

Germany



	2020	2021	2022	2023	2024	2025	Forecast	
							2026	2027
GDP growth (%)	-4.4	3.9	2.0	-0.8	0.0	0.3	1.1	1.1
CPI inflation (%)	0.4	3.2	8.7	6.0	2.5	2.3	2.8	2.4
Fiscal balance (% of GDP)	-4.4	-3.2	-1.9	-2.2	-2.7	-2.9	-4.3	-4.6
Primary fiscal balance (% of GDP)	-3.9	-2.7	-1.3	-1.6	-1.9	-2.1	-3.4	-3.6
Public debt (% of GDP)	67.5	67.4	64.1	61.8	61.4	62.7	64.6	66.9
10-year bond yield	-0.5	-0.3	1.2	2.5	2.3	2.6	3.2	3.2
Reference rate (depo) (%)	-0.5	-0.5	0.1	3.3	3.7	2.3	2.2	2.7
Exchange rate (EUR/USD)	1.14	1.18	1.05	1.08	1.08	1.13	1.16	1.17
Current balance (% of GDP)	6.3	6.9	4.1	5.5	5.8	4.5	4.5	4.2

Notes: *Annual average across all variables. CaixaBank Research forecast for GDP, CPI, the deposit rate and the exchange rate. Other figures: IMF, WEO, October 2026. Forecast for the 10-year bond yield, Bloomberg, as at 14 October 2026.

Source: CaixaBank Research, based on data from AMECO, the IMF, Bloomberg and the ECB.

Outlook

The German economy enjoyed a very positive first half of the year. In fact, GDP grew by 0.4% quarter-on-quarter in Q1 2026 and rose by 0.3% in Q2, despite the sharp increase in energy prices following the outbreak of war in the Middle East. This trend is being driven by public spending, which started the year with considerable momentum, and exports, which are growing well above their long-term average, despite the Trump administration's tariff policy. Meanwhile, household consumption has failed to pick up and fixed capital investment continues to fall, which is surprising given the approval of an ambitious infrastructure investment plan in 2025, worth 500 billion euros over 12 years.

Fixed capital investment continues to decline. Monthly budget expenditure figures show that public spending has risen by 4.7% year-on-year this year up to August, with defence spending increasing by more than 27% over the same period, whilst investment in infrastructure has fallen by over 5.0%, despite the target growth rate being almost 29% for the whole of 2026. However, debt issuance to finance the infrastructure plan is indeed proceeding according to schedule: up to August, just over 37 billion euros were raised to finance this infrastructure plan, with a target of around 58 billion for 2026 as a whole. It appears that some of the funds raised to finance the infrastructure investment fund – which do not count towards the debt brake limit – are being diverted to fund other areas of spending. This casts doubt on the effectiveness of the infrastructure investment plan and calls into question the German economy's capacity to carry out structural reforms and boost its low potential growth, against a backdrop of rising public debt. The government estimates that public debt will exceed 76% of GDP in 2028, up from 62.2% of GDP in 2024.

Rising energy costs will slow down economic activity over the winter. Since the outbreak of the conflict in the Middle East, crude oil prices have risen by over 50% and natural gas prices have more than doubled. Retail prices are already reflecting this significant rise in energy costs (in September, inflation stood at 3.3%, compared with 2.1% at the start of the year) and a greater impact on economic activity is to be expected during the winter, given that gas reserves in Germany were at around 60% in October – a historically low level for that time of year. This poses a significant challenge for an economy that is as heavily reliant on gas as Germany's: its industrial sector accounts for more than 20% of its GDP (one of the highest in the euro area) and directly consumes over 37% of all gas used in the country and nearly 47% of all electricity, 18% of which is generated from gas and 21% from coal (the price of which has risen by more than 30%). This significant rise

in costs for industry and in household bills is a major drag on growth, so we can expect some cooling off in economic activity during Q4 2026 and Q1 2027. Nevertheless, its strong performance in the first half of the year and the positive momentum seen during the summer will allow the German economy to grow by around 1.1% in both 2026 and 2027.

Risks

We believe that the balance of risks to the German economy is skewed to the downside. The main risks are as follows:

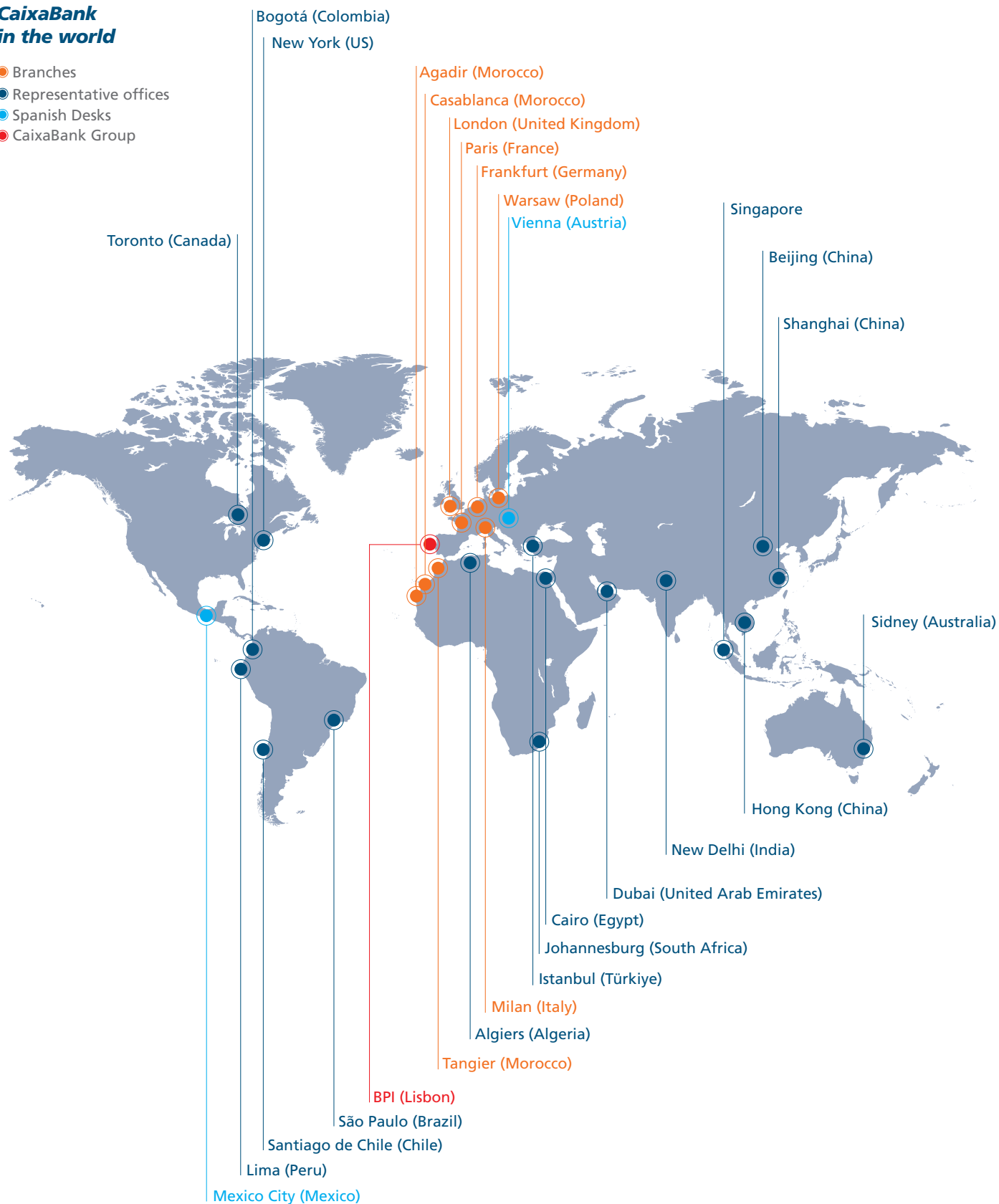
- **The need to press ahead with structural reforms.** Much of the economy's improvement in the first half of the year was due to one-off factors such as the increase in defence orders and orders being redirected to Germany due to supply problems through the Strait of Hormuz. The medium- and long-term outlook depends on Germany's ability to implement structural reforms and capitalise on the significant fiscal stimulus that is currently available.
- **Modest roll-out of the infrastructure investment plan, despite the increase in public expenditure.** The ongoing decline in public investment in infrastructure – despite the fact that borrowing in this area appears to be in line with forecasts – highlights the problems faced in implementing such investments and raises the prospect of these funds being diverted to other areas of expenditure. This poses a threat to the credibility of Germany's fiscal management, against a backdrop of rising fiscal deficits and public debt. In fact, in April, the Government estimated that the fiscal deficit would account for 4.25% of GDP in 2026, compared with the 2.8% it had announced in August last year when drawing up its medium-term fiscal framework.
- **Rising political uncertainty.** The regional elections held in September 2026 highlighted the decline in support for the CDU, the majority party in Chancellor Merz's government, and the strong gains made by the far-right AfD party, with this party receiving the most votes in some constituencies. This national trend increases the likelihood of further fragmentation of the German political system, which could hamper the formation of stable majorities and delay decision-making in key areas such as industrial, energy, migration and fiscal policies.
- **Loss of leadership in key sectors.** The current trade war and China's emergence as a major competitor in some of the key sectors for the German economy (such as car manufacturing) pose a significant challenge. This is illustrated by the situation facing Volkswagen, which in December 2024 approved a plan to cut 35,000 jobs in Germany by 2030 and which, in September 2026, announced that it was considering a more aggressive restructuring. This could hit a further 50,000 jobs worldwide, half of them in Germany, and calls into question the viability of four plants in the country.

Sovereign credit rating				
Rating agency	Rating*	Last changed	Outlook	Last changed
STANDARD & POOR'S	AAA	17/08/83	Stable	13/01/12
MOODY'S	Aaa	29/04/93	Stable	28/02/14
FitchRatings	AAA	10/08/94	Stable	15/05/26

Note: *A shaded cell indicates «investment grade» and an unshaded cell indicates «speculative grade».

CaixaBank in the world

- Branches
- Representative offices
- Spanish Desks
- CaixaBank Group



Branch in Frankfurt/Germany

Neue Mainzer Straße 66-68 21st Floor 60311
Frankfurt am Main, Germany.

Director: Reinhard Messerschmidt
Tel. (+49) 69 130 146 890

