



PERSPECTIVES Memo

Fiscal expansion in Germany

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Key takeaways

- An agreement to reform the debt brake with quite large fiscal policy measures has been announced in Germany by the CDU/CSU and SPD.
- Approximate calculations show that despite the significant funding volumes, the deficit and debt increases seem to be manageable.
- All measures are currently only proposals and require approval in parliament with a 2/3 majority. Despite these uncertainties we are optimistic that a compromise can be found in order to implement the fiscal policy programmes.

What happened?

On Tuesday, March 4, the party leaders of the CDU/CSU and the SPD gave their first joint press statement since starting their exploratory coalition talks. Referring to the rapidly unfolding events around the world, in the U.S. and Europe, both sides had agreed that decisions on the federal budget could no longer be postponed: a joint proposal will be submitted to the Bundestag to amend the Grundgesetz (Germany's Basic Law):

1. To exempt defence spending exceeding 1% of GDP from the debt brake. This was necessary in view of the increasing threat situation and the need for greater efforts to strengthen defence capabilities.
2. A credit-financed immediate special purpose vehicle (*Sondervermögen*) of EUR500bn for investments in the economy and infrastructure, as additional defence spending can only be financed if Germany's economy returns to growth. This includes civil and population protection, transport infrastructure, hospital investments, investments in energy infrastructure, education, childcare and science infrastructure, in research and development and digitalization. Of this amount, EUR100bn are to be made available to Germany's individual states (Länder) and municipalities for the aforementioned areas.
3. To enable the Länder to invest, the debt brake is to be defined in such a way that the Länder will be allowed to incur new debt amounting to 0.35% of GDP annually in future.

An expert commission will be set up to develop a proposal for a fundamental reform of the debt brake, which will permanently enable investments to strengthen the country. The CDU/CSU and the SPD plan to have the legislation passed by the end of 2025. As things stand at present and without any change or emergency situation the German government debt ratio would fall to around 25% by 2070, according to Germany's Council of Experts (Sachverständigenrat). A fundamental reform therefore seems appropriate.

What does it mean for investors?

By German standards at least this is really a very large fiscal package – much larger than has been seen for a long time. Some economists are even calling it historic in dimension. According to RTL/ntv-trend barometer surveys 76% of the German population is in favour of the fiscal programmes, while only 19% are against. All the changes mentioned would of course have to be presented to parliament and would require a 2/3 majority vote in favour. And that is the crux of the matter. All measures are currently only proposals and require parliamentary approval.

For the first three measures, the potential future government of the CDU/CSU and SPD (they have roughly 55% together) would like to use the old Bundestag (parliament) because it will probably be easier to achieve a 2/3 majority there. The exact timetable is:

- Parliamentary meetings will take place on March 10, i.e. next Monday.
- There will be a first reading in the Bundestag on March 13, after which it will go back to the parliamentary party groupings again.
- There will be a second reading and vote in the Bundestag on March 17.
- The discussion and vote in the Bundesrat, the second chamber of the German parliament, is scheduled for March 21.
- What is important here is that the new Bundestag will be constituted on March 25, so the votes must have taken place by then.

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Again, the reason lies in the majority situation in the new Bundestag and in the fact that it will probably be more difficult to obtain the necessary 2/3 majorities, because Die Linke (the Left party) in particular has already said that it will not agree to higher defence spending.

Of course, there has also been some criticism. Some have objected to the scale of government measures planned, arguing that strengthening the country's competitiveness with tax cuts, for example, would be preferable. Others argue against voting in a parliament that has already been voted out.

In order to provide some clarification about the size of the programmes, we made some approximate calculations:

According to the Federal Statistical Office, Germany's GDP in 2024 amounted to EUR4,305bn. The Federal Ministry of Defence reports that the German defence budget in 2024 amounted to around EUR51.95bn (+ EUR19.8bn from the special fund). According to Deutsche Welle, Germany reported EUR90.6bn to NATO, which corresponds to around 2% of economic output. Defence Minister Boris Pistorius wants to use up the special fund by 2027 and buy F-35A stealth fighter aircrafts, helicopters, tanks, etc. anti-aircraft missiles (Patriots) and naval aircrafts (which can probably only be obtained from the U.S.).

The new NATO target could be 3.5% of GDP, ARD reports, referring to NATO's new strategy. The next NATO summit will take place on June 24-25, 2025.

Assuming that defence, special investment funds and parts of the budget are financed by credit after the debt brake has been changed, the current debt level of around EUR2.5tn is likely to rise significantly. On the other hand, the additional growth resulting from fiscal policy and structural reforms would have to be taken into account. Overall, depending on the level of growth and debt, total debt should rise to around 70 per cent of gross domestic product.

Because Germany, in particular, has so far been the country that keeps the European government debt-to-GDP ratio below 100% (87.4% in 2023), interest rates could rise accordingly with a significant increase in German debt. Especially since the European Commission plans to increase its debt (a EUR150bn defence fund, defence bank, and other measures, which according to the Commission could total EUR800bn). The EU Council has today scheduled a special meeting on this issue.

Although there are still some uncertainties and the measures have not yet been approved, the capital market has already, at least partially, priced them in. The stock markets are rising quite significantly, which may also be due to the more conciliatory tone on tariffs by the American administration and a letter from Volodymyr Zelensky to President Donald Trump regarding peace in Ukraine. The yields on German government bonds are also rising significantly and the capital market is obviously signalling confidence in the implementation of these measures. All in all, this is all very positive news, but we still think there will continue to be volatility as things are of course not yet decided and they can change constantly.

The "if" is that politicians really have to use the money for investments now. In order to strengthen economic growth, of course, it is essential not only to put money on the table, but also to implement appropriate structural reforms. Nor do the packages relieve politicians of the need to review the expenditure side of the equation.

We are optimistic and therefore positive for the European equity markets in the coming months, although we must of course expect volatility at any time – particularly if the U.S. announces tariffs on Europe.



Glossary

The **AfD** (Alternative for Germany) is a right-wing populist party.

The **ARD** is a broadcasting association consisting of the regional broadcasting corporations and **Deutsche Welle**. It was founded in 1950 and, together with the Second German Television and Deutschlandradio, forms the public broadcasting network in Germany.

The **Bundesrat** is a constitutional body of the Federal Republic of Germany. Each federal state is represented in the Bundesrat by members of its state government, depending on population between 3 and 6 people, a total of 69 people.

The German **Bundestag** is the people's representation and, as parliament, the legislative body of the Federal Republic of Germany with its seat in Berlin.

The **CDU/CSU** is an alliance of two center-right parties, namely the Christian Democratic Union of Germany and the Christian Social Union in Bavaria.

The **DAX Index** is a leading index for the German stock market, which includes the 40 largest and most liquid companies.

Debt ratio measures a country's ability to repay its debt.

Deutsche Welle is the international broadcaster of the Federal Republic of Germany.

The **European Commission** (abbreviated EC, often COM in official correspondence), or EU Commission for short, is a supranational body of the European Union (EU). In the political system of the EU, it primarily carries out executive tasks and thus corresponds to the government in state systems.

EUR is the currency code for the euro.

Federal bonds are bonds issued by the German federal government.

The **FDP** (Free Democratic Party) is a liberal centre-right party.

Gross domestic product (GDP) is the monetary value of all finished goods and services produced within a country's borders within a certain period of time.

The **Greens** (Alliance 90/The Greens) is a political party with a focus on "green politics".

The **Linke** (The Left) is a left-leaning party.

NATO (North Atlantic Treaty Organization, French: OTAN – Organisation du traité de l'Atlantique nord), also known in German as the Atlantic Alliance or the North Atlantic Treaty Organization, is a defense alliance of 32 European and North American member states that serves the common protection of their own territories and also pursues the goal of global political security and stability.

The **MDAX** is a German stock index that tracks the performance of medium-sized companies on the stock exchange.

The **SDAX** is a stock index that includes the 70 smaller companies listed after the 40 companies in the DAX and the 50 companies in the MDAX.

The **SPD** is a centre-left party.

The **SSW** (South Schleswig Voters' Association) is a minority regional party in Schleswig-Holstein.

The **traffic light coalition** is the governing coalition of the SPD (red), FDP (yellow) and the Greens (green).

USD is the currency code for the U.S. dollar.



Appendix

Historical performance

	6.3.2020 - 6.3.2021	6.3.2021 - 6.3.2022	6.3.2022 - 6.3.2023	6.3.2023 - 6.3.2024	6.3.2024 - 6.3.2025
Performance					
DAX	20.6%	-5.9%	19.5%	13.2%	30.3%
10-year German Bund	-3.9%	-1.4%	-20.9%	6.2%	-1.2%
2-year German Bund	-1.1%	-0.3%	-4.9%	2.9%	3.1%
EURUSD	5.3%	-8.3%	-2.2%	2.1%	-0.8%

Source: Deutsche Bank AG, Bloomberg Finance L.P., LSEG Datastream; as of March 6, 2025.

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