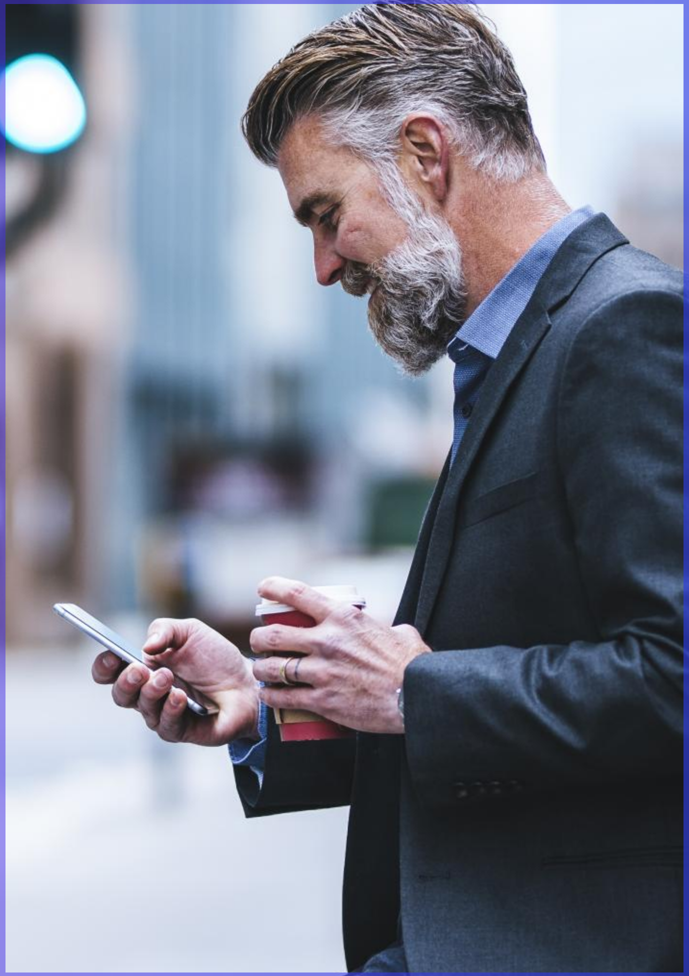
Macroeconomic trends in the British-German corridor



Q3/2025

published October 2025

Key observations in Q3/2025

Economic update

- **German GDP declined** by 0.3% in Q2/2025 compared to Q1/2025, adjusted for price, seasonal, and calendar effects. In particular, industrial production performed worse than expected. **In the UK, GDP increased** by 0.3% in Q2/2025 compared to Q1/2025, driven mainly by growth in the services and construction sectors.
- At 2.4%, the **inflation rate** in Germany in September 2025 was again slightly above the ECB's target. At 3.8%, inflation in the UK during the same month remained well above the 2% target.
- In its latest World Economic Outlook (October 2025), the **IMF forecasts** that the German economy will grow only minimally by 0.2% in 2025, while modest growth of 1.3% is expected in the UK.
- On 11 September 2025, the European Central Bank (ECB) left its **key interest rate** unchanged for the second time in a row. The deposit rate, relevant to financial markets, remained at 2.00%. The Bank of England (BoE) also decided on 17 September 2025 to keep its interest rate on hold at 4.00%. Despite the weakening British economy, persistent inflationary pressures leaves limited scope for substantial interest rate cuts at present.

KPMG Germany Economics

KPMG UK Economics

Update on cooperation and trade agreements

- On 21 August 2025, **the EU and the US agreed on measures to resolve their ongoing trade dispute**. The agreement stipulates that the US will reduce its auto tariffs from 27.5% to 15%, retroactive to the beginning of this month, once the EU initiates the legislative process for import concessions on certain US products. For example, tariffs on US industrial goods will be completely abolished, and barriers to importing certain food products will be removed.
- On 17 July 2025, German Chancellor Friedrich Merz and British Prime Minister Keir Starmer signed the Kensington treaty — a **treaty of friendship and bilateral cooperation between Germany and the United Kingdom** — in London. The focus is on enhanced cooperation in defense and security. Other points of the agreement concern economic collaboration, irregular migration, research, cultural exchange, and climate and environmental protection.
- A **review of the EU–UK Trade and Cooperation Agreement (TCA)** is due in 2026. The main areas of discussion concern trade, fisheries, and electric vehicle rules of origin. This review could lead to renewal or modification of elements of the agreement, including the adjustment period for fisheries, which ends in June 2026, and the grace period for electric vehicle rules of origin, which expires in 2027. The EU's **position** can be found here.

German British Business Summit

9 October, London

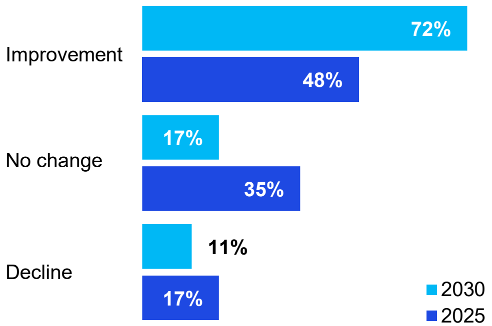
Left to right: Christian Doktor (Deputy Head of Mission, German Embassy in London), Michael Schmidt (President, BCCG) and Andreas Glunz (Managing Partner International Business, KPMG in Germany)

GBBO 2025 | Executive summary (1/2)

SPECIAL

Slightly improving expectations for net sales in 2025 and rising optimism for the long term

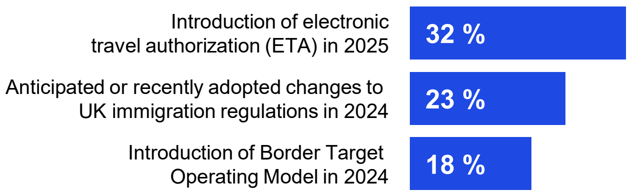
For 2025, companies' expectations for net sales are largely positive, with 48% anticipating an improvement in the coming year (previous year: 46%). The five-year outlook is even more optimistic, with 72% of companies expecting improved net sales (previous year: 58%).



Source: KPMG and BCCG, 2025

Differing regulations between the UK and the EU adversely affect businesses

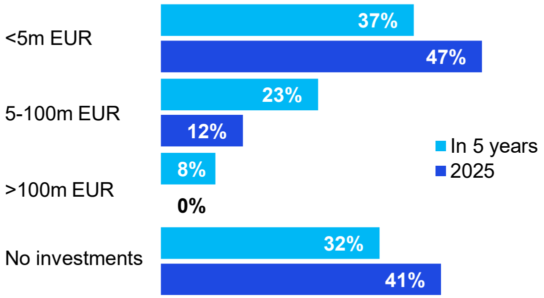
32% of companies report that the introduction of the **electronic travel authorisation (ETA)** in 2025 has significantly impacted their business operations in the UK–Germany corridor. 23% cite the same for **anticipated or recently adopted changes in UK immigration regulations,** and 18% for the introduction of the **Border Target Operating Model**.



Source: KPMG and BCCG, 2025

Investment sentiment improves slightly, but major outlays remain the exception

41% of companies report having no investment plans for the current year 2025 (compared with 48% in our previous-year survey). In the long term, companies are increasingly planning investments in the UK; however, just under one-third of companies (31%) plan to invest more than 5 million, while 8% plan to invest more than EUR 100 million.



Source: KPMG and BCCG, 2025

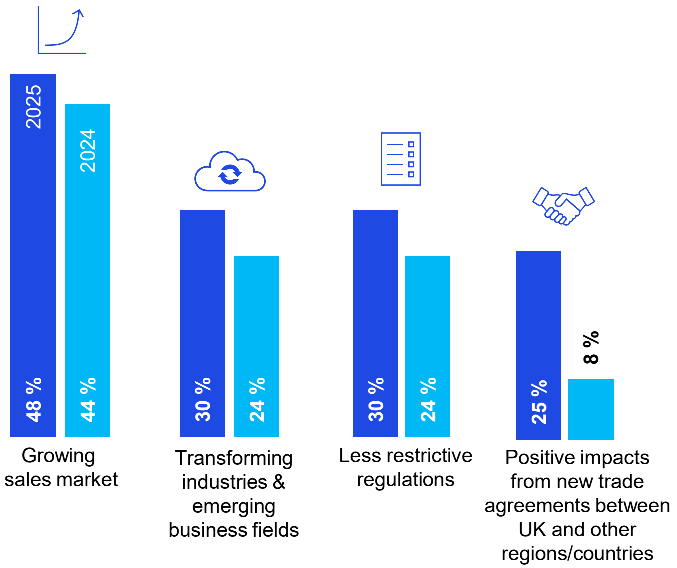
Download the study here!

GBBO 2025 | Executive summary (2/2)

SPECIAL

Growing opportunities in the UK

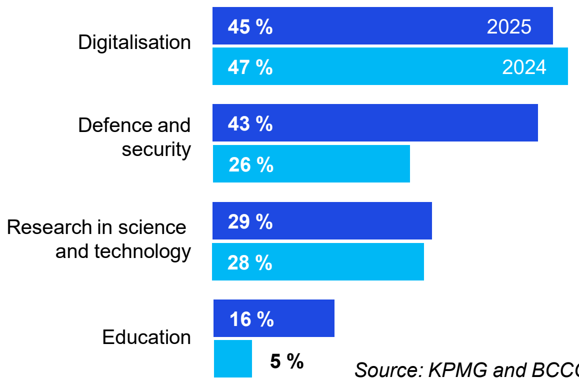
Due to the **growth of key sectors in the UK,** 48% (2024: 44%) expect the UK to be a **growing sales market.** At the same time, **transforming industries and emerging business fields,** along with **less restrictive regulations,** represent major opportunities for 30% of respondents (2024: 24%). The UK's **newly concluded trade agreements** have seen the largest increase in perceived opportunity (+17 percentage points).



Source: KPMG and BCCG, 2025

Cooperation potential in future business fields

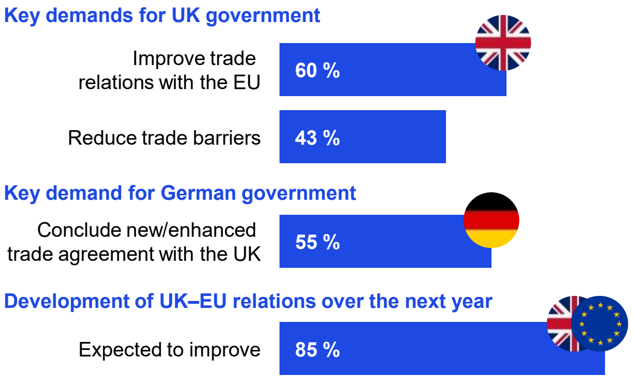
Digitalisation (45%), **defence and security** (43%), and **research** in science and technology (29%) are seen as the top three future business fields for cooperation between Germany and the UK. Defence and security has particularly gained in importance (+17 percentage points compared to 2024), while education has also risen sharply (+11 percentage points).



Source: KPMG and BCCG, 2025

Time to review the EU–UK Trade and Cooperation Agreement (TCA)

60% of respondents call on the UK government to improve trade relations with the EU, and 43% to reduce trade barriers. Meanwhile, 55% want the German government to conclude a new or enhanced trade agreement with the UK.
The TCA review in 2026 represents an opportunity to negotiate relevant relief for businesses in the UK–German corridor. 85% of respondents are confident that UK–German relations will improve next year.



Source: KPMG and BCCG, 2025

News in the German-British corridor (Jul. – Sept. 2025)

Inbound from the UK to Germany

CapVest to acquire majority stake in **Stada**, ending German firm's IPO plans
Reuters, 1 September 2025

Milliarden für deutsche Uranfabrik [**Urenco**]
Die Welt, 14 August 2025

Sirius Real Estate adds German and UK business parks in €40m off-market deals [Dresden and Bedford]
Directors Talk, 6 August 2025

Vodafone stabilisiert sich
FAZ, 25 July 2025

Investor **Frasers Group** drängt auf brisante Änderung [Aufstockung Anteil an **Hugo Boss**]
Handelsblatt, 7 July 2025

Outbound from Germany to the UK

£8m investment expands German packaging solutions group's [**WERiT**] Irlam factory
The Business Desk, 17 September 2025

Aldi UK to ramp up store expansion despite profit fall
Reuters, 15 September 2025

Gamma Communications shares rise as German acquisitions boost growth
Investing.com, 9 September 2025

Pizza Pilgrims acquired by German chain **L'Osteria**
The Caterer, 11 August 2025

Osapiens invests €35M in UK expansion, creating 150+ high-skilled jobs
Tech EU, 22 July 2025

General news in the British-German corridor

German firms launch **'Made for Germany' investment initiative**
Reuters, 21 July 2025

Boost for travelers and businesses as Germany opens up **eGates**
UK Government, 18 July 2025

London-Berlin trains on the drawing board for UK-German rail taskforce
The Guardian, 17 July 2025

Was die neue **Freundschaft** mit London bedeutet
ZDF heute, 17 July 2025

Britische Wirtschaft wächst – aber nicht genug
Handelsblatt, 15 August 2025

A comparison of economic trends in Germany and the UK (1/3)

Germany and the UK rank as the third and sixth largest economies in the world, respectively

Germany and the UK are Europe's two largest economies, with respective GDPs of USD 4.68 trillion and USD 3.64 trillion. Together, they account for more than 7% of the global economy.

Populations of both countries grow modestly

The populations of both countries have reached record highs in 2025 — 83.7 million in Germany and 69.9 million in the UK. This growth is particularly driven by increased immigration.

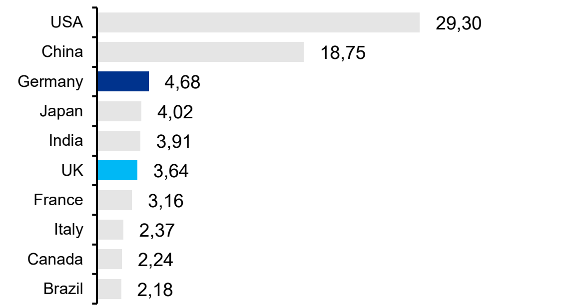
Real GDP growth weakens

In its October World Economic Outlook, the IMF forecasts minimal GDP in 2025 — +0.2% in Germany and +1.3% in the UK. Both economies are therefore below the projected average of +1.6% for advanced economies. Germany ranks last among the G7 member states.

Unemployment remains low

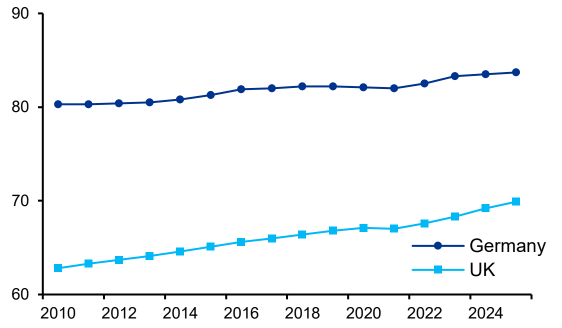
Despite economic uncertainty, labour markets in both countries remain tight, with many employers struggling to recruit skilled workers. Compared to the rest of Europe, unemployment rates in Germany and the UK are relatively low and the weak economic situation is gradually beginning to affect the labour market in both nations.

Largest economies by GDP, 2024
(in USD trillions)



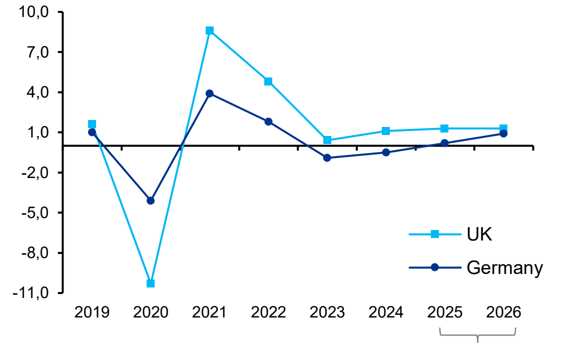
Source: IMF, Oct. 2025

Population
(in millions)



Source: IMF, Oct. 2025

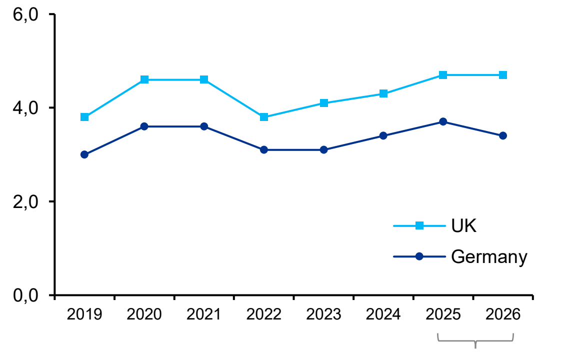
Real GDP growth (in %)



Source: IMF, Oct. 2025

Projections (Oct. 2025)

Unemployment rate (in %)



Source: IMF, Apr. 2025

Projections (Oct. 2025)

A comparison of economic trends in Germany and the UK (2/3)

Cost of living rises

Housing shortages and the sharp rise in prices in recent years are particularly evident in major cities across both countries. London surpasses Munich as the city with the highest cost of living, while overall living costs in large UK cities significantly exceed those in comparable German cities.

USD loses value against GBP and EUR

In the first half of 2025, the US dollar recorded its sharpest decline in over 50 years due to the protectionist trade policies of the new US administration. Higher tariffs on US imports have undermined confidence in the US economy, while rising inflation and growing debt levels in the US have weakened the dollar.

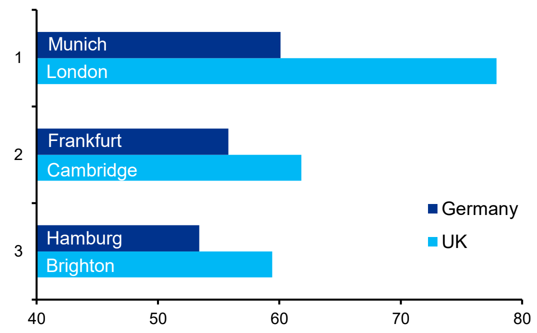
Stock markets on the rise

Both the DAX 40 and FTSE 100 have shown strong upward momentum. The DAX benefited from growing optimism around monetary easing by the European Central Bank and solid performances in the industrial and tech sectors. Signs of economic stabilization and global trade recovery further boosted investor confidence. Meanwhile, the FTSE 100 was supported by robust corporate earnings, particularly in energy, healthcare and mining. Expectations of interest rate cuts by the Bank of England and attractive dividend yields have made UK equities increasingly appealing to investors.

Inflation rises again in Germany and the UK

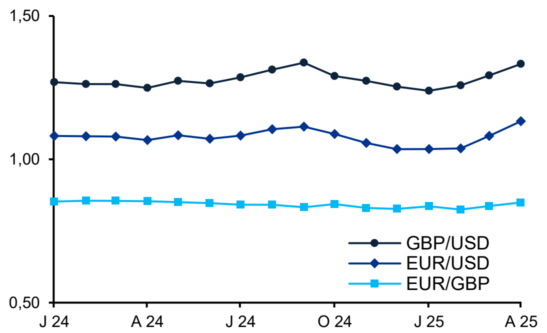
Inflation rates in Germany and the UK have recently increased again. In September 2025, Germany's inflation rate stood at 2.4%, slightly above the ECB's 2% target, while UK inflation rose significantly to 3.8% in August 2025, driven largely by higher prices for food, furniture, and household goods.

Cost of living plus rent index



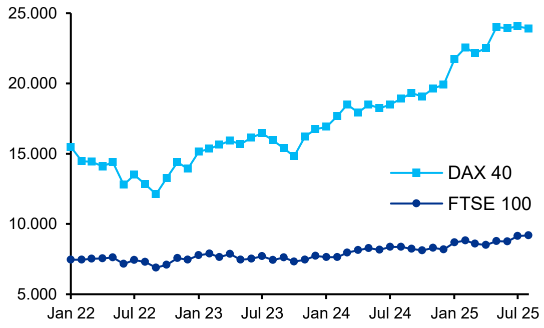
Source: Numbeo (Sept. 2025)

Exchange rates



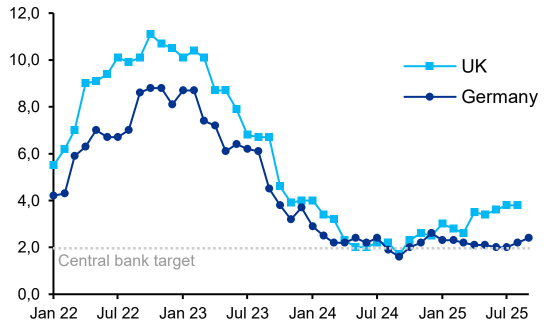
Source: Investing.com

DAX 40 and FTSE 100



Source: FTSE, Ariva

Inflation rate/CPI (in %)



Source: Office for National Statistics, Statistisches Bundesamt

A comparison of economic trends in Germany and the UK (3/3)

Foreign trade still impacted by Brexit

Brexit has significantly increased the costs of importing and exporting between Germany and the UK. Non-tariff trade barriers have also contributed to a decline in bilateral trade.

In 2022, the volume of foreign exchange rose for the first time since the 2016 Brexit referendum. However, this was mainly attributable to rising crude oil imports from the UK at peak prices due to the Ukraine war. In 2024, exports to the UK continued to increase (mainly due to the rising gold trade), while imports from the UK to Germany decreased again.

The UK was Germany's 7th largest export market in 2024, accounting for 5.2% of total German exports, while Germany was the UK's 2nd largest export destination in 2024, accounting for 8.8% of total UK exports.

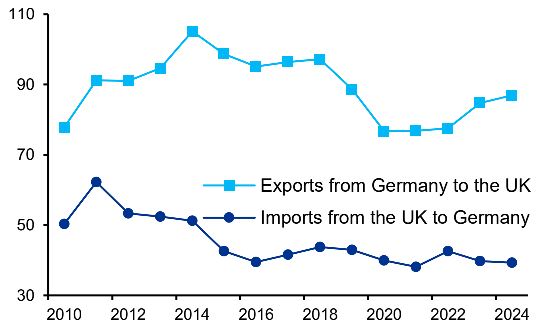
Inward FDI in the UK and Germany is declining

From the 1970s until Brexit, the UK consistently attracted higher foreign direct investment (FDI) than other comparable economies. However, between 2016 and 2018, FDI inflows declined sharply following the Brexit. Although direct investment inflows into the UK had temporarily recovered by 2020, they have since declined again, hitting a new low of 0.1% of GDP in 2024. In Germany, FDI inflows have been more stable overall, but a steady decline since 2020 is also evident.

Greater fiscal flexibility in Germany than in the UK

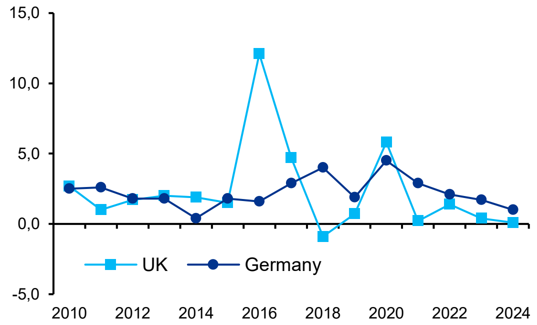
While Germany's public debt-to-GDP ratio declined steadily until the pandemic, reaching ~64% in 2025, the UK's ratio has risen further, reaching ~103% in 2025. As a result, the debt-to-GDP gap between the two economies continues to widen. According to the German Economic Institute (IW Köln), the debt-financed one-trillion-euro infrastructure and defence package adopted by the new German government is expected to increase public debt to nearly 70% by 2028.

Foreign trade Germany-UK
(in USD billion)



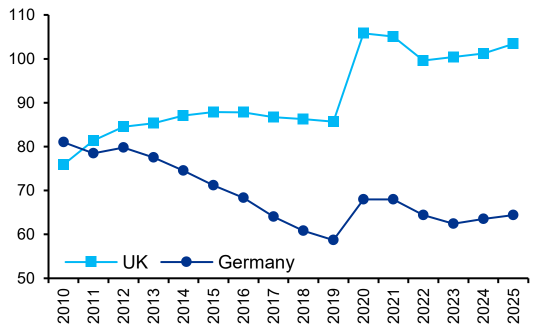
Source: Statistisches Bundesamt

FDI net inflows
(% of GDP)



Source: World Bank

Government gross debt (% of GDP)



Source: IMF, Oct. 2025

M&A deals and investments from the UK to Germany

Date effective	Deal value (USD mil.)	German target	Target industry	UK acquiror	Acquiror industry	In the press
17.09.2025	177.99	Terra One Climate Solutions GmbH	Energy and Power	Aviva Investors Holdings Ltd	Financials	Terra One Secures €150m Mezzanine Financing from Aviva Investors to Accelerate Europe's Energy Transition (Terra One, 17.09.2025)
23.07.2025	88.03	Union Investment Real Estate GmbH	Media and Entertainment	Blue Coast Capital Ltd	Financials	Union Investment verkauft Hotel in München (Union Investment, 23.07.2025)
07.07.2025	82.45	Castle Tech GmbH	Retail	Investor Group (a.o. Northzone)	Financials	70 Millionen Euro für Berliner Gebrauchtwagen-Startup CarOnSale (Gründerszene, 07.07.2025)
22.07.2025	70.17	Makersite GmbH	High Technology	Investor Group (a.o. Lightrock)	Financials	Makersite Raises €60M in Series B (Makersite, 22.07.2025)
22.09.2025	n/a	Einkaufszentrum Gropius Passagen Werbegemeinschaft GbR	Real Estate	Hayfin Capital Management LLP	Financials	Hayfin acquires Berlin shopping centre Gropius Passagen (Hayfin, 25.09.2025)
02.09.2025	n/a	Hermes Schleifmittel GmbH	Materials	Mirka Ltd	Materials	Mirka übernimmt Hermes Schleifmittel (Metallbau, 05.09.2025)
05.08.2025	n/a	Ingentis Software-entwicklung GmbH	Consumer Products and Services	Carlyle Europe Technology Partners V	Financials	Carlyle übernimmt Nürnberger Softwareanbieter Ingentis (Börsen-Zeitung, 05.08.2025)
02.07.2025	n/a	Bullfinch Asset AG	Financials	Impax New Energy Investors IV	Financials	Impax Asset Management fund takes majority stake in Bullfinch Asset (IPE Real Assets, 02.07.2025)
01.07.2025	n/a	Bosch Sicherheitssysteme GmbH	High Technology	Triton Investments Advisers LLP	Financials	Triton completes acquisition of security and communications technology product business from Bosch, now operating as Keenfinity Group (Triton, 01.07.2025)

Source: KPMG research

M&A deals and investments from Germany to the UK

Date effective	Deal value (USD mil.)	UK target	Target industry	German acquiror	Acquiror industry	In the press
23.09.2025	n/a	Worldbake Ltd	Consumer Staples	Brezelbäckerei Ditsch GmbH	Consumer Staples	German pretzel chain Ditsch eyes hole in UK market with WorldBake deal (The Grocer, 23.09.2025)
01.09.2025	n/a	Capital Injection Ceramics Ltd	Consumer Staples	Siemens Energy AG	Energy and Power	Siemens Energy buys Capital Injection Ceramics Limited (The Energy Industry Times, 09.09.2025)
05.08.2025	n/a	Exloc Instruments UK Ltd	Retail	I.Safe Mobile GmbH	Telecommunications	I.Safe Mobile stärkt Marktposition in Grobritannien durch strategische Übernahme der Exloc Instruments UK Ltd (i.safe mobile, 05.08.2025)
01.08.2025	n/a	Corrigenda Group Ltd	Consumer Products and Services	Apleona GmbH	Consumer Products and Services	Apleona übernimmt technischen FM Dienstleister Corrigenda (Apleona, 07.08.2025)
15.07.2025	n/a	Yondr Group Ltd	High Technology	Allianz Capital Partners GmbH	Financials	Allianz erwirbt Anteil an der globalen Rechenzentrumsplattform Yondr Group (Allianz, 15.07.2025)
01.07.2025	n/a	Mywage Ltd	High Technology	zvoove Software Germany GmbH	High Technology	zvoove tritt mit der Übernahme der Mid- und Backoffice-Plattform mywage in den britischen Markt ein (zvoove, 01.07.2025)
01.07.2025	n/a	Empowering Learning Ltd	Consumer Products and Services	THI Investments GmbH & Co KG	Financials	THI Investments backs Empowering Learning Group (THI Investments, 03.07.2025)

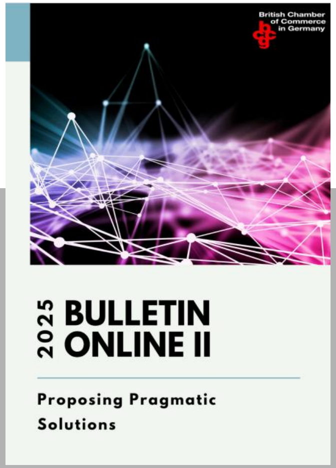
Source: KPMG research

Events in the British-German corridor (Q3/2025)

Title	Date	Location
German British Business Summit 2025	8-9 October 2025	London, UK
ECB – Interest Rate Decision	30 October 2025	Florence, Italy
Bank of England – Interest Rate Decision	6 November 2025	UK

Thought leadership in the British-German corridor

2025 Bulletin online II



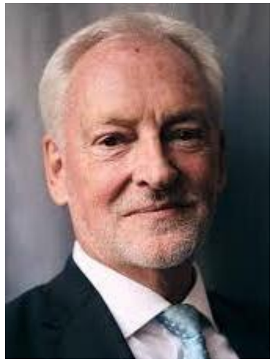
Europäische Union: Globale Handelsrolle und Beziehungen zur UK

German-British Business Outlook 2025

Brexit 2.0

Statement of the quarter

"Businesses on both sides of the Channel have adapted to the post-Brexit realities and absorbed the economic impact. In an increasingly protectionist global environment, it is imperative that we build bridges rather than erect new barriers. The future viability of the German–British corridor depends on political leaders taking decisive action now. Just as long-term defense agreements have marked a new phase of geopolitical alignment, the economic sphere must follow with a comprehensive agreement that delivers meaningful improvements and tangible facilitation."



Michael Schmidt

President

BCCG

"The upcoming review of the Brexit agreement in 2026 presents a strategic opportunity to recalibrate the economic relationship between the EU and the United Kingdom in a forward-looking and constructive manner. In light of rising global geopolitical tensions and security threats, the bilateral agreements signed in 2025 — the UK–EU security and defense pact, as well as the Germany–UK friendship treaty (Kensington treaty) — are more than symbolic gestures. They represent promising building blocks for a renewed European framework. Germany and the UK have the potential to jointly strengthen their economic and security ties and assume a leadership role within Europe."

Andreas Glunz

Managing Partner
International Business

KPMG in Germany

Contacts

KPMG in Germany

Andreas Glunz
Managing Partner
International Business

aglunz@kpmg.com
T +49 211 475-7127

Nikolaus Schadeck
Partner, Audit,
Head of Country Practice
United Kingdom

nschadeck@kpmg.com
T +49 421 33557-7109

British Chamber of Commerce in Germany

Michael Schmidt
President

president@bccg.de

Ilka Hartmann
Managing Director

hartmann@bccg.de
M +49 170 2999959

kpmg.de/socialmedia

kpmg.de