

## Press Release 34/2025

Halle (Saale), December 11, 2025

### Slight upturn on the horizon, structural problems remain

As the year draws to a close, it remains uncertain whether the German economy is on a path to recovery, as export weakness persisted through the autumn. Nevertheless, a slight upturn is forecast for 2026, supported by fiscal stimulus and rising real incomes. According to the winter forecast of the Halle Institute for Economic Research (IWH), output is projected to grow by 1.0% in 2026, after an increase of just 0.2% in 2025. In September, the IWH economists had predicted growth of 0.8% for 2026 and 0.2% for the current year. According to this forecast, the pace of expansion in East Germany is expected to be slightly slower, mainly due to demographic factors.

Table				
Forecast for Germany: Key Economic Indicators <sup>a</sup> for Germany, 2024–2027				
	2024	2025	2026	2027
percentage change over previous year (price adjusted)				
Germany	–0.5	0.2	1.0	1.0
East Germany <sup>a</sup>	–0.1	0.3	0.8	0.8
percentage change over previous year in %				
hours worked	–0.2	–0.2	0.5	0.1
hourly union wages	4.7	2.8	2.6	2.6
hourly actual wages	5.3	4.8	3.4	3.3
unit labour costs <sup>b</sup>	5.6	4.8	2.9	2.5
consumer price index	2.3	2.2	2.1	2.4
1,000 persons				
employment (domestic)	45 987	45 977	45 995	45 969
unemployment <sup>c</sup>	2 787	2 947	2 908	2 846
in %				
unemployment rate <sup>d</sup>	6.0	6.3	6.2	6.0
East Germany <sup>a</sup>	7.5	7.8	7.7	7.5
in % of nominal GDP				
general government overall balance	–2.7	–2.2	–3.2	–3.2
current account balance	5.8	4.6	4.6	4.4

<sup>a</sup> East Germany including Berlin. – <sup>b</sup> Per hour (IWH calculations). – <sup>c</sup> Federal Employment Agency (BA) concept. –

<sup>d</sup> Unemployment in % of civilian labour force (Federal Employment Agency (BA) concept).

Sources: Federal Statistical Office; 2025–2027: IWH forecast (as of December 10, 2025).

The global economy appears resilient as 2025 draws to a close. Considering the United States' policy of high tariffs, the continued strength of world trade is especially noteworthy. Overall, economic policy is unlikely to deliver significant stimulus in 2026, and global growth is expected to moderate. While the U.S. economy benefits from strong investment in the tech sector, elevated inflation and a softening labour market are likely to dampen private consumption. In the euro area, growth is expected to remain modest, supported by rising real wages. The boom in the commercial use of artificial intelligence presents both opportunities and risks. Recently, AI investments have increasingly been financed through instruments that lack

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### The IWH Forecasting Dashboard (ForDas)



The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

#### Keywords

business cycle, China, consumption, economic growth, East Germany, euro area, export, forecast, Germany, global economy, gross domestic product, investments, labour market, production, tariffs, USA

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transparency and loans, which could pose risks to the stability of financial markets. High and rising government debt in advanced economies also poses a risk, especially as in many countries it is becoming increasingly difficult to find parliamentary majorities for fundamental reforms.

In Germany, business sentiment improved in the spring, but corporate optimism has not strengthened further since the summer. Output stagnated in the third quarter. Public consumption rose markedly, while households curtailed spending and exports fell. After a steep drop in the second quarter, investment edged up slightly, driven mainly by higher government spending on equipment, probably largely linked to defense procurement. Employment recorded a slight decline. Against this backdrop, wage growth remains notably strong. Since wage income tends to be spent more readily than investment income, household consumption is expected to rise in 2026. "The main stimulus for the German economy, however, will come from additional public spending on infrastructure and defense, even though disbursement of funds is likely to proceed more slowly than planned due to implementation challenges," says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. Moreover, as the dampening effects of US tariff hikes are likely to fade, exports will edge up slightly in 2026. Overall, the recovery will be driven primarily by domestic demand.

According to this forecast, the economic recovery in 2026 will be based primarily on higher investment due to fiscal stimulus and a slight upturn in exports. However, both parts of the forecast are subject to uncertainty. For example, the capacities of the construction and defense industries could be exhausted more quickly than assumed here. In this case, the fiscal stimulus would mainly have an impact on prices rather than production, with at most minor multiplier effects due to higher incomes in the sectors that benefit from the rise in public spending. The stabilisation of German exports is at risk if Chinese economic policy increasingly tries to compensate for weak domestic demand in China by winning new export markets with the help of subsidies. "This would particularly affect the German export economy, as Chinese and German companies are direct competitors in many markets for manufactured goods," says Oliver Holtemöller.

The extended version of this forecast contains three boxes (all in German):

[Box 1: Is there a stock market bubble in major tech companies?](#)

[Box 2: GDP Revisions in the U.S. and Germany](#)

[Box 3: On the estimation of potential output](#)

#### **Publication:**

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