



Germany after the Elections

Key impacts on Transatlantic Investments Between the U.S. and Germany

GABC-Event “What’s Next for Germany and the U.S.? A Business and Economic Outlook”

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Economic trends in Germany and the EU in comparison (1/3)

Germany ranks as the third largest economy in the world and the #1 in Europe

In 2024, Germany ranked **third globally** with a GDP of USD 4.71 trillion. The EU (consisting of 27 countries) as a whole generated a GDP of USD 19.4 billion in 2024, accounting for 18% of global GDP. Within the EU, Germany generated by far the biggest GDP (24%) followed with some distance by France (16%) and Italy (12%). Germany's GDP is also more than 30% bigger than the GDP of UK.

Population at an all-time high

The population in Germany has reached an **all-time high of 84.8 million** people (due to high levels of immigration). The same applies to the EU with a new high of 448 million people in 2024. Germany is the most populous country in the EU representing almost a fifth (19%) of all EU residents.

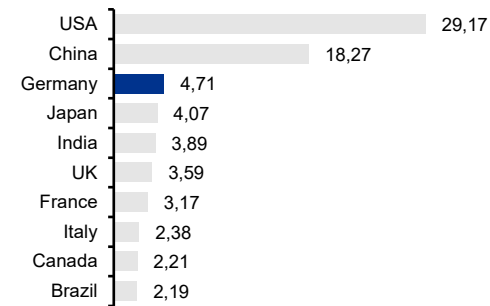
Economy not getting off the ground

In Jan. 2025, the International Monetary Fund (IMF) reduced its forecast for the current year for Germany to **+0.3%** and the eurozone to **+1.0%**, clearly below the forecasted GDP growth globally of +3.3%. For 2026, the institute is forecasting slightly higher growth rates of +1.1% for Germany and +1.4% for the eurozone respectively. The **impacts of additional tariffs by the new US administration** are not yet considered but could have an impact of between **-1.0% and -1.5% on Germany's GDP**.

Unemployment heterogeneous within the EU

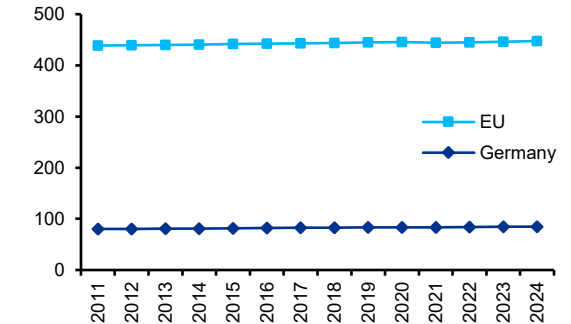
While the labor market in Germany remains rather stable (**unemployment rate of 3.4%** equaling roughly 3 million people), many countries within the EU are struggling with significantly higher unemployment rates. In December 2024, Spain recorded the highest unemployment rate (10.6%), followed by Greece (9.4%) and Finland (8.6%).

Largest economies by GDP, 2024 (in USD trillion)



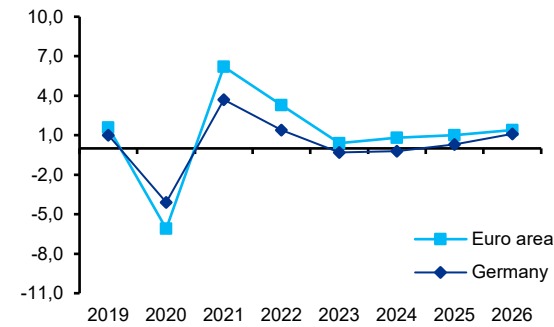
Source: IMF, Oct. 2024

Population (in million)



Source: IMF, Oct. 2024

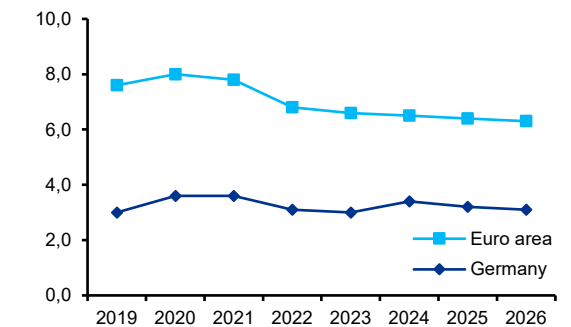
Real GDP growth (in %)



Source: IMF, Jan. 2025

Projections (Jan. 2025)

Unemployment rate (in %)



Source: IMF, Oct. 2024

Projections (Oct. 2024)

Economic trends in Germany and the EU in comparison (2/3)

Cost of living rises in Europe

The shortage of supply on the housing market and the sharp rise in prices in recent years are particularly evident on the housing market in large cities. Amsterdam is the most expensive city in the EU to live in (59.7 points), followed by Dublin (58.7) and Copenhagen (57.3). Munich is just closely behind (53.4). The cheapest places to live are in Eastern European countries such as Romania and Bulgaria (21.8-27.9).

EUR weakens against USD

In view of the strength of the US economy and the flat development in Europe, the **growth differential between the US and the eurozone** has widened significantly in recent months. The announced tariffs to be introduced by President Trump and concerns about an escalating trade dispute are putting additional pressure on the euro.

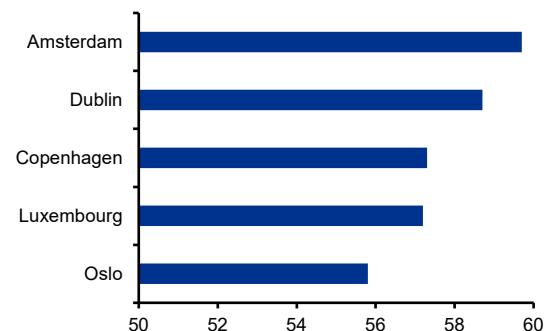
Stock markets continue rallying

Despite the negative economic news in Germany, the DAX is still at a record high. It ended the trading month of January 2025 at 21,732 points which is around 1,800 points more than at the end of the previous month and the end of last year. This is partly due to **falling interest rates**, as well as the fact that DAX companies generate a **large part of their turnover and profit abroad**. The S&P 500 also reached a new record high of 6,032 points at the start of the year.

Inflation slightly above target

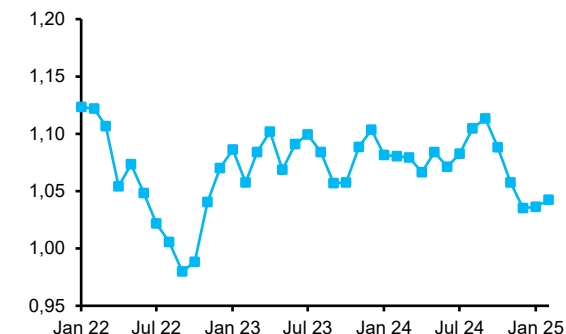
After inflation reached and even fell below the ECB's target of 2% in both Germany and the eurozone in autumn 2024, it rose again at the end of the year and the beginning of 2025. On January 30, the ECB lowered the deposit rate to 2.75% for the fifth time in a row.

Cost of living plus rent index



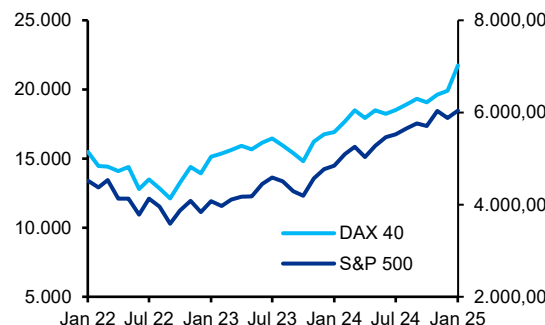
Source: Numbeo (Jan. 2025)

Exchange rate EUR/USD



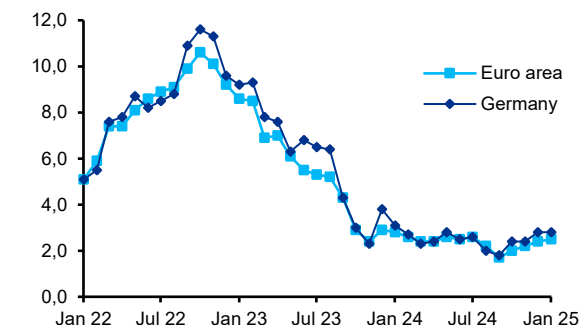
Source: Investing.com

DAX 40 and S&P 500



Source: Ariva

Inflation rate (HICP) (in %)



Source: Eurostat

Economic trends in Germany and the EU in comparison (3/3)

Foreign trade of Germany with other EU-member states is growing steadily

Germany is a sought-after **trading partner in the EU**: In 2024, Germany was the #1 destination for 15 EU member states' goods exports. The Czech Republic delivered around a third (33%) of its goods exports to Germany. Austria (29%), Poland (28%) and Malta (27%) also exported nearly a third of their goods to Germany.

The volume of trade between Germany and the member states of the European Union has risen continuously since 2010 – with only a short dip during the pandemic in 2020. Exports and imports have risen at an almost identical rate. **Germany has continuously recorded a trade surplus within the EU.**

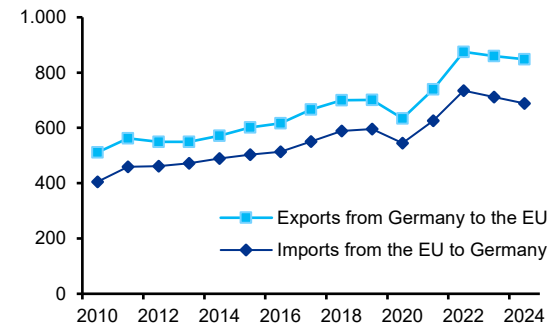
Direct investment net inflows into EU and Germany fall

While net direct investment inflows as a proportion of GDP have remained at a similar level in Germany in recent years, there has been a clear decline at EU level. Last year, inflows were even negative. However, investment has also been falling steadily in Germany since the outbreak of the pandemic.

Public debt in Germany well below the EU average

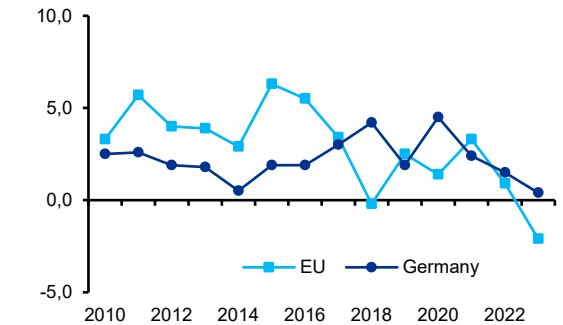
While the ratio of public debt to GDP in **Germany** declined steadily until the outbreak of the pandemic and stood at **~63%** in 2024, public debt to GDP in the EU in total has risen overall, reaching **~83%** in 2024.

Foreign trade Germany-EU (in EUR billion)



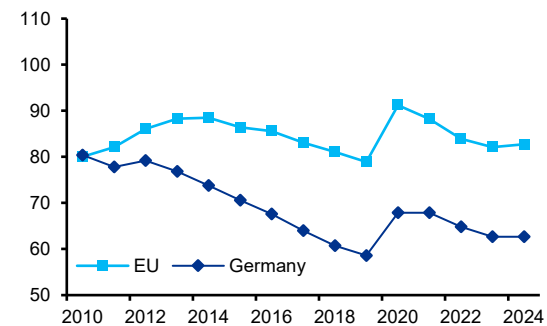
Source: Statistisches Bundesamt

FDI net inflow/GDP (in %)



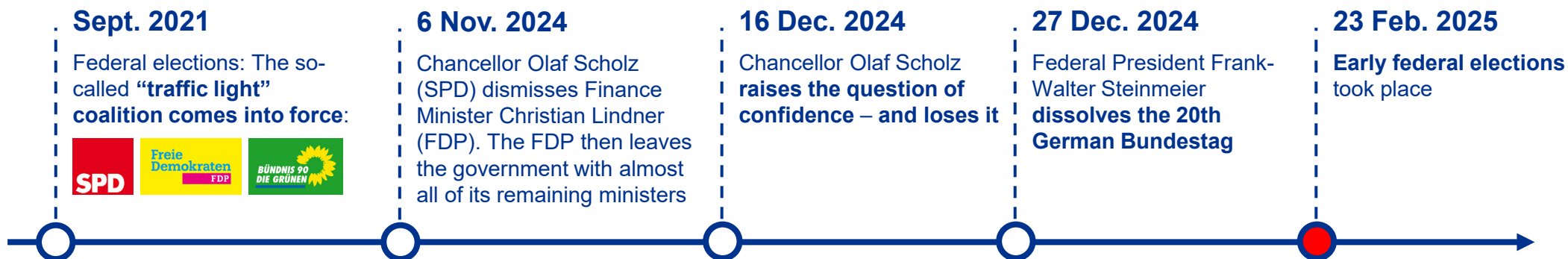
Source: World Bank

Government gross debt (% of GDP)



Source: IMF, Oct. 2024

November 2024: Break of the „traffic light“ coalition in Germany



Reasons for the break-up:

- **Disagreement** on how to close the **EUR 60 billion gap in the federal budget for 2025** (that emerged after the German Federal Constitutional Court declared in November 2023 the government's funding plan for climate and energy programs unconstitutional as it violated the “**Schuldenbremse**”/“**debt brake**” which is enshrined in German Basic Law)
- While the SPD and the Greens were prepared to release the debt brake, the **FDP stuck to the rules of budgetary austerity** and emphasized that the **government spending must be reduced first**
- There were also **various other disagreements** on topics such as the heating law (phasing out oil and gas heating systems), citizens' income (“Bürgergeld”), financial and arms aid for Ukraine, asylum and migration

→ The coalition partners insisted on their individual interests; **no compromises could be found**

Europe increasingly moves to right-wing populist protest parties



The Netherlands:

The **Party for Freedom (PVV)** led by right-wing populist **Geert Wilders** has been part of the government since 2024 for the first time and forms a coalition with three other parties. It emerged from the last parliamentary elections as the **strongest force with 23.6% of the votes**.



France:

Although the left-wing alliance **Nouveau Front populaire** won the run-off elections in July 2024, **Marine Le Pen's** right-wing populist party **Rassemblement National** achieved the **best result in history** with 143 out of 577 seats and became the third strongest force.



Italy:

The post-fascist **Giorgia Meloni** from the **Fratelli d'Italia party** has been Prime Minister since the end of October 2022. She is in coalition with the equally far-right parties **Forza Italia** and **Legia**.



Germany:

The right-wing populist **Alternative for Germany (AfD)** had **several electoral successes at local, state and European level in 2024**. In the state elections in Brandenburg, Saxony and Thuringia in particular, the AfD made significant gains and received around 30% of the vote. The party was particularly **successful in mobilizing young voters**.



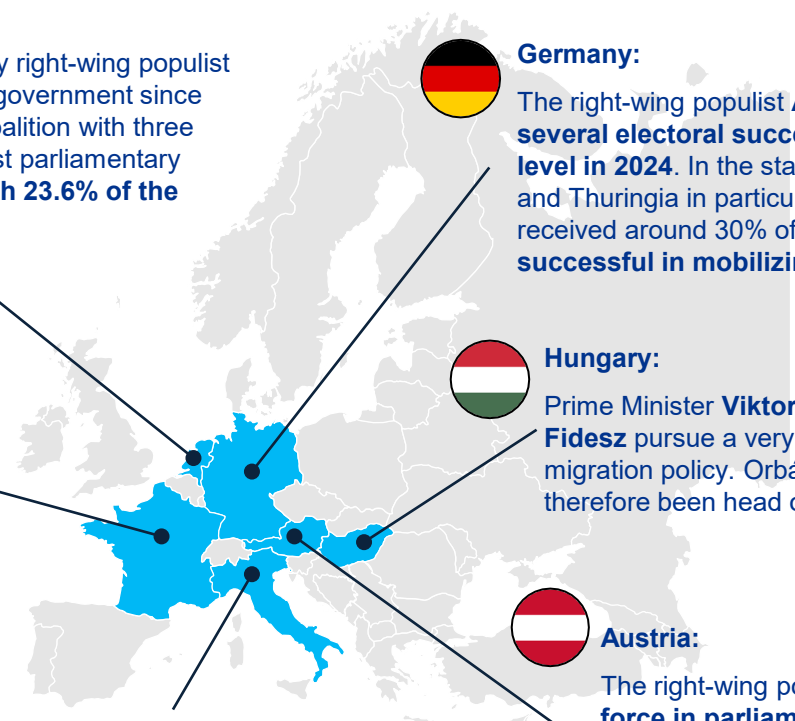
Hungary:

Prime Minister **Viktor Orbán** and his right-wing populist party **Fidesz** pursue a very conservative family policy and an anti-migration policy. Orbán has been **in office since 2010** and has therefore been head of government in Hungary for almost 15 years.



Austria:

The right-wing populist party **FPÖ** became the **strongest force in parliament** for the first time in the National Council elections in September 2024 **with 28.85% of the votes**. The task of forming a government now lies with the FPÖ.



US government interfered into German elections, supporting AfD

9 Jan. 2025: Live conversation between Alice Weidel and Elon Musk on X



Hundreds of thousands listened to the **75-minute conversation** in English between the AfD leader Alice Weidel and US billionaire Elon Musk on **Musk's own platform X**. During their online conversation, **both repeatedly confirmed to each other how similar they see the world**. "Yes, absolutely", Weidel said more than once to Musk.. And **Musk stated: "Only the AfD can save Germany"**.

25 Jan. 2025: Musk joins AfD's election campaign as a speaker



Guest appearance by Elon Musk at an AfD election campaign event: **Musk reaffirmed his support for the AfD party**. At the beginning of AfD leader Alice Weidel's speech, the Trump adviser and Tesla boss was connected live from the US, saying that the **AfD was the best hope for Germany**. "Fight for a great future for Germany," Musk said to the cheers of around 4,500 AfD supporters at the trade fair in Halle (Saale), according to the party.

14 Feb. 2025: J.D. Vance blames German politicians for distancing from AfD during Munich Security Conference



At the Munich Security Conference US Vice President J.D. Vance issued an unusually **harsh warning to European allies against endangering democracy**. He made an **indirect reference to the German debate on distancing oneself from the AfD**: "There is no room for firewalls," he said. "Democracy is based on the sacred principle that the voice of the people counts." Either you uphold this principle or you don't. "We should not be afraid of our citizens, even if they express views that do not agree with their leadership."

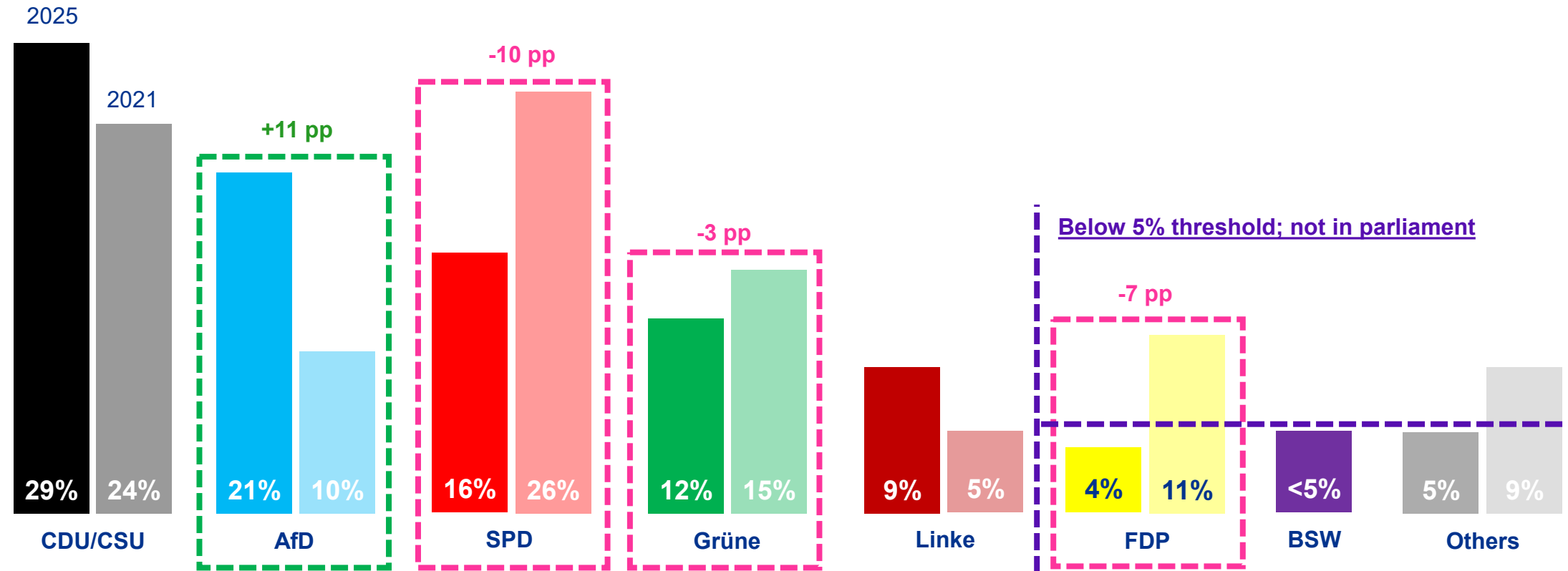
15 Feb. 2025: J.D. Vance meets Alice Weidel during Munich Security Conference



US Vice President J.D. Vance met with AfD leader Alice Weidel on the sidelines of the Munich Security Conference. As in the past two years, Weidel and the AfD had explicitly not been invited by the conference organizers - also because her party is classified by the Office for the Protection of the Constitution as partially right-wing extremist. A spokesperson for Weidel described the atmosphere during the discussions as very relaxed and friendly. In terms of content, it was about the war in Ukraine and also about the "firewall" to exclude coalitions with the AfD, which Vance had addressed in his speech..

Results: former coalition partners lose 20 pp; AfD rises by 11 pp, but is “out of game”

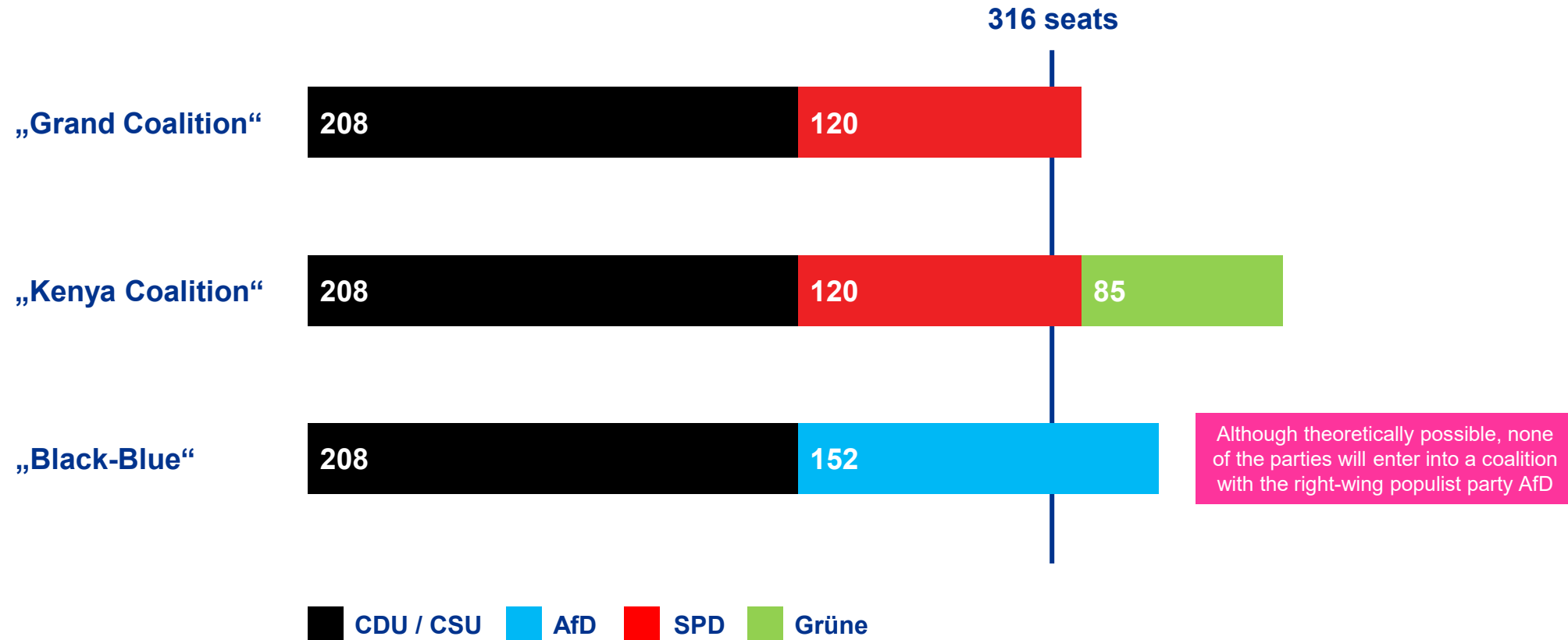
Election results | 23 February 2025



Source: Bundeswahlleiterin, 24 February 2025

Possible coalitions in Germany (sorted in order of probability)

Total seats: 630 | absolute majority: 316



Source: Bundeswahlleiterin, 24 February 2025

What do the election results mean for US-investors?

Election promises - Economy



Reduction of the corporate tax rate (down from roughly 30% to 25%) and further tax benefits for foreign entities



Reduction of bureaucracy (“one in, two out”) and **abolition of the Supply Chain Act**



More manpower and skilled workers through **incentives to work longer** and **easier access for foreign skilled workers**



More **incentives for entrepreneurship** and **simplified start-up conditions** (less bureaucracy, better start-up financing)



Support of **new trade agreements** with India and ASEAN countries; **deepening of partnerships within EU and US**

Source: CDU election program

“We want to bring Germany forward again!”



Friedrich Merz

New Chancellor of the Federal Republic of Germany

- * 11 November 1955
- Since 2022: Federal Chairman of the CDU

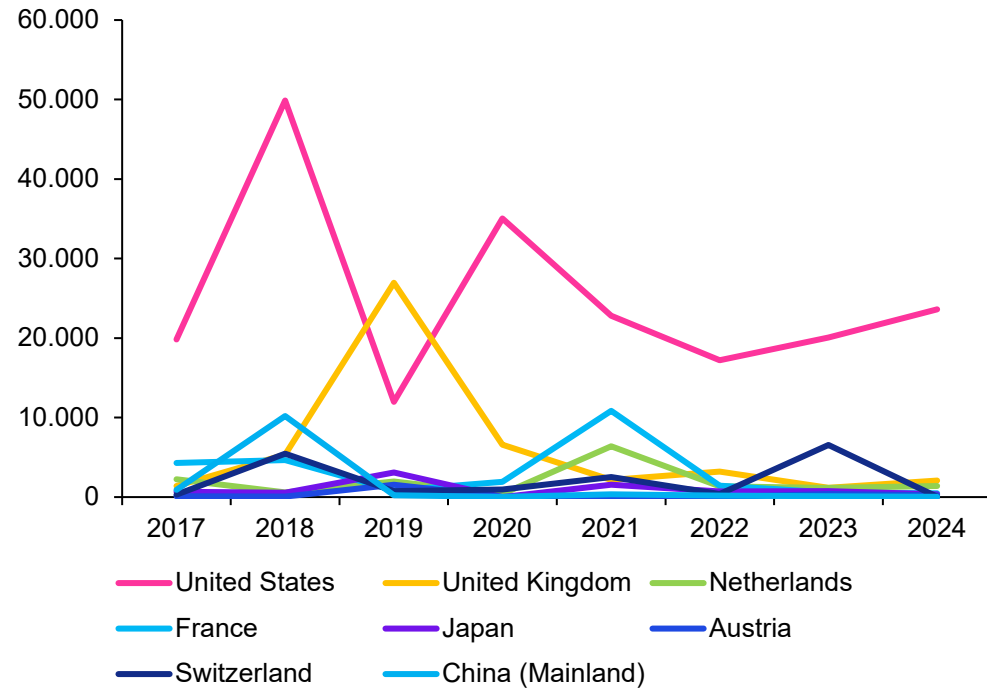
US-connex:

- 2016 - 2020: Chairman of the Supervisory Board of **BlackRock** Asset Management Deutschland AG
- 2009 - 2019: Chairman of **Atlantik-Brücke** e.V.
- 2025 – 2021: Partner/Senior Counsel of **US-based law-firm Mayer Brown**, Chicago

But new perception is that Europe must become independent from US and instead European cooperation must be expanded

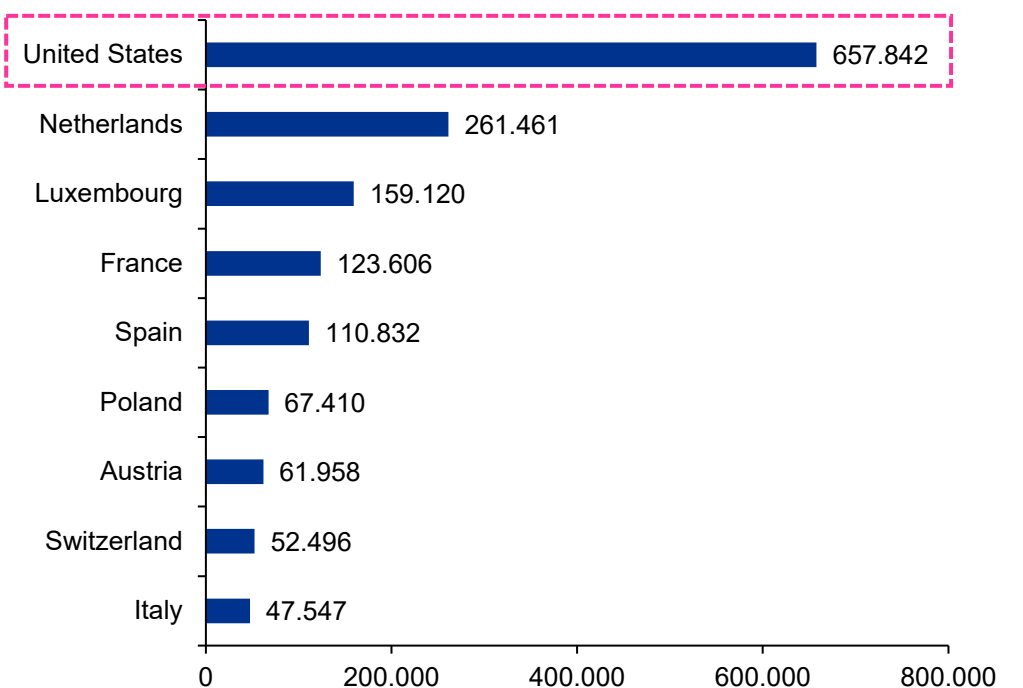
#1 M&A-investor in Germany is USA

M&A deals: Rank value incl. net debt of target
2017-2024; in USD million



Source: Refinitiv/LSEG

Inward FDI stock by partner country
2023; in USD million



Source: OECD Data

US-groups generate highest value added in Germany

Controlling country	Value added (in EUR million)	Number of employees	Number of enterprises
United States	114,308	774,599	4,427
Switzerland	47,082	504,118	4,918
France	46,053	469,709	1,904
Netherlands	44,943	415,464	3,983
United Kingdom	44,628	318,913	3,641
Japan	20,808	180,453	1,028
Austria	23,362	262,876	2,421
China (excl. Hongkong)	8,647	78,596	969

Source: Eurostat (fats_activ)

German industry is facing several challenges ...

Structural challenges



Relatively high **tax** burden for corporations



High volume and complexity of **bureaucracy**



Demographic change leading to an increasing skills and labor shortage



Massive **investment backlog** in **infrastructure**



High **energy costs**



Strict **regulations on sustainability** incl. mandatory reporting



Strong focus on the existing industry, **too little innovation**

Economic and (geo)political challenges



Political uncertainty and **lack of predictability**



Concerns about an escalating **trade dispute** and **rising tariffs**



Lower **demand for German export goods**



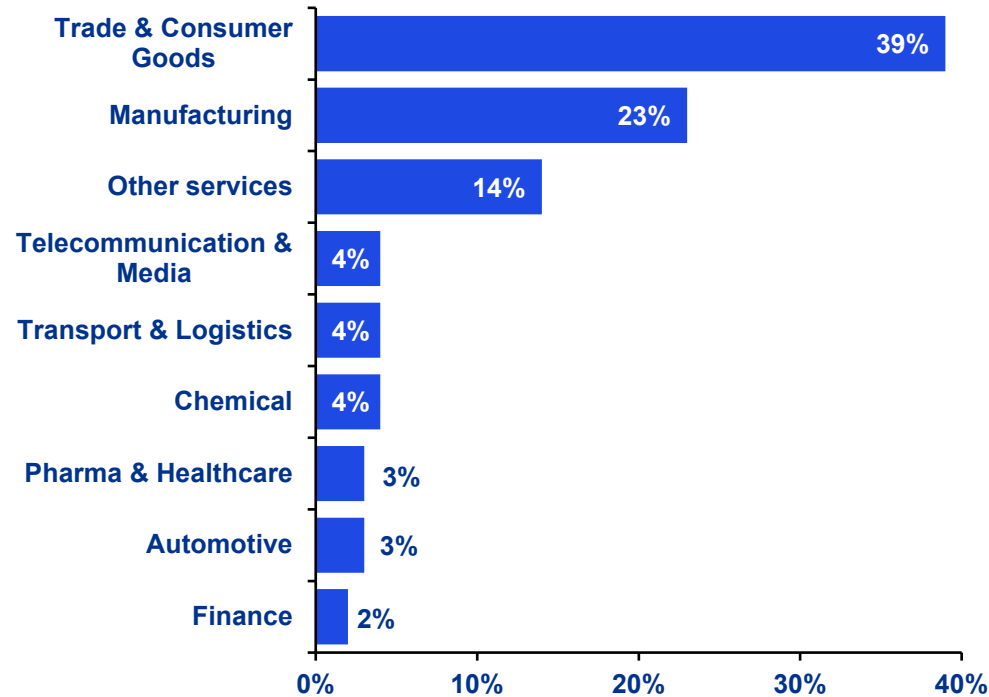
Increasing **protectionism** from key trading partners such as the U.S. and China



Other countries offer more attractive **location and investment conditions**

.... which was also proven by our study „Business Destination Germany 2024“

Surveyed companies by sector



Source: Business Destination Germany 2024, KPMG in Germany, n=350; rounding differences possible

Surveyed companies by country

350 representatives from German subsidiaries of international companies

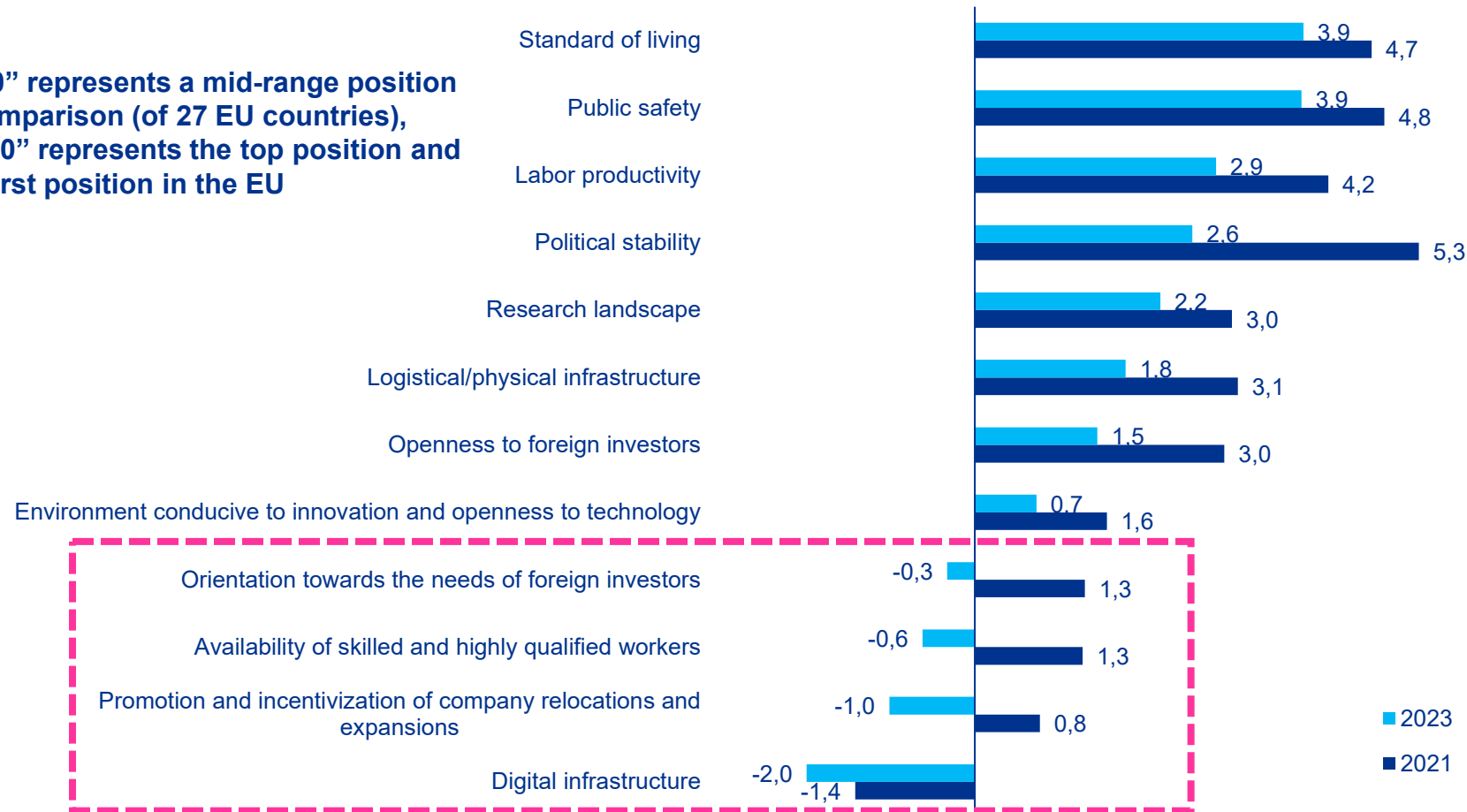
- The respondents - mainly CFOs - represent the eight most important investor countries:
 - **U.S. (with 100 participants)**
 - Japan, China, the United Kingdom, the Netherlands, Switzerland and Austria, each with 30 participants
- In addition, 40 inbounds from other important investor countries were surveyed comprising the countries South Korea, Brazil, Denmark, Finland, Greece, India, Italy, Sweden and Spain



Foreign investors rated all location factors lower than two years ago ...

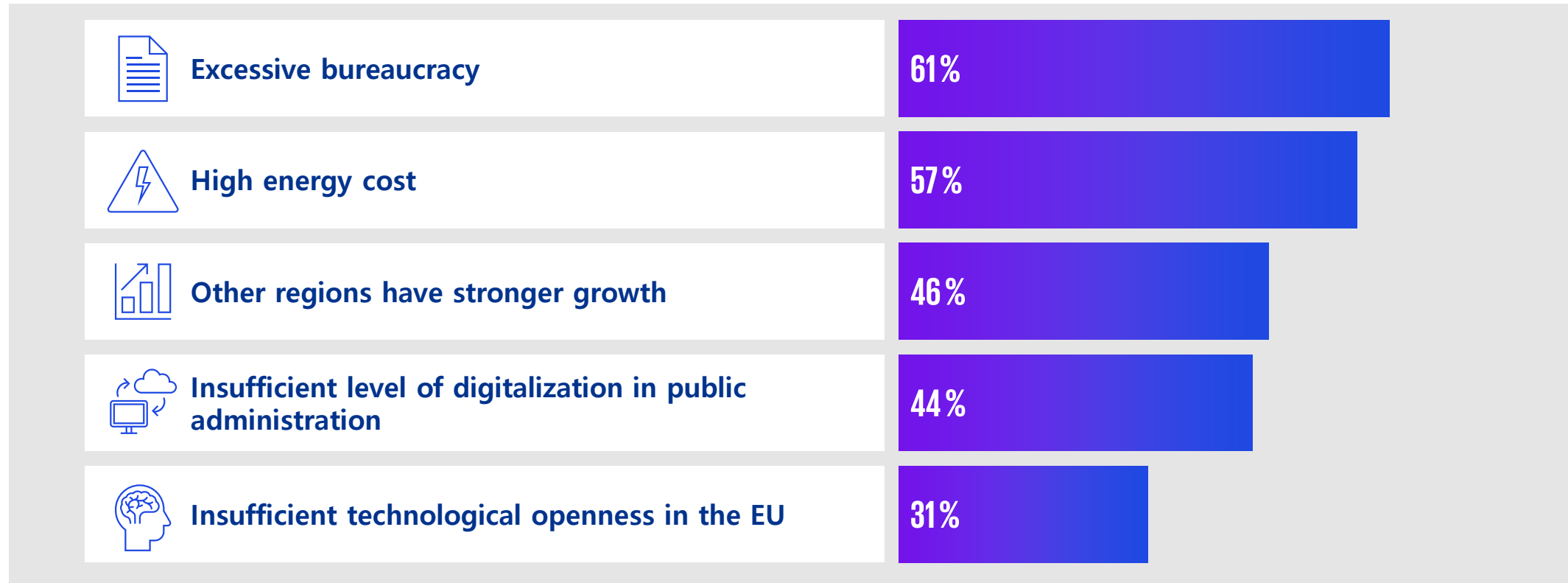
Note:

A value of “0” represents a mid-range position in the EU comparison (of 27 EU countries), whereas “+10” represents the top position and “-10” the worst position in the EU



Source: Business Destination Germany 2024, KPMG in Germany, 2023 n=350; 2021: n=360; rounding differences possible

... and specifically flagged these obstacles for investing in Germany



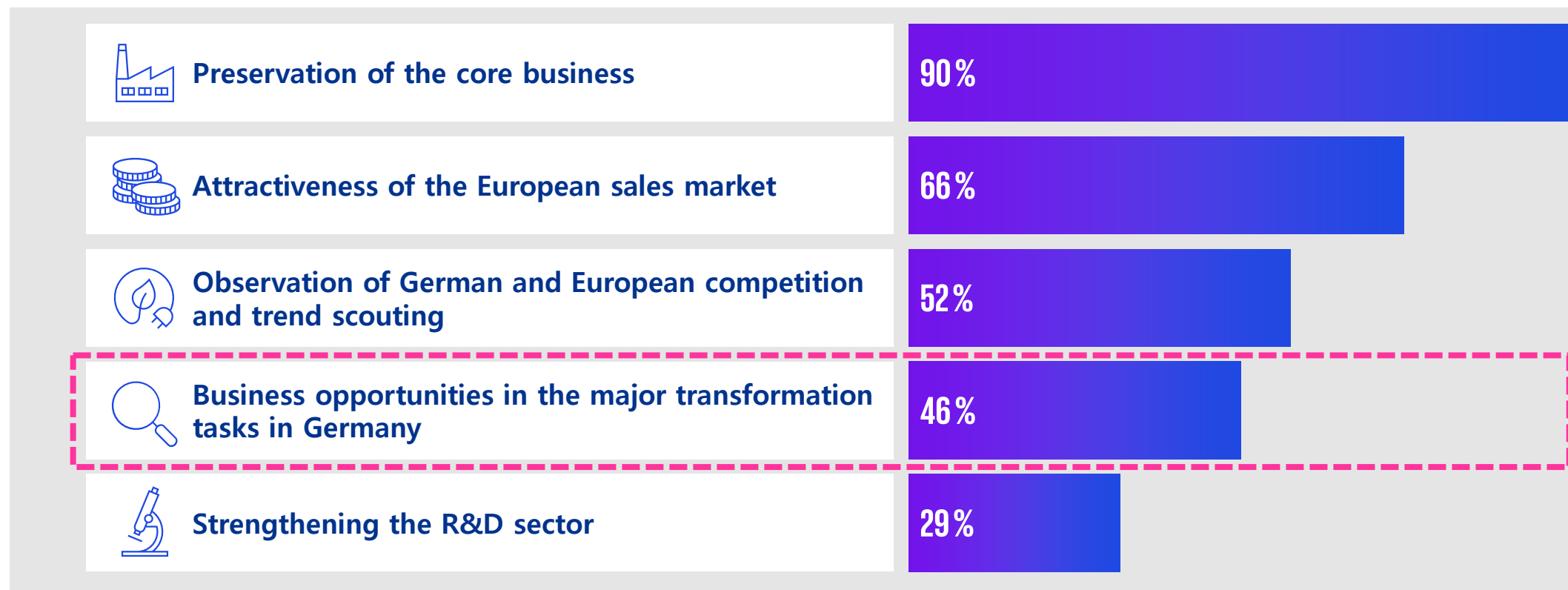
Source: *Business Destination Germany 2024, KPMG in Germany, n=350*

But why is Germany still chosen as a production base in Europe?

- Answers received













- By far the **most populous country** in the EU (with approx. 85 million people out of approx. 450 million people in the entire EU)
- **Largest domestic market** in the EU and **3rd largest economy** in the world by GDP
- Population with the **highest purchasing power** in the EU
- Country with the **most central location** within the EU; **far away from the active war zone in Eastern Europe**
- Within the EU, the country with the **greatest transformation tasks**, which opens up **large new and very profitable businesses** (e.g. EV, Batteries, Renewables, Recycling, Pharmaceuticals, Data centers, Microchips, ...)
- **Largest number of regional family businesses** in EU, many of which are **global hidden champions**
- **Business eco-systems** in all German federal states, especially in rural regions
- **Outstanding research network** of specialized universities and research institutes that are closely **connected and linked to local industry clusters** (e.g. "Silicon Saxony")
- **Technological know-how, German engineering skills** and **strongest industrial base** in Europe (esp. in automotive, mechanical engineering, large-scale plant, chemical, electrical engineering, metal production and processing industries)
- **Brand "Made in Germany"**
- Above average **labor productivity** and extensive use of **robots in production; leader in Industry 3.0**
- Availability of **cheap electricity** from **wind power on the German North Sea coast**
- **Stable political conditions; restrained and generally rational trade unions**
- **Secure legal framework, rule-based operations** and **strong legal compliance**
- **Openness to foreign investors**

Top 5 reasons for international companies to invest in Germany in the next five years



Source: Business Destination Germany 2024, KPMG in Germany, n=350

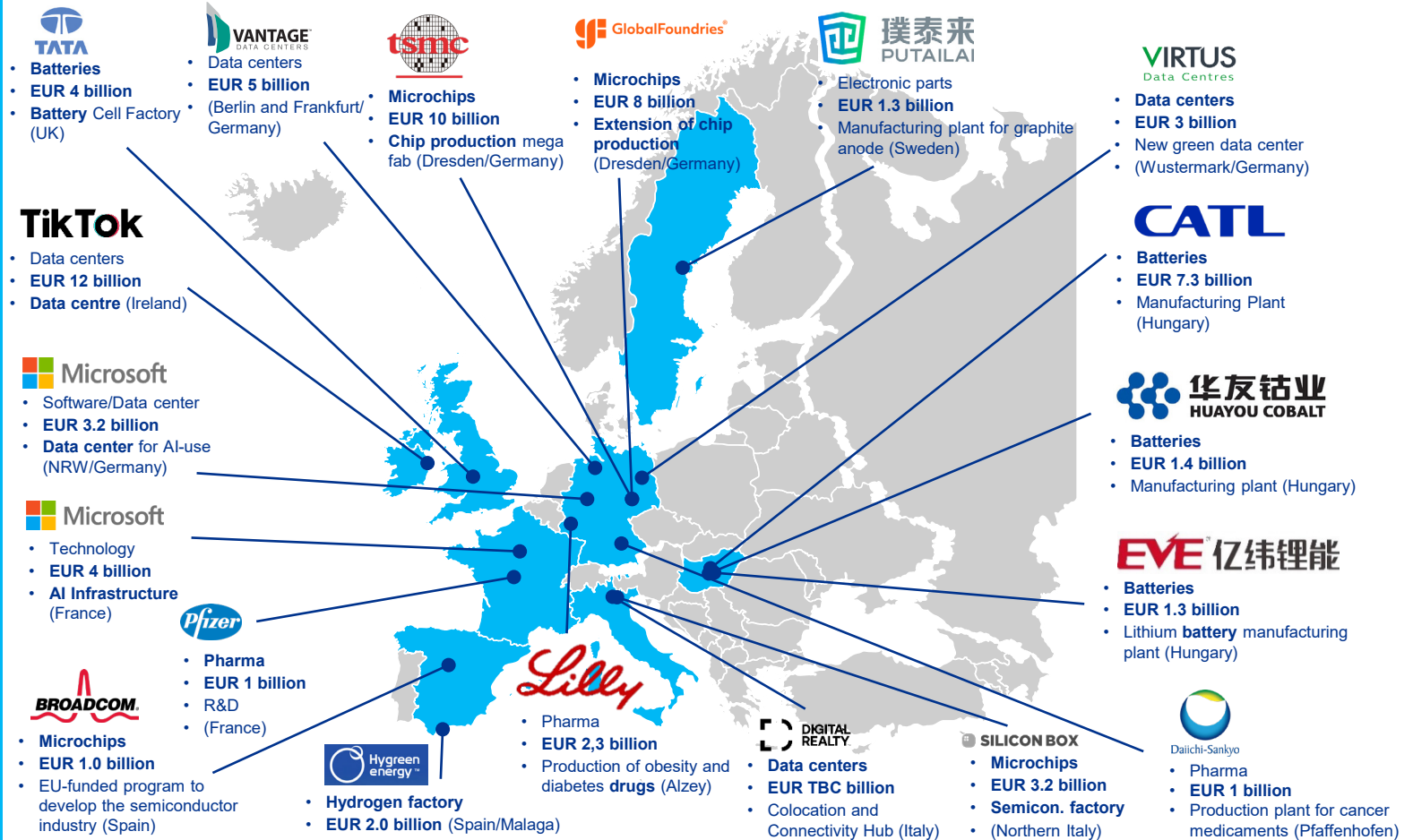
Megatrends trigger transformations in Germany and Europe and cause the rise of new profitable business fields which trigger greenfield investments

Megatrends	 <p>Climate Change</p>	 <p>Digitization & AI</p>	 <p>Aging Society and Migration</p>	 <p>Security Threats</p>	 <p>Geopolitical Tensions</p>	 <p>Global Competition</p>
Transforming industries	<p>Energy & Automotive</p> 	<p>Tech & Semiconductor industry</p> 	<p>Health & Pharma Industry</p> 	<p>Defense</p> 	<p>Circular economy</p> 	<p>Infrastructure</p> 
Main topics per industry	<ul style="list-style-type: none"> • Transformation of energy mix from fossil energy to renewables • Grid infrastructure to be built up for new energy mix • Energy consumption in households and industries to be adapted to new energy mix • Combustion engines to be replaced by electric engines • Need for batteries – at least on the medium term 	<ul style="list-style-type: none"> • AI will change the way of working, disrupt all traditional industries and will require massively increasing capacities in data centers • Massively growing semiconductor demand • EU Chips Act to subsidize production in Europe and become independent from other regions and countries (specifically Taiwan) • Europe is leading in the research of AI innovations, but lacks in its application in businesses 	<ul style="list-style-type: none"> • Aging society and decreasing overall population demands new ways of care (e.g. robotics and tele care) • New pharma blockbusters for aging society to treat cancer and other diseases; also to treat obesity • Intent to decrease dependency on supply of medicines from other regions and countries (specifically China and India) • Digitalization of health care system (e.g. electronic patient record) 	<ul style="list-style-type: none"> • War in Ukraine caused re-assessment of threat situation in Europe • Wars in Middle East, risks of aggressions of China (esp. in Taiwan) and North Korea as well as new US administration all emphasize need to increase own defense capabilities and build up defense industry in Europe 	<ul style="list-style-type: none"> • Intention to reduce dependency on raw material supplies from China, amongst others by introducing a circular economy – which is climate-friendly too • Circular Economy Strategies are being implemented in Europe 	<ul style="list-style-type: none"> • Buildings and transportation infrastructure to be adapted to become climate-neutral (see also on left re. Climate change) • Trend of immigration causes a higher, not satisfied demand for housing • Digital infrastructure in Germany to be adapted for digital life and AI (see also on left re. Digitization) • Postponed investments in physical infrastructure (rails, roads and bridges) in Germany for a decade

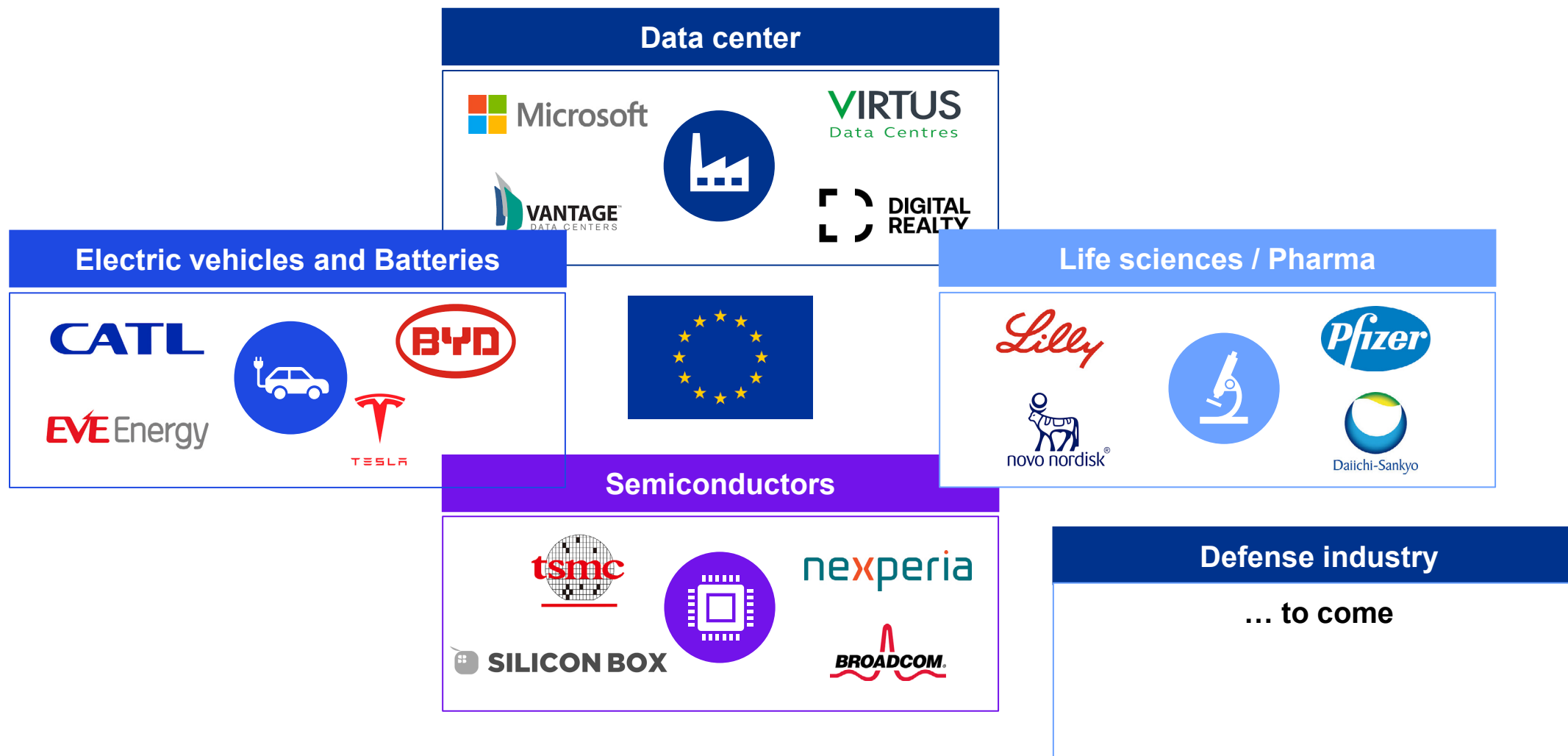
Examples of announced billion Euro-Greenfield investments of international investors in production plants in Europe

Reasons for international investors to invest now







- Opportunities for profitable growth deriving from manifold transformations in Europe
- Availability of huge public funds in Europe
- Need to regionalize/localize value chains in EU as a reaction to the geopolitical tensions (block-building and decoupling/derisking) and due to new regulations in EU (specifically ESG-related)
- Availability of distressed and underperforming assets at low prices due to recent market turbulences in Europe
- Participation in development of future technologies in Europe, being one of the main R&D centers globally



Investments in four sectors in particular



Focus of new German government under CDU-leadership

Transforming industries	Energy & Automotive 	Tech & Semiconductor industry 	Health & Pharma Industry 	Defense 	Circular economy 	Infrastructure 
CDU election promises	<ul style="list-style-type: none"> • Grid expansion and efficient linkage of the expansion of renewable energies, grids and storage facilities • Promotion of energy from hydrogen • Preservation of the automotive industry as a leading industry • Expansion of charging infrastructure for e-mobility 	<ul style="list-style-type: none"> • Develop Germany into a competence center and innovation hub for future technologies • Making brand "Made in Germany" a seal of quality for cutting-edge technology • Reduction of dependencies in semiconductors and expansion of European production 	<ul style="list-style-type: none"> • Further exploitation of the potential of electronic patient records, digital health applications and the use of AI in compliance with data protection regulations • Making the pharmaceutical and healthcare industry a real lead economy 	<ul style="list-style-type: none"> • Development of an independent and efficient defense industry • Further progress with future technologies in the areas of space, drones and the European defense shield • Expansion of the manpower of the German armed forces 	<ul style="list-style-type: none"> • Establishment of a circular CO2 economy with natural and technical CO2 utilization and storage • Closure of material cycles - for materials, but also for water, heat and carbon • Strengthening of a "shared economy" • Recycling open to technology and materials 	<ul style="list-style-type: none"> • Creation of more building land • Acceleration and simplification of infrastructure projects • Adequate funding for highways, bridges and road infrastructure • Strengthening the competitiveness of ports and waterways

Source: *CDU election program*

Your contact



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Greenfield
investments and
market entries in
Germany



Business
Destination
Germany 2024



How US-investors
rate Germany as a
business
destination



Q&A

