Investing in Europe’s future

INVESTMENT IN GERMANY

What is the situation in Germany?

Since the beginning of the last decade, the rate of investment in Germany has been significantly lower than in the rest of the euro area, although the gap has narrowed in recent years (see second graph). Business investment in buildings and civil engineering facilities has been especially low. Investment by businesses has been weak in recent years. This is at odds with highly supportive conditions, such as healthy corporate balance sheets and very low interest rates. Public sector investment has been falling for a long time, resulting in a large investment gap compared to the euro area.

What is the main challenge?

The main challenge is to bring forward measures that help strengthen domestic demand and the economy’s growth potential. The capacity for the German economy to grow in the future, provide jobs and ensure rising living standards in an era of ageing population and global competition depends crucially on bolstering domestic sources of future growth, in particular via private and public investment. Persistently low investment by companies and by the government may hamper Germany’s economic growth in the longer run. Steps to improve the business environment and education would support private investment. The existing room for manoeuvre in public finances and low interest rates favour public investment projects. Improvement to productivity in Germany’s services sector could also contribute to higher efficiency, investment and growth.

Opportunities for investment

There has been insufficient investment, for instance, to maintain the quality of the transport infrastructure in particular. Additional annual investment of ½ to 1 % of GDP for the public sector over the coming years appear necessary to maintain and modernise public infrastructure and to remove bottlenecks. The biggest investment needs are at municipal level. Adequate public infrastructure is needed to stimulate private investment. There is also room for removing bottlenecks, more efficient corporate taxation, less bureaucracy, better access to venture capital, better education and more efficient services.
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Reforms for investment

In the Country Specific Recommendations for Germany, the European Union recommended:

- Sound and growth-friendly fiscal policy
- Public investment in education, research and infrastructure
- Improve efficiency of tax system, also to foster private investment
- Improve financial relations of the federation, Länder and municipalities, also to ensure adequate public investment
- Expansion of gas and electricity networks
- Reduce fiscal disincentives to work, inc. for second earners
- Lower labour taxes and social security contributions, esp. for low wage earners
- Better employability of workers
- Higher quantity and quality in childcare facilities and all-day schools
- Improve cost effectiveness in healthcare and long-term care and ensure a sustainable pension system
- Stimulate competition in the service sector, including professional services
- Address low public procurement under EU law
- Competition in railway and retail sector
- Consolidation in the Landesbanken sector

EU funding for investment

2014 - 2020
in billion EUR


Past or ongoing projects for investment

Electricity interconnections
- Electricity interconnection. Commissioning date: 2017 (Austria, Germany)
- Reverse flow interconnection on TEN P pipeline to Eymann interconnection point (Holland, Germany). Commissioning date: 2017 (Germany, Holland)

Gas interconnections
- Reinforcement of the German network to reinforce interconnection capacities with Austria. Commissioning date: 11/2017 (Austria, Germany)
- Capacity expansion on Danish-German border.

Transport interconnections
- Freight corridor “North Sea - Baltic”: By November 2015 (Germany, The Netherlands, Belgium, Poland, Latvia, Lithuania)
- Connecting Europe Facility: “North Sea - Baltic” core network corridor (Estonia, Latvia, Lithuania, Poland, Germany, The Netherlands, Belgium)

Technological interconnections
- Targeting the set-up of new manufacturing capacities of electronic chips in Europe under preparation for a submission to the Commission in 2015
- France, Germany, UK, The Netherlands, Belgium, Austria, Italy, Finland, Ireland