

Germany's economic crisis threatens the entire European region

Ulrik Bie, Berlingske 28 September 2025

(Excerpt from the article, part 1).

In the latest gloomy growth forecast from the respected German think tank Kiel Institute, there is one decisive theme that has little to do with public demand. Nor with Donald Trump's blows to global free trade.

It comes down to a 'loss of competitiveness.' Nothing illustrates this more clearly than the development of exports

Traditionally, Swedish and German exports have moved together, as the two countries have similar industrial structures and have shared the same exposure to fluctuations in the global economy. Thus, exports in both countries grew at the same rate in the decade, leading up to the COVID period.

Since then, however, things have gone seriously wrong for Germany. Exports have not grown at all over the past six years. Sweden's export have reached index 182 far exceeding Germany's index 143.



Loss of competitiveness

The weakness was already evident in 2018, when economists dismissed the problems as temporary. But even then, "loss of competitiveness" was in fact the underlying factor.

Appendix 5

Germany's business sector received a major boost when the Social Democratic chancellor Gerhard Schröder, in the years before the financial crisis, introduced some of the most comprehensive labour market and welfare reforms of the post-war period.

During the years under Angela Merkel, virtually no reforms were implemented in Germany. The result of this stagnation has been that the advantages gained from earlier measures have gradually been eroded.

The heavy dependence on Russian gas has also hit Germany harder than other countries.

Productivity has hardly increased, and most new jobs have been created in the service sector, which benefited from the introduction of a minimum wage of ten euros - DKK 75 per hour. The minimum wage is now set at DKK 96 an hour, but even though many goods are cheaper in Germany, it's clear that while this has indeed created jobs, it has simultaneously produced a generation of 'working poor'.

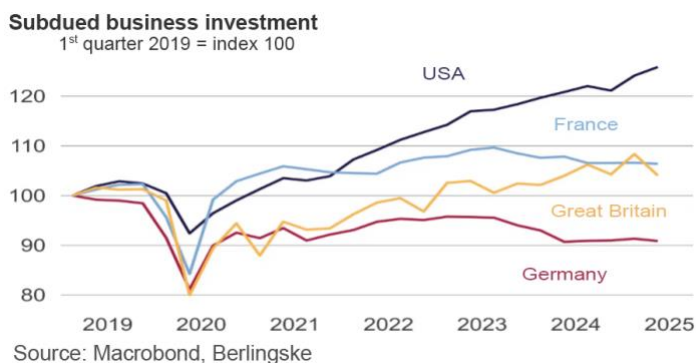
This is particularly widespread in Eastern Germany. It also means that although there has been impressive employment growth in cities like Leipzig, wealth and purchasing power have not kept pace.

Productivity is not improving

The problem is that higher wages without corresponding growth in productivity undermine companies' competitiveness. This could be solved through the increased use of technology, but German companies have also lagged hopelessly behind in investing in the future.

German business investment is nearly ten percent lower than it was six years ago, and has consequently fallen behind even when compared to Brexit-stricken Britain.

Instead, Germans have invested in production abroad, where China in particular has benefited from this. According to the analysis firm Rhodium Group, Germany has accounted for around half of total European business investment in China—which, moreover, has been increasing in recent years.



Appendix 5

This is also why Germany has been reluctant to take a hard line against China's attempts to dump excess production onto the European market.

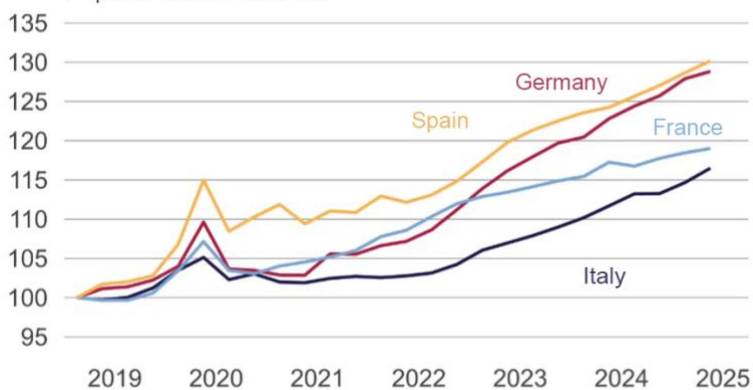
The lack of investment in Germany is due to conservative management and a lack of willingness to adapt at the top management levels of companies, but also because of a rigid labour market where it is difficult to dismiss redundant or underperforming workers.

German companies are required to have a "works council," in which trade unions play a decisive role in day-to-day operations as well as major strategic decisions. Danish companies expanding into Germany report this as one of the major obstacles to driving change in the private sector.

In recent years, wages have been rising without corresponding increases in productivity. This means that costs have risen by 29 percent in Germany since the beginning of 2019, while the corresponding increases have been "only" 16 percent in Italy and 19 percent in France.

German cost levels have increased dramatically

1st quarter 2020 = index 100



Source: Macrobond, Berlingske

Electricity prices have not been helped by the fact that the Green Party forced the shutdown of Germany's last nuclear power plants. Instead, Germany still burns brown coal for electricity.

It is difficult for entrepreneurs to secure funding, as in Germany such matters are traditionally handled through banks—and due to regulation, banks cannot lend to companies before they have proven themselves through several years of operating history.