



NEW ZEALAND  
FOREIGN AFFAIRS & TRADE  
Manatū Aorere

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# German economic update: Transformation opportunity?

MARKET INTELLIGENCE REPORT

# Summary

Prepared by the New Zealand Embassy in Berlin, in consultation with NZTE Berlin

- The world's fourth largest economy is likely to experience negative growth this year and just modest growth in the coming years. Germany is facing a number of structural challenges, which are becoming a key focus of the Government's economic, industry and climate policy.
- For New Zealand exporters, future economic opportunities in Germany may look different to those over the past decade. German wealth looks less likely to increase across the board, but demographic change, the energy transition and digitalisation could offer new opportunities.

# Report

Germany remains our number one trading partner within the European Union. As foreshadowed in the [last economic update](#), Germany has been going through a (mild) recession, with negative growth in Q4/2022 and Q1/2023, followed by a flat economy in Q2/2023. Germany is now reportedly the only Eurozone economy that has yet to exceed pre-COVID economic activity levels. The economic outlook remains sobering, and some challenges appear to be more structural in nature, leading [The Economist](#) and others ask whether Germany risks once again becoming the 'sick man of Europe'. Against the backdrop of still relatively high energy costs, skilled labour shortages and an increasingly challenging global environment for an exports-focused economy, Germany's economic model may need reinventing. At the same time, the German Chancellor anticipates a green transition-driven 'economic miracle'. What are the risks and opportunities for New Zealand exporters going forward?

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## German economy 2023/2024 and beyond

Current growth projections are not promising: between -0.2 and -0.6% in 2023, and around 1% for 2024, followed by modest growth in future years. Employment remains robust and public finances are in better shape than elsewhere, but industrial production is well below its potential (not least due to high energy prices), business and consumer confidence is low, investment activity has yet to pick up, and the combination of persistent inflation and increasingly high interest rates is taking its toll, impacting on private consumption and construction activity. Soft global demand does not help either. Consumer demand could pick up in future thanks to wage increases and anticipated easing inflation.

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## Germany's more structural challenges

A growing number of economists are pointing to some more structural challenges. Germany's competitiveness has dropped to 22nd of 64 in the [IMD World Competitiveness Center ranking](#), which cites a lack of economic growth, high taxes, labour market regulations, skilled labour shortages (amplified by demographic change), declining infrastructure, slow digital transformation and red tape as contributing factors. The growing level of bureaucracy, delayed digitalisation and high energy prices are particularly highlighted by business groups and foreign investors. The geopolitical challenges add further concern. Unsurprisingly, there are increasing calls for major structural reforms.

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# How the German Government is responding

The Government acknowledges a need for action, admitting that Germany is “facing structural problems”, and anticipating a “time of change”. It has announced a ‘Ten-Point Plan’, of which – besides a commitment to further trade liberalisation – the following elements are particularly relevant for foreign exporters (see next section for the ‘so what’):

- A [Growth Opportunities Bill](#) lists incentives for investment and innovation worth €7 billion per year, including through tax simplification, generous loss offsetting and depreciation rules (which could stimulate imports, too), and incentives for energy efficiency and research & development.
- A [Climate and Transformation Fund](#) will make €200+ billion available over the next four years to inter alia support building renovation, decarbonisation of industries, climate-neutral mobility, and lighthouse foreign direct investment projects in key areas such as semiconductors.
- The accelerated [installation of wind and solar power](#) (up to an average 4-5 wind turbines and 30 hectares of solar panels per day) is pushed further with regular auctions of installation capacity eligible for guaranteed feed-in tariffs, alongside the needed expansion of the grids.
- A raft of strategies and actions are under way to promote the further digitalisation of the German economy and administration, addressing issues around data use and access, Artificial Intelligence, the digitalisation of public services, and more (further info in German [here](#) and [here](#)).

Views somewhat differ on whether the required ‘green’ transition of the German economy will trigger another “economic miracle” (Chancellor Scholz), or be a pretty tough process, with experts arguing that the replacement of old capital stock does not create additional wealth on its own.

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## What could this outlook mean for New Zealand exporters?

Whilst our services exports have been recovering since the re-opening, our goods exports have been declining slightly overall. Germany’s economic outlook and anticipated transformation suggests that:

- At a macroeconomic level, there is currently little reason to expect a fast-growing German economy featuring strong demand across the board. In terms of overall economic performance, at this stage the 2020s look unlikely to match or exceed the previous decade.
- Germany remains a challenging market, but one with 84 million consumers and new opportunities. At a sectoral level, opportunities remain, with pressures to increase

productivity – rooted in competition and skilled labour shortages – and decarbonise – fuelled by high energy prices and increasing prices on emissions – being key drivers. Goods and services supporting the digitalisation or automatisisation in government, businesses or households should enjoy strong demand. Equally, goods or services supporting the shift to renewables (wind, solar, green hydrogen) or greater energy or carbon emissions efficiency, will be much needed.

- Increasingly forceful trends cutting across sectors may also offer new opportunities, such as [demographic change](#), with the German ‘baby boomer’ generation nearing retirement, and even developments driven by geopolitics, such a pressures to [diversify sources](#) or relocate to Germany.
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