27 July 2026

German Fiscal Tracker

Infrastructure and defence spending heats up

Fiscal easing in Germany has gained momentum in 2026, led by higher defence spending, public investment, and borrowing from the infrastructure fund. This has supported activity as seen by the decent manufacturing PMIs amid the energy shock and points to stronger economic growth in the second half of the year.

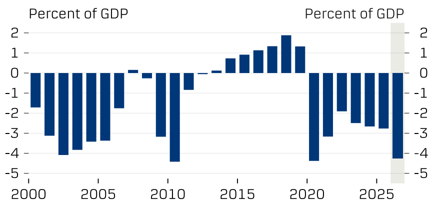
Borrowing from the new infrastructure fund reached EUR 25 billion in June, while core-budget investment stood at EUR 23 billion, lifting H1 public investment to EUR 48 billion, more than double the level a year earlier. The jump mainly reflects that the fund only opened for borrowing in October 2025, but core-budget investment is also up 11% y/y. Not all infrastructure fund borrowing is used for investment, as explained on page 2, but it still supports economic activity.

Defence spending has also increased, with spending in 2026H1 of EUR 32bn from the core budget and EUR 9bn from the defence fund (SV BW), taking total 2026H1 defence spending 30% above the same period last year.

Combined, defence spending and public investment are up EUR 36bn (70% y/y), which is 1.6% of half-year GDP, reflecting an additional EUR 9bn in defence spending and EUR 27bn in investment compared to 2025H1. This is a significant easing of fiscal policy, showing that the stimulus is finally heating up in Germany.

Public deficit to widen to 4.25% of GDP in 2026 from 2.75% last year

Government budget balance



Source: German Ministry of Finance, Macrobond, Danske Bank

Main tracker of German public investments and defence expenditures

	2026H1	2026 target	2026H1	2026H1	2026H1
	EUR bn	EUR bn	EUR bn y/y	% y/y	% of target
Federal core budget					
- Defence	32,0	82,2	6,2	24,0	38,9
- Investment	23,2	47,9	2,3	11,1	48,4
Off-budget funds					
- Defence Fund (SV BW)	8,6	25,5	3,2	60,7	33,6
- Climate and trans. Fund (KTF)*		12,3			
- Infrastructure Fund (SV IK)**	24,6	58,1	24,6		42,4
Total spending (core budget + off budget funds)					
- Defence	**40,5**	**107,7**	**9,4**	**30,3**	**37,6**
- Investment	**47,8**	**118,2**	**26,9**	**129,1**	**40,5**

** We have subtracted the EUR 10 bn allocation from SV IK in the KTF's 2026 numbers to avoid double counting*
*** Includes EUR 10.5 bn in transfers*
Source: German Ministry of Finance (July 2026 update), Danske Bank

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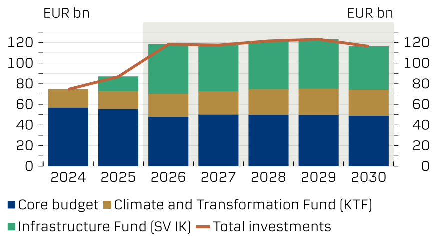
The combined borrowing for defence and infrastructure in the first half of the year is only 39% of the total 2026 target, so halfway through the year the fiscal easing is running behind a linear path. **Yet, as borrowing picks up in December, the government has a good chance of hitting the fiscal targets this year unlike last year.** The government targets a budget deficit of 4.25% of GDP in 2026, up from 2.75% in 2025. While Germany is easing fiscal policy, other euro area countries are tightening, limiting the aggregate demand impact and thereby ECB response.

The infrastructure fund (SV IK) is meant to pay for *extra* investment, but much of it simply covers spending the regular budget used to carry, so total public investment will most certainly rise less than the headline number of EUR 500 bn implies. IW Köln reckons 86% of the money in 2025 was not genuinely additional investment, and some of it was not investment at all — EUR 10bn a year goes to the climate and transformation fund, largely for energy price relief.

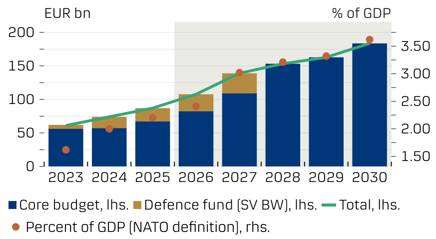
The Ministry of Finance's monthly data that we track show only how much the government *borrows* from the infrastructure fund (SV IK), not what it buys. Hence, although we show that public investment from the infrastructure fund was EUR 25 in 2026 all of it is most certainly not actual public investments. Still, the figures are the best real-time data for the German fiscal easing and a gauge of the overall fiscal stimulus: whether the money funds rail, relief, or frees up room, it adds to demand - investment just carries a higher growth multiplier.

Yearly investments targeted around EUR 120 bn in the coming years



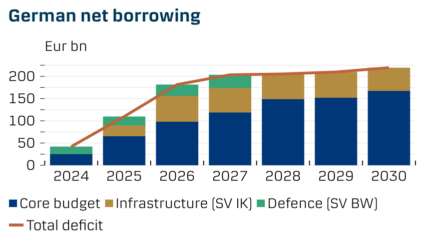
Source: German Ministry of Finance (July 2026 update)
Note: We have subtracted the EUR 10bn allocation from SV IK in the KTF's 2025 numbers

Defence spending set to rise to 3.5% of GDP in 2029



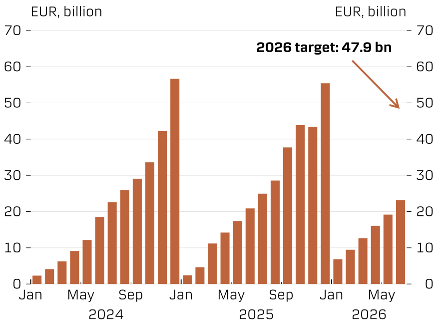
Source: Federal Ministry of Finance (July 2026 update), Macrobond

German net borrowing, cash basis



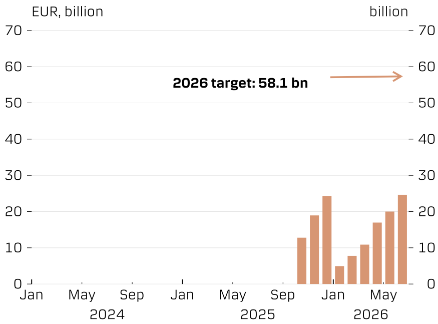
Note: Federal cash net borrowing, not the Maastricht deficit
Source: German Ministry of Finance (July 2026 update)

Federal core budget investments



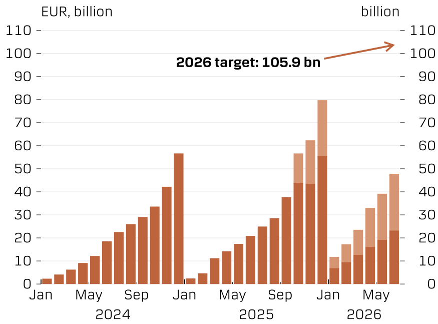
Source: German Ministry of Finance, Danske Bank

Off-budget investments (SV IK)



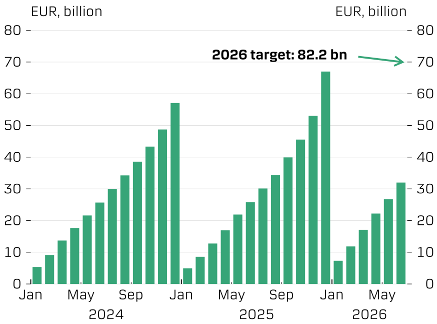
Source: German Ministry of Finance, Danske Bank

Total investments* (core + SV IK)



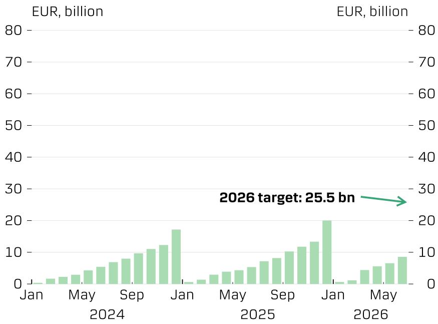
*Source: German Ministry of Finance, Danske Bank **

Federal core budget defence



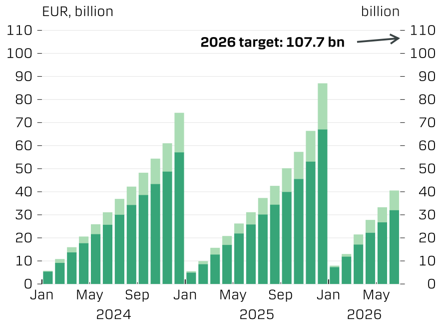
Source: German Ministry of Finance, Danske Bank

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

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Rune Thyge Johansen, Senior Analyst.

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