GERMAN COUNCIL
of Economic Experts

PRESS RELEASE

Economy recovers, tough fiscal decisions required

- The economic recovery continues, driven by unexpectedly strong exports and government spending. Gross domestic product is expected to grow by 1.3 per cent this year and by 1.0 per cent in 2027.

- Federal spending is projected to rise in the coming years, driven primarily by defence spending and interest payments. Closing the growing funding gap is a challenge of historic proportion that requires tough decisions.

- Productivity varies considerably across firms, even within the same industry, which leaves room for productivity increases. Realising this productivity potential requires faster technology adoption and higher labour mobility.

Berlin, 11.11.2026 – This year, real gross domestic product (GDP) will increase significantly for the first time since 2022, with a growth of 1.3 percent. Despite the economic recovery, Germany's public finances are coming under increasing pressure. Across both the federal budget and the social security system, in the medium term, projected expenditure will significantly exceed anticipated revenues. "Capping expenditure growth in the federal budget is unavoidable. Consolidation should be designed in a way that does not hinder growth, and the burden should be distributed fairly across generations and social groups," says Monika Schnitzer, chair of the GCEE. Economic growth is being held back by weak productivity growth among firms. There are considerable differences in productivity between firms – often even within the same sector. Less productive firms can catch up faster by adopting the technologies and knowledge of more productive firms. New technologies and business models can drive productivity to a new level and give rise to new, highly productive firms.

Exports underpin economic recovery

Germany's economic recovery continues despite higher energy prices. The GCEE expects real gross domestic product to grow by 1.3 per cent in 2026 and by 1.0 per cent next year. This year, the economy is primarily supported by exports and government spending. Next year, both government and private household consumption, together with government investment, are expected to contribute to output growth. Rising energy prices will push up inflation over the forecast period. Consumer price inflation is expected to reach 2.8 per cent in 2026 and 3.3 per cent next year.

Federal Budget: Fiscal measures of historic scale required

Federal spending has surged since the early 2020s, driven by crisis-related expenditure, expansions in the social security system, and higher subsidies. Over the coming years, rising defence spending and interest payments will place an additional strain on the federal budget, implying a higher debt-to-GDP ratio. The GCEE proposes a gradual phaseout of the exemption rule for defence spending starting in 2031. The threshold under the debt brake above which defence spending may be funded through borrowing should be raised from 1 per cent of GDP by 0.25 percentage points annually. The gradual phaseout of borrowing should be enshrined in the Basic Law.

At the same time, a growing funding gap is becoming apparent. The size of this funding gap in the long term will depend on the pace and extent at which debt financing is reduced. Depending on this, the funding gap could reach between 2.7 and 4.8 per cent of GDP in 2040. A comprehensive package of fiscal measures will be required to close the funding gap, comprising targeted subsidy cuts, structural reforms of the social insurance system and a more efficient tax framework. The decision on the pasehout speed and consolidation strategy should be taken during this legislative term.

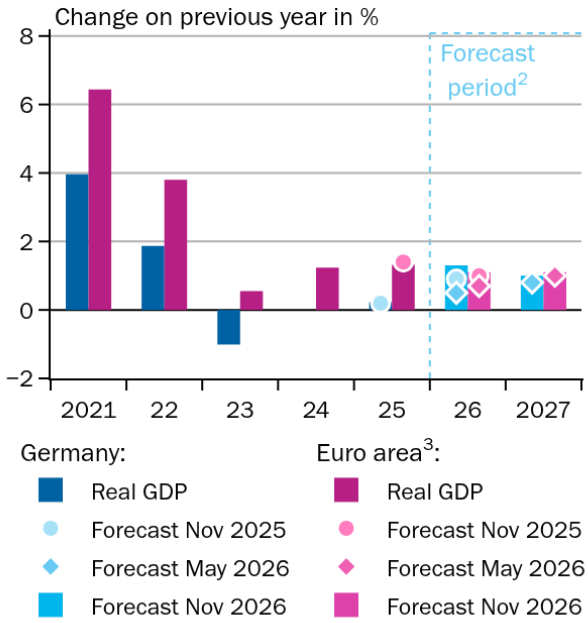
Productivity growth slowdown amid large differences between firms: Unlocking untapped potential

Productivity varies considerably across firms, even within the same industry. In Germany, firms at the top of the productivity distribution are 3.5 to 5 times as productive as those at the bottom. This indicates a large, untapped potential for aggregate productivity gains.

Innovative technologies and business models can boost productivity and pave the way for new and highly productive firms. Lagging firms can catch up more quickly by adopting technologies and knowledge of their more productive peers. Productivity gains are also achieved when labour and capital shift towards more productive firms such that they can grow whilst less productive firms shrink or even exit the market.

Economic outlook for Germany, the euro area and the global economy

GDP[1] in Germany and the euro area



Key economic indicators (in %)

	2025	2026[2]	2027[2]
Germany			
GDP growth[1]	0.2	1.3	1.0
Inflation rate	2.2	2.8	3.3
Unemployment rate[4]	6.3	6.4	6.3
Wage growth[5]	4.9	3.6	3.6
Budget balance[6]	– 2.9	– 4.1	– 4.3
Euro area			
GDP growth[1,3]	1.3	1.1	1.1
Inflation rate[7]	2.1	3.0	2.9
Global economy[8]			
GDP growth[1,3]	2.8	2.7	2.6
Inflation rate	3.0	3.5	3.0

1 – Constant prices. 2 – Forecast by the GCEE. 3 – Values are based on seasonal and calendar-adjusted quarterly figures. November 2025 forecast without Bulgaria. 4 – Registered unemployed in relation to civil labour force. 5 – Change of gross wages and salaries (domestic concept) per employees' hour worked. 6 – In relation to nominal GDP; territorial authorities and social security according to national accounts. 7 – Change of the Harmonised Index of Consumer Prices. 8 – Aggregation according to the weights in Table 1.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations
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The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Gabriel Felbermayr, Ph.D., Professor Dr. Veronika Grimm, Professor Dr. Dr. h.c. Monika Schnitzer (chair), Professor Dr. Achim Truger, Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

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

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