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IMPROVING THE ADDITIONALITY AND INVESTMENT ORIENTATION OF THE SPECIAL FUND

This is a translated version of the original German-language chapter "Zusätzlichkeit und Investitionsorientierung des Sondervermögens verbessern", which is the sole authoritative text. Please cite the original German-language chapter if any reference is made to this text. This translation was generated using AI.

KEY MESSAGES

↘ The Special Fund for Infrastructure and Climate Neutrality (SVIK) is designed to enable additional investment in infrastructure and for the achievement of climate neutrality. However, the additionality and investment orientation are low in the current financial planning.

↘ The planned expenditure in the SVIK and on defence will have only a minor impact on growth, meaning that the debt ratio is likely to rise above 85 % of GDP by 2035.

↘ The SVIK should not be used to create scope for financing questionable measures in the core budget. To ensure this, effective rules on transparency, additionality and targeting are needed.

THE MOST IMPORTANT POINTS IN BRIEF

The **Special Fund for Infrastructure and Climate Neutrality** (**SVIK**), **amounting to €500 billion**, is intended to reduce government investment backlogs in infrastructure by 2037, contribute to achieving climate neutrality and stimulate overall economic development. A sustained positive effect on overall economic development can only be achieved if the funds are used for investments that were not previously planned. Analyses by the German Council of Economic Experts show that the planned expenditure is likely to have only a minor impact on growth. The additional GDP will be significantly lower than in the case of investment-oriented spending. The debt ratio is therefore likely to rise above 85 % of GDP by 2035.

There are **three key problems** with the current legislative proposals. Firstly, the **principle of additionality in the federal budget** is **being undermined**, as SVIK funds are being used in part for projects that were already planned. Secondly, **funds** are also being channelled **into consumptive expenditure or projects with little impact on growth**. Thirdly, **there are no clear rules** for the federal states and the Climate and Transformation Fund (KTF) to ensure that **SVIK funds** are used **in an additional manner**.

The **SVIK** should **not** be used to cover structural deficits or avoid **necessary consolidation**. Therefore, the legal framework for **compliance with additionality** should be **clarified**. **The investment ratio in the federal core budget** should be calculated in a transparent and uniform manner. The level of additional investment should not merely reflect budget planning but should actually be achieved on average over multiple years. The federal states and municipalities for which no additionality requirements have been specified for the use of SVIK funds to date should at least maintain the non-SVIK spending on public investments at their previous levels. As **municipalities** are the main providers of public investment, they should receive **at least 60 % of funds allocated to the states on a binding basis. Consistent monitoring** should ensure that funds are used appropriately. A **multi-year financial plan** should create transparency, and a **project register** should make implementation traceable.

In order to stabilise the federal budget in the long term and **consolidate it in the short term**, **questionable measures** such as the expansion of mothers' pensions, the reduction in VAT in the catering industry, the increase in the commuting allowance and the reintroduction of diesel subsidies in agriculture and forestry should **be avoided**. In addition, consistent efforts to combat tax evasion can strengthen the revenue base. **In the longer term**, **prospects for financing infrastructure and defence** should be developed **from the core budget** and the defence exemption should be withdrawn in order to ensure the sustainability and resilience of public finances. In order to overcome the emerging financial and economic challenges, additional reforms should be implemented to strengthen potential output and boost growth again.

I. INTRODUCTION

82. According to the explanatory memorandum in the SVIK Establishment Act (SVIKG), the **€500 billion Special Fund for Infrastructure and Climate Neutrality** (SVIK) is designed to reduce deficits in public infrastructure, strengthen investments to achieve climate neutrality and improve the recently weak macroeconomic development in Germany by 2037. In its 2025 spring report, the German Council of Economic Experts showed that the **special fund could significantly boost overall economic development**, **provided that the funds** are **spent on additional investment**. ↘ ITEM 532 The resulting increase in gross domestic product (GDP) would also dampen the rise in the debt ratio caused by the credit financing of the special fund and, even more so, by the exemption rule for defence spending. ↘ ITEMS 114 F. Calculations by the German Council of Economic Experts show that, under the SVIK's current expenditure path ("current policy scenario"), the macroeconomic effects remain low compared to an investment-oriented expenditure path ("investment scenario") and public debt could rise to 87.6 % of GDP by 2035.

83. The latest **legislative decisions and plans** for the use of credit authorisations **suggest that the special fund will have a weak macroeconomic impact**. There are two key problems at the federal level. The Basic Law stipulates that the SVIK is to be used by the federal government for additional investment in infrastructure. The resources of the special fund should therefore not replace existing budgetary resources, but rather increase investment beyond the current level. Otherwise, there is a risk that there will be no positive macroeconomic effect. However, **in the 2025 federal budget and the draft 2026 federal budget**, projects planned before the SVIK's inception are to be financed from the special fund. Since these **expenditures** are **not additional**, they have no positive effect on GDP. ↘ ITEM 91 Significant portions of the fund's resources replace regular budget expenditures. In addition, **the federal share** of the fund flows directly or indirectly **into consumptive expenditure** or projects with little growth impact through partly **non-transparent reallocations** from the core budget. ↘ ITEMS 98 AND 95 F. Such uses significantly reduce the expected growth effects of the special fund. ↘ ITEMS 111 AND 113

84. The **federal states and the Climate and Transformation Fund (KTF)** each account for **€100 billion**, or a total of 40 % of the special fund. ↘ ITEMS 103 AND 106 In contrast to the minimum investment quota of 10 % for the federal government's core budget, there are **currently no institutional arrangements in place** for these areas **to ensure that resources from the special fund are spent additionally**. ↘ ITEM 514 Targeted expenditure is also not guaranteed, as clear rules for spending in the State and Municipal Infrastructure Financing Act (LuKIFG) and prioritisation based on investment orientation are largely lacking. ↘ ITEMS 100 FF. The federal states could use some of the additional funds to offset structural budget deficits. This further reduces the investment character of the SVIK and, moreover, weakens the growth effects. In the KTF, additionality is particularly weak, as part of the funds replace the planned global underspending of

the previous coalition of SPD, Alliance 90/The Greens and FDP amounting to €9 billion for the year 2025.

85. **The legal framework for compliance with additionality should therefore be clarified.** The investment ratio in the federal government's core budget should be calculated consistently by excluding expenditure under the exemption rule for defence spending not only from the denominator but also from the numerator, thus ensuring uniform consideration. ↘ ITEM 125 The benchmark for compliance with the investment ratio should be budget execution rather than budget planning. Investments should be made up for on a binding basis as long as the sum of actual investments is lower than provided for in the budget planning. ↘ ITEM 126 At the federal state level, as originally planned, the aim should be to **pass on at least 60 % of the special fund's resources to the municipalities**, as they are key investment providers. ↘ ITEM 128 A moderate co-financing obligation for SVIK projects at state and municipality level should be introduced in order to discipline the use of funds, supplemented by exceptions for financially weak municipalities. ↘ ITEM 129 In the case of the KTF, measures planned in the business plans before 2025 should be excluded from financing from the SVIK. ↘ ITEM 131

The **expenditure of the special fund** should be accompanied by **consistent monitoring**. A multi-year financial plan for the SVIK would ensure predictability and transparency of revenue and expenditure. ↘ ITEM 118 In addition, a project register should be introduced for the federal government, the federal states and the KTF. ↘ ITEM 119 A monitoring committee should be given a legal mandate for consistent and independent supervision. ↘ ITEM 122

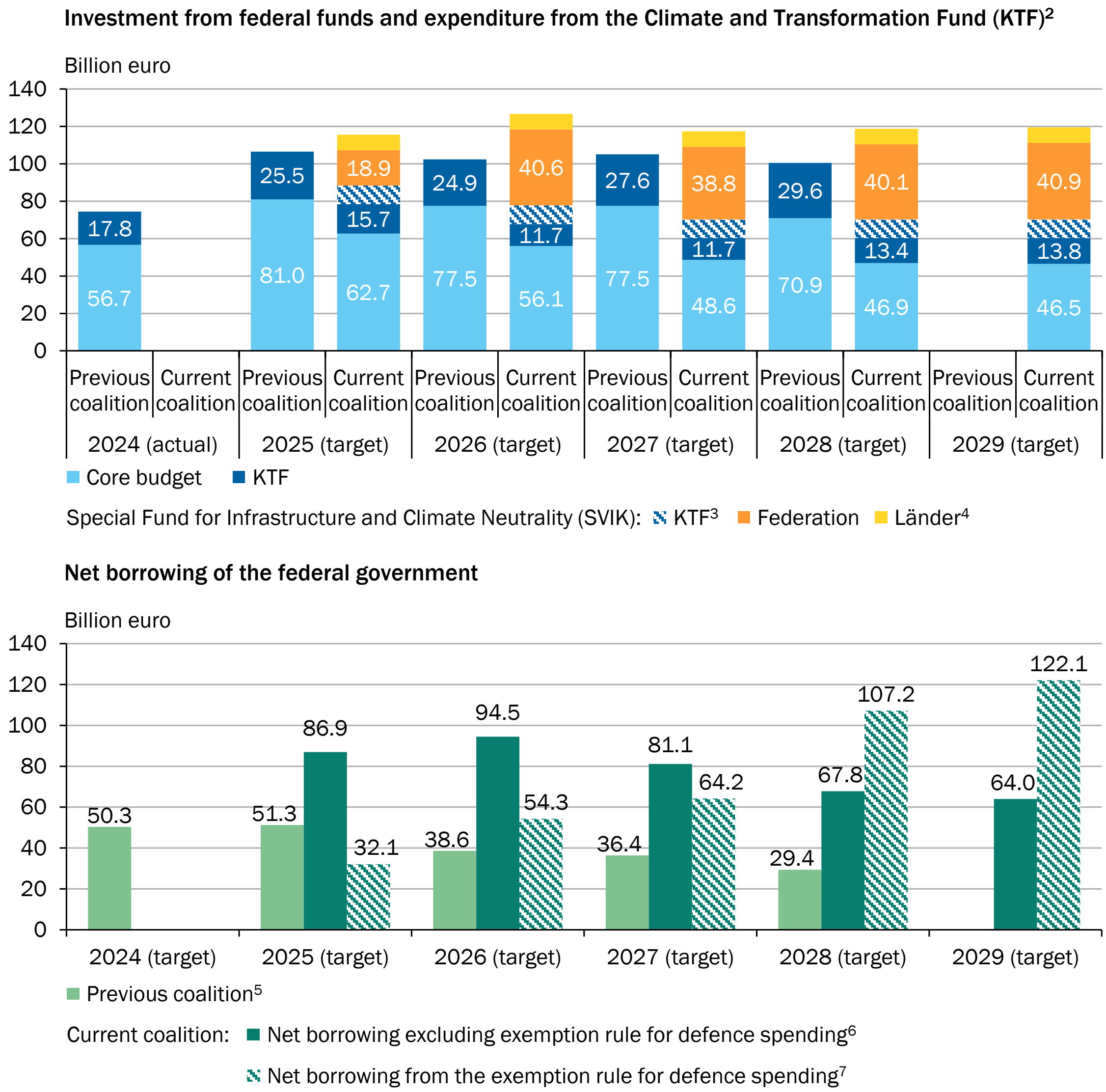
86. **The SVIK should not be used to close funding gaps in the core budget and postpone necessary consolidation efforts.** Rather, the financing reservation enshrined in the coalition agreement should be taken seriously when drawing up the budget. Looking ahead, fiscal room must be created in the federal budget for financing infrastructure expenditure once the SVIK has been spent. ↘ ITEM 132 This can already be prepared for in **the 2026 and 2027 budget years** by refraining from introducing new consumptive expenditure such as the expansion of mothers' pensions, the increase in the commuting allowance, the reduction in VAT in the catering industry and the reintroduction of diesel subsidies in agriculture and forestry. ↘ ITEM 133 This should be accompanied by a strengthening of the revenue base through consistent efforts to curb tax evasion and avoidance. ↘ ITEM 135 The exemption rule for defence spending must be withdrawn in the medium term as soon as the backlog has been cleared in order to ensure the sustainability of public finances. ↘ ITEM 137 This withdrawal and the onset of repayment obligations will increase the need for consolidation in the long term. A discussion on social security reforms is therefore needed. ↘ ITEM 139 Additional fiscal space should be created through structural reforms that increase potential output, such as reducing unnecessary bureaucracy ↘ ITEM 135 and strengthening incentives and opportunities for employment by consolidating benefits in the transfer system. ↘ ITEM 140

II. CURRENT SITUATION: THE PLANNED EXPENDITURE OF THE SPECIAL FUND

87. The establishment of the Special Fund for Infrastructure and Climate Neutrality (SVIK) was justified on the grounds that **funds amounting to €500 billion** are needed **for key future tasks in the area of public infrastructure and climate neutrality**. The SVIK is set to run **until 2037**. Some of the funds (€300 billion) will be used directly by the federal government, some (€100 billion) by the Climate and Transformation Fund (KTF) and another €100 billion will go to the federal states.

88. The **SVIK** provides for **expenditure of €37.2 billion for 2025 and €58.9 billion for 2026**. Of this, €10 billion will be allocated to the KTF each year and €8.3 billion to the federal states and municipalities. For the years 2027 to 2029, the financial plan provides for further annual expenditure of between €47.1 billion and €49.2 billion. ↘ CHART 36 TOP This means that €240.8 billion, or 48 % of the total volume of the special fund, have already been allocated up to and including 2029. Compared with the medium-term financial planning of the previous government of the SPD, Alliance 90/The Greens and FDP, the new medium-term financial plan provides for additional investments of €63.9 billion and additional net borrowing of €173.1 billion up to and including 2028 (BMF, 2025a). ↘ CHART 36 BOTTOM If the exemption rule for defence spending is included, net borrowing in this period increases by €257.6 billion to €430.7 billion. Overall, the federal government plans to borrow €851.1 billion net up to and including 2029.

↘ CHART 36
Comparison of the fiscal plans of the previous coalition and the current of CDU/CSU and SPD[1]



1 – Previous coalition = Scholz government December 2021 to May 2025; current coalition = Merz government since May 2025. 2 – Expenditure groups summarised as investment by the Federal Government: SVIK, KTF and investment in the core budget (BMF, 2025a). 3 – Allocation to KTF: €10 billion per year. 4 – Assumption of €100 billion distributed evenly over 12 years: €8.3 billion annually. 5 – Net borrowing core budget. 6 – Net borrowing core budget with SVIK. 7 – Borrowing not to be taken into account in the debt rule according to Article 115(2) sentence 4 of the Basic Law.

Sources: Bundesregierung (2024, 2025a), own calculations

1. The federal government is planning extensive, but poorly targeted SVIK expenditure

89. The **planned investment expenditure** at the federal level ↘ BACKGROUND INFO 2 **will increase only slightly in 2025 and 2026 compared to the previous government's financial plan**. A **significant increase** will only occur in the following years **up to 2029**. The federal government is planning to spend €81.6 billion on investment from the core budget and the SVIK in 2025 and €96.7 billion in 2026. ↘ CHART 36 TOP In the **core budget**, the first draft of the government

(coalition of SPD, Alliance 90/The Greens and FDP) provided for investment expenditure of €81.0 billion for 2025. In contrast, the second government draft (coalition of CDU/CSU and SPD) shows a **decline** in investment expenditure to €62.7 billion. Investment expenditure will also decline in the following year compared to previous government's plans. A **higher overall level** compared to the first government draft for the 2025 financial year will only **be achieved through additional funds from the SVIK**.

↘ BACKGROUND INFO 2

Investments in the budget accounts

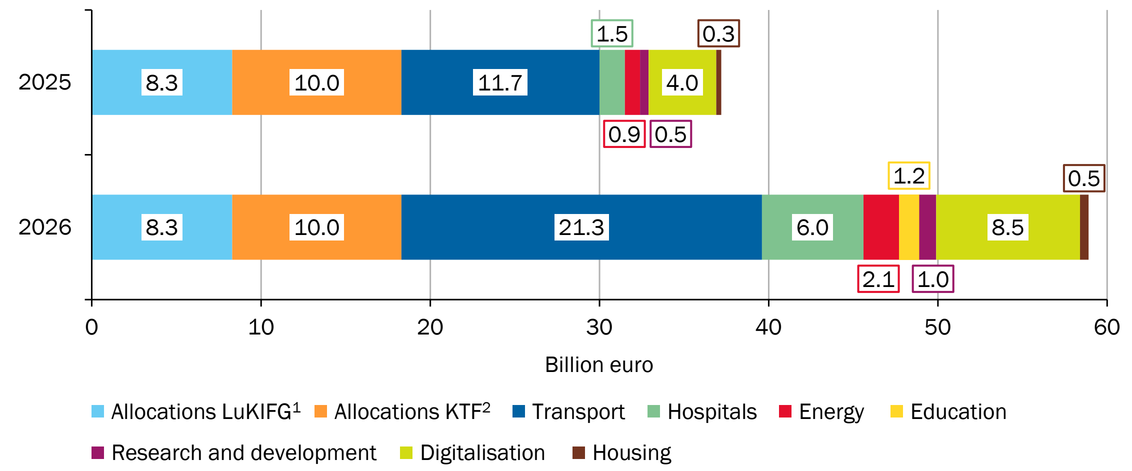
According to the **definition in the national accounts**, investments include the formation of **real and intangible capital** (GCEE Annual Report 2024 background info 3). In contrast, **investments** in the **budget accounts** also **include** financial transactions consisting of **equity investments and loans.** The investment volume of the core budget in 2025 includes financial transactions amounting to €17.3 billion. Of this, €8.5 billion is attributable to equity injections for Deutsche Bahn AG and €5.1 billion to loans, including €2.3 billion to the Federal Employment Agency and €2.3 billion to the Health Fund. The first government draft (coalition of SPD, Alliance 90/The Greens and FDP) for the 2025 financial year provided for similar transactions totalling €28.0 billion. The investment expenditure reported in the federal government's financial plan for the years 2025 to 2029 does include financial transactions. However, they are excluded from both the numerator and denominator of the investment ratio in the federal government's core budget, as they do not constitute tangible investments. When calculating structural net borrowing according to the debt brake, financial transactions are deducted, as these transactions are associated with future returns or interest-bearing repayments.

90. In addition to the allocations under the State and Municipal Infrastructure Financing Act (LuKIFG) ↘ BACKGROUND INFO 3 to the federal states (amounting to 22.4 %) and allocations to the KTF (26.8 %), a **large part of the SVIK's expenditure in 2025** will be accounted for by investments **in the transport sector (31.5 % or €11.7 billion)**. ↘ CHART 37 This includes the maintenance of bridges in the existing federal motorway network and federal construction subsidies for railways. Further funds flow into **digitalisation (€4.0 billion)**, hospital infrastructure (€1.5 billion), and, in the energy sector, for the maintenance of liquefied gas landing capacities and measures to ensure the energy supply security of north-eastern Germany, in particular with crude oil (€0.9 billion). Much of the expenditure planned for 2025 in the SVIK was already included in the draft budget of the previous government. ↘ ITEM 95 The increase in expenditure from €37.2 billion in 2025 to €58.9 billion in 2026 is mainly due to planned additional expenditure in the areas of transport (€9.5 billion), hospital infrastructure (€4.5 billion), digitalisation (€4.4 billion), and education (€1.2 billion).

91. **SVIK funds can only be used at federal level if the core budget achieves an investment ratio of at least 10 %** (Article 143h (1) sentence 2 GG and Section 4 (3) SVIKG). ↘ BACKGROUND INFO 3 According to the law, this is intended **to ensure** the **additionality of the funds**. The investment ratio is calculated as the share of investment expenditure adjusted for financial transactions in total

↘ CHART 37

Planned expenditure of the Special Fund for Infrastructure and Climate Neutrality (SVIK)



1 – State and Municipal Infrastructure Financing Act. 2 – Climate and Transformation Fund.

Source: Bundesregierung

adjusted expenditure. The latter is also adjusted for financial transactions and reduced by expenditure falling under the exemption rule for defence spending. The total expenditure to be taken into account thus decreases from €503 billion in 2025 to €454 billion. According to current plans, the investment ratio will be 10.0 % in the current year and 10.4 % in 2026. Compared to the financial planning of the previous government consisting of the SPD, Alliance 90/The Greens and FDP, the investment ratio is thus 0.7 percentage points or 2.2 percentage points lower. This is inconsistent with the goal of making additional investments. ↘ TABLE 26

↘ BACKGROUND INFO 3

SVIK Establishment Act and LuKIFG

The **SVIK Establishment Act (SVIKG)** creates the legal basis for the implementation of the special fund enshrined in Article 143h of the German Basic Law (Deutscher Bundestag, 2025). In particular, the Act regulates the earmarking of funds in the SVIK. It also specifies the investment ratio of at least 10 % required in Article 143h of the German Basic Law as a prerequisite for accessing SVIK funds. Investments are to be made in transport, energy, and education infrastructure, among other areas. The KTF will receive €10 billion annually until 2034 in order to achieve the goal of climate neutrality by 2045. Beyond the investment quota in the core budget, which must also be met in order to access the KTF, there are no provisions stipulating that the funds allocated may only be used for additional expenditure.

The **Act on the Financing of Infrastructure Investments by the Federal States and Municipalities** (LuKIFG) specifies the use of the €100 billion allocated to the federal states from the special fund (Bundesregierung, 2025b). The law's current draft specifies the distribution of funds to the federal states according to the "Königsteiner Schlüssel" key ↘ GLOSSARY and the areas of support for which the funds are earmarked. It stipulates that investment measures can only be financed if they were started on or after 1 January 2025 (Section 4 LuKIFG) or if they represent independent sections of projects that were started earlier. However, there are no rules that prevents the funds from being used for investments that have already been planned or for consumptive reallocations. Eligible investment measures must have a minimum volume of €50,000 (Section 3 LuKIFG).

92. The reported investment ratio is unsuitable as a benchmark for the additionality of investments according to the purposes specified in the establishment act for two reasons: Firstly, the term "investment" is defined very broadly in the budget accounts (Section 13 (3) No. 2 BHO). ↘ BACKGROUND INFO 2 Some expenditures in the core budget that fall under this term are **only of limited investment character** and cannot be classified as future-oriented. These include, in particular, **guarantees and subsidies to foreign countries** (€6.5 billion in 2025) as well as **investment subsidies** that are not directly related to infrastructure or climate neutrality. Due to the broad definition, the reported investment ratio is higher than it would be if the term "investment" were narrowly defined in relation to infrastructure and climate neutrality. The term "investment" as used in the budget accounts is therefore unsuitable as a benchmark for the additionality of investments with the purposes specified in the SVIK Establishment Act.

Secondly, the recorded investments partially belong to the **defence sector**. Any expenditure in this sector exceeding 1 % of GDP may in any case be debt-financed under the exemption rule for defence spending. Expenditure under the exemption rule for defence spending is included in the numerator of the investment ratio, but is deducted in the denominator (Deutsche Bundesbank, 2025). This calculation of the ratio is inconsistent and increases the ratio by about half a percentage point, or €2.3 billion (Christofzik, 2025).

93. Furthermore, the **investments** reported in the federal budget **are planned values** whose **actual expensing** is **uncertain**. In this respect, the actual investment ratio, measured in terms of the use of funds in execution, would be more meaningful. In the past, federal budget funds in future-oriented areas such as digitalisation, education and research, and climate neutrality were **regularly not fully spent**, with residual expenditure of €17 to €20 billion per year (vbw, 2024). This is because, unlike ongoing transfers, such as the federal subsidy for statutory pension insurance (GRV), **investments** are associated with lengthy planning, approval, and award procedures, among other things. Incomplete spending opens up budgetary leeway. For example, expenditure could be formally recorded as investment, even though its realisation is not intended or realistic, in order to increase the investment ratio. This could mean that the condition for using SVIK funds ex post is not met.

94. The establishment of another special fund and its interconnection with the core budget, the KTF, and the federal states' finances significantly reduce **the transparency** of **the federal budget**. This greatly hinders the verification of additionality. Double entries and unclear descriptions of individual expenditure items make it difficult to understand which expenditures represent additional investments. The funds allocated to maintaining the federal railways exemplify this. The shifting of expenditure between the core budget, the SVIK, and the KTF also makes it difficult to track additionality. This applies, for example, to expenditure

on register modernisation or subsidies in the field of microelectronics. ↘ ITEM 642 The lack of transparency makes it difficult for the public and parliament to monitor expenditure and **undermines confidence** in **the future-oriented use of funds**.

95. Despite this lack of transparency, **shifts in expenditure from the federal core budget to the SVIK** are apparent. At the federal level, the shift is evident **when comparing the financial planning** of the previous government with that of the current government. The total planned investments in the current government's core budget for the years 2025 to 2028 are €92.6 billion lower than those planned by the previous government for the same years. ↘ CHART 36 In 2025, for example, the planned investments in the core budget will be reduced by €18.3 billion to €62.7 billion. This is offset by an increase in federal funds from the SVIK of €18.9 billion. The net increase in federal investment in 2025 would thus be only slight at €0.6 billion compared to the previous financial plan. Due to the shifts, the additional SVIK funds used by the federal government for 2025 and 2026 are likely to amount to only about 8 % and 45 %, respectively, according to calculations by the German Council of Economic Experts.

96. A **detailed comparison of items in the federal budget** also shows **shifts in budget funds from the core budget to the SVIK**. Investments in federal railways, for example, will increase by a total of around €3.5 billion to just under €21.7 billion in 2025 compared to the previous government's draft budget. At the same time, however, the funds provided from the core budget will be reduced by around €5.7 billion. For 2026, investments of €18.8 billion are planned under the SVIK for the maintenance and expansion of the rail network, while rail investments in the federal budget are €8.2 billion lower than in the previous government's financial plan (Beznoska et al., 2025). **In total, the federal government will thus gain fiscal leeway of €13.9 billion in the core budget** in 2025 and 2026.

When assessing the additionality of the use of funds from the SVIK, however, it must be taken into account that the previous government's financial plan was not fully funded. If, alternatively, investment expenditure from 2024 were used as the basis for assessing additionality, the comparison would be more favourable, as the additional federal investment expenditure to be taken into account in the years 2026 to 2029 would then be between €40 billion and €50 billion higher.

97. Overall, it can therefore be assumed that the **credit scope** created by the SVIK and the sectoral exemption for defence expenditure **will not be used entirely for additional expenditure**. Instead, part of these funds will be used to fill financing gaps in the core budget. To prevent this in future federal budgets, consolidation would have to take place elsewhere, as the current federal government's **medium-term financial planning** shows a total **financing gap** of **€172 billion** up to and including 2029. The associated need for consolidation **will narrow** the **scope for fiscal policy in the core budget in the future**. The pressure to consolidate arises, on the one hand, from the fact that the maximum permissible net borrowing under the debt rule will decline due to a downturn in the economy (BMWE and BMF, 2025) and interest expenditure will continue to rise.

On the other hand, tax revenue shortfalls from the federal government's tax relief programme are increasing the pressure to consolidate. ↘ ITEM 274 The federal government's direct tax losses are expected to amount to up to €17.9 billion up to and including 2029. ↘ BACKGROUND INFO 4 This is mainly due to lower revenues from corporation tax (€10.9 billion) and income tax (€4.7 billion). In addition, the federal government plans to partially compensate for the shortfall in revenue for the states and municipalities. ↘ ITEMS 101 F. However, this shortfall in revenue is likely to be partially offset by an increase in economic activity and the resulting rise in tax revenue. ↘ ITEM 319

↘ BACKGROUND INFO 4

Tax revenue shortfall due to the German government's tax relief programme

The German government's tax relief programme provides for **degressive depreciation** of up to 30 % per annum **for investments in equipment** (movable fixed assets) from 1 July 2025 to 1 January 2028, which is applicable to corporation tax, income tax and trade tax (Section 7 (2) EStG). It also includes a **gradual reduction in the corporation tax rate** from 15 % from 1 January 2028 by one percentage point per year to 10 % from 2032 (Section 23(1) KStG). According to estimates by the federal government, the **tax revenue shortfall** is likely to amount to **€45.8 billion up to and including 2029** (CDU/CSU and SPD parliamentary groups, 2025). Of this amount, €21.7 billion is attributable to corporation tax, €11.1 billion to income tax, €10.7 billion to trade tax and the remainder to wage tax and the solidarity surcharge. The federal and state governments each bear half of the shortfall in corporation tax revenue. The federal and state governments will each bear 42.5 % of the shortfall in income tax revenue, with 15.0 % being borne by the municipalities. In contrast, 91.3 % of the shortfall in trade tax revenue will be borne by the municipalities, with the remainder being borne by the federal and state governments. Overall, the federal, state and local governments are expected to have to cope with tax losses of €17.9 billion, €16.3 billion and €11.5 billion respectively up to and including 2029, not including the federal government's compensation measures for the states and municipalities.

98. Furthermore, the federal share of the SVIK is **not specifically tailored to investment purposes in the areas of infrastructure and climate neutrality**. The purposes defined in Section 4 of the SVIKG (SVIK Establishment Act) are likely to exceed, in themselves, expenditure of an investment nature pursuant to Section 13(3) No. 2 of the BHO (Federal Budget Code). For example, SVIK funds are provided for civil protection and public safety, but also for digitalisation, which are likely to be used extensively for running costs. This is particularly evident in projects such as register modernisation: these mainly involve ongoing personnel and IT operating costs, which are unlikely to be considered investments, even in the broad sense of the Federal Budget Code, and yet are still recorded in the special fund (e.g. Title 532 66 in the SVIK's business plan for 2025).

99. In addition to the standard performance reviews provided for in Section 10 of the SVIKG, monitoring by the **Investment Advisory Board** is also planned. The purpose of this board is to monitor and evaluate the use of funds (BMF, 2025b). It is made up of representatives from academia, business and local politics who

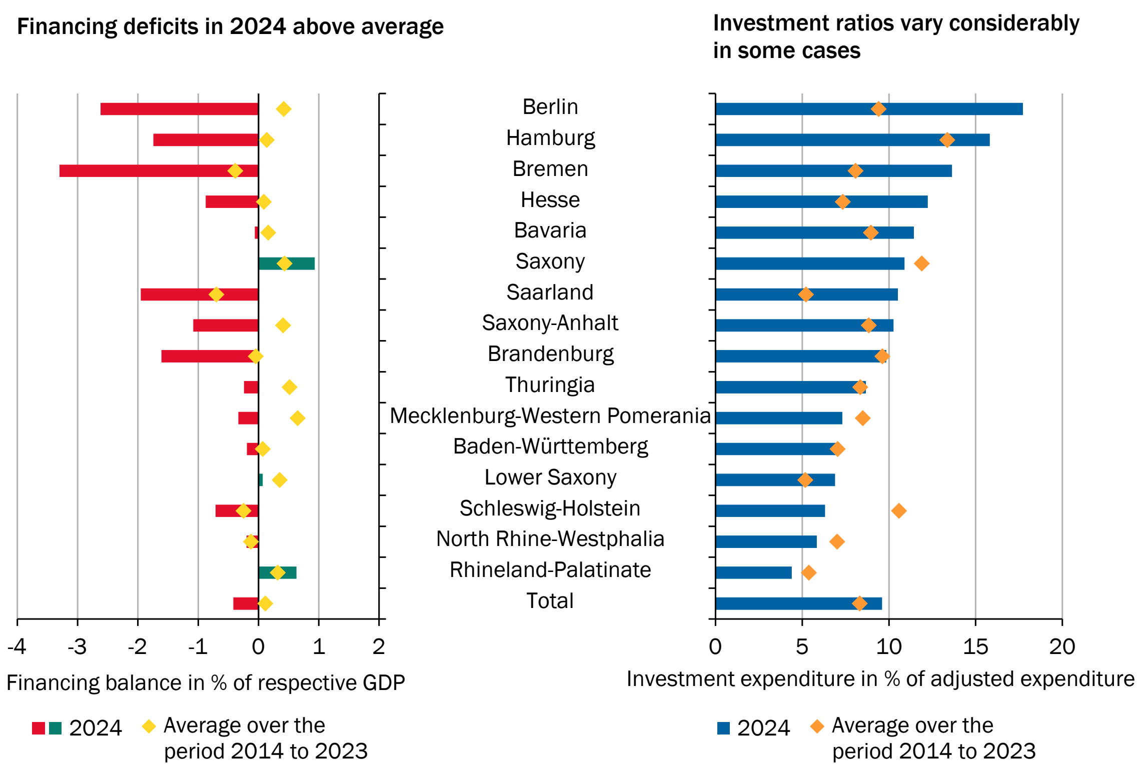
have been appointed by the Federal Minister of Finance. The advisory board's tasks include producing half-yearly reports on the status of SVIK expenditure, identifying obstacles to implementation and making recommendations for improving effectiveness and efficiency. However, it has no binding powers. Nor is the federal government obliged to comment on its reports.

2. The use of SVIK funds by the federal states is only weakly secured by law

100. The **actual investment rates of the federal states vary considerably in some cases** and averaged just under 9.6 % of all expenditure in 2024. ↘ CHART 38 RIGHT The long-term average is around 8.3 %, but city states and large federal states are only comparable to a limited extent, and large federal states have varying degrees of municipalisation. The federal states contribute significantly to overall public investment (GCEE Annual Report 2024 item 92). Their share of investment by all municipalities amounted to around 28 % in 2024. They invest primarily in transport infrastructure and school and childcare infrastructure.

101. The **budgetary situation of the federal states** has been **tense** for several years. Most recently, the financing balance of all federal states amounted to –0.4 % of GDP in 2024, which was less favourable than the long-term average. ↘ CHART 38 LEFT Since the amendment to the Basic Law for the fiscal package in

↘ CHART 38
Financing balances[1] and investment ratios of the federal states[2]



1 – In distinction to financial statistics. 2 – Core and extra budgets. Including subsequently reported payments.

Sources: Federal Statistical Office, own calculations

March 2025, the federal states can now structurally borrow 0.35 % of GDP. However, in half of the federal states, the financing deficit in 2024 exceeds the structural new borrowing now possible. **Extensive consolidation** is therefore **necessary in most federal states** (Dylla and Geißler, 2025), while at the same time the federal government's tax relief programme will lead to tax shortfalls of €16.3 billion for the states up to and including 2029. ↘ BACKGROUND INFO 4 The tax shortfalls are mainly attributable to lower revenues from corporation tax (€10.9 billion) and income tax (€4.7 billion). The remaining shortfall in revenue is attributable to trade tax and wage tax. The federal government is providing some relief to the federal states in the form of investments totalling €8 billion (Bundesregierung, 2025c). €4 billion of these funds will be allocated to programmes for education and childcare infrastructure, the modernisation of universities and, in equal measure, the transformation fund for hospitals. In addition, the federal states could use the allocations from the special fund to ease the pressure to consolidate their budgets. However, the SVIK funds would then not be used for additional expenditure to this extent. ↘ ITEM 103

102. The **budgetary situation of municipalities is even more strained**. In 2024, the core and extra budgets of municipalities in Germany showed a financing deficit of €24.8 billion (6.2 % of expenditure), the highest level since 1990 (Federal Statistical Office, 2025). At the same time, municipalities are key drivers of investment, e.g. in education and transport (GCEE Annual Report 2024 item 97). At the level of municipalities, the tax relief programme will result in tax losses of around €11.5 billion up to and including 2029. ↘ BACKGROUND INFO 4 The shortfall in revenue is mainly attributable to trade tax (85 %) and, to a lesser extent, income tax (14 %) and wage tax (1 %). The federal government is compensating municipalities for this in full by increasing their share of value added tax (Bundesregierung, 2025d).

103. The LuKIFG is intended to regulate **the financing of infrastructure investments by the federal states and municipalities** from the special fund. ↘ BACKGROUND INFO 3 The current draft bill does not contain any rules to ensure that the funds from the special fund are not used for investments that have already been planned or for consumptive reallocations. Instead of financing additional expenditure, the **funds** could therefore be used **for consolidation**. Furthermore, unlike in the original draft bill, it is no longer specified whether and what proportion of the funds the federal states will pass on to the municipalities.

104. According to the LuKIFG, **the use of SVIK funds by the federal states** is even **less targeted than by the federal government**. The areas of funding are not limited in the draft bill to those specified in the SVIK Establishment Act. The federal states could therefore use the funds for other areas and not necessarily for the objectives of the SVIK – eliminating infrastructure deficits and contributing to sustainable economic growth. This increases the risk that measures will be financed that have only a minor impact on the economy as a whole. Similar problems have arisen in the past, for example with financial assistance under the 2015 Act on the Promotion of Investment in Financially Weak Municipalities (Bundesrechnungshof, 2024). The federal government provided financial assistance of €3.5 billion each for an infrastructure programme and a school renova-

tion programme. However, according to the Federal Court of Auditors (Bundesrechnungshof), the support programmes lacked clear objectives and specific eligibility criteria, with the result that some measures were financed that had little effect in the respective support area.

105. In addition, the **additionality** may be **compromised** by the **lack of a ban on double funding**, where the same purpose is financed multiple times. Double funding can lead to windfall effects and reduce the funds available for other projects. In any case, there is a lack of clear demarcation and better coordination between federal and state programmes.

3. SVIK fills financing gaps in the KTF

106. The **Climate and Transformation Fund is intended to help support the decarbonisation of the German economy**. From the perspective of intergenerational burden sharing, the fund's credit financing through grants from the SVIK can be justified in principle. Effective debt-financed spending to achieve climate neutrality can contribute to the welfare of future generations, especially if it is additional to spending that was already planned. However, the **KTF** Establishment Act **does not** contain **any institutional provisions to ensure that the funds from the SVIK** are used **as additional expenditure to achieve climate neutrality**.

107. It is difficult to verify the additionality of expenditure in the KTF due to the **low level of budget transparency**. It is not easy to determine whether the funds are being used for clearly definable **new expenditure to achieve climate neutrality** or to fill existing gaps. Transparency is also undermined by the fact that, on the one hand, planned expenditure from the KTF is being transferred to the SVIK, including, for example, €4.8 billion for microelectronics for digitalisation and €0.8 billion for the transformation of heating networks (Beznoska et al., 2025). On the other hand, various expenditures from the federal budget were transferred to the KTF for 2025, including a one-off compensation of €3.4 billion for the gas storage levy.

108. A comparison of the financial plans of the previous government and the current government suggests that the **SVIK allocations in the KTF** are being **used primarily to cover a global budget reduction**. Expenditure of €58.2 billion was planned in the KTF for 2024, of which just under €10.4 billion was to be financed by federal allocations. According to the previous government's plan, expenditure was to be reduced by around half to €34.4 billion in 2025 (Bundesregierung, 2024). In addition, a **global budget reduction** in expenditure of €9 billion was planned for 2025. This meant that only total expenditure of €25.4 billion was covered. The new government's draft budget for the KTF provides for expenditure of €36.7 billion for 2025 (BMF, 2025c). Federal allocations are completely eliminated and largely replaced by subsidies of €10 billion from the SVIK. The global budget reduction is reduced to €2.0 billion. Additional reserve allocations of €2.1 billion thus cover total expenditure in full (BMF, 2025c).

III. MACROECONOMIC ASSESSMENT

109. In its 2025 spring report, the German Council of Economic Experts presented a detailed macroeconomic **analysis of possible expenditure paths for the SVIK**, distinguishing between more consumption-oriented and more investment-oriented spending. In light of the latest developments in the budget process, it is now possible **to update these projections based on the new federal government's financial planning** for the years 2025 to 2029. ↘ ITEMS 113 FF. The analyses show the contribution to growth that the special fund can make if the funds are spent additionally and for investment purposes, and how the debt ratio develops, also taking into account the sectoral exemption.

110. The **various expenditure areas** of the SVIK **differ significantly** in terms of the **transmission mechanism** and **the macroeconomic impact**. The multiplier effects of public investment are generally greater in a period of underutilisation – such as the current one – than in times of normal or overutilisation (Abiad et al., 2016). However, investment in non-residential construction can increase capacity utilisation in the construction industry in the short term, thereby reducing multiplier effects. On the other hand, such investment can lead to further private investment in the medium and long term ("crowding-in") and thus have a positive impact on multiplier effects. Intangible investments (research and development, education, digital infrastructure) are particularly conducive to growth. Although these investments only take effect after a long period of time, they achieve the highest multipliers in the long term (Ciaffi et al., 2024) and increase overall economic productivity through positive externalities.

111. **By contrast, the growth effect of the special fund is weaker when investments are made in areas with low macroeconomic returns.** For example, housing construction projects (such as the promotion of climate-friendly new construction in the low-price segment or the promotion of home ownership for families in title group 07 in the SVIK's business plan for 2025) may be valuable in terms of social policy, but they make only a limited contribution to overall economic development. ↘ ITEM 134 Contributions to international cooperation (€6.5 billion in 2025) have no direct effect on domestic GDP at all because the funds flow abroad. The **inclusion of consumptive uses** – such as personnel resources for a new research institute in social policy established by the Federal Ministry of Labour and Social Affairs (BMAS) – further reduces the overall economic impact of the special fund.

112. The German Council of Economic Experts **compares** the SVIK's **expenditure path ("current policy scenario")**, **which has been specified by legislation since May 2025**, with a **strongly investment-oriented expenditure path ("investment scenario")** as defined by Ochsner and Zuber (2025) and updates their calculations. ↘ BOX 10 For both scenarios, the latest data and forecasts are used at the current margin. In addition, the most recent decisions, which envisage a greater increase in defence spending than assumed in the 2025 spring report, are taken into account. From 2030 onwards, it is assumed that defence

spending will largely be returned to the core budget. ↘ BOX 10 AND ↘ ITEM 137 Expenditure and additional GDP are shown in 2025 prices, whereas the figures in the financial planning ↘ ITEMS 87 FF. were previously shown in current prices.

For the current policy scenario, ↘ CHART 40 LEFT it is assumed that in future federal, state and KTF budgets from 2027 onwards, only half of the SVIK expenditure will be additional. The remaining funds will simply be reallocated. According to the assessment of the German Council of Economic Experts, the additionality of the SVIK over the entire term is therefore likely to be only similar to that in the 2026 federal budget, rather than completely additional, as envisaged in the amendment to the Basic Law. ↘ ITEM 95 In **the current political scenario**, 226 billion euros will flow in price-adjusted terms from the SVIK up to and including 2030. It can be deduced from the current financial planning that only €98 billion of this will be spent on additional expenditure. The remaining €128 billion will be used for projects that were already planned. Overall, the additional expenditure will be less than 50 %, as the additional expenditure by the federal government in 2025 ↘ ITEM 95 and the SVIK funds for the KTF in 2025 and 2026 ↘ BOX 10 are likely to be lower.

For the **investment scenario**, ↘ CHART 40 RIGHT on the other hand, it is assumed that the **entire special fund** will be **additionally spent**. It is assumed that the federal and state governments will invest €279 billion in price-adjusted terms. The KTF's expenditure, on the other hand, is divided into 70 % consumption and 30 % investment. This breakdown is based on the share of investment in the KTF in 2023.

↘ BOX 10

Background: Expenditure in the current political scenario and investment scenario

The German Council of Economic Experts has **updated** the **paths of additional expenditure** from the SVIK and due to the exemption rule for defence **compared to the 2025 spring report.** ↘ BOX 30 These differ significantly from the paths in the 2025 spring report in three respects. ↘ TABLE 12 Firstly, the SVIK expenditure paths have been adjusted to the federal government's current financial planning and slightly increased, assuming future outflow rates up to and including 2029. Secondly, defence expenditure will be higher due to the NATO decision in June 2025. This decision stipulates that defence spending should be increased to 3.5 % of GDP and an additional 1.5 % of GDP should be spent on other defence-related areas (NATO, 2025). Thirdly, the current budget planning results in less additionality than assumed in the spring report, which reduces the expenditure path in the current policy scenario.

For **defence spending**, it is assumed that funds amounting to up to 2.5 % of GDP will be financed by credit via the exemption rule for defence spending until 2029. Price-adjusted spending **will** thus **be twice as high** in the period from 2025 to 2034 **as assumed in the spring report.** ↘ CHART 39 After 2030, defence spending will largely be returned to the core budget. ↘ ITEM 137 From 2034 onwards, only 0.5 % of GDP will still be financed via the exemption rule for defence spending each year. This means that credit-financed defence spending up to and including 2040 will amount to €725 billion in price-adjusted terms. However, only €454 billion of this is additional. The additional amount is reduced because it is assumed that 0.5 % of GDP in planned defence spending will be shifted from the core budget each year by making use of the exemption rule for defence spending. Ten per cent of the resulting leeway in the core budget will be used for additional consumptive expenditure. The remainder will be allocated to already planned expenditure and will therefore have no growth effects, but will increase the general government debt ratio. These shifts are also assumed to be given for the investment scenario. The analyses therefore focus on the use of the special fund's resources.

↘ TABLE12

Assumptions for expenditure paths

	Current policy scenario	Investment scenario	Investment scenario Spring Report 2025
Special Fund Infrastructure and Climate Neutrality (SFIC)			
Front loading[1]	€216 billion	€204 billion	€175 billion
Additionality	47 %	100 %	100 %
Composition: Investment/consumption	49 % / 51 %	86 % / 14 %	100 % / 0 %
Defence			
Expenditure path			
up to 2029	Credit-financed expenditure will rise until 2029 to about 2.5 % of GDP		Credit-financed expenditure will rise until 2029 to about 1.5 % of GDP
from 2030	Credit-financed expenditure will go down to 0.5 % of GDP until 2034. After that the value remains constant and corresponds to the assumed annual transfer from the core budget.		Credit-financed expenditure will go down to zero until 2034
Transfer of expenditure from the core budget[2]	Defence expenditure amounting to 0.5 % of GDP will be transferred from the core budget each year. One tenth will be used for additional consumption. The rest will be used for already planned expenditure and therefore has no growth impact.		No expenditure will be transferred.

1 – Assumed nominal outflow of funds until 2029. 2 – The exemption rule for defence spending allows credit financing of defence expenditure exceeding 1 % of GDP. Assuming defence expenditure of 1.5 % of GDP in the core budget, defence expenditure of 0.5 % of GDP could be financed by credit, opening up fiscal leeway of the same amount in the core budget.

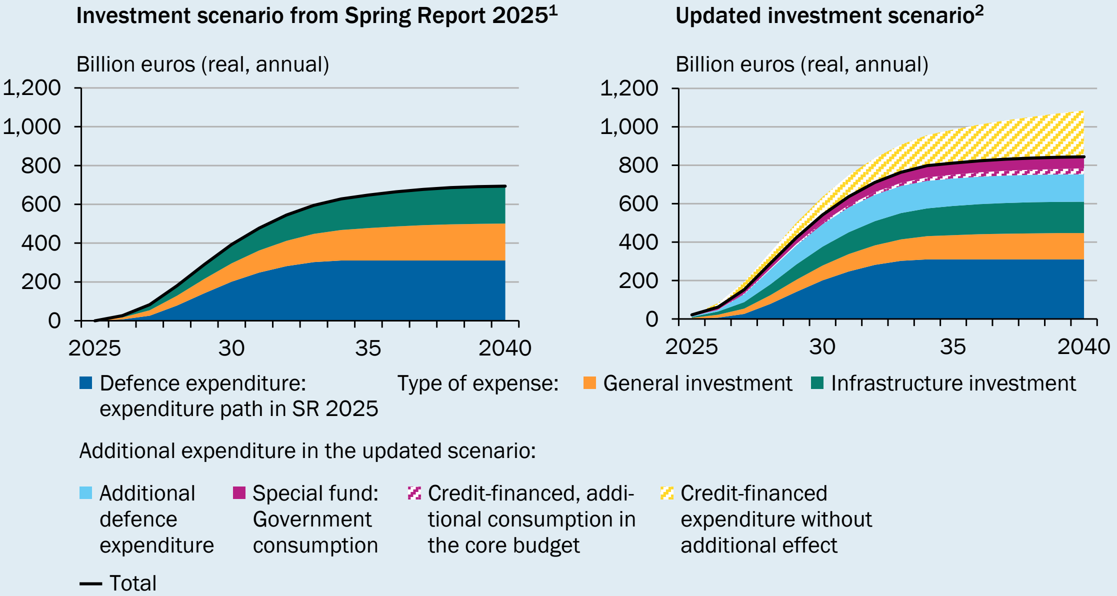
Sources: Ochsner and Zuber (2025), own calculations

For the **expenditure of the SVIK**, it is assumed that the federal states and the KTF will receive €8.3 billion and €10 billion respectively each year (up to and including 2034). The expected additional cash outflow is calculated as the product of the planned cash outflow, the assumed outflow rate and the assumed additionality rate. The assumed outflow rate takes into account the fact that often not all of the estimated funds actually flow out during the estimated period. The assumed additionality rate takes into account the fact that some of the expenditure is not additional, but is used for projects that were already planned. In the case of the KTF, it is assumed that €10 billion will be drawn from the SVIK each year, meaning that the funds will flow out in full and be exhausted within ten years. For the federal and state governments, on the other hand, the outflow rate rises to around 73 % in 2027. In 2026, it averages 60 % for consumption and 40 % for investment. For the federal government, the federal financial planning for the years 2025 to 2029 is assumed. The assumed outflow rates illustrate that additional expenditure tends to be consumed more quickly than it can be invested, as planning and approval procedures are less extensive for consumption expenditure. Up to and including 2029, approximately €216 billion or 43 % of the total volume will flow out of the SVIK in nominal terms under the current policy scenario. This continues to correspond to moderate front-loading. Of this amount, just under €136 billion will be attributable to the federal government up to and including 2029, i.e. 45 % of total federal funds. The federal government's front-loading is thus significantly lower than the €179.3 billion envisaged in the federal financial planning. ↘ CHART 36 TOP

↘ CHART 39

Comparison of expenditure paths

Additional expenses (cumulative)



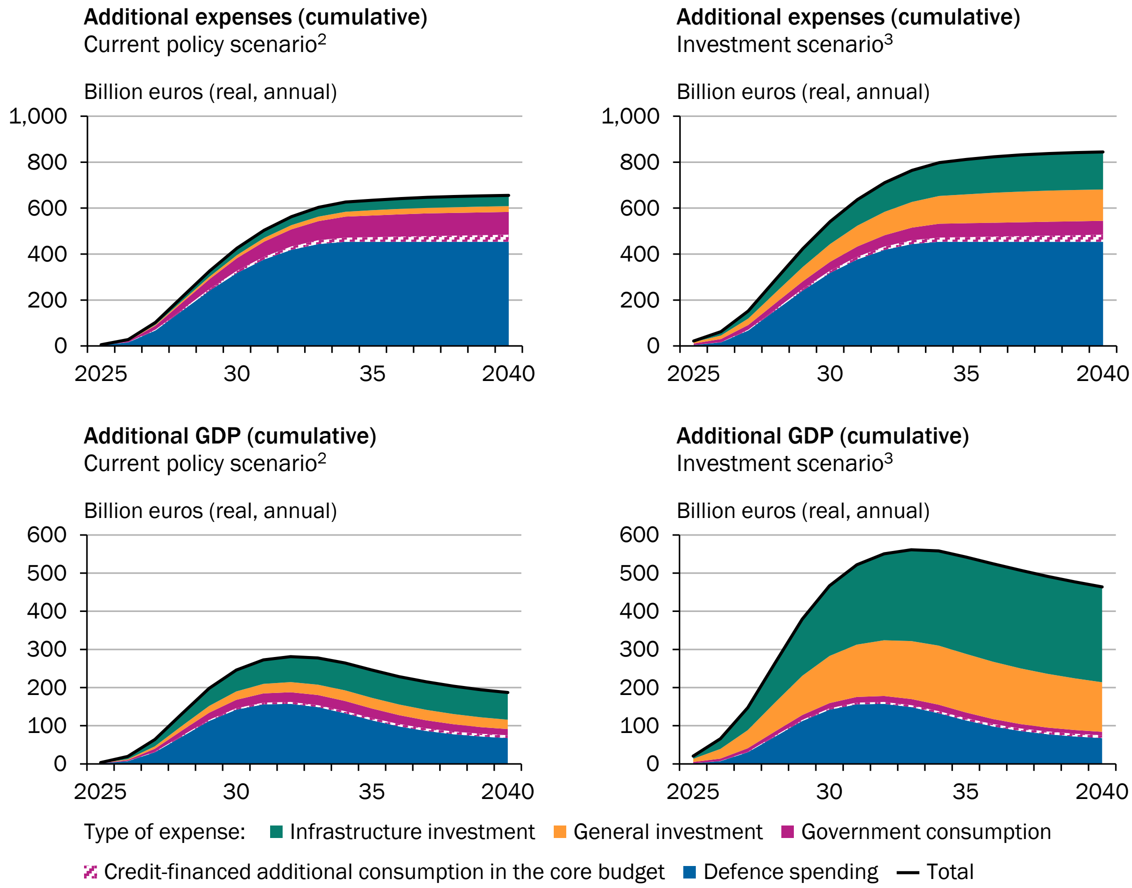
1 – Expenditure is based on the investment-oriented paths in box 30. Defence expenditure is not shifted from the core budget in favour of consumption. 2 – Defence expenditure is up to 1.0 percentage point per year higher than assumed in the spring report. It is assumed that this includes defence expenditure amounting to 0.5 % of GDP, which is being shifted from the core budget (see table 12). Ten per cent of the resulting leeway in the core budget is being used for additional consumption (shaded in purple). The remainder is allocated to already planned expenditure and therefore has no growth effects (shaded in yellow).

Sources: Federal Statistical Office, Ochsner and Zuber (2025), own calculations

The **current policy scenario** differs from the **investment scenario in terms of the proportion of expenditure that increases growth.** ↘ CHART 39 In the 2025 spring report, it was assumed in all scenarios that SVIK expenditure would have a fully additional effect, i.e. that it would not be used for projects already planned. This continues to be the case in the investment scenario. ↘ CHART 40 RIGHT This is the optimal case. Although this is not currently apparent due to shifts, ↘ ITEMS 95 F. AND 103 the realisation of the investment scenario is still possible. **According to calculations by the German Council of Economic Experts,** the share of additional expenditure in the current policy scenario will be **50 %** in 2027. In 2025 and 2026, the additionality rate will be significantly lower because it is assumed that the SVIK funds for the KTF will fill existing gaps and will not be spent additionally. In addition, the additionality of federal funds is lower. ↘ ITEM 95 In the projection period from 2027 onwards, it is assumed that the additionality rate of 50 % will remain unchanged. This means that only half of the funds in the SVIK are likely to have an additional impact on growth.

113. According to estimates by Ochsner and Zuber (2025), **investment expenditure has multipliers of over one in the medium term** (i.e. within five years) and can therefore generate substantial growth momentum. In contrast, the multipliers for consumption and defence expenditure are well below one. ↘ TABLE 29 These multipliers do not take into account the possible effects of the current underutilisation of the German economy. ↘ ITEM 110 The **funds in the current policy scenario** are not only used for additional investment, but also, to a significant extent, to finance consumption or to substitute consumptive expenditure in the core budget. As a result, there will only be a **small positive effect on GDP** in relation to total expenditure up to and including 2030 (2035). ↘ CHART 40 LEFT In this case, additional price-adjusted expenditure of €426 (635) billion will only lead to an increase in price-adjusted GDP of around €246 (246) billion. This means that the **average multiplier** of planned expenditure up to and including 2030 in the current policy scenario is well below one.

↘ CHART 40
Two scenarios[1]



1 – Expenditure is based on the paths in box 10. For defence expenditure outside the debt brake, it is assumed that it will increase to 2.5 % of GDP from 2026 up to and including 2029 and then fall to 0.5 % of GDP by 2035. In both scenarios, it is assumed that defence expenditure amounting to 0.5 % of GDP will be shifted from the core budget each year. One tenth will be used for additional consumption and the rest for already planned expenditure. 2 – In the current policy scenario, an average additionality rate of 50 % is assumed. 3 – In the investment scenario, the special fund is mainly used for additional investments.

Sources: Federal Statistical Office, Ochsner and Zuber (2025), own calculations

In contrast, **a completely additional and targeted investment-oriented use of funds** has a **significantly greater effect on production.** ↘ CHART 40 RIGHT If additional expenditure of €542 (812) billion is used for investment purposes up to and including 2030 (2035), GDP will increase by around €467 (542) billion. In the investment scenario, the average multiplier is just under one due to additional defence spending, unlike in the 2025 spring report. The additional GDP (the volume of additional expenditure) in 2030 is around 8.9 % (around 37.9 %) above the figure calculated in the 2025 spring report for the investment scenario, which is mainly due to the additional credit-financed defence expenditure, which has multipliers below one in all time horizons.

114. The size and structure of the additional credit-financed expenditure, as well as its growth impulses and price effects, are decisive for the **development of the debt ratio**: the lower the expenditure and the stronger the nominal GDP growth, the lower the increase in the debt ratio. As in the Policy Brief of the German Council of Economic Experts, a path is simulated in which the deficit relevant for the debt brake amounts to 3 % instead of the regulatory upper limit for structural net borrowing in 20 % of cases – on average, every five years (GCEE, 2024). Up to and including 2029, without such emergencies, approximately €876 billion in additional debt will be incurred in nominal terms. If the stock-flow adjustments, ↘ GLOSSARY reported by the Federal Ministry of Finance (BMF), are also taken into account, ↘ TABLE 13 the debt level would increase by a further €372 billion by 2029 (Independent Advisory Board of the Stability Council, 2025).

115. The simulations carried out by the German Council of Economic Experts show that, under **the current policy scenario**, the **average debt ratio will rise to** just under **78.2 %** (87.6 %) **of GDP by 2030** (2035). ↘ CHART 41 LEFT In contrast, with an investment-oriented approach, it will be lower at 73.3 % (79.5 %) of GDP, mainly due to the stronger increase in GDP. ↘ CHART 41 RIGHT If changes in debt levels due to stock-flow adjustments are also taken into account, the debt ratio is up to 7 percentage points higher in each case. ↘ TABLE 13

Compared to the investment scenario considered in the 2025 spring report, the **debt ratio in the updated investment scenario** is up to 8.5 percentage points higher. On the one hand, this is due to **higher defence spending.** ↘ BOX 10 On the other hand, it is assumed that defence spending amounting to 0.5 % of

↘ TABLE 13

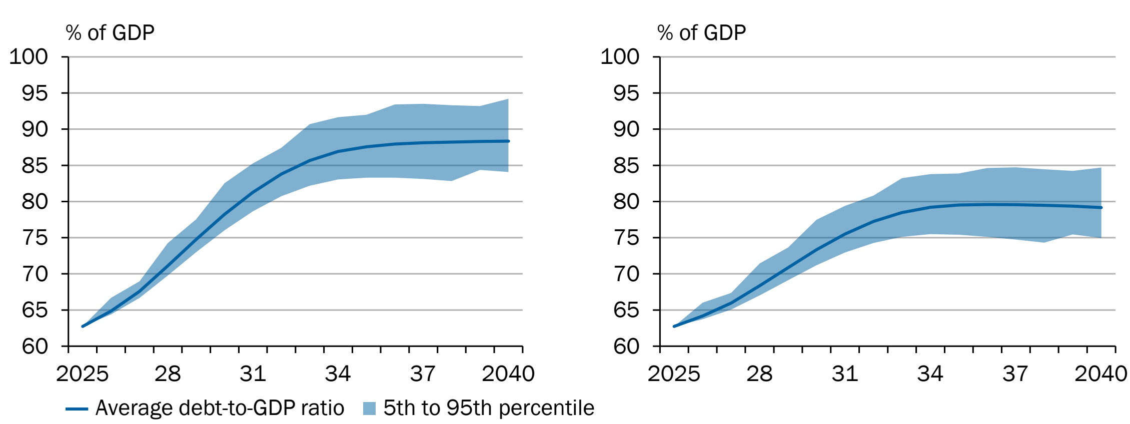
General government debt-to-GDP ratio in 2029 including and excluding stock-flow adjustments[1]
in % of GDP

	Current policy scenario		Investment scenario	
	excluding emergency situations	including emergency situations	excluding emergency situations	including emergency situations
Excluding stock-flow adjustments	73.0	74.8	69.1	70.9
Including stock-flow adjustments	79.9	81.7	75.7	77.4

1 – The stock-flow adjustments reported by the Federal Ministry of Finance but not explained in detail are expected to amount to €372 billion between 2025 and 2029 inclusive.

Sources: Independent Advisory Board of the Stability Council (2025), Ochsner and Zuber (2025), own calculations

↘ CHART 41
Hypothetical development of the general government debt-to-GDP ratio[1]



1 – The simulations are based on the debt-to-GDP ratio in 2025, the projected growth in real potential output up to 2040 (see items 76 f.) and an average GDP deflator of 1.6 % per year, the additional credit-financed expenditure according to the two expenditure paths and the resulting implied GDP growth (see box 10). There is a 20 % probability of emergency situations occurring. In the event of emergency situations, the general government budget deficit excluding expenditure under the fiscal package will amount to 3 % of GDP. Otherwise, it will amount to 0.7 % of GDP. 100,000 paths are simulated for each scenario. For defence expenditure outside the debt brake, it is assumed that it will increase to 2.5 % of GDP from 2026 up to and including 2029 and then fall to zero by the beginning of 2035. In both scenarios, it is assumed that defence expenditure amounting to 0.5 % of GDP will be transferred from the core budget each year. One tenth will be used for additional consumption and the rest for already planned expenditure. 2 – In the current policy scenario, an average additionality rate of 50 % is assumed. 3 – In the investment scenario, the special fund is mainly used for additional investments.

Sources: Ochsner and Zuber (2025), own calculations

GDP will be shifted from the core budget each year, thereby creating fiscal leeway in the core budget. One tenth of this leeway, i.e. 0.05 per cent of GDP, will be used for additional consumption. The remaining credit-financed funds amounting to 0.45 per cent of GDP will finance already planned expenditure. They will thus increase the deficit but have no effect on GDP.

IV. OPTIONS FOR ACTION

116. The SVIK was created to reduce pent-up demand in the areas of public infrastructure and climate neutrality and to stimulate the German economy. However, this **requires additional investment spending**, which is currently only emerging to a very limited extent.

The **predictability of** SVIK **spending** should **be improved** with a multi-year financial plan. A reliable financial plan can create incentives for capacity expansion in the economy and thus counteract the risk that the additional expenditure will be lost in price increases. ↘ ITEM 118 In addition, **effective monitoring** based on a **uniform database** and an **independent monitoring body** are needed. ↘ ITEMS 119 FF. The legal framework conditions that define additionality and targeting are too broad or unclear. In order to reliably ensure **compliance with the principle of additionality**, the calculation of **the investment ratio at federal level** should be **adjusted**. ↘ ITEM 126 **Additionality** should also apply **to the federal states and the KTF**. ↘ ITEMS 127 FF. The need for consolidation is already high in the coming years and is likely to increase further, partly because the exemption rule for defence spending will have to be reduced in the future. ↘ ITEMS 132 FF. In the short term, **refraining from questionable new measures such as the expansion of mothers' pensions** can help. In the medium to long term, a comprehensive consolidation strategy on the expenditure and revenue side is needed, along with reforms that should be tackled swiftly in order **to strengthen production potential and accelerate its growth again**. ↘ ITEM 140

1. Establishing transparency and reliability

117. When it comes to the use of public funds, there is a **tension between rapid expenditure and targeted use of funds**. Given the long term of the special fund, it is not enough to plan expenditure for the following year only. **Effective management** that counteracts undesirable price increases requires **predictability and reliability**. ↘ ITEM 118 At the same time, **systematic monitoring** is required to ensure that undesirable developments are made public and consistently corrected. ↘ ITEMS 119 F. An **independent monitoring body** should **be given** the **legal mandate** to do this. ↘ ITEMS 122 F.

Undesirable developments in the expenditure of SVIK funds occur in particular when they are not used in accordance with the purposes specified in the establishment act or are not used additionally, when they contribute only marginally to growth or to achieving climate neutrality, or when there are significant cost overruns in the course of project implementation. Such deviations should **be** systematically **recorded** in the monitoring process **and documented**, **for example**, **in regular**, **publicly accessible audit reports**.

Improving predictability through financial planning

118. As a first step, a **five-year rolling financial plan for the SVIK** should be introduced for the federal government and the governments of the federal states, detailing income and expenditure over several years. This would increase transparency, the binding effect and planning security. Financial plans demonstrate the financial viability of planned measures and thus provide important guidance and orientation for businesses, politicians and administrators.

At the same time, there is a **conflict of objectives between planning security and flexibility**: the more detailed and binding the financial plan is, the easier it is to plan expenditure, but the less adaptable it is to unexpected developments. Conversely, flexible financial planning allows for quick reactions, but at the expense of reliability for strategic projects. However, since financial plans are generally not legally binding (Section 9 StabG), adjustments are possible without a legislative process.

Introduce a nationwide database for monitoring

119. In order to ensure **transparency and traceability in the use of funds**, a **nationwide project register for the SVIK** should be introduced. The register should contain information on the project sponsor, location, purpose and funding criteria for each funded project. In addition, milestones in the progress of the project and the budgets should be reported. In addition, the register should document key figures on the status of the award procedure, relevant delivery dates and deviations from the original cost estimates. The timely **publication of project data** is particularly important, as this not only enhances traceability but also enables independent evaluations by academia, civil society, the media and parliaments.

120. **Binding monitoring** should also be introduced at **the federal state level** to control SVIK spending. According to Article 143h of the Basic Law, the federal states are required to report to the federal government, and the federal government is entitled to audit the use of funds. This audit should be entrusted by law to an independent monitoring body. ↘ ITEM 122 To this end, the federal states should submit regular reports on their commitments and payments already made. This data should be entered into the nationwide project register to ensure comparability and consistency. In addition, an automatic comparison with existing funding programmes should be carried out to prevent inadmissible double funding or at least make it public at a low threshold.

Publish cost-benefit analyses in the transport sector

121. A significant portion of the SVIK funds goes to the **transport budget**. The Federal Court of Auditors (Bundesrechnungshof) has repeatedly criticised the fact that needs assessment in the transport sector is inadequate and that economic efficiency is not verified (Bundesregierung, 2016; Bundesrechnungshof, 2023). A legal obligation to publish cost-benefit analyses of transport infrastructure planning could help to increase transparency, reduce political misincentives and thus

promote sound, evidence-based investment management. The **Federal Ministry of Transport** should therefore **be required to publish detailed cost-benefit analyses for all transport infrastructure planning** in transport projects. The full publication of each cost-benefit analysis can ensure transparency and strengthen budgetary accuracy and clarity (BMF, 2011; Section 7 BHO). To this end, all assumptions, the parameters used (e.g. discount rates, evaluation periods, shadow prices), the sensitivity calculations performed and the results of external quality assurance should be disclosed.

Establish a new monitoring body by law

122. **Independent and uniform monitoring of local authority expenditure, including special funds, is long overdue.** In order to enable effective monitoring of SVIK expenditure, a **new**, **independent monitoring body** should **be given** a **legal mandate**. It should regularly and systematically review the use of funds and be allowed to proceed on a "comply or explain" basis with the federal government. The body should assess key figures on cash outflows, project progress and target achievement twice a year and, in addition, submit an audit report on the status of the special fund's expenditure to the Bundestag and Bundesrat once a year.

123. In addition, **corrective mechanisms** should be **put in place** to ensure that **any misuse that is identified is not only documented but also corrected**. If the monitoring committee identifies undesirable developments, the responsible department should be obliged to submit a well-founded statement within six months of the finding, containing either a comprehensible justification for its objection or concrete measures and a timetable for correcting the undesirable developments. The statement and the corrective action plan should be submitted to the Budget Committee and contain specific details of corrective measures, a binding timetable and an assessment of their expected effectiveness. If such corrections are not made or are deemed insufficient by the Budget Committee, automatic sanctions should be imposed. These could include a proportional **reduction in future appropriations from the SVIK and the repayment of misused funds** at the expense of the respective individual plan.

2. Tighten up the legal framework for additionality and targeting

124. Some of the laws passed to implement the March 2025 fiscal package contain provisions that are so broad or unclear that **compliance with the principle of additionality for expenditure made on this basis** cannot be **reliably guaranteed**. Therefore, adjustments are needed in the SVIKG and LuKIFG to ensure additionality and, beyond that, targeting.

State the investment ratio in the core budget more precisely by law

125. **The numerator and denominator** should **be adjusted uniformly when calculating the investment ratio** in the federal core budget. In particular, the exemption rule for defence expenditure should be deducted from both figures in order to determine a consistent indicator for the investment share in the federal budget.

126. Furthermore, the **investment ratio in the core budget** should not only apply to planning, but should also be **actually achieved** in **the budget implementation or made up for in subsequent years** (Heinemann, 2025). Otherwise, the additionality of the credit-financed expenditure of the special fund would be undermined. This can be avoided by transferring investment funds to the next budget year by means of a binding catch-up rule. This should ensure that the funds not contractually committed in a given budget year are spent on investments on average over the following three years. In addition, the budget implementation should show annually how large the deviation between the target and actual ratios is and how the catch-up will be achieved. Alternatively, if the target value for investments set in the budget is not achieved, the structural new debt permitted under Article 115 of the Basic Law could be reduced by the shortfall in the next period.

Extend additionality to federal states and municipalities

127. As with the federal government's use of SVIK funds, it is also crucial for the **federal states' share** that **additional investments** are made possible. In particular, there must be **no incentive to undermine** necessary **consolidation efforts by drawing on SVIK funds**. In its 2025 spring report, the German Council of Economic Experts already proposed a state-specific investment ratio to ensure additionality at the federal state level. ↘ ITEM 550 This or a comparable provision should be added to the LuKIFG retrospectively, as otherwise the additionality of the infrastructure investments to be made by the federal states cannot be guaranteed.

For some federal states and municipalities, **maintaining their investment ratio** in the coming years is likely to be difficult due to high current deficits. ↘ ITEM 101 In these cases, the federal states concerned could be granted a transition period of a few years during which the SVIK funds do not have to be used additionally, or only to a limited extent. This could create the political leeway to embark on a consolidation path in the first place.

128. **As the main providers of public investment, municipalities should benefit directly from the special fund** in the areas of education and transport infrastructure (GCEE Annual Report 2024 item 97). In order for the SVIK funds allocated to the federal states to be used effectively, a high statutory quota for mandatory transfer to municipalities is therefore necessary. This share should be **at least 60 %**, as provided for in the draft bill of the LuKIFG (BMF, 2025d) and in the law enforcement for Saxony-Anhalt (MF Saxony-Anhalt, 2025).

In view of the distribution of capital expenditure between the federal states (28.9 %) and municipalities (71.1 %) in 2024, the share could also be set at 70 %, unless this would conflict with a low degree of municipalisation in a particular federal state.

129. A **moderate co-financing obligation for federal states and municipalities can** help to ensure that projects **within the framework of the SVIK** are selected on the basis of economic efficiency. If federal states and municipalities are obliged to finance part of the investment expenditure themselves, for example **in the order of 10 to 20 %** of the costs, the commitment to use the funds increases. This reduces the risk of inefficient projects and increases the accuracy of the funds used. However, the co-financing obligation can be a considerable hurdle for financially weak municipalities (BMF, 2025e). Under certain circumstances, they may not be able to make use of the funds available because they cannot raise the required own contribution. This can exacerbate regional inequality, with financially strong municipalities benefiting disproportionately. To mitigate this disadvantage, an **exemption** could be provided **for particularly financially weak municipalities**. In these cases, the municipalities concerned could alternatively be granted a transition period until 2027, during which no co-financing requirements would apply.

130. In the medium term, the federal government, together with the federal states and municipalities, should initiate a **financial reform process** aimed **at assessing the financial needs of subordinate local authorities and, if necessary, permanently adjusting their funding**. This should reduce structural funding bottlenecks and mitigate incentives to shift SVIK funds to consumption.

If individual federal states require **additional financial support** in the medium term due to high consolidation pressure, this should **be provided separately from the SVIK**, **be limited in time and** be linked **to specific conditions**, such as measures in the area of administrative digitisation. These reforms should be set out in agreements with binding milestones, and the support should be paid out in stages as targets are achieved. The structure could be based on the **special federal supplementary grants** (SoBEZ): these serve to compensate for clearly defined and verifiably justified special burdens on individual federal states (e.g. structural unemployment or above-average fixed costs in small federal states). They are granted for a limited period of time and on a degressive basis, reviewed regularly and end when the special burden ceases to exist. In addition to a conclusive justification, the allocation requires a reliable data basis. Short-term financial weaknesses or ongoing deficits may not be compensated in this way (Section 12 (1) MaßstG).

Additional expenditure to achieve climate neutrality in the KTF must be ensured

131. SVIK allocations to the KTF should also be made for **additional expenditure** to achieve climate neutrality ↘ ITEM 106 and should not fill budget gaps. Various instruments are available to ensure the **additionality of KTF allocations**. In its 2025 spring report, the German Council of Economic Experts proposed a quota

for investment expenditure in the KTF, analogous to the regulation for the core budget. ↘ ITEM 550 **Alternatively**, **measures** that **were** already **planned** in the **KTF business plans prior to 2025** could be **excluded from being funded by the SVIK**. For this exclusion, the amount specified in the 2024 business plan should apply for each title. Furthermore, titles that are already eligible for coverage by regular budget titles should not be eligible for financing by the SVIK. This proposal would give legislators leeway to indirectly finance new expenditure to achieve climate neutrality from the SVIK or to extend it beyond the 2024 level.

However, this approach requires the **existing overall underspending in the KTF** to be covered by other means, for example through consolidation measures, further allocations from the core budget or the expansion of other KTF revenues. In doing so, however, it would be important to prevent relatively effective climate policy measures from being cancelled in favour of less effective but new measures as a result of consolidation in the KTF. For measures that are highly effective in avoiding CO2 equivalents, additionality could be interpreted less strictly than for measures that will be included in the KTF from 2025 onwards and thus potentially financed by the SVIK.

3. Addressing consolidation needs promptly

132. If the scope opened up by the special fund is used for consumption rather than additional expenditure beyond the 2026 financial year, there is not only a risk that the potential growth effects of the SVIK will remain low. The more regular tasks are shifted from the core budget, the less likely it becomes that infrastructure spending can be (once again) fully financed from the core budget after the SVIK expires. ↘ ITEM 113 AND ↘ CHART 40 Against the backdrop of the financing gap in medium-term financial planning (€172 billion from 2027 up to including 2029), the federal government should therefore **consistently observe** the **financing reservation enshrined** in **the coalition agreement when drawing up the budget. At the same time**, **it should not postpone necessary consolidation efforts**, thereby creating the fiscal policy leeway to use the SVIK in a growth-enhancing manner.

In the short term, **questionable measures such as** extending **mothers' pensions**, permanently applying the **reduced VAT rate in the catering industry**, extending the **income tax commuting allowance** to 38 cents from the first kilometre and providing additional **subsidies for diesel fuel in agriculture and forestry should be avoided.** ↘ ITEM 135 However, these short- and medium-term consolidation measures alone will not be sufficient to overcome the current fiscal and economic challenges. In the longer term, the need for consolidation will be even greater as repayment obligations arise, because demographic ageing is putting increasing pressure on public finances and, not least, because defence spending and public investment should once again be firmly anchored in the core budget. ↘ ITEMS 136 FF.

Consolidating expenditures

133. Among the measures agreed by the current coalition, four questionable measures in particular should not be implemented, as the German Council of Economic Experts already pointed out in its 2025 spring report, in order **to avoid a further increase in expenditure in the 2026 and 2027 financial years**: the extension of **the mothers' pension** (€4.9 billion annually), the permanent application of **the reduced VAT rate in the catering industry** (up to €4 billion annually), the extension of the **income tax commuting allowance** to 38 cents from the first kilometre (up to €1.9 billion annually) and the additional **subsidies for diesel fuel in agriculture and forestry** (€0.5 billion annually). ↘ ITEM 556 Waiving these expenditures would reduce the general government financing balance for 2027 by €11.3 billion. The gap in the federal government's financial planning for 2027 would thus be reduced from €34.3 billion to around €26.6 billion.

The **expansion of the mothers' pension** extends a **flat-rate**, **non-needs-tested supplement** that is **not a targeted instrument for reducing poverty in old age**. The benefits are paid to recipients in all income groups, but are offset against other social benefits, especially for those on low incomes (Keck et al., 2015; Geyer et al., 2020; Blesch et al., 2024). The **reduction of VAT in the catering industry** is likely to lead to only **minor increases in sales volume** due to the expected low pass-through effect (Harju et al., 2018; Benzarti and Carloni, 2019). The relief effects of **the commuting allowance** increase with longer commuting distances, which are often offset by lower housing costs and also increase with the individual marginal tax rate for higher incomes (Elmer and Fischer, 2022; Stöwhase and Altstadt, 2022). **Subsidising diesel fuel** in agriculture and forestry makes a fossil fuel production factor cheaper and **thus sends the wrong price signals in terms of climate policy** (Brümmer, 2024; Heinemann and Kemper, 2024).

134. In addition, existing inefficient **transfer payments and subsidies** that have little effect on growth at best should be phased out. One example is **home ownership subsidies**, which amount in 2026 to €500 million in title group 07 of the SVIK, even though they show clear signs of inefficiency. They could imply **windfall effects of up to €345 million per year** if take-up is comparable to that of the "Baukindergeld". According to an evaluation by the Federal Institute for Research on Building, Urban Affairs and Spatial Development (Weber et al., 2022), 59 % of those receiving the "Baukindergeld" subsidy for the purchase of existing properties and 69 % for new builds stated that the subsidy was not a decisive factor in their purchase decision. The subsidy therefore mainly benefits private households that would have bought a house anyway. In some cases, the subsidy also amounts to indirect subsidisation of sellers, e.g. property developers, as it has contributed significantly to higher purchase prices, which is likely to dampen the intended increase in home ownership rates. Such effects have been demonstrated, for example, in Bavaria for the year 2018 (Krolage, 2023).

Another approach to consolidation, albeit one that will only be effective in the long term, is **to slow down** the **increase in existing transfers or subsidies**. This applies in particular to climate-damaging subsidies (GCEE Annual Report 2022 item 197). For example, the cost increase associated with the **income tax treatment of company cars** could be slowed down by **switching from the uniform 1 % rule to a CO2-differentiated flat-rate assessment with a price cap** on the preferential assessment basis. Such a reform would reduce the tax advantage for employees with privately used company cars with higher CO2 emissions or high purchase costs. However, it would only have a fiscal impact in the medium to long term.

Strengthening the revenue base

135. In order to strengthen the revenue base, **tax evasion and avoidance** should **be** consistently **curbed** as a matter of priority. **Measures** that facilitate the **verifiability of tax returns** can increase tax revenues as the expected risk of detection increases. For example, the volume of **VAT evaded** annually is estimated **at around €5 billion** (European Commission, 2024). Third-party reporting procedures and the **obligation to provide electronic payment systems** can be particularly helpful in curbing tax evasion. Transaction-specific counterparty data enables reliable reconciliation of, for example, sales and input tax deductions. This reduces the scope for non-reporting and makes previously informal or under-reported trans actions measurable. This increases the tax base without changing the tax rate. Bohne et al. (2023) show that a one percentage point increase in cashless transactions reduces the revenue gap caused by tax evasion by 12 %. Further opportunities to broaden the tax base within the existing system include curbing profit shifting by multinational corporations ↘ ITEM 299 and reducing tax breaks for inheritance and gift tax. ↘ ITEM 434

Prospects for financing infrastructure and defence from the core budget

136. **Long-term measures for fiscal consolidation** are **important because the financing bottlenecks in medium-term financial planning are becoming increasingly severe over time**. This is due, among other things, to the repayment obligations for debts incurred in the wake of the coronavirus pandemic and the commitments entered into by Germany under the Next Generation EU programme (both from 2028 onwards), as well as repayment obligations for the Bundeswehr special fund (after full utilisation or from 2031 at the latest). Rising financial burdens on the federal budget also result from the demographic ageing process in Germany, which will reach its peak in 2035 and will not subsequently recede (GCEE Annual Report 2023 items 360 ff.). In addition, investments in public infrastructure, beyond covering pent-up demand, will also have to be financed from the core budget again in the long term. Above all, however, the necessary medium- to long-term withdrawal of the exemption rule for defence expenditure from the applicable debt rules represents an immense fiscal policy challenge.

137. Expenditure that can be financed by credit due to the **exemption rule for defence** contributes significantly to **the projected increase in government debt**, but has a much lower multiplier than investment expenditure. ↘ ITEMS 114 FF.

Unlike in the 2025 spring report, the updated scenarios take into account the NATO 5 % target. ↘ BOX 10 In addition, due to the exemption rule for defence spending, there are no limits on the amount or duration of expenditure. Since defence expenditure is a permanent task and largely consumptive expenditure, it should in principle be financed from current revenue. ↘ ITEM 551

For the **sustainability of public finances**, it is of central importance that **this defence expenditure is returned to the core budget** from 2029 **onwards**, once the European exemption has expired and the existing backlog has been covered. In view of the macroeconomic dimensions and for fiscal policy reasons, a gradual approach appears appropriate in this case. In particular, it would be conceivable to gradually raise the threshold of the permitted credit financing, so that the return to the core budget can be spread over several years.

138. In order to ensure the **sustainability and resilience of public finances**, **public investment** should also be **anchored** much more firmly **in the core budget** than is currently the case once the SVIK has been spent. Precautions are necessary to ensure that such forward-looking expenditure is actually made to a sufficient extent and is not constantly postponed in favour of consumptive government expenditure (GCEE Annual Report 2024 items 86 ff.). To this end, the investment ratio currently applicable to the core budget could be developed further in the long term, beyond the adjustments required in the short term. ↘ ITEMS 125 FF. Specifically for investments in transport infrastructure, an intermodal fund could also be created and permanently endowed with revenue from the core budget, e.g. from truck tolls, the energy tax on fossil fuels in the transport sector and motor vehicle tax (GCEE Annual Report 2024 item 177).

139. In order to create scope for financing increased defence spending and appropriate public investment from the core budget in the future, after the SVIK expires and the exemption rule for defence spending is necessarily phased out, there is an **enormous need for consolidation in the medium to long term**. This should be addressed in a timely manner. Additional burdens that will increase significantly over time, such as those arising from the planned tax financing of a halt line for the security level of statutory pensions from 2029 onwards (Bundesregierung, 2025e), should therefore be avoided. Instead, **reforms of the social security system** must be discussed that are suitable for curbing the effects of demographic ageing on the federal budget, but also the burden on private households and companies in terms of social security contributions. This applies to the statutory pension insurance scheme (GCEE Annual Report 2023 items 359 ff.) as well as to the statutory health insurance scheme and the social long-term care insurance scheme, whose expenditure is currently rising particularly sharply. In order to secure the financing of a new transport infrastructure fund in a targeted manner, a usage-based car toll could be introduced as an additional source of revenue, if only to replace the prospect of declining revenues from the taxation of fossil fuels (GCEE Annual Report 2024 item 177). If, in view of the enormous financial requirements, which can reach hundreds of billions of pounds per year, politicians fail to consolidate the budget and revive growth, ↘ ITEM 140 future federal governments will have no choice but to consider further measures to increase public revenue.

Strengthening growth through reforms

140. The current fiscal and economic challenges cannot be overcome without consolidation measures. However, these alone will not be enough. In addition, reforms must be undertaken to **strengthen potential output and boost growth again**. For years, the capital stock and technological progress have made only a minor contribution to the growth of potential output. Currently and in the future, it will be dampened primarily by the labour factor. ↘ ITEM 76 In the projection period up to 2030, the annual contribution of this factor is likely to be consistently negative, which is attributable to a demographically induced decline in the working-age population, the employment rate and the average working hours per employee. Declining immigration figures are further dampening the volume of work. ↘ ITEMS 76 FF.

In order to strengthen the volume of work, **incentives to work** should be **strengthened**, for example by consolidating benefits in the transfer system, improving opportunities for additional income and reducing jump points (GCEE Annual Report 2023 items 320 ff.), as well as reforming the splitting of income between spouses and other obstacles to greater participation in the labour market by second earners, especially women (GCEE Annual Report 2023 items 337 ff.). In addition, **employment opportunities** should be **improved**, for example by further expanding childcare facilities (GCEE Annual Report 2023 items 345 ff.). In the case of **labour migration**, **barriers to entry into the German labour market** should be **lowered** (GCEE Annual Report 2022 items 450 ff.), such as by abolishing the equivalence certificate for non-regulated professions. Although these measures to strengthen potential output are likely to have only a slow impact, they can be designed in a financially neutral manner.

Higher public investment can contribute directly to **increasing the capital stock and total factor productivity growth**. However, it is crucial that private investment in Germany also increases significantly again. To this end, **growth-promoting framework conditions** should be **strengthened**. Better tax conditions, especially for research and development, better conditions for start-ups and scale-ups, and the reduction of unnecessary bureaucracy can contribute to this. The provision of digital and physical infrastructure also plays an important role. ↘ ITEMS 762 FF. It is precisely here that the SVIK can make a decisive contribution if it is reformed.

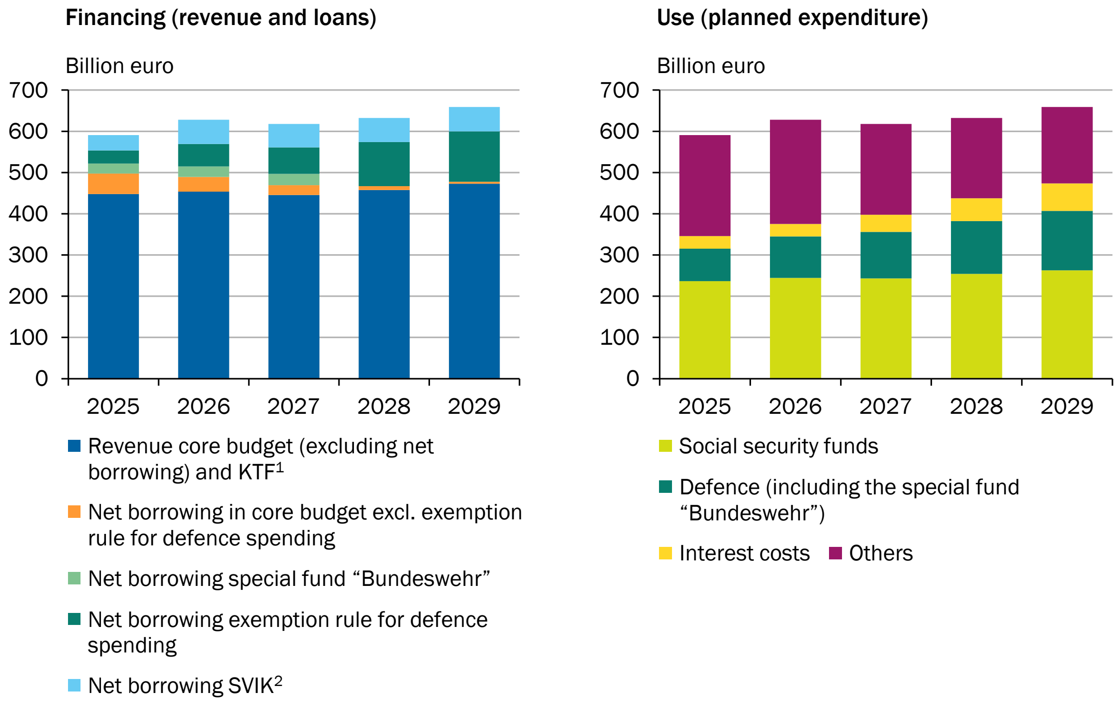
A differing opinion

141. One member of the German Council of Economic Experts, Veronika Grimm, does not entirely share the majority's assessment and considers the statements on necessary structural reforms to be insufficient. In the opinion of the dissenting council member, **current political decisions** – in particular election promises combined with a lack of willingness to reform – **are leading to rapidly increasing pressure to further relax the debt brake and/or implement tax increases**. However, both of these measures would entail further risks and negative effects for the economy. The federal government **currently still has the opportunity to counteract this**. The German Council of Economic Experts should have pointed this out more clearly and identified possible ways to achieve higher and sustainable economic growth.

1. The fiscal situation at a glance

142. In order to underpin the relevance of the differing positions, it is helpful to paint a **complete picture of the federal government's current budgetary situation** using easily comprehensible graphics. Unlike in the main text, the exemption rule for defence spending is therefore also taken into account throughout on both the revenue and expenditure sides.

↘ CHART 42
Federal budget planning for 2025 – 2029: Financing and use



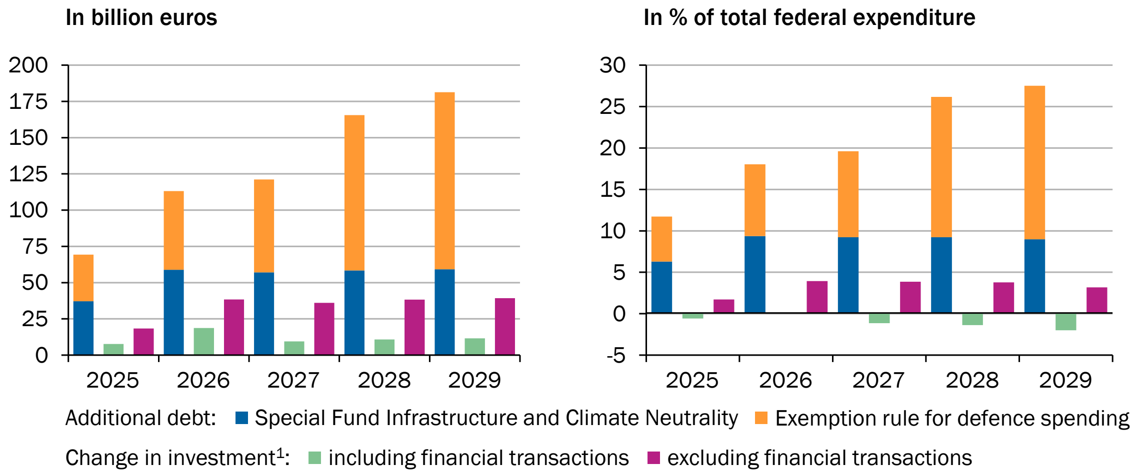
1 – Climate and Transformation Fund. 2 – Special Fund for Infrastructure and Climate Neutrality.

Sources: Bundesregierung (2025a), Deutsche Bundesbank (2025), own calculations

143. Chart 42 illustrates the financial planning for the revenue and expenditure sides of the federal budget and its most important special funds (KTF, SVIK, Bundeswehr) in the years up to 2029. ↘ CHART 42 This clearly shows that (1) **an ever-increasing proportion of expenditure is being financed by additional debt** (2029: 28.2 %) and (2) **expenditure on social security**, **defence and interest payments is rising sharply**, leaving less and less room for other expenditure. The pension package will increase social security expenditure even beyond the figures shown here.

↘ CHART 43

Additional debt and additional public investment of the Federal Government
Compared to the plans for 2025 of the predecessor government



1 – Sum of core budget, Climate and Transformation Fund, and Special Fund Infrastructure and Climate Neutrality.

Sources: Federal Government (2024, 2025a), own calculations

144. At the same time, chart 43 shows that, **despite the additional debt** in the high triple-digit billion range, **investments will only increase slightly compared to the investments originally planned** for 2025 **by the previous government** (the coalition of the SPD, Alliance 90/The Greens and FDP). ↘ CHART 43 Planned borrowing between 2025 and 2029 totals €851.1 billion, of which €650.5 billion is attributable to the SVIK and the exemption rule for defence spending alone. However, total investment will only increase by €170.5 billion by 2029 compared to the continuation of the level planned by the previous government for 2025. The increase in investment compared to the plans of the previous government is even lower if financial transactions are not excluded from the investment figures (as is the case in ↘ CHART 36 presented by the council majority) – in this case, the additional investment by 2029 amounts to only €58.3 billion.

145. If debt and additional investment are calculated as a share of total federal expenditure, it becomes apparent that while **debt will account for 28.2 % of the budget in 2029**, **the share of investment in total expenditure will rise by only 3.2 percentage points** (excluding financial transactions). If financial transactions are not excluded, the share of investment in total expenditure will actually fall by 2 percentage points compared with a continuation of the share of

investment in expenditure planned by the previous government for 2025. **This illustrates the extent of the shifting of funds**, which is illustrated with examples in the main text.

146. In all these calculations, the €8.3 billion that flows annually from the Special Fund for Infrastructure and Climate Neutrality (SVIK) to the federal states (as in the calculations of the council majority) is added to the additional investments, although it is not expected that the federal states will actually invest these funds additionally.

147. **Despite the extensive additional debt** and the indirect use of the additional funds to finance consumptive expenditure, **there are still gaps in the federal budget**. On the one hand, the financial planning for the years 2027 to 2029 includes a considerable need for action ranging from €34 billion to €74 billion. On the other hand, particularly in the case of necessary investments, it will not be possible to meet all requirements by a long shot. It can be assumed that it **will still not be possible to significantly increase investment**.

148. Looking at the budget plans, it's clear that the expected **rise in social security spending and interest payments**, **combined with the need for higher defence spending**, **will leave less and less room for manoeuvre**. ↘ CHART 42 RIGHT Without consistent reforms to reduce spending and boost growth, pressure is likely to mount to close the gaps in the budget through even higher debt or tax increases. Cutting back on investment is likely to be politically difficult due to the justification for the additional debt. Furthermore, even before the debt brake was relaxed, the share of federal investment in total expenditure did not decline on average during periods of consolidation in Germany (GCEE Annual Report 2019 chapter 5 box 14).

149. Expected – but misguided – political reactions would be to **finance** the **interest burden** for the special defence fund **via the sectoral exemption** (i.e. additional debt) or **to further weaken** the **debt brake** in the course of a reform (e.g. by exempting investments from the debt brake or introducing a generous transitional rule for emergencies). All of these would be **steps in exactly the wrong direction**, but they are already under discussion (Handelsblatt, 2025a, 2025b). Although the majority of the Council does not propose these measures in the main text of the chapter, it could have **warned more clearly against this development**.

150. The Council's simulations show a debt ratio of between 73.5 % and 80.5 % of GDP for 2029 (without taking emergencies into account); taking regular emergencies into account, the figure rises to 82.3 %. ↘ TABLE 13 A calculation of the development of the debt level based on the German government's projections results in a government debt ratio of around 80 % of GDP in 2029 (Independent Advisory Board of the Stability Council, 2025). In the calculations of the German Council of Economic Experts, the debt level will fall again in the years after 2035. This is because only the decisions on the special fund are taken into account and the debt-financed defence expenditure, which is exempt from the sectoral exemption, will decline to 0.5 % of GDP in the simulations after 2029 until 2034. It is therefore assumed that defence spending, which will remain high in the 2030s, will

increasingly be financed from tax revenues. **However**, **if the federal government does not immediately implement far-reaching reforms** that structurally curb the rise in spending and ensure sustainable growth, **a further increase in debt or tax increases are likely to be inevitable**.

151. The additional analyses and assessments presented here therefore indicate that **the fiscal situation could develop much less favourably from 2030 onwards than the calculations in the main text suggest**. This would also make it more difficult to comply with European fiscal rules in the future. In negotiations with the European Commission, the German government has assumed exceptionally dynamic growth in production potential, with an annual increase of 0.9 % (BMF and BMWE, 2025). Current developments, however, are significantly weaker (0.3 % and 0.4 % in 2025 and 2026, respectively, and only 0.1 % thereafter). ↘ ITEM 76 **The longer the current weak growth is not effectively addressed by** economic and fiscal policy, **the greater the risk that Germany** will not be able to comply with **European fiscal rules** in the coming years (Deutsche Bundesbank, 2025; Grimm, 2025; Independent Advisory Board of the Stability Council, 2025).

2. Return to sustainable fiscal policy without ambitious structural reforms

152. The supplementary presentations have shown that **expenditure on social security**, **defence capabilities and interest payments alone** is likely to reach **the level of total revenue available to the federal government** (excluding net borrowing) **as** early as **2029**. A return to sustainable fiscal policy therefore requires ambitious structural reforms. In the opinion of the dissenting Council member, the majority of the Council does not emphasise this sufficiently.

153. Both **expenditure-reducing and growth-enhancing reforms must be tackled** now **if there is to be any chance** of curbing **the rise in expenditure** before the end of the legislative period. Appeals to ministries to make savings, which are only made during the respective budget negotiations (as in August this year, cf. ZDF, 2025), cannot have anywhere near enough effect due to the cementing of large parts of the budget by performance promises or legal obligations of the state. ↘ CHART 42 The following section therefore briefly addresses the important reform steps outlined in chart 42 and refers to studies that describe these reforms in more detail.

154. **Reforms aimed at curbing expenditure** affect the **statutory pension insurance scheme** (see Advisory Board to the Federal Ministry of Finance, 2022; Grimm et al., 2025a; Thum et al., 2025) and **other social insurance schemes**. Furthermore, a **reduction in subsidies** is advisable (Feld et al., 2025; Fuest, 2025). According to estimates by Fuest (2025), this could save €94 billion by 2030 compared to the current expenditure path. In addition, the increase in debt and the expected sharp rise in interest costs should be curbed through the **economical and targeted use of the available debt leeway** (Grimm et al., 2025b). On the other hand, the stricter pursuit of tax evasion – prominently highlighted

by the Council majority – is unlikely to make a significant contribution without placing an excessive burden on additional bureaucracy. However, the Council majority rightly points out that the implementation of expensive **election gifts** (in the main text: "questionable measures") **should be withdrawn.** ↘ ITEM 133

155. **Growth-enhancing reforms** must be geared towards increasing the economy's currently extremely low potential growth. In this context, the Council majority is right to call for an **increase in work incentives and the labour force potential**. ↘ ITEM 140 However, in order to sufficiently increase potential output growth, a significant increase in private investment is necessary, as is dynamic technological progress. To this end, the attractiveness of Germany as a location for innovative companies should be increased so that not only is world-class research conducted in Germany, but ideas are also translated into value creation on a large scale in Germany. This requires, for example, a far-reaching **reduction in regulations that inhibit innovation**, **greater flexibility in the labour market**, **simplifications in building law and a slowdown in the rise in non-wage labour costs** (Grimm et al., 2025b). ↘ ITEMS 672 FF. These measures are outlined by Feld et al. (2025) and Grimm et al. (2025b), among others. Clearly, much more far-reaching measures are needed than those proposed or suggested by the majority of the Council.

156. A **reduction in corporate taxes** to an internationally comparable level or a reduction in tax distortions ↘ ITEMS 253 FF. would also increase the attractiveness of the location in international comparison. The Council majority's proposal for adjustments to inheritance tax (in particular a partial withdrawal of the exemption for business assets) ↘ ITEMS 340 FF. is unlikely to be effective or may even be counterproductive in view of the current economic downturn, unless tax rates are significantly reduced. A revenue-neutral reform with a tax rate of around 15 % could increase the already high pressure on many family businesses (Feld, 2025a, 2025b).

157. **Reforms** that would significantly ease the budgetary situation towards the end of the legislative period (such as curbing the rise in expenditure in the statutory pension insurance system (GRV) and reducing regulation in a way that promotes growth) **are highly time-critical**, as their implementation takes a certain amount of time and their effects are sometimes delayed. Put another way, **if the federal government does not act immediately**, **a significant tax increase or a further expansion of debt beyond what has been planned to date will be unavoidable**.

Assessment of the calculations of the German Council of Economic Experts and criticism of the proposals for prioritising expenditure

158. In this context, it should be noted that the **declining debt level** in ↘ TABLE 14 of the main text **from 2036 onwards** is **misleading**, as the measures proposed in the text do not make it possible to reduce debt in the 2030s, as implicitly assumed in the calculations. The calibration of the model only takes into account measures that have already been decided upon and therefore leads to a

representation of future developments that is inconsistent with the possible future developments in the current policy scenario.

159. **Rules on additionality**, **targeting and monitoring** in federal and state budgets, as proposed by the majority of the Council, ↘ ITEMS 124 FF. **cannot be effective as long as** the automatic **increase in benefit commitments and interest payments** over the years **is not curbed by structural reforms** and prudent budget management. Without consistent reforms, it is likely to be impossible to develop clear guidelines for future-oriented spending (see the comments in the minority opinion of the dissenting Council member. ↘ ITEMS 582 FF. Furthermore, such guidelines would also be problematic because the scope for action of democratically elected representatives would be significantly restricted and replaced by expert decisions (minority opinion of the dissenting Council member in GCEE Annual Report 2024 items 182 ff.).

160. Even if it were possible to create budgetary leeway and reduce the misuse of funds in the SVIK, there would still be significant challenges when it comes to using the funds in a way that promotes growth. The guidelines put forward by the majority of the Council ↘ ITEMS 121 FF. AND 127 FF. are unlikely to be effective. Firstly, they would create a **considerable amount of new administrative work and additional bureaucracy**. Secondly**, it is** typically **easy to interpret a legally enshrined purpose flexibly** (politics is currently providing a clear and impressive example of this in the implementation of the amendments to the Basic Law). Thirdly, **such requirements can restrict the budgetary autonomy of parliament**. Fourthly, these requirements are **unlikely to be legally binding**. The proposal by the majority of the Council ↘ ITEM 122 for a monitoring body is also surprising, as it interferes deeply with existing responsibilities and risks both bureaucratisation and constitutional tensions. The planned powers of intervention – such as the reduction of future funding allocations – could conflict with the budgetary powers of the Bundestag. The high frequency of reporting carries the risk of additional administrative burdens, without necessarily increasing effectiveness. Finally, politicisation of the committee cannot be ruled out. With regard to infrastructure development and maintenance, the establishment of an infrastructure company modelled on Austria's Asfinag would be a more effective means of securing investment and selecting projects (cf. differing opinion in GCEE Annual Report 2024 item 187).

161. Since it is inevitable that **elected parliamentarians will decide on the use and prioritisation of funds**, an important contribution by the German Council of Economic Experts could have been to highlight the short- and long-term effects of these decisions in order to inform decision-makers and their constituents about the crucial trade-offs. These interrelationships are therefore outlined briefly (and not exhaustively) below.

162. **Public investment** can stimulate **growth in various ways**. These effects vary in terms of their impact on potential growth and are therefore also very different in terms of their sustainability. Here are a few guiding principles:

– **Short-term effects** arise from **higher capacity utilisation in the manufacturing sector**. Currently underutilised capacities ↘ CHARTS 20 AND 22 can experience higher utilisation as a result of additional government demand, which temporarily increases economic output. **However**, **where capacity utilisation is already high**, **additional investment could lead to price increases**. From a macroeconomic perspective, the question also arises as to whether government activities will **crowd out private investment**. Such momentum disappears as soon as government involvement ends.

- **Direct medium-term effects** may arise if a permanent increase in public investment is credible. This is because it can lead to **capacity expansion in the sectors involved in the implementation of public projects**. As a result, the **production potential** of the economy would **rise to a higher level** (level effect). However, the effect is likely to be modest. As investment is not yet reliably increasing significantly, ↘ CHART 43 this effect is unlikely to occur initially.
- **Spillover effects from infrastructure investment** occur when an expansion of public infrastructure **increases** the **attractiveness of the location**. This can involve a wide variety of infrastructure (roads, railways, educational and childcare facilities, airports, ports etc.). **The more precisely such infrastructure is expanded to increase the attractiveness of the business location for companies and employees**, **the greater this effect will be**. Complementary measures such as the reduction of regulation and bureaucracy or a cut in corporate taxes can reinforce the effect. The choice of specific projects therefore also has an influence on the growth effect.
- **The long-term effects** of government investment on economic growth are greatest when the funds are channelled into **education and research**. There is a great need for action in the education system due to the decline in PISA results over a considerable period of time (Anger et al., 2025; Stanat et al., 2025). ↘ ITEM 442 Research funding should be designed in such a way that there is a stronger focus on the high-tech sector (Fuest et al., 2024, 2025).

The German Council of Economic Experts could have elaborated on this in more detail in its report.

APPENDIX

↘ TABLE14

Simulation results at a glance

Year	Current policy path			Investment path		
	Consumption	Investments[1]	Defence	Consumption	Investments[1]	Defence
Expenditure (nominal) in billion euros						
2025	1	1	4	7	11	4
2026	6	6	12	8	23	12
2027	15	9	57	9	34	57
2028	17	14	100	9	50	100
2029	17	15	104	10	52	104
2030	16	12	97	10	46	97
2031	15	11	78	10	42	78
2032	15	10	58	10	38	58
2033	14	9	37	10	34	37
2034	13	8	14	10	30	14
2035	8	7	0	3	23	0
2036	7	5	0	3	19	0
2037	6	4	0	3	13	0
2038	4	3	0	3	8	0
2039	4	2	0	3	5	0
2040	3	1	0	3	2	0
Expenditure (in 2025 prices) in billion euros						
2025	1	1	4	7	11	4
2026	6	5	12	8	21	12
2027	14	8	52	9	30	52
2028	15	11	87	9	41	87
2029	15	11	87	8	40	87
2030	14	8	77	8	33	77
2031	13	7	59	8	29	59
2032	12	5	42	8	24	42
2033	11	5	25	7	20	25
2034	10	4	10	7	17	10
2035	5	3	0	2	12	0
2036	5	2	0	2	9	0
2037	4	2	0	2	6	0
2038	2	1	0	2	4	0
2039	2	1	0	2	2	0
2040	2	0	0	2	1	0

1 – Sum of average government investments and transport infrastructure investment. 2 – Defined as the minimum of the estimated median multipliers. 3 – Defined as the maximum of the estimated median multipliers. 4 – Ratio of real GDP levels with fiscal package and the real GDP in the reference scenario, minus one. The reference path includes the effects of the fiscal package on GDP amounting to €3,3 billion for 2025 and €17,2 billion for 2026. These effects are therefore also taken into account in the current policy and investment scenario. From 2027 onwards, the reference path does not include any GDP effects of the fiscal package. Analogous to Ochsner and Zuber (2025), it is assumed that infrastructure investments have a lasting effect on the GDP level.

Sources: Ochsner and Zuber (2025), own calculations

↘ STILL TABLE 14

Simulation results at a glance

Year	Current policy path			Investment path		
	Multiplier			Multiplier		
	Lower limit[2]	Mean value	Upper limit[3]	Lower limit[2]	Mean value	Upper limit[3]
Additional cumulative GDP in billion euros						
2025	0	3	7	4	21	36
2026	3	19	36	12	66	115
2027	8	64	121	22	147	260
2028	17	132	247	38	264	466
2029	30	198	367	59	379	667
2030	41	246	452	77	467	820
2031	48	272	500	89	522	919
2032	49	281	518	95	551	976
2033	47	278	515	98	561	1,001
2034	43	265	495	97	558	1,002
2035	36	246	465	92	542	980
2036	28	229	439	86	525	956
2037	21	215	418	81	507	933
2038	16	203	401	77	491	909
2039	11	194	387	73	477	888
2040	8	187	375	71	464	869
Debt-to-GDP ratio (excluding emergency situations) in %						
2025	62.7	62.7	62.7	62.7	62.7	62.7
2026	64.2	64.4	64.6	63.8	63.7	63.8
2027	66.9	66.7	66.4	65.8	65.1	64.5
2028	70.5	69.8	69.1	68.6	67.0	65.7
2029	73.8	73.0	72.3	71.2	69.1	67.4
2030	76.8	76.0	75.4	73.5	71.2	69.3
2031	79.2	78.7	78.1	75.3	72.9	70.9
2032	81.2	80.7	80.3	76.6	74.3	72.1
2033	82.6	82.2	81.8	77.5	75.1	72.8
2034	83.3	83.0	82.7	77.8	75.5	73.1
2035	83.6	83.3	83.0	77.7	75.4	73.0
2036	83.6	83.3	82.9	77.4	75.1	72.7
2037	83.5	83.1	82.7	77.0	74.7	72.3
2038	83.2	82.8	82.4	76.5	74.3	71.9
2039	82.9	82.6	82.1	76.0	73.9	71.5
2040	82.6	82.3	81.8	75.4	73.3	71.0

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Sources: Ochsner and Zuber (2025), own calculations

↘ STILL TABLE 14

Simulation results at a glance

Year	Current policy path			Investment path		
	Multiplier			Multiplier		
	Lower limit[2]	Mean value	Upper limit[3]	Lower limit[2]	Mean value	Upper limit[3]
Real GDP growth in %						
2025	0.3	0.3	0.3	0.4	0.7	1.0
2026	0.8	0.4	0.1	0.8	0.9	0.8
2027	0.7	1.4	2.1	0.7	1.8	2.8
2028	0.5	1.1	1.6	0.6	1.8	2.8
2029	0.4	0.5	0.6	0.5	1.1	1.7
2030	0.2	0.1	– 0.0	0.3	0.5	0.8
2031	0.1	– 0.1	– 0.3	0.2	0.2	0.4
2032	0.1	– 0.1	– 0.2	0.1	0.1	0.3
2033	0.1	– 0.0	– 0.1	0.2	0.2	0.3
2034	0.2	0.1	0.0	0.2	0.2	0.3
2035	0.2	0.1	0.1	0.2	0.1	0.2
2036	0.3	0.4	0.4	0.3	0.4	0.5
2037	0.4	0.5	0.5	0.4	0.4	0.5
2038	0.4	0.4	0.5	0.4	0.4	0.4
2039	0.3	0.4	0.4	0.3	0.3	0.3
2040	0.4	0.4	0.4	0.3	0.3	0.3
General government budget deficit in % of GDP						
2026	– 2.9	– 2.9	– 2.9	– 2.8	– 2.8	– 2.8
2027	– 4.2	– 4.2	– 4.1	– 4.0	– 4.0	– 3.9
2028	– 4.9	– 4.9	– 4.8	– 4.8	– 4.7	– 4.6
2029	– 4.7	– 4.7	– 4.6	– 4.6	– 4.4	– 4.3
2030	– 4.3	– 4.2	– 4.2	– 4.2	– 4.0	– 3.9
2031	– 3.8	– 3.7	– 3.7	– 3.6	– 3.5	– 3.5
2032	– 3.3	– 3.2	– 3.2	– 3.1	– 3.1	– 3.0
2033	– 2.7	– 2.7	– 2.7	– 2.6	– 2.6	– 2.5
2034	– 2.2	– 2.2	– 2.2	– 2.1	– 2.1	– 2.0
2035	– 1.7	– 1.7	– 1.7	– 1.6	– 1.6	– 1.6
2036	– 1.6	– 1.6	– 1.6	– 1.5	– 1.5	– 1.5
2037	– 1.5	– 1.5	– 1.5	– 1.4	– 1.4	– 1.4
2038	– 1.4	– 1.4	– 1.4	– 1.4	– 1.3	– 1.3
2039	– 1.3	– 1.3	– 1.3	– 1.3	– 1.3	– 1.3
2040	– 1.3	– 1.3	– 1.3	– 1.2	– 1.2	– 1.2

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Sources: Ochsner and Zuber (2025), own calculations

↘ STILL TABLE 14

Simulation results at a glance

Year	Current policy path	Investment scenario
	Mean value	Mean value
Difference of the real GDP to the reference path in %[4]		
2025	0.0	0.4
2026	0.0	0.8
2027	0.8	2.1
2028	1.5	3.6
2029	1.8	4.5
2030	1.7	4.9
2031	1.5	5.0
2032	1.2	4.9
2033	1.0	4.9
2034	0.9	4.9
2035	0.8	4.8
2036	0.9	4.8
2037	0.9	4.9
2038	1.0	4.9
2039	1.0	4.9
2040	1.0	4.9

1 – Sum of average government investments and transport infrastructure investment. 2 – Defined as the minimum of the estimated median multipliers. 3 – Defined as the maximum of the estimated median multipliers. 4 – Ratio of real GDP levels with fiscal package and the real GDP in the reference scenario, minus one. The reference path includes the effects of the fiscal package on GDP amounting to €3,3 billion for 2025 and €17,2 billion for 2026. These effects are therefore also taken into account in the current policy and investment scenario. From 2027 onwards, the reference path does not include any GDP effects of the fiscal package. Analogous to Ochsner and Zuber (2025), it is assumed that infrastructure investments have a lasting effect on the GDP level.

Sources: Ochsner and Zuber (2025), own calculations

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