



Can Germany regain its mojo?

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- Germany's once-admired mercantilist model is increasingly under pressure from US tariffs and rising Chinese competition in its core industries.
- At the same time, austerity-driven neglect has left Germany's infrastructure, and public services in a worrying state, which is increasingly hampering the country's competitiveness.
- The recently elected government under Merz is attempting to tackle the problem with a comprehensive government investment programme, which has contributed to a rally on the stock markets.
- Our article shows how government underinvestment and export surpluses are in fact two sides of the same coin, and examines whether Germany can stage a comeback in the today's hostile economic and geopolitical environment.

August 11, 2025

For over a decade, Germany has been proud of its role as a bulwark of economic and social stability on a European continent plagued by the sovereign debt crisis and Brexit. However, the mercantilist growth model that has made the country the "world champion of exports" is increasingly backfiring as the US attempts to balance its current account deficit and China rises as a formidable competitor in high-value-added products, rather than just as a supplier and customer. In this article, we show why the increasingly visible cracks in Germany's infrastructure, caused by years of austerity, are linked to its export-oriented economy, and weigh the arguments for and against successful reform.

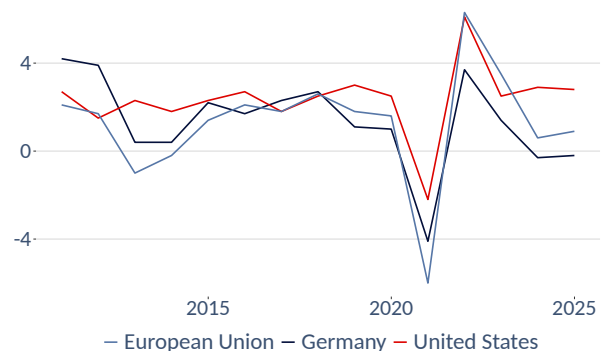
1 Germany's growth engine is stuttering

In 2020, the British journalist John Kampfner published a widely successful book with the telling title "Why the Germans do it better". The book, while being a critique of the state of the UK as much as an appreciative look at its long-time competitor, reviewed the latter's tremendous economic success post-World War II, praising its political and social stability under the now retired chancellor Angela Merkel as well as its strong manufacturing economy[1]. Less than half a decade later, one could argue that the grand headline has aged rather poorly.

In some polls, the far-right AfD, which arguably beats the Rassemblement National or Georgia Meloni's FdI on the scale of extremism[2], has caught up with the CDU of chancellor Friedrich Merz [3]. Merz's reform of

the constitutional debt brake in March this year had to be pushed through the federal parliament before the newly elected assembly met for the first time. It thus made use of the two-third majority which his CDU, its coalition partner SPD and the Greens (now an opposition party) still enjoyed at the time thanks to their better result in the previous election [4]. Merz would not have been able to get the reform done with the composition of the current Parliament, which includes a stronger AfD, and more members from the extreme left party (die Linke). The unusual manner in which the debt brake reform has been approved shows the extent to which the rise of the extreme right and left is already complicating governance in Europe's largest economy [5]. The reform of the debt brake is also symptomatic of a reassessment of the legacy of long-standing chancellor Angela Merkel, who, still called the West's most respected leader by John Kampfner, is

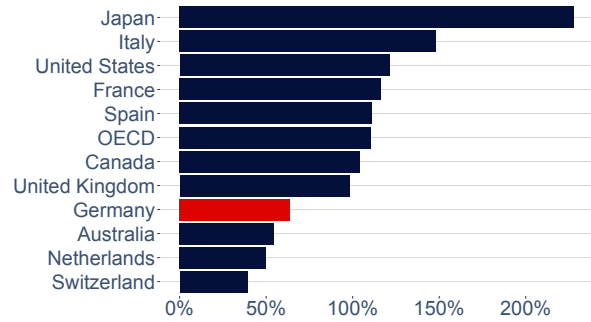
From engine to wheel block
Annual real GDP growth %



Source: Source: Bloomberg, Amadeus Capital
Figure 1

Germany has considerable financial leeway

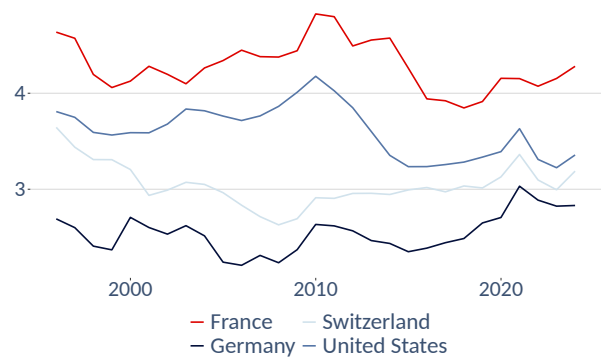
Government Debt/GDP ratio %



Source: Source: OECD, Amadeus Capital
Figure 2

Germany is paying a price for its low debt/GDP ratio

Gross fixed capital formation government sector in % of GDP



Source: Source: OECD, Worldbank, Amadeus Capital
Figure 3

now increasingly associated with a dodged migration politics and crumbling infrastructure [6]. As the Independent somewhat sullenly pointed out earlier this year, Merz's immediate predecessor, Olaf Scholz, still mocked the UK for its "broken tracks and bad trains", not mentioning the fact that even Britain's worst inter-city train operator is still significantly more reliable than the Deutsche Bahn [7].

The infamously sad state of Deutsche Bahn is not an isolated infrastructure problem as one need only look at the equally deplorable condition of the country's schools, bridges, airports, army, broadband internet coverage and cashless payment systems[8]. These maladies plaguing the country's population and increasingly its economy are the outcome of years of underinvestment. As many commentators have pointed out for some time, German public investments as a percentage of GDP have persistently been among the lowest in the EU and the OECD (Figure 3). Decades long underinvestments (primarily by the government but also to some degree by the corporate sector) are a natural flip side of the long sacred balanced fiscal budget[4]. The aggressive trade politics by the Trump government now put the spotlight on another aspect of German austerity: The massive export surplus.

Economists are well familiar with the basic equation of GDP[9] where an economy's output equals Consumer spending (C) + Gross private domestic investment (I) + Government expenditure on finished goods and services (G) + Exports (X) – Imports (M) or:

$$GDP = C + I + G + (X - M)$$

It doesn't require an advanced degree in mathematics to reformulate this equation and arrive at:

$$X - M = GDP - C - I - G$$

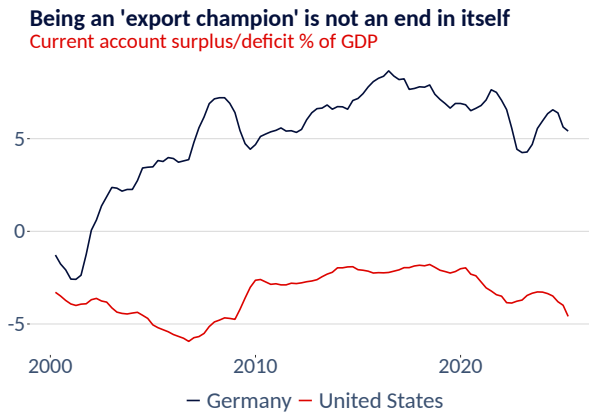
In other words, given a fixed GDP the value of net imports or exports are a direct function of how much is consumed and invested domestically by the public and private sector. While Germans have long been proud

of their title as "export champions", this mercantilist attitude is to some degree the result of a common misperception and ignores several major problems caused by a persistent imbalance between domestic production and domestic consumption and investment activity. We mentioned the first one above (#DeutscheBahn). The second problem is the global economic imbalance itself caused by Germany's current account surplus which is now being called out loudly by Donald Trump.

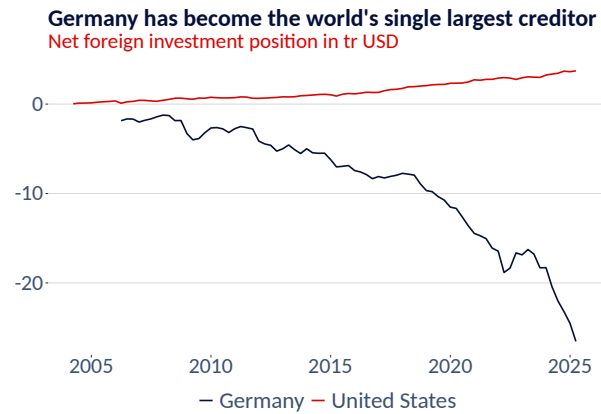
Years of export surpluses have in fact turned Germany into the world's single biggest creditor with a net international investment position of EUR +3.4 tr (79% of GDP[10]). This compares to a net international investment position of the world's largest borrower, the US, of EUR -21.2tr (84% of GDP[11, 12]). While Germany's export surplus surely isn't the only source of trade imbalances in the world, it contributes meaningfully to them. And this brings us to the third important misconception. While Donald Trump may envy the Germans for the export surpluses, truth is that apart from being a source of puritan pride, German people do not benefit much from them. Exports are valuable as a means for financing the import of goods and services that, otherwise would not be available to a country's citizens. They should, however, not be an end in themselves. The accumulation of a massive net foreign asset position through consistently achieved export surpluses is symptomatic of a society that is essentially living below its means.

2 The Merz government has started to adress the core problem

Obviously, the above-described economic model has now come under pressure from three sides. Internally, domestic under-investments have not only become a source of constant frustration (again #DeutscheBahn) but have also turned into a serious concern for the economy's competitiveness and the country's security. Externally, the US is obviously attempting to reduce



Source: Source: Bloomberg, Amadeus Capital
Figure 4

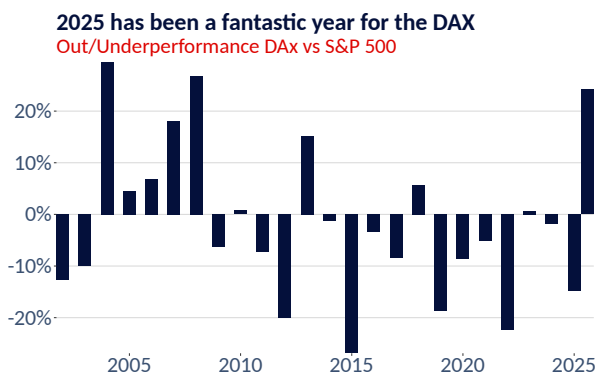


Source: Source: Bloomberg, Amadeus Capital
Figure 6

its trade imbalance. Even more importantly, China has transformed itself from a formidable customer into an increasingly alarming competitor. The good news is that the diseases affecting Europe's largest economy are well known and that the perfect storm described above has finally put enough pressure on the country for it to elect a clearly pro-business government and start to seriously look at fixing some of the issues. In practice, the aforementioned reform of the infamous debt brake cleared the path for an unprecedented EUR 500 billion special infrastructure fund (approximately 10% of 2024 GDP)[13]. Furthermore, the government has pledged to provide at least EUR 10 billion for a "Germany fund" which, helped by generous government guarantees, will attempt to raise at least another EUR 100 billion in private investments to pursue venture capital and growth capital investments[14]. The government is also addressing the country's relatively high tax burden by linearly reducing the federal corporate tax rate from 15% to 10% over 5 years[15] and by introducing a special tax deduction of 30% on investments into machinery in 2025, 2026, and 2027[16]. If the frugality of the past decade which brought the general government debt to GDP ratio from 80% down to 62.5% had an advantage, it is the fact that Germany

now has substantial fiscal leeway to achieve reforms and stimulate its sluggish economy. Long-term interest rates on government debt are above their pre-election (23 February 2025) level but remain very manageable at 2.6% for 10-year Bundesanleihen and just over 3% for bonds maturing in 30 years. France, for instance, has to pay between 60 and 100 basis points more for its long-term obligations. Ironically, the erratic moves of the Trump government may help Germany as they further increase the appeal of investments into the transformation of an economy that may have fallen a bit behind and is challenged by declining demand from its two biggest export markets (the US and China), but for now benefits from a relatively reliable government and potentially substantive fiscal stimulus. It is therefore encouraging that the corporate sector, and most importantly the smaller and medium-sized corporations, seem to have understood the message and are actively trying to diversify away from China.

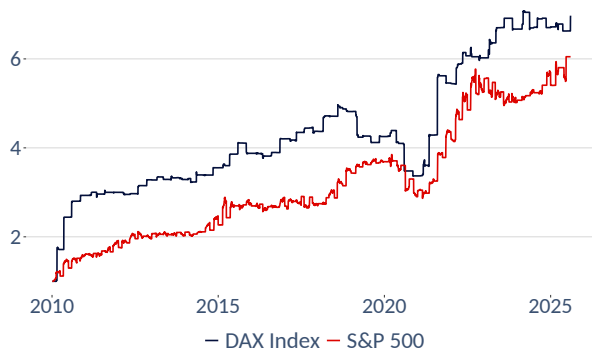
3 The stock market is celebrating the stimulus beneficiaries



Source: Source: Bloomberg, Amadeus Capital
Figure 5

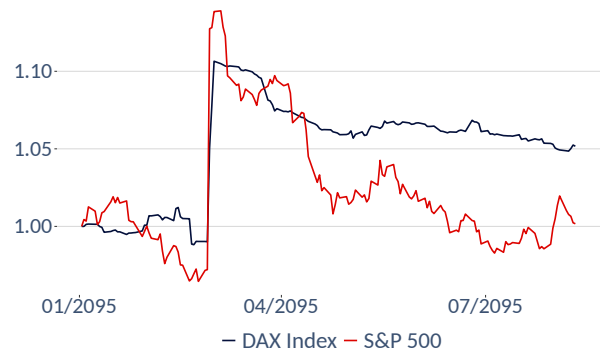
As a consequence, while GDP growth remains in the doldrums (-0.3% in 2023, -0.2% in 2024 and barely positive year-to-date), sentiment as evidenced by the widely followed survey-based IFO Business Climate Index has markedly improved[17]. Despite the trade war with the US, Business Expectations are now at the highest level since April 2023, with a particularly pronounced recovery in the construction sector, even though this marks a far cry from the levels observed prior to 2018. Concerns remain around the feasibility of rapid reform given an infamously slow administration, often stuck in pre-digital age and a fair degree of Nimby'ism[18]. In practice, the German government may in fact struggle to put its money into the ground as demonstrated by the terrible track-record of recent projects such as Berlin's airport and Stuttgart's main train station.

German corporations have kept up
T12m EPS rebased in EUR



Source: Source: Bloomberg, Amadeus Capital
Figure 7

2025 EPS revisions are hardly catastrophic
BEST EPS rebased



Source: Source: Bloomberg, Amadeus Capital
Figure 8

These concerns have not held back the country's stock market (+21.4%) which year-to-date has outperformed the American S&P 500 (-3.4% in EUR terms) by the widest margin since 2006. And unlike in the US, small caps have also participated in the rally (SDAX +26.1%, MDAX +22.4% vs Russel 2000 at -10.5%). Again in EUR terms, the DAX is also comfortable ahead of the French CAC 40 (+7.7%), the Swiss SMI (+5.1%) and the British FTSE 100 (+8.8%). This rally is in part due to improved sentiment. From the end of the Great Financial Crisis to the end of the 2010s, the DAX traded on average at a P/E discount of slightly over 20%. This discount increased to over 35% for the time between 2020 and 2024 but improved to about 30% this year, dropping to levels as low as 19% in May. Beyond this, in EUR terms, Germany's largest corporations have grown their EPS faster than their American peers since the beginning of 2024. As shown in Figure 8, 2025 earnings revisions are also leading those in the US. Lastly, the rally is rather broad based, with 70% of DAX members having produced positive returns since the beginning of the year. Investors, however, have been quick to identify the profitters of a potential investment boom with defence behemoth Rheinmetall (+176%), construction supplier Heidelberg Materials (+77%) and renewables specialist Siemens Energy (+93%) being the top performers alongside the country's largest lenders, Deutsche Bank (+91%) and Commerzbank (+124%). Export and consumption dependent companies such as Beiersdorf, Adidas, Zalando, and Porsche on the other hand are trading in the reds.

However, Germany was called the "sick man of Europe" once before (like the Ottoman Empire in the 19th century, and the UK in the 60s and 70s)[19]. It managed to get out of the doldrums in the early 2000s through the implementation of painful labour market and social safety reforms by then chancellor Gerhard Schröder. Friedrich Merz's current agenda may not be less ambitious. While it is certainly too early to judge whether it will ultimately succeed, the experience of the past months demonstrates again that global economic and geopolitical developments can impact countries in unexpected and outright counterintuitive ways. It is not a matter of course that the stock market of one of the world's most open economies is performing so well in an environment where a self-proclaimed "tariff-man" is making headlines[20].

Germany is often said to have benefited from the long export boom enabled by its openness and a relatively stable geopolitical environment during the 2010s. Looking at relative income and wealth levels as well as the state of the country's infrastructure, these perceived benefits may have frequently been exaggerated. Backed by solid government finances, a huge pent-up demand for investments, a still fairly innovative industry[21] and the acknowledgement that serious change has become "alternativlos" (unavoidable[22]), it may in fact be better prepared to deal with a more hostile trade environment than commonly feared.

4 Can the momentum be sustained?

Again, investors should not underestimate to what degree the problems plaguing the German economy are structural. Excessive red-tape, a workforce focused on engineering and used to long holidays and 35-hour weeks in combination with a high-income tax burden and an industry that probably underestimated its Chinese clients too long, can not be reformed over night.

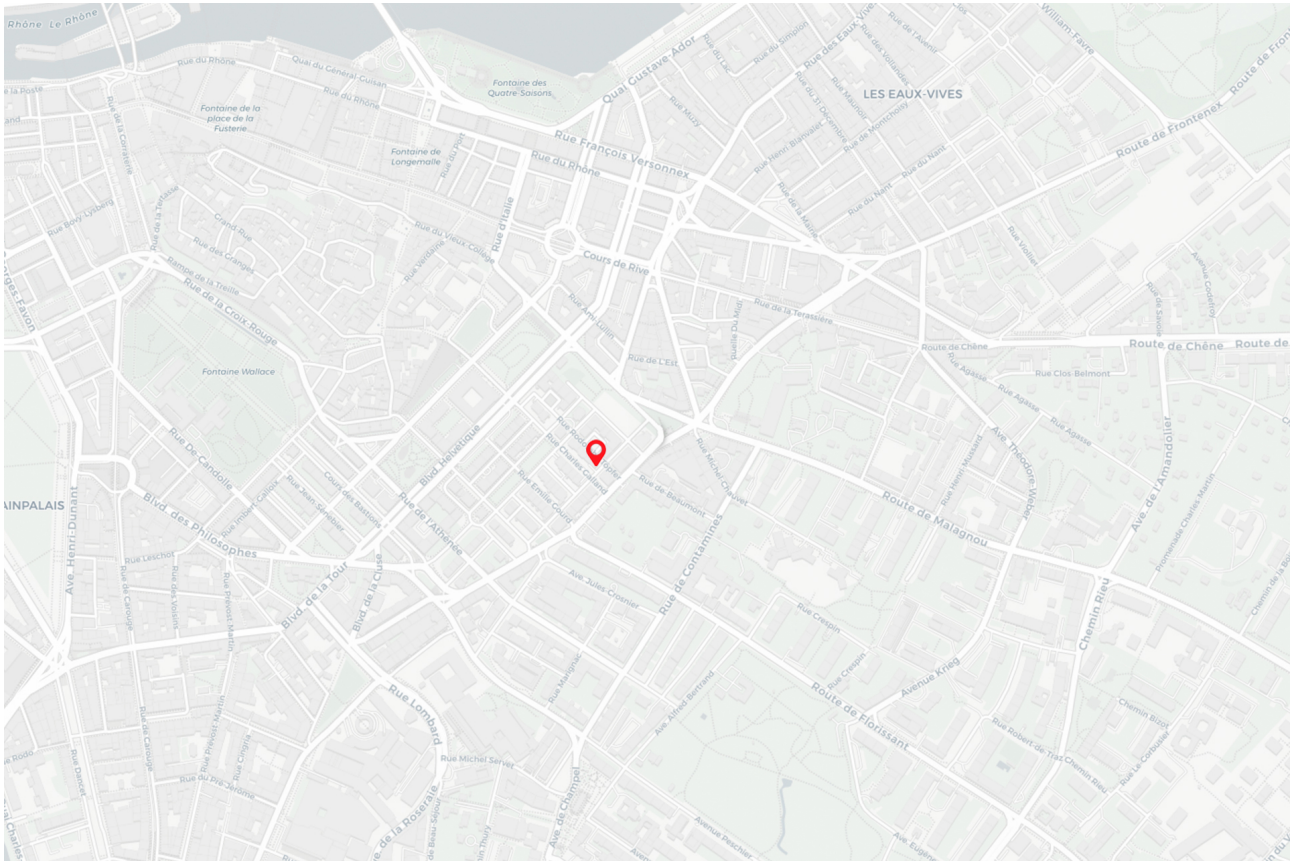
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