INTERNATIONAL MONETARY FUND

IMF Country Report No. 26/36

GERMANY

February 2026

2025 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR GERMANY

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2025 Article IV consultation with Germany, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 6, 2026, consideration of the staff report that concluded the Article IV consultation with Germany.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 6, 2026, following discussions that ended on November 26, 2025, with the officials of Germany on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on January 26, 2026.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Germany.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR 26/042

IMF Executive Board Concludes 2025 Article IV Consultation with Germany

FOR IMMEDIATE RELEASE

Washington, DC – February 12, 2026: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Germany.[1]

The German economy has been hit with major shocks in recent years, with these adverse effects exacerbated by weak underlying productivity growth. The energy-price shock in mid-2022 and rapid monetary tightening that was required to contain inflation contributed to deliver two years of negative growth during 2023–24. The economy began to recover in late 2024 as these shocks started to dissipate, but the pace of recovery has been constrained by new trade-related headwinds. Weak growth in recent years also reflects lackluster underlying productivity growth, in part due to long-stalled structural reforms, and increasing competition in export markets. Slow economic growth has caused the labor market to soften as unemployment has increased while part-time employment has also been rising. Inflation has been contained, supported by lower energy prices and subdued domestic demand.

The authorities' landmark reform of the debt-brake rule in 2025 is expected to help drive a gradual economic recovery. Planned fiscal easing in 2026–27 and the lagged effects of recent monetary loosening are expected to boost growth over the next few years. With growth being led by domestic demand, Germany's current account balance is expected to decline gradually over time but remain positive. Inflation is expected to stay near the ECB's target of 2 percent. Over the medium term, Germany still faces a persistently challenging growth outlook despite higher public investment, which is expected to provide a boost to the economy's medium- to longer-term productive capacity. Headwinds include rapid population aging, as the working-age population is projected to decline more sharply than in any other G7 economy over the next five years. Productivity growth is also likely to remain modest, absent further reforms both domestically and at the EU level to improve economic efficiency and foster innovation.

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors welcomed the ongoing economic recovery and the improved outlook following the recent period of subdued growth amid successive external shocks and structurally weak productivity growth. In this context, Directors commended the authorities for the landmark reform of the debt brake to increase much-needed public investment and address critical needs.

Directors supported the authorities' plans to use fiscal space in the near term to help stimulate the economy and close the negative output gap, which in turn should support further external rebalancing. They recommended targeted measures, such as higher high-quality public investment and reductions in high effective marginal income tax rates, which would help raise the economy's longer-term potential growth. Directors called for strengthening public investment efficacy and implementation to maximize the growth impact.

Directors generally agreed on the importance of taking fiscal adjustment measures over the medium term to offset pressures from rising aging-related and defense spending and to stabilize the public debt ratio, while safeguarding public investment. They recommended growth-friendly options such as sectoral spending reviews to identify savings; cuts in environmentally harmful subsidies; and additional pension reforms, which can also encourage longer working lives.

Directors welcomed the authorities' Modernization Agenda and called for prompt implementation of further structural reforms to support growth. To boost labor supply, they recommended improving childcare access, lowering high effective marginal income tax rates for second earners and lower-income households, and better integrating immigrants into the workforce. To boost productivity, Directors encouraged further reforms to support new, innovative firms—such as revising tax rules that favor incumbent firms at the expense of new enterprises. They also highlighted the need to cut red tape, expand digital infrastructure and skills, and boost vocational training. Directors agreed that complementing all of these reforms with steps to deepen the EU Single Market would further boost growth in Germany and across Europe. They also encouraged the authorities to prepare for risks arising from geo-economic fragmentation.

Directors agreed that the financial system is broadly resilient, with some pockets of vulnerability requiring close monitoring. They concurred that macroprudential policy settings are broadly appropriate and recommended strengthening the toolkit through legislation to introduce more borrower-based measures. Directors welcomed ongoing efforts to strengthen AML/CFT frameworks.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Germany: Selected Economic Indicators, 2024–27[1]

		Projections		
	2024	2025	2026	2027
Output				
Real GDP growth (percent)	-0.5	0.2	1.1	1.5
Total domestic demand growth (percent)	0.2	1.7	1.5	1.6
Output gap (percent of potential GDP)	-1.1	-1.2	-0.7	0.1
Employment				
Unemployment rate (percent, ILO)	3.4	3.7	3.6	3.3
Employment growth (percent)	0.5	-0.1	0.1	0.2
Prices				
Inflation (percent, headline, period avg.)	2.5	2.3	2.3	2.0
Inflation (percent, core, period avg.)	3.2	2.8	2.3	2.2
General Government Finances				
Fiscal balance (percent of GDP)	-2.7	-2.4	-3.4	-4.1
Revenue (percent of GDP)	46.8	47.9	47.9	47.8
Expenditure (percent of GDP)	49.4	50.3	51.3	51.9
Cyclically adjusted balance (percent of GDP)	-2.1	-1.8	-3.0	-4.1
Public debt (percent of GDP)	62.2	62.6	63.9	65.7
Money and Credit				
Credit to private sector (percent change)	1.0	1.4	3.8	4.2
Broad money (M3) (end of year, percent change) 2/	3.6	…	…	…
10-year government bond yield (percent)	2.4	…	…	…
Balance of Payments				
Current account balance (percent of GDP)	5.8	4.5	4.2	4.0
Trade balance (percent of GDP)	3.9	2.7	2.3	2.0
Exports of goods (percent of GDP)	31.4	30.5	29.7	28.9
Volume (percent change)	-2.7	-0.5	-0.1	1.7
Imports of goods (percent of GDP)	25.9	26.2	25.7	25.3
Volume (percent change)	-2.2	4.9	1.3	2.0
Service trade balance (percent of GDP)	-1.7	-1.6	-1.6	-1.6
FDI balance (percent of GDP)	0.7	0.9	0.7	0.8
Reserves minus gold (billions of US$)	96.8	…	…	…
External Debt (percent of GDP)	147.6	…	…	…
Exchange Rate				
REER (percent change)	0.3	…	…	…
NEER (percent change)	1.5	…	…	…
Real effective rate (2010=100) 3/	97.5	…	…	…
Nominal effective rate (2010=100) 4/	107.4	…	…	…

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, Haver Analytics, and IMF staff calculations.

1/ GDP and its components are unadjusted for working days.

2/ Reflects Germany's contribution to M3 of the euro area.

3/ Real effective exchange rate, CPI based, all countries.

4/ Nominal effective exchange rate, all countries.

INTERNATIONAL MONETARY FUND

GERMANY

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION

January 26, 2026

KEY ISSUES

Context. The German economy has been hit with large shocks in recent years, including an energy-price shock following Russia's invasion of Ukraine, rapid monetary tightening required to contain subsequent inflation, and heightened trade-related headwinds. These external shocks, together with weak underlying productivity growth, in part due to stalled structural reforms at both the EU and German level, have contributed to three years of negative or very low growth.

Against this background, a new coalition government took office following elections in early 2025 with an aim to reinvigorate growth through higher public investment and structural reforms to foster a more dynamic private sector. A cornerstone of the government's reform efforts is a landmark reform of Germany's fiscal rule (the "debt brake") in March 2025 that enables higher fiscal spending, especially on defense and public investment.

Outlook. Planned fiscal easing in 2026–27 and the lagged effects of past monetary loosening are expected to support a gradual economic recovery over the next few years. Fiscal easing and recent real exchange rate appreciation are also expected to contribute to a gradual reduction in Germany's current account surplus over time, reducing its external imbalance. Inflation has now returned back near 2 percent and is expected to stay around this level.

However, medium and longer-term growth prospects remain weak due to rapid population aging and continued modest productivity growth, notwithstanding a moderate positive boost from the faster rate of public investment. Significant fiscal adjustment measures will also be needed over the medium and long term to offset rising spending pressures from aging-related spending, defense, and interest payments while also stabilizing the debt-to-GDP ratio.

Key macro-economic risks include that insufficient productivity-enhancing reforms and/or increasing competition in Germany's export markets keep growth lower than expected, that supply-chain disruptions could arise from trade policy disputes (e.g., restrictions on the import of critical inputs), and that stretched global asset valuations could possibly reverse, which would adversely affect aggregate demand and possibly stress exposed sections of the financial system.

Policies. Staff's main policy recommendations are the following:

- ***Fiscal.*** In the near term, policies should ensure a high-quality fiscal easing, with resources channeled toward measures that boost potential growth—such as increasing public investment or reducing high effective marginal income tax rates—or that support other identified national priorities such as defense. Conversely, poorly targeted measures that are fiscally costly and adversely affect economic efficiency should be avoided. Full and efficient implementation of the investment budget can be supported by steps to further increase centralized provision of investment planning services, expand joint procurement, and step up its digitalization. Over the medium term, high-quality fiscal adjustment measures should be taken to fund this higher level of investment, offset rising spending pressures, and stabilize the debt-to-GDP ratio. Options in this regard include indexing pensions-in-payment to inflation rather than wage growth, reviewing pension deductions for early retirement to encourage longer working lives, cutting environmentally harmful subsidies and tax expenditures, reducing VAT exemptions and special rates, and increasing property and alcohol excise taxes, both of which are relatively low in Germany.

- ***Financial.*** Current macroprudential settings are broadly appropriate for the baseline scenario. However, supervisors should continue to support resilience by encouraging banks to remain prudent in capital distributions (i.e., bonuses, dividends), including to ensure adequate investment in technology to counter cyberattacks and build buffers that could be released in the event of a large contractionary shock. The macroprudential toolkit should also be enhanced by adopting legislation to enable a positive-neutral countercyclical capital buffer and prudential limits on debt-to-income (DTI) and debt service-to-income (DSTI) ratios in new residential real estate lending. Continued efforts to diversify banks' income sources and reduce their operational costs would further support financial stability.

- ***Pro-growth structural reforms.*** Reforms can boost growth by increasing labor supply and productivity. Labor supply can be increased by improving access to reliable childcare, reducing high effective marginal tax rates for second-earners and lower-income benefit recipients, and reviewing pension deductions for early retirement. Productivity can be increased by cutting red tape, including by accelerating permitting procedures to boost energy supply, and by ensuring adequate investment in education and reskilling. Innovation could be promoted by reviewing features of the tax code that may be supporting incumbent corporate structures at the expense of investment in new enterprises. Another powerful measure that Germany can take to boost productivity and growth is to support a deepening of the EU's Single Market, including reforms to harmonize business regulations across the EU (a well-designed 28th corporate regime), which would make it easier for firms to expand across Europe and leverage economies of scale; reforms to better integrate capital markets and financial sector oversight (Savings and Investment Union), which will improve financing for start-ups and firm expansion; a digital euro to improve payment system efficiency and integration across Europe; and better integration of energy markets (Energy Union), which will reduce the level and volatility of energy prices.

Approved By
Oya Celasun (EUR) and Lamin Leigh (SPR)

The mission took place in Frankfurt and Berlin during November 12–26, 2025. The team comprised Messrs. Fletcher (head), Kemp, and Saiyid and Ms. Sharma (all EUR). The mission met with officials from the Federal Ministries of Finance (MoF), Economic Affairs and Energy, Labor and Social Affairs, Digital Transformation and Government Modernization, and Transport; the Bundesbank; the Federal Financial Supervisory Authority (BaFin); the Federal Employment Agency; the European Central Bank (ECB); and the European Insurance and Occupational Pensions Authority (EIOPA); as well as representatives from trade unions, employers' and startups' associations, the chamber of commerce, credit rating agencies, think tanks, and the banking, auto, chemical, pharmaceutical, and real estate sectors. Members of the German Executive Director's office joined the meetings. Ms. Plein and Mr. Previde (both EUR) assisted in preparing the report.

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MACROECONOMIC CONTEXT

A. Context

1. **Parliamentary elections in February 2025 resulted in a coalition government consisting of the Christian Democratic Union/Christian Social Union and the Social Democrats.** The elections took place against a background of two years of economic contraction following the shut-off of Russian gas in mid-2022, sharp monetary policy tightening to contain subsequent inflation, and rising global trade tensions and geoeconomic fragmentation. On the economic front, the coalition agreement sets out reforms to raise Germany's growth potential by addressing structural challenges from demographic aging and low productivity growth. Priorities include raising public investment; incentivizing higher private investment, including through more generous investment allowances in the corporate income tax (CIT) and reductions in the CIT rate; boosting labor supply, including through incentivizing longer working lives; and reducing bureaucracy and red tape.

2. **A cornerstone of the government's reform efforts is a landmark reform of Germany's fiscal rule in March 2025 that enables higher spending on defense and public investment.** Germany's fiscal rule (the "debt-brake") previously limited structural net borrowing to 0.35 percent of GDP. Key changes include exempting borrowing to fund defense spending above 1 percent of GDP from the rule; exempting borrowing of a newly established Special Fund for Infrastructure and Climate Neutrality, which can spend €500bn over 12 years; and easing state governments' net borrowing constraint from zero to 0.35 percent of GDP. To ensure additionality of public investment financed by the new infrastructure fund, borrowing by the fund is only exempt from the debt-brake if public investment in the federal budget is at least 10 percent of total federal budget spending. In addition, €100bn of the special fund will be transferred to the Climate and Transformation Fund, and €100bn will be allocated to state and local governments.

3. **The priority going forward will be to ensure strong implementation and further deepening of reform plans amidst ongoing shocks and challenges.** To maximize benefits for the economy, it will be important to ensure that newly created fiscal room is channeled toward pro-growth measures, such as addressing large public investment backlogs in transport infrastructure, the energy transition, and digitalization. This investment will also need to be complemented by bold structural reforms to boost productivity and labor supply. Over the medium term, well-designed fiscal adjustment measures will also be needed to fund the higher level of public investment and offset spending pressures from population aging and rising defense and interest costs. Policy will also need to respond in an agile manner to new shocks while maintaining financial stability. The remainder of this report discusses in further detail the economic background for these challenges and how policies can help address them.

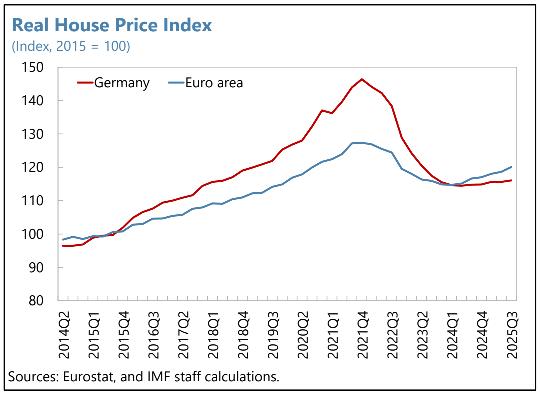
B. Recent Developments

4. **The German economy has been hit with multiple adverse shocks in recent years.** The economy contracted in both 2023 and 2024, significantly underperforming the rest of the euro area

amid broad-based weakness following the 2022 energy-price shock and subsequent monetary tightening required to contain inflation (Text Figure 1, top charts).

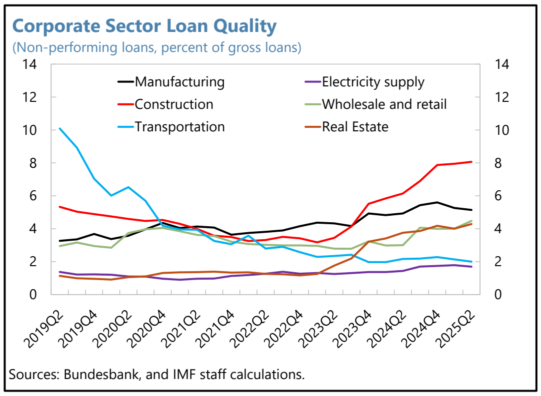
- Higher energy prices—which hit Germany harder than the average euro-area country due to Germany's higher dependence on natural gas—helped fuel inflation, cutting into real wages and consumption and depressing energy output and production in energy-intensive industries.

- Investment also fell in response to monetary tightening and depressed sentiment (Text Figure 1, middle left), with construction investment falling 13 percent below its 2021 level. The much larger drop in construction than in the rest of the euro area may partly reflect a more buoyant housing market in Germany before the interest-rate shock (text chart). In line with falling investment, gross value-added in construction and manufacturing also contracted sharply (Text Figure 1, middle right), sectors that have also seen rising delinquencies (text chart).

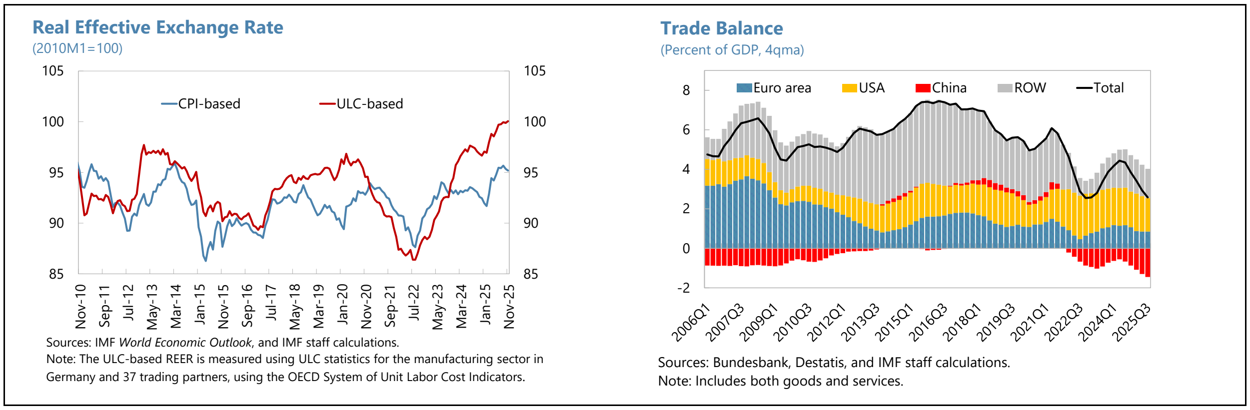

Real House Price Index
(Index, 2015 = 100)

Sources: Eurostat, and IMF staff calculations.

- External demand was an additional headwind, partly due to weaker trading partner growth and a continuation of the longer-term erosion of Germany's export competitiveness as reflected in the decline in the cyclically adjusted trade balance (Text Figure 1, bottom left), driven largely by the capital goods and, more recently, the services sectors. The decline in Germany's trade balance reflects significant real exchange rate appreciation, among other factors (text charts and Annex I). Regionally, in terms of Germany's GDP, the trade deficit with China rose by 1.7 percentage points over the last four years, whereas the trade surplus versus the US is broadly unchanged over this period. Meanwhile, the trade surplus has declined by 0.5 percentage points versus the euro area and by 1 percentage point versus the rest of the world.


Corporate Sector Loan Quality
(Non-performing loans, percent of gross loans)

Sources: Bundesbank, and IMF staff calculations.

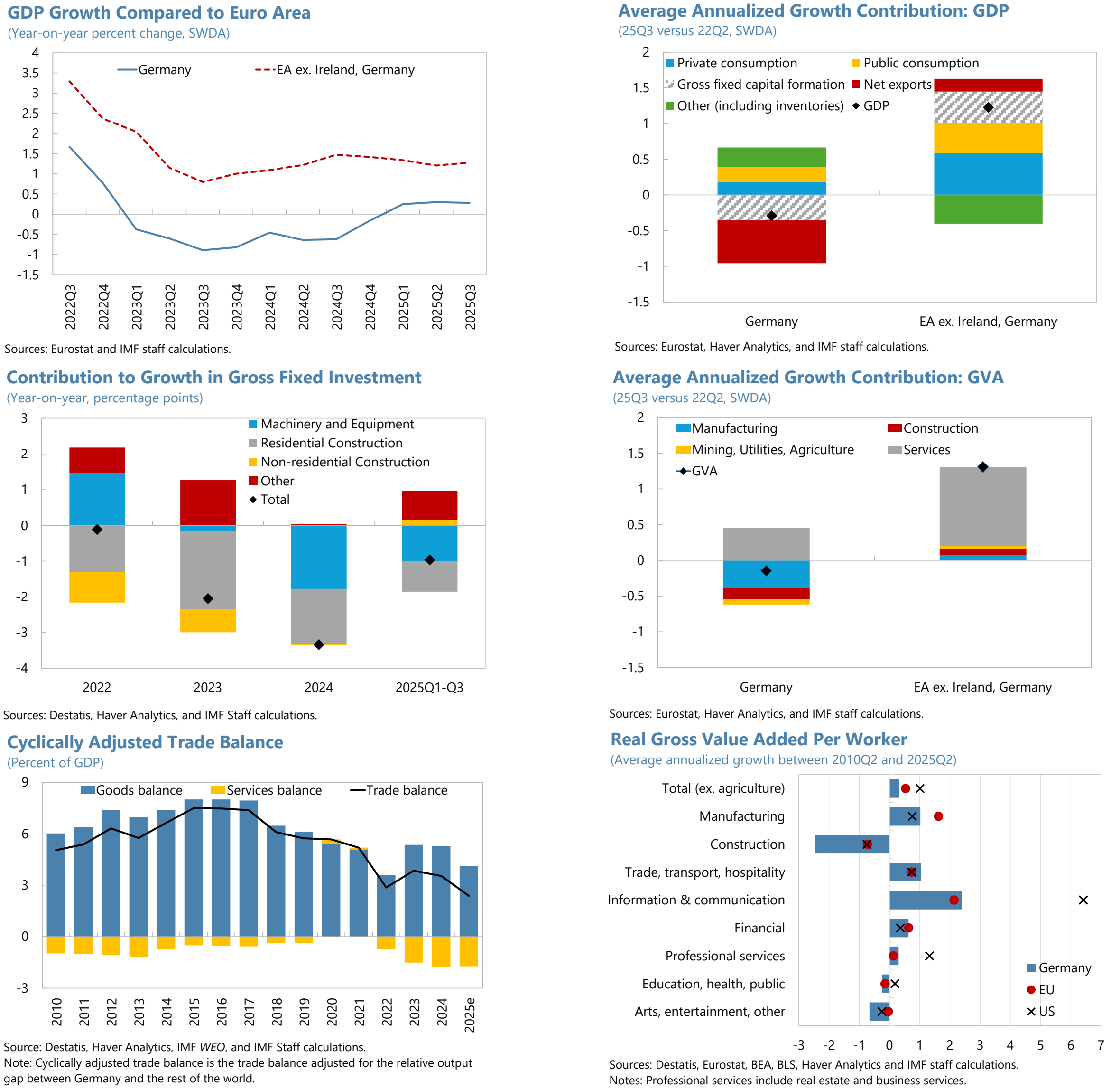

Real Effective Exchange Rate
(2010M1=100)

Sources: IMF *World Economic Outlook*, and IMF staff calculations.
Note: The ULC-based REER is measured using ULC statistics for the manufacturing sector in Germany and 37 trading partners, using the OECD System of Unit Labor Cost Indicators.

Trade Balance
(Percent of GDP, 4qma)

Sources: Bundesbank, Destatis, and IMF staff calculations.
Note: Includes both goods and services.

Text Figure 1. Germany: Growth



GDP Growth Compared to Euro Area
(Year-on-year percent change, SWDA)

Sources: Eurostat and IMF staff calculations.

Average Annualized Growth Contribution: GDP
(25Q3 versus 22Q2, SWDA)

Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Contribution to Growth in Gross Fixed Investment
(Year-on-year, percentage points)

Sources: Destatis, Haver Analytics, and IMF Staff calculations.

Average Annualized Growth Contribution: GVA
(25Q3 versus 22Q2, SWDA)

Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Cyclically Adjusted Trade Balance
(Percent of GDP)

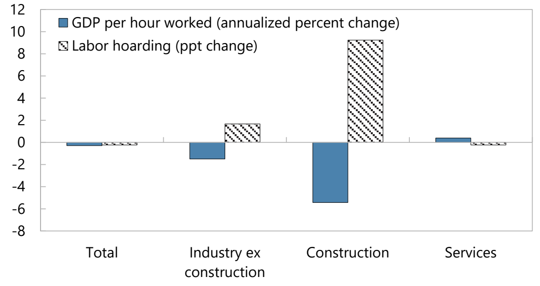
Source: Destatis, Haver Analytics, IMF *WEO*, and IMF Staff calculations.
Note: Cyclically adjusted trade balance is the trade balance adjusted for the relative output gap between Germany and the rest of the world.

Real Gross Value Added Per Worker
(Average annualized growth between 2010Q2 and 2025Q2)

Sources: Destatis, Eurostat, BEA, BLS, Haver Analytics and IMF staff calculations.
Notes: Professional services include real estate and business services.

- Overall productivity has declined. This reflects both cyclical factors, such as construction and manufacturing productivity falling due to labor hoarding amid weak demand (text chart), and long-standing structural factors, such as IT productivity growth that remains much lower than in the US (Text Figure 1, bottom right). The latter partly reflects a failure to foster a more supportive environment for young, innovative firms, including due to insufficient domestic reforms and deepening of the Single Market (see Policy Discussions section for details on reform priorities).

Productivity Growth and Labor Hoarding
(2025Q3 vs 2021Q4)



Sources: European Commission, Destatis, Haver Analytics, and IMF staff.
Note: Labor hoarding is the percentage of firms that expect their output to decrease but their employment to increase or remain unchanged.

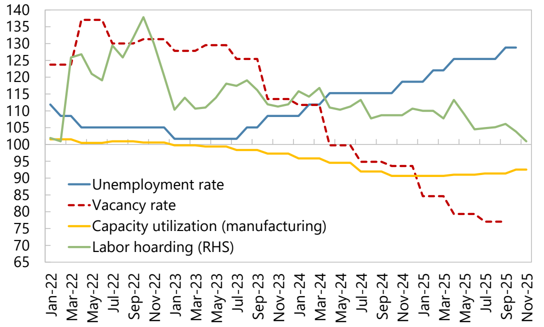
5. Recovery in 2025 has been hampered by new trade-related headwinds. The economy started to expand again in late-2024 as the adverse effects of the energy-price and interest-rate shocks began to dissipate, supporting a recovery in private consumption and a slower contraction in investment. However, new headwinds emerged from REER appreciation, US tariffs (Annex I), and the associated increase in uncertainty, with the drag from net exports estimated to have increased. The net result is that real GDP growth in 2025 is estimated to have turned positive but at a muted pace of only 0.2 percent. On the production side, manufacturing and construction gross value-added contracted for the third year in a row, but there were signs of a tentative recovery taking hold in both sectors toward the end of the year.

6. Labor markets have eased under weak demand conditions. The harmonized unemployment rate rose to 3.8 percent in late 2025, up from a trough of 3.0 percent in early 2023 and close to the peak of 3.9 percent during the pandemic (Text Figure 2, top left). Similar weakness is seen in hours worked: after a sharp post-pandemic recovery, total hours worked has been broadly flat over the past two years and remains roughly 1 percent below pre-pandemic levels (Text Figure 2, top right), with the share of part-time employment rising from 27.5 percent in 2019 to 29.4 percent in the first three quarters of 2025 (Text Chart 2, bottom left). The weakness in the labor market combined with low manufacturing capacity utilization implies an output gap of around -1¼ percent of potential output in 2025. Despite the increased slack in the labor market, real wages rose by close to 3 percent in 2024–25, reflecting lagged adjustments to past inflation and past real wage declines (Text Figure 2, bottom right).

Text Figure 2. Germany: Labor Market

Measures of Slack: Labor Market and Capacity

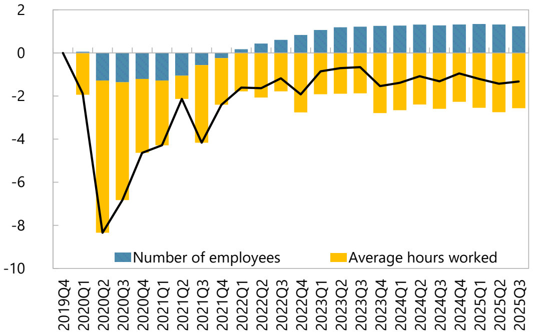
(Index, 2019=100)



Sources: European Commission, Destatis, IAB, Haver Analytics, and IMF staff calculations

Total Hours Worked

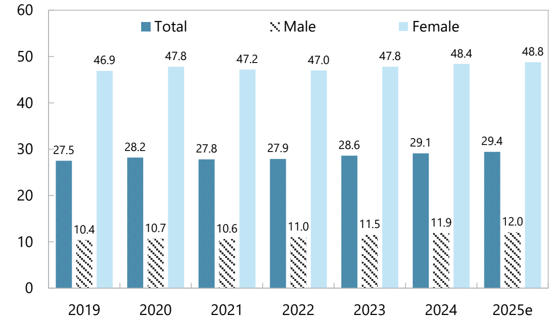
(Percent change since 2019Q4)



Sources: Destatis, Haver Analytics, and IMF Staff calculations.

Part-time Employment

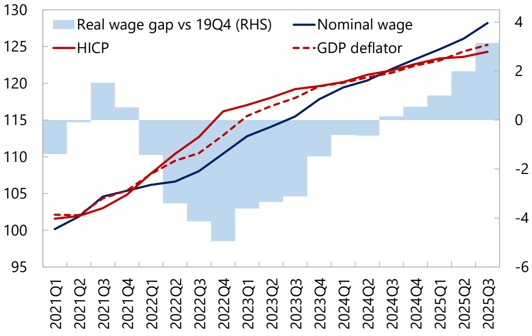
(Percent of total employment, workers aged 15 to 64)



Sources: Eurostat and IMF staff calculations.
Note: 2025 is average through the third quarter.

Nominal Wages and Prices

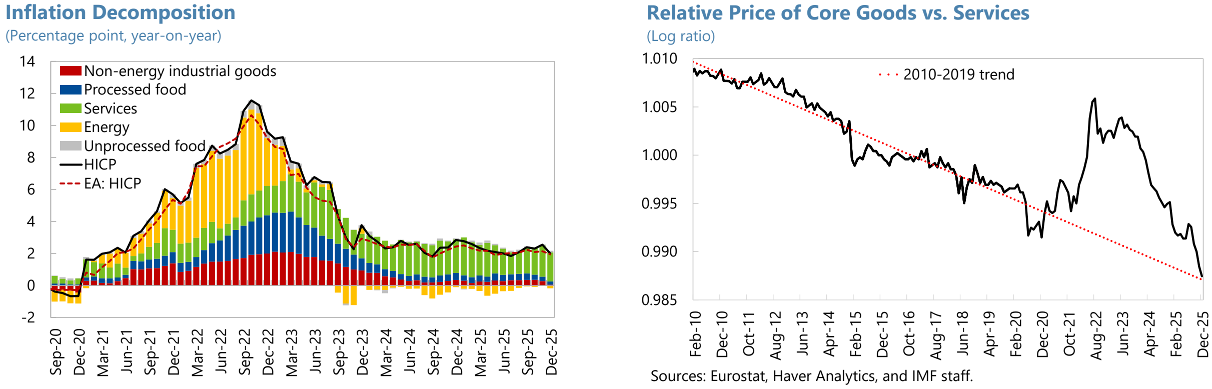
(Index, 2019Q1 = 100)



Sources: Destatis, Haver Analytics, and IMF staff calculations.

7. Inflation has declined due to lower energy prices and weak domestic demand. Period average headline HICP inflation dropped from 6.0 percent in 2023 to 2.3 percent in 2025 on falling energy prices and subdued price increases for other goods (Text Figure 3, left). Core inflation (inflation excluding energy and unprocessed foods) has also moderated on weak domestic demand but remains above headline inflation at 2.8 percent in 2025. Core inflation has been stickier than headline due in part to elevated services inflation. Services inflation has fallen from its recent peak of 5.1 percent y/y in January 2025 but remains elevated at 4.0 percent as of December. Elevated services inflation partly reflects the unwinding and reversal of the pandemic-era surge in goods demand and inflation (Text Figure 3, right). Services are also more labor-intensive than goods and hence have been more affected by past real wage increases, an effect that has been only partially mitigated by a decline in corporate profits.

Text Figure 3. Germany: Inflation



Sources: Eurostat, Haver Analytics, and IMF staff calculations.

Sources: Eurostat, Haver Analytics, and IMF staff.
Note: Core goods is HICP non-energy industrial goods.

8. Despite the additional space created by the debt-brake reform, the fiscal deficit declined marginally in 2025. The overall fiscal deficit narrowed to 2.4 percent of GDP in 2025 from 2.7 percent of GDP in 2024 as higher social contributions boosted revenue with a 1.4 percentage point increase in the healthcare and long-term care insurance contribution rates, raising the total social insurance contribution rate to over 42 percent of covered gross wages (i.e., excluding exempt amounts) for most individuals. Public expenditure also increased 0.9 percentage points of GDP, mostly reflecting higher social benefits, including higher pension and healthcare costs due to population aging. Public investment increased 0.2 percentage points of GDP, somewhat below the level envisioned in the 2025 Budget, which was only approved by parliament at end-September, leaving limited time for implementation. The debt-to-GDP ratio is estimated by IMF staff to have increased by 0.4 percentage points to 62.6 percent. This remains the lowest ratio among G7 economies, and debt sustainability risks continue to be low (Annex II).

9. REER appreciation contributed to a lower current account surplus in 2025. The current account surplus is estimated to have decreased in 2025 to 4.5 percent of GDP from 5.8 percent of GDP in 2024, due mainly to a lower goods trade surplus, while the services deficit is estimated to have been broadly unchanged. This decline in the current account surplus was due in part to REER appreciation in recent years reducing price competitiveness. Nonetheless, the current account surplus remains higher than the estimated norm for Germany, such that the estimated external position in 2025 is assessed, on a preliminary basis, as moderately stronger than warranted by fundamentals and desirable policy settings, with the current account gap estimated at 1.1 percent of GDP and the exchange rate assessed to be undervalued by about 3.3 percent (Annex III).

10. Banks remain well-positioned to extend credit.

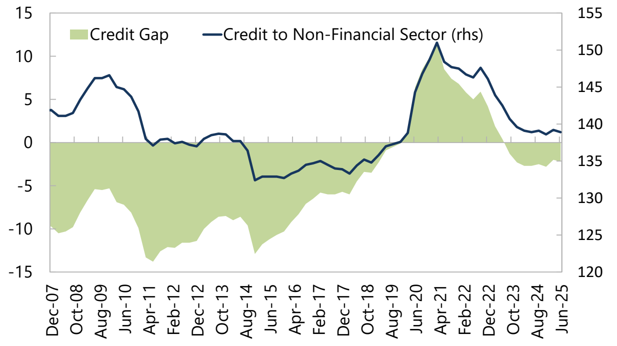
- ***Profitability.*** Banks' profitability (as measured by return on equity) rose during 2022–23 as lending rates rose more than sticky deposit rates in response to monetary tightening, resulting in higher net interest margins. Net interest margins and profitability then broadly stabilized in 2024 (Text Figure 4, middle left). Nevertheless, German bank profitability remains below the average for banks in other euro-area countries, in part due to persistently higher operational costs reflecting factors such as relatively dense physical branch networks.

- ***Credit quality.*** NPLs rose to 1.9 percent of loans in June 2025, up from 1.7 percent a year earlier (Table 6). This increase was driven in part by rising NPLs on commercial real estate (CRE) loans, which reached 5.3 percent of CRE loans in June 2025 (Text Figure 4, bottom right). However, recent stabilization of domestic property prices (Figure 6) and monetary policy easing in the euro area and US are helping to ease debt-servicing and refinancing pressures on CRE borrowers. NPLs on residential real estate (RRE) loans remain low, as solid real wage growth and elevated savings rates have helped households deleverage (Text Figure 5, top left). The easing of RRE vulnerabilities led BaFin to appropriately cut the Sectoral Specific Systemic Risk Buffer (SSyRB) on RRE, which includes multi-family CRE, from 2 percent of risk-weighted RRE assets to 1 percent, effective May 2025. Corporate debt levels have been broadly flat (Text Figure 5, top right) while weak economic growth has caused business insolvencies to continue to rise from historic lows reached during the pandemic (Text Figure 5, bottom left).

- ***Capital and liquidity.*** Higher profits have helped banks strengthen capital over time, with the CET1 capital ratio reaching 17.4 percent in June 2025, while overall banking sector liquidity as measured by the LCR and NSFR has been broadly stable (Text Figure 4, top right).

Credit Developments

(LHS: credit gap, ppts from HP trend; RHS: Credit to non-financial sector, percent of GDP)



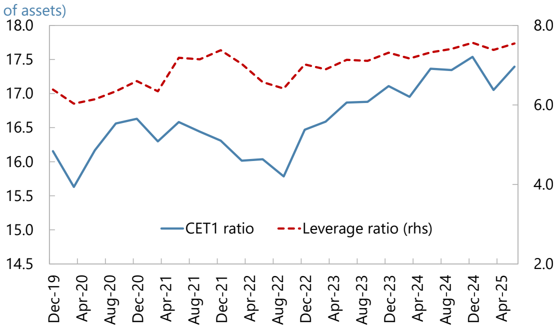
Sources: BIS, and IMF staff calculations.

11. Notwithstanding banks' improved balance sheets, credit growth in Germany remains weak, mostly due to weak demand. The credit gap was negative as of Q2 2025 (text chart), with credit growth still tepid at 1.2 percent year-on-year. While credit growth has been low mainly due to weak demand from households and corporates since 2022, the most recent Bundesbank lending survey of banks shows that banks have also continued to tighten credit underwriting standards in response to higher credit risks.

Text Figure 4. Germany: Banking Sector Developments

Capital Adequacy

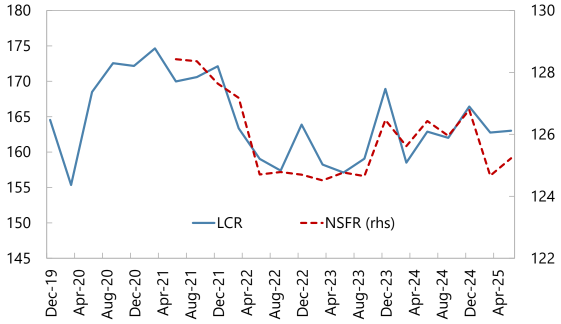
(LHS: CET1 ratio in percent of risk-weighted assets, RHS: leverage ratio in percent of assets)



Source: Bundesbank.

Liquidity and Stable Funding

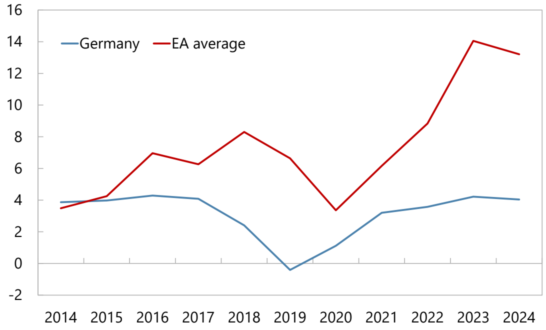
(LHS: percent of 1-month liabilities, RHS: percent of required stable funding)



Source: Bundesbank.

Return on Equity

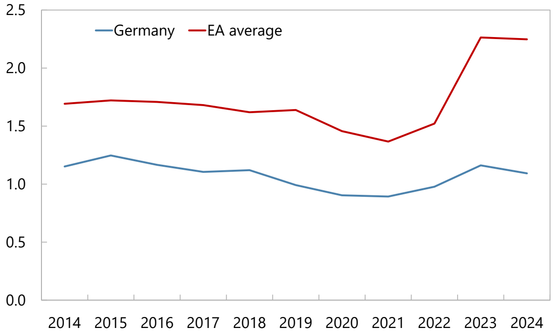
(Percent)



Sources: IMF FSI, National Authorities, IMF staff calculations.

Interest Margin

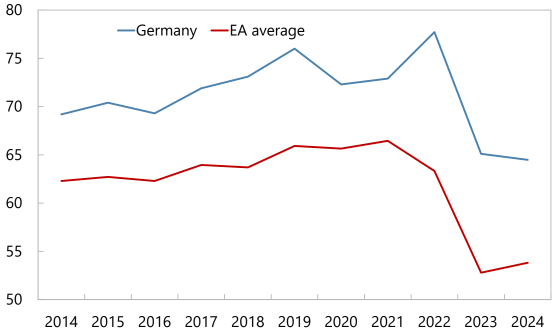
(Net Interest Income in percent of assets)



Sources: IMF FSI, and IMF staff calculations.

Operational Expense

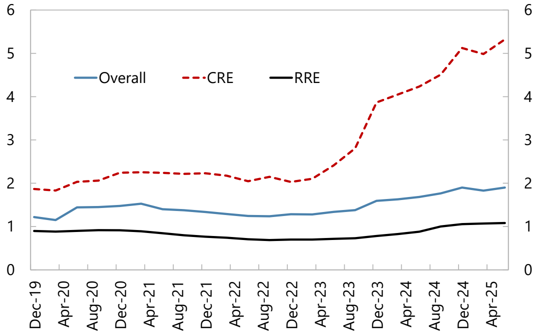
(Percent of income)



Sources: IMF FSI, National authorities, and IMF staff calculations.

Non-Performing Loans

(Percent of total)



Source: Bundesbank.

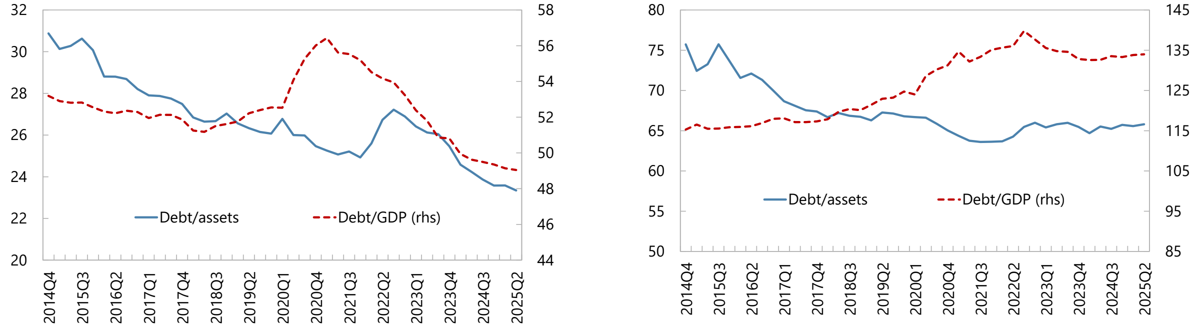
Text Figure 5. Germany: Macro-Financial Developments

Household Debt

(Percent)

Non-Financial Corporate Debt

(Percent)



Sources: Bundesbank, Haver Analytics, and IMF staff calculations.

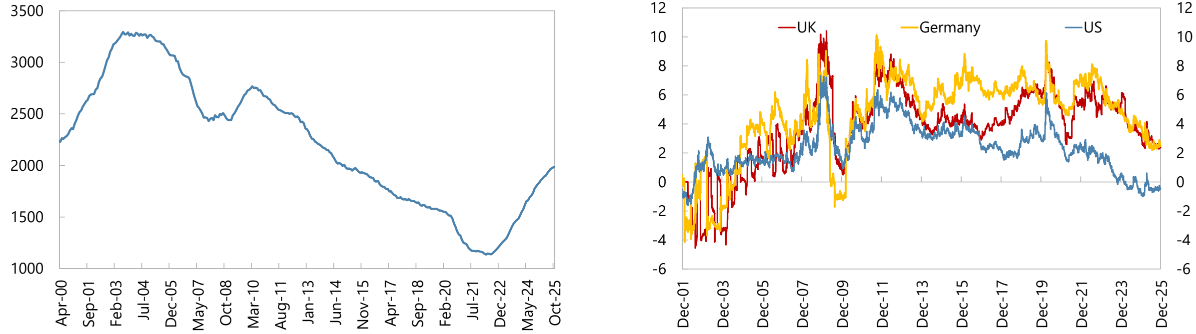
Sources: Bundesbank, Haver Analytics, and IMF staff calculations.

Business Insolvencies

(12-month moving average, NSA)

Equity Risk Premium

(Equity index earnings yield minus 10 year sovereign yield, percent)



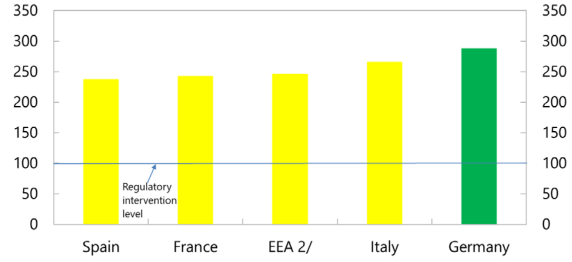
Sources: Destatis, and Haver Analytics.

Sources: Bloomberg L.P., and IMF staff calculations.

12. Key elements of the nonbank financial sector remain broadly stable. The average solvency ratio of German insurers, which was 288 percent in Q2 2025, has strengthened in the past three years as the yield curve has steepened and compares favorably with that of insurers elsewhere in Europe (text chart). Both insurers and pension funds have also benefited from recent gains in the valuation of equities and other risk assets. However, liquidity risks may be rising in the insurance sector, due to increasing allocations to illiquid assets such as venture capital, private equity, and private debt, as flagged by BaFin.[1] Recent Solvency II reforms incentivize long-term equity investments by insurers, particularly in Europe.

Average Solvency Capital Ratio of Insurers 1/

(Percent, Q2 2025)



Sources: EIOPA, IMF staff

1/ Percent of capital required to meet liabilities due in one year with 99.5 percent probability.

2/ European Economic Area.

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[1] See, for instance, "Complex Investments", BaFin, March 2023.

13. The overall level of systemic financial risk has risen moderately since the last Article IV consultation.

- Results of the EBA/ECB stress tests of EU banks, which included an adverse scenario encompassing US trade tariffs, showed strong resilience of the 21 significant German banks included in the exercise. Earlier stress tests of 1200 Less Significant Institutions (representing 91 percent of all credit institutions in Germany) carried out by the Bundesbank and BaFin in February also showed overall resilience but some pockets of weakness in adverse scenarios. RRE-related risks have also eased somewhat as the housing market appears now to be in the early stages of recovery.

- However, relative to the last Article IV consultation, CRE-related risks remain elevated, though there are some tentative signs these risks may be nearing a peak based on property pricing and easing of monetary policy.

- Meanwhile, risks related to stretched global asset valuations have risen. Valuations of German equities have similarly risen over the past two years, though they are not near those of the dot-com boom, based on equity risk premia (Text Figure 5, bottom right). A sharp decline in global equity prices would be expected to have limited direct effect on German banks, as holdings of equity securities, including fund shares, are less than 1 percent of banks' assets as of September 2025. However, insurers and pension funds could face higher losses from sharp declines in global capital markets as they carry greater exposure to equities, corporate credit securities, and illiquid assets such as private equity and debt.[2] Large and disorderly declines in global capital markets could also have adverse indirect effects on banks via hits to global growth and higher risk premia on bank funding. Another channel could be asset portfolio and funding links with NBFIs, which are about 13 and 14 percent of banking system assets, respectively. A sudden withdrawal of deposits that NBFIs maintain as liquidity buffers at banks could weaken the liquidity situation of some banks during periods of market stress, especially if such a dynamic were to emerge among other bank depositors as well. A large share of the interlinkages between German banks and NBFIs is through derivative contracts, which could have cascade effects in case of an adverse shock to leveraged investments.

C. Outlook and Risks

14. A meaningful growth recovery is projected for 2026 and beyond. Growth is expected to pick up to 1.1 percent in 2026 as higher public expenditure and lagged effects of monetary easing in 2024–25 on private consumption and investment offsets some of the ongoing drag from trade

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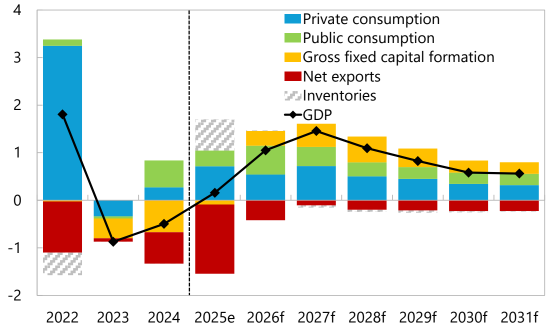
[2] See, for instance, "Risks in Focus 2025", BaFin.

disruptions. Fixed investment in particular is projected to recover meaningfully in 2026–28 on the back of higher public infrastructure spending and a recovery in residential construction (text chart). This, combined with fading headwinds from trade disruptions, could see growth accelerate to around 1.3 percent in 2027–28 (Text Table 1). Growth spillovers to the rest of the euro area are expected to be small in aggregate, though they could be notable for some major trading partners.[3] Germany's growth recovery combined with still-subdued potential growth is expected to cause Germany's output gap to narrow from -1.2 percent of GDP in 2025 to 0.1 percent in 2027 and turn modestly positive in the outer years of the forecast.[4]

Real GDP Growth Contribution

(Year-on-year, percentage points)



Sources: Destatis, Haver Analytics, IMF *WEO*, and IMF Staff calculations.

Text Table 1. Germany: Macroeconomic Projections, 2025–27

	GDP growth			Inflation			Core inflation		
	2025	2026	2027	2025	2026	2027	2025	2026	2027
Staff projections (January 2025 *WEO*)	0.3	1.1	1.1	2.2	2.0	2.0	2.7	2.1	2.0
Staff projections (current)	0.2	1.1	1.5	2.3	2.3	2.0	2.8	2.3	2.2
Bundesbank (December 2025) 1/	0.1	0.9	1.4	2.3	2.2	2.1	2.8	2.4	2.1
Federal Government (October 2025) 2/	0.2	1.3	1.4	2.1	2.0	2.2	…	…	…
European Commission (November 2025)	0.2	1.2	1.2	2.3	2.2	1.9	…	…	…
Consensus forecasts (January 2026) 3/	0.2	1.0	1.4	2.3	2.0	2.0	…	…	…

Sources: BMWE; Bundesbank; Consensus forecasts; European Commission; and IMF staff projections.

1/ Bundesbank core inflation shows consumer price excluding energy and food.

2/ Federal Government inflation is based on the national CPI.

3/ Continuous Consensus Forecasts: moving average of latest changed forecasts.

15. **Medium-term potential growth is constrained by population aging and subdued productivity growth, but increased public investment provides some offset.** The working-age population is projected to shrink by 0.7 percent per year between 2025 and 2030—the most rapid decline among G7 economies (Text Figure 6, left). Increased public infrastructure spending is expected to provide a modest offset to potential growth, lifting it by around 0.2 percentage points per year relative to the pre-expansion baseline through a combination of a higher capital stock (including some crowding-in of private investment), improved productivity, and positive hysteresis

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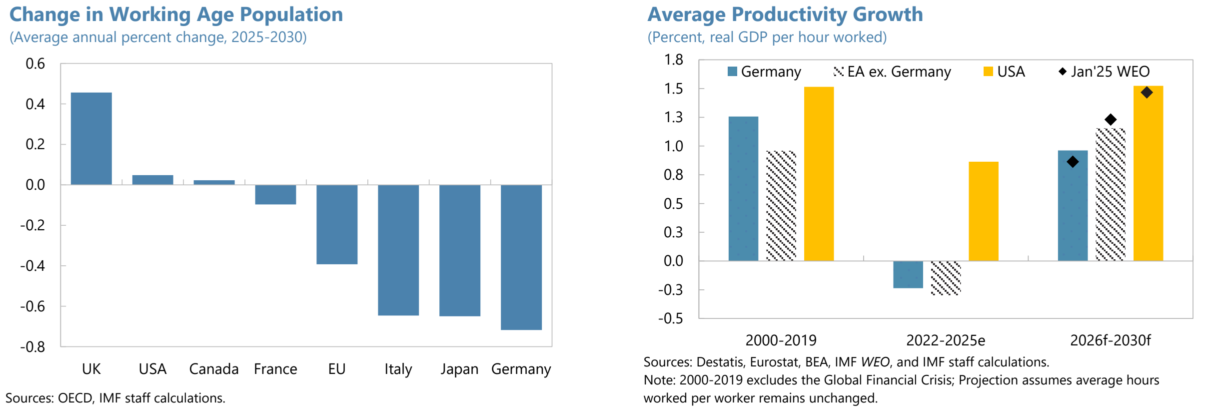
[3] German imports from the rest of the euro area are only about 5 percent of the GDP of the rest of the euro area. Consequently, a boost of 2 percent to German aggregate demand from substantial fiscal easing might boost demand in the rest of the euro area by 0.1 percent of GDP or less (as part of German imports are inputs to exports). Fiscal easing in Germany may also result in slightly tighter monetary policy in the euro area than would otherwise be the case, reducing aggregate demand in the rest of the euro area. The net effect on aggregate demand for the rest of the euro area is likely to be close to zero for the rest of the euro area of the whole, with some variability across countries (e.g., countries with the most dependence on exports to Germany might experience modest positive boosts to aggregate demand).

[4] Staff projections are based on tariffs in place as of January 15, 2026.

effects. Medium-term potential growth is expected to settle at around 0.7 percent, still around 0.6 percentage points below the pre-pandemic average.[5]

Text Figure 6. Germany: Potential Growth Drivers



Change in Working Age Population
(Average annual percent change, 2025-2030)

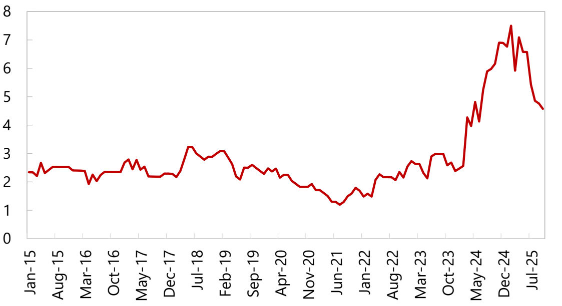
Sources: OECD, IMF staff calculations.

Average Productivity Growth
(Percent, real GDP per hour worked)

Sources: Destatis, Eurostat, BEA, IMF *WEO*, and IMF staff calculations.
Note: 2000-2019 excludes the Global Financial Crisis; Projection assumes average hours worked per worker remains unchanged.

16. Inflation is projected to rise moderately in the first half of 2026 due to base effects and somewhat sticky core inflation but then trend back toward 2 percent by the end of the year. Headline inflation is expected to average 2.3 percent in 2026. While a federal subsidy for transmission grid charges is expected to reduce household electricity prices by up to 2.4 cents per kWh and cut about 0.2 percentage points from headline inflation, this effect will be largely offset by a 9 percent increase in the Deutschland-Ticket for combined public transport. Core inflation is also projected to remain contained and average 2.3 percent in 2026. Moderating wage pressures are expected to support services disinflation (text chart), while recent euro appreciation should help keep core goods inflation in check. In the medium term, higher defense and public infrastructure spending combined with a recovery in private demand will likely see inflation settle slightly above the euro-area average, consistent with a modestly positive output gap and some REER appreciation.

Negotiated Monthly Wages
(Year-on-year percentage change)



Sources: Bundesbank, Haver Analytics, and IMF staff.
Note: Excludes one-off payments and other ancillary benefits such as special payments, annual bonuses, holiday pay, and retirement provisions.

17. The current account surplus is projected to narrow meaningfully over the medium term. Domestic fiscal easing and REER appreciation are expected to reduce the current account surplus from 5.8 percent of GDP in 2024 to around 3.8 percent of GDP in 2031, substantially reducing Germany's current account imbalance. While the main driver of the projected narrowing of the CA surplus over the medium term is expected to be due to a reduction in the savings-investment balance of the public sector, some contribution is also expected from the private sector, particularly firms, which would have incentives to invest more alongside the public sector. These

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[5] See the 2024 Staff Report for details on staff's estimation of potential growth.

developments would correspond to a projected decline in the goods trade balance over this period, while the services balance would be less affected.

18. Risks to Germany's economic outlook are tilted slightly to the downside (Annex IV). Key external risks include intensifying geopolitical tensions and escalating trade barriers, which could disrupt global value chains, including as a result of restrictions on the import of critical inputs; trigger commodity price volatility; and weigh on growth by undermining confidence, investment, and trade. Germany's high degree of trade openness and integration in global supply chains makes it particularly vulnerable to such shocks. Stretched global financial market valuations could trigger corrections, leading to contractions in global aggregate demand and heightened capital flow volatility, with elevated leverage among non-bank financial intermediaries amplifying these risks. Domestically, worse-than-expected productivity growth, including from a failure to adapt quickly to technological change and digitalization, could constrain medium-term growth and increase fiscal pressures. A failure to ramp up high-quality public investment could hamper the rotation from external to domestic demand-led growth and weaken medium-term growth potential. On the upside, effective policy responses and structural reforms could help mitigate these risks and support a stronger-than-projected recovery.

Authorities' Views

19. The authorities broadly agreed with staff's assessment of the outlook and key risks. Like staff, the authorities expect growth to strengthen in 2026–27 on the back of substantial fiscal easing and a cyclical recovery in investment and consumption. Net trade is expected to remain subdued due to rising geoeconomic fragmentation and lessened competitiveness. The authorities expect population aging to weigh on medium-term potential growth, which they estimate to be around 0.4–0.6 percent. Like staff, the authorities expect inflation at around 2 percent and saw key risks to growth as being similar to those highlighted by staff.

POLICY DISCUSSIONS

Macroeconomic policies need to provide stimulus to close the output gap and offset weakening external demand, while also laying the groundwork for strong and sustained medium-term growth. In the near term, this means undertaking a high-quality fiscal easing focused on increased public investment and other pro-growth measures. Over the medium term, this means gradually undertaking high-quality fiscal adjustment measures to (i) fund this higher level of public investment; (ii) offset rising spending pressures from aging-related, defense, and interest costs; and (iii) take further measures to stabilize the debt-to-GDP ratio. Fiscal measures should be complemented by bold structural reforms, both domestically and at the EU-level, to boost labor supply and productivity while continuing to maintain financial stability and responding in an agile manner to new shocks. Structural reforms such as cutting red tape will also have positive synergies for public investment expansion by, for example, simplifying permitting procedures. Higher growth from structural reforms would also lessen longer-term fiscal pressures.

A. Fiscal Policies

Text Table 2. Germany: Main Fiscal Drivers, 2026–27

(Projected change relative to previous year)

Percent of GDP	2026	2027
Higher defense spending (COFOG)	0.3	0.3
Higher public investment (excluding defense)	0.2	0.2
Higher pensions and social benefits in kind (mainly healthcare)	0.4	0.2
Accelerated depreciation for investment	0.2	0.1
Reducing VAT rate to 7 percent for restaurants/catering	0.1	...
Subsidy for electricity grid charges	0.1	...
Higher social insurance contribution rates	0.0	-0.1
Total	1.3	0.7

Sources: Bundestag and IMF staff projections.

Note: Negative numbers lower the fiscal deficit.

20. The fiscal stance is set to ease in the near term. Staff expect the overall deficit to widen to about 4 percent of GDP by 2027, providing a positive fiscal impulse (as measured by the change in the cyclically adjusted primary balance) of around 1 percent of GDP in both 2026 and 2027. Excluding the COVID-19 shock in 2020, this is the largest fiscal impulse in twenty-five years. The expansion mostly reflects higher public investment and defense spending. Social spending will also rise as population aging continues to put upward pressure on pension and healthcare costs. Revenues are projected to be broadly unchanged as higher social insurance contributions are offset by various tax cuts, including accelerated depreciation for investment in machinery and equipment, reduced electricity grid charges, and a lower VAT rate for restaurants/catering. The government's official deficit projection is broadly similar to staff's for 2027 but with a more frontloaded expansion in 2026, reflecting somewhat more optimism regarding the pace at which public investment will be ramped up and lower nominal GDP growth based on an earlier vintage of macroeconomic projections.

Text Table 3. Germany: Fiscal Projections, 2024–27

	Revenue				Expenditure				Deficit			
	2024	2025	2026	2027	2024	2025	2026	2027	2024	2025	2026	2027
Staff projections (January 2025 WEO)	46.2	46.6	46.9	47.1	48.0	48.1	47.7	47.8	2.0	1.7	1.1	0.9
Staff projections (current)	46.8	47.9	47.9	47.8	49.4	50.3	51.3	51.9	2.7	2.4	3.4	4.1
Bundesbank (December 2025)	46.8	48.1	47.7	47.7	49.4	50.6	51.7	52.3	2.7	2.5	3.9	4.6
Draft Budgetary Plan - October 2025	46.8	47 ¾	47 ¾	--	49.4	51	52 ¼	--	2.7	3 ¼	4 ¾	4 ¼

Sources: IMF staff projections, MoF, and Bundesbank.

21. The planned fiscal easing is welcome. Fiscal stimulus will help close the negative output gap and offset weakening external demand amid higher tariffs and euro appreciation.[6] Fiscal easing and higher public investment should also reduce Germany's current account imbalance (Annex III). Moreover, higher public investment in transport infrastructure, the energy transition, and digitalization will help reduce large investment backlogs due to years of relatively low public investment (Text Figure 7, bottom left chart) and raise medium-term potential growth. Germany has fiscal space for such an easing given its relatively low debt level (Text Figure 7, bottom right chart).

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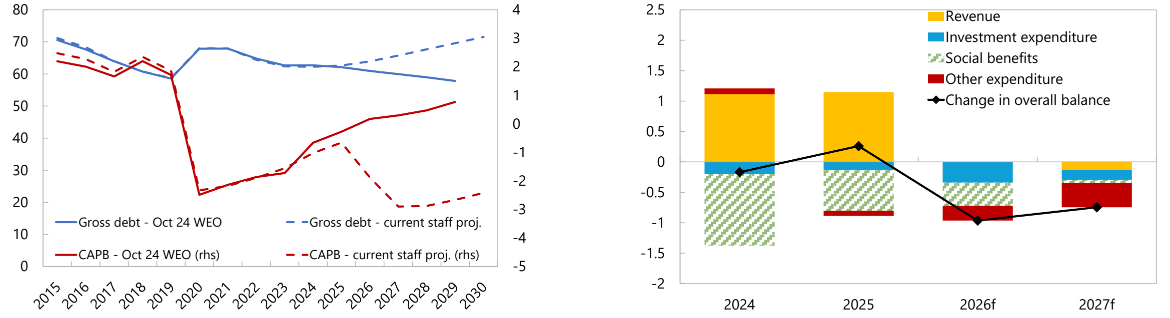
[6] Staff estimate that the fiscal easing will boost growth by about ½ pp in 2026 and ¾ pp in 2027, assuming an average multiplier of around 0.8, with this positive boost to aggregate demand split evenly between the year of the stimulus and the following year (reflecting lags in transmission) and then gradually dissipating over the medium term. Higher infrastructure spending will also boost potential growth by around 0.2 pp per year in the medium term due to a higher capital stock and positive hysteresis effects.

Text Figure 7. Germany: Fiscal Policy Loosening

Debt and Cyclically Adjusted Primary Balance
(Percent of GDP)

General Goverment Balance Change and Contributions
(Year-on-year percentage points)

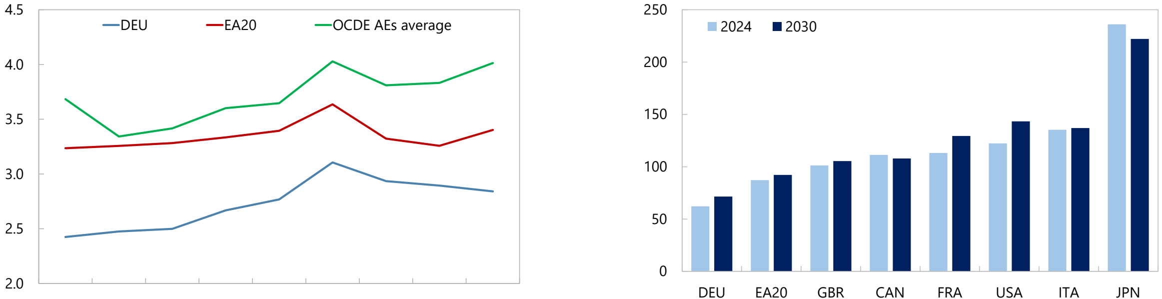


Sources: IMF *World Economic Outlook* and IMF staff calculations.

Sources: Destatis and IMF staff calculations.

Gross Public Investment
(Percent of GDP)

Gross Debt
(Percent of GDP)



Sources: OECD and IMF staff calculations.

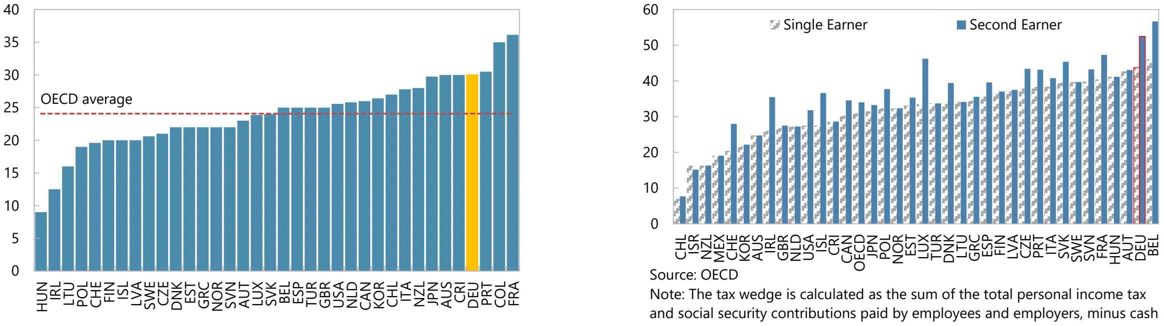
Source: IMF October 2025 *World Economic Outlook* and IMF staff calculations.
Note: Data for Germany reflects staff's current projections.

22. It will be important to implement a high-quality easing. The additional fiscal room created by the reform of the debt-brake rule should be targeted toward measures that boost potential growth—such as increasing public investment or reducing high effective marginal income tax rates (Text Figure 8)—and/or support other identified national priorities such as defense.[7] Conversely, poorly targeted measures that are fiscally costly and inefficiently distort economic behavior (e.g., lower VAT rate for restaurants/catering) should be avoided.

Text Figure 8. Germany: Tax Rates

Corporate Income Tax
(Percent)

Tax Wedge
(At 67 percent of the average wage earnings level, without children)



Source: OECD.

Source: OECD
Note: The tax wedge is calculated as the sum of the total personal income tax and social security contributions paid by employees and employers, minus cash benefits received, as a proportion of the total labor costs for employers.

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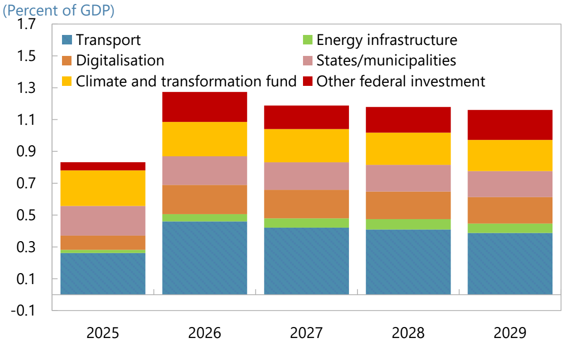
[7] The authorities plan to cut the federal CIT rate from 15 to 10 percent during 2028–32, reducing it by 1 percentage point each year. Together with the municipal rate of about 14 percent, this would bring Germany's overall rate to just under 25 percent by 2032, the OECD average. A review and reform of the personal income tax is planned for 2027.

23. Focus is needed to achieve an efficient ramp-up of infrastructure spending. Germany faces an urgent need to raise investment in transport, digitalization, and energy infrastructure. Plans for the new €500bn Special Fund for Infrastructure and Climate Neutrality foresee a rapid and sustained increase in investment (text chart). This investment is in addition to ensuring at least 10 percent of the core federal budget is dedicated to investment. Yet, in the past, the execution rate of the public investment budget has often been low. Public investment efficiency has also declined 15 percent over the last 10 years, partly reflecting the decline in infrastructure quality, and Germany scores below peers in infrastructure planning (Text Figure 9). Full and efficient implementation of the investment budget can be supported by steps to further increase centralized provision of investment planning services, including to strengthen project appraisal and prioritization; expand the use of joint procurement; step-up digitalization of procurement; and cut red tape, including by accelerating permitting approvals (¶34).

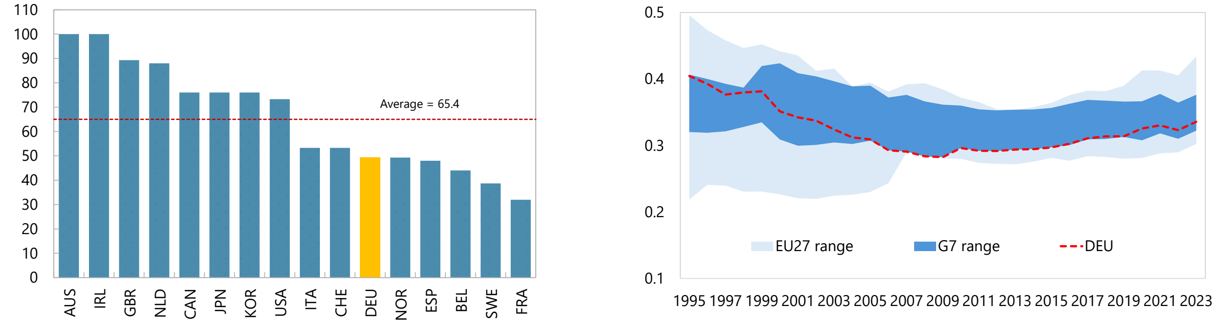
Planned Expenditure from Special Fund for Infrastructure and Climate Protection, 2025–29

(Percent of GDP)



Source: BMF.

Text Figure 9. Germany: Planning and Quality of Infrastructure Spending



Infrastructure Environment: Planning and Coordination

Sources: Economist Impact, *Infrastructure for Good* (2023).
Note: Score ranges from 0 to 100, where 100 indicates strongest planning and coordination environment for infrastructure.

Infrastructure Spending Efficency Gap

Sources: IMF Oct 2025 Fiscal Monitor and staff calculations.
Note: Gap value ranges from 0 to 1, where 0 indicates perfect efficiency and higher values indicate larger efficiency gaps.

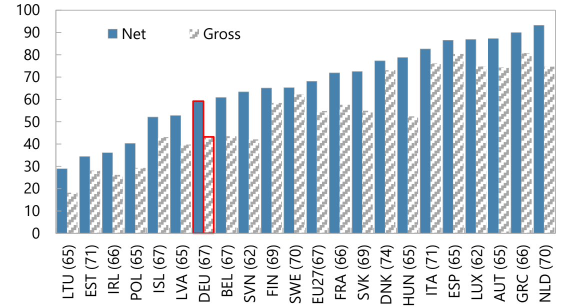
24. Near-term fiscal policy should adjust as needed if conditions change. Automatic stabilizers should be allowed to operate freely in both directions in the event of mild shocks. In the event of a significant deflationary downturn (e.g., a global recession driven by a major financial market correction; Annex IV), the government has fiscal space to support the economy with further discretionary stimulus, which should be timely, targeted, and temporary.

25. Over the medium and long run, rising aging-related, defense, and interest spending will require substantial consolidation of the non-defense, non-infrastructure budget. Between 2027 and 2035, annual aging-related costs (pensions and healthcare), defense spending, and interest payments are projected to rise by about 2.2, 0.5, and 0.4 percent of GDP, respectively.[8] An increase in the structural fiscal balance of around 1.7 percent of GDP will also be needed between 2027 and 2035 to stabilize the debt-to-GDP ratio, implying a total need for fiscal measures of around 5 percent of GDP by 2035 to offset rising spending pressures while stabilizing the debt ratio.

26. High-quality fiscal adjustment measures should be adopted over the medium and long term (once the output gap has mostly closed) to achieve this consolidation. Adverse effects on growth can be minimized by safeguarding public investment and minimizing increases in labor tax and social insurance contribution rates, which are already relatively high, as further increases could reduce work and employment incentives. Some options for fiscal adjustment are below and discussed in further detail in staff's 2024 Selected Issues paper and recent OECD reports. These options focus especially on social benefits, which account for over half of government spending and represent a growing pressure on the budget due to population aging:

Pension Replacement Rates, 2022

(Percent of pre-retirement earnings)



Source: OECD Pensions at a Glance 2023.

Notes: Replacement rate at average wage for men. Numbers in parentheses show standard retirement ages.

- ***Pensions.*** Germany's standard retirement age, which is set to rise to 67 by 2031, is on the higher end within Europe, and replacement rates are at the lower end due to past reforms (text chart). Nonetheless, there are areas where Germany's public pension system deviates from recommended practice and reforms could generate substantial savings over time. In particular, indexing pensions-in-payment to inflation rather than nominal wages could generate over 1 percent of GDP in annual savings by 2040 (assuming average annual real wage increases of 0.7 percent) and improve progressivity, as lower-income individuals tend to have lower life expectancies and thus benefit less from rising real incomes in retirement.[9] Reviewing pension deductions for early retirement to encourage longer working lives could generate additional savings.[10] After 2031, retirement ages could be linked to increases in life expectancy to further safeguard the system's finances. Against this backdrop, the government has established an expert commission tasked with making proposals in 2026 to improve the system's sustainability while maintaining adequacy.
- ***Healthcare.*** Germany spends considerably more on healthcare than peer countries—even after adjusting for Germany's relative older population—while achieving broadly average health outcomes (EC 2024, Morgan and Mueller 2023, Text Figure 10). Potential efficiency savings are

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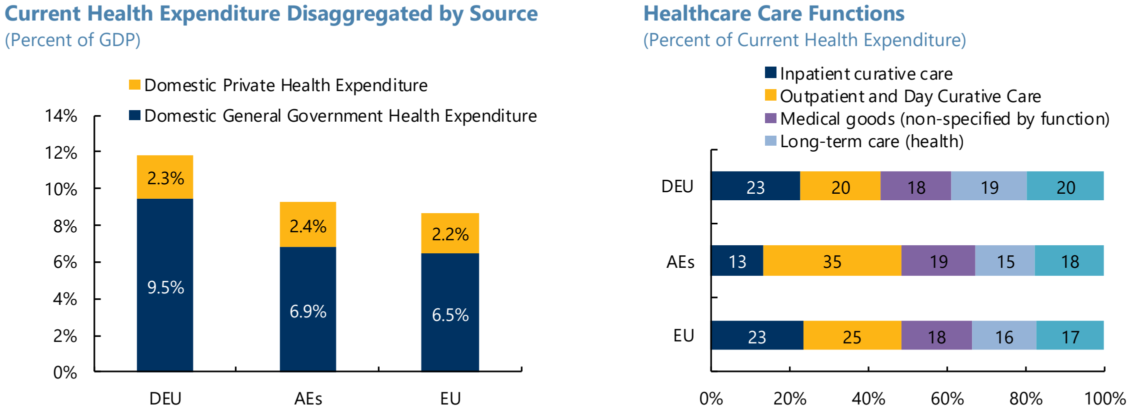
[8] IMF staff estimates based on the OECD's Long-Term Model (2025) and other inputs. Additional pension costs have resulted from decisions by the new government to further extend the minimum threshold for replacement rates at 48 percent to 2031 and to equalize pension credits of mothers of children born before 1992 with those born after 1992.

[9] If necessary for political feasibility and to avoid adverse effects on old-age poverty, the progressivity of such a reform could be further enhanced by focusing the reduction in the annual increase to larger pensions, as in Austria.

[10] In 2023, 51 percent of the retiring cohort retired early (not including insurees with disabilities).

expected from the recent hospital reform, which seeks to consolidate inpatient care and reform pricing structures to disincentivize unnecessary procedures. Further gains could be achieved through greater use of joint procurement and digitalization.

Text Figure 10. Germany: Health Care Spending


Current Health Expenditure Disaggregated by Source

(Percent of GDP)

Healthcare Care Functions

(Percent of Current Health Expenditure)

Source: WHO Global Health Expenditure Database (GHED).

- ***Other spending measures.*** Reductions in subsidies, especially fossil fuel subsidies, could improve economic efficiency while supporting the energy transition. Sectoral expenditure reviews could facilitate generalized spending restraint and prioritization. Greater EU-level investment, procurement, and coordination in areas where EU-level actions can generate efficiency gains and economies of scale (e.g., energy, innovation, and defense) would also help relieve pressure on the national budget by reducing overall costs.[11]

- ***Revenue.*** Cutting environmentally harmful tax expenditures, closing loopholes in inheritance taxes, and eliminating non-standard VAT exemptions and reduced rates[12] could not only increase revenue but also improve efficiency, reduce distortions, and further support the energy transition. Additional revenue could be generated by increasing property taxes and alcohol excises, as these are relatively low by international standards. Higher revenue can also be achieved by improving tax enforcement and strengthening digitalization of revenue administration, though savings from such measures are difficult to quantify.

27. Any further reform of the debt-brake rule should aim for a transparent framework that creates room for investment while stabilizing public finances. While the recent debt-brake reform appears adequate for the current conjuncture, some issues with its design may arise in the longer run. First, additional defense spending is currently exempt from the debt-brake's constraints, but all spending eventually needs to be covered by the rule if it is to safeguard fiscal sustainability.

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[11] Busse Matthias, Huidan Lin, Malhar Nabar, and Jiae Yoo (2025). Making the EU's Multiannual Financial Framework Fit for Purpose. 2025/114. IMF Working Paper.

[12] EC simulations suggest that eliminating reduced VAT rates could boost revenue by about 1.1 percent of GDP (estimate for 2024). For more details, see European Commission: Directorate-General for Taxation and Customs Union, CASE, Intellera, Syntesia, Poniatowski, G. et al., VAT gap in Europe – Country report 2025 – Germany, Publications Office of the European Union, 2025

Second, adjustments may also be needed to ensure that the rule adequately safeguards public investment once the new infrastructure fund expires in 2037. Third, if the escape clause is triggered, the rule does not currently allow for a gradual transition back to its requirements after the escape clause expires. Fourth, the debt brake is based on a net borrowing concept that is not fully consistent with the EU's Maastricht overall balance concept, reducing the debt-brake's alignment with EU rules and concepts. Fifth, Germany's Stability Council could be strengthened to monitor compliance and the use of the escape clause. In this context, the government has appointed a commission tasked with developing a proposal for further refining the debt brake by the first quarter of 2026. Any such reforms should seek to preserve fiscal discipline while creating room for investment and flexibility to respond to shocks.[13] The Bundesbank has made a thoughtful proposal in this regard that addresses the first two issues above,[14] though somewhat looser settings could still be consistent with debt sustainability. Transitions out of the escape clause could also be made more gradual.

Authorities' Views

28. The government emphasized its commitment to using fiscal space to modernize the economy and promote sustained growth. To support implementation of the Special Fund for Infrastructure and Climate Neutrality, a new publicly available monitoring mechanism is being created to enable close monitoring of the Fund's spending. In addition, a new investment and innovation advisory board has been created to advise the Federal Minister of Finance on ensuring the funds are used quickly and in a targeted manner to boost innovation. The authorities welcomed staff's range of recommendations for future consolidation. In this context, in addition to the expert commission on pension reform, the government has also established an expert commission for the financial stabilization of statutory health insurance and a working group on long-term care insurance that are tasked with producing proposals to stabilize contribution rates.

B. Financial Sector Policies

29. Macroprudential policy settings remain appropriate to contain potential systemic risks. While the credit gap is now slightly negative, weak credit growth mainly reflects weak

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[13] See IMF Staff Discussion Note on fiscal rules and fiscal councils for design principles and cross-country examples.

[14] During 2025–29, the proposal makes no changes to the current debt brake, allowing deficits of up to 4 percent of GDP over the medium term. The years 2030–35 would then be a transition period to a more sustainable deficit, with a 0.5 percentage point of GDP cut in the overall structural deficit per year, reaching 1 percent of GDP by 2035. After this, the debt brake would revert to a permanent rule. Under this permanent rule, net borrowing of up to 0.8 percent of GDP per year would be allowed for additional infrastructure spending. Additionality is defined with respect to the infrastructure investment-to-GDP ratio in 2024 (i.e., only infrastructure spending in excess of its 2024 ratio would be considered additional). The definition of infrastructure investment in the proposal is narrower than the current infrastructure fund. In addition, the federal budget and states would each have a net borrowing limit for non-infrastructure spending of 0.1 percent of GDP, such that the total general government net borrowing limit would be 1 percent of GDP. If debt falls below 60 percent of GDP, the non-infrastructure net borrowing limit would be increased to 0.35 percent of GDP for the federal government and states, bringing the total general government net borrowing limit to 1.5 percent of GDP. See Further development of the debt brake – a Bundesbank contribution to the reform debate (November 2025).

demand, rather than credit supply constraints due to stressed bank balance sheets. However, such constraints could arise if major shocks (Annex IV) materialize. In this context and given the moderate increase in systemic risks, the current settings of the countercyclical capital buffer (CCyB) at 0.75 percent of risk-weighted assets and the SSyRB on RRE at 1 percent remain appropriate, as these buffers could be released in conditions of aggregate financial stress, providing a loss-absorbing cushion to the financial system. More generally, the authorities should consider adopting legislation to explicitly allow a positive-neutral setting for the CCyB, which would make a releasable buffer available when going from a neutral period to a downturn, consistent with recommendations of the Basel Committee.[15] Supervisors should also continue to encourage banks to remain prudent in capital distributions (i.e., bonuses, dividends), including to ensure adequate investment in technology to counter cyberattacks (Annex IV). Further efforts to close CRE data gaps are also recommended.

30. The authorities should adopt legislation to add more borrower-based measures to the macroprudential toolkit.[16] A working group with representatives from the MoF, BaFin, and the Bundesbank has in recent years prepared a draft law to enable the use of prudential limits on debt-to-income (DTI) and debt service-to-income (DSTI) ratios on residential real estate lending, which would help reduce future macro-financial risks and bring Germany more into line with common practice in the euro area. The authorities have established corresponding data collection processes to monitor high-DTI and DSTI lending. This data should be used to analyze the potential impact of future limits on DTI and DSTI ratios for new residential real estate loans, which could be applied, along with existing powers to implement LTV limits, when the credit cycle turns and real estate market recovery is firmly underway.

31. Continued efforts are needed to contain financial stability risks arising from NBFIs.

- **Insurers.** EA member states have until January 2027 to transpose reform of Solvency II into national laws. The revised directive provides new powers for macroprudential supervision to limit solvency and liquidity risks of insurers. Specific measures (e.g., powers to restrict bonuses and dividend payments, for adjustments to insurers' own risk assessments, etc.) are still under discussion. The authorities should use the opportunity to establish operational frameworks for a wide range of tools, which could be deployed as needed.

- **Crypto asset exposure.** Reporting indicates that German banks and insurers currently do not have significant direct holdings of crypto assets. However, ongoing monitoring of financial sector exposures and risks from crypto assets remains appropriate and should be coordinated with other national supervisors as well as the ECB. It is also important to monitor market conduct

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[15] German legislation does not allow for a positive-neutral CCyB at present.

[16] See "Borrower-Based Macroprudential Instruments in Germany", IMF Selected Issues Paper 2023/60 for further discussion of this issue.

and operational risks as anticipated under recent regulation for Markets in Crypto-Assets (MiCA).[17]

- **Links between banks and NBFIs.**[18] The recent Euro Area Polices Financial System Stability Assessment emphasized the need to deepen system-wide stress tests covering banks and NBFIs to assess solvency-liquidity interactions and network vulnerabilities. Better cross-border exchange of existing data on links between banks and NBFIs would assist these efforts.

32. Financial safety arrangements should be reviewed and tested. A single deposit insurance scheme with a public backstop would strengthen system safeguards in case of liquidity risks, as would a reinsurance mechanism between the separate deposit guarantee schemes. However, progress on this long-standing IMF recommendation remains stalled by a lack of political support. Simulations of the effectiveness of Institutional Protection Schemes (IPS) in Germany should be carried out, and efforts to unify fragmented deposit insurance schemes should continue. Germany should also continue to strengthen cross-border supervisory and resolution mechanisms for banks, including periodic crisis simulation exercises within supervisory colleges.

33. Over time, efforts to diversify banks' income sources and reduce their operational costs would also help to support financial stability. Further progress towards an EU-level Savings and Investment Union could create more opportunities for banks to diversify sources of income by expanding cross-border services, including investment banking and asset management activities. Further digitalization of financial services, including payments, credit risk assessment, and loan underwriting, would help to lower operational costs by reducing the need for physical branches. Completion of the EU Banking Union should remain a key priority to enhance resilience and remove barriers to efficiency-enhancing cross-border mergers.

34. Ongoing efforts to implement financial sector recommendations from past Article IV and Financial Sector Assessment Program (FSAP) consultations are welcome (Annex V and VI). The authorities have notably implemented comprehensive top-down stress tests for interest rate and climate transition risks, expanded climate-related disclosures, strengthened BaFin's operational independence and cooperation with the Bundesbank on banking supervision, and updated the supervisory framework. The next FSAP is scheduled for completion in mid-2027, with preparatory work starting in 2026.

Authorities' Views

35. The authorities assessed the German financial sector as broadly resilient but with risks that require continued vigilance. While recent stress tests found broad resilience to severe shocks,

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[17] BaFin recently intervened under MiCA to shut down a fast-scaling stablecoin project that posed systemic risks due to reserve assets held outside the EU.

[18] A specific link relates to Synthetic Risk Transfers (SRTs), which correspond to credit protection purchased by banks from NBFIs on their loan portfolios allowing them to lower risk weights on their portfolios but raising counterparty risks for them. However, overall system exposure is limited to about 0.6 percent of banking assets at present.

the authorities noted that key risks include potential trade-related impacts on exposed corporates and prospects for disorderly adjustments in global capital markets, which could be magnified by asset and funding linkages between banks and non-bank financial intermediaries (NBFIs). The authorities highlighted the importance of strengthening operational resilience, particularly in light of rising cyber threats.[19] Macroprudential measures for insurers, aligned with the Solvency II review, are anticipated by 2027. The authorities continue to support improved data sharing and cross-border supervisory coordination at the European level. They noted challenges of system-wide solvency and liquidity stress testing involving interactions between banks and NBFIs given data limitations and methodological uncertainties.

C. Boosting Growth Through Increased Labor Supply

36. Population aging implies that labor shortages may persistently constrain medium and longer-term growth, underscoring the need for targeted reforms to boost labor supply. While Germany's employment rate is high, the share of part-time work is high and rising, especially for women, parents, and older workers. Targeted reforms could help to lessen work disincentives for these and other groups:

- ***Women and parents.*** Uneven access to reliable child- and eldercare is commonly cited as an important factor behind Germany's relatively high share of female employees that work part-time rather than full-time. Plans to increase funding for construction of childcare facilities are thus welcome and should be complemented by measures to increase childcare staff, while ensuring also that expansion of care does not compromise quality.[20] Over time, such funding may largely pay for itself as more full-time employment boosts tax revenue. Moving away from the current joint taxation system while providing additional child allowances and lowering income tax rates would further improve work incentives by reducing high marginal effective tax rates for second earners, who tend to be relatively responsive to tax incentives (i.e., their labor supply is more price elastic than that of primary earners), while being budget-neutral through the increase in labor supply (Blömer, Fischer, and Peichl 2023)

- ***Older workers.*** As discussed earlier (¶26), pension deductions for early retirement could be reviewed to encourage longer working lives while also generating fiscal savings.

- ***Lower-income earners.*** For lower-income earners, the current tax and transfer system is complex and creates disincentives for increasing hours worked due to high effective marginal tax rates (sometimes in excess of 100 percent) arising from the withdrawal of benefits as an

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[19] See, for instance, the finding that cyber risk is a significant operational risk with systemic implications in the 2025 Euro Area Policies Financial System Stability Assessment (paragraph 43).

[20] The childcare rate for children under the age of 3 rose slightly to 37.8 percent in 2025 from 37.4 percent in 2024, driven in part by an 0.6 percent increase in daycare centers (up to about 61,000) and in part by less children under 3, as this increased the availability of existing spaces.

individual's income rises due to means-testing.[21] Simulations suggest that merging multiple benefits (citizen's benefit, housing benefit, and child supplement) and creating uniform withdrawal rates could increase labor supply by 149,000 full-time equivalent jobs while delivering fiscal savings of about €4.5 billion (0.1 percent of GDP) (Blömer, Eser, Fischer, and Peichl 2025).

- ***Immigrants.*** Immigration over the last decade has increased labor supply and output. Ongoing efforts to better integrate immigrants, including through language support and more efficient digital processes to recognize qualifications (e.g., the new digital "Work-and-Stay Agency"), could further leverage this gain and should continue.

Authorities' Views

37. The government noted that it was deploying measures to bolster work incentives and labor supply. For parents, there has been a sustained increase in childcare places since 2006. Further investments are planned through a new investment program (Childcare Provision) financed from the Special Fund for Infrastructure and Climate Neutrality. For older workers, efforts are focused on continued voluntary employment after retirement age through fiscal incentives and improving working conditions. For lower-income earners, an expert commission on welfare reform is due to provide proposals in early 2026 on modernizing the social welfare state while maintaining the level of social protection, including through digitalization, simplification, and possible mergers of some benefits, such as housing benefit and child supplement, in ways that improve work incentives. Policies will also continue to support immigrant integration, including by developing a new online portal (the "Work and Stay Agency") that will speed up the recognition of foreign professional qualifications and through ongoing measures such as the Job-Turbo launched in 2023.

D. Boosting Growth Through Higher Productivity

Strengthening Worker Training

38. Steps are needed to boost skills for current and future labor market participants. With the nature of work evolving quickly amid AI deployment and other technological trends,[22] it will be important to ensure that workers are well-trained to support key growth sectors, such as IT, healthcare, renewable energy, construction, and transportation. However, low training rates for adults, population aging, and weaker foundational and digital skills are leading to a growing skills gap while educational and training systems have not adapted sufficiently (Text Figure 11). The

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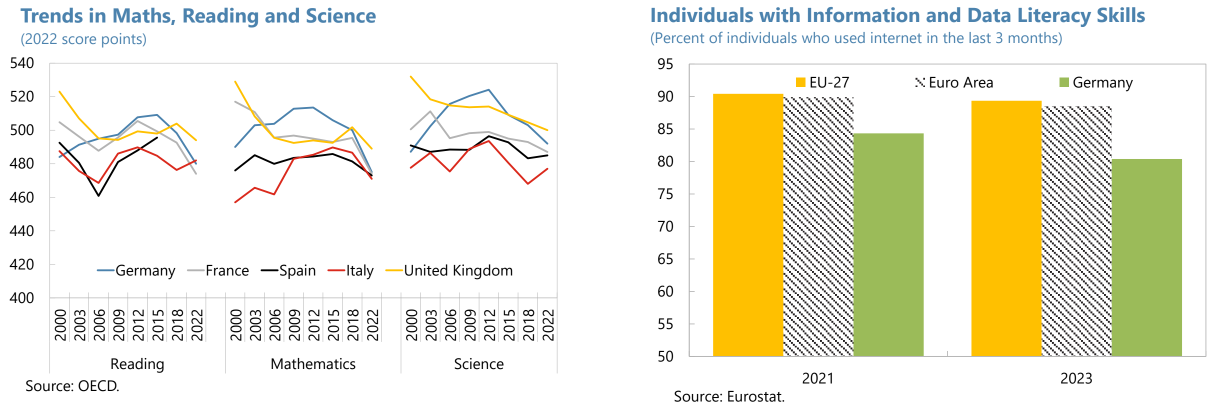
[21] A recent study found there are over 500 different social benefits at the federal level in Germany (Blömer, Fischer, Klaeren, and Peichl 2025).

[22] While highly uncertain, AI has the potential to have a significant impact on labor markets and poses risks of job displacements. However, if productivity gains are sufficiently large, income levels could increase for most workers, especially if Germany is pro-active in facilitating adoption of AI productivity improvements via education and supporting those displaced by AI. Some estimates suggest that Germany's total factor productivity could be around 0.9 percent higher over the medium term due to developments in artificial intelligence (Misch, F., Park, B., Pizzinelli, C., and Sher, G. (2024).

authorities' renewed emphasis on raising access to early childhood education and expanding vocational and adult training is thus welcome while further steps are needed to improve the quality of basic education (OECD 2025).

Text Figure 11. Germany: Skills



Source: OECD.

Source: Eurostat.

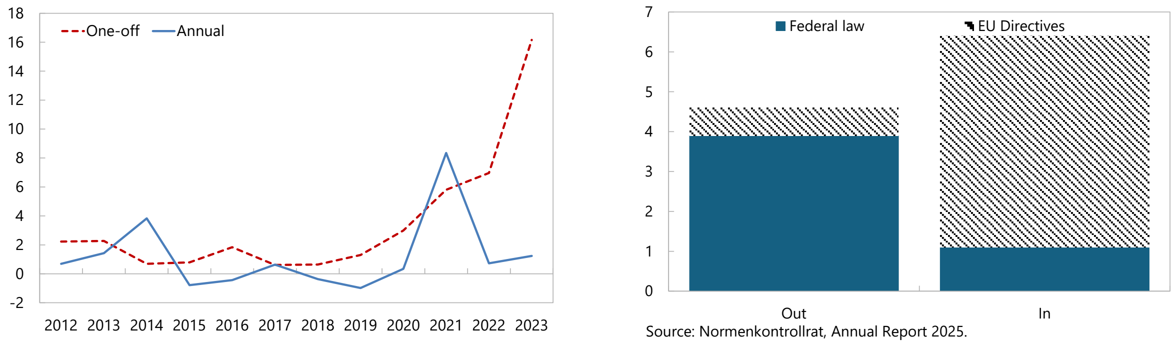
Cutting Red Tape

39. Determined efforts to cut red tape and bureaucracy are needed to help boost private-sector investment, support start-ups, and foster growth.

- To support this objective, the government's Modernization Agenda sets out targets to reduce bureaucracy, regulate better, and create a more efficient federal administration, with a particular focus on digital transformation. Key goals are to reduce the cost of bureaucracy for businesses by 25 percent and compliance costs by €10 billion by the end of the legislative period. Toward this end, the agenda modifies the existing "one in, one out" rule (which mandates that any additional cost from regulation must be fully offset by reductions in other regulations by the end of each legislative period) to a "one in, two out" rule, and direct implementation of EU requirements are now included (Text Figure 12). Top projects in the new agenda include enabling companies to set up in 24 hours online by standardizing the current 6,000 processes at the municipal level and creating a single process for the whole of Germany; creating centralized digital portals for citizens' access to government services, such as vehicle registration and direct payment of federal benefits; and shortening the planning period for housing construction, which can currently take several years.

- The complex and growing burden of bureaucracy, fragmented processes at federal, state and municipal levels, and digital skills gaps create a challenging environment for implementation of the modernization agenda, particularly with goals to reduce federal staff by 8 percent by 2029. It will be important to follow through on the modular and iterative implementation approach, with regular evaluation and adaptation, efforts to ensure adequate staffing in areas where insufficient staff can increase compliance costs (e.g., in the issuance of permits), and strong coordination across government and with the EU while maintaining a focus on priority areas.

Text Figure 12. Germany: Bureaucracy Costs[1]



Compliance Cost of New Regulations
(EUR billions)

Source: Destatis.

"One in One Out" Balance Sheet, Including EU Directives
(EUR billions)

Source: Normenkontrollrat, Annual Report 2025.
Note: For the 20th legislative period.

1/ During 2021–23, regulations related to the conversion of heat supply to renewables and measures to secure energy supplies following the shut-off of Russian gas contributed most to one-off costs (NKR Annual Report, 2025).

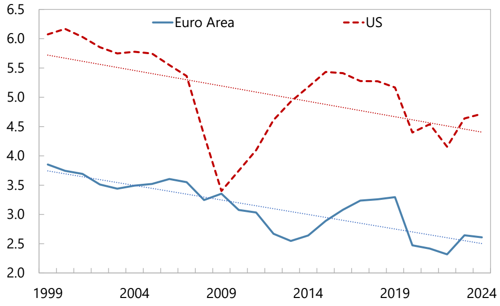
- General strategies that may be useful include minimizing duplication of reporting requirements, relying more on risk-based auditing of compliance with regulations rather than overly onerous reporting, accelerating permitting and licensing procedures, harmonizing regulations across regions and the EU, and establishing deadlines beyond which new objections to projects can no longer be brought. Measures of bureaucracy, such as average times to receive permits for new projects and construction, should also be enhanced to more accurately reflect the burdens on business and progress being made. Simplification of regulatory procedures should also avoid a watering down of essential safeguards, such as requiring banks to maintain adequate capital buffers.

Supporting Innovative Start-Ups

40. Fostering a more supportive environment for innovative start-ups could further boost productivity.

- The average age of the 10 largest companies in Germany is nearly three times that of those in the United States (Text Table 4). This suggests that there has been less growth of new firms with innovative technologies, which are key to boosting productivity.[23] New firm growth is especially important given that some of Germany's existing industries are in relatively low-growth sectors. For example, about two-thirds of German auto production is for the European car market, which has exhibited a long trend decline in demand (text chart).

New Car Sales per 100 Persons
(Units)



Sources: Eurostat, BLS, Haver Analytics, and IMF staff calculations.

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[23] For example, Acemoglu et al. 2018 show the critical contribution of small, fast-growing firms to aggregate productivity growth in the US and note that industrial policies to subsidize large, incumbent firms can lower economic growth by slowing down reallocation and discouraging innovation.

Text Table 4. Germany: Age of Top 10 Largest Firms by Capitalization

Rank	Germany	Age (yrs)	United States	Age (yrs)
1	SAP	53	NVIDIA	32
2	Siemens	178	Microsoft	50
3	Deutsche Telekom 1/	78	Apple	49
4	Allianz	135	Alphabet	27
5	Rheinmetall	136	Amazon	31
6	Munich RE	145	Meta Platforms (Facebook)	21
7	Deutsche Bank	155	Broadcom	64
8	Mercedes Benz	99	Tesla	22
9	BMW	109	Berkshire Hathaway	186
10	Merck	357	Oracle	48
	Average	145		53

Sources: Bloomberg L.P., IMF staff calculations.

1/ Based on founding date of Deutsche Bundespost, which was broken up into 3 companies in 1995, one of which was Deutsche Telekom. An older age could be considered based on Deutsche Bundespost's predecessors.

- To promote the creation and expansion of new firms, the German government has created several funds to increase financing available to startup firms at various stages of growth (Text Table 5). Foreign investors may invest jointly with any of these funds directly into German startups or in other VC funds that allocate capital to startups. They may also invest directly into two of these funds (the High-Tech Gründerfonds IV and the Wachstumsfonds Deutschland).

Text Table 5: Germany: Federal Government Financing for Startups

Financing Instrument	Commitment (millions of euros)
European Tech Champions Initiative	1,000
Venture Tech Growth Financing 2.0	1,155
GFF EIF Wachstumsfazilität	2,891
Wachstumsfonds Deutschland	216
ERP/ZF-Wachstumsfazilität	2,491
ERP/VC-Fondsinvestments	2,254
ERP/EIF-Dachfonds	2,110
EIF German Equity	1,400
Scale-Up Direct	1,000
Emerging Manager Facility	200
Impact Facility	200
RegioInnoGrowth	90
HTGF Opportunity	660
DeepTech & Climate Fonds	1,000
High-Tech Gründerfonds IV	305
Total	16,971

Source: Ministry of Economic Affairs and Energy, November 2025.

- The German government has also taken concrete steps to promote collaboration between academic research institutions, established firms, and innovative startups through initiatives such as the EXIST Startup Factories, which was launched in 2025, and the Digital Hub (de:hub), which was launched in 2015 but expanded during 2025. These factories or hubs aim to support startups in high productivity technology sectors such as AI, Greentech, quantum computing, fintech, health, and cybersecurity. In addition to providing access to capital, they support founders of innovative firms with guidance in various business areas as well as infrastructure.[24]

- In terms of recent regulation supporting the startup environment, the Future Financing Act of November 2023 lowered the minimum capital requirement for an IPO listing, raised the tax-exemption on share ownership by private individuals, and created a more flexible company share structure that allows firms to issue new shares with multiple voting rights.

- Increased transparency into the return, risk, and liquidity of potential VC investments, possibly via the development of benchmark indexes for EU VC investments, could also boost institutional investment in VC. Reducing the corporate tax code's bias against equity financing through, for example, adoption of an Allowance for Corporate Equity, could also be explored as a way to increase equity financing for new and growing firms. The impact of preferential inheritance tax treatment for inherited business assets should also be reviewed to assess whether this impedes capital reallocation from existing businesses to newer and possibly more innovative firms.[25]

41. **Supporting a deepening of the EU Single Market is another important way that Germany can boost innovation and productivity.** Significant barriers to cross-country trade within the EU remain. Simulations suggest that key reforms to reduce these barriers could boost European GDP by over 3 percent by 2035. Such reforms would increase growth in Germany both directly and indirectly, as Europe is by far Germany's most important export market. Key reform proposals to deepen the EU Single Market include Savings and Investment Union, a 28th corporate regime, and a digital euro.

42. **Savings and Investment Union would improve the availability of equity and other capital market financing for startups and expanding firms.**

- Given a bank-dominated financial sector in the EU, including in Germany, financing available to young firms has been mostly in the form of debt, which is more onerous than equity financing for innovative, risk-taking firms seeking to grow quickly. In contrast, equity-market financing has been more limited. For example, there was only 0.06 percent of GDP in VC investment in Germany, compared with 0.1 percent in the UK and 0.5 percent of GDP in the US as of end-2023

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[24] The EXIST Startup Factories initiative has already identified 10 startup factories, each of which has received €100 million from the federal government that has been equally matched by the private sector. The factories include collaboration between more than 120 academic institutions and over 140 firms. Meanwhile, de: hub has created 25 hubs, which altogether allow for collaboration between several thousand startup firms and partners.

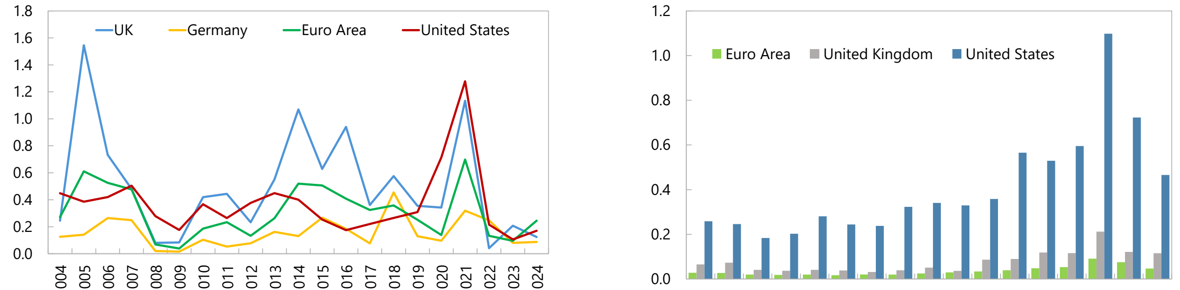
[25] Individuals facing liquidity difficulties in paying inheritance taxes on business assets could be allowed to pay tax on inherited business assets (possibly above a threshold value) in instalments over many years, as in Denmark, instead of the current practice of exempting business assets. See "Inheritance Taxation in OECD Countries", 2021.

(Text Figure 13, right). Savings and Investment Union could bolster VC and other equity financing in Europe through enhanced economies of scale.

- The fragmented nature of capital markets in Europe and Germany versus the United States also means that many firms choose to list IPOs on exchanges in the latter (Text Figure 13, left). Harmonization of markets regulation across the EU and consolidation of exchanges could provide scale benefits, making it easier for firms to access equity capital via public offerings. This in turn could make it easier for firms to expand. It could also make it more attractive for entrepreneurs to start companies due to more lucrative exit options for successful startups.

- Increasing the availability of equity financing for fast-growing, innovative companies, together with acceleration of licensing and permitting procedures (¶35), could further stimulate investment in Germany, boosting growth and also avoiding a widening of external imbalances in the longer run due to the fiscal adjustment that will be needed to eventually stabilize the debt-to-GDP ratio (Annex I, ¶24).

Text Figure 13. Germany: IPO Activity and Institutional Investment in VC and Private Equity



IPO Activity 1/

(Percent of GDP, annual sum of deal sizes)

Sources: Pitchbook Data, Inc., and IMF staff calculations.
1/ Includes firms at all stages of growth.

Venture Capital Investment

(Percent of GDP)

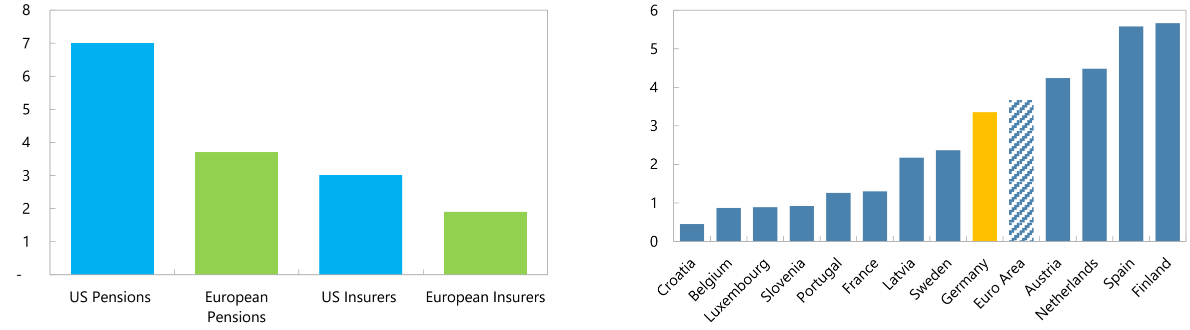
Sources: OECD, Haver Analytics, and IMF staff calculations.

Private Equity / VC Investment of Institutional Investors

(Percent of assets, latest available data)

European Pension Funds Allocation to Private Equity

(Percent of assets, end-2023)



Sources: Fidelity Asset Allocation Study 2023, EIOPA, and IMF staff calculations.

Sources: EIOPA, and IMF staff calculations.

43. The proposed 28th corporate regime could, if properly designed and implemented, make it easier for growing firms to expand across Europe. Such a regime could introduce an optional harmonized legal framework for firms operating across the EU that would ideally cover corporate governance requirements, accounting rules, and insolvency procedures, as well as possibly some tax treatment (such as loss carryforward) and labor laws. This could simplify the cross-border operations of firms, making it easier to expand across national boundaries and thereby benefit from economies of scale while allowing production in Europe to be more specialized across countries based on comparative advantage, increasing efficiency and productivity across Europe and lowering costs of living. Such a reform may also increase the availability of investment capital for such firms. The European Parliament and Commission are presently reviewing draft proposals and public feedback on this initiative, with a target to develop proposed legislation in early 2026.

44. The digital euro could help to deepen the integration of financial services within Europe. As a secure, low-cost pan-euro area payment solution, the digital euro, with careful design and safeguards, could help improve payment system efficiency and reduce transaction costs for users, especially households and small enterprises, and enhance competition in the retail payments system.

Reducing Energy Costs

45. Targeted reforms could help reduce energy costs and improve efficiency. While German energy costs have fallen significantly from their peaks following the 2022 energy-price shock, in part due to reductions in energy taxes, electricity and natural gas prices remain significantly higher than in many other countries (Annex VII). Domestic electricity production has declined by around 22 percent since the 2017 peak and, while consumption has also fallen in line with weaker economic activity and improved energy efficiency, Germany became a net importer of electricity in 2023–24 (Text Figure 14). Accelerating permitting processes for new generation and grid expansion could increase energy supply and bring down prices, while increased use of variable pricing could improve incentives to match the timing of electricity generation and use.

46. Better integrating European energy markets ("Energy Union") could significantly reduce the level and variability of energy costs. Despite existing regional trading markets and interconnectors, EU electricity markets remain fragmented, leading to price volatility and inefficiencies. Deeper integration of European energy markets, including better cross-country coordination in planning new energy investments, could lower costs through optimized generation and electricity trade, while avoiding over-investment in storage needs. Expanding direct cross-border connections would help balance supply and demand across regions, which will be increasingly important as variable renewables make up a larger share of electricity generation. A unified market would also improve energy security by providing a buffer against regional shocks and reducing the dependence on third countries, while enabling faster and cheaper deployment of renewables.[26]

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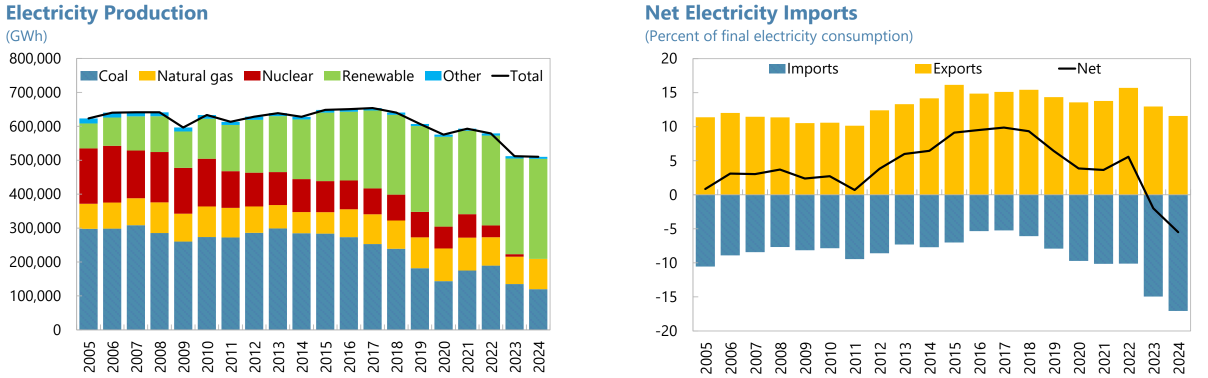
[26] See IMF Staff Background Note on EU Energy Market Integration for further detail.

Text Figure 14. Germany: Energy Prices and Electricity Production



Sources: International Energy Agency and IMF staff calculations.

Sources: International Energy Agency and IMF staff calculations.

Supply-Chain Resilience

47. **Germany should also continue to assess and prepare for risks related to rising global geo-economic fragmentation.** Such efforts should include identification of critical dependencies, assessment of the impact and transmission channels of different scenarios (e.g., stress tests of supply-chain disruptions), and development of strategies for coping with risks. Mutually beneficial cooperation between Germany and its trading partners on trade and cross-border flows would also help mitigate these risks.

Authorities' Views

48. **The government underscored its commitment to tackling structural barriers to productivity growth.** On foundational skills, while education policy is primarily the responsibility of states, the federal government is providing financial support to increase the number of students who meet minimum standards in mathematics and German ("Startchancen" program). The National Skills Strategy has been further developed to provide an overarching and partnership-based exchange process on continuing education and training policies. On cutting red tape, work is already underway to reach the goal of a 25 percent drop in the cost of bureaucracy for businesses through specific measures such as reducing documentation requirements and a ban on collecting data multiple times. In addition to Modernization Agenda initiatives mentioned earlier, work is also underway to streamline processes between federal and state governments and to advance "reality checks" on regulations and promote "regulatory sandboxes" (e.g., experimentation clauses in law to enable regulatory learning and adaptation) to foster an innovation-friendly environment.

49. **The authorities expressed strong support for deepening the Single Market.** They agreed that such deepening was critical to bolstering Germany's growth prospects and broadly supported initiatives such as a Savings and Investment Union, Energy Union, and a digital euro. On Savings and Investment Union, they noted support in particular for deeper capital market integration, harmonized capital market regulation, and simplified cross-border processes. They considered that Energy Union should focus on developing and approving common, cross-border energy networks as well as greater interconnection of national energy markets. The authorities

noted that they are complementing these efforts by domestic reforms to simplify and accelerate approval of new energy production. They considered a 28th corporate regime to be a promising concept if it does not undermine national labor and social standards, but they noted that definitive views could not be provided until a concrete proposal has been tabled.

E. Strengthening AML/CFT and the Voluntary Assessment of Transnational Aspects of Corruption

50. Germany is engaging on several reforms for its AML/CFT framework, but political support remains crucial for passing key legislation. The enactment of the Combatting Financial Crime Act (*Finanzkriminalitätsbekämpfungsgesetz*) would enable the establishment of the new Federal Office for Combatting Financial Crime, BBF, and increase synergies by combining analysis, criminal and administrative investigations, and supervision. Lawmakers and all other relevant stakeholders are encouraged to reach the necessary consensus to pass the law after previous unfruitful attempts. Other important reforms within the Act include further centralization of AML/CFT competencies, improving data access to specialized registers, and adopting a "follow the money" approach for investigations. A real estate transaction register is also to be established to collate data on financial flows related to real estate, which has been identified as a high-risk sector. Germany is also enhancing the methodology for the National ML/TF Risk Assessment (expected completion in 2026) to develop a more granular understanding of ML/TF risks, including by implementing Financial Action Task Force (FATF) recommendations on leveraging data and advanced analytics for AML/CFT effectiveness. The enhanced national risk understanding would further inform the authorities' efforts to pursue high-complexity, cross-border laundering cases and strengthen operational and strategic analysis capabilities.

51. The authorities are encouraged to continue making progress in addressing risks from supply and facilitation of transnational aspects of corruption.[27] A draft bill was published in October 2025 for transposing the EU Directive that would increase the maximum fine for legal entities to €40 million in relation to intentional offences, which will also apply to foreign bribery.

Authorities' Views

52. The authorities noted ongoing efforts to further bolster their AML/CFT framework. They are working to address the remaining deficiencies in their AML/CFT systems identified by the FATF in 2022 and are preparing to implement the EU AML package in 2027.

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[27] Germany is a volunteer country for the assessment of transnational aspects of corruption under its Article IV consultation (see https://www.imf.org/en/Topics/governance-and-anti-corruption for more information on these voluntary assessments).

STAFF APPRAISAL

53. The German economy has had several years of negative or weak growth. The energy-price shock in mid-2022 and rapid monetary tightening that was required to contain inflation contributed to deliver two years of negative growth during 2023–24. The economy began to recover in late 2024 as these shocks started to dissipate, but the pace of recovery has been constrained by new trade-related headwinds. Weak growth in recent years also reflects lackluster underlying productivity growth, in part due to long-stalled structural reforms, and increasing competition in export markets. The latter has contributed to a decline in Germany's current account surplus, with the external position now assessed as moderately stronger than the level implied by medium-term fundamentals and desirable policies. Inflation has receded, supported by lower energy prices and subdued domestic demand. Risks to Germany's outlook are mainly on the downside, driven by geopolitical tensions, trade conflicts, commodity price volatility, and potential financial market corrections. Domestic risks include weaker productivity, slower implementation of public investment, and labor shortages.

54. The landmark reform of the debt-brake rule has set the stage for economic recovery. Planned fiscal easing in 2026–27 and the lagged effects of recent monetary loosening are expected to boost growth over the next few years. This much-needed stimulus will help offset weakening external demand, close the negative output gap, and reduce unemployment. Germany has fiscal space for such easing, given its relatively low debt level.

55. Fiscal space should be used judiciously to boost the economy's longer-term productive capacity. Medium-term growth prospects remain constrained by rapid population aging and subdued productivity growth. Additional fiscal space should be targeted towards measures that will raise potential growth such as higher public investment and reducing high effective marginal income tax rates. Measures that are fiscally expensive and distortionary, such as reduced VAT rates for specific sectors, should be avoided. The efficiency and execution of infrastructure spending would also benefit from continued efforts to streamline permitting processes and other red tape while stepping up centralized planning services, joint procurement, and digitalization.

56. Over the medium and long term, fiscal adjustment measures will be needed to offset pressures from rising aging-related and defense spending and to stabilize the debt ratio.

- Adverse effects on growth from this consolidation can be minimized by safeguarding public investment and minimizing increases in labor tax and social insurance contribution rates, which are already relatively high.

- More growth-friendly options for fiscal adjustment include sectoral spending reviews to facilitate spending restraint and prioritization; cutting environmentally harmful subsidies and tax expenditures; closing loopholes in inheritance taxes; reducing nonstandard VAT exemptions and special rates; and raising property and alcohol excise taxes, both of which are relatively low in Germany.

- Savings could also be generated from reforms of the pension system. Such reforms could include indexing pensions-in-payment to inflation rather than wage growth and reviewing early retirement pension deductions could also generate savings while boosting growth through improved incentives for longer working lives.

- Greater use of EU-level investment, procurement, and coordination in areas where EU-level actions can generate efficiency gains and economies of scale (e.g., energy, innovation, and defense) could also reduce overall fiscal costs for Germany.

- Any further refinement of the debt brake should preserve sustainable public finances by eventually bringing all government spending within its constraints while safeguarding sufficiently high levels of public investment and flexibility to respond to shocks in a countercyclical manner.

57. Pro-growth structural reforms should be implemented without delay. Together with higher public investment spending, reforms to incentivize higher private investment, including through more generous investment allowances in the corporate income tax (CIT) and reducing bureaucracy and red tape are welcome. Strong implementation and further deepening of reform plans are key for raising confidence and medium-term growth prospects.

58. Targeted reforms are needed to boost labor supply. The authorities should make it easier for women and parents to work full-time, including by continuing and deepening efforts to expand access to reliable, high-quality child- and eldercare. Moving away from the current joint taxation system while providing additional child allowances could further improve work incentives by reducing high marginal tax rates on second earners. For lower-income earners, merging multiple benefits and creating more uniform withdrawal rates could increase labor supply while delivering fiscal savings. Ongoing efforts to facilitate the labor market integration of immigrants are also critical.

59. Further reforms to boost productivity and entrepreneurship are also essential.

- A more supportive environment for the creation and expansion of new, innovative firms is needed. Reforms could include a review of features of the tax code that may be holding back equity investment in new enterprises.

- Ongoing and welcome efforts to cut excessive red tape could include further measures to minimize duplication of reporting requirements, rely more on risk-based auditing of compliance with regulations rather than overly onerous reporting, harmonize regulations across regions and the EU, and accelerate permitting and licensing procedures. The latter could also assist in accelerating new energy production and reducing energy costs. That said, simplification of regulatory procedures should not water down essential safeguards, such as requiring banks to maintain adequate capital buffers.

- Further expansion of digital infrastructure and digital skills, including by expanding vocational and adult training in these areas, would also help boost productivity.

60. Coupling domestic reforms with a deepening the EU's Single Market would boost growth in Germany and the rest of Europe. If well-designed, a 28th corporate regime would enable firms to scale across Europe more efficiently. A more integrated Savings and Investment Union would provide deeper financing options, especially for young, innovative firms. A digital euro promises faster, more integrated payments, while deeper energy market integration (Energy Union) could lower costs and lower volatility of energy prices.

61. Germany should continue to assess and prepare for risks related to geoeconomic fragmentation. To avoid disturbances to critical supply chains, German could continue efforts to identify critical dependencies, assess the impact and transmission channels of different scenarios (e.g., stress tests of value chains), and develop strategies for coping with risks. Mutually beneficial cooperation between Germany and its trading partners on trade and cross-border flows would also help mitigate these risks.

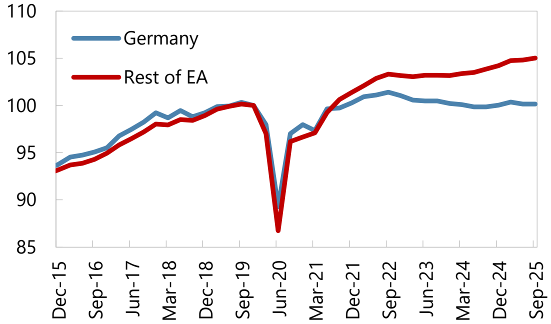
62. Macroprudential policy settings are broadly appropriate, while the toolkit should be further enhanced. The current positive settings of macroprudential capital buffers provide buffers that could be released in conditions of aggregate financial stress, and supervisors should remain vigilant and agile in this regard. Supervisors should also continue to encourage banks to remain prudent in capital distributions, including to ensure adequate investment in technology to counter cyberattacks. Looking ahead, adopting legislation to enable use of prudential limits on debt-to-income and debt-service-to-income ratios on new residential real estate lending would help reduce future macro-financial risks and bring Germany more in line with common practice in the euro area.

63. It is recommended that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Germany: Real Activity

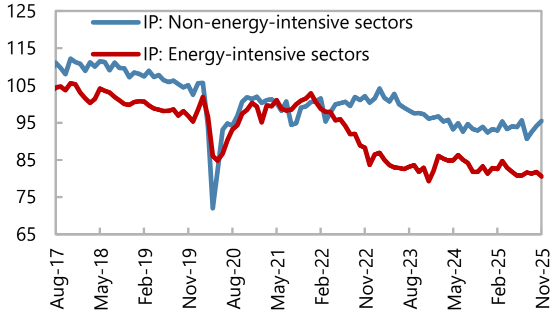
German GDP growth has underperformed the rest of the euro area over the past three years.

Selected Economies: Real GDP
(2019Q4=100)



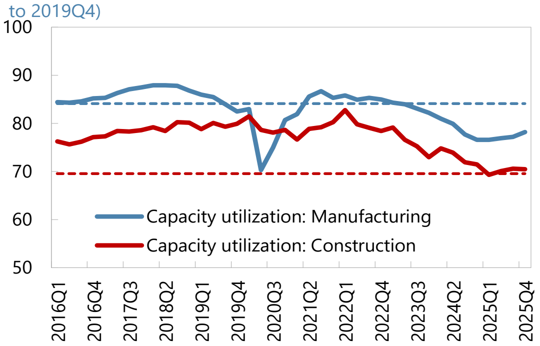
Production has declined due to high input costs, weak demand, and high uncertainty…

Industrial Production
(Index 2015=100, seasonally adjusted)



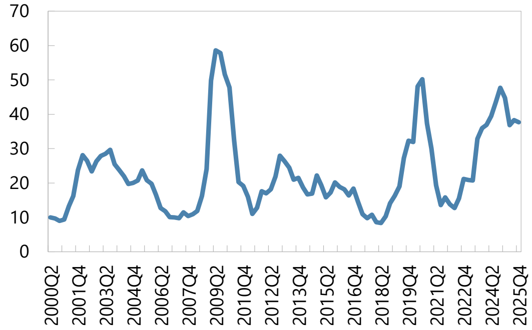
…resulting in a sharp fall in capacity utilization and a sizable output gap.

Capacity Utilization
(Percentage points, dotted lines denote averages from 2000Q1 to 2019Q4)



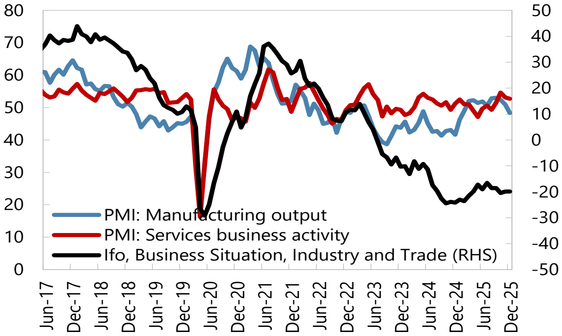
Manufacturers point to demand as the factor most commonly holding back production.

Factors Limiting Production: Demand
(Percent, NSA)



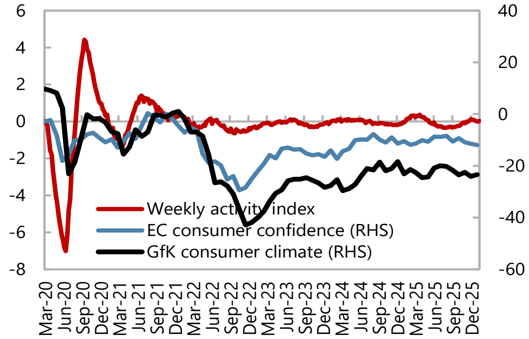
Business confidence declined as a series of shocks hit the German economy…

Business Survey 1/
(Seasonally adjusted, LHS: 50+=expansion, RHS: % balance)



…while consumer confidence remains at low levels.

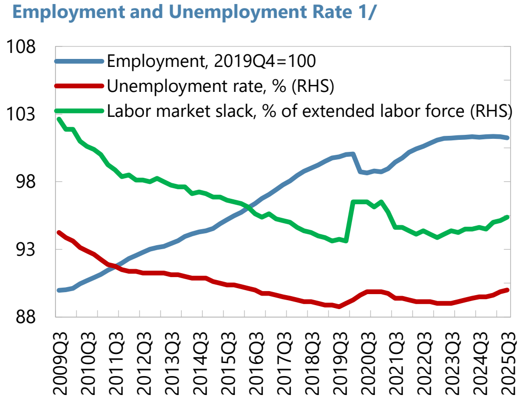
Weekly Activity Index and Confidence Indicators
(LHS: 7-day moving average, per 100K people; RHS: % balance)



Sources: BMWE, Destatis, Deutsche Bundesbank, European Commission, Eurostat, Haver Analytics, IFO Institute, Markit, Oxford University, and IMF staff calculations.
1/ Manufacturing PMI is a composite index based on a weighted combination of new orders, output, employment, suppliers' delivery times, and stocks of materials purchased.

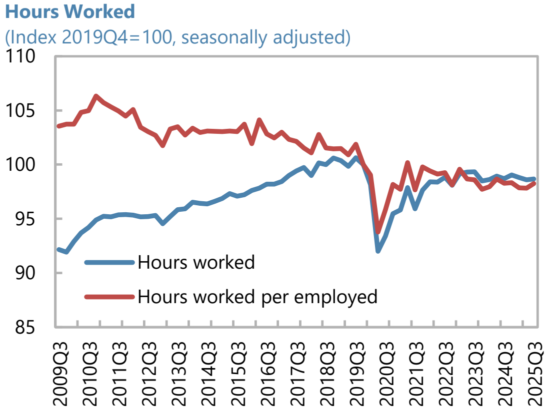
Figure 2. Germany: Prices and Labor Market

The labor market has eased…



Employment and Unemployment Rate 1/

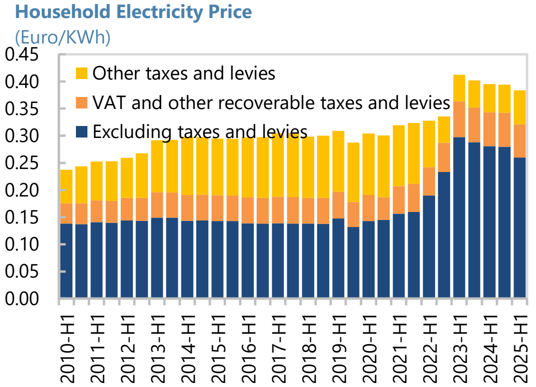
…and hours worked remain below pre-pandemic levels partly due to an increase in part-time work.



Hours Worked

(Index 2019Q4=100, seasonally adjusted)

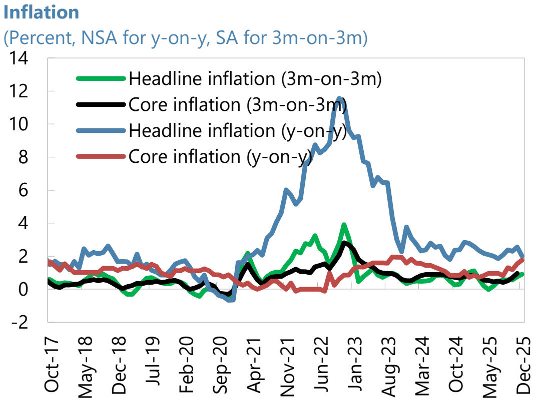
Consumer energy prices have declined but remain above pre-energy-crisis levels.



Household Electricity Price

(Euro/KWh)

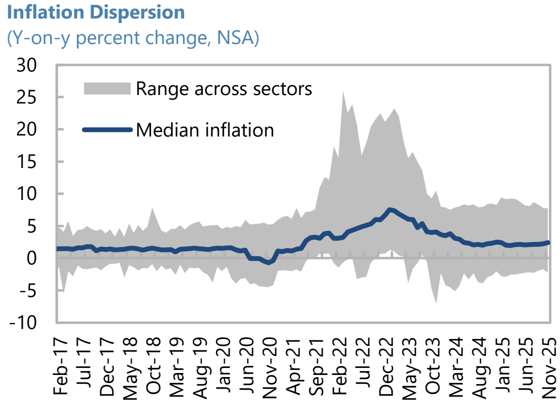
Inflation has been contained on the back of falling energy prices and subdued demand.



Inflation

(Percent, NSA for y-on-y, SA for 3m-on-3m)

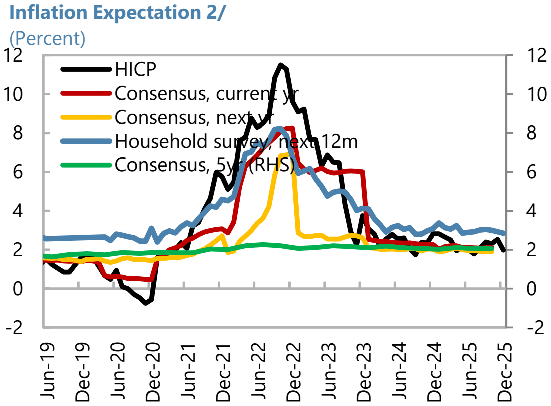
The breadth of inflation pressures has normalized but remains wider than pre-Covid.



Inflation Dispersion

(Y-on-y percent change, NSA)

Inflation expectations have returned to pre-Covid levels.



Inflation Expectation 2/

(Percent)

Sources: Bundesbank, Consensus Forecasts, Eurostat, Federal Statistical Office, Haver Analytics, and IMF staff calculations.

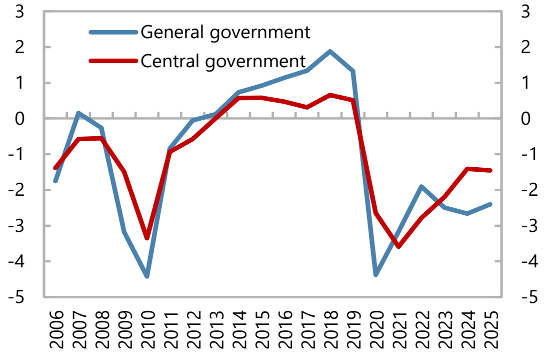
1/ Employment and the unemployment rate are National Accounts Concepts.

2/ Consensus forecasts show the mean of annual inflation projections for current year, next year, and 5 years from now.

Figure 3. Germany: Fiscal Developments and Outlook

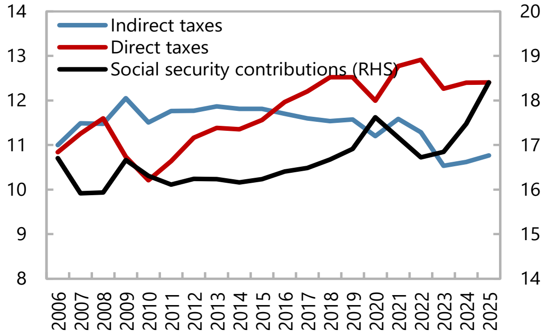
Germany's headline deficit narrowed to 2.4 percent of GDP in 2025 from 2.7 percent of GDP in 2024…

General and Central Government Balances
(Percent of GDP)



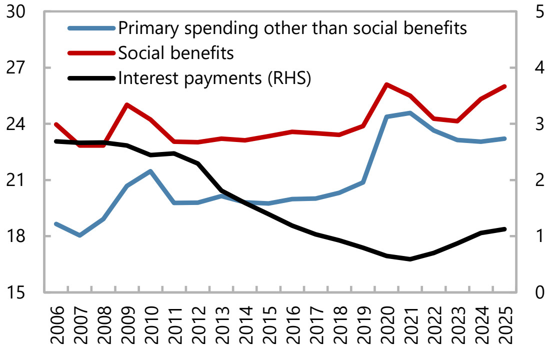
…as social contributions increased sharply due to higher health and long-term care contribution rates…

Tax Revenue and Social Security Contributions
(Percent of GDP)



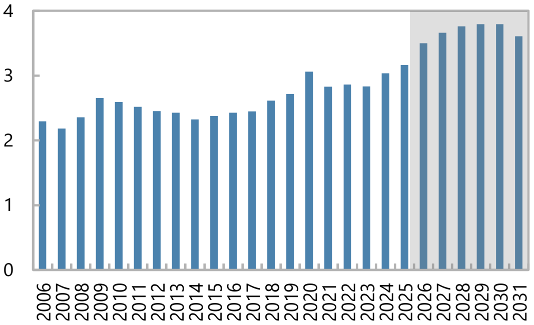
…while social benefits increased due to rising health and pension costs as well as other social transfers.

General Government Spending
(Percent of GDP)



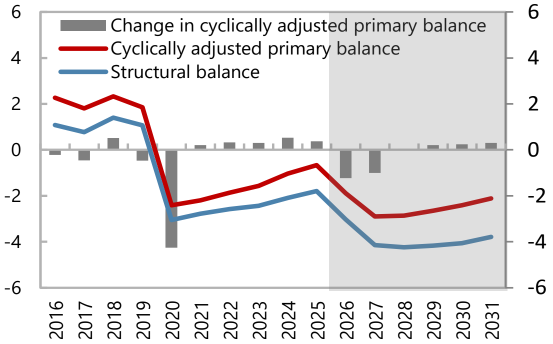
Public investment is planned to rise significantly following an extended period of low levels of investment.

General Government Gross Fixed Capital Formation, Staff Projections
(Percent of GDP)



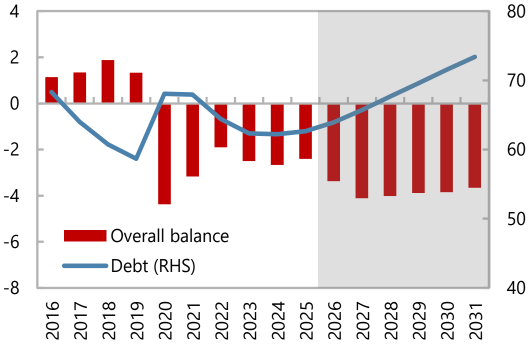
The fiscal stance is expected to widen as infrastructure and defense spending increase following the reform of the debt brake rule.

General Government Structural Balances, Staff Projection
(Percent of GDP)



Looser fiscal policy will raise the ratio of public debt to GDP, although it remains at a moderate level over the forecast horizon.

General Government Fiscal Outlook, Staff Projection
(Percent of GDP)

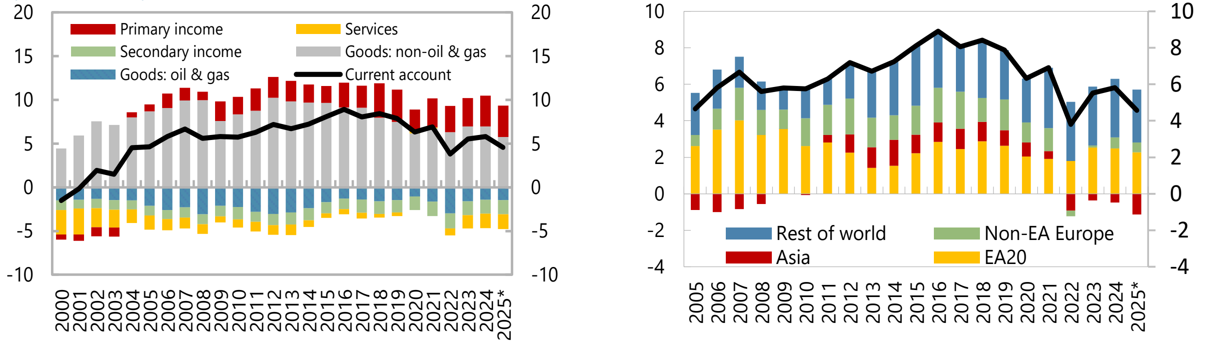


Sources: Federal Statistical Office, Ministry of Finance, and IMF staff calculations and projections.

Figure 4. Germany: Balance of Payments

Through Q3 2025, the current account (CA) surplus fell during 2025 mainly due to a lower goods balance.

The CA decline was spread across multiple regions.

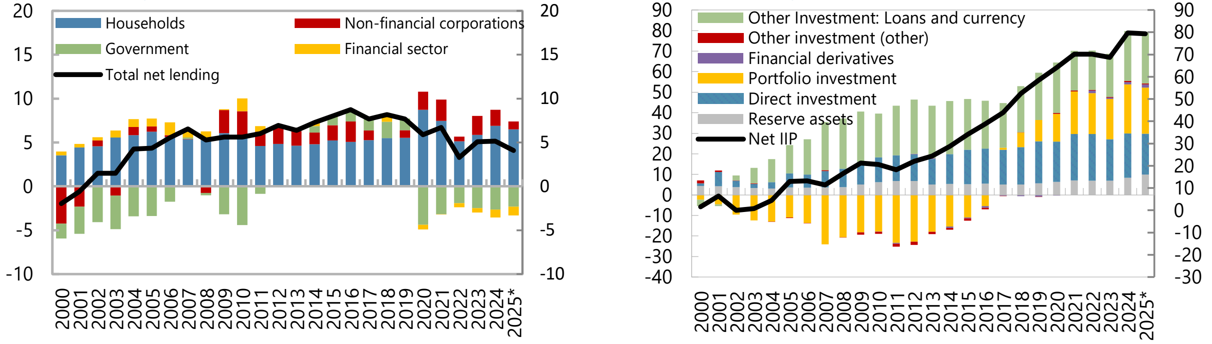


Current Account Balance Breakdown
(Percent of GDP)

Current Account Balance by Region
(Percent of GDP)

The savings-investment balance of the private sector declined more than that of the public sector, mainly due to nonfinancial corporates.

The NIIP was broadly flat as a percent of GDP.

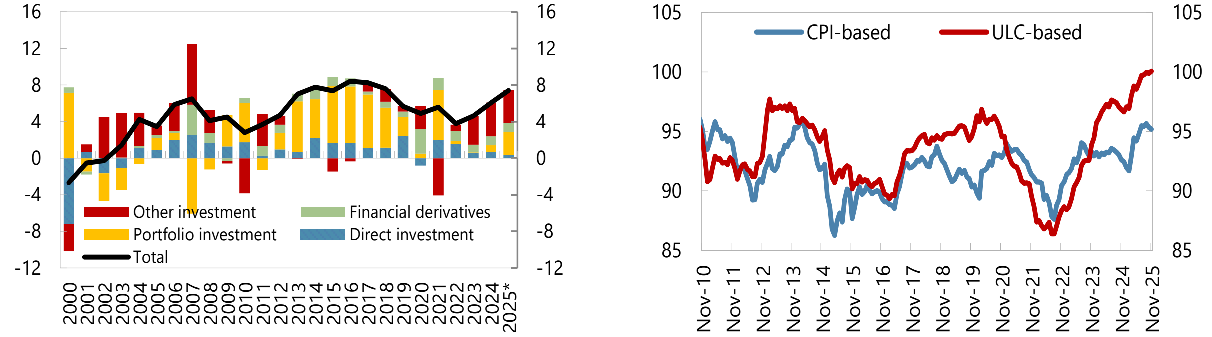


Saving-Investment Balances
(Percent of GDP)

Net International Investment Position by Instrument
(Percent of GDP)

The CA surplus financed mainly "other investments" abroad via accounts of banks. Net portfolio investments abroad rose sharply in 2025 versus 2024.

The REER appreciated in 2025 with the REER based on ULC rising more sharply than on the CPI measure.



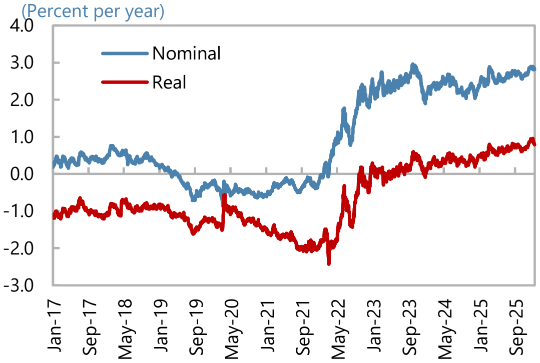
Financial Account
(Percent of GDP)

REER 1/
(2010M1=100)

Sources: Bundesbank, DOTS, GDS, Haver Analytics, IMF *World Economic Outlook*, and IMF staff calculations.
Note: *Data for 2025 is the rolling 4-quarter number as of Q3 2025.
1/ The ULC-based REER is measured using ULC statistics for the manufacturing sector in Germany and 37 trading partners, using the OECD System of Unit Labor Cost Indicators.

Figure 5. Germany: Credit Conditions and Asset Prices

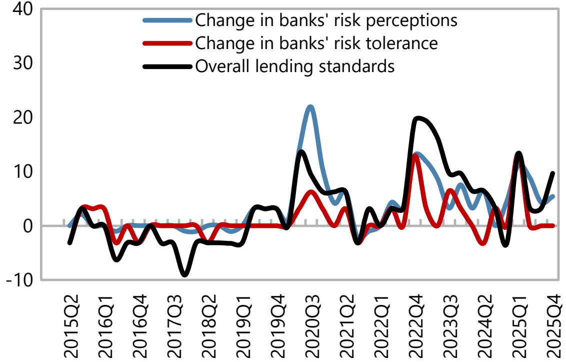
Long-term interest rates have risen slightly over the last year, while real interest rates remain positive...



10-year Bond Yield

(Percent per year)

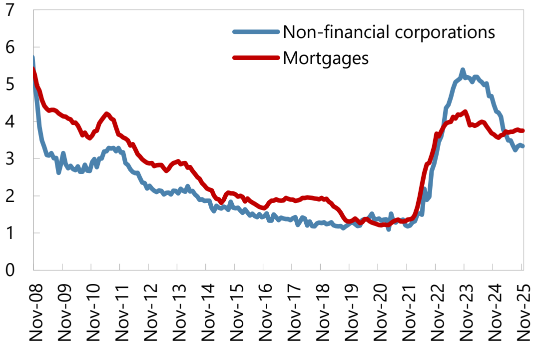
...and banks' risk perceptions have risen somewhat.



Bank Lending Standards to Enterprises, past 3 months

(Net percentage balance; positive indicates tightening)

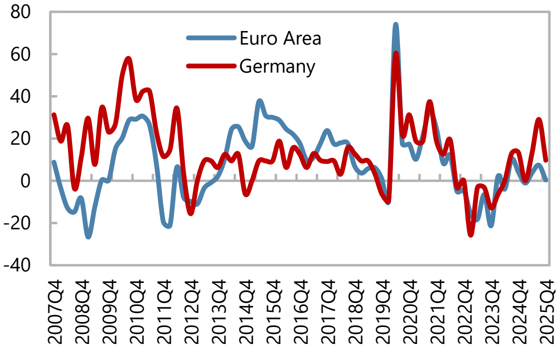
Lending rates for nonfinancial corporates have nonetheless declined...



Lending Rates on New Loans

(Percent)

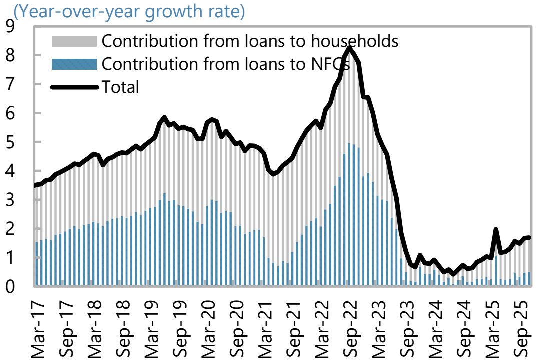
...and credit demand has picked up over the last year.



Credit Demand by Enterprises in the Next 3 Months

(Net percentage of banks reporting stronger demand)

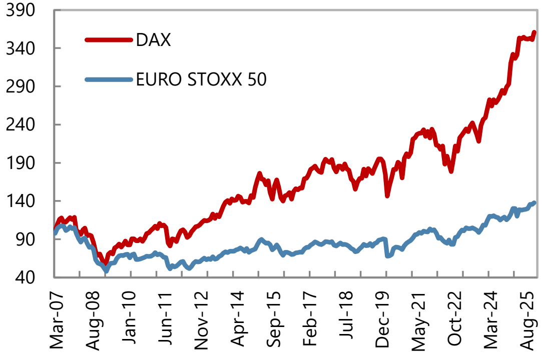
While credit growth remains low, it is starting to pick up.



Lending by Monetary Financial Institutions

(Year-over-year growth rate)

German stock prices have been rising, outpacing broader European indexes and benefiting recently from expectations of fiscal stimulus.



Stock Market Indices

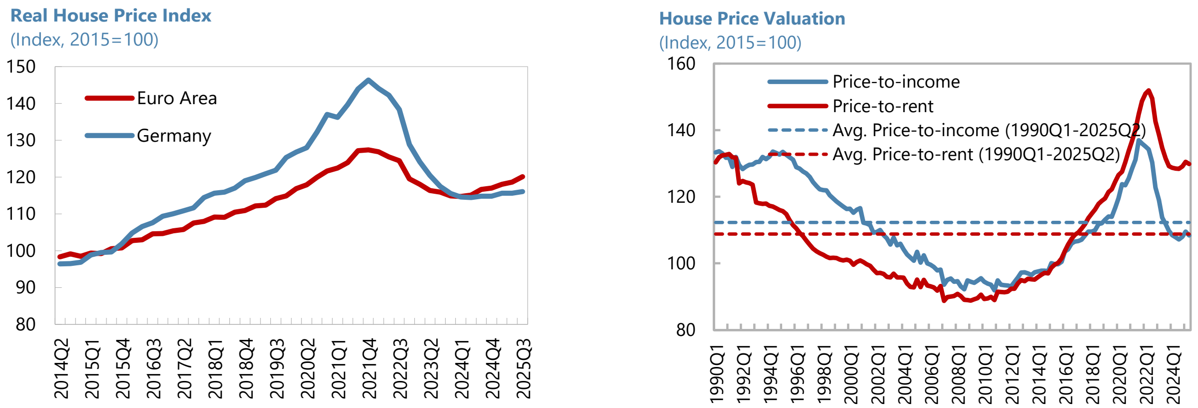
(2007M1=100)

Sources: Bundesbank, ECB, Haver Analytics, Tullett Prebon Information, and IMF staff calculations.

Figure 6. Germany: Real Estate Developments

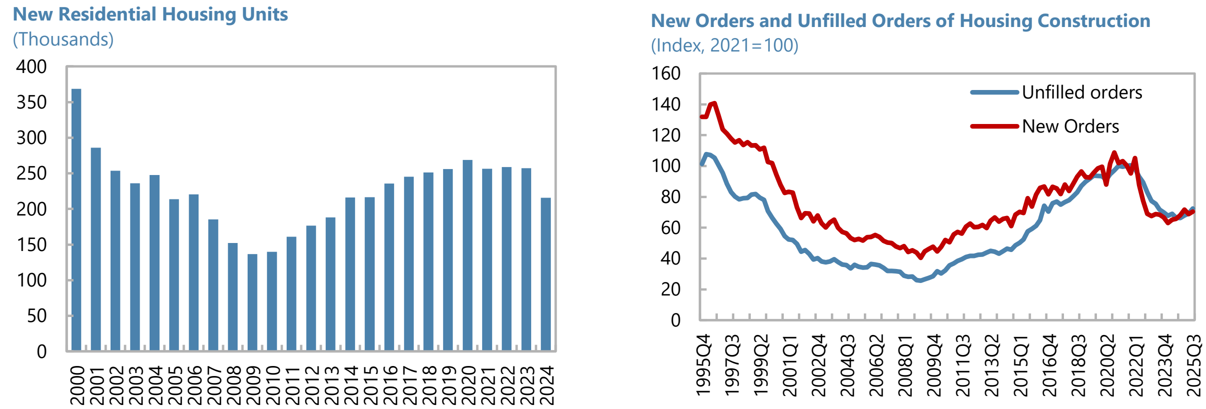
Real house prices have stabilized…

…as have price-to-rent and price-to-income ratios.



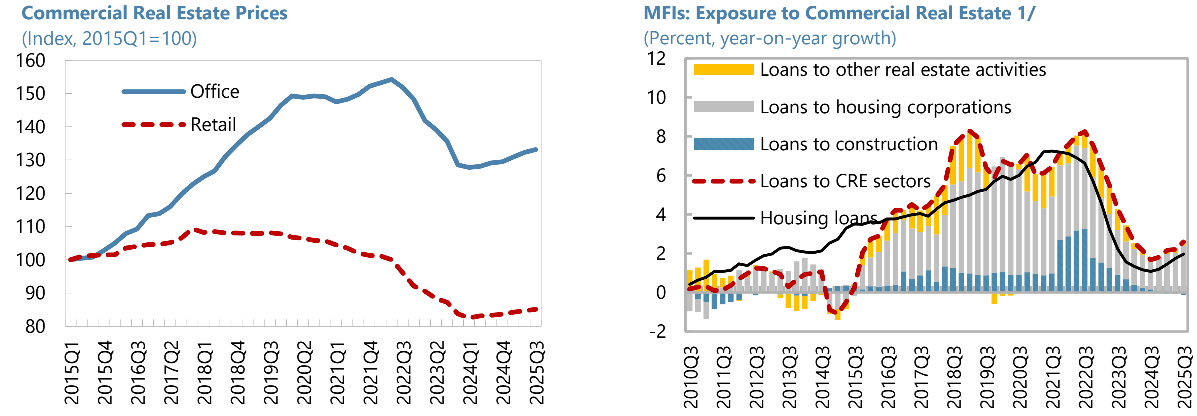
New housing supply slowed during the real estate downturn…

…and unfilled orders of housing construction declined.



Commercial property prices appear to be stabilizing…

…and real estate lending is picking up.



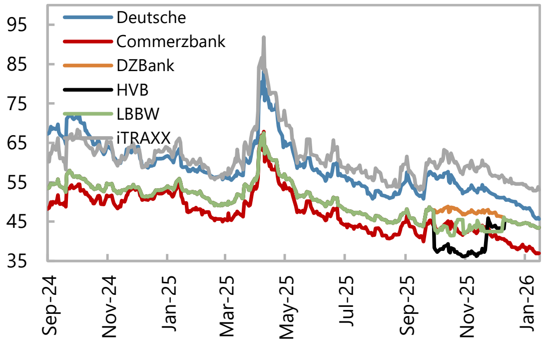
Sources: Bulwiengesa AG, Destatis, Deutsche Bundesbank, Federal Ministry of the Interior, Building and Community, vdpResearch, Local Real Estate Surveyor Commission, Haver Analytics, OECD, and IMF staff calculations.
1/ CRE sectors proxied by construction, housing corporations, and other real estate activities.

Figure 7. Germany: Banking Sector Developments

CDS spreads of large banks rose sharply during the April US tariff announcements but have since come down.

Banks 5-Year CDS Spreads

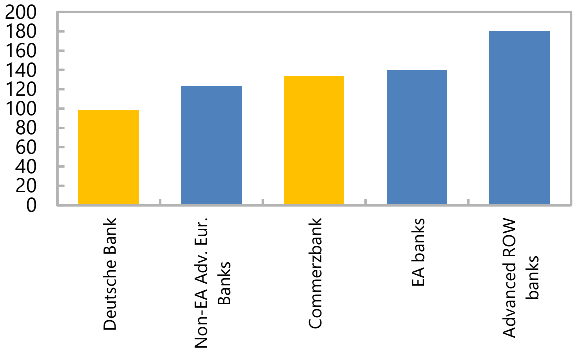
(Basis points)



The two largest commercial banks continue to trade at a discount relative to many European peers…

Price to Book Ratio, January 14, 2026

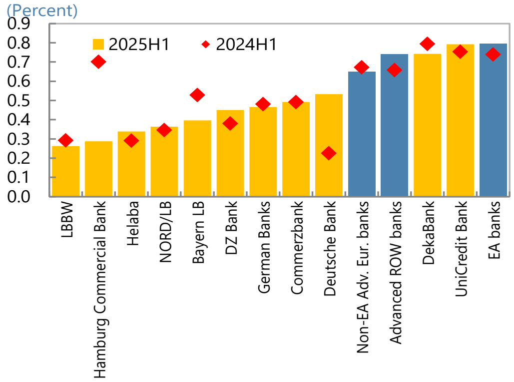
(Percent)



…on the back of structurally low profitability, like many other German banks,…

Return on Assets

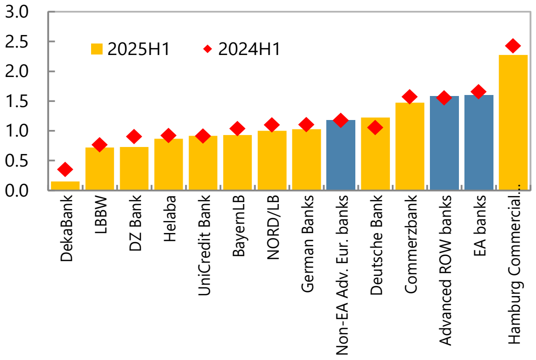
(Percent)



…which in part reflects lower net interest rate margins versus advanced economy peers.

Net Interest Margin

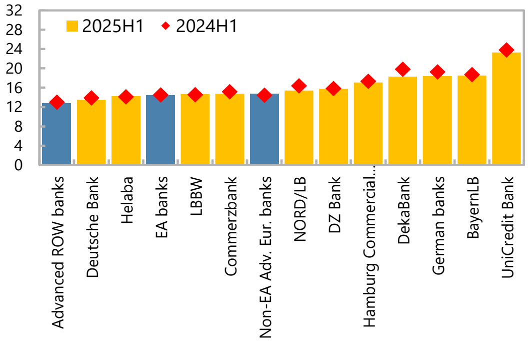
(Percent)



German banks' risk-weighted capital buffers remain stronger than some peers…

Common Equity Tier 1 Ratio

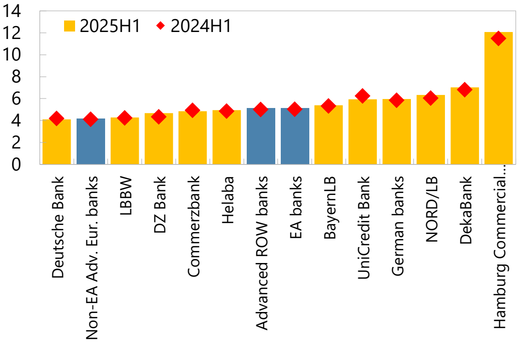
(Percent)



…while most banks' leverage ratios are broadly in line with peers.

Leverage Ratio 1/

(Percent)



Sources: Bloomberg Finance L.P., S&P Capital IQ Pro, and IMF staff calculations.
Notes: Credit Suisse is excluded from Non-EA Advanced European banks averages.
1/ Leverage ratio is defined as common equity net of intangibles as a percent of total assets net of intangibles.

Table 1. Germany: Selected Economic Indicators, 2023–27

			Est.	*Projections*	
	2023	2024	2025	2026	2027
National Accounts	(Percent change, working-day adjusted)				
GDP	-0.7	-0.5	0.3	0.8	1.3
Private consumption	-0.5	0.5	1.5	0.8	1.2
Public consumption	-0.2	2.6	1.6	2.4	1.6
Gross fixed investment	-1.6	-3.2	-0.4	1.5	2.4
Construction	-5.4	-3.3	-0.8	0.2	2.2
Machinery and equipment	0.1	-5.0	-2.2	1.6	3.3
Final domestic demand	-0.6	0.2	1.1	1.3	1.6
Inventory accumulation 1/	-0.1	0.0	0.7	-0.1	-0.1
Total domestic demand	-0.7	0.2	1.8	1.2	1.5
Foreign balance 1/	0.0	-0.6	-1.5	-0.4	-0.1
Exports of goods and services	-0.9	-1.9	-0.2	-0.3	1.7
Imports of goods and services	-1.0	-0.4	3.7	0.8	2.0
	(Percent change, non-adjusted)				
GDP	-0.9	-0.5	0.2	1.1	1.5
Private consumption	-0.7	0.5	1.4	1.0	1.4
Public consumption	-0.2	2.6	1.5	2.6	1.7
Gross fixed investment	-2.0	-3.3	-0.5	1.6	2.5
Construction	-5.9	-3.4	-0.9	0.4	2.2
Machinery and equipment	-0.5	-5.4	-2.3	1.9	3.4
Final domestic demand	-0.9	0.2	1.0	1.5	1.7
Inventory accumulation 1/	0.0	0.0	0.7	0.0	0.0
Total domestic demand	-0.9	0.2	1.7	1.5	1.6
Foreign balance 1/	-0.1	-0.7	-1.5	-0.4	-0.1
Exports of goods and services	-1.4	-2.1	-0.3	0.0	1.8
Imports of goods and services	-1.4	-0.6	3.6	1.1	2.2
Output gap (percent of potential GDP)	-0.1	-1.1	-1.2	-0.7	0.1
Unemployment	(Millions, unless indicated otherwise)				
Labor force	43.6	44.0	44.1	44.1	44.0
Employment	42.3	42.5	42.4	42.5	42.6
Unemployment	1.3	1.5	1.7	1.6	1.5
Unemployment rate (percent) 2/	3.1	3.4	3.7	3.6	3.3
Unemployment rate (percent) 3/	2.8	3.1	3.5	3.3	3.1
Prices and Incomes	(Percent change)				
GDP deflator	6.7	3.1	3.1	2.4	2.2
Consumer price index (harmonized)	6.0	2.5	2.3	2.3	2.0
Consumer price index (harmonized), core	6.3	3.2	2.8	2.3	2.2
Compensation per employee (total economy)	6.2	5.1	5.1	3.3	3.0
Compensation per employee (manufacturing)	6.3	4.8	4.0	3.2	2.9
Unit labor cost (total economy)	7.8	5.8	4.8	2.3	1.7
Unit labor cost (manufacturing)	8.1	8.3	3.3	2.2	1.6
Real disposable income 4/	-0.5	1.5	0.1	0.8	1.2
Household saving ratio (percent)	10.4	11.3	10.5	10.2	10.1

1/ Contribution to GDP growth.

2/ ILO definition.

3/ National Accounts Concepts.

4/ Deflated by national accounts deflator for private consumption; not SWDA.

Table 1. Germany: Selected Economic Indicators, 2023–27 (concluded)

			Est.	*Projections*	
	2023	2024	2025	2026	2027
Public Finances			(Billion of euros)		
General government					
Expenditure	2,031.4	2,139.7	2,249.3	2,371.4	2,489.3
(percent of GDP)	48.1	49.4	50.3	51.3	51.9
Revenue	1,926.2	2,024.4	2,141.9	2,215.7	2,292.0
(percent of GDP)	45.7	46.8	47.9	47.9	47.8
Overall balance 5/	-105.2	-115.3	-107.4	-155.7	-197.3
(percent of GDP)	-2.5	-2.7	-2.4	-3.4	-4.1
Structural balance	-102.7	-90.7	-80.0	-140.0	-199.0
(percent of GDP)	-2.4	-2.1	-1.8	-3.0	-4.1
General government debt	2,630.6	2,693.8	2,800.1	2,955.8	3,153.1
(percent of GDP)	62.3	62.2	62.6	63.9	65.7
Federal government					
Overall balance 5/	-92.7	-60.9	-65.1	-86.8	-116.8
(percent of GDP)	-2.2	-1.4	-1.5	-1.9	-2.4
Balance of Payments			(Percent of GDP)		
Current account	5.5	5.8	4.5	4.2	4.0
Goods trade balance 6/	5.4	5.5	4.3	4.0	3.6
Services balance	-1.5	-1.7	-1.6	-1.6	-1.6
Primary income balance	3.2	3.5	3.4	3.4	3.5
Secondary income balance	-1.6	-1.6	-1.6	-1.6	-1.6
Monetary Data			(Percent change)		
Credit to non-financial private sector 7/	0.9	1.0	1.4	3.8	4.2
Money and quasi-money (M3) 7/ 8/	0.4	3.6	...	...	...
Interest Rates			(Period average in percent)		
Three-month interbank rate 7/	3.4	3.6	...	...	...
Yield on ten-year government bonds 7/	2.6	2.4	...	...	...
Exchange Rates					
Euro per US$	0.92	0.92	...	...	...
Nominal effective rate (2010=100) 9/	105.9	107.4	...	...	...
Real effective rate (2010=100) 10/	97.1	97.5	...	...	...
Memorandum Items:					
Nominal GDP (billions of euros)	4219.3	4329.0	4470.5	4624.6	4797.3
Population growth (percent)	0.9	0.3	...	...	...
GDP per capita (thousands of euros)	50.7	51.8	...	...	...

Sources: Deutsche Bundesbank, Federal Statistical Office, IMF staff estimates and projections.

5/ Net lending/borrowing.

6/ Excluding supplementary trade items.

7/ Data refer to end of December.

8/ Data reflect Germany's contribution to M3 of the euro area.

9/ Nominal effective exchange rate, all countries.

10/ Real effective exchange rate, CPI based, all countries.

Table 2. Germany: General Government Operations, 2021–31

					Est.	*Projections*					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Revenue	47.5	46.7	45.7	46.8	47.9	47.9	47.8	47.7	48.0	47.9	47.9
Taxes	24.4	24.2	22.8	23.0	23.2	23.0	22.8	22.6	22.6	22.6	22.6
Indirect taxes	11.6	11.3	10.5	10.6	10.8	10.7	10.6	10.6	10.6	10.6	10.6
Direct taxes	12.8	12.9	12.3	12.4	12.4	12.3	12.2	12.0	12.1	12.0	12.0
Social contributions	17.2	16.7	16.8	17.5	18.4	18.6	18.7	18.8	19.0	19.0	19.0
Grants	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Other current revenue	5.7	5.6	5.8	6.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1
Expense	50.7	48.6	48.2	49.4	50.3	51.3	51.9	51.7	51.8	51.8	51.6
Compensation of employees	8.3	8.1	8.1	8.3	8.6	8.7	8.8	8.7	8.6	8.6	8.6
Goods and services	6.6	6.4	6.3	6.5	6.4	6.3	6.4	6.3	6.2	6.1	6.1
Interest	0.6	0.7	0.9	1.1	1.1	1.1	1.2	1.4	1.5	1.7	1.7
Subsidies	2.9	1.5	2.0	1.3	1.2	1.3	1.3	1.2	1.2	1.2	1.2
Social benefits	25.5	24.3	24.1	25.3	26.0	26.4	26.4	26.3	26.6	26.7	26.7
Social benefits in kind	8.9	8.8	8.5	8.9	9.3	9.5	9.7	9.7	9.8	9.8	9.8
Social transfers	16.6	15.5	15.7	16.4	16.7	16.8	16.7	16.7	16.8	16.9	17.0
Pensions	9.1	8.7	8.7	9.0	9.2	9.3	9.4	9.5	9.7	9.8	9.9
Child benefits	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Unemployment benefits	1.7	1.2	1.3	1.4	1.5	1.4	1.2	1.0	0.9	0.9	0.9
Other social transfers	5.1	4.9	5.0	5.3	5.4	5.4	5.5	5.5	5.5	5.5	5.5
Other expense	6.7	7.7	6.8	7.1	7.0	7.5	7.7	7.8	7.8	7.6	7.3
Gross public investment	2.8	2.9	2.8	3.0	3.2	3.5	3.7	3.8	3.8	3.8	3.6
Net acquisition of nonfinancial assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net lending/borrowing	-3.2	-1.9	-2.5	-2.7	-2.4	-3.4	-4.1	-4.0	-3.9	-3.8	-3.7
Primary balance	-2.6	-1.2	-1.6	-1.6	-1.3	-2.2	-2.9	-2.6	-2.4	-2.2	-2.0
Memorandum Items:											
Structural balance	-2.8	-1.9	-2.4	-2.1	-1.8	-3.0	-4.1	-4.2	-4.2	-4.1	-3.8
Change in structural balance	*0.3*	*0.9*	*-0.5*	*0.3*	*0.3*	*-1.2*	*-1.1*	*-0.1*	*0.1*	*0.1*	*0.3*
Structural primary balance	-2.2	-1.2	-1.6	-1.0	-0.7	-1.9	-2.9	-2.9	-2.7	-2.4	-2.1
Change in structural primary balance	*0.2*	*1.0*	*-0.3*	*0.5*	*0.4*	*-1.2*	*-1.0*	*0.0*	*0.2*	*0.2*	*0.3*
Public gross debt (Maastricht definition)	67.9	64.4	62.3	62.2	62.6	63.9	65.7	67.7	69.6	71.5	73.4
Defense Expenditure (NATO definition)	1.4	1.5	1.6	2.0	2.4	2.7	3.0	3.1	3.2	3.4	3.5

Sources: Bundesbank, Federal Statistical Office, Ministry of Finance, and IMF staff estimates and projections.

Notes: The primary balance is measured as the deficit minus interest expense. The primary deficit in Annex II, Figure 4, also excludes interest revenue. The structural balance excludes one-off revenue and expenditure items from the cyclically adjusted balance.

Table 3. Germany: Medium-Term Projections, 2021–31

					Est.	*Projections*					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
(Percentage change unless otherwise indicated, working-day adjusted)											
Real Sector											
Real GDP	3.9	1.9	-0.7	-0.5	0.3	0.8	1.3	1.3	1.0	0.6	0.6
Total domestic demand	3.2	3.2	-0.7	0.2	1.8	1.2	1.5	1.6	1.2	0.8	0.8
Private consumption	1.9	6.5	-0.5	0.5	1.5	0.8	1.2	1.2	1.0	0.7	0.6
Households saving ratio (in percent)	14.3	10.3	10.4	11.3	10.5	10.2	10.1	10.1	10.1	10.0	10.0
Foreign balance (contribution to growth)	0.8	-1.1	0.0	-0.6	-1.5	-0.4	-0.1	-0.2	-0.2	-0.2	-0.2
(Percentage change unless otherwise indicated, non-adjusted)											
Real GDP	3.9	1.8	-0.9	-0.5	0.2	1.1	1.5	1.1	0.8	0.6	0.6
Total domestic demand	3.3	3.1	-0.9	0.2	1.7	1.5	1.6	1.3	1.1	0.8	0.8
Private consumption	2.0	6.5	-0.7	0.5	1.4	1.0	1.4	1.0	0.8	0.7	0.6
Households saving ratio (in percent)	14.3	10.3	10.4	11.3	10.5	10.2	10.1	10.1	10.1	10.0	10.0
Foreign balance (contribution to growth)	0.8	-1.1	-0.1	-0.7	-1.5	-0.4	-0.1	-0.2	-0.2	-0.2	-0.2
Potential GDP		-0.3	0.6	0.5	0.3	0.5	0.7	0.7	0.7	0.7	0.7
Output gap (percent of potential GDP)	-0.8	1.3	-0.1	-1.1	-1.2	-0.7	0.1	0.4	0.5	0.4	0.3
(Percentage change unless otherwise indicated)											
Employment (millions of persons)	40.7	41.7	42.3	42.5	42.4	42.5	42.6	42.6	42.6	42.5	42.5
Labor productivity (per employed person)	3.7	0.5	-1.5	-0.6	0.3	1.0	1.3	0.9	0.9	0.7	0.6
Consumer prices (headline, period avg.)	3.2	8.7	6.0	2.5	2.3	2.3	2.0	2.0	2.2	2.2	2.1
Consumer prices (core, period avg.)	2.3	5.0	6.3	3.2	2.8	2.3	2.2	2.2	2.2	2.2	2.1
Compensation per employee	3.2	4.3	6.2	5.1	5.1	3.3	3.0	3.0	3.0	3.0	2.9
(Percent of GDP)											
External Sector											
Current account balance	6.9	3.8	5.5	5.8	4.5	4.2	4.0	3.9	3.9	3.8	3.8
Trade balance (goods and services)	5.2	2.5	3.9	3.9	2.7	2.3	2.0	1.8	1.7	1.6	1.6
Net international investment position	70.1	70.2	68.7	79.7	77.1	78.7	80.0	81.4	82.9	84.6	86.4
General Government											
Overall balance	-3.2	-1.9	-2.5	-2.7	-2.4	-3.4	-4.1	-4.0	-3.9	-3.8	-3.7
Cyclically adjusted balance	-2.8	-2.6	-2.4	-2.1	-1.8	-3.0	-4.1	-4.2	-4.2	-4.1	-3.8
Gross debt	67.9	64.4	62.3	62.2	62.6	63.9	65.7	67.7	69.6	71.5	73.4

Sources: Federal Statistical Office, Bundesbank, and IMF staff estimates.

Table 4. Germany: Balance of Payments, 2021–31[1]

(Percent of GDP)

					Est.	*Projections*					
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Current account	6.9	3.8	5.5	5.8	4.5	4.2	4.0	3.9	3.9	3.8	3.8
Trade balance	5.2	2.5	3.9	3.9	2.7	2.3	2.0	1.8	1.7	1.6	1.6
Trade in goods	5.1	3.3	5.4	5.5	4.3	4.0	3.6	3.4	3.3	3.2	3.2
Exports	33.2	35.1	33.0	31.4	30.5	29.7	28.9	28.5	28.5	28.6	28.7
Imports	28.1	31.8	27.6	25.9	26.2	25.7	25.3	25.2	25.3	25.4	25.5
Trade in services	0.1	-0.8	-1.5	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Exports	9.5	10.5	9.9	10.0	10.0	9.8	9.6	9.5	9.4	9.6	9.7
Imports	9.4	11.3	11.4	11.7	11.6	11.4	11.3	11.1	11.0	11.2	11.3
Primary income balance	3.3	3.0	3.2	3.5	3.4	3.4	3.5	3.7	3.7	3.8	3.8
Secondary income balance	-1.6	-1.7	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6	-1.6
Capital and Financial Account	5.5	3.3	4.0	5.5	4.5	4.2	4.0	3.9	3.9	3.8	3.8
Capital account	-0.1	-0.5	-0.6	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	5.6	3.8	4.6	6.1	4.5	4.2	4.0	3.9	3.9	3.8	3.8
Direct Investment	2.0	1.5	0.6	0.7	0.9	0.7	0.8	0.8	0.8	0.8	0.8
Abroad	4.9	3.6	2.3	1.7	2.5	2.2	2.1	2.3	2.2	2.2	2.2
Domestic	2.9	2.0	1.7	1.0	1.6	1.4	1.3	1.4	1.4	1.4	1.4
Portfolio investment balance	5.5	0.3	0.1	0.7	0.4	0.3	0.4	0.3	0.3	0.3	0.3
Financial derivatives	1.3	1.1	0.8	1.0	0.8	0.7	0.7	0.6	0.6	0.6	0.6
Other financial transactions	-4.1	0.7	3.1	3.7	2.5	2.5	2.1	2.1	2.1	2.1	2.1
Change in reserve assets	0.9	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net errors and omissions	-1.2	0.5	-0.3	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items:											
Cyclically adjusted current account	7.0	4.3	5.5	5.5	4.3	4.0	4.0	4.0	4.0	3.9	3.8

Sources: Bundesbank, Federal Statistical Office, IMF Statistics Department, and IMF staff estimates.

1/ Based on Balance of Payments Manual 6.

Table 5. Germany: International Investment Position, 2016–24[1]

(Percent of GDP)

	2016	2017	2018	2019	2020	2021	2022	2023	2024
Assets	259.2	256.4	256.8	273.4	306.0	315.3	307.3	298.7	320.0
Direct investment	59.2	59.8	62.9	65.9	71.0	74.2	72.3	69.3	70.6
Portfolio investment	88.4	91.6	88.5	98.3	107.6	112.0	91.0	95.6	105.6
Equity and investment fund shares	30.0	33.8	31.6	38.2	43.9	53.4	45.0	47.3	55.5
Debt securities	58.4	57.8	56.9	60.1	63.7	58.6	46.1	48.2	50.2
Financial derivatives (other than reserves) and employee stock options	19.1	14.3	12.4	17.7	24.3	20.1	39.6	35.2	41.3
Other investment	87.1	85.7	88.0	85.9	96.7	101.9	97.4	91.7	94.1
Reserve assets	5.5	5.0	5.0	5.6	6.4	7.1	6.9	6.9	8.4
Liabilities	220.5	212.4	204.3	214.9	241.8	245.1	237.1	230.0	240.2
Direct investment	42.1	42.9	44.7	45.5	51.3	51.6	49.6	49.2	49.1
Portfolio investment	93.8	90.5	81.4	87.9	94.2	91.3	71.1	75.9	81.8
Equity and investment fund shares	33.4	36.2	28.5	33.3	34.0	35.7	25.6	28.0	30.7
Debt securities	60.4	54.4	52.9	54.6	60.2	55.6	45.5	47.9	51.1
Financial derivatives (other than reserves) and employee stock options	20.1	14.7	12.9	18.6	24.6	20.1	38.4	34.6	40.1
Other investment	64.5	64.3	65.3	63.0	71.6	82.1	78.1	70.4	69.3
Net International Investment Position	38.8	44.0	52.4	58.5	64.1	70.1	70.2	68.7	79.7
Direct investment	17.1	16.9	18.2	20.4	19.6	22.6	22.7	20.1	21.5
Portfolio investment	-5.4	1.1	7.1	10.4	13.4	20.7	19.9	19.7	23.9
Financial derivatives (other than reserves) and employee stock options	-0.9	-0.4	-0.6	-0.9	-0.3	0.0	1.3	0.6	1.1
Other investment	22.5	21.4	22.6	22.9	25.0	19.7	19.4	21.3	24.8

Sources: Deutsche Bundesbank, IMF Statistics Department, and IMF staff calculations.

1/ Based on Balance of Payments Manual 6.

Table 6. Germany: Core Financial Soundness Indicators for Banks, 2020–24

(Percent, unless otherwise indicated)

	2020	2021	2022	2023	2024
Capital adequacy					
Regulatory capital to risk-weighted assets	19.2	18.8	19.3	19.7	20.5
Commercial banks	19.8	20.1	21.7	22.2	23.4
Landesbanken	19.9	20.0	19.7	20.5	20.1
Savings banks	17.6	16.7	16.7	16.9	18.0
Credit cooperatives	17.2	16.6	16.5	16.9	17.6
Regulatory Tier I capital to risk-weighted assets	17.2	16.8	17.1	17.5	18.2
Commercial banks	17.6	17.4	18.2	18.7	19.7
Landesbanken	15.8	15.9	15.9	16.9	16.7
Savings banks	16.4	15.7	15.8	16.0	16.9
Credit cooperatives	15.4	15.0	15.3	15.6	16.4
Asset composition and quality					
Sectoral distribution of loans to total loans					
Loan to households	28.4	27.9	27.5	27.8	27.8
Commercial banks	21.1	20.2	19.6	19.7	19.4
Landesbanken	3.8	3.7	3.4	3.3	3.2
Savings banks	51.6	50.9	52.1	52.2	51.7
Credit cooperatives	61.5	60.3	60.9	61.1	60.3
Loans to non-financial corporations	15.4	15.1	15.7	16.0	15.9
Commercial banks	11.9	11.3	11.8	11.9	11.7
Landesbanken	20.9	21.8	21.3	21.9	21.1
Savings banks	24.2	23.8	24.9	25.6	25.6
Credit cooperatives	19.6	20.1	21.5	22.5	22.5
NPLs to gross loans	1.7	1.5	1.2	1.5	1.8
Commercial banks	2.1	1.9	1.7	1.8	1.8
Landesbanken	0.9	0.9	0.8	1.5	1.8
Savings banks	1.5	1.3	1.2	1.6	1.9
Credit cooperatives	1.7	1.5	1.3	1.6	2.2
NPLs net of provisions to capital	6.2	5.4	13.4	16.2	18.6
Commercial banks	9.3	7.8	15.9	16.5	16.8
Landesbanken	5.9	5.8	13.1	21.8	27.6
Savings banks	3.0	2.4	11.8	15.5	18.0
Credit cooperatives	5.2	4.5	12.2	15.4	20.2

Source: Deutsche Bundesbank. The authorities provide annual data only and disseminate them once a year.

Table 6. Germany: Core Financial Soundness Indicators for Banks, 2020–24 (concluded)

(Percent, unless otherwise indicated)

	2020	2021	2022	2023	2024
Earnings and profitability					
Return on average assets (after-tax)	0.1	0.2	0.2	0.3	0.3
Commercial banks	-0.1	0.1	0.4	0.4	0.4
Landesbanken	0	0.1	0.4	0.4	0.4
Savings banks	0.3	0.4	0.1	0.2	0.2
Credit cooperatives	0.4	0.5	0.1	0.2	0.2
Return on average equity (after-tax)	1.1	3.2	3.6	4.2	4.0
Commercial banks	-3	1.4	5.7	6.7	6.4
Landesbanken	0.8	2.3	6.8	6.5	6.5
Savings banks	3.4	4.2	1.0	1.6	1.5
Credit cooperatives	5	6.2	1.5	2.1	1.9
Interest margin to gross income	67.3	65.2	52.1	50.7	48.7
Commercial banks	57.6	55.8	42.2	43.2	39.5
Landesbanken	75.7	70.7	45.9	53.3	49.9
Savings banks	70.5	68.1	74.6	59.1	59.7
Credit cooperatives	72.3	70.6	75.7	60.1	57.9
Trading income to gross income	2.9	3.9	-4.8	7.7	7.5
Commercial banks	5.3	6.5	7.6	11.6	14.5
Landesbanken	6.2	10.7	2.7	6.7	8.4
Savings banks	0	0	-32.9	5.9	1.2
Credit cooperatives	0	0	-30.2	4.3	2.3
Noninterest expenses to gross income	72.3	72.9	77.7	65.1	64.5
Commercial banks	77.7	79.9	75.9	71.7	68.3
Landesbanken	75.9	70.6	69.4	63.8	64.1
Savings banks	70.1	70.7	84.3	54.0	57.5
Credit cooperatives	67.2	65.9	84.4	59.7	61.1
Liquidity					
Liquid assets to total short-term liabilities 1/	169.6	170.9	33.0	34.8	33.5
Commercial banks	157.4	160.9	36.5	38.7	35.4
Landesbanken	178.4	152.6	44.8	46.4	45.4
Savings banks	187.2	174.4	18.2	20.5	21.4
Credit cooperatives	158.6	166.9	15.1	16.4	16.7
LCR	...	...	162.6	165.9	164.4
Commercial banks	...	...	153.8	154.5	149.8
Landesbanken	...	...	163.8	179.1	162.9
Savings banks	...	...	166.7	184.5	195.5
Credit cooperatives	...	...	156.3	169.5	181.9
NSFR	...	...	123.4	125.4	126.1
Commercial banks	...	...	126.3	128.8	128.3
Landesbanken	...	...	118.1	121.8	118.6
Savings banks	...	...	125.6	126.7	130.6
Credit cooperatives	...	...	121.0	122.0	122.8
Sensitivity to market risk					
Net open positions in FX to capital 2/	3.4	4.3	2.8	2.8	2.7
Commercial banks	2.4	2.8	1.7	1.6	1.2
Landesbanken	3.2	3.4	3.5	3.3	3.1
Savings banks	3.6	4.6	3.7	3.6	3.7
Credit cooperatives	7.4	9.6	5.2	5.3	5.7

Source: Deutsche Bundesbank. The authorities provide annual data only and disseminate them once a year.

1/ Due to methodological amendments given a corresponding methodological break in time series occurs in 2022.

2/ Due to the new FSI Compilation Guide the indicator is no longer included in the IMF's requirement for the FSI.

Table 7. Germany: Depository Corporations Survey, 2020–24

	2020	2021	2022	2023	2024
	(In billions of euros, end of period)				
Net foreign assets	1908	1817	1887	2009	2282
Claims on nonresidents	3346	3632	3762	3667	3929
Central Bank	1427	1590	1617	1456	1464
Other Depository Corporations	1919	2041	2146	2211	2465
Liabilities to Nonresidents	-1437	-1815	-1876	-1658	-1648
Central Bank	-308	-500	-401	-236	-156
Other Depository Corporations	-1129	-1315	-1475	-1422	-1491
Net domestic assets	3750	3835	4938	4650	4842
Net Claims on Central Government	328	487	437	499	457
Claims on State and Local Government	512	513	478	484	508
Claims on NBFIs	1269	1061	2031	1806	2088
Claims on private sector	2892	3045	3235	3260	3284
Corporates	1058	1115	1220	1232	1238
Households	1834	1930	2015	2028	2046
Capital and Reserves (-)	817	828	717	810	909
Other items, net (-, including discrepancy)	434	445	525	588	584
Broad Money	3659	3874	4071	4071	4217
Currency in Circulation	312	337	374	371	383
Transferable Deposits	2579	2784	2813	2559	2648
Other Deposits	762	744	867	1093	1148
Securities	6	10	16	48	39
Other Liabilities	1999	1778	2753	2588	2906
	(Annual percentage change)				
Net foreign assets	4.0	-4.8	3.8	6.5	13.6
Net domestic assets	8.4	2.3	28.7	-5.8	4.1
Claims on private sector	4.9	5.3	6.2	0.8	0.7
Corporates	5.2	5.4	9.3	1.0	0.5
Households	4.7	5.2	4.4	0.6	0.9
Broad Money	9.1	5.9	5.1	0.0	3.6
	(In billions of U.S. dollars, end of period)				
Net foreign assets	2177	2148	1982	2172	2469
Net domestic assets	4276	4533	5188	5027	5239
Claims on private sector	3298	3600	3398	3524	3553
Corporates	1207	1319	1281	1331	1339
Households	2091	2281	2117	2192	2214
Memorandum items:					
Velocity (GDP/Broad Money)	10338.8	9419.8	9906.1	11006.2	11158.3
Euro per U.S. dollar (end of period)	0.9	0.8	1.0	0.9	0.9

Sources: International Financial Statistics and IMF Staff.

Annex I. Pressures on Germany's Export Economy

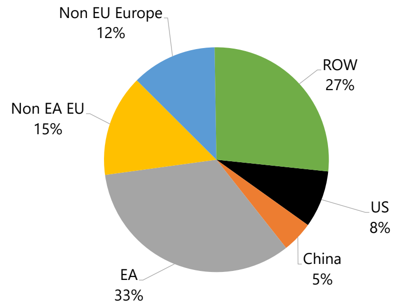
Germany's export-driven economy is navigating a period of heightened external pressures, shaped by shifting global trade policies and intensifying international competition. The recent increase in US tariffs on EU exports has dampened German export growth to the US. At the same time, German exports to China have declined significantly in recent years, and German firms face increasing competition from Chinese exports in third markets. This annex explores these trends in further detail.

A. Impact of US Tariffs

1. Germany's export-oriented economy is exposed to changes in global trade policy. Goods and services exports equal over 40 percent of GDP, with a significant share concentrated in capital goods. While trade with the rest of Europe dominates (accounting for 69 percent of German exports), the US has been Germany's largest export destination outside of Europe, accounting for about 8 percent of Germany's exports of goods and services over the last 12 months (text chart) and about 10 percent of Germany's goods exports. Exports to the US are especially important for the pharmaceutical sector as a share of production (Annex I Figure 1, top right), though this sector only accounts for about 0.5 percent of German employment.

Relative Contribution to German Exports 1/

(December 2024-November 2025)



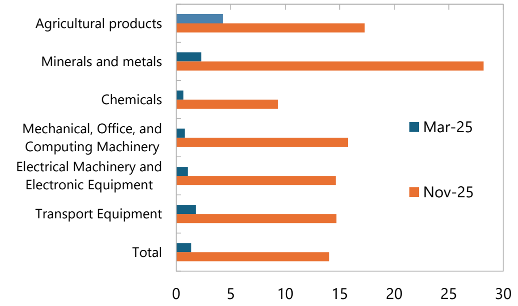
Sources: Bundesbank, Haver Analytics, and Destatis.

1/ Exports of Goods and Services.

2. Tariffs on EU exports to the US rose substantially in 2025. The US increased tariffs on many EU exports in April 2025. After several months of negotiation and associated uncertainty, the US and EU then reached an agreement in July 2025 to cap statutory tariffs at 15 percent for most sectors and exempt some sectors, including generic pharmaceuticals, some types of semiconductor equipment, and selected chemicals. However, some uncertainty remains regarding the coverage of these exemptions. For example, the list of exempt chemicals had not been released as of end-2025. In all, the trade-weighted tariff on EU goods exports to the US is estimated to have increased from 1.4 percent at the start of 2025 to [14 percent by end-2025](). The implicit effective tariff rate (as calculated by collected duties) on imports from Germany and from the EU were 10.8 and 8.6 percent, respectively, in October 2025 according to US import statistics. The effective rate has been lower than the statutory rate due to various exemptions and a reallocation of trade patterns across partners and products.

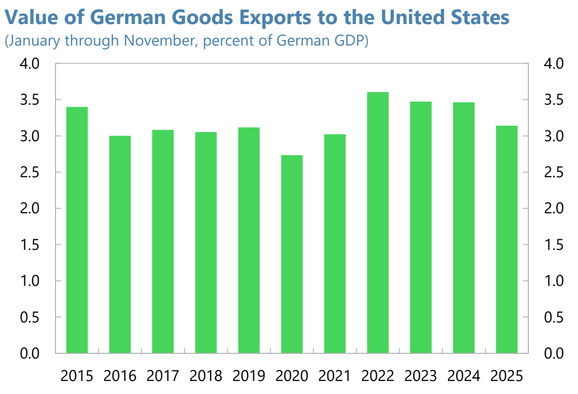
Trade-Weighted Statutory US Tariffs on Imports from EU by Selected Sectors

(Percent of sales price, 2025)



Sources: WTO IMF Tracker, and IMF staff.

3. Realized trade flows have shown tariff-induced cooling of German exports to the US. This decline happened during the middle of 2025 after a sharp pickup of exports to the US in Q1 in anticipation of tariffs. Specifically, goods exports to the US fell by 18 percent during August–November 2025 compared to the same period a year earlier. In contrast, goods exports to the rest of the EU rose by almost 5 percent. Germany's surplus with the US in goods trade decreased by €8.3 bn, or about 0.6 percent of 2025 German GDP on an annualized basis, during August–November 2025 compared to the same period a year earlier. However, some of this decline in exports to the US in late 2025 might have reflected a temporary reversal of frontloading of exports early in the year. Still, German exports to the U.S. for the whole period of January–November 2025 were down 9.3 percent relative to 2024, though broadly similar to pre-pandemic levels as a percent of GDP (text chart). Tariffs have not prompted aggregate reductions in prices of US imports from Germany (before tariffs) in US dollar terms, as these have risen by about 2.4 percent since the beginning of 2025. In euro terms, however, prices of US imports from Germany (before tariffs) have fallen somewhat (Annex I Figure 1, bottom right), as the euro has appreciated by nearly 15 percent over this period.


Value of German Goods Exports to the United States
(January through November, percent of German GDP)

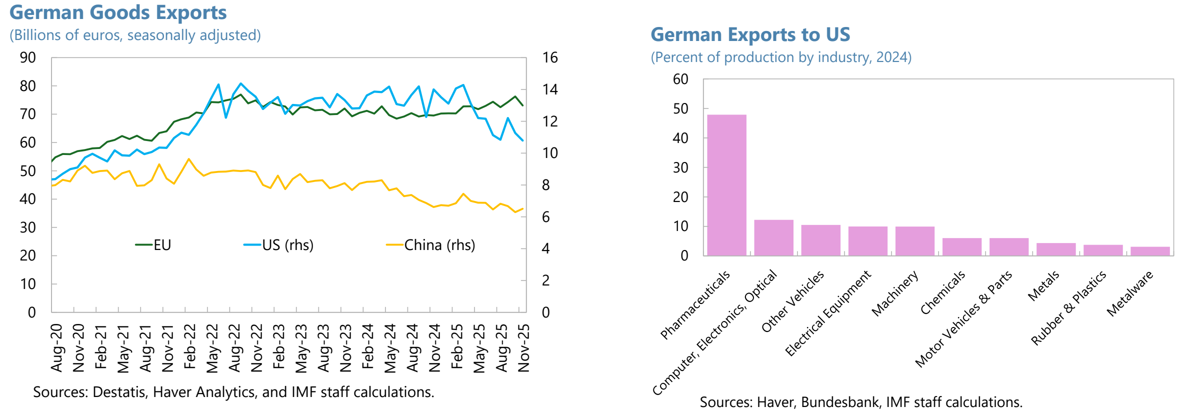
Sources: Haver, Bundesbank, IMF staff

4. Staff estimates that current US tariffs will reduce German GDP by about 0.2–0.4 percent by end-2027, based on multi-country macroeconomic models and standard trade elasticities. In addition, trade policy uncertainty is estimated to reduce aggregate demand by about ¼ percent of GDP in both 2025 and 2026, with most of this effect unwinding during 2027–28 as uncertainty eases.

Annex I. Figure 1. Germany: Exports to the US

After a pickup in Q1 2025 ahead of US tariffs, exports to the US fell sharply during the rest of the year.

Germany's pharmaceutical sector is particularly dependent on exports to the US.


German Goods Exports
(Billions of euros, seasonally adjusted)

Sources: Destatis, Haver Analytics, and IMF staff calculations.

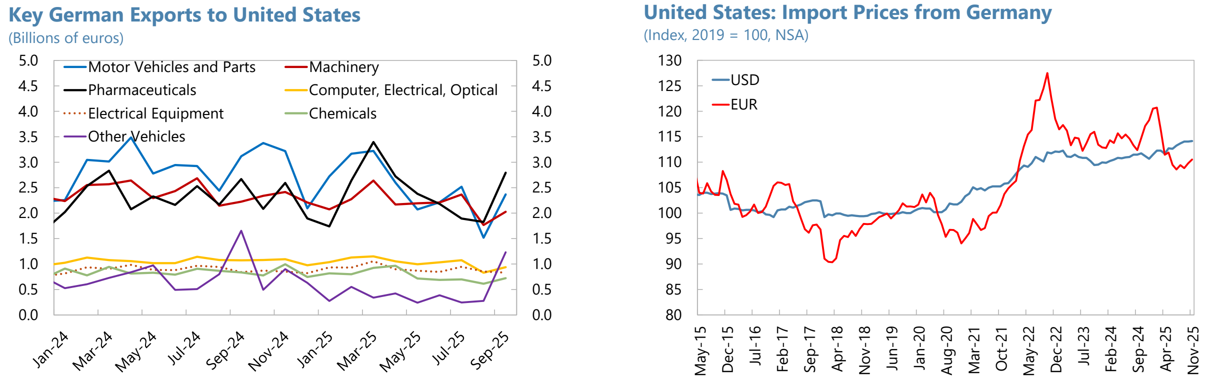
German Exports to US
(Percent of production by industry, 2024)

Sources: Haver, Bundesbank, IMF staff calculations.

Annex I. Figure 1. Germany: Exports to the US (concluded)

By value, key German exports to the US include motor vehicles, pharmaceuticals, and machinery.

Prices of US imports from Germany (as measured in USD) have risen in recent years, including during 2025.



Sources: Destatis, Haver Analytics, and IMF staff calculations.

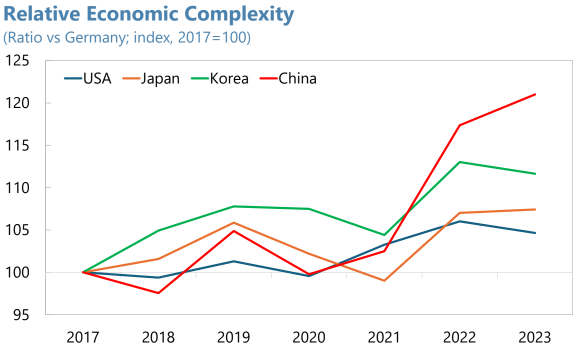
Sources: U.S. Bureau of Labor Statistics, ECB, and IMF Staff.

B. Trade with China

5. **China is one of Germany's large non-EU trade partners.** Germany's trade with China is notable at 5 percent of its total exports during the four quarters through Q3 2025, amounting to about €82 billion, or 1.9 percent of GDP (Annex I Figure 2, top charts). Germany's imports from China over the same period, were 11 percent of its total imports, amounting to €167 billion, or 3.9 percent of GDP. Germany exports mainly vehicles, machinery, and electrical equipment to China, and its main imports from China are in the same sectors (Annex I Figure 2, middle charts).

6. **Germany's net exports to China have declined in recent years.**

- The value of German exports to China has declined steadily since early-2022 (Annex I Figure 2, bottom left chart). On a rolling 4-quarter average, exports to China were lower by about 1 percentage point of German GDP in Q3 2025 relative to Q4 2021. This trend reflects a combination of factors, including euro appreciation against the yuan, slower growth of Chinese domestic demand following the drop in domestic property prices, reduced production and exports of German energy-intensive goods following the spike in European energy prices in 2022, Chinese productivity advances in sectors that compete with imports from Germany, such as autos (Annex I Figure 3, top right and text chart), and an increased shift to localized production, as evidenced by rising FDI (Annex I Figure 3, middle right). The last factor could reflect both geopolitical considerations (e.g., to reduce exposure to trade conflicts) and market changes (e.g., Chinese demand for cars



Sources: Harvard Growth Lab Atlas of Economic Complexity and IMF staff.
Note: Economic Complexity Index (ECI) based on the diversification and complexity of export baskets (Hasuman et. al (2011))

is shifting increasingly to EVs, which are more efficient to produce locally than are ICE vehicles, as EVs are heavier and hence more expensive to transport), among other factors (Annex I Figure 2, bottom left). Indeed, while US tariffs have weighed on German exports to the US during 2025, exports to China have declined by a similar amount, about 0.2 percent of German GDP, over this period.

- Germany's imports from China have been on a rising trend over the last decade as a share of GDP and as a share of total German imports (Annex I Figure 2, bottom right). However, imports from China spiked in value terms in 2021–22. This spike partly reflected higher chemical prices following the 2022 energy crisis and higher electrical and machinery prices and demand amidst post-pandemic supply-chain issues (Annex I Figure 3, bottom right), as well as a sharp pickup in demand for solar technology, of which 87 percent was sourced from China, during the energy crisis that followed Russia's invasion of Ukraine.[1] This spike in value terms mostly reversed during 2023 as the energy price shock and post-pandemic supply chain issues eased. In 2025, there is so far limited evidence that large amounts of Chinese exports to the US are being redirected to Germany following the imposition of US tariffs: the volume of German imports from China rose only 6.8 percent during Q2–Q3 2025 relative to Q2–Q3 2024—slower than the 8.4 percent rise in 2024 vs 2023.

7. German firms are facing higher competitive pressure from Chinese companies in third markets. Over the past 15 years, China's share of global exports has risen substantially while Germany's share has declined (Annex I Figure 3, top left). These differences in relative trends have been particularly evident in the chemical, machinery, and vehicle sectors (Annex I Figure 3, top left). While these trends may partly just reflect China's higher convergence-related productivity growth that would result in a rising share of China in global GDP and global exports relative to those of Germany, they may also reflect compositional factors such as Chinese production moving increasingly into sectors that compete more with German exports, as well as yuan depreciation against the euro. According to a survey carried out by IW Koeln, nearly two-thirds of German firms report feeling heightened competition from Chinese imports, particularly from those exporting in third markets.[2] Despite increased competition in recent years, there is little evidence of widespread price-cutting by German exporters. Sectoral terms-of-trade indexes suggest that most German export prices have been broadly stable or rising in recent years relative to import prices (Annex I Figure 3, middle left).

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[1] See: In 2022, 87% of the imported photovoltaic power stations came from China - German Federal Statistical Office

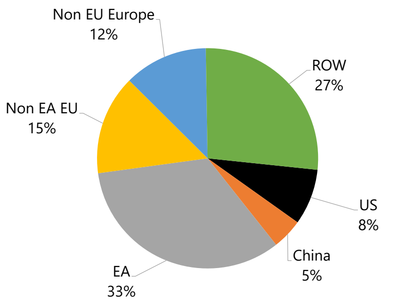
[2] See "Competitive Pressure from China for German Companies", IW Koeln, Juergen Matthes and Edgar Schmitz, June 2024, IW-Report 30/2024 (https://www.iwkoeln.de/fileadmin/user_upload/Studien/Report/PDF/2024/IW-Report_2024-Umfrage-China-Konkurrenz.pdf)

Annex I. Figure 2. Germany: Trade Developments with China

China is a smaller export market than Europe or the US.

Relative Contribution to German Exports 1/

(December 2024-November 2025)

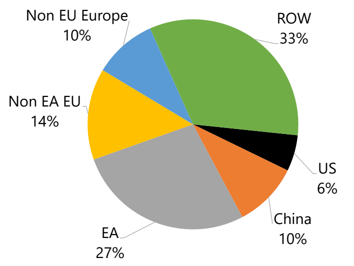


Sources: Bundesbank, Haver Analytics, and Destatis.
1/ Exports of Goods and Services.

Imports from China are bigger than those from the US.

Relative Contribution to German Imports 1/

(December 2024-November 2025)

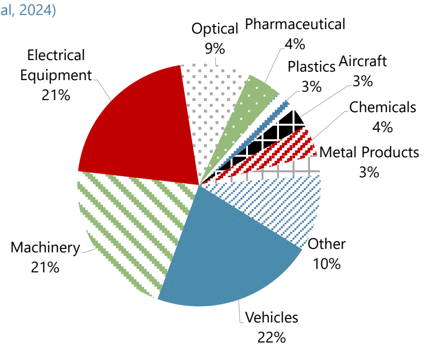


Sources: Bundesbank, Haver Analytics, and Destatis.
1/ Imports of Goods and Services.

Germany exports mainly vehicles, machinery, and electrical equipment to China.

Composition of German Exports to China

(Percent of total, 2024)

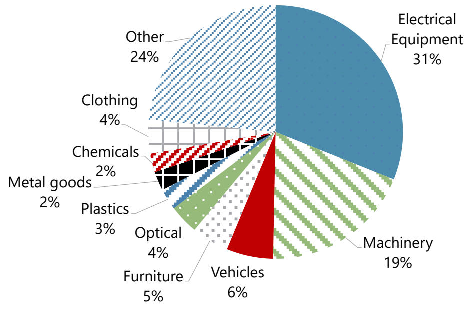


Sources: Trading Economics, and UN COMTRADE database.

Its key imports are in similar sectors, including electrical equipment and machinery.

Composition of German Imports from China

(Percent of total, 2024)

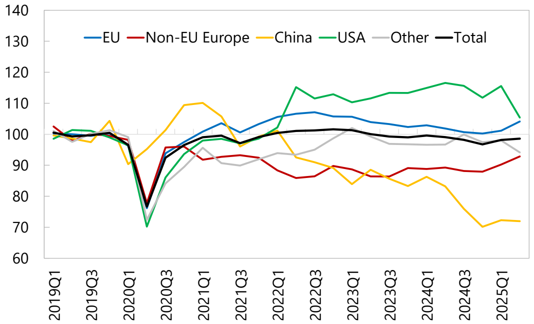


Sources: Trading Economics, and UN COMTRADE database.

Goods exports to China have been falling steadily since 2021.

German Goods Exports 1/

(Index, 2019=100)

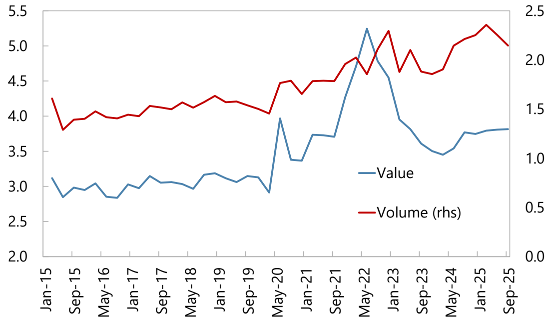


Sources: Bundesbank, Haver Analytics, and IMF staff calculations.
1/ Country exports deflated by overall export deflator.

Goods Imports from China have been on a rising trend in volume terms and also spiked temporarily in value terms during 2021–22.

German Imports from China

(LHS: Share of German GDP, RHS: Share of total volume of German imports; SA)



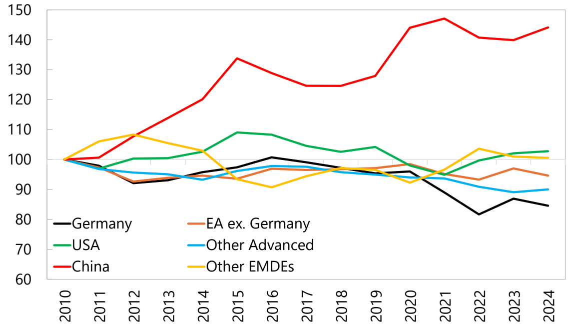
Sources: Destatis, Eurostat, and Haver Analytics.

Annex I. Figure 3. Germany: Trade and FDI Developments with China

Global market shares of goods exports from China have been rising, while those of Germany have been falling.

Nominal Global Market Shares in Goods Exports

(Index, 2010=100)

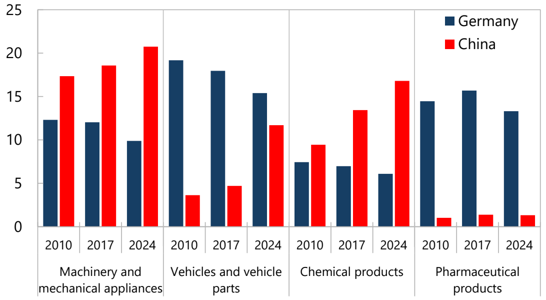


Sources: IMf International Trade in Goods (IMTS) and IMF staff calculations.

This is particularly evident in machinery, vehicles, and chemicals sectors but not in pharmaceuticals.

Share of Global Exports

(Percent)

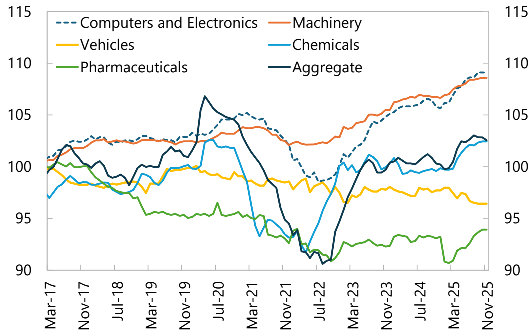


Source: Trade Data Monitor and IMF Staff.
Note: HS categories 84 (machinery and mechanical appliances), 87 (vehicles and parts and accessories thereof), 28 and 29 (organic and in-organic chemicals) and 30 (pharmaceutical products).

Germany's export prices have been broadly stable or risen slightly over the last 3 years relative to import prices.

Germany Terms of Trade Indexes for Key Export Sectors

(January 2017 = 100)

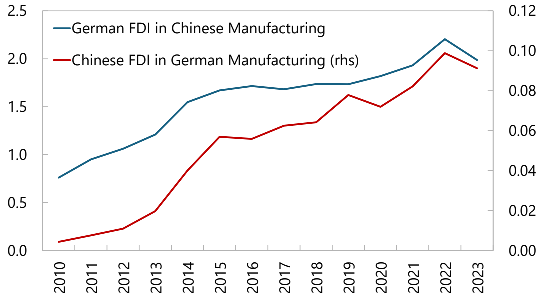


Sources: Destatis, and Haver Analytics.

German FDI in Chinese manufacturing has been rising steadily for over a decade.

Foreign Direct Investment in Manufacturing

(Percent of German GDP)

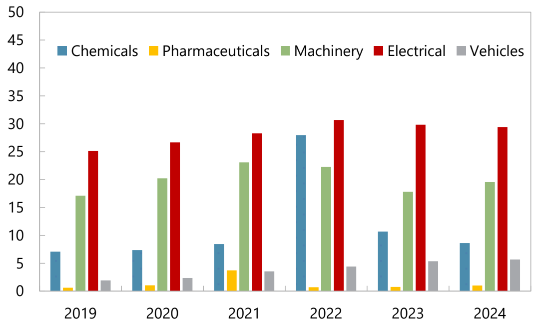


Sources: Destatis, Bundesbank, and Haver Analytics.
Note: Data for FDI by firms.

Germany gets a high proportion of its goods imports in electrical and machinery sectors from China.

German Imports from China

(Percent of total imports in each sector)

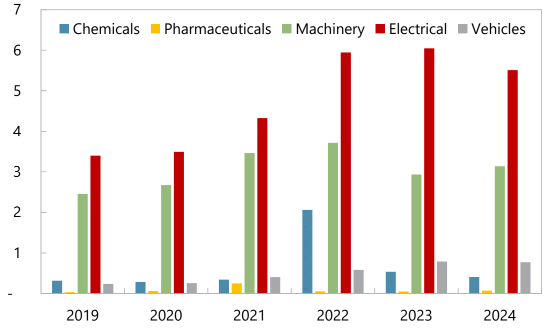


Sources: Destatis, and IMF staff calculations.

The surge in import values from China during 2021–22 was mainly in electrical, machinery, and chemicals sectors.

German Imports from China

(Billions of euros)



Sources: Destatis, and IMF staff calculations.

Annex II. Sovereign Risk and Debt Sustainability Analysis

Annex II. Figure 1. Germany: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	…	Low	Staff assesses the overall risk of sovereign stress as low, reflecting a relatively low level of vulnerability in the near- and medium-term horizons, and a moderate vulnerability in the long-term horizon.
Near term 1/			
Medium term	Low	Low	Staff assess medium-term risks as low overall, consistent with the mechanical signal. Germany benefits from strong institutions, a stable investor base, a relatively long average debt maturity, and predominantly euro-denominated debt.
Fanchart	Moderate	…	
GFN	Low	…	
Stress test		…	
Long term	…	Moderate	Long-term risks are assessed to be moderate, given growing aging-related expenditures on pensions and healthcare that are not expected to be fully financed by social security contributions. Long-term projections assume the authorities will implement measures to offset the costs from ageing to comply with the debt-brake rule. Although this could be politically challenging, adding to the assessment of moderate risk.
Sustainability assessment 2/	Not required for surveillance countries	Sustainable	Not required for surveillance countries.
Debt stabilization in the baseline			No

DSA Summary Assessment

Commentary: Germany is at a low overall risk of sovereign stress and debt is sustainable. Debt is expected to increase relative to GDP in 2025 and beyond due to higher primary deficits arising from much needed spending on public investment and defense spending. Debt gradually rises from 62.6 percent of GDP in 2025 to 71.5 percent of GDP by 2030 and further to around 76.9 percent of GDP by 2034. Medium-term risks analyzed by the debt fan chart and GFN modules remain low. Over the long run however, health and pension costs are likely to rise with population aging. If unaddressed, these pose a moderate risk to debt dynamics. Reforms are therefore needed to raise contributions or reduce benefits.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Annex II. Figure 2. Germany: Debt Coverage Disclosures

						Comments
1. Debt coverage in the DSA: 1/	CG	🟩 GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	
2. Subsectors included in the chosen coverage in (1) above:						

CPS	NFPS	GG: expected	CG		Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1	Budgetary central government	🟩 Yes	
				2	Extra budgetary funds (EBFs)	🟩 Yes	Not applicable
				3	Social security funds (SSFs)	🟩 Yes	
				4	State governments	🟩 Yes	
				5	Local governments	🟩 Yes	
				6	Public nonfinancial corporations	▨ No	
				7	Central bank	▨ No	
				8	Other public financial corporations	▨ No	

3. Instrument coverage:	🟩 Currency & deposits	🟩 Loans	🟩 Debt securities	🟥 Oth acct. payable 2/	🟥 IPSGSs 3/

	Basis of recording		Valuation of debt stock		
4. Accounting principles:	Non-cash basis 4/	🟩 Cash basis	🟩 Nominal value 5/	Face value 6/	Market value 7/

5. Debt consolidation across sectors:	🟩 Consolidated	Non-consolidated

Color code: 🟩 chosen coverage 🟥 Missing from recommended coverage ▨ Not applicable

Reporting on Intra-Government Debt Holdings

CPS	NFPS	GG: expected	CG		Issuer \ Holder	Budget. central govt	Extra-budget. funds	Social security funds	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1	Budget. central govt	▨								0
				2	Extra-budget. funds		▨							0
				3	Social security funds			▨						0
				4	State govt.				▨					0
				5	Local govt.					▨				0
				6	Nonfin pub. corp.						▨			0
				7	Central bank							▨		0
				8	Oth. pub. fin. corp								▨	0
					Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.

2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.

3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.

4/ Includes accrual recording, commitment basis, due for payment, etc.

5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).

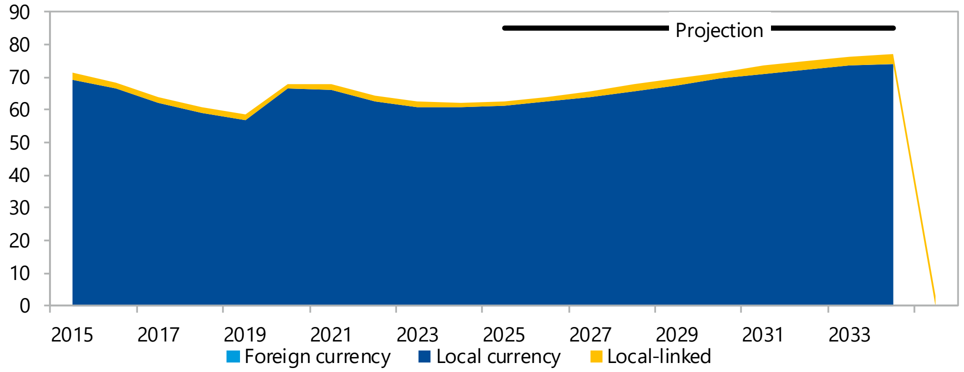
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.

7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

Commentary: The debt coverage remains unchanged from the last Article IV -- i.e., it covers general government debt, with most debt issued by the federal (central) government. Outstanding general government guarantees at end-2023 amounted to 14.6 percent of GDP and liabilities of public corporations at end-2023 amounted to 86.5 percent of GDP (Source: Eurostat).

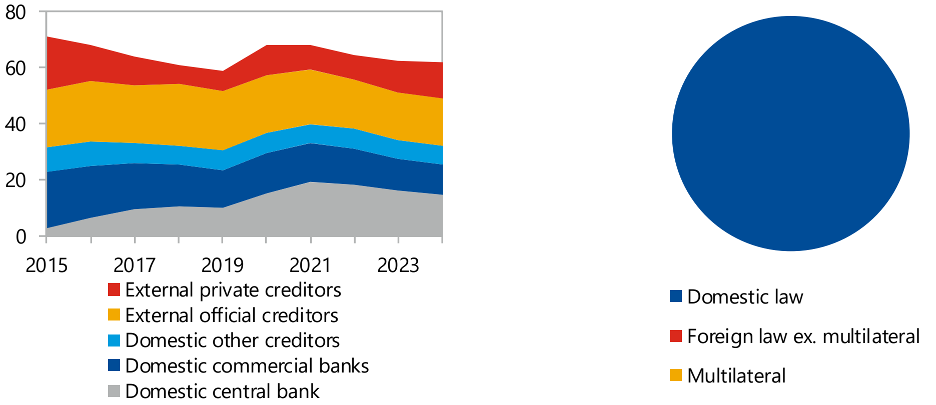
Annex II. Figure 3. Germany: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



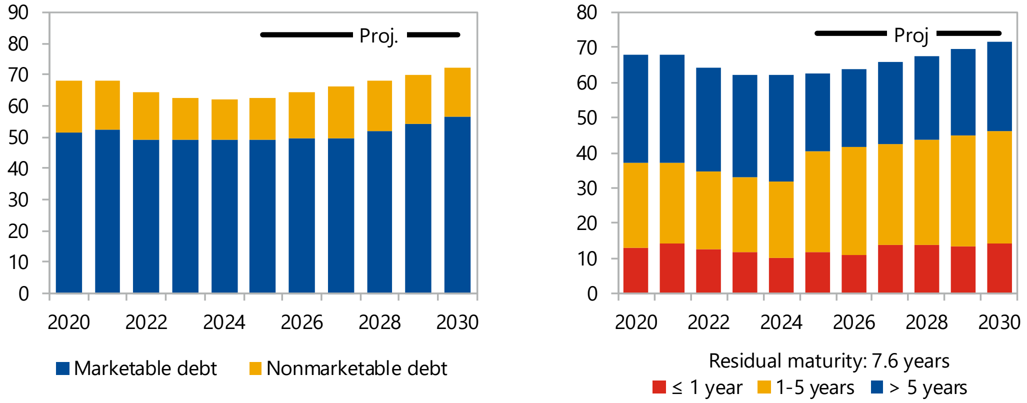
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP) **Public Debt by Governing Law, 2024 (Percent)**



Note: The perimeter shown is general government. Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP) **Public Debt by Maturity (Percent of GDP)**



Note: The perimeter shown is general government. Note: The perimeter shown is general government.

Commentary: Public debt is almost entirely in domestic currency and predominantly marketable. The share held by the central bank has risen from 3 percent in 2015 to 15 percent in 2024 while the share of domestic commercial banks declined from 20 percent in 2015 to 11 percent in 2024.

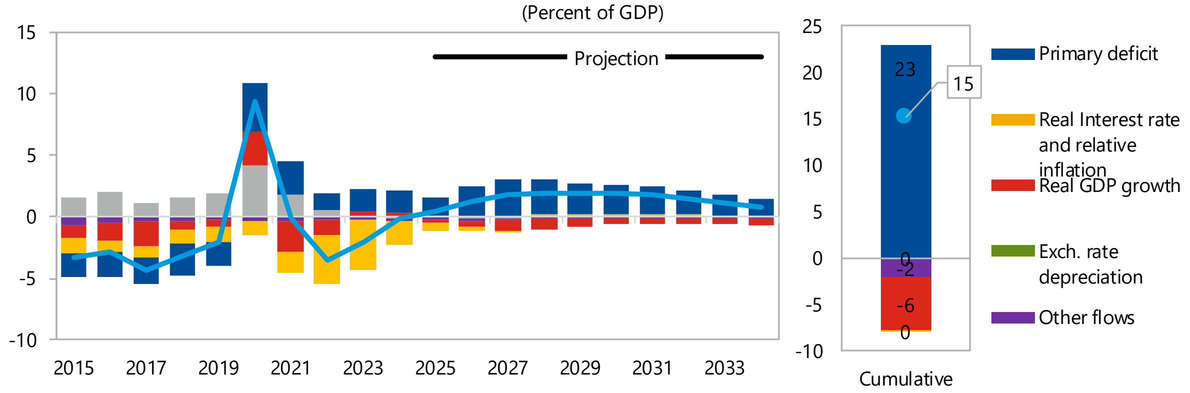
Annex II. Figure 4. Germany: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Est.	Medium-term projection					Extended projection			
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
Public debt	62.2	62.6	63.9	65.7	67.7	69.6	71.5	73.4	74.9	76.0	76.9
Change in public debt	-0.1	0.4	1.3	1.8	1.9	1.9	2.0	1.8	1.5	1.2	0.8
Contribution of identified flows	0.0	0.3	1.4	1.9	1.8	1.8	2.0	1.8	1.5	1.1	0.8
Primary deficit	1.9	1.5	2.4	3.0	2.8	2.6	2.4	2.2	1.9	1.6	1.3
Noninterest revenues	46.5	47.7	47.7	47.6	47.5	47.8	47.7	47.7	47.7	47.7	47.7
Noninterest expenditures	48.4	49.2	50.1	50.6	50.4	50.3	50.1	50.0	49.7	49.4	49.1
Automatic debt dynamics	-1.6	-0.9	-0.8	-1.0	-0.8	-0.6	-0.2	-0.2	-0.3	-0.3	-0.3
Real interest rate and relative inflation	-1.9	-0.7	-0.3	-0.1	0.0	0.1	0.2	0.2	0.2	0.1	0.1
Real interest rate	-1.9	-0.7	-0.3	-0.1	0.0	0.1	0.2	0.2	0.2	0.1	0.1
Relative inflation	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Real growth rate	0.3	-0.2	-0.5	-0.8	-0.9	-0.7	-0.4	-0.4	-0.4	-0.4	-0.5
Real exchange rate	0.0	…	…	…	…	…	…	…	…	…	…
Other identified flows	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Other transactions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contribution of residual	-0.1	0.1	-0.2	-0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Gross financing needs	12.4	12.7	14.6	14.7	17.5	17.3	16.9	17.5	16.8	17.1	16.9
of which: debt service	10.8	11.4	12.4	11.8	14.9	14.9	14.7	15.5	15.0	15.7	15.8
Local currency	10.8	11.4	11.9	11.8	14.9	14.9	14.2	15.4	15.0	15.5	15.7
Foreign currency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo:											
Real GDP growth (percent)	-0.5	0.3	0.8	1.3	1.3	1.0	0.6	0.6	0.6	0.6	0.6
Inflation (GDP deflator; percent)	3.1	3.1	2.4	2.2	2.1	2.2	2.2	2.1	2.1	2.1	2.1
Nominal GDP growth (percent)	2.6	3.3	3.4	3.7	3.2	3.0	2.8	2.7	2.7	2.7	2.8
Effective interest rate (percent)	0.0	1.8	1.9	2.0	2.2	2.3	2.4	2.4	2.4	2.3	2.3

Contribution to Change in Public Debt

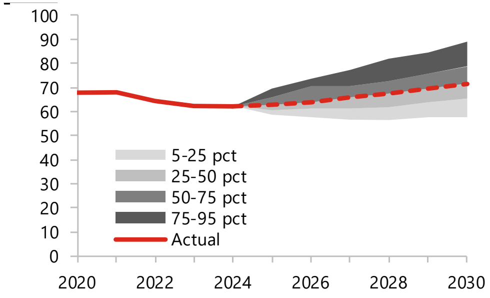
(Percent of GDP)



Commentary: Public debt is expected to increase relative to GDP, due to higher primary deficits arising from much needed additional spending on public investment and defense spending. Debt stabilizes below 80 percent of GDP over the longer-term horizon.

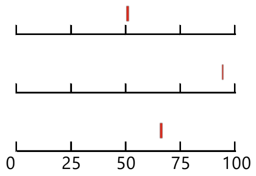
Annex II. Figure 5. Germany: Medium-Term Risk Assessment

Final Fanchart (Percent of GDP)

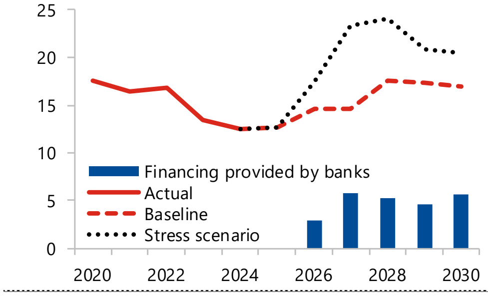


	Value	Contrib 1/
Debt fanchart module		
Fanchart width *(percent of GDP)*	31.4	0.5
Probability of debt non-stabilizaiton *(percent)*	96.2	0.8
Terminal debt-to-GDP x institutions index	17.6	0.4
Debt fanchart index (DFI)		1.6
Risk signal: 3/		Moderate

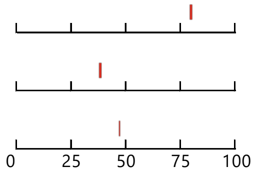
Percentile in peer group 2/



Gross Financing Needs (Percent of GDP)



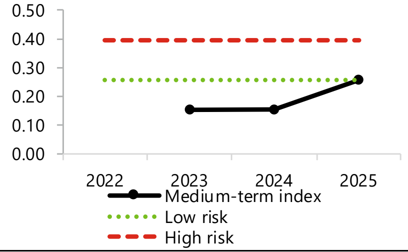
	Value	Contrib 1/
Gross financing needs (GFN) module		
Average baseline GFN *(percent of GDP)*	15.6	5.3
Initial Banks' claims on the gen. govt *(pct bank assets)*	3.7	1.2
Chg. In banks' claims in stress *(pct banks' assets)*	3.0	1.0
GFN financeability index (GFI)		7.5
Risk signal: 4/		Low



Triggered stress tests (stress tests not activated in gray)

Banking crisis Commodity prices Exchange rate Contingent liab. Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	(normalized)	Weight	Contribution
Debt fanchart index	1.6	0.4	0.5	0.2
GFN finaceability index	7.5	0.1	0.5	0.1
Medium-term index		0.3		
Risk signal: 5/		Low		
Final assessment:		Low		

Prob. of missed crisis, 2025-2030, if stress not predicted: 9.1 pct.

Prob. of false alarms, 2025-2030, if stress predicted: 42.0 pct.

Commentary: Medium-term tools suggest a low overall risk to public debt sustainability. The mechanical rating for the debt fan chart index is moderate, reflecting the risk that public debt would not stabilize over the medium-term. The GFN mechanical rating is low, but Germany does score less favorably compared to peers--around the 80th percentile of that group--on the average GFN relative to GDP.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

2/ The comparison group is advanced economies, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Annex II. Figure 6. Germany: Realism of Baseline Assumptions

Forecast Track Record 1/

	t+1	t+3	t+5
Public debt to GDP	🟧	🟩	🟩
Primary deficit	🟩	🟩	🟩
r - g	🟩	🟩	🟩
Exchange rate depreciaton	🟩	🟩	🟩
SFA	🟧	🟩	🟩
	real-time	**t+3**	**t+5**
Historical Output Gap Revisions 2/	🟩	🟩	🟧

Comparator Group:

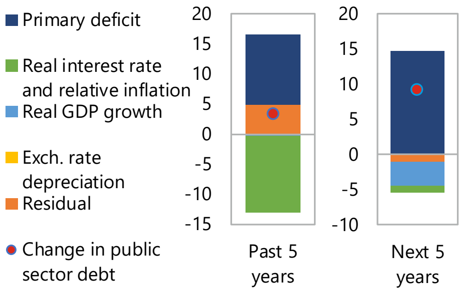
Advanced Economies, Non-Commodity Exporter, Surveillance

Color Code:

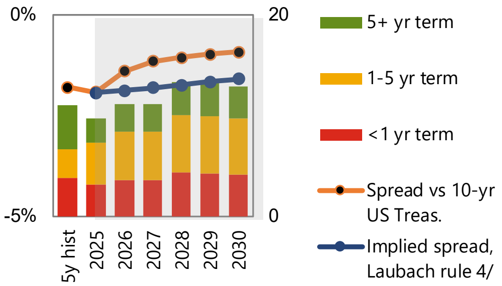
Optimistic	🟥	> 75th percentile
	🟧	50-75th percentile
Pessimistic	🟩	25-50th percentile
	🟢	< 25th percentile

Public Debt Creating Flows

(Percent of GDP)

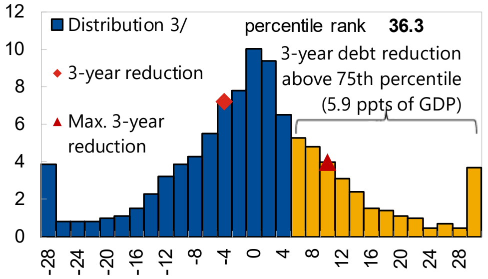


Bond Issuances (Bars, debt issuances (RHS, %GDP); lines, avg marginal interest rates (LHS, percent))

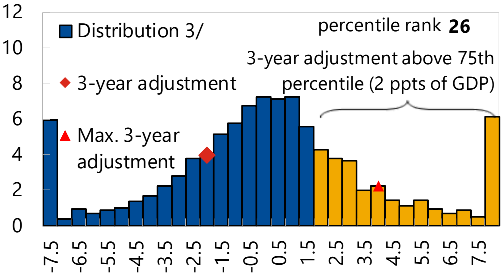


3-Year Debt Reduction

(Percent of GDP)

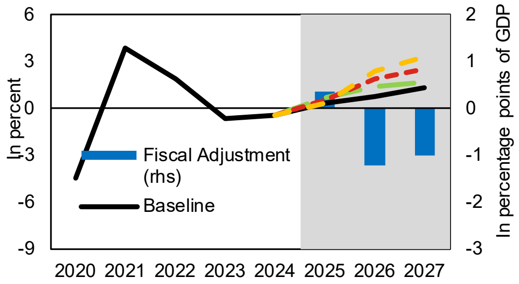


3-Year Adjustment in Cyclically-Adjusted Primary Balance (Percent of GDP)



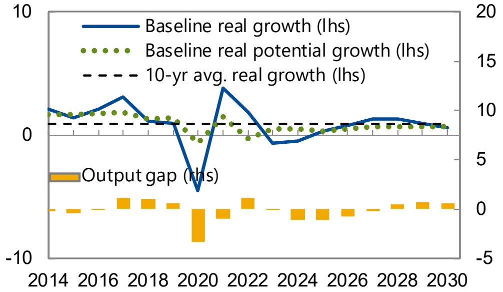
Fiscal Adjustment and Possible Growth Paths

(Lines, real growth using multiplier (LHS); bars, fiscal adj. (RHS))



Real GDP Growth

(In percent)



Commentary: Past forecasts appear realistic. Given the higher interest rate environment, a lower share of long-maturity bond issuance is expected in future. The debt reduction, fiscal adjustment and fiscal multiplier realism tools are not applicable as fiscal policy is on an expansionary path.

Source : IMF Staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates).

3/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

4/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

Annex III. External Sector Assessment[1]

<table>
<tr><td colspan="7">Overall Assessment: On a preliminary basis, <i>the external position in 2025 was moderately stronger than the level implied by medium-term fundamentals and desirable policies.</i> In 2025, the CA is expected to decrease versus 2024 due mainly to a decline in the goods trade balance. In 2026, the CA is expected to decline further as the trade balance is projected to weaken in response to fiscal easing and recent euro appreciation. Over the medium term, the CA is projected to gradually decline closer to its norm due to fiscal expansion, including for increased infrastructure and defense spending. While the main driver of the projected narrowing of the CA surplus over the medium term is expected to be due to a reduction in the savings-investment balance of the public sector, some contribution is also expected from the private sector, particularly firms, which would have incentives to invest more alongside the public sector. These developments would correspond to a projected decline in the goods trade balance over this period, while the services balance would be less affected.

Policy Recommendations: As planned by the new coalition government, policies aimed at promoting investment and diminishing excess saving would support external rebalancing and a reduction of the CA balance toward its norm. Over the medium term, the authorities are expected to generate higher fiscal deficits, including due to higher defense spending and higher public investment in transportation, energy, and digitalization. Structural reforms to accelerate licensing and permitting procedures and to increase the availability of equity financing for young, innovative companies (including support for EU-level reforms such as Saving and Investment Union) could further stimulate investment and thereby avoid a widening of external imbalances in the longer run due to fiscal adjustment that will be needed to eventually stabilize the debt-to-GDP ratio. Training to enhance employability of older workers could also extend working lives and reduce the need for savings. Industrial policies should be deployed cautiously, remain targeted to specific objectives where externalities or market failures prevent effective market solutions, be coordinated at the EU level, and avoid favoring domestic producers over imports to minimize trade and investment distortions.</td></tr>
<tr><td>Foreign Asset and Liability Position and Trajectory</td><td colspan="6">Background. The NIIP is expected to increase to 80 percent of GDP in 2025 versus 77 percent of GDP in 2024. This increase will be expected due to a CA surplus as well as valuation gains on Germany's external assets, mainly portfolio investments, versus its liabilities. Germany's external assets include holdings of sovereign securities, whose market prices have been rising in response to policy rate easing in Europe and the United States. Germany's TARGET claims on the Eurosystem are expected to fall to €1.0 trillion at end-2025 (based on the July 2025 balance) from €1.2 trillion at end-2024. In the past 5 years, the NIIP has increased by some 11 percent of GDP, lifting the primary income balance.

Assessment. Germany's exposure to the Eurosystem remains large.</td></tr>
<tr><td>2025 (% GDP, est.)[1]</td><td>NIIP: 80</td><td>Gross Assets: 323</td><td>Debt Assets: 153</td><td>Gross Liab.: 243</td><td colspan="2">Debt Liab.: 142</td></tr>
<tr><td>Current Account</td><td colspan="6">Background. The CA surplus is expected to come in at 4.5 percent of GDP in 2025, compared with 5.8 percent in 2024 and 8.1 percent on average in the pre-pandemic period over 2017–19. The decrease of the CA in 2025 is expected to be due mainly to a decline in the goods balance. The primary income balance in 2025 is expected to be largely unchanged. From a savings-investment perspective in 2025 versus 2024, the change in the CA balance is expected to be driven mainly by lower savings-investment balances for the private sector, as consumption picked up as a lagged response to past increases in real incomes for households and staff costs rose for firms, while the savings-investment balance of the public sector remained largely unchanged.

Assessment. The cyclically adjusted CA balance is estimated by the EBA model to be 4.3 percent of GDP in 2025. IMF staff assess the CA norm to be between 2.7 and 3.7 percent of GDP, with a midpoint of 3.2 percent of GDP, in line with the EBA model. The difference between the cyclically adjusted CA and the CA norm implies that the CA gap for 2025 will likely be in the range of 0.6–1.6 percent of GDP, with a midpoint of 1.1 percent of GDP.</td></tr>
<tr><td>2025 (% GDP, est.)</td><td>CA: 4.5</td><td>Cycl. Adj. CA: 4.3</td><td>EBA Norm: 3.2</td><td>EBA Gap: 1.1</td><td>Staff Adj.: 0.0</td><td>Staff Gap: 1.1</td></tr>
</table>

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[1] This assessment is preliminary; the final assessment for 2025 will be presented in the 2026 External Sector Report.

Real Exchange Rate	**Background.** The REER depreciated by about 6 percent (based on consumer prices) during the energy crisis (early 2021-mid-2022), recovered this ground by mid-2023, and then broadly stabilized through end-2024. In 2025, the REER has appreciated by 3.0 percent through November (3.5 percent based on ULC). This was mainly due to nominal exchange rate appreciation and much less due to relative inflation between Germany and its trade partners, for whom inflation was generally higher. **Assessment.** The IMF staff CA gap implies a REER gap of -3.3 percent in 2025 (with an estimated elasticity of 0.32 applied). The EBA REER level and index models suggest an undervaluation of 9.9 percent and an overvaluation of 7.8 percent, respectively. Consistent with the staff CA gap, staff assesses the REER to be undervalued, with a midpoint of 3.3 percent and a range of uncertainty of +/-1.6 percent.
Capital and Financial Accounts: Flows and Policy Measures	**Background.** In 2025, the bulk of the change occurred in portfolio investments abroad by Germans, with capital flows into foreign equity assets increasing sharply. Net outward FDI also increased slightly as inward FDI in Germany declined. **Assessment.** Risks are limited, given Germany's safe-haven status and the strength of its external position.
FX Intervention and Reserves Level	**Background.** The euro has the status of a global reserve currency. **Assessment.** Reserves held by euro area economies are typically low relative to standard metrics. The currency floats freely.
1/ NIIP in percent of GDP for the External Sector Assessment is reported using US dollar figures, with the NIIP reported using the end-of-period exchange rate and GDP using the period-average exchange rate.	

Annex IV. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood	Impact	Policy Response
Global Conjunctural and Structural Risks			
Geopolitical Tensions. Intensification of conflicts, coupled with the weakening of multilateralism, may trigger commodity price volatility, increase migration pressures, reignite inflation, and weigh on growth by undermining confidence, investment, tourism, trade, and supply chains.	High	Medium Given its high integration in global value chains, Germany is vulnerable to disruptions in trade associated with regional conflicts. Higher energy/commodity prices could add to inflation pressures. Heightened uncertainty could also weigh on consumer and business confidence.	• Allow automatic stabilizers to operate fully. • Provide targeted support to vulnerable households. • Facilitate labor market integration of refugees and use fiscal space to provide further support if necessary. • Monitor potential implications for financial markets and calibrate measures to ensure financial stability as needed.
Escalating Trade Measures and Prolonged Uncertainty. Rising trade barriers and prolonged policy uncertainty could reduce trade, investment, and growth. Inflationary pressures may re-emerge, especially in countries imposing tariffs. These effects can be amplified by strategic complementarities or bottlenecks in global value chains or inventory overhang.	High	High With its high degree of trade openness, Germany is susceptible to fluctuations in global trade and trade costs. Higher trade barriers and/or supply disruptions could lead to shortages of crucial inputs.	• Continue support for the multilateral rules-based trading system. Promote cooperation within and across continents to realize mutual benefits from cross-border flows. • Identify critical dependencies, assess the impact and transmission channels of different fragmentation scenarios, and develop strategies for coping with risks. • Undertake structural reforms to continue to enhance Germany's attractiveness as an investment destination.
Commodity Price Volatility. Shifts in supply and demand—driven by geopolitical tensions and conflicts, OPEC+ actions, or the green transition—may fuel commodity price swings, intensifying external and fiscal pressures, social unrest, and macroeconomic instability.	High	Medium Germany's energy imports are a similar share of GDP as those of other large EU member states. Rising energy prices could lead to consumer price inflation and erode corporate profits and household real income.	• Continue to develop secure alternative energy resources and associated storage and processing facilities. • Maintain price signals to promote energy savings. • Provide targeted support to vulnerable households hurt

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[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Source of Risks	Relative Likelihood	Impact	Policy Response
			by high energy prices, if necessary. - Monitor potential implications for financial markets and calibrate measures to ensure financial stability as needed.
Global Conjunctural and Structural Risks			
Financial Market Volatility and Correction. Stretched asset valuations, easy financial conditions, and subdued volatility in key markets could be significantly affected by a sudden and disruptive shift in investor sentiment or policy stance, triggering market corrections, exchange rate turbulence, spikes in sovereign bond yields, and capital flow volatility. Elevated leverage among Non-Bank Financial Intermediaries further amplifies these risks, as forced deleveraging during periods of stress could exacerbate asset price swings and propagate shocks. Rapid growth of unregulated crypto markets could add to these vulnerabilities by increasing the risk of redemption runs and market dislocations.	High	High Large corrections in global financial markets and heightened uncertainty could significantly depress consumption and investment, triggering a relapse into recession, while also stressing segments of the financial sector exposed to market movements and shocks to aggregate demand and unemployment.	- Allow automatic stabilizers to operate freely. Deploy further fiscal stimulus in the event of a major negative demand shock. - Intensify monitoring of bank and non-bank liquidity and risk management practices to contain systemic risk. - Encourage a conservative approach to bank capital distributions. - Take swift action to address weak financial institutions and undertake contingency planning.
Fiscal Vulnerabilities and Higher Long-Term Interest Rates. Rising public debt and deficit levels may put upward pressure on long-term interest rates and increase the risk of sovereign bond market disruptions. These developments could amplify capital flow volatility, tighten financial conditions, threaten sovereign debt sustainability, and trigger global spillovers. To the extent that major economies are affected, market imbalances (such as reduced investor capacity to absorb sovereign debt) could emerge, exacerbating risks from a close sovereign-financial nexus.	High	Medium A rise in sovereign yields may reduce the values of sovereign debt on the balance sheets of German financial institutions. Weak growth in fiscally vulnerable trading partners could reduce export demand.	- Ensure that banks' liquidity and capital buffers are adequate, encourage further adoption of liquidity management tools among investment funds. - Bolster the stability and efficiency of the euro area by completing the pan-European Banking Union and Capital Markets Union. - Enhance liquidity support for financial institutions and markets, coordinating with the ECB.
Global Conjunctural and Structural Risks			
Cyberthreats. Cyberattacks on physical or digital infrastructure, technical failures, or misuse of AI technologies could trigger financial and economic instability.	High	Medium With increased remote work and digitalization, Germany's economic activity and financial system are both dependent on smooth functioning of digital systems. Cyberattacks could also	- Assess and address the vulnerabilities and other potential weaknesses exposed by cyberattacks. - Update and further strengthen governance and risk management of large public and private

Source of Risks	Relative Likelihood	Impact	Policy Response
		erode confidence in financial institutions and disrupt energy supply.	organizations, including in the financial system, and scale up investment in cyber risk monitoring and resilience.
Domestic Risks			
Aging workforce. Unfavorable demographics due to an aging workforce and slowing immigration and subdued productivity growth reduces medium-term growth and leads to increased fiscal spending pressures.	High	High Over the past decade, Germany's working-age population has been buoyed by migrants fleeing regional conflicts. A faster-than-expected shrinking of the workforce could result in lower productivity growth, lower per capita GDP growth, and increased public spending on pensions and healthcare.	• Boost labor supply through measures to increase female labor force participation, including increasing access to reliable child- and eldercare. • Reduce high marginal tax rates on second earners in married couples to boost labor supply. • Facilitate the integration of immigrants into the labor force. • Boost labor productivity through digitalization and improving conditions for startups.
Key sectors fail to adjust in a timely fashion to technological change and digitalization. Lack of progress in adapting to the technological and digital revolution, as well as pandemic-related change in production and consumption preferences, could undermine Germany's position as an innovation leader.	Medium	High Loss of competitiveness and shrinking market shares for Germany's key export products (automobiles and machinery) could threaten the country's growth model increasing structural unemployment and lowering potential growth.	• Increase public investment in digital infrastructure, digital skills training, and digital government services. Crowd-in private investment in digitalization. • Ensure that trade barriers remain low so that key technologies can be imported as needed. • Continue to support innovation hubs.
Low-quality fiscal spending. Money budgeted for public investment has been routinely underspent in the past. Public investment could undershoot current plans due either to a persistence and deepening of this tendency or a need to scale back current public investment plans due to unexpected fiscal shortfalls.	Medium	Medium Lower-than-expected implementation of public investment plans would reduce both near-term aggregate demand and medium-term potential growth. It would also exacerbate external imbalances.	• Prioritize public investment in the budgeting process.

Annex V. 2022 FSAP Key Recommendations—Implementation Status

Recommendations[1/]	**Due**[2/]	**Status**[3/]
	Systemic Risk Analysis	
Perform top-down stress tests of interest-rate risks.	I/NT	Comprehensive LSI stress tests are now performed regularly, with bottom-up methodology in even years and top-down in odd years. New IRRBB data from Q3 2024 enables more granular analysis. The stress test informs National Supervisory Planning, and regular monitoring of interest-rate risk is ongoing.
Strengthen monitoring of larger LSIs with significant FX (USD) exposures to mitigate liquidity risk.		USD FX supervision has been strengthened significantly since 2022. It includes daily monitoring, dashboards, and new tools for LCR monitoring. EBA guidance is forthcoming.
	Climate Transition Risks	
Expand the analytical capacity of banks for assessing climate risks, promote the disclosure of climate risks; conduct supervisory climate stress tests for LSIs to facilitate such efforts.	NT	Environmental, social, and governance (ESG) risks are now integrated into supervisory reviews, with regular surveys and ongoing disclosure work at the European level. Results will be published in the Bundesbank monthly report in January 2026.
	Macroprudential Framework and Policy	
Enhance the legislated powers over yet-to-be activated borrower-based instruments to facilitate their effective use, and rapidly introduce powers to set DTI and DSTI limits.	NT	The coalition agreement of the political parties ruling between 2021 and 2024 included a commitment to add income-based measures (i.e., DTI and DSTI measures) to the macroprudential toolkit. A working group with representatives from the MoF, BaFin, and the Bundesbank prepared a draft law. The new government appointed in May 2025 will evaluate next steps.
Strengthen current guidance on residential real estate lending standards.	NT	In February 2024, BaFin's board decided not to implement this recommendation, as current conditions do not warrant action. To implement binding LTV limits, section 48u of the German Banking Act stipulates specific examples (particularly strong increases in prices and/or credit granting on the RRE market, loosening of standards). These conditions are currently not met. Guidance will be strengthened only if credit standards weaken.
Initiate the development of a communication strategy in support of the activation of borrower-based measures.	NT	In 2023, the Financial Stability Committee expanded its communication with the general public in this area. The Bundesbank regularly discusses borrower-based measures in its Financial Stability Report. BaFin and Bundesbank continue to support the development of the legal basis for these measures.
Close data gaps on lending standards to monitor existing and evolving risks.	I	Regular reporting was launched in 2023, but data quality is not yet sufficient for supervisory use. The authorities have set up a Task Force, whose plan is being executed. Better data is expected in 2026. Quarterly meetings and deep dives with banks are ongoing.
Supplement the toolkit to assess real estate risks with price-at-risk model for	NT	Both RRE and CRE models are now used regularly for surveillance and were featured in the Financial Stability Report 2025.

Recommendations[1/]	**Due**[2/]	**Status**[3/]
commercial and residential real estate prices.		The technical paper for the RRE model was published in 2023 (https://www.bundesbank.de/resource/blob/922202/363697eaeaf5b7e006e127c886d0d6d4/mL/2023-07-technical-paper-data.pdf) and the methodology was used in the Financial Stability Report 2023. The technical paper for the CRE model was published in 2024 (https://www.bundesbank.de/resource/blob/925506/50f9623fb90077b68b5ab7a6e386a79e/472B63F073F071307366337C94F8C870/2024-08-technical-paper-data.pdf) and the methodology was used in the Financial Stability Report 2024.
Supervision and Regulation: Banking and Insurance		
Strengthen BaFin's operational independence and strategic cooperation between BaFin and Bundesbank on banking supervision.	I	BaFin and MoF have amended the principles of cooperation, which enhance BaFin's operational independence. Following a two-year review of work processes, the two organizations completed implementation in Fall 2024 of a series of changes that strengthen cooperation in a number of areas.
Align the corporate governance framework with international best practices; provide additional supervisory guidelines to align MaRisk with EBA Guidelines on key banking risk issues.	NT/MT	There are some constraints in the German legal framework relating to formal independence of supervisory board members. Nevertheless, a "Fit and Proper" Circular issued in October 2025 and transposition of CRD VI will strengthen corporate governance. Full implementation of the latest EBA guidelines was accomplished by May 2024 (8th MaRisk version).
Review the minimum engagement level (MEL) and inspection frequency, strengthen the ability to effectively challenge external auditors' work, and make earlier use of corrective and sanctioning powers.	I	The MEL framework has been updated significantly, with the implementation of a risk tolerance framework. The updated framework also includes an expanded on-site presence and more meetings with the external auditor, to challenge their findings as appropriate.
Step up efforts on fintech data collection, forward looking dynamic market monitoring and related financial stability analysis.	NT	BaFin and Bundesbank have expanded their joint fintech database and meet regularly to discuss issues in this area.
Take steps to strengthen the solvency framework for insurers. a) Considering the impact of more extreme interest-increase scenarios on the funding of the Zinszusatzreserve (ZZR); b) Strengthening liquidity risk management reporting and (liquidity)		The authorities disagree with the FSAP team regarding the need to include more extreme interest-rate scenarios on the funding of the ZZR. BaFin participates in the regular EIOPA liquidity data query. The 2024 EIOPA Stress Test contained a liquidity component, which covered selected entities of seven German insurance groups, and included a narrative section on reporting of liquidity risks. Liquidity stress testing is being updated as part of the Solvency II review.

Recommendations[1/]	**Due**[2/]	**Status**[3/]
stress testing requirements; c) Streamlining internal model approval and reporting requirements.		Regarding approval of internal models, the framework is set at the European level and may not be changed unilaterally by the MoF or BaFin. Small companies with simple risk profiles are allowed to use an internal model. However, EIOPA has materially extended the requirements for internal model reporting.
Clearstream and Financial Market Infrastructure		
Improve the independence of the internal control functions at the Executive Board (EB) level.	NT	In line with current reorganization of the Executive Board of Clearstream Banking AG, the responsibilities of each EB member, including the CEO, have been reallocated as of July 1, 2023.
Broaden Clearstream's explicit identification criteria for clients of direct participants by including system-level thresholds.	NT/MT	BaFin is engaged in discussions with Clearstream Banking AG in this area. Potential criteria for the identification of relevant clients were discussed in June and November 2023.
Crisis Management and Financial Safety Nets		
Ensure robust planning for financial distress of IPS, including planning for recovery and resolution at a consolidated level, promoting review of EU legislation if necessary.	NT	The EU crisis management and deposit insurance (CMDI) framework, which is under review, would encompass possible amendments to planning for financial distress. IPS recovery plans at a consolidated level are regularly updated by the IPS and assessed by BaFin and the Bundesbank. Standards on recovery planning are in place. BaFin's network model captures impact on single institutions. Measures to reduce contagion have been implemented. Annual updates to resolution-specific analysis are planned. The authorities judge that no additional consolidated-level resolution action is currently necessary.
Establish a single mandatory DGS as a public body, with access to a robust backstop liquidity line.	NT	The MoF does not agree with the proposal to merge all statutory deposit guarantee schemes into a single body, as it views the existence of several different deposit guarantee schemes as a strength rather than a weakness. A review of the German system will be conducted once the CMDI review has been finalized and if there are still open questions regarding the level of coverage in Germany. The Bundesbank has affirmed its support for the completion of the Banking Union and notes that a discussion of the future of the different deposit guarantee schemes will depend on the scope and architecture of a possible European-wide Deposit Insurance Scheme.

1/ Includes only recommendations to the German authorities.

2/ I = Immediate (within one year); NT = Near Term (within 1 to 3 years); MT=Medium Term (within 3 to 5 years).

3/ Based on information provided by the German authorities.

Annex VI. Authorities' Response to Past IMF Staff Policy Recommendations

Main 2024 Article IV Recommendations	Authorities' Response
Fiscal Policy	
• In the near term, make full use of flexibility within the fiscal rules to avoid an overly tight fiscal stance.	Federal structural net borrowing in 2024 was 0.22 percent of GDP against the debt-brake limit of 0.35 percent of GDP.
• Reform the debt-brake rule through a moderate easing to accommodate spending pressures without endangering debt sustainability.	The debt-brake rule was reformed in March 2025 to enable much-needed public investment and priority defense spending.
• In the medium term, generate additional fiscal room through structural spending and revenue reforms.	Commissions have been set up to identify savings in the pension and social welfare systems.
Financial Sector Policy	
• Close gaps in data collection on lending for CRE loans, continue to monitor CRE-related risks of financial institutions, and ensure that recorded valuations of real-estate assets remain current.	A new data collection initiative (WIFSta) began in 2023. Data quality issues have been identified. Supervisors have been in contact with the banks to improve data quality. The Bundesbank, MoF, and BaFin have set up a Task Force to address the issue and expect to resolve the data quality issues in the near future.
• Pass legislation to add income-related borrower-based measures for residential mortgages to the macroprudential toolkit.	The coalition agreement of the political parties ruling between 2021 and 2024 included a commitment to add income-based measures (i.e., DTI and DSTI measures) to the macroprudential toolkit. A working group with representatives from the MoF, BaFin, and the Bundesbank prepared a draft law. The new government appointed in May 2025 will evaluate next steps.
• Consider a positive, neutral setting for the countercyclical capital buffer in normal times.	Legislation in Germany does not allow for a positive-neutral CCyB at present. No change has been made to this legislation.
• Support efforts to strengthen banking sector profitability, including operational cost reduction through closure of some physical branches, digitalization, and scale efficiency gains via consolidation of small banks.	The authorities plan to accelerate digitalization of financial services, which would help to improve banking sector efficiency and profitability.

Main 2024 Article IV Recommendations	**Authorities' Response**
Structural Reforms	
• Boost labor supply by supporting female full-time employment through an expansion of child and eldercare services and reducing the effective marginal tax rate on second earners in married couples.	Additional financing has been provided to increase investment in child daycare infrastructure, with number of daycare centers increasing by 0.6 percent in 2025. No major action has been taken in 2025 on the effective marginal tax rate on second earners in married couples.
• Continue efforts to cut red tape.	Compliance costs were reduced by around €3.2 billion from July 2024 to June 2025 (most recent reporting period). The goal is to reduce the cost of bureaucracy for businesses by 25 percent and compliance costs by €10 billion by the end of the legislative period.
• Continue efforts aimed at deepening the Single Market, including supporting deeper capital markets integration, simplifying cross-border services, and harmonizing accounting, tax, and insolvency rules.	Discussions continue within the EU on adopting key reforms such as Savings and Investment Union and a 28th corporate regime.
• Increase productivity by increasing incentives for R&D, expanding financing for young and innovative firms, and lowering market entry and growth barriers for young and innovative firms.	Tax incentives for research and development (research allowance) were expanded under the Act Implementing an Immediate Tax Relief Program to Boost Germany's Competitiveness in July 2025.

Annex VII. How Much Has the Energy Shock Increased German Energy Prices?

This annex investigates the effect of the war-related energy-price shock of 2022 on German energy prices. Key findings include that pre-tax electricity prices have risen more in Germany than in most other countries relative to pre-pandemic levels. However, electricity tax cuts have substantially mitigated this increase. As a result, the percentage increase in post-tax electricity prices in Germany (relative to pre-pandemic levels) is now roughly the same as in the US or the average for the rest of Europe. German electricity prices have risen relative to some major Asian countries, in part due to euro appreciation as well as other factors. Electricity and natural gas futures point to some moderate relative decline in German energy prices in coming years, as do some forthcoming further energy subsidies and tax cuts. That said, energy prices in Germany (and Europe more broadly) remain significantly higher than in most of the world and could be lowered by policies that improve economic efficiency, including by easing onerous permitting procedures for energy projects and deeper integration of European energy markets to better realize gains from energy trade and coordinated planning.

A. Electricity Price Developments

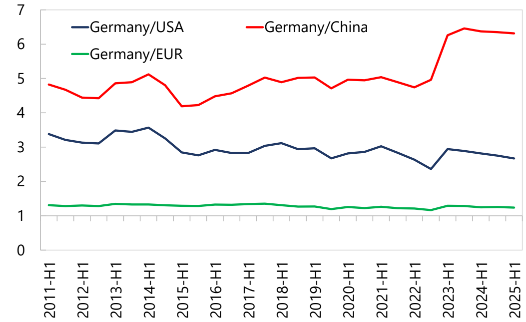
1. **Electricity prices in Germany have long been higher than in most other countries.** Even before the pandemic, retail electricity prices in Germany were significantly higher than in the U.S. and China and, to a somewhat lesser degree, the average across Europe (Annex VII Figure 1, top panels). Higher prices in Germany partly reflected higher taxes on energy (Annex VII Figure 1, bottom left). Excluding taxes, retail electricity prices in Germany were essentially the same as the average across Europe (Annex VII Figure 1, middle left panels). Lower prices in the US also reflected the boom in natural gas production from shale in the U.S. during the 2010s, which substantially reduced U.S. natural gas prices and hence the cost of natural gas electricity generation in the U.S.

2. **German wholesale electricity prices spiked during the 2022 energy-price shock.** Wholesale natural gas prices in Germany rose sharply in 2022 following Russia's invasion of Ukraine and the subsequent shut-off of Russian gas supplies. Higher natural gas prices in turn increased the cost of generating electricity from gas and coal in Germany and elsewhere in Europe. While this shock also drove gas and electricity prices higher in other major European economies, the effect was not as strong as in Germany (Annex VII Figure 1, bottom right) because these countries' natural gas sources were less exposed to the shut-off of Russian gas and/or their electricity pricing depended less on natural gas generation. Rising demand from Europe for supplemental LNG supplies also drove gas and electricity prices higher in Asia and the U.S., but to a much smaller degree (Annex VII Figure 1, bottom right).

Annex VII. Figure 1. Germany: Electricity Price Trends

Relative Electricity Retail Prices: Households

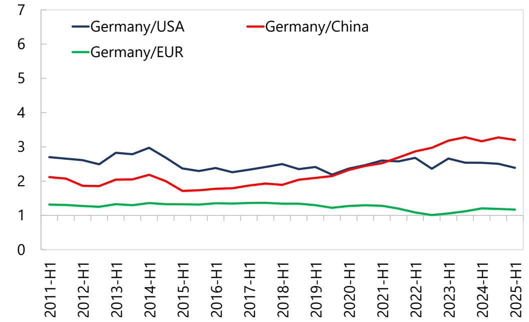
(Ratio; euro/KWh)



Sources: Eurostat, EIA, CEIC, and IMF staff calculations.
Note: EUR: Average across five consumption bands; China: 36-city average.

Relative Electricity Retail Prices: Non-Households

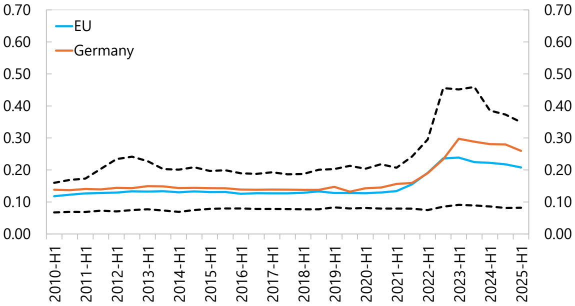
(Ratio; euro/KWh)



Sources: Eurostat, EIA, CEIC, and IMF staff calculations.
Note: EUR: Average across seven consumption bands; China: 36-city average.

Household Electricity Price: Excluding Taxes and Levies

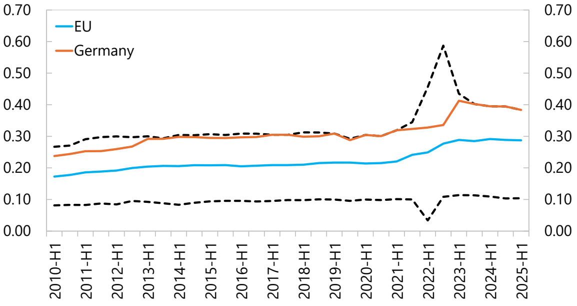
(Euro/KWh; dotted lines are min and max)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 2 500 KWh and 5 000 KWh.

Household Electricity Price: Including Taxes and Levies

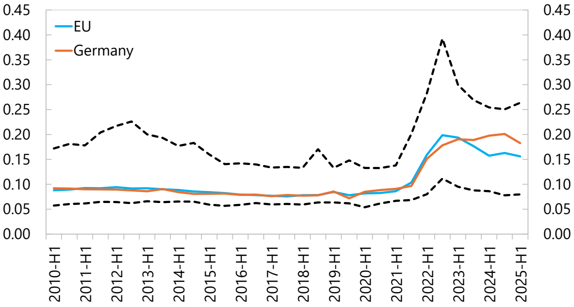
(Euro/KWh; dotted lines are min and max)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 2 500 KWh and 5 000 KWh.

Non-household Electricity Price: Excluding Taxes and Levies

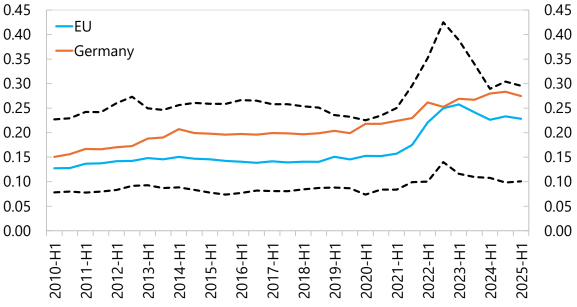
(Euro/KWh; dotted lines are min and max)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 500 MWh and 2 000 MWh.

Non-household Electricity Price: Including Taxes and Levies

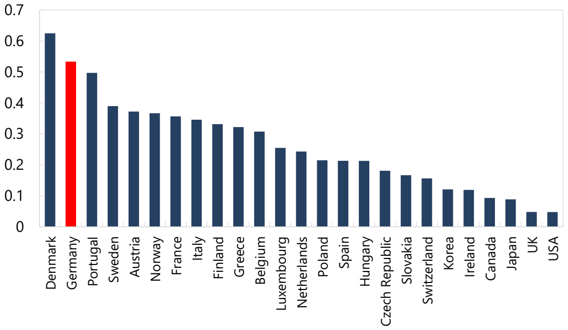
(Euro/KWh; dotted lines are min and max)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 500 MWh and 2 000 MWh.

Tax Share in Household Electricity Prices

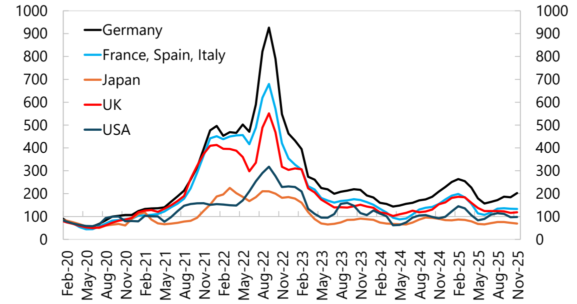
(2015-2019 average)



Sources: U.K. Department for Energy Security and Net Zero, IEA, and IMF staff.

Global Real Wholesale Electricity Prices

(Index, 2015-2019 average=100; 3-month moving average)



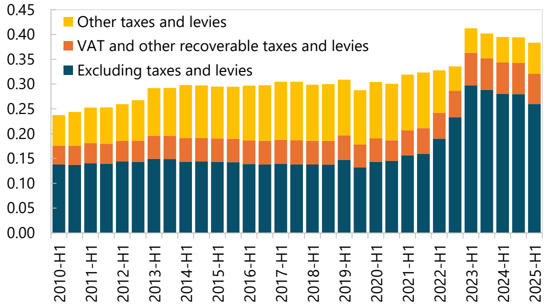
Sources: Haver Analytics, Ember Energy, Bloomberg, US EIA, and IMF staff calculations.
Note: France, Spain, Italy is PPP-weighted average; USA is average across eleven price hubs; Nominal prices converted to eur/MWh and deflated by EUR headline HICP.

3. **While the majority of the 2022 price spike has since reversed, wholesale electricity prices remain well above pre-pandemic averages.** While prices have come down sharply from the peaks reached in 2022, real German wholesale electricity prices remain elevated, both in absolute terms and relative to other regions, with real German wholesale prices still almost double their pre-Covid average as of mid-2025 (Annex VII Figure 1, bottom right). Futures markets suggest that real wholesale electricity prices in Germany will fall moderately in the coming years, settling at about 50 percent above their 2015–19 average in 2030.

4. **German *pre-tax* retail electricity prices have followed a similar pattern as wholesale prices but with a more gradual response due to longer-term contracts.** For example, whereas pre-tax retail electricity prices in Germany were similar to the European average before the pandemic, prices rose after 2022 to be about 25–35 percent higher than the European average (Annex VII Figure 1, middle left panels).

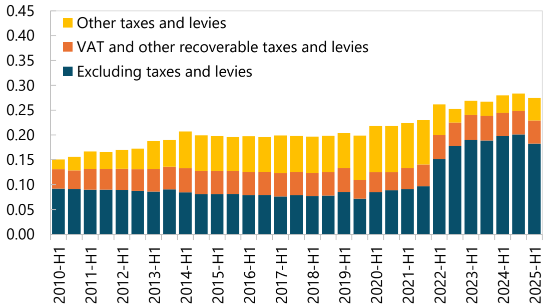
5. **However, electricity tax cuts in Germany have offset much of the relative increase in pre-tax retail prices.** Taxes and levies as a share of the total retail electricity price have decreased since the energy-price crisis of 2022 (text charts). According to Eurostat, for medium-sized household consumers,[1] the share of taxes and levies in the total price declined from a pre-pandemic average of around 50 percent to around 29 percent in 2023–2025H1. Non-household consumers saw an even steeper decline, with the share of taxes and levies in the total price falling from around 60 percent of the total price to around 30 percent.[2]

Household Electricity Price
(Euro/KWh)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 2 500 KWh and 5 000 KWh.

Non-Household Electricity Price
(Euro/KWh)



Sources: Eurostat and IMF staff calculations.
Note: Medium-sized consumers with an annual consumption between 500 MWh and 2 000 MWh.

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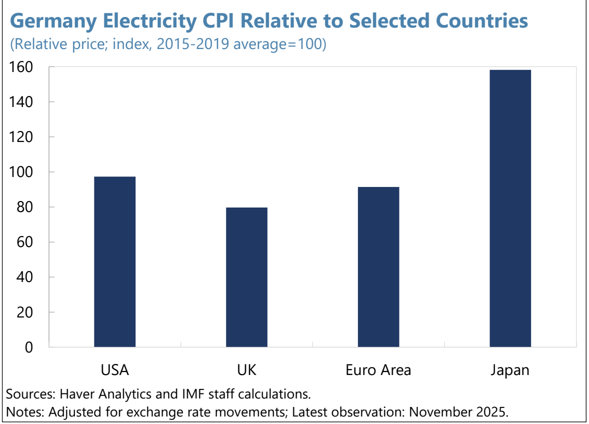
[1] Household consumers with annual consumption between 2,500 kWh and 5,000 kWh.

[2] Non-household consumers with annual consumption between 500 MWh and 2,000 MWh.

6. Consequently, *post-tax* retail electricity prices appear to be back broadly in line with pre-pandemic averages relative to the U.S. and the rest of the euro area. (See text chart and Annex VII Figure 1, top row and middle right charts). German prices are lower relative to the U.K., which is also relatively reliant on gas as a source of electricity generation. However, retail electricity prices have risen relative to China and Japan, in part due to euro depreciation against the yuan and yen.[3]

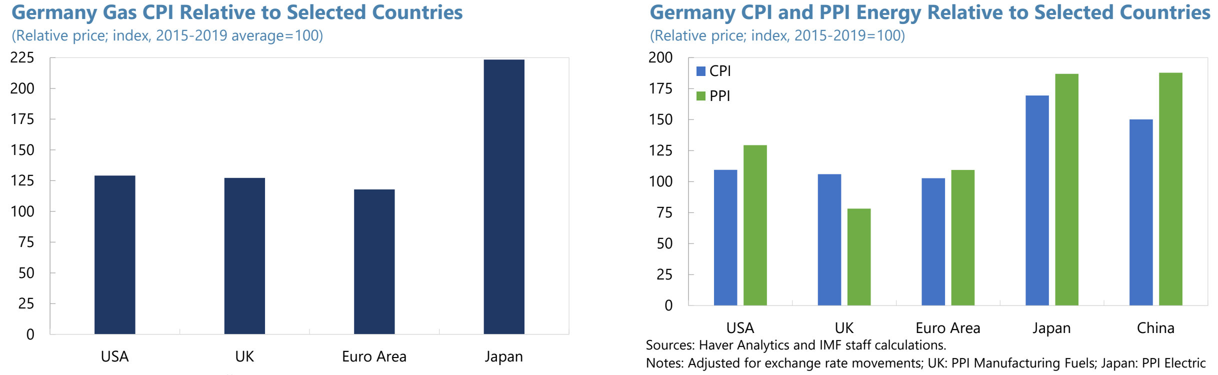


Sources: Haver Analytics and IMF staff calculations.
Notes: Adjusted for exchange rate movements; Latest observation: November 2025.

B. Other Energy Price Developments

7. Other relative energy prices have increased somewhat. CPI data suggests that retail natural gas prices in Germany have risen moderately relative to the U.S., U.K., and the euro-area average and have risen substantially relative to Japan (Annex VII Figure 2, left chart). Broader measures of all types of energy from CPI and PPI data paint a mixed picture, with German consumer relative prices now being similar to pre-pandemic averages compared to the U.S., U.K., and the euro-area average (Annex VII Figure 2, right chart). Producer prices are also essentially unchanged relative to the euro-area average but somewhat lower relative to the U.K. and somewhat higher relative to the U.S. Both consumer and producer prices have risen relative to China and Japan.

Annex VII. Figure 2. Germany: Relative Retail Energy Prices



Sources: Haver Analytics and IMF staff calculations.
Notes: Adjusted for exchange rate movements; Latest observation: November 2025.

Sources: Haver Analytics and IMF staff calculations.
Notes: Adjusted for exchange rate movements; UK: PPI Manufacturing Fuels; Japan: PPI Electric Power, Gas and Water; China: CPI Water, Electricity and Fuel; PPI Production and supply of electric and heating power; Latest observation: November 2025.

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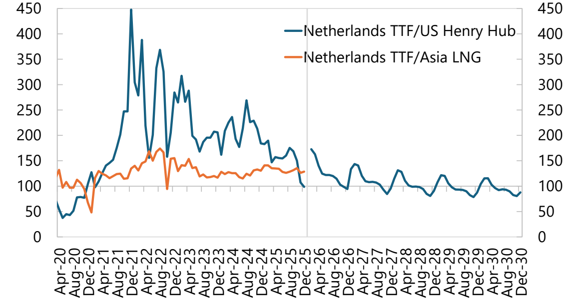
[3] The weakening in the yen/euro (-40 percent) and euro/renminbi (-10 percent) exchange rates compared to the 2015–19 average accounts for a significant share of the deterioration in relative prices. However, even discounting the change in the exchange rate, relative consumer and business energy prices versus Japan and China are still higher than the pre-pandemic average.

8. Natural gas futures point to some further easing in relative wholesale gas prices, suggesting that retail energy prices could follow suit. Compared to the average pre-pandemic ratio between European wholesale LNG prices and US Henry Hub natural gas prices, European wholesale natural gas prices were around 60 percent higher relative to the U.S. (adjusted for exchange rate developments) on average in 2025. However, futures prices suggest that the price ratio might converge to the pre-pandemic average by 2028–29 as European prices decline while U.S. prices remain broadly stable (text chart). This suggests that relative retail gas prices in Germany might decline somewhat in coming years, which could have positive spillovers to overall relative energy prices. Further planned energy tax cuts and subsidies (see ¶20 of the main text) may further reduce some German energy prices.

Relative Natural Gas Price

(Ratio; index, 2015-2019 average=100)



Sources: IMF Primary Commodities Database, Bloomberg, and IMF staff calculations.
Note: Individual gas prices expressed as USD per British Thermal Unit; Futures prices taken on January 22, 2026.

C. Takeaways and Policy Implications

9. While pre-tax electricity prices remain elevated in Germany, electricity tax cuts have substantially mitigated this increase. As a result, post-tax electricity prices in Germany have not risen substantially more in percentage terms since the pandemic than have electricity prices in the US or the average for the rest of Europe. German electricity prices have risen relative to major Asian countries, in part due to euro appreciation.

10. That said, energy prices in Germany (and Europe more broadly) remain significantly higher than in most of the world and could be lowered by policies that improve economic efficiency. Energy policy should focus on addressing market failures (e.g., internalizing negative externalities) or policy failures (e.g., excessive red tape, onerous permitting procedures, and barriers to trade) rather than trying to reach a specific price level. Deeper integration of European energy markets and coordinated planning could lower costs through optimized generation and electricity trade, while avoiding over-investment in storage needs. Expanding direct cross-border connections would help balance supply and demand across regions, which will be increasingly important as variable renewables make up a larger share of electricity generation. A unified market would also improve energy security by providing a buffer against regional shocks and reducing the dependence on third countries, while enabling faster and cheaper deployment of renewables.[4] Domestically, accelerating permitting processes for new generation and grid expansion could increase energy supply and bring down prices. The adoption of reforms such as those above at the German and EU level could energy prices in German, providing affordability relief for consumers and increasing business productivity.

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[4] See IMF Staff Background Note on EU Energy Market Integration for further detail.

Annex VIII. Data Issues

Annex VIII. Table 1. Germany: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/
A

Questionnaire Results 2/

Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	A	A	A	A	B	A	A

Detailed Questionnaire Results

Data Quality Characteristics	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency
Coverage	A	A	A	A	B	
Granularity 3/	A		A	A	A	
			A		A	
Consistency			A	B		A
Frequency and Timeliness	B	A	B	A	B	

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund is adequate for surveillance.
B	The data provided to the Fund has some shortcomings but is broadly adequate for surveillance.
C	The data provided to the Fund has some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund has serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Staff assess data quality to be adequate for fund surveillance. Data on gross value added are sufficiently granular but the granular data are published with a delay of around two years, which has hampered staff's efforts to assess the health of the manufacturing sector following the energy crisis. Data on one-off fiscal measures, which affect structural balances under EU fiscal rules, are also only available with a delay, thereby hampering staff's fiscal projections. Representative data on commercial real estate lending standards (e.g., loan-to-value ratios, debt service-to-income ratios) is not available, which hampers staff's assessment of financial stability risks. Data on banking sector profitability are also published with a delay, which hampers staff's ability to assess the health of the banking system.

Changes since the last Article IV consultation. None.

Corrective actions and capacity development priorities. None.

Use of data and/or estimates different from official statistics in the Article IV consultation. Staff uses non-representative, third-party data on lending standards from Europace AG, a firm which operates an online transaction platform for mortgage lending. The firm publishes mortgage loan-to- value ratios based on aggregated client statistics.

Other data gaps. Representative data on commercial real estate (CRE) lending standards (e.g., loan-to-value ratios, debt service-to-income ratios).

Annex VIII. Table 2. Germany: Data Standards Initiative

Germany adheres to the Special Data Dissemination Standard (SDDS) Plus since February 2015 and publishes the data on its National Summary Data Page. The latest SDDS Plus Annual Observance Report is available on the Dissemination Standards Bulletin Board (https://dsbb.imf.org/).

Annex VIII. Table 3. Germany: Table of Common Indicators Required for Surveillance

As of January 12, 2026

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Germany[8]	Expected Timeliness[6,7]	Germany[8]
Exchange Rates	Current	Current	D	D	D	...	...	...
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Dec-25	Jan-26	M	M	M	M	1W	1W
Reserve/Base Money	Nov-25	Jan-26	M	M	M	M	2W	14D
Broad Money	Nov-25	Jan-26	M	M	M	M	1M	1M
Central Bank Balance Sheet	Dec-25	Jan-26	M	M	M	M	2W	14D
Consolidated Balance Sheet of the Banking System	Nov-25	Jan-26	M	M	M	M	1M	1M
Interest Rates[2]	Current	Current	D	D	D	...	...	...
Consumer Price Index	Dec-25	Jan-26	M	M	M	M	1M	3W
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Q3:2025	Nov-25	Q	Q	A/Q	Q	2Q/12M	55D
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Q3:2025	Nov-25	Q	Q	M	M	1M	1M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	Q3:2025	Nov-25	Q	Q	Q	M	1Q	NLT 2M
External Current Account Balance	Nov-25	Jan-26	M	M	Q	M	1Q	5-6W
Exports and Imports of Goods and Services	Nov-25	Jan-26	M	M	M	M	8W	40D
GDP/GNP	Q3:2025	Oct-25	Q	Q	Q	Q	1Q	55D
Gross External Debt	Q3:2025	Dec-25	Q	Q	Q	Q	1Q	1Q
International Investment Position	Q3:2025	Dec-25	Q	Q	Q	Q	1Q	3M

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than;.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "..."

INTERNATIONAL MONETARY FUND

GERMANY

STAFF REPORT FOR THE 2025 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

January 26, 2026

Prepared By	European Department

CONTENTS

FUND RELATIONS

(As of November 30, 2025; unless specified otherwise)

Membership Status: Joined August 14, 1952; Article VIII.

General Resources Account:	**SDR Million**	**Percent of Quota**
Quota	26,634.40	100.00
IMF's Holdings of Currency	19,701.85	73.97
Reserve Tranche Position	6,952.97	26.11
Lending to the Fund		

SDR Department:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	37,587.04	100.00
Holdings	39,826.43	105.96

Outstanding Purchases and Loans: None

Latest Financial Commitments: None

Projected Payments to Fund (SDR Million; based on existing use of resources and present holdings of SDRs):

		Forthcoming		
	2026	**2027**	**2028**	**2029**
Principal				
Charges/Interest	0.18	0.18	0.18	0.18
Total	0.18	0.18	0.18	0.18

Exchange Rate Arrangements: The currency of Germany is the euro. The exchange rate arrangement of the euro area is free floating. Germany participates in a currency union (EMU) with 20 other members of the EU and has no separate legal tender. The euro, the common currency, floats freely and independently against other currencies.

Germany is an Article VIII member and maintains an exchange system free of multiple currency practices and restrictions on payments and transfers for current international transactions. It maintains measures adopted for security reasons, which have been notified to the Fund for approval in accordance with the procedures of Decision 144–(52/51) and does so solely for the preservation of national or international security.

Article IV Consultation: The previous Article IV consultation discussions took place during May 2024, and the staff report was discussed by the Executive Board on July 15, 2024. The Executive Board’s assessment and staff report are available at https://www.imf.org/en/publications/cr/issues/2024/07/17/germany-2024-article-iv-consultation-press-release-staff-report-and-statement-by-the-552080

Statement by Mr. Kaltenhauser, Executive Director for Germany, and Mr. Beck, Advisor to the Executive Director

February 6, 2026

On behalf of the German authorities, we would like to thank the IMF mission team, led by Mr. Kevin Fletcher, for the constructive discussions held during the 2025 Article IV consultation and the well-written report. We largely concur with staff's assessment and appreciate the emphasis on promoting productivity, strengthening labor supply, and deepening European economic integration. Our authorities fully share these priorities, and the federal government is actively advancing reforms in these areas.

Recent Economic Developments and Outlook

Our authorities expect a gradual strengthening of economic activity, following a period of economic stagnation after the 2022 energy price shock induced by Russia's war against Ukraine. Economic output contracted in 2023 and 2024. Last year, economic output expanded, but the recovery was modest and volatile amid headwinds from global trade tensions, resulting in GDP growth of 0.2 percent.

Inflation fell back to around 2 percent in response to monetary policy tightening, a marked decline in energy prices, and eased supply pressures. Core inflation has also moderated, though it remains elevated due to services. Our authorities expect inflation to stay near the ECB's target over the forecast horizon, supported by well-anchored medium-term inflation expectations. Rising real wages are not expected to be a source of renewed inflationary pressure as wage pressures have moderated recently.

For 2026 and beyond, our authorities are expecting a meaningful strengthening of economic activity with expected GDP growth of about 1 percent for 2026. The debt brake reform in March 2025 created space for significantly higher public expenditure, including for growth-enhancing investments and defense. Private consumption is supported by higher real incomes, while external demand is projected to recover somewhat with a pickup in goods exports despite global headwinds from trade tensions. Equipment and construction investment are also expected to recover. As only 10 percent of equipment investment in Germany is public, it is vital to further improve the environment for private investment.

However, demographic trends and productivity dynamics weigh on longer-term growth prospects. Population aging and structural shifts in key industries affect potential growth and require sustained structural reforms. Policy priorities are therefore centered on accelerating innovation, enabling the green and digital transformation, and strengthening labor supply.

Germany's current account position reflects its deep integration into global value chains and global financial markets, competitiveness, and demographic factors. The current account surplus has decreased markedly. The decline is due to a lower goods trade balance and is expected to further decrease due to higher infrastructure and defense spending.

Fiscal Policy

In March 2025, the constitutional debt brake was reformed to give a strong investment push to ensure the country's modernization and to bolster its defense capabilities. The reform consists of three elements: First, an exemption from the debt brake for security and defense-related spending is introduced for spending that exceeds a baseline level of 1 percent of GDP. Second, the federal states are granted a new structural borrowing margin of 0.35 percent of GDP. Before the reform, no structural borrowing was allowed for them. Third, the newly created *Special Fund for Infrastructure and Climate Neutrality* (SFIC) grants a credit authorization of €500 bn. in total for 12 years. The SFIC can spend €300 bn. at the level of the federal government with a focus on transportation infrastructure, digitalization and hospitals, and €100 bn. is added to the existing *Climate and Transformation Fund* (CTF). Another €100 bn. from the SFIC is allocated to the federal states.

As a result, the government intends to strongly increase public investment. The government's meticulous focus is on ensuring that this fiscal space is used to raise medium-term potential growth, e.g. by significantly ramping up investment for infrastructure and defense. With this in view, a publicly available monitoring mechanism is envisaged to track the SFIC's investments. According to preliminary national accounts, general government investment increased by 8 percent in 2025.

In the next years, the fiscal stance remains expansionary, with deficits increasing in the medium term. At the same time, the debt-to-GDP ratio is projected to remain below the levels observed in most other advanced economies. Over the medium to long term, the authorities fully recognize the need to accommodate aging related and defense expenditures, while preserving fiscal sustainability and investment. Work is underway on several fronts:

- **Pensions**: In December 2025, the *Pension Reform 2025* ("Rentenpaket 2025") was passed. It stabilizes the gross replacement rate at 48 percent and expands pension credits for mothers. The newly established *Pension Commission* will present recommendations by mid-2026 on how to ensure long-term sustainability, adequacy, and intergenerational fairness of the system.
- **Health and long-term care**: The government has established an expert commission and a working group on examining options to stabilize contribution rates in statutory health insurance ("FinanzKommission Gesundheit") and long-term care insurance ("Zukunftspakt Pflege"; results were published in December 2025), while preserving high-quality benefits, including through efficiency gains and digitalization amongst others.
- **Social security spending**: The *Commission on the Reform of the Welfare State* recently published its proposals on streamlining tax-financed social benefits and improving work incentives for benefit recipients. The government will review the proposals and has expressed its intention to swiftly go ahead with the implementation.

The *Commission for Modernizing the Debt Brake* is tasked with making concrete proposals by the end of the first quarter of 2026. Any potential further changes will be guided by the need to preserve fiscal credibility and debt sustainability, ensure compatibility with EU fiscal rules, safeguard sufficient public investment, and retain the capacity to respond to shocks in a countercyclical manner.

Structural Reforms: Reducing Bureaucracy, Boosting Productivity and Labor Supply

We agree with staff that bureaucracy and slow procedures are an impediment to investment and innovation. The federal government, together with the federal states, have agreed on a modernization agenda consisting of over 200 measures to simplify and accelerate planning and approval procedures and to reduce administrative burdens and other structural reforms in joint responsibility. The government's goal is to cut red tape by 25 percent by 2029. This includes eliminating duplicative data collection, focusing on digitalization, as well as reducing compliance costs. Moreover, reforms to simplify building codes and regional planning regulations, to accelerate approvals for building and infrastructure projects, including through deadlines for bringing forward objections, digital submissions, and streamlined procedures, are envisaged.

The government is committed to creating a more conducive environment for businesses, innovative firms, startups, and scaleups as well as to boost productivity. In July 2025, the *Immediate Investment Program* with a reintroduction of declining-balance depreciation of up to 30 percent for equipment investments acquired by the end of 2027 that benefits all companies was adopted. Furthermore, the assessment basis for the maximum amount for the research allowance was increased from €10 to €12 mil. starting in 2026 to encourage more R&D investment. In the medium term, the government will reduce the federal corporate income tax rate from 15 percent to 10 percent starting in 2028 over a 5-year period. In December 2025, the government also launched the *Germany Fund* ("Deutschlandfonds") with (i) the industrial sector and SMEs, (ii) energy infrastructure and (iii) startups and scaleups as focus areas and €30 bn. of public funds and guarantees to stimulate around €130 bn. in total investments. The existing *Future Fund* ("Zukunftsfonds") is reinforced with a particular focus on scaleups and on capital intensive sectors, such as deep tech, biotech and defense & security. Several other dedicated funds as well as hubs support startups and scaleups across different stages of growth. Work has begun to drastically reduce the overall time it takes to set up a company. Moreover, the government is promoting the establishment of regulatory sandboxes to foster innovation.

With the *Deutschland-Stack* the government is establishing a sovereign, open-standard technology stack consisting of reusable digital building blocks for government services to reduce fragmentation and improve administrative efficiency. A marketplace for artificial intelligence (AI) use in public administration ("MaKI") has been created as a matching platform. To support the rapid buildup of digital infrastructure, the expansion of fiber and mobile networks is now legally considered an overriding public interest. Implementation of the *EU Data Act* and the *KRITIS Framework* will enhance data availability, interoperability, and security for critical infrastructures.

Strong emphasis on mobilizing domestic labor reserves and attracting skilled workers from abroad is needed to address Germany's significant demographic headwinds. The government is particularly focused on increasing female labor participation, more flexibility for older workers, broadening access for skilled immigration, and upskilling and training.

The government is investing substantially in childcare infrastructure, including through the SFIC and the SFIC's €100 bn. for the federal states. These efforts build on earlier expansions that have nearly tripled childcare places for children under the age of three since 2006. Moreover, earnings limits for pensioners have been abolished. Additionally, the *Pension Reform 2025* includes the so-called "Aktivrente", which allows older workers from the point of reaching the statutory retirement age to earn €2,000 per month without being subject to any income tax.

The revised *Skilled Immigration Act* allows highly skilled applicants with professional experience from non-EU countries to obtain a residence permit for practicing in non-regulated professions. The *Opportunity Card* facilitates job search for non-EU applicants in Germany for up to one year based on a transparent points system. The new digital service portal *Work-and-Stay-Agency* will streamline the application and decision-making processes for skilled migration. Programs such as *Job-Turbo*, *MyTurn – Women with Migration Experience Get Started*, and the *Integration through Qualification (IQ) Initiative* support labor market entry and upskilling for refugees and migrants, i.e. by language training programs, increased cooperation with employers, trade unions, migrant organizations, and advisory services.

The *National Skills Strategy* and the *Act to Strengthen the Promotion of Vocational Training and Skills* expand opportunities for continuing vocational education. A particular emphasis is placed on training and skills development for workers in structurally affected sectors. A vocational training guarantee aims to ensure that all young people have access to quality vocational education.

Financial Sector Policies, Anti-Money Laundering (AML) & Combatting Financing of Terrorism (CFT)

Germany's financial system is robust and well placed to support economic growth. Capital ratios of banks and insurers remain solid, and liquidity buffers are ample. Supervisory stress tests for significant institutions and less-significant institutions confirm resilience even under severe shock scenarios, although pockets of vulnerability exist under adverse conditions. We agree with staff that global equity valuations appear stretched and that scrutiny is warranted; especially due to indirect and second-round effects stemming from a potential sharp decline in equity prices.

Non-performing loans have increased from very low levels. The increase is particularly due to commercial real estate (CRE) and some corporate segments, but the CRE market downturn has been orderly so far. Supervisors have intensified their engagement, including through on-site inspections, deep dives into banks' CRE portfolios, and a new top-down macroprudential CRE stress test for credit institutions.

Macroprudential capital buffers – including the countercyclical capital buffer and sectoral systemic risk buffer – will be maintained for now. This will provide room for maneuver in case of systemic stress. The authorities will continue to monitor and assess developments and, if necessary, they can adjust the measures to a change in the risk situation. Moreover, they are assessing on an ongoing basis whether further measures will need to be taken to preserve financial stability.

The authorities closely follow the growing interconnectedness between banks and non-bank financial institutions and the potential risks from cryptoasset exposures. In this context, they are supporting ongoing European and international efforts to close data gaps and ensure appropriate prudential standards. In the insurance sector, the authorities have started to transpose macroprudential enhancements under the revised Solvency II Directive and the Insurance Recovery and Resolution Directive.

Germany has intensified its efforts to combat transnational corruption and to strengthen the AML/CFT framework. The authorities are actively working on addressing deficiencies identified in the 2022 FATF Mutual Evaluation Report and on implementing the EU AML package by 2027. The opening of the EU Anti-Money Laundering Authority (AMLA) in Frankfurt in June 2025 further strengthens the EU's AML/CFT framework. Furthermore, the authorities are advancing efforts to better understand cross-border risks, including by (i) utilizing cross-border payments data to enhance risk understanding of cross-border flows (IMF financial flows analysis) and (ii) greater consideration of quantitative data and empirical research. Maximum fines for criminal offences, including those for foreign bribery, will be increased to €40 mil. by reforming corporate liability provisions in line with new EU law.

Climate Policy and Energy Transition

Germany remains firmly committed to climate neutrality by 2045. In 2024, emissions fell to approximately 649 million tons of CO_2 equivalents or 48.2 percent compared to 1990, reflecting strong progress particularly in the energy and industrial sector as well as households. Carbon pricing remains a central element of Germany's climate policy, ensuring cost-effective emissions reductions across sectors. Additionally, the CTF provides substantial funding to decarbonize industry, modernize buildings, and support the ramp-up of electromobility.

While about 60 percent of the electricity consumed in Germany is sourced from renewable energies such as wind and solar, the aim is to reach 80 percent by 2030. To address administrative bottlenecks, the government has adopted measures to designate acceleration areas for onshore wind energy, streamline species protection assessments, and simplify and digitalize permitting procedures. To address renewable energy intermittency, an agreement in principle on the *Power Plant Strategy* was reached with the EU Commission in January 2026. The strategy foresees a build-up of 10 gigawatts of dispatchable capacity by 2030. All participating natural gas-fired power plants have to be hydrogen-ready and switch to hydrogen by 2045 at the latest.

European and International Dimension

Germany is deeply integrated into the European and global economy. The authorities remain fully committed to open markets, free trade, and a rules-based multilateral system. They support deepening the Single Market, including through progress on the Savings and Investment Union and capital markets integration, and further work on digital markets and AI adoption and preparedness. Moreover, the authorities are fully supportive and call for measures on EU level to bolster competitiveness and reduce bureaucracy. A well-designed 28th corporate regime could allow European businesses to leverage the full potential of the Single Market without undermining national labor and social standards. The authorities are also supportive of the digital euro, which would constitute a sovereign, digital, secure, and low-cost payment system.

Regarding the integration of European energy markets, the government is in favor of greater interconnection and cross-border energy networks. The government recently hosted the third North Sea Summit and agreed to build 100 gigawatts of cross-border offshore wind generation capacity with the aim to create the world's largest hub for clean energy together with Belgium, Denmark, France, Iceland, Ireland, Luxembourg, the Netherlands, Norway and the United Kingdom.

Germany continues to advocate for a strong, well-capitalized and inclusive multilateral system and financial institutions. This includes multilateral and regional development banks and a strong IMF at the center of the global financial safety net, with Germany being a major contributor to financing the Fund and its trust funds. Germany also continues to support international climate initiatives such as the *Climate Club* and the *Global Shield against Climate Risks* and plays an active role in the *Network for Greening the Financial System*.