MNI Analysis: 2026 German Budget

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Executive Summary:

- Finance minister Klingbeil presented the 2026 budget briefly after it was agreed on internally by the government and gave an update on the federal financial plan through 2029.
- The key takeaway from the announcement is that the government will face a significant task of consolidating its budgets starting 2027 and has limited plans yet on how to do so. Details on proclaimed structural reforms (bureaucracy reduction, social security reform) were also scant.
- Defense expenditure plans are largely unchanged vs previous, with the NATO quota to increase to 2.6% GDP in 2026 and 3.5% in 2029 (excluding military-related infrastructure investment). Infrastructure investment from its related special fund is to focus on transport and digitization, with planned volumes to pick up next year and then remaining roughly stable through to 2029.
- Against that context, also note the recent MNI policy exclusive suggesting caution around the announced infrastructure figures.

Links:
Budget & financial plan press statement

German Updated Federal Financial Plan Key Figures

German Federal Financial Plan Ebln	2025 (Budget)	2026 (Budget)	2027 (Broad Plan)	2028 (Broad Plan)	2029 (Broad Plan)
Expenditures	503	520.5	507.5	546.4	572.1
Change vs. previous year in %	6.10%	3.50%	-2.50%	7.70%	4.70%
Revenues	503	520.5	507.5	546.4	572.1
of which: tax revenues	386.8	383.8	400.6	412.3	423.9
Net borrowing (NKA)	81.8	89.9	88.1	116.5	126.9
NKA excluding exemptions	49.7	35.6	24	9.4	4.8
Adjusted investment ratio in the core budget (%)[1]	10	10.4	10.6	10.6	10

Little Details On Planned Structural Reforms. Defense Spending Pick-Up Plans Roughly Unchanged

On structural reforms, the government appears to remain largely vague for now. Analysts view these potential reforms key for mid-term growth momentum. However, they mention the respective commissions will release their progress soon. From the press release, this is all they mention for now on the topic:

- "The federal government is using structural reforms to provide further impetus to put Germany back on track for growth and thus also secure jobs.
- Since the change of government, a large number of measures have therefore already been adopted. These include the growth booster for the implementation of immediate corporate tax measures from the coalition agreement. The federal government will also cover the shortfall in municipal revenues resulting from the implementation of the growth booster. This will provide local authorities with total relief of around 13.5 billion euros by 2029.
- In addition, the construction boost has been approved. The commission on reforming the debt brake and the commission on reforming social care insurance have begun their work and will present their initial findings shortly. Commissions on reforming statutory health insurance and pension insurance are also in the planning stage.

Sources: MNI, German FinMin

- In order to make better use of the labour potential in our country, an additional 1 billion euros per year will be made available from 2026 for the integration of people into the labour market. The planned active pension will also make it more attractive for pensioners to remain active in the labour market."

On "Internal and external security":

- "The Federal Government will continue to invest heavily in internal and external security. This includes financial and human resources. The Federal Police will be reinforced with 1,000 additional police officers in 2026.
- For defence, the planned expenditure in 2026 will increase significantly compared to the financial plan, by around 29.4 billion euros to approximately 82.7 billion euros. The Bundeswehr will be strengthened by up to 10,000 additional soldiers in 2026.
- The NATO quota will amount to 2.8% in 2026. It will rise to 3.5% in 2029 in the financial plan. Germany is thus committing itself to its responsibility in NATO and to a strong European security and defence policy.
- Military and civilian support for Ukraine will also be ensured in future budgets. Around 9 billion euros will be available each year for the training of partner states and states that have been attacked in violation of international law. Germany continues to stand firmly by Ukraine's side."

Infrastructure Fund Investment To Focus On Transport And Digitization

Transport Infrastructure
“In addition to investments from the core budget, significant expenditures will now be made available from the special fund for infrastructure and climate neutrality. This will provide €33.7 billion in 2026 and a total of €166 billion by 2029 for the modernization of transport infrastructure.”

Housing
“To create more affordable housing, program funding for social housing will be increased by €500 million to a total of €4 billion in 2026 compared to the previous financial plan. Federal funding of €2.265 billion is budgeted for housing benefit in 2026. In addition, spending of €220 million is again planned for the housing premium. Urban development funding will receive significantly higher program funding, now amounting to €1 billion – an increase of €210 million compared to the previous financial plan. This is intended to create more housing for low-income households.”

Research and Development
“R&D in Germany will be funded with €17.1 billion for 2026 alone. This includes research for seriously ill people and people with rare diseases who currently have no effective treatment options. The AI initiative, aimed at specifically strengthening AI research and its transfer into practical applications, will ensure the future competitiveness of the German economy and enable the emergence of new business models and companies in Germany. Funding under the 1,000 Heads Plus program will strengthen research in Germany. The program aims to attract international researchers.”

Education and Care
“Improving education and care conditions in Germany is a high priority. Therefore, the Federal Government continues to provide significant funding to support the states in education and care. The process initiated by the Daycare Quality and Participation Improvement Act to further improve the quality of childcare nationwide will continue. For this purpose, the federal government will provide the states with almost €2 billion each in 2026 through an increase in their share of sales tax, starting in 2025. In addition, the special fund for infrastructure and climate neutrality will allocate almost €1 billion annually for the expansion of childcare. The federal government will contribute €2.25 billion from the special fund for infrastructure to the Digital Pact 2.0. In addition, a total of €250 million will be made available for the "Digital Teaching and Learning" program.”

Sources: MNI, German FinMin

Intended expenditure from the Special Fund for Infrastructure and Climate Protection (SVIK, EBln)	2025	2026	2027	2028	2029
Transport infrastructure	11.7	21.3	20.2	20.3	19.8
Hospital infrastructure	1.5	6	3.5	3.5	3.5
Energy infrastructure	0.9	2.1	2.8	3.2	3
Education and childcare infrastructure	0	1.2	1.4	1.4	1.5
Research and development	0.5	1	1.5	2.1	3.4
Digitalization	4	8.5	8.6	8.6	8.5
Housing construction	0.3	0.5	0.7	1	1.2
Federal pillar total	18.9	40.5	38.8	40.1	40.8
Allocations to states/municipalities	8.3	8.3	8.3	8.3	8.3
Allocation to KTF (Climate and Transformation Fund)	10	10	10	10	10
Total expenditures	37.2	58.9	57.1	58.4	59.2

Klingbeil Remains Vague On How To Plug Financing Gaps

A key question from Klingbeil press conference on the German 2026 budget:
Q: How much expenditure cuts and how much "principle of hope" to plug the E172bln financing gaps through '29?
A: Simply through growth we will not be able to plug the gaps. We will have to talk about subsidy cuts, structural reforms, other savings potentials.

- Mentions no concrete figures here.
- As in the press release, the government continues to remain vague here. Has at least the potential to filter through to political turmoil ahead.

Council of Economic Advisory Member Sees Government's Plans Critically

Economist Professor Veronika Grimm laments a misguided development in German budgetary and financial policy. The national budget is suffering from 'a persistently high expenditure burden, a public spending ratio of over 50 percent, unresolved structural problems and a dynamically increasing debt burden for future generations,' Grimm told German newspaper Bild. The new debt of more than 850 billion euros in this legislative period represents about half of Germany's current debt level.

However, Grimm says there are no structural reforms in sight: 'Germany has lost its compass. Instead of talking about necessary reforms, people are clinging to the fact that the mood in the economy is now improving.' Surveys confirm the change in sentiment, but without structural reforms, it will not last. 'And these are nowhere in sight,' said the expert. 'The federal government is using the additional leeway to avoid having to curb the rise in social spending,' said Grimm. Additional benefit entitlements – such as maternity pensions – and rising interest burdens are 'further ossifying' the budget. None of this is 'an agenda for growth.' Even in the short term, reforms to citizen's income, pensions and subsidy cuts could free up tens of billions of pounds in the budget, according to Grimm.

The reform proposals currently under discussion are not enough because they are designed not to hurt anyone. 'When the Minister for Economic Affairs recently called for a longer working life, she even faced opposition from within her own party. We won't get anywhere like this,' lamented the economist. Growth in Germany declined again in the second quarter. From April to June, gross domestic product (GDP) shrank by 0.1 per cent. Next year, the government will take on 174.3 billion euros in debt, and in 2029, as much as 186.1 billion euros. At the same time, there is a growing hole in the national budget: by 2029, the black-red government will have to save 171 billion euros or raise more in taxes. – via newspaper Bild

Sources: MNI, German FinMin

Commerzbank Sees Execution Risks On Investment Plans

Commerzbank analysts appear to see some execution risks on the investment plans mentioned by finance minister Klingbeil. Quoting from their note:

- "The big question remains how this will translate into gross Bund supply next year. While FinMin Klingbeil stressed that he will focus on putting money to use quickly in yesterday's press conference, the budgeted €58.9bn from the special fund for infrastructure should prove very difficult to spend as infrastructure projects usually take a long time to plan. The same argument applies to the massive planned increase in defense spending. We thus consider it likely that the government's additional cash needs will be less than €174.4bn next year."
- "For 2025, we expect net Bund issuance of €102bn, i.e. only about 71% of the budgeted deficit, with other flexible funding instruments potentially covering additional cash needs."

Sources: MNI, German FinMin