

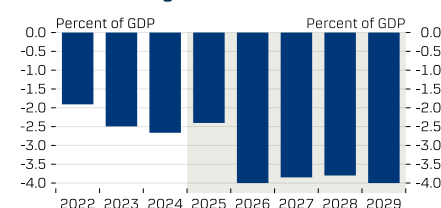
German Fiscal Tracker

Public investments in 2025 fell 25% short of target

- Germany delivered a historical shift to its fiscal policy last year with a change to the “debt brake” and a EUR 500 bn infrastructure package. With the funding in place focus is now on the implementation of the stimulus measures, which will be key for the economic outlook, the ECB, and most European financial markets. In this publication series we will provide regularly updates on the German fiscal expansion drawing on monthly data on public investments and defence spending.
- The German Federal Ministry of Finance have just revealed the preliminary results of the federal budget for 2025. The public deficit was 2.4% of GDP with expenditures totalling EUR 493 bn, slightly below the target of EUR 503 bn.
- Total public investments** amounted to EUR 86.8 bn in 2025 which was 17% higher than in 2024 but at the same time 25% below the targeted EUR 115.6 bn.
- Defence expenditures** amounted to EUR 87.0 bn in 2025 which was 18% more than in 2024 but 7% short of the EUR 94.0 bn target.
- The failure to reach the targets is a slightly dovish signal for the ECB** but not enough to cause a rate cut in 2026 as there is still a large increase in spending. At the same time the undershooting of the targets supports our view of no hikes in 2027. The 2025 public investment target was very ambitious as funding was only available from the final quarter of the year. Moreover, Germany has implemented three new laws to quicken the bureaucratic process, so we expect 2026 to deliver further rises.

Public deficit of close to 4% of GDP projected in the coming years

Government budget balance



Source: German Ministry of Finance, Macrobond, Danske Bank

Main tracker of German public investments and defence expenditures

	2024	2025	2025 target	2025	2025
	EUR bn	EUR bn	EUR bn	% y/y	% of target
Federal core budget					
- Defence	57.1	67.0	69.9	17.4	95.8
- Investments	56.7	55.4	62.7	-2.2	88.4
Off-budget funds					
- Defence Fund (SV BW)	16.9	20.0	24.1	18.6	83.1
- Climate and trans. Fund (KTF)*	17.8	7.1	15.7		45.0
- Infrastructure Fund (SV IK)		24.3	37.2		65.4
Total spending (core budget + off budget funds)					
- Defence	73.9	87.0	94.0	17.7	92.6
- Investments	74.5	86.8	115.6	16.6	75.1

Source: German Ministry of Finance, Danske Bank

* Note: We have subtracted the EUR 10 bn allocation from SV IK in the KTF's 2025 numbers to avoid double counting

Analyst

Rune Thyge Johansen
+ 40 26 04 37
rujo@danskebank.dk

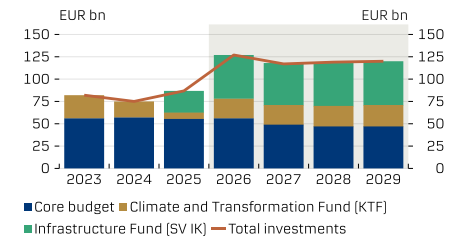
Public investments in 2025 fell 25% short of the target

Public investments in Germany increased to EUR 86.8 billion in 2025, marking a 17% year-on-year rise, which is positive for growth. However, this figure fell 25% below the EUR 115.6 billion target. The public investments in Germany rely on three funding sources namely the government's core budget, the Climate and Transformation Fund (KTF), and the new Infrastructure fund (SV IK). Investments in the core budget amounted to EUR 55.4 bn (target 63 bn), the KTF delivered EUR 7.4 bn (target EUR 15.7 bn), and the Infrastructure Fund (SV IK) delivered 24.3 (target 37.0 bn). Note that of the EUR 24 bn in the Infrastructure Fund EUR 10 bn was allocated to the KTF, so we have subtracted EUR 10 bn from the KTF's target and actual 2025 data to avoid double counting.

The reason for the disappointing uptake of the Infrastructure Fund (SV IK) was likely that the target was set very ambitiously and that the government could only use the fund from October with the regional governments only gaining access from mid-December. So, while public investments were lower than expected in 2025, we do think that public investments this year will rise again as the implementation is now in place. However, the EUR 126.7 bn investment target for 2026 is also very ambitious and would mean a rise of 46% y/y (see chart to the right) so we are likely in for a year with lower-than-expected public investments again but do still expect an increase.

It is also important to note two pieces of legislation that is made to quicken the implementation of the infrastructure investments and lower bureaucracy. The packages have not gotten much attention in the media, maybe due to the names "Planungs- und Genehmigungsbeschleunigungsgesetz" and "Infrastruktur-Zukunftsgesetz". In these laws the government has declared the road and railway reparations as "special public interest" which means they can bypass the normal bureaucratic procedures. Renovations of existing roads do now not need a new environmental impact assessment, and the procurement procedures have been made 100% online. Similar laws were passed in 2022 following the spike in gas prices and shutdown of Nordstream 1 which made Germany able to open two large LNG terminals in 9 months (very fast by German standards). We therefore believe the public investments will rise further in 2026.

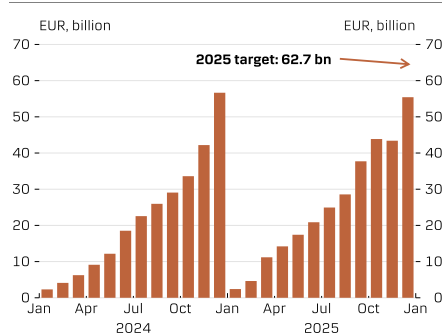
Yearly infrastructure investments targeted around EUR 120 bn in the coming years



Source: German Ministry of Finance

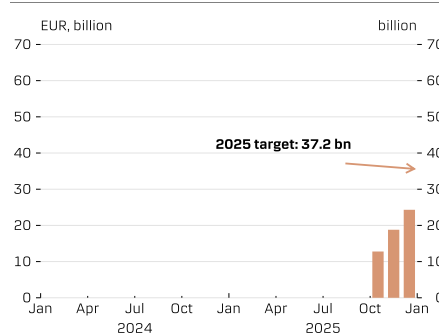
Note: We have subtracted the EUR 10 bn allocation from SV IK in the KTF's 2025 numbers to avoid double counting

Federal core budget investments



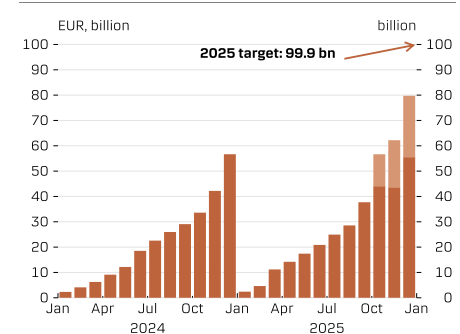
Source: German Ministry of Finance, Danske Bank

Off-budget investments (SV IK)



Source: German Ministry of Finance, Danske Bank

Total investments* (core + SV IK)



Source: German Ministry of Finance, Danske Bank

*Note: Monthly data for the Climate and Transformation Fund (KTF) is not available but included in the table on page 1.

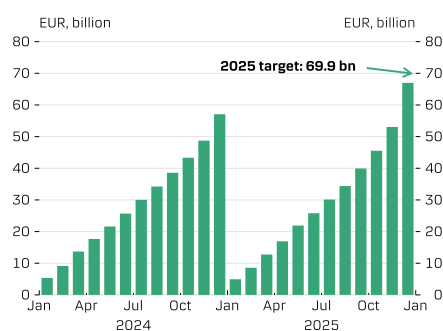
German defence spending rose 18% y/y in 2025

German defence spending in 2025 rose to EUR 87 billion in 2025, marking an 18% y/y increase compared to 2024. Spending thereby fell 7% short of the EUR 94 bn target. Defence spending from the core budget came in only 4% below the target while the off-budget Federal Armed Forces Funds (SV BW) came in 17% below target.

In fact, the off-budget fund (SV BW) has since 2023 only delivered EUR 42 billion so far out of the EUR 100 bn planned before 2028. If the funding was spread out equally with 20 bn per year the fund should have allocated EUR 60 bn by the end of 2025. The very limited use of the Federal Armed Forces Funds we have seen since 2023 is a negative signal for how fast spending will increase from now, but it is still positive that total defence spending was up 18% y/y in 2025.

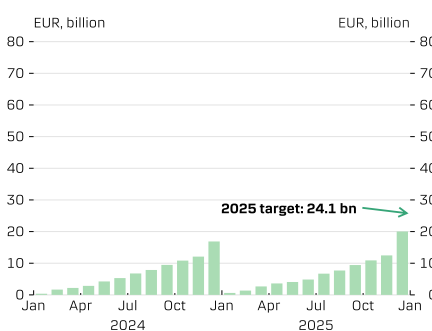
Like with public investments, the government has passed a new law to speed up the implementation procures. On January 16, 2026, the Bundestag passed the so-called "Planungs- und Beschaffungsbeschleunigungsgesetz", which aims accelerate planning and procurement of defence equipment and materials, so they reach troops more swiftly in the future. We expect this means that defence spending will come in closer to the targets this year than in 2025 although the targeted increases are ambitious (see chart to the bottom right).

Federal core budget defence



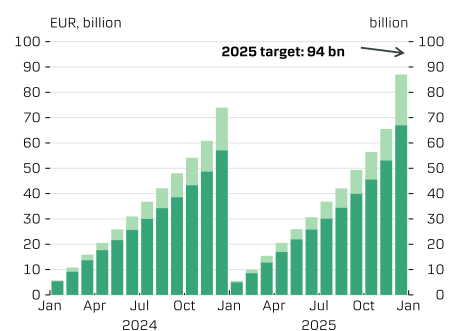
Source: German Ministry of Finance, Danske Bank

Off-budget defence (SV BW)



Source: German Ministry of Finance, Danske Bank

Total defence (core budget + off budget)



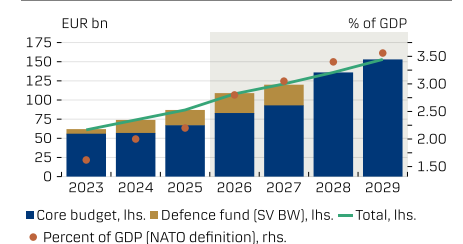
Source: German Ministry of Finance, Danske Bank

Slightly dovish signal for the ECB but not enough to cause a cut

The failure to reach the targets both in terms of public investments and defence spending in 2025 is a slightly dovish signal for the ECB but not enough to cause a rate cut in 2026 as there is still a large increase in spending. At the same time the undershooting of the targets supports our view of no hikes in 2027. We expect public investments and defence spending in 2026 to rise further, and we forecast German GDP growth at 1.2% y/y in 2026. With the infrastructure fund only available from Q4 it is too early to make a firm verdict. Instead, the German spending should be monitored continuously in the coming year, which we will make sure to do.

The next German Fiscal Tracker will be released when we have data for the first months of 2026 to give you an update on how far Germany will be on reaching the 2026 targets.

Defence spending to rise to 3.5% of GDP in 2029



Source: Federal Ministry of Finance, NATO, Macrobond

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Date of first publication

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