



To the point!

Cross-Asset- and Strategy-Research

Germany needs an investment step change

Moritz Kraemer -- Chief Economist

LBBWResearch@LBBW.de

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But deteriorating infrastructure is only part of the picture

These days, an unusually large amount of cheerful life can be observed on Germany's streets. At least in the cities where the Euro 2024 Football matches are taking place. Rival fans are celebrating together in harmony, and the Germans present themselves as friendly and helpful hosts.

European guests are surprised by Germany

Guests experience how little the average German corresponds to the stereotypical caricature of the stiff Prussian with a humor deficit that is still gladly conveyed abroad. How lovely! Another reputation that many foreigners associate with Germany is that things work there. And that's where the experiences of the visiting fans are much less pleasant. It's quite embarrassing when English fans keep telling how they waited more than two hours in Gelsenkirchen for public transport to get away from the stadium. Or the Scottish fans, beloved in Germany, who report that mobile connections work better in the Highlands than just outside Stuttgart's main train station.

The Germans, who struggle with the country's infrastructure day in, day out, know full well that the reputation of reliability is a relic from better times. As the first figure shows, Germany's trains are the least punctual in Europe, bar Slovenia. And as a frequent train traveler, I seem to be particularly unlucky: Because it feels like significantly less than two-thirds of my connections are on time. And by on time, I now consider any train that arrives by less than 15 minutes behind schedule.

The fans are waiting at the platform...

Figure 1: Share of punctual long-distance trains (2023, %)



Source: zugfinder.net, LBBW Research

You get what you pay for: Germany's investment backlog

That Germany can no longer keep up in the international comparison is not surprising. Data from the EU shows that since the turn of the millennium the public sector in Germany has spent on average only 2.3% of GDP on investments. In the Eurozone as a whole, it was almost one percentage point more, in France even two percentage points. The gap relative to peers has become smaller in recent years. But that merely means that Germany continues to fall behind, just at a slightly slower pace.

The Federal Minister of Finance, Christian Lindner, emphasizes that public investments have recently reached a "record level", and that this should also apply to the budget 2025. It's a bit like the team at the bottom of the league table boasting that there has never been a team at the bottom that conceded so few goals. That's not good enough. The huge backlog of investments needs to be tackled with a concerted effort. This will take many years. Unfortunately, I can't yet see the necessary turnaround.

Private companies must also invest more

Bashing the recent tri-party coalition has become a popular sport in Germany. However, the infrastructure problem has existed for much longer, as the data shows. But it's not only the government that needs to step up. Many companies also urgently need to adjust. The share of investments in digitalization in Germany is very low in international comparison (see Fig. 3). So, there's much to do all around.

Let's enjoy the Euro 2024. For my part, I keep fingers crossed that Germany proceeds to the semifinals tonight. But afterwards, Germany needs to seriously roll up its sleeves. In the private sector as well as at the various levels of government. Let's make sure that fans are duly impressed next time they visit the country!

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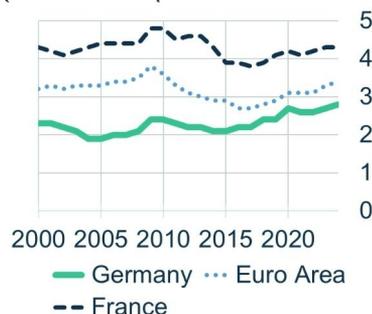
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Fig. 2: Public Investment (% of GDP)



Source: EC Ameco Database, LBBW Research

Figure 3: Investment in information and communication technology (% of total investment, 2022)



Source: [OECD](#), LBBW Research