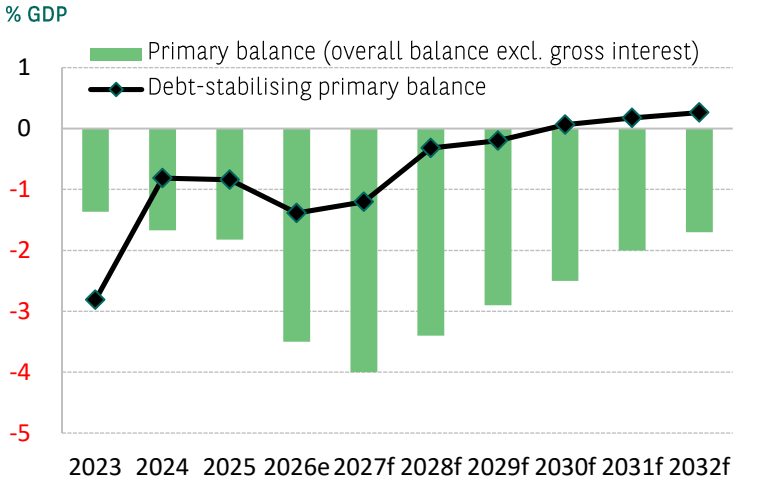
Germany: The fiscal shift is fuelling rising debt (1/2)

A primary deficit exceeding the debt-stabilising level

Primary balance and debt-stabilising primary balance



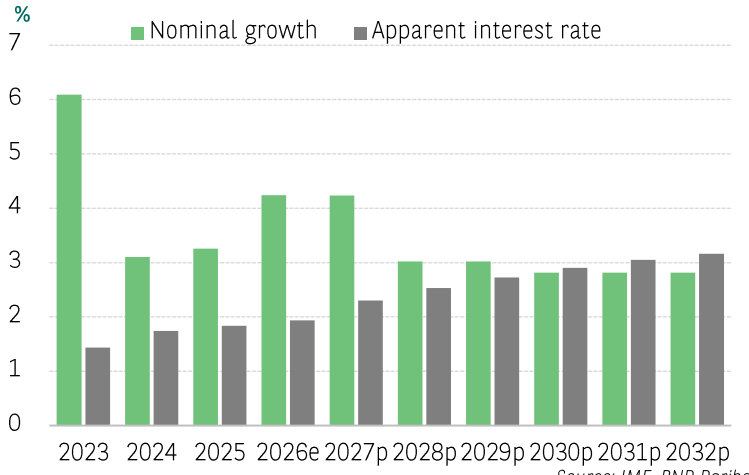
Source: IMF, BNP Paribas

Germany's primary deficit is expected to widen significantly in 2026 and 2027, driven by rising infrastructure and defence spending, made possible by the relaxation of fiscal rules. The primary balance will continue to exceed the debt-stabilising level in the coming years, despite a gradual reduction in the deficit from 2028 onwards.

Given the gradual rise in the implicit interest rate on debt over the forecast horizon, the improvement in the primary balance will need to accelerate to allow debt to stabilise.

An unfavourable interest rate-growth differential from 2030 onwards

Apparent interest rate vs. nominal growth



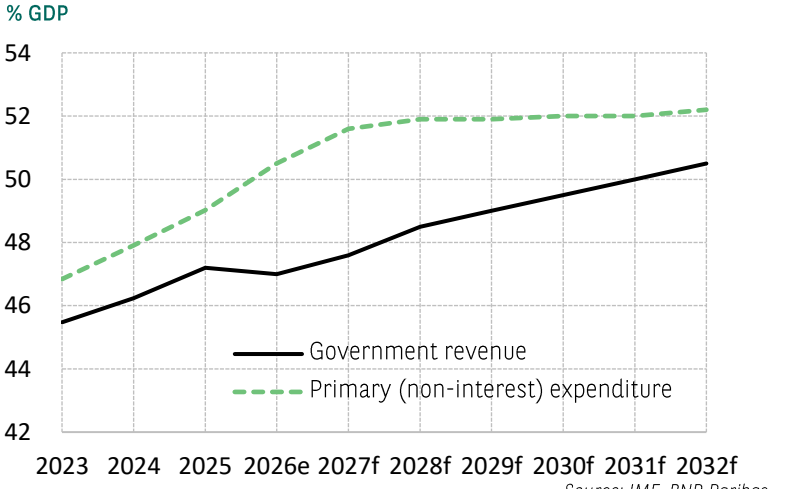
Source: IMF, BNP Paribas

Having benefited from nominal growth that was significantly higher than the apparent interest rate on its debt, Germany is expected to see this situation reverse from 2030 onwards.

The apparent interest rate is projected to rise from 1.93% in 2026 to 3.16% in 2032, driven by the gradual refinancing of debt on less favourable terms. At the same time, nominal growth is expected to slow, falling from 4.2% in 2026 to 2.8% in 2032 due to a slowdown in real growth (from 1.3% in 2026 to 0.7% in 2032). Consequently, the interest-growth differential would gradually become unfavourable, contributing to a sharper rise in the public debt ratio towards the end of the period.

In the short term, a sharp rise in primary expenditure

Revenue and primary (non-interest) expenditure



Source: IMF, BNP Paribas

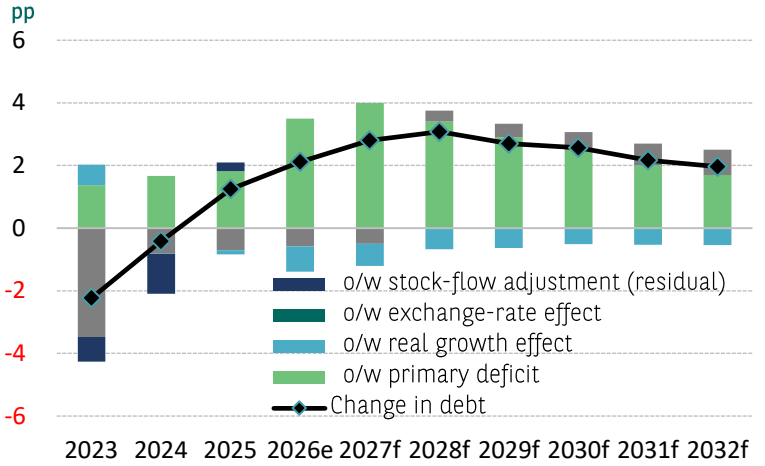
Driven by infrastructure investment and increased defence spending, primary public expenditure (excluding interest) is expected to rise sharply from 2026 onwards.

Whilst public revenue is also expected to rise, particularly due to the acceleration in GDP growth, this increase would remain insufficient to offset the rise in expenditure, leading to a widening of the primary deficit.

Germany: The fiscal shift is fuelling the rise in debt (2/2)

The primary deficit: the main driver of rising public debt

Contributions to the change in debt, baseline scenario



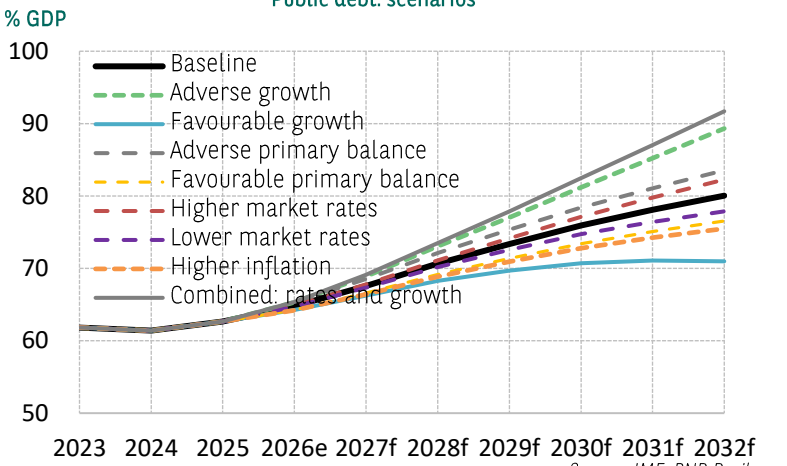
Source: IMF, BNP Paribas

The rise in public debt is expected to remain moderate. The increase in the public debt ratio is likely to be driven mainly by the primary deficits resulting from the new fiscal stance. The favourable effect of GDP growth would help to partially mitigate this impact, though without fully offsetting the positive contribution from the deficits and the interest burden.

German public debt is expected to reach 80% by the end of the forecast period (2032), compared with 62.7% in 2025.

Debt will rise even under a favourable scenario

Public debt: scenarios



Source: IMF, BNP Paribas

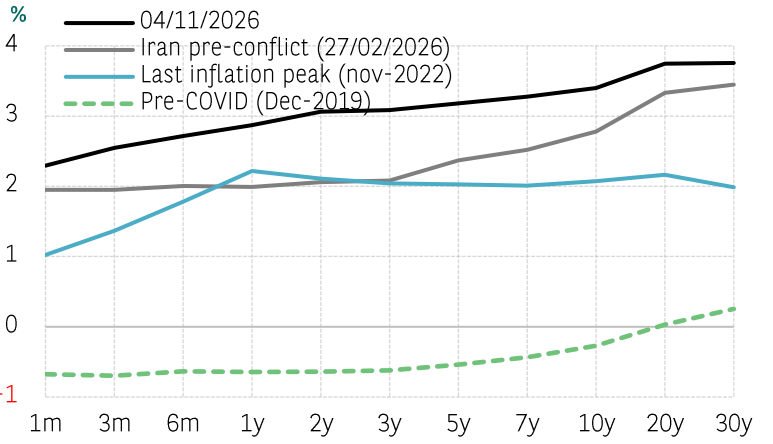
Note: the 'growth' and 'primary balance' scenarios incorporate, respectively, a negative shock to growth and to the deficit of 0.5 percentage points of GDP per year compared with the baseline scenario; the 'interest rate' scenario incorporates a 1 percentage point rise in the apparent interest rate.

The debt trajectory is sensitive to macroeconomic and financial assumptions. In our alternative adverse scenarios, it is the combination of lower growth and a rise in market interest rates that would have the most adverse impact. This scenario remains unlikely, as we consider German growth to be robust.

Conversely, more favourable assumptions regarding growth, the primary balance and rates would limit the rise in debt, but would not stabilise the debt-to-GDP ratio.

A significant tightening of financing conditions

Germany yield curve



Source: IMF, BNP Paribas

The yield curve has shifted significantly upwards from its previous levels, particularly for long-term maturities.

This development, combined with rising public borrowing requirements, is likely to contribute to a gradual increase in the interest burden as existing debt matures and is refinanced at higher rates.