



EUROPEAN CENTRAL BANK

EUROSYSTEM

Fiscal challenges amid geopolitical uncertainty and ageing societies

Isabel Schnabel
*Member of the Executive Board
of the ECB*

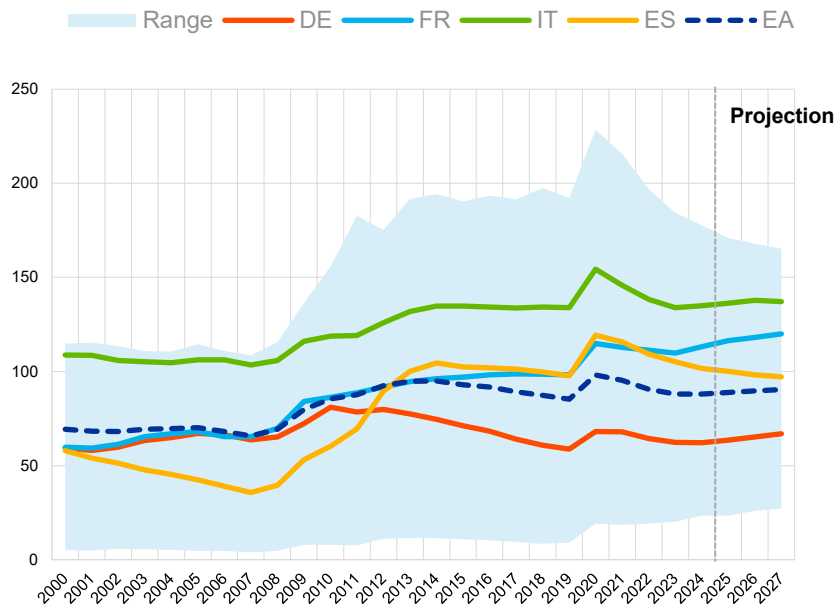


Berlin-Brandenburg Academy of Sciences and Humanities
in cooperation with ESMT Berlin, 18 February 2026

Low German debt-to-GDP ratio went along with low public investment

Public debt

(percent of GDP)



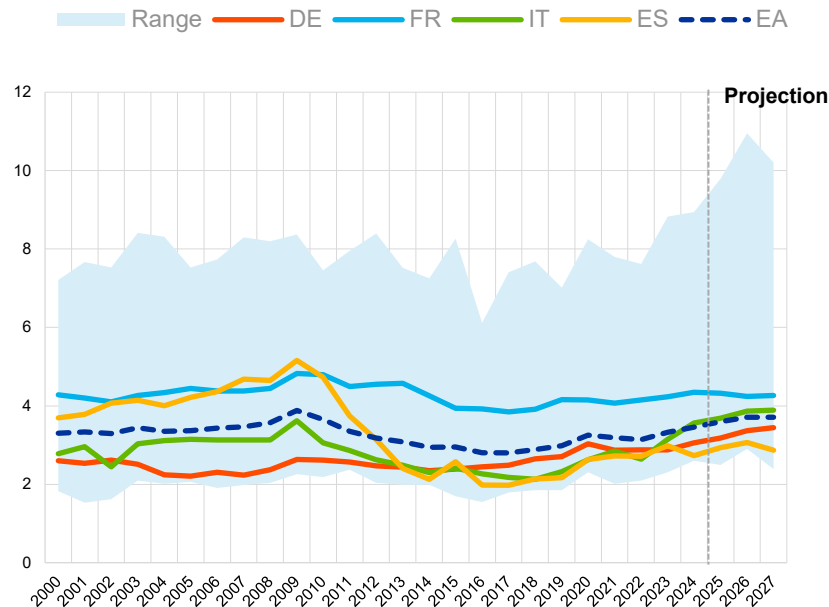
Source: European Commission.

Notes: The range shows the minimum and maximum of all euro area countries. Figures for 2026 and 2027 refer to the European Commission 2025 Autumn forecast.

Latest observation: 2027 (projection).

Public investment

(percent of GDP)



Source: European Commission.

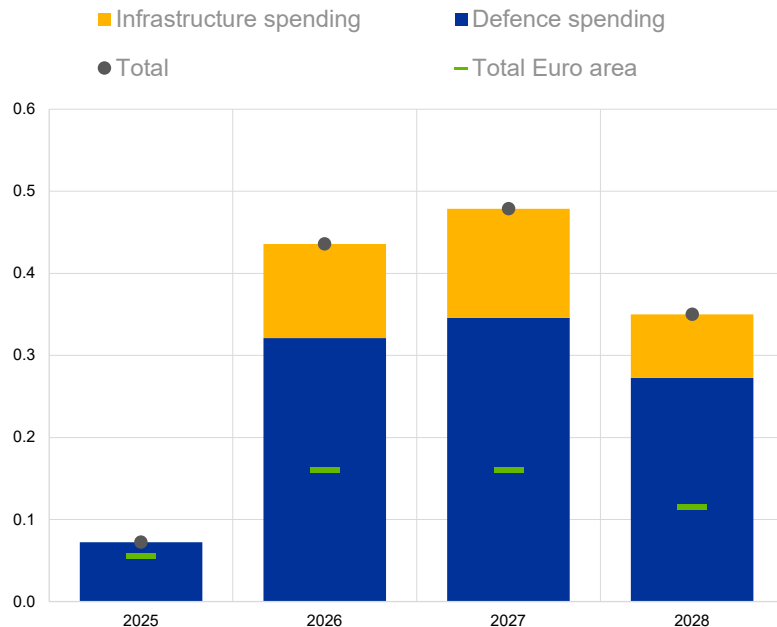
Notes: The range shows the minimum and maximum of all euro area countries. Figures for 2026 and 2027 refer to the European Commission 2025 Autumn forecast.

Latest observation: 2027 (projection).

Fiscal package supports growth, with impact depending on the allocation of spending

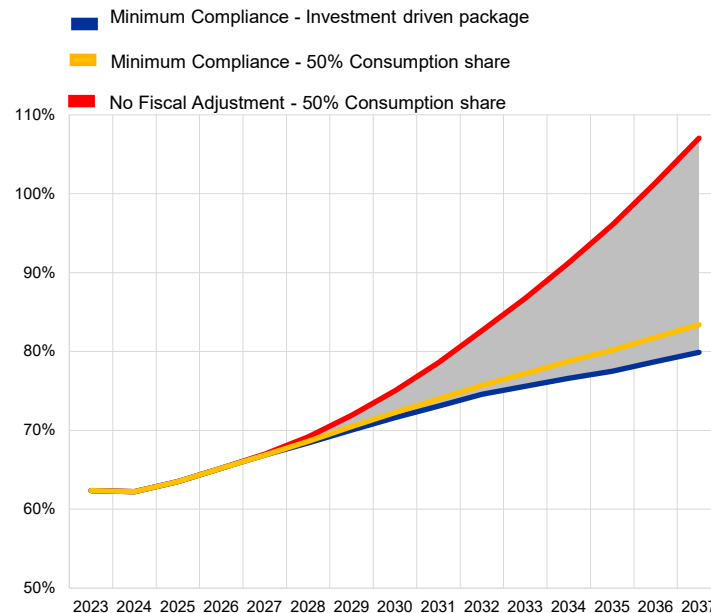
Germany: Impact of additional defence and infrastructure spending on GDP

(percent of GDP)



Germany: Impact of additional defence and infrastructure spending on public debt

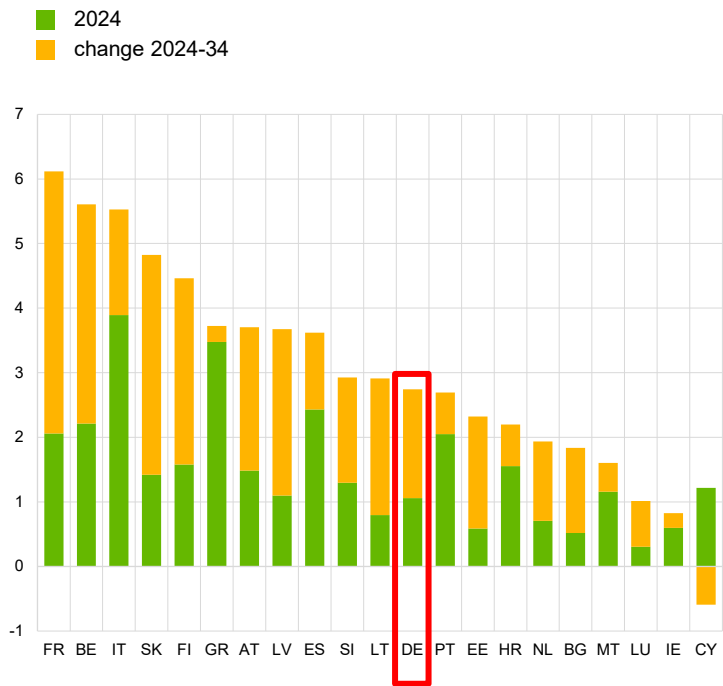
(percent of GDP)



Source: Bundesbank Monthly Report – December 2025 Vol. 77 No. 12 (left chart), COM projections and ECB staff calculations (right chart).

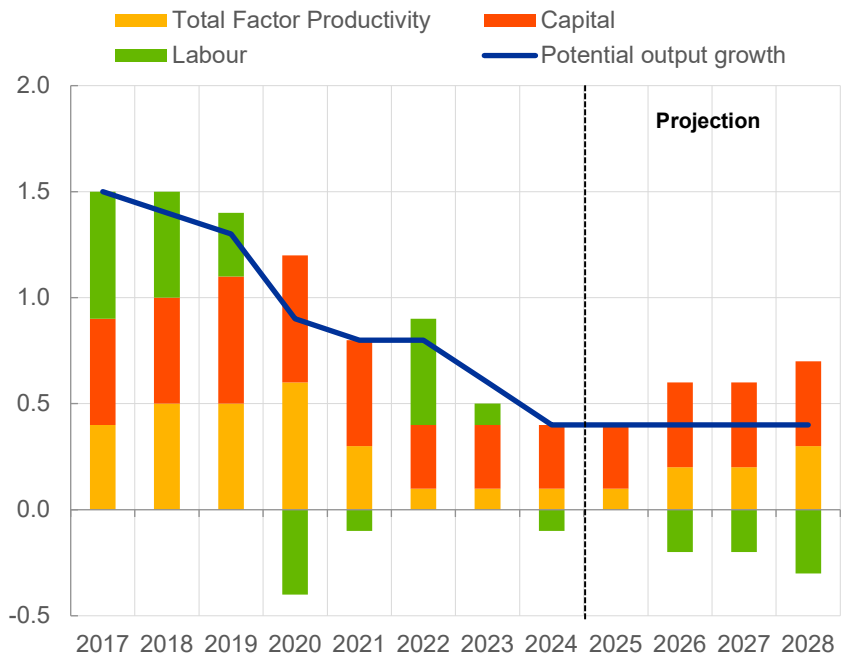
Notes: Right-hand side chart is based on the European Commission's Autumn Forecast up to 2027. Three scenarios are considered: (i) **Partial SGP compliance with investment-led package** (blue: 100% productive public investment, positive impact on potential growth); (ii) **partial SGP compliance with mixed composition** (yellow: 50% government consumption, lower growth impact); (iii) **no additional consolidation** (red: same package composition as yellow, fiscal stance unchanged aside from the cost of the package). Under minimum SGP compliance, Germany is assumed to comply with SGP requirements while still using the full flexibility (total allowed deviation of 0.6% GDP, national escape clause for extra +1.5% of defence spending).

Government interest expenditures (percent of GDP)



Source: ESCB DSA based on Autumn 2025 European Commission's forecasts.

Potential GDP growth in Germany (annual percentage changes)

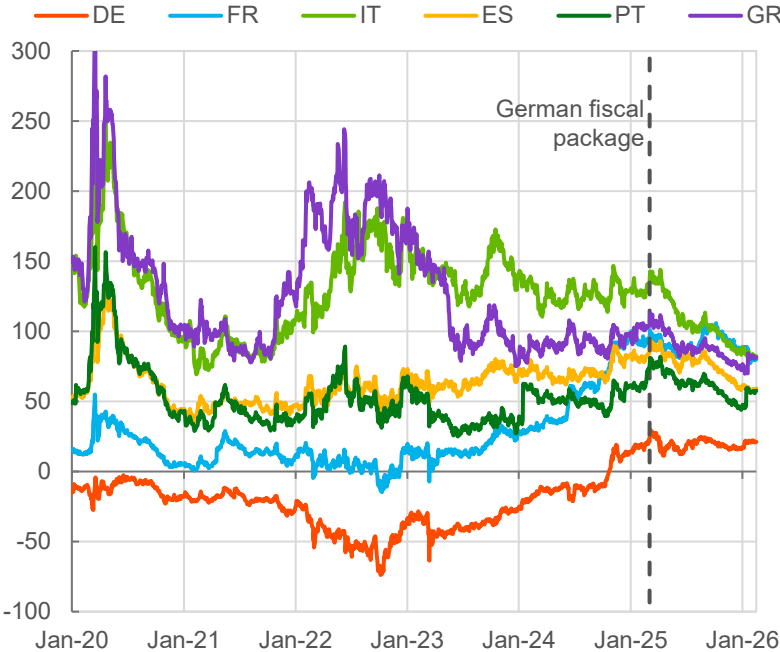


Source: December 2025 Eurosystem staff projections.

Converging sovereign spreads signal confidence in the euro area's stability

Spread of 10-year euro area government bond yields vs OIS rate

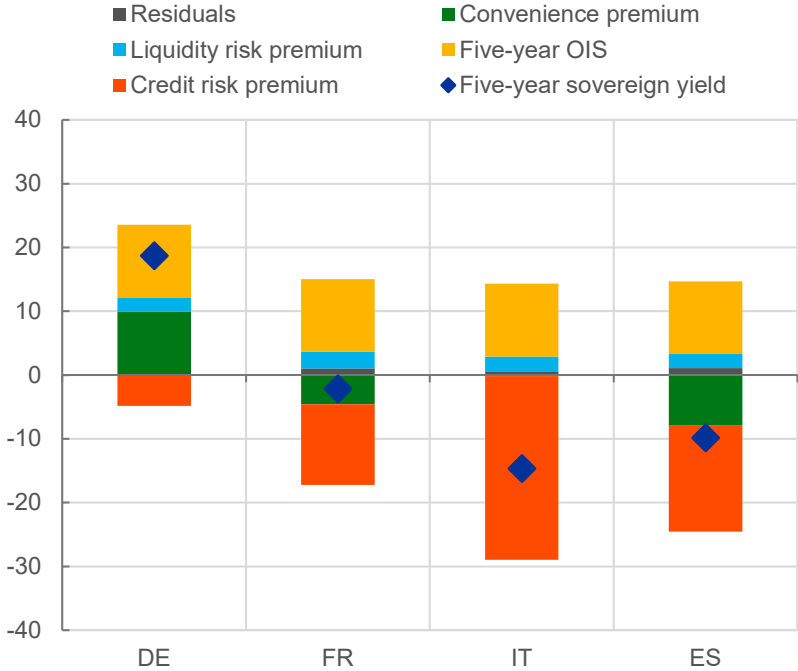
(basis points)



Sources: Bloomberg and ECB staff calculations.
Notes: The spread is the difference between individual countries' 10-year sovereign yields and the 10-year euro area OIS rate. German fiscal announcement refers to 5 March 2025.
Latest observation: 16 February 2026.

Change in 5-year euro area sovereign yields since January 2025

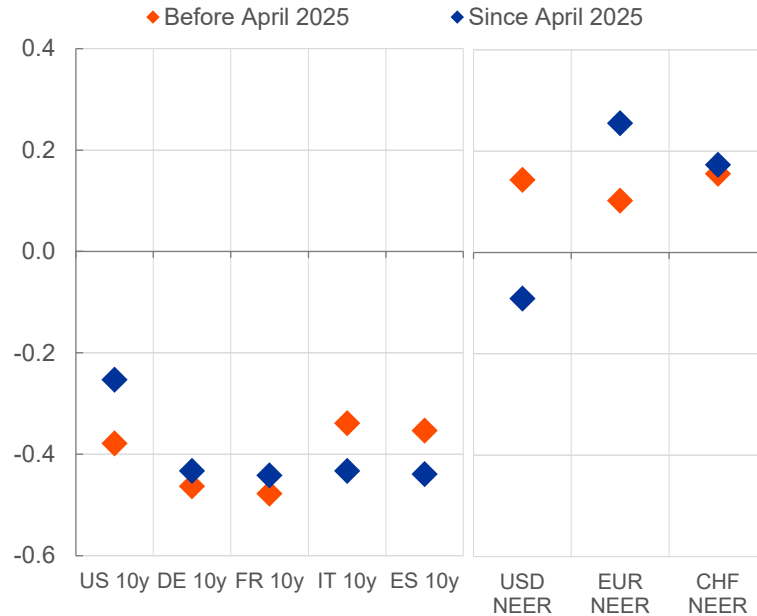
(basis points)



Sources: Bloomberg, LSEG, CMA, Tradeweb and ECB calculations.
Notes: The decomposition of the DE, FR, IT, ES 5-year sovereign yields into its components: risk-free rate (5y OIS), default risk, redenomination risk, liquidity and convenience premia, is based on Corradin S. and Schwaab B. (2023). Credit risk premium includes default risk and redenomination risk premia. The change bars refer to the changes since 1 January 2025.
Latest observation: 16 February 2026.

Euro increasingly acts as “safe haven”, strengthening its international role

Co-movement of financial assets with ‘safe-haven factor’ (index)



Sources: Haver Analytics and ECB staff calculations.

Notes: Dots show the weights in the first principal component estimate with first differences of ten year government yields for the US, Germany, France, Italy and Spain (left panel); daily changes in the net effective exchange rate (NEER) of CHF, JPY, EUR and USD (purged by monetary policy and macro shocks estimated using the model of Brandt et al. 2026) (right panel); gold price returns (purged from the USD); and VIX. Red dots: sample from 1 January 2006 to 31 March 2025; blue dots: since 1 April 2025. Latest observation: 16 February 2026.

Share in global foreign exchange reserves (percentages; at constant Q3 2025 exchange rates)



Sources: IMF and ECB staff calculations.

Notes: Other currencies include Pound sterling, Swiss franc, Japanese yen, Australian dollar, Canadian dollar, Chinese renminbi. Latest observation: Q3 2025.

Thank you very much for your attention!