

Joachim Nagel: Outlook for 2026 in the light of multifaceted challenges worldwide

Speech by Dr Joachim Nagel, President of the Deutsche Bundesbank, at the Ambassadors Club e.V. Lunch Jour Fixe, Berlin, 26 January 2026.

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Check against delivery

Ladies and gentlemen, it is a pleasure and an honour to be with you today. In the next few minutes, I would like to give you an overview of the economic outlook for Germany from the Bundesbank's perspective. The outlook is closely intertwined with the major and multifaceted challenges that we are facing around the world. I would therefore also like to talk about how we can approach major challenges. What examples and experiences are available from a central bank perspective?

1 Recent economic outlook for Germany

The Bundesbank published its latest forecast for Germany about a month ago, shortly before Christmas.¹ According to the forecast, inflation in Germany will continue its way back to 2% this year. The Harmonised Index of Consumer Prices (HICP) in Germany is forecast to grow at a rate of 2.2% in 2026 and around 2% in 2027 and 2028. That's very good news for all of us: in Germany—as in the euro area—the inflation rate is back towards 2%, the level at which we want to see it.

If we look at economic activity, German gross domestic product grew slightly in 2025 by 0.3% in calendar-adjusted terms. It will grow somewhat more strongly, by about 0.6%, in 2026, by 1.3% in 2027 and by 1.1% in 2028. From 2026 onwards, the expansionary fiscal stance will clearly support economic growth in Germany. The cumulative overall effect of additional government spending on defence and infrastructure is estimated to contribute 1.3 percentage points to GDP growth by 2028. Furthermore, transfers and tax cuts are expected to boost the incomes of households and firms.

Government deficit and debt ratios will rise significantly. Bundesbank experts expect the debt ratio to increase from 62% in 2024 to 68% in 2028. Over the same period, the deficit ratio is expected to increase from 2.7% to 4.8%. A robust budget plan is needed that will bring the deficit back down in the medium term without cutting back on the relevant infrastructure investment.

When using the extended scope for borrowing for defence and infrastructure, fiscal policy should make sure that this borrowing actually does lead to additional investment. And it must also make sure that public finances remain sound in the future. The Bundesbank has made proposals with a view to both these things.²

We anticipate that fiscal policy will not be the only contributor to GDP growth in Germany. A revival in household demand will also play an important role over the entire

forecast horizon. By contrast, we expect business investment to remain dampened by a difficult investment environment owing to cyclical and structural headwinds. It will return to an expansionary path only slowly and later in 2026.

German exports are likely to slowly return to an expansion path over the course of 2026 and contribute to GDP growth. However, they are still suffering from higher tariffs and will gain momentum only moderately—and that is without even factoring in the spectre of a further tariff escalation.

There are also structural obstacles weighing on competitiveness.³ At the same time, German imports will rise considerably. Thus, the German current account surplus—as a share of nominal GDP—will decrease over the forecast horizon, from an expected 4.7% in 2025 to no more than 3.2% in 2028. Compared with past decades, these figures are remarkably low.

To sum up: the German economy will be gradually returning to a recovery path over the course of 2026.

2 Multifaceted challenges worldwide

2.1 International challenges are omnipresent

Ladies and gentlemen,

It will come as no surprise to you that the outlook and forecast presented are subject to uncertainty. Economic growth could be weaker, inflation could be higher. We are currently facing a broad array of different challenges worldwide. Let me name a few.

International trade disputes and geopolitical conflicts shaped developments last year. They played a big part in pushing up uncertainty. It had an impact on cross-border trade relations and exchange rate developments, amongst other things. And unfortunately, as things stand, caution requires us to assume that both geopolitical conflicts and trade disputes are here to stay. Regardless of whether the demands of one NATO member on an ally's territory are withdrawn or not.

And there are other challenges, too. We are all witnessing the continued rapid rise of artificial intelligence as it becomes more and more important. The new technology entails great opportunities, but also risks.

Digital innovation is also set to revamp the financial system as we have known it. The distributed ledger technology in particular has not only spawned new types of assets. It also challenges the business models of many existing players, promising both gains in efficiency and creating new risks.

And of course, climate change and its impact is a challenge for countries and people all over the world.

These are four very different examples of challenges all our economies are facing, and the full list of challenges is indeed much longer than this. So we need to ask ourselves: how can we find suitable answers, how can we react, how can we address uncertainty?

2.2 Experience in dealing with international challenges

Ladies and gentlemen, as President of the Deutsche Bundesbank I have found it always to be worthwhile to look at what has worked before when it comes to dealing with international challenges, and to leverage the experiences gained.

First: I firmly believe that global challenges should be dealt with through rules-based international cooperation.

Second: we have tried-and-tested institutions and forums for international cooperation. We should make use of them!

At present, one gets the impression that "might is right". Rules and international cooperation appear to have fallen out of fashion. But blackmail and violence are not the basis for lasting cooperation. Long-term cooperation is made possible through understanding, reliability and compliance with shared rules.

Let us remember the financial crisis that started in 2007 in the United States. Cross-border joint work at the international and the European level has since done a lot to make the financial system more resilient. In response to the global financial crisis, the G20 created the Financial Stability Board (FSB), which is based at the Bank for International Settlements (BIS). The G20 mandated the FSB to deliver the reform agenda and it translates political commitments into international standards. Today it plays a vital role in safeguarding global financial stability by strengthening the resilience of the global financial system.

The Bank for International Settlements itself was founded in 1930. That makes it the world's oldest international financial organisation. It plays a key role in the cooperation of central banks and other financial institutions.

Another important example: the International Monetary Fund (IMF). It promotes global financial stability and monetary cooperation among the countries in the international monetary system. During the global financial crisis and the subsequent sovereign debt crisis, the IMF proved its role as a stabilising anchor by providing financial support, policy guidance and credibility, when it was most needed. And, as a more recent example, the Fund again stepped up its engagement during the coronavirus pandemic and the subsequent energy and inflation shocks. It swiftly provided policy advice and extensive financial assistance to many of its members with a view to restoring stability. Alongside these institutions, the G7 and the G20 have served as essential informal forums for dialogue and coordination for many years.

I describe these experiences of international cooperation because they are examples of how to deal best with cross-border challenges. Disruptions in the financial system can cause considerable real economic and social costs. Central banks play a key role in preventing and managing such disruptions. And we at the Bundesbank work on a regular basis with all these institutions I have just spoken about, actively contributing in various forums. Our enthusiasm is driven by our unshakable conviction that a world shaped by cooperation is better than a world of confrontation.

This also holds for another challenge I mentioned: the rise of new technologies, such as artificial intelligence. To illustrate what cooperation on new technologies can look like, let me draw your attention to the Innovation Hub operated by the Bank for International Settlements. The Hub has innovation centres in various locations worldwide. One such innovation centre for all Eurosystem central banks is jointly located at the Bundesbank in Frankfurt am Main and the Banque de France in Paris. The aim of the BIS Innovation Hub is to improve the functioning of the global financial system. To this end, key innovations in the financial sector are identified, analysed and also developed for central banks. In addition, the Innovation Hub coordinates a global network of central bank experts, pooling central banks' knowledge and efforts to keep pace with rapid technological developments.

Finally, I would like to mention the Network for Greening the Financial System (NGFS). The global network of more than 140 central banks and supervisory authorities is committed to a more sustainable financial system. Its aim is to analyse the impact of climate change and nature loss and to strengthen the role of the financial system in financing the transition to a sustainable economy. The NGFS was established in December 2017; the Bundesbank has been serving as chair since 2024.

Now you might ask, but what do you do if "might is right" seems to be the order of the day? If there is no willingness to cooperate? My answer: we must face up to the facts. International cooperation has become more arduous. Some countries may try to bypass or marginalise international institutions. However, this does not mean we should all simply abandon international cooperation.

For those of us who still believe in a rules-based world, one truth stays the same as ever: together we are stronger. We should seek common solutions where this is possible, with whom this is possible. That is the recommendation my former colleague Mark Carney gave in a brilliant speech in Davos five days ago.⁴ And I agree with him.

3 Conclusion

Ladies and gentlemen, let me close with a brief summary. As you will no doubt have noticed, I am proud to be part of a community of central banks that is tackling major challenges together. Experience has shown that this can be very helpful.

For the German economy, we at the Bundesbank see sizeable challenges. Germany's recession in 2023 and 2024 is indicator enough. Last year, GDP grew only slightly. And the Bundesbank expects Germany to embark on a slow return to recovery this year. Last March, I outlined economic policies which could help Germany to cope with its challenges.⁵ Since then, we have seen first steps in the right direction, but there is still a lot to be done.

Speaking in Davos last week, Chancellor Friedrich Merz vividly explained that progress has to be made in four areas simultaneously, and I quote: We must continue supporting Ukraine in its fight for a just peace. We must become capable of defending ourselves

on our own in Europe. We want to reduce dependencies that currently make us vulnerable. And fourth, we want to ensure that our economy can tap into its full potential for innovation and growth.⁶

One thing is clear: many of today's challenges cannot be tackled by an individual country on its own. Many of these major challenges are global in nature. We are best able to solve them together—by talking and negotiating with each other, in a spirit of cooperation and consensus-seeking, with everybody embracing respectful, rules-based interaction.

I have a hunch that's what you ambassadors work to achieve most of the time, too. So I am now looking forward to our discussion and thank you very much for your attention.

¹ Deutsche Bundesbank (2025), [Forecast for Germany: Economy gradually returns to recovery path](#), Monthly Report , December 2025.

² Deutsche Bundesbank (2025), [Further development of the debt brake – a Bundesbank contribution to the reform debate](#), November 2025. Deutsche Bundesbank (2025), [Stability-oriented adaption of relaxed debt brake](#), Monthly Report, May 2025.

³ Deutsche Bundesbank (2025), [What's behind the substantial decline in German export market shares?](#), Monthly report, July 2025.

⁴ Carney, M. (2026), Principled and pragmatic: Canada's path, Prime Minister Carney addresses the World Economic Forum Annual Meeting, Davos, Switzerland, 20 January, <https://www.pm.gc.ca/en/news/speeches/2026/01/20/principled-and-pragmatic-canadas-path-prime-minister-carney-addresses>

⁵ Nagel, J. (2025), [Economic policy measures to boost growth in Germany](#), speech held at the Berlin School of Economics, Humboldt University of Berlin, 10 March.

⁶ Merz, F. (2026), [Speech by the Federal Chancellor Merz at the World Economic Forum](#), Davos, Switzerland, 22 January.