



SPRING REPORT 2025

1. Economic recovery ahead

2. Making the most of the fiscal package

3. Comprehensive reduction of excessive bureaucracy

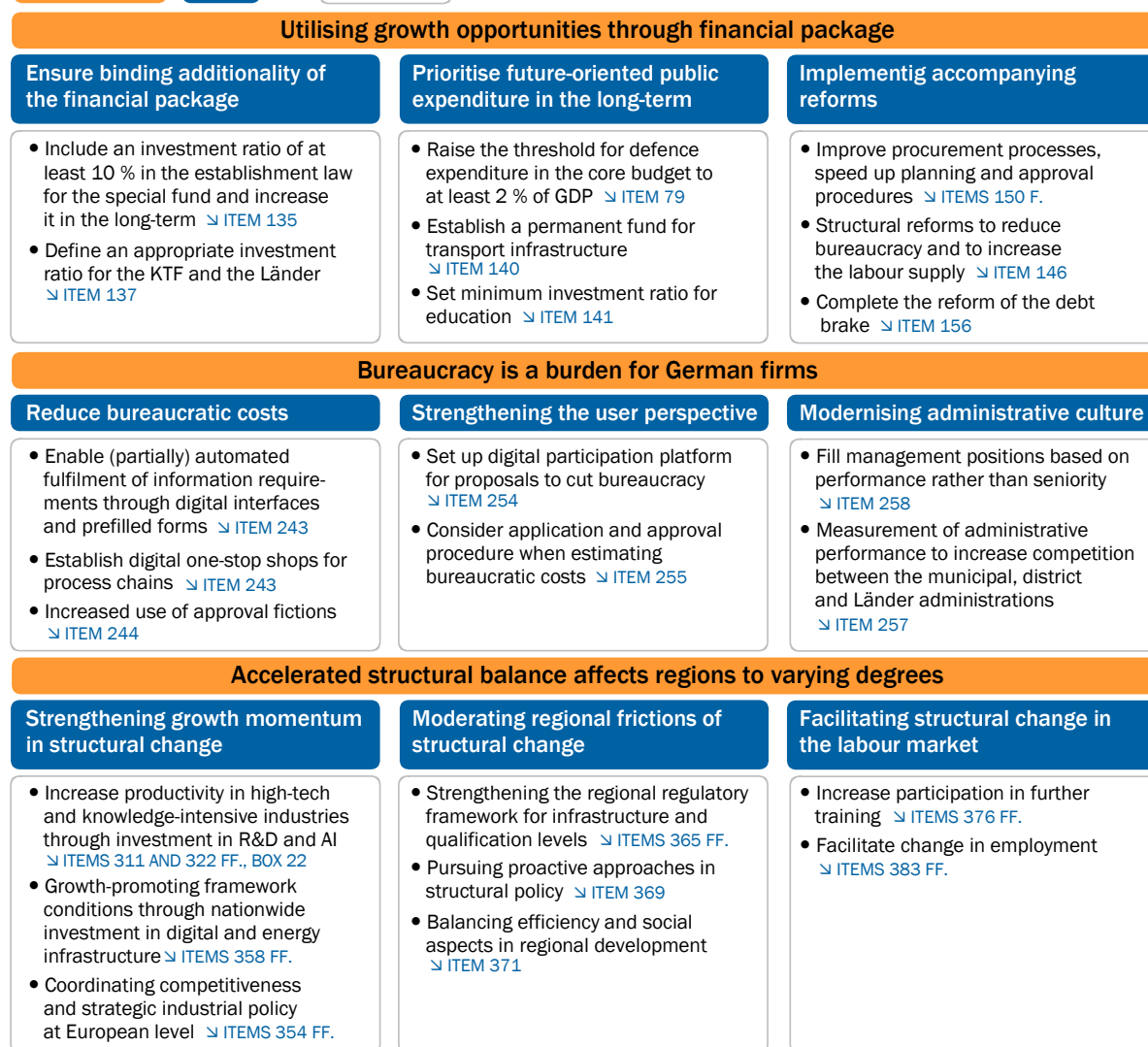
4. Shaping structural change

This is a translated version of the original German-language chapter "Kurzfassung: Frühjahrsgutachten 2025", which is the sole authoritative text. Please cite the original German-language chapter if any reference is made to this text.

1. **Germany** is in its third year of economic stagnation. At the same time, since the beginning of this year, U.S. President Donald Trump's tariff policies have been putting global economic growth at risk. Additionally, the U.S. security policy has weakened security guarantees for Europe and Ukraine. As a result, European countries will be forced to significantly increase their military spending in the medium term. In response, Germany has amended **its Basic Law** to allow **defence spending** exceeding 1 % of GDP to bypass the constitutional debt brake. At the same time, a **special fund** has been set up to invest in **infrastructure and climate protection**. This fiscal package aims to strengthen military defence capabilities, modernise public infrastructure, support decarbonisation and stimulate the German economy.
2. Domestic challenges continue to slow down Germany's economic growth. For example, excessive **bureaucracy** and lengthy approval procedures [↪ ITEMS 175 FF.](#) result in unnecessarily high costs for firms. At the same time, current **disruptions in trade policy**, ongoing efforts to reduce carbon emissions, demographic ageing and the growing use of artificial intelligence (AI), are all accelerating **structural change** in Germany. [↪ ITEMS 315 FF.](#) As a part of this transformation,

↪ CHART K1

Challenges, **goals** and **measures** discussed in the GCEE Spring Report 2025



industries in the service sector, which traditionally exhibit rather low productivity growth in Germany, are becoming increasingly important.

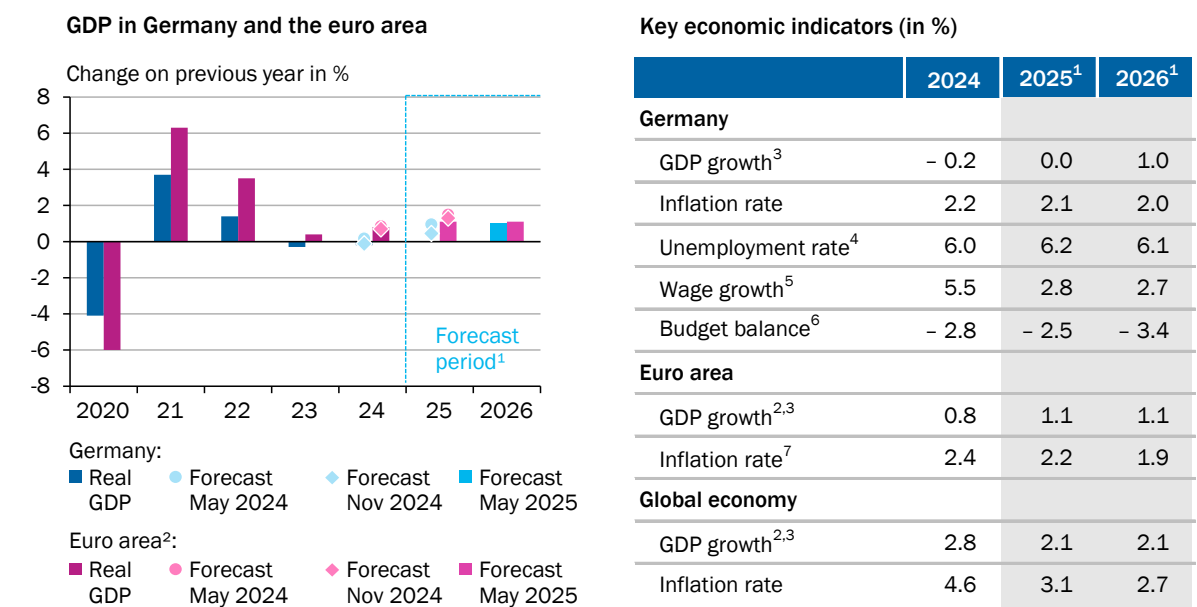
In this spring report, the German Council of Economic Experts (GCEE) outlines how the funds made available by the fiscal package can be used to promote investment, how obstacles to growth can be addressed by consistently cutting unnecessary bureaucracy, and how Germany can cope with the regionally different impacts of structural change. [↘ CHART K1](#)

1. Economic recovery ahead

3. The German economy remains in a **prolonged period of weakness** and has recently gained little from global economic growth. [↘ ITEMS 37 FF.](#) U.S. import tariffs are weighing on global economic activity and global trade. The resulting high level of trade policy uncertainty is also likely to dampen private investment. [↘ ITEMS 14 AND 42](#) With forecasted **growth rates of 2.1 %** in both 2025 and 2026, the German Council of Economic Experts expects the **global economy** to expand more slowly than in recent years. GDP growth in the **euro area** is expected to be 1.1 % in both years. [↘ CHART K2](#) [↘ ITEMS 19 F.](#)
4. The outlook for the German economy in the forecast period will largely depend on **the effects of U.S. tariff policy** and the **fiscal package** of the German government. In addition to the long-standing export weakness, U.S. import tariffs will weigh on demand for German products. [↘ ITEM 58](#) High uncertainty about future U.S. trade policy along with weak orders in the manufacturing sector are

[↘ CHART K2](#)

Economic outlook for Germany and Europe



1 – Forecast by the GCEE. 2 – Values are based on seasonal and calendar-adjusted quarterly figures. 3 – Constant prices. 4 – Registered unemployed in relation to civil labour force. 5 – Change of gross wages and salaries (domestic concept) per employees' hour worked. 6 – In relation to nominal GDP; territorial authorities and social security according to national accounts. 7 – Change of the Harmonised Index of Consumer Prices.

Sources: Eurostat, Federal Statistical Office, national statistical offices, own calculations

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further dampening private investment. ↘ [ITEMS 42 AND 40](#) However, from next year onward, the fiscal package will improve the outlook. ↘ [ITEM 43](#) The use of its funds is likely to stimulate construction, investment in machinery and equipment as well as government consumption, especially in 2026. Private consumption is likely to expand moderately in the forecast period, ↘ [ITEM 49](#) supported in 2026 by a slight increase in real disposable income, which should raise private households' spending.

5. The GCEE expects German real **GDP to stagnate in 2025**, ↘ [ITEM 44](#) revising its forecast downwards by 0.4 percentage points compared to the GCEE Annual Report 2024/25. For 2026, a GDP growth of 1.0 % is projected. **Consumer price inflation** is expected to average **2.1 %** in 2025, ↘ [ITEM 60](#) followed by a rate of 2.0 % in 2026. Core inflation is forecasted to be 2.5 % in 2025 and 2.3 % in 2026.

There are downside risks to the forecast. An escalation of the trade conflict between the U.S. and the European Union could negatively impact the German economy. ↘ [ITEM 33](#) If the fiscal package leads to unexpectedly high price increases, inflation may rise above projected rates. ↘ [ITEM 71](#) There are also opportunities for growth if firms adapt more quickly to new markets and business areas, or if private households increase consumption more quickly than expected. ↘ [ITEM 70](#)

2. Making the most of the fiscal package

6. The constitutional amendment, adopted in March 2025, significantly expands fiscal space by introducing an exception to the debt brake for defence spending, establishing a special fund for infrastructure and allowing the federal states to regularly take on limited amounts of structural debt. If used wisely, these measures provide **opportunities to** modernise the capital stock and **revive economic growth**. However, the financial package will increase **public debt per GDP**, especially if the funds are used for government consumption. By contrast, if the funds are used for public investment, ↘ [CHART K3](#) the resulting growth may curb the rise in the public debt-to-GDP ratio. ↘ [ITEMS 119 F.](#)
7. A key challenge in implementing the fiscal package is therefore to ensure that the funds are used in a way that delivers lasting economic growth. To achieve this, binding rules must be put in place to guarantee that the **funds** go towards **additional investment** and **not** simply **replace spending already planned** in the **core budget**. The measures taken so far are not sufficient. They leave considerable room for shifting already planned expenditures from the core budget and financing them through borrowing instead—up to 1.2 % of GDP. ↘ [ITEM 133](#) To prevent this, at the very least, the core budget **investment quota** mentioned in the resolution passed alongside the constitutional amendment should be included in the law establishing the special fund, and this quota should gradually increase. ↘ [ITEM 135](#) The same principle of an **appropriate investment quota** should be applied to funds **allocated to the special fund to the Climate and Transformation Fund (KTF)** and to the federal states.
8. At the same time, the **long-term financing of investment spending from the core budget** should be strengthened. For example, in the area of defence,

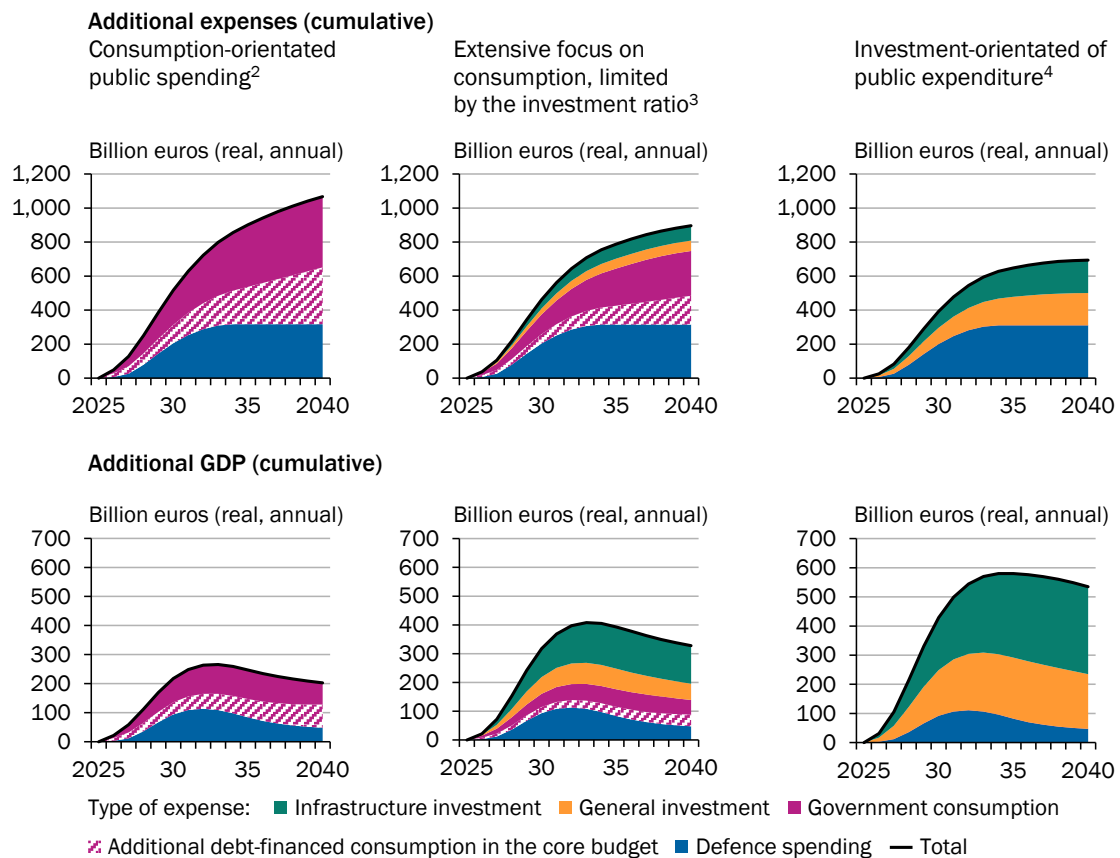
setting a target of at least 2 % of GDP to be financed directly from the core budget would be appropriate. ↘ ITEM 138 To ensure that public investment expenditure in transport infrastructure and education remains a priority even after the special fund expires, a permanent **public infrastructure fund** ↘ ITEM 140 with dedicated revenues should be established, along with **minimum investment quotas for education**. ↘ ITEM 141

Whether the **fiscal package** is compatible with **EU fiscal rules** is **highly uncertain**. In any case, compatibility can only be achieved with a strong investment focus and supporting structural reforms. A reform of the debt brake ↘ ITEM 156 would still be advisable following the constitutional amendments, in particular to enable more flexible responses to crises.

↘ A DIFFERING OPINION ITEMS 160 FF.

↘ CHART K3

Three possible spending paths for the fiscal package¹



1 – Expenditure is based on the paths in Box 6 in the chapter "Harnessing the opportunities of the fiscal package". For defence spending outside the debt brake, it is assumed that it will increase linearly to 1.5 % of GDP from 2026 up to and including 2029 and then decrease to zero by the beginning of 2035. 2 – In the case of consumption orientation, no additional investments are made and investments or defence expenditure are shifted in favour of consumptive expenditure from the core budget. 3 – In the case of extensive consumption orientation, an investment ratio of 10 % of the federal budget restricts the possibility of shifting funds from the core budget. The KTF and the federal states consume exclusively and half of the scope for shifting defence spending from the core budget is used. 4 – In the case of investment orientation, the special fund is used exclusively for additional investments. Defence expenditure is not shifted from the core budget in favour of consumptive expenditure.

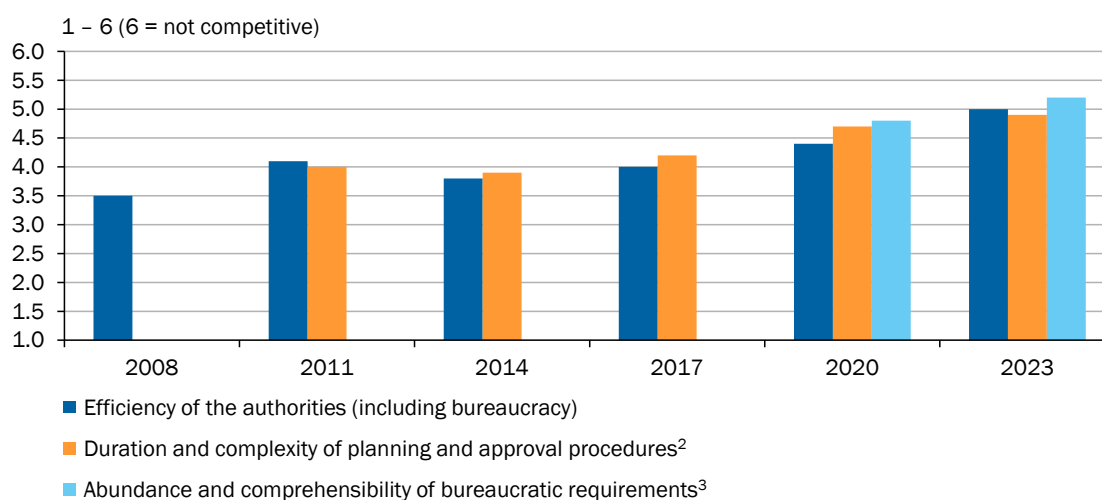
Source: Ochsner and Zuber (2025)
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3. Comprehensive reduction of excessive bureaucracy

9. **German firms are subject to public information and approval requirements**, which are often referred to as "**bureaucracy**". [↘ ITEM 175](#) Excessive bureaucracy hinders economic growth by generating unnecessary costs and **distorting firms' decisions on market entry and investment**. [↘ ITEMS 182 FF.](#) Business surveys show that dissatisfaction with bureaucratic requirements in Germany has increased in recent years. [↘ CHART K4](#) The direct costs of meeting federal information requirements alone amount to around 65 billion euros per year and tie up at least 1.7 % of the total number of hours worked in Germany. Additional costs arise from requirements imposed by the European Union, the federal states and local authorities. There are currently no comprehensive estimates of the indirect costs resulting from distorted firm decisions.
10. **Bureaucratic costs** can be higher than necessary for several reasons. [↘ ITEMS 206 FF.](#) One reason is that when new laws are drafted, too little attention is sometimes given to how **user-friendly** or **digitisable** the associated procedures will be. [↘ ITEMS 225 FF.](#) The **enforcement of laws** can also lead to unnecessary bureaucratic costs for firms, for example due to lengthy approval procedures or fragmented administration involving multiple authorities. [↘ ITEMS 220 FF.](#) In the past, some measures have already been taken to reduce bureaucratic costs. [↘ ITEMS 230 FF.](#) These include ex-ante instruments such as the "digital check" [↘ ITEM 232](#) as well as ex-post instruments such as the Bureaucracy Relief Acts. [↘ ITEM 234](#)
11. Despite various selective efforts to reduce bureaucratic costs, there has so far been **no noticeable progress**. Comprehensive reforms are needed to reduce existing bureaucracy and prevent new legal regulations from creating additional in-

[↘ CHART K4](#)

Dissatisfaction with bureaucracy in Germany on the rise¹



1 – Triennial DIHK surveys in the Industry Network regarding the question: „With regard to the competitiveness of Germany as an industrial location, how do you rate the following location factors in an international comparison on a scale of 1 (clear competitive advantage) to 6 (not competitive)?“. 2 – Data only available from 2011 onwards. 3 – Data only available from 2020 onwards.

Source: DIHK

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efficiencies. ↘ [ITEMS 239 FF](#). **Digitising administrative processes** and partially **automating information requirements** can help to achieve this. Fragmented procedures could be streamlined through one-stop shops, and redundant requirements could be replaced by centralised data retrieval based on the once-only principle. ↘ [ITEM 243](#) Approval procedures could be sped up by making greater use of deemed approvals. ↘ [ITEM 244](#) To prevent further increases in bureaucratic costs, the legislative process should place greater emphasis on the **quality** of new regulations, focusing on **effectiveness, user-friendliness, and enforceability**. ↘ [ITEM 251](#) Law enforcement could also be made more efficient by means of better measurement and greater transparency of administrative services. ↘ [ITEM 257](#) To implement these measures in a coordinated manner and as quickly as possible, bureaucracy reduction should be made a top priority at the highest level of political decision-making.

↘ [A DIFFERING OPINION ITEMS 259 FF](#).

4. Shaping structural change

12. Geopolitical shifts in international trade, rising energy costs due to the Russian war on Ukraine and long-term trends such as decarbonisation, digitisation and demographic aging are all accelerating **structural change in Germany**. ↘ [ITEMS 315 FF](#). So far, the share in value added of the manufacturing sector has been stable over time due to path dependencies and comparative advantages. However, **structural change is slowing down** overall economic **productivity growth**, as sectors with relatively low productivity growth, especially services, are becoming increasingly important. This trend is likely to continue. ↘ [ITEMS 289 FF](#). Structural change is also **accompanied by a shift in labour demand**. This can lead to significant frictions and adjustment costs for companies and employees, especially if it occurs very quickly. ↘ [ITEMS 284 F](#). While the (relative) importance of occupations in manufacturing is declining, the demand for service occupations and highly qualified labour continues to grow.
13. Some **regions** and **occupations benefit from structural change**, while **others** are **negatively affected**. ↘ [CHART K5 LEFT](#) Regions that have already been affected by structural change in the past are likely to face further challenges from today's key drivers of structural change. Even regions that have so far remained structurally stable and economically strong will also be increasingly affected in the future. ↘ [CHART K5 RIGHT](#) These regions are often characterised by high employment shares in knowledge-intensive manufacturing. ↘ [ITEM 344](#)
14. Industrial, labour market, regional and structural policies can help reduce the adjustment costs of structural change and improve long-term growth prospects, provided they avoid preserving out-dated economic structures. Further measures are needed to counteract **negative effects on growth**. ↘ [ITEMS 349 FF](#). **Investment into digital and energy infrastructure** supports productivity-enhancing structural change. ↘ [ITEMS 358 FF](#). At the same time, it is important to **address social aspects and regional disparities** to prevent entire regions from falling behind the overall economic trajectory. ↘ [ITEMS 363 FF](#). Social acceptance of structural change depends not only on whether it is possible to improve overall

economic performance, but also on providing long-term prospects for disadvantaged regions. In particular, supporting investment and innovation of firms as well as investing into local infrastructure and funding innovation can be used to support **economically weaker regions**. [↘ ITEMS 370 FF.](#)

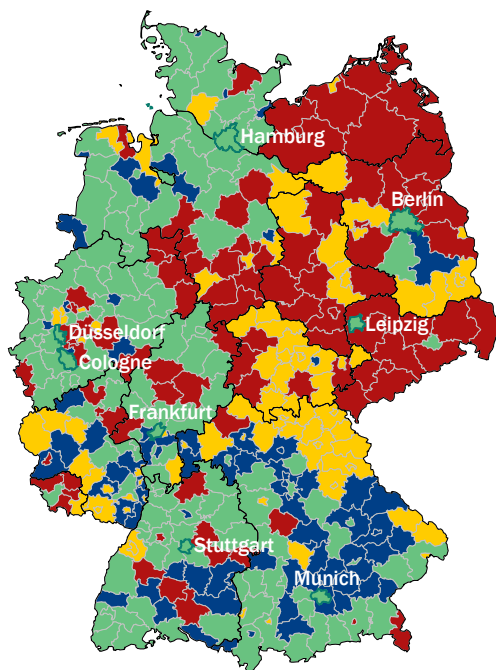
Instead of using costly and inefficient subsidies to preserve jobs that are no longer competitive, **structural change should be accompanied by targeted labor market policies** focused on **training, upskilling, and retraining**. This may ensure that workers are efficiently reallocated to sectors with better long-term prospects. Barriers to upskilling can be removed through attractive qualification measures, a clear and comprehensive system of career counselling, directly reaching individuals at their workplaces, or the subsidisation of training costs. [↘ ITEMS 376 FF.](#) Regional labour market hubs can facilitate employment changes to sectors of the economy that benefit from structural change. [↘ ITEM 383](#)

[↘ A DIFFERING OPINION ITEMS 385 FF.](#)

↘ CHART K5

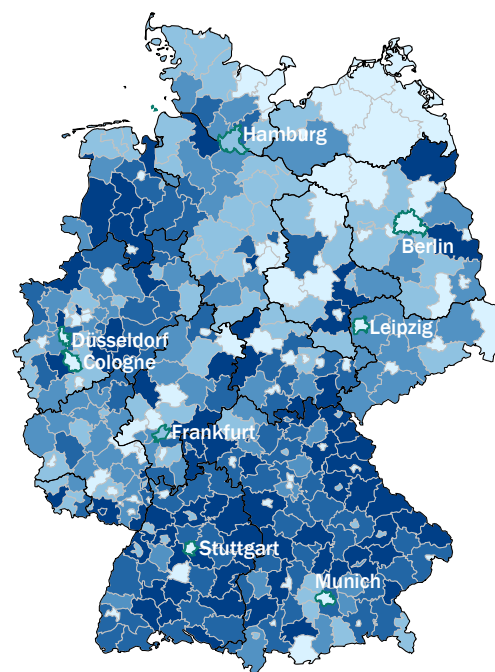
Structural change: current and foreseeable impact on regions

Structural change and employment growth¹
for the years 1999 to 2023



- High structural change and high employment growth
- Little structural change, but high employment growth
- Little structural change and low employment growth
- High structural change and low employment growth

Regional exposure to the drivers²



- Quintiles:
- 0 to ≤ 20
 - > 20 to ≤ 40
 - > 40 to ≤ 60
 - > 60 to ≤ 80
 - > 80

1 – The map shows district types according to Findeisen and Südekum (2008) in relation to their employment growth and the rate of change in the economic structure measured as the average annual excess churning rate. This rate measures the change in the composition of economic sectors in a region, measured by the employment structure, relative to the change in total employment in that region. Employment growth can also be negative. Data basis: Number of employees subject to social insurance contributions by economic sector (3-digit), according to the Classification of Economic activities, 2008 edition (WZ 2008), per district or independent city and year (1999 to 2023). 2 – The map shows the exposure to all drivers, measured as the sum of standardised indicators, in quintile groups.

Sources: BA, BACI database CEPII, Federal Agency for Cartography and Geodesy, Frey and Osborne (2017), Webb (2020), own calculations
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