

Germany's economic crisis threatens the entire European region

The German government has proposed a gigantic investment plan intended to kick-start the anaemic economy. This has led many economists to applaud, but public investment cannot save Germany. The problems are far more extensive. The scale of change required is enormous.



The conservative German chancellor, Friedrich Merz (right), and his Social Democratic finance minister, Lars Klingbeil, face an enormous task. It is the entire German society that must be transformed. Photo: Tobias Schwarz/AFP/Ritzau Scanpix

Ulrik Bie, Berlingske, 28 September 2025

(Excerpt from the article, part 2)

But if you ask German companies, nothing has improved in recent months. On the contrary.

This is deeply concerning.

Appendix 6

The business climate indicator from the ifo Institute in Munich fell in September to its lowest level since May, when the trade war was at its peak. The indicator is now at a level that would typically point to a deep downturn. Both the assessment of the current situation and expectations for the future took an unexpected dip.

As a result, Europe's largest economy and Denmark's biggest export market continues to lag behind. The best one can hope for this year—in terms of growth—is a big, fat zero.

Depressed companies



Source: Macrobond, Berlingske

The German economy is no longer larger than it was at the beginning of 2019, marking the longest period of economic stagnation in the post-war era.

Over the same period, the Danish economy has grown by 12 percent, while the rest of the euro area—without the German albatross—has in fact expanded by around ten percent. It is the smaller countries that have performed particularly well, especially those in the Mediterranean region.

Severe structural problems

Many economists have blamed Germany's special fiscal rule (the debt brake), which has led to budget surpluses but also to some of the lowest levels of public investment in the EU, resulting in significant wear and tear on German infrastructure, both physical and digital.

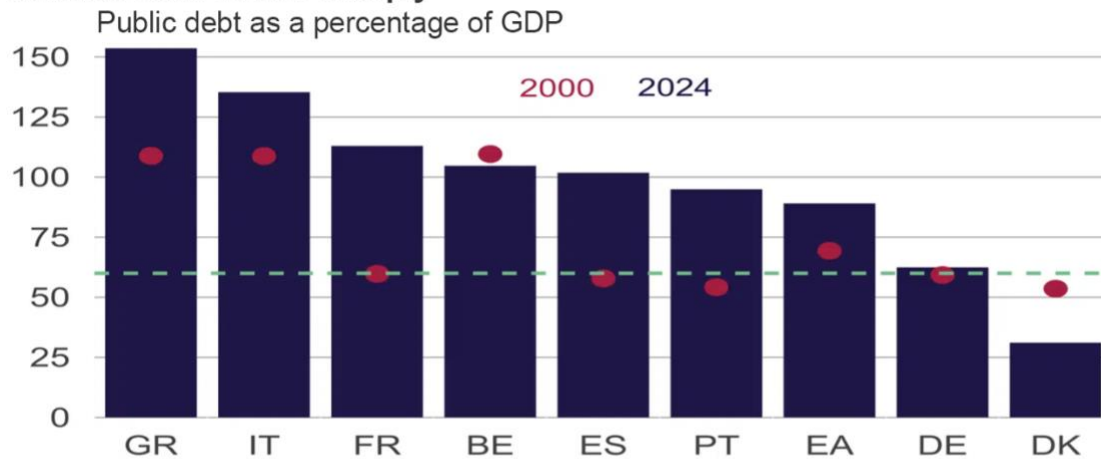
But the situation is more complex than explanations typically provided by economists.

Germany needs to be kick started

Germany must be kick-started with a mix of public and private investment. For example, Deutsche Bahn's DB Schenker was sold to the Danish company DSV for €15 billion to generate funding for a massive investment plan.

Over the next 10 to 12 years, the government will invest €1,000 billion, half of which is allocated to defence and the other half to infrastructure, digitalisation, and the green transition.

German debt to rise sharply



Source: Macrobond, European Commission

In addition, there will be a range of tax cuts and increased incentives for companies to invest through a more favourable tax treatment of investments.

At an investment summit in July, companies pledged to invest a total of €631 billion in Germany over the next three years. From banks and pension funds to media, industry, and technology. This is slightly more than one and a half times Denmark's total gross domestic product (GDP) last year.

Are these investments visible in the growth outlook?

Absolutely. Next year, public investment is expected to account for nearly half of total growth of 1.3 percent. The following year, it is projected to make up a quarter of 1.2 percent. The Kiel Institute also anticipates growth in equipment investment of around five percent per year.

An unavoidable bloodbath

But something deeply worrying is hidden within this.

Appendix 6

Five percent is next to nothing considering how much the capital stock has deteriorated in recent years—and it leaves virtually nothing for a digital leap forward.

The Kiel Institute is effectively saying that the private economy will not grow much. And thus that there will be no significant positive dynamic effects from the many billions of euros. No increase in household optimism. No surge in entrepreneurship and innovation.

These years are existential for the German economy and thus also for Europe as a whole – and Denmark. If the German economy fails to undergo the structural transformation necessary to accelerate growth, it is difficult to see how the country will generate the high-paying jobs required to fund increased defense spending, the welfare state, and the green transition.

Containing the discontent that has fueled support for political extremes will be difficult.

Growth must be much higher for the rest of the decade than what the Kiel Institute expects. And that may happen - if the Merz government takes decisive action and slaughters a number of Germany's sacred cows.

A bloodbath is unavoidable.