# Can Germany afford to take most defence spending out of its debt brake?

**Higher German defence spending would be fiscally sustainable, but would require cuts elsewhere and would breach EU fiscal rules**

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Germany's constitution contains a so-called debt brake – a constraint that keeps the structural deficit to 0.35 percent of GDP. This measure of fiscal prudence has been blamed for unduly holding back public investment in Germany, undermining modernisation[1]. However, in the context of the pressing need for European countries to spend more on infrastructure and defence, change may be underway.

On 4 March, the parties likely to form Germany's next government – the CDU/CSU and SPD – proposed an infrastructure fund amounting to 11 percent of GDP and a constitutional amendment under which only 1 percent of GDP worth of defence spending would still be financed within the federal structural deficit ceiling of 0.35 percent of GDP[2]. The rest – perhaps 2 percent or 2.5 percent of GDP, if total military spending ends up in the 3.5 percent of GDP range – would be financed through additional borrowing.

Outside Germany and in financial markets, the proposed amendment is being celebrated as a watershed. Germany is seen as preparing finally to throw off self-imposed constitutional shackles and to use its abundant fiscal space to fix its infrastructure gaps, give its defence spending a much-needed boost and provide fiscal stimulus in the process.

In Germany, reactions have been more mixed. The proposal is widely viewed as good news for security. But concerns about excessive borrowing persist. There is also mounting criticism that the new borrowing mechanisms might end up financing social spending and other electoral promises by the presumptive coalition partners. The baseline of 1 percent defence spending that must be financed within the debt brake is about 0.4 percent of GDP

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[1] Georg Zachmann, 'Bypassing the German debt brake and continuing climate spending', *First Glance*, 30 November 2023, Bruegel, https://www.bruegel.org/first-glance/bypassing-german-debt-brake-and-continuing-climate-spending.

[2] 'Ergebnis aus den Sondierungsverhandlungen von CDU, CSU und SPD', available at https://www.euractiv.com/wp-content/uploads/sites/2/2025/03/4-March-2025-GroKo-Draft.pdf. For the results of the 23 February 2025 German elections and details of the main parties, see Kristin Zeier and Gianna-Carina Grün, 'German election results explained in graphics', *DW*, 27 February 2025, https://www.dw.com/en/german-election-results-explained-in-graphics/a-71724186.

below what has been financed inside the debt brake in the past. And the infrastructure fund lacks any baseline whatsoever.

In principle, it might be possible to use the fund to finance most of the 1.7 percent or so of public investment that is currently funded inside the budget, resulting in a rather small increase in public investment and a much bigger increase in government consumption until the fund runs out. For these reasons, the amendment is not yet a done deal, with the Greens (whose votes are needed to pass the amendment) threatening to withhold support.

The remainder of this analysis focuses on the impact of the proposed amendment on the German debt level. Would this still be consistent with debt sustainability? The answer is yes – but unfortunately not in the sense required by the EU fiscal rules.

**The good news: the amended debt brake continues to imply debt sustainability**

Using a standard linear approximation, the evolution of the value of debt in percent of GDP can be written as[3]:

$$d_{t+1} = (1 - g_t)d_t - b_{t+1} \tag{1}$$

Where $d_t$ is debt as a percent of GDP at the end of year $t$, $g_t$ is the nominal growth rate of the economy, and $b_t$ is the fiscal balance in year $t$ ($b_t > 0$ indicates a surplus).

Before the amendment, $b_{t+1} \geq -0.35$ percent of GDP (on a cyclically adjusted basis). The amendment would allow the government to debt-finance an additional $x$ percent worth of military spending. If the government borrows the maximum allowed, the law of motion for debt in Germany would become:

$$d_{t+1} = (1 - g_t)d_t + 0.35 + x_{t+1} \tag{2}$$

Since $1 - g_t < 1$, this implies that Germany's debt will converge to a constant level $d$ over time. $d$ can be found by dropping the time subscripts in equation (2) and solving:

$$d \equiv \lim_{t \to \infty}\{(1 - g_t)d_t + 0.35 + x_t\} = (x + 0.35)/g \tag{3}$$

where $g$ and $x$ indicate long-run mean levels of nominal growth and military spending financed outside the debt brake constraint, respectively.

The implication is that German debt will remain sustainable in the sense that it will stabilise at $d$, regardless of both the initial level of debt and the level of $x$ – military expenditures financed outside the debt brake. This reflects the miracle of the German debt-brake

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[3] The precise formula is $d_{t+1} = \frac{1+i_t}{1+g_t}d_t + i_t d_t - b_{t+1}$ where $i_t$ is the nominal interest rate. This complicates the algebra but does not materially change any result (see note to Table 1).

mechanism, which defines a deficit ceiling in terms of a structural balance, *not* a structural *primary* balance. Hence, the interest required to service borrowing from any source – even spending categories that are excluded from the 0.35 percent deficit ceiling – must be offset by fiscal adjustment in the items that are included under the deficit cap (reductions in non-military spending or tax increases). This keeps debt sustainable.

**The bad news: implications for Germany's debt and non-military primary surplus**

But there is also bad news. First, the required fiscal adjustment in the non-military portion of the budget to meet the 0.35 percent deficit constraint may be severe. This is not surprising. To expand military spending without exploding debt, Germany will need to make cuts elsewhere.

The second item of not-so-good news is that for plausible levels of $g$ and $x$, Germany's steady-state debt levels would exceed the 60 percent of GDP reference value in the European Union treaty. This is inconsistent with the notion of 'fiscal sustainability' embedded the EU fiscal rules, which require debt to fall until 60 percent is reached.

Table 1 illustrates both points. For example, assume $g = 0.025$ (2 percent inflation plus 0.5 percent potential growth) and $x = 2$ percent of GDP. Then, $d = \frac{(2+0.35)}{0.025} = 2.35 * 40 = 94$ percent of GDP. Assuming a steady state interest rate of 3 percent, the corresponding non-military primary surplus $n$ equals $1 + 0.03d - 0.35 = 3.5$ percent of GDP.

**Table 1: German debt and primary surplus scenarios for different levels of defence spending**

| $g = 2$ percent | | | $g = 2.5$ percent | | | $g = 3$ percent | | |
|---|---|---|---|---|---|---|---|---|
| $x$ | $d$ | $n$ | $x$ | $d$ | $n$ | $x$ | $d$ | $n$ |
| 1.0 | 67.5 | 2.7 | 1.0 | 54.0 | 2.3 | 1.0 | 45.0 | 2.0 |
| 1.5 | 92.5 | 3.4 | 1.5 | 74.0 | 2.9 | 1.5 | 61.7 | 2.5 |
| 2.0 | 117.5 | 4.2 | 2.0 | 94.0 | 3.5 | 2.0 | 78.3 | 3.0 |
| 2.5 | 142.5 | 4.9 | 2.5 | 114.0 | 4.1 | 2.5 | 95.0 | 3.5 |
| 3.0 | 167.5 | 5.7 | 3.0 | 134.0 | 4.7 | 3.0 | 111.7 | 4.0 |

Source: Bruegel. Note. $x$ denotes the assumed level of defence spending financed outside the structural deficit ceiling. For example, if total defence spending is 3 percent, then $x = 3 - 1 = 2$ percent. $n$ is the non-military primary surplus, derived as $n = id + 1 - 0.35$, with $i$ set to 0.03. $d$ denotes the steady state level of debt in percent of GDP, computed using the formula $d = (x + 0.35)/g$. This is a linear approximation of the formula $d = \frac{1+g}{g(1+r)}(x + 0.35)$, derived from $d_{t+1} = \frac{1+i_t}{1+g_t}d_t - (b_{t+1} - i_t d_t)$ using the same steps as. Using the precise formula with $i = 0.03$ would leave unaffected for $g = 0.03$, while generating slightly lower levels of $d$ (within 2 percent of GDP) for $g = 0.02$ or 0.025

Fortunately, the evolution of German debt to its new, likely higher, steady-state level will be slow (see Figure 1 for the example of $g = 0.025$ and $x = 2.5$ percent of GDP). Even including the 11 percent of GDP infrastructure fund, Germany's debt ratio by 2035 would amount to less than 83 percent of GDP.

**Figure 1: Scenarios for evolution of German debt**
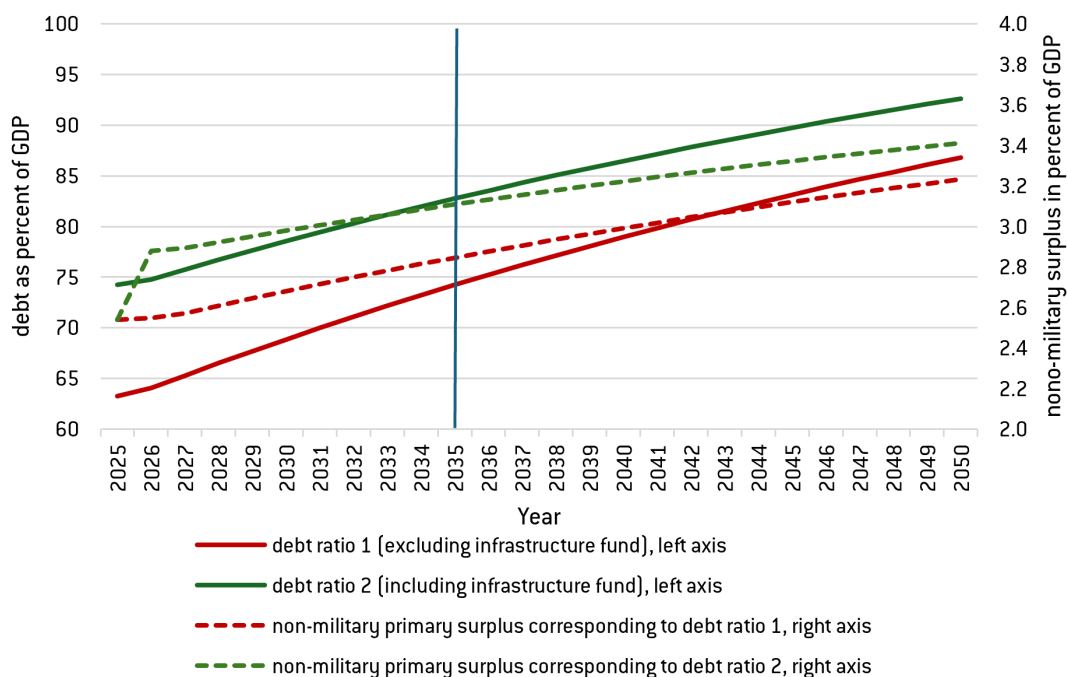


Source: Bruegel. Note. Figure shows the evolution of the debt ratio using the formula $d_{t+1} = (1 - g_t)d_t + 0.35 + x_{t+1}$, with $g_t = 0.025$. A starting value of 63 percent for 2024 is assumed. 'Debt ratio 2' assumes a jump in the debt ratio of 11 percent of GDP in 2025. $x_t$ is assumed to be 1 percent of GDP in 2024, 1.5 percent in 2025, 2 percent in 2026, and 2.5 percent in 2027 and all following years. The non-military primary surplus is computed as $n_{t+1} = 1 + 0.03d_t - 0.35$.

**Invoking the 'national escape clause' will not be enough**

But even if Germany's debt is likely to rise only gradually, the fact that it would be rising continuously above 60 percent cannot be reconciled with the EU fiscal rules. Triggering the national escape clause (Article 26 of Regulation (EU) 2024/1263) will not help, because a decades-long rise can hardly be regarded as exceptional and because the deviation from the path prescribed by the rules would be inconsistent with fiscal sustainability as defined by the rules, which require Germany's debt to fall after an adjustment period of at most seven years[4] Accommodating the amended German constitutional debt brake would

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[4] Article 26 of Regulation (EU) 2024/1263, which was finalised in April 2024 and which updated EU economic governance rules, reads: *"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 net expenditure path as set by the Council where exceptional circumstances outside the control of the Member State have a major impact on the public finances of the Member State concerned, provided that such deviation does not endanger fiscal sustainability over the medium term."* Article 6 of Regulation 024/1263 requires that *"government*

require a change in the rules, such as the replacement of the 60 percent treaty reference value by a higher value.

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*debt ratio is put or remains on a plausibly downward path or stays at prudent levels below 60 % of GDP over the medium-term."* This would be violated if debt continuously rises above 60 percent, even if it eventually converges to a constant level.