Press release

Kiel Institut für Weltwirtschaft

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Kiel Institute Spring Forecast: Special Fund Would Give the Economy a Strong Boost

US tariff and trade policies are dampening the German economy, but the planned substantial deficit leeway through a special fund and credit-financed defense spending would give it a significant boost next year. This is according to the current spring forecast from the Kiel Institute for the World Economy. According to the forecast, the outlook for 2025 remains unchanged at stagnation (0.0 percent). For the coming year, the Kiel Institute is significantly revising its expectations upwards by 0.6 percentage points compared to the winter forecast and now expects an increase of 1.5 percent. The downside is a rising public debt level to over 65 percent of GDP, (...)

(...) and there is still no all-clear for inflation.

"After three years of zigzagging the current year's economic development remains anemic," says Stefan Kooths, Head of Forecasting at the Kiel Institute. "The planned fiscal stimulus next year meets with an open output gap allowing for a noticeable expansion. To ensure this doesn't remain a flash in the pan, we need reforms that strengthen the economy's supply side."

Read the forecast reports now:
German Economy in Spring 2025: Fiscal policy turns up the heat (https://www.ifw-kiel.de/publications/german-economy-in-spring-2025-fiscal-policy-turns-up-the-heat-33902/?ADMCMD_simTime=1741854600)

World Economy in Spring 2025: More frictions, higher risks (https://www.ifw-kiel.de/publications/world-economy-in-spring-2025-more-frictions-higher-risks-33904/?ADMCMD_simTime=1741854600)

According to the forecast, the German economy is suffering massively from structural problems that are hindering higher productivity. Industry has recently lost competitiveness and market share. US President Donald Trump's protectionist trade policy is also a burden.

"The planned defense spending can give Germany a structural boost if it is spent correctly," says Moritz Schularick, President of the Kiel Institute. "The money must flow into German or European companies and into technological defense solutions. Then the civilian industry can also benefit from the innovations."

US trade policy hampers economic development

German exports are expected to shrink again in 2025, declining by 2.3 percent, but will recover somewhat next year (+1.8 percent) thanks to a more robust foreign economy and slightly improved price competitiveness.

Private consumption is also weakening and is expected to record only moderate growth of 0.3 percent (2025) and—thanks to a somewhat stronger increase in real disposable income—0.7 percent (2026).

In its spring forecast, the Kiel Institute expects the current Bundestag to approve a special fund of €500 billion for credit-financed infrastructure spending over a period of ten years, as well as exemptions from the debt brake for defense spending.

More expansive fiscal policy will ensure economic recovery from 2026

The additional spending will trigger new investment. Purchases of equipment goods are expected to increase by almost 5 percent in 2026, and new construction by almost 4 percent.

Along with this, employment will also increase again in 2026 from just over 46 million (2025) to 46.150 million, and the unemployment rate will decline from 6.2 percent (2025) to 5.9 percent (2026).

At the same time, the expansionary fiscal stance is leading to rising prices: While falling energy prices will push the inflation rate down to the 2 percent mark over the forecast period, the core rate (excluding energy) will remain at 2.5 percent (2025) and 2.3 percent (2026).

At the same time, government debt is rising: The budget deficit is expected to increase significantly to 3.4 percent of GDP in 2026, after declining to 2.4 percent in the current year (2024: 2.8 percent).

The debt ratio is expected to rise from 63.3 percent of GDP in 2024 to 65.4 percent in 2026.

Global economy: moderate expansion

According to the Kiel Institute's forecast for the global economy, it will grow by around 3 percent this year and next. While momentum in the United States is noticeably slowing and the Chinese economy is failing to pick up, the European economy is expected to recover slightly.

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Our subject dossier Economic Outlook (https://www.ifw-kiel.de/topics/economic-outlook/) provides an overview of all our forecasts.

Click here for more information on the Kiel Institute's Forecasting Center
(https://www.ifw-kiel.de/institute/research-centers/macroeconomics/business-cycles-and-growth/)

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Key Indicators
Germany 2023 – 2026

KIEL INSTITUTE FOR THE WORLD ECONOMY

	2023	2024	2025	2026
Gross domestic product (GDP), price-adjusted [1]	– 0.3	– 0.2	0.0	1.5
Gross domestic product, deflator [1]	6.1	3.1	1.6	2.4
Consumer prices [1]	5.9	2.2	2.0	2.0
Labor productivity (per hour worked) [1]	– 0.6	– 0.1	0.1	0.8
Employment (million)	46.0	46.1	46.0	46.2
Unemployment rate (percent) [2]	5.7	6.0	6.2	5.9
Percent of nominal GDP				
Public sector net lending	– 2.5	– 2.8	– 2.4	– 3.4
Gross public debt	62.7	63.3	64.4	65.4
Current account balance	5.8	5.8	4.4	3.9

[1] Percentage change on previous year; [2] As defined by the Federal Employment Agency. | *Source:* Federal Statistical Office, Fachserie 18, Series 1.2; Federal Employment Agency, Monthly Bulletin; Federal Employment Agency, Employment Statistics; *shaded:* Kiel Institute forecast, March 13, 2025

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