Finanzgruppe
Deutscher Sparkassen-
und Giroverband

ECONOMIC UPDATE

Issue No. 3/2025

The baseline is even weaker than expected

Berlin, 13th October 2025

The German economy still failed to pick up momentum in the summer of 2025. The higher U.S. tariffs continue to weigh on growth, and the baseline turned out to be weaker than expected. Recent revisions to Germany's GDP figures show that 2023 and 2024 performed even worse than previously thought and now have to be classified as a recession.

The length of the weakness phase already pointed to structural causes. The added depth now underscores the urgency. The loss of competitiveness must be tackled through reforms of the macro-economic policy framework. Simply spending more money on the state side is not enough.

Higher spending on investment and defence is likely to stimulate growth in 2026 and 2027. Most forecasts released in early October, ahead of the IMF and World Bank annual meetings, anticipate a recovery in those years. Accordingly, the "Joint Summer Forecast" of the chief economists of the Sparkassen-Finanzgruppe projects a growth rate of 1.1 percentage for 2026. However, it must be ensured that this rebound does not become only a straw-fire that burns out by 2028, leaving behind merely additional debt.

Author:

Dr Holger Schulz
Holger.Schulz@dsgv.de

The baseline is even weaker than expected

A new situation picture for Germany emerges after revisions

Even in the summer of 2025 the German economy remained weak. The hoped-for recovery is being pushed further back, which is understandable given the ongoing uncertainties. The full impact of the higher U.S. tariffs has not yet been felt. The macro-economic policy framework is still not clearly shaped. At least the effect of fiscal stimulus should turn positive soon. However, those measures need complementary structural reforms and will also require considerable time to become effective.

Rearview mirror readjusted

Moreover, the view one gets when looking in the rear-view mirror has changed. The condition of the German economy must now be diagnosed differently from the consensus that prevailed until early summer based on the official status quo. In July, major revisions to the national accounts were made.
The Federal Statistical Office revised the development of gross domestic product back to 2021.

Such revisions are not unusual in themselves. They are carried out according to schedule and are, to some extent, the price for publishing official first estimates of key economic data ever earlier. Germany has followed international practices and norms, even overtaking the pace of statistical offices in some other countries, and is now present very early in the information market. Consequently, the early official figures are precisely that: “estimates” – only partly based on actual data and extrapolated with assumed additions.

This approach is not wrong in principle. An early official orientation and a central vote of the “professionals” are helpful and better than having no guidance at all. But the increasing need for revisions over time must be consciously acknowledged.

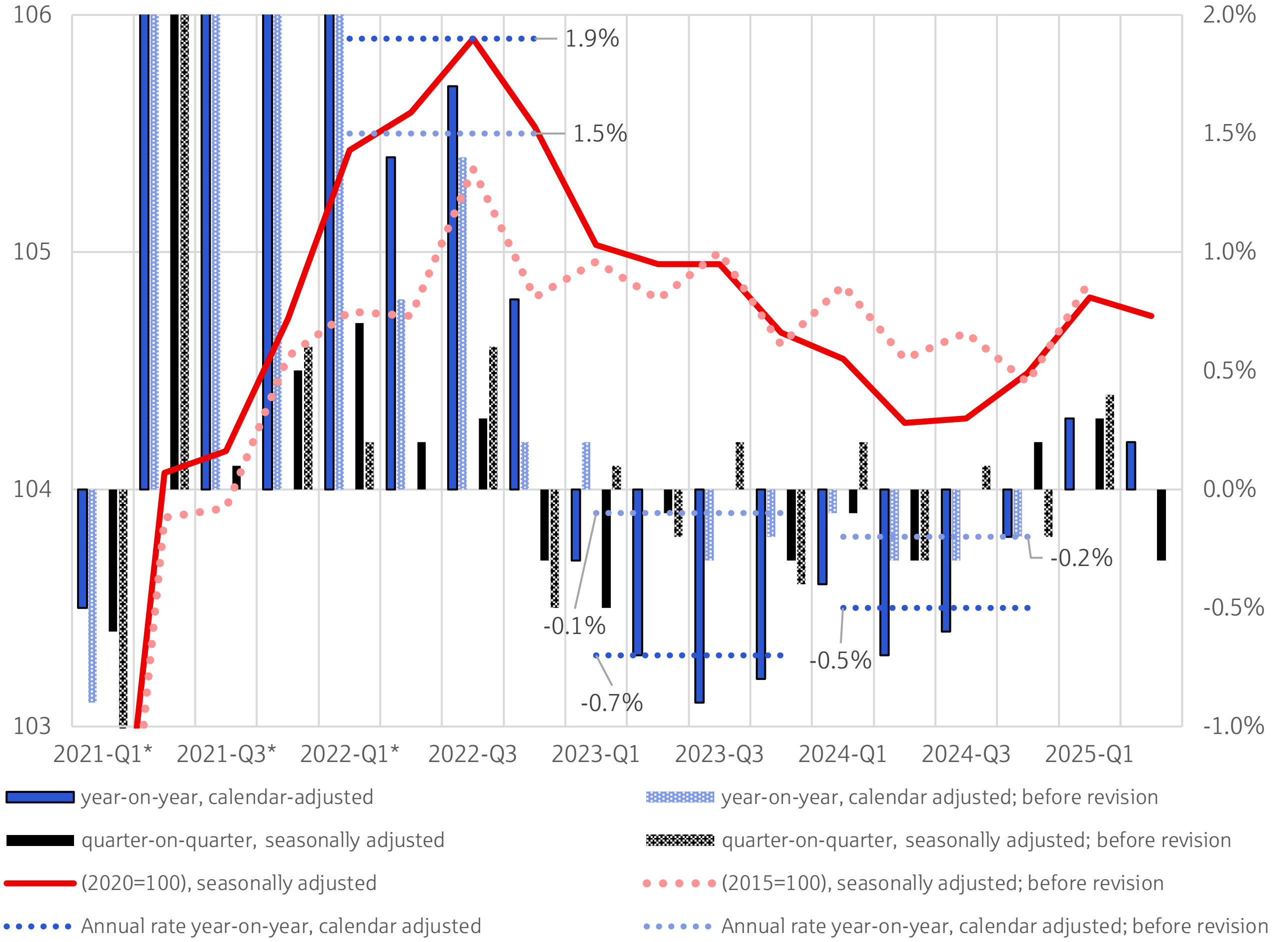
The numerous shocks made the statistical business even more difficult

In recent years many special situations and shocks have arisen that have further complicated the measurement of the economy. The pandemic, the war, inflation, the disruption of the trade order – all these factors have shaken economic activity considerably. Many individual reports to official statistics have therefore been delayed or distorted. Adjustment factors and multipliers used in the early data-release rounds were exposed to unprecedented and unforeseeable structural breaks.

The revision round that has now taken place was announced and therefore not a surprise. The new reports, however, are worth examining because they shift the picture drawn over the past years significantly, even qualitatively.

There were both upward and downward revisions. These largely offset each other, but they occur in different years. The recorded business cycle rhythm is therefore different.

GDP in Germany: Quarterly figures before and after revision by Destatis, July 2025, index values (left axis) and change (right axis)



* To improve clarity, the high change values from 2021-Q1 to 2022-Q1 are not shown in full, but are truncated. The values prior to the revision are published up to 2025-Q1.

Source: Destatis

The red lines for the GDP level, in both versions (before and after revision – dotted and solid), start from the same indexed point in 2020 and converge again at a similar height in early 2025. In 2021 and 2022 the new measurement runs above the flatter old line that was previously believed to reflect reality. This means that the post-pandemic upswing was actually – at least according to the new, deeper insight – stronger in Germany than previously thought.

Post-coronavirus recovery somewhat better than expected

Compared with the development of other industrialised countries, including the European partners that have recovered very quickly after the pandemic with high growth rates, the gap changes with the new assessment. Germany's lag is still visible, but it is no longer as large as was thought until recently. This is the positive side of the revision.

2023 and 2024 now classified as a recession

At the same time, the growth profile that is spread over the years in a different way also means, in reverse, that the remaining years 2023 and 2024 finally show an even weaker dynamic than was already reported. In 2023 the upward adjustment of the revision is lost at the previous level, and afterwards the new line falls below the old trajectory.

Six consecutive negative quarters (and two stagnant ones)

For the period from the end of 2022 the growth rates compared with the previous quarter are negative or at best zero over eight consecutive quarters (in the latter case the bar in the figure above would not be visible). Such a negative series is far more than what would be required to declare a "recession". A recession can already be "technically defined" by two consecutive quarterly declines. In the old picture before the revision one could still observe regularly changing signs; the rates usually hovered around zero. That long-lasting stagnation was already bad enough. In the new measurement the trend is even worse.

Therefore the vocabulary must also be changed retrospectively. 2023 and 2024 were not only "stagnation" but "recession". Both years were also clearly negative in the annual average with the newly reported full-year rates.

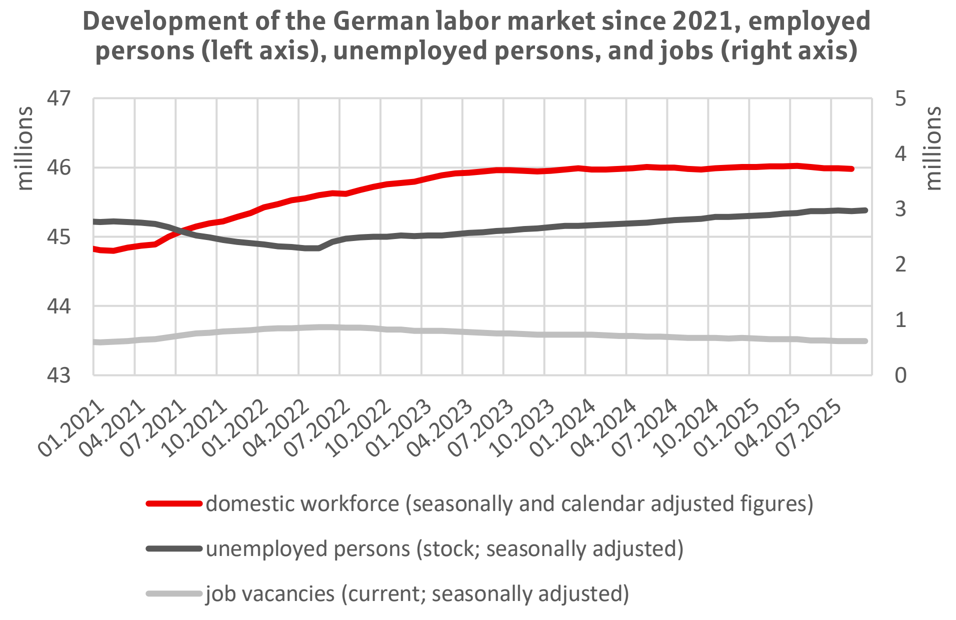
The term recession is not meant here in the sense of a cyclical economic phenomenon. The downward trend is simply too long for that. A short, sharp downturn would not be so bad; it would even be healthy as a corrective factor and could strengthen the basis for the next upturn.

Duration of the weak phase confirms structural causes

The duration of the weakness phase is the real problem. It is evidence of lost competitiveness, structural weakness of the German economy and inadequate framework conditions. This was already known before the revision because of the length of the presumed stagnation. The insight remains the same. The diagnosis and the derived need for action become even more urgent with the now worse trend – now an unusually long recession.

The increasingly tense labour-market situation fits the new assessment of a recession

The newly created outlook also reflects the deteriorating conditions in the labour market that have been evident for some time. This could already be explained by a long-lasting stagnation. With years of missing growth and especially with the even worse situation in large parts of the manufacturing sector, it was clear that companies would eventually abandon the previously observed hoarding behaviour of their workforces. In view of the now measured recession, the pattern of job cuts becomes even more plausible.



Sources: Destatis, Bundesagentur für Arbeit.

Employment numbers have risen until recently, but the development now reaches an upper turning point. This shift was already foreseeable for demographic reasons. The combination of a cyclical and structural weakness phase has amplified the braking effect. Unemployment figures have risen for the first time in two decades.

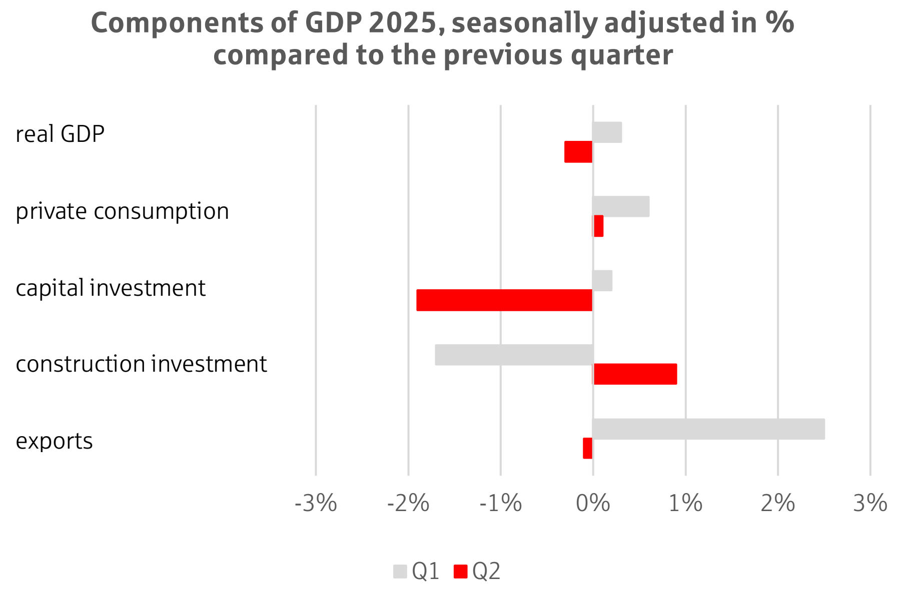
Employment under pressure for further reasons

Wage growth in recent years could be explained by the experienced inflation and was necessary to restore purchasing power. In a recession with stagnant productivity, however, rising wages eventually become a problem that hinders employment. This is especially true for the statutory minimum wage when its increases overstress the situation. The minimum wage has been subject to several political interventions in recent years.

The number of advertised vacancies has fallen sharply in recent months. The long-standing structural shortage of skilled workers in Germany is now hidden by an inverted scarcity relationship. In aggregate there is – very unusually – a surplus of labour supply.

The second quarter of 2025 was negative again – the full year is already largely "lost"

The current data from the national accounts are now available up to and including the second quarter. In the second quarter of 2025 the seasonally adjusted figure was minus 0.3 percentage, a second negative reading. Part of this can be explained as a rebound effect from the advanced exports of the first quarter, when many goods were shipped before the announced tariff barriers took effect. However, the first quarter was not strong enough to leave a positive net effect. Instead, the first half of the year ends overall at zero again.



Source: Destatis.

Private consumption remains fairly stable. What is particularly disappointing is that investment activity in the spring of 2025 stayed very weak. There is no sign of a revival. So far, the capacities needed to absorb the higher public spending from the infrastructure and defence packages that are expected from 2026 are still not being built.

At the current margin of monthly economic indicators, German August production data for the manufacturing sector has recently disappointed. It was down 4.3 percent compared to July. This may be due to the fact that the seasonal adjustment procedure did not adequately account for the slightly different factory holidays, e.g., in the automotive industry. Nevertheless, this is a very disappointing figure, even compared to the previous year. Production was 3.9 percent lower (calendar-adjusted) than in August of the previous year.

2025 will be the third weak year in Germany

Translated with DeepL.com (free version)Consequently, 2025 is for Germany – as the third weak year in a row – already largely lost for growth. Most forecasts still assume a barely positive annual growth figure, such as the autumn report of the economic research institutes published on 25 September, which gave 0.2 percentage. But that is hardly more than a break-even result. The same applies to the OECD, which gave the same figure two days earlier. The IMF is also expected to publish forecasts for its annual meeting in roughly this range.

The chief economists of the Sparkassen-Finanzgruppe had already taken a similar position with their summer forecast, the values of which are presented in the table on the following page.

Recovery postponed until 2026

For 2026 there is still hope that the long-awaited recovery finally arrives, driven broadly by all components of GDP. However, this outlook relies largely on fiscal stimulus.

That stimulus is likely to repeat in 2027 as spending continues to be rolled out. After that, there is a risk that the fiscally induced recovery will fade and will have been only a short-lived spark. This danger becomes real if a truly self-sustaining upswing, that is backed by regained competitiveness and a strong location advantage, cannot be ignited.

Joint forecast by the chief economists of the Sparkassen-Finanzgruppe for Germany

Germany	Actual values 2024 [6]	Forecast for 2025	Forecast for 2026
Gross domestic product [1]	-0.5	+0.2	+1.1
Private consumption	0.5	+1.1	1.3
Government spending	2.6	+2.1	1.9
Construction investments	-3.4	-1.2	+2.7
Equipment investments	-5.4	-2.0	+3.5
Exports	-2.1	-0.5	+0.2
Imports	-0.6	+2.9	+1.5
Employees [2]	46.1	46.0	46.1
Unemployment rate [3]	6.0	6.3	6.2
Consumer prices (HICP) [4]	2.5	2.1	2.2
Core rate [4] (excluding energy, food, alcohol, tobacco)	3.2	2.4	2.2
Savings rate [5]	11.2	10.5	10.5

[1] GDP and subdivisions: non-calendar-adjusted, real change compared to the previous year in percent.
[2] Number of employed persons working in Germany, in millions.
[3] Unemployment rate as defined by the Federal Employment Agency, in percent.
[4] Change compared to the previous year, in percent, here in the HICP definition.
According to the national definition of the consumer price index, the average annual rate in 2024 was 2.2 percent.
[5] Savings rate of private households as a percentage of disposable income.

Sources: Destatis, Bundesagentur für Arbeit.

Euro area overall on track – but concerns remain in several countries

For the euro area as a whole the picture is considerably more positive. The recovery of the entire currency bloc is still intact. As in recent years, the growth rates in the relevant forecasts are already positive for 2025 and 2026, even when Germany is included. The joint forecast of the chief economists of the Sparkassen-Finanzgruppe assumes growth rates of 1.1 percentage for the euro area in both of the projected years.

Joint forecast by the chief economists of the Sparkassen-Finanzgruppe for the Euro area

Euro area	Forecast for 2025	Forecast for 2026
Gross domestic product [1]	+1.1	+1.1
Private consumption	+1.3	+1.5
Government spending	+1.5	+1.5
Construction investments	+2.4	+2.0
Equipment investments	+1.1	+1.1
Exports	+2.2	+2.1
Exchange rate [2]	1.14	1.20
Oil price (one barrel of Brent crude) [3]	69.0	70.0
Consumer prices (HICP) [4]	2.1	2.0
Core rate [4] (excluding energy, food, alcohol, tobacco)	2.4	2.2

[1] GDP and subdivisions: non-calendar-adjusted, real change compared to the previous year in percent.
[2] US-Dollar/Euro.
[3] One barrel of Brent crude oil in US dollars.
[4] Change from the previous year in percent.

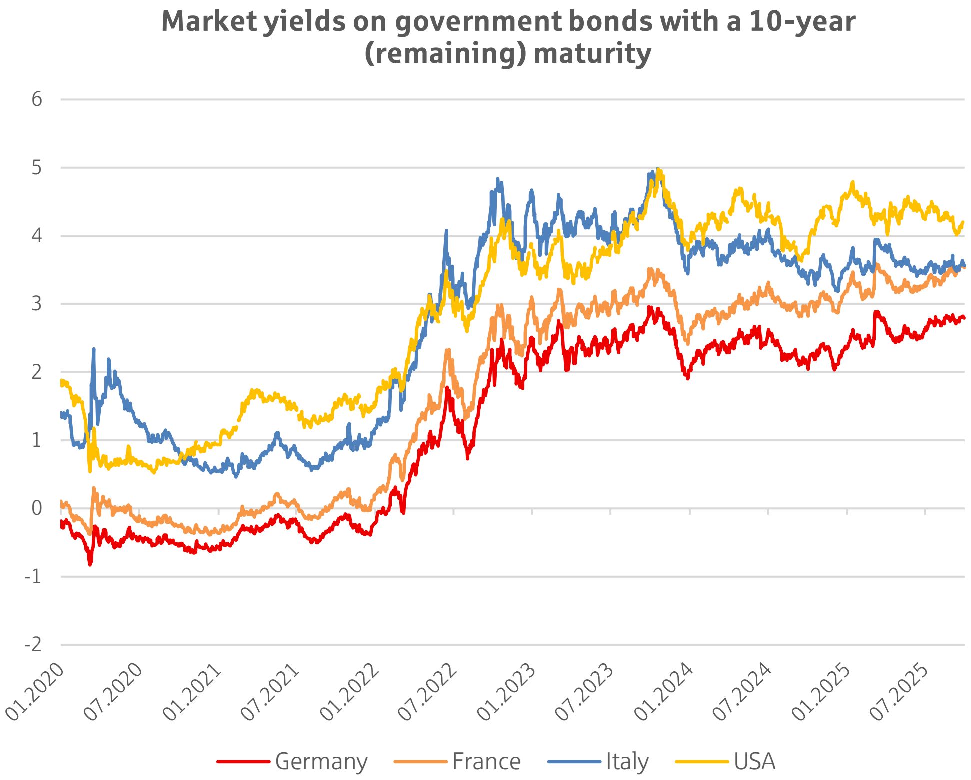
Sources: Destatis, Bundesagentur für Arbeit.

Calmer inflation trends provide solid support...

A favourable factor for the euro area's economic development is that inflation has reached the target level and is expected to stay there. Consequently, monetary policy has little reason for activist measures in the overall macro-economic constellation. However, the initial estimates for September's inflation rates were slightly higher than the summer figures, at 2.4 percentage points in Germany and 2.2 percentage points in the euro area. The main reason was the recent rise in food prices.

...but recently rose again slightly

Behind the generally favourable growth situation in the euro area, however, there are a few special circumstances that are worrisome. Germany is by no means the only country with concerns. In France the situation is becoming increasingly difficult. It is unclear how a political majority will be found for reforms of the social insurance system and for fiscal consolidation. The starting point of public debt in France is considerably more serious than in Germany, and the markets are beginning to price this in. At times the yields on French bonds have even exceeded those on Italian bonds, which is a new development in history.



Sources: Bundesbank, Fred St. Louis, Macrobond, Helaba Research & Advisory.

Vigilance is required regarding the long-term trend of public finances

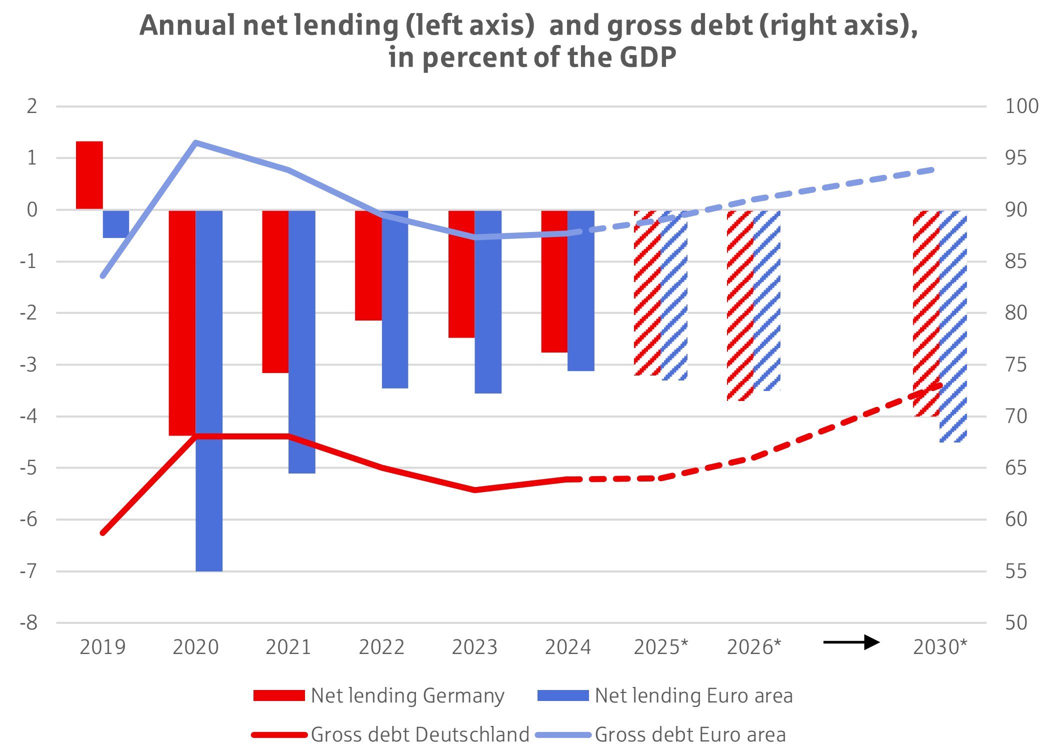
Maintaining the sustainability of public finances through responsible management

Even with the planned course of the fiscal programmes, debt-to-GDP ratios will rise, and a continued increase will eventually become unsustainable. Germany still has a solid starting base and therefore a reasonable amount of fiscal space, but this is not unlimited. It is therefore important that new borrowing is used for additional investment and not for consumptive patching of budget holes.

The permanently higher defence spending, which in many areas does not contribute to productivity growth, should be financed from regular budgets as soon as possible – more ambitiously than the current one-percent share of GDP. In addition, expenditure consolidation and structural reforms, especially of the social security systems, remain urgently needed.

In the latest round of the “Joint Forecast” we collected the expectations of the chief economists of the Sparkassen Finanzgruppe for Germany and the euro area, including special questions about the medium-term outlook to 2030.

According to the derived expectations, financing balances will remain above the limits set by the Stability and Growth Pact and will contribute to rising debt levels over the long term.



* forecast values

Sources: IMF Fiscal Monitor, Joint forecast by chief economists.

Government shutdown as a warning sign of strained US public finances

Outside Europe, debt-capacity is also heavily stretched. This is particularly true for the People's Republic of China and for the United States. In the United States the disputes surrounding the current government shutdown give an impression of the emergency brakes that may become necessary. The presently (presumably temporarily) active political debt ceiling is a comparatively mild restriction compared with a scenario in which capital markets lose confidence in US public finances and refuse credit.

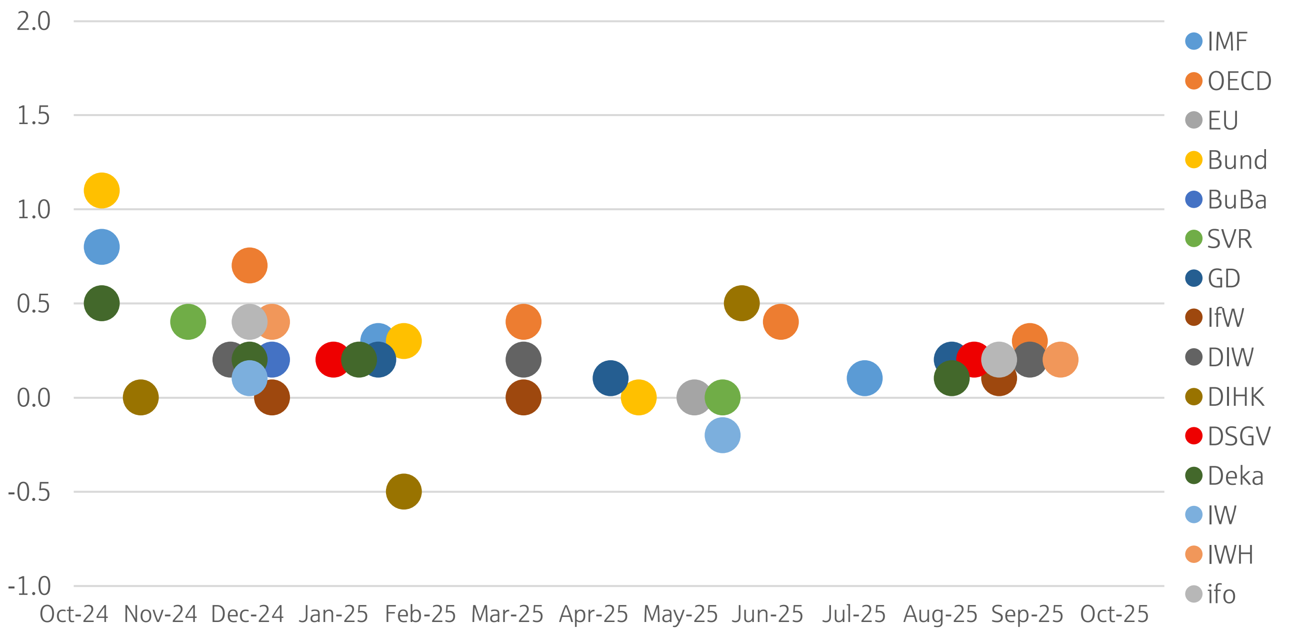
The international sovereign-debt issue is also addressed in the recent "Chief Economists' Viewpoint" titled "Global Debt Rise: No End in Sight?" which was published on 15 September 2025 and is available on the DSGV website.

A. Growth of world economic regions, change on previous year

	2023	2024	2025*	2026*
World trade volume	1.0%	3.5%	2.6%	1.9%
GDP – world	3.5%	3.3%	3.0%	3.1%
USA	2.9%	2.8%	1.9%	2.0%
Japan	1.5%	0.2%	0.7%	0.5%
China	5.4%	5.0%	4.8%	4.2%
Euro area	0.4%	0.9%	1.0%	1.2%
Germany	–0.3%	–0.5%	0.1%	0.9%

* April 2025 forecasts by the International Monetary Fund.

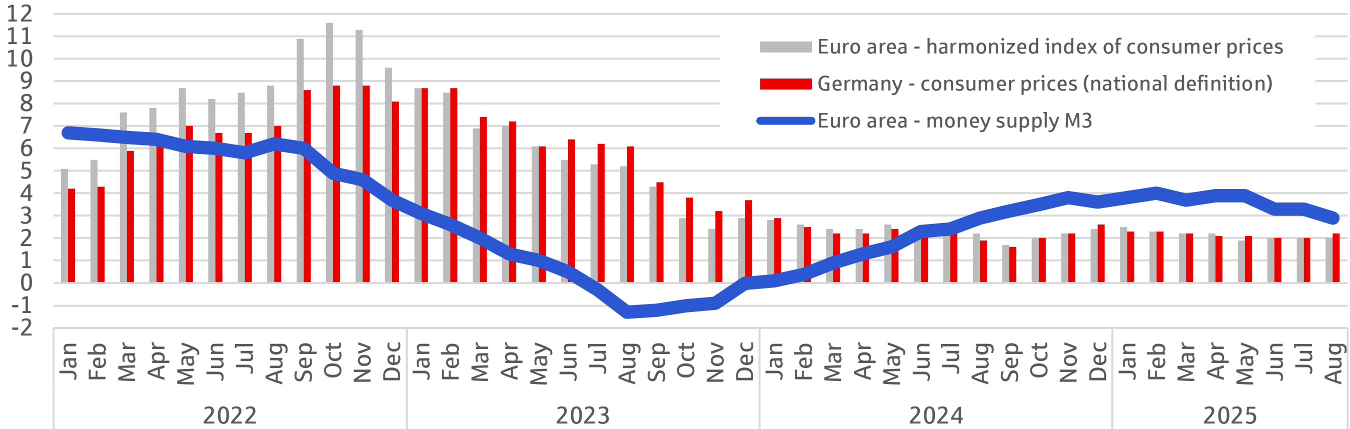
B. Forecasts for economic growth in Germany for 2025, in %



C. GDP in Germany and the Euro Area

	Year 2024 real year-on-year	Q III - 2024	Q IV - 2024	Q I - 2025	Q II - 2025
		real change compared to the same quarter of the previous year and seasonally-adjusted real change vs. the previous quarter			
Euro area GDP	+0.9%	+0.9% +0.4%	+1.3% +0.4%	+1.6% +0.6%	+1.5% +0.1%
Germany GDP	–0.5%	–0.2% +0.0%	–0.4% +0.2%	+0.0% +0.3%	–0.2% –0.3%
Private consumption	0.5%	+0.7% +0.2%	+1.0% +0.4%	+0.8% +0.6%	+1.2% +0.1%
Gross capital investment	–3.3%	–3.2% –0.5%	–3.1% +0.6%	–1.5% +0.3%	–1.9% –1.4%
Exports	–2.1%	–0.8% –1.7%	–4.9% –2.1%	–1.1% +2.5%	–2.4% –0.1%
		Level, not rate of change; quarterly figures, seasonally-adjusted			
Savings rate	11.3%	11.5%	11.3%	10.3%	10.2%

D. Consumer prices and money supply M3, annual rates of change in %



E. Monthly economic indicators Germany

	June	July	August	September	October
Prices (national definition)	Change compared to the same month of the previous year				
Consumer prices	2.0%	2.0%	2.2%	2.4%	–
– excluding food and energy (core inflation)	2.5%	2.4%	2.4%	2.8%	–
Producer prices for industrial products	-1.3%	–1.5%	–2.2%	–	–
Import prices	-1.4%	-1.4%	-1.5%	–	–
Sentiment indicators					
ifo Business Climate Index	88.4	88.6	89.0	87.7	–
ZEW Economic Sentiment Survey	47.5	52.7	34.7	37.3	–
Incoming orders	Change compared to the same month of the previous year				
Manufacturing industry	–0.5%	-3.5%	- 1.5%	–	–
from within Germany	–10.4%	-10.9%	- 0.3%	–	–
from abroad	6.6%	2.0%	- 2.3%	–	–
Capital-goods producers	–0.4%	-4.0%	0.5%	–	–
Production	Working-day-adjusted change compared to the same month of the previous year				
Overall manufacturing industry	–1.8%	1.5%	- 3.9%	–	–
thereof: construction	–2.0%	–1.2%	- 1.1%	–	–
thereof: industry	–2.0%	2.3%	- 5.1%	–	–
Foreign trade	Change compared to the same month of the previous year				
Exports	0.5%	1.4%	–	–	–
Imports	5.8%	4.5%	–	–	–
Labour market	Unemployment rate, change in the jobless total compared to the same month of the previous year (1,000s)				
Unemployment rate (seasonally-adjusted)	6.2%	6.3%	6.4%	6.3%	–
Jobless total	+188	+171	+153	+148	–
Employed persons (with a place of work in Ger)	–9	–5	–3	–	–
Employees subject to social-security contributions	+60	+39	–	–	–

F. Commodity. foreign-exchange and financial markets

	June	July	August	September	8th October
Brent oil price in USD	71.44	71.04	67.87	67.99	66.38
Exchange rates					
US dollar / EUR	1.1516	1.1677	1.1631	1.1732	1.1613
Japanese yen / EUR	166.52	171.53	171.79	173.55	177.31
Equity markets					
DAX German benchmark share index, end-of-month	23.910	24.065	23.902	23.880	24.623
Change compared to the same month of the previous year	+31.1%	+30.0%	+26.4%	+23.6	+29.1
Money-market and capital-market rates					
Call money (€STR)	2.007%	1.922%	1.924%	1.925%	1.926%
Current yield of German government bonds with a residual maturity					
- of one year	1.82%	1.90%	1.89%	1.96%	1.95%
- of ten years	2.65%	2.75%	2.76%	2.78%	2.76%
Interest rates of credit institutions, in new business					
Daily deposits of private households in D;	0.47%	0.43%	0.43%	–	–
for comparison across the euro area as a whole	0.32%	0.31%	0.25%	–	–
Deposits of private households up to 1 year in D;	1.78%	1.73%	1.76%	–	–
for comparison across the euro area as a whole	2.19%	2.09%	1.71%	–	–
Corporate loans of up to € 1 million over 5 years in D;	3.87%	3.87%	3.88%	–	–
for comparison across the euro area as a whole	3.80%	3.77%	3.61%	–	–

Imprint

Publisher

Deutscher Sparkassen- und Giroverband e. V.

Charlottenstraße 47
D-10117 Berlin
Tel: +49 30 20225-5303
dsgv-Volkswirtschaft@dsgv.de
www.dsgv.de

Editorial deadline for this issue
10th October 2025

Design
Franz Metz, Berlin
Picture credits
Front page: Plainpicture/Westend61

ISSN
2509-3835

Responsible
Dr Thomas Keidel
Director
Head of the Department Financial Market
Thomas.Keidel@dsgv.de

Dr Reinhold Rickes
Chief Economist and Deputy Head
Department Financial Market
Reinhold.Rickes@dsgv.de

Author
Dr Holger Schulz
Holger.Schulz@dsgv.de

Note
All publications in this series can be accessed at
https://www.dsgv.de/positionen.html#wirtschaftslage