NEW ZEALAND
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Manatū Aorere

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German Economic Update: Opportunities under new growth initiative

MARKET INTELLIGENCE REPORT

Summary

- The German government has adopted a new and comprehensive ‘growth initiative’, a package of economic reforms aimed at stimulating the economy, the world’s third-largest, as it continues to struggle to recover from recent crises.

- Fully implemented, the package aims to deliver additional growth from 2025 and could benefit New Zealand exporters by increasing consumer demand, facilitating access to the German public procurement market, and providing new sectoral opportunities.

- For New Zealand businesses with an existing or future presence in Germany, other potential benefits include a lower tax burden, easier compliance with local laws, and opportunities to attract and retain skilled local staff.

Report

Germany remains one of New Zealand's most important trading partners within the European Union (EU), although our exports to Germany have yet to recover to pre-COVID levels. As anticipated in our previous economic update, Germany experienced negative growth last year (-0.3%), and this year's growth is expected to be only marginally better (+0.1 or 0.2%). The Federal Ministry for Economic Affairs concedes that "economic recovery continues to be delayed", observing a deterioration in sentiment indicators and declines in new orders and production. Negative growth in Q2, after a barely positive Q1, confirms that the German economy is still struggling. For the rest of this year, rising domestic demand on the back of lower inflation and rising real incomes could provide some relief.

Many of the economic challenges facing Germany are structural rather than cyclical in nature. Demographic change, the need to decarbonise and digitise the economy, and growing geopolitical risks are among the contributing factors. In addition, increasing EU and national regulation in recent years has added to the already-considerable red tape. High wages and energy costs have further eroded German competitiveness. As a result, there have been growing calls from German businesses for the government to make changes to improve the domestic business environment and stimulate growth.

In response to the stubbornly slow growth and growing business (and voter) dissatisfaction, the government approved a comprehensive new 'growth initiative' in July, building on a smaller package launched last year. It aims to provide both an immediate boost to the economy and, longer-term, improve Germany's economic competitiveness. The growth initiative contains 49 measures, which together are expected to add 0.5% economic growth next year alone, equalling nearly NZD50 billion. Whether this is achievable, and in such a relatively short space of time, remains to be seen, but a positive impact can be expected. So what's in it for New Zealand exporters?

Key elements for exporters to Germany and Europe

The growth initiative is intended to stimulate the economy, without much additional government spending, major social cuts, or a slowdown in the green transition. The measures are designed to increase competitiveness, cut red tape, boost employment, and promote financial and energy markets. Some measures are now underway, with the aim of implementing all of them before the end of this year.

Of immediate relevance to exporters to Germany are the increased income tax thresholds. This is designed to counter tax bracket creep after two years of high inflation and, subject to parliamentary approval, lower the tax burden for many consumers from this year. In addition, simplified, faster and more digitised public procurement should make it easier for New Zealand exporters to benefit from improved access to the German public procurement market, based on existing bilateral (NZ-EU FTA) and multilateral (WTO) agreements.

Sectoral measures relevant exporters may potentially benefit from include:

- The promotion of expanded charging infrastructure and full depreciation for corporate purchases of e-vehicles, which could help to sustain demand, including for inputs, technologies and services;
- A liberalised construction law, to facilitate and speed up consenting and reduce construction costs, which could lead to an increase in construction activity;
- Better conditions for AI data centres, energy storage, carbon capture infrastructure and geothermal energy exploration, among other things, to boost demand for related solutions.

For exporters with a presence in Germany, or considering setting up in Germany, further measures that could have a positive impact include:

- Simplified corporate tax rules and accelerated depreciation for movable assets, to reduce the local tax burden;
- Reduced or harmonised reporting and data protection requirements, to facilitate compliance with local laws;
- Steps to encourage more employment of part-time workers, those living on benefits or nearing retirement, and to attract skilled migrants - making it easier to find and retain staff.

Sector-specific incentives or improved framework conditions are envisaged for businesses looking at Germany for filming, gaming or drug development. Also worth monitoring is the creation of a special fund for critical raw materials to promote globally diversified exploration and processing.

Overall, the German growth initiative is a comprehensive package, although it stops short of the bolder economic reforms that some are calling for, such as reforms to corporate taxation or social security.

More information on the individual measures of the growth initiative can be found on the [Federal Government's website](#).

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