Paris, 25 June 2026

The bank for a changing world

EcoFlash

German Investment Plans: Reasons to Stay Optimistic

Over a year has passed since the German government announced substantial investment plans in defence and infrastructure. As we assess the situation in mid-2026, the implementation of these plans is progressing as we had anticipated. However, the current impact of these investments on growth is proving to be more subdued than expected (notably because a portion of the infrastructure funds has been used to finance government current expenditure). Nonetheless, the rebound in industrial orders is becoming evident, and the increase in intra-European trade directed towards Germany indicates that a positive momentum is developing.

The Government is implementing its investment plans, but a faster pace is required

In line with our projections at the start of the year (see our analysis), federal budget investment spending has reached 33% of its annual target, while defence spending stands at 29%, equating to 0.5% and 0.7% of GDP, respectively, based on the May figures released on 23 June by the Ministry of Finance. In addition to these federal budget items, off-budget spending has also seen a slight increase. The latter can be gauged through the gross borrowing accumulated since the start of the year for the Bundeswehr fund and the Special Fund for Infrastructure and Climate Neutrality (SVIK), which have reached 38% of their respective annual targets.

However, for the government to meet its military spending objective of 3.5% of GDP in 2026 (up from 2.6% in 2025)[1], an acceleration in implementation is essential. A similar situation exists in the infrastructure side, where the 2025 target was missed by EUR 13 billion.

These plans aim to promote long-term economic growth, but the current level of spending does not align with this objective.

(i) Despite the increase in infrastructure spending, two German economic institutes (Ifo and IW), revealed that, in 2025, the SVIK largely financed current operating expenditure falling under the federal budget, rather than long-term investments. Such a reallocation has no positive impact on growth, even in the short term, as it finances expenditures that would in any case have been included in the federal budget.

(ii) The increase in defence spending has mainly been used to strengthen conventional military equipment and rebuild ammunition stockpiles over recent years, an effort that is essential given current security threats. However, the share allocated to new technologies has consequently declined. It is worth noting that the share devoted to R&D is increasing, albeit only gradually. Nonetheless, procurement processes have commenced, and these investments are expected to grow in the coming years.

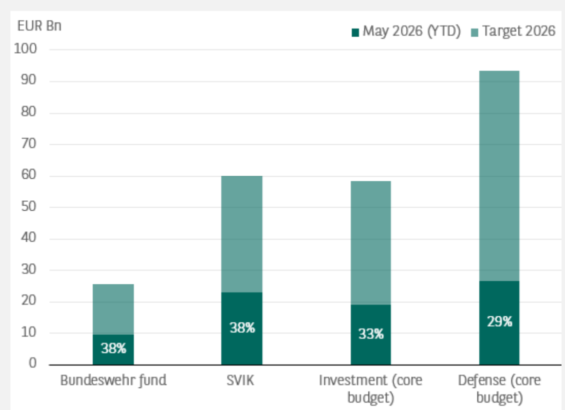
(iii) The obstacles that have been accumulated – particularly those related to higher energy prices and the relatively low level of innovation in public investment – are dragging down the fiscal multiplier, bringing it below 1. This will hinder the plans' impact on economic activity in both the short and long term.

A dynamic advantage for German industry and intra-European trade

This caution should not overshadow the initial positive indicators generated by the plans. In the industrial sector, the rebound in orders noted at the start of the year has now been confirmed (+2.8% YTD y/y in April) (see our analysis). Moreover, exports from other European countries to Germany have increased (+2.2% year-on-year between January and April), thereby bolstering their growth.

In our view, the repercussions of the Middle-East conflict are unlikely to disrupt these favourable trends (see our analysis): we anticipate real GDP growth of +0.8% in 2026 and +1.1% in 2027. While caution is still advisable for the short-term outlook, progress in U.S.-Iran negotiations and the gradual reopening of the Strait of Hormuz (see our analysis) reinforce this view.

Investment Plan Disbursements: Scaling Up Progressively



Sources: Bundesfinanzministerium. BNP Paribas

Lucie BARETTE
Europe Economist covering Germany, Italy and Spain

lucie.barette@bnpparibas.com

[1] These figures include certain parallel expenditures (infrastructure, cyber-defence, military satellites, etc.). Excluding those additional costs, the expected figure is 2.8% in 2026, following 2.4% in 2025.