MNI Analysis: German Budget / DFA Q3 Issuance Review

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June 24, 2025

Executive Summary:

- Finance minister Klingbeil detailed Germany's spending surge, broadly confirming figures which from median reports yesterday including with federal net issuance incl. special funds totalling E847bln through 2029
- DFA (German DMO) announced E19bln higher Q3 issuance on the back of that. 7y segment to be reintroduced, and "conditions being set" for 50y reintroduction (which the DFA had hinted at that previously)
- NATO defence spending target of 3.5% GDP to be met in 2029 (earlier than 2032 previous base case) whilst infrastructure measures are to focus on rail, education, social housing, digitization, and climate transition-related items – broadly as expected, but analysts note risks of slower-than-planned roll-out
- Klingbeil was rather vague around "Commissions enacted" on broader structural reform measures. Otherwise, he pointed away from EU EDP issues, and admitted debt servicing costs are to more than double through '29

Links:
Budget & financial plan press statement
DFA Q3 issuance update

German Federal Financial Plan Key Figures

German Federal Financial Plan Ebln	Budget 2025	Key Figures 2026	Broad Financial Plan 2027	Broad Financial Plan 2028	Broad Financial Plan 2029
Expenditures	503.0	519.5	512.7	550.4	573.8
Change vs. previous year (in %)	6.1%	3.3%	-1.3%	7.4%	4.3%
Revenues	421.2	430.2	425.3	434.7	447.8
of which tax revenues	386.8	383.8	400.6	412.3	423.9
Net issuance (core budget - NKA)	81.8	89.3	87.5	115.7	126.1
Special funds borrowing	61.3	83.4	84.4	58	59.4
thereof: Special Fund for Infrastructure and Climate Neutrality	37.2	57.9	57	58	59.4
thereof: Special Fund for the Bundeswehr	24.1	25.5	27.5	0	0
Combined net issuance	143.1	172.7	171.9	173.7	185.5
Interest expense (core budget + special funds)[1]	30.2	30.3	39.8	52.5	61.9
Government 'investment'	115	N/A[2]	N/A	N/A	"close to 120"
Military expense[3]	95	118	129	145	186

[1] Press conference info
[2] Was potentially mentioned at some point during press conference
[3] From matching media reports yesterday

Sources: MNI, German FinMin, Local media

DFA Q3 issuance plan update

DFA announces E15bln increase in bond issuance, E4bln in Bubill issuance in Q3. Highlights by maturity:

- 7-year Bund: E8bln (over half the increase): As we expected there will be a new 7-year Bund with a maturity of Nov-32. This has two auctions in the quarter of E4bln each (in August and November).
- Schatz: E2bln increase: Reopenings increased to E5bln in August (from E4bln) with two September reopenings of E4.5bln rather than E4.0bln
- 10-year Bund: E2.5bln increase: New issue increased to E6bln (from E5bln) with three reopenings of E5.0bln rather than E4.5bln
- 15-year: E2.0bln increase: Expanding to E2.5bln each
- 30-year: E0.5bln increase for the July auction to E2.5bln

On bills, 11-month maturity reintroduced:
- All of the E4bln increase in bubill issuance will be made up by the reintroduction of 11-month Bubill auctions.
- Since the beginning of 2025 we haven't had regular 11-month Bubills auctions (outside of a launch auction in January due to there being no 12-month launch in December 2024).
- The 11-month Bubill auctions will be smaller than those generally seen last year with the July auction sized at E1.0bln and the August and September auctions at E1.5bln.
- This means that all of the extra bubill funding will mature next year, of course, so feed into the 2026 redemptions rather than 2025 redemptions.

In the press Q&A following the announcement, the following headlined (from Reuters):
- “50-year bond not planned for this year but internal conditions have been created” [We had noted the possibility of a 50-year Bund in our preview ahead of today but thought it was unlikely to be introduced before next year at the earliest]
- “Will probably continue upward adjustments to bond issuance in Q4”
- “Very good demand for long-term bonds"

Finance Ministry Details Investment Fund Targets In Press Statement

On top of the broader figures above, the German finance ministry comments in more detail on some of the particular measures planned in their press statement. Investment out of the new special fund appears to be centred around rail, education, social housing, digitization, and climate transition-related items - that split appears to be broadly as expected. Details below:

- Energy price relief starting January 2026:
  “a) Consumers will be relieved of the costs of the gas storage levy. b) The reduction in electricity tax for industry, agriculture and forestry will be made permanent. c) The federal government will assume a significantly larger share of the costs of grid expansion. These investments serve energy security and climate protection."
- "Investments will increase by 55 percent in 2025 compared to 2024. Around 62.7 billion euros of this will come from the core budget, around 25.7 billion euros from the Climate and Transformation Fund, and 27.2 billion euros from the new special fund."
- "Around €22 billion will be made available for investment in rail infrastructure this year, of which just over €9 billion will come from the special infrastructure and climate neutrality fund. The focus here is on modernising the existing network and digitising the railways. Over the financial planning period until 2029, well over 100 billion euros will be made available for rail infrastructure."
- "In order to permanently improve the quality of childcare and education and to ensure planning security in this area, a total of €6.5 billion from the special fund will be made available for investments in childcare and digital education."
- "Funds amounting to over 4 billion euros per year will be made available directly in the core budget for social housing construction and urban development from 2025 onwards. A total of more than 20 billion euros is earmarked for this purpose until 2029."
- On digitalization: "initial annual investments of at least €4 billion from the special fund, which will then increase significantly in subsequent years."

Sources: MNI, German FinMin, Local media

- "The Climate and Transformation Fund (KTF) is the most important instrument on the path to climate neutrality by 2045. To strengthen the KTF, it will be provided with additional funds from the special fund: a total of 100 billion euros through an annual allocation of 10 billion euros from the Special Fund for Infrastructure and Climate Neutrality. In addition, a previously planned transfer of €20 billion from the KTF to the core budget during the financial planning period will be waived."

Little Details On Structural Reforms From Klingbeil In Finance Ministry Press Conference

In the press conference, finance minister Klingbeil remained largely in line with expectations set after the core figure announcement. Some key comments below:

- He admitted to interest expenses increasing considerably. Incl. both the core budget and the special funds, these will move up more than 100% over the next years: 2025 E30.2bln, 2026 E30.3bln, 2027 E39.8bln 2027, 2028 E52.5bln, 2029 E61.9bln
- Klingbeil distinctly steered away from the narrative of Germany running into issues with European excessive deficit procedures, despite the considerable debt ramp-up. Says “positive signals” from European Commission officials on the current plan, and points towards exceptions
- Specific figures according to Maastricht criteria, e.g. deficit/GDP and debt/GDP, to follow in “autumn”
- Remained rather vague on structural reforms. “Commisions enacted” on social security reforms, but mentioned little concrete progress on bureaucracy reduction etc.

Sources: MNI, German FinMin, Local media