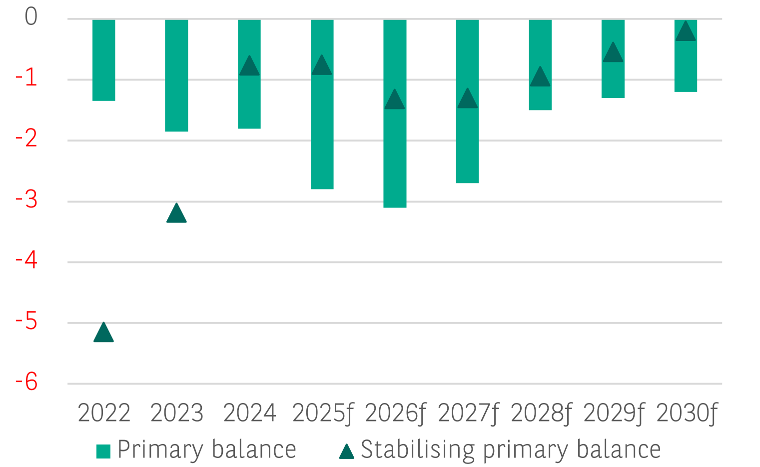
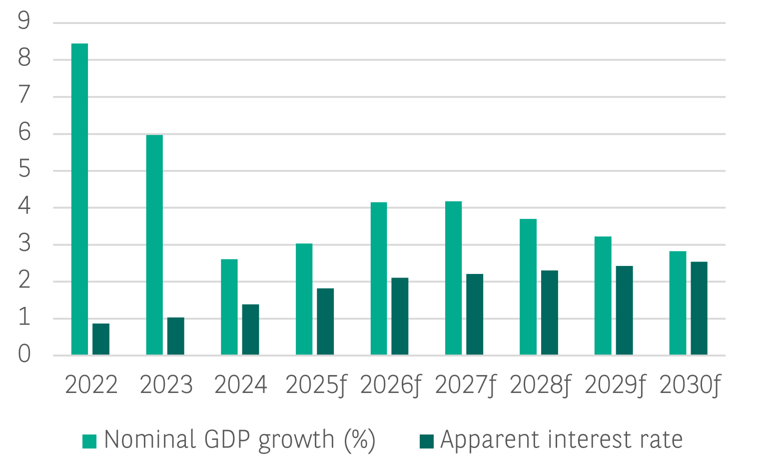
GERMANY: Moving towards a controlled increase in public debt (1)

Primary balance (% GDP)



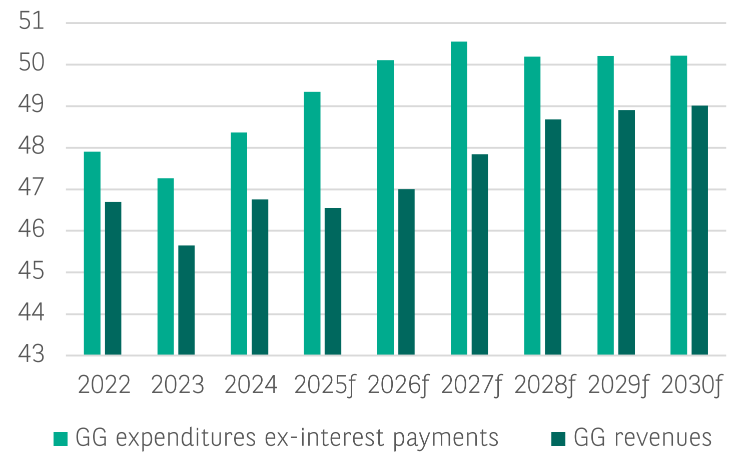
f: forecasts *Source: BNP Paribas*

Apparent interest rate vs. nominal growth (%)



f: forecasts *Source: BNP Paribas*

Revenue and expenditure trends (% of GDP)



f: forecasts *Source: BNP Paribas*

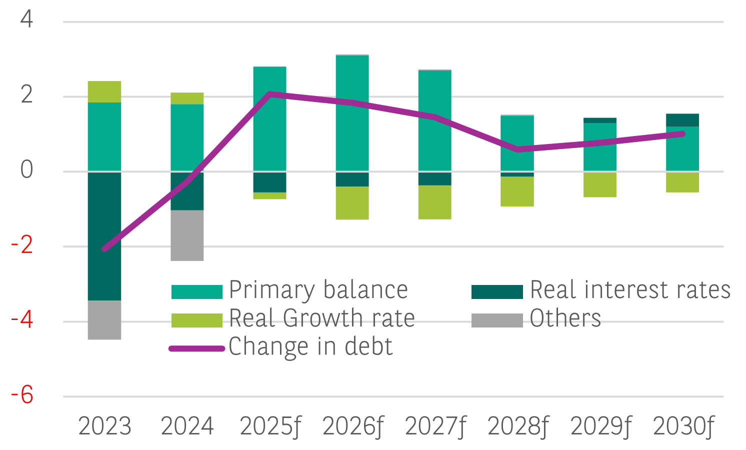
Germany's primary deficit is expected to widen over the next two years as a result of the new fiscal strategy, before gradually narrowing between now and 2030. The primary deficit has recently exceeded the debt-stabilising balance, and this gap is expected to widen in the coming years. Consolidation measures are expected to slow the growth of public debt, but not to stem it entirely. Given the rise in the average interest rate on debt at the end of the period, stabilising debt will require a stronger improvement in the primary balance than is currently expected.

Germany should continue to benefit from relatively low interest rates. The apparent interest rate should remain well below nominal growth, even if the interest burden is set to increase as the rise in long-term rates is passed on to the apparent rate. Nominal growth should recover as a result of a sharp rebound in real growth (+0.3% in 2025 and +1.4% in 2026, according to our estimates), thanks to the massive investment plans implemented in the country. Therefore, the differential between nominal growth and the apparent interest rate would remain favourable, even if it narrows towards the end of the decade.

Germany has obtained the European Union's approval for its new fiscal policy, while the constitutional debt brake rule continues to apply to the federal budget but includes more exceptions (special funds for infrastructure and defence spending above 1% of GDP). Higher public spending is expected to be the main cause of the increase in the public deficit. In the medium term, with the rebound in growth, an upturn in public revenue is likely. Fiscal consolidation is also likely. It will undoubtedly focus on both expenditure (excluding interest charges) and revenue – unless there is a lasting reform of the debt brake, which is unlikely given the balance of power in parliament and the requirement for a qualified majority.

GERMANY: Moving towards a controlled increase in public debt (2)

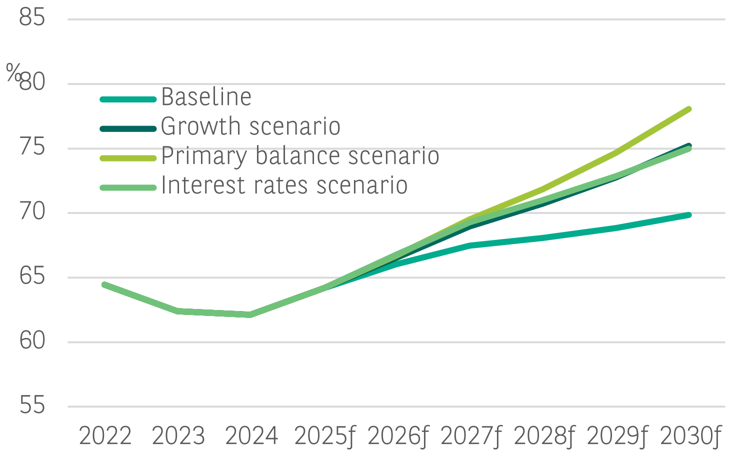
Contributors to the change in the debt ratio (pp)



f: forecasts *Source: BNP Paribas*

A measured increase in public debt is likely. German public debt is expected to continue to rise, exceeding 69% of GDP at the end of the forecast period (2030), compared with 62.1% in 2024. This increase is mainly due to the new fiscal stance and the resulting widening of the primary deficit. The real interest rate would cease to have a downward effect on the debt ratio; however, the rebound in real growth from 2026 onwards would limit the increase in the public debt ratio.

Sensitivity of public debt (% of GDP)

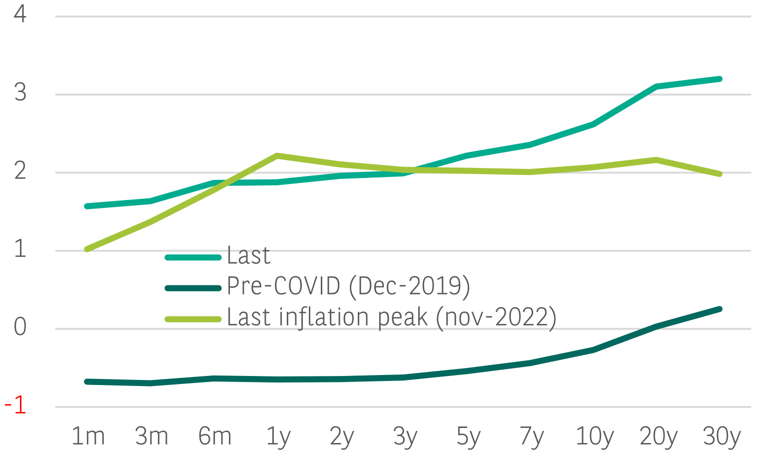


f: forecasts *Source: BNP Paribas*

Please note: the "growth" and "primary balance" scenarios incorporate a negative shock to growth and to the deficit of 0.5 pp of GDP per year compared to the central scenario, respectively; the "interest rate" scenario incorporates a 1 pp increase in the apparent interest rate.

Fiscal consolidation is the most decisive factor in the trajectory of public debt. In the alternative scenarios, debt dynamics deteriorate systematically. A larger primary deficit is unlikely in the short term, due to the debt brake rule. However, without consolidation (which we anticipate from 2027–28 onwards), the public debt-to-GDP ratio would rise more sharply. Lower growth or a more pronounced rise in interest rates would, by comparison, have a more moderate impact. This sensitivity to the public balance reinforces the need for and likelihood of rapid fiscal consolidation, in line with our central scenario.

Yield curve (%)



Note: data are smoothed over one month *Source: LSEG, BNP Paribas*

The steepening of the yield curve is likely to lead to an increase in the interest burden. The prospect of rising debt has already pushed up long-term rates, and this trend is likely to continue with the increase in bond issuance expected between now and the end of 2027. Ultimately, fiscal consolidation would exert a moderating pressure, but the expected easing of long-term rates would remain limited – and with it the easing that other eurozone member countries could benefit from.