



Macroeconomic trends in the British-German corridor

Q2/2025

published July 2025



Key observations in Q2/2025

Economic update

- **German GDP rose** by +0.4% in Q1/2025 compared to Q4/2024 – adjusted for price, seasonal and calendar effects. At 2.0%, the inflation rate in Germany in June 2025 achieved the ECB's target. **In the UK, GDP increased** by +0.7% in Q1/2025 compared to Q4/2024. At 3.4% in May 2025, inflation remains well above the targeted 2% mark.
- In its latest World Economic Outlook from 14 April 2025, the **IMF forecasts** that the German economy will stagnate in 2025 while the UK is expected to grow slightly by +1.1%.
- On 5 June 2025, the European Central Bank (ECB) further lowered the **key interest rate**. The deposit rate relevant for the financial markets was reduced from 2.25% to 2.00%. The Bank of England (BoE) also decided on 8 May 2025 to reduce interest rates from 4.50% to 4.25%. Despite the weakening British economy, the persistent inflationary pressure leaves little scope for extensive interest rate cuts at present.

On 19 May 2025, five years after the UK's withdrawal from the EU entered into effect on 31 January 2020, representatives of the European Union met officially for the first time at a special **summit** with the British government in London. The parties agreed particularly on **closer cooperation in the area of defence and the protection of critical infrastructure**. "



KPMG in Germany
Economics



KPMG in UK
Economics

Update on trade agreements

- A **review of the EU-UK Trade and Cooperation Agreement (TCA)** is due for 2026. Mainly aspects concerning trade and specific areas such as fisheries and electric vehicle rules of origin will be reviewed. This renegotiation resp. review could lead to the renewal or modification of elements of the agreement, including the adjustment period on fisheries, which ends in June 2026, and the grace period on electric vehicle rules of origin, which ends in 2027. The **position of the EU** can be found [here](#).
- On 8 May 2025, US President Donald Trump announced what he called a **"breakthrough" trade deal with the UK**. Trump said the "final details" of the agreement were still being "written up". The modest deal leaves the 10% tariffs on UK imports but slightly increases access to agricultural goods for both countries and lowers duties on UK car parts. For its part, the UK reduced tariffs on US goods from an average of 5.1% to 1.8%.
- **India and the UK have signed a free trade deal** that is expected to vastly boost bilateral trade between the two nations. On 6 May, the two countries which are the world's fifth and sixth largest economies finally agreed on a deal that they have been working on since 2022. The move should further strengthen the UK-India strategic partnership. The UK government has described the pact as "the biggest and most economically significant bilateral trade deal the UK has done since leaving the EU", while India's Prime Minister Modi has called the agreement "historic".



Note: The picture has been altered to include all speakers in this slot.

KPMG Business Festival

25 June 2025, Munich

European Union: Global trade role and relations with the UK

Left to right: Oliver Wieck (General Secretary, ICC Germany), Christopher Charles Barton (His Majesty's Trade Commissioner for Europe) and Dr. Konstantin von Busekist (Head of Global Compliance Practice, KPMG Law)

KPMG Business Festival in Munich, 25 June 2025.



Replay Business
Festival 2025

News in the German-British corridor (Apr. – June 2025)

Inbound from the UK to Germany

Rekordbußgeld für **Vodafone** wegen Datenschutzmängeln

FAZ, 4 June 2025

M&G Real Estate secures strategic € 73 million asset in Germany's prime Rhine-Main logistics hub

M&G Real Estate, 21 May 2025

German **Quantum Systems** raises € 160 million to target global leadership in aerial intelligence solutions [Investor a.o. **Balderton Capital**]

EU-Startups, 6 May 2025

Premier Inn will Motel One überholen

FAZ, 6 May 2025

Frasers Group stockt Beteiligung an **Hugo Boss** weiter auf

Fashion United, 3 April 2025

Outbound from Germany to the UK

BioNTech expands partnership with **UK Government** to broaden regional research and development activities

Biontech, 20 May 2025

Huge investment in gun barrel making centre [**Rheinmetall** in Telford, Shropshire]

BBC, 19 May 2025

Germany's **DHL** to boost UK deliveries, takes minority stake in Apollo's **Evri**

Global Banking & Finance Review, 14 May 2025

Akquisition der **nZero Group** stärkt Spitzenposition von **Bilfinger** als Lösungsanbieter für Energiewende in Großbritannien

Bilfinger, 12 May 2025

German defence tech startup **ARX Robotics** launches UK expansion with GBP 45 million investment

Defence Industry Europe, 9 April 2025

General news in the British-German corridor

Eurostar – Einmal von Frankfurt nach London, bitte

Spiegel, 11 June 2025

UK and Germany shake hands on **offshore hydrogen pipeline**

Offshore Energy, 22 May 2025

Ein **Neuanfang nach dem Brexit** – EU und Großbritannien einigen sich auf engere Beziehungen

Tagesschau, 19 May 2025

UK and Germany to co-lead **development of 2,000 km-range deep strike weapon**

European Security and Defence, 16 May 2025

UK and Germany take over chairmanship of **Ukraine Contact Group**

Euronews, 11 April 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 the two biggest economies in Europe with a GDP of USD 4.66 and USD 3.64 trillion, respectively. Together, the GDP of Germany and the UK account for more than 7% of the global economy.

Populations of both countries grow modestly

The populations of both countries have reached an all-time high of 84.9 million in Germany and 69.9 million in the UK. This growth is particularly due to increased immigration.

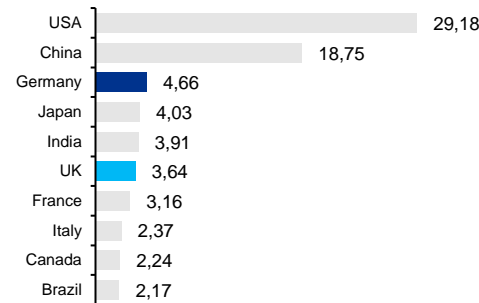
Real GDP growth weakens

In its April World Economic Outlook, the IMF forecasts that GDP in 2025 will stagnate in Germany and grow slightly by 1.1% in the UK. Both economies are therefore below the forecasted average of 1.8% for all advanced economies. Specifically, the uncertainties in respect of US tariffs and potential counter-tariffs, are having a dampening effect on growth prospects.

Unemployment remains low

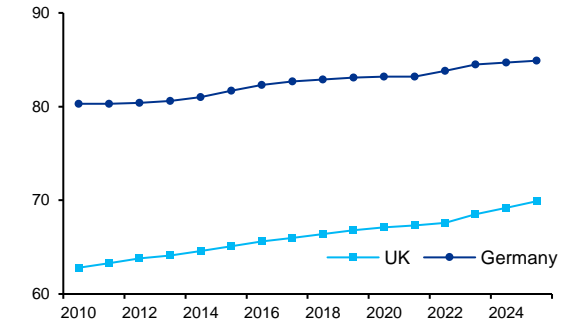
Despite the economic uncertainties, the labour markets remain tight in both countries, with many employers facing hiring problems, especially regarding skilled workers. Compared to the rest of Europe, both countries show relatively low unemployment rates.

Largest economies by GDP, 2024 (in USD trillions)



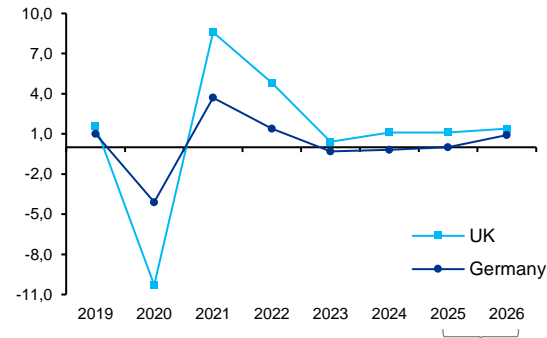
Source: IMF, Apr. 2025

Population (in millions)



Source: IMF, Apr. 2025

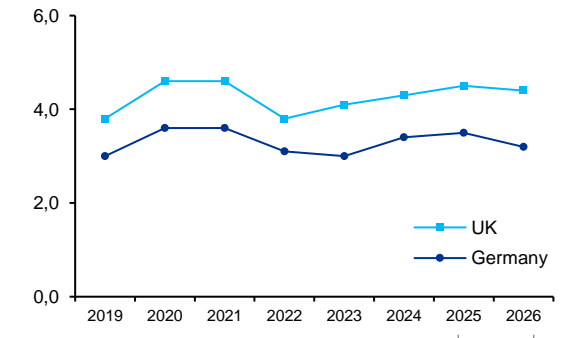
Real GDP growth (in %)



Source: IMF, Apr. 2025

Projections (Apr. 2025)

Unemployment rate (in %)



Source: IMF, Apr. 2025

Projections (Apr. 2025)

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

Cost of living rises

The housing shortage and the sharp rise in prices in recent years are particularly evident in the major cities of both countries. London outstrips Munich by far as the number 1 city in terms of cost of living. Also, the overall costs of living in other larger UK cities significantly exceed those in larger German cities.

USD loses value against GBP and EUR

In the first six months of 2025, the US dollar recorded its sharpest decline in more than 50 years due to the protectionist trade policy of the new US administration. The planned increase in tariffs on exports to the US is undermining confidence in the US economy. In addition, the prospect of higher inflation and a growing debt level in the US are contributing to the dollar's weakness.

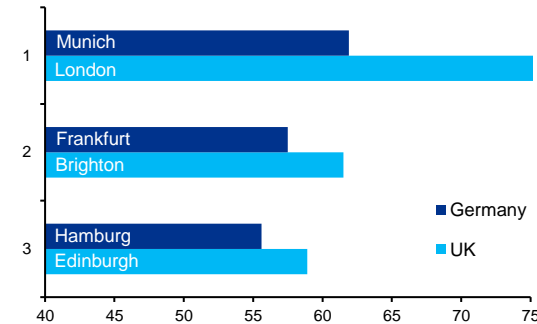
Stock markets recover

Stock market prices are recovering worldwide as several positive signals are coming together. The war in the Middle East has calmed down, the US remains a NATO-ally and is in the process of concluding tariff agreements with its most important trading partners. At the same time there is growing belief that the German government's infrastructure and defence package, comprising initiatives to reduce energy costs, bureaucratic burdens and improve digitalisation in public administration, will boost the economy.

Inflation develops differently in Germany and the UK

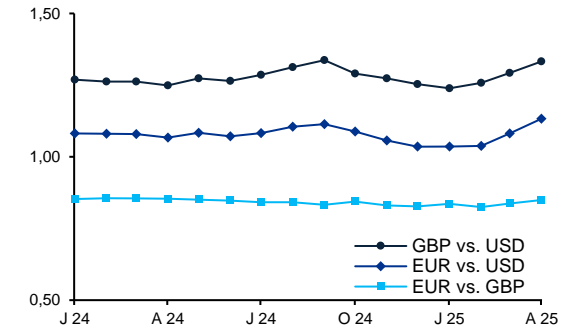
While the inflation rate in Germany reached the ECB's target of 2% in June 2025, inflation in the UK has recently risen again (3.4% in May 2025), particularly due to higher prices for food, furniture and household goods.

Cost of living plus rent index



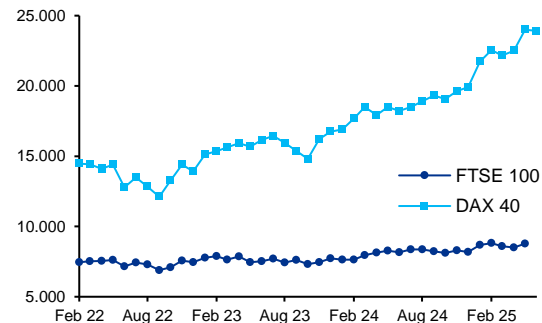
Source: Numbeo (July 2025)

Exchange rates



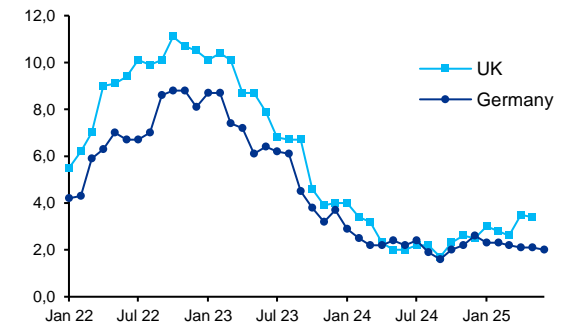
Source: Investing.com

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 led to a significant rise in the cost of importing and exporting between Germany and the UK. Non-tariff trade restrictions have also been introduced, causing a decline in bilateral trade.

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

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

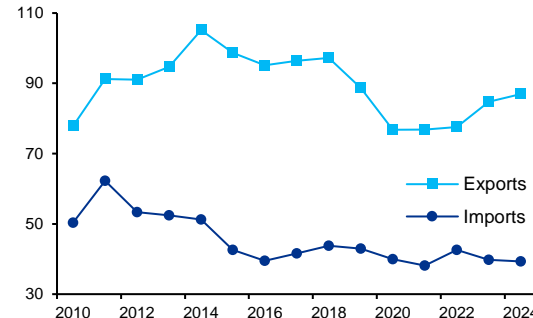
Inward FDI in the UK and Germany is declining

From the 1970s until Brexit, the UK consistently attracted more foreign direct investment (FDI) than other comparable economies. Between the Brexit referendum and 2018, the inflow of FDI into the UK declined sharply. Although direct investment inflows into the UK had recovered by 2020, they declined again afterwards. In 2023, net inflows into the UK hit a record low of -2.6% of GDP. Although FDI inflows into Germany are more stable overall, a steady decline since 2020 is also evident.

Greater fiscal flexibility in Germany than in the UK

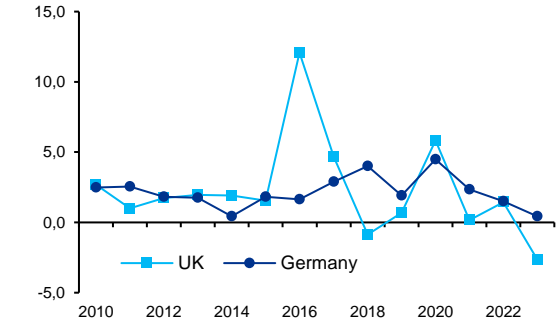
While Germany's public debt-to-GDP ratio declined steadily until the pandemic hit, reaching ~65% in 2025, the UK's ratio has risen further, reaching ~104% in 2025. Thus, the debt-to-GDP delta between the two economies is steadily increasing. According to calculations by the German Economic Institute (IW Köln), the debt-financed trillion-euro package for defence and infrastructure adopted by the new German government is likely to increase public debt to almost 70% by 2028.

Foreign trade Germany-UK
(German perspective) (in USD billion)



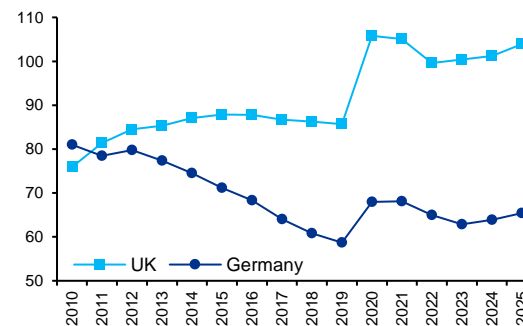
Source: Statistisches Bundesamt

FDI net inflows
(% of GDP)



Source: World Bank

Government gross debt (% of GDP)



Source: IMF

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
01.04.2025	696.13	Schumacher Packaging GmbH	Materials	Mondi plc	Materials	Mondi schließt Übernahme von Schumacher Packaging ab und baut Marktposition weiter aus (EUWID, 01.04.2025)
21.05.2025	82.58	Logistics Hu	Industrials	M&G Real Estate Ltd	Real Estate	M&G Real Estate secures strategic EUR73 million asset in Germany's prime Rhine-Main logistics hub (M&G, 21.05.2025)
08.04.2025	56.00	Hawk AI GmbH	Financials	Investor Group (a.o. One Peak)	Financials	Hawk Raises \$56M as Tier 1 Banks Adopt Its AI to Combat Financial Crime (Hawk AI, 08.04.2025)
28.04.2025	40.00	Pliant GmbH	High Technology	Investor Group (a.o. Illuminate Financial)	Financials	Pliant Closes \$40m Series B Funding to Expand to the U.S. (pliant, 28.04.2025)
23.04.2025	7.50	Cakewalk Technology GmbH	High Technology	Investor Group (a.o. Kindred Capital)	Financials	Kindred Capital backs AI agents startup Cakewalk in \$7.5m seed round (sifted, 23.04.2025)
15.05.2025	n/a	DATAPART Factoring GmbH	Consumer Products and Services	IK Investment Partners Ltd	Financials	IK Partners to acquire DATAPART (IK Partners, 15.05.2025)
13.05.2025	n/a	Lohoff Pension Services GmbH	Consumer Products and Services	IK Small Cap III Fund	Financials	Lohoff goes IK Partners (Pensions Industries, 14.05.2025)
15.04.2025	n/a	Verucon Fasteners & Logistics GmbH	Retail	TFC Europe Ltd	Industrials	TFC Europe erwirbt Verucon Fasteners and Logistics GmbH (MM Maschinenmarkt, 17.04.2025)
02.04.2025	n/a	Hugo Boss AG	Consumer Staples	Frasers Group PLC	Retail	Frasers Group stockt Beteiligung an Hugo Boss weiter auf (Fashion United, 03.04.2025)

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
12.06.2025	1.02	SceenIn3D Ltd	Healthcare	Investor Group (a.o. Tricapital Angels)	Financials	ScreenIn3D raises £750,000 in seed funding led by Tricapital Angels to enhance cancer testing technology (Fundz, 12.06.2025)
16.05.2025	n/a	Baycup Ltd	Retail	Calvin Ford	Financials	Calvin Ford als neuer Vorsitzender und Mehrheitseigner bei Livingston FC (Footboom, 16.05.2025)
12.05.2025	n/a	nZero Group Ltd	Industrials	Bilfinger SE	Industrials	Akquisition der nZero Group stärkt Spitzenposition von Bilfinger als Lösungsanbieter für Energiewende in Großbritannien (Bilfinger, 12.05.2025)
30.04.2025	n/a	Brigantia Partners Ltd	High Technology	ELOVADE Deutschland GmbH	High Technology	Elovade tritt UK-Markt durch Brigantia-Akquisition bei (IT Business, 07.05.2025)
07.04.2025	n/a	Power Cable Services Ltd	Industrials	Pfisterer Holding SE	Energy and Power	PFISTERER übernimmt langjährigen Partner Power CSL (Pfisterer, 07.04.2025)
07.05.2025	n/a	I Love Icecream Ltd	High Technology	Zalando SE	Retail	Zalando SE (XTRA:ZAL) hat I Love Icecream Ltd. übernommen. (Market Screener, 07.04.2025)
02.04.2025	n/a	Designer Software Ltd	High Technology	Aareon AG	High Technology	Aareon acquires HomeMaster (SFHA, 09.04.2025)

Source: KPMG research

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

Title	Date	Location
Signing of the defence treaty	17 July 2025	n/a
ECB – Interest Rate Decision	24 July 2025	Frankfurt, Germany
Bank of England – Interest Rate Decision	7 August 2025	UK
BCCG Sponsoring Members Dinner	11 September 2025	Berlin, Germany

Thought leadership in the British-German corridor

2025 Bulletin online II



Europäische Union: Globale Handelsrolle und Beziehungen zur UK



German-British Business Outlook 2024



Brexit 2.0



Statement of the quarter

„On 17 July 2025, Prime Minister Keir Starmer and Chancellor Friedrich Merz signed the first ever major bilateral treaty between the United Kingdom and Germany. The Kensington Treaty is a once in a generation agreement, providing a framework for the UK and Germany to work together as the closest of strategic partners. It will help shape a more secure and prosperous future for both our countries, covering the full range of our bilateral relations.

This treaty sets out a particularly clear and ambitious agenda for growth, and for our industrial transformation, with a strong focus on the green transition, emerging technologies, and defence cooperation. It recognises the importance of building resilient, future-ready economies that can compete globally, and will deliver tangible benefits to businesses and communities across both countries through a range of 'lighthouse projects'.

A central pillar of this new economic partnership is the establishment of an annual UK-German Business Forum. This new platform will support structured and strategic dialogue between our governments and business communities. It will support collaboration in key sectors such as clean energy, advanced manufacturing, AI, and professional & business services. The Forum will also play a vital role in supporting SMEs and startups, helping to unlock new opportunities for trade, investment, and innovation.

Through this treaty and the Business Forum, we are laying the groundwork for a new era of bilateral economic cooperation, one that is dynamic, inclusive, and forward-looking. We see this as a unique opportunity to not only strengthen existing commercial ties but to spark new ventures, foster innovation across borders, and ensure that British and German businesses alike are equipped to lead in a rapidly changing global economy. The success of this partnership will depend on the active engagement of the business community, and we are committed to supporting that engagement every step of the way.”



Kathryn Boyd

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Europe and Country Director,
Trade, Germany

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