Allianz

Allianz Research | 16 October 2026

Invest in Germany, Yes, But How?

Turning the investment gap into Europe's biggest opportunity

Ludovic Subran
Chief Investment Officer & Chief Economist
ludovic.subran@allianz.com

Spyros Andreopoulos
Senior Economist Europe
spyros.andreopoulos@allianz.com

Bjoern Griesbach
Head of Macroeconomic and Capital Markets Research
bjoern.griesbach@allianz.com

In Summary

- **The first *Invest in Germany Summit* takes place in Berlin on 19 and 20 October 2026, asking why and how Germany can attract investment. The "why": a top-tier location that chronically underinvests, including from abroad.** Germany is the world's third-largest economy (~EUR4.4trn GDP), the only G7 country with a AAA rating from all three major agencies, and the third most attractive investment destination in Europe in a 2026 EY survey. It has 1,700 hidden champions in the Mittelstand and R&D at 3.1% of GDP. Foreign companies are already here with an inward FDI stock exceeding EUR1.0tn. Yet between 2019 and 2025, total gross fixed investment in Germany fell 6.4%, while it rose 6.7% in the rest of the eurozone and 20.2% in the U.S. The gap is around EUR390bn versus Europe and up to EUR730bn versus the U.S. Foreign investors are not closing it: announced greenfield investment projects fell 10% in 2025 to 548 and are 44% below 2019, the lowest since 2009. German savers face the same problem. Households and corporations save more than they invest, and the surplus goes abroad (net foreign assets of 87% of GDP) at returns about 5pp below the U.S. and close to 3pp below other European countries since 1975, even below domestic returns. If German savers earn more at home, so can international investors.
- **The problem is not a lack of capital but a lack of sufficiently attractive opportunities to deploy it, for domestic and foreign investors alike.** Net public investment averaged zero between 2002 and 2015. Years of underinvestment should have raised returns on new capital, but high energy and labor costs (compounded by the second-highest OECD tax wedge), bureaucracy (up to EUR146bn of lost output per year, per ifo) and skills shortages prevent it. Investors themselves point to Germany's integration of industry, science and research, legal certainty and skilled workforce as strengths, and to energy costs as Europe's main disadvantage as an investment location. Financing is also a weak point: corporate financing costs are higher than in France or Italy, partly due to a fragmented banking sector, and projects are often too small for institutional investors (11,000 local authorities, 800 municipal utilities).
- **The equation is changing: the fiscal shift kick-starts investment, and reforms and public risk-sharing open the door to private capital, German and international.** The debt-brake reform lifts the deficit from 2-3% to 4-5% of GDP until 2028, funding defense and infrastructure. The "Deutschlandfonds" (EUR30bn of public guarantees and equity) aims to mobilize EUR130bn of private capital by covering risks that private investors will not take alone. Foreign capital is already responding: FDI inflows rose about 50% to EUR86bn in 2025. European sources contributed more than 80% of the total and the UK was the largest single investor at 31%. Domestic savings could add to the pool: shifting 5% of household financial assets out of deposits would mobilize ~EUR450bn, repatriating 10% of net foreign assets ~EUR400bn. The "Altersvorsorgedepot" (from 1 January 2027, ~EUR150bn over five years) and the proposed "Kapitalrente" (a public fund of ~EUR560bn by 2040) would build a domestic institutional investor base, a natural co-investor for international capital. But much of the Altersvorsorgedepot may flow into global funds unless Germany becomes more attractive.

- **Germany's investment gap can therefore become one of Europe's largest investment opportunities, in four verticals: energy, digital infrastructure, transport and mobility, and defense.** In energy, needs reach ~EUR1.3trn by 2045 (about 30% of 2025 GDP) for renewables, grids, storage and hydrogen. Projects are often too small for institutional investors (11,000 local authorities, 800 Stadtwerke), so the enablers are advisory support, standardized tenders and aggregation at district and county level, and low-carbon FDI rose 25% across Europe in 2025. Digital infrastructure needs EUR275-500bn by 2030 (6-11% of GDP) for hardware, telecoms, software and data centers, and foreign capital is already committing, for example Google, Microsoft and Nvidia. The constraint is grid connection and permitting, not capital, so connection approvals should be prioritized. Transport and mobility has EUR166bn planned for 2025-29 (EUR107bn rail, EUR52bn federal roads, EUR8bn waterways), with PPP 2.0 as the enabler: performance-linked service-level agreements and long-term offtake contracts that tie returns to predictable cash flows. Defense financing is ~EUR734bn over five years, enough to meet NATO's 3.5% of GDP target for core defense by 2029, and defense FDI projects rose 84% across Europe in 2025, with simpler regulation and procurement as the enabler. Across all four, the common enablers are faster permitting and procurement, grid access, standardized structures and performance-based PPPs with long-term offtake contracts. Success would lift potential growth and ease pressure on the social state. Failure would leave Germany with higher debt and little improvement in long-term growth.

Germany's chronic investment shortage despite appealing conditions

Germany's recent economic weakness should not obscure its enduring strengths and in-principle attractiveness for investment. After several years of stagnation, the country remains Europe's largest economy, one of the world's leading industrial and exporting nations and home to globally competitive companies, world-class research institutions, deep pools of skilled labor and exceptionally strong public institutions. For long-term investors, Germany offers a rare combination of economic scale, technological capability, political stability and financial strength.

- **Scale matters: Germany is the EU's largest and the world's third-largest economy (~EUR4.4trn GDP) meaning every investment project offers access to a substantial domestic market.** Germany is also the third largest exporter, with one of the world's deepest manufacturing ecosystems, strong in machinery, chemicals, electrical equipment, vehicles pharmaceuticals, industrial automation and precision engineering, carried by a broad network of medium-sized specialist firms. The 2026 EY attractiveness survey ranks Germany as the third most attractive investment destination in Europe, with a narrowing gap towards the top spots (France and UK).
- **Its AAA rating and top institutional quality provide a stable framework for investors.** Germany is the only G7 country that enjoys a AAA rating from the top three agencies, indicative of comfortably solid public finances. It has the top Rule of Law score in the G20 and ranks among the top 20 out of 208 countries in the World Bank's various Governance Indicators, reflecting strong rule of law, effective institutions, democratic accountability and relatively low corruption. This institutional strength provides a predictable and stable framework for businesses.
- **The "Mittelstand:" 1700 hidden champions beyond the 40 global DAX companies form a uniquely strong economic ecosystem.** Around 25% of German exports originate from medium-sized companies that are niche B2B world market leaders. These hidden champions are strong innovators, filing patents at ~5x the rate of large corporates per employee. Many are privately held and often family-owned.
- **Germany is an innovation powerhouse and automation leader.** Ranked 11th out of 139 economies in the 2025 WIPO Global Innovation Index, it hosts seven of the world's leading innovation clusters and performs strongly in science, patent generation and logistics, where it ranks third globally. It is the world's fourth most automated manufacturing economy, with 449 industrial robots per 10,000 manufacturing workers (vs. a global average of 132). Its commitment to innovation is reflected in R&D spending equivalent to 3.1% of GDP, placing it 10th among roughly 80 countries tracked and ahead of the OECD average of 2.7%. Foreign

investors see this similarly: they name the close integration of industry, science and research, legal certainty and the skilled workforce as positives of Germany.[1]

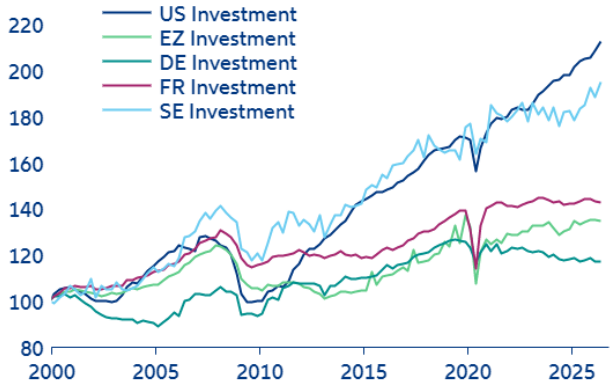
- **Human capital and scientific excellence.** German nationals have won 17 Nobel prizes in scientific fields in the last 30 years alone, most recently this year (for medicine on 5 October). Max Planck Society researchers have been involved in 31 Nobel prizes since the institution's founding. Three German universities are listed in the global top 50 on two different major international rankings: the Technical University of Munich, LMU Munich, which scored a perfect 100% on industry connections, and the University of Heidelberg. The country also has the highest share of STEM graduates in the OECD.
- **Quality of life and attractiveness for global talent.** Three German cities make the global top 10 in Mercer's most recent Quality of Living ranking (Frankfurt, Munich and Duesseldorf). Moreover, Germany is not only among the frontrunners in tackling climate change but also ranks sixth in Yale's Environmental Performance Index, reinforcing its appeal as a destination for international talent.

Despite these structural advantages, a massive investment gap has opened. A key macroeconomic fact about Germany is its chronic lack of investment, which holds back capital accumulation, growth, and productivity. Compared to the U.S., the investment gap is very large (Figure 1): while U.S. fixed investment has increased by a factor of 2 compared to the beginning of the millennium, Germany's has increased only by 20%. Even compared to its EU peers such as France, Sweden, or even the eurozone average, however, German investment lags.

What's more, German investment has declined outright since the pandemic. Between 2019 and 2025, aggregate investments in Germany declined by -6.4%, compared with +6.7% in the rest of the Eurozone and +20.2% in the U.S. which alone leaves an investment gap of around EUR390bn versus Europe or EUR730bn vs the U.S. Foreign investors are not closing this gap. The number of foreign investment projects announced in Germany fell by 10% in 2025 to 548, the lowest level since 2009.[2] The decline was smaller than in France (-17%) and the UK (-14%) but compared with 2019 Germany has lost more: -44%, against -28% in France and -34% in the UK (Figure 2). Unlike in France and the UK, the number has fallen every year since 2019.

Foreign companies are nevertheless well represented in Germany. The stock of inward FDI stood at EUR1.0tn at the end of 2024.[3] The German investment promotion agency GTAI recorded 1,564 foreign investment projects in 2025, 9.3% fewer than in 2024 but a smaller decline than in the EU (-18.1%) and worldwide (-9.5%).[4]

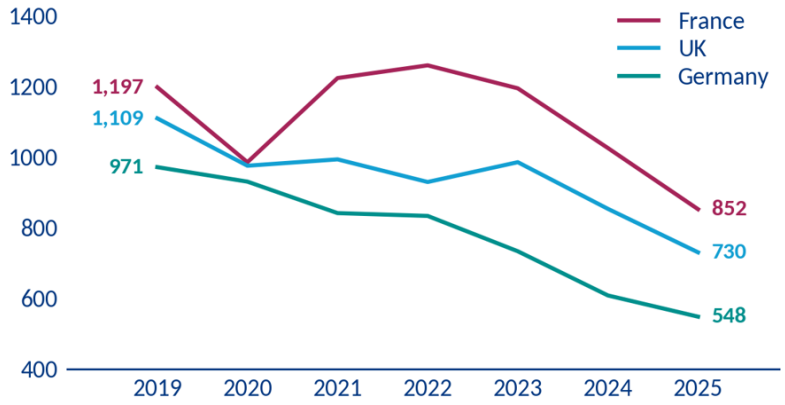
Figure 1: Gross Fixed Capital Formation (Index, 2000=100), Germany showing chronic investment underperformance especially since 2019.



Sources: LSEG Datastream, Allianz Research

[1] GTAI (2026), FDI Report 2025, press release of 21 May 2026.
[2] EY (2026), European Attractiveness Survey, June 2026, and Standort Deutschland 2026, May 2026. EY counts announced projects (new sites and expansions), not the capital invested.
[3] Bundesbank (2026), Deutschlands Direktinvestitionsbestände zum Jahresende 2024 | Deutsche Bundesbank.
[4] GTAI counts greenfield projects, expansions and relocations reported by the federal states and excludes M&A. EY identifies projects through news monitoring and applies different criteria. The two counts are therefore not comparable.

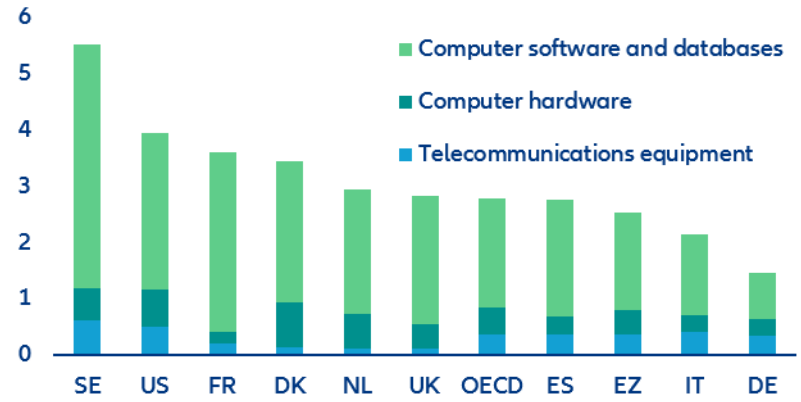
Figure 2: Foreign investment projects announced (number): Germany has fallen further than France and the UK since 2019



Sources: EY European Investment Monitor, Allianz Research

The composition of investment is skewed away from productivity-enhancing items. Germany is a laggard in capex related to information and communication technology (ICT – Figure 3), with ICT-related investment less than half the OECD average as a share of GDP. These are investment items that are crucial determinants of productivity growth.

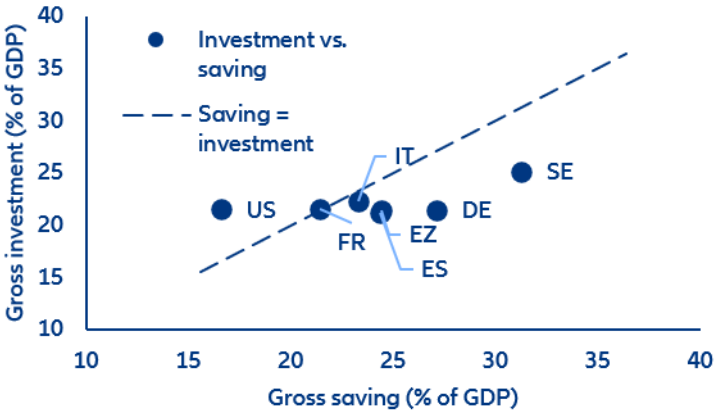
Figure 3: ICT investment by asset (2024, in % of GDP): Germany ranks low compared to peers



Sources: OECD, LSEG Datastream, own calculations, Allianz Research

External shocks don't explain investment underperformance. External shocks – such as the 2007-08 financial crisis, Covid-19, Russia's full-scale invasion of Ukraine, or the Iran war – no doubt played a role. Energy price shocks have suppressed investment in Germany's energy-intensive industrial sectors. However, given that Germany's investment underperformance is chronic, and that its peers were subject to the same shocks, these shocks only offer a partial explanation for Germany's lack of investment.

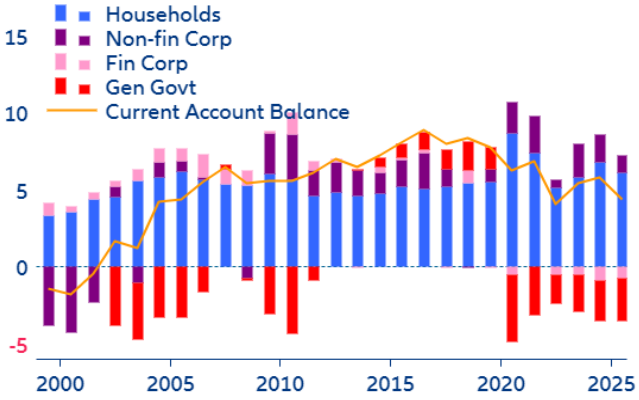
Figure 4: Gross investment versus gross saving in % of GDP (2024): Germany saves but does not invest.



Sources: LSEG Datastream, Allianz Research

Bird's eye view: plenty of saving, not enough investment. Germany's lack of investment is particularly noteworthy given the fact that the economy generates large saving flows (Figure 4). National income accounting identities tell us that the gap between saving (S) and investment (I) is an economy's current account (CA) balance: CA = S – I or, when abstracting from income flows on foreign assets, its export surplus.[5]
Because the identity holds for the economy as a whole and for each sector, we can trace the surplus to its origins by looking at the saving-investment balance of households, government, and financial and non-financial corporations (NFC), which together add up to the current account (Figure 5). It turns out that, in addition to households' persistent surplus of saving over investment, NFC have also been exhibiting saving surpluses. The government now invests more than it saves, after having made positive contributions to the CA balance over much of the 2010s. In turn, CA surpluses imply capital exports: the excess of saving over investment is simply invested abroad.

Figure 5: Saving net of investment by sector, and current account balance (% of GDP): Households have not been the only savers



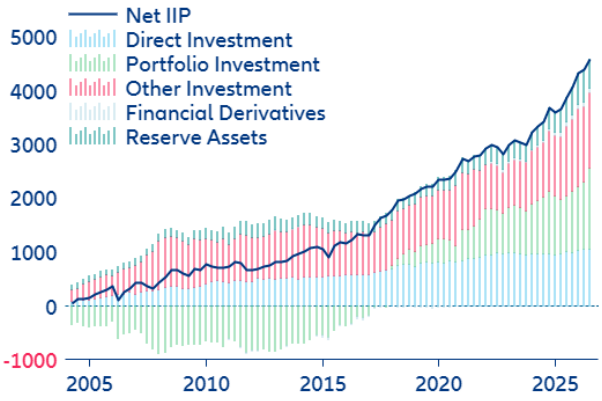
Sources: LSEG Datastream, Allianz Research

[5] Ignoring primary income on net foreign assets and international transfers, the national income identity can be written as Y = C + G + I + NX, that is, GDP equals the sum of consumption, government spending, investment, and net exports. This can be rearranged to give net exports as the difference between saving and investment NX = Y – (C + G) – I = S – I since national saving is the excess of GDP over domestic demand from consumption and government spending S = Y – (C + G). In fact, Germany's primary income balance (income earned on net foreign assets) is now almost as large as net exports. See Bundesbank (2026), Germany's balance of payments in 2025, Monthly Report, March 2026.

Large foreign assets, poor returns

Germany's net foreign assets are 87% of GDP. Germany has amassed a large amount of claims against the rest of the world: its net international investment position (NIIP) – the difference between foreign assets and foreign liabilities – is about 87% of GDP (Figure 6). From a macroeconomic perspective, capital exports can in principle be beneficial for a country if it earns higher returns abroad than at home: the proof of the pudding is in the eating.

Figure 6: Germany's Net International Investment Position (USD bn): Savings go abroad.



Sources: LSEG Datastream, Allianz Research

Returns on foreign assets: low – and inferior to domestic returns. Germany has earned a poor return on its foreign assets for decades. Since 1975, its average annual foreign returns were about 5 percentage points below those of the U.S. and close to 3 points below those of other European countries (Table 1). What's more, Germany's foreign asset returns were considerably lower than the returns on its domestic assets: domestic saving has been systematically directed to foreign assets that earn less than the investment opportunities available at home.[6]

Table 1: Returns on foreign assets 1975-2020 by country: Germany showing subdued returns on its foreign investments.

Rank	Country	Raw total returns			Exc. equity returns
		1975–2020	1999–2020	2009–2020	1999–2020
1	United States	10.48	8.03	8.91	3.79
2	Denmark	9.94	5.39	6.68	0.83
3	United Kingdom	9.79	5.40	3.99	1.41
4	Canada	9.25	5.65	9.23	1.57
5	Sweden	8.76	6.31	5.40	1.49
6	Norway	8.02	6.22	7.61	–
7	Italy	7.65	3.28	4.07	-1.60
8	Spain	7.43	1.88	2.61	-3.43
9	France	7.06	3.79	3.93	-2.15
10	Netherlands	6.63	5.02	6.10	-0.23
11	Germany	4.89	3.76	3.82	-3.16
12	Finland	4.73	4.59	4.78	0.66
13	Portugal	4.59	2.48	1.92	-1.97

Source: Hünnekes et al. (2025).

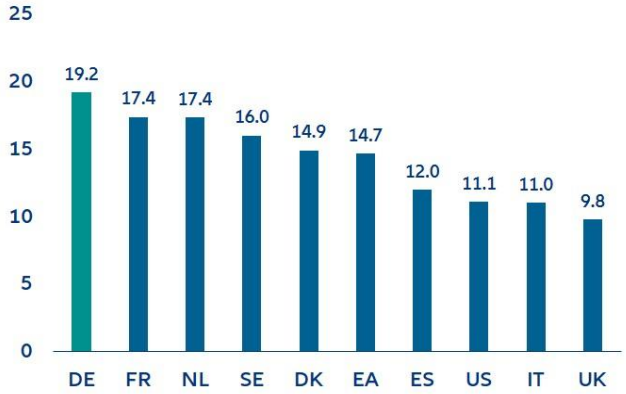
This suggests that Germany's current account surplus – or its export surplus – turns out not to be a "good deal." Instead, more investment at home would be optimal from a macroeconomic perspective. But it also begs the question: what are the reasons for Germany's excess saving?

[6] Hünnekes et al. (2025), Exportweltmeister: Germany's foreign investment returns in international comparison, Journal of International Economics, May 2025.

The multiple origins of chronic investment shortage

Households are risk-averse. Germany's high level of saving is usually attributed to prudent, highly risk-averse households. Indeed, German households' saving rate out of disposable income (Figure 7) is high in international comparison. At the same time, it is "natural" for the household sector in aggregate to feature a surplus of saving over investment. Households face an uncertain income stream but wish to smooth consumption. Consequently, they spread resources over a lifetime through saving making household surpluses a common feature of most economies.

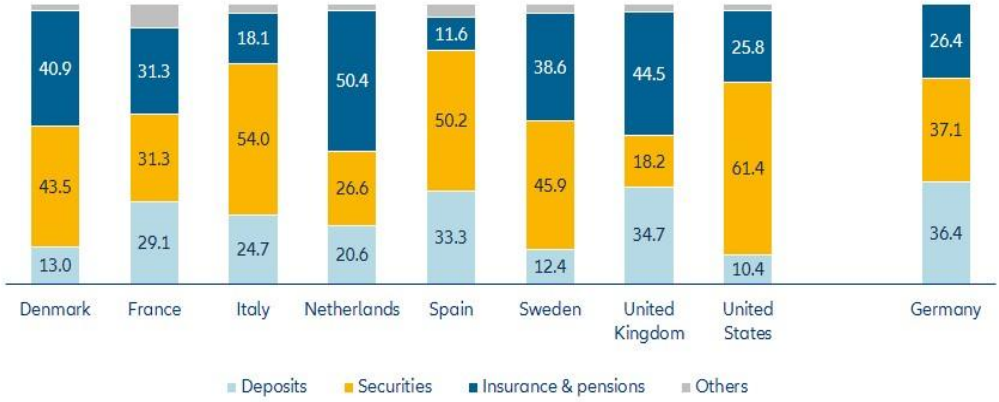
Figure 7: Household gross saving in % of disposable income (2025): German households are heavy savers.



Sources: LSEG Datastream, Allianz Research

Together with other factors such as risk aversion, the lack of a "Kapitalmarktkultur" ("capital markets culture") and financial literacy[7], the institutional setup of pensions provision affects household saving incentives substantially: The public pay-as-you-go pension system reduces the need for households to bear market risk for retirement provision. As a result, German households hold 37% of their financial assets in bank deposits (Figure 8).

Figure 8: Asset classes as % of total gross financial assets: Bank deposits still a key saving vehicle



Sources: Eurostat, national central banks, financial supervisory authorities, financial associations and statistical offices, IMF, LSEG Datastream, Allianz Research.

In turn, banks intermediate those savings in bank deposits into low-risk, low-return assets: corporate loans, which favor incumbent firms (due to established relationships) rather than new, innovative firms; and government bonds (due to favorable regulatory treatment of banks' holdings). As a result, savings contribute little to the creation of risk-bearing capital, and available funds for startups and scaling is scarce.

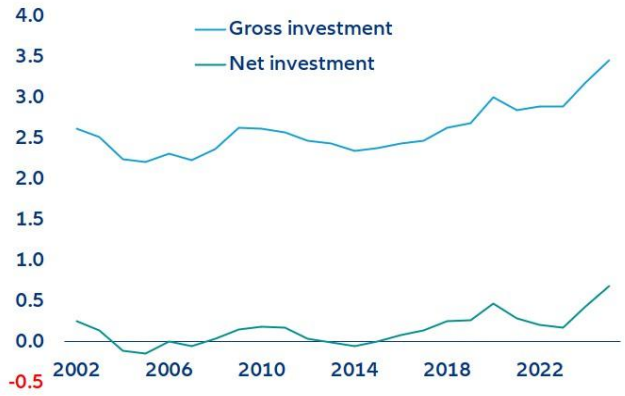
[7] Allianz Financial Literacy Report 2026, Financial Literacy Pays: Smarter Investing Goes Beyond AI.

Figure 5 suggests that, in addition to households, two more sectors have in recent years tended to have a surplus of saving over investment: the general government (federal, state, and local government together with social security funds), and non-financial corporations.

The lack of government investment contributed to a lack of demand and poor infrastructure. Government surpluses of saving over investment partly reflected a lack of public investment. Between 2002 and 2015 net government investment (gross investment less depreciation on the public capital stock) was zero, on average (Figure 9). The government barely invested enough to keep the public capital stock from shrinking.

Only since 2015 gross investment has been sufficient to keep net investment positive. At 3.5% of GDP in 2025, government gross investment is now catching up with peers. As a result of this lack of government investment, Germany's infrastructure has deteriorated, which is likely to have contributed to the lack of domestic investment by firms.[8]

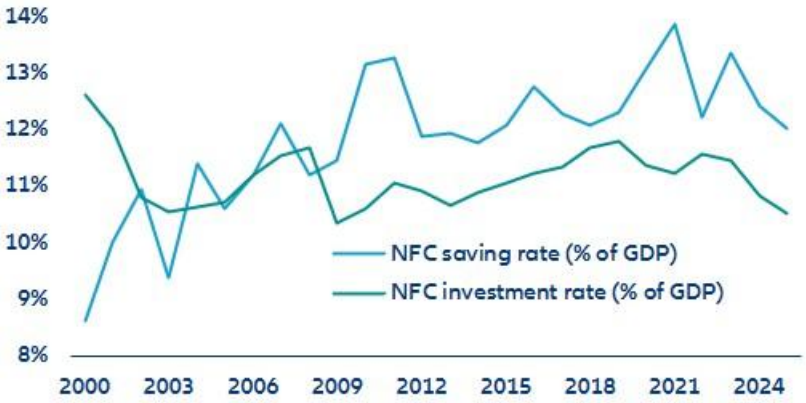
Figure 9: General government gross vs net investment in % of GDP: Improvement underway



Sources: LSEG Datastream, Allianz Research

Corporate surpluses persist. Figure 5 shows that the non-financial corporate (NFC) sector has exhibited a surplus of saving over investment since around the turn of the millennium. Corporate saving is simply retained earnings, i.e. profits kept in the firm after paying interest, taxes and dividends. These surpluses became substantial after the great financial crisis and have persisted since at macro-significant levels (on average since 2010: 1.6 % of GDP; 2025 still 1.1% of GDP). While an excess of saving over investment is "natural" for households, it is not necessarily the case for NFCs. Firms invest to earn returns and will usually borrow to invest (or issue equity). Figure 10 shows the persistent shortfall of NFC investment vs saving.

Figure 10: German non-financial corporations, gross saving vs gross investment, % of GDP: The gap persists



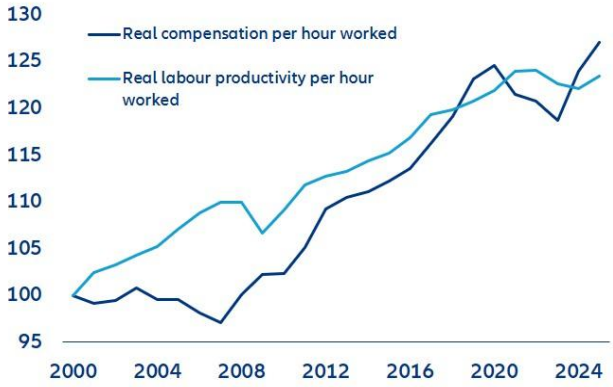
Sources: LSEG Datastream, Allianz Research

[8] In its 2026 survey, German chamber of commerce (DIHK) members cited poor infrastructure as one of the reasons for investing *abroad*. DIHK-Konjunkturumfrage 2026, Sonderauswertung Auslandsinvestitionen.

There are several reasons for the NFC surplus.

- **Wage moderation and strong external demand**. Real wages in the NFC sector have lagged productivity for nearly two decades (Figure 11). Only recently has real compensation for employees caught up. All else equal, wages lagging productivity would have boosted firms' profits. Strong external demand, if not accompanied by a commensurate increase in investment spending, will do the same. As shown in Figure 10, gross NFC saving jumped during periods of strong global demand (2009-11 and after the pandemic, 2020-22).
- **Lack of domestic demand**. Wage moderation and a lack of public investment contributed to sluggish domestic demand, in turn suppressing economic growth. One consequence was that it made investment in faster-growing overseas markets more attractive.
- **Tax incentives favoring retained earnings.** German corporate tax reforms (2001, 2008) made retaining profits more attractive than paying dividends, lowering payout rates and raising NFC gross saving.[9] These incentives matter in Germany because a large share of corporate profits are generated by privately held firms. In privately held firms, owners' personal tax incentives, rather than pure profit maximization, may shape payout decisions. As the additional saving was not absorbed by investment (Figure 10), it resulted in higher net lending.

Figure 11: Real compensation vs real value added per hour in the non-financial corporate sector (index, 2000 = 100): wage restraint has contributed to non-financial sector surpluses until recently



Sources: LSEG Datastream, Allianz Research

Economic theory suggests that years of underinvestment should raise expected returns and attract capital. In Germany, however, a range of supply-side constraints is preventing this adjustment from taking place. Energy costs remain elevated following the loss of cheap Russian pipeline gas and the shift towards more expensive LNG imports, compounded by high taxes and network charges. Businesses surveyed by EY in 2026 also see the cost of energy as Europe's main disadvantage as an investment location, although 60% of them expect Europe's attractiveness to improve over the next three years.[10] Labor costs are also burdened by Germany's exceptionally high tax wedge, the second highest in the OECD. Bureaucracy further weighs on competitiveness. According to the ifo economic research institute, excessive administrative requirements reduce annual output by up to EUR 146bn, or roughly 4% of GDP. [11] Although Germany ranks 12th out of 45 countries for overall business attractiveness, it ranks second-to-last on costs. [12] Other structural weaknesses are equally apparent. Demographic decline is reducing the supply of skilled labor, while transport, logistics and digital infrastructure bear the consequences of years of underinvestment. Financing conditions are less favorable than in France or Italy, despite lower German risk-free rates, with the fragmented banking system likely playing a role. These long-standing challenges are now being compounded by structural shocks. Competition from China has intensified to the point that Germany runs a negative trade balance with China even in capital goods, for decades its core strength. Meanwhile, parts of the automotive sector misjudged both technology and market positioning, favoring combustion engines and fuel cell technology

[9] See Dao, Mai Chi (2020): Wealth Inequality and Private Savings: The Case of Germany. IMF Working Paper 20/107.
[10] EY (2026), European Attractiveness Survey, June 2026 (500 executives surveyed between February and March 2026). The results refer to Europe as a whole.
[11] Bürokratie in Deutschland kostet jährlich 146 Milliarden Euro an Wirtschaftsleistung | Pressemitteilung | ifo Institut
[12] EconStor: Wirken die Maßnahmen der neuen Bundesregierung auf Investitionen in Deutschland? Ergebnisse einer Unternehmensbefragung

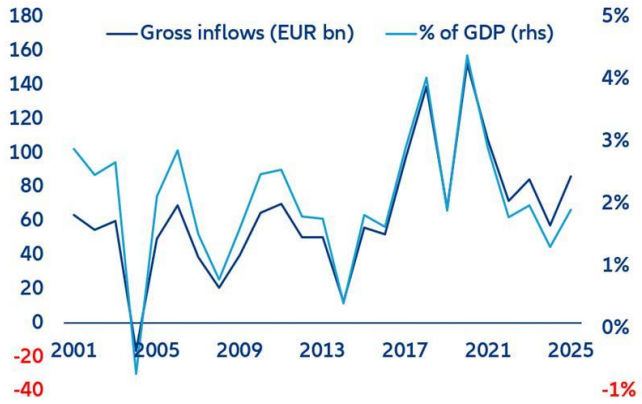
over affordable electric vehicles. As a result, the higher returns that theory predicts after prolonged underinvestment are being eroded by a combination of cost pressures, institutional inefficiencies and structural headwinds.

What needs to be done: Germany's fiscal push is a first step, but private capital needs to follow

Germany's fiscal push heralds potential investment turnaround. Yet at least some of the demand-side reasons for Germany's large surpluses of saving over investment are on the mend. The German government has put in place a large fiscal expansion centered on infrastructure capex and defense. Following the reform of its debt brake in 2025, public deficits are expected to rise from around 2-3% to 4-5% of GDP in the next years, funding hundreds of billions of euros in additional spending on infrastructure, defense, energy, climate mitigation & adaption and digitalization. The government's fiscal package thus promises to kill two birds with one stone when it comes to improving German investment perspectives. In the short run it boosts investment spending, while in the longer run it improves public infrastructure, spurring private investment demand.

Government money alone is not enough: attracting private capital is necessary. Closing Germany's investment gap will require more than public funding. The scale of the country's investment needs is such that substantial private capital must also be mobilized. Foreign capital is already responding to some extent. Based on Bundesbank data, FDI inflows rose by about 50% to around EUR86bn in 2025, after a fall of almost 32% in 2024 (Figure 12).[13] Investors from the UK raised their investment by 284% to EUR26bn and are now the largest single source (31% of the total), while U.S. investment fell by 44% to EUR11.8bn. Other EU countries contributed EUR43bn, so European investors account for more than 80% of the total.

Figure 12: Foreign direct investment inflows to Germany, EUR bn and % of GDP: Rebound in the making



Sources: LSEG Datastream, Allianz Research

Germany's challenge is not a shortage of capital but rather directing this capital towards productive investment. German households hold around EUR9trn in financial assets, a large proportion of which, by international standards, sits in cash and bank deposits (EUR3.4trn).[14]. Meanwhile, the country's net foreign asset position exceeds EUR4.0trn (87% of GDP). Unlocking even a small portion of these savings could have a transformative impact. Shifting just 5% of German households' financial assets out of deposits into more productive assets would mobilize roughly EUR450bn of investment capital. In addition, repatriating for example 10% of the country's net foreign investments would translate to EUR400bn of additional domestic capital.

Making Germany more attractive for private investment starts with raising expected returns. Years of underinvestment have already increased the potential returns on capital, as scarcity raises the marginal product of capital. But unlocking this opportunity requires reducing regulatory barriers, expanding standardized investment structures and strengthening the investment culture through tax incentives, pension and insurance reforms, public-private partnerships standards and strategic investment funds. Bottlenecks such as permitting, procurement, deal structuring and regulatory friction must be reduced. A key enabler for all relevant investment opportunities is

[13] Bundesbank (2026), German balance of payments in 2025 | Bundesbank publications.
[14] Pension funds and life insurance products account for EUR2.5trn and securities for EUR3.1trn.

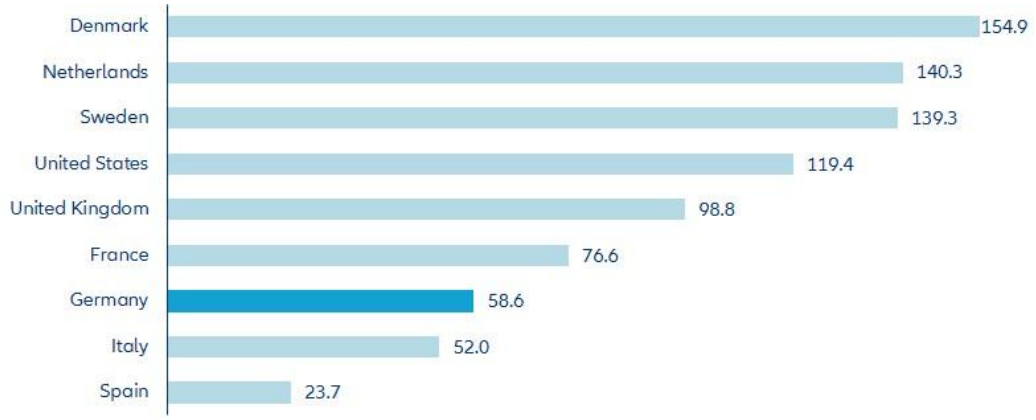
simplification: permitting and procurement procedures need to be accelerated and harmonized to reduce lead times. The rapid build-out of LNG terminals following the 2022 energy crisis proved that Germany is capable of quick infrastructure investments.

The newly set up "Deutschlandfonds," with its EUR30bn guarantees and equity targeting to mobilize EUR130bn in private capital, is an important step in the right direction as it directly targets the gap between Germany's capital-willing private investors and the risk they won't take on without a public backstop. It covers guarantees for large-scale capex in key sectors (power generation, hydrogen, automotive supply chains); a raw materials fund securing critical minerals through extraction, processing, and recycling and expanded venture financing for start-ups, scale-ups, deep tech, AI, biotech and defense.

"Water, water, everywhere, nor any drop to drink": Germany's intermediation problem. The issue of available saving versus domestic investment – or the country's current account surplus – is in large part about *where* Germany invests. A related, but separate, question is how the savings that stay domestic are used. It turns out that another factor holding back investment in Germany is the intermediation of existing savings. Germany, like many other EU countries, is particularly lacking in long-term capital due to the underdevelopment of pension funds (Figure 13), since public pay-as-you-go (PAYG) systems dominate retirement income provision.[15]

Key reform: towards a more funded retirement system. Scandinavia and the Netherlands, economies with similar "culture" to Germany, have much higher stock market capitalization as a share of GDP not least because households accumulate claims on private pensions, which in turn recycle savings into the domestic equity market (Figure 14).[16] The development of pension funds is the key reform because they are upstream of venture capital and private equity in the financing chain.

Figure 13: Insurance and pensions assets as % of nominal GDP, 2025: underdeveloped in Germany



Sources: Eurostat, national central banks, financial supervisory authorities, financial associations and statistical offices, IMF, LSEG Datastream, Allianz Research.

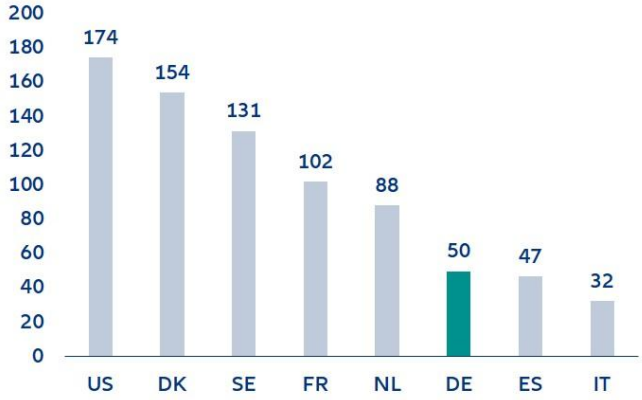
The pension commission's proposal for a funded "Kapitalrente" financed by an additional 2% contribution starting from 2028 and invested in a public fund alongside private alternatives, would be a major step in the right direction.[17] It would add a capital-funded component to the pay-as-you-go system in pillar 1 and channel household retirement saving into equity markets at scale. According to estimates, the public fund could reach around EUR560bn by 2040 (8% of GDP) and become one of the world's largest pension funds within two decades.[18] This would create a domestic institutional investor base that sits upstream from venture capital and private equity.

As an additional pillar 3 contribution to Germany's pension system, the forthcoming "Altersvorsorgedepot" can also strengthen domestic investment. This reform, which has already been passed, will replace the Riester pension from 1 January 2027. Savers will be able to invest in shares, funds and ETFs without a capital guarantee. The state will pay up to 50 cents for every euro saved, up to a total of 360 euros, and an additional 25 cents for every euro saved up to a total of 1,800 euros. This results in a maximum annual subsidy of 540 euros. It is estimated that around

[15] The Draghi report on EU competitiveness.
[16] The comparatively low capitalization of the German stock market may also be due to the aforementioned large share of privately owned firms.
[17] The commission proposes to implement the "Kapitalrente" in annual 0.5pp steps, so the full 2% contribution would only be reached in 2031.
[18] Schaffranka, Claudia and Milena Schwarz (2026): Der öffentliche Fonds der Kapitalrente: Eine Größenordnung. SAFE Policy Letter 120.

EUR150bn will be invested over five years.[19] However, much of the money is likely to flow into global funds, which have traditionally had only a small allocation to Germany. Without efforts to improve investment conditions in Germany, this could therefore further exacerbate the already high net international investment position.[20]

Figure 14: Stock market capitalization in % of nominal GDP (four-year average, 2022-2025)



Sources: LSEG Datastream, Allianz Research

How to invest in Germany: focus on key investment themes and incentives

From underinvestment to investment opportunity – why now is the right time to close Germany's up to EUR730bn investment gap. Germany's investment gap presents both a problem and an opportunity. Years of underinvestment have created enormous modernization needs and, in principle, high marginal returns to new capital. Until now, structural bottlenecks prevented investors from capturing those returns. The combination of fiscal expansion, reform and public-private risk sharing could now begin to change that equation. The key question that arises next is where and how to invest. The answer can be found in four key areas: energy, digital infrastructure, transport and mobility and defense.

Energy transition: The move towards net-zero emissions and greater geopolitical resilience will require substantial investment in renewable energy, electricity grids, storage solutions and hydrogen infrastructure. Germany will require around EUR1.3tn in investments for renewables, grid infrastructure, storage and hydrogen by 2045, which is equivalent to 30% of GDP in 2025. Financing vehicles and project pipelines are key enablers. However, with around 11,000 local authorities and 800 municipal utilities ("Stadtwerke"), individual projects are often too small to attract institutional investors. To address this, municipalities and regions should be supported through advisory services, standardized tender frameworks and training programs to facilitate the structuring of investable public-private partnerships. Greater participation by districts ("Regierungsbezirke") and counties ("Kreise") would facilitate project aggregation and create scalable investment pipelines. Foreign investors are showing interest here: according to EY, the number of low-carbon energy FDI projects in Europe rose by 25% in 2025.[21]

Digital infrastructure: Digitalization and digital infrastructure are critical drivers of productivity growth. It is estimated that a cumulative investment of between EUR275bn and 500bn will be required by 2030, equivalent to 6–11% of GDP in 2025. This includes spending on computer hardware, telecommunications equipment, software and AI-related infrastructure, such as data centers. Grid access and permitting reform are key enablers. Germany should therefore prioritize grid-connection approvals and permitting procedures for data centers and digital infrastructure, treating computing capacity with the same urgency as energy security. Multi-year connection queues have become the primary constraint on Germany's AI and digital expansion, rather than a lack of capital or demand. Foreign capital is already committing: Google plans to invest EUR5.5bn in Germany until 2029, Microsoft announced

[19] Indefi (2026): The German Pension Reform and the Shape of Things to Come

[20] In addition, the "Frühstartrente" would extend capital-funded provision to children: the state pays EUR10 monthly into a depot from age six until 18. However, the resulting macroeconomic investment volume would be lower than that of the other additional reforms. The Bundestag is set to vote on this measure on 16 October 2026.

[21] EY (2026), European Attractiveness Survey, June 2026. The figures for low-carbon energy, AI and defense refer to Europe as a whole.

EUR3.2bn in 2024 and Nvidia is part of a EUR1bn data center project with Deutsche Telekom in Munich.[22] AI-related FDI projects in Europe rose by 96% in 2025, and the number also went up in Germany although total FDI projects declined.

Transport and mobility: Modernizing transport infrastructure is another major investment priority. The Ministry of Transport plans to invest EUR166bn between 2025 and 2029, including EUR107bn for rail, EUR52bn for federal roads, and EUR8bn for waterways. A key enabler is performance-based concessions. A new generation of public-private partnerships (PPP 2.0) should be based on performance-linked service-level agreements and long-term offtake contracts that link investor returns to measurable and predictable cash flows.

Defense: German defense financing is expected to reach approximately EUR734bn over five years, enabling the country to meet NATO's target of spending 3.5% of GDP on core defense by 2029. Planned procurement includes land systems, air power, air and missile defense, long-range strike capabilities, unmanned systems, munitions, and space security assets. Foreign investors are also moving in: the number of defense FDI projects in Europe rose by 84% in 2025 to 107.[23] Only seven of them were in Germany, against 20 in the UK, 14 in France, 12 in Ukraine, 10 in Spain and nine in Poland (Figure 14). Key enabler: simplification. As in other sectors, reducing regulatory and procurement complexity will be crucial to accelerating investment and delivery.

What is at stake

Germany has a rare opportunity to transform today's fiscal stimulus into a sustained investment boom. If successful, the country could benefit significantly from a renewed capital influx. Not only would it lift growth from the demand side in the short run, it would also raise potential growth and boost long-term growth for decades. The benefits would extend beyond Germany – Europe cannot afford for its largest economy to remain its weakest link.

The gains would be economic and political. Stronger growth, functioning infrastructure and rising prosperity would help to restore confidence in institutions, strengthening the foundations of the social state and reducing some of the economic drivers behind the current political polarization. However, successful and bold reforms, as well as investors willing to support Germany's renewed momentum, are equally essential to achieving this outcome.

Failure would come at a high cost. While fiscal spending could provide a temporary boost, structural weaknesses would persist, leaving Germany with higher debt and little improvement in long-term growth. The consequences would extend beyond the economic sphere, including continued dependence on foreign energy and technology, further erosion of Europe's stability and competitiveness, and continued political polarization and populism. Germany's investment challenge is therefore about much more than just growth. It concerns the future economic and political resilience of Germany and Europe as a whole.

[22] Company announcements: Google (November 2025), Microsoft (February 2024), Deutsche Telekom and Nvidia (November 2025).
[23] EY (2026), Standort Deutschland 2026, May 2026.

These assessments are, as always, subject to the disclaimer provided below.

FORWARD-LOOKING STATEMENTS

The statements contained herein may include prospects, statements of future expectations and other forward-looking statements that are based on management's current views and assumptions and involve known and unknown risks and uncertainties. Actual results, performance or events may differ materially from those expressed
or implied in such forward-looking statements.
Such deviations may arise due to, without limitation, (i) changes of the general economic conditions and competitive situation, particularly in the Allianz Group's core business and core markets, (ii) performance of financial markets (particularly market volatility, liquidity and credit events), (iii) frequency and severity of insured loss events, including from natural catastrophes, and the development of loss expenses, (iv) mortality and morbidity levels and trends,
(v) persistency levels, (vi) particularly in the banking business, the extent of credit defaults, (vii) interest rate levels, (viii) currency exchange rates including the EUR/USD exchange rate, (ix) changes in laws and regulations, including tax regulations, (x) the impact of acquisitions, including related integration issues, and reorganization measures,
and (xi) general competitive factors, in each case on a local, regional, national and/or global basis. Many of these factors may be more likely to occur, or more pronounced, as a result of terrorist activities and their consequences.

NO DUTY TO UPDATE

The company assumes no obligation to update any information or forward-looking statement contained herein, save for any information required to be disclosed by law.