C/2026/3918

1.9.2026

COUNCIL RECOMMENDATION

of 10 July 2026

on the economic, social, employment, structural and budgetary policies of Germany

(C/2026/3918)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and Article 148(4) thereof,

Having regard to Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 ([1]), and in particular Article 3(3) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2024/1263 specifies the objectives of the economic governance framework, which aims at promoting sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, as well as preventing excessive government deficits. The Regulation stipulates that the Council and the Commission conduct multilateral surveillance in the context of the European Semester in accordance with the objectives and requirements set out in the Treaty on the Functioning of the European Union (TFEU). The European Semester includes, in particular, the formulation and the surveillance of the implementation of country-specific recommendations.

(2) On 25 November 2025, the Commission adopted an opinion on the 2026 draft budgetary plan of Germany. On the same date, on the basis of Regulation (EU) No 1176/2011, the Commission adopted the 2026 Alert Mechanism Report, in which it did not identify Germany as one of the Member States for which an in-depth review would be needed. The Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, a recommendation for a Council recommendation on human capital in the European Union, and a proposal for the 2026 Joint Employment Report, which analyses the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights. The Council adopted the Recommendation on the economic policy of the euro area ([2]) on 21 April 2026 and the Joint Employment Report, and the Recommendation on human capital, on 9 March 2026.

([1]) Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and on multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97 (OJ L, 2024/1263, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj).

([2]) OJ C, C/2026/2434, 28.4.2026, ELI: http://data.europa.eu/eli/C/2026/2434/oj.

(3) On 29 January 2025, the Commission published the Competitiveness Compass, a strategic framework that aims to boost the Union's global competitiveness over the next five years. It identifies the three transformational imperatives of innovation, decarbonisation and competitiveness, and security as critical pillars for sustainable economic growth. Since its publication, the Competitiveness Compass has informed the work of the European Semester, ensuring that Member States' economic policies are consistent with the EU's strategic objectives, creating a unified approach to economic governance that fosters sustainable growth, innovation and resilience across the Union.

(4) In 2026, the European Semester for economic policy coordination continues to develop alongside the final stage of Recovery and Resilience Facility (RRF) implementation ([3]). Recovery and resilience plans (RRPs), along with cohesion policy funding, have been essential for delivering on the policy priorities under the European Semester, as the plans were required to effectively address all or a significant subset of challenges identified in the relevant country-specific recommendations issued in recent cycles, and programmes funded by the European cohesion policy were required to take country-specific recommendations into account. As the RRF approaches the end of its lifetime, it remains essential to sustain and build on the reforms and investments supported and implemented under the RRF, in particular those that contribute to addressing challenges identified in the country-specific recommendations.

(5) On 3 June 2026, the Commission published the 2026 country report for Germany. It assessed Germany's progress in addressing the 2025 country-specific recommendations and took stock of Germany's implementation of the RRP. On the basis of that analysis, the country report identified the most pressing challenges Germany is facing. It also assessed Germany's progress in implementing the European Pillar of Social Rights and in achieving the Union headline targets on employment, skills and poverty and social exclusion reduction, as well as progress in achieving the United Nations Sustainable Development Goals.

(6) Russia's war of aggression against Ukraine and its repercussions constitute an existential challenge for the European Union. The Commission has invited Member States to request the activation of the national escape clause of the Stability and Growth Pact in a coordinated manner to support the EU efforts to achieve a rapid and significant increase in defence spending ([4]) and this proposal was welcomed by the European Council of 6 March 2025. On 10 October 2025, the Council, upon the assessment and recommendation of the Commission, adopted a Recommendation endorsing the national medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rate of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause) ([5]). The plan covers the period from 2025 until 2029 and presents a fiscal adjustment spread over seven years. The Council recommended the following maximum growth rates of net expenditure: 4,4 % in 2025, 4,5 % in 2026, 2,3 % in 2027, 1,7 % in 2028 and 1,6 % in 2029, which correspond to the maximum cumulative growth rates calculated by reference to the base year of 2024 of 4,4 % in 2025, 9,0 % in 2026, 11,5 % in 2027, 13,3 % in 2028 and 15,2 % in 2029. At the same time, following the request of Germany, on 10 October 2025 the Council, upon a recommendation from the Commission, adopted a Recommendation allowing Germany to deviate from the recommended maximum growth rates of net expenditure. The period when the national escape clause is activated (2025–2028) allows Germany to reprioritise government expenditure or increase government revenue so that lastingly higher defence expenditure would not endanger fiscal sustainability in the medium term.

([3]) Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17, ELI: http://data.europa.eu/eli/reg/2021/241/oj).

([4]) Communication from the Commission, 'Accommodating increased defence expenditure within the Stability and Growth Pact', Brussels, 19 March 2025, C(2025) 2000 final.

([5]) Council Recommendation of 10 October 2025 endorsing the national medium-term fiscal-structural plan of Germany and allowing Germany to deviate from the maximum growth rates of net expenditure as set by the Council under Regulation (EU) 2024/1263 (Activation of the national escape clause) (OJ C, C/2025/5635, 22.10.2025, ELI: http://data.europa.eu/eli/C/2025/5635/oj).

(7) On 30 April 2026, Germany submitted its 2026 Annual Progress Report ([6]) on adherence to the recommended maximum growth rates of net expenditure, the implementation of the set of reforms and investments underpinning the extension of the adjustment period and the implementation of reforms and investments responding to the main challenges identified in the country-specific recommendation. The Annual Progress Report also reflects Germany's biannual reporting on the progress made in implementing its recovery and resilience plan in accordance with Article 27 of Regulation (EU) 2021/241.

(8) Real GDP growth in 2025 was 0,2 % and HICP inflation stood at 2,3 %. The Commission Spring 2026 Forecast projects real GDP to grow by 0,6 % in 2026 and 0,9 % in 2027, and HICP inflation to stand at 2,9 % in 2026 and 2,7 % in 2027.

(9) Based on data provided by Eurostat ([7]), Germany's general government deficit remained constant between 2024 and 2025 at 2,7 % of GDP. Based on policy measures known by the cut-off date of the forecast, the Commission Spring 2026 Forecast projects a deficit of 3,7 % of GDP in 2026 and 4,1 % of GDP in 2027. The increase in 2026 and 2027 mainly reflects an increase in infrastructure and defence-related spending and revenue-decreasing tax relief measures.

(10) Based on the Commission's estimates, the fiscal stance ([8]), which includes both nationally and EU financed expenditure, was broadly neutral in 2025. It is projected to be expansionary both in 2026 and 2027, by 1,3 % and 0,5 % of GDP, respectively.

(11) Based on data provided by Eurostat ([9]), Germany's general government debt increased from 62,2 % of GDP at the end of 2024 to 63,5 % of GDP at the end of 2025. The increase in the debt ratio in 2025 mainly reflects a higher stock-flow adjustment in 2025. Based on policy measures known at the cut-off date of the forecast, the Commission Spring 2026 Forecast projects the debt-to-GDP ratio to increase to 65,8 % by the end of 2026 and to further increase to 68,0 % by the end of 2027. The increases in 2026 and 2027 mainly reflect increases in the primary deficit.

(12) Based on Eurostat data ([10]), total general government defence expenditure in Germany amounted to 1,5 % of GDP in 2025, corresponding to an increase of 0,4 percentage points of GDP compared to the reference year 2021. According to the Commission Spring 2026 Forecast, it is projected at 1,9 % of GDP in 2026, corresponding to an increase of 0,8 percentage points of GDP compared to 2021 ([11]).

([6]) The 2026 Annual Progress Reports are available on: https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/preventive-arm/annual-progress-reports_en.
([7]) Eurostat-Euro Indicators, 22 April 2026.
([8]) The fiscal stance is defined as a measure of the annual change in the underlying budgetary position of the general government. It aims to assess the economic impulse stemming from fiscal policies, both those that are nationally financed and those that are financed by the EU budget. The fiscal stance is measured as the difference between (i) the medium-term potential growth and (ii) the change in primary expenditure net of discretionary revenue measures and including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other Union funds.
([9]) Eurostat-Euro Indicators, 22 May 2026.
([10]) Eurostat, government expenditure by classification of functions of government (COFOG).
([11]) The NATO defence spending definition differs from the COFOG defence definition. Furthermore, there could be differences due to the time of recording of expenditure, in particular military equipment, as the NATO reporting does not follow national accounts rules for the time of recording.

(13) The Union continues to face risks of energy supply disruptions and elevated price volatility, exacerbated by geopolitical tensions which affect global oil and gas markets. Experience from the 2022-2023 energy crisis has shown that broad and untargeted measures entail large fiscal costs and are socially and economically inefficient. Since the outbreak of the war in the Middle East in February 2026, Germany adopted fiscal policy measures to mitigate the impact of high energy prices on households and firms ([12]). These include an untargeted reduction in the energy tax on diesel and gasoline for May-June 2026. According to the Commission Spring 2026 Forecast, the fiscal cost of these measures is projected to amount to approximately 0,1 % of GDP in 2026. According to Commission estimates, if the measures were to remain in force until end-2026, the fiscal cost of the measures would amount to 0,2 % of GDP in 2026.

(14) Based on the Commission's calculations, net expenditure in Germany grew by 3,8 % in 2025. The net expenditure growth in 2025 is below the recommended maximum growth rate.

(15) Based on the Commission's calculations, net expenditure in Germany is projected to grow by 5,6 % in 2026, and 9,7 % cumulatively over 2025 and 2026. The projected net expenditure growth in 2026 is above the recommended maximum growth rate, corresponding to a deviation of 0,5 % of GDP in annual terms. When considering 2025 and 2026 together, the projected cumulative growth rate of net expenditure is also above the recommended maximum growth rate, corresponding to a deviation of 0,3 % of GDP in cumulative terms. However, the projected deviation is within the flexibility of the national escape clause based on current projections for defence spending.

(16) The recommendation endorsing the medium-term plan of Germany specifies the set of reforms and investments underpinning the extension of the adjustment period, along with a timeline for their implementation. Taking into account the information provided by Germany in its Annual Progress Report, the Commission finds that the implementation of the key steps of these reforms and investments that were due by 30 April 2026 seems to be broadly on track. The Commission considers that, overall, Germany has complied with its commitments in a satisfactory manner ([13]).

(17) On 3 June 2026, the Commission adopted a report under Article 126(3) TFEU ([14]). That report assessed the situation of Germany *vis-à-vis* the deficit criterion, as its planned general government deficit in 2026 exceeds the reference value of 3 % of GDP. The report concluded that the deficit criterion is not fulfilled by Germany. However, the Commission was of the view that there is no case to open an excessive deficit procedure for Germany, as the Council has activated the national escape clause for Germany and the projected deficit in excess of the reference value in 2026 is fully explained by the increase in defence expenditure since 2021, based on the Commission Spring 2026 Forecast. In light of this and after considering the opinion of the Economic and Financial Committee as established under Article 126(4) TFEU, the Commission has not proposed to open an excessive deficit procedure.

([12]) This reflects the situation at the cut-off date of the Commission's Spring 2026 Forecast (4 May 2026).

([13]) Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee, the Committee of Regions and the European Investment Bank, 2026 European Semester – Spring Package, COM(2026) 200 final.

([14]) Report from the Commission, prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, 3.6.2026, COM(2026) 302 final.

(18) After two decades of underinvestment, public investment as a share of GDP increased, from 2,2 % in 2005 to 2,9 % in 2023 to 3,3 % in 2025. Yet, net public investment, that is, investment after depreciation, remains among the lowest in the EU, at 0,4 % of GDP. This shows the need to further strengthen public investment to enhance growth and competitiveness. In addition, further efforts to streamline planning and approval procedures and to address bottlenecks in administrative capacity remain important. Typical high-return priorities for investment include schools and early childhood education and care, rail infrastructure as well as the innovation system. The complexity of federal structures, fragmented responsibilities and limited financial capacities at the municipal level may hinder the timely and efficient implementation of projects.

(19) The relatively low share of public investment in GDP pertains to the quality of public finances, which could be improved considerably. The implementation of the Special Fund for Infrastructure and Climate Neutrality is expected to further finance public investments. Still, there is room to boost the additionality and quality of spending under the special fund. A stronger focus on capital formation in areas that increase the productive capacity and competitiveness of the economy – including infrastructure for education and skills development – instead of consumptive purposes can help to maximise the positive impact on long-term growth. Another challenge for the quality of public finances is the transfer from the federal budget to the pension system, which was EUR 122 billion in 2025, remaining at around 25 % of federal government expenditure, diminishing the scope for more productive spending. The commitments made in 2025 to increase mothers' pensions and to maintain a statutory pension replacement ratio of 48 % until 2031 are expected to further increase pension expenditure. Pension reform options underlined in Recital (22) could mitigate the need for budget transfers and increases in social security contributions, thereby promoting inter-generational fairness. Other opportunities to enhance the overall efficiency of public spending can arise from further spending reviews and following them up with specific policy action, for instance on rationalising or eliminating non-essential subsidies.

(20) Demographic ageing is exerting pressure on the old-age dependency ratio, thereby challenging the long-term sustainability of the pension system and the adequacy of statutory pensions. Between 2025 and 2035, the working age population (20 to 64 years old) is projected to decline from 49 million to 45 million. The sustainability of the pension system is also being challenged by attractive early retirement options, and the failure to account for demographic pressures through the sustainability factor or adjust the retirement age reflect increases in life expectancy. Revising pension indexation and adjusting contribution ceilings could help to make the pension system more sustainable. The pension commission's report presents an opportunity for far-reaching ambitious reforms. The entire pension system must ensure adequate old age income; with occupational and individual pension schemes complementing the statutory pension pillar. Better utilising capital-backed pension solutions is advisable. The 2026 reform of occupational pensions is a positive step, but occupational pension schemes, along with statutory pension schemes for regulated professions, remain fragmented. For some schemes supervision is decentralised to the Länder level; for others, benefits remain unfunded as there is no dedicated pool of assets backing the pension promise. Furthermore, the lack of a deep asset base, and inadequate management and oversight in some schemes, pose a barrier for deeper venture capital markets in the EU. Moreover, occupational pensions cover only about 51 % of employees subject to social insurance contributions, and this share has been declining, as employment has been shifting to sectors with lower occupational pension coverage. Automatic enrolment of employees in an asset-backed pension scheme could benefit in particular lower earners who are currently less covered, improving pension adequacy. Given Germany's high savings rate, reforms should prioritise low-income groups that currently save little for retirement; aside from that, a reallocation of savings towards providing more capital to companies, including venture capital, would be desirable, rather than increasing the overall savings rate.

For individual pensions, the legislated reform of a retirement savings account (*Altersvorsorgedepot*) without mandatory guarantees paves the way for the possibility of higher returns. However, ensuring that management costs of such accounts are contained will be a key challenge for implementation. Considering the currently relatively limited (30 %) coverage rate of individual pensions, a government-mandated fund could be envisaged, which retirement savers would use by default (i.e. if they do not want to choose their own funds), with low operating cost. This could also guide the market in terms of costs and practices.

(21) A labour-friendly tax structure is key for strengthening incentives to increase hours worked. Workers in Germany face one of the highest tax wedges (including taxes on earnings from labour and social security contributions) in the EU. In particular, high taxes in conjunction with strict benefit withdrawal rules (such as reduced benefits as income increases) lower the incentives to increase the number of hours worked, in particular for low-wage earners. The rules of joint taxation of married couples (*Ehegattensplitting*) provide disincentives to increase hours worked for second earners, often women. Potential improvements concerning streamlining benefit withdrawal and digitalising social administration were recently pinpointed by the Welfare State Commission, which also proposed to improve the effectiveness of the welfare system and thereby to reduce poverty risks, by simplification and improving access to benefits. Accompanying social benefit reforms by a reduction of income tax especially for low and middle incomes – as announced in the coalition agreement – and adjusted rules of joint taxation as well as of health insurance coverage of spouses, could increase labour supply incentives considerably. Shifting the tax mix towards less distorting taxes instead could raise alternative revenue potential, also at regional level, as well as reducing environmentally harmful tax subsidies, instead of increasing them.

(22) The systematic, meaningful and timely involvement of local and regional authorities, social partners, civil society and other relevant stakeholders remains essential in order to ensure broad ownership for the successful implementation of the Union's funding instruments, as well as in the context of the European Semester.

(23) The implementation of cohesion policy programmes, which encompasses support from the European Regional Development Fund (ERDF), the Just Transition Fund (JTF) and the European Social Fund Plus (ESF+) in Germany, remains below EU average, both in terms of project selection and payments. It is important to step up and accelerate efforts to ensure the swift delivery of investments, while maximising their impact on the ground. Germany is already taking action under its cohesion policy programmes to boost competitiveness and growth. At the same time, Germany continues to face challenges in implementation, including those relating to meeting the spending targets at end of 2026. It is essential to ensure that the new investments identified by Germany in its mid-term review of the cohesion policy funds, notably those linked to the five priorities identified in the Mid-Term Review Regulation ([15]), are deployed rapidly and effectively

(24) Germany also faces several challenges related to innovation, the diversification of the economy, business dynamism and private investment, the digitalisation of the public administration, digital infrastructure, housing affordability, the dependency on fossil fuels, investment in energy systems and the decarbonisation of buildings, transport and industry, labour supply, skills, attracting and retaining talent from non-EU countries, educational outcomes as well as the availability of early childhood education and care and all-day schools.

(25) Private-sector innovation is concentrated in large companies, specific regions and mid-tech sectors. R&D expenditure by small and medium-sized enterprises (SMEs) remains low (0,18 % of GDP in 2023 against the EU average of 0,47 %). Innovation activity is concentrated in mid-tech sectors. The innovation environment could benefit from more public funding for deep tech and transformative innovation. R&D output has fallen when measured as a share of the most cited publications and patent applications. Germany struggles regarding commercialisation of academic research. A more systematic approach to knowledge transfer, including through prioritising public funding to disruptive innovation, could enhance the conversion of high-quality academic research into commercially viable products. Currently, the process is often hindered by structural limitations like funding and career incentive systems that do not adequately prioritise commercialisation as well as protracted and bureaucratic intellectual property negotiations, delaying or discouraging the translation of research into market-ready innovations. For cutting-edge innovation, it is important to bolster high-performing clusters (e.g. through excellence initiatives) while fostering tailored R&D ecosystems and ensuring research and technology-transfer infrastructure for businesses.

([15]) Regulation (EU) 2025/1914 of the European Parliament and of the Council of 18 September 2025 amending Regulations (EU) 2021/1058 and (EU) 2021/1056 as regards specific measures to address strategic challenges in the context of the mid-term review.

(26) Economic transformation in Germany is intensifying, with business insolvencies (Personen- und Kapitalgesellschaften) having reached their highest level in 20 years. The number of distressed companies is increasing and structural challenges are mounting, in particular in regions of industrial transformation. Therefore, it becomes even more crucial to facilitate firm entry and growth and speed up resource reallocation from non-viable companies to productive and innovative firms, including start-ups and scale-ups. The number of newly founded start-ups increased in 2025 from the previous year, but start-up activity remains below its 2018 level, and the general propensity to start a business in Germany remains relatively low. Germany's reliance on mid-tech industries and a weaker innovation output rate suggest that the country may be experiencing lock-in effects where established industries and technologies prevail, while new entrants face challenges to promote emerging technologies and bring innovations to the industrial base. Financing remains a key challenge for young entrepreneurs, in particular for scale-ups. Strengthening the role of institutional investors as capital providers could help deepen capital markets and improve efficiency and investment growth. While a range of government programmes, primarily through the development bank KfW, support the venture capital system, reducing tax uncertainty regarding partnership structures could make managing venture capital and private equity funds in Germany more attractive for private managers. More broadly, corporate financing could be improved by a more efficient banking market, providing lower-cost loans and more flexible products. This is hindered by operational inefficiencies: the cost-to-income ratio of German banks stood at 58,3 % in March 2025 compared with an EU average of 54 %. Consolidation, mergers, including with banks from other EU Member States, centralisation of operations could considerably reduce such inefficiencies.

(27) The government plans to cut administrative costs for businesses by 25 % during the current legislative period. However, the ambitious goals do not seem to be accompanied by fundamentally new instruments or a consolidation of competences that would promote effective burden reduction. This is critical as many businesses report delays (62 %) and increased operational costs (44 %) due to administrative interactions. Effective tools could include simplified rules on documentary evidence, the wider use of administrative approval by default and flat-rate approaches rather than exact case-by-case verification. A thorough cost-benefit assessment could help to ensure that the effort associated with new regulation is in proportion to the benefits they provide. Given the centrality of Germany in the single market, there is a particular need to reduce national and regional barriers to intra-EEA trade in goods and services, also by avoiding burdensome national implementation of EU legislation and by reducing the packaging and waste management compliance burden.

(28) Germany is making efforts to improve the digitalisation of its public services, but these have not yet resulted in much measurable progress. Germany's performance on key Digital Decade targets regarding the provision of digital public services for citizens and businesses remains below the EU average. Key enabling conditions for seamless digital administration, electronic identification and connected data registers, are underdeveloped. The country lags behind in digital solutions to initiate and follow proceedings in civil/commercial and administrative court cases. In addition, newly developed digital services are not rolled out consistently across regions and municipalities, limiting their territorial coverage and scalability. Where digital services exist, they are often not sufficiently user-friendly as citizens and businesses still face complex, only partially digitalised procedures and repeated interactions with multiple authorities. This points to a broader need to modernise public administration, with improved coordination or adjusted responsibilities between levels of government. Federal and regional and local governments could expand their use of common digital building blocks and standards and consolidate overlapping administrative procedures. Such a modernisation is also increasingly necessary to preserve administrative capacity in the face of mounting staff shortages, which make digitalisation, automation and simpler procedures as key enablers of an effective and resilient public administration.

(29) Germany continues to make progress in expanding its connectivity infrastructure, legislating to facilitate permitting for fibre optics and mobile communication networks. Nevertheless, the country's fibre-to-the-premises (FTTP) coverage remained the second lowest in the EU. Persistent coverage gaps, combined with significant regional disparities, risk constraining competitiveness, limiting productivity growth, and slowing the uptake of data-intensive digital technologies. Catching up requires effective implementation of commitments by federal and regional authorities to enable continued investment by the private sector where possible and provide public support where necessary.

(30) Housing investment in Germany fell in 2025 for the fifth year in a row, having contracted by 20 % since 2020, contributing to housing affordability challenges and broader economic stagnation. A widening gap between rental prices in existing and new contracts leads to a frozen housing market, limiting labour mobility. Rent regulation measures do not address the underlying causes of housing shortages and can weaken private investment incentives and hinder the efficient use of available housing. Complex and lengthy land-use planning can stand in the way of more reallocation of land to housing purposes or densification. The adopted 'construction turbo' aims to accelerate planning and permitting procedures, but its uptake remains uneven across municipalities. Reducing construction costs, which are the highest in the EU, is key in delivering more housing. Implementing the announced 'housing type E', a simpler, needs-based standard in construction, will need to provide legal certainty when applying simpler standards. Addressing the housing investment challenge requires innovation in construction, further simplified and streamlined regulations, digitalised processes, better land-use planning, better transport links as well as increasing the stock of social housing and making more socially targeted use of existing units.

(31) Germany has continued to make progress on the energy transition, notably by increasing renewable electricity production. However, fossil fuels still account for a substantial share of the energy mix. To meet its climate goals, Germany should further accelerate the phase-out of fossil fuels across all sectors, in particular in housing and transport, while supporting the cost-effective roll-out of renewable energy and modernisation of grid infrastructure.

(32) Despite the progress made, structural challenges remain in integrating growing and variable volumes of renewable energy generation efficiently into the electricity system. Grid congestion due to the geographical mismatch between renewable generation and demand centres limits the full use of renewable energy, raises system costs, and reduces the transmission capacity available for cross-border trade. Germany is working to expand the transmission grid, but progress will need to accelerate to ensure that a minimum of 70 % of technical cross-border capacity is available for trading. Despite recent efforts to this end, higher grid fees in renewable-rich regions remain a disincentive for locating industry close to generation sites. A reform towards dynamic, regionalised network charges could link fees to actual grid load, thereby creating locational price signals. While Germany has taken steps under the RRP and national measures to accelerate permitting and support flexibility solutions, challenges remain in scaling up system flexibility and ensuring more efficient integration of renewable energy into the electricity system. Flexibility options such as storage and demand response are not yet deployed at sufficient scale, limiting the ability of the system to accommodate variable renewable generation without costly interventions. In addition, the digitalisation of electricity networks, particularly at distribution level, continues to lag behind, with particularly slow progress in smart meter roll-out, limited data availability and a lack of standardisation across grid operators.

(33) Emissions from the housing and transport sectors, which fall under the EU's Effort Sharing Regulation, continue to significantly exceed national and European reduction targets, and industrial emission remain high. Germany will need to accelerate action to decarbonise these sectors in order to meet its climate targets and improve energy efficiency. In the building sector, Germany has expanded existing financial support measures under the RRP, but further cross-cutting efforts on energy efficiency, including reductions in primary energy consumption, are needed to achieve its 2030 targets. In the transport sector, battery electric vehicle adoption is increasing, supported by subsidies and fiscal incentives. However, progress remains insufficient to meet the 2030 targets, particularly regarding the expansion of charging infrastructure for heavy-duty vehicles. Greater investment is also needed to upgrade, expand, and digitalise the rail network to support a modal shift from road to rail, in particular for freight transport, where road haulage remains predominant. Despite ongoing measures funded under the RRP and other national initiatives, major railway projects continue to face delays, while the slow deployment of digital signalling systems, notably the European Rail Traffic Management System (ERTMS), continues to limit capacity, reliability and cross-border interoperability. At the same time, Germany's economic security and industrial competitiveness hinge on swiftly moving manufacturing production, including energy-intensive industries, away from fossil fuels. Yet, complex permitting procedures marked by overlapping jurisdictions and unclear division of responsibilities continue to delay critical investments in non-fossil low-carbon and net zero industrial production technologies. To address these bottlenecks, Germany should streamline approvals for infrastructure and facilities contributing to the clean industry transition.

(34) In light of the crucial role of human capital in enhancing the Union's competitiveness and strategic autonomy, in 2026 the Council recommended that Member States take action to urgently address human capital-related structural challenges in the area of skills, education and training, which hamper competitiveness. The 2026 country-specific recommendations addressed to Germany can contribute to the implementation of the Council Recommendation on human capital in the Union.

(35) Shortages of skilled labour have decreased, but remain a significant bottleneck to growth, productivity and the digital and green transitions. In late 2025, close to 30 % of companies reported being affected by labour shortages and the vacancy rate remains above the EU average. Although the employment rate is high, average hours worked per worker are among the lowest in the EU and continue to decline. Half of all female employees work part time, which partly explains this. Labour shortages are aggravated by skills gaps and skills mismatches. Digital skills are improving gradually but remain uneven. Labour shortages are particularly acute in the care and ICT sectors, the construction sector, and scientific and technical professions, requiring skills in science, technology, engineering and mathematics (STEM). Labour shortages also affect sectors that are key for the green transition, such as water supply, sewerage, waste management and energy. Shortages partly reflect territorial and skills mismatches. Also reflecting manufacturing decline numerous regions are undergoing pronounced structural shifts, with limited capacity to absorb displaced labour. To accommodate structural change, policy tools to support job-to-job transitions need to gain relevance, and there needs to be a focus on promoting occupational changes and regional labour mobility, which is currently limited by low housing supply in areas with labour market needs, among other factors. In addition to these preventive measures, comprehensive support for the low-skilled of all ages, especially those lacking a vocational diploma, could help Germany counteract skills shortages. Lastly, there is untapped potential for attracting and retaining talent, for example by speeding up, digitalising and centralising administrative procedures for labour migration and further facilitating the recognition of qualifications, with a faster and more transparent process.

(36) Low and worsening education outcomes, especially for disadvantaged groups, and significant numbers of early leavers from education and training further aggravate the shortage of skilled labour. Between a quarter and a third of 15-year-olds underperform in mathematics, reading and science, and the share of top performers has also been dropping strongly. The impact of students' socio-economic background on education outcomes is very pronounced. In 2022, 46,6 % of students from disadvantaged backgrounds failed to reach minimum proficiency in mathematics, a noticeable rise from 29,8 % in 2015. Additionally, two-thirds (64 %) of students born abroad underachieve in mathematics, compared to 21,9 % of non-immigrant students, further contributing to the widening socio-economic gap in education. Almost one in seven of Germany's young people (18-24 years old) have no or only very low qualifications and are considered early leavers from education and training. The early leaving from education and training rate in Germany is among the highest in the EU (13,1 % in 2025) and has increased since 2021. Preventive and remedial measures, taking into account regional differences, could help reduce early leaving from *education and training* and improve education outcomes. Enhanced data collection and data interoperability between schools, social services, and the *Länder* would allow for better monitoring of educational trajectories. This would help with tailoring support to underachieving learners from an early age, strengthening mandatory schooling or training until age 18 and providing flexible learning pathways. As the digitalisation of the economy accelerates, education investments also need to keep pace. Tailor-made education is crucial for effective outcomes, making teacher shortages particularly concerning – as of now, the Standing Conference of the Ministers of Education and Cultural Affairs (KMK) forecasts a shortage of 49 000 teachers by 2035.

(37) Strengthening quality early childhood education and care (ECEC) and all-day schools could further enable full-time employment of carers, often women, as well as promote equal opportunities for children. Half of all female employees work part-time, one of the highest levels in the EU. Caring for children and elderly relatives is a frequent reason for working part-time, partly driven by a gap in the provision of quality, flexible ECEC and all-day schools. It is estimated that 300 000 childcare and kindergarten places are missing currently and 150 000 all-day school places still need to be created by 2029, with regional disparities in unmet needs. Access to quality ECEC and all-day schools can also help mitigate disadvantages due to socioeconomic background and German language proficiency. The roll-out of nationwide standardised language support in ECEC could help build strong foundations for basic skills acquisition in primary school, thereby improving the equity of the German education system characterised by very early tracking of pupils into different paths. Currently, children from wealthier households are enrolled in ECEC at nearly twice the rate of their less affluent peers. Expanding cost-efficient long-term care, especially home and outpatient-based services, could also provide relief from caring responsibilities and promote intergenerational fairness.

(38) In view of the close interlinkages between the economies of euro-area Member States and their collective contribution to the functioning of the economic and monetary union, in 2026 the Council recommended that the euro-area Member States take action, including through their RRPs, to implement the 2026 Recommendation on the economic policy of the euro area. For Germany, the recommendation (1) helps implement the first, the second, the third, the fifth and the seventh recommendations on the euro area, recommendation (2) helps implement the fourth recommendation on the euro area, recommendation (3) helps implement the fifth, the seventh and the ninth recommendations on the euro area, recommendation (4) helps implement the seventh recommendation on the euro area and the recommendation (5) helps implement the fifth recommendation on the euro area.

HEREBY RECOMMENDS that Germany take action in 2026 and 2027 to:

1. Continue adhering to the maximum growth rates of net expenditure recommended by the Council on 10 October 2025, while making use of the flexibility under the national escape clause activated by the Council. Reinforce overall defence and security spending and readiness, while ensuring debt sustainability and spending efficiency, as well as gradually adapting the budget to sustain structurally higher defence spending. Ensure that measures taken to mitigate the impact of the hike in energy prices are temporary, targeted at protecting vulnerable households or at addressing the needs of energy-intensive firms, preserve incentives for energy savings and that their fiscal cost is compatible with the commitments under the EU fiscal framework. Continue to implement the set of reforms and investments underpinning the extended adjustment period as recommended by the Council on 10 October 2025. Support the rollout of public investments by expanding measures to accelerate permitting and execution procedures. Improve the quality of public finances by ensuring that the new Special Fund for Infrastructure and Climate Neutrality (*Sondervermögen*) increases the productive capital stock and by limiting subsidies and transfers from the federal budget to the pension system. Improve the sustainability of statutory pensions while maintaining pension adequacy, including by promoting longer working lives and strengthening occupational and individual pension schemes. Improve the tax mix and the effectiveness and efficiency of the welfare system to strengthen incentives to increase hours worked, including by second earners.

2. Ensure continuity of reforms and investments implemented under the Recovery and Resilience Facility. Accelerate efforts to implement cohesion policy programmes, building, where appropriate, on the reallocation to strategic priorities and flexibilities agreed in the context of the mid-term review of the cohesion policy framework.

3. Boost transformative innovation including by facilitating research commercialisation. Facilitate the diversification of the economy and business dynamism and boost private investment by supporting entrepreneurship, improving access to finance for start-ups and scale-ups, simplifying regulation, and reducing administrative burden. Speed up the modernisation and digitalisation of public administration, including by reducing complexity between government levels, increasing the use of common standards and redesigning public services to make them user-friendly and consistently available across the country. Accelerate the roll-out of very high-capacity digital communication networks. Improve the conditions for housing investments in order to make housing more affordable by further simplifying regulation and procedures, reviewing rental law, mobilising additional building land and strengthening social housing.

4. Further reduce the overall degree of dependency on fossil fuels and facilitate the expansion of renewable energy, including by advancing flexible systems such as storage solutions to reduce prices at peak demand. Steer investment towards a cost-efficient and carbon-neutral electricity system, including by encouraging grid-friendly renewable electricity generation and flexible consumption patterns, while strengthening regional integration by expanding transmission corridors and supporting the cross-border integration of electricity markets and grids. Promote the digitalisation of electricity grids, particularly at distribution level and advance the roll-out of smart meters. Accelerate the process of decarbonising the buildings, industry, and transport sectors, including by renovating and digitalising the rail network, and by reducing permitting bottlenecks for infrastructure and facilities contributing to the clean industry transition.

5. Increase labour supply and tackle the shortage of skilled workers, notably by increasing hours worked, strengthening skills, facilitating transitions to and between jobs through active labour market policies, and better attracting and retaining talent from non-EU countries. Improve education outcomes, including by promoting excellence, preventing early leaving from education and training, and providing targeted support to disadvantaged groups. Improve the availability and quality of early childhood education and care and all-day schools, as well as the availability of cost-efficient long-term care services.

Done at Brussels, 10 July 2026.

For the Council

The President

S. HARRIS