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MODERATE ECONOMIC MOMENTUM

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KEY MESSAGES

↘ The German economy is in a pronounced phase of weakness. The rising volume of public investment spending is likely to have positive effects during the forecast period, while declining net exports are likely to dampen growth.

↘ The global economy is slowly adapting to the protectionist and erratic US trade policy. Global economic growth will be subdued in the forecast period.

↘ The GCEE expects Germany's real GDP to grow by 0.2 % in 2025 and 0.9 % in 2026. Consumer price inflation is expected to rise by an annual average of 2.2 % and 2.1 %, respectively.

SUMMARY

Since the beginning of 2025, US trade policy has become **protectionist and erratic and is weighing on the global economy**. After strong front-loading and rebound effects in global trade in the first half of 2025, the global economy is likely to expand only moderately during the forecast period. The GCEE expects **global GDP growth** to slow down from 2.8 % in 2024 to **2.6** % **in 2025 and 2.3** % **in 2026**. **Global consumer prices** are expected to rise **by 2.9** % and **2.6** % **in 2025 and 2026**, respectively.

European firms have become less competitive in international markets. In addition to the burden of higher US import tariffs, prices for European export products have risen more strongly than the global average since the beginning of 2025. The appreciation of the euro since the beginning of 2025 has contributed to this development. However, the economy is likely to be supported by a moderate recovery in investment activity. **GDP in the euro area** is expected to grow **by 1.4** % **and 1.0** % **in 2025 and 2026**, **respectively**. **Consumer prices** are expected to grow by **2.1** % **in 2025 and 2.0** % **in 2026**.

The **German economy** is **currently** experiencing **weak growth** after contracting in 2023 and 2024. In particular, **German industrial production** has performed significantly worse than the global trend in recent years and is **declining** in **almost all branches of the manufacturing sector**. This is also reflected in weak exports and low investment volumes. Investment activity by firms in the manufacturing sector is likely to remain subdued due to low capacity utilisation and weak domestic and foreign sales. The **tentative recovery in the manufacturing sector** that **was evident in the summer of 2025 has since lost momentum**. Although orders from abroad rose in the first half of 2025, by August 2025 they had returned to the level seen at the beginning of the year. The current assessment of business environment has also deteriorated, while business expectations have improved recently. The normalisation of the savings rate in the first half of 2025 and moderate growth in real disposable income during the forecast period are providing a subdued impulse for private consumption spending. With the public spending from the **fiscal package** adopted in March 2025, an **expansionary impulse for construction and investment in machinery and equipment** is likely to take effect from **next year** onwards. The GCEE expects minimal **growth in German real GDP of 0.2** % **in 2025** and growth of **0.9** % **in 2026**. **Consumer prices** are expected to r**ise by 2.2** % **in 2025** and **2.1** % **in 2026**.

I. SUMMARY

1. The German Council of Economic Experts (GCEE) expects Germany's **real gross domestic product (GDP) to grow by 0.2 % in 2025**. ↘ CHART 1 For **2026**, GDP growth of **0.9 %** is expected. ↘ ITEMS 36 FF. **Inflation** is expected to average at **2.2 % in 2025** and at **2.1 % in 2026**. Core inflation is expected to be 2.7 % in 2025 and 2.5 % in 2026. ↘ ITEM 66

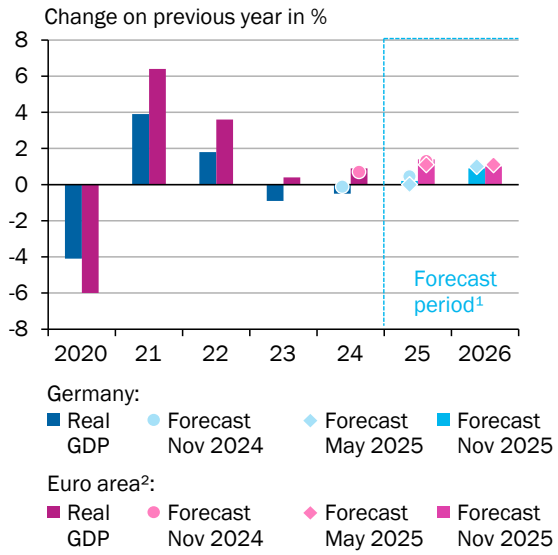
   Compared to the Spring Report 2025, the forecast for **GDP growth** in **2025** is 0.2 percentage points **higher**. ↘ BOX 6 This increase is due, among other things, to the revision of past GDP data by the Federal Statistical Office in July 2025. ↘ BOX 4

2. The **German economy remains** in a **phase of weakness**. According to the revised national accounts published in July 2025, ↘ BOX 4 **economic output contracted** much more sharply **in 2023 and 2024** than previously reported. Real GDP growth is likely to nearly stagnate in 2025. While consumption expenditures and exports expanded in the first half of 2025, ↘ ITEMS 51 AND 61 high imports and a decline in private investments weighed on the macroeconomy. ↘ ITEMS 63 AND 54 Following positive front-loading effects on exports in the first quarter of 2025 as a result of anticipated changes in the trade policy of the United States (US), the weakness of exports in the manufacturing sector is likely to continue in the forecast period. In addition to higher US import tariffs, the effective appreciation of

↘ CHART 1

Economic outlook for Germany and Europe

GDP in Germany and the euro area



Key economic indicators (in %)

	2024	2025[1]	2026[1]
Germany			
GDP growth[3]	– 0.5	0.2	0.9
Inflation rate	2.2	2.2	2.1
Unemployment rate[4]	6.0	6.3	6.1
Wage growth[5]	5.3	3.6	2.7
Budget balance[6]	– 2.7	– 2.3	– 3.1
Euro area			
GDP growth[2,3]	0.9	1.4	1.0
Inflation rate[7]	2.4	2.1	2.0
Global economy			
GDP growth[2,3]	2.8	2.6	2.3
Inflation rate	4.6	2.9	2.6

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

the euro since the beginning of 2025 has been weighing on foreign trade. Domestic investment activity is also subdued. **In 2026, GDP growth** is likely to be driven mainly by additional government spending from the fiscal package passed in March 2025. **Public investment in construction and gross fixed capital formation in machinery and equipment** is therefore likely **to increase**. ↘ CHART 2

3. Since 2023, **export prices in different regions of the world** have been **moving in opposite directions**. While China's export prices have fallen, those of the euro area have risen. ↘ ITEM 14 This development **weakens the competitiveness** of the euro area's export industries and supports an increase in China's share of global trade in goods. US import tariffs on goods have risen significantly since February 2025 as a result of the protectionist US trade policy. ↘ ITEMS 15 F. Even after the bilateral trade agreements signed since then, US import tariffs remain significantly higher and are likely to contribute to subdued growth in world trade. ↘ ITEM 22 Following strong front-loading effects in the first quarter of 2025 due to trade policy, global GDP is likely to grow at lower rates in the forecast period than in 2023 and 2024. The GCEE expects below-average growth rates of 2.6 % and 2.3 % for global GDP in 2025 and 2026. ↘ ITEM 10

4. **German and global industrial production are developing in opposite directions**. ↘ ITEM 40 FF. While manufacturing output in Germany is declining in almost all branches, industrial production is expanding strongly elsewhere, particularly in emerging markets. ↘ GLOSSARY. The increase in wholesale prices for natural gas and electricity since 2022, ↘ BOX 3 the higher rise in unit labour costs compared with other advanced economies, ↘ GLOSSARY and the increased economic uncertainty are likely to continue to weigh on the German industry. ↘ ITEM 40 The

↘ CHART 2
Determining factors for the forecast

	Current situation	Forecast period	Opportunities and risks
Foreign trade	US tariffs on EU exports have been increased	German exports remain weak, imports increase	**Opportunity:** Foreign demand is growing faster than expected **Risk:** US tariffs rise again
Fiscal policy	Fiscal stimulus will be negative in 2025	Public investment in infrastructure and defence spending rise	**Risks:** Funds flow out more slowly or lead to stronger price pressure than expected
Private domestic demand	Consumption expands and investment declines	Consumption and investment are growing moderately	**Risk:** Social security contribution rates increase more than expected and dampen private consumption

Source: own representation

service sector is currently experiencing only slight growth in terms of gross value added, but has been performing better than the manufacturing sector since 2022. ↘ ITEM 47 The trade sector, which is closely tied to the manufacturing sector, had the strongest dampening effect on growth in the service sector compared with 2022. The information and communication sector has expanded particularly strongly since then. The **weakness of the manufacturing sector** is also reflected **in the labour market**. ↘ ITEM 68 Employment in this sector has been declining since 2019, and the decline has accelerated since the beginning of 2024. A similar cumulative employment decline was last observed during the financial crisis.

5. **German exports** are likely **to decline slightly in 2025** despite strong front-loading effects from the US due to impending import tariffs in the first quarter of 2025 and continued robust demand from the euro area. ↘ ITEM 61 This is due to the significant rebound effect on exports to the US and a low volume of orders in the manufacturing sector from the non-euro area. A **moderate increase in exports** is **expected** again **from 2026 onwards**. ↘ ITEM 62 The continued upward trend in orders from the euro area is likely to have a positive effect, while the impulse from other countries is likely to be weak. Imports are expected to rise sharply in 2025 due to increased demand for products from China and the euro area, and tariff-related front-loading effects in the first quarter of 2025. ↘ ITEM 63 In 2026, rising demand for foreign defence goods is likely to cause imports to continue to rise, albeit at a lower rate. Net exports are likely to be negative in both 2025 and 2026.

6. Private consumption rose sharply in the first quarter of 2025. ↘ ITEMS 51 F. In the second quarter of 2025, however, private consumption grew only slightly. The increased savings rate in 2023 and 2024 has normalised and is close to its long-term average before the coronavirus pandemic in the second quarter of 2025. This is likely to have reduced the scope for a further strong increase in private consumption in the coming quarters. **Real disposable income is expected** to rise **moderately during the forecast period**, thus **providing** only **modest support for private consumption**.

7. **Private investment activity** has been **declining** since 2023. Residential construction investment fell significantly in the second quarter of 2025. Despite improved business expectations in residential construction since the beginning of 2025, the indicator remains at a low level and fell slightly again in October. Although the key policy rate of the European Central Bank (ECB) has fallen significantly since summer 2024, effective interest rates for residential construction projects have declined only moderately. ↘ ITEM 55 As a result, the volume of new loans for private residential construction projects has risen slightly, but this has not yet been reflected in higher residential construction investment. One reason for this could be stronger demand for existing residential properties. Gross fixed capital formation in machinery and equipment declined in the first half of 2025, but is likely to have picked up in the third quarter of 2025. ↘ ITEM 58 **Private construction investment and gross fixed capital formation in machinery and equipment** is likely to **recover slightly in 2026**. The reintroduction of accelerated depreciation and tax incentives for electric mobility are likely to

provide a modest boost to gross fixed capital formation in machinery and equipment. ↘ ITEM 60

8. **Last year**, public investment was driven primarily by a sharp **increase in public investment in construction**. ↘ ITEM 54 In the **first half of 2025**, however, public investment in construction did not increase further compared to the previous half-year. **Government gross fixed capital formation in machinery and equipment**, which includes military weapon systems, **on the other hand, expanded** compared to the previous half-year. A further sharp increase in public equipment investment is expected during the forecast period. Funds from the **Special Fund for Infrastructure and Climate Neutrality** (SVIK) will allow for more public investment during the forecast period. ↘ ITEM 57 Higher public infrastructure spending is likely to increase capacity utilisation in civil engineering, leading to a significant rise in prices in non-residential construction. In addition, government consumption is likely to continue to expand. ↘ ITEM 74

II. GLOBAL ECONOMY

9. The **global economy expanded at a below-average rate in the first half of 2025**. The introduction of higher US import tariffs led to strong front-loading and rebound effects in global trade in goods and global industrial production. The US import tariffs currently in place are significantly higher than last year's level. ↘ ITEM 15 F. In the summer of 2025, many countries concluded bilateral trade agreements with the US which decreased trade policy uncertainty. Nevertheless, trade policy uncertainty remains at a high level.

   During the forecast period, **higher US import tariffs** are likely **to weigh on global trade in goods**. Since the beginning of 2025, the appreciation of the euro has been weighing on the euro area's foreign trade. ↘ ITEM 13 In addition, export prices in the euro area have been rising since 2023, while they have been falling in China. ↘ ITEM 14 This **weakens the competitiveness** of the euro area's export industry and favours an increase in China's share of global trade in goods. China is likely to expand its trade in goods with other regions of the world outside the US again during the forecast period. ↘ ITEM 18 However, due to subdued domestic demand, the Chinese economy is likely to grow at a slower pace. ↘ BOX 1 In the US, higher US import tariffs are likely to be passed on to consumer prices and increasingly weigh on real incomes. ↘ ITEM 17 Private consumption is likely to provide only modest support for GDP growth in the US. Furthermore, only minor further cuts in key policy rates are to be expected in the advanced economies. ↘ ITEM 28 This might only moderately improve financing conditions for private households and firms and is unlikely to provide additional impulse for investment. Overall, the global economy is therefore likely to grow at a below-average rate during the forecast period. **Against this backdrop, global GDP is expected to grow by 2.6 % in 2025 and 2.3 % in 2026.** Global consumer price inflation is expected to be 2.9 % in 2025 and 2.6 % in 2026.

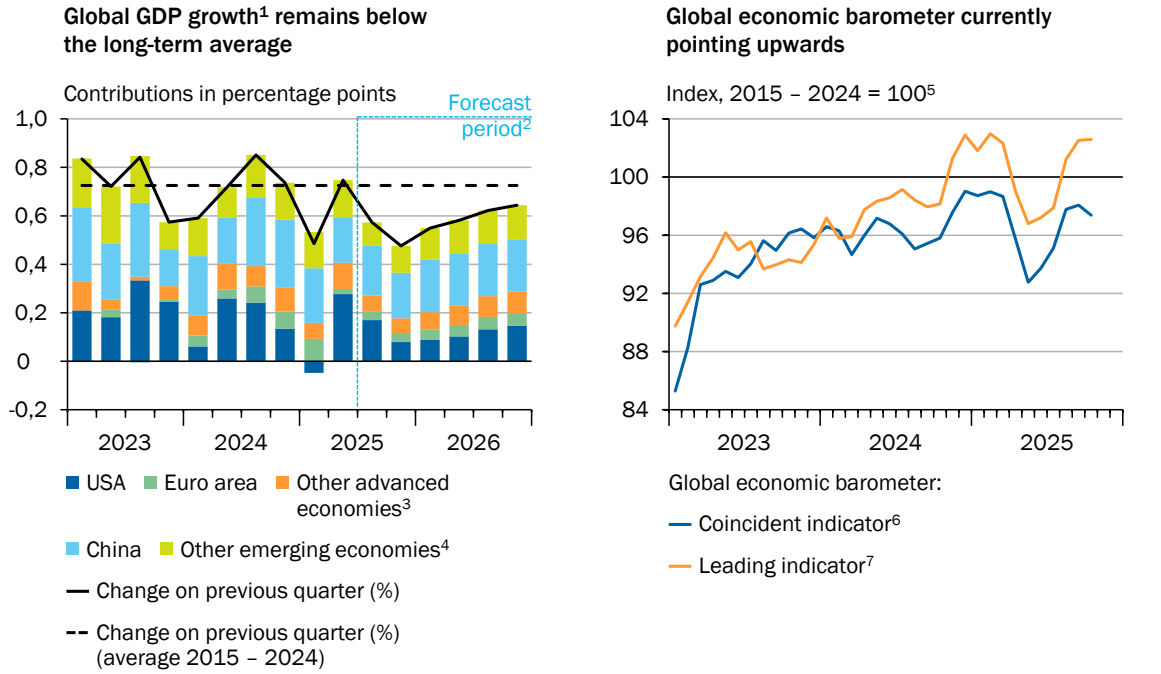
1. Global economy expands modestly

10. **Global GDP grew by 0.5 % and 0.7 % in the first and second quarter of 2025, respectively, compared to the previous quarter**. Thus, in the first quarter of 2025, global GDP growth was below the long-term average of 0.7 % for the years 2015 to 2024. ↘ CHART 3 LEFT The announcement of higher US import tariffs triggered strong front-loading effects on US imports. This benefited numerous economies, including those in the euro area, whose exports boosted GDP growth. In the US, however, high imports had a negative impact on GDP growth. ↘ ITEM 12 In addition, private consumption in the US rose only slightly in the first quarter of 2025. In the second quarter of 2025, rebound effects on US imports led to a slight slowdown in GDP growth in many advanced economies. In contrast, the US contributed strongly to global GDP growth due to lower imports and a strong recovery in private consumption. ↘ ITEM 17

Since June 2025, global economic indicators have **been pointing towards** an **improving global economy**. ↘ CHART 3 RIGHT These indicators form an indicator system consisting of aggregated time series. The indicator for the current economic situation of the global economy, which is highly correlated with global

↘ CHART 3

Global growth and economic barometer



1 – Averages of seasonally adjusted quarterly values. Global GDP is approximated by the sum of the countries. 2 – Forecast by the GCEE. 3 – Australia, Canada, EU less euro area, Hong Kong, Japan, Norway, Republic of Korea, Switzerland, Singapore, Taiwan and United Kingdom. 4 – Argentina, Brasil, Chile, Colombia, India, Indonesia, Malaysia, Mexico, Philippines, Russia, Thailand and Turkey. 5 – Long-term mean equal to 100 and long-term standard deviation equal to 10. 6 – The coincident indicator reflects the current economic situation of the global economy and is based on the correlation and synchronisation of more than 1,000 time series from economic trend surveys with the respective GDP time series of over 50 countries. 7 – The leading indicator signals the development of the global economy in around six months' time and is based on the leading characteristics of more than 600 time series with the respective GDP time series of over 50 countries.

Sources: Abberger et al. (2022), Eurostat, IMF, KOF Swiss Economic Institute, national statistical offices, OECD, own calculations

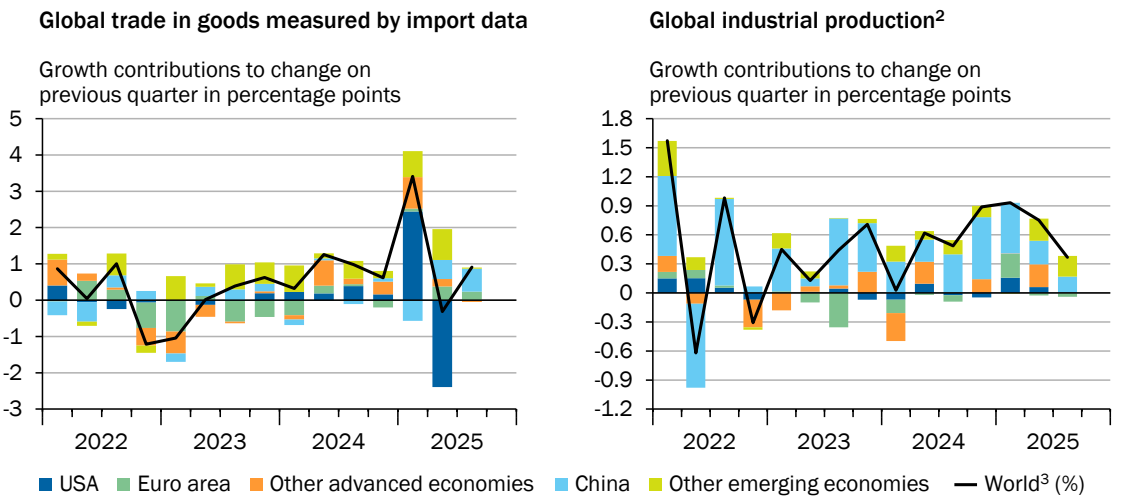
GDP, has recently been below average, but has been showing a clear upward trend since the summer of 2025. The leading indicator, which captures signals about the future development of the global economy, has been suggesting above-average growth in the coming months since August 2025.

11. **Growth in the global economy** continues to **be driven primarily by growth in China and other emerging economies**. ↘ CHART 3 LEFT China's contributions to growth in the first half of 2025 are driven by an expansion in trade in goods with the rest of the world outside the US. ↘ ITEM 18 In addition, other emerging markets, particularly India, provided supportive impulse.

12. **Global trade in goods in the first half of 2025 was characterised by front-loading and rebound effects in the wake of higher US import tariffs.** ↘ CHART 4 LEFT Measured in terms of global imports, world trade grew at an above-average rate of 3.4 % in the first quarter of 2025 compared to the previous quarter. This increase was largely driven by a sharp rise in imports from the US and other advanced economies. In the second quarter, trade in goods declined by 0.3 % compared to the previous quarter. While US imports fell significantly, imports from China, other emerging markets and the euro area increased. The higher imports from the euro area resulted from front-loading effects on US exports in anticipation of possible retaliatory tariffs by the European Union (EU). In the third quarter of 2025, global trade increased by 0.9 % compared to the previous quarter, mainly driven by imports from China. **Front-loading and rebound effects also determined the development of global industrial production**. ↘ CHART 4 RIGHT Accordingly, global industrial production rose particularly strongly in the first quarter of 2025, up 0.9 % on the previous quarter. In the following quarters, the pace of expansion in global industrial production

↘ CHART 4

Global trade in goods and world industrial production[1]



1 – Data and country definitions of the Dutch Centraal Planbureau (CPB). Country weights based on 2021 values. Change on previous quarter, price- and seasonally adjusted. Based on quarterly averages of monthly values. The average for 2025Q3 is based only on the values for July and August 2025. 2 – Excluding construction. Production-weighted. 3 – Includes the volume of goods trade in 81 countries and just under 96 % of global goods trade, and industrial production in 85 countries and around 96 % of global industrial production.

Sources: CPB, own calculations

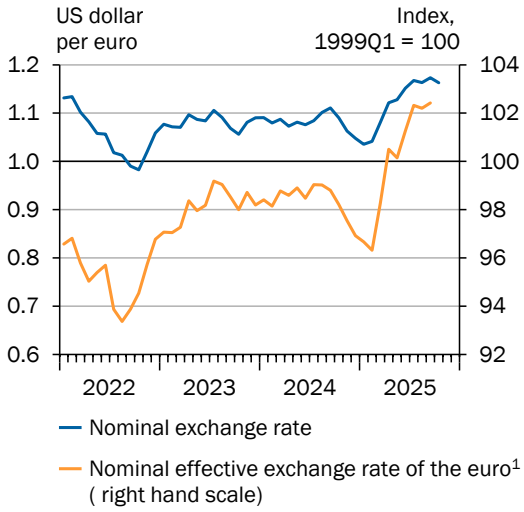
slowed down. In the second and third quarter of 2025, it rose by 0.8 % and 0.4 %, respectively, compared to the previous quarter.

13. **Since the beginning of 2025, the US dollar has been losing value against currencies in the rest of the world.** The nominal effective exchange rate of the US dollar against a weighted average of the currencies of 64 countries has depreciated by 6.5 % since the beginning of 2025. The change in US policy is likely to have contributed significantly to this (Deutsche Bundesbank, 2025a). The increasing loss of confidence among market participants in the security of the US dollar affected, for example, investors outside the US in April 2025, who used future contracts on the foreign exchange market to hedge against a possible currency risk for their US dollar-denominated assets (Schildbach, 2025; Shin et al., 2025). These future contracts subsequently increased demand for other currencies worldwide. **Since January 2025,** the **euro has appreciated by around 12.3 % against the US dollar.** Against a weighted average of the currencies of 18 trading partners, the nominal effective exchange rate of the euro appreciated by 6.0 %. ↘ CHART 5 LEFT While an **appreciation of the euro** makes imports cheaper for the euro area, it **weighs on the euro area's export economy.** At the same time, the euro also appreciated against the renminbi, as China's monetary policy keeps the renminbi's exchange rate against the US dollar largely stable. As a result, China's nominal effective exchange rate followed the US dollar's downward trend and depreciated by 3.6 % since the beginning of 2025. The depreciation of the renminbi supports China's export economy.

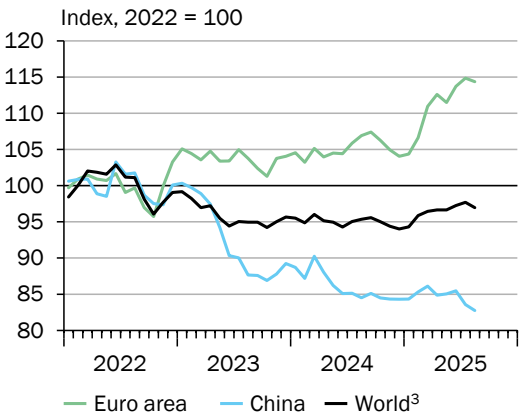
14. **Exports of goods from China** and from the **euro area have been developing differently** since 2023. One reason for this is likely to be the **diverging**

↘ CHART 5
Exchange rates and export prices

The euro has appreciated sharply since the beginning of 2025



Sharp rise in export prices[2] of the euro area following the appreciation of the euro since the beginning of the year



1 – Against the currencies of the euro area's 18 most important trading partners. 2 – Export prices are measured in US dollars. Data and country boundaries from the Dutch Centraal Planbureau (CPB). Country weighting based on 2021. 3 – Coverage of seasonally adjusted trade volumes in 81 countries and about 96 % of global trade balances.

Sources: CPB, Deutsche Bundesbank, own calculations

prices of their export goods. ↘ CHART 5 RIGHT China's export prices, measured in US dollars, have been on a downward trend since 2023. In August 2025, they were 17.3 % below the average for 2022. A sharp rise in capital formation by the manufacturing sector in China has led to a significant expansion in production capacity in recent years (Boullenois et al., 2024). On the one hand, this expansion has been accompanied by a sharp rise in industrial production. On the other hand, industrial firms in China face strong domestic competition, which is distorted by government subsidies and tax breaks and is reinforcing an overall downward trend in prices. Both factors significantly improve the competitiveness of local export firms (Deutsche Bundesbank, 2024a). Against this backdrop, there has been a sharp rise in China's exports of goods. In contrast, **euro area export prices** measured in US dollars have **risen sharply since the beginning of 2025 due to the appreciation of the euro.** This increase has further weakened the price competitiveness of the euro area as a whole and is likely to continue to weigh on euro area exports during the forecast period. ↘ ITEM 21

15. **Since the beginning of 2025**, **US trade policy has been more protectionist** than before. After the US government repeatedly raised and then suspended tariffs at short notice in the first half of 2025, numerous countries have concluded bilateral tariff agreements with the US since mid-2025. As a result, the average effective tariff rate, weighted by import shares in 2024, has risen for most countries. US import tariffs are dampening GDP growth in the US and at the same time increasing domestic inflationary pressures (Auclert et al., 2025; Auray et al., 2025; The Budget Lab at Yale). ↘ ITEM 25 They also place a burden on the US's trading partners (Burgert et al., 2025; European Commission, 2025a).

16. The **EU** reached a tariff agreement **with the US government** on 27 July 2025. This agreement establishes a **tariff rate of 15 %** on most EU goods exports to the US. ↘ BACKGROUND INFO 1 The average effective tariff rate rose to around 12.9 % after the agreement came into force on 7 August 2025, replacing the Most Favoured Nation tariff rates that have been applied ↘ GLOSSARY to most EU products. ↘ CHART 6 LEFT Before 2 April 2025, the average effective tariff rate was around 5.2 %. If previously exempted products such as semiconductors, pharmaceuticals or critical minerals were subject to the 15 % tariff rate, the average effective tariff rate would increase by additional 4.6 percentage points. In international comparison, the average effective tariff rates of major US trading partners such as Canada and the United Kingdom are currently lower than those of the EU. ↘ CHART 6 RIGHT In contrast, for China and Switzerland, they are more than 20 and 10 percentage points above the EU level, respectively. They are also higher than the EU level for the Republic of Korea (18.1 %) and Japan (17.6 %). This puts the average effective tariff rate on EU goods exports in the mid-range, meaning that the relative competitive position of European exporters on the US market has improved in some cases but deteriorated in others, depending on the comparison group.

↘ BACKGROUND INFO 1

Focus: The tariff deal between the EU and the US

Before the start of US President Trump's second term in office, the EU's tariff level was largely determined by the World Trade Organisation's Most Favoured Nation tariff rates. **The average effective tariff rate was 1.2 %** (Fitch Ratings, 2025). Even before 2 April 2025, additional sectoral tariffs of 25 % were imposed on iron, steel, aluminium and cars. On 2 April 2025, "punitive tariffs" of 10 % were added to almost all imports from the EU. In addition, on 4 June 2025, sectoral tariffs on iron, steel and aluminium were raised to 50 %. On 1 August, additional sectoral tariffs of 50 % were introduced on copper. **On 7 August 2025**, the **tariff deal between the EU and the US came into effect.** Since then, a uniform tariff rate of 15 % is applied to numerous US-imports from the EU, particularly cars. However, tariffs on iron, steel, aluminium and copper remain at 50 %. For certain products such as semiconductors, pharmaceuticals and critical minerals, the regular Most Favoured Nation tariff rates apply as a special arrangement. In addition, the EU has committed to importing 750 billion US dollar worth of energy sources from the US and to capital formation by European firms in the US amounting to 600 billion US dollar by 2028 (European Commission, 2025b). Furthermore, the EU is abolishing import tariffs on US industrial products and plans to remove further trade barriers.

17. **US GDP fell by 0.2 %** in **the first quarter of 2025 compared to the previous quarter,** adjusted for price and seasonal effects, **and rose by 1.0 % in the second quarter of 2025 compared to the previous quarter**. This development was driven by front-loading and rebound effects in US imports, as well as first weak and later strong private consumption. In the third quarter of 2025, US GDP is likely to have risen by 0.6 % compared to the previous quarter. For the forecast period, the slowdown in the US labour market points towards weaker GDP growth. In addition, higher US import tariffs are likely to be increasingly passed on to consumer prices, thereby weighing on real incomes. ↘ BOX 1

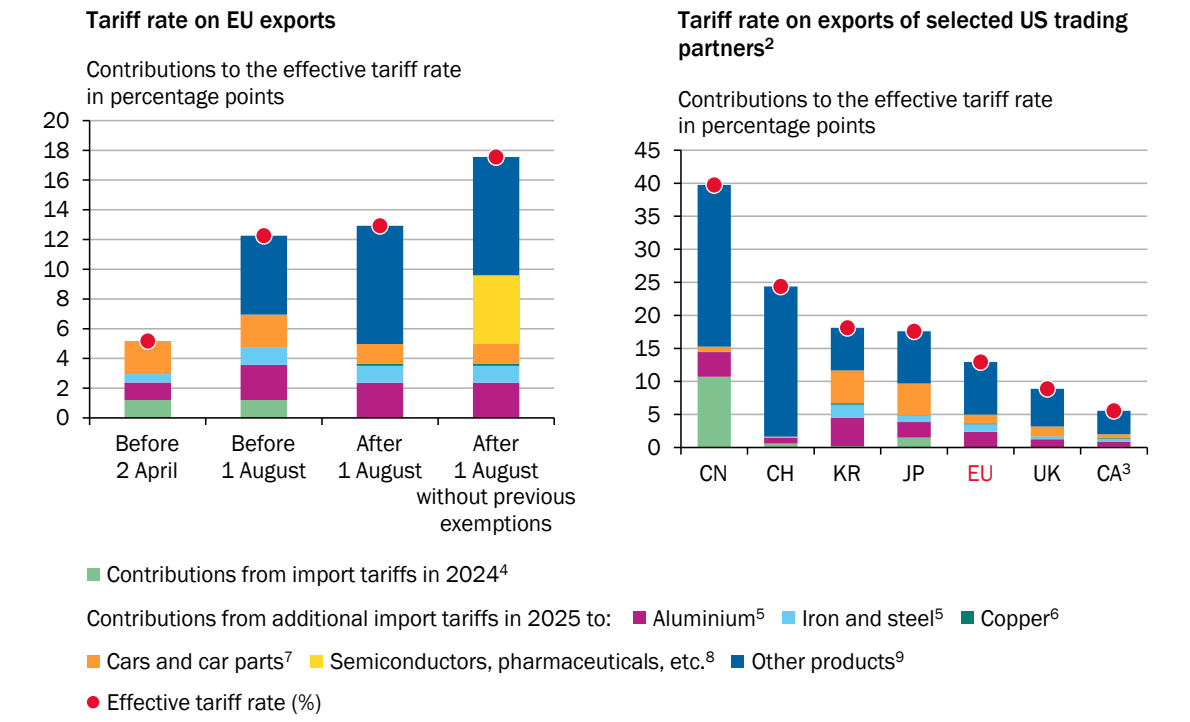
    In **the United Kingdom**, price-, seasonally and calendar-adjusted GDP growth was strong at 0.7 % in the first quarter of 2025. GDP growth was driven by increased gross fixed capital formation, private consumption and higher exports. In the second quarter of 2025, GDP growth slowed down to 0.3 %. In particular, government consumption contributed to overall GDP growth through higher spending on health, education and defence. In contrast, corporate investment and exports declined. In 2026, the UK economy is likely to expand at a slightly slower pace than in the current year. Persistently high consumer price inflation is likely to continue to weigh on the real incomes of private households, and fiscal policy is likely to be restrictive due to expected consolidation measures.

18. According to official figures, the **Chinese economy grew** by **1.2 %** and **1.0 % in the first and second quarter of 2025**, respectively, compared to the previous quarter, after adjustment for price and seasonal effects. Rising exports and higher final consumption expenditures were the main contributors to these growth figures. The expansion of trade in goods with other Asian countries, the EU and Latin American economies was a particularly important factor, offsetting the decline in Chinese exports to the US (Deutsche Bundesbank, 2025a; Song,

2025a). Gross fixed capital formation supported Chinese GDP growth, particularly in the second quarter of 2025. In the third quarter of 2025, Chinese GDP growth was 1.1 %. Higher final consumption expenditures and higher exports contributed to GDP growth once again. However, the contribution of gross fixed capital formation to growth was slightly weaker than in the previous quarter. During the forecast period, the Chinese economy is likely to expand at a slower pace than in the current year. ↘ BOX 1 The weak real estate market continues to dampen domestic demand. In addition, higher US import tariffs are likely to dampen exports to the US. At the same time, however, exports to Asia are likely to expand more strongly. Overall, exports are likely to expand slightly more weakly in 2026 than in 2025.

↘ CHART 6

Average effective tariff rate[1] on US imports



1 – As of 31 October 2025. The average effective tariff rate is calculated from the sum of the tariff rates for the respective product group, weighted by their respective share of the total import volume. As the calculation is based on import values from 2024, no substitution effects triggered by tariff changes are taken into account. Tariffs are levied in accordance with the Harmonised Tariff Schedule (HTS), a system for classifying goods in international trade. Tariffs on heavy commercial vehicles, wood and furniture were taken into account, but are not shown in the chart due to the low import volumes.
2 – Refers to the "After 1 August" scenario. CN-China, CH-Switzerland, KR-Republic of Korea, JP-Japan, EU-European Union, UK-United Kingdom, CA-Canada. 3 – For Canada, it is assumed that 75 % of goods will not be subject to tariffs under the United States-Mexico-Canada Agreement (USMCA). 4 – Tariffs from 2024 that will continue to apply in 2025 (for the EU and UK until the customs deal is in place). 5 – And goods made from them. A 25 % tariff has been in place for aluminium, iron and steel since February 2025, which was raised to 50 % in June. Exception UK: 25 %. 6 – And goods made from them. Copper from 1 August: 50 %. Exception UK: 25 %. 7 – A tariff rate of 25 % has applied to cars and car parts since March 2025. Reduced to 15 % for the EU, KR and JP by agreement, reduced to 10 % for the UK. 8 – These products are currently exempt from tariffs, but without the existing exemptions they would be subject to 15 % tariffs.
9 – Punitive tariffs: EU 10 % (before deal) / 15 % (after deal), CN 30 %, CH 39 %, KR 15 %, JP 15 %, UK 10 %, CA 35 %.

Sources: Fitch Ratings, https://www.trademap.org/Index.aspx, United States International Trade Commission, own calculations

↘ BOX 1

Focus: The major economies of the US and China

In the first quarter of 2025, **US economic output fell by 0.2 % compared to the previous quarter**, adjusted for price and seasonal effects. Higher imports in anticipation of the announced US import tariffs contributed most to the decline in GDP, while gross fixed capital formation provided strong support. **In the second quarter of 2025, the US economy grew by 1.0 %.** Private consumption contributed significantly to this output growth, while imports and gross fixed capital formation declined. Overall, US import tariffs are likely to have led to higher government revenues in the first half of 2025. At the same time, however, countermeasures by US trading partners and substitution effects by US firms are likely to have dampened GDP growth (The Budget Lab at Yale, 2025a). Employment growth was weak in the summer of 2025. The unemployment rate rose to 4.3 % in August 2025, reaching its highest level in four years. In September 2025, both the inflation rate and the core inflation rate were at 3.0 % compared to the same month of the previous year. Inflation was most recently driven by higher prices for services and rents. ↘ CHART 7 LEFT This means that sectors that are unlikely to be affected by tariffs are exerting pressure on prices. Since the beginning of 2025, higher prices for goods excluding food and energy have also contributed to inflation. This is likely to indicate a pass-through of the introduced tariffs (Authers, 2025; The Budget Lab at Yale, 2025b). The weaker development on the labour market and the simultaneous increase in price pressure are exacerbating the US Federal Reserve's trade-off between price stability and maximum employment. ↘ CHART 28 In view of the cooling labour market situation, the US Federal Reserve initiated its first interest rate cut in 2025 in September 2025.

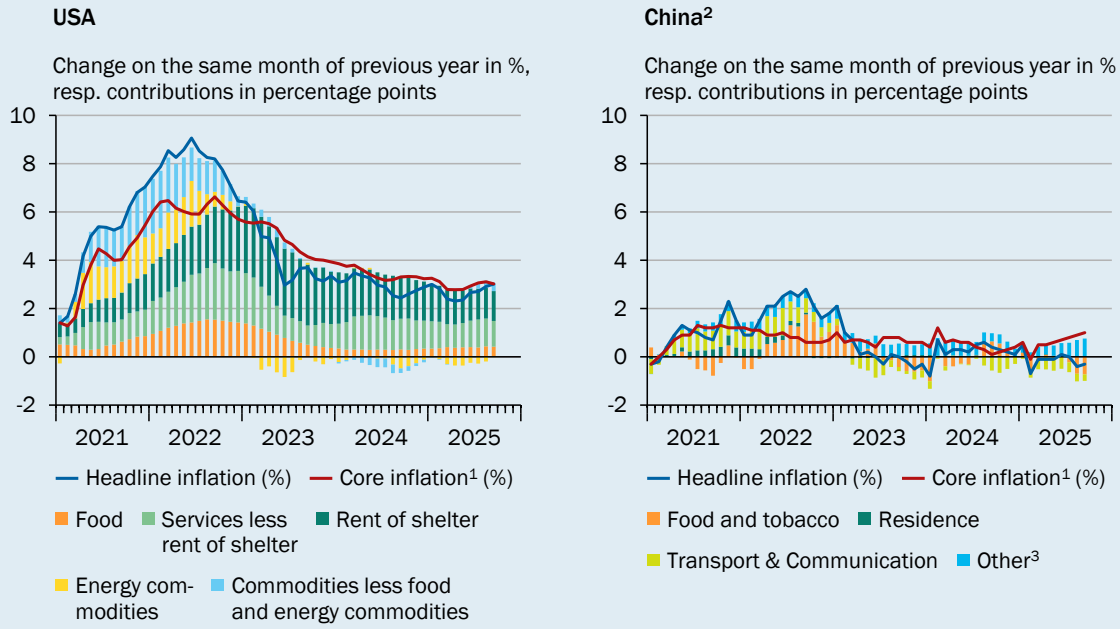
In the third quarter of 2025, **US GDP** is likely to have risen **by 0.6 %** compared to the previous quarter. In contrast to the usual publication of the US GDP flash estimate at the end of October, it was not published by the close of data due to the government shutdown. For the forecast period, weaker momentum in the US labour market points towards **slower GDP growth**. In addition, tariffs on imported intermediate goods are likely to increasingly drive up production costs in the US. The higher import tariffs are likely to be increasingly passed on to consumers, putting additional pressure on real incomes. Due to increasing concerns about the labour market and rising inflation expectations, consumer sentiment has weakened significantly since the beginning of 2025 (The Conference Board, 2025). **As a result, private consumption is likely to be less supportive during the forecast period than in previous years.** However, the sharp increase in gross fixed capital formation in machinery and equipment in the wake of the ongoing boom in artificial intelligence (AI) is likely to continue to support gross fixed capital formation (Aliaga, 2025). The shutdown of US federal agencies, which has been in effect since the beginning of October 2025, is likely to dampen GDP growth in the US in the fourth quarter of 2025. The US government currently estimates the loss of economic output due to the shutdown at around 15 billion US dollar per week (CEA, 2025; Lawder and Shalal, 2025). In October 2025, the cumulative losses are likely to amount to around 0.2 % of US GDP. However, this is unlikely to have much impact on the average annual GDP growth of the US economy in 2025. Nevertheless, weaker GDP growth in the fourth quarter of 2025 will be accompanied by a reduction in the statistical overhang. Overall, the GCEE expects US GDP to grow by 1.9 % in 2025. Slightly weaker GDP growth of 1.6 % is forecast for 2026. According to estimates, US import tariffs and countermeasures are likely to reduce GDP growth by around 0.5 percentage points in both years (The Budget Lab at Yale, 2025a). The rise in consumer prices, as measured by the Consumer Price Index, is expected to be 2.8 % in both 2025 and 2026.

According to official figures, the **Chinese economy expanded in the first two quarters of 2025 at rates of 1.2 % and 1.0 %, respectively, compared to the previous quarter**, after adjustment for price and seasonal effects. Final consumption expenditures contributed significantly to this growth, with private consumption likely playing a particularly important role. This is

indicated by the rise in retail sales in the first and second quarter of 2025. In addition, the economic stimulus package adopted in March 2025 is likely to have had a supportive effect (GCEE Spring Report 2025 Box 1). Chinese exports also rose strongly in the first two quarters of 2025, especially to other Asian economies, the euro area and Latin American economies, whereas Chinese exports to the US declined sharply in the wake of higher US import tariffs (Song, 2025a). In contrast to the development of final consumption expenditures and exports, gross fixed capital formation only provided significant support to Chinese GDP growth in the second quarter of 2025. On the production side, the continued strong growth in industrial production is likely to have supported GDP growth in the first and second quarter of 2025. In September 2025, inflation fell by 0.3 % compared to the same month of the previous year, while core inflation rose by 1.0 %. ↘ CHART 7 RIGHT Since March 2023, the transport and telecommunications sector in particular has been making a negative contribution to inflation.

↘ CHART 7

Consumer price inflation in the USA and China



1 – Overall index excluding food and energy. 2 – The National Bureau of Statistics (NBS) of China does not publish weights for the subindices of consumer price inflation. The weights are recalculated every five years, most recently in January 2021. To estimate the weights for the subindices, consumer price inflation from the year 2021 onwards is regressed on the subindices under the following two constraints: Each weight is greater than or equal to zero and the sum of the weights is one. 3 – Includes price changes for the following categories: Clothing; household articles and services; education, culture and recreation; health care; miscellaneous goods and services.

Sources: BLS, LSEG Datastream, NBS, own calculations

In the third quarter of 2025, GDP growth was 1.1 % according to preliminary estimates. Final consumption expenditures once again contributed significantly to the overall economy's expansion. Private consumption is therefore likely to have had a supportive effect, even though retail turnover was weak in the third quarter of 2025. The positive contribution of exports to growth was slightly stronger in the third quarter of 2025 than in the previous quarter. Exports to other Asian economies are likely to have continued to be the decisive factor here. Exports to the US rose in July 2025 after five consecutive declines. Gross fixed capital formation also supported GDP growth in the third quarter of 2025, but was weaker than in the previous quarter. **A slight slowdown in the overall economy in China is expected for the forecast period.** The purchasing managers' index for the manufacturing sector remained below the growth threshold

in October 2025 (Song, 2025b). Higher US import tariffs in particular are likely to dampen export growth during the forecast period. After the US government had temporarily reduced or suspended import tariffs on Chinese goods, a tariff agreement between US President Donald Trump and Chinese President Xi Jinping was concluded on 30 October 2025, with planned entry into effect on 10 November 2025. This includes a reduction in US import tariffs on Chinese goods and, in return, includes the abolishment of Chinese retaliatory measures on US products. Overall, US import tariffs on Chinese products are likely to remain high. In addition, the weak real estate market continues to weigh on domestic demand. Overall, the GCEE expects GDP growth of 5.0 % for 2025. Weaker growth of 4.5 % is forecast for 2026. Consumer prices are expected to fall by 0.1 % in 2025 and rise by 0.2 % in 2026.

19. **The economy in the euro area has lost momentum.** Although GDP grew strongly in the first quarter of 2025, at 0.6 % compared to the previous quarter, adjusted for price, seasonal and calendar effects, half of this increase is attributable to strong GDP growth in Ireland of 7.5 % compared to the previous quarter. In Ireland, exports, particularly of pharmaceutical products, rose by 9.4 % due to front-loading effects (Humphries and Halpin, 2025). In the rest of the euro area, similar front-loading effects were less pronounced, with the result that GDP growth in the euro area excluding Ireland was only 0.3 % in the first quarter of 2025. In the second quarter of 2025, production growth in the euro area slowed to 0.1 % compared to the previous quarter. Developments across the major economies of the euro area varied greatly. ↘ BOX 2

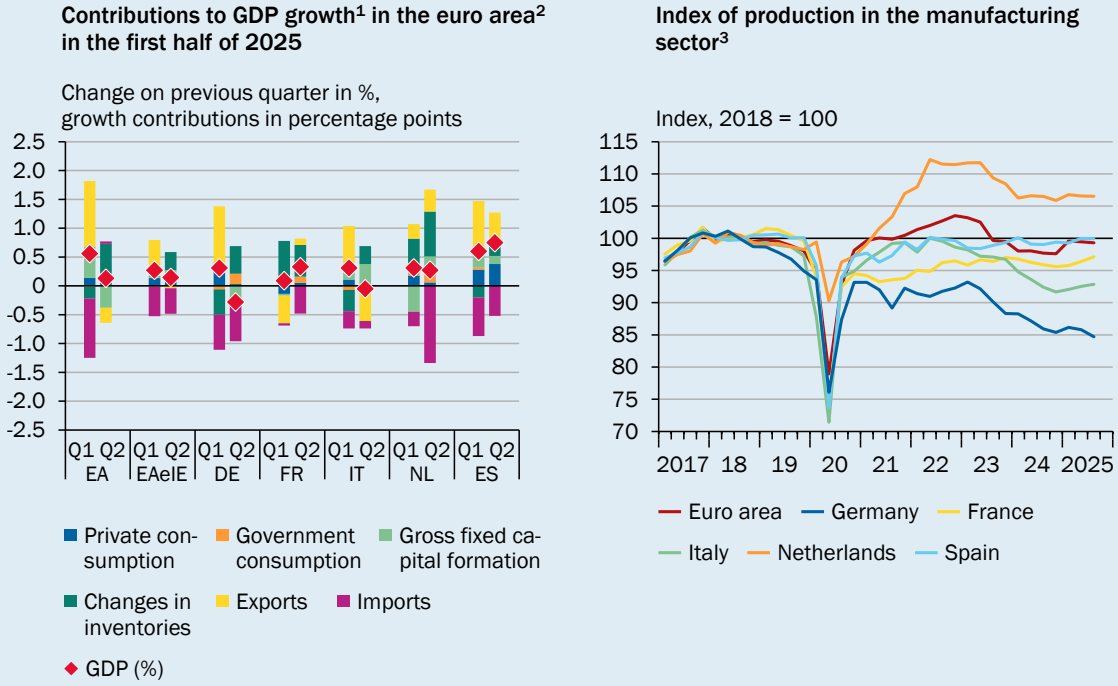
↘ BOX 2

Focus: Economic development in France, Italy, Spain and the Netherlands

The **French economy** grew by 0.3 % and 0.5 % quarter-on-quarter in the second and third quarter of 2025, respectively, adjusted for price, seasonal and calendar effects. As at the beginning of the year, the largest contribution to growth in the second quarter of 2025 came from changes in inventories, largely attributable to aircraft and, to a lesser extent, to motor vehicles (INSEE, 2025). ↘ CHART 8 LEFT In the third quarter of 2025, however, production growth was driven by exports, which increased by 2.2 %. Private consumption, on the other hand, has been stagnating for three quarters and investment is weak. According to surveys by the European Commission, consumer confidence remains low. This could be related to the government's collapse and subsequent increase in political uncertainty. This forecast assumes that the new government will succeed in negotiating a budget compromise and finding a majority in parliament to support it. With the suspension of a pension reform that would have raised the retirement age to 64, this appears realistic. However, the budget is likely to include a slightly lower consolidation of the public deficit than former Prime Minister Bayrou had planned (from 5.4 % of GDP this year to 4.6 % of GDP next year). Against this backdrop, private investment activity is likely to recover and expand at a moderate pace going forward. A positive factor for foreign trade is that exports in the aviation sector to the US will continue to be exempt from customs duties. Private consumption will be supported by rising purchasing power of private households during the forecast, as inflation is likely to be low compared to the euro area average. However, in view of the necessary consolidation and increased political uncertainty, private consumption will grow only modestly. The GCEE expects GDP in France to grow by 0.8 % in both 2025 and 2026.

↘ CHART 8

Gross domestic product and industrial production in the euro area



1 – Price-, seasonally and calendar-adjusted. 2 – EA-Euro area, EAeIE-Euro area excluding Ireland, DE-Germany, FR-France, IT-Italy, NL-Netherlands, ES-Spain. 3 – Seasonally and calendar-adjusted. Quarterly averages of monthly values. The average for 2025Q3 is based only on the values for July and August 2025.

Sources: Eurostat, own calculations
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The **Italian economy** contracted slightly in the second quarter of 2025. However, this decline was preceded by a sharp rise in production at the beginning of the year. This momentum was likely driven by front-loading effects in connection with impending tariffs on US imports from the EU, as Italian exports still rose significantly by 2.1 % in the first quarter of 2025 compared to the previous quarter. The following quarter saw a counter-movement, with exports falling by 1.7 %. According to preliminary figures, GDP stagnated in the third quarter of 2025. However, the economy is likely to pick up speed again in the further course of the year. This is indicated not least by the ongoing recovery in industrial production. ↘ CHART 8 RIGHT However, against the backdrop of increased US tariffs on EU exports and continued trade policy uncertainty, the outlook for the Italian economy remains subdued. The GCEE expects economic growth in Italy to be 0.5 % in 2025. In 2026, GDP is then likely to expand only slightly more strongly at 0.6 %.

The **Spanish economy** once again recorded strong growth in the second and third quarter of 2025 compared to other major economies in the euro area. Adjusted for price, seasonal and calendar effects, GDP grew by 0.8 % and 0.6 % quarter-on-quarter. The expansion was mainly driven by private consumption and investment. Exports declined significantly in the third quarter of 2025, following strong growth in the first half of 2025, which was probably also due to front-loading effects against the backdrop of impending US tariffs. Strong import demand also points to robust growth momentum. In view of the deteriorating external environment due to higher US tariffs on imports from the EU, GDP growth in the Spanish economy is likely to slow noticeably to 2.8 % and 2.0 % in 2025 and 2026, respectively, during the forecast. However, GDP growth will remain significantly higher than the euro area average.

In the **Netherlands**, economic momentum has continued to slow. Adjusted for price-, seasonal and calendar effects, GDP grew by 0.3 % quarter-on-quarter in the first and second

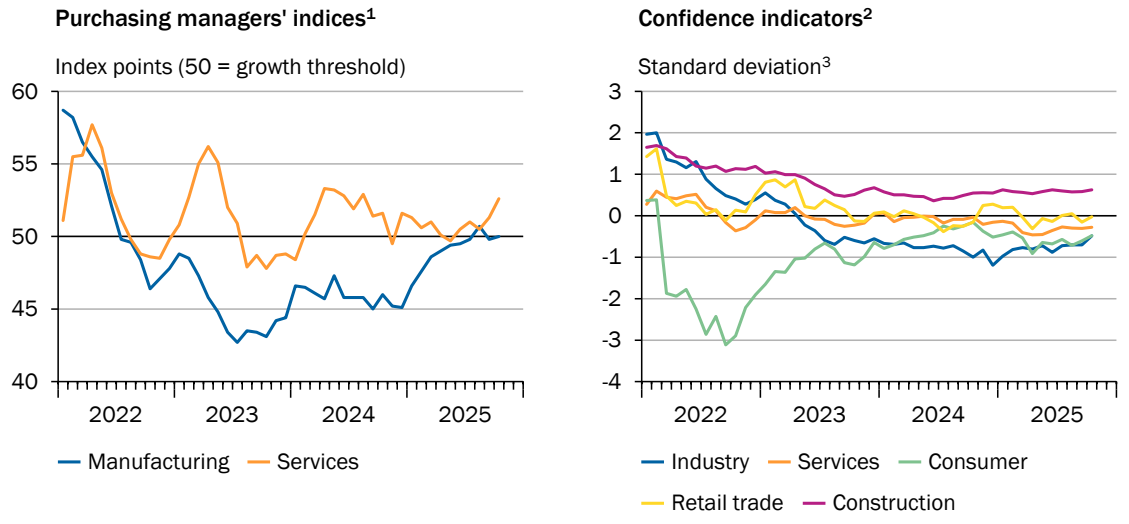
quarter of 2025, respectively, expanding slightly more strongly by 0.4 % in the third quarter. Final consumption expenditures, particularly by the government, made significant contributions to growth in recent quarters. By contrast, investment developed erratically and contracted in the third quarter of 2025 after strong growth in the second quarter. According to surveys by the European Commission, consumer confidence has continued to improve. The purchasing managers' index also indicates that sentiment in the manufacturing sector is improving. Against this backdrop, GDP is likely to grow at roughly the same pace as recently in the coming quarters and by an average of 1.7 % for the current year. Production is then expected to increase by 1.2 % in the coming year.

20. **Indicators for the euro area** do **not** point to **an acceleration** in **growth momentum** for the **second half of 2025**. According to flash estimates, GDP grew by 0.2 % quarter-on-quarter in the third quarter of 2025, adjusted for prices, calendar and seasonal effects. According to purchasing managers' indices, the cyclical recovery in the manufacturing sector is ongoing, but has slowed down recently, while purchasing managers' assessment of the situation in the services sector has improved sharply. ↘ CHART 9 LEFT However, business surveys by the European Commission do not indicate an improvement in sentiment in these sectors of the economy. In addition, according to these indicators, consumer confidence remains well below its long-term average. ↘ CHART 9 RIGHT

21. **Economic output in the euro area** is likely **to expand at a modest pace** over the remainder of the forecast period. The high tariffs now imposed on US imports from the EU are reducing demand for goods such as machinery, vehicles and chemical products, which are among the euro area's most important exports. The effective appreciation of the euro in recent months has reduced the euro area's price competitiveness (Deutsche Bundesbank, 2025a). This is likely to weigh

↘ CHART 9

Real-time and leading indicators for GDP growth in the euro area



1 – HCOB Eurozone Composite PMI Output Index. Purchasing Managers' Index (PMI) of the Hamburg Commercial Bank (HCOB). 2 – Sectoral confidence indicators from the European Commission's Business and Consumer Survey. 3 – Standard deviation from the average for the period January 1999 to October 2025.

Sources: European Commission, S&P Global, own calculations

on exports to other countries. However, the high share of imported intermediate goods in euro area exports compensates for the dampening effect of the appreciated euro on exports, as intermediate goods can be purchased more cheaply. The economy is likely to be supported by a moderate recovery in investment activity. Private consumption is also likely to expand due to rising real wages. Fiscal policy in the euro area is not uniform. While it is expansionary in Germany during the forecast period, it is restrictive in other countries, such as Italy, France and the Netherlands. Overall, fiscal policy will therefore provide only a slight boost to the economy. The GCEE expects **GDP** in the euro area to grow **by 1.4 % this year and 1.0 % next year**. Although this means that GDP growth will be higher than in 2024, it will remain well below the average of 1.6 % for the years 2015 to 2024.

22. The **global economy** is expected **to grow modestly** during the forecast period. The dampening effects of the more protectionist US trade policy since January 2025 are playing a key role in this. Accordingly, global GDP is expected to expand slowly during the forecast period, but remain below its long-term average. The increased US import tariffs are likely to continue to weigh on global trade in goods during the forecast period. This forecast assumes that there will be no further tightening of US trade policy. ↘ BOX 3 Overall, the GCEE expects global GDP to grow by 2.6 % in 2025 and by 2.3 % in 2026. Global trade in goods is expected to grow by 4.6 % in 2025 due to the front-loading effects in the first quarter of 2025. In 2026, global trade is expected to expand at a significantly weaker rate of 1.6 %. ↘ TABLE 1

↘ TABLE1

Gross domestic product and consumer prices of selected countries

Country/country group	Weight in %[1]	Gross domestic product[2]			Consumer prices		
		Change on previous year in %					
		2024	2025[3]	2026[3]	2024	2025[3]	2026[3]
Europe	**28.1**	**1.4**	**1.6**	**1.3**	**5.6**	**4.5**	**3.8**
Euro area	16.5	0.9	1.4	1.0	2.4	2.1	2.0
including: Germany	4.7	– 0.5	0.3	0.6	2.5	2.2	2.1
France	3.2	1.1	0.8	0.8	2.3	0.9	1.7
Italy	2.4	0.5	0.5	0.6	1.1	1.7	1.7
Spain	1.7	3.5	2.8	2.0	2.9	2.6	2.1
Netherlands	1.2	1.1	1.7	1.2	3.2	3.0	2.3
United Kingdom	3.6	1.1	1.4	1.0	2.5	3.4	2.6
Russia	2.2	4.3	1.0	1.3	8.5	8.9	6.8
Central and Eastern Europe[4]	2.0	2.0	2.5	2.6	3.9	4.0	3.5
Türkiye	1.4	3.5	3.8	3.3	58.4	35.1	29.4
Other countries[5]	2.5	1.7	1.2	1.4	1.7	1.7	1.6
America	**37.0**	**2.6**	**1.9**	**1.6**	**6.9**	**3.6**	**3.2**
United States	29.3	2.8	1.9	1.6	2.9	2.8	2.8
Latin America[6]	3.2	0.9	1.8	1.4	47.2	11.3	7.1
Canada	2.2	1.6	1.2	1.1	2.4	2.0	2.1
Brazil	2.2	3.0	2.6	1.5	4.4	5.1	4.1
Asia	**33.1**	**4.4**	**4.5**	**4.0**	**1.5**	**0.9**	**1.1**
China	18.8	5.0	5.0	4.5	0.2	– 0.1	0.2
Japan	4.0	0.1	1.1	0.6	2.7	3.1	1.9
India	3.9	6.9	6.9	6.2	4.9	2.3	3.4
Asian advanced economies[7]	3.6	3.0	2.9	2.6	2.2	1.7	1.8
Southeast Asian emerging economies[8]	2.8	4.7	4.5	4.3	2.0	1.5	2.1
Total	**100**	**2.8**	**2.6**	**2.3**	**4.6**	**2.9**	**2.6**
Advanced economies[9]	65.6	1.9	1.7	1.4	2.6	2.5	2.4
Emerging economies[10]	34.4	4.5	4.4	3.9	8.4	3.7	3.2
memorandum:							
weighted by exports[11]	100	1.9	2.0	1.8	.	.	.
following IMF concept[12]	100	3.3	3.1	2.8	.	.	.
World trade[13]		2.2	4.6	1.6	.	.	.

1 – GDP (US dollar) of the named countries or country groups in 2024 as a percentage of total GDP of the named countries or country groups, corresponding to 90 % of the IMF country group weighted by US dollars and 85 % of the IMF country group weighted by purchasing power parities. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Forecast by the German Council of Economic Experts. 4 – Bulgaria, Czechia, Hungary, Poland, Romania. 5 – Denmark, Norway, Sweden, Switzerland. 6 – Argentina, Chile, Colombia, Mexico. 7 – Hong Kong, Republic of Korea, Singapore, Taiwan. 8 – Indonesia, Malaysia, Philippines, Thailand. 9 – Asian advanced economies, euro area, Central and Eastern Europe, Australia, Canada, Denmark, Japan, Norway, Sweden, Switzerland, United Kingdom, United States. 10 – Latin America, Southeast Asian emerging economies, Brazil, China, India, Russia, Türkiye. 11 – Total of all listed countries. Weighted by the respective shares of German exports in 2024. 12 – Weights according to purchasing power parities and extrapolated to the countries covered by the IMF. 13 – As measured by the Dutch Centraal Planbureau (CPB).

Sources: CPB, Eurostat, IMF, national statistical offices, OECD, own calculations

2. Decline in global inflation continues

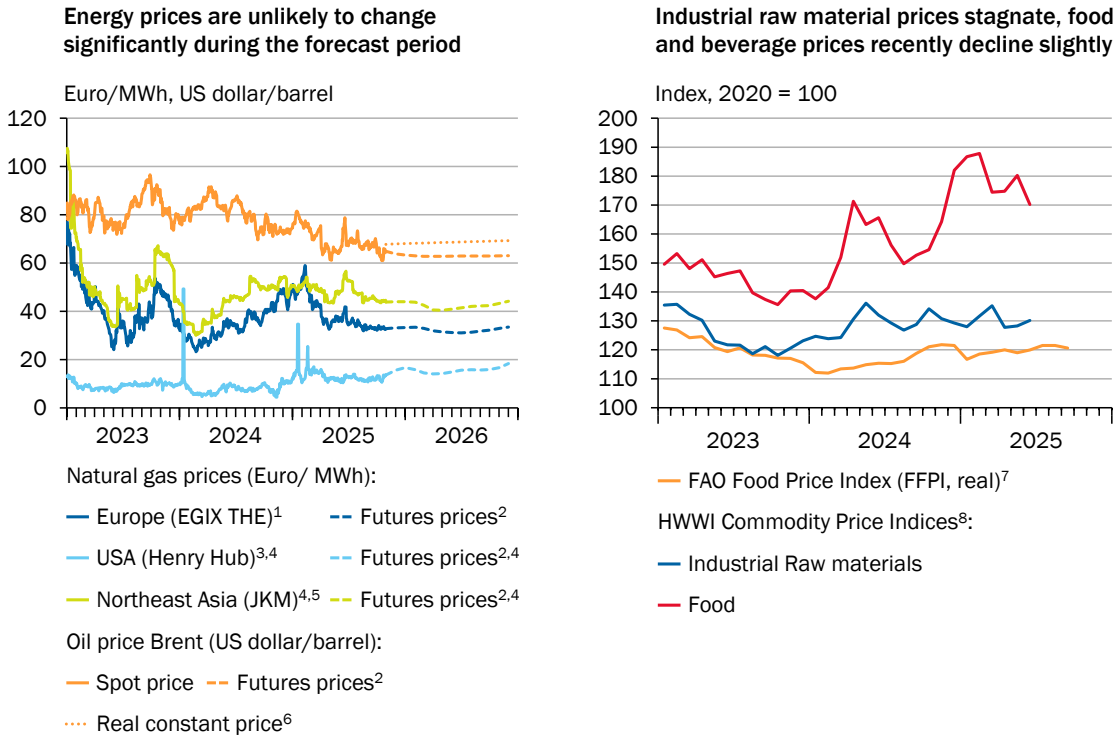
23. **Global consumer price inflation continued to decline** in the **first two quarters of 2025** compared to the same quarters of the previous year. Price increases in the service sectors remain the main drivers of inflation. ↘ ITEM 25 Food prices were also higher in the first half of 2025 and declined only slightly in the following months. Energy prices contributed negatively to overall inflation worldwide due to the decline in crude oil prices between January and May 2025. Since August 2025, the price of crude oil has been trending downwards again. ↘ ITEM 24 Higher US import tariffs are increasingly being passed on to consumer prices in the US and are likely to increase the inflation rate in the US during the forecast period. The monetary policy stance of the central banks of the largest economies has diverged since the end of 2024. While the Bank of England and the ECB have cut the key policy rate several times in the course of 2025, the Federal Reserve only resumed its cycle of interest rate cuts in September and October 2025 after a nine-month pause. ↘ ITEM 28

24. The **price of crude oil** has **fallen since the beginning of 2025** and stands at around 64 US dollars per barrel in October 2025. ↘ CHART 10 LEFT This is around 11 US dollars per barrel lower than in the same month of the previous year. The decline is likely due, among other things, to the expansion of OPEC+ production that has begun ↘ GLOSSARY (EIA, 2025). The forecast weak global demand and a further expansion of production volumes are likely to lead to a slight decline in prices during the forecast period. **Wholesale prices for natural gas in Europe** averaged around 33 euros per megawatt hour (MWh) in October 2025, which was similar to the same period last year. ↘ CHART 10 LEFT The current natural gas price is thus at the level expected on the futures markets for winter 2026. In summer, the natural gas price is likely to be slightly lower due to seasonal factors. ↘ TABLE 2

Prices for industrial raw materials remained virtually unchanged in the first half of 2025. ↘ CHART 10 RIGHT Measured by the HWWI raw materials price sub-index, prices for non-ferrous metals fell slightly despite US import tariffs on aluminium. This reflects weak global demand (Mysteel and AL Circle, 2025). ↘ ITEM 10 Prices for food and beverages have been trending upwards since 2024. Recently, however, they have declined slightly. The weak and, in some cases, declining trend in energy and commodity prices is also likely to have a dampening effect on producer price inflation and global consumer price inflation. ↘ ITEM 32

25. **Consumer price inflation remains elevated** in some **advanced economies, such as the US and the UK**. After falling to 2.3 % year-on-year in April 2025, inflation in the US rose again to 3.0 % in September 2025. The largest contributions to consumer price inflation in the US came from rents and service prices. ↘ BOX 1 However, goods prices are increasingly contributing to inflation, suggesting that higher US import tariffs are being passed on (Andrade et al., 2025; Dvorkin et al., 2025; Horwich, 2025; The Budget Lab at Yale, 2025b). Commodity price inflation tended to decline between mid-2023 and the end of 2024. However, there has been a reversal of this trend since the beginning of 2025. Based on the Personal Consumption Expenditure Index, prices for non-food and non-energy goods and durable goods rose by 1.5 % and 1.7 %, respectively, in the first half of 2025 compared to the same period of the previous year (The Budget Lab at Yale,

↘ CHART 10
Energy and commodity prices



1 – The European Gas Index (EGIX) is based on exchange trades with the respective current front month contracts of the Trading Hub Europe (THE). A front month contract is defined as a contract maturing in the next month that is traded on the futures exchanges. 2 – Average futures prices of the last 10 trading days for November 2025 and the following months, as of 31 October 2025. 3 – Prices are based on delivery at the Henry Hub in Louisiana. Official daily closing prices at 2:30 p.m. from the trading floor of the New York Mercantile Exchange (NYMEX) for a specific delivery month. Due to extreme cold in Canada and the USA, demand for natural gas temporarily rose sharply at the beginning of 2024. 4 – Price in US dollar/ MMBtu (1 million British thermal units) converted into €/MWh. For the conversion of the futures prices, the last available daily rate is used. 5 – Japan Korean Marker (JKM) is the Northeast Asia spot price index for LNG delivered ex ship to Japan and Korea. 6 – Oil price extrapolated with an annual inflation rate of 2 %. 7 – Food price index of the FAO (Food and Agriculture Organisation of the United Nations). Nominal price index deflated by the World Bank's Manufactures Unit Value (MUV) Index. In contrast to the HWWI index for food and beverages, prices for coffee and tea, which rose sharply in 2024, are not included in the FAO Food Price Index. 8 – US dollar basis and OECD import weighting scheme. The data is being calculated on weighting period average figures of the years 2017 to 2019 to exclude the crises years (2020–2021) from the calculation.

Sources: ECB, EEX, EIA, FAO, HWWI, ICE, LSEG Datastream, NYMEX, own calculations

2025b). Furthermore, between March and October 2025, prices for imported goods in the retail sector rose significantly more sharply than prices for domestically produced goods in the same segment (Cavallo et al., 2025). In the UK, inflation in September 2025 was 3.8 % compared to the same month last year. Since the beginning of the year, increased costs for transport and food have contributed to inflation. In contrast, the sharp fall in energy prices between January and June 2025 dampened price inflation.

26. **Inflation in the euro area stabilised** at around 2 % in the first half of 2025. Measured by the Harmonised Index of Consumer Prices, prices in October 2025 were 2.1 % higher than in the same month of the previous year. Price pressures on services increased slightly to 3.4 % compared to the same month last year, remaining significantly higher than that for industrial goods excluding energy. The rate of inflation for food fell significantly from 3.0 % in September 2025 to 2.5 % in October, compared to the same month last year. Energy prices fell for the eighth month in a row. This is likely to exert only slight price pressure during the forecast period. In addition, the appreciation of the euro against the US dollar is having a dampening effect on prices, as it makes imports into the euro area cheaper. ↘ ITEM 13 However, the impact on inflation is likely to be minor, as more than half of total imports are paid for in euros.

27. **In China**, **consumer price inflation** has been on a **downward** trend since February 2025, most recently standing at -0.3 % year-on-year in September. ↘ BOX 1 The main drivers of this development are the negative contributions to inflation in the transport and telecommunications sector since March 2023. In the third quarter of 2025, prices for food and tobacco also declined. The weak price development is likely to be due to the sharp expansion in production capacity in recent years and continued subdued domestic demand.

28. Since the end of 2024, **the monetary policy stance of the central banks** in **the euro area** and the **UK has differed from that of the Federal Reserve in the US**. ↘ CHART 11 LEFT After a nine-month pause, the US central bank cut its key policy rate for the first time in 2025 in September 2025. This was followed by a further interest rate cut in October 2025. The federal funds rate currently stands between 3.75 % and 4.00 %. In contrast, the Bank of England and the ECB lowered their key policy rates several times in the course of 2025. While the Bank of England lowered its key policy rate three times in 2025 to a final level of 4.0 %, the ECB reduced its deposit facility four times in the current year to a final level of 2.0 %.

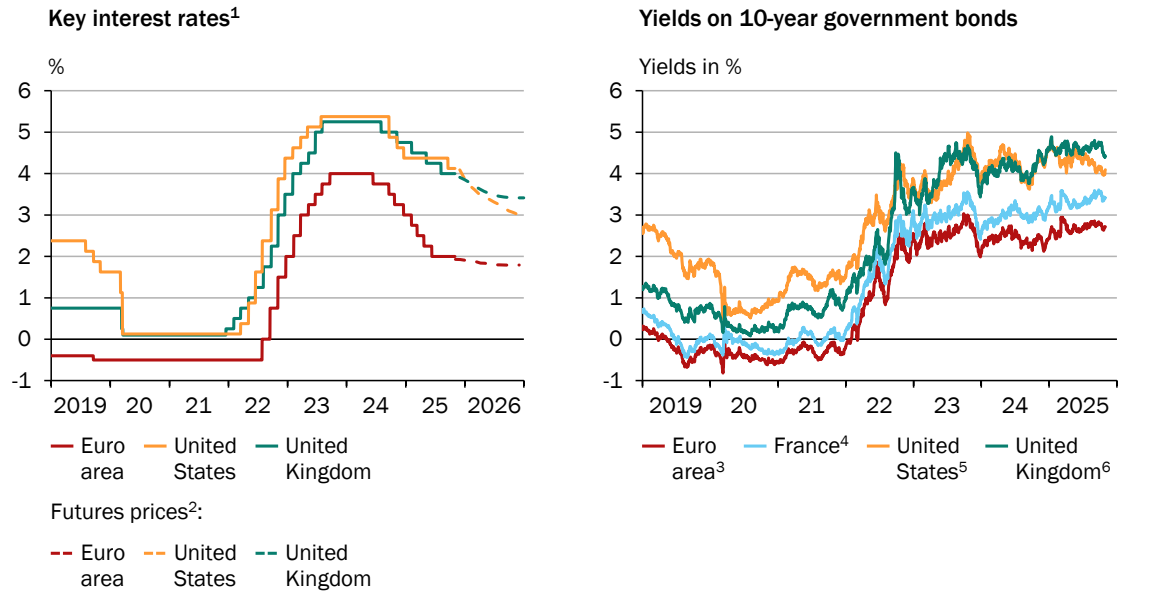
However, the **monetary policy easing** introduced since the **summer of 2024** has not been accompanied by a **reduction in interest rates on longer-term maturities**. Instead, yields on ten-year government bonds in the US, the UK and the euro area remain slightly above the level at the end of 2022. ↘ CHART 11 RIGHT This is due to term premia. In the case of the US, the higher yields reflect increased premia for rising government debt, higher inflation expectations and risk premia (IMF, 2025). The sharp rise in yields on ten-year euro area government bonds in March 2025 is attributable to the announcement of the fiscal package in Germany (GCEE Spring Report 2025, item 30 f.). This rise suggests that the markets viewed

the fiscal expansion as a significant driver of output growth. At the same time, the rise in yields was likely a reaction to a future increase in the supply of German government bonds. In the following weeks, yields declined slightly as a gradual implementation of the fiscal package became apparent. ↘ ITEM 74 From May 2025 onwards, however, yields tended to rise again due to the expected high financing requirements of the German Federal government in the future (BMF, 2025). In addition, yields on French government bonds have diverged significantly more from the yields of the euro area since the summer of 2024. This was initially due to the deficit procedure initiated by the European Commission against France in July 2024. In 2025, the higher yields are attributable to the ongoing budget dispute.

29. Following the interest rate cuts by the **Federal Reserve** in September and October 2025, the financial markets expect a **further cut at the upcoming meeting** in December 2025. The latest interest rate projections published by the members of the monetary policy committee suggest further interest rate cuts in 2026 (Fed, 2025). ↘ CHART 11 LEFT **For the Bank of England and the ECB**, however, further expansionary impulses are hardly to be expected during the forecast period. Forward prices indicate only a slight decline in central bank interest rates during the forecast period, so **no adjustments** are **expected** for the time being.

↘ CHART 11

Monetary policy eased, financing conditions have hardly improved recently



1 – The considered key interest rates are the ECB deposit facility rate for the euro area, the federal funds rate for the United States and the bank rate for the UK. 2 – Market participants' expectations of central bank interest rates derived from the 30-day Federal Funds Futures for the United States, Euro Short Term Rate (STR) Overnight Index Swaps implied forward interest rates for the 1-month Euro STR for the euro area and the overnight index swap forwards for the United Kingdom. Retrieved on 31 October 2025. 3 – For the euro area, only AAA-rated government bonds are considered. This currently includes Germany, the Netherlands and Luxembourg. 4 – France is currently rated AA– by the Standard & Poor's. 5 – The United States is currently rated AA+ by Standard & Poor's. 6 – The United Kingdom is currently rated AA by the Standard & Poor's.

Sources: BoE, CME, ECB, Fed, ICE, LSEG Datastream, LSEG Workspace, own calculations

30. According to the ECB's latest Bank Lending Survey (2025), **financing conditions** for firms in the euro area **deteriorated slightly** in the third quarter of 2025. This can be attributed to tighter credit standards in Germany, while they remained largely unchanged in the other three large euro area member states. This development is mainly driven by banks' **increased risk perception** with regard to the economic environment and company- and sector-specific risks. Despite the slight tightening of credit standards**, net demand for loans** from firms **increased slightly by 2 %,** but remained weak overall.

31. Credit standards for mortgage loans to private households remained unchanged in the euro area. At the same time, demand continued to recover in the wake of the ECB's interest rate cuts in the second quarter of 2025, both in Germany and in the euro area as a whole. This led to **a significant increase in demand for mortgages**. Finally, in the area of **consumer loans**, credit standards continued to tighten moderately, primarily due to increased risk perception and lower risk tolerance of banks. This was reflected in a **significant increase in rejected loan applications** in all four major euro area member states.

32. The inflation rate is likely to rise slightly in many economies by the end of 2025. On a global average, global inflation is expected to be 2.9 % in 2025. **Forward prices for crude oil are falling slightly over the forecast period.** In 2026, therefore, less price pressure from energy prices is to be expected, meaning that global inflation is likely to be slightly lower than in 2025, at 2.6 %. Service prices are likely to be primarily responsible for inflationary pressure.

3. Opportunities and risks

33. There is a **risk** that the **US government will partially or completely terminate bilateral tariff agreements and** reimpose **higher import tariffs**. This could dampen trade in goods more than assumed in the forecast during the forecast period. In addition, trade policy uncertainty could rise again, especially if US import tariffs are announced at short notice, as in April 2025, and then temporarily suspended again shortly afterwards. This could lead to renewed volatility in trade in goods and a postponement of consumption and investment decisions (OECD, 2025a).

34. Significantly **higher inflation rates in the US than assumed in the forecast** could lead to a further delay in the Federal Reserve's cycle of interest rate cuts compared to market expectations. ↘ ITEM 29 The resulting financing conditions could dampen global GDP growth more than previously assumed. The reason for this risk is the recent development of core inflation and commodity price inflation. Between June and August 2025, core inflation in the US rose sharply. The contributions to growth of commodity prices (excluding food and energy) to US inflation have been positive and increasingly significant since April 2025. This indicates that higher US import tariffs are already being passed on to consumer prices at an early stage.

Further interest rate cuts could **encourage an expansion of US government borrowing**. This could stimulate overall the economy and stabilise the already weakening US labour market. However, this would drive up prices in the US even more sharply. In addition, the **increase in the US budget deficit** could **reduce confidence in the sustainability of US government debt**.

35. Euro area growth is at risk from a **worsening of the political situation in France**. If, contrary to expectations, the new government fails to negotiate a compromise on the upcoming budget, political uncertainty is likely to further dampen sentiment among companies and consumers. In such a case, yields on French government bonds could rise further ↘ CHART 11 RIGHT and require even greater consolidation in order to regain confidence in the financial markets. This **could** not only **significantly dampen GDP growth in France**, but **also slow down the economy in other EU member states**.

↘ BOX 3

Forecast assumptions

Wholesale prices for electricity and crude oil rose slightly in the third quarter of 2025 compared to the second quarter of 2025 due to seasonal factors. Only the price of natural gas in Europe fell slightly again in the third quarter of 2025 compared to the previous quarter. Wholesale prices for natural gas in Europe and electricity in Germany are thus at a similar level to those in the third quarter of 2024. They remain significantly higher than before the sharp rise in energy prices in 2022. The price of crude oil has fallen by 14 % compared to the previous year. This is likely due to increased production by OPEC+ countries ↘ GLOSSARY and subdued demand. ↘ ITEM 24

↘ TABLE 2

Forecast assumptions[1]

	2024				2025				2026			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Oil price (Brent) US dollar/barrel	81.9	85.0	78.9	74.0	75.1	66.9	68.2	66.4	64.2	64.0	64.0	64.0
Gas price (EGIX THE) €/MWh	28.0	31.8	35.8	44.1	47.7	36.7	34.0	33.2	33.6	32.0	31.9	33.3
Electricity price (EEX Phelix) €/MWh	69.9	74.3	84.0	113.2	118.0	77.4	88.9	94.4	95.6	73.1	83.2	96.4
Overnight rate (ECB)[2] % p. a.	4.0	3.9	3.7	3.3	2.8	2.3	2.0	2.0	1.9	1.8	1.8	1.8
Exchange rate (ECB)[3] US dollar/€	1.09	1.08	1.10	1.07	1.05	1.13	1.17	1.16	1.16	1.16	1.16	1.16

1 – Values observed until 2025Q3; assumptions from 2025Q4 onwards. 2 – Deposit facility rate. 3 – The exchange rate will be projected from the fourth quarter of 2025 onwards using the average of daily values in October 2025 (last value as of 30 October).

Sources: ECB, EEX, ICE, LSEG Datastream, NYMEX, own calculations

Unlike in the US, the **current cycle of interest rate cuts in the euro area is likely to be largely over**. ↘ ITEM 28 The ECB's deposit rate is likely to remain at 2.0 % in the fourth quarter of 2025 and decline only slightly in the following year. ↘ TABLE 2 The euro has appreciated by around 12.3% against the US dollar since the beginning of 2025. The euro's gains were due, on the one hand, to changes in US policy, such as the announcement of comprehensive import tariffs and the downgrading of US government bonds. On the other hand, changes in monetary policy expectations from June 2025 onwards favoured the appreciation of the euro, as weaker labour market data in the US dampened the interest rate outlook (Deutsche Bundesbank, 2025a). For the exchange rate, the average level observed at the end of the data period in October 2025 of 1.16 US dollars per euro is assumed to remain constant.

The **forecast assumes** that there **will be no further tightening of US trade policy** and that the current **tariff agreements** between the US government and its trading partners worldwide **will be upheld**.

III. GERMANY

36. In the first quarter of 2025, **German GDP** grew by 0.3 % compared to the previous quarter, adjusted for prices, calendar and seasonal effects, and declined by 0.2 % in the second quarter. Overall, this resulted in **GDP growth of 0.3 % in the first half of 2025 compared to the second half of 2024.** In addition to advance exports to the US due to the US import tariffs announced at that time, expanding exports to the EU and strong growth in private consumption also contributed to this in the first quarter of 2025. ↘ ITEMS 61 AND 51 In the second quarter of 2025, capital formation shrank by 1.4 % compared to the previous quarter, with private residential investment and government gross fixed capital formation in machinery and equipment declining particularly sharply. ↘ ITEM 55 A sharp rise in imports and a slight decline in exports also led to a negative net export contribution. Government consumption, on the other hand, provided support.

37. The long-standing decline in the competitiveness of industrial firms in Germany and the weak domestic economy are reflected in declining industrial production and job losses in the manufacturing sector. ↘ ITEMS 44 AND 68 The appreciation of the euro since the beginning of 2025 has further worsened the price competitiveness of the German economy. ↘ ITEMS 13 AND 45 In spring 2025, the fiscal package and an improving order situation from abroad **brightened** the **mood in the German economy somewhat**. As a result, company business expectations improved slightly. However, these signs of a slight recovery weakened again over the summer. Foreign orders have fallen significantly once more. The **assessment of the current business environment** remains **pessimistic** and deteriorated for the third month in a row in October 2025, while business expectations improved in October (ifo Institute, 2025).

38. The **German economy is expected to grow minimally** in **2025** for the first time since 2022. The GCEE expects real GDP growth of 0.2 % compared to the previous year. ↘ ITEM 39 The GCEE expects GDP growth of 0.9 % for 2026. ↘ TABLE 4 **However,** a **broad-based economic upturn is not expected in the coming year**. A significant portion of the growth is likely to be attributable to additional public spending from the Special Fund for Infrastructure and Climate Neutrality (SVIK) and the exemption rule for defence spending amounting to €24.4 billion, while private investment will expand only slightly from a low level. ↘ ITEMS 71, 57 AND 60 As disposable income is only expected to rise slightly in real terms during the forecast, it will provide only moderate support for private consumption. ↘ ITEM 51 F. Exports are also expected to grow only modestly. ↘ ITEM 62

Compared to GCEE Spring Report 2025, the forecast for GDP growth in 2025 is 0.2 percentage points higher. Part of this increase is due to the **revision of past GDP data** by the Federal Statistical Office in July 2025. ↘ BOX 4 In addition, the front-loading effects on exports and the expansion of private consumption in the first quarter of 2025, as well as the rebound effect in the second quarter of 2025, were stronger than expected in the spring. ↘ BOX 6 Based on the revised NAA data, it is also apparent that **the German economy was in recession from the fourth quarter of 2022 onwards**. ↘ BOX 5

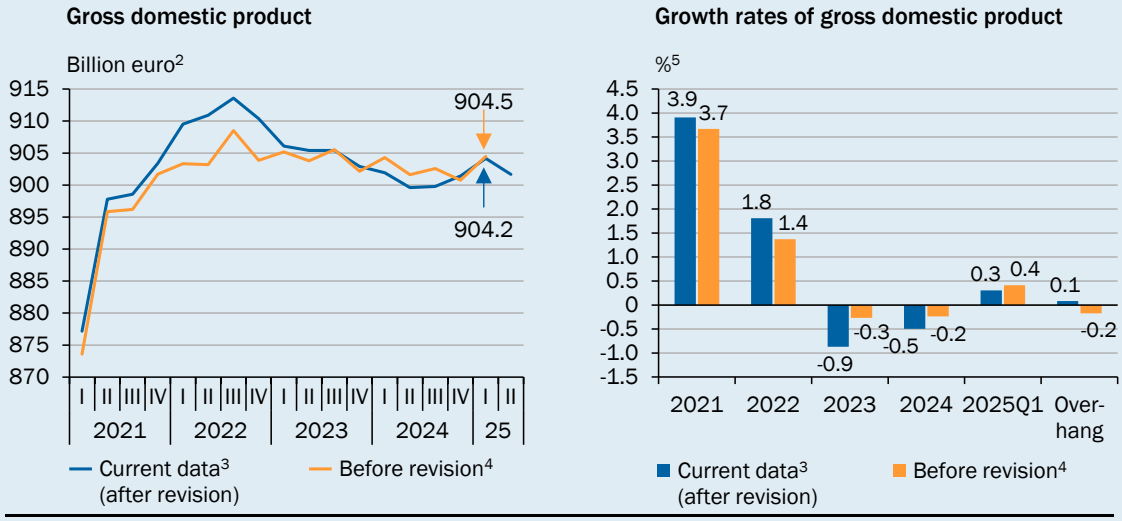
↘ BOX 4

Background: Revision of the national accounts

At the end of July 2025, the Federal Statistical Office carried out a **regular revision of the national accounts data up to the first quarter of 2025**. The revision significantly changes the picture of overall economic development in the years 2021 to 2024 in two respects: Firstly, the **recovery of the German economy after the coronavirus pandemic was stronger** than the data prior to the revision showed until the first half of 2022. ↘ CHART 12 LEFT Secondly, the **economic downturn resulting from rising energy prices and global supply chain bottlenecks** was **more pronounced** than shown prior to the revision. As a result, the German economy did not grow between the fourth quarter of 2022 and the second quarter of 2024 and recorded negative growth rates with the exception of the third quarter of 2023. ↘ CHART 12 RIGHT

↘ CHART 12

Revision of gross domestic product[1] data by the Federal Statistical Office



1 – Price-adjusted. 2 – Chained volume, reference year 2020. Seasonally and calendar-adjusted. 3 – As of August 2025. 4 – As of May 2025. 5 – Annual values: change from previous year, original values; quarterly values: change from previous quarter, seasonally and calendar-adjusted; Statistical overhang: Percentage difference between the absolute level of GDP in the last quarter of 2024 and the average level of the quarters of the same year, seasonally and calendar-adjusted.

Sources: Federal Statistical Office, own calculations

The revision also has **implications for the GDP growth forecast for 2025**. ↘ BOX 6 The GDP level in the first quarter of 2025 was hardly adjusted, but the statistical overhang changed ↘ GLOSSARY as a result of higher growth in the fourth quarter of 2024. Instead of a negative statistical overhang of –0.2 percentage points, there is now a overhang of +0.1 percentage points. This improves the starting position for average annual GDP growth in 2025. A positive statistical overhang increases average annual growth in the following year, while a negative overhang would have dampened it accordingly.

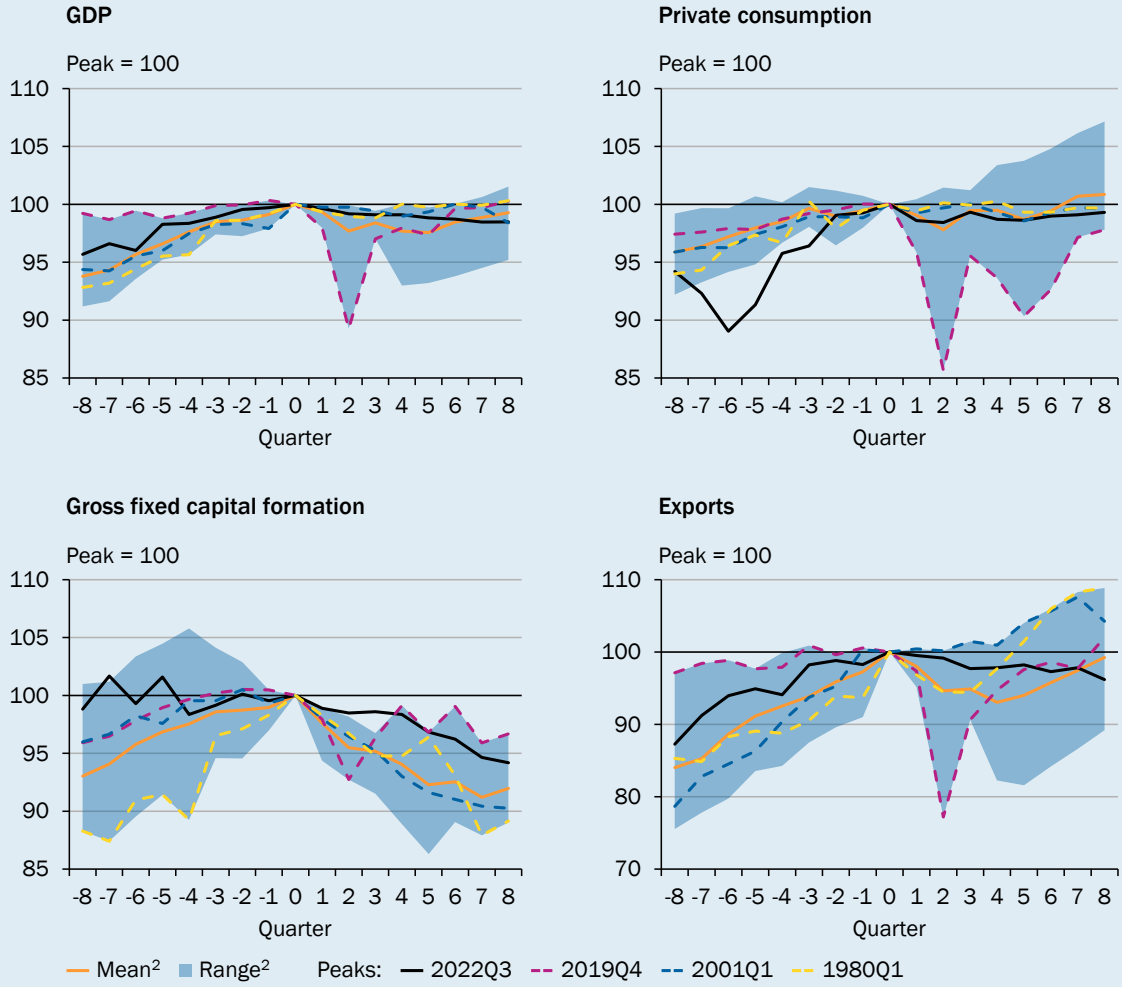
↘ BOX 5

Background: Dating the business cycle peak before the energy crisis in Germany worsened

German GDP declined by 0.9 % and 0.5 % in real terms in 2023 and 2024, respectively. However, the downturn had already begun in the fourth quarter of 2022. As a result, exports and, in particular, gross fixed capital formation and private consumption expenditure declined significantly.

↘ CHART 13

Characteristic development of GDP and its components during recession periods[1]
Relative to the peak of the business cycle (t=0)



1 – Germany from 1991, previously former West Germany. Price-, seasonally and calendar-adjusted. 2 – Based on the six recessions according to GCEE since 1970 (GCEE Annual Report 2021 box 5; peaks: Fourth quarter 2019, first quarter 2008, first quarter 2001, first quarter 1992, first quarter 1980, first quarter 1974).

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

The GCEE has based its recommendations on a multidimensional and expert-based method (Breuer et al., 2018; JG 2017 box 7), the GCEE has already dated six recessions since 1970, most recently the low point of the sixth recession following the coronavirus pandemic (GCEE Annual Report 2022 box 2) in the second quarter of 2020 and April 2020. Using this method, **the GCEE dates the economic peak in 2022 to the third quarter of 2022** or **September 2022.** The worsening of the energy crisis in autumn 2022 is clearly evident in the rates of change of the relevant economic indicators. ↘ CHART 13 AND 35 APPENDIX A probit model estimated by the

GCEE shows a significant increase in the probability of recession after September 2022. The model is based on the GCEE's previous cycle dating and uses various real economic indicators and financial market variables.

1. Real economy: industrial weakness persists despite expansionary fiscal policy

39. The **German economy** was **affected by special factors** in **the first half of 2025**. In the first quarter of 2025, the German economy grew strongly by 0.3 % compared to the previous quarter, adjusted for prices, calendar and seasonal effects. It was supported by **front-loading effects in exports** to the US due to the threat of US import tariffs, as well as strong exports to China and the euro area. ↘ ITEM 61 **Strongly expanding private consumption** has led to a normalisation of the saving ratio. ↘ ITEM 51 In the **second quarter of 2025, GDP contracted** by **0.2 % compared to the previous quarter**, adjusted for prices, calendar and seasonal effects**,** due to another significant increase in imports and a decline in gross fixed capital formation. ↘ ITEMS 63 AND 55 The 0.1 % decline in exports in the second quarter was likely in part due to the rebound in exports to the US. Exports to China also declined in the second quarter. On the supply side, construction output dampened GDP growth in the second quarter of 2025 by 0.2 percentage points, while manufacturing and trade, transport and hospitality each contributed -0.1 percentage points to growth. Only the business services sector made a positive contribution to growth of 0.1 percentage points. According to the flash estimate by the Federal Statistical Office, GDP is likely to have stagnated in the third quarter of 2025. Increased gross fixed capital formation in machinery and equipment and a simultaneous decline in exports are likely to have contributed to this.

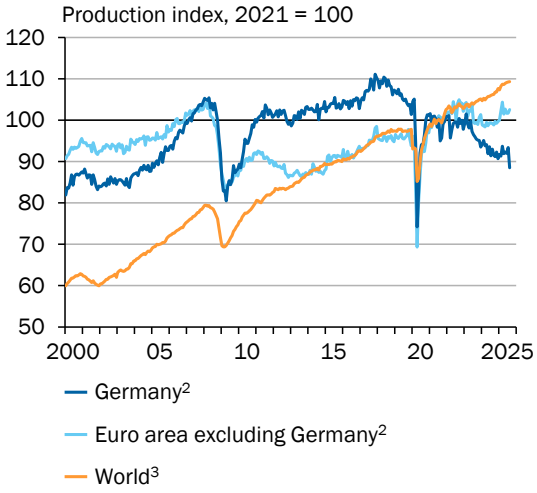
40. Contrary to the global trend, the **German industry** is **currently experiencing a pronounced period of weakness**. ↘ CHART 14 TOP LEFT Since the outbreak of the coronavirus pandemic, German industrial production has performed poorly not only in a global comparison, which is influenced by rapidly expanding production in emerging markets, but also in comparison with the rest of the euro area. ↘ BOX 2 German industry continues to be burdened by the increase in wholesale prices for natural gas and electricity since 2022, ↘ BOX 3 the rise in unit labour costs after the coronavirus pandemic, which was stronger than in other large euro area member states, and increased economic policy uncertainty (Deutsche Bundesbank, 2024b; JG 2024, items 43 f.; FG 2025, item 52). In addition, the German manufacturing sector is characterised by low corporate dynamism, with low start-up and closure rates compared to other European countries. ↘ BOX 9 These burdens are likely to dampen domestic demand for capital goods due to the interdependence of the German export economy and domestic industry. ↘ ITEM 58 Private investment in equipment declined in 2023 and 2024, as well as in the first half of 2025.

41. With its **export-oriented industry, the German economy** is increasingly losing **touch with the global economy**. ↘ CHART 14 TOP LEFT ↘ ITEM 14 The share of

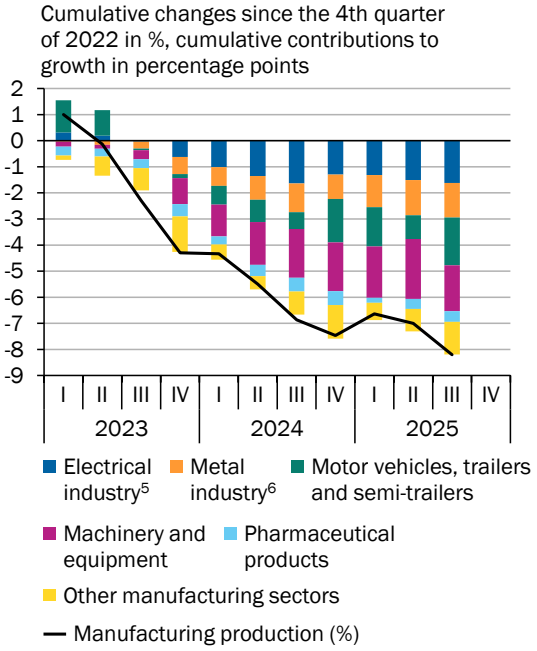
↘ CHART 14

Production is weak across the entire manufacturing sector in Germany

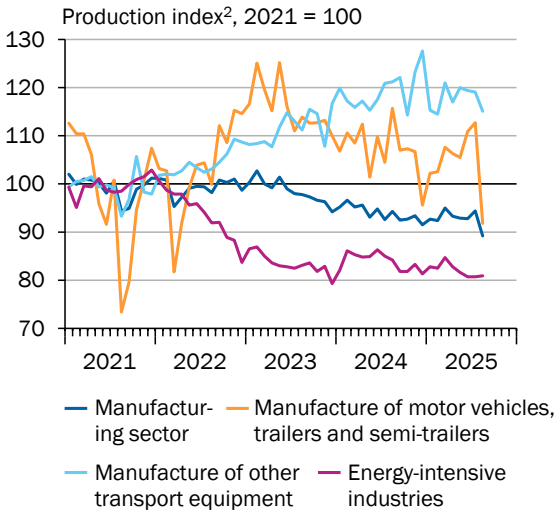
Industrial production[1] in Germany declines contrary to global trend



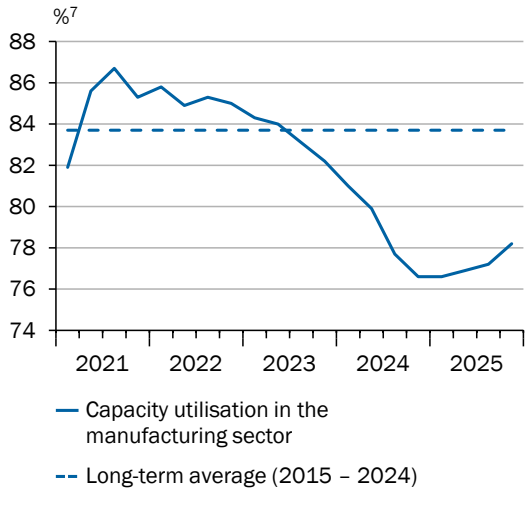
Decline in production in almost all areas of the manufacturing sector[4]



Production stagnates at a low level



Capacity utilisation in the manufacturing sector remains below average



1 – Excluding construction. 2 – Volume index, seasonally and calendar-adjusted. 3 – Production weighted; seasonally adjusted. Data and country classification from the Dutch Centraal Planbureau (CPB). Country weighting based on 2021. 4 – According to the Classification of Economic Activities, 2008 edition (WZ 2008). Weighting based on 2021. Calculated from the quarterly averages of the seasonally and calendar-adjusted monthly values. The average for 2025Q3 is based only on the values for July and August 2025. 5 – Manufacture of computer, electronic and optical products; manufacture of electrical equipment. 6 – Manufacture of basic metals; manufacture of fabricated metal products, except machinery and equipment. 7 – Seasonally adjusted.

Sources: CPB, Eurostat, Federal Statistical Office, ifo Institute, own calculations

German exports in global trade in goods fell from 8.0 % in 2018 to 6.9 % in 2024. Estimates by the GCEE show that the influence of the global economy on export demand for German goods has declined in recent years (GCEE Annual Report 2024 Box 6). The **moderate development of world trade** is therefore likely to provide less strong impulse for **export-oriented industrial firms in Germany** than in the past. Competition from Chinese products in particular ↘ ITEM 14 is weighing on German exports (Deutsche Bundesbank, 2024a; Ritter and Ullrich, 2025). In China, the state plays a central role in steering and subsidising industrial development (Joint Economic Forecast, 2025). In 2019, state support for industry in China amounted to around 1.7 % of GDP, which is significantly higher than in other developed economies such as France (0.6 %), Germany (0.4 %) or the US (0.4 %) (DiPippo et al., 2022).

42. A study by the Deutsche Bundesbank (2025b) shows that **around three quarters of German export market losses** between 2021 and 2023 **are attributable to supply-side factors**. The deterioration in competitiveness is widespread across sectors. The machinery and equipment sector, the electrical industry and energy-intensive sectors such as the chemical industry are particularly hard hit. These sectors are also contributing significantly to the decline in industrial production in Germany. ↘ ITEM 44 Due to its high weighting, the automotive industry contributed significantly to export market losses, although its losses in competitiveness were moderate until 2023. Demand-side factors had a less severe dampening effect. Weak global demand for motor vehicles played a role here. From 2019 onwards, this declined, partly due to the saturation of large markets such as China. The market recovered again in 2023. Global demand for aerospace goods also weakened as a result of pandemic-related travel restrictions.

43. In 2025, **further factors weighing on exports** emerged. Exports of goods to the US are being dampened by **US import tariffs** and the strong appreciation of the euro against the US dollar. ↘ ITEMS 16 AND 13 The latter also weighs on exports to countries whose currencies are pegged to the US dollar, such as China (Deutsche Bundesbank, 2025a). The nominal effective exchange rates, which represent a weighted average of the bilateral **euro exchange rates against a large number of currencies**, have **also risen**. ↘ CHART 5 LEFT

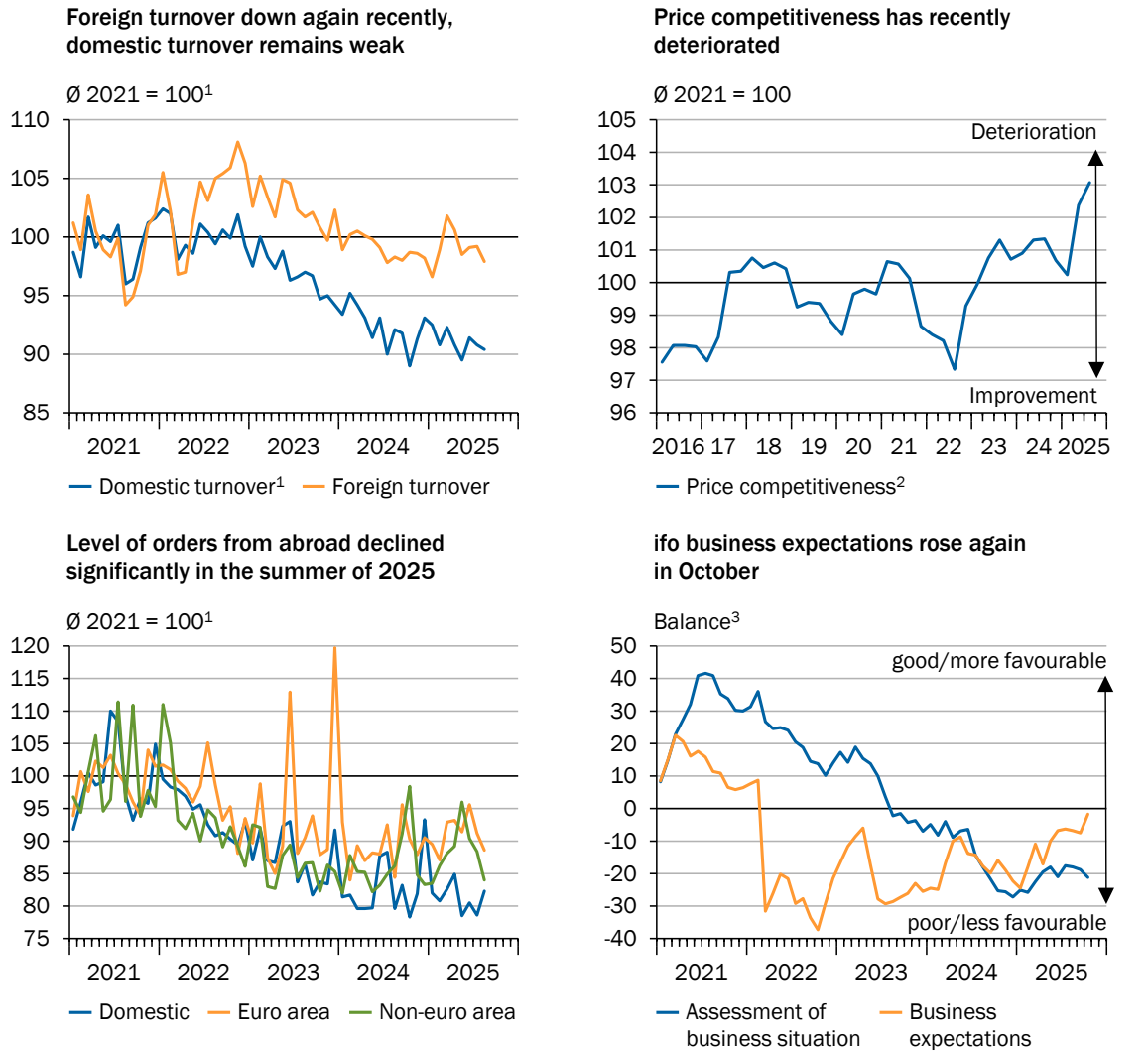
44. **Manufacturing output** has **contracted** in **almost all sectors of the economy** compared to the fourth quarter of 2022. ↘ CHART 14 TOP RIGHT Since the third quarter of 2023, the decline in industrial production has been driven in particular by the **motor vehicle, trailers and semi-trailers** sector, the **metal and electrical industry, and the machinery and equipment sector**. In energy-intensive industries, production had already declined significantly between the first quarter of 2022 and the second quarter of 2023 and has remained at this level ever since. ↘ CHART 14 BOTTOM LEFT Since 2021, the sector manufacturing of other transport equipment, which includes military vehicles, has developed particularly positively. Until July 2025, the production of motor vehicles, trailers and semi-trailers performed better than production in other major industrial sectors. The slump in production in August 2025 is likely to be due, among other things, to factory holidays in combination with production changes. A counter-movement is therefore already to be expected in September 2025 (VDA, 2025). Overall,

capacity in the manufacturing sector is currently underutilised, but there has been a slight increase in capacity utilisation since the second quarter of 2025. ↘ CHART 14 BOTTOM RIGHT

45. **Turnover in the manufacturing sector** is currently **weak** both **domestically and abroad**. ↘ CHART 15 TOP LEFT Domestically, demand is particularly weak for products from energy-intensive industries and the pharmaceutical industry. Abroad, turnover **in the chemical industry** has **fallen significantly** compared to 2021, while it has risen sharply in the pharmaceutical and automotive industries and in the repair and installation of machinery and equipment. The sharp rise in foreign turnover observed briefly in March and April 2025 represents a front-loading effect due to US trade policy and should not be interpreted as a

↘ CHART 15

Economic indicators for manufacturing



1 – Volume index; seasonally and calendar-adjusted values. 2 – Price competitiveness of the total economy. The indicator is based on Germany's inflation rates relative to those of 37 trading partners and exchange rates; a positive change indicates reduced price competitiveness of German products. 3 – Seasonally adjusted values. Business expectations in the next six months. Difference in the percentages of firms expecting/reporting an improvement and firms expecting/ reporting a deterioration.

Sources: Deutsche Bundesbank, Federal Statistical Office, ifo Institute, own calculations

sign of recovery in foreign business. Firms in the pharmaceutical industry benefited particularly from this. Since the beginning of 2025, **price competitiveness** has **deteriorated** due to the effective appreciation of the euro. This is likely to put additional pressure on foreign turnover. ↘ CHART 15 TOP RIGHT

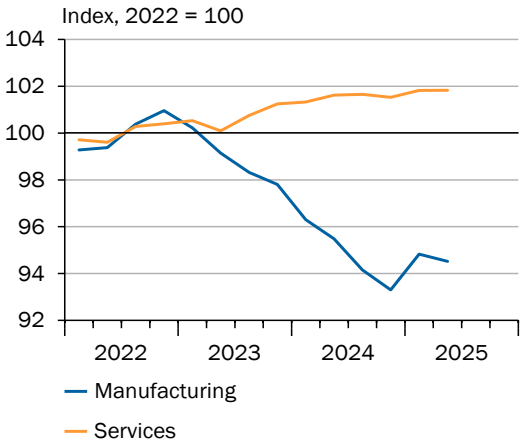
46. The **modest recovery in the manufacturing sector** that was still **evident in the summer of 2025 has largely fizzled out recently**. Foreign orders rose in the first half of 2025, but in August they were back at the level seen at the beginning of 2025. ↘ CHART 15 BOTTOM LEFT The assessment of the current business environment in the manufacturing sector has improved somewhat since spring 2025, but has fallen slightly again at the current margin. ↘ CHART 15 BOTTOM RIGHT However, business expectations rose in October 2025. Overall, manufacturing output is likely to remain subdued in the coming months. The **weakness of the manufacturing sector** is also reflected in **the labour market**. Since the beginning of 2024, there has been an increase in job losses in the manufacturing sector. ↘ ITEM 68

47. Since 2022, the **service sector** has performed **better than the manufacturing sector**, although **growth rates have been low since 2024**. ↘ CHART 16 LEFT One possible reason for this is the close interdependence of the two domestic economic sectors. In 2022, 10.6 % of total business-related service production was demanded by the manufacturing sector as intermediate consumption. This link was particularly pronounced in the trade sector, where around 19.2 % of production value flowed into the manufacturing sector as intermediate consumption.

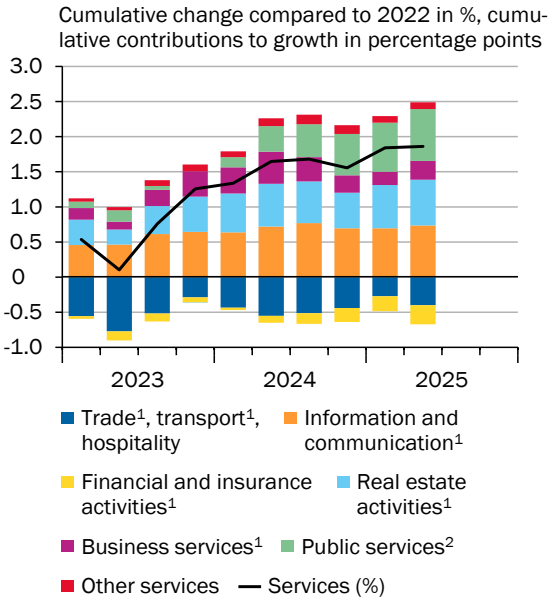
↘ CHART 16

Gross value added (GVA) in the service sector and the manufacturing sector

GVA in the service sector recently stagnated, manufacturing sector notably weaker



GVA in the sector trade, transport and hospitality has declined compared to 2022, while information and communication sector has expanded



1 – Business-related services. 2 – Including education and health.

Sources: Federal Statistical Office, own calculations

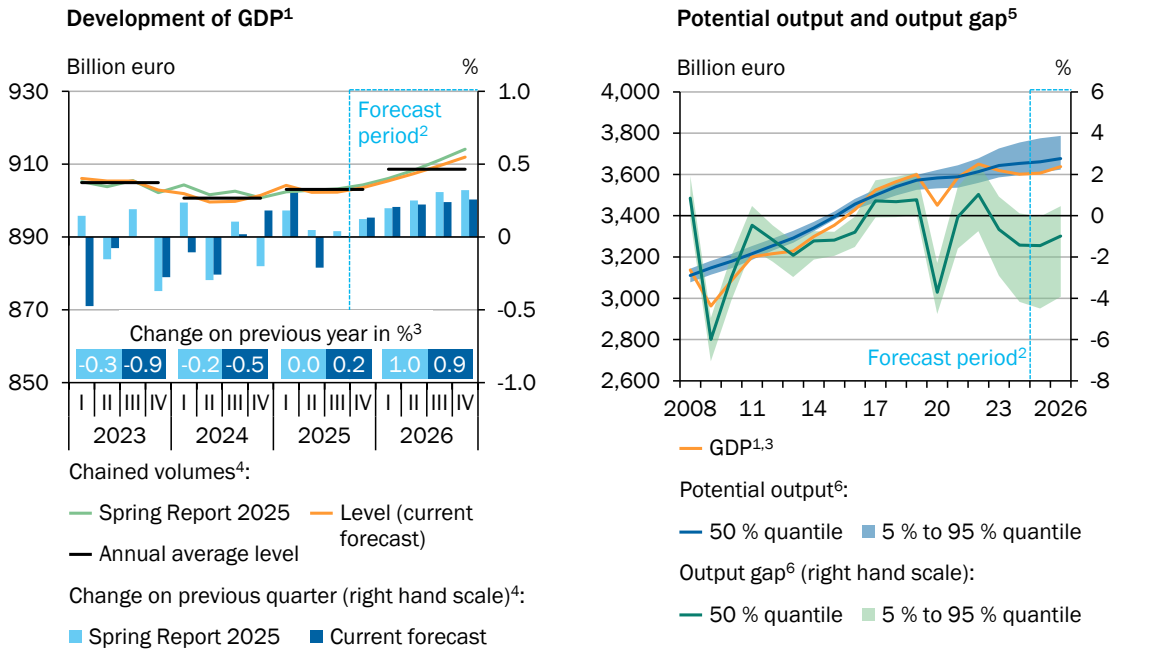
Compared to 2022, the trade, transport and hospitality sector has also made the largest negative contribution to growth of gross value added in services. ↘ CHART 16 RIGHT The majority of the decline is likely to be attributable to the trade sector. Financial and insurance services have also performed poorly recently. One possible explanation for this is the interest rate cuts from 2024 onwards and the resulting lower interest margins, which are included in the calculation of the gross value added of financial service providers as Financial Services Indirectly Measured (FISIM). The information and communication sector has grown particularly strongly compared to 2022. Although this sector accounted for only 6.6 % of total gross value added in the overall service sector in 2022, it has since contributed significantly to the growth in gross value added in the service sector. At present, however, the increase has levelled off somewhat.

48. The **fiscal package** adopted in March 2025 with an amendment to the Basic Law has significantly expanded the scope for government spending in the short and medium term. ↘ ITEM 74 The fiscal package is likely **to contribute significantly to Germany's economic recovery** from 2026 onwards. In particular, capital formation in public equipment and non-residential construction is likely to increase. The GCEE expects the expenditure under the fiscal package to contribute around 0.3 percentage points to GDP growth in 2026. This contribution is lower than assumed in the GCEE Spring Report 2025 (GCEE Spring Report 2025, item 43). This is mainly due to the fact that less expenditure than previously assumed will be in the form of additional investment. ↘ ITEM 112

49. According to the flash estimate published by the Federal Statistical Office on 30 October 2025, price-, seasonally and calendar-adjusted **GDP growth in the**

↘ CHART 17

Expected economic development of the German economy



1 – Chained volumes, price adjusted, reference year 2020. 2 – Forecast by the GCEE. 3 – Not adjusted. 4 – Seasonally and calendar-adjusted. 5 – Estimate by the GCEE. 6 – Quantiles of the sample.

Sources: Federal Statistical Office, own calculations

third quarter of 2025 **was 0.0 % compared to the previous quarter**. Gross fixed capital formation in machinery and equipment is likely to have grown, while exports declined. Sentiment indicators for private consumption currently paint a very subdued picture. Firms' business expectations rose in October, but remain at a low level. German **GDP** is expected to grow **by 0.2 % in 2025 as a whole**. ↘ CHART 17 LEFT

For **2026**, the GCEE expects **GDP growth of 0.9** %. Around 0.3 percentage points of this are attributable to the high number of working days, the so-called calendar effect. Higher public investment in defence and infrastructure in particular is likely to contribute to GDP growth in 2026. ↘ ITEMS 53, 57 AND 60 However, the effect of the fiscal package in 2026 will be lower than previously assumed. ↘ ITEM 48 Exports and private investment are likely to provide only slight support for GDP growth in 2026, ↘ ITEMS 62 AND 60 while imports will once again dampen GDP growth. ↘ ITEM 64 Private consumption is likely to grow moderately. ↘ ITEM 52

↘ BOX 6

Background: Revision of the GDP forecast for 2025

Compared with the GCEE Spring Report 2025, the forecast for **German GDP growth in 2025** is **0.2 percentage points higher**. ↘ TABLE 3 This is mainly due to the upward revision of **the statistical overhang** and the unexpectedly high **GDP growth in the first quarter** of 2025. ↘ BOX 4 At 0.3 % compared to the previous quarter, the latter was 0.1 percentage points higher than assumed in the spring forecast according to the flash estimate by the Federal Statistical Office (GCEE Spring Report 2025, item 44). In **the second quarter** of 2025, GDP growth declined by 0.2 %, after the GCEE had forecasted stagnation in spring 2025.

According to the flash estimate by the Federal Statistical Office, GDP growth in **the third quarter** of 2025 will be 0.0 % compared to the previous quarter, which is in line with the forecast in the GCEE Spring Report 2025. For the **fourth quarter** of 2025, the forecast for GDP growth remains at 0.1 %, as in the GCEE Spring Report 2025. The statistical overhang for 2026 remains unchanged at 0.1 percentage points.

On the **expenditure side**, private consumption developed much more strongly than forecast in the first quarter of 2025. While the GCEE had only anticipated a moderate increase of 0.2 % compared to the previous quarter in its Spring Report 2025, private consumption rose by 0.6 % compared to the previous quarter. In addition, exports grew significantly more strongly than forecasted by the GCEE, at 2.5 %, as a result of front-loading effects in the first quarter of 2025. At the same time, imports rose by 1.6 % in both the first and second quarter of 2025, exceeding the GCEE's forecast in both cases. As a result, the contribution of net exports was more positive in the first quarter of 2025 and more negative in the second quarter of 2025 than forecast in the spring. In the second quarter of 2025, **construction and equipment investment** developed **significantly weaker than expected**, with gross fixed capital formation in machinery and equipment declining by 1.4 % quarter-on-quarter in the second quarter of 2025. In spring 2025, the GCEE had assumed an increase of 0.3 % previous quarter.

↘ TABLE 3

Comparison of the spring and the autumn forecasts for the year 2025

	Forcast by the German Council of Economic Experts					
	May 2025		Annual Report 2025		Difference	
	Change on previous year[1]	Growth contri-butions[2]	Change on previous year[1]	Growth contri-butions[2]	Change on previous year[1]	Growth contri-butions[2]
Gross domestic product	**0.0**	**x**	**0.2**	**x**	**0.2**	**x**
Domestic demand	1.8	1.7	1.6	1.6	– 0.2	– 0.1
Final consumption expenditure	0.9	0.7	1.2	0.9	0.3	0.2
Private consumption[4]	0.4	0.2	0.9	0.5	0.5	0.3
Government consumption	2.0	0.5	2.0	0.4	0.0	– 0.1
Gross fixed capital formation	0.3	0.1	– 0.9	– 0.2	– 1.2	– 0.3
Investment in machinery & equipment[5]	– 0.9	– 0.1	– 2.4	– 0.2	– 1.5	– 0.1
Construction investment	0.3	0.0	– 1.7	– 0.2	– 2.0	– 0.2
Other products	2.0	0.1	3.7	0.1	1.7	0.0
Changes in inventories	x	1.0	x	0.8	x	– 0.2
Net exports	x	– 1.8	x	– 1.4	x	0.4
Exports of goods and services	– 2.8	– 1.2	– 0.2	– 0.1	2.6	1.1
Imports of goods and services	1.5	– 0.6	3.5	– 1.3	2.0	– 0.7

1 – Price-adjusted. In %. 2 – Contributions to growth of price-adjusted GDP. In percentage points; Deviations in the differences due to rounding. 3 – In percentage points. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems.

Source: own calculations

50. The **output gap** is likely to be –1.4 % **in 2025**, **having** thus **reached** its **lowest point in the current cycle**. ↘ CHART 17 RIGHT In 2026, it is likely to narrow to -1.0 % due to spending under the fiscal package. However, the estimate of potential output is subject to uncertainty. The output gap may currently be up to 2.9 percentage points smaller or 1.5 percentage points larger than the median expectation.

Final consumption expenditure

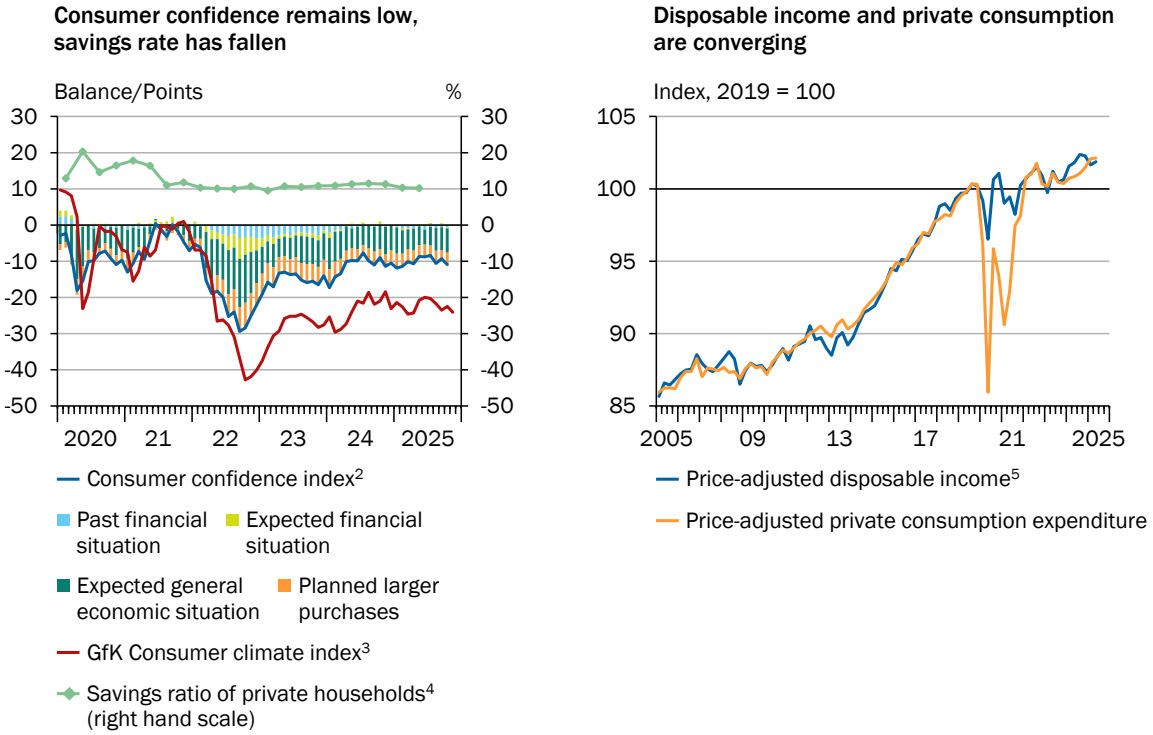
51. **Private household consumption expenditures rose strongly in the first quarter of 2025**, adjusting for price, seasonally and calendar-adjusted, **by 0.6 %** compared to the previous quarter. ↘ BOX 7 Despite the slowdown in momentum, the revised National Accounts data published in summer 2025 show a consistent upward trend in private consumption since the first quarter of 2024. ↘ BOX 4 The strong increase in private consumption in the first quarter of 2025 was accompanied by a decline in the savings rate from 11.3 % in the fourth quarter of 2024 to 10.3 % in the first quarter of 2025. ↘ CHART 18 LEFT The savings rate is thus close to the average for the years 2000 to 2019. ↘ CHART 19 RIGHT Real net wages and salaries are likely to have contributed to the slight increase in private consumption

in the second quarter of 2025. These rose by 0.2 % in the second quarter of 2025 compared to the previous quarter, after falling by 0.1 % in the first quarter of 2025 compared to the previous quarter. The weak performance of real net wages and salaries is likely to have been due to the expiry of inflation compensation bonuses and higher social security contribution rates (BMWE, 2025; Joint Economic Forecast, 2025). Overall, real net wages and salaries rose by 0.3 % in the first half of 2025 compared to the second half of 2024. At the current margin, the rates of change in real disposable income and private consumption are converging again.

↘ CHART 18 RIGHT

52. **Private household consumption expenditures are** likely **to** have **fallen slightly** in **the third quarter of 2025**. Retail turnover stagnated in the third quarter of 2025 compared to the previous quarter, while hospitality industry turnover fell by 1.9 % on average in July and August 2025 compared to the previous quarter's average. In addition, the survey-based GfK consumer climate index also declined in the third quarter of 2025 compared to the previous quarter. **Private consumption is likely to expand only modestly during the forecast period.** Most recently, both income expectations and economic expectations among private households have deteriorated. ↘ CHART 18 LEFT The propensity to consume has also declined, while the propensity to save fell slightly in the two months

↘ CHART 18
Consumption indicators in Germany[1]



1 – Seasonally adjusted values. 2 – The consumer confidence index and the saving propensity indicator are based on selected questions answered by consumers according to the Joint Harmonised EU Programme of Business and Consumer Surveys. They relate to the past or coming 12 months. 3 – Based on around 2,000 interviews with consumers each month. 4 – Quarterly figures. 5 – Disposable income including the increase in pension entitlements of private households and non-profit institutions serving households. Deflated with the private consumption deflator.

Sources: European Commission, Federal Statistical Office, GfK, own calculations

following a sharp rise in July 2025. After weak performance in 2025, net wages and salaries are likely to rise moderately in the coming year. Accordingly, real disposable income and private consumption are likely to receive only moderate support in 2026. In addition, rising government spending as part of the fiscal package adopted in March 2025 is likely to give real disposable income an additional boost towards the end of 2026 due to rising overall economy demand. Overall**, private consumption** is expected **to expand by 0.9 % in 2025 and 0.**7 % **in 2026**.

↘ BOX 7

SVR analysis: Development of private consumption since 2024

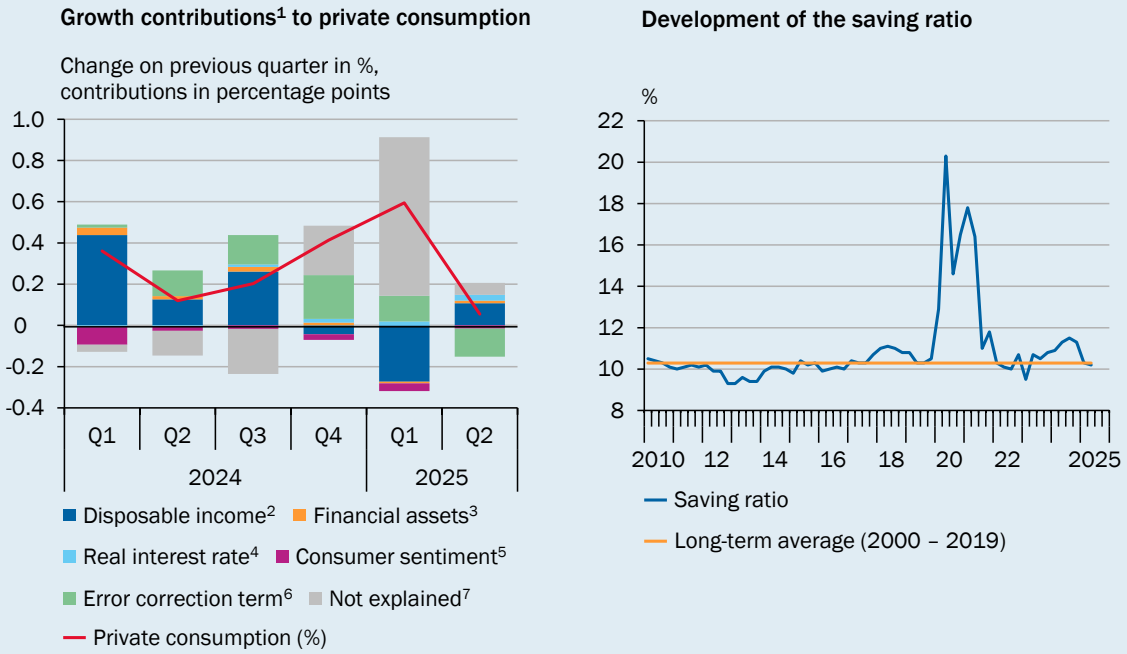
Unlike before the data revision in July 2025, the current national accounts data indicate a recovery in private consumption beginning in 2024. ↘ BOX 4 The GCEE analyses the increase in **private consumption** and its determinants between the first quarter of 2024 and the second quarter of 2025 using an error correction model (Engle and Granger, 1987; Molana, 1991). The empirical model shows that **changes in real disposable income** and **deviations** in the error correction term, i.e. the **long-term relationship,** in the past six quarters had the **strongest influence** on the increase in **private consumption**. ↘ CHART 19 LEFT

In the **first stage** of the model, private consumption expenditure is regressed on the disposable income and financial assets of private households as well as the real interest rate. This first regression maps the **long-term relationship** between **the variables**. In the second stage, the first differences in private consumption are regressed on the first differences in disposable income and financial assets of private households, as well as the real interest rate and consumer confidence. In addition, the **residuals from the first stage** are **included** in the regression. This is the so-called **error correction term,** which takes into account **deviations from the long-term relationship described** in the main model. Private consumption, disposable income and financial assets are each adjusted for price changes and included in the estimates in logarithmic form. Quarterly data from 1999 to the previous quarter of the quarter under review are used to estimate the model. A ceteris paribus analysis is performed to **break down consumption growth**. In this analysis, the **influence of each explanatory variable** is **considered in isolation,** i.e. assuming that the influence of the other variables remains unchanged.

The **sharp rise in private consumption in the first quarter of 2025** coincides with **a decline in real disposable income**. Part of the increase can be explained by the error correction term. The deviation from the long-term relationship is reflected in the discrepancy between the development of real disposable income and private consumption, which will continue until the fourth quarter of 2024, and in the increased saving ratio until the fourth quarter of 2024. ↘ CHART 18 RIGHT AND 19 RIGHT With the **normalisation of the saving ratio in the first quarter of 2025,** the scope **for a further strong increase in private consumption** in the coming quarters is likely **to have narrowed.**

↘ CHART 19

Determinants of private consumption



1 – Growth contributions are estimated on the basis of the second stage of an error correction model. The influence of each individual explanatory variable on the change in private consumption is considered in isolation (ceteris paribus). The other influencing factors are kept constant. The time series are adjusted for price changes using the private consumption deflator. The estimate covers the period from the first quarter of 1999 to the quarter preceding the quarter under review (rolling window). For the period between the first quarter of 2020 and the second quarter of 2022, a dummy variable is used to control for special effects during the coronavirus pandemic. 2 – Real disposable income of private households. 3 – Real financial net worth of private households. Assets minus liabilities. 4 – Difference between the 3 month-EURIBOR and the one-year-ahead inflation forecast by the Survey of Professional Forecasters (SPF). 5 – Deviations from average of 1999 to 2025. 6 – In the first stage, the long-term relation between consumption and disposable income, financial assets and the real interest rate is estimated using regression analysis. The residuals from this estimate are included in the second stage of the regression as an error correction term that controls for deviations from the long-term relation. 7 – The unexplained part represents the sum of the implicit residuals and the constant of the second stage of the error correction model.

Sources: ECB, European Commission, Federal Statistical Office, own calculations

53. **The federal government's provisional budget management dampened government final consumption expenditures in the first half of 2025.** Compared to the second half of 2024, this rose by only 0.4 %. In 2024, public final consumption expenditures had still risen by 2.6 % compared to the previous year. Nevertheless, government consumption rose by 0.8 % in the second quarter of 2025 compared to the previous quarter. In particular, government intermediate consumption recorded a strong nominal increase of 7.1 % compared to the previous quarter. Ammunition purchases and planning services for future capital formation are likely to have contributed to this.

Government final consumption expenditures are likely **to continue to rise** during the forecast. In addition to government intermediate consumption, social benefits in kind are making a positive contribution to government consumption. The latter are being expanded both by demographic change and by

discretionary measures in the health and care sector (Joint Economic Forecast, 2025). ↘ TABLE 6 On an annual average, government consumption is expected to expand by 2.0 % in real terms in both 2025 and 2026.

Gross fixed capital formation

54. Private gross fixed capital formation in construction and in machinery and equipment fell in the first half of 2025 compared to the second half of 2024, adjusted for prices, calendar and seasonal effects. The increase in government investment in 2024 was mainly due to an expansion **in construction**. In the **first half of 2025,** however, this **declined slightly** compared to the previous half-year. **Government** gross fixed **capital formation in machinery and equipment**, which includes military weapons systems, **rose more strongly**.

55. Price, seasonally and calendar-adjusted gross fixed **capital formation in construction** rose only slightly in the first quarter of 2025, by 0.2 %. In the second quarter of 2025, there was a sharp decline of 2.1 % compared to the previous quarter, mainly due to weak **residential construction investment**. This fell by 2.8 % in the second quarter. One reason for the persistently weak development of residential construction investment since 2021 is likely to be the continuing **high construction and financing costs**. ↘ CHART 20 TOP LEFT AND TOP RIGHT The slight improvement in financing conditions since mid-2024 led to an increase in new lending for residential construction projects. ↘ CHART 20 TOP RIGHT However, this did not translate into higher residential construction investment. One reason for this could be increased demand for existing properties. The price correction in residential property prices that began in the wake of monetary policy tightening was stronger overall for existing properties than for new builds, making the latter relatively cheaper (Deutsche Bundesbank, 2025a). ↘ CHART 20 TOP LEFT The comparatively smaller decline in new construction prices is likely due to the significant increase in construction costs in 2021 and 2022, which remain high. **Business expectations in the main construction sector deteriorated** in **October 2025** and remain at a low level (ifo Institute, 2025).

56. **Gross fixed capital formation** in construction is **likely** to have **risen in the third quarter of 2025**. Construction output expanded by 0.2 % on average in July and August 2025 compared to the average for the second quarter of 2025. The increase in output was driven by the finishing trade, while building construction and civil engineering declined. ↘ CHART 20 BOTTOM LEFT Overall, capacity utilisation in the main construction sector rose slightly in October compared to the average for the previous quarter.

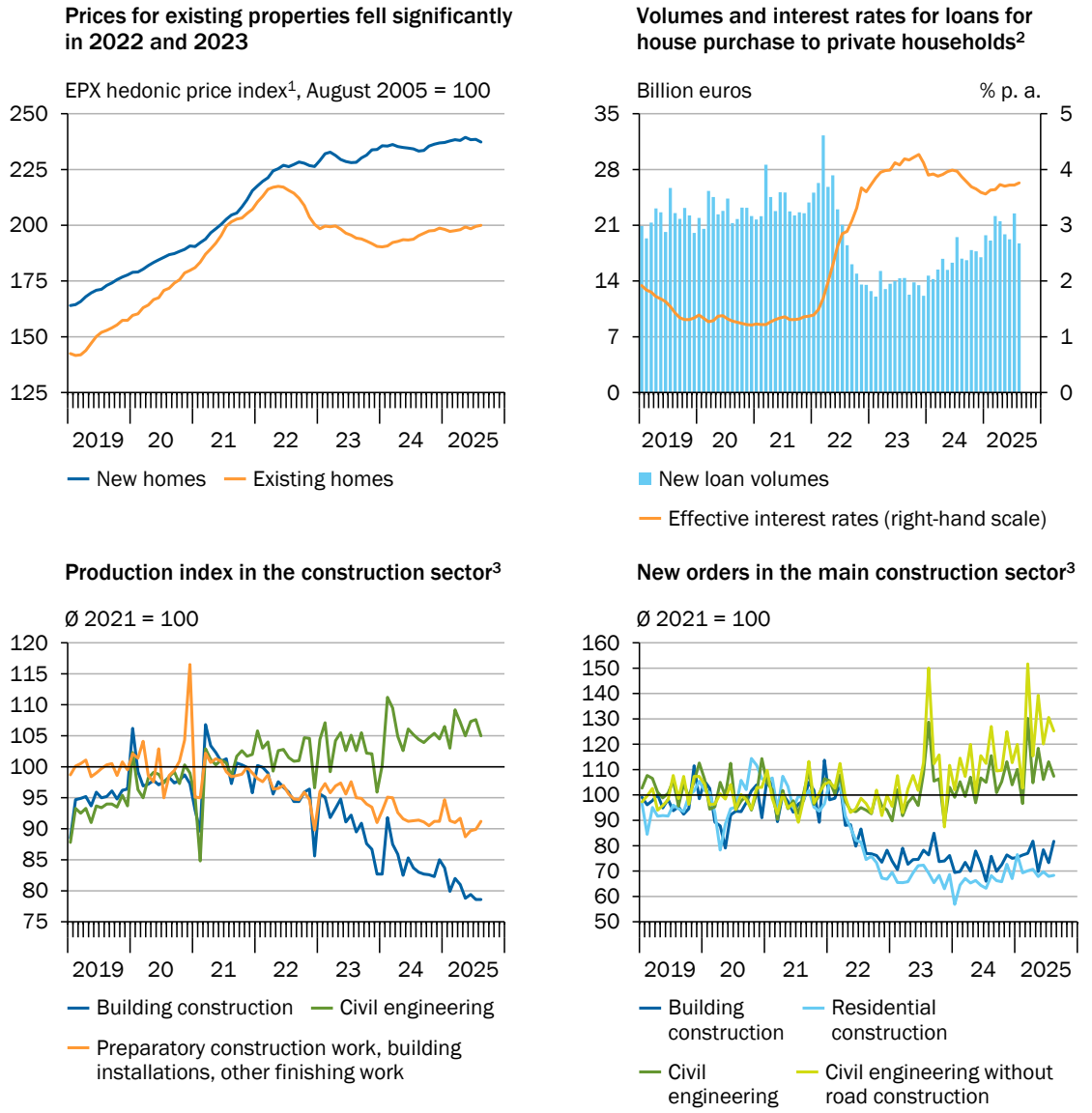
57. **Gross fixed capital formation in construction** is expected to decline by 1.7 % in 2025 and **grow again** in 2026 at a rate of 1.7 % **for the first time since 2020**. In particular, **rising government capital formation in civil engineering** is expected, which will be carried out within the framework of the SVIK. ↘ ITEM 74 This development is already evident in rising order intake in civil engineering. ↘ CHART 20 BOTTOM RIGHT The trend in order intake in building construction and residential construction has been stagnating since 2024. **Residential**

construction investment is also likely to **increase slightly in 2026,** after declining for the fourth consecutive year in 2025.

The gross fixed capital formation in construction deflator is likely to rise sizeable during the forecast due to increasing infrastructure spending. ↘ BOX 8 According to the ifo Institute, capacity utilisation in civil engineering stood at 73.0 % in October 2025, which is 3.2 percentage points lower than the average for the years 2015 to 2024.

↘ CHART 20

Indicators for the construction sector



1 – Based on transaction data from private property financing on the independent Europace platform. The hedonic price index monitors quality characteristics of the properties, such as living space, plot size, existing basement, parking spaces, fixtures and fittings, regional variables, location variables and age of construction. 2 – Loan volumes and effective interest rates for new businesses. 3 – Volume index; seasonally and calendar-adjusted values.

Sources: Deutsche Bundesbank, Europace AG, Federal Statistical Office

↘ BOX 8

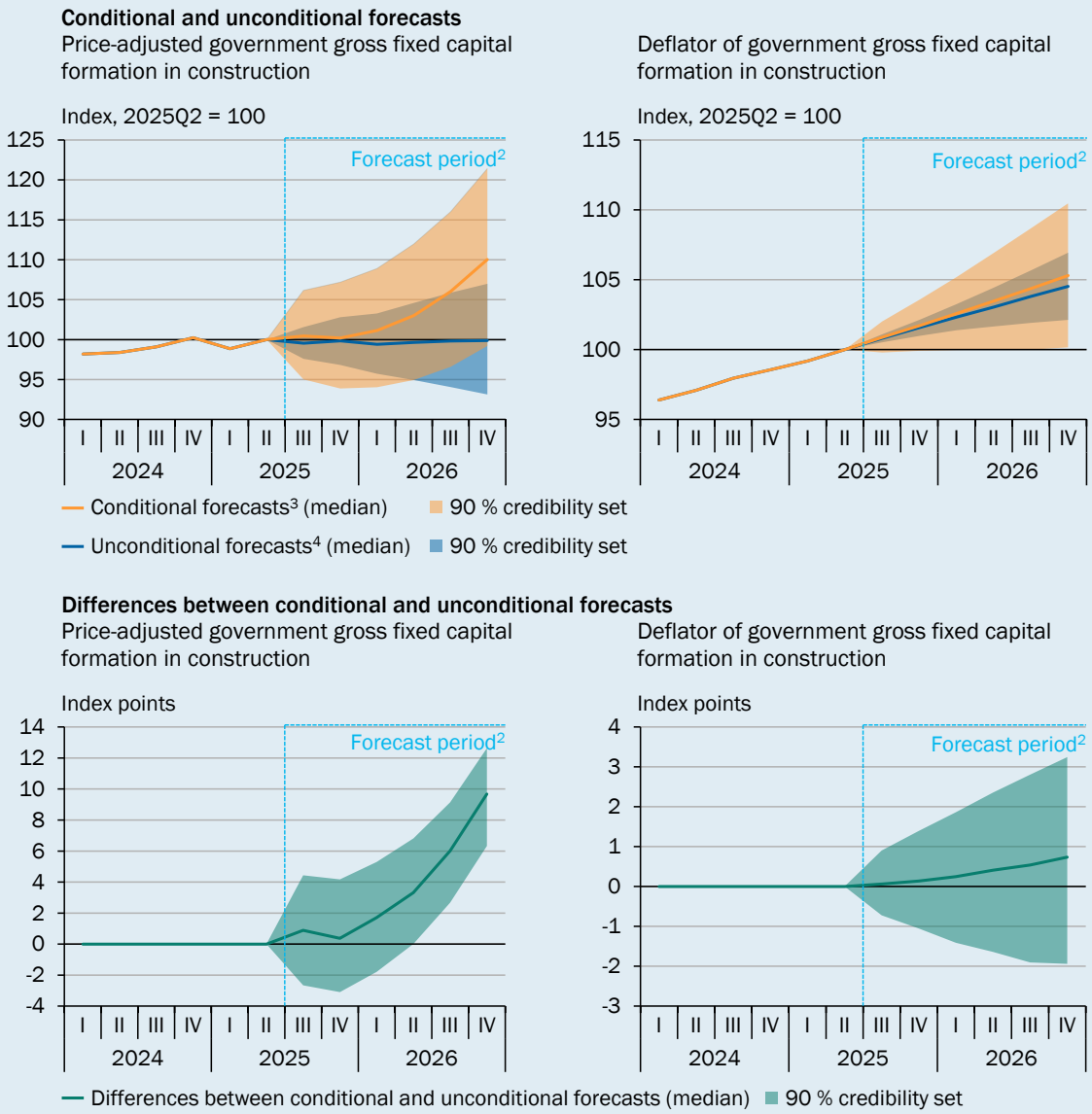
SVR analysis: Model-based forecast of real government gross fixed capital formation in construction and price trends in public construction

The SVIK ↘ ITEM 74, provides for **investment expenditures on government infrastructure projects** of at least **€300 billion** over the next twelve years. Based on the federal budget for 2026 published in September 2025, the GCEE forecasts the **nominal gross capital formation of the government** for the period between the third quarter of 2025 and the fourth quarter of 2026 in this report. ↘ ITEM 73 F. Based on this projected **nominal investment path**, an analysis was performed based on an vector autoregression. The **aim of this analysis** is to estimate **the effect of an increase in nominal gross government investment on public construction during** the forecast. The vector autoregressive model contains six variables that are intended to explain the development of government construction investment in Germany. The two variables that serve the purpose of this economic forecast are (1) **real government gross fixed capital formation in construction** and (2) the **deflator of government gross fixed capital formation in construction.** In addition, (3) nominal gross capital public investment is also included as an endogenous variable. In order to capture the stance of fiscal policy as accurately as possible, (4) a newly available indicator from Latifi et al. (2024) on the fiscal policy sentiment in Germany is included. This indicator is based on speeches made in the Bundestag. In the past, changes in the tone of fiscal policy debates in the Bundestag have pointed to future changes in fiscal policy (Latifi et al., 2024). In addition, abusiness cycle indicator for (5) capacity utilisation and for (6) new orders in civil engineering are also included in the model.

The vector autoregression enables the computation of both unconditional and conditional model-based forecasts of endogenous variables beyond the second quarter of 2025. The unconditional model forecasts are merely an extrapolation of the model variables based on the estimated coefficients over the forecast period. This extrapolation is thus supported, among other things, by the trend in past government construction investment. **The conditional forecasts of endogenous variables** are additionally **conditioned** on the **path of nominal gross government investment forecast** by **the GCEE** for the period between the third quarter of 2025 and the fourth quarter of 2026. In the latter case, the breakdown of nominal gross fixed capital formation in construction into real government construction investment and the respective deflator is estimated on a model basis. **The results of the conditional model forecasts indicate a sharp rise in real government construction investment in 2026.** Accordingly, the median shows an increase in real government construction investment of 5.2 % in 2026. The unconditional model forecasts for real government gross fixed capital formation in construction, on the other hand, do not indicate any increase in the forecast period. ↘ CHART 21 TOP LEFT Furthermore, the differences between the two model forecasts indicate that the assumed investment path is decisive for the increase in real government gross fixed capital formation in construction during the forecast period. ↘ CHART 21 BOTTOM LEFT The conditional and unconditional model forecasts for the deflator of gross fixed capital formation in construction are both upward-trending. Median conditional forecasts for public construction prices indicate an increase of 3.5 % in 2026. The median of the unconditional forecast for prices in 2026 is 3.0 %. The credibility set of the conditional price forecast encompasses a 90 % probability of a price increase in 2026 within a range of 0.3 % to 6.5 %. ↘ CHART 21 TOP RIGHT **This result signals that price pressure is to be expected in public construction.** In addition, the differences between conditional and unconditional model forecasts show that, on average, the increase in the conditional deflator forecast is slightly stronger. ↘ CHART 21 BOTTOM RIGHT Thus, the assumed increase in nominal gross investment expenditure during the forecast implies slightly higher price pressure in public construction than in the case without a prespecified investment path.

↘ CHART21

Econometric model forecasts of government investment in construction[1]

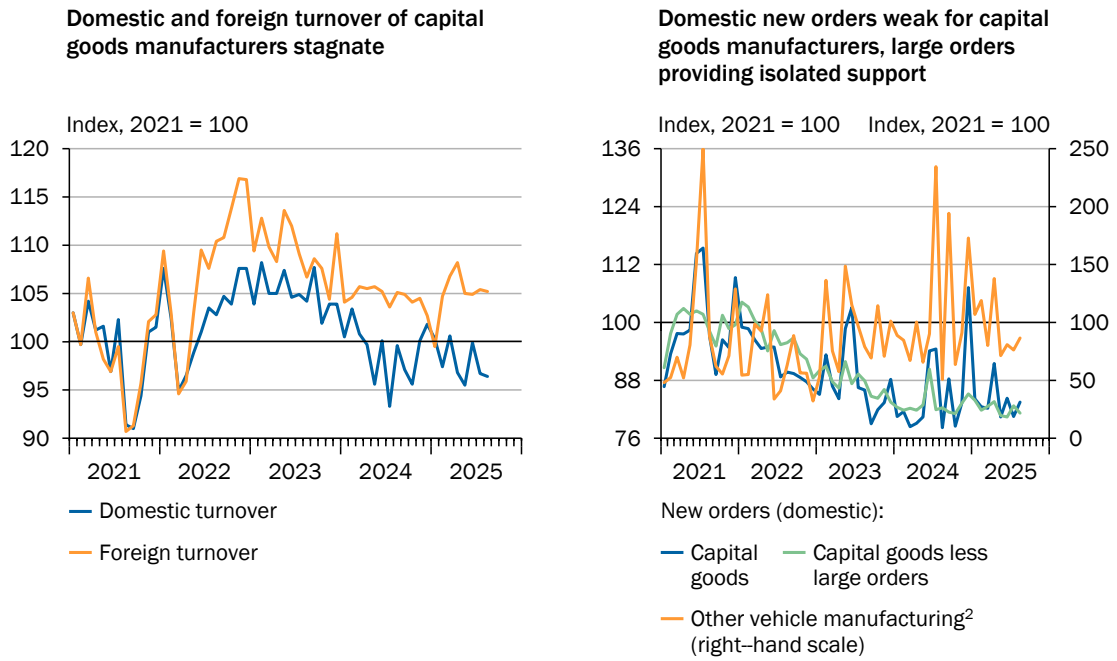


1 – Forecasts are based on a Bayesian vector autoregression (BVAR) with optimised Minnesota priors and 4 lags. Estimation period 1991Q1 to 2025Q2. Based on 5,000 draws from the posterior distribution. Seasonally and calendar-adjusted. 2 – Forecast by the GCEE. 3 – Model forecasts based on the estimated coefficients of the BVAR model, conditioned or contingent on a given path of nominal gross government investment for the period 2025Q3 to 2026Q4. 4 – Model forecasts based on the estimated coefficients of the BVAR model. Without taking structural shocks into account.

Sources: Federal Statistical Office, ifo Institute, Latifi et al. (2024), own calculations

58. **Gross fixed capital formation in machinery and equipment grew by 0.2 % in the first quarter of 2025 compared to the previous quarter, adjusted for prices, calendar and seasonal effects, but fell by 1.9 % in the second quarter of 2025**. The decline in the second quarter of 2025 was exclusively due to a decline in capital formation in vehicles. Investments in machinery and equipment, on the other hand, rose by 0.3 %. Government investment

↘ CHART 22
Investment indicators for Germany[1]



1 – Seasonally and calender-adjusted values. 2 – Building of ships and boats, manufacturing of railway locomotives and rolling stock, manufacturing of military fighting vehicles.

Source: Federal Statistical Office

in equipment, which is generally very volatile, fell by 16.1 % in the second quarter. Private investment in equipment fell by only 0.1 % in the second quarter of 2025, but has been declining sharply overall since the second quarter of 2024. One reason for this is likely to be the low capacity utilisation in the manufacturing sector ↘ CHART 14 BOTTOM RIGHT and in building construction, which has persisted since 2023 and is dampening demand for new gross fixed capital formation in machinery and equipment. The decline in gross fixed capital formation in machinery and equipment since 2023 is reflected in the weak domestic turnover of capital goods manufacturers. ↘ CHART 22 LEFT Foreign turnover is also stagnating.

59. **According to the flash estimate of the Federal Statistical Office**, **gross fixed capital formation in machinery and equipment** is **likely** to have **risen in the third quarter of 2025**. This is likely to be a counter-movement to the sharp decline in the second quarter of 2025. In the further forecast, **government capital formation in military weapons systems** is likely **to support overall capital formation in machinery and equipment**. Since July 2024, orders received by capital goods manufacturers have increasingly been attributable to large orders. ↘ CHART 22 RIGHT These could come from the manufacturing of other transport equipment, for example, which includes orders for military fighting vehicles. **Private gross fixed capital formation in machinery and equipment**, on the other hand, is likely **to expand only slightly** during the forecast. This is indicated by the weak domestic orders since the beginning of the year, excluding large orders from capital goods manufacturers. In addition, capacity utilisation in the manufacturing sector remains low. ↘ CHART 14 BOTTOM RIGHT

This is likely to continue to dampen industrial firms' demand for investment in new equipment.

60. Slightly positive impulse for private gross fixed capital formation in machinery and equipment is likely to come from **improved depreciation options under** the Federal Government's **tax relief programme** (CDU/CSU and SPD parliamentary groups, 2025). ↘ ITEM 274 This programme will provide tax incentives for firms that invest from 1 July 2025. A three-year limited accelerated depreciation of 30 % for capital goods and improved depreciation options for electromobility have been approved. However, due to the existing accelerated depreciation for movable assets purchased between 2020 and 2022 and between April and December 2024, many firms are likely to have already brought forward their capital formation. ↘ BOX 15 This is likely **to dampen** the effect of the **latest tax incentives**. Overall, gross fixed capital formation in machinery and equipment is expected to decline by 2.4 % in 2025 and increase by 2.8 % in 2026. Gross fixed capital formation in machinery and equipment is thus likely to increase again in 2026 for the first time since 2022.

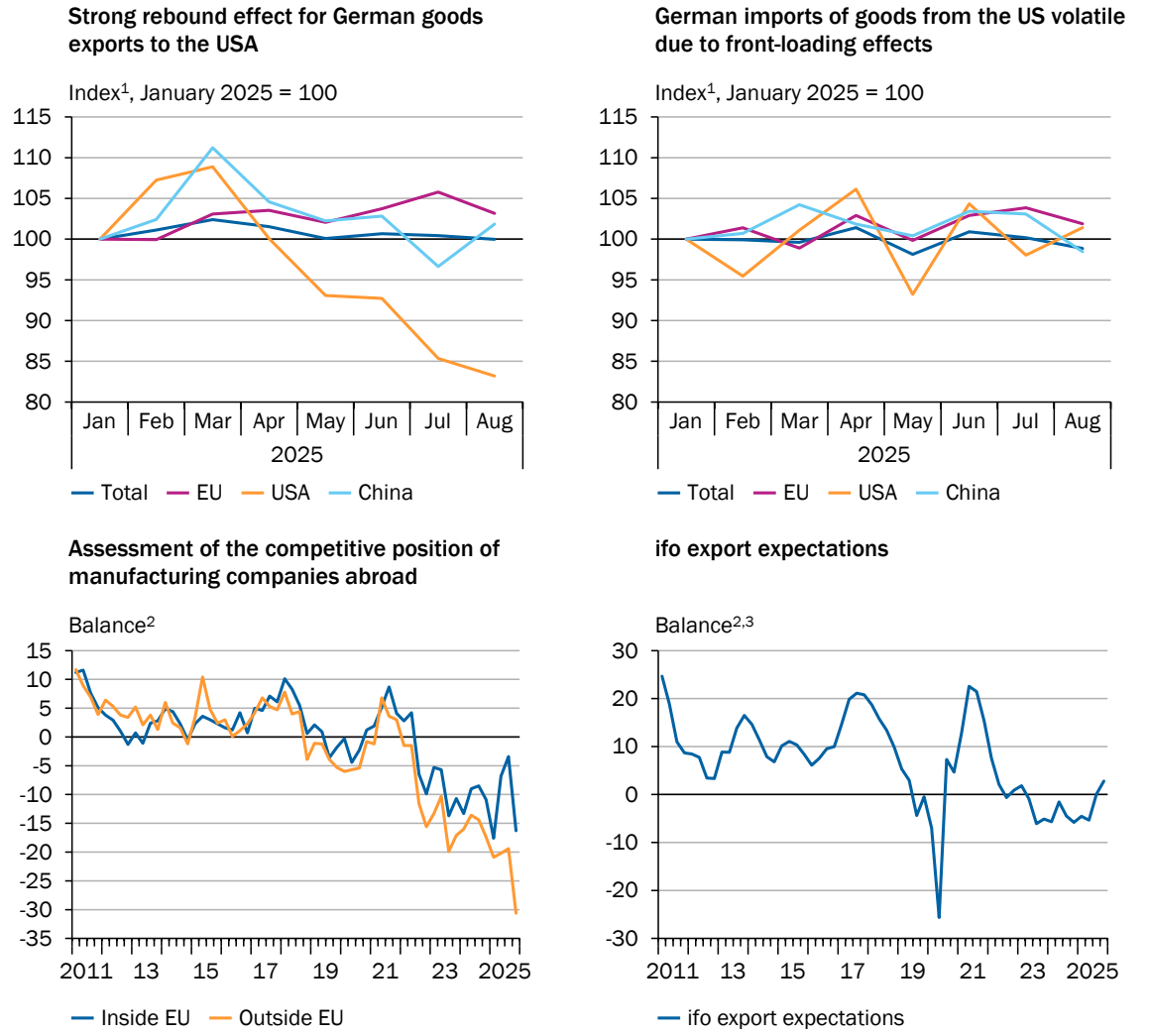
Foreign trade

61. German exports in the first quarter of 2025 were strongly influenced by **front-loading effects from the US in anticipation of higher import tariffs** by the US government. Accordingly, exports in **the first quarter of 2025** recorded **a strong increase** of 2.5 % compared to the previous quarter. **This was followed by a rebound effect** in **the second quarter of 2025**. Exports fell by 0.1 % compared to the first quarter of 2025. German exports to the US and China in particular rose sharply in the first quarter of 2025 and declined in the second quarter of 2025. ↘ CHART 23 TOP LEFT However, exports to the EU rose sharply since the beginning of 2025. Motor vehicles, machinery, pharmaceutical products and electrical goods were in particularly high demand.

62. **Exports are likely to have declined further in the third quarter of 2025.** This is indicated by the price-, seasonally and calendar-adjusted exports of goods in July and August 2025 published by the Deutsche Bundesbank, which fell by 0.5 % compared to the previous quarter's average. Exports of goods to the US are likely to have contributed most to this decline, falling again in July and August 2025 by 11.6 % compared to the previous quarter's average, after adjustment for seasonally and calendar-adjusted effects. ↘ CHART 23 TOP LEFT In the further forecast, exports are likely to increase only modestly, despite expanding sales markets. ↘ CHART 24 LEFT Foreign orders received by the manufacturing sector declined in August 2025, and ifo export expectations continue to be weak at the current margin. ↘ CHART 15 BOTTOM LEFT AND 23 BOTTOM RIGHT

According to company surveys, the **competitive position** of **the German manufacturing sector** vis-à-vis other countries **has been deteriorating** since the end of 2022. ↘ CHART 23 BOTTOM LEFT Supply-side factors are likely to have contributed to this development. ↘ ITEM 42 In the two middle quarters of 2025, the competitive position of German industrial firms within the EU recovered briefly. ↘ CHART 23 BOTTOM LEFT This was probably due to the increase in exports to the EU

↘ CHART 23
Foreign trade indicators



1 – Seasonally and calendar-adjusted. 2 – Seasonally adjusted. 3 – Quarterly averages of the monthly values. The value for 2025Q4 corresponds to the October value.

Sources: European Commission, Federal Statistical Office, ifo Institute, own calculations

since the beginning of 2025. However, the weak third quarter caused firms' assessments to plummet again. In particular, firms continue to perceive their competitive position outside the EU as very poor. In addition to higher US import tariffs, the effective appreciation of the euro and the resulting deterioration in price competitiveness are weighing heavily on the foreign business of industrial firms.

↘ CHART 15 TOP RIGHT AND 24 RIGHT

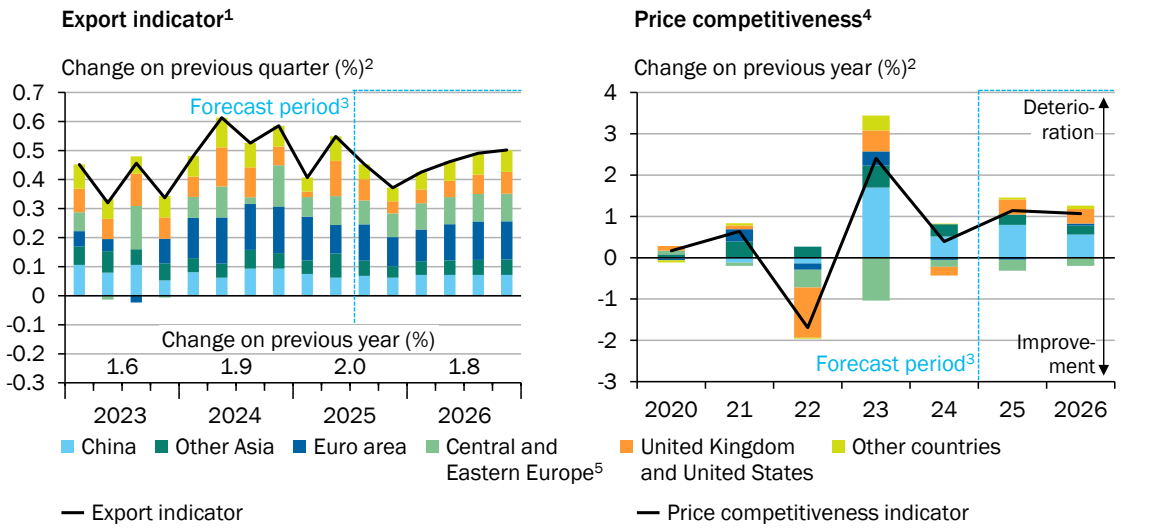
Due to the high **negative statistical overhang of –2.3 %** from 2024, exports are likely **to decline by** an average **of 0.2 %** in 2025. However, based on the **growth rate over the course of the year**, exports are expected **to rise** by **2.0 %** in 2025. In 2026, they are expected to increase by an average of 0.5 %. The still upward trend in order intake from the euro area is likely to have a supportive effect. This accounts for around 40 % of German goods exports, while exports to the rest of the world are unlikely to provide any impulse. Export prices are therefore expected to rise by 1.1 % in 2025 and by only 0.1 % in 2026.

63. **German imports rose sharply in the first half of 2025.** Overall, imports rose by 1.6 % in each of the first two quarters of 2025. Goods from euro area member states and China were in particularly high demand. In addition, imports from the US rose sharply in March, April and June 2025. ↘ CHART 23 TOP RIGHT Fears of possible retaliatory tariffs by the EU are likely to have played a significant role in this (Deutsche Bundesbank, 2025a). According to the Deutsche Bundesbank, the fact that gross fixed capital formation in machinery and equipment and exports, i.e. the particularly import-intensive components of use, remained weak points to an increase in inventories. Initial indications of a redirection of Chinese goods can be seen in individual goods such as copper, clothing and toys, imports of which to Germany have recently risen significantly (Bhakdi et al., 2025).

64. **Imports are likely to have stagnated in the third quarter of 2025.** This is indicated by the price-, seasonally and calendar-adjusted goods imports published by the Deutsche Bundesbank for July and August 2025. These fell slightly by 0.1 % compared to the previous quarter's average. For September 2025, the seasonally and calendar-adjusted increase in the truck toll mileage index of +0.5 % points to a positive development in both exports and imports (Federal Statistical Office, 2025). In the further forecast, imports are likely to expand more weakly than in the first half of 2025. The agreement between the EU and the US government is likely to have contributed to a certain degree of clarity regarding the import prices of US products. Import prices are therefore likely to rise less sharply than importers had previously assumed. However, there is still a risk of

↘ CHART 24

Expected development of the external environment



1 – The indicator is based on the GDP growth of 50 trading partners. The weighting of each country corresponds to its share of German exports. Country definitions as in Table 1. Seasonally and calendar-adjusted. 2 – Growth contributions of the respective regions. 3 – Forecast by the GCEE for the export indicator and the price competitiveness indicator. 4 – The indicator is based on Germany's inflation rates relative to those of 37 trading partners as well as exchange rates and corresponds to the sum of contributions to growth; a positive change indicates reduced price competitiveness of German products. Calculation and country definitions based on the approach of the Deutsche Bundesbank. Forecast by the GCEE. 5 – Bulgaria, Czechia, Hungary, Poland, Romania.

Sources: Deutsche Bundesbank, national statistical offices, own calculations

countermeasures by the EU if the agreement is terminated. ↘ ITEM 33 Import-intensive components of consumption, such as exports and private gross fixed capital formation in machinery and equipment, will develop only modestly during the forecast period and are therefore likely to provide only weak support for goods imports. However, the sharp rise in public equipment investment in 2026 is likely to stimulate demand for defence goods from abroad. This is likely to boost imports, especially in the further forecast. Overall, **imports** are expected **to grow by 3.5 % and 2.2 % in 2025 and 2026, respectively**.

The **downward trend in import prices** since the second quarter of 2025 is likely **to continue** into the **first quarter of 2026**. Falling energy prices are a major contributing factor. Due to the expected increase in demand for equipment from abroad, import prices are likely to rise in the later part of the forecast.

↘ TABLE 4

Key economic indicators for Germany

	Unit	2023	2024	2025[1]	2026[1]
Gross domestic product[2,3]	**Growth in %**	**– 0.9**	**– 0.5**	**0.2**	**0.9**
Final consumption expenditure	Growth in %	– 0.5	1.1	1.2	1.1
Private consumption[4]	Growth in %	– 0.7	0.5	0.9	0.7
Government consumption	Growth in %	– 0.2	2.6	2.0	2.0
Gross fixed capital formation	Growth in %	– 2.0	– 3.3	– 0.9	2.4
Investment in machinery & equipment[5]	Growth in %	– 0.5	– 5.4	– 2.4	2.8
Construction investment	Growth in %	– 5.9	– 3.4	– 1.7	1.7
Other products	Growth in %	6.6	0.2	3.7	3.8
Domestic demand[3]	Growth in %	– 0.9	0.2	1.6	1.5
Net exports	Growth contribution in percentage points	0.0	– 0.7	– 1.4	– 0.6
Exports of goods and services	Growth in %	– 1.4	– 2.1	– 0.2	0.5
Imports of goods and services	Growth in %	– 1.4	– 0.6	3.5	2.2
Current account balance[6]	**%**	**5.5**	**5.8**	**4.9**	**4.5**
Persons employed (domestic)	**1,000**	**45,935**	**45,987**	**45,997**	**46,041**
Persons employed, covered by social security	**1,000**	**34,790**	**34,934**	**34,989**	**35,079**
Registered unemployment, stocks	**1,000**	**2,609**	**2,787**	**2,947**	**2,888**
Unemployment rate[7]	**%**	**5.7**	**6.0**	**6.3**	**6.1**
Consumer prices[8]	**Growth in %**	**5.9**	**2.2**	**2.2**	**2.1**
Budget balance[9]	**%**	**– 2.5**	**– 2.7**	**– 2.3**	**– 3.1**
Gross domestic product per capita[10,11]	**Growth in %**	**– 1.8**	**– 0.8**	**0.1**	**1.0**
Gross domestic product, calendar-adjusted[11]	**Growth in %**	**– 0.7**	**– 0.5**	**0.3**	**0.6**

1 – Forecast by the GCEE. 2 – Price-adjusted. Change on previous year. Also applies to all listed components of GDP. 3 – As the expenditure-side composition of the revisions to GDP in the first half of 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems. 6 – In relation to GDP. 7 – Registered unemployed in relation to civil labour force. 8 – Change on previous year. 9 – Regional auhorities and social security according to national accounts; in relation to GDP. 10 – Population development according to medium-term projection of the GCEE calculations. 11 – Price-adjusted. Change on previous year.

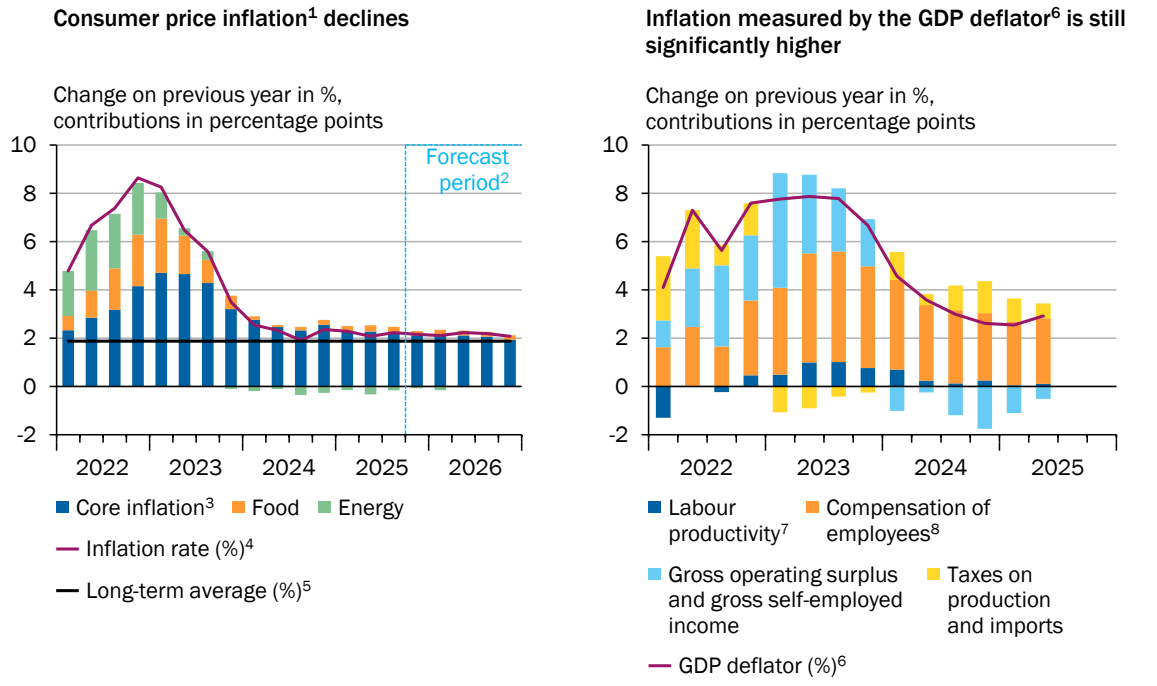
Sources: Deutsche Bundesbank, Federal Employment Agency, Federal Statistical Office, own calculations

However, the negative statistical overhang from the fourth quarter of 2025 is likely to more than offset this increase. Import prices are expected to rise by 0.2 % in 2025 and fall by 0.9 % in 2026.

2. Inflation close to target

65. **Measured by the national consumer price index, inflation in the third quarter of 2025 was 2.2 % compared to the same quarter of the previous year.** In the first and second quarter of 2025, consumer prices rose by 2.3 % and 2.1 % respectively compared to the same quarters of the previous year. ↘ CHART 25 LEFT Falling energy prices contributed significantly to the decline in overall inflation. The sharp decline in energy prices since the beginning of 2025 is attributable to the price of crude oil, which fell sharply between January and May 2025. After rising in June and July 2025, the price of crude oil has been trending downwards again since August 2025. ↘ ITEM 24 In addition, the appreciation of the euro exacerbated the decline in the price of crude oil, which is quoted in US dollars. In contrast, food prices have risen more sharply since the beginning of 2025. ↘ ITEM 24 In addition, **service prices** have **once again** risen **at an above-average rate**. As a result, the core inflation rate remained high in the third quarter of 2025 at 2.7 % compared to the same quarter of the previous year. Furthermore, a breakdown of the GDP deflator shows that the compensation of employees continues to make the largest contribution to inflation, and its share of total inflation actually

↘ CHART 25
Inflation in Germany



1 – Based on seasonally and calender-adjusted data. 2 – Forecast by the GCEE. 3 – Overall index excluding food and energy. 4 – Consumer price index, seasonally and calender-adjusted. 5 – Average over the period from 1999 to 2022. 6 – As of August 2025. Not including the flash estimate of GDP from 30 October 2025. 7 – Increases in labour productivity have a negative impact on the GDP deflator. 8 – According to the domestic concept.

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, own calculations

rose in the second quarter of 2025. In addition, the negative contributions of operating surpluses have been smaller since the first quarter of 2025. On the one hand, this is dampening the rise in the GDP deflator less strongly than before. On the other hand, it points to an improvement in corporate key figures. ↘ CHART 25 RIGHT

66. **Service prices** in particular are likely **to drive consumer price inflation during the forecast period**. According to preliminary figures from the Federal Statistical Office, these rose by 3.5 % in October 2025 compared to the same month last year, contributing significantly to the increase in core inflation. Core inflation stood at 2.8 % year-on-year in October 2025, while overall inflation was 2.3 % compared to the same month of the previous year. Food prices also exerted upward pressure on prices, rising by 1.3 % in October 2025 compared to the same month of the previous year. Stagnating or slightly declining **energy prices,** such as for crude oil, ↘ BOX 3, on the other hand, are **unlikely to generate much price pressure.** They fell by 0.9 % in October 2025 compared to the same month last year. The contributions to growth of energy prices to overall inflation are likely to stagnate in 2026. In contrast, producer prices for non-energy goods signal stronger price pressure until the beginning of 2026. These rose significantly between November 2024 and April 2025 and have been trending slightly downward since June 2025. According to calculations by the GCEE, these changes will affect the sub-index of the consumer price index for commercial goods (excluding energy) with an average time lag of eight months. Accordingly, consumer prices for non-energy goods have risen more sharply again since July 2025. In addition, the compensation of employees is likely to continue to make a significant contribution to inflation. ↘ CHART 25 RIGHT An **average annual inflation rate of 2.2 %** is expected in **2025**. **In 2026**, the inflation rate is expected to decline slightly to **2.1** %. **Core inflation** is expected to be **2.7** % **in 2025 and 2.5 % in 2026**. The GDP deflator is expected to be 2.9 % in 2025 and 2.6 % in 2026.

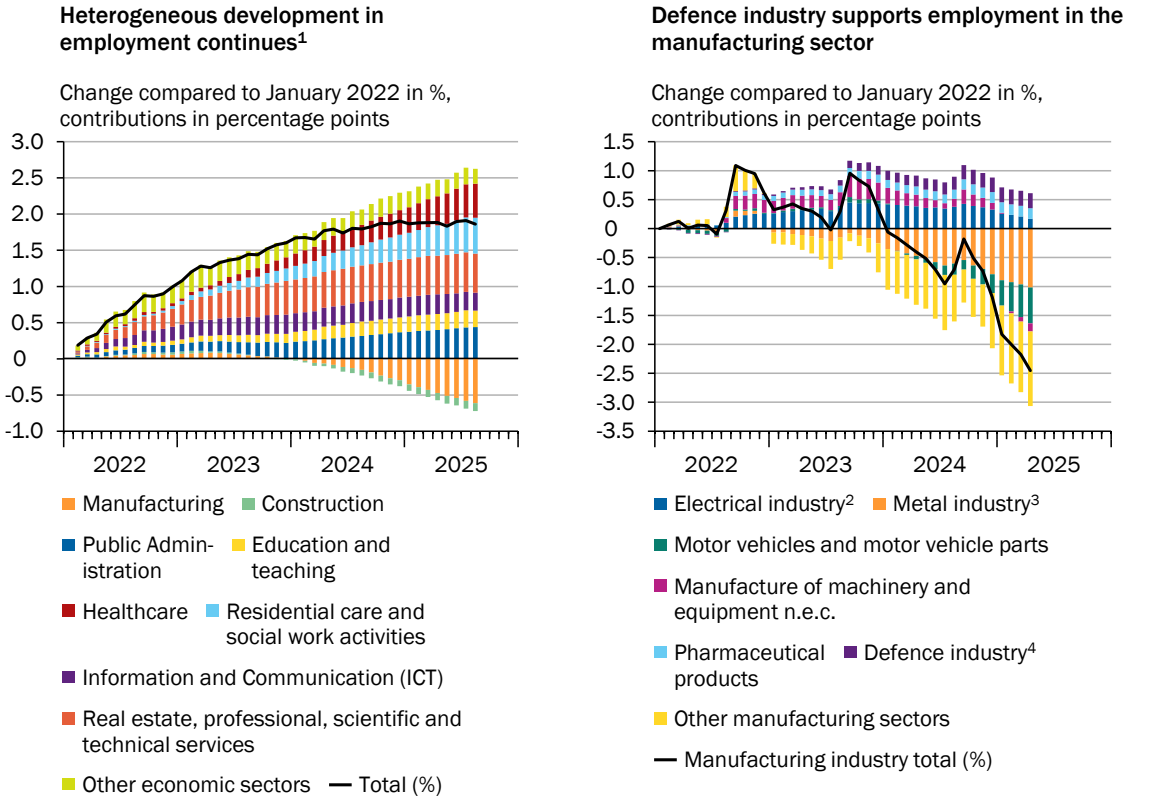
3. Stabilisation on the labour market

67. The **labour market continues to develop cautiously**, even though **first signs of slight easing** are becoming **apparent**. Seasonally adjusted unemployment fell in August 2025 for the first time since December 2022 compared to the previous month. However, the autumn upturn has been weak so far. The unemployment rate stood at 6.3 % in October 2025, 0.2 percentage points above the previous year's figure. The number of people in employment fell for the fifth consecutive month in September 2025 on a seasonally adjusted basis, down around 20,000 on the previous month. In August 2025, the number of people in employment fell by 19,000 on a seasonally adjusted basis compared to the previous month, of whom 17,000 were in employment subject to social insurance contributions. However, compared to the same month last year, employment subject to social insurance contributions was still 0.1 % higher in August 2025.

68. The sectoral employment trends of recent months are continuing. **While employment is declining in the manufacturing sector, government-related services** such as healthcare, nursing, education and public administration **are continuing to create jobs**. ↘ CHART 26 LEFT Part-time employment is above average in these sectors. Since the beginning of 2024, employment growth has therefore been driven exclusively by part-time employment, while full-time employment has been declining (BA, 2025). The part-time employment rate exceeded the 40 % mark for the first time in the second quarter of 2025 (IAB, 2025). In addition, the service sector's share of total employment is increasing, which is dampening labour productivity growth. ↘ ITEM 702 By April 2025, the manufacturing sector had shed around 440,000 employees subject to social insurance contributions compared to the employment peak in September 2019. The last time there was a decline of this magnitude was during the financial crisis. The individual sectors of the manufacturing industry contribute to this in different ways. ↘ CHART 26 RIGHT The decline in employment was most pronounced in the automotive and metal industries. Manufacturing of machinery and equipment has supported employment growth in recent years. However, in view of weak production

↘ CHART26

Development of the labour market[1]



1 – Employees subject to social security contributions. Economic sectors according to the Classification of Economic Activities, edition 2008 (WZ 2008). 2 – Manufacture of data processing equipment, electronic and optical products; Manufacture of electrical equipment. 3 – Manufacture of basic metals; Manufacture of fabricated metal products, except machinery and equipment. Excluding sector 254 Manufacture of weapons and ammunition. 4 – Economic groups directly attributable to the defence industry were taken into account, including the following groups: 254 Manufacture of weapons and ammunition, 301 Shipbuilding, 303 Aircraft and spacecraft construction, and 304 Manufacture of military combat vehicles.

Sources: Federal Employment Agency, own calculations

↘ ITEM 44, contributions to growth have declined since October 2024, and since March 2025, manufacturing of machinery and equipment has also been contributing negatively to employment trends in the manufacturing sector. Additional defence spending is having a positive effect, increasingly contributing to job creation in key areas of the defence industry, such as military combat vehicle manufacturing.

69. **Labour market indicators paint a mixed picture for the future development of the labour market**. The IAB Labour Market Barometer has improved over the course of the year, mainly due to the improved assessment of the employment agencies regarding the development of unemployment. Since August 2025, this has been in neutral territory for the first time since January 2023, i.e. no further rise in unemployment is expected. The employment component, on the other hand, has recently developed weakly and points to stagnation. According to the ifo Employment Barometer, firms are reluctant to hire new staff. Despite a slight recovery from 92.5 points in September 2025 to 93.5 points in October 2025, more firms still say they are cutting jobs than creating them. This affects all sectors of the economy except for service providers, whose willingness to hire rose in October 2025, and the construction industry, which is maintaining its

↘ TABLE 5

Labour market in Germany

	2023	2024	2025[1]	2026[1]	2025[1]	2026[1]
	Annual value				Change on previous year	
	1,000 persons				%	
Labour force[2]	47,124	47,320	47,495	47,441	0.4	– 0.1
Unemployed persons[3]	1,342	1,490	1,654	1,560	11.0	– 5.7
Employed persons[4]	45,935	45,987	45,997	46,041	0.0	0.1
Employees subject to social security contributions	34,790	34,934	34,989	35,079	0.2	0.3
Exclusively marginally employed[5]	4,198	4,180	4,172	4,136	– 0.2	– 0.9
Registered unemployed persons	2,609	2,787	2,947	2,888	5.7	– 2.0
Underemployment excluding short-time work[6]	3,448	3,577	3,657	3,580	2.2	– 2.1
Short-time work (Employment equivalence)	74	87	92	71	5.9	– 23.3
	Yearly averages in %				Percentage points	
Unemployment rate (FEA)[7]	5.7	6.0	6.3	6.1	0.3	– 0.1
Unemployment rate (ILO)[8]	3.1	3.4	3.7	3.5	0.3	– 0.2
	Change on previous year in %					
Collectively agreed wages (hourly concept)	3.7	4.8	2.5	2.8	.	.
Effective wages[9]	6.6	5.3	3.6	2.7	.	.

1 – Forecast by the GCEE. 2 – Unemployed and employed persons in their working age with residence in Germany (national concept); as defined by the national accounts systems. 3 – According to the measuring concept of the International Labour Organization (ILO). 4 – Employed persons in Germany independent of their residence (domestic concept). 5 – Employed workers with a monthly wage up to 556 euro (520 euro until 2023, 538 euro for 2024; § 8 Absatz 1 Nr. 1 SGB IV). 6 – According to the concept of underemployment by the FEA. 7 – Registered unemployed persons in relation to civilian labour force. 8 – Unemployed persons in relation to the civilian labour force, in each case persons in private households aged from 15 to 74 years. 9 – Gross wages and salaries (domestic concept) per employees' hour worked.

Sources: Federal Employment Agency (FEA), Federal Statistical Office, own calculations

employment level. The number of people in employment is likely to stagnate in 2025 and increase only minimally by 0.1 % in 2026. This year, the unemployment rate is expected to average 6.3 % and fall to 6.1 % next year as the overall economy recovers. ↘ TABLE 5

70. Collective wage developments in the first half of 2025 were characterised by increases already agreed in current collective agreements, e.g. in wholesale and retail trade and in the public sector of the federal states, as well as by the entry into force of the collective agreement in the public sector for the federal government and local authorities. Collective wages rose significantly as a result. In view of the continuing weak economic development and declining inflation, this growth is unlikely to continue at the same pace in the future. Collective agreement wages are expected to rise by 2.5 % this year and 2.8 % in 2026. **Only a moderate increase in real wages is expected for 2025, which is unlikely to accelerate in 2026.** ↘ TABLE 5

4. Expansionary fiscal policy from 2026 onwards

71. **In 2025, restrictive impulses will** still **predominate** at the overall government level due to additional revenues of the general governmentand the social insurance. ↘ TABLE 6 With the end of provisional budget management, the federal government's fiscal policy will be more expansionary in the second half of 2025 than in the first half of the year. Initial expenditure from the SVIK and the exemption rule for defence spending will provide increasingly expansionary stimulus until the end of the year. **Expansionary stimulus is expected to prevail starting in 2026** due to planned additional expenditure on defence and spending from the SVIK and the Climate and Transformation Fund (KTF).

72. **Government revenue** is expected to increase by **5.6 %** in nominal terms **in 2025**, representing a rise of 2.6 percentage points in relation to GDP. This is primarily due to higher contribution rates to social insurance and the expiration of tax- and contribution-exempt inflation compensation bonuses. Compared to the forecast in the GCEE Spring Report 2025, government revenue is likely to have risen slightly in the first half of 2025. This is due to the upward revision of GDP growth figures and one-off effects on dividend income and inheritance tax.

In 2026, government revenues are expected to rise by **3.3 %** in nominal terms, representing a decline of 0.2 percentage points relative to GDP. The reasons for the slowdown in growth compared to 2025 are lower revenues due to improved depreciation options under the German government's tax relief programme (€3.4 billion) ↘ ITEM 60 and the planned reduction of the VAT in the hospitality sector (€4.0 billion). ↘ TABLE 6

73. Overall, **government expenditure** will increase by 4.7 % and 5.0 % in nominal terms in 2025 and 2026, respectively. The **SVIK, including the allocations to the KTF and the federal states** ↘ ITEM 88, as well as the exemption rule for defence spending, will contribute **significantly to this increase**.

↘ TABLE 6

Discretionary fiscal policy measures[1]

Burdens (–) and relief (+) of the general government budget compared to the previous year in billion euros

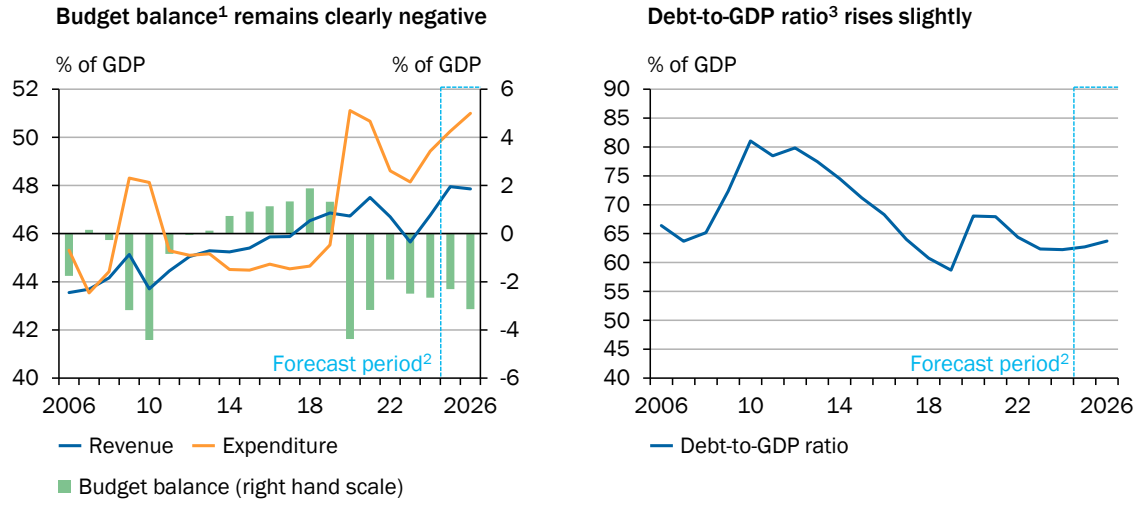
	2024	2025
Revenue of the territorial authorities		
Discontinuation of inflation compensation bonus	7.0	0.0
Changes to the income tax schedule and basic and child allowances (Tax Law Development Act, Inflation Compensation Act)	–11.5	– 5.3
VAT reduction in the hospitality sector from 1 January 2026	0.0	– 4.0
Immediate tax-based investment programme	– 0.6	– 3.4
Revenue from national emissions trading	3.0	3.0
Other measures[2]	0.2	3.5
Revenue of the social security funds		
Increase in additional contribution rate to statutory health insurance	14.5	4.0
Discontinuation of inflation compensation bonus	9.0	0.0
Increase in contribution rate for statutory long-term care insurance	2.8	1.2
Increase in insolvency fund contribution by 0.09 % as of 1 January 2025	1.1	0.0
Expenditure of the territorial authorities		
Abolition of the gas storage neutrality charge	– 3.4	3.4
Changes to child benefit (Inflation Compensation Act & Tax Law Development Act)	– 0.7	– 0.5
Aid for hospitals and care facilities (energy crisis)	1.0	0.0
Social housing	– 0.3	– 0.1
Other measures[3]	0.0	– 0.5
Special fund (SF) and exemption rule for defence spending		
Additional expenditure on defence (incl. SF Germany's Armed Forces)	– 4.0	–12.0
SF Climate and Transformation Funds (excl. grid fee subsidies)	– 2.0	– 2.0
Subsidies of electricity grid fees	0.0	– 6.5
Additional expenditure SF Infrastructure and Climate neutrality	– 1.6	–10.6
Expenditure of the social security funds		
Measures in the long-term care sector	– 3.8	– 0.3
Reduced earning capacity pension and the basic pension supplement	– 1.4	0.0
Hospital reform	– 0.5	– 0.4
Remuneration budgeting of general practitioners	– 0.3	– 0.3
Extension of the period of entitlement to short-time working allowance for the year 2025	– 0.2	0.2
Total	**8.3**	**– 30.6**
In % of GDP	**0.2**	**– 0.7**

1 – Quantification of the burden and relief on the general government budget compared to the previous year without macroeconomic repercussions. 2 – Other measures include the temporary VAT reduction in the hospitality sector and on gas, the increase in tobacco tax, the declining balance depreciation (2nd and 4th Corona Tax Assistance Act), the Annual Tax Act 2022, the Growth Opportunities Act, the Future Financing Act, the global minimum Tax on corporate profits, introduction of the plastic levy, and the increase in the commuting allowance. 3 – Other measures include the Starting Opportunity programme for schools, the digital pact for schools, change in the Deutschland-Ticket, cuts to parental and citizen's allowance, and changes to BaFöG students financial assistance.

Sources: Federal Ministry for Digital and State Modernisation, Federal Ministry for Economic Affairs and Energy, Federal Ministry of Defence, Federal Ministry of Finance, Federal Ministry of Health, Federal Ministry of Labour and Social Affairs, Federal Ministry of Transport

↘ CHART 27

Development of public finances



1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

74. The **Federal Government is planning investment expenditures of around €120 billion** per year **in 2025 and 2026**. However, this financial planning only partially translates into expenditure on government gross fixed capital formation in construction and machinery and equipment, subsidies, investment grants and government consumption. **Actual expenditure is lower** because often not all of the estimated funds are disbursed. ↘ BOX 10 Compared to the financial planning of the previous government**,** the SVIK is expected to result in **additional public investment** of **€0.9 billion,** additional **public consumption** of **€0.8 billion** and additional **expenditure from the exemption rule for defence spending** of **€4.0 billion** for 2025. For 2026**, additional public investment** of **€5.7 billion,** additional **public consumption** of **€4.9 billion** and additional **defence expenditure** of **€12.0 billion** are expected.

75. **The general government budget balance** is expected to decline over the forecast. After –2.7 % in 2024, it is expected to be –2.3 % of GDP in 2025 and –3.1 % of GDP in 2026. As a result, the structural budget balance is expected to improve by 0.4 percentage points in 2025 and deteriorate by 1.0 percentage points in 2026. The **debt-to-GDP ratio** is expected to rise to 62.7 % of GDP in 2025 and 63.7 % of GDP in 2026. ↘ CHART 27

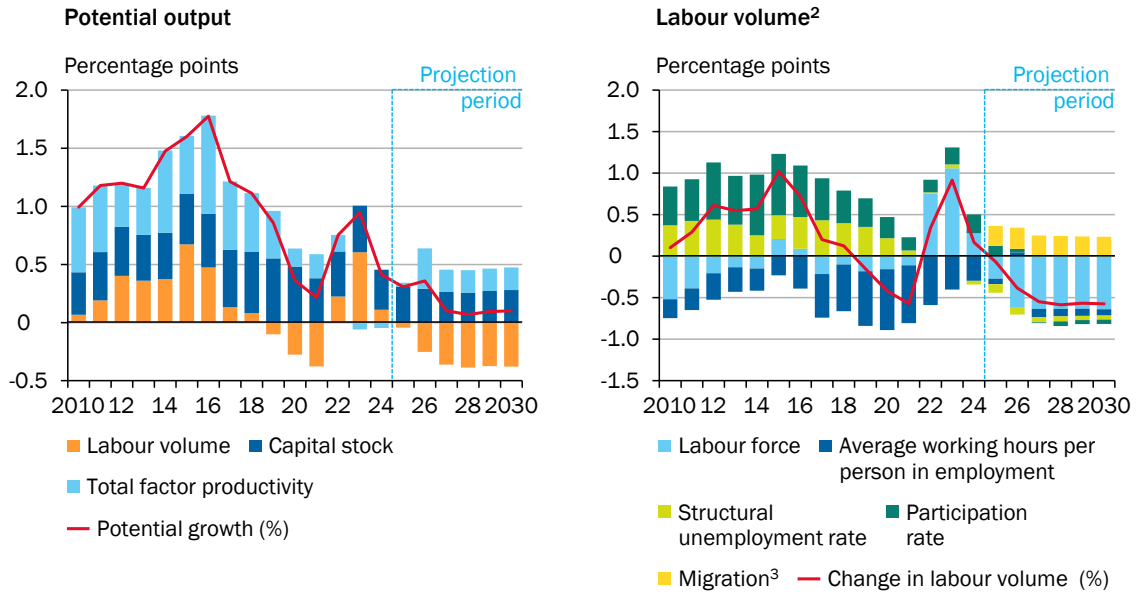
5. Potential output: Demographics dampen, capital formation provides only slight support

76. The GCEE expects **potential output to increase by 0.3 % and 0.4 % in 2025 and 2026, respectively**. ↘ CHART 28 LEFT In the following years until 2030, growth is expected to slow to 0.1 % per year. Capital investment is expected to make contributions to growth of 0.3 percentage points per year during the projection period. The contribution of total factor productivity (TFP) is expected to be 0.0 percentage points in 2025 and 0.3 percentage points in 2026, before levelling off at 0.2 percentage points per year until 2030. ↘ BOX 9 The volume of work is likely to increasingly reduce the growth of potential output. This is due to both the increased retirement of the baby boomer generation (born between 1955 and 1969) and declining immigration figures. ↘ CHART 28 RIGHT

77. The GCEE's **medium-term growth projection** is based on a **significantly changed data set** and **adjusted assumptions regarding population development** compared to the GCEE Spring Report 2025. For the first time, the revised national accounts data from July 2025, which show a recession in 2023 and 2024, were taken into account. ↘ BOX 4 The **ongoing underutilisation of production capacity** could have led to a sustained **slowdown in investment activity**, thereby dampening potential growth more than previously assumed. For example, production in energy-intensive industries has not recovered since the sharp decline in 2022. ↘ CHART 14 BOTTOM LEFT In addition, the assumptions and data basis for population development were adjusted, with the result that the findings of the current projection differ significantly from those of the GCEE Spring Report 2025 for both past and future years.

↘ CHART 28

Growth contributions of components to potential output and labour volume[1]



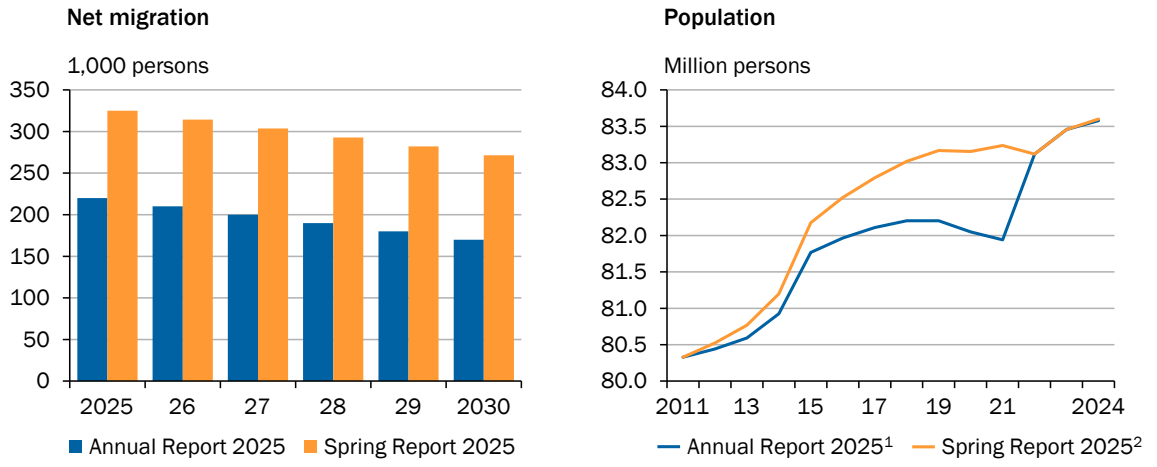
1 – Calculations by the GCEE. 2 – The output elasticity of labour is 0.66. 3 – Explicitly modelled from 2025; included in labour force until 2024.

Sources: Federal Statistical Office, own calculations

78. For its current report, the GCEE has **changed** its **assumptions on immigration and its data basis for population development in the years 2012 to 2021**. For 2025, the GCEE assumes a **net migration of 210,000 people**. ↘ CHART 29 LEFT This is **115,000 fewer people than in the projection in the** GCEE Spring Report 2025. A linear decline in net migration to 150,000 people per year is assumed until 2032. From 2033 onwards, in line with assumption W1 of the 15th coordinated population forecast, a constant net migration of 150,000 persons per year is assumed. In the Spring Report 2025 the GCEE assumed a weaker decline to 250,000 persons in 2032.

In addition, the current projection includes for the first time **population figures for the years 2012 to 2021**, **which have been retroactively calculated** on **the basis of the 2022 census**. These paint a different picture of population development in the period from 2012 to 2021 than the population projection previously used, which was estimated based on the 2011 census. ↘ CHART 29 RIGHT The latter showed significantly higher population growth for the period from 2012 to 2021 than the retroactively calculated data suggest. The **population figure assumed in the present projection for 2021** is based on the newly available retroactively calculated figures and hence **1.3 million lower than the population figure assumed in the GCEE Spring Report 2025**. From 2022 onwards, both reports use population figures based on the 2022 census. Given the different population base in 2021, the growth rate of the labour force in 2022 and 2023 due to immigration from Ukraine is significantly higher in the current projection than in the GCEE Spring Report 2025. ↘ CHART 28 RIGHT

↘ CHART 29
Updated assumptions on the population development



1 – For the years 2012 to 2021, the retroactively calculated population figures based on the 2022 cencus are used. As of 2022, the population figures are based on the population estimates derived from the 2022 Census. 2 – For the years 2012 to 2021, the population estimates were based on the 2011 Census. As of 2022, the population estimates are based on the 2022 Census.

Source: Federal Statistical Officde

↘ BOX 9

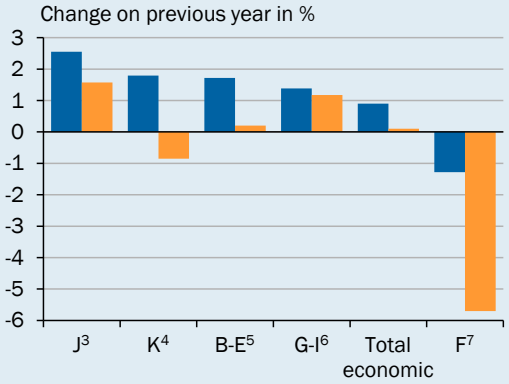
Focus: Productivity development in Germany

Since 2010, labour productivity growth (GDP per hour worked) **and TFP in Germany and the EU** have been on a **downward** trend. ↘ CHART 30 LEFT Until 2017, productivity growth in Germany was mostly slightly higher than in the EU as a whole. Since 2021, however, Germany has consistently recorded a lower growth rate. TFP growth has been more volatile, partly because TFP is calculated as a residual and is therefore influenced by fluctuations in capacity utilisation (e.g. in 2020). Across all sectors of the economy, productivity growth has been below average and, in some cases, negative over the last four years. ↘ CHART 30 RIGHT The construction industry has shown an average productivity decline of more than 1 % per year since 2010, and between 2010 and 2021 this figure was even higher at more than 5 %. This could also be one of the reasons for the prolonged weak performance of the construction industry. ↘ CHART 20 BOTTOM LEFT ↘ CHART 30

Productivity Indicators

Weak productivity growth in Germany and the EU

Growth in labour productivity[1] for Germany by economic sector[2]



Labour productivity[1]: Germany EU
Total Factor Productivity: Germany EU
Average from 2010 to 2024
Average from 2021 to 2024

1 – Real labour productivity per hour worked. 2 – According to the Statistical classification of economic activities in the European Community (NACE Rev. 2). 3 – Information and communication. 4 – Financial and insurance activities. 5 – Industry (less construction). 6 – Wholesale and retail sale; repair of motor vehicles and motorcycles. 7 – Construction.

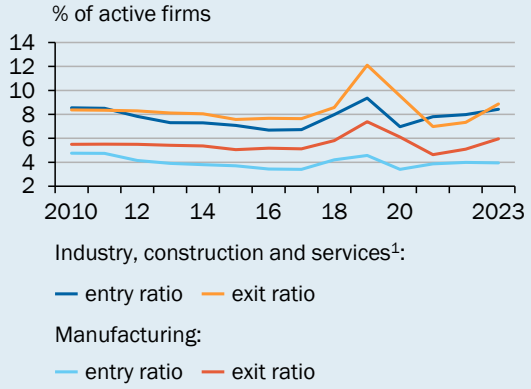
Sources: AMECO, Eurostat, own calculations

Key determinants of productivity growth are **business dynamism** and the **allocative efficiency** of capital and labour, **research and development (R&D) activity and innovation**, as well as the **diffusion of new technologies**, which in turn depends on the skills of the workforce. Business dynamism, reflected in **firm entry and exit rates** ↘ CHART 31 TOP LEFT, is low in Germany, especially in manufacturing, compared to other countries (OECD, 2025b). The allocative efficiency of production factors can be characterised by the **dispersion of marginal revenue products**, measuring the additional revenue generated by an additional unit of labour or capital. Incompetitive markets, these should correspond to factor prices (real wages and interest rates) and be equalized across firms within a narrowly defined industry. Significant differences in marginal revenue products may indicate inefficient resource allocation, as total revenue could be increased if, for example, an employee moved from a frim with a low to a firm with a high marginal revenue product of labour. Some industries (e.g. chemicals, pharmaceuticals) exhibit low dispersion of marginal revenue products between 2010 and 2021, indicating relatively efficient resource allocation; in others (e.g. civil engineering), it was significantly higher. ↘ CHART 31 TOP RIGHT

↘ CHART 31

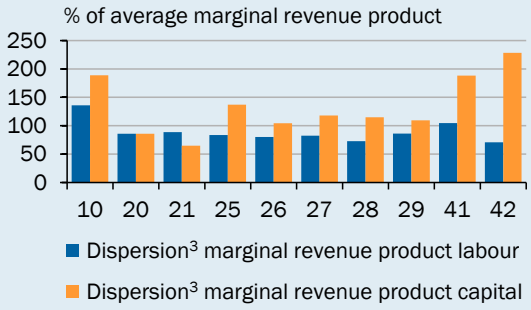
Productivity indicators: selected determinants of productivity growth

Firm dynamics in Germany
Firm entry and exit

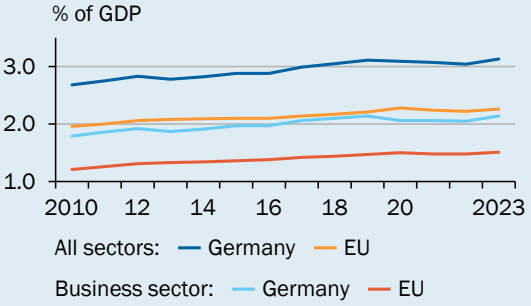


Industry, construction and services[1]:
entry ratio exit ratio
Manufacturing:
entry ratio exit ratio

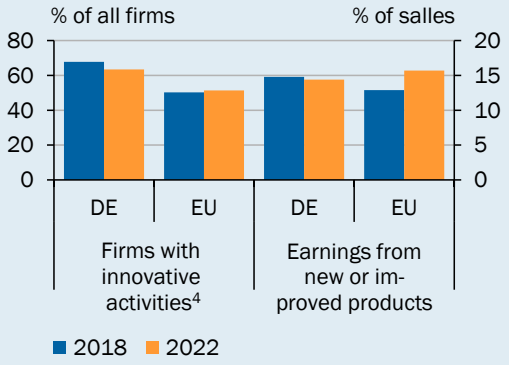
Allocative efficiency of capital and labour in Germany for selected economic activities[2] in the period 2010 – 2021



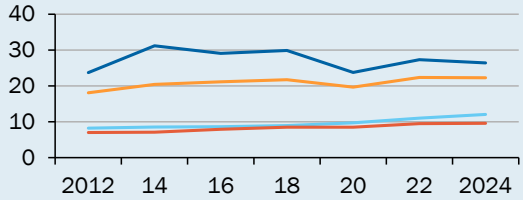
R&D spending in Germany and in the EU



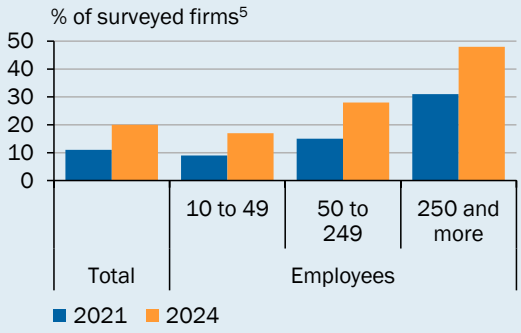
Innovation by firms in Germany and in the EU



ICT skills of workforce in German and EU firms
% of surveyed firms[5]



Use of AI in German firms by firm size



1 – Until 2020, excluding associated companies. From 2021 onwards, excluding public administration and defence; social security; interest groups; and church and other religious associations. 2 – 10- Manuf. of food products; 20-Manuf. of chemicals a. chemical prod.; 21-Manuf. of basic pharmaceut. prod. A. pharmaceut. preparations; 25-Manuf. of fabricated metal prod.; 26-Manuf. of computer, electronic a. optical prod.; 27-Manuf. of electrical equipm.; 28-Manuf. of machinery a. equipm.; 29-Manuf. of motor vehicles, trailer a. semi-trailers; 41-Construction of buildings, 42-Civil engineering. 3 – Dispersion measured as the standard deviation of marginal revenue products/average marginal revenue product within an economic sector. Marginal revenue products are estimated for firms with more than 20 employees on the basis of a Cobb-Douglas production function according to Ackerberg et al. (2015) or, for WZ 21, 26, 29, 41 and 42, using OLS. 4 – Firms with R&D activities, product innovations (including significant quality improvements to existing products) or process innovations. 5 – Firms with at least 10 employees.

Sources: CompNet, Eurostat, Federal Statistic Office

R&D activity can be measured based on expenditure, either for all sectors – including the government – or for the business sector. This so-called **R&D ratio** has been steadily increasing in Germany since 2010, exceeding the EU average. ↘ CHART 31 CENTRE LEFT The results ("output") of R&D can be measured, for example, in terms of patents or **process and product innovations and quality improvements**. Survey data suggest that in 2022 around 63 % of firms in Germany realised such an innovation, and they generated just under 15 % of their turnover with new or improved products. ↘ CHART 31 CENTRE RIGHT

One indicator of technology diffusion is, for example, the **competence of the workforce in using information and communication technologies (ICT)**, ↘ CHART 31 BOTTOM LEFT which can be quantified on the basis of expenditure on further training or the recruitment of ICT specialists. In Germany, between 24 % and 32 % of the firms surveyed stated that they offered ICT training between 2012 and 2024; between 8 % and 12 % also wanted to hire ICT specialists. Finally, the share of firms **using AI** is informative about the diffusion of this new general purpose technology. ↘ CHART 31 BOTTOM RIGHT

6. Opportunities and risks

79. **US demand for German goods** could **be stronger than currently assumed** during the forecast. This could occur if goods from countries with higher effective customs duties, particularly China, were increasingly substituted by German products. ↘ ITEM 16 Such a shift in demand could occur, for example, if demand from firms or consumers in the US were very price-elastic.

80. **There is considerable uncertainty** regarding the expenditure **of SVIK funds**. The federal government's current financial planning only provides for 50 % additionality and a high proportion of consumptive expenditure (51 %) during the forecast period. ↘ BOX 10 If the funds were spent more additionally and for investment, the positive effect on overall economic development in the medium term could be greater than previously assumed. Intangible investments in research, education and digital infrastructure in particular have a particularly strong long-term impact on overall economic productivity and could thus raise potential output in the long term. ↘ ITEM 76

However, there are also risks. **On the one hand, the funds could be disbursed more slowly than assumed in the forecast.** Delays can arise, for example, due to lengthy planning and approval processes, limited capacities or a lack of projects that can be realised in the short term. In this case, the government demand stimulus would be lower in the forecast period and reduce GDP growth. **On the other hand**, the expenditure of funds could exceed **production capacities in individual sectors of the economy**, resulting in high price pressure, for example in construction prices. This would reduce real capital formation.

81. **Social security contributions** could **rise more sharply** in 2026 **than** assumed **in the forecast** as a result of the tight financial situation of the social insurance. This would increase the non-wage labour costs of employees and firms. Due to the negative effect on disposable income, private consumption could rise less strongly and incentives to work could be reduced. In addition, rising unit labour costs could have a negative impact on the price competitiveness of firms.

APPENDIX

↘ TABLE 7

Gross domestic product and consumer prices in the euro area

Country/ country group	Weight in %[1]	Gross domestic product (calendar-adjusted)[2]			Consumer prices (HICP)[3]		
		Change on previous year in %					
		2024	2025[4]	2026[4]	2024	2025[4]	2026[4]
Euro area[5]	**100**	**0.9**	**1.4**	**1.0**	**2.4**	**2.1**	**2.0**
including:							
Germany	28.5	– 0.5	0.3	0.6	2.5	2.2	2.1
France	19.2	1.1	0.8	0.8	2.3	0.9	1.7
Italy	14.4	0.5	0.5	0.6	1.1	1.7	1.7
Spain	10.5	3.5	2.8	2.0	2.9	2.6	2.1
Netherlands	7.4	1.1	1.7	1.2	3.2	3.0	2.3
Belgium	4.0	1.1	1.0	1.0	4.3	3.0	2.0
Ireland	3.7	2.5	14.2	2.0	1.3	1.9	1.9
Austria	3.2	– 0.8	0.5	0.8	2.9	3.5	2.3
Portugal	1.9	2.1	1.8	2.1	2.7	2.1	2.0
Finland	1.8	0.4	0.1	1.0	1.0	1.8	1.8
Greece	1.6	2.3	1.8	1.8	3.0	2.8	2.2
memorandum:							
Euro area without Germany	**71.5**	**1.4**	**1.9**	**1.2**	**2.3**	**2.0**	**1.9**

1 – GDP in the year 2024 as a percentage of the GDP of the euro area. 2 – Price-adjusted. Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Harmonised Index of Consumer Prices. 4 – Forecast by the German Council of Economic Experts. 5 – Weighted average of the 20 euro area member states.

Sources: Eurostat, own calculations

↘ TABLE 8

Components of the forecast for GDP growth[1] (in %)

	2020	2021	2022	2023	2024	2025[2]	2026[2]
Statistical overhang at the end of the previous year[3]	0.0	2.5	1.0	– 0.1	– 0.2	0.1	0.1
Growth rate over the course of the year[4]	– 2.0	2.4	0.8	– 0.8	– 0.2	0.2	0.9
Annual rate of change of GDP, calendar adjusted	– 4.5	3.9	1.9	– 0.7	– 0.5	0.3	0.6
Calendar effect (in % of GDP)	0.4	0.0	– 0.1	– 0.2	0.0	– 0.1	0.3
Annual rate of change of GDP[5]	– 4.1	3.9	1.8	– 0.9	– 0.5	0.2	0.9

1 – Price adjusted. 2 – Forecast by the GCEE. 3 – Percentage difference between the level of GDP in the last quarter of year t and the average level of quarterly GDP in the total year t, seasonally and calendar adjusted. 4 – Percentage change of the fourth quarter on the fourth quarter of the previous year, seasonally and calendar adjusted. 5 – Deviations in sums due to rounding.

Sources: Federal Statistical Office, own calculations

↘ TABLE 9

Contributions to growth of gross domestic product by expenditure components[1]
Percentage points

	2020	2021	2022	2023	2024	2025[2]	2026[2]
Domestic demand[3]	**– 3.1**	**3.1**	**3.0**	**– 0.8**	**0.2**	**1.6**	**1.5**
Final consumption expenditure	– 2.6	1.7	3.4	– 0.4	0.8	0.9	0.8
Private consumption[4]	– 3.6	1.0	3.3	– 0.3	0.3	0.5	0.4
Government consumption	1.0	0.7	0.1	0.0	0.6	0.4	0.5
Gross fixed capital formation	– 0.6	0.2	0.0	– 0.4	– 0.7	– 0.2	0.5
Investment in machinery & equipment[5]	– 0.8	0.3	0.3	0.0	– 0.4	– 0.2	0.2
Construction investment	0.4	– 0.4	– 0.5	– 0.7	– 0.4	– 0.2	0.2
Other products	– 0.2	0.3	0.1	0.3	0.0	0.1	0.2
Changes in inventories[3]	0.1	1.2	– 0.4	0.0	0.1	0.8	0.1
Net exports	**– 1.0**	**0.8**	**– 1.2**	**0.0**	**– 0.7**	**– 1.4**	**– 0.6**
Exports of goods and services	– 4.0	4.0	1.7	– 0.7	– 0.9	– 0.1	0.2
Imports of goods and services	3.0	– 3.2	– 2.8	0.6	0.2	– 1.3	– 0.8
Gross domestic product[3] **(%)**	**– 4.1**	**3.9**	**1.8**	**– 0.9**	**– 0.5**	**0.2**	**0.9**

1 – Contributions to growth of price-adjusted GDP. Deviations in sums due to rounding. 2 – Forecast by the GCEE. 3 – As the expenditure-side composition of the revisions to GDP in the first half of 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 4 – Including non-profit institutions serving households. 5 – Including military weapon systems.

Sources: Federal Statistical Office, own calculations

↘TABLE 10

Key figures of the national accounts

Absolute values

	Unit	2024	2025[1]	2026[1]	2025		2026[1]	
					1. half-year	2. half-year	1. half-year	2. half-year
Use of domestic product								
at current prices								
Final consumption expenditure	billion euro	3,234.7	3,362.7	3,478.6	1,640.4	1,722.4	1,695.0	1,783.6
Private consumption[2]	billion euro	2,283.0	2,363.2	2,433.5	1,154.3	1,208.9	1,186.5	1,247.1
Government consumption	billion euro	951.8	999.5	1,045.1	486.0	513.5	508.5	536.5
Gross fixed capital formation	billion euro	885.7	902.9	953.5	436.4	466.6	454.8	498.6
Investment in machinery & equipment[3]	billion euro	267.1	266.2	279.8	126.6	139.5	130.8	148.9
Construction investment	billion euro	450.7	458.0	483.3	224.1	233.9	233.1	250.2
Other products	billion euro	168.0	178.7	190.4	85.6	93.1	91.0	99.5
Domestic demand[4]	billion euro	4,165.4	4,339.6	4,506.8	2,123.3	2,216.4	2,196.5	2,310.3
Exports of goods and services	billion euro	1,793.7	1,809.5	1,820.6	904.0	905.5	899.8	920.9
Imports of goods and services	billion euro	1,630.1	1,689.9	1,711.3	834.8	855.1	833.0	878.2
Gross domestic product[4]	**billion euro**	**4,329.0**	**4,459.3**	**4,616.2**	**2,192.5**	**2,266.8**	**2,263.3**	**2,352.9**
Chained volumes								
Final consumption expenditure	billion euro	2,713.4	2,747.5	2,778.3	1,354.0	1,393.4	1,366.4	1,411.9
Private consumption[2]	billion euro	1,897.2	1,914.9	1,929.3	942.0	972.9	946.4	982.9
Government consumption	billion euro	816.7	833.1	849.8	412.3	420.7	420.4	429.4
Gross fixed capital formation	billion euro	702.0	695.7	712.6	337.6	358.1	341.5	371.1
Investment in machinery & equipment[3]	billion euro	228.5	222.9	229.0	106.2	116.7	107.3	121.7
Construction investment	billion euro	324.7	319.2	324.7	157.4	161.9	157.8	166.9
Other products	billion euro	152.4	158.1	164.0	75.7	82.3	78.4	85.6
Domestic demand[4]	billion euro	3,456.5	3,512.7	3,566.0	1,728.7	1,784.0	1,749.4	1,816.6
Exports of goods and services	billion euro	1,491.9	1,488.5	1,496.1	742.0	746.5	741.0	755.1
Imports of goods and services	billion euro	1,345.3	1,392.4	1,422.3	681.9	710.5	694.1	728.2
Gross domestic product[4]	**billion euro**	**3,600.8**	**3,606.2**	**3,637.4**	**1,787.6**	**1,818.6**	**1,794.9**	**1,842.5**
Price Development (deflators)								
Final consumption expenditure	2020=100	119.2	122.4	125.2	121.1	123.6	124.0	126.3
Private consumption[2]	2020=100	120.3	123.4	126.1	122.5	124.3	125.4	126.9
Government consumption	2020=100	116.5	120.0	123.0	117.9	122.1	121.0	125.0
Gross fixed capital formation	2020=100	126.2	129.8	133.8	129.2	130.3	133.2	134.4
Investment in machinery & equipment[3]	2020=100	116.9	119.4	122.1	119.3	119.6	121.9	122.4
Construction investment	2020=100	138.8	143.5	148.8	142.4	144.5	147.7	149.9
Other products	2020=100	110.2	113.1	116.1	113.0	113.1	116.0	116.3
Domestic demand[4]	2020=100	120.5	123.5	126.4	122.8	124.2	125.6	127.2
Terms of Trade	2020=100	99.2	100.2	101.2	99.5	100.8	101.2	101.1
Exports of goods and services	2020=100	120.2	121.6	121.7	121.8	121.3	121.4	122.0
Imports of goods and services	2020=100	121.2	121.4	120.3	122.4	120.3	120.0	120.6
Gross domestic product[4]	**2020=100**	**120.2**	**123.7**	**126.9**	**122.7**	**124.6**	**126.1**	**127.7**
Production of domestic product								
Employed persons (domestic)	1,000	45,987	45,997	46,041	45,891	46,103	45,891	46,192
Labour volume	million hours	61,364	61,359	61,480	30,217	31,142	30,139	31,341
Labour productivity (per hour)	2020=100	100.4	100.6	101.3	101.4	100.0	102.1	100.7
Distribution of net national income								
Net national income	billion euro	3,200.2	3,294.1	3,411.1	1,604.8	1,689.3	1,649.0	1,762.1
Compensation of employees	billion euro	2,357.8	2,459.4	2,542.5	1,183.9	1,275.5	1,219.1	1,323.4
Gross wages and salaries	billion euro	1,947.2	2,022.0	2,087.8	971.5	1,050.5	998.2	1,089.6
among them: net wages and salaries[5]	billion euro	1,355.5	1,388.5	1,424.9	664.7	723.9	677.8	747.1
Property and entrepreneurial income	billion euro	842.3	834.7	868.6	420.9	413.8	429.9	438.6
Disposable income of private households[2]	billion euro	2,511.2	2,574.4	2,643.5	1,271.6	1,302.8	1,301.9	1,341.6
Savings rate of private households[2,6]	%	11.2	10.4	10.2	11.3	9.5	11.0	9.3
For information purposes:								
Nominal unit labour costs[7]	2020=100	117.2	121.7	124.3	118.3	125.1	120.9	127.6
Real unit labour costs[8]	2020=100	97.5	98.5	98.1	96.5	100.4	96.0	100.0
Consumer prices	2020=100	119.3	121.9	124.5	121.3	122.6	123.9	125.2

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in the first half of 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

Sources: Federal Employment Agency, Federal Statistical Office, own calculations

↘ STILL TABLE 10

Key figures of the national accounts

Change on the previous year in %

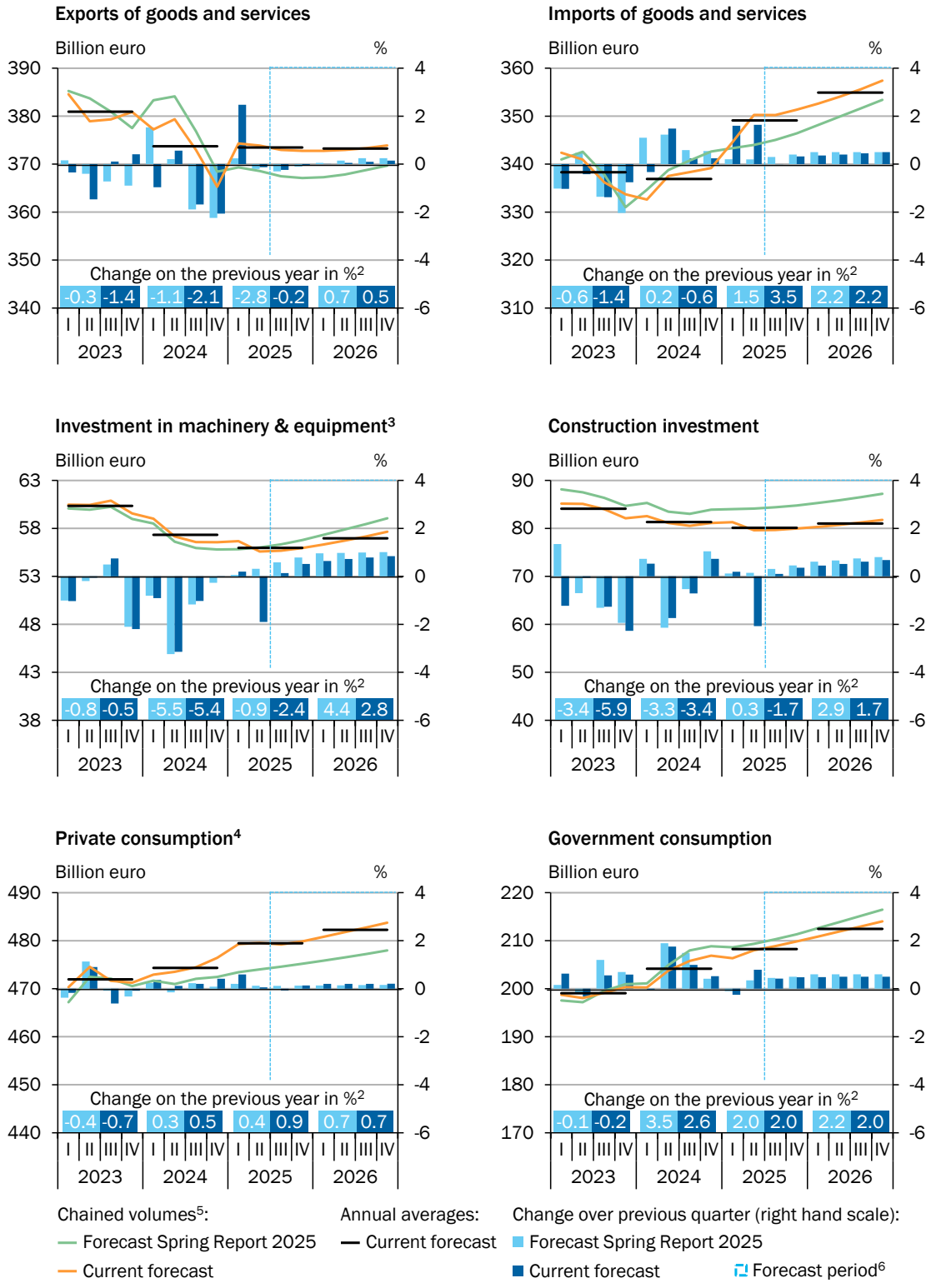
2024	2025[1]	2026[1]	2025		2026[1]		
			1. half-year	2. half-year	1. half-year	2. half-year	
							Use of domestic product
							at current prices
3.6	4.0	3.4	4.2	3.8	3.3	3.6	Final consumption expenditure
2.9	3.5	3.0	3.5	3.5	2.8	3.2	Private consumption[2]
5.1	5.0	4.6	5.7	4.4	4.6	4.5	Government consumption
-0.9	1.9	5.6	1.0	2.9	4.2	6.9	Gross fixed capital formation
-3.7	-0.3	5.1	-2.1	1.3	3.3	6.7	Investment in machinery & equipment[3]
-0.5	1.6	5.5	0.7	2.5	4.0	7.0	Construction investment
2.6	6.4	6.6	6.6	6.2	6.3	6.8	Other products
2.8	4.2	3.9	4.7	3.7	3.4	4.2	Domestic demand[4]
-1.1	0.9	0.6	0.1	1.7	-0.5	1.7	Exports of goods and services
-0.9	3.7	1.3	4.8	2.6	-0.2	2.7	Imports of goods and services
2.6	**3.0**	**3.5**	**2.7**	**3.3**	**3.2**	**3.8**	**Gross domestic product[4]**
							Chained volumes
1.1	1.2	1.1	1.5	1.0	0.9	1.3	Final consumption expenditure
0.5	0.9	0.7	1.0	0.8	0.5	1.0	Private consumption[2]
2.6	2.0	2.0	2.5	1.5	2.0	2.0	Government consumption
-3.3	-0.9	2.4	-1.7	-0.1	1.2	3.6	Gross fixed capital formation
-5.4	-2.4	2.8	-4.1	-0.9	1.1	4.3	Investment in machinery & equipment[3]
-3.4	-1.7	1.7	-2.4	-1.0	0.3	3.1	Construction investment
0.2	3.7	3.8	3.9	3.6	3.6	3.9	Other products
0.2	1.6	1.5	2.0	1.3	1.2	1.8	Domestic demand[4]
-2.1	-0.2	0.5	-1.7	1.3	-0.1	1.2	Exports of goods and services
-0.6	3.5	2.2	3.2	3.8	1.8	2.5	Imports of goods and services
-0.5	**0.2**	**0.9**	**0.0**	**0.3**	**0.4**	**1.3**	**Gross domestic product[4]**
							Price Development (deflators)
2.4	2.7	2.3	2.7	2.7	2.4	**2.2**	Final consumption expenditure
2.4	2.6	2.2	2.5	2.6	2.3	2.1	Private consumption[2]
2.5	3.0	2.5	3.1	2.8	2.6	2.4	Government consumption
2.5	2.9	3.1	2.7	3.0	3.0	3.1	Gross fixed capital formation
1.7	2.2	2.3	2.1	2.2	2.2	2.3	Investment in machinery & equipment[3]
3.0	3.4	3.7	3.2	3.6	3.7	3.7	Construction investment
2.4	2.6	2.7	2.7	2.6	2.6	2.8	Other products
2.6	2.5	2.3	2.6	2.4	2.2	2.4	Domestic demand[4]
1.4	1.0	1.0	0.2	1.6	1.7	0.3	Terms of Trade
1.0	1.1	0.1	1.8	0.4	-0.3	0.5	Exports of goods and services
-0.4	0.2	-0.9	1.6	-1.2	-2.0	0.2	Imports of goods and services
3.1	**2.9**	**2.6**	**2.7**	**3.0**	**2.8**	**2.5**	**Gross domestic product[4]**
							Production of domestic product
0.1	0.0	0.1	0.1	0.0	0.0	0.2	Employed persons (domestic)
-0.2	0.0	0.2	-0.1	0.1	-0.3	0.6	Labour volume
-0.3	0.2	0.7	0.0	0.3	0.7	0.7	Labour productivity (per hour)
							Distribution of net national income
1.5	2.9	3.6	2.5	3.3	2.8	4.3	Net national income
5.5	4.3	3.4	4.9	3.7	3.0	3.8	Compensation of employees
5.5	3.8	3.3	4.5	3.2	2.8	3.7	Gross wages and salaries
5.5	2.4	2.6	3.6	1.4	2.0	3.2	among them: net wages and salaries[5]
-8.1	-0.9	4.1	-3.7	2.2	2.1	6.0	Property and entrepreneurial income
4.0	2.5	2.7	2.6	2.4	2.4	3.0	Disposable income of private households[2]
.	.	.	.	.	.	.	Savings rate of private households[2,6]
							For information purposes:
5.6	3.8	2.1	4.7	3.1	2.2	2.0	Nominal unit labour costs[7]
2.4	1.0	-0.4	1.9	0.2	-0.5	-0.4	Real unit labour costs[8]
2.2	2.2	2.1	2.2	2.2	2.2	2.1	Consumer prices

1 – Forecast by the GCEE. 2 – Including non-profit institutions serving households. 3 – Including military weapon systems. 4 – As the expenditure-side composition of the revisions to GDP in the first half of 2025 is still pending, it is assumed that they represent an adjustment to the changes in inventories. 5 – Compensation of employees minus social contributions of employers and employees and income tax of employees. 6 – Savings relative to disposable income. 7 – Compensation of employees per working hour (employee concept) in relation to real GDP per working hour (employed person concept). 8 – Compensation of employees per working hour (employee concept) in relation to GDP per working hour (employed person concept).

Sources: Federal Employment Agency, Federal Statistical Office, own calculations

↘ CHART 32

Components of German GDP[1]

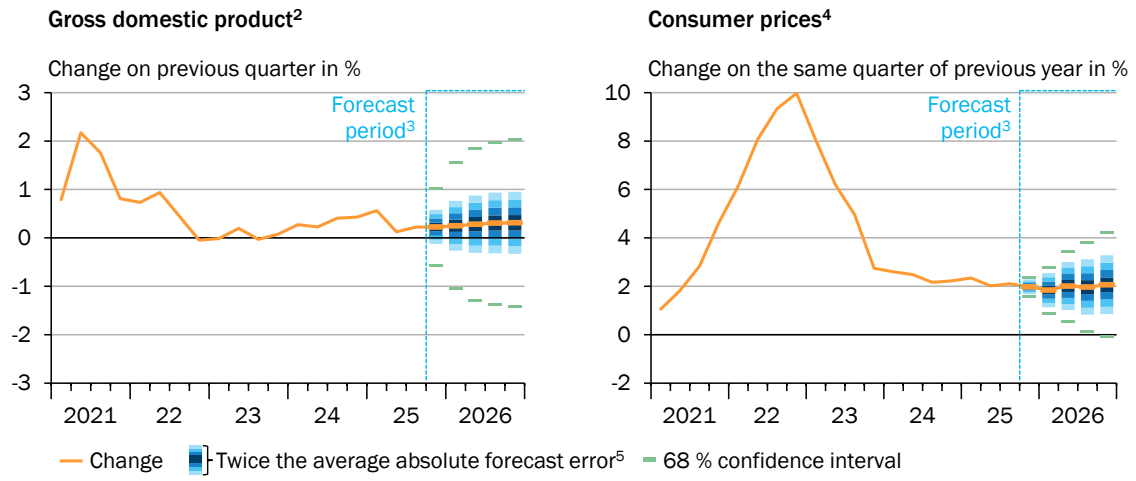


1 – All components of GDP reported price-adjusted. 2 – Not seasonally and calendar-adjusted. 3 – Including military weapon systems. 4 – Including non-profit institutions serving households. 5 – Reference year 2020, seasonally and calendar-adjusted. 6 – Current forecast period. Forecasts by the GCEE.

Sources: Federal Statistical Office, own calculations

↘ CHART 33

Forecast intervals for gross domestic product and consumer price growth in the euro area[1]

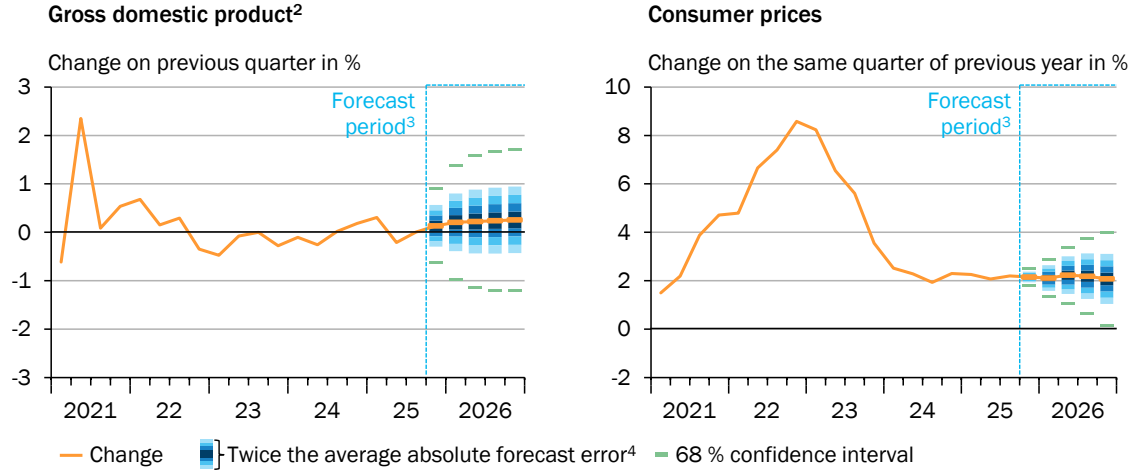


1 – Uncertainty margins calculated on base of the mean absolute forecast error in the period 1999 to 2024. 2 – Price-, seasonally and calendar-adjusted. 3 – Forecast by the GCEE. 4 – Harmonised index of consumer prices. 5 – The width of the confidence band, which is symmetric around the most likely value, is twice the average absolute forecast error.

Sources: Eurostat, own calculations

↘ CHART 34

Forecast intervals for gross domestic product and consumer price growth in Germany[1]



1 – Uncertainty margins calculated on base of the mean absolute forecast error in the period 1999 to 2024. 2 – Price-, seasonally and calendar-adjusted. 3 – Forecast by the GCEE. 4 – The width of the confidence band, which is symmetric around the most likely value, is twice the average absolute forecast error.

Sources: Federal Statistical Office, own calculations

↘ TABLE 11

General government revenues and expenditures and selected fiscal indicators[1]

	Billion euro			Change on previous year in %	
	2024	2025[2]	2026[2]	2025[2]	2026[2]
Total revenues	**2,024.4**	**2,138.2**	**2,209.2**	**5.6**	**3.3**
Taxes	996.6	1,039.4	1,072.8	4.3	3.2
Net social contributions	756.6	814.7	847.9	7.7	4.1
Sales	185.2	195.3	202.7	5.4	3.8
Other current transfers	31.4	31.8	32.6	1.3	2.5
Capital transfers	20.3	23.8	19.9	17.5	– 16.6
Property income	34.1	33.0	33.1	– 3.2	0.2
Other subsidies on production	0.2	0.2	0.2	2.1	0.0
Total expenditures	**2,139.7**	**2,241.0**	**2,354.0**	**4.7**	**5.0**
Social benefits other than social transf. in kind	709.5	749.9	778.1	5.7	3.8
Social benefits in kind	386.6	410.8	430.9	6.3	4.9
Compensation of employees	357.3	375.5	388.3	5.1	3.4
Intermediate consumption	280.4	291.5	305.4	4.0	4.8
Subsidies payable	54.2	53.9	58.1	– 0.5	7.6
Gross capital formation	131.3	137.0	149.6	4.3	9.3
Other current transfers	90.2	93.7	106.5	3.9	13.7
Capital transfers	84.0	78.8	83.2	– 6.2	5.6
Property income	45.8	49.8	53.6	8.6	7.8
Other taxes on production	0.3	0.3	0.3	– 0.1	0.2
Acquisitions less disposals of non-prod. assets	0.1	– 0.1	– 0.1	– 237.3	0.0
Budget balance	**– 115.3**	**– 102.8**	**– 144.7**	**x**	**x**
Fiscal indices (%)[3]					
Tax ratio[4]	23.4	23.8	23.6	x	x
Tax and contribution ratio[5]	39.7	40.9	40.8	x	x
Budget balance	– 2.7	– 2.3	– 3.1	x	x
Structural budget balance[6]	– 1.9	– 1.5	– 2.6	x	x
Structural primary balance[6]	– 0.9	– 0.4	– 1.4	x	x
Debt-to-GDP ratio[7]	62.2	62.7	63.7	x	x

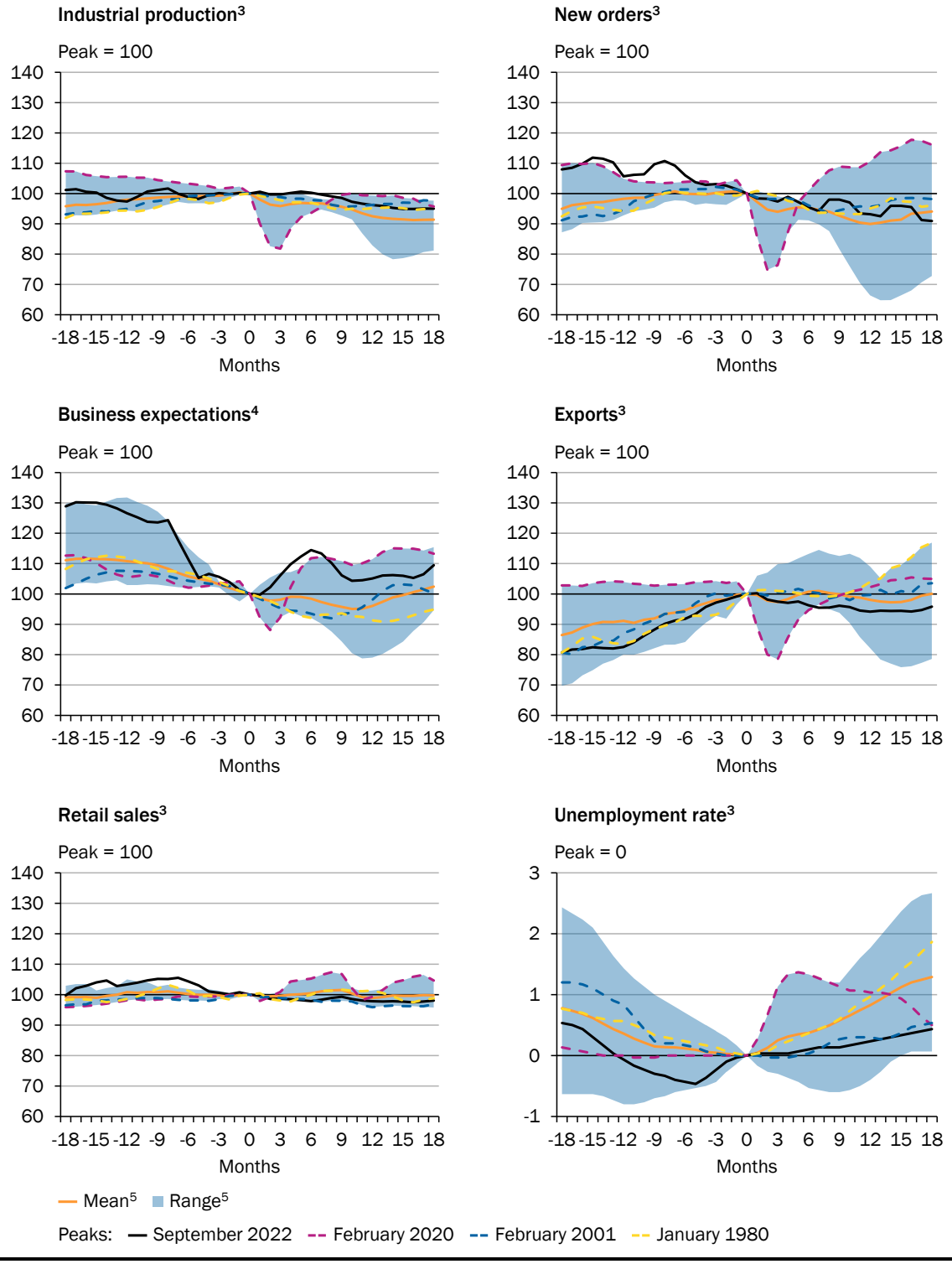
1 – National accounts (nominal values). 2 – Forecast by the GCEE. 3 – In relation to GDP. 4 – Taxes including inheritance tax and taxes entitled to the EU. 5 – Taxes including inheritance tax and taxes entitled to the EU, and actual social contributions. 6 – Based on the estimate for potential output. Calculated with a budget semielasticity of 0.504. The budget semielasticity measures by how many percentage points the relationship between budget balance and GDP changes in the event of a 1 % increase in GDP. 7 – General government gross debt as defined in the Maastricht Treaty.

Sources: Deutsche Bundesbank, Federal Statistical Office, own calculations

↘ CHART 35

Characteristic development of monthly indicators during recession periods[1]

Relative to the peak of the business cycle (t=0)[2]



1 – 3-month moving averages. Germany from 1991, previously former West Germany. Unemployment rate since the recession February 2001 for Germany. 2 – Unemployment rate: difference in percentage points. 3 – Seasonally and calendar-adjusted values. 4 – Industry and trade (Manufacturing, trade, and construction). Seasonally adjusted values. 5 – Based on the six recessions according to GCEE since 1970 (GCEE Annual Report 2021 box 5; peaks: February 2020, January 2008, February 2001, February 1992, January 1980, January 1974).

Sources: Deutsche Bundesbank, Federal Employment Agency, Federal Statistical Office, ifo Institute, own calculations

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