

Macroeconomic trends in the British-German corridor

Q4/2025

published January 2026



Key observations in Q4/2025

Economic update

- **German GDP stagnated** in Q3/2025 compared to Q2/2025, adjusted for price, seasonal, and calendar effects. Investments in equipment developed positively. Exports, on the other hand, declined compared to the previous quarter. **In the UK, GDP increased** by 0.1% in Q3/2025 compared to Q2/2025.
- With an inflation rate of 1.8% in December 2025, price pressure in Germany has recently decreased significantly. At 3.2% in November 2025, inflation in the UK remained well above the 2% target set by the central bank.
- In its latest World Economic Outlook (October 2025), the IMF forecasts that the German economy will grow by 0.9% in 2026, while only a slightly higher growth rate of 1.3% is expected in the UK.
- On 18 December 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%. On the same day, the Bank of England (BoE) cut interest rates from 4% to 3.75% - the lowest level in nearly three years. Concerns about weak economic growth and rising unemployment outweighed worries about inflation.



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Update on cooperation and trade agreements

EU

- On 9 January 2026, a qualified majority of EU member states approved a **comprehensive trade deal between the EU and South America (Mercosur)**. The European Union and Mercosur agreements will be signed in Asunción, Paraguay on 17 January 2026.
- Following lengthy negotiations, the **EU and India** will be close to finalising a **trade agreement by the end of January 2026**.

UK

- On 15 December 2025, the **UK and South Korea finalised a free trade deal**.
- The third round of negotiations on an enhanced **Free Trade Agreement (FTA) between the UK and Turkey** took place in Ankara during the week commencing 17 November 2025. The FTA is expected to enter into force in the second half of 2026.

EU and UK

- A **review of the EU-UK Trade and Cooperation Agreement (TCA)** is due in 2026. The main areas of discussion concern trade, fisheries, and the rules of origin for electric vehicles. This review could lead to the renewal or modification of elements of the agreement, including the adjustment period for fisheries, which ends in June 2026, as well as the grace period for the rules of origin for electric vehicles, which expires in 2027. The **EU's position** can be found [here](#).



German-British State Banquet

4 December 2025, London

From left to right: Urte Schmidt; Dr Sigrid Rieuwerts (Johannes Gutenberg University, Mainz), Commissioner for Scotland; Christiane Hullmann, German Consul General in Scotland; Michael Schmidt, BCCG President

News in the German-British corridor (Oct. - Dec. 2025)

Inbound from the UK to Germany

Seraphim Space Investment Trust investee company **ICEYE** along with its JV partner **Rheinmetall** gets significant German contract

UK Investor, 19 December 2025

Rolls-Royce-Motoren für Panzer

FAZ, 9 December 2025

Vodafone kauft einen deutschen Cloud-Spezialisten

FAZ, 30 October 2025

Premier Inn übernimmt Super-8-Häuser

Handelsblatt, 16 October 2025

Der Angreifer im Strommarkt [Octopus Energy]

FAZ, 28 September 2025

Outbound from Germany to the UK

Mercedes EV cash will create more than 150 jobs

BBC, 3 December 2025

German start-ups seek to fill the British army's 'drone gap'

Financial Times, 28 November 2025

Drohnenbauer Stark expandiert nach Großbritannien

Handelsblatt, 26 November 2025

Germany's Heidelberg Materials delivers first low-carbon cement to UK

S&P Global, 6 November 2025

Lidl GB targets market share gains with faster store expansion

Reuters, 22 October 2025

General news in the British-German corridor

Britischer Markt wird für deutsche Firmen attraktiver

Handelsblatt, 7 October 2025

Labour versucht den Befreiungsschlag

Handelsblatt, 1 October 2025

UK secures return to EU Erasmus student exchange program

DW, 17 December 2025

Steinmeiers Rede vor britischem Parlament "Don't look back in anger"

Tagesschau, 4 December 2025

UK and Germany deepen science and tech ties with £14 million to unlock quantum's vast potential

UK Government, 5 December 2025

Germany and UK sign €450 million contract for M3 amphibious bridging systems from GDELS

Defence Industry Europe, 30 October 2025

Die Folgen der ausufernden Brexit-Bürokratie

Die Welt, 18 November 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 5.01 trillion and USD 3.96 trillion. Together, they account for more than 7% of the global economy.

Populations of both countries grow modestly

The populations of both countries 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.

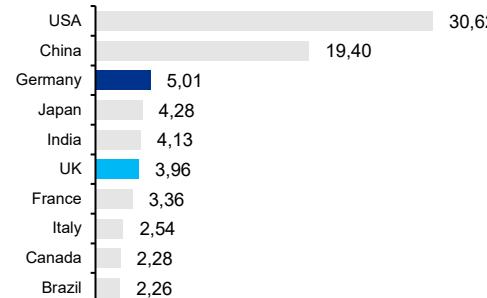
Real GDP growth weakens

In its October World Economic Outlook, the IMF forecast minimal GDP growth 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

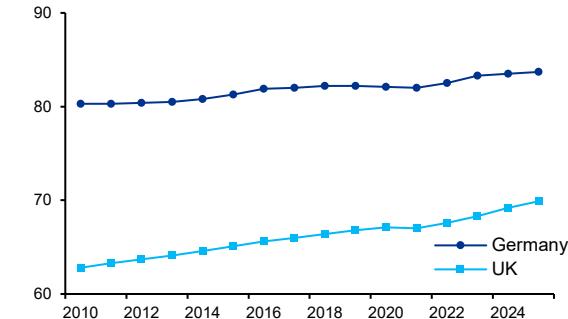
Despite economic uncertainty, labour markets in both countries remain tight, with many employers struggling to recruit skilled workers. Compared to the rest of Europe, unemployment rates in Germany and the UK are relatively low, however, the weak economic situation is gradually beginning to affect the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

Largest economies by GDP, 2025 (in USD trillions)



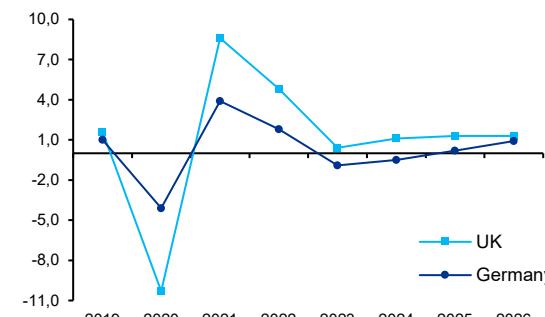
Source: IMF, Oct 2025

Population (in millions)



Source: IMF, Oct 2025

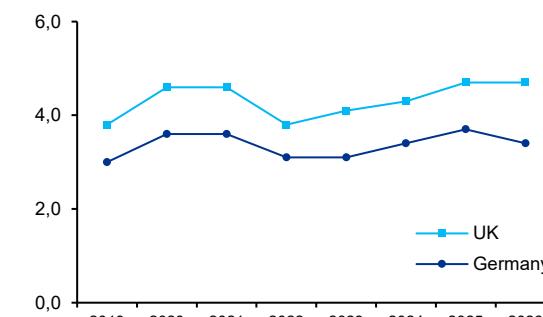
Real GDP growth (in %)



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 continues to weaken

The year-long decline of the USD endures, pressured by growing concerns over the Fed's independence and a softening US labour market. The Fed's first rate cut of the year in Sept. 2025 further reduced the dollar's appeal, while political interference and escalating trade tensions unsettled investors. At the same time, the EUR benefited from sustained inflows as the ECB approached the end of its easing cycle, while the GBP remained broadly stable amid subdued UK growth indicators.

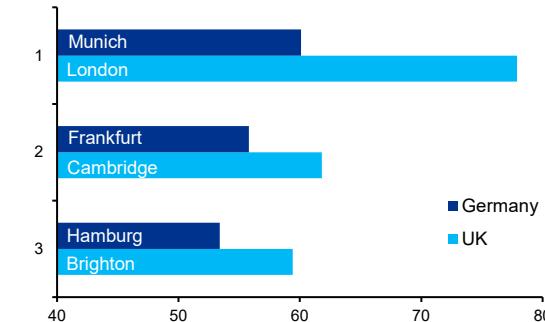
Market momentum slows amid rising volatility

The upward trend in European equity markets lost some momentum as volatility increased. The DAX 40 showed a mixed picture, with several major constituents posting notable losses against a backdrop of weakening corporate earnings and persistent inflationary pressures. By contrast, the FTSE 100 benefited from continued resilience in international equities, supported by solid global risk appetite despite elevated policy and fiscal uncertainty.

Inflation is falling in Germany and the UK

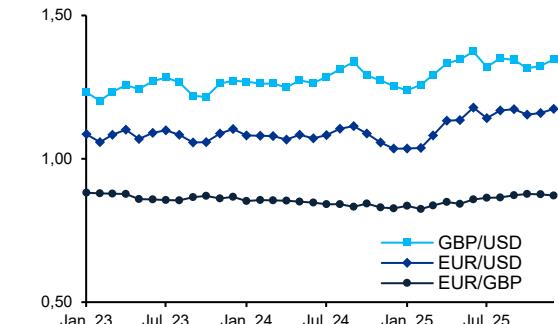
Inflation rates in Germany and the UK have recently decreased. In December 2025, the inflation rate in Germany was 1.8%, falling below 2% for the first time in over a year. Inflation also declined in the UK, but at 3.2% in November 2025 it was still above the central bank's target of 2%.

Cost of living plus rent index



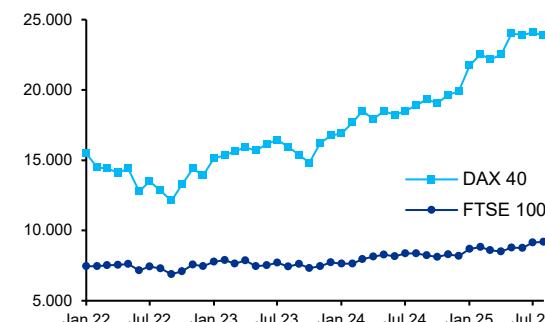
Source: Numbeo (Dec 2025)

Exchange rates



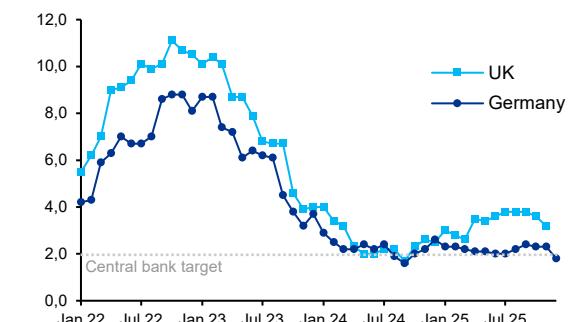
Source: Investing.com

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.

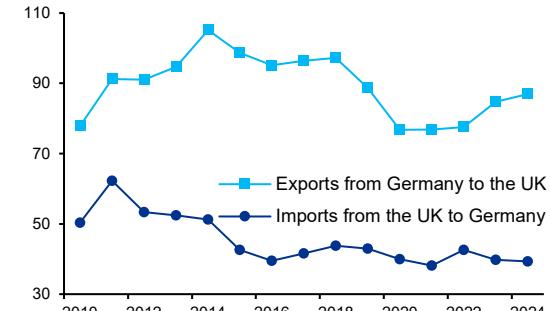
Inward FDI in the UK and Germany is declining

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 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

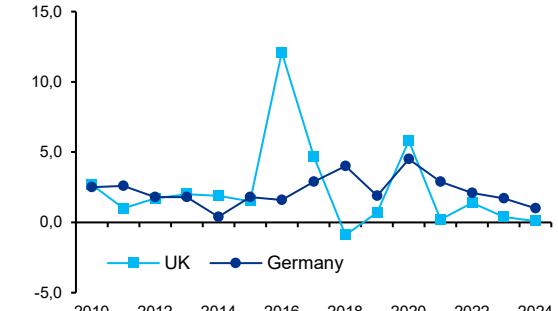
While Germany's public debt-to-GDP ratio had been steadily declining until the pandemic, it has grown since then, reaching ~64% in 2025; the UK's ratio has risen much further, reaching ~103% in 2025. As a result, the debt-to-GDP gap between the two economies continues to widen. According to the German 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)



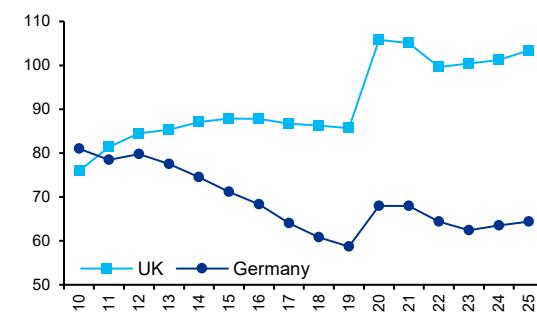
Source: Statistisches Bundesamt

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 (1/2)

Date effective	Deal value (USD mil.)	German target	Target industry	UK acquiror	Acquiror industry	In the press
01.12.2025	1,676.11	JET Tankstellen Deutschland GmbH	Energy and Power	Carrera Bidco Ltd	Financials	Phillips 66 to Divest Majority Stake in European Fuel Retail Unit (Nasdaq, 16.05.2025)
17.12.2025	202.98	Skaylink GmbH	High Technology	Vodafone Group plc	Telecommunications	Strategische Übernahme von Skaylink - Vodafone verstärkt sich im Cloud- und Security-Sektor (Vodafone, 30.10.2025)
29.10.2025	116.50	Empact GmbH	Industrials	Sustainable Development Capital LLP	Financials	Empact erhält 100 Millionen Euro für grüne Energiekonzepte (Handelsblatt, 01.11.2025)
10.12.2025	110.00	Green Energy Origin GmbH	Materials	Investor Group (a.o. BlueCrest Capital Management)	Financials	GEO Closes \$110M Series B Financing Round (GEO, 10.12.2025)
22.10.2025	11.69	roclub GmbH	High Technology	Investor Group (a.o. Smedvig Ventures)	Financials	€10 million boost for Germany's roclub to scale AI-powered remote operations in medical technology (EU Startups, 22.10.2025)
20.10.2025	4.66	SafeHome GmbH	Financials	Investor Group (a.o. Silence VC)	Financials	With €4 million in funding, German InsurTech developer Enzo looks to tackle water damage with their novel sensor (EU Startups, 20.10.2025)
18.11.2025	2.75	Cellbyte GmbH	High Technology	Investor Group (a.o. Saras Capital)	Financials	Cellbyte raises \$2.75m to slash drug launch timelines with AI (PharmaTimes, 18.11.2025)
17.12.2025	n/a	Viqr Berlin 1 Sarl (Warehouse in Berlin)	Real Estate	Valor Real Estate Partners LLP	Real Estate	Valor und Quadreal investieren 91 Mio. Euro in Logistikpark im Berliner Nordosten (LogReal.Direkt, 18.12.2025)
10.12.2025	n/a	Much Gruppe GmbH & Co. KG	Real Estate	Ancala Partners LLP	Financials	Ancala acquires majority stake in MUCH Gruppe (Ancala, 10.12.2025)

Source: KPMG research

M&A deals and investments from the UK to Germany (2/2)

Date effective	Deal value (USD mil.)	German target	Target industry	UK acquiror	Acquiror industry	In the press
05.12.2025	n/a	Trueskin GmbH	Healthcare	Menwell Ltd	Retail	Walker Morris advises on sale of TrueSkin GmbH (Formel Skin) to Manual (Walker Morris, 08.12.2025)
02.12.2025	n/a	Renerco Plan Consult GmbH	Industrials	Natural Power Consultants Ltd	Consumer Products and Services	Natural Power übernimmt Renerco Plan Consult von BayWa r.e. AG (FYB, 05.12.2025)
01.12.2025	n/a	Quality Match GmbH	High Technology	Wayve Technologies Ltd	Consumer Products and Services	Wayve acquires Quality Match to strengthen data quality and safety for AI driving systems (Wayve, 01.12.2025)
25.11.2025	n/a	Bookwire GmbH	High Technology	Delta Software Group Ltd	Financials	Bookwire-Gruppe bekommt neuen Eigentümer (new business, 17.10.2025)
18.11.2025	n/a	Meinhardt Gruppe Immobilien (M G Grundbesitz Nidderau GmbH & Co KG + N18 Meinhardt GmbH & co)	Real Estate	iCON Infrastructure LLP	Financials	iCON VII schließt Übernahme von Meinhardt, einem führenden deutschen Entsorgungsunternehmen, erfolgreich ab (Meinhardt, 04.11.2025)
31.10.2025	n/a	Meinhardt Staedtreinigung GmbH & Co KG	Energy and Power	Icon Infrastructure Partners Vii & Vii-B Funds	Financials	iCON VII schließt Übernahme von Meinhardt, einem führenden deutschen Entsorgungsunternehmen, erfolgreich ab (Meinhardt, 04.11.2025)
30.10.2025	n/a	Konzmann GmbH	Industrials	Klar Partners Ltd	Financials	KLAR Partners acquires Konzmann Group – a leading German technical building services platform (Klar Partners, 09.09.2025)

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
03.11.2025	134.99	DCC Technology-Info Tech business	High Technology	AUR Portfolio III SE & Co KgaA	Financials	AURELIUS to acquire Exertis UK and Ireland from DCC plc (Aurelius, 14.07.2025)
15.10.2025	20.00	F2x Group Ltd	High Technology	Investor Group (a.o. CommerzVentures)	Financials	INSTANDA Secures \$20 million Investment Round Led by CommerzVentures to Accelerate Global Expansion (Instanda, 15.10.2025)
05.11.2025	13.00	ProcureAi Ltd	High Technology	Investor Group (a.o. Futury Capital)	Financials	ProcureAi Raises \$13 Million in Seed Round (Procure AI, 05.11.2025)
18.11.2025	n/a	ReStabilise Ltd	Financials	Investor Group (a.o. Project A)	Financials	ReStabilise Secures \$3.2M Pre-Seed Funding (LeadsOnTrees, 12.11.2025)
06.11.2025	n/a	Leopard Hotel 5/6 Ltd	Real Estate	Steigenberger Hotels AG	Media and Entertainment	Leonardo übernimmt vier Intercity Hotels von Steigenberger (01.12.2025)
27.10.2025	n/a	Weird Fish Clothing Ltd	Retail	Auralis Group GmbH	Financials	Total Capital Partners Creates New Buy And Build Platform Auralis, With Weird Fish Its First Acquisition (Total Capital, 28.10.2025)
15.10.2025	n/a	BB7 Holdings Ltd	Government and Agencies	CERTANIA Holding GmbH	Consumer Products and Services	BB7 tritt der CERTANIA-Gruppe bei (OTS, 15.10.2025)
10.10.2025	n/a	Cfh London Ltd	Media and Entertainment	Nine Sixteen Marketing GmbH	Media and Entertainment	Tim Love Launches Creative Content Studio CF Holdings (WWD, 10.10.2025)
06.10.2025	n/a	Cim Software Ltd	High Technology	Everfield Germany GmbH	High Technology	Cim Software Joins Everfield Ecosystem to Accelerate Innovation in Manufacturing ERP (Everfield, 06.10.2025)

Source: KPMG research

Events in the British-German corridor (Q1/2026)

Title	Date	Location
22nd BCCG New Year's Conference & Reception 2026	20 January 2026	Berlin, Germany
BCCG-Webinar: German-British Business Outlook 2025	28 January 2026	online
ECB – Interest Rate Decision	4 February 2026	Frankfurt, Germany
Bank of England – Interest Rate Decision	5 February 2026	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

"For many years, German-British relations have been characterised by close ties and shared interests, proving resilient even during periods of political change. The Kensington Treaty builds on this long-standing partnership, providing a reliable framework for the targeted and pragmatic development of cooperation. At a time of economic uncertainty, this reliability is particularly important.

Germany and the United Kingdom remain each other's closest economic partners in Europe. Germany is still one of the United Kingdom's most important trading partners, and the British market remains an attractive destination for many German companies. The gradual reset in relations between the European Union and the United Kingdom is already having a positive impact on bilateral trade.

Beyond economic cooperation, the relationship is underpinned by close collaboration in key policy areas. Shared interests in security and defence, as well as long-standing cultural, scientific and societal exchanges, have shaped the partnership for decades. In the face of global challenges such as geopolitical tensions, climate change and economic uncertainty, this partnership is becoming increasingly important.

The Kensington Treaty, with its lighthouse projects, provides tangible incentives for cooperation and investment. It strengthens mutual trust and opens up new opportunities for joint initiatives. We are therefore confident about the continued development of German-British relations. A close and stable partnership between our two countries is vital not only for both nations, but for Europe as a whole."



Sebastian Roloff

Chairman of the German-British Parliamentary Group, Member of the German Parliament

German Bundestag

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





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