

# Rangvid: Germany Can Go All In on Debt

**Debt and expansionary fiscal policy can certainly be dangerous. However, this is not the case for Germany, CBS professor Jesper Rangvid believes welcoming the Merz plan.**

By Jeppe Boysen Karlsson, Børsen , March 10, 2025

## (Excerpt from the article)

Last week was dramatic on the economic front.

This is because the likely incoming chancellor Friedrich Merz launched a seismic shift in German debt policy. If he succeeds, there will effectively be no ceiling on how many billions Europe's largest economy can spend on defense in the time to come.

"There is no doubt that this marks a significant change in Germany," says Jesper Rangvid, professor at Copenhagen Business School (CBS), who closely follows financial markets.

Following the financial crisis, former Chancellor Angela Merkel oversaw a constitutional amendment to include the following: Germans must not have a structural deficit exceeding 0.35 percent of the country's GDP.

### "Significant Need"

As mentioned, the Germans intend to amend the debt brake and exempt defense investments. In addition, there will be a €500 billion infrastructure fund to be implemented over ten years. Furthermore, the debt rules for the federal states will be eased.

Rangvid sees the massive fund as a positive measure. He often visits Germany, and something strikes him every time:

"There is a significant need for investment in infrastructure. The railway system does not function properly. We see many delays with Deutsche Bahn. Germany lags behind in digitalization," he says.

The Germans are struggling with several structural challenges. One issue is that there has been too little investment for far too many years. To put it simply: it hampers the German economy when the workforce is stuck in traffic on the autobahn or waiting on train platforms. If investments are made in infrastructure, it could boost the growth potential of an economy that has been at a complete standstill for several years.

### Fiscal Space for Debt

Rangvid emphasizes that it is important to understand where Germany is coming from and how it differs from other economies: "In a country like Germany, which has no growth and at the same time low debt, it makes good sense to pursue fiscal expansion," says the professor.

## Appendix 3

He would be more concerned if the French decided to pursue expansionary fiscal policy to the same extent as the Germans. It was not long ago that French interest rates rose sharply because the prime minister presented a budget that was too expansionary for investors' liking.

"Not all countries can go as far as the Germans. Not all countries have the fiscal space to do the same," says the professor.

Germany currently has public debt amounting to 60 percent of its GDP.

They can easily move up to 80 percent, perhaps even 90 percent, without causing concern, according to Rangvid, who presented the same figures on Monday in Financial Times.

"A country's debt can certainly be too high. We are, to put it mildly, concerned about the situation in the United States (where debt is much higher than in Germany, ed.).

### No Concerns

According to Rangvid, Germany should not worry that expansionary fiscal policy will increase inflationary pressure significantly.

If Donald Trump were to deliver large tax cuts tomorrow, the situation would be different. That could create concerns about renewed inflationary pressure.

Merz's massive investments will also increase inflationary pressure in Germany and Europe, but not to a worrying extent:

"If we see Germany raising growth from zero to 1 percent, this should not be a concern. The main priority is simply to

create growth in Germany and Europe in general," says the professor.

However, Rangvid emphasizes that debt must be taken on with care:

"We can hardly contain our excitement now that the Germans are finally taking action. But of course, the money must be spent wisely. That goes without saying."

He adds:

"It is not just buy, buy, buy for the military. No, it is about buying the right things," says the professor.

**The debt ceiling / debt brake** is a German rule introduced in 2009 that limits how much new debt the government may take on.

#### Main rules:

The federal government can have a maximum (structural) deficit of 0.35% of GDP only. In extraordinary emergency situations (natural disasters, economic crises), the rule can be suspended with a parliamentary majority.

**The purpose** is to ensure long-term fiscal sustainability and prevent uncontrolled growth in public debt.