

IMF Executive Board Concludes 2025 Article IV Consultation with Germany

February 12, 2026

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed the Article IV Consultation for Germany.^[1]_(#_ftn1)

The German economy has been hit with major shocks in recent years, with these adverse effects exacerbated by weak underlying productivity growth. The energy-price shock in mid-2022 and rapid monetary tightening that was required to contain inflation contributed to deliver two years of negative growth during 2023-24. The economy began to recover in late 2024 as these shocks started to dissipate, but the pace of recovery has been constrained by new trade-related headwinds. Weak growth in recent years also reflects lackluster underlying productivity growth, in part due to long-stalled structural reforms, and increasing competition in export markets. Slow economic growth has caused the labor market to soften as unemployment has increased while part-time employment has also been rising. Inflation has been contained, supported by lower energy prices and subdued domestic demand.

The authorities' landmark reform of the debt-brake rule in 2025 is expected to help drive a gradual economic recovery. Planned fiscal easing in 2026-27 and the lagged effects of recent monetary loosening are expected to boost growth over the next few years. With growth being led by domestic demand, Germany's current account balance is expected to decline gradually over time but remain positive. Inflation is expected to stay near the ECB's target of 2 percent. Over the medium term, Germany still faces a persistently challenging growth outlook despite higher public investment, which is expected to provide a boost to the economy's medium- to longer-term productive capacity. Headwinds include rapid population aging, as the working-age population is projected to decline more sharply than in any other G7 economy over the next five years. Productivity growth is also likely to remain modest, absent further reforms both domestically and at the EU level to improve economic efficiency and foster innovation.

Executive Board Assessment^[2]_(#_ftn2)

Executive Directors welcomed the ongoing economic recovery and the improved outlook following the recent period of subdued growth amid successive external shocks and structurally weak productivity growth. In this context, Directors commended the authorities for the landmark reform of the debt brake to increase much-needed public investment and address critical needs.

Directors supported the authorities' plans to use fiscal space in the near term to help stimulate the economy and close the negative output gap, which in turn should support further external rebalancing. They recommended targeted measures, such as higher high-quality public investment and reductions in high effective marginal income tax rates, which would help raise the economy's longer-term potential growth. Directors called for strengthening public investment efficacy and implementation to maximize the growth impact.

Directors generally agreed on the importance of taking fiscal adjustment measures over the medium term to offset pressures from rising aging-related and defense spending and to stabilize the public debt ratio, while safeguarding public investment. They recommended growth-friendly options such as sectoral spending reviews to identify savings; cuts in environmentally harmful subsidies; and additional pension reforms, which can also encourage longer working lives.

Directors welcomed the authorities' Modernization Agenda and called for prompt implementation of further structural reforms to support growth. To boost labor supply, they recommended improving childcare access, lowering high effective marginal income tax rates for second earners and lower-income households, and better integrating immigrants into the workforce. To boost productivity, Directors encouraged further reforms to support new, innovative firms—such as revising tax rules that favor incumbent firms at the expense of new enterprises. They also highlighted the need to cut red tape, expand digital infrastructure and skills, and boost vocational training. Directors agreed that complementing all of these reforms with steps to deepen the EU Single Market would further boost growth in Germany and across Europe. They also encouraged the authorities to prepare for risks arising from geo-economic fragmentation.

Directors agreed that the financial system is broadly resilient, with some pockets of vulnerability requiring close monitoring. They concurred that macroprudential policy settings are broadly appropriate and recommended strengthening the toolkit through legislation to introduce more borrower-based measures. Directors welcomed ongoing efforts to strengthen AML/CFT frameworks.

Germany: Selected Economic Indicators, 2024-27¹

Projections

2024 2025 2026 2027

Output

Real GDP growth (percent)	-0.5	0.2	1.1	1.5
Total domestic demand growth (percent)	0.2	1.7	1.5	1.6
Output gap (percent of potential GDP)	-1.1	-1.2	-0.7	0.1

Employment

Unemployment rate (percent, ILO)	3.4	3.7	3.6	3.3
Employment growth (percent)	0.5	-0.1	0.1	0.2

Prices

Inflation (percent, headline, period avg.)	2.5	2.3	2.3	2.0
Inflation (percent, core, period avg.)	3.2	2.8	2.3	2.2

General Government Finances

Fiscal balance (percent of GDP)	-2.7	-2.4	-3.4	-4.1
Revenue (percent of GDP)	46.8	47.9	47.9	47.8
Expenditure (percent of GDP)	49.4	50.3	51.3	51.9
Cyclically adjusted balance (percent of GDP)	-2.1	-1.8	-3.0	-4.1
Public debt (percent of GDP)	62.2	62.6	63.9	65.7

Money and Credit

Credit to private sector (percent change)	1.0	1.4	3.8	4.2
Broad money (M3) (end of year, percent change) 2/	3.6	...	...	...
10-year government bond yield (percent)	2.4	...	...	...

Balance of Payments

Current account balance (percent of GDP)	5.8	4.5	4.2	4.0
Trade balance (percent of GDP)	3.9	2.7	2.3	2.0
Exports of goods (percent of GDP)	31.4	30.5	29.7	28.9
Volume (percent change)	-2.7	-0.5	-0.1	1.7
Imports of goods (percent of GDP)	25.9	26.2	25.7	25.3
Volume (percent change)	-2.2	4.9	1.3	2.0
Service trade balance (percent of GDP)	-1.7	-1.6	-1.6	-1.6
FDI balance (percent of GDP)	0.7	0.9	0.7	0.8
Reserves minus gold (billions of US\$)	96.8	...	...	...
External Debt (percent of GDP)	147.6	...	...	...

Exchange Rate

REER (percent change)	0.3	...	...	...
NEER (percent change)	1.5	...	...	...
Real effective rate (2010=100) 3/	97.5	...	...	...
Nominal effective rate (2010=100) 4/	107.4	...	...	...

Sources: Deutsche Bundesbank, Eurostat, Federal Statistical Office, Haver Analytics, and IMF staff calculations.

1/ GDP and its components are unadjusted for working days.

2/ Reflects Germany's contribution to M3 of the euro area.

3/ Real effective exchange rate, CPI based, all countries.

4/ Nominal effective exchange rate, all countries.

[1] ^(#_ftnref1) Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[2] ^(#_ftnref2) At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here:

<http://www.IMF.org/external/np/sec/misc/qualifiers.htm> (<http://www.IMF.org/external/np/sec/misc/qualifiers.htm>).

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