JOINT ECONOMIC FORECAST 2/2026
PRESS RELEASE

Halle (Saale), 24 September 2026

Recovery under structural stress – fiscal policy on slippery ground

The German economy has been recovering since the end of 2025. This recovery, although stronger than expected in spring, remains modest. The leading economic research institutes expect GDP growth of 1.3% for the current year and 1.1% and 0.4% for the following two years, respectively. Compared with the spring forecast, the outlook for 2026 has been revised upward by 0.7 and that for 2027 by 0.2 percentage points. "The economy has developed more robustly than expected. However, the recovery rests on a narrow foundation, as high energy prices and structural problems continue to weigh on economic activity," says Oliver Holtemöller, Head of Macroeconomic Forecasting at the Halle Institute for Economic Research (IWH). In the current quarter, low water levels are also temporarily dampening economic activity. The government deficit continues to increase, leading to a growing need for fiscal consolidation.

Table
Key Forecast Figures for Germany

	2023	2024	2025	2026	2027	2028
Gross domestic product[1]	–1.0	0.0	0.2	1.3	1.1	0.4
Employed persons[2] (1,000 persons)	45 909	45 960	45 878	45 676	45 633	45 712
Unemployment (1,000 persons)	2 609	2 787	2 948	2 991	2 920	2 737
Unemployment rate[3] (in %)	5.7	6.0	6.3	6.4	6.2	5.8
Consumer prices[4]	5.9	2.2	2.2	2.8	3.2	2.0
Unit labour costs[4, 5]	7.8	5.1	4.3	2.1	2.6	3.4
General government financial balance[4]						
Euro billion	–95.0	–121.1	–136.5	–192.2	–213.2	–237.3
in % of gross domestic product	–2.2	–2.8	–3.0	–4.1	–4.3	–4.7
Current account balance						
Euro billion	232.4	255.1	200.1	222.9	251.2	232.7
in % of gross domestic product	5.5	5.8	4.4	4.7	5.1	4.6

[1] Price adjusted, % change over previous year. [2] Domestic concept. [3] Federal Employment Agency concept.
[4] % change over previous year. [5] Compensation of employees per hour in relation to gross domestic product per hour.
[6] National accounts definition (ESA 2010).

Sources: Federal Statistical Office; Federal Employment Agency; Deutsche Bundesbank; 2026 to 2028: forecast by the institutes.

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The German economy performed significantly better in the first half of 2026 than had been expected in spring. In particular, exports and value added in the manufacturing sector increased markedly. Growth was supported by a robust

PRESS EMBARGO
24 September 2026, 10:00 a.m. CEST

PRESS CONTACT
Stefanie Müller-Dreißigacker
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Tel +49 345 7753 765 and 720
presse@iwh-halle.de

ENQUIRIES
Professor Dr Oliver Holtemöller
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Tel +49 345 7753 800
oliver.holtemoeller@iwh-halle.de

www.gemeinschaftsdiagnose.de

global economy and the worldwide AI boom, while competitors in the Gulf region suffered significant production disruptions as a result of the Iran war. Government consumption also expanded markedly. By contrast, business investment and private consumption remained weak. Although the energy price shock associated with the Iran war has weighed on the German economy, the higher prices for motor fuels and heating oil have so far had little spillover effect on broader consumer prices.

The recovery temporarily slowed in the third quarter. While sentiment indicators continue to improve, the latest hard economic data have come in weaker. In particular, the low water levels that have persisted since mid-July are hampering production in the chemical industry. At the same time, higher energy prices are weighing on purchasing power and, consequently, on private consumption. Real GDP is estimated to have increased by only 0.1% in the third quarter. As water levels return to normal, however, the production constraints are expected to ease from the fourth quarter onward. The recovery will then be supported by robust foreign demand and rising public expenditure on defense and infrastructure.

The institutes expect the recovery to continue in 2027, driven primarily by domestic demand. Private consumption is projected to increase moderately in line with real disposable incomes, while residential construction investment is expected to gradually recover. Overall, however, private investment activity is likely to remain subdued. In 2028, economic expansion is expected to lose momentum. The recovery will increasingly be constrained by structural factors: the labour force is shrinking due to demographic change, and potential growth continues to decline. As a result, even relatively low growth rates will in the future be sufficient to fully utilise the economy's productive capacity.

Overall, the institutes forecast real GDP growth of 1.3% in 2026, 1.1% in 2027, and 0.4% in 2028. Compared with the spring forecast, the projection for 2026 has been revised upward by 0.7 percentage points and that for 2027 by 0.2 percentage points. Inflation is expected to increase from 2.8% this year to 3.2% in 2027 before easing to 2.0% in 2028. The labour market is likely to respond only with a lag: employment is expected to decline further for the time being, while the unemployment rate falls from 6.4% in 2026 to 6.2% in 2027 and 5.8% in 2028.

The institutes see a growing need for action in fiscal policy. The general government budget deficit is projected to increase from 4.1% of GDP in the current year to 4.7% in 2028. Growth in net primary expenditure is expected to exceed significantly the path envisaged under the European fiscal framework. Even if the reformed national debt brake is complied with, the debt-to-GDP ratio is projected to continue rising over the medium term; moreover, interest expenditure is set to increase substantially. As a result, the need for fiscal consolidation is growing.

Appendix

Full-length version of the report (in German)

Joint Economic Forecast Project Group: Aufschwung mit Strukturproblemen – Finanzpolitik auf Abwegen. Autumn 2026. Halle (Saale) 2026.

The full-length version of the report will be available on 24 September 2026 at 10:00 a.m. at www.gemeinschaftsdiagnose.de/category/gutachten/.

About the Joint Economic Forecast

The Joint Economic Forecast is published twice a year on behalf of the German Federal Ministry for Economic Affairs and Energy. The following institutes participated in the autumn report 2026:

- German Institute for Economic Research (DIW Berlin)
- ifo Institute - Leibniz Institute for Economic Research at the University of Munich in cooperation with Austrian Institute of Economic Research (WIFO) Vienna
- Kiel Institute for the World Economy
- Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
- RWI – Leibniz Institute for Economic Research

Scientific contacts

Professor Dr Oliver Holtemöller
Halle Institute for Economic Research (IWH) – Member of the Leibniz Association
Phone +49 345 7753 800
Oliver.Holtemoeller@iwh-halle.de

Dr Geraldine Dany-Knedlik
German Institute for Economic Research (DIW Berlin)
Phone +49 30 89789 486
GDanyknedlik@diw.de

Professor Dr Stefan Kooths
Kiel Institute for the World Economy
Phone +49 431 8814 579 or +49 30 2067 9664
Stefan.Kooths@kielinstitut.de

Professor Dr Torsten Schmidt
RWI – Leibniz Institute for Economic Research
Phone +49 201 8149 287
Torsten.Schmidt@rwi-essen.de

Professor Dr Timo Wollmershäuser
ifo Institute – Leibniz Institute for Economic Research at the University of Munich
Phone +49 89 9224 1406
Wollmershaeuser@ifo.de