutional precautions should be taken to ensure investment-oriented use of the funds.
- Unnecessary bureaucracy should be reduced more consistently than in the past in order to relieve the burden on companies. New regulations should be effective, user-friendly and enforceable so that they do not add inefficient bureaucracy.
- Structural change is accelerating and will also affect also economically strong regions. Ongoing transformation should be supported by training and retraining of workers and by targeted regional policy, opening up new prospects for particularly affected regions.

**Berlin, 21.05.2025** – The German economy is still in a phase of pronounced weakness. Bureaucratic requirements and long approval procedures are slowing down overall economic growth. Structural change is accelerating and will also reach sectors and regions that have so far been economically strong. US President Donald Trump's trade policy is jeopardising economic growth worldwide. The fiscal package offers opportunities for Germany to modernise its infrastructure and to return to a higher growth path.

In its Spring Report 2025, the German Council of Economic Experts (GCEE) discusses how the funds made available by the fiscal package can be used to promote investment. The Council also outlines how obstacles to growth can be addressed by consistently cutting unnecessary bureaucracy and how Germany can cope with the regionally different effects of structural change.

“In the near future, the German economy will be significantly influenced by two factors: US trade policy and the fiscal package,” explains Monika Schnitzer, chair of the GCEE. US trade policy places an additional burden on the already weak German exports. With a sharp and unpredictable rise in tariffs, German exports are likely to decline even further. From 2026, the funds provided by the fiscal package will entail positive effects on construction and investment in machinery and equipment as well as on government consumption. Private consumption is expected to grow slightly more compared to 2025 as real disposable income will increase more strongly. The GCEE expects that real gross domestic product (GDP) in Germany will stagnate this year (corresponding to a growth of 0.0 per cent) and increase by 1.0 per cent in 2026.

Consumer price inflation is expected to be 2.1 per cent on average in 2025 and fall slightly to 2.0 per cent in 2026. “Although markets anticipate interest rate cuts, the inflation outlook remains highly uncertain. For instance, it is unclear whether ongoing trade conflicts will fuel or dampen inflation. In addition, expansionary fiscal policies in Germany could raise inflation expectations, potentially prompting the ECB to favour a more restrictive monetary policy stance,” explains Veronika Grimm, council member.

### Exploiting the opportunities of the fiscal package, avoiding risks

The fiscal package offers opportunities if the funds are used primarily for investment. This could make up for investment omitted in the past and put Germany back on a growth path. Shifts from the core budget and the financing of investments already planned should be avoided through institutional precautions. For defence spending, the constitutional amendment provides for a threshold of 1 per cent of GDP above which spending can be debt financed outside of the debt brake. However, this threshold is too low as significantly more than 1 per cent of GDP was spent on defence from the core budget before the amendment. A minimum ratio for defence spending in the core budget of at least 2 per cent of GDP should be enshrined in law.

An investment ratio of at least 10 per cent of the core budget should be included in the law establishing the special infrastructure fund. Appropriate investment ratios should also be defined for allocations from the special fund to the Climate and Transformation Fund (KTF) and to the federal states.

Whether the fiscal package complies with the EU fiscal rules is highly uncertain. Realistically, prerequisites for compatibility are that the funds be spent predominantly on investment and that the package be accompanied by structural reforms. A strong consumption-orientation of expenditures will jeopardise compatibility with EU fiscal rules and increase the debt-to-GDP ratio significantly.

### Accelerate bureaucracy reduction, modernise administration

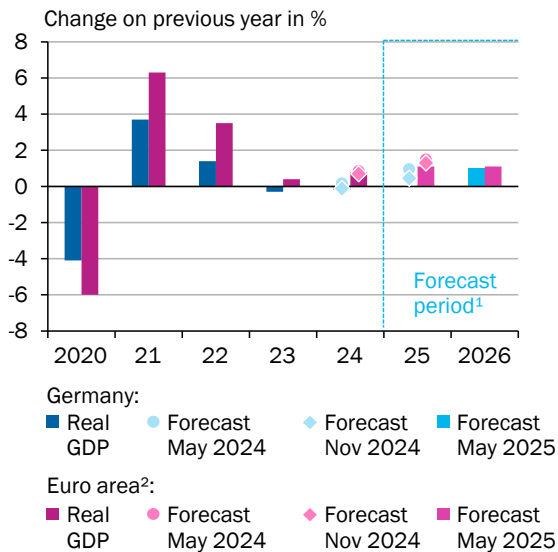
The reduction of bureaucracy in Germany must be accelerated. Despite numerous political initiatives, the burden of bureaucratic costs on companies has not yet decreased noticeably. Systematic adjustments are needed to reduce bureaucracy effectively and relieve the burden on companies across the board. To achieve this, several processes should be initiated simultaneously: Reduction and (partial) automation of information requirements, acceleration of application and approval procedures, digitalisation of public administration and the development of a uniform nationwide standardised e-government portal. New rules should be effective, user-friendly and enforceable so that they do not add inefficient bureaucracy.

### Accompanying structural change, developing future prospects

In the future, structural change in Germany will also affect regions that have had a stable industry composition and were economically successful. Regions with a high degree of specialisation in knowledge-intensive manufacturing, such as the automotive or chemical industries, will be particularly affected. Economic policy should support the adjustment through measures promoting growth in general and specific measures that develop new prospects for particularly affected regions. Targeted regional policy should focus on regions that could suffer from high unemployment in the short term. Suitable measures include the promotion of training programmes or retraining to support the transition to new professional activities.

## Economic outlook for Germany and Europe

### GDP in Germany and the euro area



### Key economic indicators (in %)

	2024	2025 <sup>1</sup>	2026 <sup>1</sup>
<b>Germany</b>			
GDP growth <sup>3</sup>	- 0.2	0.0	1.0
Inflation rate	2.2	2.1	2.0
Unemployment rate <sup>4</sup>	6.0	6.2	6.1
Wage growth <sup>5</sup>	5.5	2.8	2.7
Budget balance <sup>6</sup>	- 2.8	- 2.5	- 3.4
<b>Euro area</b>			
GDP growth <sup>2,3</sup>	0.8	1.1	1.1
Inflation rate <sup>7</sup>	2.4	2.2	1.9
<b>Global economy</b>			
GDP growth <sup>2,3</sup>	2.8	2.1	2.1
Inflation rate	4.6	3.1	2.7

1 – Forecast by the GCEE. 2 – Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Constant prices. 4 – Registered unemployed in relation to civil labour force. 5 – Change of gross wages and salaries (domestic concept) per employees' hour worked. 6 – In relation to nominal GDP; territorial authorities and social security according to national accounts. 7 – Change of the Harmonised Index of Consumer Prices.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations

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The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Dr. Veronika Grimm, Prof. Dr. mult. Dr. h.c. Ulrike Malmendier, Professor Dr. Dr. h.c. Monika Schnitzer (chair), Professor Dr. Achim Truger, Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

Further information on the German Council of Economic Experts and its publications are available at <http://www.sachverstaendigenrat-wirtschaft.de/en>.

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