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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	COUNCIL RECOMMENDATION endorsing the national medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause)

COUNCIL RECOMMENDATION

endorsing the national medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121 thereof,

Having regard to Regulation (EU) 2024/1263, and in particular Articles 17 and 26 thereof,

Having regard to the recommendation from the European Commission, Whereas:

GENERAL CONSIDERATIONS

(1) A reformed EU economic governance framework entered into force on 30 April 2024. Regulation (EU) 2024/1263 of the European Parliament and of the Council on the effective coordination of economic policies and on multilateral budgetary surveillance[1], together with the amended Regulation (EC) No 1467/97 on speeding up and clarifying the implementation of the excessive deficit procedure[2] and the amended Council Directive 2011/85/EU on requirements for budgetary frameworks of the Member States[3], are the core elements of the reformed EU economic governance framework. The framework aims at promoting sound and sustainable public finances and sustainable and inclusive growth and resilience through reforms and investments and preventing excessive government deficits. It promotes national ownership and has a greater medium-term focus, combined with a more effective and coherent enforcement of the rules.

1 Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

2 Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure (OJ L, 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30).

3 Council Directive 2011/85/EU of 8 November 2011 on requirements for budgetary frameworks of the Member States (OJ L, 306, 23.11.2011, ELI: http://data.europa.eu/eli/dir/2011/85/2024-04-30).

(2) The national medium-term fiscal-structural plans that Member States submit to the Council and to the Commission are at the centre of the new economic governance framework. The plans are to deliver on two objectives: (i) ensuring that, inter alia, by the end of the adjustment period, general government debt is on a plausibly downward trajectory, or stays at prudent levels, and that the government deficit is brought and maintained below the reference value of 3 % of gross domestic product (GDP) over the medium term, and (ii) ensuring the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the EU. To that end, each plan is to present a medium-term commitment to maximum growth rates of net expenditure[4], which effectively establishes a budgetary constraint for the duration of the plan, covering four or five years (depending on the regular term of legislature in a Member State). In addition, the plan is to explain how the Member State will ensure the delivery of reforms and investments responding to the main challenges identified in the context of the European Semester, in particular in the country-specific recommendations (including those pertaining to the macroeconomic imbalances procedure (MIP), if applicable), and how the Member State will address the common priorities of the Union. The period for fiscal adjustment covers a period of four years, which may be extended by up to three years if the Member State commits to delivering a set of relevant reforms and investments that satisfies the criteria set out in Article 14 of Regulation (EU) 2024/1263.

(3) Following the submission of the plan, the Commission is to assess whether it complies with the requirements of Regulation (EU) 2024/1263.

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[4] Net expenditure as defined in Article 2 of Regulation (EU) 2024/1263, namely government expenditure net of (i) interest expenditure, (ii) discretionary revenue measures, (iii) expenditure on Union programmes fully matched by revenue from Union funds, (iv) national expenditure on co-financing of programmes funded by the Union, (v) cyclical elements of unemployment benefit expenditure and (vi) one-offs and other temporary measures.

(4) Upon a recommendation from the Commission, the Council is then to adopt a recommendation to set the maximum growth rates of net expenditure of the Member State concerned and, where applicable, endorse the set of reform and investment commitments underpinning an extension of the fiscal adjustment period.

(5) The framework provides for flexibility in the application of the rules in the event of exceptional circumstances outside the control of Member States that have a major impact on the public finances, in accordance with Article 26 of Regulation (EU) 2024/1263. In that event, following a request from a Member State and on a recommendation by the Commission based on its analysis, the Council may within four weeks of the Commission recommendation adopt a recommendation allowing a Member State to deviate from its maximum growth rates of net expenditure as set by the Council, where (i) exceptional circumstances outside the control of the Member State (ii) have a major impact on the public finances of the Member State concerned, and (iii) provided that such deviation does not endanger fiscal sustainability over the medium term. The Council is to specify a time limit for such deviation.

CONSIDERATIONS CONCERNING THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF GERMANY

(6) On 17 July 2025, Germany submitted its national medium-term fiscal-structural plan to the Council and to the Commission. The submission took place following an extension of the deadline set out in Article 36 of Regulation (EU) 2024/1263, as agreed with the Commission in view of the reasons provided by Germany. The extension was agreed as the previous national government had lost its parliamentary majority, and parliamentary elections had been called for 23 February 2025, followed by several weeks of coalition negotiations, leading to a coalition agreement on 9 April 2025 and the formation of a new government on 6 May 2025.

Process prior to the submission of the plan

(7) To frame the dialogue leading to the submission of national medium-term fiscal-structural plans, on 17 June 2025 the Commission sent, in accordance with Article 9 of Regulation (EU) 2024/1263, its prior guidance containing the reference trajectory[5] to Germany. The Commission published the reference trajectory on 24 July 2025[6]. The reference trajectory is risk-based and will ensure that, by the end of the fiscal adjustment period and in the absence of further budgetary measures beyond the adjustment period, general government debt will be on a plausibly downward trajectory or stay at prudent levels over the medium term, and that the general government deficit is brought below 3 % of GDP over the adjustment period and maintained below that reference value over the medium term. The medium term is defined as the ten-year period after the end of the adjustment period. In accordance with Articles 7 and 8 of Regulation (EU) 2024/1263, the reference trajectory is also consistent with the debt sustainability safeguard and the deficit resilience safeguard.

Based on the Commission's assumptions and assuming a seven-year adjustment period, the reference trajectory provided to Germany sets out that net expenditure should not grow by more than the values provided in Table 1. This corresponds to annual average net-expenditure growth of 1.8 % over the seven-year adjustment period (2025-2031) and of 1.7 % over the five-year period covered by the plan (2025–2029). The horizon of the plan is five years (2025–2029) instead of the usual four years because in view of the federal elections having taken place exceptionally in February 2025, the current federal government will be responsible for the preparation of five budget laws instead of four.

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5 Prior guidance transmitted to the Member States and the Economic and Financial Committee includes trajectories without and with an extension of the adjustment period (covering four and seven years, respectively). It also includes the main initial conditions and underlying assumptions used in the Commission's medium-term government debt projection framework. The reference trajectory was calculated on the basis of the methodology described in the Commission's *Debt Sustainability Monitor 2023* (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en). It is based on the European Commission Spring 2025 Forecast and its medium-term extension up to 2034, and long-term GDP growth and ageing costs are in line with the joint Commission-Council *2024 Ageing Report* (https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en).

6 https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/national-medium-term-fiscal-structural-plans_en#Germany.

Table 1: Reference trajectory provided by the Commission to Germany on 17 June 2025

	2025	2026	2027	2028	2029	2030	2031	Average 2025–2029	Average 2025–2031
Maximum net-expenditure growth (annual, %)	1.8	1.6	1.7	1.8	1.9	1.9	1.9	1.7	1.8

Source: Commission's calculations.

(8) In line with Article 12 of Regulation (EU) 2024/1263, Germany and the Commission engaged in a technical dialogue in June and July 2025. The dialogue centred on the maximum growth rates of net expenditure envisaged by Germany and its underlying assumptions as well as the envisaged set of reform and investment commitments to underpin an extension of the adjustment period, including investment-enabling reforms and measures targeting simplification, efficiency and the improvement of labour supply. In the dialogue, Germany and the Commission also discussed the envisaged delivery of reforms and investments responding to the main challenges identified in the context of the European Semester and the common priorities of the Union, namely a fair green and digital transition, social and economic resilience, energy security and the build-up of defence capabilities.

(9) In July 2025, in line with Article 11(3) and Article 36(1), point (c), of Regulation (EU) 2024/1263, according to the information provided by Germany in its plan, Germany engaged in a consultation process with social partners and regional authorities.

(10) The Stability Council, a joint body of the German Federation and the Länder, delivered an opinion[7] on the macroeconomic forecast and the macroeconomic assumptions underpinning the multiannual maximum growth rates of net expenditure. Overall, the expenditure path in the medium-term plan was seen as compliant with the EU rules and supportive of economic growth. The Stability Council noted that a reliable assessment could only be made after the nationwide projection had been reviewed in October 2025 and underlined the importance of the implementation of growth-enhancing measures, spending discipline, and structural reforms to meet the targets.

(11) The plan was presented to Parliament on 20 and 21 July 2025 via the relevant parliamentary committees.

Other related processes

(12) On 15 October 2024, Germany submitted its Draft Budgetary Plan for the year 2025. The Commission adopted an opinion on this Draft Budgetary Plan on 26 November 2024[8]. Given political developments in Germany, the draft budget 2025, on the basis of which the Commission adopted its opinion, was not voted on or approved by the national parliament and did not enter into force. Following the federal elections, a revised draft budget for 2025 was prepared by the federal government and was set to be adopted by the national parliament in late September 2025. Furthermore, the federal government adopted the draft budget law 2026 on 30 July 2025, after the submission of the plan. It is expected to be adopted by the national parliament in early December 2025. Germany is expected to submit its Draft Budgetary Plan for 2026 by 15 October 2025.

7 Included in the German plan, p. 106 ctd., https://economy-finance.ec.europa.eu/document/download/07601136-78f2-41dc-a188-4a5127acdb9c_en?filename=2025-08-19_MTFSP_Final_EN_BF_a.pdf.

8 Commission Opinion on the Draft Budgetary Plan of Germany, 26.11.2024, C(2024) 9051 final.

(13) On 24 April 2025, Germany requested the activation of the national escape clause to accommodate higher defence spending, in accordance with Article 26(1) of Regulation (EU) 2024/1263 and following the Commission Communication (C(2025) 2000 final) of 19 March 2025. This request was thus submitted prior to the submission of the medium-term fiscal-structural plan. The request for the activation of the national escape clause was assessed by the Commission at the same time as the assessment of the medium-term fiscal-structural plan. Therefore, the assessment of the plan takes into account the activation of the national escape clause, notably in relation to the impact of the debt sustainability safeguard and the deficit resilience safeguard.

(14) The debt sustainability safeguard and the deficit resilience safeguard (Articles 7 and 8 of Regulation (EU) 2024/1263) were established to ensure that Member States implement a minimum fiscal adjustment and may be stricter than what is required by the sustainability-based approach. These safeguards are not taken into account during the period of the activation of the national escape clause. This approach ensures that the sustainability condition of the national escape clause is applied equally to all Member States.

(15) On 8 July 2025, the Council addressed to Germany a series of country-specific recommendations (CSRs) in the context of the European Semester[9].

[9] Council Recommendation on the economic, social, employment, structural and budgetary policies of Germany, 8.7.2025.

SUMMARY OF THE PLAN AND THE COMMISSION'S ASSESSMENT THEREOF

(16) In line with Article 16 of Regulation (EU) 2024/1263, the Commission assessed the plan as follows:

Context: macroeconomic and fiscal situation and outlook

(17) Economic activity in Germany declined by 0.5 % in 2024, driven by a decline in exports and investment.[10] According to the Commission Spring 2025 Forecast, published in May 2025, the economy is expected to stagnate in 2025, as the recovery in private consumption and investment is largely offset by the negative impact of net exports. In 2026, real GDP is expected to increase by 1.1 %, supported by recovering exports and continued growth in private consumption and investment. Over the forecast horizon (i.e. 2025–2026), potential GDP growth in Germany is expected to decrease slightly from 0.5 % in 2024 to 0.3 % in 2025 and 2026, driven mainly by working-age population decline, continued reduction of hours worked per employee, and low total factor productivity growth. The unemployment rate stood at 3.4 % in 2024 and is projected by the Commission to amount to 3.6 % in 2025 and 3.3 % in 2026. Inflation (as defined by the GDP deflator) is projected to decrease from 3.1 % in 2024 to 2.4 % in 2025 and 2.2 % in 2026. The policy intentions of the government to boost infrastructure and defence spending were not yet sufficiently detailed to be included in the Commission Spring 2025 Forecast by its cut-off date. The data releases and policy developments since the publication of the Spring Forecast suggest that economic growth in 2025 and 2026 as well as the GDP deflator for 2025 may be higher than expected in the spring.

[10] The German Federal Statistical Office (DESTATIS) revised data for relevant macroeconomic indicators, such as GDP figures from 2008 to 2024. The results of the revision are available via https://www.destatis.de/DE/Presse/Pressemitteilungen/2025/07/PD25_278_811.html.

(18) Regarding fiscal developments, Germany's general government deficit amounted to 2.8 % of GDP in 2024.[11] According to the Commission Spring 2025 Forecast, it is set to remain broadly stable at 2.7 % of GDP in 2025 and, on a no-policy-change basis, to increase to 2.9 % in 2026. General government debt stood at 62.5 % of GDP at end-2024. According to the Commission Spring 2025 Forecast, it is projected to increase to 63.8 % of GDP at end-2025 and 64.7 % at end-2026. These forecasts do not factor in more recent policy announcements mentioned in the medium-term plan, as it was submitted after the cut-off date for the Spring Forecast. On 24 June and 30 July 2025, the German federal government adopted the federal budgets for 2025 and 2026. The budgets indicate an increase in expenditure and deficit in 2025 and 2026 compared to the Commission Spring 2025 Forecasts.

Maximum growth rates of net expenditure and main macroeconomic assumptions in the plan

(19) Germany's national medium-term fiscal-structural plan covers the period 2025–2029 and presents a fiscal adjustment over seven years (2025–2031).

(20) The plan contains the information required by Article 13 of Regulation (EU) 2024/1263, except for detailed information on the Commission's reference trajectory required by Article 13, point (b), and information on implicit and contingent liabilities required by Article 13, point (g), of Regulation (EU) 2024/1263.

(21) The plan commits to the maximum growth rates of net expenditure indicated in Table 2, taking into account the activation of the national escape clause, that is without the requirements stemming from the safeguards (see Table 2, lower part), corresponding to average maximum net-expenditure growth of 2.9 % over the years 2025–2029. The average net-expenditure growth reported in the plan over the adjustment period (2025-2031) is higher than the reference trajectory transmitted by the Commission on 17 June 2025.
The Commission assessment has been based on the maximum growth rates of net expenditure without the requirements stemming from the safeguards. In addition, Germany commits to a set of reforms and investments with a view to extending the adjustment period to seven years (2025–2031), over which the average maximum net-expenditure growth is planned to be 2.8 %.

[11] Source: Eurostat.

Table 2: Maximum net-expenditure growth in Germany's plan

with and without the debt sustainability safeguard and the deficit resilience safeguard

(annual and cumulative growth rates in %, in nominal terms)

						Extension of the adjustment period				
	2024	2025	2026	2027	2028	2029	2030	2031	Average over the period of validity of the plan 2025–2029	Average over the adjustment period 2025–2031
Including the impact of the debt sustainability safeguard and the deficit resilience safeguard										
Annual	4.0	3.1	3.0	2.7	2.1	2.0	2.4	2.4	2.6	2.5
Cumulative*		3.1	6.2	9.0	11.3	13.5	16.3	19.1	n.a.	n.a.
Net of the impact of the debt sustainability safeguard and the deficit resilience safeguard**										
Annual	4.0	4.4	4.5	2.3	1.7	1.6	2.7	2.7	2.9	2.8
Cumulative*		4.4	9.0	11.5	13.3	15.2	18.3	21.5	n.a.	n.a.

* The cumulative growth rates are calculated by reference to the base year of 2024.

** The period of activation of the national escape clause is 2025–2028.

Source: Medium-term fiscal-structural plan of Germany and Commission calculations.

Implications of the plan's net expenditure commitments for general government debt

(22) If the maximum growth rates of net expenditure committed to in the plan (see Table 2, lower part) and the underlying assumptions materialise, general government debt would, according to the plan, gradually increase from 62.5 % of GDP at end-2024 to 64.4 % of GDP at the end of the adjustment period (2031), as shown in Table 3. After the adjustment period, i.e. in the medium term, general government debt is projected to decrease, reaching 56.5 % of GDP in 2041.

Table 3: General government debt and balance developments in Germany's plan

	2024	2025	2026	2027	2028	2029	2030	2031	2041
Government debt (% of GDP)	62.5	63.9	65.5	66.5	66.9	66.5	65.5	64.4	56.5
Government balance (% of GDP)	-2.7	-3.3	-3.8	-3.2	-2.5	-1.8	-1.4	-1.1	-1.1

Source: Medium-term fiscal-structural plan of Germany.

According to the plan, the general government debt-to-GDP ratio would be put on a downward path by the end of the adjustment period (2031). This is plausible as, based on the plan's assumptions, debt is projected to decline over the ten years following the adjustment period under all deterministic stress tests of the Commission's Debt Sustainability Analysis, and the stochastic projections indicate that debt would decline with a sufficiently high probability.

Therefore, based on the plan's policy commitments and macroeconomic assumptions, the maximum growth rates of net expenditure put forward in the plan are consistent with the requirement for debt as set out in Article 6, point (a), and Article 16(2) of Regulation (EU) 2024/1263.

Implications of the plan's net-expenditure commitments for the general government balance

(23) Based on the plan's maximum growth rates of net expenditure and assumptions, the general government deficit would decline from 2.7 % of GDP in 2024 to 1.8 % in 2029 and 1.1 % of GDP at the end of the adjustment period (2031). Thus, according to the plan, the general government balance would not exceed the 3 % of GDP reference value at the end of the adjustment period (2031), although it is projected to exceed that value in the early years of the plan.

In addition, in the ten years following the adjustment period (i.e. until 2041), the government deficit would not exceed 3 % of GDP. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the maximum growth rates of net expenditure put forward in the plan are consistent with the requirement for the deficit as set out in Article 16(2) of Regulation (EU) 2024/1263.

Time profile of the fiscal adjustment

(24) The time profile of the fiscal adjustment, measured as the annual change in the structural primary balance, is backloaded from 2025-2026 to 2027-2031, compared to the linear path referred to as a rule under Article 6, point (c), of Regulation (EU) 2024/1263.The plan envisages expansionary policies in 2025–2026 driven by increased spending (see recital 27), and significant consolidation over 2027–2029. The initial expansionary fiscal stance in the first years of the plan is intended to support activity and investment following two years of negative real GDP growth. Overall, the maximum growth rates of net expenditure over the five-year period of the plan are consistent with the no-backloading safeguard clause set out in Article 6, point (c), of Regulation (EU) 2024/1263, as the fiscal adjustment effort over the period of the plan (2025–2029) is proportional to the total effort over the entire adjustment period (2025–2031).

Table 4: Structural primary balance developments in Germany's plan

	2024	2025	2026	2027	2028	2029	2030	2031
Structural primary balance (% of GDP)	-0.9	-1.3	-1.8	-1.2	-0.3	0.5	0.8	1.1
Change in structural primary balance (pps.)	0.3	-0.4	-0.5	0.6	0.9	0.8	0.3	0.3

Source: Medium-term fiscal-structural plan of Germany

Specific considerations for the application of the deficit resilience safeguard and the debt sustainability safeguard in the case of Germany during the activation of the national escape clause

(25) According to Article 8 of Regulation (EU) 2024/1263, the fiscal adjustment is to continue, where needed, until the Member State concerned reaches a deficit level that provides a common resilience margin in structural terms of 1.5 % of GDP relative to the deficit reference value of 3 % of GDP (deficit resilience safeguard). According to Article 7 of Regulation (EU) 2024/1263, the projected debt ratio is required to decrease by a minimum annual average amount of 0.5 percentage points as long as the debt-to-GDP ratio remains between 60 % and 90 % (debt sustainability safeguard).

If the conditions of activation of the national escape clause are fulfilled, and for the duration of this activation, the allowed flexibility should be calculated net of the impact of these two safeguards to ensure equal treatment among Member States. Therefore, in this specific circumstance, the assessment of the medium-term fiscal-structural plan and the assessment of the request for the activation of the national escape clause should be done in an integrated way. In particular, given the activation of the national escape clause, there is no need to verify whether the medium-term plan of Germany is consistent with the safeguards for the 2025–2028 period covered by the national escape clause. For the rest of the adjustment period (2029–2031), as the national escape clause will no longer apply, there is a need to verify whether the medium-term fiscal-structural plan of Germany respects the safeguards.

The requirement set out in Article 8 of Regulation (EU) 2024/1263 regarding the deficit resilience safeguard, which aims to provide a common margin relative to the deficit reference value of 3 % of GDP, applies to Germany as of 2029. In 2029, 2030 and 2031, in accordance with Article 8 of Regulation (EU) 2024/1263, the annual adjustment in the structural primary balance expected in the medium-term plan should therefore not be less than 0.25 % of GDP if the structural deficit is expected to remain above 1.5 % of GDP in the preceding year, to achieve a common resilience margin in structural terms of 1.5 % of GDP. The fiscal adjustment that results from the plan's policy commitments and assumptions exceeds 0.25 % of GDP in 2029, 2030 and 2031. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the maximum growth rates of net expenditure put forward in the plan are consistent with the deficit resilience safeguard for the period 2029–2031.

In accordance with Article 7 of Regulation (EU) 2024/1263, as general government debt will be above 60 % of GDP (but below 90 % of GDP) over the adjustment period according to the plan, the debt ratio is required to decline by at least 0.5 percentage point on average per year until it falls below 60%. The average decline is calculated over the period 2029–2031 and amounts to 0.8 percentage points. Therefore, based on the plan's policy commitments and macroeconomic assumptions, the maximum growth rates of net expenditure put forward in the plan are consistent with the debt sustainability safeguard for the period 2029–2031.

Macroeconomic assumptions of the plan

(26) The plan is based on a set of assumptions which differs from the Commission's assumptions underpinning the reference trajectory transmitted to Germany on 17 June 2025 (see Table 5). In particular, the plan uses different assumptions for the starting position in 2024, for potential growth, real GDP and for the GDP deflator, by taking on board more recent data. A careful assessment of these differences is necessary, especially as average maximum net-expenditure growth in the plan is higher than the reference trajectory. The differences in assumptions with the most significant impact on average net-expenditure growth are listed below, together with an assessment of each difference considered in isolation.

The plan uses smoothed potential output growth over the period 2024–2041, which results in higher average potential output over the adjustment period in the plan compared to the Commission's assumptions and therefore contributes to higher average net-expenditure growth. The possibility to use a more stable series for potential growth is granted by Article 36(1), point (f), of Regulation (EU) 2024/1263, provided that cumulative growth over the projection horizon (i.e. up to 2041) is broadly in line with the Commission's assumptions and the application is duly justified by economic arguments, which is the case in the plan. In the plan, the application of potential growth smoothing is justified by higher uncertainty in the estimation due to recent macroeconomic external shocks. Consequently, this assumption is deemed to be duly justified. The plan states that Germany's fiscal stimulus package (primarily driven by its new Special Fund for Infrastructure and Climate Neutrality) is likely to further boost economic activity in later years through the expected additional public and private investment.

Table 5: Main assumptions in Germany's plan

						Extension of the adjustment period				
	2024	2025	2026	2027	2028	2029	2030	2031	Average over the period of validity of the plan 2025–2029	Average over the adjustment period 2025–2031
Potential GDP growth (%)	0.5	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Inflation (GDP deflator growth) (%)	3.1	2.7	2.6	2.6	2.6	2.5	2.5	2.4	2.6	2.6

Source: Medium-term fiscal-structural plan of Germany and Commission calculations.

The plan assumes somewhat higher values of the GDP deflator for 2025 and 2026 compared to the Commission's assumptions. The higher deflators contribute to a higher average net-expenditure growth over the adjustment period in the plan. The 0.3 percentage points difference between the GDP deflator in 2025 in the Commission's assumptions and that in the plan is justified by more recent data for the first quarter of 2025 that were not included in the Commission's assumptions.[12] The 0.4 percentage points difference in GDP deflators for 2026 can be justified by price effects of global trade tensions and the significant expected increase in public spending. Taken together, these arguments duly justify this deviation in deflators vis-à-vis the Commission figures.

The updated headline deficit in 2024 included in the plan does not have a significant impact on average net-expenditure growth compared to the Commission's assumptions. This implies that the difference between the maximum growth rates of net expenditure in the plan and the reference trajectory is explained by differences in assumptions that overall can be accepted, in line with Article 13, point (b), of Regulation (EU) 2024/1263. Overall, all the differences in assumptions taken together lead to an average net-expenditure growth in the plan that is higher than the reference trajectory.

The Commission will take into account the above assessment of the plan's assumptions in future assessments of compliance with the maximum growth rates of net expenditure.

[12] Data for the second quarter, published after the plan was submitted, further justify the difference in the 2025 GDP deflator.

Fiscal strategy of the plan

(27) According to the indicative fiscal strategy in the plan, the commitments on net expenditure will be delivered by pursuing a growth-oriented strategy based on public investments, structural reforms and gradual consolidation. The plan features a path with deferred adjustment, with an expansionary policy stance in 2025 and 2026. The expansion is to a significant degree due to higher investment-oriented spending (see Table 6), which addresses sluggish economic growth and underinvestment, and which is to a significant degree financed by a newly created Special Fund for Infrastructure and Climate Neutrality. The Special Fund safeguards investment-oriented spending by permitting expenditures in the Special Fund only when investment spending in the core federal budget exceeds ten per cent of its total expenditures (net of financial transactions and certain defence-related items). The fiscal expansion is followed by significant consolidation efforts in 2027, 2028 and 2029. The consolidation strategy relies on higher revenues by growth-enhancing measures such as cutting bureaucracy costs by 25 % through digitalisation and legal simplification, closing financing gaps in the area of expansion and innovation capital, and expanding skilled labour supply via incentives to raise participation in the labour market and improved immigration processes. On the expenditure side, the medium-term plan reports on the intention of the government to conduct a recurring review and streamlining of all subsidies and funding programmes, consolidate social benefits, and reduce staff in ministries and the national parliament administration by at least 8 % by 2029. The specification of these intentions and the policy measures to be adopted is to be confirmed or adjusted and quantified in the annual budgets.

Set of reform and investment commitments in the plan to underpin an extension of the fiscal adjustment period

(28) In the plan, Germany commits to a set of reforms and investments, aiming to improve potential growth and fiscal sustainability, to underpin an extension of the fiscal adjustment period from four to seven years.

The set of reforms and investments underpinning an extension of the adjustment period is composed of two commitments from Germany's Recovery and Resilience Plan (RRP) as well as 15 new reforms and investments. This includes the following measures (see also Annex II):

– Federal-Länder working group for an efficient public administration: The measure is a commitment under the RRP (measure 6.2.1) to make governance more effective and to better coordinate planning and permitting procedures on Federal and Länder levels. The first two steps consist of the publication of progress reports of the working group by 2021 and 2022, respectively. With the third step, at least 80 % of the measures from the second progress report should be implemented by Q1 2025.

– Offshore Wind Energy Act: The measure is a commitment under the RRP (measure 7.1.5) to create the conditions for an accelerated deployment of offshore wind turbines. In Q1 2023, the Offshore Wind Energy Act entered into force and thereby reduced barriers to the development of renewable energies and the necessary grid infrastructure by simplifying the planning and permitting procedures for relevant projects.

– Operationalisation of the Special Fund for Infrastructure and Climate Neutrality: The reform aims to strengthen the financial framework to address urgent public investment needs for national infrastructure. Following the creation of the Special Fund for Infrastructure and Climate Neutrality, legislation establishing the rules on how the funds are to be spent, particularly the additionality criterion for investment, should enter into force by Q3 2025.

– Research allowance to support R&D: This measure aims to strengthen business R&D activities through fiscal incentives. The reform involves adopting a law to extend the tax base and eligible expenditure of the research allowance by Q1 2026.

- Reduction of administrative burden: The goal of this measure is to reduce bureaucratic burdens on businesses, citizens, and administration. Remedial measures will be bundled into administrative burden reduction laws. Legislation is expected to be adopted by Q4 2027.

- Simplification of procurement law for the Armed Forces: This measure seeks to reduce red tape and enable investment by simplifying procurement law for the Federal Armed Forces by extending the scope for simplified procurement procedures, speeding up, and digitalising procedures. By Q2 2026, legislation is expected to enter into force.

- Simplification of procurement law: Similar to the previous measure, this reform aims to reduce red tape and enable investment by simplifying procurement law by extending the scope for simplified procurement procedures, speeding up, and digitalising procedures. By Q2 2026, legislation is expected to enter into force.

- Facilitating employment after reaching retirement age: This measure aims to improve labour supply by removing disincentives to continue work after the regular retirement age. The reform involves lifting the ban on pre-employment (employers being banned from offering a temporary contract without objective reason to workers previously employed) to facilitate the temporary return to the labour market after reaching retirement age by Q2 2026.

- Digital one-stop shop for qualified third-country nationals: This measure aims to improve labour supply by facilitating highly qualified migration. The reform involves starting a central IT platform for foreign professionals, which is expected to be operational by Q4 2029.

- Expansion of work opportunities for temporary residents: This measure aims to improve labour supply by increasing labour market participation of refugees. The reform involves reducing bans on work for refugees to a maximum of three months by changing the relevant legislation by Q4 2028.

– Extension of the tobacco tax: This measure aims to safeguard tax revenues and strengthen public health protection. The reform involves adopting a law for an extension of the tobacco tax model by Q4 2026.

– Facilitating housing investment (Housing Turbo): This measure aims to increase housing investment by simplifying housing construction regulations. The reform involves simplifying the legislation for housing construction through temporary rule exemptions, more flexible planning, extended special regulations and clearer noise conflict guidelines by Q1 2026.

– Setting up a government-backed venture capital fund: This measure aims to improve access to finance for start-ups by mobilising capital from institutional investors. The reform involves starting the fundraising for the "Growth fund II" targeted at institutional investors with the government as an anchor investor, by Q4 2026.

– Report on government subsidies: This measure aims to facilitate fiscal policy-making by showing the efficiency and effectiveness of subsidies. The reform involves publishing two federal subsidy reports that analyse the impact of subsidised programmes following the subsidy policy guidelines by Q4 2025 and Q3 2027.

– Spending reviews: This measure aims to inform fiscal policy-making by identifying potential areas for cost savings and realigning existing expenditures with new spending priorities. The first spending review (being the 12th spending review by the Ministry of Finance (MoF)) will focus on improving performance budgeting. It will be published by Q4 2025. The forthcoming spending reviews (at least two) will examine key policy domains, including existing measures, support programmes, and statutory services as well as cross-cutting topics spanning the full extent of the budget. They will be published at the latest by Q4 2028 and Q4 2029. By focusing on the aims and impacts of federal spending, spending reviews pave the way for improved target-oriented and outcome-oriented budget management. Conclusions and recommendations of the spending reviews will be applied in the budget planning process.

– Improving conditions for geothermal energy investments: This measure aims to remove barriers to investment by simplifying the regulation for geothermal energy investments. The reform involves simplifying authorisation procedures through a Geothermal Energy Acceleration Act by Q2 2026.

– Improving conditions for hydrogen investments: This measure aims to remove barriers to investment by simplifying the regulation for hydrogen investments. The reform involves simplifying planning, permitting, and related procurement procedures through a Hydrogen Acceleration Act by Q3 2026.

(29) In line with Article 14(3) of Regulation (EU) 2024/1263, each reform and investment underpinning an extension of the adjustment period is sufficiently detailed, front-loaded, time-bound and verifiable.

(30) The RRP commitments underpinning the extension contain significant reforms and investments aimed at improving fiscal sustainability and enhancing the growth potential of the economy. In addition, Germany commits to continuing the reform effort over the period covered by the medium-term fiscal-structural plan and maintaining the nationally financed investment levels realised over the period covered by the RRP (see below, Table 6). The commitments will be monitored throughout the implementation of the plan. Accordingly, commitments under the RRP can be taken into account for the extension of the adjustment period as provided by Article 36(1), point (d), of Regulation (EU) 2024/1263.

(31) The set of reforms and investments underpinning the extension is expected to improve the growth and resilience potential of Germany's economy in a sustainable manner as required by Article 14(2), point (a), of Regulation (EU) 2024/1263. The plan estimates that the package will have a positive economic impact of around 1.0 % of 2029 GDP in 2029. This estimation was done using the Commission's dynamic stochastic general equilibrium models (QUEST III). Most of the growth effects stem from three measures:

– The operationalisation of the Special Fund for Infrastructure and Climate Neutrality is expected to contribute to a higher share of investment, which is estimated to increase GDP over the period of the plan. The estimation is in line with analysis provided in the Commission's Spring Forecast 2025 on the macroeconomic effects of the Special Fund for Infrastructure and Climate Neutrality.

– The administrative burden reduction laws and the simplifications in procurement law are set to improve efficiency and create productivity gains. The reduction of overhead costs leads to a higher profitability of firms. This is in line with published estimates of the effects of a reduction in administrative burden[13]. The risk of a reduction of overall employment seems low as the German labour market is tight.

– The measures to facilitate skilled migration and expanding work opportunities for refugees are expected to improve labour supply and thereby growth. These estimates are based on scenarios from two studies on migratory movements, one of which was produced by the Kiel Institute on request from the Ministry of Economy.[14]

Overall, the plan is expected to improve the growth and resilience potential of the economy by addressing previously identified weaknesses such as the lack of investment and decreasing labour supply.

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13 See e.g. Roeger et al (2008): Structural Reforms in the EU: A simulation-based analysis using the QUEST model with endogenous growth, https://ec.europa.eu/economy_finance/publications/pages/publication13531_en.pdf.

14 Institut für Weltwirtschaft Kiel (2021): Analyse und Prognose von Migrationsbewegungen, https://www.ifw-kiel.de/fileadmin/Dateiverwaltung/IfW-Publications/fis-import/712bf76b-fed4-4ad6-b827-4a5a04f42a3b-wipo_34.pdf; Destatis: 15. Koordinierte Bevölkerungsvorausberechnung, https://www.destatis.de/DE/Themen/Gesellschaft-Umwelt/Bevoelkerung/Bevoelkerungsvorausberechnung/begleitheft.html.

(32) The set of reforms and investments underpinning the extension is expected to support fiscal sustainability as required by Article 14(2), point (b), of Regulation (EU) 2024/1263. The government expects a fiscal effect of the set of reforms and investments of 0.2 % of nominal GDP per year which cumulates up to 1.0 % of 2024 nominal GDP over the period between 2025–2029. This is mostly through indirect effects (0.9 %), reflecting the focus on growth-enhancing reforms. The extension of the tobacco tax will increase tax revenues. Additionally, spending reviews and a subsidy review will help to improve the quality of public finances.

(33) The set of reforms and investments underpinning the extension addresses the common priorities of the EU as required by Article 14(2), point (c), of Regulation (EU) 2024/1263. Most of the measures are expected to contribute to social and economic resilience, in line with the principles of the European Pillar of Social Rights. Furthermore, the acceleration laws for geothermal energy and hydrogen investment contribute to a fair green and digital transition as well as to ensuring energy security together with the Offshore Wind Energy Act. The simplification of the procurement law and the use of digital technologies in procurement processes for the Armed Forces addresses the build-up of defence capabilities.

(34) The set of reforms and investments underpinning the extension addresses the relevant[15] CSRs issued as part of the European Semester as required by Article 14(2), point (d), of Regulation (EU) 2024/1263. In particular, the set of reforms and investment underpinning an extension address CSRs related to:

– fiscal-structural recommendations through public-investment-enabling reforms including the operationalisation of the Special Fund for Infrastructure and Climate Neutrality and the simplification of procurement law as well as the extension of the tobacco tax, spending reviews and the report on government subsidies;

[15] CSRs considered 'relevant' are recommendations: (i) referred to in the Council Implementing Decision on the approval of the assessment of the recovery and resilience plan for measures included in the RRP and (ii) adopted by the Council in 2025.

– recommendations with regard to the transformation of the economy by the extension of the research allowance to support R&D, the reduction of administrative burden including by using digital technologies, facilitating housing investment and setting up a government-backed venture capital fund;

– recommendation with regard to the green transition to reduce the overall dependency on imported fossil fuels and facilitate the role of renewable energy in the energy system by improving the conditions for offshore wind energy, geothermal energy and hydrogen investments, as well as electrification and flexibility;

– recommendation with regard to the labour market by facilitating employment after reaching retirement age, a digital one-stop shop for qualified third-country nationals and the expansion of work opportunities for temporary residents.

(35) The plan ensures that the planned overall level of nationally financed public investment realised on average over the period covered by the RRP is maintained, as required by Article 14(2), point (e), of Regulation (EU) 2024/1263.

Table 6: Nationally financed public investment in the plan (% of GDP)

Average level over the period covered by the RRP (2021–2026)[16]	2025	2026	2027	2028	2029	Average over the duration of the plan
2.9	3.3	3.5	3.5	3.7	3.8	3.5

Source: Medium-term fiscal-structural plan of Germany.

(36) Finally, the set of reform and investment commitments underpinning an extension can be regarded as consistent with the commitments in the RRP and the Partnership Agreement agreed under the Multiannual Financial Framework as required by Article 14(4) of Regulation (EU) 2024/1263.

[16] It is assumed and accepted that the two periods will overlap. The requirement to maintain the level of investment is intended to apply to the years after the end of the lifetime of the Recovery and Resilience Facility.

(37) In conclusion, the set of reforms and investments underpinning the extension of the adjustment period is assessed as fulfilling, taken altogether, the criteria in Article 14 of Regulation (EU) 2024/1263. As a result, the adjustment period can be extended from four to seven years, as put forward in the plan.

Other reform and investment intentions in the plan responding to the main challenges identified in the context of the European Semester and addressing the common priorities of the Union

(38) Besides the set of reforms and investments underpinning an extension of the adjustment period, the plan describes policy intentions concerning other reforms and investments to respond to the main challenges identified in the context of the European Semester, especially the CSRs, and to address the common priorities of the Union. The plan includes 35 reforms and investments, of which four are financially supported by the Recovery and Resilience Facility. The plan's reforms and investments are partly based on an existing government strategy document ('Responsibility for Germany, Coalition Agreement between CDU, CSU and SPD, 21st Legislative Period').[17]

(39) Concerning the common priority of a fair green and digital transition, including the climate objectives set out in Regulation (EU) 2021/1119, the plan provides for training measures, for example, regarding the digitalisation of training and to encourage the digital participation of learners. In addition, the plan includes reforms and investments aiming at the expansion of digital networks by determining an overriding public interest for network expansion and simplifying planning and approval. Furthermore, the plan aims to improve access to justice by introducing online procedures in civil justice as well as the simplification of notarial procedures by the introduction of a digital authentication procedure for notaries and other deeds. The plan also includes the adoption of common digital standards for public administration to ensure uniform and barrier-free access to administrative services (included in the RPP), and a law to modernise and digitalise the fight against undeclared work.

[17] Verantworung für Deutschland, Koalitionsvertrag zwischen CDU, CSU und SPD, 21. Legislaturperiode, https://www.koalitionsvertrag2025.de/sites/www.koalitionsvertrag2025.de/files/koav_2025.pdf.

The plan also describes measures to encourage the construction of dispatchable power plants, the development, conversion and new construction of climate-neutral heat networks (included in the RRP) as well as the targeted expansion of electricity networks. Furthermore, the plan contains a package of measures aimed at reducing tax components of electricity prices for commercial consumers and ensuring a greater State involvement in network costs to contribute to competitiveness and electrification, improve the regulatory environment for CCS/CCU, and the continuation of the funding for heating and renovation for efficient buildings (included in the RRP) as well as an increase in federal funding for efficient and climate-neutral heating networks. The plan provides for the rehabilitation of the rail network by upgrading high-performance corridors. To strengthen governance and long-term investment planning in rail, the plan introduces the 'Infraplan' as a binding funding tool prioritising future projects. E-mobility will be promoted through tax incentives, car tax exemptions, targeted support for low-income households, and investment in charging infrastructure and zero-emission freight mobility (included in the RRP). Finally, the plan supports innovation and technological progress by prioritising research funding under the high-tech agenda, with a focus on key technologies such as AI, biotechnology and climate solutions, and by fostering stronger links between research and industry. These measures and others in the plan are intended to contribute to the implementation of the 2025 CSRs on skills, vocational education and training and adult learning, public administration, digital infrastructure, the digitalisation of public administration and public services, energy efficiency, transport, renewable energy, energy infrastructure and networks, and research and innovation.

(40) Concerning the common priority of social and economic resilience, including the European Pillar of Social Rights, the plan includes reforms and investments aiming to improve employment incentives and speed up labour market integration by restructuring the basic income support (Grundsicherung) for job seekers. A Commission on welfare state reform is expected to present recommendations for modernising and reducing bureaucracy in the welfare system and its administration. To increase incentives for an expansion of gainful employment, the plan provides for the introduction of tax exemptions for overtime supplements. Furthermore, the plan also provides for measures for equity through education such as providing targeted support to schools with a high proportion of socially disadvantaged pupils, additional support for early childhood education and care (ECEC) in disadvantaged areas and for those that focus on promoting children's language development as well as for improving the infrastructure for all ECEC. In addition, the plan provides for a bundle of up- and re-skilling training measures, for example, to enhance vocational training, life-long learning, regarding the digitalisation of training and support for in-company training. To improve educational opportunities, the plan extends the investment programme for full-day school care. In addition, infrastructure procedures will be accelerated through harmonised procedural law. As a further step to reduce bureaucracy, process improvement reviews will be introduced in order to identify and address the biggest obstacles in administrative procedures. Social benefits are to be better aligned and digitalised to simplify access and reduce bureaucracy. The plan aims at reducing electricity costs by tax relief and federal co-financing of grid fees, supporting electrification. Long-term private savings will be supported by introducing an early-start pension for children. The plan provides for the inclusion of newly self-employed persons in the statutory pension system, which aims to strengthen old-age security. It also aims at increasing labour supply by providing tax incentives for work beyond retirement age. Access to care will be improved through a primary care system, emergency and rescue service reform, and hospital restructuring, while a long-term care reform aims to ensure sustainability and reduce burdens on contributors. The rail network is to be modernised through targeted corridor rehabilitation. Business investment will be stimulated by reintroducing accelerated depreciation and reducing corporate tax rates. Access to finance will be expanded by improving funding for small and medium-sized enterprises (SMEs) and start-ups.

Finally, the plan supports innovation by prioritising research in key technologies such as AI, biotech and climate tech. These measures and others in the plan are intended to contribute to the implementation of the 2025 CSRs on taxation policy, the business environment, the pension systems and active ageing, public administration, the functioning of the labour market, skills, vocational education and training and adult learning, education, energy infrastructure and networks, research and innovation, and transport. The measures in the plan are also intended to help improve housing affordability by aiming to increase the housing supply.

(41) Concerning the common priority of energy security, the plan includes reforms and investments that are intended to improve the resilience and flexibility of the energy system. The plan describes measures to encourage the construction of dispatchable power plants as well as the development, conversion and new construction of climate-neutral heat networks (included in the RRP). The plan also includes measures for the targeted and system-friendly deployment of networks and storage, intended to align grid expansion with electricity demand and renewable generation. These measures and others in the plan are intended to contribute to the implementation of the 2025 CSRs on the renewable energy, energy infrastructure & networks, energy efficiency and transport.

(42) Concerning the common priority of defence capabilities, the plan includes reforms and investments that underpin the extension of the adjustment period (see recital 32).

(43) In addition, the plan includes other policy measures going beyond the common priorities of the EU, including a Federal-Länder pact to accelerate planning and permitting procedures, the extension of the rules to cap the overall regulatory burden, and the strengthening of the National Regulatory Control Council aimed at improving oversight of regulatory impacts.

(44) The plan provides information on the consistency and, where appropriate, complementarity with Germany's RRP. The plan includes measures from the RRP such as the development, conversion and new construction of climate-neutral heat networks and the continuation of the funding for heating and renovation for efficient buildings. Furthermore, it includes the promotion of e-mobility through tax incentives, car tax exemptions, targeted support for low-income households, and investment in charging infrastructure and zero-emission freight mobility. Lastly, it contains the adoption of common digital standards for public administration to ensure uniform and barrier-free access to administrative services.

(45) The plan provides an overview of the public investment needs of Germany related to the common priorities of the EU. To support a fair green and digital transition, the plan states that substantial investments are required in renewable energy, electricity grids, energy efficiency, hydrogen infrastructure, net-zero technologies, and the digital modernisation of public services. To enhance social and economic resilience, investment is needed to reduce strategic dependencies, boost research and innovation, and strengthen competitiveness, particularly through support for key technologies such as microelectronics, AI, quantum, and biotech. To ensure energy security, the German authorities see investment needs regarding liquefied-natural-gas (LNG) import infrastructure and flexible, low-emission gas power plants, intended to support the transition and reduce reliance on single suppliers. To build up defence capabilities, the plan provides for significant investment in closing equipment gaps, strengthening the Bundeswehr's readiness, and fulfilling NATO commitments, supported by the Bundeswehr special fund and sustained higher defence spending.

ACTIVATION OF THE NATIONAL ESCAPE CLAUSE

(46) The Heads of State or Government, meeting in Versailles on 10–11 March 2022, committed to bolstering European defence capabilities in the light of Russia's military aggression against Ukraine. These aims were reiterated in the Strategic Compass for Security and Defence. In its Conclusions on European defence of 6 March 2025, the European Council welcomed the intention of the Commission to recommend the activation, in a coordinated manner, of the national escape clause under the Stability and Growth Pact as an immediate measure.

(47) In its Communication of 19 March 2025[18], the Commission invited all Member States to make use of the flexibility provided by the national escape clause in a coordinated manner with a view to maximising the impact on the EU's defence capabilities. This flexibility aims at facilitating the transition to higher levels of defence spending on a permanent basis. That Communication states that the activation of the national escape clause would allow Member States to deviate from the maximum growth rates of net expenditure as set by the Council when endorsing the medium-term fiscal-structural plans or when establishing the corrective paths under the excessive deficit procedure, to the extent that this deviation is justified by an increase in defence spending relative to the reference year, and that the annual excess through 2028 will not exceed 1.5 % of GDP. Increases beyond that amount would be subject to the normal assessments of compliance. Such a maximum is necessary to ensure that fiscal sustainability is not endangered, while allowing all Member States to benefit from the flexibility as they move towards a higher level of defence expenditure. The exact amounts will be determined when outturn data become available, to ensure that the additional flexibility is used only for its intended purpose.

(48) On 24 April 2025, Germany submitted a request to the Council and the Commission to activate the national escape clause under Article 26 of Regulation (EU) 2024/1263.

(49) In its request, Germany sets out that, in a context of heightened geopolitical tensions, Russia's continued war of aggression against Ukraine and its threat to European security constitutes an existential challenge for the Union, which requires a significant increase in defence spending. This situation is an exceptional circumstance outside the control of each Member State.

[18] Commission Communication (C(2025) 2000 final) of 19 March 2025.

(50) Total general government expenditure for defence (Classification of the Functions of Government (COFOG) 02 division) in Germany amounted to 1.0 % of GDP in 2021, 1.0 % in 2022 and 1.1 % of GDP in 2023 (Table 7). Based on information provided in the medium-term plan, Germany is spending 1.2 % and 1.5 % of GDP in defence in 2024 and 2025 respectively. In addition to this, Germany envisages substantially increasing its defence expenditure towards the NATO target and maintaining the increased defence expenditure throughout the current legislature. Therefore, the increase in defence expenditure has a major impact on the public finances of Germany.

Table 7: Total defence spending in Germany

	2021 a	2022 a	2023 a	2024 b	2025 b
General government total defence expenditure (% of GDP)	1.0	1.0	1.1	1.2	1.5

Source: (a) Eurostat; (b) Information provided to the Council and the Commission by Germany.

(51) Germany estimates that the increase in total defence expenditure as a ratio to GDP from 2021 to 2025 will be in the order of 0.5 percentage points and therefore contribute to a deterioration in the government balance and increasing government debt.

(52) All else being equal, an increase in expenditure over the period covered by the national escape clause will lead to higher government debt and a higher deficit by the end of that period. Indicative projections run by the Commission and assuming, by 2028, a linear uptake of the full increase in government expenditure allowed by the national escape clause suggest that the deficit-to-GDP ratio and debt-to-GDP ratio in 2028 would be 2.5 percentage points and 4.8 percentage points higher, respectively, than if net expenditure grew in line with the Commission's prior guidance. This would likely require an additional fiscal adjustment after the period of activation of the national escape clause in order to meet the requirements of the fiscal framework[19], including to ensure that the debt ratio is put or remains on a plausibly downward path by the end of the adjustment period or that it remains at prudent levels below 60 % of GDP, and that it brings and maintains the government deficit below 3 % of GDP over the medium term. Germany acknowledges that, going forward, structurally higher defence expenditure may require policies to preserve fiscal sustainability and compliance with the fiscal rules over the medium term. The limited projected increase in deficit and debt levels caused by the national escape clause, together with Germany's commitment to implementing the necessary adjustment to fulfil all the requirements of the fiscal framework in the next round of plans, ensures that fiscal sustainability is preserved over the medium term.

[19] See the addendum to ECFIN Institutional Paper 321: 'Assessment of the Fiscal Sustainability Condition for Member States Requesting the Activation of the National Escape Clause', available here: https://economy-finance.ec.europa.eu/publications/assessment-fiscal-sustainability-condition-member-states-requesting-activation-national-escape_en.

(53) General government defence expenditure data are compiled and released by the national statistical authorities and Eurostat according to the International COFOG in the framework of the European System of National Accounts (ESA2010). These data are appropriate to assess the impact of defence spending on government deficit, debt and net expenditure, and related concepts. Eurostat, in close cooperation with the national statistical authorities, will establish a data collection process. The starting point should be COFOG defence categories, while also considering the NATO definition and retaining the possibility to address anomalies that might be attributable to differences in the respective annual reporting systems. The data collection process needs to be aligned with excessive-deficit-procedure (EDP) reporting deadlines.

(54) Moreover, for some of the contracts for military equipment signed during the period of activation of the national escape clause, delivery may occur at a later stage, therefore impacting public finances only after the period of activation of the clause. To cater for this eventuality, the flexibility granted under the national escape clause should also apply to defence expenditure linked to such later delivery, provided that the corresponding contracts were signed during the period of activation of the clause and that this delayed defence spending remains within the overall cap mentioned above.

(55) The expenditure financed by loans provided by the new instrument for Security Action for Europe (SAFE) for the reinforcement of the European defence industry would automatically benefit from the above flexibility. To this end, Member States would report to Eurostat all defence-related expenditures made under the SAFE instrument under the categories 'defence products' and 'other products for defence purposes' as defined in the proposal for a Regulation establishing the SAFE instrument.

(56) This recommendation does not modify the definitions of government deficit, debt and net expenditure, and related concepts. Data based on these concepts are to be compiled and reported by Germany in accordance with Regulations (EU) 2024/1263, (EC) No 479/2009 and (EU) No 549/2013.

Conclusion of the Commission's assessment of the national medium-term fiscal-structural plan of Germany

(57) Overall, given the activation of the national escape clause, the Commission is of the view that Germany's plan fulfils the requirements of Regulation (EU) 2024/1263.

OVERALL CONCLUSION OF THE COUNCIL ON THE NATIONAL MEDIUM-TERM FISCAL-STRUCTURAL PLAN OF GERMANY

(58) The Council welcomes the medium-term fiscal-structural plan of Germany and considers that its full implementation would be conducive to ensuring sound public finances and supporting public debt sustainability as well as sustainable and inclusive growth.

(59) The Council takes note of the Commission's assessment of the plan. However, the Council invites the Commission to present its assessment of future plans in a separate document from the Commission recommendations for Council recommendations.

(60) The Council takes note of the Commission assessment of the net-expenditure path and the main macroeconomic assumptions in the plan, including in relation to the prior guidance by the Commission, as well as the implications of the plan's net-expenditure path for government deficit and debt. The Council takes note of the Commission assessment that the macroeconomic and fiscal assumptions, while differing in some instances from the Commission's assumptions by catering for updated macroeconomic and fiscal data, are overall duly justified and underpinned by sound economic arguments. The Council takes note of the broad fiscal strategy of the plan and the risks to the outlook, which could affect the materialisation of the macroeconomic scenario and the underlying assumptions and the delivery of the plan's net-expenditure path. The Council also notes that geopolitical risks may put pressure on defence expenditures.

(61) The Council expects Germany to stand ready to adjust its fiscal strategy as needed to ensure delivery of its net-expenditure path. The Council resolves to monitor closely economic and fiscal developments, including those underlying the scenario of the plan.

(62) The Council considers that further discussions to find a common understanding on the annual surveillance implications of the cumulative net-expenditure growth rates is warranted in time for the next round of fiscal surveillance.

(63) The Council endorses the set of reform and investment commitments presented by Germany in its medium-term plan underpinning the extension of the adjustment period and welcomes efforts to quantify the impact on growth and fiscal sustainability. The Council agrees with the Commission that the set of reforms and investment commitments presented by Germany justify an extension of the adjustment period from four to seven years. The Council takes note of the Commission's assessment pointing to the fulfilment, taken altogether, of the criteria in Article 14, also taking into account the transitional provision of Article 36(1), point (d), of Regulation (EU) 2024/1263, by the set of reforms and investments underpinning the extension. The Council takes note of the Commission's assessment indicating that the reform and investment commitments are expected to improve the growth potential and the resilience of the economy in a sustainable manner and support fiscal sustainability. The Council recommends to Germany that it fully implement the set of reforms and investments commitments to preserve the extension of the adjustment period.

(64) The Council takes note of the Commission description of the reforms and investment needs and intentions, besides the assessment of the set of reforms and investment commitments underpinning an extension of the adjustment period, responding to the main challenges identified in the context of the European Semester, and stresses the importance of ensuring the delivery of such reforms and investments. The Council will, on the basis of reports submitted by the Commission, assess such reforms and investments and monitor their implementation within the framework of the European Semester.

(65) The Council looks forward to the annual progress reports from Germany that shall contain, in particular, information about the progress in the implementation of the net expenditure path as set by the Council, and the implementation of broader reforms and investments in the context of the European Semester, as well as the implementation of the set of reforms and investments underpinning an extension of the adjustment period.

(66) In accordance with Article 17 of Regulation (EU) 2024/1263, the maximum growth rates of net expenditure committed to in the plan should be recommended by the Council to Germany, and the set of reforms and investments underpinning the extension of the adjustment period to seven years should be endorsed.

HEREBY RECOMMENDS:

1. that during the period 2025–2029, Germany ensure that net-expenditure growth does not exceed the maxima established in Annex I to this Recommendation;

2. that during the period 2025–2028, Germany be allowed to deviate from and exceed the maximum growth rates of net expenditure as set by point 1 of this Recommendation, to the extent that:

   a) the net expenditure in excess of these maximum growth rates is not more than the increase in defence expenditure in per cent of GDP since 2021; and

   b) the deviation in excess of the maximum growth rates of net expenditure does not exceed 1.5 per cent of GDP;

3. that in the years after 2028, Germany still be allowed to deviate from and exceed the maximum growth rates of net expenditure as set by a Council Recommendation in accordance with Articles 17 or 19 of Regulation (EU) 2024/1263, to the extent that the net expenditure in excess of these maximum growth rates is related to deliveries of military equipment contracted before end-2028 and remains within the overall cap mentioned above;

4. that, in accordance with Article 22(7) of Regulation (EU) 2024/1263, the deviations from the maximum growth rates of net expenditure as set by the Council that are allowed by this Recommendation will not be recorded as debits in the control account of Germany;

5. that, in order to ensure correct recording of the additional expenditure, Germany include actual and planned data on total defence expenditure (COFOG division 02), including defence investment (COFOG division 02 P.51) and any expenditure to be financed by SAFE loans that are not covered in COFOG-02:

   a) for years T-4, T-3, T-2 and T-1 (with year T being the current year), in the reporting to the Commission (Eurostat) in accordance with Council Regulation (EC) No 479/2009;

   b) for years 2021 through year T (current year), in national medium-term fiscal-structural plans and in annual progress reports in accordance with Article 11(1), Article 15 and Article 21(1) of Regulation (EU) 2024/1263;

   c) for years T (current year) and T+1, in draft budgetary plans in accordance with Regulation (EU) No 473/2013;

6. that Germany implement the set of reforms and investments that underpins the extension of the fiscal adjustment period to seven years, as established in Annex II to this Recommendation, by the indicated deadlines.

Done at Brussels,

For the Council
The President

ANNEX I

Maximum growth rates of net expenditure

(annual and cumulative growth rates, in nominal terms)

Germany

Years		2025	2026	2027	2028	2029
Growth rates (%)	Annual	4.4	4.5	2.3	1.7	1.6
	Cumulative*	4.4	9.0	11.5	13.3	15.2

* The cumulative growth rates are calculated by reference to the base year of 2024. The cumulative growth rates are used in the annual monitoring of ex-post compliance in the control account.

Set of reforms and investments that underpins an extension of the adjustment period to seven years

Reform/investment	Main objective	Description and timing of key steps	Monitoring indicator(s)
Operationalisation of the Special Fund for Infrastructure and Climate Neutrality (new measure)	Specifying the financial framework to address urgent public investment needs for national infrastructure.	Following the creation of the Special Fund for Infrastructure and Climate Neutrality, there will be legislation establishing the rules on how the funds are to be spent, particularly the additionality criterion for investment. Step 1: By Q3 2025, adopt the laws for the creation of the Special Fund for Infrastructure and Climate Neutrality.	Step 1: Entry into force of legislation
Research allowance to support R&D (new measure)	Strengthen business R&D activities through fiscal incentives.	Step 1: By Q1 2026, adopt a law on the extension of the tax base and eligible expenditure of the research allowance.	Step 1: Entry into force of legislation
Reduction of administrative burden (new measure)	Reduce bureaucratic burdens on business, citizens and administration.	Remedial measures will be bundled into administrative burden reduction laws. Step 1: By Q4 2027, adopt legislation on the reduction of administrative burden.	Step 1: Adoption of legislation
Simplification of procurement law for the Armed Forces (new measure)	Reduce red tape and enable investment by simplifying procurement law for the Federal Armed Forces.	Step 1: By Q2 2026, simplifying procurement laws for the Armed Forces by extending the scope for simplified procurement procedures, speeding up and digitalising procedures.	Step 1: Entry into force of legislation
Simplification of procurement law (new measure)	Reduce red tape and enable investment by simplifying procurement law.	Step 1: By Q2 2026, simplify procurement laws by extending the scope for simplified procurement procedures, speeding up and digitalising procedures.	Step 1: Entry into force of legislation
Facilitating employment after reaching retirement age (new measure)	Improve labour supply by removing disincentives to continue work after the regular retirement age.	Step 1: By Q2 2026, lift the ban on pre-employment to facilitate the temporary return to the labour market after reaching retirement age by changing the relevant legislation.	Step 1: Entry into force of legislation
Digital one-stop shop for qualified third-country nationals (new measure)	Improve labour supply by facilitating highly qualified migration.	Step 1: By Q4 2029, operational start a central IT platform for foreign professionals.	Step 1: Start of a public online IT platform

Expanding work opportunities for temporary residents (new measure)	Improve labour supply by increasing labour market participation of refugees.	Step 1: By Q4 2028, reduce bans to work for refugees to a maximum of three months by changing the relevant legislation.	Step 1: Entry into force of legislation
Extension of the tobacco tax (new measure)	Safeguard tax revenues and strengthen public health protection.	Step 1: By Q4 2026, adopt a law for an extension of the tobacco tax model.	Step 1: Entry into force of legislation
Facilitating housing investment (Housing Turbo) (new measure)	Increasing housing investment by simplifying housing construction regulations.	Step 1: By Q1 2026, simplify the legislation for housing construction through temporary rule exemptions, more flexible planning, extended special regulations, and clearer noise conflict guidelines.	Step 1: Entry into force of legislation
Set up of a government-backed venture capital (VC) fund (new measure)	Improving access to finance for start-ups by mobilising capital from institutional investors.	Step 1: By Q4 2026, start the fundraising for the 'Growth fund II' targeted at institutional investors with the government as an anchor investor.	Step 1: Letter of specification for a VC fund
Report on government subsidies (new measure)	Facilitating fiscal policy-making, by showing the efficiency and effectiveness of subsidies.	Step 1: By Q4 2025, publish a first federal subsidy report that analyses the impact of subsidised programmes following the subsidy policy guidelines. Step 2: By Q3 2027, publish a second federal subsidy report that analyses the impact of subsidised programmes following the subsidy policy guidelines.	Step 1: Publication of a first subsidy report Step 2: Publication of a second subsidy report
Spending reviews (new measure)	Informing fiscal policy-making, by identifying potential areas for cost savings or realigning existing expenditures with new spending priorities.	The first spending review (being the 12th spending review of the MoF) will be on improving performance budgeting. The next at least two spending reviews will be on important policy domains covering existing measures, support programmes, statutory services as well as cross-cutting topics identified within the full extent of the budget. Conclusions and recommendations of the spending reviews will be applied in the budget planning process. Step 1: By Q4 2025, publish a first spending review. Step 2: By Q4 2028, publish a second spending review. Step 3: By Q4 2029, publish a third spending review. Assessment will take place at time of publication.	Step 1: Publication of a first spending review. Step 2: Publication of a second spending review. Step 3: Publication of a third spending review

Improving conditions for geothermal energy investments (new measure)	Removing barriers to investment by simplifying the regulation for geothermal energy investments.	Step 1: By Q2 2026, simplify authorisation procedures through a Geothermal Energy Acceleration Act.	Step 1: Entry into force of legislation
Improving conditions for hydrogen investments (new measure)	Removing barriers to investment by simplifying the regulation for hydrogen investments.	Step 1: By Q3 2026, simplify planning, permitting and related procurement procedures through a Hydrogen Acceleration Act.	Step 1: Entry into force of legislation
Federal-Länder working group for an efficient public administration (RRP reform 6.2.1)	Making governance more effective, future-oriented and innovation-friendly; Coordinating planning and permitting procedures on Federal and Länder-level.	The working group is set up to publish reports from the working group with recommendations on grants, planning and permitting. Step 1: By Q2 2021, finish a first progress report with recommendation Step 2: By Q2 2022, finish second progress report Step 3: By Q1 2025, finalise at least 80 % of the measures from the 2nd progress report.	Step 1: Publication of the first progress report Step 2: Publication of the second progress report Step 3: Finish 80% of the actions from the second progress report (monitored via the RRF)
Offshore Wind Energy Act (RRP reform 7.1.5)	Creating the conditions for an accelerated deployment of offshore wind turbines.	Step 1: By Q1 2023, reduce barriers to the development of renewable energies and the necessary grid infrastructure by simplifying the planning and permitting procedures for relevant projects.	Step 1: Entry into force of the Offshore Wind Energy Act (monitored via the RRF)