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Compliance with the EU fiscal rules requires extensive consolidation – Medium-term projection of macroeconomic developments and public finances in Germany

Germany faces considerable structural burdens from both macroeconomic and fiscal perspectives, as potential growth is likely to be significantly lower than in past decades. A projection by the Halle Institute for Economic Research (IWH) on macroeconomic developments up to the year 2040 shows that, under unchanged fiscal policies, public debt can be expected to continue rising. The federal government's fiscal-structural plan assumes compliance with EU requirements, but this is only achievable under the assumption of high global spending cuts that have not yet been specified in detail.

Regardless of the estimation method used, projections for potential growth in Germany are significantly lower than in previous decades. Demographic trends, subdued investment activity and weak productivity growth are dampening the prospects for expansion. Depending on assumptions about the development of labour force participation and total factor productivity, there are considerable differences in the level of gross domestic product, which also have an impact on the sustainability of public finances.

“Against this backdrop, if fiscal policy remains unchanged, persistently high deficits and a further increase in debt levels are to be expected,” says Oliver Holtemöller, head of the Macroeconomics Department and Vice President at the IWH. According to estimates based on both the EU method and a modified EU method used by the IWH, the reference values of the European fiscal rules will be significantly missed unless additional consolidation measures are taken.

Compliance with EU fiscal rules assumed in the federal government's fiscal-structural plan is only possible under the assumption of very substantial global spending cuts that have not yet been specified in detail. The IWH medium-term projection indicates a consolidation need that far exceeds the savings currently planned by the federal and state governments and is likely to amount to around 130 billion euros in 2029.

Long-term simulations up to the year 2040 show that stabilising the debt-to-GDP ratio is only achievable if the structural primary balance is noticeably improved over the adjustment period. If, by contrast, fiscal policy remains permanently expansionary, the debt ratio will rise significantly – reaching 93% by 2040. This would entail a substantial increase in interest expenditure.

“Overall, the results of the projections underscore the need to combine the currently expansionary orientation of fiscal policy with a sustainable medium-term consolidation strategy,” says Oliver Holtemöller. According to the economist, an important step would be the gradual integration of all defense expenditures into the core budget, as these are not investments that increase future production potential. Otherwise, there is a risk that

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The IWH Forecasting Dashboard (ForDas)



The IWH-ForDas is an interactive platform for comparing macroeconomic forecasts from various institutes on the German economy.

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rising public debt and growing interest burdens will permanently restrict fiscal space during a period of already subdued economic growth.

The extended version of this projection contains one box (in German):

[Box: Net primary expenditure under the new EU fiscal rules](#)

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Drygalla, Andrej; Heinisch, Katja; Holtemöller, Oliver; Lindner, Axel; Schult, Christoph; Zeddies, Götz: Einhaltung der EU-Fiskalregeln erfordert umfangreiche Konsolidierung – Mittelfristige Projektion der gesamtwirtschaftlichen Entwicklung und der öffentlichen Finanzen in Deutschland. IWH Policy Notes 1/2026. Halle (Saale) 2026.

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