InfraRed+Insights

Germany's €1 Trillion 'Whatever It Takes' Moment: Implications For Infrastructure Investors

This March, Germany has taken centre stage of the infrastructure agenda. With many of us in Berlin at the annual Global Infrastructure Summit, it was a timely moment for Germany's CDU to overhaul the country's fiscal rules, with major implications for infrastructure investment.[1]

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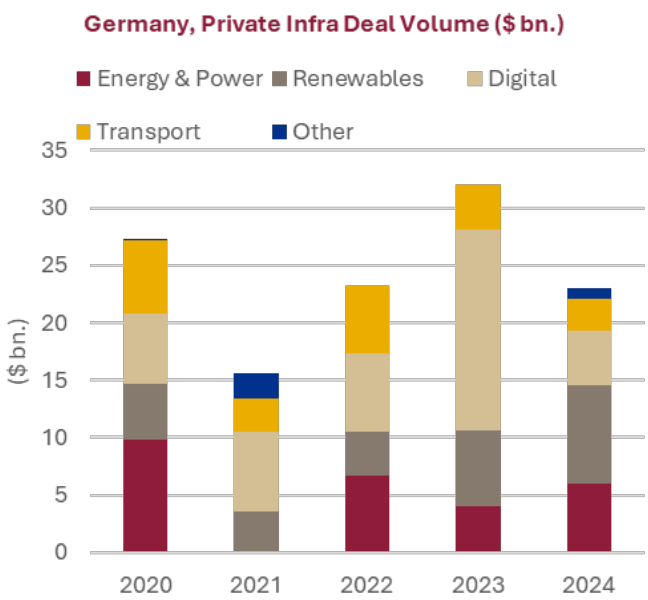
(4-minute read)

A sea change:

The planned fiscal changes mark an unprecedented shift to Germany's doctrine of low borrowing, aimed at revitalising growth in Europe's largest economy. Germany's incoming Chancellor has announced spending plans that will likely culminate in the creation of a € 500 billion infrastructure fund, as part of a broader € 1 trillion fiscal policy move. Details of the programme are still pending, as the reforms are subject to the scrutiny of the German parliament, but are expected by the end of March 2025.[2]



Source: Macrobond (left-hand chart), Infralogic (right-hand chart) includes M&A and greenfield transactions reaching financial close, data as at 11 March 2024. Past performance is not a guarantee for future returns.

Supporting European growth:

To put this into perspective, the planned € 1 trillion fiscal policy push accounts for c. 20% of German annual GDP. The reform is anticipated to enhance Germany's economic output significantly and to contribute to improving the European Union's output, given its pivotal role in the region's economy, as the country accounts for c. 25% of EU's GDP. Germany has faced meaningful economic headwinds in recent years, with GDP falling by 0.2% in 2024, following a 0.3% contraction in 2023, alongside high inflation. The consequences of this stagflation environment are far-reaching but also underline a progressive structural decline of the German manufacturing sector, which has been impacted by high energy costs and shifting global trade.[3]

Higher yields, but a resilient budget:

The size of this fiscal stimulus will inevitably impact Germany's public finances, increasing the deficit and elevating the debt-to-GDP ratio. This has been reflected in bond markets, with German sovereign bond (Bunds) yields spiking to above 2.9%, the highest level since 2011. There has also been a widening in government bond yields across other major European Union economies, such as Italy and France, keeping credit spreads between EU countries relatively consistent. Nevertheless, Germany's low debt levels, currently below 65% of GDP, provide significant room for additional spending without jeopardising its current AAA credit rating, and addressing its stagnating economy can have positive credit implications. [4]

German infrastructure beyond Energiewende:

Germany's renewed focus on infrastructure development is set against a backdrop of significant recent events, including the initial policy transition from nuclear energy to green energy (Energiewende). This shift has been partially affected by the recent challenges to energy security and affordability due to sharply rising energy costs, driven by reduced natural gas supplies from Russia and an increased reliance on new LNG infrastructure. In 2024, this partially contributed to a reduced share of private infrastructure transaction volumes occurring in Germany, with a total transaction volume of $23 billion, down from $32 billion in 2023, after that the opportunity set had been gradually expanding for several years. [5]

Implications for private infrastructure investors:

The €500 billion special fund aims to upgrade critical infrastructure over a ten-year period in sectors such as civil defence, transport, hospital, energy, education, social care, and digital infrastructure. Additionally, €100 billion from this fund is earmarked for federal states and municipalities to address urgent infrastructure needs like deteriorating bridges, roads, railways, and waterways that threaten the competitiveness of Germany's economy. [6]

This effort primarily focuses on public sector projects, somewhat limiting direct opportunities for private infrastructure investors, and may likely result in higher entry returns for assets, driven by an increase in the risk-free rate, in our view. Details about the financing mechanisms have not been explicitly addressed in the current information, nevertheless we anticipate a potential involvement of private investors through PPPs in some of the projects. Moreover, we also expect this initiative to boost overall economic growth and thereby support the performance of existing infrastructure assets exposed to the economic cycle, such as in transportation. It should also create future indirect opportunities for private infrastructure investors across multiple sectors, including decarbonisation and digitalisation.

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References:

1. Bloomberg, "Germany Loosens Fiscal Chains to Transform European Economy", 5 March 2025
2. Financial Times, "Germany's Greens vow to block Friedrich Merz's flagship spending package", 10 March 2025
3. Macrobond, 10 March, 2025
4. Reuters, "Germany's defence spending boom 'positive' for triple-A rating, S&P Global says, 5 March, 2025
5. Infralogic database, includes M&A and greenfield transactions reaching financial close, as at 11 March 2024
6. Sueddeutsche Zeitung, "Sondervermögen für Infrastruktur", 10 March, 2025

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