Economic Research

Economic Insight

Germany – strong fiscal boost in 2026

12 June 2025

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Next year, fiscal policy will give the German economy a noticeable boost. We estimate that the fiscal stimulus resulting from various measures that have already been decided or at least announced will amount to a considerable 1.3% of GDP in the coming year. This will help the German economy to grow noticeably in 2026 for the first time in quite a while.

Government launches "investment booster," …

Last week, the German government presented its first major piece of legislation. It aims to boost investment in Germany through improved depreciation conditions for the years 2025 to 2027 and, starting in 2028, a gradual reduction in the corporate tax rate. Regardless of whether companies actually increase their investments as a result of improved depreciation conditions, this measure will at least provide temporary relief for companies. In its draft bill for the coming year, the federal government is expecting that these rules will lower incoming taxes by a good €4 billion (after €0.5 billion for this year).

… and further relief to follow

Further relief for companies and private households is to follow. The federal government's "emergency program" published two weeks ago announces the following measures in particular (Table 1):

- ***Expansion of maternity benefits:*** In the future, women who gave birth to a child before 1992 will be credited with 3 years of contributions toward their state pension instead of the previous 2$^1/_2$years. Based on estimates from the joint economic Forecast of the Germane economic research institutes at the time of the last expansion of the maternity pension, we assume that this will increase private household incomes by around €4.5 billion. [1]
- ***Lower VAT for food in restaurants:*** VAT on food in restaurants is to be lowered to the reduced rate of 7%, which is expected to reduce tax revenues by around €3 billion.[2]
- ***Abolition of the gas storage levy:*** The gas storage levy paid by all consumers is to be abolished earlier than planned. It currently amounts to 0.299 cents per kWh, which means that based on an annual consumption of roughly 850 TWh this will result in relief of around €2.5 billion.

- ***Reduction in electricity tax:*** To reduce energy costs, the electricity tax is also to be reduced from the current 2.05 cents per kWh to the minimum of 0.05 cents per kWh permitted under EU law. For companies in the manufacturing sector, it had already been reduced to this rate at the beginning of 2024. In 2024, the electricity tax brought in roughly €5 billion for the state, which is now likely to be largely eliminated. The relief would be even greater if, as announced in the coalition agreement, the price of electricity were to be reduced by at least 5 cents per kilowatt-hour for all consumers already next year through a lower electricity tax and lower grid fees. With annual consumption of around 431.5 TWh in 2024, the relief would be significantly higher at €21.5 billion. However, we assume that grid fees will only be reduced gradually across the board in the coming years.

In addition, there are numerous legislative changes that were already decided by the previous government and will take effect next year. Income tax will be reduced slightly as part of the Tax Development Act. However, this will be more than offset by various burdens on the private sector, so that, according to estimates of the economic research institutes in their last study on the state of the German economy from spring this year, the overall net burden on companies and private households will be €6.8 billion. Nevertheless, the private sector will be relieved by around €12 billion as a result of legislative changes that have already been decided or are likely to follow.

Table 1 - Significant fiscal boost in 2026

Relief (+) and burden (-) on the private sector due to legislative changes in 2026, in billion euros; (1) Estimate by the German economic research insttituts in their "joint economic forecast" from spring 2025

	Relief/Burden
Improved depreciation conditions ("Investment booster")	3.5
Expansion of maternity benefits in public pension	4.5
Lower VAT for food in restaurants	3.0
Abolition of the gas storage levy	2.5
Reduction in electricity tax	5.0
Net effect of changes decided by the former govenrment (1)	-6.8
Sub-total	roughly 12
Bigger leeway for state budgets	15.0
Higher spending for defence	8.5
Additional public investment (1)	14.0
Additional spending via the "Climate and Transformation Fund" (1)	5.0
Total	roughly 54.5

Source: Federal government, Federal network agency, research institutes, Commerzbank Research

Additional boost from amendments to the constitution

Additional spending made possible by amendments to the German constitution passed by the previous Bundestag will provide an additional, even stronger boost to the economy.[3] For example, the federal states will no longer be required to have a structurally balanced budget (i.e., adjusted for cyclical effects), but will be allowed to run a structural deficit of 0.35% of GDP. This will amount to around €15 billion in the coming year.

In addition, the government is likely to increase defense spending, infrastructure investment, and spending from the Climate and Transformation Fund. How much these will increase will certainly depend on how far-reaching the measures to accelerate investment are and how quickly they are implemented. For defense spending, we based our estimate on the defense minister's announcement that it would be increased by 0.2% of GDP each year. For the other two items, we again based our estimates on the estimate of the research institutes, which expects additional spending of €19 billion in total.

Fiscal stimulus of 1.3% of GDP

On balance, the measures will increase the overall government deficit by a good €54 billion, or 1.3% of GDP. This constitutes a swing of around $1^3/_4$ % of GDP in 2026 as in 2025 the definit war reduced by 0.4% of GDP. Even if some of the additional spending on defense and government investment were to be offset by price increases, the fiscal policy environment for the German economy would improve noticeably in 2026. Alongside the increasing stimulus from the ECB's interest rate cuts, this is an important argument why we expect real GDP to grow by 1.4% in 2026, which is quite strong compared with recent years, despite the burden of higher US tariffs and the structural problems facing the German economy.

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[1] In the autumn 2018 joint Forecast of the economic research institutes , the cost of extending the period of child-raising credit from two to two and a half years was estimated at just under €4 billion. Given the significant pension increases in recent years, the additional pension payments are now likely to amount to around €4.5 billion. (back to text)

[2] It was not until the end of 2024 that the tax on this service was raised to the normal rate of 19%. At the time, the Joint Economic Forecast assumed that this would reduce tax revenues by just under €3 billion. From the government's point of view, these are now likely to be lost again, and the amount is likely to be slightly higher due to price increases. (back to text)

[3] Strictly speaking, the measures described above also belong to this group. This is because the scope for these measures in the federal budget is largely only available because part of the previous defense spending is no longer included in the debt brake and some investments will no longer be financed from the federal budget but from the special fund for infrastructure investments. The draft federal budget for this year allocated €53.3 billion to the defense ministry. Following the amendment to the constitution, only defense spending of up to 1% of GDP will be counted for the lebt brake. This would amount to around €42 billion this year, or €11.3 billion less than previously planned. The additional financial leeway will be increased by the fact that further expenditure categories will be allocated to defense spending in future, namely federal expenditure on civil protection and civil defense, intelligence services, the protection of information technology systems, and aid to states attacked in violation of international law. The latter obviously refers to Ukraine, which means that aid paid to Ukraine will no longer be counted toward the debt brake in the future (back to text).

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This report was completed 12/6/2025 07:51 CEST and disseminated 12/6/2025 07:51 CEST.

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