



Germany – fiscal boost is coming

Hopes for slightly stronger growth in the German economy are based primarily on much more expansionary fiscal policy. Indeed, there are signs that stronger government spending is reaching the economy. So far, this has been concentrated in a few sectors, particularly in manufacturing, but other sectors will also benefit from this in the medium term. Nevertheless, the economy is likely to see only moderate recovery this year.

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The money flows

The eventual adoption of the federal budget for 2025 at the end of September 2025 and the activation of the Special Fund for Infrastructure and Climate Neutrality (SVIK) paved the way for significantly higher federal spending. The government has obviously made use of this. Despite nine months of a “provisional budget,” federal spending, including the various “special funds” and other sub-budgets, was 30 billion or almost 6% higher last year than in the previous year, indicating extensive spending in the fourth quarter.

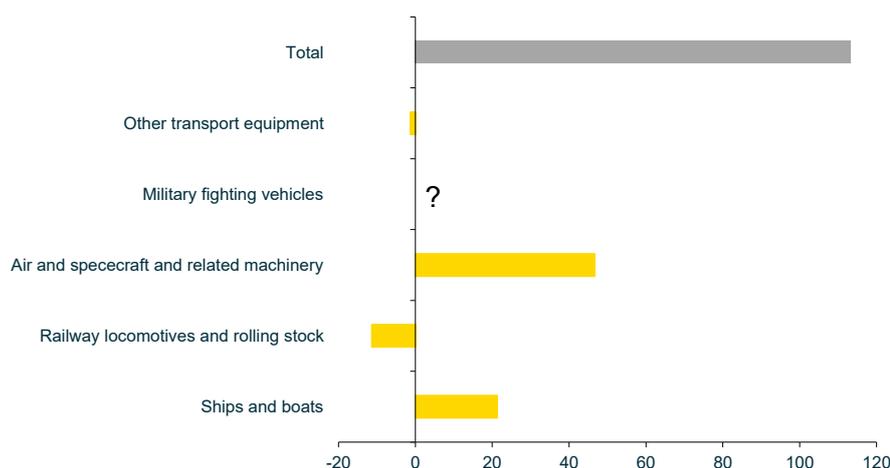
Expenditure is set to rise further this year. The federal budget for 2026, including various special funds, provides for additional expenditure of more than €70 billion compared with the actual figures for 2025, an increase of more than 13%. As usual, not all spending plans are likely to be implemented. Nevertheless, government spending is likely to provide a significant boost to the economy, especially since some of the spending in the fourth quarter is unlikely to have had an impact on production yet. [1]

Some sectors are already benefiting noticeably ...

In the defense sector in particular, stronger government spending is already reflected in a significant increase in order intake. Although the Federal Statistical Office does not report figures for order intake for “military combat vehicles,” order intake in the general category “other vehicle manufacturing” has more than doubled overall, and the increases in the other subgroups were significantly lower (Chart 1). As a result, orders for tanks and similar vehicles are likely to have more than doubled. Orders for drones and similar vehicles are also likely to have played an important role in the increase in orders for aircraft and spacecraft.

Chart 1 - Obviously significantly more orders for “military fighting vehicles”

New orders received by industry in the “other vehicle manufacturing” sector and its subgroups, change in 2025Q4 compared to 2025Q3 in percent, figures for “military fighting vehicles” are not published but are included in the total



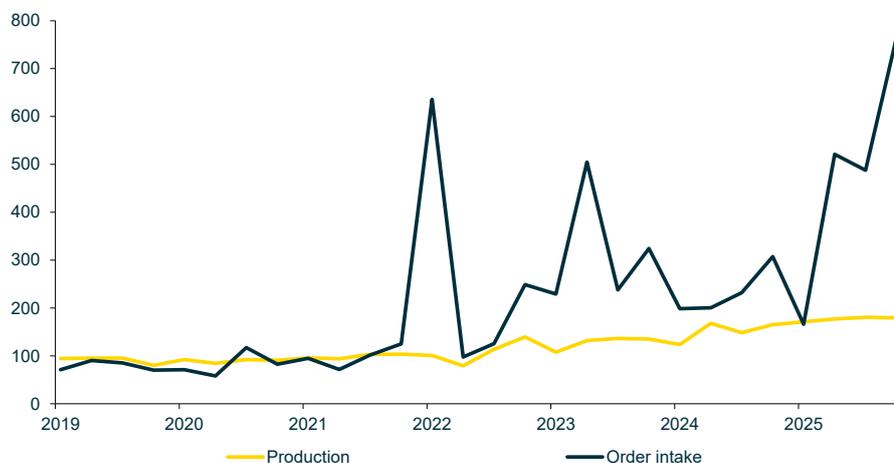
Source: Destatis, Commerzbank Research

In the “weapons and ammunition” sector, order intake has been rising for some time now, partly due to strong demand from abroad, and jumped again in the fourth quarter (Chart 2).



Chart 2 - Production responds to rising orders, but with a significant delay

Order intake and production in the “Weapons and ammunition” industrial sector, volume, seasonally adjusted quarterly averages



Source: Destatis, Commerzbank-Research

... and reaching capacity limits

In the medium term, the significantly higher order intake will also lead to an increase in production. However, this is likely to happen only after a considerable delay, as in many cases additional production capacity will first have to be created. For example, production in the “weapons and ammunition” sector is lagging behind orders, even though it has doubled since the start of the war in Ukraine. Consequently, the recent surge in orders is also likely to push up production only after a considerable delay.

The same applies to civil engineering, which is supposed to implement the planned significantly higher investments in infrastructure. Although its turnover last year was significantly higher than that of defense companies at €50 billion, companies are still likely to find it difficult to process the expected additional orders quickly. According to surveys, 36% of companies in the civil engineering sector are already suffering from a shortage of labor.

But other sectors are also benefiting

In the medium term, however, it is not only civil engineering and the defense industry that will benefit from the additional government spending, for several reasons:

- **States and municipalities, as well as the Climate and Transformation Fund, are spreading funds widely:**

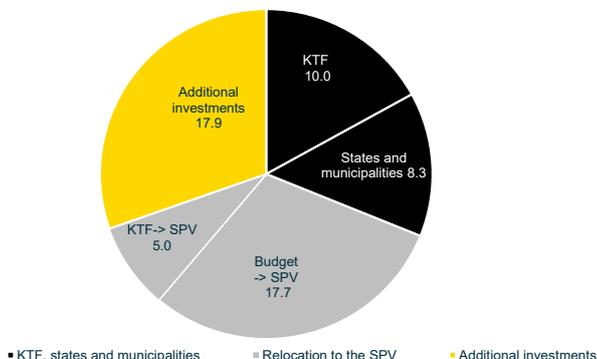
Just under a third of the expenditure planned for the SVIK will go to the Climate and Transformation Fund (KTF) and to the federal states, which in turn will pass some of it on to the municipalities (Chart 3). These funds are likely to be widely distributed and only a small portion will benefit civil engineering.

- **Shifts in investments in the SVIK open up scope for other measures:**

Due to shifts in investment tasks from the core budget to special funds, only just under €18 billion of the total €58.9 billion in SVIK spending planned for this year is likely to flow into truly additional federal investments (Chart 3). Although this contradicts the original purpose of the special fund for new investments, it creates more scope for other projects in the core budget. Examples include improved depreciation rules, subsidies for grid fees, and lower VAT in restaurants. This benefits a broad spectrum of the economy.



Chart 3 - Only one-third of the special purpose vehicle's expenditures are additional investments by the federal government. Allocation of the total expenditure of €58.9 billion planned for 2026 from the special purpose vehicle for infrastructure and climate adaptation compared to the budget estimates for 2024, in billions of euros



Source: IW, Federal government, Commerzbank Research

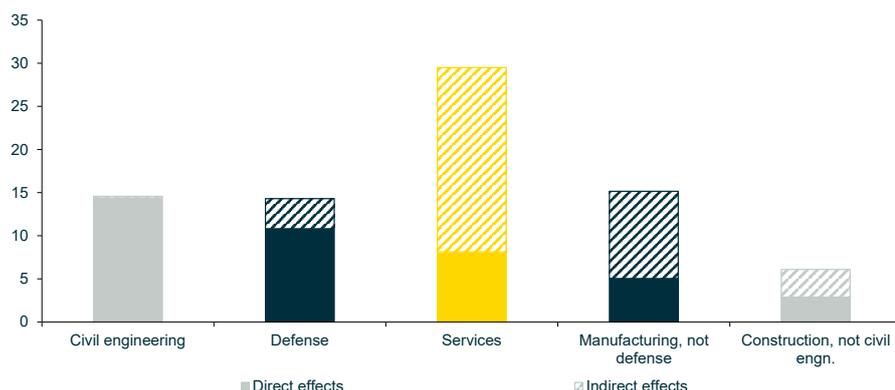
• **SVIK is not only investing in transport infrastructure:**

Even though many people primarily associate “infrastructure” with transport infrastructure, only about half of SVIK’s additional investments are flowing into areas that generate additional civil engineering contracts. The other half of the additional funds is earmarked for other areas, such as the digitization of administration or investments in education and childcare infrastructure. According to our estimates, many sectors outside civil engineering will therefore also receive direct, additional orders from the federal government (Chart 4, solid-color parts of the bars). Orders from the KTF, states, and municipalities, as well as from the private sector, are not even included here.

• **Other industries benefit as suppliers:**

The above direct orders from the federal government also have indirect effects: companies with additional orders from the state will demand more intermediate products. We have simulated how the sales of the individual sectors would develop as a result of the indirect effects of the additional government investments. Among other things, this shows that the service sector is also likely to benefit considerably from these second-round effects. [2]

Chart 4 - Many sectors benefit from higher government spending. Estimated revenue gains by sector from additional investment spending by the federal government in 2026; in Bn. Euros



Source: Destatis, Commerzbank-Research

Fiscal policy stimulus broader than often thought, ...

This means that the fiscal stimulus is likely to have a much broader impact than is often assumed. This does not change the fact that, particularly in the case of defense equipment, the recent significant increase in orders is likely to be processed only after a considerable delay due to limited capacities. In other sectors, however, which have considerable unused capacity following the weak economy of recent years, this is likely to happen much more quickly, so that the economy is likely to receive a noticeable boost in the course of this year from additional government spending and transfers to private households and companies.

... but other factors are slowing things down

However, despite the expansionary fiscal policy, a strong upturn is not to be expected. The current negative factors, such as US tariffs, weak demand from China, and the deterioration in Germany’s competitiveness in recent years, are too significant. However, given the



strong impetus from fiscal policy, a moderate economic recovery remains likely, meaning that the German economy is expected to record significant growth of 0.9% this year for the first time since 2022.

[1] According to preliminary data from the Federal Statistical Office, the deficit in the national accounts rose significantly less last year than the deficit calculated by the federal government according to financial statistics rules. On the one hand, this is due to extensive “financial transactions” that are not included in the national accounts deficit. On the other hand, however, some advance payments are likely to have been made in the fourth quarter, particularly in the military sector, which have not yet had an impact on production and were therefore not taken into account by the national accounts last year. ([back to text](#))

[2] The input-output tables from the Federal Statistical Office that we use here are only available for the so-called 2-digit codes, i.e., only for “other vehicle manufacturing” as a whole and not for the actually relevant sub-sector “military combat vehicles.” Consequently, the shaded parts of the bars in Chart 4 can only provide a rough indication of the distribution of indirect effects. ([back to text](#))



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