

Debt Policy at the Expense of the Future

EWS economic talks at Tegernsee discussed the consequences of the new federal government's debt-fueled spending spree.

At the EES economic talks “Politics in Times of Tight Budgets – How We Secure Growth and Prosperity in Germany and Europe” on October 16, 2025 at Tegernsee, Federal Court of Auditors President Kay Scheller spoke frankly: With its debt-financed policy on a historically XXL scale, the federal government is jeopardizing the financial capacity of the Federal Republic.

At the start of the economic talks, the EES inducted Reiner Holznel, President of the Association of German Taxpayers (BdSt), as an honorary senator. He used his brief acceptance speech to make a clear plea for the responsible use of taxpayers' money by the state: "We all want, should, and must pay taxes so that our democracy can function. But we can expect our state to handle the money carefully, sustainably, and with foresight." He added that monitoring this is the responsibility of the Federal Court of Auditors and the Federation of German Taxpayers.

Holznel: "Three points are important to me: First, no one should pay more taxes than they actually have to, as the Federal Fiscal Court¹ has also stated. Second, no one should have to pay taxes on interest – that is, on debts incurred in the past. Third, no one wants to pay taxes and then have to watch their money being wasted. That's why we are also addressing the issue of wasted tax money, uncovering the structures involved, and identifying those responsible." Anyone handling public funds must do so with humility. "After all, it's your money, which you earned through your work."



During its annual economic symposium at Lake Tegernsee, the EES inducted Reiner Holznel, President of the Association of German Taxpayers (BdSt.), as an honorary senator. The certificate was presented by EES President Dr. Ingo Friedrich, EES Supervisory Board Chairman Rolf Baron von Hohenhau, and EES Managing Director Michael Jäger (from left to right).

Rising Interest Burdens are Steadily Restricting Financial Flexibility.

In the heart of Berlin's government district, the BdSt debt clock has been ticking tirelessly for 30 years. According to it, the federal government is currently taking on €5,085 in new debt every second – even though the German treasury collected approximately €1 trillion in tax revenue from its citizens in 2025, more than ever before.

¹ The Federal Fiscal Court is the highest federal court for taxes and customs.

Parallel to the growing national debt, the federal government's interest burden is rising dramatically: now to €1,503 per second. This is money that could be put to better use, for example, for investments in our schools or infrastructure. Holznagel: "As the Association of Taxpayers, we advocate for sound, sustainable fiscal policy." The Federal Finance Minister should be able to manage with what he takes in.

Federal Court of Auditors President Kay Scheller seamlessly continued Holznagel's line of thought: "Basically, there is enough money – at least plenty of money, as current tax revenues show. Since the founding of the Federal Republic 75 years ago, one thing has remained constant: We citizens have always been able to rely on the financial capacity of our state. Especially that of the federal government. But today, many people are wondering whether that is still the case."

Inadequate Budget Provisions and Inefficient Structures

Scheller bluntly addressed the core issue. "I believe I can describe the current situation in Germany in one sentence: Historical challenges are colliding with inadequate budgetary provisions and, in many cases, inefficient structures." Constitutional states must be able to fulfill their core responsibilities – including protecting and defending the fundamental rights and freedoms of their citizens, ensuring internal and external security, protecting against threats from within and without, providing social security, creating the framework for a functioning and prosperous economy, and providing efficient infrastructure. "Then people will trust the state. This is absolutely essential for the legitimacy of democratic states," Scheller concluded.

However, the reality in our country today is quite different in many areas: Among other things, our country has jeopardized its defense capabilities, neglected its transport infrastructure for decades, and exacerbated the financial difficulties in the pension system with the benefit expansions of recent years. Combined with the shortage of skilled workers, inadequate digitalization, and declining value creation over the years, all of this is leading to considerable pressure for transformation.



Kay Scheller, President of the Federal Court of Auditors: "Every generation has a right to shape its own politics. In this sense, a debt brake is actually conducive to freedom."

Debt Increase Like Never Before

In 2019, the federal government's total expenditure amounted to €357.1 billion. According to the federal government's financial plan for the years 2025 to 2029, this figure is expected to jump to €572.1 billion by the end of this period. If one includes the special debts euphemistically referred to as "special funds"—which are nothing more than loans outside the core budget—the figures appear even more dramatic: The federal budget already projects total expenditures of €630 billion for 2026. This represents an increase of almost three-quarters in just seven years (2019 to 2026).

The federal government's cost-cutting efforts, on the other hand, are unambitious – neither in terms of administrative spending, nor in funding programs, nor in job cuts. "Instead, Germany is incurring debt on an unprecedented scale," Scheller stated. Between 2025 and 2029 alone, the federal debt is expected to rise by €850 billion to €2.7 trillion – an increase of 45%.

The price for this is high interest payments. Scheller cited specific figures based on the original draft of the 2026 federal budget: During the period of low interest rates, the federal government's interest payments for financing existing debt amounted to approximately €4 billion. Currently, they stand at €34 billion. By 2029, i.e., in the next four years, annual interest payments will rise to more than €66

billion, almost doubling once again. This means that the interest rate in the 2029 federal budget is expected to be almost 12%. In other words, 12% of the federal budget must be allocated to debt financing – in a federal budget that is already roughly 90% frozen due to legal obligations. Scheller: "This isn't pessimism, but a look at the facts. You can read all about it in the federal government's draft budget for 2026."

Added to this are the debts of the federal states, municipalities, and social security institutions. These total approximately €800 billion. In short, the Federal Republic of Germany's outstanding debt amounts to roughly €3.5 trillion. According to the President of the Federal Court of Auditors, Germany is on the verge of jeopardizing its financial viability.

There is no talk of repaying the federal government's debts. Rather, they are essentially perpetual liabilities that are constantly being restructured.

The Debt Brake is not the Cause of the Reform Gridlock

"The debt brake introduced in 2009 is definitely not responsible for the situation," Scheller explained. Rather, it has always been political decisions that have restricted investments at the federal, state, and local levels. Priority has consistently been given to consumption-based spending.

The debt brake adapts to economic developments and allows for higher borrowing and debt accumulation during times of crisis. "During the 'fair-weather' period from 2010 to 2019, it enabled a turnaround, so that the debt-to-GDP ratio in Germany tended towards 60%. And it contributed to low interest rates for Germany and the EU by strengthening Germany's position as an anchor of stability and a safe haven within the EU currency area. In my view, the debt brake has proven its worth," said Scheller. "As the Federal Court of Auditors, we are convinced that an effective debt brake must remain a central factor in sound and sustainable public finances in the future." All public authorities should be able to fulfil their core tasks without excessive debt – sustainable finances in the long term preserve the necessary scope for policy decisions.

The Debt Brake Guarantees the Financial Capacity of Future Generations to Act

"Every generation has the right to shape its own politics, a right to be able to act. The debt brake is truly a safeguard of freedom," Scheller stated his conviction. Its weakness lies in the possibilities for circumvention. Currently, this applies to the credit-financed "special funds." The federal government is thus outsourcing special needs, for example for defense or infrastructure, from the core budget and taking on new debt for this purpose. This creates breathing room in the federal budget. "Politicians are making frequent use of this."



EES Economic Talks on October 16, 2025 at Tegernsee: Concerns about the financial capacity of our state are increasing.

Experience shows that at least some of this financial leeway is used up for consumption purposes. Furthermore, once the special funds expire, these projects must be financed again from the core budget, which further restricts the options available.

On top of that, a special feature will be introduced in 2025: an exemption for defence and security that is unlimited in both time and amount. This exemption allows defence spending exceeding one percent

of gross domestic product to be financed through loans. Scheller: "The resulting perverse incentives are already apparent, as the government is trying to include as many expenditures as possible in this exemption."

Ultimately, fiscal policy is a question of prioritization. Its task is to define what should take precedence. But politicians shy away from this decision – at the expense of future generations. As a result, more and more money has flowed into consumption. The debt brake puts a stop to this.

Effective Action Instead of Higher Spending

The federal government urgently needs to improve the functional effectiveness of administrative action in Germany. Scheller reiterated a demand from his agency: The federal government should concentrate on its core tasks and leave all those responsibilities to the states and municipalities. "Tasks and financial responsibility should always be in one hand," the president stated.

Analog processes in public administration are also a significant obstacle to growth. There is no way around their digitization. Among other things, the Online Access Act must be implemented considerably faster.

The German government hopes that its debt policy will strengthen Germany's economy to such an extent that the country can grow its way out of debt. To achieve this, however, it would also have to consolidate the budget, consistently reduce bureaucracy, and fundamentally streamline and simplify tax law. Along with this, it could create incentives for work and investment – and thus generate growth.

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